Chair's introduction

Dear Shareholders,

On behalf of the Board, I am pleased to present the Corporate Governance report for the year ended 31 December 2022. This report sets out how we have applied the principles of the UK Corporate Governance Code (the "**Code**") throughout the year. It provides information on the activity of the Board and progress we have made in strengthening our corporate governance practices.

Board developments and effectiveness

As I set out in my statement on page 14, Direct Line's former CEO, Penny James, stepped down from the Board in January 2023 having served as CEO since May 2019. I would like to thank Penny for her contribution in driving progress in respect of many of our key governance topics, including diversity and inclusion and sustainability.

The Nomination and Governance Committee is leading the process to appoint a successor and, in the meantime, I am grateful that Jon Greenwood has taken on the role of Acting Chief Executive Officer. Jon has over 30 years' experience in the insurance industry and has a deep knowledge and understanding of the business, putting him in a strong position to drive the Group's performance until a successor is appointed.

We announced on 17 February 2023 that Mark Lewis, former CEO of MoneySupermarket Group, will join the Board with effect from 30 March 2023. Mark's experience will strengthen the Board's oversight of aggregator and digital marketing strategy, as well as helping the Group to drive continuous improvement in customer experience.

The introduction of the FCA's Consumer Duty rules prompted us to reflect on how the voice of the customer can be represented in the Boardroom and we took the decision to appoint Tracy Corrigan, independent Non-Executive Director, as Consumer Duty Champion. Tracy will work with me and the CEO to ensure that the Consumer Duty is raised in all relevant discussions and will help the Board to assess whether the Group is delivering good outcomes for customers. Tracy will apply her background in customer analytics and insight, coupled with her passion for customer-centricity, to carry out this important role and I look forward to working with her on this topic.

To support me in reviewing the effectiveness of the Board, I engaged Independent Audit Limited to conduct an externally facilitated review. The review involved a comprehensive evaluation of the operation of the Board and its Committees and resulted in some useful insights that will help the Board reflect on potential improvements following the events of 2022, to review the information flow to the Board and to inform our thinking about succession planning. More information on the Board evaluation can be found on pages 113 to 114.

Succession planning continues to be a key focus for the Nomination and Governance Committee, who, mindful of findings from last year's effectiveness review, have spent time considering the medium and long-term needs of the Board in respect of Non-Executive Director experience, expertise, diversity and functional role fulfilment. More information on this can be found in the Nomination and Governance Committee report on pages 124 to 125.

Diversity

We are pleased to have met the FCA's new Board diversity targets throughout 2022. However, Board changes since the beginning of 2023 mean that, as at the date of this report, the proportion of women on the Board has fallen below 40% (see page 58). Board diversity, including gender diversity, remains a key consideration in the Nomination and Governance Committee's succession planning.

When it came to promoting diversity and inclusion in the wider organisation, my Board colleagues and I have looked to support the agenda by sharing our own thoughts and experiences and leading from the front. For example, during the year I hosted a colleague Q&A on social mobility and Adrian Joseph hosted a 'Lunch and Learn' for our Race, Ethnicity and Cultural Heritage DNA strand to celebrate Black History Month. The Board enjoys hearing about what our colleagues make of diversity and inclusion in the Group and what we, as a Board, can do to support the organisation on its journey to becoming an increasingly diverse and inclusive workplace.

Stakeholders

This year, more than ever, it has been important for us to listen to our stakeholders and hear what they are telling us about how we, as a business, can best support them during these challenging times. The table on page 107 sets out how we have engaged with our various stakeholders and the table on pages 105 to 106 sets out how this engagement has fed into Board discussion and decision making. As I explained in my statement on page 14, supporting our colleagues and customers through the cost of living crisis as best we can has been a key focus for the Board.

Sustainability

During the year, the Sustainability Committee had the important job of overseeing the setting and validation of our greenhouse gas emissions reduction targets by the SBTi. I know that these targets are important to many of our key stakeholders and demonstrates our focus on a credible plan to get to net-zero. More information on the work of the Sustainability Committee can be found on pages 126 to 127.

Remuneration

During the year, the Remuneration Committee considered whether to make changes to the Director's Remuneration Policy which is due to be presented to shareholders for approval at our 2023 AGM. It was decided to put forward the Remuneration Policy for approval largely unchanged, with some minor wording clarifications. However, the Committee intends to make some changes to the implementation of the Policy for 2023, in respect of performance measures in the AIP and LTIP.

In terms of remuneration outcomes for the year, whilst we have made positive progress against some of the strategic metrics, particularly in relation to the People measures, the Committee agreed with the Executive Directors that no AIP would be awarded for 2022 in the light of the financial performance and the impact on shareholders. Executives, including the wider senior leadership team, will not receive a bonus for 2022 under the AIP. The remuneration of the wider workforce and the support provided to colleagues in the light of the cost of living crisis have been a key consideration in all of our decision making. More information on remuneration can be found on pages 130 to 161.

Audit and internal control

During the year the Audit Committee led a competitive tender process for an auditor to succeed Deloitte LLP that resulted in a recommendation to appoint KPMG as auditor of the Company starting with the financial year ending 31 December 2024. A resolution in respect of this appointment will be put forward to shareholders seeking their approval at the Company's 2024 AGM. More information in respect of this process can be found on page 119. The Audit Committee also oversaw the arrangements made to transition to IFRS 17 accounting. More information on this activity can be found on page 117.

The review of our risk management and internal control framework by our Risk and Group Audit functions is referred to on page 114 and in the Audit Committee report on page 118. Whilst control deficiencies during the year were not considered to be material to the Group as a whole, the Audit and Board Risk Committees will oversee action being taken to further strengthen specific controls and certain enhancements to provide greater resilience against potential future stress scenarios.

AGM

Our 2023 AGM will be held on Tuesday, 9 May 2023 at 11.00 am. Full details including the resolutions to be proposed to our shareholders can be found in the Notice of AGM, which will be made available on our corporate website.

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

Yours sincerely,

Danuta Gray
Chair of the Board

Board of Directors

NG RC

Danuta Gray
Chair of the Board

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

Committees
Nomination and Governance Committee (Chair)
Remuneration Committee

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

Danuta was Chair of Telefónica in Ireland until 2012. She was Chief Executive between 2001 and 2010, during which time Telefónica's customer base increased to 1.7 million from just under 1 million. Between 1984 and 2001, Danuta held a variety of senior positions within the BT Group. Danuta has also acted as Senior Independent Director of the Aldermore Group, Non-Executive Chair of St Modwen Properties and was a Non-Executive member of the Ministry of Defence Board. She was also NED and Chair of the Remuneration Committee at both Page Group plc and Old Mutual plc until 2018.

External Appointments
- Non-Executive Chair of the Board of North.
- Non-Executive Director, Chair of the Remuneration Committee and member of the Nomination Committee of Burberry Group plc.

IC

Neil Manser
Chief Financial Officer

Appointed
May 2021

Committees
Investment Committee

Key Skills and Experience
- Responsibility for overall direction on all financial matters and oversight of investment management and treasury function.
- Extensive corporate finance and capital markets knowledge.
- Deep understanding of the operation of strategy and culture in the insurance industry.

Neil has held several roles in Finance and Strategy since joining the Group in 2011, including Director of Investor Relations, Managing Director of NIG and Chief Strategy Officer. He was instrumental in the Group's successful IPO in 2012. He brings extensive industry and capital markets experience to the Board. Prior to joining the Group, Neil held roles at Brit Insurance, Merrill Lynch and Fox-Pitt, Kelton. He is an Associate of the Institute of Chartered Accountants in England and Wales.

External Appointments
- None.

SC RC

Tracy Corrigan
Independent Non-Executive Director

Appointed
November 2021

Committees
Sustainability Committee
Remuneration Committee

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

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

External Appointments
- Non-Executive Director and member of the Remuneration Committee of Barclays Bank UK plc.
- Non-Executive Director and member of the Audit, Nomination and Sustainability committees of Domino's Pizza Group plc.
- Non-Executive Director and Chair of the Investment Committee of The Scott Trust.

Penny James served as Chief Executive Officer throughout the 2022 financial year and stepped down from the Board with effect from 27 January 2023.

Key for Committee membership

- AC Audit Committee
- BR Board Risk Committee
- IC Investment Committee
- NG Nomination and Governance Committee
- RC Remuneration Committee
- SC Sustainability Committee
- Committee chair

BR RC IC AC

Mark Gregory

Independent Non-Executive Director

Appointed
March 2018

Committees
Board Risk Committee (Chair)
Remuneration Committee
Investment Committee
Audit Committee

Key Skills and Experience

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

Mark was CEO of Merian Global Investors from January 2019 to August 2020. He previously held the role of Group CFO and Executive Director at Legal & General until 2017. Mark acted in a variety of senior roles in his 19-year career at Legal & General, including CEO of the Savings business, Managing Director of the With-Profits business, and Resources and International Director. Earlier in his career, Mark held senior financial and business development roles at ASDA and Kingfisher. Mark is an Associate of the Institute of Chartered Accountants in England & Wales.

External Appointments

- Non-Executive Director and member of the Risk Committee of Phoenix Group Holdings plc with effect from 1 April 2023.

SC NG RC

Sebastian James

Independent Non-Executive Director

Appointed
August 2014

Committees
Sustainability Committee (Chair)
Nomination and Governance Committee
Remuneration Committee

Key Skills and Experience

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

Sebastian is Managing Director of Boots UK, a subsidiary of Walgreens Boots Alliance, Inc. Until 2018, he was Group Chief Executive of Dixons Carphone plc, having previously held the role of Group Chief Executive of Dixons Retail plc from 2012. Before this, Sebastian was CEO of Synergy Insurance Services Limited, a private equity-backed insurance company, and was previously Strategy Director at Mothercare plc. He began his career at The Boston Consulting Group.

External Appointments

- Managing Director of Boots UK, a subsidiary of Walgreens Boots Alliance, Inc.
- Senior Vice President of Walgreens Boots Alliance, Inc.

SC

Adrian Joseph OBE

Independent Non-Executive Director

Appointed
January 2021

Committees
Sustainability Committee

Key Skills and Experience

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

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

External Appointments

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

Key for Committee membership

AC Audit Committee
BR Board Risk Committee
IC Investment Committee
NG Nomination and Governance Committee
RC Remuneration Committee
SC Sustainability Committee
Committee chair

IC AC BR

Fiona McBain
Independent Non-Executive Director

Appointed
September 2018

Committees
Investment Committee (Chair)
Audit Committee
Board Risk Committee

Key Skills and Experience

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

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

External Appointments

- Chair of Audit Committee and Non-Executive Director of Currys plc.
- Chair and Non-Executive Director of the Scottish Mortgage Investment Trust plc.
- Senior Independent Director, Chair of Audit Committee and Non-Executive Director of Monzo Bank Limited.

AC BR

Gregor Stewart
Independent Non-Executive Director

Appointed
March 2018

Committees
Audit Committee (Chair)
Board Risk Committee

Key Skills and Experience

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

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

External Appointments

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

RC NG BR

Dr. Richard Ward
Senior Independent Director

Appointed
January 2016

Committees
Remuneration Committee (Chair)
Nomination and Governance Committee
Board Risk Committee

Key Skills and Experience

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

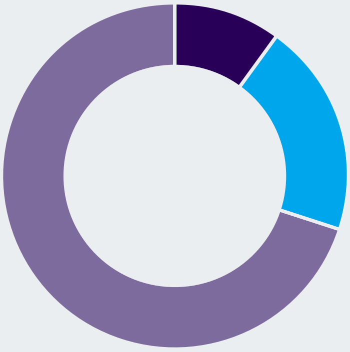
Richard was previously Executive Chair of Ardonagh Specialty, Chief Executive of Lloyd's of London, and CEO of the International Petroleum Exchange. He also held the roles of Non-Executive Chair at Brit Syndicates Limited and Executive Chair of Cunningham Lindsey. Richard also held NED roles at the Partnership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

External Appointments

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

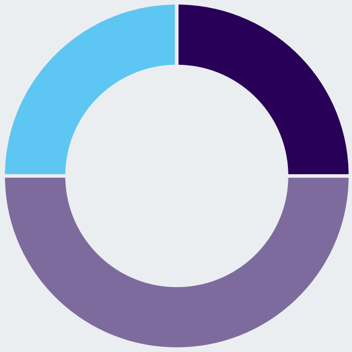
On 17 February 2023, the Board announced that Mark Lewis will be appointed as an independent Non-Executive Director with effect from 30 March 2023. For more information please see page 94.

Board independence[1]



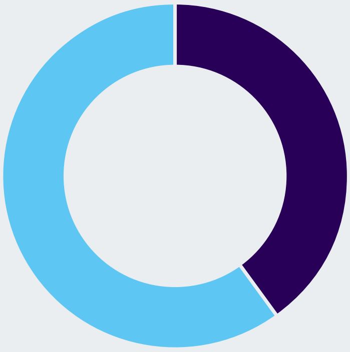
10% Chair (1)
20% Executive Directors (2)
70% Independent Non-Executive Directors (7)

Chair and NED tenure



25% 0-3 Years (2)
50% 4-6 Years (4)
25% 7-9 Years (2)

Board gender[2]



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

1. As at 31 December 2022.
   Following Penny James' resignation on 27 January 2023, the Board comprised the Chair (11%), 1 Executive Director (11%) and 7 Independent Non-Executive Directors (78%).
2. As at 31 December 2022.
   Following Penny James' resignation on 27 January 2023, the Board gender split was 67% Men (6) and 33% Women (3).

Executive Committee

Jon Greenwood, Acting CEO, chairs the Executive Committee. Neil Manser is also a member of the Executive Committee, please see page 96 for his biography. Penny James chaired the Executive Committee until she stepped down on 27 January 2023.

Jon Greenwood
Acting CEO and Chief Commercial Officer

Key Skills and Experience:
- Responsible, as Acting CEO, for delivery of the Group's strategic and operational plans.
- Responsible for all aspects of commercial lines, including strategy, product development, sales and service, and marketing.
- Executive Committee responsibility for the oversight of Green Flag operations and the delivery of major change programmes.

Jessie Burrows
Managing Director, Customer Sales, Service & Claims

Key Skills and Experience:
- Responsible for all aspects of personal lines and commercial lines claims, customer sales and service; and the Group's counter-fraud activities.
- Focus on creating value for customers by providing them with exceptional service and value for money.
- Jessie is an Associate Member of the Institute of Chartered Accountants in England and Wales.

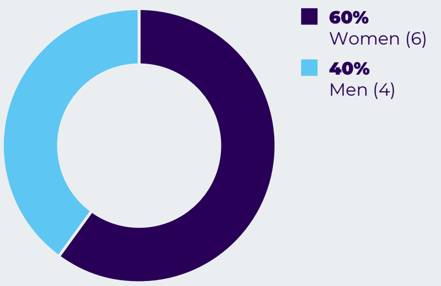
External Appointments
- Non-Executive Director of The Motor Insurers' Bureau.
- Advisory Board member of the CII Society of Claims Professionals.

Jazz Gakhal
Managing Director, Motor

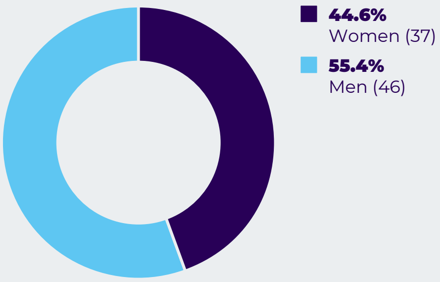
Key Skills and Experience:
- Responsible for creating, leading and delivering the Group's Motor insurance strategy and financial forecasts to achieve profitable growth.
- Responsible for design and manufacture of Motor products intended for retail customers.
- Extensive Group experience having previously been Chief Strategy Officer and Managing Director of Direct Line for Business.

External Appointments
- Non-Executive Director of Auto Trader Group Plc.

Gender diversity of our Executive Committee[1]



Gender diversity of Senior Management[2]



Notes:
1. As at 31 December 2022.
   Following Penny James' resignation on 27 January 2023, the Executive Committee gender split is 44% Men (4) and 56% Women (5).
2. Senior Management in this context is defined as the Executive Committee, Company Secretary and direct reports (excluding administrative and support staff) as at 31 December 2022.

Kate Syred
Chief Customer Officer & Managing Director Household, Partnerships, Data and Pricing & Underwriting

Key Skills and Experience:
- Responsible for the design and delivery of the Group's Household, Partnerships and Other personal lines strategy and products for retail customers.
- Defines the principles and standards for the customer experience ensuring the 'look and feel' and 'tone of voice' are consistent.
- Sets and implements the customer and business advanced analytics (data science) strategy.

Humphrey Tomlinson
General Counsel

Key Skills and Experience:
- Responsible for the Group Legal function and oversees a range of legal advice and services across the Group.
- Over 30 years' experience as a solicitor in private practice and in-house.
- Experience includes advising on corporate and commercial matters and on disputes, steering corporate transactions in the UK and internationally, managing legal risk and dealing with corporate governance matters.

Vicky Wallis
Chief People Officer

Key Skills and Experience:
- Responsible for ensuring there is a human resources function which has responsibility for all aspects of talent and employee relations, including engagement surveys, diversity and sustainability initiatives.
- Extensive experience in building HR functions and developing cultural frameworks.
- Focus on enhancing people capabilities.

Ash Jokhoo
Chief Information Officer

Key Skills and Experience:
- Responsible for the development and maintenance of the Group's technology, with a focus on technology in the customer journey.
- Develops Information Security policies and procedures, including cyber security and operational resilience policies.
- Passionate advocate for technology and diversity.

Aurore Lecanon
Chief Risk Officer

Key Skills and Experience:
- Responsible for providing expert advice and opinion on risk matters to the Group through identification, assessment and monitoring of risk in line with risk appetite.
- Responsible for validation of the Group's internal economic capital model and for identifying and managing financial risks from climate change.
- Previously held several Risk roles at M&G/Prudential including Chief Risk and Compliance Officer of Prudential International Assurance.

Corporate Governance

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

Corporate Governance Statement

This Corporate Governance Statement explains key features of Direct Line Insurance Group plc's (the "**Company**") governance structure and how it measures itself against the standards set out in the UK Corporate Governance Code 2018 (the "**Code**"). The Code, set by the Financial Reporting Council (the "**FRC**"), applied to the financial year ended 31 December 2022. For more information about the Code, visit the FRC's website at www.frc.org.uk. This Corporate Governance Statement fulfils the requirements of the FCA's Disclosure Guidance and Transparency Rule 7.2 ("**DTR 7.2**"). For full details refer to the Directors' report on pages 162 to 166.

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

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

Board leadership and company purpose

The role of the Board

The Board seeks to promote the long-term success of the Company for the benefit of its shareholders and stakeholders, and establishes the Company's purpose, values, culture, and strategy.

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

The matters reserved for the Board are kept under review to ensure they remain appropriate. Throughout 2022, the Board acted in accordance with the Schedule of Matters Reserved for the Board.

The Board discharges some of its responsibilities through its Committees which focus on particular areas. Each Board Committee has written terms of reference defining its role and responsibilities. The terms of reference of the Board Committees can be found on our corporate website.

Further details regarding the role, responsibilities and activities of the Board and its Committees can be found below and in the Directors' Remuneration report which begins on page 130. Whilst some of the key areas of the Board's responsibility are summarised in the following paragraphs, these are not intended to be an exhaustive list.

Leadership

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

Operations

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

Financial performance

The Board sets the financial plans, annual budgets and key performance indicators and monitors the Group's results against them.

Strategy

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

The role of the Board in the Company's culture

Our purpose is why we exist as a business. *We help people carry on with their lives, giving them peace of mind now, and in the future.*

Our vision reminds our people of where we want to take our business in the future. *We want to create a world where insurance is personal, inclusive and a force for good.*

And our culture is the unique set of behaviours and values we use to deliver our strategy and realise our vision. *We prize open dialogue, prioritise wellbeing and recognise the achievements of our people.*

The Board is committed to growing and fostering a strong culture and tracks progress across the Group in a number of ways, including:

Leading by example

The Board always seeks to act with the highest standards of integrity, aligning its approach with the provisions of the UK Corporate Governance Code and leveraging its diversity to strengthen decision-making. The Board aims to demonstrate the balance of mutual respect, challenge and expertise that is expected at every level of the Company.

Customer outcomes

The Board closely monitors customers' perceptions of the Company's performance, including the Net Promoter Score ("**NPS**"), which helps the Board to determine whether the corporate culture is delivering the Group's vision for customers effectively. The Board's new Consumer Duty Champion seeks to ensure good customer outcomes remain at the heart of decision-making, inside and outside the boardroom.

Environment, Social and Governance ("ESG") objectives

The Board views ESG as an integral part of the Group's culture. The Sustainability Committee has delegated responsibility to review sustainability matters and ensure key ESG initiatives are escalated to receive Board-level oversight and challenge. For further information on the work of the Sustainability Committee, please see page 126. For more information on the Group's sustainability strategy, please see pages 50 to 70.

Remuneration

In 2022, we further embedded ESG into our culture by introducing a new emissions metric into our Long-Term Incentive Plan for Executives. For more detail on this metric, please see page 141 of the Remuneration Committee report.

Policies

The Board oversees our policy framework, including our Modern Slavery Statement, risk management framework, environmental targets such as Science-Based Targets ("**SBTs**") and responsible investment approach. Such oversight permits the Board to articulate the standards of behaviour expected from all those working across the business and maintains a consistent approach at every level.

Seeking feedback from our people

The Board reviews the outputs of the employee engagement and satisfaction survey, DiaLoGue, and Directors regularly attend meetings of the Employee Representative Body ("**ERB**"). The Board recognises that employees who are able to grow and develop in a safe, respectful environment are indicative of a successfully embedded culture and an indicator of a healthy business. For further information on colleague engagement please see pages 56 to 57 of the Strategic report and page 108 of the Corporate Governance report.

Whistleblowing

The Board reviews reports received via Rightcall, the Group's confidential independent whistleblowing helpline. The Board considers whether there are any trends in reporting that indicate behavioural or cultural issues that need to be addressed. For further information on whistleblowing, please see the Board Risk Committee report on page 122.

Group Audit

The Audit Committee receives regular reports from the Group Audit Function which include insights into culture and behaviour in the business. For more information on the work of the Group Audit Function, please see the Audit Committee report on page 118.

Wellbeing of our people

Our people are strongly encouraged to 'bring all of themselves to work'. Our informal dress code, combined with our flexible working policy, are designed to create an environment that attracts and retains a diverse, talented workforce. The Board supports enabling people to work in a way that is compatible with their lifestyle choices and personal values.

Valuing diversity

The Board supports our Diversity Network Alliance ("**DNA**"), which has evolved from a knowledge and education hub to a body of colleagues who are consulted with and lead on key diversity and inclusion initiatives, working to improve our people's lived experiences. For more information on the DNA, please see page 57.

Suppliers

The Group's Ethical Code for Suppliers, reviewed by the Sustainability Committee, sets out our commitments to our suppliers and the expectations we have of them. We pay our suppliers on time and, during the year, we were awarded a Fast Payer Accreditation Award by Good Business Pays.

Chief Executive awards

Annually, the business recognises and celebrates those amongst our colleagues who best embody our values. Our values are set out on page 11.

Keeping our culture under review

During 2022, the Board reviewed our culture, considering which aspects should be protected, such as the passion, enthusiasm and energy of colleagues and which aspects could be dialled up e.g. a greater focus on the skills needed for the future. In response to this we launched our future skills academy 'Ignite' and enhanced recruitment activity to ensure we are focused on attracting the skills needed for the future in a highly competitive market. For more information please see page 56.

Board meetings and activity in 2022

Scheduled Board meetings focused on four main themes, as detailed below:

Themes	Description
Strategy and execution Strategic alignment 1 2 3 4 5	· Approving and overseeing the Group's key strategic targets and monitoring the Group's performance against those targets; · reviewing customer experience and trends and monitoring the Group's performance against external brand metrics; · reviewing and approving key projects aimed at developing the business or rationalising costs; · considering growth opportunities; and · reviewing the individual strategy of key business lines.
Financial performance and investor relations Strategic alignment 1 2 4 5	· Setting financial plans, annual budgets and key performance indicators, and monitoring the Group's results against them; · considering the Group's reserving position, approving the Solvency II narrative reports and approving financial results for publication; · approving reinsurance programmes and renewals; · reviewing broker reports on the Group, alongside feedback from investor meetings; and · considering the appropriateness or otherwise of possible surplus capital distributions.
Risk management, regulatory and other related governance Strategic alignment 4 6	· Reviewing and agreeing the Group's policies; · setting risk appetite; · approving the Own Risk and Solvency Assessment ("**ORSA**"); · seeking to ensure that the Group complies with its regulatory obligations; · reviewing the Group's solvency position and forecast; · reviewing the Group's ESG initiatives; and · reviewing and approving the Group's Task Force on Climate-related Financial Disclosures ("**TCFD**") and Sustainability reports.
Board and Board Committee governance Strategic alignment 1 6	· Receiving reports from the Board's Committees; · updating the Schedule of Matters Reserved for the Board; · updating terms of reference for the Board Committees; · receiving corporate governance updates; · overseeing Board and executive succession planning; · conducting the annual review of the Board and Board Committees' effectiveness; and · conducting an annual review of the Group's governance framework.

