Línea Directa Aseguradora S.A.

Compañía de Seguros y Reaseguros (C0720)

Solvency and Financial Condition Report

At 31 December 2021

Tres Cantos, 24 March 2022

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1. EXECUTIVE SUMMARY

This Solvency and Financial Condition Report (SFCR) for the year ended 31 December 2021 is an annual report issued by the Company under the requirements of the Solvency II regime (EU regulations under Articles 292 to 298 and Annex XX of Delegated Regulation (EU) 2015/35, as well as national legislation, mainly Chapter III of Royal Decree 1060/2015 of 20 November on the management, supervision and solvency of insurance companies and reinsurance companies).

The **structure** required by these regulations is as follows:

Topics	Content
Activity and results	Basic information on the Company with a summary of the results of its activity detailed by lines of business in the reporting period.
Governance system	Information on the Company's organisational structure, with a description of its structure of committees and their responsibilities for risk management.
Risk profile	Information on the Company's risk profile and qualitative and quantitative information on the risks it faces.
Valuation for solvency purposes	A description of the valuation differences in the solvency balance sheet and the financial statements. The assumptions and methodologies used to obtain the balance sheet for solvency purposes are also reported.
Capital management	Information on the capital required for solvency purposes and a comparison with eligible funds to determine the Company's solvency position.

The Company publishes its SFCR report on its website.

Activity and results

The COVID-19 pandemic has triggered a global health, social and economic crisis on a scale unprecedented in modern times. Just as 2020 was dominated by the pandemic, so was 2021, albeit on a somewhat smaller scale. However, COVID-19 mutated into more transmissible variants and generated 3 new waves worldwide.

In terms of operations, the Company continued to provide continuity of operations and maintained normal customer service in 2021 as it did in 2020 thanks to the contingency plans in place, which were effectively and efficiently implemented within 4 days of the declaration of the state of alarm by the authorities.

A key indicator in the Motor sector has been the weakening in new vehicle sales. 2021 had a modest increase of 0.9% but was still far from the pre-pandemic figures of 2019, with a decrease of 31.7% compared to 2019. This complex situation has been exacerbated the severe supply crisis in the automotive industry and indirectly impacted sales in the insurance business, as the used car market typically has more basic and lower average premiums.

The motor insurance market continues to be characterised by strong competition, with downward pressure on average premiums.

The Household and Health segments have shown very solid development.

Regarding accidents, the reduction of mobility barriers in 2021 caused the accident rate in the automotive sector to rebound significantly compared to 2020.

Despite the prevailing crisis environment affecting all sectors of the Spanish economy, in 2021 the Company reported net reinsurance premiums for the year of 883 million euros, up 0.5% on the previous year.

The number of policyholders in the portfolio increased by around 4.1% compared to 2020, to 3.3 million.

The technical account for non-life insurance made a profit of 134.05 million euros. In 2021, net reinsurance claims incurred stood at 68.02%, compared to 63.23% in 2020.

Turnover was 748.1 million euros in the motor vehicle business line, a decrease of 0.9% compared to the previous year.

Premium turnover for the home business line amounted to 131.2 million euros in 2021, an increase of 8.8% compared to the previous year. The turnover for health assistance in the Health line of business amounted to 26.4 million euros in 2021, while turnover for Assistance was 1.4 million euros.

The average rate of return on fixed-income securities was 1.95%, while the return on the equity portfolio was 8.29%. The performance of equities is partly due to buybacks from private equity funds, in particular from renewable energy funds.

The Company has continued to pursue its investment policy with the aim of guaranteeing the security, liquidity and profitability of its investments, applying principles of dispersion and diversification and ensuring a suitable mix of investment maturities (terms) in respect of the technical liabilities to be covered, in a bid to mitigate market, credit, liquidity and cash flow risks.

Governance system

The Company's risk governance system is organised around three lines of defence. This means that the **Board of Directors** understands and manages the risks and exercises the management, administration and control functions for the Company, in accordance with the provisions of the Spanish Limited Liability Companies Law. It also acts through the **Audit and Compliance Committee** and the **Appointments, Remuneration and Corporate Governance Committee**. In addition to the first line of defence of the operational areas, the second line of defence consists of the three key functions of Risk Management and Internal Control, Actuarial Function and Regulatory Compliance, and the third line of defence is the Internal Audit function.

The governance system implemented in the Company, comprising the organisational structure and risk management, internal control and compliance systems, is considered to be effective. It provides optimal support for the Company's strategic objectives, ensuring that the board makes business decisions with comprehensive understanding of their impact on risk exposure, within the limits set by its risk appetite.

Risk profile

The Company has maintained its distinctive personality based on organic growth, commitment to technology and innovation, and use of the direct channel, since the start of its activity in 1995. Its pursuit of business growth over these years has led to a volume of over 907 million euros in premiums and more than 3.3 million risks. This objective of volume growth has been pursued hand-in-hand with a profitability target. It has been achieved through rigorous underwriting, prudent investment and a policy of containing operating expenses.

The Company was authorised to apply a specific parameter for premium risk in the other motor insurance business line in 2016, which it uses in calculating its solvency capital requirement (SCR). This was as follows at 31 December 2021 and 2020.

Solvency Capital Requirement (SCR)		
(thousands of euros)	**31.12.2020**	**31.12.2021**
Underwriting risk	161,004	171,657
Market risk	113,510	132,271
Counterparty risk	15,291	13,086
Health insurance underwriting risk	2,778	3,134
Diversification	(65,218)	(71,482)
Basic Solvency Capital Requirement (BSCR)	**227,365**	**248,666**
Operational risk	26,935	27,166
Deferred tax adjustment	(63,575)	(68,958)
Solvency Capital Requirement (SCR)	**190,725**	**206,874**

Valuation for solvency purposes

The following table presents a comparison of the assets, liabilities and funds in the solvency balance sheet and financial statements at 31 December 2021 and 2020.

31 December 2021:

ASSETS AND LIABILITIES		
(thousands of euros)	**Capital adequacy**	**Financial statements**
Total assets	1,240,724	1,326,080
Total liabilities	835,182	981,153
Excess assets over liabilities	**405,542**	**344,927**

31 December 2020:

ASSETS AND LIABILITIES		
(thousands of euros)	**Capital adequacy**	**Financial statements**
Total assets	1,316,740	1,398,645
Total liabilities	790,729	962,846
Excess assets over liabilities	**526,011**	**435,799**

The main differences that caused the funds available for solvency purposes to increase by 60.615 million euros and 90.112 million euros in 2021 and 2020, respectively, compared to the own funds in the financial statements are as follows:

There are no significant valuation differences for **assets**, as the investment portfolio, which is the largest category on the asset side of the balance sheet, is valued at market value in both cases. Intangible assets and acquisition expenses are eliminated from the asset side of the solvency balance sheet, while, in the opposite direction, capital gains on property and holdings in subsidiaries, which are not included in the balance sheet in the financial statements, are included. Premiums paid in instalments in the economic balance sheet are included in the provision for premiums.

The differences for **liabilities** arise mainly from the valuation of technical provisions:

- The provision for unearned premiums in the financial statements is eliminated from the solvency balance sheet and replaced by the provision for premiums.
- The provisions for claims in the financial statements are calculated on the solvency balance sheet on the best estimate basis, discounting the flows using the risk-free interest rate structure with uncertainty over one year.
- The solvency balance sheet includes a risk margin. This is a concept that is not used in the balance sheet in the financial statements.

In January 2019, the IFRS 16 lease rule entered into force, recognising the right to use a leased property as a new asset and the obligation to pay leases as a new liability, on the balance sheet. Both the asset and the liability must be valued as per this criterion.

The previous regime did not allow the calculation of the stabilisation reserve as eligible own funds for the solvency capital requirement. At 31 December 2021 and 2020, this amounted to 107.582 million euros, net of taxes.

This Solvency and Financial Condition Report was reviewed and approved by the Board of Directors at its meeting on 24 March 2022.

Capital management

The Company's capital planning reflects its projected own funds requirements over a three year period for its solvency capital requirement (SCR) calculated as its overall solvency requirements (economic capital) estimated through its own risk and solvency assessment (ORSA), with a minimum solvency threshold set by the Board of Directors, which is always above 120% (with a risk appetite of 150%). The Company calculates its solvency capital requirement on a quarterly basis, broken down by risk category and available funds, to assess its solvency ratio.

The solvency ratio is a risk indicator that is monitored and considered by the Company's Board of Directors when implementing its capital management policy (setting the dividend policy for shareholders, decisions on investment policy, etc.) and its strategy for the business (launch of new products or lines of business, acquisition of risk mitigators, etc.). The solvency ratio at 31 December 2021 and 2020 was as follows:

(thousands of euros)	**31.12.2020**	**31.12.2021**
Eligible own funds	406,011	384,083
Solvency Capital Requirement (SCR)	190,725	206,874
Ratio of eligible own funds to the SCR	**213%**	**186%**

At its meeting held on 17 February 2022, the Company's Board of Directors resolved to propose to the General Shareholders' Meeting a final dividend in the amount of 21.459 million euros. The ratio as of December 31, 2021 already takes this dividend into consideration.

The dividend-sharing decision is based on a thorough and thoughtful analysis of the Company's situation, does not compromise either its future solvency or the protection of the interests of policyholders and insured persons, and is made in the context of the supervisors' recommendations on this matter. The Company has performed a prospective analysis to verify that solvency is not compromised.

All of the available funds are classified as Tier 1, i.e. they are of the highest quality and are eligible for coverage of both the SCR and the MCR (Minimum Capital Requirement).

2. ACTIVITY AND RESULTS

2.1. ACTIVITY

Identification of the Company

Línea Directa Aseguradora, S.A. de Seguros y Reaseguros (LDA) is an insurance company, head of the Línea Directa Group and under the supervision of the Directorate General of Insurance and Pension Funds, with reference C0720.

Its registered office is at Calle Isaac Newton 7, Tres Cantos, Madrid, Spain.

Supervisory authority

The Company is under the supervision of the Spanish regulator:

Directorate General of Insurance and Pension Funds
Calle de Miguel Angel 21
28010 Madrid, Spain

The Company operates under the code C0720.

External auditor

The external auditor of the Company's financial statements and this report on its financial position is:

PricewaterhouseCoopers, auditores, S.L.
Paseo de la Castellana 259, B
28046, Madrid, Spain.

Corporate and solvency structure

The Company is the parent company of the Línea Directa Group, which was listed on the Spanish stock market on 29 April 2021.

The Company is required to prepare consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

The tax and financial year, of both the Company and the consolidated group of which it is parent company, ends on 31 December.

The Company is the parent of several ancillary insurance and investment subsidiaries, none of which are involved in insurance or reinsurance activity. It is not considered a group subject to supervision under Article 132.1 of Law 20/2015, of 14 July 2015, on the management, supervision and solvency of insurance and reinsurance companies.

Dependent entities	Activity	Stake
Línea Directa Asistencia, S.L.U.	Vehicle inspections and assistance	100%
Moto Club LDA S.L.U.	Provision of services for motorcycles	100%
Centro Avanzado de Reparaciones CAR, S.L.U.	Provision of vehicle repair services	100%
LD Activos, S.L.U.	Asset management on behalf of insurance companies	100%
Ambar Medline, S.L.U.	Insurance brokerage	100%
LD Reparaciones, S.L.U.	Provision of home repair services.	100%

Lines of business and geographical distribution

The corporate purpose of Línea Directa Aseguradora S.A. Compañía de Seguros y Reaseguros is the provision of insurance and reinsurance for motor vehicles, the home and other non-life segments. It is authorised to perform this activity by the Spanish Directorate General of Insurance and Pension Funds.

The Company operates **entirely in Spanish territory,** with the exception of the Assistance sector, in which the Company is authorised to operate in Portugal (premiums in Portugal amounted to 67 and 44 thousand euros in 2021 and 2020 respectively). Its business distribution channels are mainly telephone and internet sales.

2.2. UNDERWRITING RESULTS

The Company's lines of business and the main figures for its technical account are shown in the following table:

2021:

TECHNICAL ACCOUNT BY BUSINESS LINES 2021							
	(thousands of euros)	**TOTAL**	**Motor vehicle liability**	**Motor, other coverage**	**Fire and other damage to property**	**Assistance**	**Medical expenses**
1	Premiums earned, net of reinsurance	882,728	343,738	403,554	119,067	1,388	14,981
2	Investment income	54,402	29,810	17,614	4,511	51	2,416
3	Other technical income	-	-	-	-	-	-
4	Claims incurred net of reinsurance	600,459	276,920	244,362	66,226	-	12,951
5	Profit sharing	594	-	-	-	594	-
6	Net operating expenses	202,913	68,736	85,029	39,889	112	9,147
7	Other technical expenses	-22,778	-24,754	1,878	5	-	93
8	Investment costs	21,896	13,764	8,132	-	-	-
	Technical account result (1+2+3-4-5-6-7-8)	**134,046**	**38,882**	**81,767**	**17,458**	**733**	**(4,794)**

2020:

TECHNICAL ACCOUNT BY BUSINESS LINES 2020							
	(thousands of euros)	TOTAL	Motor vehicle liability	Other motor insurance	Fire and other damage to property	Assistance	Medical expenses
1	Premiums earned, net of reinsurance	878,177	349,416	403,189	111,545	2,007	12,020
2	Investment income	73,174	42,956	25,424	3,015	36	1,743
3	Other technical income	-	-	-	-	-	-
4	Claims incurred net of reinsurance	555,292	266,207	214,147	63,887	338	10,713
5	Profit sharing	708	-	-	-	708	-
6	Net operating expenses	209,238	72,054	87,119	40,873	271	8,921
7	Other technical expenses	(18,136)	(22,962)	4,237	311	-	278
8	Investment costs	47,135	29,610	17,525	-	-	-
	Technical account result (1+2+3-4-5-6-7-8)	**157,114**	**47,463**	**105,585**	**9,489**	**726**	**(6,149)**

The lines of business for solvency purposes are directly equivalent to the segments reported by the Company in its financial statements. The "Fire and other property damage" business line includes the home insurance segment.

2.3. INVESTMENT PERFORMANCE

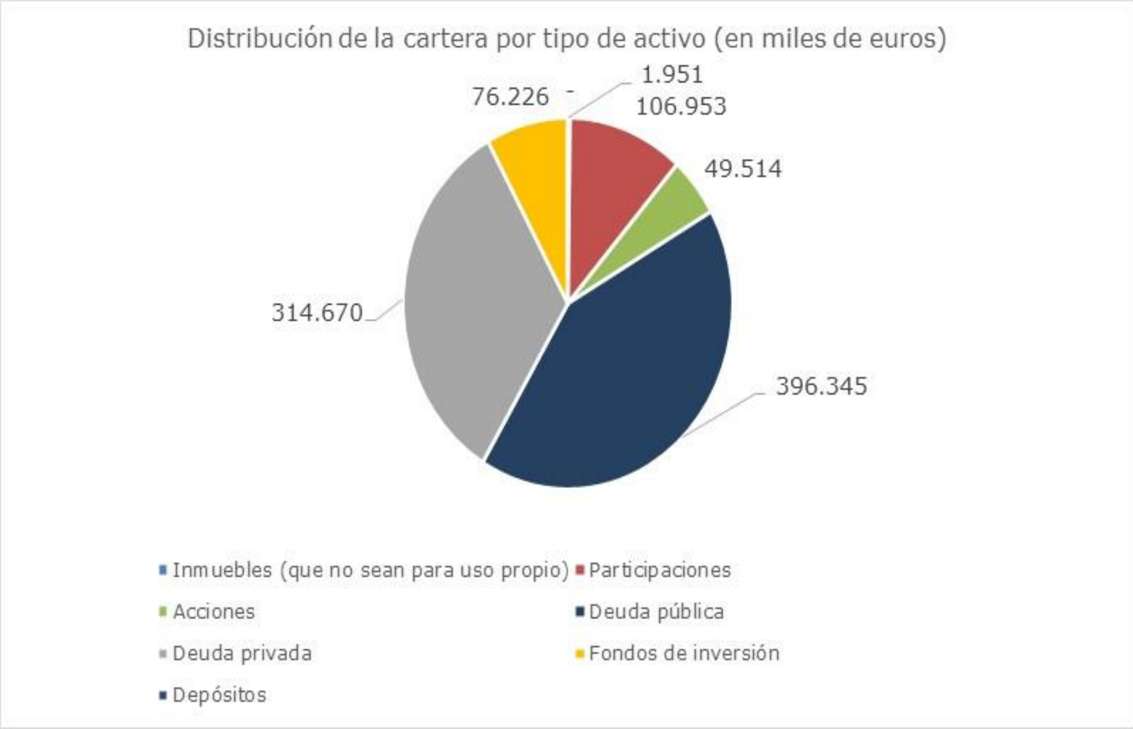
The Company's investment activity follows the guidelines in its investment policy. The Investment Committee is responsible for monitoring and oversight.

The Company has continued its investment policy with the aim of ensuring the security, liquidity and profitability of its investments, applying principles of dispersion, diversification and adequacy of maturities to the technical liabilities to be covered, in order to offset market, credit, liquidity and cash-flow risks, considering the economic backdrop of very low (or even negative) rates of return on fixed income assets.

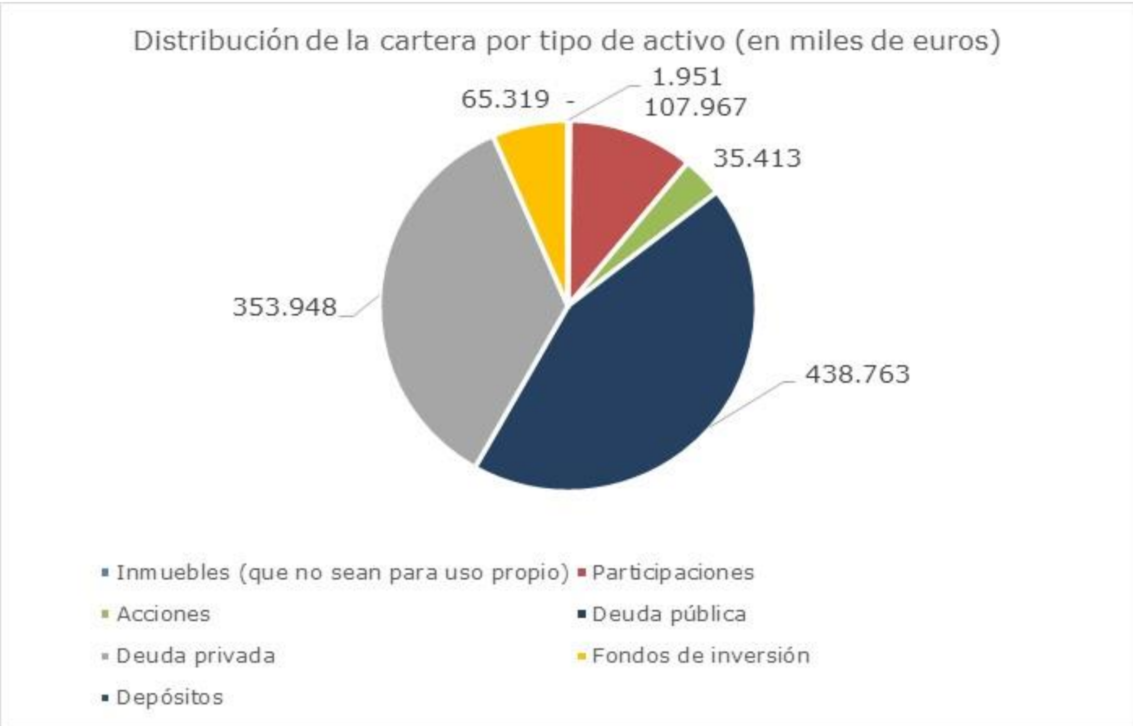
The average rate of return on fixed income securities was 1.95% (2.62% in 2020), while the return on the equity portfolio was 8.29% (0.37% in 2020).

