
Priscilla Vacassin, Chair of the Remuneration Committee

Dear shareholder

I welcome you to our second remuneration report. In an important year for Direct Line Insurance Group plc, our first full year as a listed company, the Remuneration Committee ("**Committee**") has sought to ensure that we continue to provide a reward proposition that supports the Group's business strategy and is fair to our employees and our shareholders alike in the context of our overall performance.

As a Group, we continue to make good progress against both our strategic priorities and financial targets and have delivered on our COR target in 2013, which has resulted in a RoTE in excess of our long-term target, and have delivered a Total Shareholder Return of 24% over the financial year. At the same time, we are conscious of the need to exercise restraint in executive pay given the current economic environment and our cost savings initiatives. These factors have been reflected in our remuneration decisions as set out in full in this remuneration report and highlighted below.

Linking remuneration to overall business objectives – looking back to what we did in 2013

We remain committed to ensuring that Executive Directors are appropriately incentivised to deliver superior long-term business performance and that they will receive their full remuneration opportunity only when material value has been created for shareholders.

To that extent, we have carefully considered the 2013 bonus outcome under the Annual Incentive Plan ("**AIP**") to ensure that payouts are appropriate and reflect a rounded assessment of performance. The initial AIP outcome is based on a balanced scorecard in line with our approach last year. In addition, recognising both the complexity of the business and that assessment of success, particularly in an insurance group, requires the application of broader judgement than a simple application of the audited results, the Committee considers it appropriate to look at the wider factors of Group performance and exercise its judgement to better reflect the overall position. For 2013, it exercised such judgement by applying a quality of earnings assessment of the financial elements and a gateway assessment for all AIP elements, as described in more detail in the annual remuneration section of this report. In addition, overriding judgement based on each executive's performance was taken into account. The Committee will continue to use such judgement in future years. In respect of 2013, this resulted in a lower payout than would have been the case under a more formulaic approach.

The resulting bonus award of 63% of the maximum bonus potential to Paul Geddes and 60% of the maximum bonus potential to John Reizenstein are therefore broadly at the on-target level of performance. We believe that this level of payout is appropriate and that it demonstrates that our remuneration policy effectively aligns pay with underlying performance.

The first awards under our 2012 Long-Term Incentive Plan ("**LTIP**") were made only following the IPO in October 2012 and are not due to vest until 2015. Awards vesting under legacy RBS plans are described in the annual remuneration section of the report.

Looking forward to 2014 – what we have decided

In the context of the new requirements for executive pay reporting in the UK, the Committee took the opportunity to review our approach to remuneration and the associated policies put in place at the time of the IPO to ensure that, after their first full year of operation, they continue to support our strategic objectives.

As part of this review, we have not proposed any major changes to the policy for 2014; however, we have reached specific decisions as to how this policy will apply in the future in order to enhance its effectiveness, fairness between executives and other stakeholders and transparency for our shareholders. The section of this remuneration report describing how we intend to implement our remuneration policy following approval at the 2014 AGM explains this further.

I would like to highlight the following areas:

- as in 2013, and in line with our commitment to exercise restraint in executive pay, there will be no increase to Executive Directors' salaries in 2014
- the approach to measuring performance under the AIP in 2014 will be similar to that followed in 2013 and the Committee will continue to apply judgement in assessing payouts. Additional financial and non-financial indicators will be considered which will include forward-looking metrics as opposed to purely historical ones
- we are not proposing any changes to the performance measures for 2014 awards under the 2012 LTIP and we will continue the practice of making LTIP awards twice a year at the same levels as during 2013, subject to stretching performance targets over each award's performance period

Our shareholder register has changed significantly in the year since IPO, following a further disposal of shares by RBS Group. As a consequence I, as the Chair of the Remuneration Committee, jointly with the Chairman of the Board contacted our major institutional shareholders, as well as the ABI and Institutional Shareholder Services, and we made ourselves available to discuss our remuneration policy.

Structure of remuneration report

We have made some changes to the order in which this year's remuneration report is presented, in line with the new regime for the reporting of executive pay in the UK.

Accordingly, over the following pages we have set out:

- our forward-looking Directors' remuneration policy which is subject to a binding shareholder vote at our 2014 AGM; and
- our annual remuneration report setting out the details of the implementation of our reward policy in 2013 and how the proposed remuneration policy will be implemented in 2014. This section of the report is subject to an advisory vote at our 2014 AGM.

In preparing the disclosures on our forward-looking policy, we have sought to balance the need to give our shareholders sufficient information to be able to evaluate it with the need to maintain sufficient operational flexibility over pay to allow us to respond to changing circumstances.

I hope that you will find this report informative and accessible and I welcome any feedback you may have.

Priscilla Vacassin, Chair of the Remuneration Committee

Questions and answers on our executive remuneration policy in the first full financial year of listing since the IPO[1]

Q Why do Executive Directors (and other senior executives) need to be paid bonuses on top of their salary and other benefits?

When we listed in October 2012, we set out our commitment to offer remuneration at the right cost, while ensuring that we provide Executive Directors with market-competitive rewards compared with relevant peer companies. Variable pay in the form of short and long-term incentives forms a significant proportion of total remuneration in the market in which we compete for executive talent and including this as part of our remuneration offering gives us the ability to attract the right calibre of executives without the need to increase fixed remuneration.

At the same time, in line with our value to 'aim higher' and strive to be the best in everything we do, we actively want to motivate Executive Directors and other senior executives, incentivise the delivery of strong performance and recognise and reward success at the individual and Group level. Our AIP is just one of many tools used throughout the business (and not just at senior executive level) to achieve these objectives.

Finally, having a high proportion of our total remuneration dependent on the achievement of stretching performance targets (through both the AIP and the LTIP) enables us to manage our costs appropriately by ensuring that the total expenditure on executive pay appropriately reflects performance at both the individual and Group level. The context of the external market environment is also taken into account. This would not be possible if our executive remuneration package comprised only fixed elements of pay.

Q How were 2013 bonuses determined for the Executive Directors?

We started by setting a range of measures and targets reflecting the Committee's assessment of what success would look like against the business plans set by the Board. Following the year-end, the Committee undertook a quantitative assessment of performance against the financial measures included within the AIP, and an assessment of performance against all other measures including each individual's personal objectives. This assessment simply determined the initial outcomes under the AIP; however, no payments were approved until after the Remuneration Committee carried out a quality of earnings assessment of the financial elements and a 'gateway assessment' for all AIP outcomes.

The gateway criteria used by the Committee included factors such as affordability, the Group's overall performance against the agreed risk profile, performance relative to peers, the occurrence of any regulatory breaches or reputational damage, whether the payment of any bonus may give rise to reputational damage and the wider economic environment. The Committee also considered whether there were any exceptional events or other factors that should be taken into account in assessing the bonus outcome.

Note:

1. This section and the Group remuneration policy on page 79 are not subject to the binding vote on remuneration policy.

The quality of earnings and gateway assessments resulted in the reduction of the initial bonus outcome for Executive Directors as explained on pages 94.

For both Executive Directors, 40% of the bonus awarded will be deferred in Company shares for a period of three years. This is in line with the approach followed for all our strategic leaders (around 60 of our most senior executives, including Executive Committee members, who are responsible for developing and executing Group strategy).

Q How can you justify paying bonuses to Executive Directors when at the same time you are going through cost reduction initiatives and making redundancies?
Making redundancies is a tough decision; however, we sometimes need to take steps like this, to make the business sustainable in the long run and remain competitive. Where possible, we are managing redundancy decisions through redeployment and support. Our aim is to treat respectfully and fairly all those affected.

In this context, the Committee aims to ensure that employees, including Executive Directors, are continuously engaged to deliver against our plan and are provided with fair pay for the job, which takes into account the context of pay in the wider market as well as their individual performance. It is also vital to ensure that we continue to pay competitively, at all levels.

As discussed elsewhere, the Committee has exercised its judgement in determining the final bonus levels to reduce the amount of AIP awards to the Executive Directors for 2013, to reflect its qualitative assessment of performance during the year.

