

**Direct Line Insurance Group plc (the "Company")**  
**Terms of Reference of the Board Risk Committee (the "Committee")**

<b>Chair</b>	<p>An independent Non-Executive Director.</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 independent Non-Executive Directors, one of whom is the Chair of the Audit Committee.</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;</li><li>● Chief Financial Officer;</li><li>● Chief Risk Officer;</li><li>● Group Head of Audit;</li><li>● General Counsel; and</li><li>● Representatives of the external auditors.</li></ul>
<b>Quorum</b>	<p>Any two members, one of whom is a member of the Audit Committee.</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 four times a year at appropriate times in the risk and regulatory reporting cycle and otherwise, as required.</p> <p>The Committee shall meet, at least once a year, with the Chief Risk Officer ("CRO") without Executive Directors or management being present.</p> <p>The Chair of the Committee shall meet, at least twice a year, with the CRO without Executive Directors or management being present.</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 will be responsible for:</p> <ol style="list-style-type: none"><li>1.1 providing oversight and advice to the Board in relation to current and potential future risk exposures of the Company or any of its subsidiaries (the "Group") and the strategic approach to managing risk, including determination of risk appetite and tolerance;</li></ol>

- 1.2 assisting on such other matters as may be referred to it by the Board;
- 1.3 promoting a risk awareness culture within the Group; and
- 1.4 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 operates 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 Board Matters Reserved 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 are dealt with by the Chief Executive Officer ("CEO"), 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.

### **System of Governance, Enterprise Risk Management Strategy and Framework**

- 2.1 To review, and recommend to the Board, the High-Level Control and System of Governance Framework document.
- 2.2 To review and approve the strategic approach to managing risk across the Group.
- 2.3 To review and approve the design and implementation of the Enterprise Risk Management and Strategy Framework ("ERMF") and the procedures for monitoring the adequacy and effectiveness of that Framework.
- 2.4 To review new or amended Risk Policies, in accordance with the risk policy approach, as agreed from time to time, and recommend them to the Board.
- 2.5 To review and challenge the Own Risk and Solvency Assessment ("ORSA") process and outputs.

### **Risk appetite, framework and limits**

- 2.6 To consider and recommend for approval by the Board, the Group's Risk Appetite Framework and Statements as required, including associated qualitative and quantitative statements in support of current and future strategy, taking into account the current and prospective macroeconomic and financial environments.
- 2.7 To recommend to the Board on an annual basis, the Group's Overarching Risk Appetite Statements.
- 2.8 To approve on an annual basis, the Group's Policy Risk Appetite Statements.
- 2.9 To approve the annual stress and scenario testing plan and to review the results of the stress and scenario tests.
- 2.10 Subject to the Board's right to consider directly any matter itself, to review the due diligence of any proposed material strategic transaction (including a material merger, acquisition or disposal) prior to the Board approval of the transaction, focussing in particular on the risk aspects and resultant

implications on the Group's risk appetite and tolerance, and taking independent external advice where appropriate and available.

- 2.11 To review the risk profile and risk management of any proposed business transformation programme.
- 2.12 To review reports on any material breaches of risk limits and the adequacy of proposed action.
- 2.13 To review any material matters escalated by the Investment Committee, following review of breach reports regarding investment/administration activities of the asset managers.
- 2.14 To satisfy itself that risk-based information is used effectively by management and the Board and to review and monitor management's responsiveness to the findings and recommendations of the CRO and Risk function.
- 2.15 In relation to risk assessment:
  - 2.15.1 at least annually, carry out a robust assessment of the Group's emerging and principal risks;
  - 2.15.2 to keep under review the Group's overall risk assessment processes that inform the Board's decision-making;
  - 2.15.3 to keep under review the effectiveness of the issues management and escalation procedures within the Group; and
  - 2.15.4 set a standard for the accurate and timely monitoring of large exposures and material risks.

#### **Risk profile**

- 2.16 To consider the Group's risk profile relative to current and future Group strategy and risk appetite and identify any risk trends, concentrations or exposures and any requirement for policy change.
- 2.17 To review the performance of the Group relative to risk appetite and to receive and review reports from the operational areas and directorates relating to any significant issues that require, or are subject to, remedial action or recommendation arising in the period under review.
- 2.18 To review, monitor and understand the risk profile of the Group including the identification and management of new and emerging risks.
- 2.19 To report to the Board on its consideration of the above matters, identifying those areas where improvement is needed and making recommendations as appropriate.