The distribution of the investment portfolio at 31 December 2021 and 2020 is shown in the following table:

2021:


Distribución de la cartera por tipo de activo (en miles de euros)
1.951
76.226
-
106.953
49.514
314.670
396.345
Inmuebles (que no sean para uso propio)
Participaciones
Acciones
Deuda pública
Deuda privada
Fondos de inversión
Depósitos

2020:


Distribución de la cartera por tipo de activo (en miles de euros)
1.951
65.319
-
107.967
35.413
353.948
438.763
Inmuebles (que no sean para uso propio)
Participaciones
Acciones
Deuda pública
Deuda privada
Fondos de inversión
Depósitos

2021:

Investment income and expenses by asset type		
(thousands of euros)	Technical account	Non-technical account
Net financial income from accounts and deposits	**447**	**-**
Coupon income from government bonds and corporate bonds	16,433	-
Gains on sales of government bonds and corporate bonds	96	-
Losses on sales of government bonds and corporate bonds	(1,189)	-
Net financial income from government bonds and corporate bonds	**15,340**	
Reversal of impairment of holdings	167	-
Share dividend income	2,379	-
Holding dividend income	-	2,500
Gains from sales of equities	8,556	-
Losses from sales of equities	(748)	-
Net financial income from equities and holdings	**10,354**	**2,500**
Loan interest income	**475**	**-**
Income from premium instalments	**4,503**	**-**
Income/Expenses from property, plant and equipment or investment property	**178**	
Hedging arrangements	**(1,433)**	
Other income	**4,603**	**-**
Deferral costs for dividend payments to shareholders	**-**	**-**
Internal investment management expenses	**1,961**	**-**
TOTAL INVESTMENT INCOME AND EXPENSE	**32,506**	**2,500**

2020:

Investment income and expenses by asset type		
(thousands of euros)	Technical account	Non-technical account
Net financial income from accounts and deposits	**513**	**-**
Coupon income from government bonds and corporate bonds	18,856	-
Gains on sales of government bonds and corporate bonds	5,296	-
Losses on sales of government bonds and corporate bonds	(5,483)	-
Net financial income from government bonds and corporate bonds	**18,669**	
Reversal of impairment of holdings	(585)	-
Share dividend income	1,649	-
Holding dividend income	-	12,000
Gains from sales of equities	6,072	-
Losses from sales of equities	(7,259)	-
Net financial income from equities and holdings	**(123)**	**12,000**
Loan interest income	**576**	**-**
Income from premium instalments	**4,537**	**-**
Income/Expenses from property, plant and equipment or investment property	**(1,220)**	
Hedging arrangements	**(1,576)**	
Other income	**6,547**	**-**
Deferral costs for dividend payments to shareholders	**-**	**-**
Internal investment management expenses	**1,884**	**-**
TOTAL INVESTMENT INCOME AND EXPENSE	**26,039**	**12,000**

All financial income and expenses are allocated to the technical account by business line, except 2.5 million euros from a dividend received for the holding in the Línea Directa Asistencia, S.L.U. subsidiary, which was allocated to the non-technical account.

2.4. PROFIT/(LOSS) FROM OTHER ACTIVITIES

The non-technical account includes income and expenses from other activities, mainly from brokerage of credit cards and policies from other insurance companies, with income of 5.541 million euros (5.211 million euros in 2020) and an expense of 391 million euros (1.401 million euros in 2020).

2.5. OTHER INFORMATION

Outlook for 2022

As far as the pandemic is concerned, the rapid deployment of vaccines, together with the extraordinary economic support measures, has led to a significant improvement in the global economic situation and outlook. However, with the emergence and spread of infections caused by the omicron variant, normality is far from complete and uncertainty remains high. Another element of uncertainty is the extent of the lingering damage that the crisis may have caused to the productive fabric or to employment. Consequently, 2022 will be a year in which COVID-19 will continue to have an impact on the performance of the Company's business.

On 24 February, Russia invaded Ukraine, a conflict that is still ongoing as of the writing of this report. Economic forecasts to date have come crashing down, and inflation forecasts and economic recovery have been called into question. Higher oil and gas prices, combined with market instability and rising debt interest rates, will lead to a slowdown in global growth. Supply chains, already stressed before the conflict, are also under additional pressure.

The uncertainty that this new scenario creates makes it difficult to give numerical predictions. In any case, the conflict is slowing down economic recovery.

As for premium performance in the Motor segment, the most relevant in the Company, a lower economic activity, with lower sales of new vehicles coupled with motor insurance coverages taken out, could imply the continuity of the downward trend in average premiums. This may negatively affect business volume, although the Company is expected to exceed 2021 sales. Moderate growth is therefore expected.

In the Home segment, real estate activity has exceeded growth expectations. Pre-pandemic levels were reached in 2021, and in 2022 the prospects are also favourable with a growing housing stock. As a result, more significant growth is expected in terms of volume, with rising average premiums as well.

Finally, the Health segment will continue to consolidate, and we expect to maintain the same levels of growth as in previous years, when the market grew significantly.

With regard to claims incurred, in the Motor segment, an increase in accident frequency is expected due to increased mobility. This could be mitigated by lower vehicle use due to the higher price of petrol as result of the situation described above. The cost of claims will be affected by inflation and increased prices of spare parts and paint. With regard to the cost of compensation for victims, the 2022 injury scale includes an increase linked to the pension revaluation index, as well as a review of the compensation tables.

The frequency and intensity of weather events will continue to be the main factor shaping the performance of the loss ratio in the Home segment. In the Health segment, the cost of claims will face pressure from an increase in hospital fees.

With regard to average costs, 2022 will continue to be a year where the focus will be on efficiency, even more so with the current inflationary situation.

Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros will continue to focus on improving technical infrastructure, particularly information systems, while focusing on the need to promote the use of the Internet as a sales channel and ensuring the continuous improvement of risk selection processes and pricing policies in order to become more efficient.

3. GOVERNANCE SYSTEM

3.1. GENERAL INFORMATION ABOUT THE GOVERNANCE SYSTEM

The Company has a Corporate Governance Policy, approved by the Board of Directors on 20 July 2021, which sets out the corporate and governance structure of the Línea Directa Group, its underlying principles, the bodies that compose it and the essential rules of its internal functioning.

Línea Directa Aseguradora's shares have been listed on the Spanish stock market (Madrid, Barcelona, Bilbao and Valencia Stock Exchanges) since 29 April 2021. Since 20 September of the same year, the Company is part of the IBEX Medium Cap.

On 17 February 2022, the Board of Directors appointed by co-optation, pending ratification by the Shareholders' Meeting on 24 March 2022, **Patricia Ayuela de Rueda as Chief Executive Officer, replacing Miguel Ángel Merino González**, who resigned as Director and Chief Executive Officer with effect from that date.

The corporate bodies of Línea Directa Aseguradora are as follows:

I. General Shareholders' Meeting

The General Meeting is the sovereign body of the Company. The duly convened shareholders meet there to deliberate and decide, by the majorities required in each case, on the matters in which they have a say.

When the Company went public, the Regulations of the General Shareholders' Meeting were approved with the content typical of listed companies, including the latest provisions of the law on remote meetings.

The first General Meeting of Línea Directa Aseguradora as a listed company will take place in 2022.

II. Board of Directors

Functions

The Board of Directors is the body responsible for the administration, governance and representation of the Company in accordance with the duties assigned to it by law, the Bylaws and the Board Regulations.

According to the provisions of the Bylaws, the Board of Directors must be composed of a minimum of 5 and a maximum of 15 directors and whose composition ensures compliance with the requirements of the Capital Companies Act and Articles 13, 38 and 65 et seq. of Law 20/2015, of 14 July, on the regulation, supervision and solvency of insurance and reinsurance companies, and Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of insurance and reinsurance in such a way that its members have the appropriate professional qualifications, competence and experience, as well as the requirements of good repute required by the Supervisor and included in the Company's Fitness and Good Repute Policy.

As of the date of this report, the Board of Directors of the Company is composed of seven Directors, in particular:

Board members	Legal category	Position
Alfonso Botín-Sanz de Sautuola y Naveda	Proprietary (represented shareholder: CARTIVAL, S.A.)	Chairman
Fernando Masaveu Herrero	Proprietary	Member
Ana María Plaza Arregui	Independent	Member *Chairman of the Audit and Compliance Committee
Elena Otero-Novas	Independent	Member
Rita Estévez	Independent	Member
John de Zulueta	Independent	Member *Chairman of the Appointments, Remuneration and Corporate Governance Committee
Patricia Ayuela de Rueda	Executive	Member

Pablo González-Schwitters is the non-director Secretary of the Board of Directors.

III. Committees

The Board of Directors has two advisory committees:

<u>Audit and Compliance Committee</u>

Composed of the following members:

Member	Position	Legal category
Ana María Plaza Arregui	Chairman	Independent
Elena Otero-Novas	Member	Independent
Alfonso Botín-Sanz de Sautuola	Member	Proprietary

Pablo González-Schwitters	Non-board Secretary

The members of the **Audit and Compliance Committee** as a whole, and in particular its Chairman, have been appointed on the basis of their knowledge and experience in accounting, auditing and risk management, both financial and non-financial. Full information on the members of the Committee can be found on the corporate website.

The main responsibilities of the Audit and Compliance Committee include the following:

- To report to the Annual General Meeting through its Chairman on the state of control of the Company and the activities of the Committee during the financial year.
- To propose to the Board for submission to the Annual General Meeting the appointment, re-appointment or replacement of the external auditors and their terms of engagement. To ensure the independence of the external auditor and monitor compliance with the audit contract.
- Awareness, monitoring and evaluation of the preparation process and integrity of financial and non-financial information, control and management systems for financial and non-financial risks related to the Company and, where applicable, the Group (including operational, technological, legal, social, environmental, political, reputational and corruption risks).
- Pre-reporting to the Board of Directors on all matters required by law, e.g. related party transactions to be approved by the Board of Directors.
- Supervise the application of the general policy on the communication of economic-financial, non-financial and corporate information, as well as communication with shareholders and investors, proxy advisors and other stakeholders.
- Monitor and promote compliance with the Company's internal rules of conduct for the securities market, the Code of Ethics and, in general, the Company's internal rules of conduct, as well as monitor and promote the confidential whistleblowing procedure by stakeholders.

<u>Appointments, Remuneration and Corporate Governance Committee</u>

Composed of the following members:

Member	Position	Legal category
John de Zulueta	Chairman	Independent
Rita Estévez	Member	Independent
Alfonso Botín-Sanz de Sautuola	Member	Proprietary

Pablo González-Schwitters	Non-board Secretary

The main responsibilities of the Audit and Compliance Committee include the following:

- Propose the appointment, confirmation, re-election and removal of independent directors and report on the remaining directors.
- Assess the balance of skills, capacity, knowledge, diversity and experience needed on the Board of Directors.
- Report to the Annual General Meeting, through its Chairman, on the activities of the Committee during the year, as appropriate.
- Propose to the Board the Remuneration Policy for the Directors and their individual remuneration, the individual remuneration of the executive Directors and, where appropriate, the outside Directors for the performance of duties other than that of a Director, and other terms of their contracts.

- Propose the Remuneration Policy for senior management, including the General Managers or those who perform senior management duties under the direct supervision of the Board.
- Oversee and review the Company's compliance system.
- Oversee the corporate governance of the Company.
- Monitor the Company's sustainability strategy and practises by assessing their level of compliance and reviewing the Company's sustainability policies and ensuring that they are aligned with value creation.

IV Executive level committees

At the executive level, Línea Directa Aseguradora has the following committees:

Management Committee

Made up of the members of the management team, in particular:

Name	Position(s)
Pablo González-Schwitters	General Secretary
Carlos Rodríguez Ugarte	CFO
Patricia Ayuela de Rueda*	Head of Motor and Digital Transformation
José Antonio Egido Sancho	Head of Claims
Mar Garre Del Olmo	Head of People, Communications and Sustainability
José María Maté Rubio	Head of Technical Department
Olga Moreno Sanguino	Head of Home Insurance
David Pérez Renovales**	Head of Health
María Ana Sánchez Galán	Head of Technology
Antonio Valor García	Head of Marketing
Julio Agulló Iranzo	Director of LD Assistance
D. Jose Luis Diaz Fernández	Head of Internal Audit

* On February 17, 2021 Patricia Ayuela was appointed Chief Executive Officer.
** During the month of March 2022, David Pérez Renovales has resigned from his position.

It is responsible, among other things, for the organisation and supervision of the general management policies and the strategic planning of the businesses managed by the subsidiaries in accordance with the Group's business model. Likewise, it is tasked with communicating the guidelines established by the Board of Directors to the rest of the organisation, involving as many areas and resources as necessary and making the necessary internal communication for the correct knowledge and execution of these guidelines.

Internal committees

The internal committees are dedicated to analysing specific topics relating to regulatory matters or issues of particular relevance to the Company (**risks, investments, products, digital transformation**, **sustainability**, etc.) and report to the Board of Directors and its committees.

It should be noted that although it is not a Board committee in terms of its composition and functions, the **Investment Committee** exercises powers relating to the supervision and control of investments and their financial results, economic and financial information, and compliance with the investment guidelines to which the Company is subject. The Investment Committee is chaired by the Chairman of the Board of Directors who, in turn, reports on the investment committee's conclusions and decisions to the Board of Directors.

As required by insurance regulations, the Company has an **Internal Audit function**. This is an Independent function that continuously analyses, evaluates and oversees the procedures, processes practices and activities involved in the Company's risks, ensuring the reasonable efficiency and effectiveness of the use of resources, the reliability and consistency of accounting and management information, process continuity and compliance with current regulations.

The Internal Audit Function **reports to the Audit and Compliance Committee** and is functionally attached to the Chairman of the Board of Directors. This guarantees at all times the independence, autonomy and universal scope of the Internal Audit function at the Línea Directa Group.

The **Actuarial function** is part of the Office of the General Secretary and reports to the Audit and Compliance Committee. Its functions are detailed in section 3.5 of this report.

The **Risk Management function** is responsible for the principles of independence and ring-fencing of functions between business units and risk monitoring and control units. It is decentralised in various areas of the Company, with the Risk Management and Internal Control unit, which is part of the Finance division, being responsible for collating and integrating all risk information for the Company, and for applying risk control policies and verifying compliance with these.

The **Compliance Function**, managed from the Compliance Department, with the *Chief Compliance Officer* as the most senior officer, is located in the Company's Office of the General Secretary and, like the rest of the key functions, regularly reports to the Audit and Compliance Committee. It advises administrative, management and supervisory bodies on compliance with the legal rules and obligations applicable to the Company and its activities, and on the voluntary rules and obligations arising from relationships with third parties and from sector and self-imposed standards whose compliance is legitimately expected by stakeholders in the communities where it operates.

The Compliance department is responsible for ensuring the functioning of and compliance with the Criminal Compliance Policy, ensuring it is adapted at all times to the needs and circumstances of the companies in the Línea Directa Group. It also has powers for the prevention, detection and investigation of potential criminal activities. It has led the redrafting of the Company's Ethical Code to reflect obligations to prevent crimes that have been imposed on companies in relation to the criminal liability of legal persons, as well as the general duty of all employees to comply with current legislation and internal regulations.

With the support of specialised departments such as the Data Protection Office or Tax Advice, Compliance also assesses the possible impact of any change to the legal environment on the Company's operations, and determines and assesses compliance risk.

The Compliance Function performs its task in accordance with the Compliance Policy and the Compliance Management System that were approved by the Audit and Compliance Committee.

As for the activity and competencies of the Compliance Department, they include:

1. Advise the *Chief Compliance Officer* and governing body and management on new legislative developments that might affect the Company and in relation to compliance.
2. Assess the possible impact of any change to the legal environment on the Company's operations and processes so that the first line of defence can adapt to them.
3. Design and implement the Company's compliance plan, including the identification and analysis of risks and regulatory controls, management and implementation of verification plans and identification and approval of new measures and action plans.
4. Perform an ongoing analysis and monitoring of legal and compliance risks, reporting to the Audit and Compliance Committee.
5. Prepare the annual compliance report.
6. Advise, from the point of view of compliance and compliance risks, on the development of new products, services and lines of business, as well as changes in the guarantees of existing ones through the Products Committee.

Remuneration Policy and Practices

The Company has a Policy, approved by the Board of Directors, which will apply to the Company as a whole, and will contain specific mechanisms to be applied to certain persons whose professional activities have a significant impact on the risk profile of the Company and who form part of the Identified Staff.

The **main objective** of Línea Directa's Remuneration Policy is alignment with the Company's interests, promoting its corporate values and culture. The remuneration system must aim to foster the long-term profitability and sustainability of the Company, rewarding behaviour and attitudes consistent with its culture and values, and incorporating the precautions required to avoid excessive risk-taking and rewards for adverse outcomes.

In order to achieve these objectives, Línea Directa establishes the following general principles that guide the establishment of its Remuneration Policy:

- Equanimity and coherence (Internal Equity): Both the applicable policy and the amounts of remuneration shall be defined according to the content of the positions, aiming at a homogeneous treatment for positions in the organisation with similar content according to the following aspects:
  - the level of demand and responsibility of the function undertaken,
  - the impact on the results contributed to the organisation, and
  - the knowledge, experience and skills necessary to perform the functions.
- Sustainability and persistence over time: Remuneration will be designed with a medium and long-term vision, seeking to drive the actions of the Company's executives towards achieving the strategic objectives set by Línea Directa in the medium and long term, without overlooking the achievement of short-term results.
- Measures to avoid conflicts of interest: The Company shall establish the relevant controls and mitigating measures internally, in accordance with the relevant regulations in force, in order to avoid possible conflicts of interest to the detriment of customers.

- Flexibility: The variable components of the remuneration of all staff shall be sufficiently flexible to allow for modulation to the extent that it is possible to discontinue the payment of variable remuneration in the event that the targets set by the Company are not met. Specifically, under no circumstances shall any type of variable remuneration be paid in the event of non-compliance with the objectives of the Company to which it is linked.
- Variability and relationship to Línea Directa's interests: Remuneration will include a variable amount, which must be linked at all times to performance and the degree of achievement of the strategic objectives established by Línea Directa. The Remuneration Policy therefore considers the appropriate instruments for linking remuneration to the Company's results.
- Balance: Línea Directa's Remuneration Policy must present a balanced relationship between its fixed and variable components. The benchmark percentage of variable remuneration, in relation to fixed remuneration, will vary according to the achievement of objectives.

  The Remuneration Management strategy is common to all Línea Directa employees, guaranteeing sufficient fixed remuneration, so that the Company's employees do not make decisions that put the Company at risk by achieving a target that involves receiving an incentive.