Q Why are you paying bonuses to Executive Directors when gross written premium has reduced in 2013?
As explained elsewhere in the annual report, the reduction in gross written premiums reflects the impact of a competitive market, particularly in UK motor, and our decision to maintain a cautious underwriting approach by emphasising underwriting margins over volume.

Gross written premium is just one of the set of metrics that we consider when assessing our business performance. Overall, we believe that good progress has been made across a range of financial and non-financial metrics and these determined the final bonus for Executive Directors.

Q Why are the Executive Directors still receiving shares under RBS Group Long-Term Incentive Plans?
In line with other Group employees previously granted awards under RBS Employee Share Plans, Paul Geddes and John Reizenstein continue to hold awards granted under the RBS Group Long-Term Incentive Plans ("**RBS Group LTIP**") and the RBS Group Deferral Plan granted prior to the IPO.

It has been agreed with RBS that awards granted under the RBS Group LTIP in 2011 and 2012 will now be delivered in the form of Direct Line Insurance Group plc shares transferred by RBS Group, to the extent that the original performance conditions have been met. This ensures maximum alignment with the performance of Direct Line Group. Awards granted under the RBS Group Deferral Plan will continue to be delivered in RBS Group shares.

These awards were granted to the Executive Directors in respect of their work as executives of RBS Insurance, as the Group was previously known when it was wholly owned by RBS Group. The extent to which awards under the RBS Group LTIP vest is determined by the Remuneration Committee of RBS Group based on an assessment against the performance conditions shown on page 99 of this remuneration report. RBS Group deferred awards are not subject to any performance conditions, as they represent the deferral element of annual bonuses that have already been earned.

Q Do you comply with the provisions of the FCA's Remuneration Code?
As an insurance business, we are not subject to the provisions of the FCA's Remuneration Code. However, we seek to comply with the core requirements of the Code that we should establish, implement and maintain remuneration policies, procedures and practices that are consistent with and promote sound and effective risk management. Accordingly, for all of our strategic leaders including Executive Directors, significant elements of incentive-related pay are subject to deferral and potential malus and clawback as explained further within the remuneration report. In addition, the independence of our control functions is maintained by assessing their annual bonuses independently of the Group financial results.

Although not impacting Directors' pay, separately, following the publication of the FCA's guidance on risks to customers from financial incentives, we have reviewed our remuneration systems for customer-facing employees to ensure that they are fit-for-purpose and that the risk of mis-selling and other risks identified by the FCA are appropriately managed. The Remuneration Committee and the Board Risk Committee contributed to (and reviewed the outcome of) this assessment. This forms the basis of an ongoing joint review. Our initial assessment concluded that our existing plans were broadly compliant and that evolutionary changes, where necessary, will take effect from 2014.

Group remuneration policy for all employees

This section is not subject to the binding vote on remuneration policy

Performance related
- Reward reflects individual and business performance
- Outstanding individual performance is recognised and rewarded
- Group and individual performance will be reflected through variable pay
- Poor performance is identified with effective management remedies in place

Transparent and fair
- We aim to have a competitive total reward proposition
- We aim to be open about our salary and variable pay arrangements and how they work
- We aim to manage pay consistently for people doing the same role with equal opportunity for all
- Remuneration is benchmarked periodically to ensure continued competitiveness with the market

Manager ownership
- We empower managers to genuinely lead and foster a culture consistent with the Group's attitude to risk and values
- Individual performance is assessed both in terms of what is achieved and the way in which it is achieved
- Individual performance will be reflected in employees' reward through their salary and variable pay

Simple and robust
- The reward proposition is straightforward and simple for everyone to understand
- Reward structures are easy to administer
- The mix between fixed and variable pay is right for our business

Valued by our people
- Our people know what is expected of them. Performance is fairly rewarded against internal and external comparators
- We offer one pension arrangement for everyone
- We offer product discounts and build flexibility in our benefits offering
- Employees are able to choose a range of other benefits to suit their lifestyle and needs

Within this overall policy, the individual elements of remuneration for Executive Directors are shown below:

Base salary, pension & benefits

Annual Incentive Plan		**Long-Term Incentive Plan**
Cash	Deferred shares (three years)	Performance shares (three years)
Financial, customer and other strategic and personal objectives		RoTE and relative Total Shareholder Return

All employee share plans

Introduction

The remuneration report has been prepared in accordance with the requirements of the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the "**Regulations**"). The Company also complies with the UK Corporate Governance Code in relation to remuneration.

Directors' remuneration policy

The following section contains the material required to be set out as the Directors' remuneration policy for the purposes of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). This policy will be put forward for shareholder approval at the 2014 AGM in accordance with section 439A of the Companies Act 2006 and, on approval, will take effect immediately following the 2014 AGM.

Context of policy

The Group's remuneration policy is to provide, in the context of the Group's business strategy, a compelling reward proposition at the right cost to attract, retain, motivate and reward high-calibre employees so that they are engaged to deliver superior long-term business performance within acceptable risk parameters.

The remuneration policy guides the design and implementation of reward programmes in the Group that are market competitive and aligned to business objectives, both financial and non-financial.

Policy report (pages 80 to 88)

Policy table

The policy shown for Directors will apply immediately after approval at the 2014 AGM. Information in relation to the operation of the policy for 2014 is set out in the annual remuneration report section starting on page 89 of this report.

Element	Purpose and link to strategy	Operation
Base salary	• This is the core element of pay that reflects the individual's role and position within the Group and is payable for doing the expected day-to-day job • Ensuring we are competitive in the market allows us to attract, retain and motivate high calibre executives with the skill sets to achieve our key aims while managing costs	• Base salaries are reviewed annually and set in April of each year, although the Committee may undertake an out-of-cycle review if it determines that this is appropriate • Salaries are typically reviewed against: – level of skill, experience and scope of responsibilities, individual and business performance, economic climate and market conditions; – the median market pay in the context of insurance peers and companies of a similar size, particularly FTSE 31-100 companies being companies which are considered to be reflective of the size and complexity of the Group; and – general base salary movement across the Group. • The Committee does not strictly follow data but uses it as a reference point in considering, in its judgement, the appropriate level having regard to other relevant factors including corporate and individual performance and any changes in an individual's role and responsibilities • The principles for setting base salary are similar to those applied to other employees in the Group, although the specific benchmarking groups used to review external market relativities may differ across employee groups • Base salary is paid monthly
Annual Incentive Plan (the "**AIP**")	• To motivate executives and incentivise delivery of performance over a one-year operating cycle, focusing on the short to medium-term elements of our strategic aims	• For Executive Directors, at least 40% of the award is deferred into shares under the Deferred Annual Incentive Plan (the "**DAIP**") typically vesting three years after grant (with deferred awards also capable of being settled in cash). The remainder of the award is paid in cash following year-end • The percentage deferred and the terms of deferral will be kept under review by the Committee to ensure that levels are in line with regulatory requirements and best practice and may be changed in future years but will not, in the view of the Committee, be changed to be less onerous overall • Malus and clawback provisions apply to both the cash and deferred elements and are explained in more detail in the notes to the policy table
2012 Long-Term Incentive Plan (the "**LTIP**")	• To motivate and incentivise delivery of sustained business performance over the long term, aligning executives' interests with those of shareholders • To aid long-term retention of key executive talent	• 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 • Vested options will remain exercisable for a period of seven years • Malus and clawback provisions apply to the LTIP and are explained in more detail in the notes to the policy table • Awards under the LTIP may be made at various times during the financial year. While the Committee reserves the right to do otherwise, practice has been to make awards twice in each financial year following the announcement of the Group's annual and half-year results