In addition to its scheduled Board meetings, the Board held a number of ad hoc meetings to deal with urgent or arising matters.

In June 2022, the Board held a strategy day to set and monitor progress against the Group's strategy and to discuss the Group's future opportunities.

Link to strategy

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

Board and Committee meeting attendance

The Board and its Committees held a number of scheduled meetings in 2022, which senior executives, external advisers and independent advisers were invited to attend and to present on business developments and governance matters. The Company Secretary attended all Board meetings and he, or his nominated deputy, attended all Board Committee meetings.

The table overleaf sets out attendance at the scheduled meetings in 2022. Attendance is expressed as the number of scheduled meetings attended out of the number of such meetings possible or applicable for the Director to attend. In circumstances where a Director is unable to attend a meeting, the Director receives papers in advance and has the opportunity to raise issues and give comments to the Chair in advance of the meeting.

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

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

Notes:
1. Tracy Corrigan joined the Remuneration Committee on 1 April 2022.
2. Fiona McBain was unable to attend a meeting due to illness.
3. Mark Gregory, Tracy Corrigan, Gregor Stewart and Penny James were unable to attend certain meetings due to conflicting commitments.

Consideration of section 172(1) factors by the Board

The Group's section 172(1) statement can be found in the Strategic report on page 16.

The table below sets out how factors under section 172(1) of the Companies Act 2006 and engagement with stakeholders have fed into Board discussion and decision making on key topics. More information about Board engagement with stakeholders can be found in the table on page 107.

Section 172(1)

The Directors must act in a way they consider, in good faith, what would be most likely to promote the long-term success of the Company for the benefit of its members as a whole, whilst having regard to (amongst other matters):

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

Topic	Section 172(1) considerations	Outcomes
Return of capital to shareholders The Board considered the distribution of surplus capital to shareholders during the year.	f Considered shareholder expectations in the context of the Group's published dividend policy. a c Considered the Group's capital position, taking into consideration regulatory and policy holder requirements and the long-term investment needs of the business. a Considered the macro-economic environment and geopolitical uncertainty that arose during the year.	The Board approved an up to £100 million share buyback programme (under which £50 million of shares were repurchased) and an interim dividend of 7.6p per share in respect of the first half of 2022. In July, the Board decided not to launch the second tranche of the buyback programme, and in 2023, took the decision not to recommend a final dividend for 2022. (For more information on capital management see page 30.)

Topic	Section 172(1) considerations	Outcomes
Consumer Duty implementation The Board considered the implementation of the FCA's new Consumer Duty rules, which take effect in July 2023.	c e Considered how the Group could embrace new requirements to further strengthen good outcomes and fair value for customers and how implementation could tie in with existing work streams aimed at improving customer outcomes.	Approved a Consumer Duty implementation plan and monitored progress against the plan. Appointed Tracy Corrigan as Board Consumer Duty Champion to ensure Consumer Duty is being raised in all relevant Board discussions and drive management to focus on consumer outcomes.
Cost of living crisis The Board considered how to respond to changes in real disposable incomes seen during the year.	b Considered feedback received via the ERB about how the cost of living crisis was affecting colleagues and what could be done to support our people.	A range of measures were put in place to support colleagues. See page 56 for more information on these measures.
	c e Considered how the cost of living crisis was impacting customers' ability to pay for their premiums and excesses, and how the Group could help.	Several measures were introduced to support those facing financial difficulty. See page 53 for more information on these measures.
	a c Considered how to adapt the Group's motor products to provide customers with the choice of a stripped-back insurance policy.	The launch of the Churchill Essentials product (see page 53 for more information).
Location of London hub The Company's main London hub has been based in Bromley for a number of years and the Board considered whether this continued to be the optimal location for the hub.	a b Considered the need to attract and retain the talent and skills needed for the future of the business by making the London hub more accessible to a wider geographical area.	It was decided to move the Group's head office to a smaller Central London property.
	a d Considered long-term cost and environmental benefits achieved from taking on a smaller property that would not be underutilised in the new hybrid working environment.	
	b Considered feedback received from colleagues via an ERB consultation about how the move would impact them.	Agreed a revised Travel Assistance Policy and measures to support neurodiverse colleagues (see page 56 for more information).
	d The CEO (at the time) met with the MP for Bromley and the Leader of Bromley Council to discuss how the move could impact the local community in Bromley and what the Group could do to support it.	This engagement led to Bromley Council deciding to purchase the Bromley property from the Company to use as its own headquarters, projecting the move would result in considerable cost savings to the public finances.
Science-Based Target ("SBT") setting The Board considered SBTs to be set and submitted for validation to the SBTi.	a Considered the Group's vision to create a world where insurance is a force for good.	The Board approved five targets for validation. These targets were subsequently validated by the SBTi and published by the Company (see page 66 for more information).
	d Considered advice from specialist adviser Carbon Intelligence.	
	f Considered trends in the investor community towards ethical investment and reducing climate risk.	
	c Considered engagement with suppliers as part of the Group's Supplier SBTi on-boarding programme which assessed suppliers' current status and ambitions in respect of setting SBTs themselves.	Agreed to set a voluntary target. See page 66 for more information.

How the Board engages with stakeholders

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

Our Shareholders

The Investor Relations team runs a comprehensive programme of engagement covering a broad range of the Company's shareholders and debt investors, which includes meetings with the Chair and Executive Directors, presentations and conference calls to discuss performance and strategy. During the year, and following the trading update in January 2023, the Chair attended a number of meetings with institutional investors to discuss the performance and immediate strategic priorities of the business.

The Remuneration Committee Chair engages with shareholders on remuneration-related matters (see page 132 of the Directors' Remuneration Report for more information).

The AGM provides both institutional and retail shareholders with the opportunity to ask the Board questions either live or by submitting questions in advance. In 2022, we returned to holding an in-person AGM and saw increased attendance and engagement from retail shareholders compared to the hybrid/virtual AGMs we had held in the previous two years due to the pandemic.

Our People

Meetings of the Group's Employee Representative Body ("**ERB**") are generally attended by the CEO and one or two Non-Executive Directors. Attendance and information on the work of the ERB during the year can be found on page 108.

Executive Directors host interactive sessions with colleagues throughout the year to receive feedback and answer questions. These sessions are held in various formats in order to encourage maximum participation e.g. video conference town halls which include live Q&As and 'virtual cuppas', enabling colleagues to have a more informal discussion with senior managers.

The Board receives regular updates on people matters from the Chief People Officer and reviews the results and key outcomes of the Group's colleague engagement survey, 'DiaLoGue'.

During the year, the CEO (at the time) visited the Group's operations in Leeds, Bristol, Aldershot, Farnham, Doncaster, Bromley and Glasgow. All of the visits included informal Q&A sessions with colleagues.

More information about the outcomes of this engagement and actions taken in response can be found on page 56.

Our Customers

The Board closely monitors customer conduct and satisfaction. It considers a Customer Conduct Report at each of its scheduled meetings, which includes data in respect of a number of customer experience metrics including Net Promoter Scores and customer complaints data relating to sales, service and claims. It also reviews data in respect of digital service interactions.

During the year, the Board received detailed updates on the impact of various key strategic matters on customers, including the implementation of the new Consumer Duty Regulation and appointed Tracy Corrigan, Non-Executive Director, as Consumer Duty Champion to act as the voice of the customer in the boardroom.

During the year, the CEO (at the time) visited the Company's operations in Doncaster, one of the Group's main customer contact centres. Whilst there, she listened to calls with customers and spoke with customer-facing colleagues to get a better understanding of what our customers are telling us.

Our Suppliers

The Board receives regular updates from management on key issues with suppliers.

During the year, the CEO (at the time) met with a number of key technology suppliers and partners.

The Board reviewed and approved the Group's Ethical Code for Suppliers and Modern Slavery Statement. The Code states that the Company encourages and welcomes feedback from suppliers on the Group as a customer and on how policies and procedures can be improved. This feedback can be given as part of regular review meetings with management.

The Group is a long-standing signatory of the Prompt Payment Code. Key performance indicators in respect of prompt payment are reported internally, and there are mechanisms in place for any significant issues regarding prompt payment to be escalated to the Board.

Our Planet and Our Society

The Sustainability Committee is a key vehicle through which the Board receives updates on engagement with key community and environmental stakeholders. More information on the work of the Sustainability Committee can be found on pages 126 to 127.

During the year, the CEO (at the time), the Chair and several Non-Executive Directors visited the Group's new Technology Centre in the Stechford Accident Repair Centre, which is where we test how we can fix Electric Vehicles in a greener way.

Whilst she was CEO, Penny James represented the Group on the Sustainable Markets Initiative Insurance Taskforce, which works with other insurers and brokers to collectively advance progress to a net-zero economy. During the year, the Group led the initiative's "Global Supply Chain Pledge" (see page 127 for more information).

Employee Representative Body

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

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

During the year, the ERB considered at one of its meetings how effective the structure of the ERB was in representing colleagues in the new hybrid office and home working environment. It was agreed that it was key to maintain flexibility in the structure to ensure that all areas were appropriately represented. A session was also held where the ERB and management considered how they could work more effectively together in the future in respect of business change activities.

Information about Board representation at ERB meetings can be found in the table below. Information about topics discussed and action taken in response to feedback can be found on page 56.

Meeting	March	June	October	December
Board Representation	Penny James (former CEO) Neil Manser (CFO) Tracy Corrigan (Non-Executive Director)	Penny James (former CEO) Mark Gregory (Board Risk Committee Chair) Gregor Stewart (Audit Committee Chair)	Penny James (former CEO)	Penny James (former CEO) Richard Ward (Remuneration Committee Chair) Fiona McBain (Investment Committee Chair)

Division of responsibilities

Governance framework and structure

The Board oversees the system of governance in operation throughout the Group. This includes a robust system of internal controls and a sound Risk Management Framework. The Board has established a risk management model that separates the Group's risk management responsibilities into three lines of defence. An explanation of these responsibilities can be found on page 86.

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

The core elements of the governance framework are the:

- Matters Reserved for the Board and the Board Committees' Terms of Reference;
- High-Level Control and System of Governance Framework document;
- Risk appetite statements, which are described on page 86;
- Enterprise Risk Management Strategy and Framework, which is described on page 87;
- Group policies, which address specific risk areas, are aligned to the Group's risk appetite, and inform the business on how it needs to conduct its activities to remain within risk appetite; and
- Minimum standards, which interpret the Group's policies into a set of requirements that can be implemented throughout the Group.

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

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

Matters Reserved for the Board and Board Committees' Terms of Reference.

Matters Reserved for the Board and Board Committees' Terms of Reference

High-Level Control and System of Governance Framework document

Overarching risk appetite statements

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

Enterprise Risk Management Strategy and Framework

Group policies

Policy risk appetite statements

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

Minimum standards

Structure of the Board, Board Committees and executive management

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

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

The Board and Board Committees are satisfied that, in 2022, sufficient, reliable and timely information was received in order for them to perform their responsibilities effectively.

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

Board composition

As at the date of this report, the Board comprised the Chair, who had previously served as an independent

Roles and responsibilities of the Board

Board of Directors

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

As at 31 December 2022, the Board comprised the Chair, seven independent NEDs, and two executive Directors (the CFO and the (now former) CEO).

Biographies of the full Board can be found on pages 96 to 98.

Board Committees

Full details of membership, responsibilities and activity of each Committee throughout the year can be found on pages 116 to 129.

Audit Committee	**Board Risk Committee**
Investment Committee	**Nomination and Governance Committee**
Remuneration Committee	**Sustainability Committee**

The Executive Committee

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

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

Biographies of the Executive Committee can be found on pages 100 to 101.

Chair

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

Senior Independent Director

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

Non-Executive Directors

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

Executive Directors

- The CEO[1] and CFO are members of the Board, with delegated responsibility for the day-to-day operation of the Group and delivering its strategy.
- The CEO delegates certain elements of their authority to the Executive Committee members to help ensure that senior executives are accountable and responsible for managing their business areas and functions.

Company Secretary

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

Note:
1. Penny James served as CEO and Executive Director until 27 February 2023. Jon Greenwood, who is currently serving as Acting CEO, is expected to be appointed to the Board as an Executive Director once regulatory approval has been obtained.

Non-Executive Director and was independent when appointed as Chair; one Executive Director; and seven independent Non-Executive Directors, including the Senior Independent Director. During 2022, the CEO was Penny James, who served as an Executive Director. Ms James stepped down from the Board on 27 January 2023. Jon Greenwood, the Group's Acting CEO, is expected to be appointed to the Board once outstanding regulatory approvals have been obtained.

Biographical details of the Directors of the Company as at the date of this report are set out on pages 96 to 98. Details of Directors who have served throughout the year can be found in the Directors' Report page 162.

Board succession

The Nomination and Governance Committee continues to review succession plans both for the Board and at executive level each year. Further information on our approach to succession planning and Board appointments can be found in the Nomination and Governance Committee's report on pages 124 to 125.

Board induction and training

All new Directors appointed to the Board undertake an induction programme aimed at ensuring they develop an understanding and awareness of our businesses, people and processes, and of their roles and responsibilities as Directors of the Company. The programmes are tailored to suit each Director and include provision of relevant current and historical information about the Company and the Group; visits to operations around the Group; induction briefings from Group functions; and one-to-one meetings with Board members, Senior Management and the Company's advisers.

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

The Company Secretary maintained the training agenda for the Board and its Committees during the year. Training topics included competition law, anti-bribery and corruption, the Bank of England's Climate Biennial Exploratory Scenario and the International Financial Reporting Standard 17 (the new accounting standard for insurance contracts). In addition, a series of deep dives into the Group's business areas took place during the year, including technology transformation and pricing strategy.

Non-Executive Director ("NED") Independence

On behalf of the Board, the Nomination and Governance Committee assesses the NEDs' independence, skills, knowledge and experience annually. The Nomination and Governance Committee concluded that every current NED was independent, continued to contribute effectively, and demonstrated they were committed to the role. Each current Director will submit themselves for election or re-election at the 2023 AGM. You can find out more about the activities of the Nomination and Governance Committee's work during the year on pages 124 to 125.

External directorships

The Board keeps Directors' external commitments under continual review to ensure they continue to have sufficient time to dedicate to the Group. During the year, the Board reviewed and approved, in advance, Tracy Corrigan's appointment as a Non-Executive Director of Barclays Bank UK plc and Domino's Pizza Group plc. The Board was satisfied that, in taking on the new positions, Tracy would continue to have sufficient time to dedicate to her role on the Board.

Information and support

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

In line with best practice, and as will be required from next year by the new Listing Rule disclosure requirements, the Company has chosen to be an early discloser against the board diversity targets specified in LR 9.8.6R(9), and to disclose numerical data on the ethnic background and sex of the Company's Board and executive management (see tables on pages 99 and 100). The Company reports that as at 31 December 2022 the Board was fully compliant with the new targets, namely that:

a. at least 40% of the Board were women;

b. at least one senior Board position was held by a woman; and

c. at least one Board member was from a minority ethnic background.

Board's approach to diversity and inclusion

The Board is fully committed to promoting Diversity and Inclusion at Board and senior management level as well as throughout the organisation.

Since 31 December 2022, Penny James stepped down as CEO, which means that the Company no longer meets target a). It is the Board's aim to meet this target again and it recognises the challenge in doing so, noting that as the Board's skills and experience are refreshed over time, its gender balance may fluctuate according to the availability of the best candidates for new roles at any given time. The Board will continue to make diversity, including gender diversity, a key consideration in Board succession planning.

The Company currently meets the Parker Review's target to have at least one director from an ethnic minority background by the end of 2024. As at 31 December 2022, the Company had met the FTSE Women Leaders Review targets to have women make up 40% of Board and Leadership Team[1] positions by the end of 2025 but as explained above, has subsequently dropped below the target in respect of Board composition. It aims to be compliant with this target again by or ahead of the target deadline.

Having achieved its Women in Finance target of 30% women in senior management[2] by 2021, the Group chose to adopt an ambitious stretch target of 35% by the end of 2022.

Note:

1. Defined as Executive Committee and their direct reports excluding administrative staff.
2. Women in Finance Charter definition of senior management is based on our internal grading structure.

On 31 December 2022, 31.3% of the Group's senior management were women. Whilst the Group missed its stretch target, it believes the process of target setting has had value and driven the Group's internal work to improve gender representation.

The tables below set out data about the sex and ethnicity of the Board and executive management as at 31 December 2022, in the format prescribed by the Listing Rules.

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management[1]	Percentage of executive management[1]
Men	6	60%	2	5	46%
Women	4	40%	2	6	54%
Not specified/prefer not to say	–	–	–	–	–

Note:
1. Executive management is the Executive Committee and Company Secretary.

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management[1]	Percentage of executive management[1]
White British or other White (including minority-white groups)	9	90%	4	9	82%
Mixed/Multiple Ethnic Groups	1	10%	–	–	–
Asian/Asian British	–	–	–	2	18%
Black/African/Caribbean/ Black British	–	–	–	–	–
Other ethnic group, including Arab	–	–	–	–	–
Not specified/prefer not to say	–	–	–	–	–

Note:
1. Executive management is the Executive Committee and Company Secretary.

The Group recognises the importance of understanding diverse representation and the monitoring of differential outcomes. It collects diversity representation information on the basis of self-reporting across the categories of sex, gender identity, ethnicity, religion, sexual orientation, disability and socio-economic background.

Senior management succession planning

The Board recognises that in order to maintain and improve on diversity levels, it must ensure that senior management succession planning is focused on promoting diverse leadership, and that workforce diversity is achieved at all levels in order to secure a diverse pipeline of talent.

The 2022 Annual Incentive Plan includes targets for Executive Directors, the Executive Committee and senior management in respect of improving the gender and ethnic diversity of the workforce in the context of leadership succession planning (more information on this can be found on page 124 of the Nomination and Governance Committee report).

Board appointments and Diversity Policy

The Board has in place a Diversity Policy which sets out the key principles to be followed in respect of the Board appointment process. More information on this can be found in the Nomination and Governance Committee report on page 125.

Workforce diversity and inclusion

The Board continues to support Group-wide diversity and inclusion activities and initiatives, many of which are outlined on pages 57 to 59. This includes the work of the Company's Diversity Network Alliance ("**DNA**") which champions diversity and inclusion in the Group through its 'DNA strands': Race, Ethnicity and Cultural Heritage ('REACH'); Belief; LGBT+; Life (working families and carers); Neurodiversity and Disability; Social Mobility; and Thrive (gender). During the year, Non-Executive Director Adrian Joseph hosted a 'lunch and learn' for the REACH DNA strand during Black History Month.

More information about the work of the DNA during the year can be found on page 57 of the Strategic report.

Board skills, experience and knowledge

The Nomination and Governance Committee has an active and dynamic process of assessing and monitoring the skill set, experience and knowledge of Board members. The principles of the UK Corporate Governance Code 2018 are embodied in the Committee's approach to Board evaluation and succession planning. The Chair of the Nomination and Governance Committee goes through a continuous process of evaluating the skill and experience required on the Board.

Board and Committee effectiveness review: three-year Board evaluation cycle

The Board conducts an annual review of the effectiveness of the performance of the Board, its Committees, the Chair and individual Directors, with the input of an external facilitator at least every third year. In 2022, the effectiveness review was supported externally by board evaluation consultants, Independent Audit Limited, who have no other connection with the Company or any Director.

The 2022 evaluation process started in the autumn of a year in which the Group had dealt with rising claims inflation and fundamental regulatory change, along with severe weather events, and the resulting report was updated following the trading update published in January 2023. It focused on the information available to the Board to support its oversight, the interaction between the Board and management, and the Board's approach to basing immediate strategic priorities on the lessons learned from the events of 2022.

Independent Audit Limited conducted one-to-one interviews with Board members, senior managers and others, and were regular attendees of Board and Committee meetings. They reviewed meeting papers and observed Board and Committee meetings. Independent Audit Limited's findings and recommendations were considered by the Board and its Committees in early 2023.

Evaluation process

Step 1	The thematic priorities for the review were established by Independent Audit Limited in discussion with the Chair and the Company Secretary.
Step 2	Independent Audit Limited interviewed members of the Board, senior managers and advisers, reviewed papers and observed Board and Committee meetings.
Step 3	A report was discussed with the Chair and the Company Secretary, updated in light of developments since the initial review had been completed, and submitted to the Board and each Committee for discussion.
Step 4	An action plan was defined following discussion of the reports.

2022 evaluation outcome

The results of the review were presented to the Board and its Committees in early 2023 and will form the basis of an action plan for 2023 as summarised in the table on page 114, along with an update on the action plan that resulted from the 2021 review. Themes emerging from the 2022 review included potential improvements to the quality of the information available to the Board, a reflection on how lessons learned from the challenges faced by the Group in 2022 should inform immediate strategic priorities, and a review of how the breadth and depth of expertise in the wider management team should be refreshed. Separately, the Senior Independent Director discussed the Chair's performance with the Non-Executive Directors (except the Chair) and provided constructive feedback to the Chair. No Director was involved in the review of their own performance.

2021 focus areas and action taken during 2022

Strategic topics

The Board's agenda was more closely aligned to the Group's prioritised Objectives and Key Results, and included deep dives into the FCA's Pricing Practices Review ("**PPR**") regulations; investment in innovation; digitalisation of customer experience; development of new products; medium-term technology strategy; mobility ecosystems; business culture; the Group's business portfolio; new Consumer Duty regulation; and supporting capital resilience with a quota share reinsurance programme.

Engaging more effectively with the wider Executive team

The Board continued to engage with the wider management team and workforce. Throughout the year, the Executive Committee and members of senior management were invited to attend Board and Committee meetings, and the Board's annual strategy day, to provide updates on their areas of responsibility. Among other site visits, members of the Board visited the new technology centre at the Group's accident repair centre in Stechford, Birmingham, the customer service centre and accident repair centre in Glasgow and attended a Chief Information Office boardwalk in Bromley to learn about progress and innovation being led by the Group's technology teams.

Preserving and refreshing skills and experience in future Board composition

During the year, the Nomination and Governance Committee considered the observations made during the 2021 Board effectiveness review about taking a medium- to long-term view of succession planning. The scope of a succession planning exercise was agreed with a search firm, Teneo, which will continue its work in 2023. A further search for a Non-Executive Director with financial services, retail and e-commerce experience was launched and resulted in the appointment of Mark Lewis with effect from 30 March 2023.

2022 focus areas and proposed action for 2023

Reflecting on 2022 challenges

The Board, with the assistance of external experts, will assess how the lessons learned from managing the challenges of and increased market volatility during 2022 can be used to enhance governance and oversight.

Improving Board information

The Key Performance and Risk Indicators, analysis and insight made available to the Board will be the subject of review, with the objective of streamlining and continuing to improve the reports provided.

Succession planning

In addition to the immediate priority of searching for a new Chief Executive Officer, the Board will carry out a further review of Board and senior management succession plans and talent pipeline development with a view to accelerate some of the actions already in progress. These focus both on further improving diversity in management and the Board as well as enhancing the breadth and depth of the skills and experience required to execute the Group's strategic plan.

Audit, Risk & Internal Control

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

- how the Board has assessed the Group's longer-term viability and the adoption of the going concern basis in the financial statements is on page 92 and page 164;
- the Board's delegated responsibility to the Audit Committee to oversee the management of the relationship with the Company's External Auditor.

You can find details of the Audit Committee's role, activities and relationship with the External Auditor in the Audit Committee report which starts on page 116.

Responsibility for preparing the Annual Report and Accounts

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

You can find an explanation from the Directors about their responsibility for preparing the financial statements in the Statement of Directors' responsibilities on page 166. The Group's External Auditor explains its responsibilities on page 176.

