

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

<b>Chair</b>	<p>A Director of the Company.</p> <p>In the absence of the Chair of the Committee, the remaining members present shall elect one of themselves to chair the meeting.</p>
<b>Members</b>	<p>At least three members, of whom at least one shall be an independent Non-Executive Director, and of whom a majority shall be Directors of the Company.</p> <p>The Chair of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee.</p> <p>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.</p>
<b>In attendance</b>	<p>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:</p> <ul style="list-style-type: none"><li>• Chief Executive Officer (if not a member of the Committee);</li><li>• Chief Financial Officer (if not a member of the Committee);</li><li>• Chief Risk Officer;</li><li>• Director of Investment Management and Treasury; and</li><li>• Director of Financial Risk.</li></ul>
<b>Quorum</b>	<p>Any two members, at least one of whom is an independent Non-Executive Director, provided that a majority of members present are Directors of the Company.</p> <p>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.</p>
<b>Meeting frequency</b>	<p>The Committee shall meet at least three times a year and otherwise as required.</p>
<b>Secretary</b>	<p>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.</p>
<b>1. Main responsibilities</b>	<p>The Committee shall be responsible for:</p> <ol style="list-style-type: none"><li>1.1 overseeing the management and performance of the investment strategy of the Company and its subsidiaries (the “Group”);</li><li>1.2 assisting on such other matters as may be referred to it by the Board; and</li><li>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.</li></ol> <p>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. 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.</p> <p>All other matters will be dealt with by the Chief Executive Officer, or his or her delegates, under the authority delegated by the Board.</p>

## 2. Detailed responsibilities

The detailed responsibilities of the Committee are set out below.

### **Investment strategy**

- 2.1 To review and recommend for approval to the Board the investment strategy and any changes required to the economic capital underlying such investment strategy<sup>1</sup> from time to time<sup>2</sup>.
- 2.2 To consider and approve recommendations derived from asset liability management ("ALM") exercises and other discrete bodies of analysis to:
  - 2.2.1 invest in new asset classes, or disinvest from an existing asset class;
  - 2.2.2 change the long-term target asset allocation benchmark mix within the investment portfolio;
  - 2.2.3 change the target benchmark duration; and/or
  - 2.2.4 use a new derivative strategy/derivative instrument for the first time to mitigate risk.
- 2.3 Giving due consideration to the Board's appetite for risk, to approve material changes to, inter alia:
  - 2.3.1 issuer and aggregate concentration limits in force in the investment portfolio; and/or
  - 2.3.2 requirements set for access to liquidity.
- 2.4 To oversee the reporting to the Board Risk Committee of any material breaches to the agreed investment strategy or associated risk framework.
- 2.5 To review the procedures the Company utilises in determining that the investment portfolio is invested in accordance with the investment strategy and limits recommended by the Committee and approved by the Board from time to time.

### **Monitoring and management of investments**

- 2.6 To monitor/review delegated authority for investment management activities and make recommendations (if any) to the Board from time to time.<sup>1</sup>
- 2.7 To monitor actual asset allocations against agreed strategic benchmarks and the percentage of cash held within the investment portfolios.
- 2.8 To review breach reports regarding investment/administration activities of the asset managers, and oversee the escalation of any material matters to the Board Risk Committee.
- 2.9 To review the merits of and approve proposals to invest in yield enhancing products (e.g. liquidity swaps, stock lending).

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<sup>1</sup> The Board has delegated authority to the Chief Executive Officer and the Chief Financial Officer individually for investment matters with an impact on regulatory capital with a value equal to or less than £10 million, subject to (i) the net increase in the amount of required regulatory capital not exceeding £25 million per financial year and (ii) the Chief Risk Officer being consulted on the matter in question and agreeing the regulatory capital consequences.

<sup>2</sup> For the avoidance of doubt, capital injections into subsidiaries fall within the normal delegated authority limits as referred to in the High Level Controls and System of Governance Framework document and accordingly only require Board approval, and any referral to the Committee by the Board if the Board so wishes, where they exceed £25m.

- 2.10 To monitor delivery of major investment initiatives, for example the appointment and on-boarding of a new asset manager, the removal of an asset manager or implementing new portfolios.
- 2.11 To review the performance of asset managers employed against the performance benchmarks set by management.
- 2.12 To monitor the service levels of the asset custodian and providers of other outsourced services e.g. investment accounting.
- 2.13 To monitor the adequacy of investment returns, having regard to the investment strategy, the Group's risk appetite, market conditions and other constraints set.
- 2.14 To consider how investment activities will be managed to support the Company's agenda and stance on corporate social responsibility initiatives.
- 2.15 To consider the strategy for incorporating Environmental, Social and Governance related factors (including climate change) into the Group's investment management.
- 2.16 To review investment risk indicators (internal and external).
- 2.17 To monitor hedging strategies.
- 2.18 When making decisions, the Committee may consider the:
  - 2.18.1 alignment of the decision with the Company's strategic aims;
  - 2.18.2 material risks of the decision;
  - 2.18.3 alignment of the decision with the Company's risk appetite/strategy;
  - 2.18.4 impact on current/future solvency of the Company;
  - 2.18.5 impact of the decision in terms of risk adjusted performance;
  - 2.18.6 clear reasons for decisions contrary to what would be implied by the Internal Capital Model results; and
  - 2.18.7 effect that variations in key assumptions would have upon the risk, solvency, and performance impacts of the proposal.
- 2.19 To monitor progress on the implementation of new investment and treasury IT systems.
- 2.20 To receive reports on the investment and treasury control environment from the second and third lines of defence.

### **3. Governance and resources**

The Committee shall:

- 3.1 work closely with the Board Risk Committee (to ensure a co-ordinated approach is taken to the management of investment risks) and the Sustainability Committee (to align investment activities, where appropriate, with the Group's sustainability strategy);
- 3.2 have access to sufficient resources in order to carry out its duties, including access to the Company Secretariat for assistance as required;
- 3.3 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;
- 3.4 give due consideration to laws and regulations, the provisions of the UK Corporate Governance 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;
- 3.5 oversee any investigation of activities which are within its terms of reference; and
- 3.6 arrange for periodic reviews of its:
  - 3.6.1 performance to ensure it is operating effectively; and
  - 3.6.2 terms of reference and recommend any changes it considers necessary to the Board for approval.

The Committee is authorised to:

- 3.7 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
- 3.8 obtain, at the Group's expense, external legal or other professional advice on any matter within its terms of reference.

### **4. Reporting**

- 4.1 The Committee's duties and activities during the year shall be disclosed in the Company's Annual Report and Accounts.
- 4.2 The Committee shall have 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.
- 4.3 The Chair of the Committee shall attend the Annual General Meeting to answer shareholder questions on the Committee's activities.
- 4.4 The Chair of the Committee shall report formally to the Board (and, where appropriate, the Board Risk Committee or Sustainability Committee) on its proceedings after each meeting, including making whatever recommendations it deems appropriate.