Maximum opportunity	Performance measures
• The Committee has determined that its policy will be to only set base salaries by reference to the factors set out in the previous column for the duration of this policy. In any event no increase will be made if it would take an Executive Director's salary above the median level of salaries for relevant roles in the FTSE 100 as determined using data available to the Committee at or shortly prior to when any increase is considered • Where salary increases are awarded, the Committee will have regard to the increase being awarded to employees within the Group more generally, as well as the other factors outlined in this table under 'Operation'	• Not applicable
• Maximum and target bonus levels for Executive Directors are set by reference to practice at other insurance and general market comparators • The maximum bonus level potential under the AIP is 175% of base salary per annum. The current maximum bonus level applying for each individual Executive Director is shown in the statement of implementation of policy in 2014 section of the annual remuneration report	• Performance over the financial year is assessed against performance measures which the Committee considers to be appropriate • These may be financial, non-financial (Group, divisional or business line) and individual. Each year, at least 50% of the bonus is based on financial measures. The remainder of the bonus will be based on a combination of non-financial and individual performance measures • Targets are set at the beginning of each financial year by the Committee • No more than 10% of the bonus is paid for threshold performance (30% for the individual performance element). No more than 60% of the maximum opportunity pays out for target performance. However, the Committee retains flexibility to amend the level of payout at different levels of performance for future bonus cycles based on its assessment of the level of stretch inherent in the targets that have been set and will disclose any such determinations appropriately • Before any payment can be made, the Committee will perform an additional gateway assessment to determine whether the amount of any bonus is appropriate in view of such facts or circumstances as the Committee considers relevant. This assessment may result in moderation (either positive or negative) of each AIP performance measure but subject to the individual maximum bonus levels • The AIP remains a discretionary arrangement and the Committee reserves discretion to adjust the out-turn (from zero to the cap) should it consider that to be appropriate. In particular, the Committee will operate this discretion as a gateway in respect of any risk concerns
• The Plan allows for awards over shares with an absolute maximum value of 200% of base salary per financial year (although awards of up to 300% of base salary are permitted in exceptional circumstances in relation to the recruitment or retention of an employee, as determined by the Remuneration Committee)	• The Committee will determine the performance condition for each award made under the LTIP, with performance measured over a single 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 reference to the time of grant or financial year • Awards vest based on performance against financial and / or share return measures, as set by the Committee, to be aligned with the long-term strategic objectives of the Group • For awards to be granted in 2014, vesting is determined based on two measures: RoTE and relative Total Shareholder Return ("**TSR**") performance against the FTSE 350 (excluding investment trusts). The Committee may apply different performance measures and targets in future years • 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 • In addition, there is an underpin relating to the Committee's view of the underlying financial performance of the Group • Fuller details of the performance conditions and targets for 2014 awards are set out in the statement of implementation of policy in 2014 section of the annual remuneration report • For both the TSR and RoTE elements, 20% of the award vests for threshold performance with 100% vesting for maximum performance. The Committee reserves the discretion to make changes to these levels which it considers non-material • The Committee reserves the right to lengthen (but not reduce) any performance period and / or to introduce a separate holding period

Element	Purpose and link to strategy	Operation
Pension	• To remain competitive within the market place • To encourage retirement planning and retain flexibility for individuals	• Pension contributions are paid only in respect of base salary • Executive Directors are eligible to participate in the defined contribution pension arrangement or alternatively they may choose to receive a cash allowance in lieu of pension • This is in line with the approach taken for all Group employees
Benefits	• A comprehensive and flexible benefits package is offered, with the emphasis on individuals being able to choose the combination of cash and benefits that suits them	• Executive Directors receive a benefits package generally set by reference to market practice in companies of a similar size and complexity, particularly FTSE 31-100 companies. Benefits currently provided include a company car or car allowance, private medical insurance, life insurance, health screening and income protection • The Committee may periodically amend the benefits available to employees. The Executive Directors are eligible to receive such additional benefits on similar terms to other senior executives • In line with our approach to all employees, certain Group products are offered to Executive Directors at a discount • Executive Directors are also eligible to participate in any of the employee share plans operated by the Company, in line with HMRC guidelines (where relevant), on the same basis as for other eligible employees. Currently this includes the Share Incentive Plan, which was also used to provide an award of free shares to all employees (including Executive Directors) at the time of the IPO
Share ownership guidelines	• To further align the interests of Executive Directors with those of shareholders	• Executive Directors are expected to retain all of the ordinary shares vesting under any of the Company's share incentive plans, after any disposals for the payment of applicable taxes, until they have achieved the required level of shareholding

Notes to the policy table

Stating maximum amounts for each element of remuneration

Where the table refers to the maximum amounts that may be paid in respect of any element of the policy (as required under the Regulations) these will operate simply as caps and not be indicative of any aspiration.

Malus and clawback

Malus (being the forfeiture of unvested awards) and clawback (being the ability of the Company to claim repayment of paid amounts as a debt) provisions apply to the AIP (cash and deferred element) and LTIP if, in the opinion of the Committee, any of the following has occurred:

- There has been a material misstatement of the Company'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 or any other act or omission that has had a sufficiently significant impact on the reputation of the Company to justify such action

Amounts in respect of awards under both plans may be subject to clawback for up to three years post payment or vesting as appropriate.

Exercise of discretion

In line with market practice, the Committee retains discretion in relation to the operation and administration of the AIP, DAIP and LTIP. This discretion includes, but is not limited to:

- The timing of awards and payments
- The size of awards, within the overall limits disclosed in the policy table
- The determination of vesting
- The treatment of awards in the case of change of control or restructuring
- The treatment of leavers within the rules of the plan and the termination policy summary shown on page 86
- Adjustments needed in certain circumstances, (for example, a rights issue, corporate restructuring or special interim dividend)

The Committee also retains the discretion to amend the performance measures, weightings and targets after they have been set if events make it appropriate to do so. Any changes will be explained in future annual remuneration reports and, if appropriate, be the subject of consultation with the Company's major shareholders.

Adjustment to 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 of awards (the date of transfer of shares for awards made prior to 2014).

Maximum opportunity	Performance measures
• Pension contributions for both Executive Directors are set at 25% of base salary per annum	• Not performance related
• The costs of benefits provided may fluctuate from year to year even if the level of provision has remained unchanged • An annual limit of 10% of base salary per Executive Director has been set for the duration of this policy. The Committee will monitor the costs in practice and ensure that the overall costs do not increase by more than the Committee considers to be appropriate in all the circumstances • In addition, 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 of the Group	• Not performance related
• 200% of salary for the Chief Executive Officer and 150% for the Chief Financial Officer • The Committee reserves the discretion to amend these levels in future years	• Not applicable

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 prior to 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 discretions available to it in connection 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) before the policy came into effect or (ii) at a time when the relevant individual was not a Director of the Company 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, the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

RBS legacy arrangements

Both Executive Directors continue to hold unvested awards previously granted to them under the RBS Group LTIP 2011 and 2012 which are subject to performance conditions to be assessed by the RBS Group Remuneration Committee. These awards were granted to Paul Geddes and John Reizenstein at a time when they were divisional directors of RBS Group and will now be satisfied by the transfer of Company shares from RBS Group on vesting. The performance conditions for these awards relate to financial and operational performance against the strategic plan for Direct Line Group and effective risk management with, in the case of Paul Geddes only, 25% of vesting also dependent upon RBS Group performance. The 2012 awards also applied measures based on employee and customer satisfaction.

In addition, both Executive Directors continue to hold awards originally awarded under the RBS Group Deferral Plan and these will continue to be delivered in RBS Group shares. These awards are not subject to any performance conditions on vesting.

Selection of performance measures

Annual Incentive Plan

The AIP performance measures have been selected by the Committee to incentivise Executive Directors to achieve financial targets for the year as well as specific strategic and personal objectives. These measures are aligned with the key performance indicators that we use as a business to monitor performance against our strategic priorities, as shown on pages 20 and 21 of the Annual Report & Accounts.

The relevant targets are set at or following the start of each year to ensure that Executive Directors are appropriately focused on the key objectives for the next 12 months.

Long-Term Incentive Plan

The ultimate goal of our strategy is to provide long-term sustainable returns for our shareholders.

For 2014, awards under the LTIP will therefore continue to be subject to performance against both RoTE and relative TSR targets, which are important KPIs for the business. The Committee believes that this combination provides a balanced approach to the measurement of Group performance over the longer term by using both a stated financial KPI that incentivises individuals to keep growing the business in an efficient way and a measure based on relative shareholder return. This combination of measures achieves an appropriate balance of absolute and relative returns.