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

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

Assessing emerging and principal risks

The Board determines the nature and extent of the risks that it is willing to take to achieve its strategic objectives. The Directors robustly assessed the emerging and principal risks facing the Company, including risks that would threaten its business model, future performance, solvency or liquidity. You can find a description of these risks, and their management or mitigation, on pages 88 to 90.

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

Risk management and internal control systems

The Board, with the assistance of the Board Risk Committee and the Audit Committee, and support from the Risk and Group Audit functions as appropriate, monitored the Company's risk management and internal control systems that have been in place throughout the year under review, and reviewed their effectiveness. The monitoring and review covered all material controls, including financial, operational and compliance controls.

The Risk function annually produces an Internal Risk and Control Assessment Statement to support the Board in monitoring the effectiveness of the Group's risk management and internal control systems. Each function completes a self-assessment of its risks and key controls and an Executive Sponsor, responsible for the function, attests to the status of the effectiveness of the risk management and internal control systems. The Risk function reviews and challenges these findings and the Group Audit function provides an independent assessment of the overall effectiveness of the governance and risk and control framework of the Group. The overall findings are combined into a Group-level assessment.

The 2022 Internal Risk and Control Assessment process did not identify any material financial, operating or compliance control deficiencies; however, it did identify areas where further enhancements could be made to the Group's risk and control environment. Actions being taken in these areas of enhancement include: ongoing activities related to the Group's pricing practices and controls, claims handling, technology, information and system security, and change and resilience controls.

Whilst neither the Group Audit nor the Risk functions identified any material risk and control deficiencies in the Group's risk management and control framework through the IRCA, both highlighted an increased number of control deficiencies during the year, which were considered by the Risk and Group Audit Functions and the Board to not be material in the context of the Group as a whole and the Group's Risk and Control Framework, resulting in an overall deterioration in the resilience of the risk and control environment.

The issues identified in the IRCA process were in the main caused by a unique combination of external and internal change factors which placed notable short-term strain on certain processes in the Group. For example, exceptional inflation particularly in the Motor market, severe weather events, significant regulatory change in the FCA's Pricing Practices Review regulations and external delays to claims settlement in the light of significant challenges to the supply chain, and with these also coinciding with systems re-platforming and embedding, made for a peculiarly challenging operating environment during the year.

Both Risk and Group Audit functions have confirmed to the Committee that many of these issues were mitigated by compensating controls.

To address the issues identified, some mitigating controls have already been utilised and further actions have been identified to further strengthen specific controls and the resilience of the risk and control environment. Certain enhancements are also planned to provide greater resilience against potential future stress scenarios. The enhancements will be overseen by the Audit Committee and Board Risk Committee.

Notwithstanding the identified and planned risk management and control enhancements, on the basis of the conclusion provided by each of the Risk and Audit functions in the IRCA process, the Audit Committee and Board Risk Committee are satisfied that the risk management and control environment has been satisfactory during the year.

The Group Audit function supports the Board by providing an independent and objective assurance of the adequacy and effectiveness of the Group's controls. It brings a systematic and disciplined approach to evaluating and improving the effectiveness of the Group's risk management, control and governance frameworks and processes. Group Audit's 2022 annual assessment of the risk management, governance and control environment did not identify any matters that conflict with the 2022 Internal Risk and Control Assessment Statement.

On behalf of the Board, the Board Risk Committee reviewed the 2022 Internal Risk and Control Assessment and was satisfied with the conclusion that the Group's risk management systems, including its internal control systems, were fit for purpose for managing all material risks. The Board Risk Committee also regularly reviews significant risks and how they might affect the Group's financial position, comparisons to agreed risk appetites, and what the Group does to manage risks outside its appetite.

The Board confirms that there is an ongoing process for assessing the Company's risk management and internal control systems and identifying, evaluating and managing the significant risks faced by the Group, which has been in place throughout the period and up to the date of this report. The Board takes the view that, on the basis of the assessment carried out in and in respect of 2022, it would be reasonable to conclude that the Group's risk management and internal control systems are effective. The Directors acknowledge that any internal control system can manage, but not eliminate, the risk of not achieving business objectives. It can only provide reasonable, not absolute, assurance against material misstatement or financial loss.

Remuneration

The Board is mindful at all times that remuneration policies and practices must be designed to support strategy and promote the long-term sustainable success of the Group. It delegates responsibility to the Remuneration Committee to ensure that there are formal and transparent procedures for developing policy on Executive remuneration and determining Director and senior management remuneration.

In his report on pages 130 to 150, the Remuneration Committee Chair provides an overview of the Committee's work in setting an appropriate framework for remuneration of the Executive Directors, Executive Committee and other senior managers, as well as the wider workforce, to ensure fair pay for all our colleagues.

For details on how the Company has applied Provision 40 of the Code in determining Executive Director remuneration policy and practices, see the summary on page 136.

Audit Committee report

Gregor Stewart
Chair

Committee membership

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

Key responsibilities

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

Areas of focus in the reporting period

- Financial reporting: reviewing and challenging the key accounting estimates and judgements made by management to support the financial statements.
- Insurance reserves: reviewing the Group's insurance reserves to obtain assurance that they remain appropriate for discharging expected liabilities.
- IFRS 17 implementation, including the associated new finance and actuarial systems.
- Audit tender: overseeing the external audit tender process and making a recommendation to appoint a new auditor to the Board.
- Reviewing and challenging the Group's Task Force on Climate-related Financial Disclosures report.

Committee skills and experience

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

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

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

Main activities during the year

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

2022 was a particularly challenging year for the Group and this was reflected in the matters considered by the Audit Committee during the year.

Financial reporting

The Committee followed a review process before recommending the Annual Report and Accounts and Half Year report to the Board, and focused on the choice and application of significant accounting policies, emphasising those requiring a major element of estimation or judgement. Further information on the significant matters considered is provided in the table on page 117.

In addition, the Committee reviewed papers prepared by management on the use of alternative performance measures in the financial statements. It was satisfied that an explanation of both the alternative performance measure, and why it was used, was clearly communicated to users of the financial statements.

Furthermore, the Committee considered the estimates and judgements used to prepare the Group's capital position under Solvency II, including focusing on the level of technical provisions held. Specific matters considered included judgements made in respect of events not in data, and the risk margin. The Committee reviewed the Group's Solvency and Financial Condition report and Regular Supervisory reports on behalf of the Board before submission to the PRA, and concluded that the processes to produce and review the Group's regulatory reports had operated satisfactorily.

Reserves

The Committee reviewed and challenged the key assumptions and judgements, emerging trends, movements, and analysis of uncertainties underlying the estimate of reserves. These assumptions and judgements were informed by actuarial analysis, wider commercial and risk management insights, and principles of consistency from period to period. During the year, inflation risks were discussed in detail, taking account of supply chain constraints, as well as care cost, parts and general labour inflation affecting different lines of business. The Actuarial Director presented scenario analyses for various inflationary drivers, supporting the booking of the claims reserves. After reviewing the reserves, the Committee recommended them to the Board.

The Committee also considered an external actuarial review of material risk areas of the insurance reserves carried out for the Committee by PricewaterhouseCoopers LLP ("**PwC**").

IFRS 17 implementation

During the year, the Committee continued to be highly engaged in overseeing the implementation of IFRS 17. The Committee: reviewed updates on the completion of the programme of works to design and implement the changes required to accounting and reserving processes and systems; reviewed, challenged and approved accounting policy choices and accounting judgements; and reviewed the estimated impact of transitional adjustments and external communication arrangements. The Committee held a deep-dive meeting and a training session focused on IFRS 17 where these matters were considered in depth.

Significant judgements and issues

Matter considered	Description	Action
Insurance reserves valuation	The Committee reviewed the level of insurance reserves of the Group. Insurance reserves relate to outstanding claims at the balance sheet date, including claims incurred but not reported at that date. By their nature, insurance reserves require analysis of trends and risks, and the application of management judgement, knowledge and experience. Further information on reserves is provided on pages 35 to 36.	In 2022, the Committee reviewed and challenged the approach, methodology and key assumptions used by management in setting the level of insurance reserves, and monitored developing trends that could have a material impact on them. On an ongoing basis, it received updates from the Actuarial Director on how actual claims experience compared to expectations. Particular points of discussion in 2022 were the assumptions made in respect of the cost of care and damage claims inflation, as well as the more wide-ranging impacts of the current macro-economic environment. The Committee discussed the judgements that underpinned the year end reserves, including those based on data received on current and prior-year development and settlement patterns, the development of Motor bodily injury and damage claims for both severity and frequency patterns, and subsidence following the dry summer, as well as severity inflation observed in older years' claims. Because of the increased uncertainty in an inflationary environment, the Committee reviewed detailed analysis of the issues that significantly impacted the booked reserves, alongside supporting data and diagnostics, and the potential range of outcomes. The Committee also reviewed and challenged the scenarios proposed for reserving for the severe weather event in December. In addition, the Committee considered the Dear Chief Actuary letter from the PRA, which highlighted the risks of inflation for general insurers and required them to take certain actions to address those risks, and approved the Group's response plan. The Committee also obtained insight and reviewed results from an independent actuarial review of material elements of the reserves. The Committee was satisfied that management had exercised appropriate control and judgement in estimating insurance liabilities.
Valuation of investments not held at fair value and investment property	The Committee considered reports on the estimates and judgements applied to the carrying value of the Group's investments that are not held at fair value, and the basis for the valuation. These assets principally comprise infrastructure loans, commercial real estate loans and private placement bonds held within the investment portfolio. The Group also holds a portfolio of investment properties. Information was provided to the Committee on a regular basis to support the value recognised in the accounts.	In 2022, the Committee considered major accounting estimates and judgements in respect of assets not held at fair value, and the investment property portfolio, and was satisfied with the carrying value of investments and the basis for their valuation. The Committee noted that one write down was proposed in the investment portfolio in relation to one of the Group's commercial real estate loans. The Committee considered the impact of the challenging macro-economic environment on the investment property portfolio and noted the year end independent valuation reflected factors in relation to the impact of ongoing economic uncertainty on certain sectors of the portfolio, primarily in relation to the industrial and hospitality sectors. The Committee concluded that the carrying values in the accounts were reasonably stated.

Task Force on Climate-related Financial Disclosures report

The Committee reviewed the financial disclosures in the Task Force on Climate-related Financial Disclosures report on behalf of the Board as part of its review of the Annual Report and Accounts. The TCFD report can be found on page 72.

Going concern, viability and fair, balanced and understandable

The Committee considered the going concern assumptions and viability statement in the 2022 Annual Report and Accounts, valuation of assets and impairment reviews, non-recurring period-specific transactions and clarity of disclosures. The Committee reviewed and concluded that the Annual Report and Accounts taken as a whole were fair, balanced and understandable and provided sufficient information to enable the reader to assess the Group's position, performance, business model and strategy.

When considering the 2022 Annual Report and Accounts, the Committee considered the significant judgements and issues which could be material to the financial statements. These included the matters set out in the table on page 117. The Committee challenged the estimates and judgements being made and also discussed these matters with the External Auditor.

For more information on the viability statement see page 92.

Internal control

During the year, the Committee reviewed the adequacy and effectiveness of the controls that underpin the Group's financial reporting control framework which are part of the wider internal controls system and addresses financial reporting risks. The Board delegates supervision of the framework to the Committee while the CFO is responsible for the framework's operation on a day-to-day basis. During 2022, the Committee received regular reports on any control deficiencies, compensating controls and the mitigating actions taken by management. There were no material control deficiencies reported to the Committee in the year. However, there has been an increase in the number of control deficiencies identified during the year which were considered by the Risk and Group Audit Functions and the Board to not be material in the context of the Group as a whole and the group's Risk and Control Framework. These arose mainly as a result of external and internal changes particular to 2022 (for example, PPR, severe inflation and supply chain challenges, and these coinciding with systems re-platforming and embedding). However, both Group Risk Management and Group Internal Audit functions have confirmed to the Committee that many of these were mitigated by compensating controls. Nonetheless, the Group, through this Committee along with the help of external advisers, is reviewing its controls and processes, including relating to further automation. The reviews will be performed with a view to establishing potential increased resilience and improvements. The Committee also considered management's processes and controls for identifying and responding to the risk of fraud. The Committee noted that there were no fraud-related events or actions to suggest that fraud might have a material impact on the financial statements. The Committee also monitored management's responses to the control insights and observations raised by the External Auditor in its annual management letter during the year, and were satisfied that management was taking appropriate and timely action to resolve the issues raised.

Group Audit

The Committee is responsible for overseeing the work of Group Audit and for ensuring industry best practice is adopted appropriately. The Group Head of Audit's primary reporting line is to the Chair of the Committee. The secondary reporting line, for day-to-day administration, is to the CEO.

During the year, the Committee oversaw key developments in the Group Audit function, including the development of Group Audit's Vision and Purpose and supporting team structure. Within Group Audit's four Strategy and Vision pillars a particular focus was the data enablement workstream to upskill the team, increase the number of audits using data analytics and to provide more timely and impactful insights on several key audits. Group Audit's performance partner PwC continued to provide independent quality assurance activity with results reported to the Committee on a regular basis.

During the year, Group Audit provided the Committee with independent and objective reports on the adequacy and effectiveness of the Group's governance, risk management and internal controls. Group Audit performed continuous oversight of the change portfolio and completed a number of reviews of major programmes during the year. The Committee approved Group Audit's plan on a rolling quarterly basis, and confirmed the audit plan coverage on an annual basis. The Committee received quarterly reports detailing internal audit activity, key findings, management responses, and proposed action plans. There were no material deficiencies reported to the Committee in the year.

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

Additional information

The Committee has unrestricted access to management and external advisers to help discharge its duties. It is satisfied that in 2022 it received sufficient, reliable and timely information to perform its responsibilities effectively.

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

External Audit

Deloitte LLP ("**Deloitte**") has served as the Company's Auditor since 2000. Adam Addis, ACA, was the lead audit partner for the Company's 2021 and 2022 audits. Andrew Holland, FCA, will take over as lead audit partner for the Company's 2023 audit.

The Committee is responsible for overseeing the work of the External Auditor and agreeing the audit fee, as well as approving the scope of the External Auditor's annual plan.

External Audit tender

During 2022, the Committee oversaw a competitive tender process to select a new auditor to be appointed for the financial year ending 31 December 2024.

As Deloitte was appointed as Auditor to the Company in 2000 (when it was a subsidiary of The Royal Bank of Scotland Group plc), under the transitional provisions of the relevant legislation, they could only continue as the Company's External Auditor until 31 December 2023 and therefore did not participate in the tender. There were no contractual obligations restricting the Group's choice of External Auditor.

A Working Group was established by the Committee to run the day-to-day process and report back to the Committee on a regular basis. The Working Group was led by a senior member of the procurement function and the process was run in line with corporate governance and procurement best practice. An outline of the process is set out below:

- Audit firms were invited to participate in the tender based on their general insurance industry capability and experience. The invitation was sent to the 'big four' (excluding Deloitte who were not allowed to re-tender as set out above) and a number of mid-tier firms.
- A request for information ("**RFI**") was sent to the firms who had indicated they wished to tender, and responses were reviewed by the Working Group and the Audit Committee.
- All firms who responded to the RFI were invited to participate in the formal tender process.
- A request for proposal ("**RFP**") was reviewed by the Committee and issued. Responses were received and reviewed using a score card system based on a set of non-discriminatory selection criteria.
- The lead audit partners of the short-listed firms met with the Committee Chair to gain greater insight into the business and the work of the Committee.
- Key members of the short-listed firms' audit teams presented to the full Audit Committee in person.
- The Committee met to evaluate the proposals, following which a recommendation was made to the Board, giving it the option of two firms, expressing a preference for one.

As announced on 10 October 2022, the Board approved the appointment of KPMG LLP ("**KPMG**") as the Company's auditor for the financial year ending 31 December 2024, subject to shareholder approval at the Company's 2024 AGM.

The Committee will now work to oversee an efficient and effective handover from Deloitte to KPMG.

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

Auditor independence

The Group has in place a minimum standard in relation to the independence of the External Auditor, which is compliant with the Financial Reporting Council's review of its Ethical Standard for Auditors. This establishes parameters for preventing or mitigating anything that compromises the External Auditor's independence or objectivity. The minimum standard includes:

- a formal process for the pre-approval of certain non-audit services by the External Auditor;
- a requirement that any non-audit services are reviewed annually;
- restrictions on employees of the auditor working for the Group and vice-versa; and
- a requirement that key audit partners are rotated at least every 5 years.

The Committee reviews the standard annually, and this year approved a new provision which sets out safeguards for the cooling-in of a new audit firm.

The Committee's Terms of Reference require that the Committee meet at least once annually with the External Auditor in the absence of management.

In addition, the Committee reviews a letter from Deloitte which confirms that in its professional opinion it is independent within the meaning of regulatory and professional requirements.

Therefore the Committee is satisfied that the Group has adequate procedures to ensure that the External Auditor is independent and objective and that these procedures operated effectively during the year.

Non-Audit Fees

During the year, the Committee did not approve any fees for services from Deloitte unrelated to audit work. The following is a breakdown of fees paid to Deloitte for the year ended 31 December 2022 (excluding VAT).

	Fees £m	Proportion %
Audit fees	3.0	94
Audit-related assurance services	0.2	6
Non-audit services	–	–
Total fees for audit and other services	3.2	100

Audit-related assurance services were in respect of the Group's Solvency II reporting and the review of the Half Year report 2022, for which the Company's External Auditor must be used. Further information in respect of audit fees paid to Deloitte is disclosed in note 10 to the consolidated financial statements.

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

In 2022, the Committee conducted its annual review of the External Auditor's effectiveness. The Committee assessed the External Auditor through:

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

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

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

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

The Committee recommended to the Board that the Group re-appoint Deloitte as External Auditor, to which the Board agreed. A resolution regarding the reappointment of Deloitte as auditor of the Group will be put to shareholders at the 2023 AGM.

Committee effectiveness review

During the year, an external evaluation of the effectiveness of the Committee was facilitated by Independent Audit Limited as part of the wider review of the Board and the Board Committees. The review found that the Committee functions effectively, provides the right degree of challenge, and interacts well with other Committees and the Board. Further information on the Board effectiveness review can be found on pages 113 to 114.

In addition, the Committee's terms of reference were reviewed against the activity of the Committee during the year. The terms of reference were found to be suitable, comprehensive and of appropriate scope. The Committee's terms of reference can be found on the corporate website: www.directlinegroup.co.uk/en/who-we-are/leadership/board-committees

The Board reviewed and approved this report on 21 March 2023.

Gregor Stewart
Chair of the Audit Committee

Board Risk Committee report

Mark Gregory
Chair

Committee membership

- **Mark Gregory**
  Chair
- **Fiona McBain**
  Independent Non-Executive Director
- **Gregor Stewart**
  Independent Non-Executive Director
- **Dr Richard Ward**
  Senior Independent Director

Key responsibilities

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

Areas of focus in the reporting period

- Monitoring and reviewing the Group's top risks across its financial, operational and organisational resilience pillars.
- Regular assessment of the Group's emerging risks, including monitoring of the geopolitical landscape and its impacts on the Group.
- Overseeing and challenging progress and delivery of the FCA's Consumer Duty implementation programme.
- Receiving regular updates on climate change including in relation to the Climate Biennial Exploratory Scenario ("**CBES**") exercise.

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

Chief Risk Officer's Report

2022 was a particularly challenging year for the Group and this was reflected in the matters considered by the Board Risk Committee during the year. At each scheduled meeting, the Committee received a report from the Chief Risk Officer ("**CRO**") which outlined the challenges and risks being faced across the Group's financial, operational and organisational resilience pillars. The CRO's report provided an overview and status of the top and principal risks against the Group's appetite, as well as: key activities undertaken by the Risk Function to further embed risk management across the Group; outputs of regular risk monitoring activities; and details of any current and specific financial, non-financial or regulatory and compliance risk matters. Alongside this report, the Committee regularly assessed the Group's emerging risks. It challenged management on the identification of all possible significant emerging risks during the year and on the Risk Function's role in ensuring that such emerging risks were being monitored and managed appropriately. The most notable emerging risks identified included those relating to climate change, changing consumer behaviours, keeping up with digital advancements, geopolitical tension, automotive technology and data ethics. In addition, the Committee reviewed the plan of risk assurance activities to be undertaken for each quarter and the year ahead to support the Company's key strategic objectives and to ensure adherence to prevailing legal and regulatory requirements, as well as the Group's enterprise and risk management framework.

Focused business and risk reviews

Set out below are some of the areas of focus and key reviews that the Committee carried out during the reporting period, to examine the risk profile of the business, and to challenge the robustness of frameworks in place to manage key risk exposures as well as regulatory requirements and expectations:

- overseeing and challenging progress and delivery of the Consumer Duty implementation programme;
- reviewing customer and conduct risk matters to ensure that fair pricing and outcomes are being achieved for customers across all Direct Line Group products, including reviewing actions taken to support customers through the cost of living crisis, the Group's annual pricing report, its pricing strategy and the pricing governance and control framework;
- examining and monitoring management on its progress to embed climate-related financial risk management in the business, including the Group's response to the Bank of England's CBES exercise, through technical briefings and regular climate-related updates;
- regular assessment of the geopolitical landscape and its impact on the Group;
- review of the Group's operational resilience self-assessment, including important business services and associated impact tolerances;

- review of the effectiveness of the Group's risk management and internal control systems and environment, including material financial, operational and compliance risks, the Group's residual risk position, associated mitigating actions and compensating controls;
- review of key and ongoing change programmes and the Group's change operating model, to ensure delivery in line with the Group's strategic plan;
- review of the Group's adherence to privacy and data protection legislation;
- the stability, security and capability of the Group's IT systems; and
- review of the Risk Function's target operating model and revised approach to the Group's risk culture, risk taxonomy and policy and minimum standard framework.

Risk appetite

The Committee undertakes an annual review of the Group's risk appetite framework, which includes the overarching risk appetite and policy risk appetite statements. It monitors the Group's exposure against these statements, considers key risk indicators and assesses the key drivers that affect status against risk appetite. At each scheduled meeting, the Committee also monitors the Group's performance against its capital risk appetite through the CRO's report. In line with regulatory requirements, the Committee scrutinises and approves the Group's overall affirmative and non-affirmative cyber insurance underwriting strategy, associated risk appetite statements and relevant management information.

Committee members also reviewed and challenged the Own Risk Self-Assessment ("**ORSA**") process and key content before submission to the Board for approval. Committee challenges on elements of the ORSA during the year included: prioritisation of resource and activities to deliver the strategic plan; pricing and underwriting risk; and internal model validation activity. In addition, the Committee monitors and challenges the stress and scenario testing plan and outputs. The Committee also reviews the potential contingent management actions for management to consider taking in times of stress to restore the Group's capital strength to within an acceptable risk appetite range.

Internal Capital Model

The Committee regularly reviewed and challenged reports on the Group's partial internal economic capital model for determining regulatory capital requirements during the year, including key assumptions, methodologies and areas of expert judgement used within the model, activities undertaken to validate model outputs, model changes and future management actions.

Whistleblowing

As delegated by the Board, the Committee routinely reviewed the arrangements by which employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters ("**whistleblowing**") during the year. The Committee Chair oversees the independence, autonomy and effectiveness of the Group's policies and procedures on whistleblowing, including the procedures for protection from detrimental treatment for staff who raise concerns. During the year, the Committee reviewed reports relating to whistleblowing, including anonymised, individual cases, to ensure arrangements were in place for the proportionate and independent investigation of such matters and for appropriate follow-up action. The Committee challenged management and was satisfied that the whistleblowing process met the necessary standards and that it was adequately designed, operated effectively and adhered to regulatory requirements.

Financial crime and anti-bribery and corruption

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

The Committee considered the Group's actions to prevent financial crime through its review of the annual financial crime report and recognised the additional monitoring controls that had been implemented to manage remote working fraud risk. Annually, the Committee considers an anti-bribery and corruption report, which includes a risk assessment of the level of anti-bribery and corruption risk to the Group. Following review and challenge, the Committee was satisfied that the Group's policies and procedures on anti-bribery and corruption were fit for purpose and that anti-bribery and corruption risks were managed appropriately.

The Russia/Ukraine conflict led to an unprecedented number of new sanctions being implemented against the Russian regime. Whilst the new sanctions led to a significant increase in the number of sanctions list updates in H2 2022, the impact of the Russia/Ukraine conflict on the Group's ability to adhere to sanctions requirements was low. During 2022, two positive sanctions matches to the Russian regime were identified in relation to insurance via certain packaged bank accounts – all necessary internal and external reporting action was taken. New sanctions on Russia are continuously coming into effect and the Group continues to monitor the sanctions situation and screen against the most up-to-date key sanctions lists on a daily basis in order to mitigate this risk.