- Absence of guaranteed variable remuneration: Under no circumstances shall variable remuneration be regarded as guaranteed, insofar as it is conditional upon the achievement of the objectives of the individual staff member.
- Transparency: The rules for the remuneration management of the entire workforce must be explicit and known in a reliable manner by those concerned. In the same way, the conditions to be met for the achievement of the objectives that will give the right to the accrual of the variable remuneration must also be known.
- Simplicity: Remuneration management rules will be drafted clearly and concisely, simplifying, as far as possible, both the description thereof and the calculation methods and the terms and conditions applying to implementing them.
- Equity and external competitiveness: Both the applicable Policy and the corresponding remuneration amounts will take into account market trends and market positions in order to ensure that Línea Directa can count on the best professionals in the sector.
- Equality and diversity: The Remuneration Policy will prevent any discrimination based on gender, race, religion or disability.

Under the terms of the collective bargaining agreement for the industry, the Company is required to take out a collective life insurance policy for all of its employees. This policy has been externalised in the form of a risk insurance policy renewable annually. This agreement resulted in total accrued insurance premiums of 306 thousand euros in 2021 (447 thousand euros in 2020).

The Company is also obligated to pay a retirement bonus, though only if the employee retires at the normal age of retirement while an active employee at the Company. This obligation is externalised in the form of a machete policy and therefore the Company does not recognise any provision in its financial statements.

At present, only those employees hired before 1 January 2017 who have decided not to migrate to the new system provided for under the agreement remain adhered to the existing system. This agreement resulted in total accrued insurance premiums of 42 thousand euros in 2021 (21 thousand euros in 2020). The mathematical provision amounted to 214 thousand euros at 31 December 2021 (180 million euros at 31 December 2020). In 2021 there were rescues amounting to 10 thousand euros (3,357 in 2020), due to the mobilisation between plans.

For employees hired on or after 1 January 2017 and those who have decided to avail themselves of the new system, the Company has externalised its obligations by arranging a defined contribution insurance policy covering more contingencies than the old system. Premiums accrued under this new policy totalled 708 thousand euros during the period (3,088 thousand euros in 2020), while a mathematical provision was 4,845 thousand euros (4,139 thousand euros in 2020). There were no bailouts in 2021 and 2020. The mobilisation of the rights of employees who decided to take advantage of the new system became effective in 2020.

The Company also has a collective insurance policy in effect to formalise its retirement pension commitments with certain members of Senior Management. These defined contribution policies are also externalised and regular contributions are made for the different members of the group. In 2021, this policy accrued premiums of 1,118 million euros and a mathematical provision of 11,677 million euros. In 2020, the policy accrued premiums of 1,420 thousand euros and its mathematical provision at year-end was 10,299 thousand euros. The contributions made to this policy are entirely voluntary for the Company and are made at the discretion of the Board of Directors.

The Company also has a defined contribution savings and retirement insurance policy in effect for members of Senior Management. This policy accrued premiums of 99 thousand euros in 2021 and its mathematical provision at year-end came to 595 thousand euros. In 2020, the policy accrued premiums of 111 thousand euros and its mathematical provision at year-end was 489 thousand euros.

The Chief Executive Officer as well as the Management Committee of the Company participate in a Group remuneration plan of which the Company is the parent company, based on shares as a consequence of the listing of the Company. The purpose of this Plan approved by the General Shareholders' Meeting on 18 March 2021 is to offer its members the possibility of receiving a certain number of equities in the next three years of the Company's IPO date.

Information on significant transactions with shareholders and people who exercise significant influence

Following the admission to listing of Línea Directa Aseguradora on 29 April 2021, the Bankinter Group and all the companies comprising that group are considered Significant Shareholders. Prior to that date, the Línea Directa Group was part of the Bankinter Group, which held a 99.99% stake. From the day of admission to trading until 31 December 2021, Bankinter's stake dropped to 17.42% and it has had no seat on the Group's Board of Directors since the date of the IPO.

The Company was involved in the following transactions with its significant shareholder Bankinter, S.A. and its subsidiaries, distinguishing between insurance activity and other services provided and received:

2021:

Direct insurance	Premiums	Fees	Claims
Dominant entity of the Company			
Bankinter, S.A.	381	6,017	-
Bankinter Consumer Finance, E.F.C, S.A.	884	15	-
Bankinter Consumer Finance, E.F.C., S.A. (Sucursal em Portugal)	67	-	-
EVO Banco, S.A.U		7	-
Total	**1,332**	**6,039**	**-**

	Expenses	Income

Services rendered and received	Services received	Interest and financial services	Services rendered	Finance income and leases
Bankinter, S.A.	1,140	391	-	677
Bankinter Consumer Finance, E.F.C, S.A.	318	-	1,573	-
Bankinter, S.A. Sucursal em Portugal	20	-	-	-
Total	**1,478**	**391**	**1,573**	**677**

2020:

Direct insurance	Premiums	Fees	Claims
Dominant entity of the Company			
Bankinter, S.A.	398	5,355	-
Bankinter Consumer Finance, E.F.C, S.A.	847	-	-
Bankinter Consumer Finance, E.F.C., S.A. (Sucursal em Portugal)	44	-	-
Total	**1,289**	**5,355**	**-**

	Expenses		Income	
Services rendered and received	**Services received**	**Interest and financial services**	**Services rendered**	**Finance income and leases**
Bankinter, S.A.	1,059	285	-	408
Bankinter Consumer Finance, E.F.C, S.A.	464	-	2,826	-
Bankinter, S.A. Sucursal em Portugal	14	-	-	-
Total	**1,537**	**285**	**2,826**	**408**

3.2. FITNESS AND GOOD REPUTE

The Company has had an Ethical Code since 2010, the latest version of which was approved in March 2021. This Code applies to the Company and the companies in the Group and establishes the general guidelines governing the conduct of all employees and the subsidiaries in the performance of their functions and their commercial and professional relations, in accordance with the law and respecting ethical principles.

The Board of Directors approved the current Director Selection Policy applicable to the Company on 18 March 2021. One of the main objectives of this Policy is to promote diversity of gender, experience and knowledge on the Board of Directors, avoiding any implicit bias that could imply discrimination and, in particular, hinder the selection of female directors, and to encourage the Company to have a significant number of female directors.

In line with this policy, the Company's Board of Directors also aims to have a Board whose composition ensures a healthy diversity of opinions, perspectives, skills, experience and professional backgrounds, in accordance with the latest recommendations on good corporate governance for listed companies. A summary of the of all Board members' professional profiles and track records can be found on the Company's website.

Similarly, it is a fundamental principle of the Company that the number of independent directors constitutes a sufficient majority of the Board and that the number of executive directors is kept to the minimum necessary.

The term of office of the members of the Board of Directors is four years and they may be re-elected for the same term.

At the time of writing, the data on independence and diversity on the Board of Directors exceeds the ratios recommended by the Code of Good Corporate Governance.

The Company also complies with Article 38 of Law 20/2015 of 14 July and Article 42 of Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009, on life insurance and the taking-up and pursuit of the business of insurance and reinsurance, and its implementing regulations, under which insurance companies must ensure that the persons who effectively manage them and perform other key functions, including members of the Board of Directors and management, meet the following requirements:

- their professional qualifications, knowledge and experience are adequate to enable sound and prudent management (fit); and
- they are of good repute and integrity (proper).

The recommendations of the EIOPA Guidelines on the System of Governance have also been followed, in addition to the requirements under Law 20/2015 of 14 July, on the management, supervision and solvency of insurance and reinsurance companies, and Royal Decree 1060/2015 of 20 November on the management, supervision and solvency of insurance and reinsurance companies, in relation to the implementation and development of a fit and proper person policy to ensure that the persons subject to this policy have adequate qualifications and experience to ensure that the entities are professionally managed and supervised.

The fit and proper person requirement is assessed through a study performed by the Corporate Governance and Compliance Department with the help of the HR Department. This covers a wide range of criteria, focusing on three major blocks:

a) Commercial and professional repute and integrity: this is evaluated considering the professional and personal experience of the person being assessed for the role performed, any convictions or other penalties for crimes, misdemeanours or administrative offences, and the existence of well-founded investigations into business or financial offences.
b) Knowledge and experience: this considers theoretical training and development, which must be of the right level and have the correct profile, particularly in relation to insurance and financial services.
c) Good governance: this is only applicable to members of the Board of Directors and senior management, and includes assessment of any conflicts of interest.

3.3. RISK MANAGEMENT SYSTEM

Risk function

Risk management is decentralised to various departments. The Risk Management and Internal Control Department, which reports to the Finance Department, is responsible for standardising and integrating the Company's risk information, as well as for applying the risk control guidelines and regularly reporting to Management on the most important risks.

All departments provide the Internal Risk Management and Control Unit with the information needed to monitor the Group's risks and apply the risk policies.

The Internal Risk Management and Control unit collates all information on Línea Directa’s risks and integrates it into the corporate risk map. It monitors changes in risk through the key risk indicators (KRIs) scorecard and reports to the Audit and Compliance Committee.

The Group has established various levels of management or defence to ensure adequate management and control of each risk, thus guaranteeing each type of risk identified has:

- A **management unit** directly responsible for its day-to-day or current management, acting as the first line of defence.
- A **structure of committees**, each of which is responsible for identifying, managing and reporting risks to the organisation's governing bodies, to which the management units report and submit specific decisions. Because of their

composition and functions, these committees are executive committees, as they take decisions on the risks they manage.

- **Control functions** as the second line of defence; i.e. the Risk Management, Actuarial and Compliance functions.
- An **oversight function** as the third line of defence, i.e. the Internal Audit function.

Integration into the organisational structure and decision-making

The purpose of the Company's risk management system is to ensure that the main risks that the Company faces in its normal business activities are always identified and monitored so they can be managed appropriately.

The risks are dealt with in the Company's committees and regularly reported to the Audit and Compliance Committee and the Board of Directors.

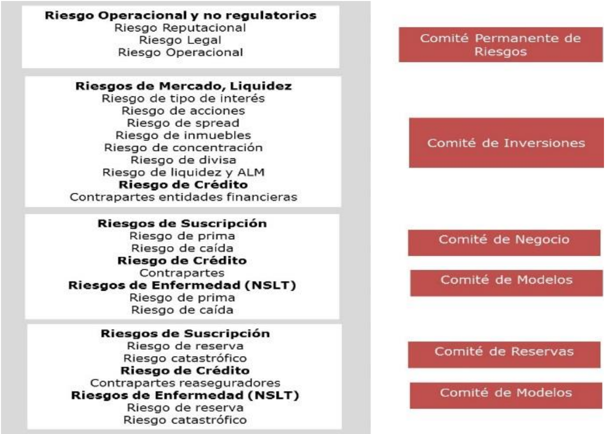


Figure 1: Línea Directa risk management system

This structure ensures:

1. Adequate control, management and reporting of all risks at various levels of “defence”.

2. Risks are monitored and reported in a vertical and transversal manner, by both dependent bodies and independent control functions.

3. Adequate escalation of reporting, control and decision-making.

4. There are various levels of responsibility for and knowledge and control of risks, up to the Company's highest governance level.

Managing environmental, social and governance (ESG) risks.

The governing bodies receive information quarterly on the key risks facing the Company and the capital resources available to manage them, as well as on compliance with the limits set out in the risk appetite.

The risk team, together with the divisions of the Company, periodically analyses the factors that could impact the business if they were to occur, including environmental, social and governance (ESG) factors. Based on this analysis, an assessment of the Company's key risks is made, taking into account prevention and mitigation measures.

The Company has established the management model, processes and methodology for assessing ESG risks. The ESG risk management model is a qualitative assessment with KPIs that help to identify risks that could be considered as more immediate threats and regular monitoring that favours the transmission of information between the areas responsible for the risks and the Company's risk management.

The Company's ESG risk map shows the risks to which the Company is exposed, each of them linked to the Sustainable Development Goals (SDGs) and other reporting frameworks (GRI or Spanish Law 11/2018, on non-financial information).

Although the Company does not operate in any critical sector in terms of climate change, it has specific policies and measures that allow us to manage resource consumption efficiently with the aim of minimising our impact on the environment.

The Company also has protocols and concrete measures in place to unlock the full potential of its employees by fostering diversity and inclusion, offering the best solutions to maintain employability and promoting a safe working environment and employee health.

Internal assessment of risks and solvency

The Company conducts an annual **own risk and solvency assessment (ORSA)**, which is approved by the Board of Directors and filed with the supervisor. This is performed in accordance with the Company's ORSA policy, which is approved by the Board of Directors and reviewed and updated regularly.

This exercise entails self-assessment of the risks to which the Company will be exposed over a three-year time horizon, considering the outlook for developments in the Company's business and the market, historical experience of the size and type of risks to which the Company has been exposed in the past, and the risk appetite and limits set by the Board of Directors.

As a first step, once the main guidelines of the plan have been agreed by the Board of Directors based on the strategic objectives and market conditions, the financial statements for the Company and its subsidiaries are projected with local valuations as a baseline scenario. These financial statements are approved by the Board of Directors.

In addition to the baseline scenario, various **stress scenarios** are also considered, in which the solvency of the Company and the capital requirements it might have in extreme situations are tested by stressing key parameters for the business. These stress scenarios are approved by the Board of Directors through the Audit and Compliance Committee.

In parallel, the local balance sheets are adjusted and reclassified for the baseline and stress scenarios for the projection period, to obtain the financial balance sheets for solvency purposes. This determines the **available funds** (excess of assets over liabilities) in each of the years for each scenario.

The Solvency Capital Requirement (SCR) and initial economic capital are then projected for a three-year time horizon for each scenario.

This is used to obtain the **solvency position for each financial year and projection scenario**, in terms of the available and eligible funds for both the SCR and economic capital.

If the solvency position in any of the projection exercises in any scenario is below the minimum threshold set by the Board of Directors or less than 100%, management options are presented to return solvency to a position above the minimum required levels.

Finally, the Board of Directors approves the projected financial statements for solvency purposes and the solvency position projected for all of the years and scenarios, together with the management measures that might be necessary to restore the solvency position.

3.4. INTERNAL CONTROL SYSTEM

Under Article 46 of the Solvency Directive and Article 66 of Law 20/2015 on the management, supervision and solvency of insurance companies, the Company is required to have an effective internal control system. That system shall include administrative and accounting procedures, an internal control framework, appropriate reporting arrangements at all levels of the Company and a compliance function, at least.

The control activities should be proportionate to the risks arising from the activities and processes being controlled.

It must ensure that the control and reporting mechanisms of the internal control system provide the administrative, management and control body with the information needed for decision-making processes.

Internal control framework

The Company has the processes necessary for identifying, measuring, controlling, managing and reporting the risks to which it is exposed or may be exposed in the future on a continuous basis, at both the individual and aggregate level, always considering the principle of proportionality.

The Company has a **risk map** of the business processes that include all of its potentially serious inherent risks, with the residual risk level based on the effectiveness of existing controls. This covers specific transactions that are significant and the risks associated with each process.

Through the **risks identified** and the **key risk indicators** (KRIs) defined, the risk management system underpins the Company's process for defining strategies and decision-making, as these KRIs are included in the Company's scorecard, enabling proactive management of these risks. This report is made available to the board through reporting to the Audit and Compliance Committee, the Standing Risk Committee and the Management Committee.

The Company has an **effective risk management system** that determines how to manage each risk category and area, and any risk aggregation. The risk management system assesses the overall solvency needs identified in the Group's assessment of its own risks (based on the ORSA principles), its legal capital requirements and risk tolerance limits, as well as the description of the frequency and content of the regular stress tests and situations that require specific stress tests. Policies are in place that define the risk categories and risk measurement methods.

The Board has set the **risk profile and overall risk tolerance limits** and supervises the committees established to monitor and manage potentially serious risks, through the Audit and Compliance Committee.

The internal control environment is therefore considered to have the control and notification mechanisms required to provide the Board of Directors with relevant and accurate information for decision-making. The controls are proportional to the risks and cover all of the Company's areas and lines of business.

The degree to which the risk culture and risk management system have been embedded makes it easier to understand the implications of decisions taken by the Board and Management, depending on the level of risk they are willing to assume.

Risk reporting and information mechanisms

The Risk Management and Internal Control unit collates all of the Company's risk information for regular reporting to the Audit and Compliance Committee. It also reports the status of the key risk indicators (**KRI scorecard**) facilitating oversight by the Company's management bodies.

The regular risk reports are as follows:

- The Finance division reports the status of the Company's risks, as well as the possibility of risks materialising and the status of all recommendations arising from testing, to the Company's Management Committee each month.

- The Audit and Compliance Committee is informed by the head of Finance of the most significant risks in the Company's risk map, the status of recommendations issued in testing of Línea Directa and the performance of the key risk indicators.

- The Internal Audit function reports to the Audit and Compliance Committee every quarter.

Other internal control aspects

The Company's internal control framework and information mechanisms are set out in the previous sections. As the Compliance Verification function is detailed in section 6 of this report, on the Compliance function, all that remains is to mention the administrative and accounting procedures to cover all of the aspects under Article 46 of the Directive.

The Company applies the Chart of Accounts for Insurance Entities. International accounting standards are applied in the consolidated financial statements. Under the regulations of Spain's National Securities Market Commission (CNMV), the Internal Control over Financial Reporting System (ICFRS) for listed companies is a set of processes that the Board of Directors, the Audit Committee, senior management and the personnel involved in the Company perform to provide reasonable assurance regarding the reliability of the financial information published and disclosed to the markets and stakeholders. As a Bankinter Group Company until April 2021 Línea Directa was involved in the ICFRS process, with the Company's Financial area being responsible for reporting the financial controls performed at the end of each month.

Following the IPO, Línea Directa must ensure compliance with European Union regulations by adopting International Financial Reporting Standards. To this end, the Internal Control over Financial Reporting Department was created. Its goal is to identify and determine the relevant financial information that must be subject to internal control over financial reporting (ICFR), as well as the processes required for its preparation, under a defined materiality criterion and taking into account all reported and published financial information.

In this regard, the Internal Control over Financial Reporting Department, which is responsible for the effective implementation of the ICFR and its proper monitoring, has identified and reviewed the relevant information processes included in the ICFR, designed and implemented controls related to said information and prepared a periodic report to the Audit and Compliance Committee on the operating effectiveness of the designed and implemented controls with respect to the half-year financial statements for the financial year, as well as established a review process by the external auditor.

The Company's Finance area also has the following internal control functions:

- **The Company's planning**, developing an annual plan approved by the Board of Directors and monitoring monthly compliance with that plan
- **Cost control**, by monitoring and managing costs in all organisational areas, with regular verification of developments in strategic operational improvement projects, making specific proposals to rationalise expenditure
- Monitoring and control of the **financial statements** of companies in the Línea Directa group.

The Company prepares the annual **Solvency and Financial Condition Report** (SFCR) in accordance with the Solvency II requirements (Articles 292 to 298 of Delegated Regulation (EU) 2015/35 and its Annex XX, as well as national legislation, mainly Chapter III of Royal Decree 1060/2015 of 20 November on the management, supervision and solvency of insurance and reinsurance companies). This report is signed by the members of Línea Directa's Board of Directors and filed with the supervisor.

3.5. ACTUARIAL FUNCTION

Línea Directa's Actuarial Function is an independent function located organically in the Office of the General Secretary, which reports to the Audit and Compliance Committee.

