

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

**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 or two independent Non-Executive Directors and the Chairman of the Board.

The Chairman of the Board may serve on the Committee as an additional member if he or she was considered independent on appointment as Chairman but shall not serve as its chairman.

The Chair of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee. Before appointment the Chair of the Committee shall have served on a remuneration committee for at least 12 months.

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 addition to the requirements of the UK Corporate Governance Code (the “Code”), to be considered independent, a member of the Committee may not, other than in his or her capacity as a member of the Committee, the Board or any other committee of the Board:

- accept (directly or indirectly) any consulting, advisory, or other compensatory fee from the Company or any of its subsidiaries (the “Group”); or
- be an Affiliated Person of the Group.

An Affiliated Person of the Group means any person who, directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control with, the Group.

**In attendance  
(if applicable)**

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;
- Human Resources Director;
- Executive Reward Manager;
- Head of Reward; and
- Independent advisers.

**Quorum** Any two independent Non-Executive Directors or the Chairman of the Board and one Non-Executive Director.

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 reporting and compensation cycle and otherwise as required.

**Secretary** The Company Secretary, or his or her nominee, shall act as Secretary of the Committee unless the Committee determine otherwise.

**1. Main responsibilities** The Committee will be responsible for:

- 1.1 determining the policy for Executive Director remuneration and setting remuneration for the Chairman of the Board, Executive Directors and Senior Management and other staff whose professional activities have a material impact on the Group's risk;
- 1.2 reviewing workforce remuneration and related policies, and the alignment of incentives and rewards with culture, taking these into account when setting the policy for Executive Director remuneration;
- 1.3 assisting on such other matters as may be referred to it by the Board; 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 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 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 delegates under the general management authority delegated by the Board.

**2. Detailed responsibilities** The detailed responsibilities of the Committee are set out below.

**Remuneration Policy**

- 2.1 Determining the policy for Executive Director remuneration and setting remuneration for Executive Directors, the Company's Chairman and Senior Management, including pension rights (including determining which elements of remuneration should be pensionable) and any compensation payments.
- 2.2 The Board itself or, where required by the Articles of Association, the shareholders should determine the remuneration of the Non-Executive Directors within the limits set in the Articles of Association. No Director or senior manager shall be involved in deciding their own remuneration outcome.
- 2.3 Developing and monitoring of a formal policy for post-employment shareholding requirements encompassing both unvested and vested shares.

- 2.4 Receiving reports from the Risk function and/or the Board Risk Committee on the implications of the remuneration policy for risk and risk management and will receive and consider advice from the Board Risk Committee on risk weightings and adjustments to be applied to performance objectives and remuneration arrangements.
- 2.5 Receiving reports from the Finance function and/or the Audit Committee on the implications for remuneration or remuneration policy arising from Group strategy or performance.
- 2.6 The Chair of the Committee will liaise with the Chairs of the Board Risk Committee and the Audit Committee as to the most appropriate way for the two preceding provisions to be dealt with between the respective committees from time to time.
- 2.7 In determining such policy, take into account all factors which it deems necessary including relevant legal and regulatory requirements, the provisions and recommendations of the Code and associated guidance. The objective of such policy shall be to attract, retain and motivate executive management of the quality required to run the Company successfully without paying more than is necessary, having regard to views of shareholders and other stakeholders. The remuneration policy should have regard to the risk appetite of the Company and alignment to the Company's long term strategic goals. A significant proportion of remuneration should be structured so as to link rewards to corporate and individual performance and designed to promote the long-term success of the Company and having due regard to the Company's strategy and culture.
- 2.8 Ensure that the Company operates within the shareholder approved remuneration policy or seek shareholder approval for any payments outside the policy which it considers to be necessary. It shall also seek shareholder approval for the renewal of the policy (subject to such recommended amendments as it considers appropriate) at least at every third Annual General Meeting ("AGM").

### **Remuneration arrangements**

- 2.9 Approving the Group's remuneration governance framework and its application across the Group. The Committee will receive periodic reports on the remuneration governance arrangements applying across the organisation and the underpinning performance management approach.
- 2.10 Approving the design of, and determining targets for, any performance-related pay schemes approved by shareholders and operated by the Group. The Committee will also have responsibility for approving the total annual payments made under such schemes, including the application of relevant performance criteria and the phasing of awards.
- 2.11 In determining remuneration arrangements, the Committee will ensure that the arrangements take account of the Group's financial situation and future prospects and that account is taken of market comparisons and practice, as well as any other relevant guidance.
- 2.12 When setting remuneration policy for Directors, review and have regard to pay and employment conditions across the Company or Group, including Senior Management, especially when determining annual salary increases.
- 2.13 Within the terms of the agreed policy and in consultation with the Chairman of the Board and/or Chief Executive Officer as appropriate, determining the total individual remuneration package of each Executive Director, the Company Chairman, Senior Management and any other person specifically within the

remit of the Committee, including bonuses, incentive payments and share options or other share awards, as applicable.