Differences in remuneration policy from broader employee population

When determining Executive Directors' remuneration, the Committee takes into account pay throughout the Group to ensure that the arrangements in place remain appropriate.

The Group has one consistent reward policy for all levels of employees, as outlined on page 79. Therefore, the same reward principles guide reward decisions for all Group employees, including Executive Directors, although remuneration packages differ to take into account appropriate factors in different areas of the business:

- **AIP** – approximately 5,000 employees participate in the AIP and 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 also receive part of their bonus in Company shares deferred for a period of three years
- **LTIP** – our strategic leaders participate in the LTIP currently based on the same performance conditions as those for Executive Directors, although the Committee reserves the discretion to vary the performance conditions for awards made to employees below the Board for future awards
- **All employee share plans** – the Committee considers it is important for all employees to have the opportunity to become shareholders in the Company. The HMRC-approved Buy-As-You-Earn plan in the UK and an International plan mirroring the UK plan for Italy were both launched during 2013. The International plan is being further rolled out to employees in Germany and the Committee expects this process to be completed in 2014. At year end, approximately 1,900 employees throughout the Group had signed up to these schemes

Remuneration policy for Non-Executive Directors

Element	Chairman and Non-Executive Directors' fees
Purpose and link to strategy	To enable the Company to recruit and retain Non-Executive Directors of the highest calibre, at the appropriate cost
Approach to setting fees and cap	• Non-Executive Directors are paid a basic annual fee plus reasonable travel expenses. Additional fees may be paid to Non-Executive Directors who chair a Board Committee, sit on a Board Committee and for the Senior Independent Director. The level of fees for 2014 is shown in the annual remuneration section • 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 takes into account the expected time commitment of the role and fees at other companies of a similar size, sector and / or complexity to the Group • The fees paid to the Chairman are inclusive of all Board and Committee membership fees and are determined by the Remuneration Committee • Subject to a Non-Executive Director aggregate fee 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
Other items	• 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 plan or pension arrangements and do not receive any benefits

Recruitment remuneration policy

The recruitment remuneration policy aims to give the Committee sufficient flexibility to secure the appointment and promotion of high-calibre executives to strengthen the management team and secure the skill sets to deliver the Group's strategic aims.

Principles for recruitment remuneration	• In terms of the principles for setting a package for a new Executive Director, the starting point for the Committee will be to look to the policy for Executive Directors as set out in the policy table and structure a package in accordance with that policy. Consistent with the Regulations, the caps contained within the policy table for fixed pay do not apply to new recruits, although the Committee would not envisage exceeding these caps in practice • 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 • 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 Group's international assignment policy, as appropriate
Buy-out awards	• Where it is necessary to make a recruitment-related pay award to an external candidate, the Company will not pay more than is necessary, in the view of the Committee, and will in all cases seek, in the first instance, to deliver any such awards under the terms of the existing incentive pay structure • All such awards for external appointments, whether under the AIP, LTIP or otherwise, to compensate for awards forfeited on leaving their previous employer will be capped at the commercial value of the amount forfeited and will take account of the nature, time-horizons and performance requirements of those awards. In particular, 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 view of the Committee, equally reflected in some other way, for example through a significant discount to the face value of the awards forfeited. It will only include guaranteed or non pro-rated amounts under the AIP where the Committee considers that it is necessary to secure the recruitment

The elements of any package for a new recruit, including the maximum level of variable pay, but excluding buy-outs, and the approach taken by the Committee in relation to setting each element of the package 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 if needed in order to facilitate, in exceptional circumstances, the recruitment of 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 Company'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 Company's policy position.

The remuneration policy for the Chairman and Non-Executive Directors as set out earlier in this report will apply in relation to any recruitments to those positions.

Service contracts

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

Director	Effective date of contract	Notice period (by Director or Company)	Exit payment policy
Paul Geddes	1 September 2012	12 months	Base salary only for unexpired portion of notice period and to be paid in a lump sum or monthly instalments, in which case instalments are subject to mitigation if an alternative role is found.
John Reizenstein	1 September 2012	12 months	Base salary only for unexpired portion of notice period and to be paid in a lump sum or monthly instalments, in which case instalments are subject to mitigation if an alternative role is found.

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

Termination policy summary

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:

- Annual Incentive Plan and Long-Term Incentive Plan – death, injury, 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
- Deferred Annual Incentive Plan – for any reason other than summary dismissal or resignation unless, in the case of resignation only, the Committee determines otherwise

The table below sets out the general position although 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. Similarly, while the policy is generally to reduce AIP and LTIP awards on a pro-rata basis, the Committee has reserved discretion to disapply such reduction if, in the circumstances, it considers that to be appropriate taking into account the performance of the departing executive and the circumstances of leaving.

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 or winding up of Company
Annual Incentive Plan	No awards made	Bonus 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 awards will lapse	Awards will vest on the normal vesting date subject to performance and, unless the Committee determines otherwise, time pro rating. In exceptional circumstances, as determind by the Committee, for example in the case of the participant's death, awards may vest on cessation.	Awards will vest subject to the application of the performance conditions and, unless the Committee determines otherwise, time pro rating. In the event of a demerger or similar event, the Committee may determine that awards vest on the same basis.

Following RBS Group's shareholding in the Company reducing to less than 50% of the Ordinary Shares in the Company, the Company can in its discretion terminate each Executive Director's service agreement with immediate effect by making a payment in lieu of notice. Service agreements for Executive Directors provide that Paul Geddes and John Reizenstein 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 the provision of outplacement services. Any such fees would be disclosed as part of the detail of any termination arrangements.

Non-Executive Director letters of appointment

Non-Executive Directors are appointed for a three-year term which may be renewed by mutual agreement. In common with the Executive Directors, all Non-Executives are subject to annual re-election by shareholders. Mark Catton, being the Director nominated by the RBS Group, will step down as Director when RBS Group owns less than 20% of Direct Line Group.

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 are required to submit themselves for re-election at each AGM.

Terms and conditions of appointment of all of the Directors are available for inspection by any person at the Company's registered office and at the AGM.

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

External directorships

The Company encourages Executive Directors to accept, subject to the approval of the Chairman, 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.

Currently, the Executive Directors do not hold any external directorships.

Consideration of employment conditions elsewhere in the Group

As explained elsewhere in the Directors' remuneration report, the Committee reviews the overall pay and bonus decisions in aggregate for the wider Group and therefore takes account of pay and conditions in the wider Group in determining the Directors' remuneration policy and the remuneration payable to Directors. Through the Chief Executive Officer, Paul Geddes, and other senior management the Committee may receive input provided by employee groups within the Group, such as the Employee Representative Body ("**ERB**"), as required.

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

Consideration of shareholders' views

The Committee takes into account the approval levels of remuneration related matters at the AGM in determining that the current Directors' remuneration policy remains appropriate.

The Committee, consistent with its approach of operating within the highest standards of corporate governance, takes significant account of guidelines issued by the ABI and shareholder bodies (such as the National Association of Pension Funds) when setting the remuneration policy for the Company.

The Committee will also seek to build an active and productive dialogue with investors on developments in the remuneration aspects of corporate governance generally and any changes to the Company's executive pay arrangements in particular. During the year, the Chair of the Committee and the Chairman of the Board jointly wrote to major shareholders and made themselves available to discuss remuneration policy.

The Committee is satisfied that no element of the Directors' remuneration policy conflicts with the Group's approach to environmental, social or corporate governance matters.

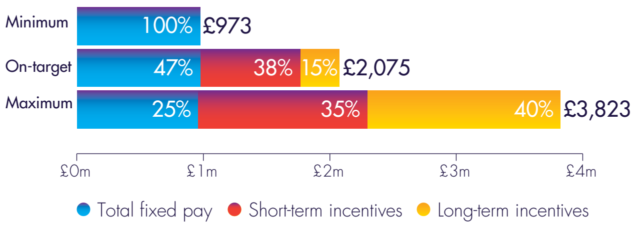
Performance scenarios

The Directors' remuneration policy has been designed to ensure that a significant proportion of total remuneration is delivered in the form of variable pay and is therefore dependent on performance against our strategic objectives.