It is part of the second line of defence, together with the Risk Management and Compliance Functions, thus guaranteeing full independence for the review of the tasks entrusted to it.

Its functions are to: coordinate the calculation of technical provisions; evaluate the adequacy and quality of data: validate the methodologies used to calculate technical provisions; compare the best estimates with previous experience through backtesting; inform the Audit and Compliance Committee of the reliability and adequacy of the technical provisions; give an opinion on the underwriting policy and reinsurance agreements; and contribute to the effective implementation of the risk management system, with regard to the calculation of capital requirements, internal risk assessment and solvency.

It also prepares annual actuarial reports for the governing body, documenting all significant tasks performed during the year and their results, identifying any weaknesses and making recommendations to correct them. At the beginning of the financial year, it presents the plan for its year-long activity to the governing body, structured into six large blocks:

- Technical provisions.
- Underwriting policy.
- Reinsurance.
- Quality of data with respect to technical provisions.
- Risk Management System, in particular with regard to the underwriting risk modelling on which the calculation of capital requirements is based, and the internal risk and solvency assessment.
- Internal models and specific parameters.

Quarterly report to the Audit Committee on the progress of the planned activity, and the findings and possible incidents for correction or remediation, arising from the analyses carried out.

3.6. INTERNAL AUDIT FUNCTION

Internal Audit performs independent and objective assessment and assurance activity, and evaluates the effectiveness, for example, of risk control and management processes, internal control, compliance and corporate governance, adding value and flagging, where appropriate needs for modifications, as appropriate, and detecting aspects for improvement in Línea Directa's operations.

The Internal Audit function performs its duties in accordance with the Internal Audit Policy reviewed and approved by Línea Directa's Audit and Compliance Committee at its meeting in March 2021, which regulates the operating statute of Internal Audit and defines, among other aspects, the principles of action, attributes, responsibility, authority and organisational position of the function.

In line with best good governance practices and with the provisions of the current regulatory framework, Internal Audit is an independent area within the organisation, acting objectively. This means that it is not an executive body and has no authority or competence over the business, operational areas, policies or activities of the Línea Directa Group.

In accordance with the provisions of the corporate by-laws and the Rules and Regulations of the Board of Directors, the Internal Audit function depends and reports to the Audit and

Compliance Committee and is administratively subordinate to the Chairman of the Board of Directors.

This guarantees at all times the independence, proportionality, autonomy and universal scope of the Internal Audit function at Línea Directa Group.

Functions

Within the scope of its competences, capabilities and the approved Audit Plan, Internal Audit reviews the processes, procedures and business activities, the control environment, risk identification and management, and the corporate governance and regulatory compliance framework of Línea Directa Group.

Every year, Internal Audit prepares the Audit Plan for Línea Directa Group. This plan covers the Company's key processes as determined on the basis of the following aspects, among others: the Línea Directa Group risk map; suggestions or concerns conveyed by management, the CEO and the Audit and Compliance Committee; suggestions or priorities of external supervisors and regulators; and its own experience from performing its role.

The Audit Plan is approved annually by the Audit and Compliance Committee of Línea Directa Group.

Internal Audit reports mainly to the governing bodies of the Línea Directa Group, through the Audit and Compliance Committee, on the results of the work carried out, the status of the observations issued or action plans pending implementation, as well as the main indicators included in its Programme for Assurance and Continuous Improvement of the Quality of the function.

In addition, the Internal Audit function prepares and submits its annual activity report for approval by the Audit and Compliance Committee.

Finally, it assists the Audit and Compliance Committee in the process of selecting and hiring the auditor. It also supports the execution of the External Audit.

Composition

In 2021, the Internal Audit function of Línea Directa Group consists of 4 people including the Head of Internal Audit.

3.7. OUTSOURCING

The objective of the Outsourcing Policy is to comply with Article 49 of Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II), Law 20/2015 of 14 July, on the management, supervision and solvency of insurance and reinsurance companies, and Royal Decree 1060/2015 of 20 November on the management, supervision and solvency of insurers and reinsurers, and its implementing regulations, under which insurers must ensure that the outsourcing of critical or important functions or operational activities cannot be carried out in such a way that it might:

- materially impair the quality of the system of governance of the company concerned;
- unduly increase operational risk;
- impair the ability of the supervisory authorities to monitor the compliance of the Company with its obligations;
- or affect continuous and satisfactory service to policyholders.

This Policy summarises the requirements and conditions required of entities in the outsourcing of functions, and in particular sets out:

a) the criterion for determining whether a function or activity is critical or important;

b) how to select a supplier with appropriate quality, and how and on what basis its performance and results can be evaluated;

c) the details to be included in the contract with the service provider; and

(d) business contingency plans, including the conditions for termination or revocation of contracts for critical or important outsourced functions or activities.

The Company has outsourced IT services in 2021.

Management of the assistance network for the health line of business, which the Company markets under the Vivaz brand, has also been outsourced.

Additionally, the travel assistance service for insured persons who have arranged this coverage has been outsourced to Línea Directa Asistencia S.L.U., subsidiary of Línea Directa Aseguradora S.A. During 2021, claims for injuries suffered in traffic accidents by the driver and the occupants of vehicles insured by the Company were outsourced to Tira.

3.8. OTHER INFORMATION

On 19 March, 2020, the Annual General Meeting approved the distribution in kind of Línea Directa Aseguradora entire share premium through the delivery to shareholders of shares of Línea Directa Aseguradora, subject to the pertinent regulatory authorisations.

On 22 March 2021, the European Central Bank authorised the execution of the distribution operation to the shareholders of Bankinter, S.A. ("Bankinter" or the "Bank") of the Bank's entire share premium through shares in its subsidiary, Línea Directa Aseguradora, S.A., Compañía de Seguros y Reaseguros ("Línea Directa" or the "Company") (the "Transaction"), and the confirmation, on 26 March 2021, of the non-opposition by the Directorate General of Insurance and Pension Funds to the acquisition by certain shareholders of Bankinter of a significant direct stake in Línea Directa,

On 15 April 2021, the National Securities Market Commission ("CNMV") approved and registered the prospectus relating to the shares of Línea Directa ("Informative Prospectus") in the corresponding official registry, with registration number 11157.

On 29 April 2021, the Company was listed on the stock exchanges of Madrid, Barcelona, Bilbao and Valencia.

Adequacy of the governance system

The governance system implemented in the Company, comprising the organisational structure and risk management and internal control systems, is considered to be effective. It provides optimal support for the Company's strategic objectives, ensuring that the board makes business decisions with comprehensive understanding of their impact on risk exposure, within the limits set by its risk appetite.

The changes in the governance system mainly refer to the adaptation of the administrative bodies to the requirements of the Spanish Capital Companies Act for listed companies, as indicated in section 3.1 of this report, the following points should be highlighted:

- On 20 July 2021, the Board of Directors approved the Corporate Governance Policy and the Related Party Transactions Policy, and on 28 March 2021, the Director Selection Policy was approved.

- On 17 February 2022, the Board of Directors appointed by co-optation, pending ratification by the Shareholders' Meeting on 24 March 2022, **Patricia Ayuela de Rueda as Chief Executive Officer, replacing Miguel Ángel Merino González**, who resigned as Director and Chief Executive Officer with effect from that date.
- During 2021, the Actuarial Function and the Risk Management Function ceased to report to the Corporate Governance Area, becoming functionally dependent on the General Secretary and Finance Areas respectively.

4. RISK PROFILE

4.1. RISK APPETITE, LIMIT AND EXPOSURE

Risk appetite and limit

The **Board of Directors** has ultimate responsibility for **defining and setting the risk appetite**. It is also responsible for the existence of **limits** for identified risks and ensuring they are properly monitored and managed. This means that the Board of Directors is responsible for establishing and updating the Company's annual risk appetite and monitoring the effective risk profile, and ensuring they are consistent.

Prudence principle

The Company manages its investments in accordance with the regulations and guidelines set by the Company's governing bodies regarding the solvency margin and coverage of the technical provisions.

The Company manages market risk and reduces its exposure to it through an **Investment Policy** that is proposed by the chief financial officer and approved by the Board of Directors. This is reviewed annually.

This policy contains the terms of reference for the Investment Committee. Following the prudence principle, these include the following objectives:

- "Develop and maintain an appropriate investment strategy for the LDA Group's investment objectives and developments in the market that meets the requirements of all regulators."
- "Analyse the appointment and separation of all investment advisers and the suitability of their recommendations, considering the investment guidelines and the Company's circumstances."

In addition to establishing reporting obligations to the governing body in the event of irregularities:

- "Report to the Company's Board of Directors and ensure that it is immediately aware of any irregularities or breaches of the investment objectives and investment guidelines."

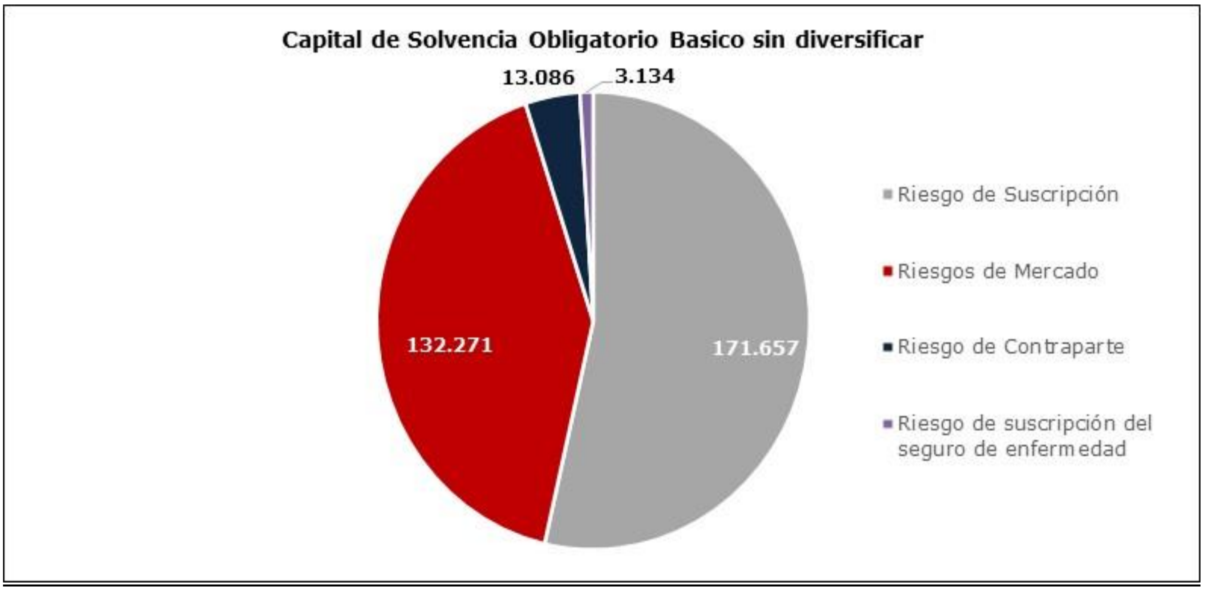
The limits set by the investment guidelines demonstrate that this is a very conservative policy in terms of investment risks. Derivatives can only be used for hedging market risk, never for speculative purposes. Approval from the Investment Committee is required, when appropriate, and the regulatory body's eligibility criteria must be met.

Finally, the Investment Policy also sets down the authorisation limits for transactions, requiring authorisation from the Board of Directors for the largest investments.

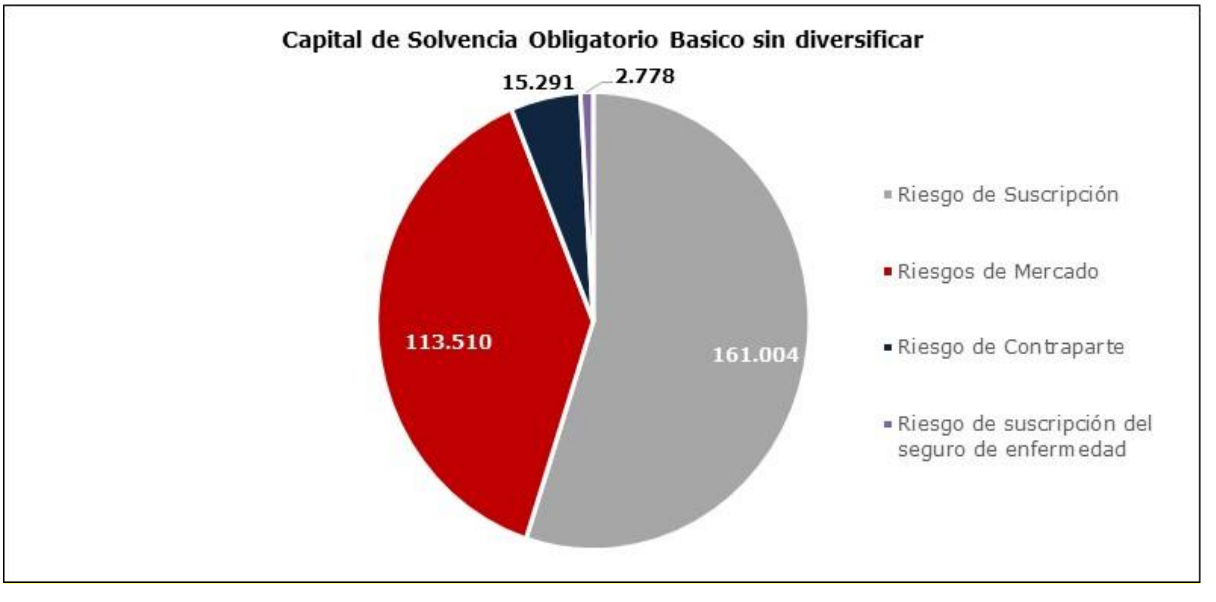
Risk exposure

The Company's risk exposure, measured by the **basic solvency capital requirement** risk categories, without diversification and calculated using the standard formula, at 31 December 2021 and 2020 is shown in the chart below:

31 December 2021:



31 December 2020:



As the chart shows, the main risk to which the Company is exposed is underwriting risk, followed by market risk and counterparty risk.

Risk sensitivity

As discussed, the Company conducts stress and sensitivity analysis on its most significant risks as part of the annual ORSA exercise.

Based on the Company's experience and the nature of the risks to which it is exposed by its activity, the most significant risks are those associated with underwriting risk, with the most important parameters being the frequency and severity of claims, which are subject to stress separately and simultaneously.

Strategies, objectives and processes by risk category

The Company conceptualises the establishment of the risk profile through self-assessment of **quantitative** and **qualitative** aspects of each risk category. The overall risk profile derives from the absolute and relative positions of each of these risks in terms of these aspects.

The Company has an effective risk management system that determines how to manage each risk category and area, and any potential risk aggregation. Specific policies are in place that define the risk categories and risk measurement methods.

The risk management system assesses the overall solvency needs identified in the Company's assessment of its own risks (based on the ORSA principles), its legal capital requirements and risk tolerance limits, in addition to the description of the frequency and content of the regular stress tests and situations that require specific stress tests.

The risks covered by the Company's Risk Policy, established according to the estimate of the materiality of the Company's exposure, are defined below.

The methods for measuring each risk and details of how each risk is managed and any risk aggregation are described in the prospective risk assessment documents.

4.2. UNDERWRITING RISK

Underwriting risk is the most significant risk for the Company, particularly the premium and reserve risk module.

Premium risk involves future claims during and after the period, to the time horizon for measuring solvency. The risk is that the expenses and costs of the claims might exceed the premiums received. Exposure to this risk, measured by the volume of premiums, is 894.930 million euros (883.991 million euros in 2020).

There are two sources of **reserve risk**: underestimation of the absolute level of provisions and the random nature of claims payouts. Both of these risks cover claims with regular frequency, as extreme events fall within the realm of catastrophe risk, which, with lapse risk, completes the underwriting risk. Exposure to this risk, measured by the volume of technical provisions for claims, is 237.719 million euros (206.985 million euros in 2020).

The solvency capital requirement for premium and reserve risk is 170.126 million euros (159.520 million euros in 2020).

Assessing the Company's risk profile requires us to consider some circumstances specific to the Spanish insurance market and some intrinsic to the Company that influence the risks to which it is exposed, such as the circumstances in which it faces them:

a) Idiosyncrasies of the Spanish market compared to the European market

1. Existence of the Consorcio de Compensación de Seguros (Insurance Compensation Consortium)

This body gives the sector greater stability and certainty in its pricing. It is a very important mitigating factor for catastrophe risk relating to nature. For risks arising from the natural world that are not covered by the Consortium, the Company has arranged renewable, annual excess-loss reinsurance with a priority established by event that also has a mitigating effect on catastrophe risk from the accumulation of sums insured due to fire events. The Company also has excess-loss reinsurance with claim priority for man-made risks. This is also renewable annually.

2. Settlement agreements in claims management

In Spain, there are several agreements covering a large percentage of the material damage claims in the sector. The agreement setting standard compensation modules provides **lower payment volatility** for such material claims, while streamlining the settlement period for claims and increasing management efficiency, and limiting the maximum cost that the Company has to pay for claims under an agreement in which the Company's policyholder is responsible.

3. Application of the injury scale

The existence of a scale setting the amounts of compensation provides much greater **stability and predictability** for the cost of claims for injuries than in other nearby countries, as judges generally respect this appraisal system, making future compensation more easily quantifiable, significantly limiting possible surprises in claims costs.

b) Features of the Company in the Spanish market

1. A business based on organic growth

The Company was launched in 1994 and began its activity the following year. This means it is a comparatively young Company in the Spanish insurance market. Since then, the Company has achieved sustained growth without mergers or acquisitions of other entities or portfolios. This **provides consistency, quality and information** for its risk portfolio.

2. Commitment to technology

The Company is committed to **centralising and automating its business processes,** with particular emphasis on information and pricing systems. This facilitates monitoring of the development of the policy portfolio and claims costs, enabling tactical business decision-making that can be implemented nimbly.

3. Use of the direct channel

This means, among other things, that the policies are owned by the Company and there is **centralisation and control of the pricing and underwriting systems.** The features described in the preceding paragraphs, which define LDA's underwriting profile, have led it to request the specific **parameter for premium risk in the "Other motor insurance" business line.** The Company received authorisation for this from the DGSFP (Directorate General of Insurance and Pension Funds) in writing on 18 April 2016. It has used this specific parameter in calculating its solvency capital requirement for the financial year of this report. LDA reviews the value of this parameter every year using the latest data, applying the established methodology.

For all other underwriting risks (premium risk for business lines for which the specific parameter is not authorised, reserve risk, lapse risk and catastrophe risk) the solvency capital requirement (SCR) is quantified using the **standard formula** on a quarterly basis.

The Company uses two internal models to quantify economic capital for the planning time horizon for premium and reserve risks for the motor vehicles business lines.

In **catastrophe risk**, LDA is exposed both to natural risks (wind and hailstorms) and to man-made risks (civil liability for motor vehicles and fire), with a net capital charge for the mitigation effect of 5.288 million euros (5.085 million euros in 2020).

Lapse risk relates to exposure to premiums for tacit renewals of policies in the portfolio at the end of the reference period. The net capital burden of the mitigation effect is 6.745 million euros (6.653 million euros in 2020).

Underwriting risks are managed and monitored in LDA's **Business Committee and Reserves Committee**.

4.3. HEALTH UNDERWRITING RISK

In 2017, the Company started marketing policies in the healthcare sector. The most significant risk is premium risk.