Risk governance

During the reporting period, the Committee received assurance from management on the process for review of the Group's policies and reviewed material changes to the Group's most significant policies. The Committee reviewed and challenged each of these policies and recommended them for approval by the Board as appropriate.

The Committee has unrestricted access to management and external advisers to help discharge its duties. It is satisfied that in 2022 it received sufficient, reliable and timely information to perform its responsibilities effectively. In addition to one-to-one meetings with the Chair, the CRO also met with the Committee in the absence of the Executive Directors. The Chair reported on matters dealt with at each Committee meeting to the subsequent scheduled Board meeting.

Committee effectiveness review

During the year, an external evaluation of the effectiveness of the Committee was conducted by Independent Audit Limited as part of the wider review of the Board and the Board Committees. The review found that the Committee's effectiveness had been improved by reshaping the agenda and improving information flow; the purpose of meetings was clear and challenge and questioning was focused. Further information on the Board effectiveness review can be found on pages 113 and 114.

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

The Committee's Terms of Reference can be found on the corporate website:

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

The Board reviewed and approved this report on 21 March 2023.

Mark Gregory
Chair of the Board Risk Committee

Nomination and Governance Committee report

Danuta Gray
Chair

Committee membership

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

Key responsibilities

- Review the composition of the Board and its Committees.
- Lead the process for Board appointments and make recommendations to the Board.
- Oversee executive succession planning at a high level to ensure the development of a diverse senior management talent pipeline.
- Set diversity objectives and strategies.
- Oversee and monitor the corporate governance framework of the Group.
- Monitor developments in governance and investor ESG expectations.

Areas of focus in the reporting period

- Took a long-term view of the skills and experience needed by the Board, given the terms of appointment of existing Non-Executive Directors, and started a talent-mapping and market-scanning exercise to identify future candidates with relevant strategic experience.
- Monitored progress on senior management succession planning and the development of a diverse talent pipeline.
- Oversaw a search for a Non-Executive Director with financial services, retail and e-commerce experience.

Main activities during the year

Board and senior management succession planning

The Committee continuously keeps the composition of the Board under review, with the objective of preserving and refreshing the Board's collective experience, expertise, diversity and cultural alignment, and matching its expertise with the Group's long-term strategy.

Since the end of the year, Penny James has stepped down as CEO and as a member of the Board. The Committee is leading the search for a permanent successor, working closely with the Board on specifying the skills and experience needed by a CEO to shape the Group's strategy and lead the business. We have engaged international experts Spencer Stuart (a signatory to the voluntary code of conduct for executive search firms which has no other connection to the Company or any individual director) to assist with the search.

During the year, the Committee considered the board roles that will need to be recruited for as some current Non-Executive Directors' tenures reach nine years (a circumstance which is identified by the UK Corporate Governance Code as likely to impair, or which could appear to impair, a Non-Executive Director's independence) over the coming four years. Taking into consideration observations made during the 2021 Board effectiveness review about the approach to future Non-Executive appointments, the Committee chose to take a longer-term view and engaged Teneo, the global executive search and advisory firm (which has no other connection with the Company or any individual Director) to help conduct a talent mapping and market scanning exercise. The object of the exercise is to begin to identify possible candidates for future appointment as Non-Executive Directors, focusing on the expertise that the Board will need to oversee the development and execution of the Group's long-term strategy, as well as on diversity, including gender, ethnic and cognitive diversity, and on the succession plan for specific Board roles. The preparatory stage of the talent mapping review is expected to continue into 2023.

With medium-term succession planning in mind, the Committee recommended that Tracy Corrigan, independent Non-Executive Director, be appointed as a member of the Remuneration Committee. Tracy Corrigan's appointment was approved by the Board on 24 March 2022 and took effect on 1 April 2022.

The Committee also engaged Sciteb, the international strategy and search firm (which has no other connection with the Company or any individual Director), to conduct a search for a Non-Executive Director with deep and recent financial services, retail and e-commerce experience. As announced on 17 February 2023, this process resulted in the appointment, with effect from 30 March 2023, of Mark Lewis, a former CEO of Moneysupermarket Group, as an independent Non-Executive Director.

The Committee reviewed the Chief Executive's short and medium-term plans for the evolution of the Executive Committee, noting the availability of a number of senior managers in the Group capable of being developed over the next few years, as well as short-term emergency cover for contingency planning purposes.

Electing and re-electing Directors

Before recommending the proposed election or re-election of Directors at the 2022 AGM, the Committee reviewed the independence of the Non-Executive Directors and concluded that all Non-Executive Directors remained independent in judgement and character and met the criteria for independence set out in the UK Corporate Governance Code. The Chair of the Board was independent on appointment.

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

All current Directors (plus Mark Lewis whose appointment is effective from 30 March 2023) will submit themselves for election or re-election at the Company's 2023 AGM.

Diversity and inclusion

The Committee believes that diversity of gender, ethnicity, skills and experience, as well as cognitive, regional, socio-economic, educational and professional diversity, equips the Board better to take a broad strategic perspective and the management team better to lead a diverse workforce and serve a diverse customer base.

The Board has in place a Diversity Policy, the objective of which is to seek to ensure that individual differences, which contribute to the success of the Company and represent the diversity of our customers and colleagues, are reflected at Board level. The policy states that appointments should embrace diversity of gender, ethnicity, skills, experience and cognitive diversity, as well as socio-economic, educational and professional background, among other differences. The policy underpins appointments that are made to both the Board and its Committees.

The Board Diversity Policy is monitored and reviewed annually by the Nomination and Governance Committee and made available to any executive search firm engaged to assist with the selection and appointment process for Board positions.

The Board Diversity Policy is available to view on the Company's website at www.directlinegroup.co.uk/en/sustainability/reports-policies-and-statements.

Further information on the Board's approach to diversity can be found in the Corporate Governance report on pages 111 to 112, which includes progress against key external targets.

The Committee also oversees the promotion of diversity at senior management level and Group-wide. During the year, it has kept the Group's diverse talent pipeline under review, noting its focus on inclusivity and equality of opportunity, as well as on prioritising future skills needed by the business, and the progress made towards gender targets among senior management positions. More information on senior management diversity can found on page 100.

Non-Executive Directors' fees

During the year, the Committee reviewed the fees for chairmanship of the Investment and Sustainability Committees, and for membership of the Investment Committee. Recognising the time invested by Non-Executive Directors in the work of those Committees, the increasing prominence of sustainability risks and opportunities and the strategic importance of the Group's investment activity, the Committee proposed an increase in fees for chairmanship of both Committees from £10,000 to £15,000 p.a. and the introduction of a fee for membership of the Investment Committee of £5,000 p.a. The proposal was approved by the Board in February 2022 and took effect from 1 April 2022.

Corporate governance

The Committee monitors arrangements made by the Company and its subsidiaries to comply with the UK Corporate Governance Code and other relevant governance standards. It also considers emerging governance matters, observance of ESG standards and developments, and reforms which may affect the Group's adherence to corporate governance best practice.

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

Committee effectiveness review

During the year, an evaluation of the effectiveness of the Committee was facilitated by Independent Audit Limited as part of their wider review of the effectiveness of the Board. The review found that the Committee functions effectively and transparently, and that an appropriate balance is struck between the Committee's and the Board's discussions about Board composition and executive succession planning. Further information about the Board effectiveness review can be found on pages 113 to 114.

The Committee also reviewed its activity against its Terms of Reference and determined that its Terms of Reference remained comprehensive and of appropriate scope.

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

The Board reviewed and approved this report on 21 March 2023.

Danuta Gray
Chair of the Nomination and Governance Committee

Sustainability Committee report

Sebastian James
Chair

Committee membership

- **Sebastian James**
  Chair
- **Tracy Corrigan**
  Independent Non-Executive Director
- **Penny James**[1]
  Former Chief Executive Officer
- **Adrian Joseph**
  Independent Non-Executive Director

Key responsibilities

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

Areas of focus in the reporting period

- Monitored the Group's activity under the five pillars of the Group's sustainability strategy.
- Oversaw the Group's involvement in environmental initiatives, including setting, validating and tracking progress against the Group's Science-Based Targets.
- Considered decision making on ethical matters, including the Group's Ethical Code for Suppliers and Modern Slavery Statement.
- Reviewed performance and approach on key stakeholder matters, including compliance with the FCA's Consumer Duty and charitable activity in the local community.
- Reviewed the Group's people plans, including improving gender and ethnic diversity at senior leadership level and developing a culture of inclusivity.

Main activities during the year

Customer

During the year, the Committee oversaw management's work to drive positive customer outcomes and to align business practices with the Group's purpose: "to help people carry on with their lives, giving them peace of mind now and in the future." The Committee received updates on management's strategy to implement the FCA's new Consumer Duty, and considered how this could be used as an opportunity to reorientate the business to meet customers' evolving needs, as well as ensuring regulatory compliance.

The Committee reviewed management's activity to support financially-distressed customers affected by the cost of living crisis and encouraged the business to continue to be guided by customers' needs, including being able to drive for work.

People

Over the course of 2022, the Committee oversaw work to promote a culture that helps people thrive through celebrating difference. This supported progress to increase the representation of women, minority ethnic and Black professionals in leadership roles. The Committee challenged management to further improve diversity and inclusion at all levels of the business and to strengthen the talent pipeline by focusing on candidates' potential and competencies.

The Committee oversaw enhancements to the Group's recruitment processes and encouraged ongoing work to grow the diversity profile of the Group's senior leadership team and build a culture of inclusivity. The publication of our second ethnicity pay gap report in 2022 was seen as an important step towards further improving inclusivity in the Group.

The Committee monitored employee wellbeing throughout the year, taking particular note of colleagues' experiences of the cost of living crisis and the uncertain economic climate. The Committee considered the effectiveness of the Group's hybrid working proposition and the opportunity to help colleagues improve their work-life balance. To enhance understanding of colleagues' concerns, during the year, some Committee members attended meetings of the Employee Representative Body ("**ERB**"). For more information on the work of the ERB, please see page 108.

Note:
1. Penny James was a member of this Committee until she stepped down from the Board on 27 January 2023.

Planet

Throughout 2022, the Committee oversaw work to protect the business from the impact of climate change and to achieve the goal of "giving more back to the planet than the Group takes out." The Committee oversaw the Group's involvement in external engagement initiatives, most notably, the Group's achievement of setting validated Science-Based Targets ("**SBTs**"). To this end, the Committee received insights into challenges facing the three most carbon-intensive areas of the business – Auto Services, procurement and investments – and examined strategies for setting meaningful targets and meeting them. For further details on alignment of the Group's investment portfolio with initiatives which will support the transition to a low-carbon economy, see the Investment Committee report for 2022 on pages 128 to 129.

During the year, the Climate Executive Steering Group, which reports into the Sustainability Committee, actively monitored progress towards sustainability across the business, including work to set, and monitor progress against, the Group's first SBTs. For more information on the Group's journey to setting SBTs, please see pages 65 to 66.

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

- its partnership with Climate Impact Partners to support the Uruguay afforestation Project;
- the Global Supply Chain Pledge, part of the Sustainable Markets Initiative sponsored by His Royal Highness King Charles III; and
- supporting the Get Nature Positive campaign, as part of which the Group has partnered with the nature recovery charity Heal.

Updates on the Group's continuing involvement in the Bank of England's Climate Biennial Exploratory Scenario ("**CBES**") were received and noted by the Committee. Further detail regarding the Group's CBES submission and feedback responses can be found on pages 77 and 121.

Society

Over the course of the year, the Committee reviewed the distribution of the Community Fund. A sum of over £750,000 was allocated to help build a more inclusive and equitable Britain by improving social mobility and accelerating inclusion.

In 2022, funding priority was given to mentoring, work experience and career insight opportunities for disadvantaged young people. The Committee noted the success of community outreach events for sixth form students with the Executive Committee and the Chair of the Board and the strong participation from the wider Group population.

Additional Community Fund projects during the year included a £15,000 contribution to a sport initiative in Bromley and a £50,000 donation to the Pakistan disaster emergency appeal.

Governance

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

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

Modern Slavery Statement

In February 2022, the Committee reviewed the Group's policy on compliance with the Modern Slavery Act 2015 (the "**MSA**") and how third-party suppliers complied with the Act's requirements.

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

The Modern Slavery Statement is available to view on the corporate website:

https://www.directlinegroup.co.uk/en/sustainability/reports-policies-and-statements.html

Ethical Code for Suppliers

The Committee received the updated Ethical Code for Suppliers and assessed its alignment with the Group's wider strategy. In particular, the Committee noted that the business was encouraging its suppliers to align with its own commitment to reducing carbon emissions, and it welcomed the Group's ambition to work with suppliers with robust diversity and inclusion programmes.

Committee effectiveness review

During the year, an external evaluation of the effectiveness of the Committee was conducted as part of the wider review of the Board and the Board Committees which was facilitated by Independent Audit Limited. The review found that the Committee pushed energetically for SBTs, is adept at overseeing the Group's sustainability agenda and has organised its areas of focus appropriately. Further information on the Board effectiveness review can be found on pages 113 to 114.

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

The Committee's Terms of Reference can be found on the corporate website:

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

The Board reviewed and approved this report on 21 March 2023.

Sebastian James
Chair of the Sustainability Committee

Investment Committee report

Fiona McBain
Chair

Committee membership

- **Fiona McBain**
  Chair
- **Mark Gregory**
  Independent Non-Executive Director
- **Neil Manser**
  Chief Financial Officer

Key responsibilities

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

Areas of focus in the reporting period

- Monitored closely the changes in valuations and resilience of the Group's investment assets as yields in global financial markets rose rapidly, reflecting aggressive monetary policy tightening by central banks to control inflation and concerns that higher financing costs would lead to a period of economic recession.
- Received progress updates on the calibration of Science-Based Targets ("**SBTs**") for each asset class in scope within the investment portfolio. The work formed part of the Group's wider application to the Science-Based Targets initiative, which approved the Group's SBTs in November 2022. Further details on the SBTs, which includes investment targets, can be found on pages 64 to 68.
- Ensured the investment portfolio maintained sufficient liquidity to meet a stress insurance or financial market event in a 1 in 200-year insurance, market, or credit risk event.
- Ensured the investment portfolio held appropriate allocations and remained within agreed aggregate risk and exposure limits.
- Reviewed a detailed analysis setting out how the Group's investment governance framework and key related controls ensure investment activities and key decisions meet the PRA's expectations under the Prudent Person Principle.

Market Developments

At each scheduled meeting, the Committee received a market update from Jim Hardie, the Director of Investment Management & Treasury and more recently from Nicola Hartley, the Director of Investments and Capital Management. The updates covered: economic conditions and key data points in the UK, the US and the Eurozone; the outlook for growth, interest rates and inflation; and developing issues viewed as appropriate to be brought to the attention of the Committee.

Jim Hardie retired from his role in December 2022, I thank him for his valued contribution and commitment over the past ten years. I am also pleased to welcome Nicola Hartley as Jim's successor.

The Committee also monitored market consensus views and forward guidance on the development of interest rate policies set by the Bank of England, the US Federal Reserve, and the European Central Bank, and invited external asset managers to provide their own house views on market developments.

During 2022, the Committee's market discussions centered on the consequences of inflation rates having risen to levels materially higher than Central Bank target ranges, and the knock-on impacts for financial markets and the Group's investment portfolio.

Suitability of investment strategy

Studies examining stressed liquidity requirements and asset and liability matching were presented to the Committee during the year. This work informed strategic benchmark allocations and provided part of the context for the addition of new asset classes or disposing of holdings.

During the year, the Committee agreed small increases to minimum liquidity stress requirements covering one month and three month time horizons, and to a small rebalancing of benchmark weightings between GBP investment grade credit portfolios to better align with changes in liability duration. The Committee also examined and challenged a tactical credit spread de-risking proposal tabled by management which was subsequently approved with some changes reflected in the executed strategy.

Monitoring investment activity and performance

The Committee received a comprehensive report at each scheduled meeting covering: the financial results of investment activity; aggregate portfolio positioning against strategic benchmarks; performance of each individual portfolio against benchmark; adherence to operational controls; performance of suppliers; the alignment of the investment portfolio with the agreed ESG framework; and compliance with an agreed framework of risk, exposure and liquidity limits.

During the year, the Committee invited two external managers responsible for, respectively, certain investment grade credit portfolios and the US high yield credit portfolio, to present updates on: their respective portfolios; their assessments of investment conditions; and the outlook for fixed income markets. The Committee also received presentations from the external managers responsible for investment property and infrastructure debt and the internally managed credit portfolios.

Given the likelihood of a period of economic recession, the in-house investment team undertook a comprehensive review of the robustness of existing assets held in the investment portfolio, which was reviewed and discussed by the Committee.

The Trading Update provided to the market on 11 January 2023 in respect of the Group's trading for 2022 and outlook for 2023 set out the impact on the Group's investment property portfolio valuation. Information on the steps taken to counter some of the challenges which faced the Group last year can be found in the CEO review which begins on page 17.

Governance

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

Committee effectiveness review

During the year, an external evaluation of the effectiveness of the Committee was conducted by Independent Audit Limited. The review found that the Committee is well-run, the level of technical discussion is suitable and Committee members have a good mix of technical and business expertise. Further information on the Board effectiveness review can be found on pages 113 to 114.

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

The Committee's Terms of Reference can be found on the corporate website:

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

The Board reviewed and approved this report on 21 March 2023.

Fiona McBain
Chair of the Investment Committee

Directors' Remuneration report

Dr Richard Ward
Chair of the Remuneration Committee

Committee membership

- **Dr Richard Ward**
  Chair
- **Tracy Corrigan**
  Independent Non-Executive Director
- **Danuta Gray**
  Chair of the Board
- **Mark Gregory**
  Independent Non-Executive Director
- **Sebastian James**
  Independent Non-Executive Director

Key responsibilities

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

Areas of focus in the reporting period

- Appropriate remuneration outcomes for Executive Directors, senior management, and the wider workforce in a difficult year for the Group. Overall performance fell below our expectations and did not reflect our track record of delivering strong returns for our shareholders, and our people faced cost of living challenges
- Reviewing the current Directors' Remuneration Policy, which included considering all-employee remuneration and other stakeholder interests. The Committee were satisfied that the Policy remains fit for purpose

Dear Shareholders,

On behalf of the Remuneration Committee (the "**Committee**"), I am pleased to introduce this year's Directors' Remuneration Report, including our updated Directors' Remuneration Policy (the "**Policy**").

During 2022, Direct Line Group faced a volatile operating environment with elevated inflation, severe weather events, significant regulatory changes and challenging investment markets, which resulted in a material fall in operating profit. Whilst our other businesses performed broadly in line with our expectations (when normalised for weather), Motor delivered a disappointing result. As such the Group results fell significantly below expectations resulting in the Board's decision to not recommend paying a final dividend for 2022.

These factors have inevitably impacted remuneration outcomes for the 2022 financial year, and the Committee carefully considered a range of factors when making remuneration decisions in respect of 2022 performance. In doing so we were also cognisant of the challenges faced by our people in the context of the cost of living crisis and the actions the Group has taken to best support them through this period. Further details of which are set out later in this letter.

As part of this report, we are presenting our new Policy which, if approved, will apply from the date of the 2023 Annual General Meeting ("**AGM**"). No material changes are proposed to the Policy as the Committee concluded that the existing Policy remains largely appropriate for the Group at the current time. However, the Committee intends to make some changes to the implementation of the Policy for 2023 in respect of the Annual Incentive Plan ("**AIP**") and the Long-Term Incentive Plan ("**LTIP**") performance measures, and to simplify the LTIP by moving to a single annual grant, improving transparency and alignment with market practice. A summary of the proposals is included on page 132 and the full Policy is set out on pages 151 to 161.

The Committee's objectives include:

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

The Report is set out in the following sections:

Performance and incentive outcomes for 2022

Group financial and trading results fell materially below expectations in 2022 and although we have supported our customers and people in these challenging circumstances, we did not navigate these challenges as effectively as we would have wished. Nor did we maintain our track record of delivering strong returns for shareholders. The performance outcomes of the AIP and LTIP awards reflect these factors and challenges, and are set out below.

AIP

Financial performance in 2022 was heavily influenced by the challenging external environment, which was not navigated as effectively as we would have wished. Motor, in particular, was affected by high claims inflation, which remained ahead of our expectations throughout the year as well as headwinds from significant regulatory changes, higher used car prices, higher claims costs and longer repair times. As a result, there was a profit before tax of £0.2m (excluding restructuring and one-off costs), which was below the threshold level for this element of the AIP (55% weighting).

The remainder of the AIP (45% weighting) is based on Customer & Growth, Cost and People. Performance in respect of Customer & Growth and Cost elements were below the objectives set at the start of the financial year, although performance in respect of the People element was stronger, with delivery of industry-recognised training programmes to address skills gaps in particular areas and good inclusion and engagement scores.

However, the Committee and Executive Directors recognised the adverse impact of the Group's trading and financial performance this year on our shareholders (including the decision not to recommend a dividend in respect of 2022) and agreed that no AIP awards would be paid in respect of 2022.

Full details on the outcomes for the year are included on pages 138 to 139.

LTIP

In accordance with the remuneration reporting regulations, the reported figures in the single figure table for 2022 include the RoTE element of the 2019 LTIP awards and the TSR element of the 2020 LTIP awards. The Group granted LTIP awards in two tranches in 2019 and 2020.

- RoTE: the performance of this element (performance period ending 31 December 2022) was 14.2%. This was below the threshold target level of 17.5%, and therefore this element will lapse in full.
- Relative TSR: the performance of this element (performance period from grant to vesting date) was below the threshold performance level (median) leading to these elements lapsing in full.

This means that the overall outcome of the March and August 2019 LTIP awards, which vested in 2022 were both 60% of maximum (including the RoTE outcomes disclosed last year).

The relative TSR elements of the 2020 LTIP, and therefore the overall outcome of the March and August 2020 LTIP awards (including the RoTE outcomes as above) will be disclosed in next year's report once the performance period is complete.

No discretion was exercised in respect of LTIP awards vesting during the year, which reflects the trading performance over the last three years.

Committee decisions on remuneration outcomes

As noted, the Committee agreed with the Executive Directors that they would not receive an AIP award in respect of 2022, recognising the impact on the Group's financial performance during the year.

The level of vesting of the 2019 LTIP awards was considered appropriate in the light of the Group's performance over the three-year performance period, and therefore no discretion to adjust the outcome was exercised in relation to these awards.

The Committee recognises that the 2020 LTIP awards (in particular the March 2020 awards) were granted during a period of significant market volatility in share prices at the onset of the Covid-19 pandemic. Due to the ongoing uncertainty at that time, the Committee determined that it would not be appropriate to adjust awards at grant, but would instead consider whether there had been a "windfall gain" at vesting, in line with prevailing market practice. The Committee considered the continued appropriateness of this decision at each subsequent LTIP grant, but noted that there had not been a rapid recovery in the Group's share price since the pandemic (which may otherwise have been an indicator of a potential windfall gain).

In advance of the vesting of awards in March and August 2023, the Committee will conduct a final assessment of whether there has been a windfall gain in relation to either award. However, taking the factors above into account, and as the Group's share price is currently lower than it was at the grant of the awards, the Committee considers it highly unlikely that a windfall gain would arise on the 2020 LTIP awards were they to vest (noting that the RoTE elements of the awards will lapse but the TSR performance period continues until the vesting date).

Taking the points above into account, the Committee believes the Policy has delivered an appropriate quantum of reward for the corporate performance achieved. The Committee was therefore satisfied that the Group's Remuneration Policy has operated as intended.

Wider workforce pay considerations and engagement for 2022

The Committee considers wider employee pay as context for the decisions it makes and this has been particularly important this year in light of the challenging cost of living environment. The Committee was acutely cognisant of the wider macroeconomic environment throughout the year, in particular the impact that high inflation and increases in energy bills have had on our people.

The Committee was supportive of the management's proposal to award a 5% salary increase to all staff (excluding Executive Directors and the Executive Committee) effective from 1 January 2023 (3 months earlier than the usual salary increase date of 1 April 2023). The increase was announced to staff in August 2022 to provide greater certainty in advance of higher energy bills over the winter period.