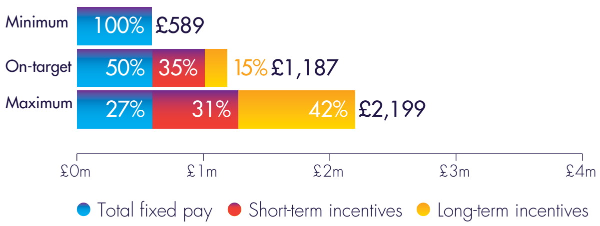
The Committee has considered the level of remuneration that may be paid under different performance scenarios to ensure that it would be appropriate in each situation in the context of the performance delivered and the value created for shareholders.

The following charts show the potential remuneration that may be earned by Executive Directors under three assumed performance scenarios as follows:

CEO – Paul Geddes
(£'000)



CFO – John Reizenstein
(£'000)



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 to be paid in 2014 • Benefits measured as benefits paid in 2013 as set out in the single figure table on page 93 • Pension measured as the defined contribution or cash allowance in lieu of Company contributions, as a percentage of salary (25% of 2014 salary for both Executive Directors)
On-target	Based on what the Director would receive if performance was on-target (excluding share price appreciation and dividends): • Fixed remuneration as above • AIP – consists of the on-target bonus of 60% of maximum bonus opportunity • 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 for Paul Geddes, 150% for John Reizenstein) • LTIP – consists of the face value of awards (200% of salary)

Annual remuneration report section A: unaudited information

Remuneration Committee governance

The members of the Remuneration Committee during 2013 (which remained unchanged during the year) are shown below. Each member's attendance at meetings is set out in the Corporate Governance section on page 73.

Committee Chair
Priscilla Vacassin
Non-Executive Directors
Mike Biggs
Andrew Palmer
Clare Thompson

Advisers to the Committee

The Committee regularly consults with the Chief Executive Officer and the Human Resources Director on matters relating to the appropriateness of all elements of remuneration for Executive Directors and other strategic leaders. The Chief Executive Officer and the Human Resources Director are not present when their own remuneration is discussed. The Director of Performance and Reward provides advice on compensation and benefits to the Committee, and the General Counsel and Company Secretary advises the Committee on corporate governance guidelines and provides secretarial assistance to the Committee. The Committee works closely with the Chairs of the Board Risk Committee and the Audit Committee.

In addition, the Committee has appointed FIT Remuneration Consultants LLP ("**FIT**"), signatories to the Remuneration Consultants Group's Code of Conduct, as its independent adviser. This appointment was made by the Committee in preparation for the IPO and following consideration of the firm's experience in this sector. FIT was reappointed by the Committee during the year following a review of its performance.

FIT provided advice during the year on market practice, corporate governance, incentive plan design and other matters under consideration by the Committee. FIT does not provide any other services to the Company, and accordingly the Committee is satisfied that the advice provided by FIT is objective and independent.

FIT's total fees for the provision of remuneration-related advice in 2013 were £197,793 exclusive of VAT. FIT's fees were charged on the basis of the firm's standard terms of business for advice provided.

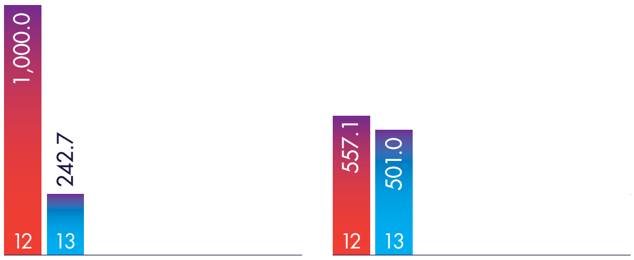
Allen & Overy LLP, one of the Group's legal advisers, has also provided legal advice in relation to the Group's executive remuneration arrangements, and has provided the Group with other legal services.

Distribution statement

The following chart shows the overall expenditure on pay across all Group employees compared against the total value of dividends paid to shareholders for both 2012 and 2013.

Dividend (£m) £242.7m

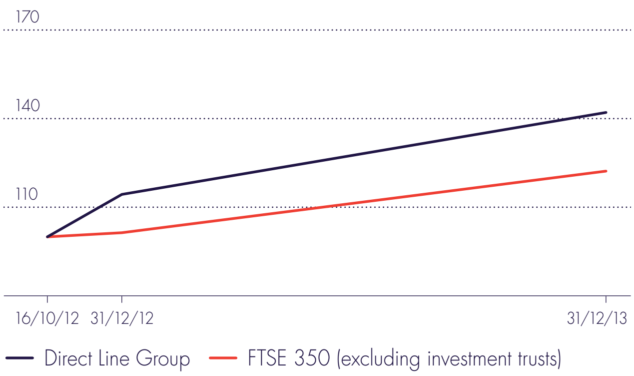
Overall expenditure on pay (£m) £501.0m



Note:
The £1,000 million dividend paid out in 2012 was to RBS Group and made prior to the IPO. There were no share buy-backs since the IPO other than shares purchased by the Employee Benefits Trust to satisfy the awards of shares under the Company's share plans. Consistent with expected practice elsewhere, the overall expenditure on pay has been taken from note 10 to the income statement and has not, therefore, been calculated in a manner consistent with the single figure contained in this report.

Historical performance of Total Shareholder Return

The following graph shows the Company's TSR since trading of the Company's shares began on the London Stock Exchange in October 2012 against the FTSE 350 Index (excluding investment trusts) over the same period. The FTSE 350 Index (excluding investment trusts) has been selected as it is a broad index, of which the Company is a constituent, and is also the same group of companies used for the purposes of measuring relative TSR under the LTIP.



The following table shows historical levels of the Chief Executive Officer's pay for 2012 and 2013 and vesting of annual and long-term incentive pay awards as a percentage of the maximum available opportunity.

Paul Geddes – Chief Executive Officer	Single figure of total remuneration £'000	Annual bonus payout (% of maximum)[1]	Long term incentive vesting (% of maximum)[2]
2013	2,430	63%	55%
2012[3]	1,908	65%	30%

Notes:
1. The relevant percentages were calculated by reference to the salary paid over the financial year.
2. Based on vesting under the 2010 and expected vesting under the 2011 RBS legacy long-term incentive awards in respect of 2012 and 2013.
3. The 2012 figures represent the whole of 2012 and not simply the period from IPO.

Percentage change in pay of Chief Executive Officer 2012 to 2013

The table below shows the percentage change in the total annual remuneration of the Chief Executive Officer against all UK employees. The remuneration elements included in the calculation are salary, taxable benefits, and annual bonus outcomes. The Committee considers that it is appropriate to compare against all UK employees but to exclude those based outside the UK to ensure that the comparison against the Chief Executive Officer's total annual remuneration can be made on a consistent basis.

	Change 2012 to 2013 (%)			
	Salary	Benefits[1]	Bonus (including deferred amount)	Total annual remuneration
Chief Executive Officer	13%	-51%	10%	9%
All UK employees	6%	-63%	17%	4%

Note:
1. The reduction in the value of benefits between 2012 and 2013 reflects the change in benefit arrangements with the corresponding increase in base pay to ensure total fixed pay was comparable both before and after separation from RBS Group.

Paul Geddes' salary and benefits for 2012 reflect a period as an employee of RBS Group, prior to his appointment as a Director of the Company on 1 September 2012, when his salary and benefits were set at current levels in advance of the Company's IPO. Paul Geddes' salary and benefits package remain unchanged since then and will not be increased in 2014.

Voting outcomes from AGM 2013

The table below shows the percentage of shareholders voting for, voting against and the percentage of votes withheld in relation to the resolution to approve the 2012 Directors' remuneration report put to the 2013 AGM.

	For		Against		Number of votes withheld (abstentions)	Percentage votes withheld (abstentions)
	Number	Percentage	Number	Percentage		
Approval of Directors' remuneration report	1,226,921,305	98.8%	14,419,804	1.2%	16,879,549	1.3%

Note:
The percentages of votes for and against are expressed as a percentage of votes cast, excluding abstentions. The percentage of votes withheld is expressed as a percentage of total votes cast, including abstentions.