The solvency capital requirement for health underwriting risk is 3.134 million euros (2.778 million euros in 2020).

4.4. MARKET RISK

LDA manages market risk through its **investment policy** guidelines, which are approved by the Board of Directors and reviewed annually. This policy is managed and monitored through the **Investment Committee** and implemented operationally by LDA's Finance division.

The profitability objectives of the investment portfolio consider the risk constraints in the policy for setting concentration limits by issuers, concentration limits by type of financial assets and concentration by rating steps, in addition to the minimum credit rating required for each issue.

The investment portfolio is segmented into funds for transactions and long-term funds to set these limits.

The investment policy expressly prohibits the use of futures or options for speculative purposes.

Internally, the market risk of the portfolio is measured using the Value at Risk (VaR) methodology with historical simulation. This enables us to measure the maximum expected loss in the value of the portfolio for a given period of time and for a specific level of confidence under normal market conditions. This estimated loss depends mainly on the total exposure and the volatility of the risk factors associated with the securities or assets.

The value at risk (VaR) for the portfolio is estimated for monitoring purposes every month with a time horizon of one month at a 95% confidence level, based on historical data for three years. The capital requirement (SCR) for market risks is quantified using the **standard formula** on a quarterly basis.

Property

The Company is exposed to property risk through the properties it owns for its own use for its insurance activity and for investment. The exposure to this risk is 117.605 million euros (117.605 million euros in 2020).

Due to the amendment of Commission Delegated Regulation 2019/981 of 8 March 2019 amending Delegated Regulation 2015/35, the Company conducts its transparency approach on its subsidiary LDActivos, S.L.U. since the transparency approach should ensure that the risks to which the insurance or reinsurance Company is exposed are duly taken into account, whatever its investment structures. This approach therefore applies to undertakings linked to insurance or reinsurance undertakings whose main purpose is holding or managing assets on behalf of that insurance or reinsurance company.

The Company's investment policy sets a limit on property investment in the asset portfolio.

Interest rates

LDA is exposed to the sensitivity of the values of assets, liabilities and financial instruments to changes in the term structure of interest rates and their volatility. Historically, given the excess of the asset portfolio (mainly comprising fixed income instruments) over the technical provisions and the maturities of such assets and liabilities, the capital charge under the standard formula has been determined by the stress of interest rate increases.

The current backdrop of very low and even negative interest rates in the early years of the risk-free interest rate curve makes the capital requirements for this risk module less demanding. However, in turn, the yields on the fixed income assets in which the profits generated by the Company are invested and the maturities of the portfolio assets are also lower, with the corresponding impact on the Company's profits.

The exposure to this risk is 703.389 million euros for assets and 499.760 million euros for liabilities (779.730 million euros for assets and 457.826 million euros for liabilities in 2020).

Equities

The equity risk to which the Company is exposed is due to the sensitivity of the value of assets, liabilities and financial instruments to changes in the level or volatility of stock market prices, including Collective investment undertakings investing in equities.

The exposure to equities is 184.617 million euros (156.635 million euros in 2020), including exposure to the equities of Group entities.

As indicated for property risk, equity risk does not consider the investee LD Activos, S.L.U.

Spread

This risk results from the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or volatility of credit spreads in relation to the risk-free term structure of interest rates.

LDA's investment policy sets portfolio limits per rating step with a minimum required credit rating. The securities outside these limits are, mainly, securities issued or guaranteed by European Economic Area governments.

The exposure to this risk is 712.836 million euros (794.886 million euros in 2020).

Exchange rates

This risk measures the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or volatility of exchange rates. LDA's exposure to this risk is not material, because of the limits in its investment policy.

Exposure to this type of risk was 58.213 million euros in 2021 (35.308 million euros in 2020)

Concentration

This risk results either from a lack of diversification of the asset portfolio or from significant exposure to the risk of default by an issuer of securities or a group of linked issuers.

LDA's investment policy sets portfolio limits for issuers based on their credit ratings.

The exposure to this risk is 1.015058 billion euros (1.069125 billion euros in 2020).

4.5. CREDIT RISK

Counterparty default risk relates to possible losses or adverse changes in the financial position resulting from changes in the solvency of issuers of securities, counterparties and debtors to which the Company is exposed.

In addition to the credit risk linked to the investment portfolio (spread and concentration), there is also counterparty risk for unpaid insurance premiums, counterparties in the accounts receivable from reinsurers, counterparties in treasury positions and other non-material items on the asset side of the balance sheet.

The capital charge for counterparty risk is calculated using the standard formula and is monitored on a quarterly basis.

Specifically, non-payment of insurance premiums is monitored in the Business Committee, receivables from reinsurance companies are monitored in the Reserves Committee, and positions with treasury and liquid asset counterparties are monitored in the Investment Committee.

The exposure to this risk is 141.490 million euros (178.308 million euros in 2020).

4.6. LIQUIDITY RISK

This non-regulatory risk (i.e. it does not require regulatory capital) is due to the potential temporary inability of the Company to pay its obligations within the agreed timeframes, due to such obligations maturing before maturity dates for collections from customers or from financial investments.

Given the nature of the Company's activities, with daily generation of liquidity from premium income, liquidity risk is not considered critical for the continuity of the Company's activities. The capital required is, therefore, not quantified.

The expected profit from future premiums at the end of 2021 was 29.429 million euros (23.282 million euros in 2020).

This risk is managed and monitored by the Company's Finance area and the Investment Committee.

4.7. OPERATIONAL RISK

Operational risk results from mismatches or failures in internal processes, personnel and systems, and from external events. This risk is assessed for the calculation of solvency using the **standard formula** methodology, with the capital charge being monitored on a quarterly basis. This risk is monitored in the Standing Risk Committee. The volume of exposure is measured by the premiums earned and amounts to 883.797 million euros (897.823 million euros in 2020).

4.8. REPUTATIONAL RISK

This non-regulatory risk (i.e. it does not require regulatory capital) consists of the possible loss of customers, decreases in income or legal procedures for the Company that may result from its image being tarnished or negative publicity in the eyes of stakeholders (customers, employees, suppliers, institutions, shareholders, society, the community, consumers, the media and the insurance sector).

As this is a non-regulatory risk (it is not included in the calculation of solvency capital requirement under the standard formula), this is estimated in the ORSA exercise by the Corporate Governance (External Communication and Corporate Reputation) area, using an in-house methodology based on expert judgement.

4.9. LEGAL RISK

Legal risk includes regulatory risk and compliance risk.

Regulatory risk is the possibility that the Company's processes and operations may become obsolete or non compliant with prevailing regulation in the event of changes or new developments in applicable regulations.

Compliance risk represents the possibility that the Company's processes and operations might not comply with current regulations.

As these are both non-regulatory risks (i.e. they are not part of the calculation of solvency capital under the standard formula), they are estimated in the ORSA exercise by the Compliance area, using an in-house methodology based on expert judgement.

4.10. SUSTAINABILITY RISK

Sustainability risk is:

- As regards investments, any environmental, social or governance development or state which, if any, could have a real or possible negative material effect on the value of the investment.
- With regard to liabilities, an environmental, social or governance event or condition which, if it occurs, can have a significant real or potential negative impact on the value of the liability.

The risk team, together with the divisions of the Company, periodically analyses the factors that could impact the business if they were to occur, including environmental, social and governance (ASG) factors. Based on this analysis, an assessment of the Company's key risks is made, taking into account prevention and mitigation measures.

The Company has established the management model, processes and methodology for assessing ESG risks. The ASG risk management model is a qualitative assessment with KPIs that help to identify risks that could be considered as more immediate threats and regular monitoring that favours the transmission of information between the areas responsible for the risks and the Company's risk management.

The Línea Directa's ESG risk map shows the risks to which the Company is exposed, each of them linked to the Sustainable Development Goals (SDGs) and other reporting frameworks (GRI or Spanish Law 11/2018, on non-financial information).

Since this is a non-regulatory risk (not included in calculation of solvency capital with the standard formula), the Company has carried out a qualitative analysis in the ORSA exercise.

4.11. CYBERSECURITY RISK

Cybersecurity risk is the risk arising from technology that can affect data, confidentiality, misuse of information and system outages that can affect business, among other things.

The Company's Security Policy is the reference framework for ensuring the sound definition, management, administration and implementation of the security measures and procedures needed to achieve a level of protection commensurate to the criticality of Línea Directa Aseguradora's physical and information assets.

The Company has implemented a Business Continuity Policy, which was drawn up and will continue to be monitored by the Group's Corporate Security Area. The Policy is there to guarantee the continuity of business operations in response to events that affect the normal operation of the Group's processes, and also to comply with Article 41.4 of Directive 2007/138/EC of the European Parliament and of the Council of 25 November 2009 (Solvency II) and its implementing regulations, according to which insurance undertakings must take reasonable steps to ensure continuity and regularity in the performance of their activities.

In response to the current digital environment and the growing threat of cyber-attacks, the Company has a powerful cybersecurity strategy in place aimed at protecting the Company's processes and operations from this threat. This strategy includes the implementation, assessment and improvement of mechanisms to prevent, detect and respond to cyber-attacks on the Group's systems and networks, together with awareness-raising actions and training for all employees in cybersecurity.

4.12. SUITABILITY OF INVESTMENTS

Credit rating

The Company uses credit ratings from external rating agencies for positions in bond, equity, securitisation, treasury and other liquid asset portfolios included in calculating the solvency capital requirements for spread, concentration and counterparty risk. These ratings are always issued by an ECAI (External Credit Assessment Institution), pursuant to Regulation No 1060/2009 of the European Parliament and of the Council.

There are two ECAI-issued credit ratings for reinsurance recoverables for calculating counterparty risk. LDA has continuously used the one provided by Standard & Poors consistently over time.

There is no dependence on a single external rating, as the valuation is obtained from the average of the ratings assigned by several ECAIs.

Concentration

Any positions exceeding the concentration limits in the Investment guidelines, which are approved by the Board of Directors, are considered high exposure. These limits prevent the Company from holding significant positions in a single item. This means that it does not need to carry out its own internal credit assessment, in accordance with Article 4 of the Delegated Regulation. The Investment Committee ensures that day-to-day investment management complies with the investment guidelines.

Sustainability

The Investment Guidelines aim to integrate ESG criteria (environmental, social and corporate governance) into investment decision-making. Thanks to a preventive approach and long-term vision, the Company avoids investing in any organisations, projects or products that may cause, or otherwise be conducive to, serious violations or breaches in this regard.

Complex exposures

Under Article 4(5) of the Delegated Regulation, complex exposures are those requiring a high degree of knowledge of financial products. They usually also have the following features:

- they are traded on OTC markets,
- they are not listed,
- they are domiciled in non-OECD countries,
- the underlying is a structured product with limited liquidity.

The Company's Investment Guidelines limit such exposures.

Risk mitigation techniques

Irrespective of the risk management described in this document in relation to counterparty, underwriting and reserve risks, the Company has a **reinsurance policy** that complies with the requirements of EIOPA Guideline 21, on risk management through reinsurance and other risk mitigation techniques.

This reinsurance policy includes detailed information on the Company's reinsurance procedure, selection criteria for counterparties, control over the cost of claims that exceed the priority set in the contracts and quarterly checks on the ratings of the reinsurance companies.

The Reserves and Reinsurance area is responsible for conducting priority/optimal coverage studies, preparing the information necessary for the pricing and interacting with reinsurers.

Reinsurance proposals are shared, discussed and agreed with the business areas involved and the Company's management, depending on the scenario, levels of risk to be assumed, and the prices of different levels and forms of cover.

Once the negotiations with the reinsurance companies have been completed or are well advanced, the Board of Directors is informed so that it can proceed with approval.

The Actuarial function is responsible for issuing an opinion on the reinsurance policy and the reinsurance programme in its annual report.

4.13. OTHER INFORMATION

The Company performs various sensitivity analyses of the solvency ratio for different market risks:

	31.12.2021	Change
Solvency Ratio	**186%**	
Interest rates +100 bps	179%	-7 p.p.
Interest rates -100 bps	194%	8 p.p.
Equity markets +10%	188%	2 p.p.
Equity markets +10%	183%	-3 p.p.
Equity markets +30%	193%	7 p.p.
Equity markets +30%	177%	-9 p.p.
Real estate +10%	189%	3 p.p.
Real estate -10%	183%	-3 p.p.
Credit spreads +100 bps	181%	-5 p.p.
Credit spreads -100 bps	191%	5 p.p.

5. VALUATION FOR SOLVENCY PURPOSES

The general valuation rules for assets and liabilities under Article 75 of the Directive and, as a general valuation rule, the solvency regime are based on international accounting standards. If the valuation methods in these are not consistent, temporarily or permanently, with the valuation approach under Article 75 above, other valuation methods that are considered consistent are used. The Company applies the principle of proportionality.

The following sections detail the most significant items on the asset and liability sides of the balance sheet, comparing the solvency and financial statement balance sheets at 31 December 2021 and 2020, as well as differences in the valuation methodologies.

5.1. ASSETS

The asset side of the compared balance sheets at 31 December 2021 and 2020, grouped into the most significant items, is as follows:

31 December 2021:

COMPARISON OF HEADINGS ON THE ASSET SIDE OF THE BALANCE SHEET		
(thousands of euros)	**Solvency**	**Financial statements**
Intangible assets and deferred acquisition costs	-	101,279
Deferred tax assets	65,312	8,419
Property, land and equipment held for own use	52,659	41,575
Investments and loans	965,780	917,526
Reinsurance recoverables	14,702	20,153
Receivables on reinsurance business	7,969	7,969
Other receivables	33,892	121,690
Cash and cash equivalents	100,410	107,469
TOTAL ASSETS	**1,240,724**	**1,326,080**

31 December 2020:

COMPARISON OF HEADINGS ON THE ASSET SIDE OF THE BALANCE SHEET		
(thousands of euros)	**Solvency**	**Financial statements**
Intangible assets and deferred acquisition costs	-	95,617
Deferred tax assets	63,118	9,502
Property, land and equipment held for own use	52,100	41,456
Investments and loans	1,019,355	971,029
Reinsurance recoverables	349	12,477
Receivables on reinsurance business	5,086	5,086
Other receivables	34,937	112,319
Cash and cash equivalents	141,795	151,159
TOTAL ASSETS	**1,316,740**	**1,398,645**

The following sections detail the valuation criteria and differences between the financial statements and solvency balance sheets for each heading on the asset side.

Intangible assets and deferred acquisition costs

The Company measures deferred acquisition costs and intangible assets in accordance with Article 12 of the Delegated Regulation.

Deferred acquisition costs are valued at zero, considering that, as goodwill, no value can be assigned to them.

Intangible assets are also valued at zero because it is not considered that they could be sold separately and it cannot be demonstrated that similar assets exist with a value obtained in accordance with Article 10(2), in which case the asset would be valued in accordance with that Article. These assets mainly comprise software licences and software developments, which are recognised at their net carrying amount in the financial statements.

31 December 2021:

Goodwill, deferred acquisition costs and intangible assets		
(thousands of euros)	**Solvency**	**Financial statements**
Goodwill		-
Deferred acquisition costs		87,218
Intangible assets	-	14,061

31 December 2020:

Goodwill, deferred acquisition costs and intangible assets		
(thousands of euros)	**Solvency**	**Financial statements**
Goodwill		-
Deferred acquisition costs		83,055
Intangible assets	-	12,562

Deferred tax assets

This heading of the solvency balance includes the tax assets heading of the financial statements, amounting to 65.312 million euros and 63.118 million euros at the end of 2021 and 2020, respectively, due to temporary differences.

31 December 2021:

Deferred tax assets		
(thousands of euros)	**Solvency**	**Financial statements**
Deferred tax assets	65,312	8,419

31 December 2020:

Deferred tax assets		
(thousands of euros)	**Solvency**	**Financial statements**
Deferred tax assets	63,118	9,502

The valuation of this heading for solvency purposes differs from the financial statements due to valuation adjustments between the accounting regulations and Solvency II that generate a deferred tax asset. In particular, the requirement under **Article 15(3) of the Delegated Regulation**, on deferred taxes, allows the application of tax credits *"where it is probable that future taxable profit will be available against which the deferred tax asset can be utilised, taking into account any legal or regulatory requirements on the time limits relating to the carryforward of unused tax losses or the carryforward of unused tax credits".*

Property, plant and equipment held for own use

This balance sheet heading includes information processing equipment, facilities, furniture and property for the Company's own use in its insurance activity. Property investments are included under investments and loans in the following section.

31 December 2021:

Property, land and equipment held for own use		
(thousands of euros)	**Solvency**	**Financial statements**
Property for own use	39,914	31,827
Other property, plant and equipment	12,745	9,748
	52,659	**41,575**

31 December 2020:

Property, land and equipment held for own use		
(thousands of euros)	**Solvency**	**Financial statements**
Property for own use	39,914	31,904
Other property, plant and equipment	12,186	9,552
	52,100	**41,456**

For the purposes of the financial statements, property, plant and equipment and investment property are recognised at their acquisition price, which includes, in addition to the purchase price, all additional expenses incurred in bringing the asset into operation, including finance expenses. These assets are depreciated systematically on a straight-line basis over their estimated useful life, taking into account the depreciation effectively sustained from their operation, use and enjoyment. At year-end, any relevant valuation adjustments are made to property, plant and equipment.

For solvency purposes, the net carrying amounts of the elements comprising property, plant and equipment are used as their fair value, while the last appraisal value is used for property held for own use. In the latter case, the solvency value exceeds the value in the financial statements by 8.087 million euros and 8.010 million euros at 31 December 2021 and 2020, respectively.

The other property, plant and equipment heading considers the provisions of international regulations concerning leases (IFRS 16).

Investments and loans portfolio

The assets in the investment portfolio at 31 December 2021 and 2020 are presented in the following table, with comparative valuations:

31 December 2021:

(thousands of euros)	Solvency	Financial statements
Investments (other than index linked and unit linked assets)	**945,659**	**897,408**
Property (other than for own use)	1,951	1,923
Holdings	106,953	65,785
Equities	49,514	49,514
Equities — listed	49,508	49,508
Equities — unlisted	6	6
Bonds	711,015	703,960
Government bonds	396,345	392,416
Corporate bonds	314,670	311,544
Structured notes	-	-
Collateralised securities	-	-
Collective investment undertakings	76,226	76,226
Derivatives	-	-
Deposits (other than cash equivalents)	-	-
Other investments	-	-
Loans and mortgages	**20,121**	**20,117**
To individuals	-	-
Other	20,121	20,117

31 December 2020:

(thousands of euros)	Solvency	Financial statements
Investments (other than index linked and unit linked assets)	**1,001,869**	**953,548**
Property (other than for own use)	1,951	1,951
Holdings	107,967	60,064
Equities	35,413	34,354
Equities — listed	35,407	34,348
Equities — unlisted	6	6
Bonds	791,219	781,860
Government bonds	438,763	433,652
Corporate bonds	352,456	348,208
Structured notes	-	-
Collateralised securities	-	-
Collective investment undertakings	65,319	75,319
Derivatives	-	-
Deposits (other than cash equivalents)	-	-
Other investments	-	-
Loans and mortgages	**17,486**	**17,481**
To individuals	**-**	**-**
Other	17,486	17,481

Noteworthy points in relation to the main headings include:

Holdings

Holdings in the Company's subsidiaries are recognised in the financial statements at their acquisition value corrected for any impairment, while they are recognised at the net carrying amount of each Company in the solvency balance sheet, which includes the tacit gains corresponding to accumulated profits that have not been distributed as dividends, amounting to 41.168 million euros and 37.903 million euros at 31 December 2021 and 2020, respectively.