In addition, in early February 2023, we announced further support to our lower paid colleagues by awarding a cash lump sum of £1,000 to those earning less than £40,000. Whilst the Committee and Executive Directors agreed that there would be no AIP awards in respect of 2022, the Committee agreed with the management team's recommendation to recognise personal contribution to the business in 2022 within the wider workforce (excluding Directors, Executive Committee and senior leadership) by making moderate payments to this population based on personal performance and band.

The Group has also supported colleagues by:

- continuing to provide a facility for employees to access part of their monthly salary in advance of the normal payroll date;
- refreshing the Group's employee discount platform and signposting to relevant offers; and
- continuing to provide support and options to seek support for colleagues facing financial hardship.

The Chair of the Committee has attended at least one meeting of the Group's Employee Representative Body ("**ERB**") each year since 2018. I attended the ERB meeting in December 2022, where I provided a recap of how executive pay operates at Direct Line Group and how this aligns with the remuneration structures in place throughout the Group. I listened to concerns from the ERB members regarding the extent to which our people were being affected by the cost of living challenges and how best to make a meaningful difference.

The Chief People Officer and Chief Executive Officer provided further workforce reward updates to the Committee throughout the year as part of a standing agenda item at our Committee meetings. This year, updates included information on the Group's gender and ethnicity pay gaps and cost of living interventions outlined above. The Committee considers it important to monitor and assess internal pay relativities, including the CEO pay ratio disclosures, and takes these into account in its decision making. For example, the Committee scrutinises the reasons for movements in the CEO pay ratio year-on-year and considers the impact of salary increases on the total remuneration package of our Executive Directors and Executive Committee.

Directors' Remuneration Policy (the "Policy")

In line with the usual triennial Policy approval timescales, we will be proposing a new Policy to shareholders for approval at the AGM in May 2023. During the year, the Committee conducted a review of the current Policy, considering alignment to our strategic objectives and developments in market practice over the last three years, as well as the broader external environment. We also noted the high level of shareholder support received for our current Policy at the 2020 AGM (c.98%) and the subsequent high level of support for the implementation of the Policy disclosed in the 2020 and 2021 Directors' Remuneration Reports (c.97-98%).

Considering shareholder support for the existing arrangements and recognising the current economic uncertainty, inflationary challenges and complexities associated with the Insurance industry transition to IFRS 17, the Committee concluded that the existing Policy remains appropriate at the current time.

We are therefore proposing to roll-forward our existing Policy for approval at the 2023 AGM, subject to wording clarifications, in particular to remove the minimum weighting on relative TSR of 25% in order to provide greater flexibility in relation to LTIP targets. The Committee notes that there are currently no plans to remove the relative TSR measure. The Committee retains the ability to conduct a further review of the Policy as the external landscape evolves prior to the next scheduled shareholder vote at the 2026 AGM.

There are some minor changes to the implementation of the Policy for 2023 in respect of the performance measures for the AIP and the LTIP:

In the AIP:

- replacing Profit Before Tax with Operating Profit to align with the Group's KPIs going forward following the transition to IFRS 17; and
- introducing an assessment of the delivery of improved underwriting performance during 2023 to the Strategic metrics whilst continuing to recognise the importance of delivering great customer outcomes and supporting great people.

In the LTIP:

- introducing a cumulative Operating EPS measure to provide an assessment of absolute earnings levels over the performance period, in addition to the return measures reflected by RoTE and relative TSR;
- changing the relative TSR comparator group from the FTSE 350 (excluding Investment Trusts) to the FTSE 51-150 (excluding Investment Trusts) to more appropriately reflect companies of similar size to Direct Line Group; and
- going forward we expect to grant LTIP awards once per year (previously twice per year in March and August) to further simplify the remuneration structure and align with typical market practice.

We wrote to our largest shareholders in December 2022 to share our intention to roll-forward the Policy and outline some of the proposed changes to the implementation of the Policy for 2023. In light of the positive feedback received, we did not make any changes to our initial proposals. I would like to take this opportunity to thank them for their engagement.

Further details of the changes are set out in the Directors' Remuneration Policy on page 155 and the remuneration arrangements for 2023 on pages 149 to 150.

Executive Director remuneration for 2023

The Committee carefully considered salary increases for the Executive Directors (and Executive Committee) for 2023, taking into account the wider workforce level (5%) and shareholder expectations in light of the current inflationary environment. For the Chief Financial Officer the Committee determined an increase of 3% appropriate, being lower than the wider workforce, with effect from 1 April 2023 (rather than the accelerated date of 1 January 2023 for the wider workforce).

As outlined above, the Committee intends to make some changes to the performance measures under the incentive schemes for 2023. The 2023 AIP will operate on a similar basis to 2022, except that Operating Profit will replace Profit Before Tax as the financial metric (55% weighting) to align with the Group's KPIs going forward following the transition to IFRS 17.

The LTIP awards for 2023 will be based on the following measures and weightings:

- RoTE (30% weighting)
- Cumulative Operating EPS (30% weighting)
- Relative TSR vs FTSE 51-150 (excluding Investment Trusts) (30% weighting)
- Emissions (10% weighting)

The Committee is in the process of finalising the RoTE and Operating EPS targets for the 2023 award to take allowance for the move to IFRS17. The targets will be disclosed in due course.

Further details are set out on page 150.

Executive Director changes

On 27 January 2023, Penny James agreed with the Board to step down as Chief Executive Officer and as a Director with immediate effect. The Board has initiated a process to identify and appoint a successor CEO. Until that process is complete, Jon Greenwood (previously Chief Commercial Officer), has been appointed as Acting Chief Executive Officer, and is to join the Board, subject to regulatory approvals.

I would like to thank Penny James for her contribution, dedication and commitment to the Company since joining as CFO in late 2017, and subsequently as CEO from May 2019. Penny's employment with the Group ceased on 28 February 2023. Further details of her terms in relation to departure are provided on page 147, and in the Section 430 (2B) statement on the Group's website.

In setting Jon's remuneration as Acting CEO, the Committee considered a range of factors, including;

- market data in respect of FTSE 51-150 companies and other FTSE 350 insurers;
- the previous CEO's remuneration package;
- our Directors' Remuneration Policy; and
- the pay and conditions of the wider workforce.

Jon's salary is set at £725,000, which is below that of the previous CEO (£817,000). Jon's maximum opportunity under the AIP and LTIP is 175% and 200% of salary respectively, consistent with the CFO and the previous CEO. In line with the wider workforce, Jon's pension contribution is 9% of salary. Details of Jon's remuneration, which took effect from 27 January 2023, is set out on page 150.

Committee performance

During the year, an evaluation of the effectiveness of the Committee was facilitated by Independent Audit, as part of their wider review of the Board's effectiveness. The review found that Committee members bring a good mix of skills and styles to meetings and that the Committee benefits from a well-established agenda and good support from the business. Further information about the Board effectiveness review can be found on pages 113 to 114.

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

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

Your AGM vote

The Committee welcomes investor feedback on an ongoing basis and this Report seeks to describe and explain our remuneration decisions clearly. I hope that both the Remuneration Report and Policy resolutions will receive your support at the upcoming AGM.

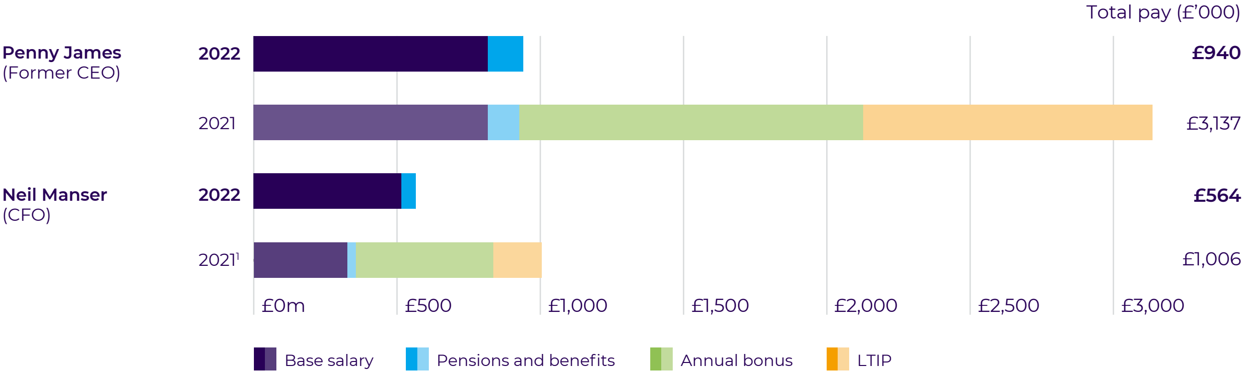
Should you have any questions about the Committee's Report please email our AGM email address shareholderenquiries@directlinegroup.co.uk and I or one of my colleagues at Direct Line Group will respond to you.

Yours sincerely,

Dr Richard Ward
Chair of the Remuneration Committee

Remuneration at a glance

Remuneration outcomes



– **Find out more on page 137**

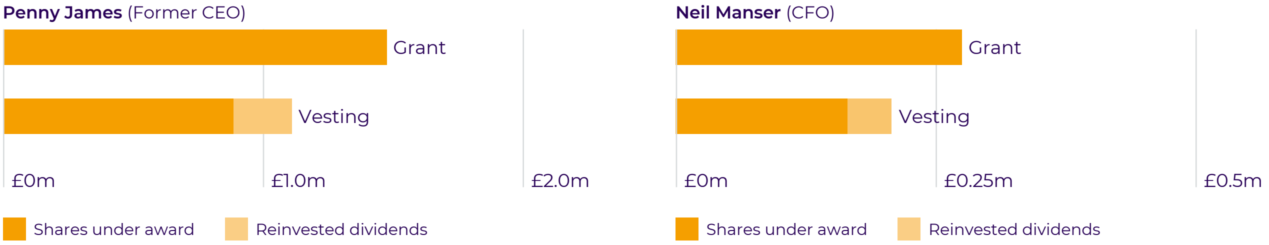
Note:

1. Neil Manser was appointed to the Board on 13 May 2021. His salary, bonus, benefits and pension for 2021 have been pro-rated accordingly.

LTIP

Release of value under the LTIP

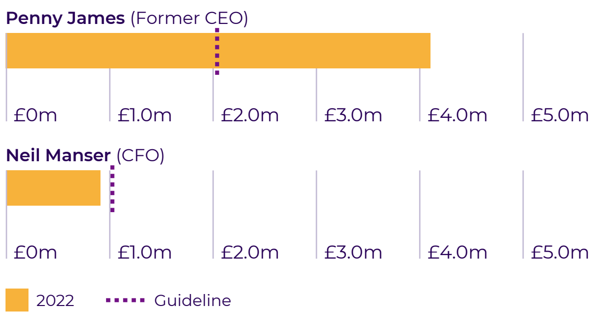
This chart illustrates the total value of the 2019 LTIP awards that vested in 2022.



> **Find out more on page 140**

Shareholding at 31 December 2022

This chart illustrates the number of shares held at the end of 2022 by the Executive Directors against the share ownership guidelines of 250% of salary for the CEO and 200% of salary for the CFO.



> **Find out more on page 142**

Annual Report on Remuneration

Introduction

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

Committee members and governance

The following list details members of the Committee during 2022. You can find information about each member's attendance at meetings on page 105. You can find their biographies on pages 96 to 98.

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

Notes:

1. Tracy Corrigan joined the Committee with effect from 1 April 2022.

Advisers to the Committee

The Committee consults with the CEO, CFO, the Chief People Officer, and senior representatives of the HR, Risk and Finance functions on matters relating to the appropriateness of all remuneration elements for Executive Directors and Executive Committee members. The Chair of the Board, Chief Executive Officer, Chief Financial Officer and Chief People Officer are not present when their remuneration is discussed. The Committee works closely with the Chair of the Audit Committee and the Board Risk Committee Chair is a member of the Remuneration Committee. Input was received regarding target-setting and payouts under incentive plans, and whether it is appropriate to apply malus and/or clawback. The Remuneration and Board Risk Committees can also hold joint meetings to consider matters of common interest.

The Committee appointed PricewaterhouseCoopers LLP ("**PwC**") as its independent adviser from 1 January 2019 following a competitive tender process.

During the year, PwC advised on market practice, corporate governance and regulations, incentive plan design and target-setting, recruitment, and other matters that the Committee was considering. PwC supported the Group in several ways, including the provision of internal audit, reserving and tax services during 2022. PwC is a member of the Remuneration Consultants Group and a signatory to its Code of Conduct and the Committee is therefore satisfied that the advice PwC provided was objective and independent from the Group and its Directors.

PwC's total fees for remuneration-related advice in 2022 were £124,600 excluding VAT. PwC charged its fees on a time and expenses basis.

Wider workforce engagement and pay considerations for 2022

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

The Group's ERB is a valued forum for having a two-way dialogue on many important matters. Since 2018 the Committee Chair has attended meetings as appropriate. The Committee Chair attended an ERB meeting in December 2022 where there was an introductory session around executive pay which included a Q&A session covering topics such as alignment of incentive outcomes to strategic objectives, and feedback was shared about how our people were being affected by the cost of living challenges and how best to make a meaningful difference.

The outcome of our DiaLoGue People Survey is an important factor for the Committee to reflect on and it has been kept abreast of matters by the Chief People Officer and Chief Executive Officer throughout the year. Our existing workforce engagement is strengthened through "town halls" and other forums. To supplement this, the Committee receives papers setting out details of all-employee pay and workforce policies across the Group at each meeting. For 2022 this included information on our gender and ethnicity pay gap, updates on supporting colleagues with cost of living and the approach to 2023 salary increases for the wider workforce. This standing agenda item provides valuable insight and context for framing executive pay and policies.

The Committee considers it important to monitor and assess internal pay relativities, including the CEO pay ratio disclosure, and takes these into account when determining Executive Director remuneration. During 2022, neither the CEO nor CFO was awarded a salary increase, consistent with the approach we took across our senior leadership population given the challenging economic climate. Salary increases were awarded to the wider workforce population in April 2022. In August 2022, it was announced that the wider workforce would receive a 5% salary increase, accelerated to be effective 1 January 2023, rather than the usual effective date of 1 April 2023.

To support continued focus on senior diversity, at the end of 2019 the Group set new stretch targets to grow women senior leaders to 35%, ethnic minority leaders to 13% and Black leaders to 1.5% by the end of 2022. As at 31 December 2022, women made up 31.3%, ethnic minority colleagues 12.1% and Black colleagues 1.5% of these respective populations. While we missed two out of three stretch targets, we believe the process of target setting has supported progress to improve representation. Alongside, the Group has made strong progress growing the representation of women at the most senior levels of the business with women comprising 40% of Board, 60% of Executive Committee, and 41.1% of direct reports to Executive Committee, as at 31 December 2022.

Alignment to Provision 40 of the Corporate Governance Code

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

Clarity Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	– The remuneration arrangements for the Executive Directors are set out in a clear and simple way in the Directors' Remuneration Policy ("Policy") and in the plan rules for each incentive plan. Guides are accessible explaining how each incentive plan operates via an employee portal to ensure full understanding and demonstrates a commitment to transparency. – Some of the feedback received from employees on the cost of living challenges (e.g. via the DiaLoGue survey and ERB) helped us better understand the nature of the challenges and which form of support would be most suitable and when. The feedback on the 5% salary increase, and decision to bring forward the salary increase, was communicated via a town hall meeting with an interactive Q&A session led by the Executive Directors. – Queries on remuneration practices from shareholders or the workforce are welcomed by the Committee throughout the year and encouraged at the AGM and at the Group's regular ERB meetings, which the Chair of the Remuneration Committee attended in December 2022. Further details are set out on pages 132 and 135. – As part of dialogue with our investors regarding the proposed Policy, we shared further detail to better explain the rationale for changing the constituents of the TSR peer group, as well as understanding how we will fully reflect the experience of our shareholders during 2022 in the remuneration decisions for our Executive Directors.
Simplicity Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	– The Group's remuneration arrangements are intentionally simple and well understood. Executive Directors (and senior leadership) receive fixed pay (salary, benefits, pension), and participate in a single short-term incentive (the "AIP") and a single long-term incentive (the "LTIP"). – For 2023, it is proposed to simplify further, via a single annual grant of LTIP, rather than the previous approach to split into two grants, in March and August each year. – The Committee reviews the appropriateness of targets annually, being mindful of alignment with strategy. Whilst we endeavour to keep the measures themselves as simple as possible, we recognise adding a fourth measure adds complexity, but better reflects underlying financial performance because it recognises the importance of absolute earnings and growth alongside a focus on the efficient use of capital.

Risk
Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.
	– The ability to mitigate potential risks is within the Policy. Examples include:
	  – the Committee's discretionary powers to amend the formulaic outcome from incentive awards (for example, where not consistent with performance);
	  – the inclusion of malus and clawback provisions under a wide range of potential scenarios; and
	  – in-employment and post-employment shareholding requirements.
	– The Committee considers that the incentive arrangements do not encourage inappropriate risk-taking, due to the Committee's rigorous process for reviewing incentive outcomes, which includes seeking the view of the Chair of the Board Risk Committee before making its final variable pay determinations.
	– The Committee also considers that the Policy provides wide-ranging flexibility to adjust payments where outcomes are not considered to reflect underlying business performance and individual contributions, or where behaviours are inconsistent with the risk appetite of the Group. As such, in relation to the trading results in 2022, the Committee was in agreement with management that no AIP should be paid in respect of performance in 2022.

Predictability The range of possible values of rewards to individual directors should be identified and explained at the time of approving the Policy.	– At the time of approving the Policy full information on the potential values of the AIP and LTIP are provided, with strict maximum opportunities and minimum, target and maximum performance scenarios. An indication of the potential impact of a 50% share price appreciation on the value of LTIP awards is also included. – The 2022 AIP and LTIP award opportunities were in line with the maximum opportunity in the Policy.
Proportionality The link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear. Outcomes should not reward poor performance.	– Payments under variable incentive schemes require robust performance against challenging conditions over the short and longer term. For example, 55% of the AIP is based on Profit and from 2023, there will be equal focus between RoTE and EPS – both measures are Key Performance Indicators for the Group. – The Committee considers the formulaic outcome, as well as other relevant factors, when making decisions on remuneration outcomes. – Outcomes do not reward poor performance due to the Committee's overriding discretion to depart from formulaic outcomes which do not reflect underlying business performance. This is evidenced by the decisions reached between the Remuneration Committee and management not to make any AIP payments for 2022.

Alignment to culture
Incentive schemes should drive behaviours consistent with company purpose, values, and strategy.
	– The Committee oversees consistent workforce reward principles and is satisfied that these policies drive the right behaviours and reinforce the Group's values, which in turn promote an appropriate culture. Our values are reflected in the measures used in our incentive schemes. Our incentive arrangements link to them in the following ways:
	  – **Work together** – the Strategic element of the AIP requires our Executive Directors and senior leadership to work together to deliver key results to our stakeholders. For example, our AIP measures include measures linked to our customer and people performance, whilst our AIP and LTIP measures include financial metrics which measure the short-term and long-term performance of the business including earnings and returns measures.
	  – **Take ownership** – financial targets under the AIP are the same for all eligible participants, regardless of seniority, linking everyone's individual contribution to AIP reward outcomes.
	– The use of annual bonus deferral, LTIP holding periods and our shareholding requirements strengthen the focus on our strategic aims and ensure alignment with the interests and experiences of shareholders, both during and after employment.

Implementing Policy and pay outcomes relating to 2022 performance

Single figure table (Audited)

£'000		Salary[1]	Benefits[2]	Annual bonus[3]	Long-term Incentives[4,5]	All-employee share plans	Pension contributions and cash allowance in lieu of pension	Fixed pay and benefits sub-total	Variable remuneration sub-total	Total
Penny James	2022	817	49	–	–	–	74	940	–	940
	2021	817	36	1,201	1,009	–	74	927	2,210	3,137
Neil Manser[6]	2022	515	2	–	–	1	46	564	–	564
	2021	326	1	479	169	1	29	357	649	1,006

Notes:

1. Salary – the Company operates a flexible benefits policy, and salary is reported before any personal elections are made.
2. Benefits – include a company car or allowance, private medical insurance, life assurance, income protection, health screening and discounted insurance. The former CEO used a car service for travelling on journeys between home and office; the Group also paid for any associated tax liability on this benefit.
3. Annual bonus – includes amounts earned for performance during the year but deferred for three years under the DAIP. For more information, see pages 138-139. These deferred awards are normally subject to continuous employment. Awards remain subject to malus and clawback.
4. The expected vesting outcome figures for the RoTE portion of the awards granted under the LTIP in 2019 and reported in 2021 have been updated. These updates are based on the actual vesting of the RoTE portion of the awards and a share price of £2.80 and £2.06 on 29 March 2022 and 30 August 2022 respectively, compared to the three-month average share price of £2.78 used in reporting this figure in the 2021 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 £97,955 for Penny James, and a decrease of £17,092 for Neil Manser, with a corresponding change in the single figure in 2021 reflected in the table above. Further information on LTIP awards can be found on pages 140-141.
5. The 2022 LTIP figures for Penny James and Neil Manser reflect the performance of the relative TSR element of the 2019 LTIP awards and (for Neil only) the RoTE element of the 2020 awards (as Penny's 2020 LTIP award lapsed on her cessation of employment with Direct Line Group on 28 February 2023). Further information on LTIP awards can be found on pages 140-141.
6. Neil Manser was appointed to the Board on 13 May 2021. His salary, bonus, benefits, and pension for 2021 have been pro-rated accordingly.
7. Tim Harris stepped down from the Board on 13 May 2021. His pro-rated remuneration for this period was £157k in fixed pay and benefits, and £19k in variable remuneration, a single figure of £176k.

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

Annual Incentive Plan outcomes for 2022 (Audited)

The chart illustrates the final assessment, performance measures and weightings under the AIP.

Performance measures and weighting

55% Financial
15% Cost
10% People
20% Growth & Customer

Executive Director	Achievement under the 2022 AIP	2022 AIP payment
Penny James	0%	nil
Neil Manser	0%	nil

Although the Committee recognised positive progress in some of the strategic metrics, particularly in relation to the People measure, the Committee agreed with the Executive Directors that no AIP would be awarded for 2022 in light of the financial performance and the impact of this on shareholders.

Financial element (55% weighting)

The financial performance measure for 2022 was profit before tax (excluding restructuring costs and one-off costs of £45.3 million). The Committee established threshold and maximum performance levels at the start of the year considering internal budgets and analysts' consensus forecasts and did not adjust the targets during the year.

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

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

Measure	Threshold 10%	Maximum 100%	2022 Actual	2022 Achievement
Profit before tax	£413.9m	£505.9m	£0.2m	nil

Strategic metrics (45% weighting)

A summary assessment of the strategic metrics is set out below.

Measure	Assessment
Growth & Customer (20% weighting) To better align focus of our leadership teams on delivery of growth without compromising customer experience	Growth – In-force policies from ongoing operations were 9.7 million at the end of December 2022, 3.2% lower than prior year with reductions across all segments except Commercial which continued to deliver strong growth. – Adjusted gross written premium from ongoing operations experienced a similar reduction, falling by 3.2% to £2,974.0 million. Growth in Commercial was offset by reductions in Motor and Home arising from the combination of challenging market conditions together with the impact of regulatory change. Total Group in-force policies were 11.9 million and total adjusted gross written premium was £3,098.4 million. Customer – During 2022, we continued to maintain NPS scores consistent with our performance over the last five years, however the majority of our metrics ended the year below the on-target levels set at the start of the year. This was due to internal and external factors, such as supply chain issues caused by the macro-economic and political instability as well as inflationary pressures. Performance improved during Q3, given the mitigating actions put in place to improve sales and service journeys. Although good performance was delivered against some of the Customer metrics during 2022, the trading results did not achieve sufficient levels to assess that this element would have met target performance.
Cost (15% weighting) Improve our competitiveness to deliver better value and experience for customers by reducing operating expenses	– Despite inflationary pressures, controllable costs reduced by £27.6 million, more than off-setting a £23.5 million increase in amortisation, depreciation and levies. – The reduction in controllable costs was driven by a range of cost saving initiatives including reducing the Group's office footprint, reducing technology run costs and increased customer adoption of digital and self-service channels. The Committee considered a qualitative assessment of performance with reference to the internal controllable expense savings targets in our Strategic Plan, but the results did not achieve sufficient levels to assess that this element would have met target performance.
People (10% weighting) A range of indicators around diversity and inclusion, employee engagement and closing the skills gap, reflecting the importance of these agendas to the success of the Group	Engagement, Diversity & Inclusion – A score of 79% was reached for our inclusion indicator, but only 72% for engagement, which is below the target of 75%. However, given the external volatility and internal change programmes during 2022, we have done extremely well to end the year with broadly the same levels of engagement that we started with. – While we have strengthened our approach to inclusive recruitment and promotion at the senior levels of our business and made progress as a result, we did not meet two diversity targets, predominantly due to higher attrition of women in senior leadership and lower levels of ethnic minority joiners and promotions. Closing the skills gap – Over 2022 our focus was on building future skills, continuing to push forward promoting diversity and inclusion in the business and engaging with our people during the cost of living crisis. – We launched our Ignite academies which incorporate apprenticeship programmes to develop the vital skills needed to serve our increasingly tech savvy customers. 170 new apprentices are already working in Data, Customer Service and Data, Software Engineering and Pricing and Underwriting, joining the 224 we already had. – We also launched our Data Academy so all colleagues can grow their data capability and learn new skills, with over 1,000 engaging in courses, lunch and learn sessions and using resources from the website. The Committee considered these indicators, and noted that while the results did achieve sufficient levels to assess that this element would have met target performance, it was agreed that no AIP would be awarded for 2022.