- 2.14 The remuneration of the Group Head of Audit is to be determined by the Committee after having received the recommendation of the Chair of the Audit Committee.
- 2.15 The remuneration of the Chief Risk Officer is to be determined by the Committee after having received the recommendation of the Chief Executive Officer with input from the Chair of the Board Risk Committee.
- 2.16 Determining any recruitment and promotion payments for Executive Directors, or of Senior Management, and having oversight of payments to other senior executives whose salary exceeds £200,000 or whose total remuneration exceeds or may exceed £350,000.
- 2.17 Determining the policy on termination payments. The Committee will also be responsible for making recommendations to the Board on any termination payments for Executive Directors and Senior Management. In doing so the Committee shall have regard to the overall termination policy of the Group, the terms of the service contract and reasons for termination. The Committee will ensure that any payments made are reasonable, that failure is not rewarded and that the duty to mitigate loss is appropriately recognised.
- 2.18 Overseeing any major changes in employee benefits structures throughout the Group.
- 2.19 Agreeing the policy for authorising claims for expenses from the Chief Executive Officer and Chairman of the Board.
- 2.20 Appointing any remuneration consultants in respect of advice provided to the Committee.

### **Share schemes**

- 2.21 Reviewing the design of all share incentive plans for approval by the Board and shareholders, where required. For any such plans, determining each year whether awards will be made, and if so, the total value of such awards, the individual awards to Executive Directors and other Senior Management and the performance targets to be used.
- 2.22 Reviewing performance against performance targets at the end of each performance period and determining the proportion of awards that should vest.
- 2.23 Receiving advice from the Risk function and Board Risk Committee on vesting of long term incentives and deferred awards and the application of performance adjustment and clawback including cash awards.
- 2.24 Taking such action as falls to the Committee under the terms of the Group's executive share option schemes' and other incentive schemes' rules, to satisfy the exercising of those awards.
- 2.25 Keeping under review the Group's employee share schemes in the light of legislative and market developments and the overall remuneration policy of the Group.

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

The Committee shall:

- 3.1 have access to sufficient resources in order to carry out its duties, including access to the Company Secretariat and Human Resource functions for assistance as required;
- 3.2 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;
- 3.3 give due consideration to laws and regulations the provisions of 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;
- 3.4 oversee any investigation of activities which are within its terms of reference; and
- 3.5 arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating effectively and recommend any changes it considers necessary to the Board for approval.

The Committee is authorised to:

- 3.6 seek any information it requires from any employee or contractor of the Group in order to perform its duties;
- 3.7 obtain, at the Group's expense, outside legal or other professional advice on any matter within its terms of reference;
- 3.8 call any employee or request any contractor to be questioned at a meeting of the Committee as and when required;
- 3.9 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;
- 3.10 be exclusively responsible for establishing the selection criteria, selecting appointing and setting the terms of reference for any remuneration consultants who advise the Committee; and
- 3.11 obtain reliable, up-to-date information about remuneration in other companies of comparable scale and complexity. To help fulfil its obligations, the Committee shall have full authority to appoint remuneration consultants and to commission or purchase any reports, surveys or information which it deems necessary at the expense of the Company but within any budgetary restraints imposed by the Board.

- 4. Reporting and shareholder engagement**
- 4.1 The Committee's duties and activities during the year shall be disclosed in the Annual Report and Accounts. The relevant report shall include:
- 4.1.1 provisions regarding disclosure of information, including pensions, as set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, Companies Act 2006 and the Code
  - 4.1.2 all other information required by legislation, regulation and the Code; and
  - 4.1.3 a report of the Company's remuneration policy and practices and an annual remuneration (implementation) report to be included in the Company's annual report and ensure each year that they are put to shareholders for approval at the AGM, as required;
- 4.2 The Committee shall make its terms of reference available on the Group's website.
- 4.3 The Chair of the Committee shall attend the AGM to answer shareholder questions on the Committee's activities.
- 4.4 The Chair of the Committee shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 4.5 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

Through the Chairman of the Board, ensure that the Company maintains contact as required with its principal shareholders about remuneration.