In 2020, this asset category also included 10.0 million euros for a listed private real estate investment company and a listed private hotel investment company in which two Bankinter Group financial entities have interests. The valuations of these assets coincide for solvency and financial statement purposes.

Equities — listed

There are no differences in the valuations of this asset category between the financial statements and the solvency financial statements, as in both cases they are valued through prices listed in active markets.

Government and corporate bonds

This asset category is valued at fair value in the financial statements and for solvency purposes. Unless there is evidence to the contrary, this is the transaction price, recognising any changes directly in equity until the asset is sold or impaired. In the case of debt instruments, value adjustments are made if there is objective evidence that their value is impaired due to a reduction or delay in estimated future cash flows, which may be down to the debtor's insolvency.

Accrued and unmatured interest from financial investments, when this is not part of their redemption value in the financial statements, is classified as an increase in value for the investment portfolio for solvency purposes, while in the financial statements this is classified under "Any other assets, not elsewhere shown", amounting to 7.055 million euros and 9.359 million euros at 31 December 2021 and 2020, respectively.

Collective investment undertakings

This balance sheet items includes holdings in investment and venture capital funds that are valued at their last settlement value, for both the financial statements and solvency purposes.

Deposits

Deposits are valued at acquisition cost plus the corresponding interest accrual/deferral to the date considered, for both the financial statements and solvency purposes.

Accrued and unmatured interest from financial investments that is not part of the redemption value in the financial statements is classified as increased value of the investment portfolio for solvency purposes, while in the financial statements this is classified as "Any other assets, not elsewhere shown". The Company had no deposits at 31 December 2021 and 2020.

Loans and mortgages

This solvency balance sheet heading amounted to 20.121 million euros and 17.486 million euros at 31 December 2021 and 2020, respectively, corresponding to two loans extended by the Company to two subsidiaries and various accounts receivable, also with subsidiaries, for prepayments on account of corporation tax that the Company settles as the head of the tax group on their behalf and subsequently adjusts with them.

Reinsurance recoverables

The "Reinsurance recoverables" in the Solvency balance sheet correspond to the "Reinsurers' share of technical provisions" in the financial statements.

31 December 2021:

Reinsurance recoverables:		
(thousands of euros)	Solvency	Financial statements
Reinsurance recoverables:	**14,702**	**20,153**
Non-life and health similar to non-life	14,702	20,153
Non-life excluding health	11,822	13,309
Health similar to non-life	2,880	6,844

31 December 2020:

Reinsurance recoverables:		
(thousands of euros)	Solvency	Financial statements
Reinsurance recoverables:	**349**	**12,477**
Non-life and health similar to non-life	349	12,477
Non-life excluding health	(2,071)	6,915
Health similar to non-life	2,420	5,562

The main differences between the valuation criteria in the financial statements and for solvency purposes are:

- The reinsurers' share of the unearned premium provision in the financial statements is replaced in the solvency balance sheet by the recoverable amount corresponding to the provision for direct insurance premiums.
- Reinsurance recoverables are calculated using the same methodology as that for the best estimate of the technical provisions on the liability side of the solvency balance sheet, considering the reinsurance programme in the exposure period.
- The possibility of non-payment by counterparties is considered in estimating reinsurance recoverables.

Reinsurance receivables

This heading contains the outstanding balance for reinsurance agreements. There are no valuation differences between the financial statements and Solvency II, as these are valued at fair value.

Other receivables

This heading contains premiums pending collection from policyholders, for both premiums written and unwritten premium instalments, corrected by the estimate of the provision for outstanding premiums. It also includes recoveries for claims that are considered certain and are pending settlement or collection, which account for almost the entire balance of the heading. Historically, these recoveries have occurred satisfactorily and very rapidly, usually being settled through claims settlement agreements.

A less significant part comprises positions with debtors for various transactions, with collection rights with Bankinter Group entities accounting for a significant portion of these.

The difference corresponds to the reclassification of premiums pending issue to the best estimate of premiums, amounting to 44.916 million euros. (42.446 million euros in 2020), and the reclassification of recoveries to the best estimate of claims in the amount of 42.882 million euros (34.936 million euros in 2020).

Cash and cash equivalents

This heading in the solvency balance sheet contains the same items and applies the same valuation criteria as the equivalent in the financial statements.

The balance corresponds to current account positions and short-term liquid assets, with the counterparties for almost all of the balance being Bankinter, the parent of the group to which the Company belongs, and Banco Santander, amounting to 98.911 million euros. (140.155 million euros in 2020).

Any other assets, not elsewhere shown

This heading in the solvency balance sheet contains items not classified under other headings on the asset side of the balance sheet.

31 December 2021:

Any other assets, not elsewhere shown		
(thousands of euros)	Solvency	Financial statements
Any other assets, not elsewhere shown	1,499	8,558

31 December 2020:

Any other assets, not elsewhere shown		
(thousands of euros)	Solvency	Financial statements
Any other assets, not elsewhere shown	149	9,514

The valuation difference between the solvency balance sheet and the financial statements is due to the accrual of interest amounting to 7.059 million euros (9.365 million euros in 2020), which is included under "Other assets" in the financial statements but is reclassified to the headings where the assets originating the interest are recognised in the Solvency balance sheet (mainly in Bonds, under Investments).

5.2. TECHNICAL PROVISIONS

The most important heading on the liability side of the solvency balance sheet at 31 December 2021 and 2020 is Technical provisions, as shown in the following table:

31 December 2021:

COMPARISON OF BALANCE SHEET LIABILITY HEADINGS		
(thousands of euros)	Solvency	Financial statements
Technical provisions	540,527	744,677
Deferred tax liabilities	121,553	44,456
Other liabilities	173,102	192,020
TOTAL LIABILITIES	**835,182**	**981,153**

31 December 2020:

COMPARISON OF BALANCE SHEET LIABILITY HEADINGS		
(thousands of euros)	**Solvency**	**Financial statements**
Technical provisions	480,320	722,586
Deferred tax liabilities	128,676	44,989
Other liabilities	181,733	195,271
TOTAL LIABILITIES	**790,729**	**962,846**

The Technical provisions heading of the solvency balance sheet compares to the equivalent in the financial statements at 31 December 2021 and 2020 as follows:

31 December 2021:

TECHNICAL PROVISIONS		
(thousands of euros)	**Solvency**	**Financial statements**
Technical provisions, non-life (excluding health)	**532,362**	**726,294**
Technical provisions calculated as a whole	-	
Best estimate	506,308	
Risk margin	26,054	
Technical provisions, non life (health similar to non life)	**8,165**	**18,383**
Technical provisions calculated as a whole	-	
Best estimate	7,900	
Risk margin	265	

31 December 2020:

TECHNICAL PROVISIONS		
(thousands of euros)	**Solvency**	**Financial statements**
Technical provisions, non-life (excluding health)	**473,341**	**705,684**
Technical provisions calculated as a whole	-	
Best estimate	450,830	
Risk margin	22,511	
Technical provisions, non life (health similar to non life)	**6,979**	**16,902**
Technical provisions calculated as a whole	-	
Best estimate	6,763	
Risk margin	216	

The technical provisions on the liability side of the solvency balance sheet have been valued in accordance with the Methodologies to calculate technical provisions under Section 3 of Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 and the EIOPA Guidelines on the Valuation of technical provisions, as set out in document EIOPA-BoS-14/166 ES.

The technical provisions in the financial statements were valued in accordance with the Regulations on the management, supervision and solvency of insurance companies (ROSSEAR).

The breakdown of the technical provisions by business line on the liability side of the solvency balance sheet is detailed in the following table:

31 December 2021:

TECHNICAL PROVISIONS BY BUSINESS LINE						
Technical provisions calculated as the sum of a best estimate and a risk margin (thousands of euros)	**Motor vehicle liability insurance**	**Other motor insurance**	**Fire and other damage to property insurance**	**Assistance insurance**	**Medical expense insurance**	**TOTAL**
Best estimate:						
Premium provisions						
Gross	123,447	108,366	31,966	(305)	2,807	266,281
Total recoverable from insurance	6,309	-	413	(15)	317	7,024
Net best estimate of premium provisions	117,138	108,366	31,553	(290)	2,490	259,257
Claims provisions						
Gross	175,082	50,975	16,433	344	5,093	247,927
Total recoverable from insurance	4,021	355	739	-	2,563	7,678
Net best estimate of claims provisions	171,061	50,620	15,694	344	2,530	240,249
Total best estimate, gross	298,529	159,341	48,399	39	7,900	514,208
Total best estimate, net	288,199	158,986	47,247	54	5,020	499,506
Risk margin:	15,185	8,377	2,489	3	265	26,319
TOTAL TECHNICAL PROVISIONS:						
Total technical provisions	**313,714**	**167,718**	**50,888**	**42**	**8,165**	**540,527**
Total recoverable from insurance	**10,330**	**355**	**1,152**	**(15)**	**2,880**	**14,702**
Total technical provisions minus recoverable reinsurance	**303,384**	**167,363**	**49,736**	**57**	**5,285**	**525,825**

31 December 2020:

TECHNICAL PROVISIONS BY BUSINESS LINE						
Technical provisions calculated as the sum of a best estimate and a risk margin (thousands of euros)	**Motor vehicle liability insurance**	**Other motor insurance**	**Fire and other damage to property insurance**	**Assistance insurance**	**Medical expense insurance**	**TOTAL**
Best estimate:						
Premium provisions						
Gross	115,224	102,832	33,264	(284)	2,954	253,990
Total recoverable from reinsurance	6,398	-	(1,255)	(21)	564	5,686
Net best estimate of premium provisions	108,826	102,832	34,519	(263)	2,390	248,304
Claims provisions						
Gross	136,193	49,649	13,527	425	3,809	203,603
Total recoverable from reinsurance	(7,822)	649	(37)	17	1,857	(5,336)
Net best estimate of claims provisions	144,015	49,000	13,564	408	1,952	208,939

Total best estimate, gross	251,417	152,481	46,791	141	6,763	457,593
Total best estimate, net	252,841	151,832	48,083	145	4,342	457,243
Risk margin:	12,567	7,547	2,390	7	216	22,727
TOTAL TECHNICAL PROVISIONS:						
Total technical provisions	**263,984**	**160,028**	**49,181**	**148**	**6,979**	**480,320**
Total recoverable from reinsurance	**(1,424)**	**649**	**(1,292)**	**(4)**	**2,421**	**350**
Total technical provisions minus recoverable reinsurance	**265,408**	**159,379**	**50,473**	**152**	**4,558**	**479,970**

A) Bases, methodologies and assumptions used in calculating pending claims provisions

With regard to the **Provision for pending claims** in the **motor vehicle and fire insurance and other property damage business lines,** the Company uses a statistical methodology known as "Chain Ladder". This is actuarially accepted and used for the projection of claims incurred. It is one of the methods based on "run-off" triangles, using the best estimate for all lines of business. The Merz-Wüthrich stochastic methodology, approved by the regulator on 29 December 2021, is used for the purposes of the financial statements. In the case of insurance for fire and other damage to property, as well as health assistance in the health segment, the provision is on a case-by-case basis, as the Company does not have authorisation from the regulator to use a statistical method.

The expert judgement applied in the Chain Ladder methodology used to calculate the Best Estimate in the motor business line has been modified to be aligned with the methodology used for financial purposes, which was approved by the Directorate General of Insurance and Pension Funds in 2021. The most relevant changes are due to the geometry of the triangles and history used in the projections.

The provision for benefits for claims pending declaration, in the case of fire insurance and other damage to property and in the health insurance segment, is calculated in accordance with the provisions of article 41.2 of the Regulation on the Organisation and Supervision of Private Insurance, approved by Royal Decree 2486/1998 and amended on the basis of Royal Decree 239/2007 of 16 February.

With **guarantees that are fully reassured**, which belong to the other motor insurance and fire and other damage to property business lines and health assistance in the health segment, the provision for outstanding claims is estimated according to the exposed policies containing the guarantee, with a sector claims module equivalent to the risk premium, with no significant valuation differences.

For **travel assistance cover**, the valuation methodology used to calculate provisions for claims pending settlement is on an individual and claim-by-claim basis, for both the financial statements and solvency purposes, as the claims for the period are settled and pending payment and there is no uncertainty about their future expense.

The provision for unreported claims is calculated as 5% of the provision for outstanding claims, with no significant valuation differences for both the financial statements and solvency purposes.

With regard to the **provision for claims settlement expenses** (which is part of the claims provision), the Company calculates the provision for internal claims settlement expenses in accordance with Article 42 of the Regulations on the Management and Supervision of Private Insurance, as approved by Royal Decree 2486/1998 and amended by Royal Decree 239/2007 of 16 February.

B) Bases, methodologies and assumptions used in calculating the premium provision

The provision for premiums in the solvency balance sheet replaces the unearned premium provision in the balance sheet in the financial statements.

With regard to **the premium provision in the business lines of motor vehicles, fire insurance and other property damage in the solvency balance sheet**, the Company considers the expected present value of future cash flows when calculating the best estimate of the premium provision for current contracts at the reference date plus tacit renewals. The portfolio of contracts subject to the projection is assessed in accordance with Article 18 of Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 and the response to the DGSFP consultation (4/2016), which clarifies that tacit renewals at 31 December shall include renewals in January and February the following year, as the Company cannot oppose the extension of such contracts. This also includes a lapse assumption based on the Company's experience.

The cash flow projections used consider all expenses related to all the recognised insurance and reinsurance obligations of insurance and reinsurance undertakings referred to in Article 78(1) of Directive 2009/138/EC.

The best estimate of the cash flows resulting from future claims is projected based on the Company's historical claims samples, to obtain cost forecasts for each of the motor vehicle, fire insurance and other property damage business lines. A simulation procedure is used to generate a final annual aggregated distribution of claims costs, the average value of which is the best estimate of the cash flows of future claims costs.

Claims management expenses and projected current management expenses are estimated based on the planning exercise.

The cash flows are discounted to their present value by applying the risk-free interest rate curve published by EIOPA each quarter. The technical provisions are estimated considering future management decisions**,** which mostly stem from the annual planning exercise, where various management scenarios and actions are considered to achieve LDA's strategic, financial and solvency objectives.

The Company uses the simplification described in Technical Annex III to the guidelines on the valuation of technical provisions published by EIOPA in its calculation of the best estimate of the **premium provision for the assistance and medical expense insurance business lines**. This simplification is based on applying the planned combined ratio to the unearned premium at the calculation date and release of the profit margin or loss implicit in tacit renewals at that date.

C) Other considerations regarding technical provisions

The Company does not apply the **marriage adjustment** provided for under Article 77 ter of Directive 2009/138/EC.

The Company does not apply the **volatility adjustment** under Article 77 quinquies of Directive 2009/138/EC.

The Company does not apply the **temporary structure of interest rates without transitional risk** stipulated in Article 308 quater of Directive 2009/138/EC or **the transitional deduction** set out in Article 308 quinquies of Directive 2009/138/EC.

D) Bases, methodologies and assumptions used in calculating the risk margin

The Company uses a simplified calculation to obtain the risk margin for each business line. Based on guideline 62 on the hierarchy of methods for calculating the risk margin, when valuating the technical provisions, the Company uses method three to approximate the discounted sum of all future solvency capital requirements in a single step, without estimating the solvency capital required for each future year separately, as described in

Article 58(b) of the Implementing Measures, using the amended duration of insurance liabilities as a proportionality factor.
This method considers the maturity and run-off pattern of obligations net of reinsurance.

5.3. OTHER LIABILITIES

Deferred tax liabilities

The solvency balance sheet includes the same measurement concepts and criteria as the financial statements, except for the tax liability included in the solvency balance sheet for adjustments between the accounting regulations and under the Solvency II regulations, which generates a deferred tax liability.

31 December 2021:

Deferred tax liabilities		
(thousands of euros)	Capital adequacy	Financial statements
Temporary differences in liabilities	44,456	44,456
Deferred tax liability arising from the reconciliation reserve	77,097	-
	121,553	**44,456**

31 December 2020:

Deferred tax liabilities		
(thousands of euros)	Solvency	Financial statements
Temporary differences in liabilities	44,989	44,989
Deferred tax liability arising from the reconciliation reserve	83,687	-
	128,676	**44,989**

Liabilities for temporary differences between assets and liabilities with a creditor sign arise from past Company tax settlements and payments on account for the current year. In 2015, the Company informed the Tax Administration of its decision to pay tax under the tax consolidation regime provided for in the Corporation Tax Law, forming a tax consolidation group of which it is the parent company.

The deferred tax liability under the Solvency II regulations is estimated as the measurement difference between the accounting and Solvency II regulations of the adjustments that generate a deferred tax liability.

Other liabilities

There are no valuation differences between the solvency balance sheet and the financial statements for the other liability elements, with the exception of "provisions other than technical provisions" and "other payables" (payables are included under IFRS 16), as detailed in the following table:

31 December 2021:

COMPARISON OF HEADINGS ON THE REST OF THE LIABILITY SIDE OF THE BALANCE SHEET		
(thousands of euros)	**Solvency**	**Financial statements**
Provisions other than technical provisions	203	22,119
Due on insurance business with brokers	2,526	2,526
Due on reinsurance business	1,244	1,244
Derivatives	9,447	8,922
Other payables (other than those arising from insurance business) and any other liabilities	159,683	157,210
	173,103	**192,021**

31 December 2020:

COMPARISON OF HEADINGS ON THE REST OF THE LIABILITY SIDE OF THE BALANCE SHEET		
(thousands of euros)	**Solvency**	**Financial statements**
Provisions other than technical provisions	675	16,848
Due on insurance business with brokers	2,921	2,921
Due on reinsurance business	981	981
Derivatives	15,167	15,167
Other payables (other than those arising from insurance business) and any other liabilities	161,989	159,354
	181,733	**195,271**

The following concepts are included:

- The change under the heading "Provisions other than technical provisions" corresponds to the estimate of payments for repairs for insured persons who are not at fault in claims under settlement agreements that are included in the calculation of the best estimate of claims under the Solvency II regulations. Most of the balance with brokers under the "Due on insurance business with brokers" heading mostly relates to Ámbar Medline, an exclusive agent of the Company that brokers policies directly and through its insurance agents.
- The "Reinsurance payables" heading includes the cash accounts with various reinsurance companies derived from reinsurance contracts.
- "Other payables and other liabilities" includes various balances payable to suppliers, public administrations and other counterparties, and "Payables on securities lending" refers to the monetary guarantee received for a Public Debt repo transaction (assignment with repurchase agreement of Government Bonds) with a total book value of 115.305 million euros including uncollected accrued interest and comprising two repos, one of Spanish Government securities and the other of Italian Government securities, which mature on 10 January 2022. The counterparty to the transactions is BBVA bank. Guarantees on the transactions amount to 115.305 million euros. On 10 January 2022, the three repo operations with the same Spanish government securities were renewed, resulting in a new maturity date of 10 February 2022 at an average negative interest rate of 0.51% per annum. The counterparty to these transactions is Banco Santander S.A. The counterparty in these transactions is Banco BBVA. The effect of the application of international regulations (IFRS 16) is also included.