LTIP outcomes for 2022 (Audited)

2019 LTIP awards (vesting in 2022)

Awards under the LTIP granted in March and August 2019 vested during 2022. They were subject to relative TSR performance over the three-year period from the date of grant, and RoTE performance in 2019, 2020 and 2021.

Consistent with the Regulations, the expected RoTE vesting outcomes for the year ended 31 December 2021 (together with the TSR elements from the 2018 awards) are included in the 2021 LTIP column of the single figure table, because the performance period for these elements ended in 2021. The performance outcomes of these elements are included in the table below.

The TSR elements of the 2019 awards (and the RoTE elements of the 2020 awards – see below) are included in the 2022 single remuneration figure because the performance period for those elements ended in 2022. 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 was as follows:

Award	Performance measure	Weighting	Threshold (20% of maximum)	Maximum (100% of maximum)	Actual performance	Achievement	Outcome
March 2019	RoTE (2021 single figure)	60%	17.5%	20.5%	21.4%	100.0%	60.0%
	Relative TSR (2022 single figure)	40%	Median	Upper quintile	Below threshold	0.0%	0.0%
August 2019	RoTE (2021 single figure)	60%	17.5%	20.5%	21.4%	100.0%	60.0%
	Relative TSR (2022 single figure)	40%	Median	Upper quintile	Below threshold	0.0%	0.0%

2020 LTIP awards (vesting in 2023)

Awards under the LTIP granted in March and September 2020 for Neil Manser will vest, subject to Committee approval, during 2023. The March and September 2020 LTIP awards for Penny James lapsed on cessation of her employment with Direct Line Group on 28 February 2023.

Vesting of the awards is subject to relative TSR performance over the three-year vesting period, and RoTE performance in 2020, 2021 and 2022. The RoTE performance period for these awards ended on 31 December 2022 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 2023 and September 2023 respectively and will be disclosed in the 2023 Directors' Remuneration Report. Vesting is subject to the Committee's satisfaction that the financial and risk underpins have been met at the end of the vesting period.

Consistent with the Regulations, the expected RoTE vesting outcomes for the 2020 LTIP awards (together with the TSR elements from the 2019 awards above) are included in the 2022 single remuneration figures. You can find details of this on page 137.

Award	Performance measure	Weighting	Threshold (20% of maximum)	Maximum (100% of maximum)	Actual performance	Achievement	Outcome
March 2020	RoTE (2022 single figure)	60%	17.5%	20.5%	14.2%	0.0%	0.0%
	Relative TSR (2023 single figure)	40%	Median	Upper quintile	Performance period not yet complete		
September 2020	RoTE (2022 single figure)	60%	17.5%	20.5%	14.2%	0.0%	0.0%
	Relative TSR (2023 single figure)	40%	Median	Upper quintile	Performance period not yet complete		

LTIP awards granted during 2022 (Audited)

The table below shows awards granted under the LTIP to Executive Directors in 2022 in the form of nil-cost options.

		Awards granted in 2022 under the LTIP[1]		
Director	Position	Award as % of salary	Number of shares granted	Face value of awards (£)
Penny James[2]	Chief Executive Officer	100% 100%	297,090 390,909	817,000 817,000
Neil Manser	Chief Finance Officer	100% 100%	187,272 246,411	515,000 515,000

Notes:

1. The number of shares awarded was based on the average share price in the three-day period prior to grant, which was £2.75 in March 2022 and £2.09 in August 2022.
2. As outlined on page 147 the awards granted to Penny James lapsed on cessation of her employment with the Company.

The performance conditions that apply to the LTIP awards granted in 2022 are set out below:

	Performance conditions for awards granted in 2022 under the LTIP		
Performance Measure	Proportion of award	Performance for threshold vesting (20%)	Performance for maximum vesting
RoTE (average over three years)	50%	17.5%	20.5%
TSR (vs FTSE 350 (excluding Investment Trusts))	40%	Median	Upper quintile
Emissions	10%	1 out of 3 targets are met	All 3 targets are met

Emissions targets are:

- Operational Scope 1 and 2: Reduce Scope 1 emissions by 32% by 2024 versus the 2019 baseline.
- Corporate bonds (Scope 1 and 2): Reduce Scope 1 + 2 portfolio temperature score by invested value within corporate bonds portfolio from 2.44°C in 2019 to 2.30°C in 2024.
- Corporate bonds (Scope 1, 2 and 3): Reduce Scope 1 + 2 + 3 portfolio temperature score by invested value within corporate bonds portfolio from 2.80°C in 2019 to 2.60°C in 2024.

A straight-line interpolation occurs from threshold to maximum performance.

The performance period for the awards granted on 29 March 2022 will end on 31 December 2024 for both the RoTE and Emission elements, and 28 March 2025 for the TSR element. The performance period for the awards granted on 30 August 2022 will also end on 31 December 2024 for the RoTE and Emission elements and 29 August 2025 for the TSR element.

DAIP awards granted during 2022 (Audited)

The table below shows the deferred share awards granted under the DAIP to Executive Directors on 29 March 2022 in respect of the 2021 AIP. Awards will vest after three years, normally subject to continued service, and were granted in the form of nil-cost options.

		Awards granted in 2022 under the DAIP	
Director	Position	Value of deferred bonus (£)	Number of shares granted[1]
Penny James	Chief Executive Officer	480,396	174,689
Neil Manser	Chief Financial Officer	269,247	97,908

Note:

1. The number of shares awarded was based on the average share price in the three-day period prior to grant, which was £2.75. In accordance with the DAIP rules, dividends in respect of the deferred shares are reinvested in additional shares, which vest when the deferred shares vest.

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

During 2022, 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 in the form of a conditional share award, e.g. the matching shares vest after 3 years subject to continued employment and continuing to hold the purchased shares. This table details the number of shares held by Neil Manser under the SIP. Penny James did not participate in the plan.

	Matching shares granted during the year	Matching shares cancelled during the year	Value of matching shares granted (£)[1]	Balance of matching shares at 31 December 2022[2]
Neil Manser	382	–	899	995

Notes:

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

Directors' Share interests (Audited)

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. The table below sets out details of the Executive Directors' share interests as at 31 December 2022.

	At 31 December 2022				Share plan interests exercised during the year to 31 December 2022	
	Share plan awards subject to performance conditions[1,2,3]	Share plan awards subject to continued service[1]	Share plan awards vested but unexercised[1]	Shares held outright[4]	Number of options exercised[1]	Share price on date of exercise[5,6]
					114,380	2.77
Penny James	1,791,421	476,187	757,245	1,156,840	462,753	2.16
					58,023	2.77
					98,222	2.09
Neil Manser	813,153	184,236	–	298,571	36,780	2.06

Notes:

1. These awards take the form of nil-cost options over the Company's shares. Such awards accrue dividend entitlement from the grant date to the date on which an award vests, or the end of the applicable holding period. Dividends added post-vesting are shown to 31 December 2022 but are not realised until exercise.
2. LTIP awards include an additional two-year holding period before awards may be released.
3. Unvested awards subject to performance conditions represent LTIP awards. For awards granted up to 2021, 60% is based on RoTE performance and 40% on relative TSR performance – the exact targets for each award were disclosed in the relevant Annual Report on Remuneration. For awards granted in 2022, 50% is based on RoTE performance, 40% on relative TSR performance and 10% on emissions. The targets for the 2022 awards are set out on page 141.
4. These awards include beneficial share interests acquired under the SIP. At 20 March 2023, the number of shares beneficially held by Neil Manser has increased to 298,786. There was no change to the number of shares held by Penny James.
5. Penny James exercised options on 30 March 2022 and 28 November 2022.
6. Neil Manser exercised options on 30 March 2022, 8 August 2022, and 31 August 2022.

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

Director	**Shares held at 31/12/2022**	Shares held at 31/12/2021
Danuta Gray	**26,500**	26,500
Tracy Corrigan	–	–
Mark Gregory	–	–
Sebastian James	**5,000**	5,000
Adrian Joseph	–	–
Fiona McBain	–	–
Gregor Stewart	**2,925**	2,925
Richard Ward	–	–

Note:
This information includes holdings of any connected persons, as defined in section 253 of the Companies Act 2006.

Non-Executive Directors (Audited)

Fees were the only remuneration paid to Non-Executive Directors in 2021 and 2022. 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]	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000
Danuta Gray	**350**	350	**6**	–	**356**	350
Tracy Corrigan	**88**	13	**–**	–	**88**	13
Mark Gregory	**129**	125	**–**	–	**129**	125
Sebastian James	**104**	100	**–**	–	**104**	100
Adrian Joseph	**80**	80	**–**	–	**80**	80
Fiona McBain	**109**	101	**11**	–	**120**	101
Gregor Stewart	**115**	115	**12**	–	**127**	115
Richard Ward[3]	**150**	143	**0**	0	**150**	143

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. The value of benefits for Richard Ward in 2022 totals £454, compared to £222 in 2021, these values are rounded to 0 for consistency within the table above.

Shareholdings (Audited)

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

Name	Position	Share ownership guideline[1] (% of salary)	Value of shares held at 31 December 2022[2,3] (% of salary)
Penny James[4]	Chief Executive Officer	250%	502%
Neil Manser	Chief Financial Officer	200%	177%

Notes:

1. Executive Directors are expected to retain all the 'after tax' Ordinary Shares they obtain from any of the Company's share incentive plans until they achieve a shareholding level that is equal to 250% of base salary for the CEO and 200% of base salary for the CFO respectively.
2. For these purposes, holdings of Ordinary Shares will be treated as including unvested DAIP awards, all vested but unexercised awards, or awards unvested but after the performance period and in the holding period. Holdings of Ordinary Shares are valued on a basis that is net of applicable personal taxes payable on acquiring such Ordinary Shares.
3. Shareholding as a percentage of salary has been calculated based on the 30 December 2022 share price of £2.21.
4. Penny James will maintain a shareholding of 250% of salary for a period of two years after she has left employment, with the number of shares to be held in order to comply with these requirements being fixed as at the date of termination of her employment.

CEO pay ratio

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

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2022	Option A	35:1	27:1	18:1
2021	Option A	122:1	95:1	65:1
2020[1]	Option A	132:1	108:1	73:1
2019[2]	Option A	123:1	101:1	67:1

Notes:

1. The 2021 figures have been updated for Penny James' updated 2021 single figure value (see page 137 note 4).
2. As required by the regulations, the CEO single figure used to determine the 2019 pay ratios is based on the sum of the total single figures of remuneration for Paul Geddes and Penny James, but with remuneration in respect of Penny James' service as CFO excluded.

The UK employees included are those employed on 31 December 2022 and remuneration figures are determined with reference to the financial year ending on 31 December 2022 (consistent with the approach taken in previous years).

Option A, as set out under the reporting regulations, was used to calculate remuneration for 2022 as we continue to believe that is the most robust methodology for calculating these figures. The value of each employee's total pay and benefits was calculated using the single figure methodology consistent with the CEO. No elements of pay have been omitted. Where required, remuneration was approximately adjusted to be full-time and full-year equivalent basis based on the employee's average full-time equivalent hours for the year and the proportion of the year they were employed. No other adjustments were made. The table below sets out the salary and total pay and benefits of the employee at the lower quartile, median and upper quartile for the 2022 financial year.

	25th percentile (P25)	Median (P50)	75th percentile (P75)
Salary	£24,103	£29,433	£36,762
Total pay and benefits	£27,147	£35,158	£52,218

Base salaries of all employees, including our Executive Directors, are set with reference to a range of factors including market practice, experience, and performance in role. For reference, the CEO base salary median pay ratio is 28:1 (2021: 28:1). 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 those of the wider workforce due to the nature of the role, and this means the ratio is likely to fluctuate depending on the performance of the business and associated outcomes of incentive plans in each year (as has been the case in 2022).

The 2022 ratios are significantly lower than the prior year. This is primarily attributable to the CEO's single figure of remuneration being lower for 2022 due to the zero AIP and LTIP outcomes. Over the longer term, the CEO pay ratios have moved broadly in line with the CEO's single figure of remuneration.

The Group's employees are fundamental to the Group's strategy and to ensuring a high level of service to our customers. We are proud that the high number of consultants in our customer service centres are employed by the Group (rather than being outsourced) and note that the impact of these lower-paid roles is reflected in the ratios above. Further details on the remuneration of Executive Directors and the wider workforce are set out on page 135. The Committee notes that the pay ratios for 2022 reflect the nature of the CEO's package being more heavily weighted towards variable pay compared to more junior colleagues, consistent with our reward policies. Furthermore, the Committee is satisfied that our pay and broader people policies drive the right behaviours and reinforce the Group's values which in turn drive our culture. For these reasons, the Committee believes that the ratios are consistent with these policies.

Percentage change in Executive Directors' and Non-Executive Directors' pay for 2020 to 2022

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

	Salary/Fees[1]			Benefits[2]			Bonus (including deferred amount)[3]		
	2022	2021	2020	**2022**	2021	2020	**2022**	2021	2020
Executive Directors									
Chief Executive Officer	**0.0%**	0.5%	7.6%	**38.4%**	37.3%	(24.6%)	**(100.0%)**	3.0%	16.1%
Chief Finance Officer	**0.0%**	n/a	n/a	**3.8%**	n/a	n/a	**(100.0%)**	n/a	n/a
Non-Executive Directors[4,5,6]									
Danuta Gray	**0.0%**	67.4%	90.1%	**n/a**	0.0%	(100.0%)	**n/a**	n/a	n/a
Tracy Corrigan	**17.8%**	n/a	n/a	**n/a**	n/a	n/a	**n/a**	n/a	n/a
Mark Gregory	**3.0%**	15.0%	7.2%	**0.0%**	0.0%	(100.0%)	**n/a**	n/a	n/a
Sebastian James	**3.7%**	4.2%	1.0%	**0.0%**	0.0%	0.0%	**n/a**	n/a	n/a
Adrian Joseph	**0.0%**	n/a	n/a	**n/a**	n/a	n/a	**n/a**	n/a	n/a
Fiona McBain	**7.3%**	6.7%	14.6%	**n/a**	(100.0%)	(79.9%)	**n/a**	n/a	n/a
Gregor Stewart	**0.0%**	0.0%	0.0%	**n/a**	(100.0%)	(87.2%)	**n/a**	n/a	n/a
Richard Ward	**5.1%**	18.9%	0.0%	**105.0%**	193.3%	(5.7%)	**n/a**	n/a	n/a
All employees (average)	**5.6%**	2.7%	3.5%	**57.0%**	(18.6%)	(1.4%)	**(40.9%)**	8.8%	3.9%

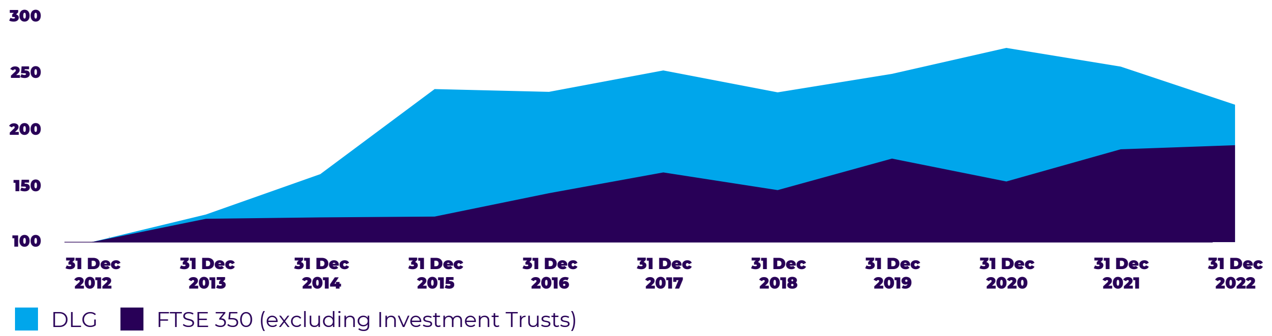
Notes:

1. Based on the change in average pay for employees employed in the year ended 31 December 2022 and the year ended 31 December 2021. The increase to the CEO salary in 2020, reflected her being CFO for part of the year before promotion to CEO, the actual pay increase from 1 April 2020 was 2.1%. Non-Executive Director fee levels were unchanged between 2020 and 2021, any changes above relate to individual changes in committee membership through the year. Some Non-Executive Director fee levels changed between 2021 and 2022.
2. For the CEO, the decreased value of benefits from 2019 to 2020 relate to the car service used by the CEO, for which usage was reduced due to the Covid-19 pandemic. The increase in 2021 and 2022 reflects increased usage of the car service, of which the Group also pays for any associated tax liability that arises on this benefit. For all employees, there were no changes in benefits provision between 2020 and 2021, and 2021 and 2022. For Non-Executive Directors, benefits comprise taxable travel and subsistence expenses reimbursed by the Company (including any gross-up for tax and national insurance contributions due).
3. This includes average amounts earned under the AIP, and other variable incentive schemes, including monthly and quarterly incentive schemes operated in certain parts of the Group. Non-Executive Directors are not eligible to participate in any of the Group's bonus or incentive schemes.
4. The decreased value of benefits in 2020 related to a decrease in travel expenses due to the Covid-19 pandemic.
5. Adrian Joseph, Neil Manser and Tracy Corrigan joined the Board during 2021, and the respective 2021 figures in the table are based on an annualised amount to compare to the current year.
6. Danuta Gray, Fiona McBain and Gregor Stewart had expenses in 2022, however it is not possible to display as a percentage increase due to their nil expenses in 2021. See page 143 for further information.

Chief Executive Officer's pay between 2013 and 2022 and historical performance of TSR

The table below shows historical levels of the CEO's pay between 2013 and 2022. It also shows vesting of annual and long-term incentive pay awards as a percentage of the maximum available opportunity. The graph reflects the TSR for the Company and the FTSE 350 index (excluding Investment Trusts) on a cumulative basis over the period from 31 December 2012 to 31 December 2022, as the Company is a constituent of this index.

Total Shareholder Return (%)



	2013[1]	2014[1]	2015	2016[2]	2017	2018	2019[3]	2019[3]	2020	2021[4]	2022
	Paul Geddes							Penny James			
CEO single figure of remuneration (£'000s)	2,536	5,356	4,795	4,071	4,039	3,250	774	2,773	3,286	3,137	940
Annual bonus payment (% of maximum)	63%	75%	83%	43%	88%	68%	76%	76%	82%	84%	0%
LTIP vesting (% of maximum)[1]	55%	88%	96%	86%	99%	71%	0%	100%	80%	75%	0%

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 £728,000 in 2013 and £2,437,428 in 2014.
2. The 2016 single figure and annual bonus payment reflect an adjustment, made in 2019, to the original award of 20% of maximum opportunity related to the Ogden discount rate change.
3. The 2019 single figure reflects part of the year for the outgoing CEO, Paul Geddes, and the entire year for the newly appointed CEO, Penny James.
4. The 2021 single figure and LTIP vesting have been revised to reflect the actual vesting of the 2018 awards under the LTIP.

Payments to Past Directors (Audited)

Tim Harris

Tim Harris retired as Chief Financial Officer and stepped down from the Board on 13 May 2021. Following cessation of his Directorship with effect from 13 May 2021, Tim's contractual salary, pension and benefits were paid in monthly instalments until the end of his 12-month notice period on 12 May 2022. The table below details the payments received during 2022.

	Salary (£'000)	Benefits (£'000)	Pension (£'000)	Total (£'000)
Tim Harris	197	5	18	220

Penny James

Penny James stepped down from the Board on 27 January 2023, and her employment with the Group ceased on 28 February 2023. Penny's contractual salary, pension and benefits were paid in the normal way until the end of her employment, after which an amount equivalent to salary, pension and benefits will be paid in monthly instalments in lieu of the remainder of her contractual notice period (subject to reduction to take account of any sums earned during the payment period in any new role that Penny begins).

DAIP

The 2020, 2021 and 2022 DAIP awards will continue to vest on their third anniversaries of award and remain subject to the scheme rules, including malus and clawback provisions. Awards will be exercisable for 12 months after they vest.

LTIP

Awards under the 2018 and 2019 LTIP which are currently in a two-year holding period, will continue to be subject to the holding period, and then will be exerciseable for a period of 12 months. These awards will be subject to the scheme rules, including malus and clawback provisions.

All other awards under the LTIP lapsed on cessation of employment with the Group.

Share Ownership Guidelines

Penny is to comply with the Company's post-employment shareholding requirements, maintaining a shareholding of 250% of salary for a period of two years post employment. Penny's current shareholding includes shares owned outright, as well as unvested DAIP awards, and LTIP awards within the holding period. Penny will be permitted to sell sufficient shares to cover any tax liability on exercise of these awards.

Outplacement and legal costs

DL Insurance Services Limited will cover the reasonable costs of outplacement support up to £50,000 (excluding VAT but including all disbursements) and will contribute up to £13,750 (excluding VAT but including all disbursements) towards legal fees incurred by Penny for advice in connection with the termination of her employment.

March and August 2019 LTIP

The table below sets out the awards which vested during the year to Mike Holliday-Williams (former MD, Personal Lines) and Tim Harris (former CFO) who exited the Group on 30 September 2019 and 12 May 2022 respectively:

Award	Executive Director	Number of share options awarded (inc. dividends)	Vesting proportion (inc. performance and pro-rata)	Number of share options vested[1]	Total value of share options (including dividends) vested (£)
March 2019[2]	Mike Holliday-Williams	178,701	11.4%	20,299	£56,756
October 2019[3]	Tim Harris	446,570	52.6%	234,701	£435,370

Notes:

1. LTIP awards for Executive Directors are subject to an additional two-year holding period following the three-year vesting period, during which time awards may not normally be exercised or released.
2. Based on closing share price of £2.80 on the vesting date (29 March 2022).
3. Based on closing share price of £1.86 on the vesting date (1 October 2022).

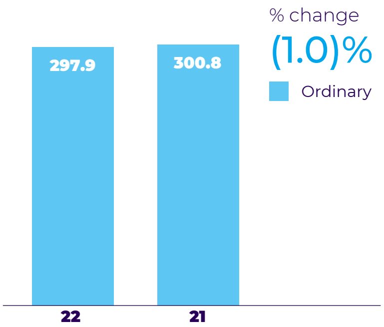
The March 2019 LTIP award vested overall at 60%, with the RoTE element (60% weighting) achieving 100%, and relative TSR (40% weighting) at 0%.

The October 2019 LTIP award vested at 60%, with the RoTE element (60% weighting) achieving 100% and relative TSR (40% weighting) at 0%. Both former Directors have confirmed that they complied with the requirements of their individual exit agreements, which enabled the Committee to approve the vesting of these awards.

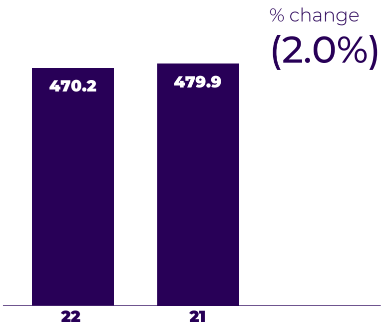
Distribution statement

This chart shows the overall pay expenditure across all Group employees compared with the total dividend value paid to shareholders in 2021 and 2022.

Dividend (£m)



Overall expenditure on pay (£m)



Notes:
The dividends paid information has been taken from note 14 to the Consolidated financial statements. The overall expenditure on pay has been taken from note 10 and therefore, consistent with market practice, it has not been calculated in a manner consistent with the single figure in this report.

