

**Direct Line Insurance Group plc (the “Company”)  
Audit Committee (the “Committee”) Terms of Reference**

- Chair** An independent Non-Executive Director.
- In the absence of the Chair of the Committee, the remaining members present shall elect one of themselves to chair the meeting.
- Members** At least three independent Non-Executive Directors, one of whom is the Chair of the Board Risk Committee. At least one member shall have recent and relevant financial experience, ideally with a professional qualification from one of the professional accountancy bodies. The Audit Committee as a whole shall have competence relevant to the general insurance sector.
- The Chairman of the Board shall not be a member of the Committee.
- The Chair of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee.
- Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chair of the Committee.
- In attendance** Only members of the Committee have the right to attend Committee meetings. However, the Committee may at its discretion invite other individuals to attend meetings. In particular, the following are usually invited to attend:
- Chief Executive Officer;
  - Chief Financial Officer;
  - Chief Risk Officer;
  - Group Head of Audit; and
  - representatives of the external auditor and external actuaries.
- Quorum** Any two members, one of whom is a member of the Board Risk Committee.
- A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.
- Meeting frequency** The Committee shall meet at least four times a year at appropriate times in the financial and regulatory reporting and audit cycle and otherwise as required.
- The Committee shall meet at least once with the external auditor and the Group Head of Audit separately, without Executive Directors or management being present.
- The Chair of the Committee shall meet, at least twice a year, with the external auditor and the Group Head of Audit, and once a year with the external actuaries without Executive Directors or management being present.
- Secretary** The Company Secretary, or his or her nominee, shall act as Secretary of the Committee unless the Committee determines otherwise and shall attend each meeting.

## **1. Main responsibilities**

The Committee shall be responsible for:

- 1.1 oversight and challenge of the effectiveness of the systems of financial control, financial and regulatory reporting and other internal controls for the Company and its subsidiaries ("the Group") as a whole including, unless otherwise required by applicable law or regulation, the ultimate parent company and major subsidiary undertakings;
- 1.2 assisting on such other matters as may be referred to it by the Board; and
- 1.3 reporting to the Board, identifying any matters within its remit in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

The Committee will operate under delegated authority from the Board and has full power to make decisions concerning matters referred to in these terms of reference, whilst any matters included in the Schedule of Matters Reserved for the Board must be referred to the Board and any matters specifically within the terms of reference of other Committees of the Board will be dealt with by such Committees.

All other matters will be dealt with by the Chief Executive Officer, or his or her delegates, under the general management authority delegated by the Board.

## **2. Detailed responsibilities**

The detailed responsibilities of the Committee are set out below.

Financial reporting

- 2.1 To monitor the integrity of the financial statements of the Group, and any other formal announcement relating to its financial performance, including preliminary financial results, interim half-year statements and quarterly interim management statements and reviewing significant financial reporting issues and judgements which they contain.
- 2.2 In particular, the Committee shall review and challenge, where necessary:
  - 2.2.1 the application, appropriateness and consistency of, and any changes to, significant accounting policies both on a year on year basis and across the Group;
  - 2.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;
  - 2.2.3 whether appropriate estimates and judgements have been made;
  - 2.2.4 the clarity, balance and completeness of disclosure in the Group's financial reports and the context in which statements are made; and
  - 2.2.5 all material information presented with the financial statements, including the strategic review and the corporate governance statements.
- 2.3 The committee shall carry out an initial review of any other statements requiring board approval which contain financial information, where to carry out a review prior to board approval would be practicable and consistent

with any prompt reporting requirements under any law or regulation including the Listing Rules or Disclosure Guidance and Transparency Rules sourcebook.

- 2.4 Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company and is unable to resolve such matters with the executive, it shall report its views to the Board.
- 2.5 To review the going concern assumptions, and any public statements relating to the Company being a going concern, exercising judgement in considering those matters that would inform the assessment whether the Company is a going concern, and to make appropriate recommendations to the Board.
- 2.6 To review the content of the Company's Annual Report and Accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.
- 2.7 To receive, review and recommend to the Board the adoption of the financial statements of significant subsidiaries within the Group and the consolidated financial statements of the Group.
- 2.8 To review compliance with the applicable accounting policies and practices and to consider compliance with regulatory requirements.
- 2.9 To review the controls and procedures established by management for compliance with regulatory and financial reporting requirements and with the requirements of all external regulators.
- 2.10 To assist the Board by reviewing any returns (such as the Regular Supervisory Report and the Solvency and Financial Condition Report) submitted to the Prudential Regulation Authority, Financial Conduct Authority and other relevant regulatory bodies and reports in relation to the Task Force on Climate-related Financial Disclosures.