Statement of implementation of policy in 2014

Executive Directors' salaries in 2014

The current base salaries paid to the Executive Directors were set prior to the IPO. The Committee has considered the current level of salaries in the context of the need to apply restraint in executive pay whilst recognising the need to retain key executive talent in the context of a highly competitive market. It concluded that there will be no increase to Executive Directors' salaries in 2014.

Director	Position	2014 base salary £'000	2013 base salary £'000	Percentage change in base salary 2013-2014
Paul Geddes	Chief Executive Officer	760	760	0%
John Reizenstein	Chief Financial Officer	460	460	0%

Annual Incentive Plan 2014

The maximum annual incentive awards which may be payable to Executive Directors in respect of 2014 are shown below and have remain unchanged from the maximum awards payable under the AIP in respect of the financial year ended 31 December 2013.

Director	Position	Maximum annual incentive award for 2014 (% base salary)	Percentage deferred under the Deferred Annual Incentive Plan
Paul Geddes	Chief Executive Officer	175%	40%
John Reizenstein	Chief Financial Officer	150%	40%

During 2013, the Committee considered the relative importance of the performance measures and whether the Board's strategic priorities going forward were fully reflected in the AIP. This assessment resulted in the introduction of lead strategic indicators for 2014, which will include both financial and non-financial measures which indicate the overall strategic progress of the business. Furthermore, to further emphasise the gateway factors, the Committee concluded that while it would set a target for each measure (which is commercially confidential at the outset but which may be disclosed on a retrospective basis), it would not set threshold and stretch targets, leaving such assessment to judgement.

Through 2013, the Committee worked alongside the Board Risk Committee to ensure that risk management is central to all pay decisions and, for 2014, will more explicitly use risk as a gateway to moderate all aspects of the AIP. The Committee therefore decided to remove the specific risk measure, as it felt that attributing 10% to such aspect devalued the criticality of this metric. It also took the opportunity to improve the alignment to strategic objectives and removed the COR element which was felt to be largely duplicative with profit.

	Measures	2014 weighting	2013 weighting
Financial	Adjusted on-going operating profit	40%	35%
	Other financial measures not reflected in the definition of profit, primarily movements in historic reserves, the performance of run-off businesses and management of tax and restructuring costs (which replaces COR for 2013)	10%	10%
	Cost targets	10%	10%
Risk	Risk management within risk appetite	As gateway	10%
Strategic	A mix of financial and non-financial lead indicators including market share, retention, quote to conversion ratio, scored loss ratio, progress with technology and strategic projects and others	10%	n/a
	Based on a balance of customer metrics (for 2014, this will include Net Promoter Score)	10%	10%
Personal objectives	No more than five defined objectives	20%	25%

Given the competitive nature of the insurance sector, while the performance measures for annual bonus are disclosed, the detailed targets are considered commercially sensitive and likely to remain so and are accordingly not disclosed. The level of achievement against each measure in respect of the financial year ended 31 December 2013 is shown in the audited section of the annual remuneration report. The Committee will aim to provide a consistent level of disclosure in future years.

All AIP outcomes will be determined following the Committee's determination of a payment gateway, which requires the Committee to be satisfied that it is appropriate to permit the award of a bonus, at all or at a given level. The gateway necessarily involves an element of subjective judgement of performance and may result in moderation, either positive or negative, of each AIP performance measure. The gateway criteria for AIP for 2014 are set out overleaf.

Gateway criteria for 2014 AIP outcomes

- Affordability
- Risk management within risk appetite
- The relative performance of the Group to that of its peers
- The wider economic environment
- Exceptional events, such as abnormal weather
- The occurrence of any regulatory breaches and / or reputational damage to the Group
- Committee satisfaction that payment of the bonus does not give rise to major reputational concerns
- Such other factors as the Committee may consider to be relevant

In addition to the gateway criteria, the Committee may use its discretion to take into account additional factors such as customer conduct and experience, the quality of financial results, the view of the "direction of travel" in all metrics and a wider consideration of reputation, risk and audit.

Performance conditions for LTIP awards to be made in 2014

LTIP awards to be granted in 2014 will continue to be subject to the achievement of the following performance conditions:

- 60% to be based on RoTE over a three-year performance period (2014, 2015 and 2016); and
- 40% to be based on relative TSR performance against the constituents of the FTSE 350 (excluding investment trusts) over a three-year performance period starting on the date of grant. The starting TSR and closing TSR will both be averaged over a three-month period.

For these purposes, the Group's standard definition for RoTE is used (see definition on page 178) subject to such other adjustments as the Committee considers appropriate.

The performance targets are as follows:

Performance measure	Threshold vesting	Maximum vesting
RoTE	20% of portion of award vests for average annual RoTE performance of 14%	Full vesting for average annual RoTE performance of 17%
Relative TSR	20% of portion of award vests for median performance	Full vesting for upper quintile performance

For both the TSR and RoTE elements, 20% of the award vests for threshold performance with 100% vesting for maximum performance. There is a straight-line interpolation between these points for the TSR measure (on a ranked basis). For the RoTE element, 40% vests for 15% RoTE, otherwise, similar to TSR, a straight-line interpolation occurs from threshold to target and then from target to maximum performance.

In addition, the LTIP awards will vest only to the extent that the Committee is satisfied that the outcome of the TSR and RoTE performance conditions reflects the underlying financial performance of the Group over the period from the date of grant until vesting. In making these considerations, the Committee will take into account whether there have been any material risk failings.

Pension and benefits

A pension contribution of 25% of base salary will continue to be paid to both Executive Directors in 2014 as shown in the table below:

Director	Position	Pension contribution (% base salary)
Paul Geddes	Chief Executive Officer	25%
John Reizenstein	Chief Financial Officer	25%

Benefits will continue to comprise the provision of a company car or car allowance, private medical insurance, life assurance, income protection and health screening. The Executive Directors are also eligible to receive certain Group products at a discount, in line with the approach for all employees.

Non-Executive Director fees

The current fees for the Chairman and Non-Executive Directors were set in 2012 and have not been changed to date.

Position	2013 Fees £'000
Board Chairman fee	400
Basic Non-Executive Director fee	70
Additional fees	
Senior Independent Director fee	30
Chair of Audit, Risk and Remuneration Committees	30
Chair of CSR Committee	10
Member of Board Committee (Audit, Risk or Remuneration)	10
Member of Board Committee (CSR or Nomination)	5

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

Annual remuneration report section B: audited information

Single figure table

£'000		Salary[1]	Annual bonus[2]	Long-term incentives[3,4]	Benefits[1,5]	All Employee share plans[6]	Pension contributions and cash allowance in lieu of pension[1]	Participation in RBS Group defined benefit plan[7]	Total
Paul Geddes	2013	**760**	**835**	**622**	**23**	**0**	**190**	**–**	**2,430**
	2012	671	760	205	47	0	190	35	1,908
John Reizenstein	2013	**460**	**415**	**135**	**14**	**1**	**115**	**n/a**	**1,140**
	2012	407	345	n/a	26	0	115	n/a	893

Notes:

1. Base salary, benefits, pension contributions and cash allowance in lieu of pension during the financial year ending 31 December 2012 include part of the year as an employee of RBS Group and part of the year as an employee of Direct Line Group.
2. Includes amounts earned for performance during the year but deferred under the Deferred Annual Incentive Plan as shown on page 94.
3. Long-term incentives in 2012 and 2013 for Paul Geddes and in 2013 for John Reizenstein represent the vesting of the RBS Group Long-Term Incentive Plan awards granted in 2010 and 2011 respectively, with vesting amounts assessed by the RBS Group Remuneration Committee. For 2011 RBS Group LTIP awards vesting by reference to 2013 performance, the vesting outcome is calculated at 54.75% for Paul Geddes giving 274,514 Company shares and at 58% for John Reizenstein, giving 59,713 Company shares. These expected vesting outcomes are then accordingly multiplied by the average Company share price from 1 October 2013 to 31 December 2013 of £2.2658.
4. Details of the performance measures and targets applicable to the vesting of RBS legacy LTIP awards are shown on pages 98 to 99.
5. Benefits include a company car or allowance, private medical and income protection insurance. In 2012 the Executive Directors were participants in benefits provided by RBS Group prior to being appointed Directors of the Company on 1 September 2012. The benefits figure reported for 2012 has been updated from the figure presented for the 2012 accounts to reflect changes in the reporting rules.
6. Includes the value of matching shares under the Share Incentive Plan. For 2012, this also includes the free share awards made to each Director (valued at £289 for each Director). All figures in the table are rounded to the nearest thousand.
7. Paul Geddes was a participant in an RBS Group defined benefits scheme until 1 September 2012, when he became a member of Direct Line Group's defined contribution scheme. He has kept his accrued pension in the RBS Group defined benefits scheme but received no benefit in the year as he is a deferred member only and no additional accruals were made to the scheme in respect of his participation.