AGM voting outcomes

The table below shows the percentage of shareholders' votes which were for or against, and the percentage of votes withheld, relating to the resolutions to approve the 2021 Directors' Remuneration Report (which was put to shareholders at the 2022 AGM) and the Policy (which was put to shareholders at the 2020 AGM).

	For		Against		Number of votes withheld (abstentions)
	Number	Percentage	Number	Percentage	
Approval of Directors' Remuneration Policy (2020 AGM)	1,051,904,620	97.55%	26,440,027	2.45%	60,251
Approval of Directors' Remuneration Report (2022 AGM)	969,196,035	96.95%	30,526,555	3.05%	50,850,116

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.

Implementing the Policy in 2023

Base salary

Key features
- 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

Implementation in 2023
- The Acting CEO's salary will be £725,000 from his appointment on 27 January 2023
- 3% increase for the CFO to £530,450
- The former CEO did not receive a salary increase for 2023 and her salary remained at £817,000

Pensions

Key features
- Pension contributions are paid only in respect of base salary
- The Executive Directors' pension is set in line with the pension level received by the employee population

Implementation in 2023
- Acting CEO and CFO pension contribution remains at 9% (in line with the workforce)

Annual Incentive Plan

Key features
- Maximum opportunity of 175% of salary for the CEO and the CFO
- At least 50% of the AIP is based on financial measures. The Committee considers various non-financial performance measures such as strategic measures for the remainder
- The outcome is assessed at the end of the performance period with reference to targets agreed at the start of the year
- Any payment is subject to an additional gateway assessment, including assessing risk factors
- Malus and clawback provisions apply

Implementation in 2023
- No change to the maximum opportunity
- There will be a straight-line vesting between AIP threshold and maximum performance
- Financial measures (55%): Operating Profit
- Strategic measures (45%): Assessment against a set of Group Objectives and Key Results related to 2023 underwriting performance as well as delivering a great customer experience and supporting great people
- The performance targets will be set with reference to internal and consensus forecasts and the key strategic priorities for the Group in 2023
- The performance targets are considered commercially sensitive and will therefore be disclosed in next year's Report

Deferred Annual Incentive Plan

Key features
- 40% of the AIP is deferred into shares
- Typically vesting after three years, normally subject to continued employment
- Malus and clawback provisions apply

Implementation in 2023
- No further performance conditions apply

Long-Term Incentive Plan

Key features

- Awards typically granted as nil-cost options
- Awards granted once per year
- The LTIP allows for awards with a maximum value of 200% of base salary per financial year
- Performance is measured over three years
- Awards vest subject to financial underpin and payment gateway
- Malus and clawback provisions apply
- Awards are subject to an additional two-year holding period following the end of the three-year performance period

Implementation in 2023

- No change to the maximum annual award levels
- Will be granted once per year
- Nil-cost options will continue to be used for the grants
- 30% will be based on RoTE; 30% on TSR; 30% on EPS and 10% on emissions
- The relative TSR comparator group will be FTSE 51-150 (excluding Investment Trusts)
- The emissions targets for the 2023 LTIP awards will be set based on the SBTi certified targets with the targets being:
  - Operational Scope 1 and 2: Reduce Scope 1 emissions by 36% by 2025 versus the 2019 baseline.
  - Corporate bonds (Scope 1 and 2): Reduce Scope 1 + 2 portfolio temperature score by invested value within corporate bonds portfolio from 2.44°C in 2019 to 2.23°C in 2025.
  - Corporate bonds (Scope 1, 2 and 3): Reduce Scope 1 + 2 + 3 portfolio temperature score by invested value within corporate bonds portfolio from 2.80°C in 2019 to 2.51°C in 2025.
- The Committee is in the process of finalising the RoTE and Operating EPS targets for the 2023 award to take allowance for the move to IFRS17. The targets will be disclosed in due course.

New Acting Chief Executive Officer

On 27 January 2023, following the announcement that Penny James would be stepping down, Jon Greenwood, the then Chief Commercial Officer, was appointed Acting CEO. Jon's annual salary is £725,000. This salary was set with consideration to the FTSE 51-150 CEO benchmark, other FTSE 350 insurers, and is below the previous CEO's salary level. Jon's pension allowance will be 9% of salary, the same as the wider workforce. He also participates in the Group's Annual Incentive Plan up to a maximum of 175% of salary and the Long-term Incentive Plan of up to 200% of salary.

Non-Executive Directors' fees

The fees for the Chair and Non-Executive Directors for 2023 are set out below (unchanged from 2022).

Position	Fees for 2023 £'000
Board Chair fee	350
Basic Non-Executive Director fee	75
Additional fees	
Senior Independent Director fee	30
Chair of Audit, Board Risk and Remuneration Committees	30
Chair of Sustainability and Investment Committees	15
Member of Board Committee (Audit, Board Risk or Remuneration)	10
Member of Board Committee (Sustainability, Investment or Nomination)	5

Directors' Remuneration Policy

This section sets out our proposed remuneration policy for the Executive and Non-Executive Directors of the Group. This Policy will be put forward for shareholder approval at the 2023 AGM on 9 May 2023 and, if approved, will apply to payments made from that date. Until this time, the Policy approved on 14 May 2020 will continue to apply. The existing Policy is being rolled-forward, with only some minor wording clarifications. These are summarised in the Remuneration Committee Chair's statement and in the notes to the Policy table.

Policy table

Base salary

- This is the core element of pay that reflects the individual's role and position within the Group
- Staying competitive in the market allows us to attract, retain and motivate high-calibre executives with the skills to achieve our key aims while managing costs

Operation

- 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:
  - general base salary movements across the Group;
  - level of skill, experience and scope of responsibilities, individual and business performance, economic climate, and market conditions; and
  - the appropriate benchmarking peer group(s) that reflects the Group's size and industry focus, the corresponding market pay range(s) and the relevant positioning within the market pay range(s)
- The Committee does not follow market data in isolation, and instead uses it as a reference point when considering, in its judgement, the appropriate salary level, while regarding other relevant factors, including corporate and individual performance, and any changes to an individual's role and responsibilities
- The principles for setting base salary are like those applied to other employees in the Group. However, the specific benchmarking groups used to review external market relativities may differ across employee groups
- Base salary is typically paid monthly

Maximum opportunity

- When determining salary increases, the Committee will consider the factors outlined in this table under 'Operation'

Performance measures

- Not applicable

Pension

- To remain competitive within the marketplace
- To encourage retirement planning and retain flexibility for individuals

Operation

- Pension contributions are paid only in respect of base salary
- Executive Directors are eligible to participate in the defined contribution pension arrangement or alternatively they may choose to receive a cash allowance in lieu of pension
- The Executive Directors' pension will be set in line with the pension level for the wider workforce

Maximum opportunity

- The maximum pension percentage contributions are set at the wider workforce level (currently 9% of salary)

Performance measures

- Not applicable

Benefits	
– A comprehensive and flexible benefits package is offered, emphasising individuals being able to choose the combination of cash and benefits that suits them	**Operation** – Executive Directors receive a benefits package generally set by reference to market practice in companies of a similar size and complexity. Benefits currently provided include a Company car, use of a car or car allowance, private medical insurance, life insurance, health screening, and income protection – The Executive Directors are eligible to receive such additional benefits as the Committee considers appropriate having regard to market norms – In line with our approach to all employees, certain Group products are offered to Executive Directors at a discount – Executive Directors are eligible to participate in any of the employee share plans operated by the Company, in line with HMRC guidelines (where relevant) and on the same basis as other eligible employees. Currently, this includes our HMRC-approved SIP, which has been used to provide an award of free shares to all employees (including Executive Directors) and permits employees to purchase shares with a corresponding matching award – Where an Executive Director is required to relocate to perform their role, they may be offered appropriate relocation benefits. The level of such benefits would be determined based on the circumstances of the individual and typical market practice and be consistent with the relocation arrangements available to the workforce generally. In normal circumstances, relocation benefits will only be paid for a period of up to 12 months
	Maximum opportunity – The costs of benefits provided may fluctuate from year to year, even if the level of provision has remained unchanged – 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
	Performance measures – Not applicable

Element and purpose in supporting the Group's strategic objective

AIP	
AIP – To motivate executives and incentivise delivery of performance over a one-year operating cycle and enable a stronger focus and alignment with the short to medium-term elements of our strategic aims – Deferral delivers further alignment with shareholders and aids retention of key executive talent	**Operation** – The AIP is measured based on performance over the financial year against performance targets which the Committee considers to be appropriate – At least 40% of the AIP is deferred into shares (typically in the form of nil-cost options or conditional share awards) under the DAIP – This typically vests three years after grant (with deferred awards also capable of being settled in cash at the discretion of the Committee, for example, when it gives rise to legal difficulties to settle in shares). The remainder of the award is paid in cash following the year-end – The Committee will keep the percentage deferred and terms of deferral under review. This will ensure levels are in line with regulatory requirements and best practice and may be changed in future years but will not, in the Committee's view, be changed to be less onerous overall – Dividends will accrue during the deferral period – Malus and clawback provisions apply to the cash and deferred elements of the AIP. These are explained in the notes to the Policy table
	Maximum opportunity – The maximum bonus opportunity under the AIP is 175% of base salary per year – The current maximum bonus opportunity applying for each individual Executive Director is shown in the statement of implementation of Policy – Threshold and maximum bonus levels for Executive Directors are set by considering annual bonus practice throughout the organisation and referring to practice at other insurance and general market comparators – Outcomes for performance between threshold and maximum will be determined on a straight-line basis – No more than 10% of the bonus is paid for threshold performance – However, the Committee retains flexibility to amend the pay-out level at different levels of performance for future bonus cycles. This is based on its assessment of the level of stretch inherent in the set targets, and the Committee will disclose any such determinations appropriately
	Performance measures – Performance measures for the AIP may be financial and non-financial (Group, divisional, business line or individual) – Each year, at least 50% of the AIP is based on financial measures. The remainder of the AIP may be based on a combination of, for example, strategic, operational, ESG, shared or individual performance measures – The Committee sets targets at the beginning of each financial year – Before any payment can be made, the Committee will perform an additional gateway assessment (including in respect of any risk concerns). This will determine whether the amount of any bonus is appropriate in view of facts or circumstances which the Committee considers relevant. This assessment may result in moderating (positively or negatively) each AIP performance measure, subject to the individual maximum bonus levels – The AIP remains a discretionary arrangement. In line with the Code requirements, the Committee maintains discretion to override formulaic outcomes where those outcomes are not reflective of the overall Group performance. DAIP awards vest subject to continued employment only

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 and deliver market competitive remuneration	**Operation** – Awards will typically be made in the form of nil-cost options or conditional share awards, which vest to the extent performance conditions are satisfied over a period of at least three years. Under the Plan rules, awards may also be settled in cash at the discretion of the Committee. This may be appropriate, for example, if legal difficulties arise with settling in shares – Vested options will remain exercisable for up to the tenth anniversary of grant – Malus and clawback provisions apply to the LTIP. These are explained in the notes to the Policy table – Executive Directors will be subject to an additional two-year holding period following the vesting period, during which time awards may not normally be exercised or released – During the vesting period and additional holding period (during which time awards cannot be exercised) the awards will continue to accrue dividends. Following the holding period, awards will cease to accrue dividends if not exercised **Maximum opportunity** – The maximum LTIP award in normal circumstances is 200% of salary – Awards of up to 300% of base salary are permitted in exceptional circumstances, for example relating to recruiting or retaining an employee, as determined by the Committee **Performance measures** – 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 measures (including share return), as set by the Committee, to be aligned with the Group's long-term strategic objectives. The Committee may alter the precise measures used for future awards – Not less than 50% of the award shall be subject to one or more financial measures – Awards will be subject to a payment gateway, such that the Committee must be satisfied that there are no material risk failings, reputational concerns or regulatory issues – 20% of the award vests for threshold performance, with 100% vesting for maximum performance – The Committee reserves the right in respect of future awards to lengthen (but not reduce) any performance period and/or amend the terms of any holding period; however, there is no intention to reduce the length of the holding period – In line with the Code requirements, the Committee maintains discretion to override formulaic outcomes where those outcomes are not reflective of the overall Group performance
Share ownership guidelines – To align the interests of Executive Directors with those of shareholders	**Operation** – 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 earlier sale, in exceptional circumstances, is permitted by the Chair of the Board – Shares considered will include those held by the director and their connected persons, vested awards subject to holding requirements and unvested awards not subject to performance conditions (on a net of tax basis). Executive Directors are also expected to retain their in-employment shareholding requirement (or actual shareholding, if lower) post their employment for a period of two years – In exceptional circumstances, earlier sale is permitted subject to the Chair's discretion **Maximum opportunity** – 250% of salary for the CEO and 200% for the CFO – The Committee reserves the discretion to amend these levels in future years **Performance measures** – Not applicable

Notes to the policy table

Changes from 2020 Policy

Considering the shareholder support for the existing arrangements the Committee concluded that the existing Policy remains appropriate for Direct Line Group at the current time. Therefore, the existing Policy is rolled-forward for approval with some minor wording clarifications, in particular to remove the minimum weighting on relative TSR of 25% in order to provide greater flexibility in relation to LTIP targets. The Committee notes that there are currently no plans to remove the relative TSR measure (with a 30% weighting expected for the 2023 LTIP).

The Committee also intends to make changes to the implementation of the Policy for 2023, as outlined in the Chair's Statement, including:

- adopting an Operating Profit measure in the AIP (replacing Profit Before Tax following the transition to IFRS 17);
- introducing a cumulative Operating EPS measure in the LTIP to provide an assessment of absolute earnings levels over the performance period;
- changing the relative TSR comparator group from the FTSE 350 (excluding Investment Trusts) to the FTSE 51-150 (excluding Investment Trusts) in the LTIP to more appropriately reflect companies of similar size to the Group; and
- moving to a single LTIP grant per year (currently twice per year) to further simplify remuneration arrangements and align with market practice.

Malus and clawback

Malus and clawback provisions apply to the AIP (cash and deferred element) and LTIP if, in the Committee's opinion, any of the following has occurred:

- there has been a material misstatement of the Group's financial results, which has led to an overpayment;
- the assessment of performance targets is based on an error, or inaccurate or misleading information or assumptions;
- circumstances warranting summary dismissal in the relevant period;
- a material failure of risk management; and
- an event during the relevant period which has, in the view of the Committee, sufficiently and adversely affected the Company's reputation so as to justify such action.

Amounts in respect of awards under both plans (LTIP and DAIP) may be subject to clawback for up to four years post payment or vesting/exercise of options (with such period lengthened if there is an investigation as to whether relevant circumstances exist) as appropriate. Consistent with developments in the market generally, the provisions clarify that any recoupment is out of the post-tax amount, except to the extent that the participant recovers tax from the relevant tax authority.

Exercise of discretion

In line with market practice, the Committee retains discretion relating to operating and administering the AIP, DAIP and LTIP. This discretion includes, but is not limited to:

- timing of awards and payments;
- size of awards, within the overall limits disclosed in the policy table;
- determination of vesting;
- ability to override formulaic outcomes;
- treatment of awards in the case of change of control or restructuring;
- treatment of leavers within the rules of the plan and the termination policy shown on pages 158 and 159; and
- adjustments needed in certain circumstances, for example, a rights issue, corporate restructuring or special interim dividend.

While performance conditions will generally remain unchanged once set, the Committee has the usual discretions to amend the measures, weightings and targets where the original conditions would cease to operate as intended.

Any such changes would be explained in the subsequent annual remuneration report and, if appropriate, be the subject of consultation with the Company's major shareholders. Consistent with best practice, the LTIP rules also provide that any such amendment must not make, in the view of the Committee, the amended condition materially less difficult to satisfy than the original condition was intended to be before such event occurred.

Adjusting the number of shares under deferred bonus and LTIP

The number of shares subject to deferred bonus and LTIP awards may be increased to reflect the value of dividends that would have been paid in respect of any dates falling between the grant of awards and the date of vesting (or, if later, the expiry of any holding period) of awards.

The terms of incentive plan awards may be adjusted in the event of a variation of the Company's share capital, demerger or a similar event that materially affects the price of the shares, or otherwise in accordance with the plan rules.

Remuneration payments agreed before appointment to the Board

The Committee reserves the right to make any remuneration payments and payments for loss of office (including, where relevant, exercising any discretion available to it connected with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed (i) provided the terms of the payment were consistent with any shareholder-approved Directors' remuneration policy in force at the time they were agreed; (ii) at a time when the relevant individual was not a Director of the Group and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes, 'payments' include pension arrangements and the Committee satisfying awards of variable remuneration. Relating to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

Selecting performance measures and targets

Annual Incentive Plan

The Committee select AIP performance measures each year to incentivise Executive Directors to achieve financial targets and specific strategic objectives for the year. These measures are aligned with the Key Performance Indicators we use as a business to monitor performance against our strategic priorities, as shown on pages 22 and 23.

The relevant performance targets are set at or following the start of each year with reference to internal and external forecasts and the Group's strategic targets.

Long-Term Incentive Plan

The goal of our strategy is to provide long-term sustainable returns for our shareholders. Therefore, the 2023 LTIP awards will be subject to performance against RoTE and Operating EPS (which are important KPIs to the business), Relative TSR (to assess shareholder returns on a relative basis) and emissions targets (aligned with our sustainability strategy, outlined on pages 50-51). The Committee believes this combination provides a balanced approach to measuring Group performance over the longer term by using stated financial KPIs which incentivise individuals to keep growing the business efficiently, a measure based on relative shareholder return and a measure which aligns with our commitment to building a sustainable business. This combination of measures appropriately balances absolute and relative returns. The performance measures are set with reference to internal and external forecasts and the Group's strategic targets.

As set out in the Policy implementation table on pages 149 to 150, different performance measures may apply for awards granted in future years.

Differences in remuneration policy from broader employee population

To ensure that the arrangements in place remain appropriate, when determining Executive Directors' remuneration, the Committee accounts for pay throughout the Group.

The Group has one consistent reward policy for all levels of employees. Therefore, the same reward principles guide reward decisions for all Group employees, including Executive Directors. However, remuneration packages differ to account for appropriate factors in different areas of the business:

- **AIP** – approximately 3,700 employees participate in the AIP. The corporate performance measures for all employees are consistent with those used for Executive Directors, although the weighting attributable to those factors may differ. The Group's strategic leaders (approximately 60 employees) also receive part of their bonus in Company shares deferred for three years.
- **Incentive awards** – approximately 3,200 employees, excluding Executive Directors, participate in a function or team specific incentive plan which assesses personal performance over a monthly period. These incentive awards may pay out monthly or quarterly.
- **LTIP** – our strategic leaders participate in the LTIP, currently based on the same performance conditions as those for Executive Directors.
- **Restricted Shares Plan** ("**RSP**") – RSP awards are used across the Group to help recruit and retain critical staff, and for talent management. Executive Directors do not receive grants under the RSP (with the exception of buyout awards which may be granted under the RSP).
- **All employee share plans** – the Committee considers it important for all employees to have the opportunity to become shareholders in the Group. The HMRC-approved SIP has operated since 2013, and, in addition, the Group has made periodic awards of free shares. These awards have no performance criteria attached and vest on the third anniversary of the award grant date, subject to the completion of three years continuous employment. At year-end, approximately 4,000 employees throughout the Group had signed up to these schemes with 7,700 holding free shares in the Company.
- **Pension and benefits** – the Company currently contributes 9% of salary to the defined contribution pension scheme without any requirement for an employee contribution. Employees may also opt for a proportion or all of this to be paid as cash rather than into the pension scheme.

Remuneration Policy for Non-Executive Directors

Element	Purpose and link to strategy	Approach to setting fees and cap	Other items
Chair and Non-Executive Directors' fees	To enable the Group to recruit and retain Non-Executive Directors of the highest calibre, at an appropriate cost	– Non-Executive Directors are paid a basic annual fee. Additional fees may be paid to Non-Executive Directors who chair a Board Committee, sit on a Board Committee, and for the SID to reflect additional responsibilities, as appropriate – The fees paid to the Chair of the Board include all Board and Committee membership fees, and are determined by the Remuneration Committee – Non-Executive Directors may receive certain expenses, including the reimbursement of travel expenses and accommodation or similar which, consistent with general market practice, will be grossed-up for any tax arising on such expenses (where the tax on those expenses is paid by the Company). It is the Committee's view that expenses (which are deemed to be benefits) are covered under the aggregate cap set by the Articles of Association and that this cap is not restricted to fees only – Similarly, while not benefits in the normal usage of that term, certain other items such as hospitality or retirement gifts may also be provided – Fee levels for Non-Executive Directors are reviewed and may be increased at appropriate intervals by the Board, with affected individual Directors absenting themselves from deliberations – In setting the level of fees, the Company accounts for the role's expected time commitment, and fees at other companies of a similar size, sector and/or complexity to the Group – Fees (including expenses which are deemed to be benefits) for Non-Executive Directors are subject to an aggregate cap in the Articles of Association (currently £2,000,000 per annum). The Company reserves the right to change how the elements and weightings within the overall fees are paid, and to pay a proportion of the fees in shares within this limit	– The Non-Executive Directors are not entitled to receive any compensation for loss of office, other than fees for their notice period – They do not participate in the Group's bonus, employee share plans or pension arrangements, and do not receive any employee benefits

Recruitment Remuneration Policy

To strengthen the management team and secure the skills to deliver the Group's strategic aims, the Recruitment Remuneration Policy aims to give the Committee enough flexibility to secure the appointment and promotion of high-calibre executives.

Principles for recruitment remuneration

1. In terms of the principles for setting a package for a new Executive Director, the starting point for the Committee will be to look at the Policy for Executive Directors as set out in the Policy table and structure a package in accordance with that Policy.
2. For an internal appointment, any variable pay element awarded in respect of the prior role may either continue on its original terms or be adjusted to reflect the new appointment, as appropriate.
3. For external and internal appointments (including a major change in role), the Committee may agree that the Company will meet certain relocation expenses, legal and other fees involved in negotiating any recruitment, or pay expatriate benefits in line with the Policy table, as appropriate.
4. Where it is necessary to make a recruitment-related pay award to an external candidate, the Company will not pay more than necessary, in the view of the Committee, and will in all cases seek to deliver any such awards under the terms of the existing incentive pay structure.
5. All such awards for external appointments, whether under the AIP, LTIP or otherwise, to compensate for awards forfeited on leaving their previous employer ("buyout awards") will be determined considering the commercial value of the amount forfeited, and the nature, time horizons and performance requirements of those awards. The Committee's starting point will be to ensure that any awards being forfeited which remain subject to outstanding performance requirements (other than where substantially complete) are bought out with replacement requirements, and any awards with service requirements are bought out with similar terms. However, exceptionally, the Committee may relax those obligations where it considers it to be in the interests of shareholders and those factors are, in the Committee's view, equally reflected in some other way, for example through a significant discount to the face value of the awards forfeited.

The elements of any package for a recruit, including the maximum level of variable pay, but excluding buy-outs, will be consistent with the Executive Directors' Remuneration Policy described in this report, as modified by the above statement of principles where appropriate. The Committee reserves the right to avail itself of the current Listing Rule 9.4.2 (being the rule which permits exceptional recruitment awards on terms different from any shareholder approved ongoing plans) if needed to facilitate, in exceptional circumstances, recruiting an Executive Director. Awards granted under this provision will only be used for buy-out awards.

Any commitments made before promotion to the Board (except when made in connection with the appointment to the Board) can continue to be honoured under the Policy, even if they are not consistent with the Policy prevailing when the commitment is fulfilled.

In exceptional circumstances, the initial notice period may be longer than the Group's 12-month policy up to a maximum of 24 months. However, this will reduce by one month for every month served, until it has reduced to 12 months in line with the Group's policy position.

The Remuneration Policy for the Chair and Non-Executive Directors as set out earlier in this report will apply relating to any recruitments to those positions.

Service contracts

Subject to the discretion noted above for new recruits, it is the Group's policy to set notice periods for Executive Directors of no more than 12 months (by the Director or by the Company). During this period, base salary, benefits and pension will normally continue to be paid.

The Executive Directors' service contracts may permit a payment for the unexpired portion of the notice period to be made in respect of base salary, benefits and pension only either a) in a lump sum or b) in monthly instalments (in which case instalments are subject to mitigation if an alternative role is found).

The service contracts for Executive Directors have no fixed duration.