### **Internal controls**

- 2.11 To keep under review the adequacy and effectiveness of the Group's internal financial controls and internal control systems, as well as the procedures for monitoring their effectiveness.
- 2.12 To monitor any significant deficiencies and material weaknesses in Group controls and disclosure controls and procedures, as reported by the Group Audit function and the external auditor, and the implementation by management of appropriate remedial action.
- 2.13 In reviewing the effectiveness of internal controls, consideration shall be given to:
  - 2.13.1 the scope and quality of the systems of internal control, and, where applicable, the work of the Group Audit function and other providers of assurance;
  - 2.13.2 the extent and frequency of reporting to the Board (or Board committee(s)) which enables the Committee to build up a

cumulative assessment of the state of the system of internal control in the Group; and

2.13.3 the effectiveness of the Group's public reporting processes.

2.14 To review and approve the statements to be included in the Company's Annual Report and Accounts concerning internal controls.

### **Group Audit**

2.15 To ensure the Group Head of Audit has direct access to the Chairman of the Board and to the Chair of the Committee and is accountable to the Committee.

2.16 To monitor and review the effectiveness of the Group Audit function, in the context of the Group's overall risk management system, including responsibility for the Chair of the Committee to set objectives and appraise the performance of the Group Head of Audit, taking into account the views of the Chief Executive Officer and Chief Financial Officer.

2.17 To approve the appointment and removal of the Group Head of Audit.

2.18 The Chair of the Committee recommends the remuneration of the Group Head of Audit to the Remuneration Committee.

2.19 To consider and approve the remit and budget of the Group Audit function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions.

2.20 To review and approve the annual Group Audit plan to ensure it is aligned to the key risks of the business, and any proposed significant amendments that may arise.

2.21 To review reports addressed to the Committee from the Group Head of Audit.

2.22 To review and monitor significant findings from major investigations and management's response to such matters.

2.23 To obtain an independent and objective external assessment of the Group's Group Audit function at appropriate intervals, with the Chair of the Committee overseeing and approving the appointment process for the independent assessor.

2.24 In performing its duties in connection with Group Audit the Committee will have regard to the Chartered Institute of Internal Auditors Guidance on Effective Internal Audit in Financial Services.

2.25 Where the tenure of the Group Head of Audit exceeds seven years, the Audit Committee should explicitly discuss annually the Chair's assessment of the Chief Internal Auditor's independence and objectivity.

## **External audit**

- 2.25 To conduct the audit services' contract tender process, at such intervals as the Committee determines (having due regard to recommendations of any applicable authority), to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms; and, in respect of such tender, oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the tender process.
- 2.26 To consider and make recommendations to the Board, to be put to shareholders for approval at the Company's Annual General Meeting, in relation to the appointment, re-appointment and removal of the Group's external auditor. The Committee shall oversee the selection process for a new auditor and if an auditor resigns, the Committee shall investigate the issues leading to this and decide whether any action is required.
- 2.27 To oversee the relationship with the external auditor, including (but not limited to):
- 2.27.1 approving their remuneration, ensuring that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
  - 2.27.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - 2.27.3 agreeing the independence of external audit minimum standard which will include the policy on the:
    - supply of non-audit services by the external auditor and the ongoing monitoring thereof, ensuring there is prior approval of non-audit services, and the making of authorisations there under to avoid any threat to auditor objectivity and independence, taking into account any relevant regulations and ethical guidance on the matter; and
    - employment of former partners or employees of the Company's auditor and/or their appointment to the Board or any subsidiary Board and monitoring the implementation of this policy;
  - 2.27.4 reviewing and monitoring annually their independence and objectivity, taking into account relevant UK law, regulation, the FRC's Ethical Standard and other professional requirements and the relationship with the auditor as a whole, including any threats to their independence and the safeguards applied to mitigate those threats including the provision of any non-audit services;
  - 2.27.5 satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence or objectivity;
  - 2.27.6 monitoring the auditor's compliance with relevant ethical and

professional guidance on the rotation of the audit partner and the level of fees paid by the Group compared to the overall fee income of the audit firm; and