Confirmation has been received by each Executive Director that they have not received any other items in the nature of remuneration, other than those already disclosed in the single figure table.

2013 AIP

Outcomes against the specific performance metrics during the year both before and after the exercise of judgement by the Committee were as follows:

	Group performance metrics					Personal objectives	
Measure	Profit	Combined operating ratio	Cost reduction target	Risk management within risk appetite	Customer experience	Paul Geddes	John Reizenstein
2013 weighting	35%	10%	10%	10%	10%	25%	
Unadjusted assessment	◕	●	●	◑	◔	◑	◑
Adjusted assessment	◑	◑	●	◑	○		

Where the icons above represent performance broadly as follows:
○ = below threshold, ◔ = threshold to 90% of on-target, ◑ = 90% to 110% of on-target, ◕ = above 110% of on-target, ● = maximum

In considering outcomes against the specific measures, the Committee applied judgement in relation to the quality of earnings assessment of the financial elements, gateway considerations as described elsewhere in this report and its overriding judgement in assessing the actual payment for each Executive Director and, where appropriate, outcomes were moderated accordingly. The Committee intends to operate a similar approach in future years and will explain the use of its judgement accordingly.

Overall, the Committee felt that a broadly on-target level of performance was warranted for the financial elements, with the exception of the cost reduction target where all of the stretch objectives were met. In respect of the customer experience metric, despite a strong performance on customer conduct, with improvements in many measures, the Committee considered that the Group had not met its own stretching objectives to develop and differentiate customer propositions, and this remains a priority in 2014. The Committee therefore reduced this element to below threshold to recognise this.

Consequently, the annual incentive awards payable to the Executive Directors in respect of the financial year ended 31 December 2013 are shown in the table below:

Director	Position	Maximum annual incentive award (% of base salary)	Actual annual incentive award for 2013 (% of base salary)	Actual annual incentive award for 2013 (including cash and deferred element) £'000
Paul Geddes	Chief Executive Officer	175%	110%	835
John Reizenstein	Chief Financial Officer	150%	90%	415

Deferred Annual Incentive Plan

The table below details the deferred share awards to be granted to Paul Geddes and John Reizenstein in respect of the 2013 financial year. These awards are not subject to any conditions other than continuous employment.

Unlike the bonus in respect of 2012, when Paul Geddes's bonus was deferred on terms comparable to those applying to all members of the RBS Group Executive Committee, due to his having been a member of the RBS Group Executive Committee for part of 2012, the deferral terms for the bonus outcome in respect of 2013 will be the same for both Executive Directors.

Director	Total AIP award for 2013 £'000	Percentage deferred	Amount deferred £'000	Vesting date
Paul Geddes	835	40%	334	March 2017
John Reizenstein	415	40%	166	March 2017

Non-Executive Directors

Remuneration for the Non-Executive Directors for the year ended 31 December 2013 is shown in the table below. The only remuneration paid to the Non-Executive Directors in 2012 and 2013 was in the form of fees.

Director	Fees[1] £'000	Total 2013 £'000	Total 2012 £'000
Mike Biggs	400	400	270
Mark Catton[2]	–	–	–
Glyn Jones	115	115	27
Jane Hanson	120	120	80
Andrew Palmer	125	125	82
Clare Thompson	105	105	31
Priscilla Vacassin	110	110	29
Bruce Van Saun[2]	–	–	–-

Notes:

1. Non-Executive Directors are not eligible to participate in any of the Group's bonus or share incentive schemes or join any Group pension scheme.
2. Mark Catton, a Director nominated by the RBS Group, resigned as a Director of the Company on 26 April 2013, following the reduction in the shareholding of RBS Group to less than 50% on 13 March 2013, and was reappointed as a Director on 1 October 2013 following the resignation of Bruce Van Saun. RBS Group is entitled, under its Relationship Agreement with the Company, to nominate one Non-Executive Director to the Board while its shareholding in the Company remains 20% or more. During their appointment as Non-Executive Directors, Bruce Van Saun and Mark Catton were RBS Group employees with any fees they may receive payable to RBS Group.

Shareholdings

The Executive Directors are subject to share ownership guidelines and are expected to retain all of the Ordinary Shares that they obtain from any of the Company's share incentive plans, after any disposals necessary for the payment of personal taxes on the acquisition of such Ordinary Shares, until they have achieved the required level of shareholding. For these purposes, the holding of Ordinary Shares will be treated as including all vested but unexercised awards, valued on a basis that is net of applicable personal taxes.

The extent to which Executive Directors have achieved the guideline requirements by 31 December 2013 can be summarised as follows:

Position	Share ownership guideline (% of salary)	Value of shares held at 31 December 2013 (% of salary)
Chief Executive Officer	200%	32%
Chief Financial Officer	150%	33%

The total share interests of each Executive Director under share plans are shown in the table below:

		Share plan interests at 31 December 2013			Beneficial share interests	
Director	Position	Share plan awards subject to performance conditions[1]	Share plan awards not subject to performance conditions[2]	Share plan interests vested but unexercised[3]	Shares held at 31 December 2013[4,5]	Shares held at 31 December 2012
Paul Geddes	Chief Executive Officer	2,416,123	113,256	75,409	58,768	57,142
John Reizenstein[6]	Chief Financial Officer	958,796	68,859	–	60,904	57,142

Notes:

1. Includes legacy RBS LTIPs granted in 2011 and 2012. As described in the notes to the single figure table, 54.75% and 58% of Direct Line Group shares in respect of 2011 awards granted to Paul Geddes and John Reizenstein respectively are expected to vest in March 2014 following an assessment of performance by the RBS Group Remuneration Committee.
2. Includes matching and free shares held under the Share Incentive Plan (as disclosed on page 98) and deferred shares under the DAIP. RBS Group deferred awards are not included as these are to be settled in RBS Group shares.
3. 40% of the shares awarded to Paul Geddes under the DAIP in March 2013 vested during the financial year, consistent with the policy applying at RBS Group.
4. As at the date of this report the number of shares beneficially held by Paul Geddes and John Reizenstein had increased to 59,247 and 61,910 respectively.
5. Includes holdings of connected persons, as defined in sections 252-255 of the Companies Act.
6. Beneficial share interest includes participant shares held under the Share Incentive Plan.

The beneficial interests of the Non-Executive Directors in the Company's shares as at 31 December 2012 and 31 December 2013 are shown in the table below:

Director	Shares held at 31 December 2013[1,2]	Shares held at 31 December 2012
Mike Biggs	–	–
Mark Catton	–	–
Jane Hanson	28,571	28,571
Glyn Jones	60,395	57,142
Andrew Palmer	11,428	11,428
Clare Thompson	30,197	28,571
Priscilla Vacassin	30,197	28,571
Bruce Van Saun[3]	–	–

Notes:

1. As at the date of this report, the number of shares held by Directors was as follows: Glyn Jones – 61,353; Clare Thompson – 30,676; and Priscilla Vacassin – 30,676. There were no other changes between the year end and the date of this report.
2. Includes holdings of connected persons, as defined in sections 252-255 of the Companies Act.
3. Bruce Van Saun resigned as a Director on 1 October 2013. His shareholding for 2013 is shown as of that date.