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

Termination policy

It is appropriate for the Committee to retain discretion to consider the termination terms of any Executive Director, having regard to all the relevant facts and circumstances available to them at the time. A Director is deemed a 'good' leaver if the following circumstances are met:

- **AIP and LTIP** – death, injury, disability, ill-health, redundancy, retirement, the sale of the individual's employing company or business out of the Group, or in such other circumstances as the Committee determines
- **DAIP** – for any reason other than summary dismissal or resignation. However, the Committee may determine that, in the case of resignation only, awards may be retained

The table below sets out the general position. However, it should be noted that the Committee, consistent with most other companies, has reserved a broad discretion to determine whether an Executive Director should be categorised as a 'good' leaver, and that discretion forms part of the approved policy.

Incentives	If a leaver is a 'bad' leaver, for example leaving through resignation or summary dismissal	If a leaver is deemed to be a 'good' leaver	Other events, for example, change in control of Company
Annual Incentive Plan	No awards made	Bonus based on performance, paid at the normal time and on a time pro-rata basis, unless the Committee determines otherwise	Bonus determined on such basis as the Committee considers appropriate and paid on a time pro-rata basis, unless the Committee determines otherwise
Deferred Annual Incentive Plan	All awards will lapse	Deferred shares typically vest on the normal vesting date, although the Committee reserves discretion to accelerate vesting. In the case of the participant's death or other exceptional circumstances, awards may vest immediately	Awards will vest in full. In the event of a demerger or similar event, the Committee may determine that awards vest on the same basis
Long-Term Incentive Plan	All unvested awards will lapse. During the holding period, awards cease to be contingent on employment and, therefore, will not lapse (except on dismissal for cause) but may be subject to malus	Awards will vest on the normal vesting date (plus any applicable holding period, unless the Committee determines otherwise) subject to performance and, unless the Committee determines otherwise, time pro-rating. In exceptional circumstances, as determined by the Committee, for example, in the case of the participant's death, awards may vest immediately	Awards will vest subject to applying the performance conditions and, unless the Committee determines otherwise, time pro-rating. The Committee may determine that such awards shall not vest early and, instead, be rolled over into replacement awards (subject to approval of the acquiring company) granted on a similar basis, but over shares in the acquirer or another company or settled in cash or other securities. In the event of a demerger or similar event, the Committee may determine that awards vest on the same basis

Service agreements for all Executive Directors provide that they are not eligible to receive any enhanced redundancy terms which may be offered by the Group from time to time. Their rights to a statutory redundancy payment are not affected.

Depending on the circumstances of departure, an Executive Director may have additional claims under relevant employment protection laws, and the Company may contribute to any legal fees involved in agreeing a termination. It may also agree to incur certain other expenses such as providing outplacement services. Any such fees would be disclosed as part of the detail of any termination arrangements. The Committee reserves the right to make any other payments connected with a Director's cessation of office or employment, where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of a compromise or settlement of any claim arising in connection with the cessation of a Director's office or employment.

Non-Executive Director letters of appointment

Non-Executive Directors have letters of appointments (as opposed to service contracts) and are appointed for a three-year term which may be extended by mutual agreement. In common with the Executive Directors, all Non-Executives are subject to annual re-election by shareholders.

The Directors may appoint additional members to join the Board during the year. Directors appointed in this way will be subject to election by shareholders at the first AGM after their appointment. In subsequent years, the Directors who wish to remain on the Board must submit themselves for re-election at each AGM.

Terms and conditions of appointment of all the Directors are available for anyone to inspect at the Company's registered office and AGM.

The Chair 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 Chair and Non-Executive Directors are not entitled to any compensation on exit.

External directorships

The Company encourages Executive Directors to accept, subject to the Chair's approval, an invitation to join the board of another company outside the Group in a non-executive capacity, recognising the value of such wider experience. In these circumstances, they are permitted to retain any remuneration from the non-executive appointment. Executive Directors are generally limited to accepting one external directorship but may accept more with the Chair's prior approval.

Considering employment conditions elsewhere in the Group

As explained elsewhere in this report, the Committee reviews the overall pay and bonus decisions in aggregate for the wider Group, and, therefore, considers pay and conditions in the wider Group in determining the Directors' Remuneration Policy and the remuneration payable to Directors. Through the CEO and other senior management, the Committee may receive input from employee groups in the Group, such as the Employee Representative Body, as required. The Chair of the Remuneration Committee typically attends at least one Employee Representative Body meeting per year to explain the alignment of executive remuneration with the wider workforce pay policy, answer employee questions and understand employee concerns in relation to wider workforce remuneration.

In accordance with prevailing commercial practice, the Committee did not consult with employees in preparing the Directors' Remuneration Policy.

Considering shareholders' views

The Committee takes into account the approval levels of remuneration-related matters at the AGM in determining whether the current Directors' Remuneration Policy remains appropriate. Furthermore, we consulted with our largest shareholders on the roll-forward of our Directors' Remuneration Policy and its implementation in the form of a letter, with some shareholders requesting a follow up meeting via conference call and others responding via email. In light of the positive feedback received, we did not make any changes to the proposal to roll-forward the previous Policy.

When setting the Policy the Committee, consistent with its approach of operating within the highest standards of corporate governance, takes significant account of guidelines issued by the leading shareholder and proxy agencies.

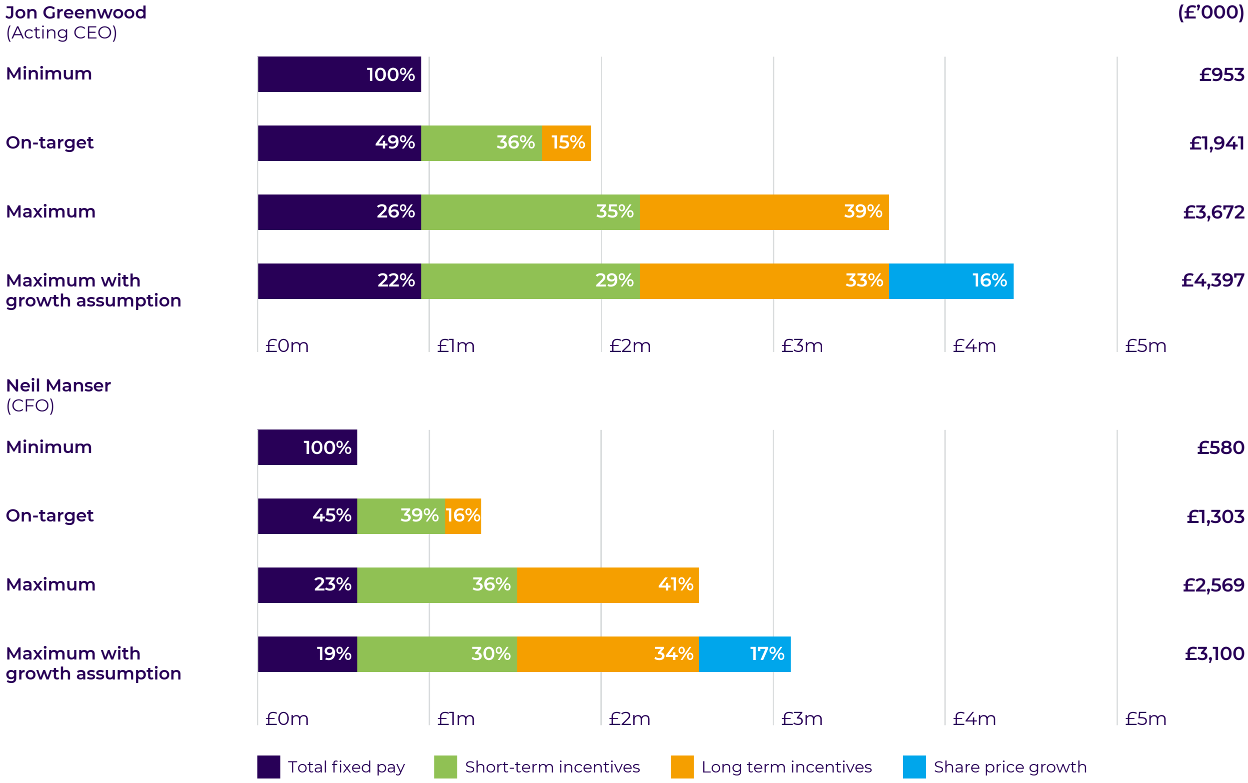
The Committee also seeks to build an active and productive dialogue with investors on developments in the remuneration aspects of corporate governance generally and, particularly, relating to any changes to the Company's executive pay arrangements.

The Committee is satisfied that no element of the Directors' Remuneration Policy conflicts with the Group's approach to environmental, social and governance matters.

Performance scenarios

The Directors' Remuneration Policy has been designed to ensure that a significant proportion of total remuneration is delivered as variable pay and, therefore, depends on performance against our strategic objectives.

The Committee has considered the level of remuneration that may be paid under different performance scenarios to ensure it would be appropriate in each situation, in the context of the performance delivered and the value created for shareholders.



The elements of remuneration included in each scenario are as follows:

Minimum	Consists of fixed remuneration only (that is base salary, benefits and pension): – Base salary is the salary as at 1 April 2023 – Benefits measured as benefits paid in 2022 as set out in the single figure table on page 137, with an estimated figure for the Acting CEO based on the assumed value of benefits for 2023 – Pension measured as the defined contribution or cash allowance in lieu of Company contributions, as a percentage of salary
On-target	Based on the on-target remuneration receivable (excluding share price appreciation and dividends): – Fixed remuneration as above – AIP – as there is no target, for the purposes of this illustration, taken as vesting half-way between threshold and maximum (55% of maximum) – LTIP – consists of the threshold level of vesting (20% vesting)
Maximum	Based on the maximum remuneration receivable (excluding share price appreciation and dividends): – Fixed remuneration as above – AIP – consists of the maximum bonus (175% of base salary) – LTIP – consists of the face value of awards (200% of base salary)
Maximum with growth assumption	Based on the above plus a 50% share price growth assumption

The Board reviewed and approved this Policy on 21 March 2023.

Directors' report

The Board of Directors present their report for the financial year ended 31 December 2022 as required by the Companies Act 2006.

The Board would like to draw your attention to the forward-looking statements disclaimer which can be found on page 259.

Directors' report disclosures

The Board takes the view that some of the matters required to be disclosed in the Directors' report are of strategic importance and these are, therefore, included in the Company's Strategic report which is on pages 1 to 93 as permitted by the Companies Act 2006. These matters, and all matters referenced in the table below, are incorporated into this Directors' report:

Subject	Pages
Use of financial instruments	27, 33, 34
Important events since the financial year end	14 to 19
Likely future developments in the business	19
Employee engagement	23, 56 to 57, 106 to 108, 139
Engagement with suppliers, customers and other business relationships	52 to 54, 107
Research and development	11, 54
Greenhouse gas emissions, energy consumption and energy-efficient action	66 to 67, 69
Branches outside the UK	245

Disclosure of information required by Disclosure Guidance and Transparency Rule 7.2

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

Disclosure of information under Listing Rule 9.8.4C

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

Subject	Page
Interest capitalised by the Group	Not applicable
Unaudited financial information	Note 3.5
Details of long-term incentive schemes	140 to 141
Directors' waivers of emoluments	Not applicable
Directors' waivers of future emoluments	Not applicable
Non pro-rata allotments for cash (issuer)	Not applicable
Non pro-rata allotments for cash (major subsidiaries)	Not applicable
Listed company is a subsidiary of another company	Not applicable
Contracts of significance involving a Director	Not applicable
Contracts of significance involving a controlling shareholder	Not applicable
Details of shareholder dividend waivers	163
Controlling shareholder agreements	Not applicable

Dividends

Further to the Company's announcement on 11 January 2023, the Board has decided not to recommend a final dividend in respect of the 2022 financial year. More information on dividend and capital management can be found in the CFO review, on page 30.

Directors

The names of all current Directors and their biographies are set out on pages 96 to 98. We also recently announced that Mark Lewis will join the Board as an Independent Non-Executive Director with effect from 30 March 2023. All Directors will retire and those wishing to continue to serve will be submitted for election or re-election at the 2023 AGM. This is in accordance with the Corporate Governance Code and the Articles of Association of the Company, which govern appointing and replacing Directors.

The Directors listed on pages 96 to 98 were the Directors of the Company throughout the year under review. Penny James was a Director of the Company throughout 2022 but stepped down from the Board as a Director and as the Chief Executive Officer with effect from 27 January 2023.

The Company's Articles of Association set out the Directors' powers. You can view these on the Company's website at www.directlinegroup.co.uk. The Directors' powers are also subject to relevant legislation and, in certain circumstances, including in relation to the issuing or buying back of shares, authority from the Company's shareholders. You can find details of the Directors' remuneration, service contracts, employment contracts and interests in the shares of the Company in the Directors' Remuneration report on pages 130 to 161.

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

These indemnities are qualifying third-party indemnities as defined by section 234 of the Companies Act 2006. No amount was paid under any of these indemnities during the year. The Company maintains directors' and officers' liability insurance. This provides appropriate cover for legal actions brought against its Directors. The Company has also provided the Directors of DLG Pension Trustee Limited with qualifying pension scheme indemnities. This is in accordance with section 235 of the Companies Act 2006. During 2022, DLG Pension Trustee Limited acted as trustee for two of the Company's occupational pension schemes.

Secretary

Roger Clifton is the Company Secretary of Direct Line Insurance Group plc and can be contacted at the Company's Registered Office, details of which are on page 260.

Share capital

The Company has a premium listing on the London Stock Exchange. As at 31 December 2022, the Company's share capital comprised 1,311,388,157 fully paid Ordinary Shares of 10 10/11 pence each.

At the Company's 2022 AGM, the Directors were authorised to:

– allot shares in the Company or grant rights to subscribe for or convert any security into shares, up to an aggregate nominal amount of £48,326,432, and to allot further shares up to an aggregate nominal amount of £48,326,432 for the purpose of a rights issue;
– allot shares having a nominal amount not exceeding in aggregate £7,248,964 for cash, without offering the shares first to existing shareholders in proportion to their holdings;
– allot additional shares having a nominal amount not exceeding in aggregate £7,248,964 for the purposes of financing a transaction which the Board of the Company determines to be an acquisition or other capital investment, without offering the shares first to existing shareholders in proportion to their holdings;
– make market purchases of up to 132,897,688 shares in the Company, representing 10% of the Company's issued share capital at the time. This authority, which expires at the conclusion of the AGM being held on 9 May 2023, was used during the year under review to purchase 7,861,245 shares. The Company also used the similar authority granted at the Company's 2021 AGM during the year under review to purchase 11,463,610 shares between 9 March 2022 and 10 May 2022; and
– allot shares (with the disapplication of pre-emption rights) up to an aggregate nominal amount of £23,250,000 in relation to the issue of Restricted Tier 1 ("**RT1**") Instruments.

To date, the Directors have not used these authorities granted in 2022, with the exception of the authority to make market purchases of shares, as referred to above and described in more detail below. At the 2023 AGM, shareholders will be asked to renew these authorities. The Company has not held any shares in treasury during the period under review. You can find out more about the Company's share capital and shares under option as at 31 December 2022 in notes 31 and 37 of the consolidated financial statements.

On 9 March 2022, the Company announced the launch of a share buyback programme of up to £100 million. A first tranche of £50 million worth of shares were purchased between 9 March 2022 and 28 June 2022. On 18 July 2022 the Company announced that the Board had decided not to launch the second £50 million tranche of the programme.

During 2022, the Company used the authority to purchase its own shares in the market as granted by the shareholders at Annual General Meetings in 2021 and 2022. A total number of 19,324,855 ordinary shares of 10 10/11 pence each were repurchased under the share buyback programme (of which 11,463,610 were repurchased under authority granted in 2021 and 7,861,245 were repurchased under authority granted in 2022) representing 1.47% of the called up share capital of the Company as at 31 December 2022. The aggregate consideration paid was £49,697,109.44 and all shares purchased have been cancelled. The effect of the share buyback has been to: reduce the weighted average number of Ordinary Shares in issue during 2022, which is used to calculate earnings per share, from 1,335.8 million in 2021 to 1,304.3 million in 2022 (see note 15 to the consolidated financial statements for more details); and reduce the closing number of Ordinary Shares at 31 December 2022 to 1,298.2 million from 1,317.3 million at 31 December 2021 (see note 16 to the consolidated financial statements for more details).

Further information on the Company's share buyback programme can be found in the CFO review on page 30.

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

The Trustee of the Employee Benefit Trust has waived its right to dividends on all shares within the Trust. You can find out more about the number of shares held by the employee share plan trusts in note 37 on page 235. The Company is not aware of any other dividend waivers or voting restrictions in place.

Shareholder voting rights and restrictions on transfer of shares

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

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

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

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

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

Use of financial instruments

Information regarding the Company's use of financial instruments, and financial risk management objectives and policies, can be found in the Risk Management section of the Strategic report from page 86 and note 3 of the consolidated financial statements.

Articles of Association

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

Significant agreements affected by a change of control

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

Substantial shareholdings

The table below shows the holdings of the major shareholders in the Company's ordinary issued share capital, as at 31 December 2022 and as at 21 March 2023, as notified in accordance with the provisions of Chapter 5 of the FCA's Disclosure Guidance and Transparency Rules. It should be noted that these holdings may have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed. Information provided by the Company pursuant to the FCA's Disclosure Guidance and Transparency Rules is publicly available via the regulatory information services and on the Company's website.

Subject	31 December 2022	21 March 2023	Nature of Holding
FMR, LLC	N/A	5.55%	Indirect
Ariel Investments	5.09%	5.09%	Direct/ Indirect
Ameriprise Financial, Inc	5.06%	5.06%	Indirect
BlackRock, Inc.	5.42%	Below 5%	Indirect
Majedie Asset Management Limited	4.99%	4.99%	Indirect
T.Rowe Price Associates, Inc.	4.94%	4.68%	Indirect
Artemis Investment Management LLP	5.07%	4.82%	Indirect
abrdn plc	4.57%	4.57%	Indirect
Norges Bank	2.96%	4.13%	Direct
APG Asset Management N.V.	2.99%	2.99%	Direct

Political donations

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

Disabled and neurodivergent colleagues

The Group is committed to supporting those who are neuro-divergent or have a disability and recognises the benefits that diversity of thought or body brings to an organisation.

At recruitment, we adjust and enhance our application and selection process, and guide and provide additional training for interviewers where necessary. We reasonably adjust colleagues' working environments and equipment, and roles and role requirements (including for colleagues who become disabled during their time working in the Group). We also seek to ensure that everyone can access the same opportunities.

The Neuro-Diversity & Disability strand of our Diversity Network Alliance ("**DNA**") works to celebrate and support those who are neuro-divergent or disabled with the aim of ensuring that all our colleagues feel understood, fully appreciated, and empowered to be their best selves. More information about the work of the DNA strand can be found on page 57 of the Strategic report.

Going concern

The Directors believe that the Group has sufficient financial resources to meet its financial needs, including managing a mature portfolio of insurance risk. The Directors believe the Group is well positioned to manage its business risks successfully in the current economic climate. The trading update that was approved by the Board of Directors and announced to the stock market on 11 January 2023 in respect of the Group's trading for 2022 and outlook for 2023, set out the challenging conditions that the Group has faced, in particular with respect to the severe weather in December 2022 and further increases in motor claims inflation, as well as the impact on the Group's investment property portfolio valuation. The CFO Review describes the Group's capital management strategy, including the capital actions taken in the last 12 months designed to ensure the continued strength of the balance sheet and sets out management actions that the Group continues to pursue to improve capital strength. The Group's financial position is also covered in that section, including a commentary on cash and investment levels, reserves, currency management, insurance liability management, liquidity and borrowings. The financial disclosures relating to the Group's principal risks are set out in note 3 of the consolidated financial statements. This covers insurance, market and credit risk; and the Group's approach to monitoring, managing and mitigating exposures to these risks.

The Directors have assessed the principal risks of the Group over the duration of the planning cycle, which runs until 2026, The Group's Risk Function has carried out an assessment of the risks to the strategic plan ("**the Plan**") and the dependencies for the success of the Plan. This included running adverse scenarios on the Plan to consider the downside risks to the Plan and subsequent impact on forecast profit. The key scenarios applied to the Plan were in relation to the impact of adverse claims inflation, delay in pricing actions, increase in operating expenses and a fall in asset values. The key judgements and assumptions applied in these scenarios were as follows:

- adverse claims inflation: the Group's Plan includes a scenario for inflation being higher than expected, leading to claims costs increasing by 3% with the Group and market response delayed by six months;
- delay in pricing: future initiatives deliver 50% of expected value;
- increase in operating expenses: there is a delay of 12 months to achieving benefits from 2023 expense reduction initiatives; and
- fall in asset values: an increase in credit spreads of 50 basis points in the UK and 25 basis points outside of the UK in 2023, with spreads remaining elevated.

In connection with the trading update released on 11 January 2023, a reforecast based on the Plan was prepared without delay.

The Risk Function has also carried out an assessment of the risks to the Group's capital position over 2023 and 2024. Two specific macroeconomic scenarios, a moderate and a severe, have been run to assess the possible impact on the Group's own funds in the period to 31 December 2023 and 31 December 2024. The macroeconomic assumptions for key parameters such as Consumer Price index, GDP and bank base rate for the moderate scenario reflect the adverse end of the Bank of England November Monetary Policy Committee forecast range. The severe scenario adopts the key parameters from the 2022 Bank of England Banking Stress Test, which is described as "severe but plausible".

A reverse stress test was also performed to identify a combination of stresses that would result in capital loss and thus threaten the viability of U K Insurance Limited, the Group's principal underwriter, i.e. a reduction of own funds to below the solvency capital requirement. The reverse stress test combines the severe macroeconomic stress with the impacts from a series of three natural catastrophes from the 2022 PRA Insurance Stress Test.

In the moderate and severe scenarios, it was concluded that the Group's and U K Insurance Limited's solvency capital requirement would not be breached following the implementation of management actions, such as de-risking the asset portfolio, the purchase of additional reinsurance cover, asset disposal or, if necessary, raising equity.

Further information in relation to the sensitivity of key factors on the Group's financial position are included in the financial statements. The insurance risk note (note 3.3.1) sets out the impact on profit before tax of an increase and a decrease in claims inflation of 200 basis points for two consecutive years. The market risk note (note 3.3.2) sets out the impact on profit before tax and equity of a 100 basis points increase in spreads on financial investments and the impact of a 100 basis points increase in interest rates on financial investments and derivatives.

Therefore, having made due enquiries, the Directors reasonably expect that the Group has adequate resources to continue in operational existence for at least 12 months from 21 March 2023 (the date of approval of the consolidated financial statements). Accordingly, the Directors have adopted the going concern basis in preparing the consolidated financial statements.

Disclosing information to the Auditor

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

Auditor

Deloitte has confirmed its willingness to continue in office as the External Auditor for the financial year ending 31 December 2023. A resolution to reappoint Deloitte will be proposed at the forthcoming 2023 AGM. You can find an assessment of the effectiveness of, and a recommendation for, reappointing Deloitte in the Audit Committee report on page 120.

As announced on 10 October 2022, Deloitte will step down following completion of the audit of the financial year ending 31 December 2023, in line with mandatory rotation requirements. Following a competitive tender process led by the Audit Committee, the Board has approved the appointment of KPMG LLP as auditor of the Company for the financial year ending 31 December 2024, subject to approval by shareholders at the Company's 2024 AGM.

Conflicts of interest

Each Director has a duty to avoid conflicts of interest and must declare any conflict of interest that could interfere with their ability to act in the Group's best interests. In accordance with the Companies Act 2006, the Company's Articles of Association allow the Board to authorise matters where there is, or may be, a conflict between the Group's interests and the direct or indirect interests of a Director, or between a Director's duties to the Group and another person. As a matter of course, the Board authorises certain potential conflicts of interest in this way, including Directors' external directorships and their interests in securities of other financial service institutions. The Company Secretary maintains a register of potential conflicts which the Board reviews at each scheduled Board meeting.

Directors' responsibility statement

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

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

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

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

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

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

Each of the Directors in office as at the date of this report, whose names and functions are listed on pages 96 to 98, confirms that, to the best of their knowledge:

- the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Company, and the undertakings included in the consolidation taken as a whole;
- the Strategic report (on pages 1 to 93) and Directors' report (on pages 162 to 166) include a fair review of: (i) the business's development and performance; and (ii) the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face; and
- the Annual Report and the financial statements, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

This report was approved by the Board on 21 March 2023 and signed on its behalf by:

Roger Clifton

Roger C. Clifton
Company Secretary

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

Registered number: 02280426