- 2.27.7 assessing annually the expertise and resources of the auditor and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures.
- 2.28 To meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage.
- 2.29 To review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement.
- 2.30 To review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
  - 2.30.1 a discussion of any major issues which arose during the audit;
  - 2.30.2 any accounting and audit judgements;
  - 2.30.3 levels of errors identified during the audit; and
  - 2.30.4 review the effectiveness of the external audit process, (taking into consideration relevant UK professional and regulatory requirements) including an assessment of the quality of the audit, the handling of key judgements by the auditor, and the auditor's response to questions from the Committee.
- 2.31 The Committee shall also:
  - 2.31.1 review any representation letter(s) requested by the external auditor before they are signed by management; and
  - 2.31.2 review the management letter and management's response to the auditor's findings and recommendations.

### **Reserving**

- 2.32 To agree and recommend to the Board, an overall approach for the annual reserving cycle.
- 2.33 Prior to the commencement of the process for the determination of reserves by the Board, to review and approve the process, including the appointment of the external actuaries following peer review, where appropriate.
- 2.34 To receive presentations from the external actuaries as requested.
- 2.35 At the conclusion of the above process, to obtain assurance that the process has been correctly followed, and confirm such to the Board.
- 2.36 To review, challenge and make recommendations to the Board regarding the reserving process.

- 3. Interaction with other Board Committees**
- 3.1 The Committee shall share information with the Board Risk Committee in part by virtue of the common or overlapping membership with that committee.
- 3.2 The Chair of the Committee will liaise with the Chairs of the Remuneration and Board Risk Committees, as to the most appropriate way for the matter above to be dealt with between the respective committees from time to time.
- 4. Governance and resources**
- The Committee shall:
- 4.1 have access to sufficient resources in order to carry out its duties, including access to the Company Secretariat for assistance as required;
- 4.2 be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- 4.3 give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code (the "Code"), the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules, the Market Abuse Regulation, the Senior Managers and Certification Regime and any other applicable rules, as appropriate;
- 4.4 be responsible for the oversight of the internal and external auditors and external actuaries;
- 4.5 oversee any investigation of activities which are within its terms of reference; and
- 4.6 arrange for periodic reviews of its:
- 4.6.1 own performance to ensure it is operating effectively; and
- 4.6.2 terms of reference and recommend any changes it considers necessary to the Board for approval.
- The Committee is authorised to:
- 4.7 seek any information it requires from any employee or contractor of the Group in order to perform its duties and may call any employee or request any contractor to be questioned at a meeting of the Committee; and
- 4.8 obtain, at the Group's expense, external legal or other professional advice on any matter within its terms of reference.
- 5. Reporting**
- 5.1 The Committee's duties and activities during the year shall be disclosed in the Company's Annual Report and Accounts. The relevant report should include:
- 5.1.1 an explanation of how the Committee has assessed the independence and effectiveness of the external audit process;
- 5.1.2 the significant issues that the Committee considered in relation to the financial statements and how these were addressed having regard to matters communicated to it by the auditor;

- 5.1.3 all other information requirements set out in the Code; and
- 5.1.4 a statement as to whether the Audit Committee is satisfied that the Group Audit function has the appropriate resources.
- 5.2 The Committee has the right to publish in the Company's Annual Report and Accounts details of any issues that cannot be resolved between the Committee and the Board.
- 5.3 In compiling the reports above, the Committee should exercise judgement in deciding which of the issues it considers, in relation to the financial statements, are significant.
- 5.4 The Committee shall make its terms of reference available to shareholders on the Group's website.
- 5.5 The Chair of the Committee shall attend the Company's Annual General Meeting to answer shareholder questions on the Committee's activities.
- 5.6 The Chair of the Committee shall report formally to the Board on its proceedings after each meeting, including making whatever recommendations it deems appropriate.