5.4. OTHER INFORMATION

The Company no longer uses the simplified method in the best estimate of premiums for the **"Fire and other property damage"** line of business described in Technical Annex III of the guidelines on the valuation of technical provisions issued by EIOPA.

6. CAPITAL MANAGEMENT

6.1. OWN FUNDS

The Company's capital planning shows its own fund requirements over a three-year period for regulatory capital requirements such as the overall solvency (economic capital) requirements estimated through the ORSA self-assessment process, with a minimum solvency threshold set by the Board of Directors, which is always greater than 120% (with a risk appetite of 150%).

Reconciliation of the valuation of own funds for solvency purposes and according to the financial statements

Article 70 of the Delegated Regulation stipulates the general content of the reconciliation reserve.

The Company's reconciliation reserve at 31 December 2021 and 2020 is:

31 December 2021:

Reconciliation reserve	
(thousands of euros)	**Total**
Excess of assets over liabilities	405,542
Own shares (included as assets on the balance sheet)	-
Foreseeable dividends and distributions	21,459
Other element of own funds (share capital)	43,537
Adjustment of own fund elements due to limited available funds	-
Total reconciliation reserve	**340,546**

31 December 2020:

Reconciliation reserve	
(thousands of euros)	**Total**
Excess of assets over liabilities	526,011
Own shares (included as assets on the balance sheet)	-
Foreseeable dividends and distributions	120,000
Other element of own funds (share capital)	37,512
Adjustment of own fund elements due to limited available funds	-
Total reconciliation reserve	**368,499**

The composition of **the surplus of assets over liabilities in the reconciliation reserve** is detailed in the following table:

31 December 2021:

Reconciliation of excess assets over liabilities and equity in the financial statements		
Notes	***(thousands of euros)***	**Total**
	Own funds according to the financial statements	**344,927**
1	Share capital	43,537
1	Retained earnings and earnings for the year	229,352
1	Stabilisation reserve net of tax	107,582
1	Own shares	(1,246)
1	Dividends and stabilisation on account	(77,664)
1	Capital gains on the portfolio net of tax	43,366
	Asset valuation differences	**(123,330)**
2	Intangible assets	(14,061)
3	Reinsurers' share of technical provisions	(5,451)
4	Property, plant and equipment and investment property	8,115
5	Holdings in group companies and associates	41,168
6	Any other assets. Prepaid fees and other acquisition costs	(153,101)
	Liability valuation differences	**204,150**
8	Premium provision effect on unearned premium	186,738
9	Provision for claims	43,730
10	Risk margin	(26,318)
11	**Tax effect on previous valuation differences**	(20,205)
	Total excess assets over liabilities	**405,542**

31 December 2020:

Reconciliation of excess assets over liabilities and equity in the financial statements		
Notes	***(thousands of euros)***	**Total**
	Own funds according to the financial statements	**435,797**
1	Share capital	37,512
1	Retained earnings and earnings for the year	253,270
1	Stabilisation reserve net of tax	107,582
1	Dividends and stabilisation on account	(6,964)
1	Capital gains on the portfolio net of tax	44,397
	Asset valuation differences	**(121,981)**
2	Intangible assets	(12,562)
3	Reinsurers' share of technical provisions	(12,128)
4	Property, plant and equipment and investment property	8,010
5	Holdings in group companies and associates	37,903
6	Any other assets. Prepaid fees and other acquisition costs	(144,263)
7	Equities — listed	1,059
	Liability valuation differences	**242,266**
8	Premium provision effect on unearned premium	197,055
9	Provision for claims	67,938
10	Risk margin	(22,727)
11	**Tax effect on previous valuation differences**	**(30,071)**
	Total excess assets over liabilities	**526,011**

The asset and liability measurement chapter of this report explains the main measurement differences for each element in the solvency balance sheet and financial statements. Details of the reason and justification for each item in the reconciliation reserve based on the notes in the table above are given below:

1. These headings comprise **equity according to the Company's financial statements**.
2. The full balance for **intangible assets** is eliminated from the asset side of the Solvency balance sheet, as there are no market prices for the elements of which it is comprised – mainly software licences at their net carrying amount – that can be objectively justified.
3. The share of **reinsurance in the technical provisions** is reduced by 5.451 million euros (12.128 thousand euros in 2020) on the asset side of the solvency balance sheet by applying the best estimate of recoverable reinsurance.
4. **Properties for own use and for investment** are valued at acquisition cost on the financial statements balance sheet, net of depreciation and impairment, if applicable, while they are carried at market value on the solvency balance sheet. The reconciliation reserve includes the tacit gains between the appraisal values and the local net carrying amount. The international standard IFRS 16 is applied in Solvency II.
5. **Holdings in group entities and associates** in the financial statements balance sheet are carried at acquisition cost corrected for impairment, while the market value is considered to be the carrying value of each share for solvency purposes. The reconciliation reserve is increased by the tacit gains of 41.169 million euros

(38.962 million euros in 2020) which constitute the difference between these two values.

6. The **prepaid fees and deferral of acquisition expenses** from the asset side of the balance sheet in the financial statements are eliminated from the solvency balance sheet, reducing the reconciliation reserve and reclassifying the **outstanding premiums pending issue** to the best estimate calculation of the premium provision. **Recoveries from claims** are also eliminated as they are accounted for in the calculation of the best estimate for claims.
7. **Equities –** listed have been increased under Solvency II since, under local regulations, Bankinter's equities are under the heading of investees, and under Solvency II, they fall under "Equities – listed".
8. The **unearned premium provision** is eliminated from the liability side of the solvency balance sheet and replaced by the **premium provision** calculated as a best estimate.
9. When calculated on the liability side of the solvency balance sheet at best estimate, the **provision for all claims**, which comprises the provision for claims, the provision for claims that have been incurred but not reported (IBNR) and the provision for claims settlement expenses, contributes 43.730 million euros (67.938 million euros in 2020) to the reconciliation reserve.
10. The **risk margin** is an element from the liability side of the solvency balance sheet that does not exist on the liability side of the local balance sheet.
11. The **tax effect of these adjustments** is calculated at 25%, which is the current corporation tax rate in Spain.

Structure and quality of own funds

The Company had no subordinated liabilities on the reference date, so its basic own funds are composed exclusively of the difference between its assets and liabilities. The own funds in the financial statements are reconciled with basic own funds through the reconciliation reserve, as detailed in the following section.

The Company does not plan to use ancillary own funds and, therefore, does not plan to request authorisation for this from the supervisor.

In summary, the Company's own funds at 31 December 2021 and 2020 were fully classified as basic own funds.

Classification of own funds into tiers

The elements of basic own funds are classified as tier 1 where they substantially have the following characteristics:

a) the item is available, or callable on demand, to fully absorb losses on a going-concern basis and in the event of winding-up (permanent availability);

b) in the event of winding-up, the total amount of the item is available to absorb losses and repayment of the item is refused to its holder until all other obligations, including insurance and reinsurance obligations towards policy holders and beneficiaries of insurance and reinsurance contracts, have been met (subordination).

If these requirements are not met, they are classified as tier 2 or 3.

The Company understands that **all basic own funds** (disbursed share capital and components of the reconciliation reserve) meet the above requirements, so they are **classified as Tier 1.**

31 December 2021:

Basic own funds	Total	Tier 1, unrestricted	Tier 1, restricted	Tier 2	Tier 3
Share capital in ordinary shares	43,537	43,437			
Share issue premium					
Initial mutual fund					
Subordinated mutual accounts					
Surplus funds					
Preference shares					
Issue premiums for shares and preference shares					
Reconciliation reserve	340,546	340,546			
Subordinated liabilities					
An amount equivalent to the value of deferred tax assets					
Other supervisor-approved items					
Total	**384,083**	**384,083**	**-**	**-**	**-**

31 December 2020:

Basic own funds	Total	Tier 1, unrestricted	Tier 1, restricted	Tier 2	Tier 3
Share capital in ordinary shares	37,512	37,512			
Share issue premium					
Initial mutual fund					
Subordinated mutual accounts					
Surplus funds					
Preference shares					
Issue premiums for shares and preference shares					
Reconciliation reserve	368,499	368,499			
Subordinated liabilities					
An amount equivalent to the value of deferred tax assets					
Other supervisor-approved items					
Total	**406,011**	**406,011**	**-**	**-**	**-**

As the Company considers, as mentioned above, that all its available own funds are Tier 1, the limits and restrictions of the Directive and the Delegated Regulation are met with respect to their **100% eligibility** to cover the solvency capital requirement (SCR) and the minimum capital requirement (MCR).

31 December 2021:

Available and eligible basic own funds (thousands of euros)	Total	Tier 1, unrestricted	Tier 1, restricted	Tier 2	Tier 3
Eligible own funds to meet the solvency capital requirement	384,083	384,083	-	-	-
Eligible own funds to meet the minimum capital requirement	384,083	384,083	-	-	-

31 December 2020:

Available and eligible basic own funds (thousands of euros)	Total	Tier 1, unrestricted	Tier 1, restricted	Tier 2	Tier 3
Eligible own funds to meet the solvency capital requirement	406,011	406,011	-	-	-
Eligible own funds to meet the minimum capital requirement	406,011	406,011	-	-	-

There are no basic own funds to which the **transitional provisions** in Article 308 ter (9) and (10) of Directive 2009/138/EC apply.

There are **no ancillary own funds** as referred to in Article 89(1)(a) to (c) of Directive 2009/138/EC.

Deferred tax information

The detail of the deferred taxes between the financial statements and Solvency II is as follows:

31 December 2021:

Deferred taxes	Capital adequacy	Financial statements	Change
Deferred tax assets (DTA)	65,312	8,419	56,893
Deferred tax liabilities (DTL)	121,553	44,456	77,097
Deferred tax liabilities minus deferred tax assets	56,241	36,037	
Deferred tax absorption used in the SCR	(68,958)		
Surplus (shortage) of loss absorption	(12,717)		

The Company's planned data was used to calculate future taxable profits. This data is prepared every year and approved by the Board of Directors.

The difference between the "Solvency Value II" and the financial statements of deferred tax assets and liabilities is mainly due to valuation differences in the following headings:

Deferred tax assets	
Reinsurance recoverables	3,043
Intangible assets	3,515
Prepaid fees and other acquisition costs	21,805
Other receivables	21,951
Non-life risk margin	6,513
Health risk margin	66
Deferred tax assets (DTA)	**56,893**

Deferred tax liabilities	
Reinsurance recoverables	(1,680)

Property, plant and equipment and investment property	(2,029)
Holdings in group companies and associates	(10,292)
Non-Life technical provisions (no RM)	(60,475)
Health technical provisions (no RM)	(2,621)
Deferred tax liabilities (DTL)	**(77,097)**

31 December 2020:

Deferred taxes	Solvency	Financial statements	Change
Deferred tax assets (DTA)	63,118	9,502	53,616
Deferred tax liabilities (DTL)	128,676	44,989	83,687
Deferred tax liabilities minus deferred tax assets	65,558	35,487	
Deferred tax absorption used in the SCR	(63,575)		
Surplus (shortage) of loss absorption	1,983		

The difference between the "Carrying amount" and the financial statements of deferred tax assets and liabilities is mainly due to valuation differences in the following headings:

Deferred tax assets	
Reinsurance recoverables	4,685
Intangible assets	3,140
Prepaid fees and other acquisition costs	20,764
Other receivables	19,345
Non-life risk margin	5,628
Health risk margin	54
Deferred tax assets (DTA)	**53,616**

Deferred tax liabilities (DTL)	
Reinsurance recoverables	(1,653)
Property, plant and equipment and investment property	(2,002)
Holdings in group companies and associates	(9,740)
Non-Life technical provisions (no RM)	(67,757)
Health technical provisions (no RM)	(2,535)
Deferred tax liabilities (DTL)	**(83,687)**

The Company's planned data was used to calculate future taxable profits. This data is prepared every year and approved by the Board of Directors.

6.2. SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

The solvency capital requirement (SCR) detailed by risk module at 31 December 2021 and 2020 is as follows:

Solvency Capital Requirement (SCR)		
(thousands of euros)	**31.12.2020**	**31.12.2021**
Underwriting risk	161,004	171,657
Market risk	113,510	132,271
Counterparty risk	15,291	13,086
Health insurance underwriting risk	2,778	3,134
Diversification	(65,218)	(71,482)
Basic Solvency Capital Requirement (BSCR)	**227,365**	**248,666**
Operational risk	26,935	27,166
Deferred tax adjustment	(63,575)	(68,958)
Solvency Capital Requirement (SCR)	**190,725**	**206,874**

Given the nature of the Company and its lines of business, the minimum capital requirement is the minimum of 45% of the SCR and the maximum of the Linear MCR and 25% of the SCR.

Supporting data for calculating the SCR	**31.12.2020**	**31.12.2021**
Linear MCR	109,742	113,465
SCR	190,725	206,874
Maximum MCR (45% of SCR)	85,826	93,093
Minimum MCR (25% of SCR)	47,681	51,719
Minimum Capital Requirement (MCR)	**85,826**	**93,093**

The solvency ratios for the solvency capital requirement and the minimum capital requirement therefore are:

Solvency capital requirement (SCR) and minimum capital requirement (MCR)		
(thousands of euros)	**31.12.2020**	**31.12.2021**
Solvency capital requirement	190,725	206,874
Minimum Capital Requirement	85,826	93,093
Eligible own funds ratio for the SCR	213%	186%
Eligible own funds ratio for the MCR	473%	413%

There were **no significant changes in the** solvency capital requirement and the minimum capital requirement during the reference period.

The Company does not use any **simplification** in its calculations of the risk modules for the solvency capital requirement.

On 16 April 2016, the Company received authorisation to apply the **specific premium risk parameter for the other motor insurance business line.**

This parameter was calibrated using the Company's internal data, or data which is directly relevant for the operations of that Company using standard methods. The Company updates the specific parameter annually using the standard method approved by the supervisor with its new business data, verifying that the required assumptions are met.

The Company does not use **internal models** to calculate the capital required in any risk category.

The Company does not use the **duration-based equities risk sub-module** provided for in the option under Article 304 of Directive 2009/138/EC for calculating its solvency capital requirement.

The Company has not experienced **any breach** of the minimum capital requirement or any significant breach of the solvency capital requirement.

7. ANNEXES

7.1. MAIN CONCEPTS AND ABBREVIATIONS

Economic balance sheet	The balance sheet for solvency purposes.
Best estimate	The value of the best estimate, mainly applied in the measurement of technical provisions on the solvency balance sheet.
SCR	The solvency capital requirement, i.e. the capital required resulting from application of the standard formula.
MCR	The minimum capital requirement. The minimum capital required to operate as an insurance Company. This is calculated specifically for each Company.
BSCR	The basic solvency capital requirement. This comprises the total capital required for all risks in a correlated way without considering operational risk and adjustments for absorption of deferred tax losses and technical provisions.
DGSFP	Spain's Directorate General of Insurance and Pension Funds. This body is the national insurance supervisor.
The Directive (Solvency)	DIRECTIVE 2009/138/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)
EIOPA	The European Insurance and Occupational Pensions Authority. The European insurance regulator.
RSR	The Regular Supervisory Report that each Company must file with the regulator every three years.
SFCR	The annual Solvency and Financial Condition Report provided for the market.
Risk margin	An item included in the technical provisions on the liability side of the solvency balance sheet. It quantifies the margin to be paid to another Company for the transfer of the business. It does not exist on the liability side of the balance sheet in the financial statements.
AMSB	The Administrative, Management and Supervisory Body of the Company
ORSA	The annual Own Risk and Solvency Assessment exercise.
The Regulation (Solvency)	COMMISSION DELEGATED REGULATION (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)
ROSSEAR	Spain's Regulations on the Management, Supervision and Solvency of Insurance and Reinsurance Companies.

7.2. INFORMATION TEMPLATES

This section includes the templates to accompany this report, as required by Commission Implementing Regulation (EU) 2015/2452 of 2 December 2015 laying down implementing technical standards with regard to the procedures, formats and templates of the solvency and financial condition report in accordance with Directive 2009/138/EC of the European Parliament and of the Council.

The information templates that are not applicable to the Company – mainly relating to life insurance activity information, entities that use partial or complete internal models, and relating to groups – have not been included. All of the Company's activity is in Spain. Therefore, template S.05.02.01, with information on premiums, claims incurred and expenses by country, is not attached.

The figures in the attached templates are in **thousands of euros**.