Direct Line Group share awards

Direct Line Group Deferred Annual Incentive Plan

The table below details the first awards made to Paul Geddes and John Reizenstein under the Direct Line Group Deferred Annual Incentive Plan relating to the bonus in respect of 2012, the monetary value of which was disclosed in full in last year's Remuneration Report.

Director	Awards granted during the year	Grant date	Share price at grant date £	Face value of award £	Vesting date	Awards held at 31 December 2013
Paul Geddes	188,522[1]	28 March 2013	2.0157	380,004	1 June 2013 – 1 March 2016[2]	188,522
John Reizenstein	68,462[1]	28 March 2013	2.0157	137,999	28 March 2016	68,462

Notes:

1. The awards in respect of the financial year ending 31 December 2012 were granted on 28 March 2013 as nil-cost options.
2. The terms on which Paul Geddes' 2012 bonus outcome was deferred meant that 60% of the outcome was deferred, with deferral split broadly evenly between deferral into deferred cash and deferred shares, with phased vestings of the deferred amounts over the three year deferral period. As shown on page 96, 75,409 of the awards granted on 28 March 2013 vested during the year.

Direct Line Group Long Term Incentive Plan

The table below details the unvested awards held by Paul Geddes and John Reizenstein made under the Company's LTIP.

Director	Awards at 1 January 2013	Awards granted during the year	Grant date	3 day-average share price for grant of award £	Face value of award	Vesting date	Percentage of scheme interests that would be receivable if the minimum performance was achieved	Awards held at 31 December 2013
Paul Geddes	388,250[2]	377,040	28 March 2013	2.0157	£760,000	28 March 2016	20%	
		352,439	28 August 2013	2.1564	£759,999	28 August 2016	20%	1,117,729
John Reizenstein	234,993[2]	228,208	28 March 2013	2.0157	£459,999	28 March 2016	20%	
		213,318	28 August 2013	2.1564	£459,999	28 August 2016	20%	676,519

Notes:

1. The Company's share price on 31 December 2013 was £2.496 and the range of prices in the year was £1.982 to £2.496.
2. These awards take the form of nil cost options over the Company's shares and are subject to performance conditions to be assessed by the Committee, which are the same as those for awards to be made in 2014 as described on page 92. Awards accrue dividend entitlements until the date of transfer of shares.
3. These figures do not include those RBS Group LTIP awards held by the Executive Directors which are included in the table on page 98.

The Company's policy is to make awards twice a year following the announcement of the Group's full and half-year results. The value of each grant of awards is set at 50% of the normal annual policy level, so that the total face value of awards to each Executive Director during the year equates to 200% of base salary, measured using an average share price prior to the date of grant.

Direct Line Group 2012 Share Incentive Plan

From 18 February 2013, all employees including Executive Directors can invest from £10 up to £125 per month from their pre-tax pay into the BAYE Share Incentive Plan (the "**SIP**") and receive one matching share for every two shares purchased. The limit of £125 per month may be reviewed as legislation evolves to take account of any changes, where appropriate.

The table below details the number of shares held by John Reizenstein under the SIP. Paul Geddes does not participate in the plan.

Director	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 2013
John Reizenstein	254	–	561	254

Note:
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 BAYE contributions being deducted from salary.

In addition, at the time of the IPO, and under the same terms as other employees, Executive Directors were offered the opportunity to subscribe for 143 free Company shares which will vest in November 2015, three years from grant. Both Executive Directors subscribed for this offer and the value of £289 for each Director is included in the single figure table.

Dilution

The Company complies with both of the dilution levels recommended by the ABI guidelines (of 10% in 10 years for all share plans and 5% in 10 years for discretionary plans) consistent with the rules of the Company's share plans. Legacy RBS Group awards to be satisfied in Company shares will be satisfied by RBS Group rather than the Company and RBS Group has placed shares in trust to facilitate this.

Legacy RBS Group awards

The Executive Directors continue to hold unvested awards previously granted to them under the RBS Group Employee Share Plans as employees of the RBS Group. These awards have been included as they were granted to the Executive Directors in respect of their work as directors of RBS Insurance, as the Group was previously known.

RBS Group Long-Term Incentive awards

Awards originally granted under the RBS Group Long-Term Incentive Plans ("**RBS Group LTIP**") in 2011 and 2012 will be delivered in Company shares transferred by RBS Group to the extent that the originally set performance conditions for these awards are considered achieved by the RBS Group Remuneration Committee.

The table below details the awards made to Paul Geddes and John Reizenstein under RBS Group plans which will vest in Company shares. No awards were granted, vested or lapsed during the year although the potential value of the 2011 LTIP has been included in the single figure of remuneration as described on page 93.

Director and scheme	Awards held at 1 January 2013 (Direct Line Group shares)	Awards held at 31 December 2013	Grant date	Market price at grant date (RBS Group shares) £	Vesting date
Paul Geddes					
RBS Group LTIP 2011	501,394	501,394	7 March 2011	4.45	7 March 2014
RBS Group LTIP 2012	797,000	797,000	9 March 2012	2.80	9 March 2015
John Reizenstein					
RBS Group LTIP 2011	102,953	102,953	7 March 2011	4.45	7 March 2014
RBS Group LTIP 2012	179,324	179,324	7 March 2012	2.80	7 March 2015

Notes:
1. The Direct Line Group share price at 31 December 2013 was £2.496 and the range of prices in the year was £1.982 to £2.496.
2. It was agreed with RBS Group that participants now employed by Direct Line Group holding awards granted in 2011 and 2012 under the RBS Group LTIP would be given the opportunity to have those awards satisfied by the transfer of Company shares from RBS Group on vesting. The conversion rate applied to these awards was the average price of RBS Group shares over the five business day period prior to 11 October 2012 divided by the Direct Line Group share offer price (£1.75). This conversion equated to 1.487 Company shares for every RBS Group share under grant. Both Executive Directors took up this offer.

These awards are subject to performance conditions to be assessed by the RBS Group Remuneration Committee. The conditions relate to financial and operational performance against the strategic plan for Direct Line Group and effective risk management with, in the case of Paul Geddes only, 25% of vesting also dependent upon RBS Group performance. The 2012 awards also applied measures based on employee and customer satisfaction.

The table below details the awards held by Paul Geddes made under the RBS Group LTIP in 2010 which vested in RBS Group shares during 2013.

Director and scheme	Awards held at 1 January 2013 (RBS Group shares)	Awards vested during the year (RBS Group shares)	Awards lapsed during the year (RBS Group shares)	Awards held as at 31 December 2013	Grant date	Vesting date
Paul Geddes						
RBS Group LTIP 2010	229,779	69,509	160,270	–	14 May 2010	24 April 2013

Note:
1. The market price of RBS Group shares at vesting was £2.9477. These awards were subject to performance conditions assessed by the RBS Group Remuneration Committee at the time of vesting, as described above.

RBS Group deferred awards

Awards which were originally awarded under the RBS Group Deferral Plan will continue to be delivered in RBS Group shares. The awards detailed below under the RBS Group Deferral Plan give a conditional right to acquire ordinary shares under the RBS Group 2010 Deferral Plan. No awards were granted or lapsed during the year.

Director and scheme	Awards held at 1 January 2013 (RBS Group shares)	Awards Vested during the year (RBS Group shares)	Awards held as at 31 December 2013 (RBS Group shares)	Grant date	Vesting dates
Paul Geddes					
2011	35,961	17,980[1]	17,981	7 March 2011	7 March 2012 – 7 March 2014
2012	96,464	32,154[1]	64,310	9 March 2012	9 March 2012 – 9 March 2015
John Reizenstein					
2011	4,794	2,397[1]	2,397	7 March 2011	7 March 2012 – 7 March 2014
2012	13,219	4,406[1]	8,813	7 March 2012	7 March 2012 – 7 March 2015

Note:
1. Vested on 7 March 2013 when the RBS Group share price was £3.036.

This report was reviewed and approved by the Board on 25 February 2014.

Priscilla Vacassin, Chair of the Remuneration Committee