#### **Internal Economic Capital Model**

- 2.20 To review the results, governance and methodology of the Group's Internal Economic Capital Model ("IECM") including, but not limited to, challenging the alignment of the risks captured, data, assumptions and aggregation methodologies in the model.
- 2.21 To approve the scope of the IECM and high model changes.

- 2.22 To review, and to recommend to the Board, all major model changes.
- 2.23 To review the governance and calculation, and approve the results, of the Standard Formula and Group Partial Internal Model Solvency Capital Requirement.
- 2.24 To approve the scope and framework of internal model validation, and review any validation issues rated High.

#### **Risk management operating model**

- 2.25 To approve the terms of reference of the Risk Management Committee ("RMC").
- 2.26 To receive and challenge any report resulting from periodic reviews of the effectiveness of the RMC.
- 2.27 To review promptly all matters referred to the Committee for consideration by the RMC and / or CRO.
- 2.28 To approve the Risk and Compliance operational plans with reference to the appropriateness of the scope and timing of proposed coverage in relation to risk, and to receive updates on progress against such plans.
- 2.29 To consider the adequacy, independence and effectiveness of resource within Risk and Compliance.
- 2.30 To review the scope and nature of the work undertaken by Risk and Compliance (noting any significant issues in the period under review and work planned for the next period).

#### **Risk management systems**

- 2.31 To consider the adequacy and effectiveness of the technology infrastructure supporting the Risk Management Framework.
- 2.32 To gain assurance that the Group's Risk Management system facilitates a consistent approach to risk monitoring and risk-based decision-making.

#### **Whistleblowing and financial crime**

- 2.33 To review the independence, autonomy and effectiveness of the Group's policies and procedures on whistleblowing including the procedures for protection of employees and contractors to raise concerns, in confidence, and if they wish anonymously, about possible wrongdoing in financial reporting or other matters, and review reports as appropriate.
- 2.34 To review reports in relation to the detection and prevention of financial crime, including anti-bribery and corruption, anti-money laundering and sanctions and fraud.

#### **Health and Safety**

- 2.35 To receive an annual update regarding the oversight of Health and Safety matters and review any material matters escalated by the RMC to the Committee for consideration.

#### **Chief Risk Officer**

- 2.36 The CRO will report directly to the CEO. The CRO will also have a dotted reporting line to the Committee, with unfettered direct access the Chairman of the Board.
- 2.37 The Chair, on behalf of the Committee, will make recommendations to the CEO on the:
  - 2.37.1 appointment and removal of the CRO; and
  - 2.37.2 acceptance, agreement and the specific terms of the CRO's resignation or termination of contract.
- 2.38 Whilst the primary reporting line of the CRO is to the CEO, the Chair of the Committee will provide input into the performance appraisal of the CRO to the CEO and provide input to the CEO and the Remuneration Committee as appropriate, in respect of the remuneration arrangements of the CRO.

### **3. Interaction with other Board Committees**

- 3.1 The Chair, on behalf of the Committee, shall provide a statement to the Remuneration Committee regarding the outcome of an assessment of the adequacy and effectiveness of the Group's risk and governance framework for consideration in: the setting of the annual bonus pool at a Group wide or business unit level; and whether malus and clawback should be applied.
- 3.2 The Committee shall share information with the Audit Committee, in part by virtue of the common or overlapping membership with that committee.
- 3.3 The Chair of the Committee will liaise with the Chairs of the Audit and Remuneration Committees as to the most appropriate way for the two preceding provisions to be dealt with between the respective committees as required.

### **4. Governance and resources**

The Committee shall:

- 4.1 have access to sufficient resources in order to carry out its duties, including access to 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 and 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 oversee any investigation of activities which are within its terms of reference; and
- 4.5 arrange for periodic reviews of its:
  - 4.5.1 own performance to ensure it is operating effectively; and
  - 4.5.2 terms of reference and recommend any changes it considers necessary to the Board for approval.

The Committee is authorised to:

- 4.6 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
- 4.6 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 Annual Report and Accounts. The relevant report shall include:
  - 5.1.1 a section regarding the Company's risk strategy, risk appetite and risk framework; and
  - 5.1.2 all other information requirements as set out in the Code, regulation or legislation.
- 5.2 The Committee shall have the right to publish in the Annual Report and Accounts details of any issues that cannot be resolved between the Committee and the Board.
- 5.3 The Committee shall make its terms of reference available on the Group's website.
- 5.4 The Committee shall report to the Board on the Group's Whistleblowing arrangements at least annually, and on any material cases of note if and when they arise.
- 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 any recommendations deemed appropriate.