Code	List of templates attached
S.02.01.02	Solvency balance sheet
S.05.01.02	Premiums, claims incurred and expenses according to the financial statements
S.17.01.02	Non-life technical provisions by business lines
S.19.01.21	Specifying information on non-life insurance claims in the format of development triangles
S.23.01.01	Own funds, including basic own funds and ancillary own funds
S.25.01.21	Solvency capital requirement for undertakings on the standard formula
S.28.01.01	Minimum capital requirements for life and non-life insurance activity

S.02.01.02 Solvency balance sheet information

		Solvency II value	Carrying amount
Assets	X0010		
Goodwill	R0010	-	-
Prepaid fees and other acquisition costs	R0020		87,219
Intangible assets	R0030	-	14,061
Deferred tax assets	R0040	65,312	8,419
Assets and redemption rights on long-term staff remuneration	R0050	-	-
Property, plant and equipment held for own use	R0060	52,659	41,574
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	945,659	897,408
Property (other than for own use)	R0080	1,951	1,923
Holdings	R0090	106,953	65,785
Equities	R0100	49,514	49,514
Equities — listed	R0110	49,508	49,508
Equities — unlisted	R0120	6	6
Bonds	R0130	711,015	703,960
Government bonds	R0140	396,345	392,416
Corporate bonds	R0150	314,670	311,544
Structured notes	R0160	-	-
Collateralised securities	R0170	-	-
Collective investment undertakings	R0180	76,226	76,226
Derivatives	R0190	-	-
Deposits other than cash equivalents	R0200	-	-
Other investments	R0210	-	-
Assets held for index-linked and unit-linked contracts	R0220	-	-
Loans and mortgages	R0230	20,121	20,117
Loans on policies	R0240	-	-
To individuals	R0250	-	-
Other	R0260	20,121	20,117
Reinsurance recoverables	R0270	14,702	20,153
Non-life and health similar to non-life.	R0280	14,702	20,153
Non-life excluding health	R0290	11,822	13,309
Health similar to non-life	R0300	2,880	6,844
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	-	-
Health similar to life	R0320	-	-
Life excluding health and index-linked and unit-linked	R0330	-	-
Life index-linked and unit-linked	R0340	-	-
Deposits to cedants	R0350	-	-
Insurance and intermediaries receivables	R0360	8,622	53,538
Receivables on reinsurance business	R0370	7,969	7,969
Other receivables	R0380	25,270	68,153
Own shares	R0390	-	-
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	-	-
Cash and cash equivalents	R0410	98,911	98,911
Any other assets, not elsewhere shown	R0420	1,499	8,558
TOTAL ASSETS	R0500	**1,240,724**	**1,326,080**

		Solvency II value	Carrying amount

Liabilities	X0440		
Technical provisions – non-life	R0510	540,527	-
Technical provisions — non-life (excluding health)	R0520	532,362	726,294
Technical provisions calculated as a whole	R0530	-	-
Best estimate (BE)	R0540	506,308	-
Risk margin (RM)	R0550	26,054	-
Technical provisions – health insurance (similar to non-life)	R0560	8,165	18,383
Technical provisions calculated as a whole	R0570	-	-
Best estimate (BE)	R0580	7,900	-
Risk margin (RM)	R0590	265	-
Technical provisions — life (excluding index-linked and unit-linked)	R0600	-	-
Technical provisions – health insurance (similar to life)	R0610	-	-
Technical provisions calculated as a whole	R0620	-	-
Best estimate (BE)	R0630	-	-
Risk margin (RM)	R0640	-	-
Technical provisions — life (excluding health and index-linked and unit-linked)	R0650	-	-
Technical provisions calculated as a whole	R0660	-	-
Best estimate (BE)	R0670	-	-
Risk margin (RM)	R0680	-	-
Technical provisions – index-linked and unit-linked	R0690	-	-
Technical provisions calculated as a whole	R0700	-	-
Best estimate (BE)	R0710	-	-
Risk margin (RM)	R0720	-	-
Other technical provisions	R0730	-	-
Contingent liabilities	R0740	-	-
Other non-technical provisions	R0750	203	22,118
Pension benefit obligations	R0760	-	-
Deposits from reinsurers	R0770	-	-
Deferred tax liabilities	R0780	121,553	44,456
Derivatives	R0790	9,447	8,922
Debts owed to credit institutions	R0800	-	-
Debts owed to credit institutions resident domestically	ER0801	-	-
Debts owed to credit institutions resident in the euro area other than domestic	ER0802	-	-
Debts owed to credit institutions resident in rest of the world	ER0803	-	-
Financial liabilities other than debts owed to credit institutions	R0810	-	-
Debts owed to non-credit institutions	ER0811	-	-
Debts owed to non-credit institutions resident domestically	ER0812	-	-
Debts owed to non-credit institutions resident in the euro area other than domestic	ER0813	-	-
Debts owed to non-credit institutions resident in rest of the world	ER0814	-	-
Other financial liabilities (debt securities issued)	ER0815	-	-
Insurance & intermediaries payables	R0820	2,526	2,526
Due on reinsurance business	R0830	1,244	1,244
Payables (trade, not insurance)	R0840	159,097	156,100
Subordinated liabilities	R0850	-	-
Subordinated liabilities not in basic own funds (BOF)	R0860	-	-
Subordinated liabilities in basic own funds (BOF)	R0870	-	-
Any other liabilities, not elsewhere shown	R0880	585	1,110
TOTAL LIABILITIES	R0900	**835,182**	**981,153**
EXCESS OF ASSETS OVER LIABILITIES	R1000	**405,542**	**344,927**

S.05.01.02 Premiums, claims incurred and expenses according to the financial statements

		Non-life insurance and non-proportional reinsurance					
		Medical expense insurance	Motor vehicle liability insurance	Other motor insurance	Fire and other damage to property insurance	Assistance	TOTAL
		C0020	C0040	C0050	C0070	C0110	C0200
Premiums written	X0010						
Gross – Direct Business	R0110	26,449	341,746	406,354	131,243	1,397	907,189
Gross – Proportional reinsurance accepted	R0120	-	-	-	-	-	-
Gross – Non-proportional reinsurance accepted	R0130	-	-	-	-	-	-
Reinsurer's share	R0140	11,921	1,457	3,266	6,707	41	23,392
Net	**R0200**	**14,528**	**340,291**	**403,088**	**124,536**	**1,356**	**883,797**
Premiums earned	X0060						
Gross – Direct Business	R0210	26,327	345,195	406,820	125,774	1,429	905,545
Gross – Proportional reinsurance accepted	R0220	-	-	-	-	-	-
Gross – Non-proportional reinsurance accepted	R0230	-	-	-	-	-	-
Reinsurer's share	R0240	11,346	1,457	3,266	6,707	41	22,817
Net	**R0300**	**14,981**	**343,738**	**403,554**	**119,067**	**1,388**	**882,728**
Claims incurred	X0010	-	-	-	-	-	-
Gross – Direct Business	R0310	20,486	247,034	236,645	58,930	(17)	563,078
Gross – Proportional reinsurance accepted	R0320	-	-	-	-	-	-
Gross – Non-proportional reinsurance accepted	R0330	-	-	-	-	-	-
Reinsurer's share	R0340	10,046	3,975	(57)	3,114	(17)	17,061
Net	**R0400**	**10,440**	**243,059**	**236,702**	**55,816**	**-**	**546,017**
Changes in other technical provisions	X0160	-	-	-	-	-	-
Gross – Direct Business	R0410	-	-	-	-	-	-
Gross – Proportional reinsurance accepted	R0420	-	-	-	-	-	-
Gross – Non-proportional reinsurance accepted	R0430	-	-	-	-	-	-
Reinsurer's share	R0440	-	-	-	-	-	-
Net	R0500	-	-	-	-	-	-
Technical expenses	**R0550**	11,752	104,420	94,440	50,304	113	261,028
Administrative expenses		-	-	-	-	-	-
Gross – Direct Business	R0610	1,101	7,137	12,394	5,521	14	26,167
Gross – Proportional reinsurance accepted	R0620	-	-	-	-	-	-
Gross – Non-proportional reinsurance accepted	R0630	-	-	-	-	-	-
Reinsurer's share	R0640	-	-	-	-	-	-
Net	R0700	1,101	7,137	12,394	5,521	14	26,167
Investment management expenses							
Gross – Direct Business	R0710	-	1,233	728	-	-	1,961
Gross – Proportional reinsurance accepted	R0720	-	-	-	-	-	-
Gross – Non-proportional reinsurance accepted	R0730	-	-	-	-	-	-
Reinsurer's share	R0740	-	-	-	-	-	-
Net	R0800	-	1,233	728	-	-	1,961
Claims management expenses							
Gross – Direct Business	R0810	2,511	33,861	7,660	10,410	-	54,442
Gross – Proportional reinsurance accepted	R0820	-	-	-	-	-	-
Gross – Non-proportional reinsurance accepted	R0830	-	-	-	-	-	-
Reinsurer's share	R0840	-	-	-	-	-	-
Net	R0900	2,511	33,861	7,660	10,410	-	54,442
Acquisition expenses							
Gross – Direct Business	R0910	13,070	61,599	72,635	34,368	99	181,770
Gross – Proportional reinsurance accepted	R0920	-	-	-	-	-	-

		Non-life insurance and non-proportional reinsurance					
		Medical expense insurance	Motor vehicle liability insurance	Other motor insurance	Fire and other damage to property insurance	Assistance	TOTAL
Gross – Non-proportional reinsurance accepted	R0930	-	-	-	-	-	-
Reinsurer's share	R0940	-	-	-	-	-	-
Net	R1000	13,070	61,599	72,635	34,368	99	181,770
Overhead expenses							
Gross – Direct Business	R1010	93	590	1,023	5	-	1,711
Gross – Proportional reinsurance accepted	R1020	-	-	-	-	-	-
Gross – Non-proportional reinsurance accepted	R1030	-	-	-	-	-	-
Reinsurer's share	R1040	5,024	-	-	-	-	5,024
Net	R1100	(4,930)	590	1,023	5	-	(3,312)
Other expenses	**R1200**						(24,489)
Total expenses	**R1300**						**236,539**

S.17.01.02 Information on non-life technical provisions by lines of business

		Direct business and accepted proportional reinsurance					
		Medical expense insurance	**Motor vehicle liability insurance**	**Other motor insurance**	**Fire and other damage to property insurance**	**Assistance**	**TOTAL**
		C0020	C0050	C0060	C0080	C0120	C0180
Technical provisions calculated as a whole	R0010	-	-	-	-	-	-
Total recoverables from reinsurance/SPV and finite reinsurance after the adjustment for expected losses due to counterparty default associated to the technical provisions calculated as a whole	R0050	-	-	-	-	-	-
Technical provisions calculated as a sum of BE and RM	X0030						
Best estimate:	X0030						
Premium provisions	X0030						
Gross	R0060	2,807	123,447	108,366	31,966	(305)	266,281
Total recoverable from reinsurance/SPV and finite reinsurance after the adjustment for expected losses due to counterparty default	R0140	317	6,309	-	413	(15)	7,024
Net best estimate of premium provisions	R0150	2,490	117,138	108,366	31,553	(290)	259,257
Claims provisions	X0060						
Gross	R0160	5,093	175,082	50,975	16,433	344	247,927
Total recoverable from reinsurance/SPV and finite reinsurance after the adjustment for expected losses due to counterparty default	R0240	2,563	4,021	355	739	-	7,678
Net best estimate of claims provisions	R0250	2530	171,061	50,620	15,694	344	240,249
Total best estimate, gross	R0260	**7,900**	**298,529**	**159,341**	**48,399**	**39**	**514,208**
Total best estimate, net	R0270	**5,020**	**288,199**	**158,986**	**47,247**	**54**	**499,506**
Risk margin	R0280	**265**	**15,185**	**8,377**	**2,489**	**3**	**26,319**
Technical provisions for the application of transitional provisions	X0120						
Technical provisions calculated as a whole	R0290						
Best estimate	R0300						
Risk margin	R0310						
TOTAL TECHNICAL PROVISIONS:	X0150						
Total technical provisions	R0320	8,165	313,714	167,718	50,888	42	540,527
Total recoverable from reinsurance/SPV and finite reinsurance after the adjustment for expected losses due to counterparty default	R0330	2,880	10,330	355	1,152	(15)	14,702
Total technical provisions minus recoverables from reinsurance/SPV and finite reinsurance	R0340	5,285	303,384	167,363	49,736	57	525,825

S.19.01.21 Non-life insurance claims Total non-life business

Total non-life business Accident year

Gross claims paid (non cumulative) (absolute amount)

	Year	-	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15 & +
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160
Prior	R0100																238
N-14	R0110	261,219	120,623	15,061	4,602	3,844	1,311	841	(29)	283	9	97	(34)	7	53	(14)	
N-13	R0120	271,791	94,524	14,990	6,315	3,851	1,681	1,418	482	275	141	(116)	73	59	(22)		
N-12	R0130	301,200	102,572	21,973	7,547	3,755	1,264	646	150	1,025	101	87	276	829			
N-11	R0140	304,460	109,637	19,918	7,468	3,257	1,784	1,546	475	674	629	322	(47)				
N-10	R0150	296,215	93,753	14,446	6,650	3,545	2,302	483	764	729	114	(48)					
N-9	R0160	272,780	81,976	13,440	5,805	2,763	2,228	329	711	160	415						
N-8	R0170	259,565	79,499	11,997	4,340	2,981	3,123	1,423	(290)	(510)							
N-7	R0180	240,886	80,042	14,312	6,144	4,277	2,589	747	994								
N-6	R0190	247,882	81,549	16,241	6,802	4,697	1,906	670									
N-5	R0200	254,659	82,956	21,838	14,066	6,591	3,300										
N-4	R0210	274,878	101,162	25,329	11,483	6,165											
N-3	R0220	302,136	111,284	27,437	12,301												
N-2	R0230	338,329	115,365	24,914													
N-1	R0240	279,694	85,906														
N	R0250	339,130															

	In current year	Sum of years (cumulative)
	C0170	C0180
Prior	238	364,363
N-14	(14)	407,873
N-13	(22)	395,462
N-12	829	441,425
N-11	(47)	450,122
N-10	(48)	418,954
N-9	415	380,607
N-8	(510)	362,128
N-7	994	349,991
N-6	670	359,748
N-5	3,300	383,410
N-4	6,165	419,016
N-3	12,301	453,158
N-2	24,914	478,608
N-1	85,906	365,600
N	339,130	339,130
Total	474,221	6,369,595

Gross undiscounted Best Estimate Claims Provisions (absolute amount)

Development year

	Year	-	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15 & +
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0310	C0320	C0330	C0340	C0350
Prior	R0100																294
N-14	R0110	-	35,375	18,960	7,775	4,521	2,808	2,705	2,241	2,002	1,764	885	717	193	(628)	83	
N-13	R0120	150,646	40,549	17,782	11,893	8,728	6,505	4,032	3,132	2,314	948	27	(7)	(488)	232		
N-12	R0130	157,554	44,988	21,964	13,133	8,289	4,933	3,154	2,232	775	135	(221)	(762)	62			
N-11	R0140	152,556	47,298	24,971	15,002	9,798	6,436	5,127	3,626	838	(152)	(938)	100				
N-10	R0150	137,598	40,140	22,568	12,004	6,984	4,131	2,036	371	(608)	(838)	250					
N-9	R0160	119,920	31,993	14,891	6,733	4,805	3,043	1,861	362	(247)	248						
N-8	R0170	119,490	26,316	10,308	6,029	2,918	687	(25)	(1,421)	390							
N-7	R0180	125,905	30,669	14,209	7,953	2,997	1,719	1,186	1,395								
N-6	R0190	124,883	34,935	14,980	6,980	2,942	298	904									
N-5	R0200	141,748	53,765	29,838	9,213	4,854	3,329										
N-4	R0210	141,901	43,670	15,979	6,800	4,754											
N-3	R0220	129,018	30,119	17,911	9,565												
N-2	R0230	136,224	51,395	24,845													
N-1	R0240	109,237	39,154														
N	R0250	163,750															

		Year end (discounted data)
		C0360
Prior	R0100	294
N-14	R0110	83
N-13	R0120	232
N-12	R0130	62
N-11	R0140	100
N-10	R0150	251
N-9	R0160	249
N-8	R0170	392
N-7	R0180	1,401
N-6	R0190	911
N-5	R0200	3,337
N-4	R0210	4,772
N-3	R0220	9,599
N-2	R0230	24,920
N-1	R0240	39,281
N	R0250	164,270
Total	R0260	250,154

S.23.01.01 Own funds

		Total	Tier 1, unrestricted	Tier 1, restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds						
Ordinary share capital (gross of own shares)	R0010	43,537	43,537		-	
Share premium account related to ordinary share capital	R0030	-	-		-	
Initial mutual fund	R0040	-	-		-	
Subordinated mutual accounts	R0050	-		-	-	-
Surplus funds	R0070	-	-			
Preference shares	R0090	-		-	-	-
Issue premiums for shares and preference shares	R0110	-		-	-	-
Reconciliation reserve	R0130	340,546	340,546			
Subordinated liabilities	R0140	-		-	-	-
An amount equivalent to the value of net deferred tax assets	R0160	-				-
Other items approved by supervisory authority as basic own funds not specified above	R0180	-	-	-	-	-
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve	R0220	-	-			
Deductions not included in the reconciliation reserve						
Deductions for participations in financial and credit institutions	R0230	-	-	-	-	
Total basic own funds after deductions	R0290	384,083	384,083	-	-	-
Ancillary own funds						
Unpaid and uncalled ordinary share capital	R0300	-			-	
Unpaid and uncalled initial mutual funds	R0310	-			-	
Unpaid and uncalled preference shares	R0320	-			-	-
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	-			-	-
Letters of credit and guarantees under Article 96(2)	R0340	-			-	
Letters of credit and guarantees other than under Article 96(2) held on deposit	R0350	-			-	-
Supplementary members calls under first subparagraph of Article 96	R0360	-			-	
Supplementary members calls different from those under first subparagraph of Article 96(3) of Directive 2009/138/EC	R0370	-			-	-
Other ancillary own funds	R0390	-			-	-
Total ancillary own funds	R0400	-			-	-
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	384,083	384,083	-	-	-
Total available own funds to meet the MCR	R0510	384,083	384,083	-	-	
Total eligible own funds to meet the SCR	R0540	384,083	384,083	-	-	
Total eligible own funds to meet the MCR	R0550	384,083	384,083	-	-	
SCR	R0580	206,874				
MCR	R0600	93,093				
Ratio of eligible own funds to the SCR	R0620	1.86				
Ratio of eligible own funds to the MCR	R0640	4.13				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	405,542
Own shares (included as assets on the balance sheet)	R0710	-
Foreseeable dividends and distributions	R0720	21,459
Other basic own fund items	R0730	43,537
Adjustment for restricted own fund items in respect of ring-fenced funds	R0740	-
Total reconciliation reserve	**R0760**	**340,546**
Expected profits		
Expected profits included in future premiums (EPIFP) – Life business	R0770	-
Expected profits included in future premiums (EPIFP) – Non-life business	R0780	29,429
Total EPIFP	**R0790**	**29,429**

S.25.01.21 Solvency Capital Requirement – for undertakings on standard formula

		Gross solvency capital requirement	Company Specific Parameter (USP)	Simplifications
		C0030	C0040	C0050
Market risk	R0010	132,271	-	-
Counterparty risk	R0020	13,086	-	-
Life underwriting risk	R0030	-	-	-
Health underwriting risk	R0040	3,134	-	-
Non-life underwriting risk	R0050	171,657	Standard deviation of risk premium for non-life insurance;	-
Diversification	R0060	(71,482)	-	-
Intangible asset risk	R0070	-	-	-
Basic solvency capital requirement	R0100	248,666	-	-

		C0100
Operational risk	R0130	27,166
Loss-absorbing capacity of technical provisions	R0140	-
Loss-absorbing capacity of deferred taxes	R0150	(68,958)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	-
Solvency Capital Requirement excluding capital add-on	R0200	206,874
Capital add-on already set	R0210	-
Solvency capital requirement	R0220	**206,874**
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	-
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	206,874
Total amount of Notional Solvency Capital Requirements for ring-fenced funds	R0420	-
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	-
Diversification effects due to ring-fenced funds notional SCR aggregation for article 304	R0440	-

S.28.01.01 Minimum Capital Requirement – Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCR_{NL} result	R0010	**113,465**

		Net best estimate and technical provisions calculated as a whole	Net written premiums
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020	5,020	14,528
Income protection insurance and proportional reinsurance	R0030	-	-
Worker's compensation insurance and proportional reinsurance	R0040	-	-
Motor vehicle liability insurance and proportional reinsurance	R0050	288,199	340,291
Other motor insurance and proportional reinsurance	R0060	158,987	403,088
Marine, aviation and transport insurance and proportional reinsurance	R0070	-	-
Fire and other damage to property insurance and proportional reinsurance	R0080	47,247	124,535
General liability insurance and proportional reinsurance	R0090	-	-
Credit and suretyship insurance and proportional reinsurance	R0100	-	-
Legal expenses insurance and proportional reinsurance	R0110	-	-
Assistance and proportional reinsurance	R0120	53	1,355
Miscellaneous financial loss insurance and proportional reinsurance	R0130	-	-
Non-proportional health reinsurance	R0140	-	-
Non-proportional casualty reinsurance	R0150	-	-
Non-proportional marine, aviation and transport reinsurance	R0160	-	-
Non-proportional property reinsurance	R0170	-	-

I, Pablo González-Schwitters Grimaldo, in my capacity as secretary of the Board of Directors of LINEA DIRECTA ASEGURADORA S.A, COMPAÑÍA DE SEGUROS Y REASEGUROS, with tax ID number (CIF) A-80871031 (the Company), hereby certify that, according to the minutes for the meeting of the Board of Directors of the Company held on 24 March 2022, the Board of Directors has adopted the resolution to approve the Solvency and Financial Condition Report for the financial year 2021 contained in this document, which comprises 80 pages (including this one) all of which I have endorsed.

Pablo González-Schwitters Grimaldo

Secretary to the Board of Directors