

General Risk Policy of the Línea Directa Aseguradora Group



línea directa

Name of the Policy	General Risk Policy of the Línea Directa Aseguradora Group
Related section of the Code of Ethics	Section 6
Related section of other policies	-
Rules and standards superseded	None
Related rules and standards	-
Business unit or function affected	The entire Línea Directa Aseguradora Group
Personnel affected	The entire Línea Directa Aseguradora Group
Main person responsible for monitoring	Managing Director of Risks
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GENERAL RISK POLICY

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1. INTRODUCTION

The aim of this policy is to establish the overall framework for action in managing, measuring and controlling Línea Directa Aseguradora's risks.

Through it, the Board of Directors of Línea Directa Aseguradora, S.A. ("Línea Directa" or the "Company") shows its commitment to the establishment of an adequate control and an efficient and prudent risk management.

This policy identifies the main risks faced by the Company and the other companies which are part of the Group whose parent company, within the meaning established by law, is Línea Directa Aseguradora S.A. (the Línea Directa Aseguradora "Group") and organises the appropriate internal control and information systems, as well as the regular monitoring of these systems.

2. PRINCIPLES OF ACTION

The Línea Directa Aseguradora Group may be exposed to various risks which are inherent to the activities and businesses it carries out, as well as those arising from external factors, which may prevent it from achieving its objectives and successfully executing its strategies. This policy establishes the following risk management principles in order to ensure that the most relevant risks are properly identified, measured, managed and controlled:

Integration. - Risk management is part of the management responsibilities and an integral part of all the Organisation's processes. A

risk management culture must be maintained in every decision made at all levels.

Independence. - Duties and coordination mechanisms between business units and risk monitoring and control units must be properly segregated at the operational level.

Integral management. - The Línea Directa Aseguradora Group entities must identify, measure, manage and control all their significant risks, establishing the appropriate policies, procedures, structure and means for each of them. The Risk Map is a tool that provides an overview of the most significant risks to which the organisation is exposed.

Transparency. - There must be adequate channels in place for the reporting of internal information, so that any threats can be detected as early as possible to prevent, or reduce the impact of, threats.

Review and constant improvement of risk management. - The adequacy, suitability and efficiency of risk management will be periodically reviewed and evaluated. The Group will analyse opportunities for improvement that may arise internally from learning from reported incidents, or externally, from the availability of new tools and knowledge that can improve risk management.

Compliance with internal regulations. - The values and standards of conduct reflected in the Code of Ethics, in particular the commitment to upholding the law, and the principle of "zero tolerance" towards the commission of illegal acts and fraud as set out in the *Regulatory Compliance Policy* must be observed at all times.

3. SCOPE

The principles set out in this document apply to all employees, managers and directors of all companies that make up the Línea Directa Aseguradora Group, in accordance with applicable law and regulations.

Taking into account the nature and unique features of their own business, the subsidiaries must adopt the Group's *General Risk Policy* and implement the necessary control systems to ensure it is complied with. They will promote principles, guidelines and risk limits consistent with those established in this policy and will maintain adequate reporting channels to ensure adequate knowledge of risks within the Group.

4. IDENTIFICATION OF RELEVANT RISKS

Línea Directa Aseguradora has identified the most significant risks to be the following:

- Non-life underwriting risk
- Health underwriting risk
- Market and concentration risk
- Financial, Credit and Counterparty Risks, including contingent liabilities and other off-balance sheet risks
- Operational risks
- Technological and cybersecurity risks
- Legal risk (regulatory and regulatory compliance)
- ESG (Environmental, Social and Governance) risks
- Reputational risk

The definition of the risks identified as relevant, and the specific ways they are controlled and managed, are developed through **specific policies for each risk category**, which are also subject to approval by the Board of Directors, and which complement this *General Risk Policy*.

5. DEVELOPMENT OF THE POLICY

This *General Risk Policy* is developed and complemented by the specific policies that may be established in relation to certain risks, corporate functions or businesses of the Group, as well as other internal documents. These include, but are not limited to:

- Regulatory compliance policy
- Criminal compliance policy
- Actuarial function policy
- Credit risk management policy
- Liquidity risk management policy
- Reserves risk management policy
- Operational risk management policy
- Reputational risk management policy
- Product governance policy
- Tax policy
- Governance system

The **Group Risk Map** is the tool that charts all identified risks, and sets out the measures used to assess and control them.

The **Own Risk and Solvency Assessment** (ORSA) report describes the risk profile of Línea Directa Aseguradora S.A. (its subsidiaries are not included due to the corporate purpose), and is a risk management tool that is used to

gain an understanding of and show a comprehensive and complete view of all risks inherent in the business.

6. ACCEPTABLE RISK LEVEL

The board of directors has ultimate responsibility for defining and setting the risk appetite. It is also responsible for setting limits for identified risks and making sure they are properly monitored and managed. It is also responsible for updating the organisation's risk appetite framework every year and monitoring the effective risk profile, and ensuring the two are properly aligned. If any risk exceeds the established limits, action must be taken to restore it to the proper level, provided that the risk is manageable and the cost of the mitigation measures is justified taking into account the potential impact of the risk actually occurring in the organisation.

Every year, the Board of Directors or the Audit and Compliance Committee shall set the risk tolerance limits. They will also approve changes in key risk indicator (KRI) thresholds, which are reviewed annually.

7. ORGANISATION OF THE RISK CONTROL AND MANAGEMENT SYSTEM

The policy and its basic principles are implemented through a comprehensive risk control and management system, assisted by a permanent Group Risk Committee and based on an appropriate definition and assignment of roles and responsibilities.

The purpose of this system is to ensure that all risks are adequately managed and kept within the levels set by the Board of Directors.

The organisational structure of risk management and control is based upon the principles of independence and segregation of duties between business units and risk monitoring and control units.

The main roles and responsibilities of the governance bodies and parties involved in the risk management and control process are defined below.

The **Board of Directors of Línea Directa Aseguradora**: is responsible for determining the *General Risk Policy*, which will be used as a framework for the specific policies for each risk to which the Company is subject.

The **Audit and Compliance Committee**: will be responsible for overseeing the effectiveness of the company's internal control, internal audit, and risk management systems.

The heads of the Risk Function and the Internal Audit Function report to this Committee upon the most significant risks included in the entity's Risk Map, as well as the status of the recommendations issued and the movements in the Key Risk Indicators (KRI).

The Internal Audit Function: is responsible for executing the Internal Audit Plan, which includes overseeing the risk management system. The Risk Map should be used to align the work of Internal Audit with the organisation's strategy and to carry out the annual audit planning.

The Risk Management Functions are responsible for:

- Ensuring the proper functioning of risk management and control systems and, in particular, seeing to it that all significant risks affecting the company are identified, managed and adequately quantified, including those listed in section 4 of this policy..
- Playing an active role in the development of risk strategy and major risk management decisions.
- Ensuring that the risk control and management systems adequately mitigate risks within the framework of the policy defined by the Board of Directors.
- Periodically assessing the adequacy and effectiveness of controls (defined as measures to mitigate the impact of identified risks) and make recommendations to the officers responsible for the risks - recommendations that will be turned into action plans.
- Regularly reporting to the Management Committee - and, as often as deemed appropriate, to the Audit and Compliance Committee and to the Standing Risk Committee - on the status of the Company's risks, and on any possible risks that could emerge and the status of all recommendations arising from testing.

The risk management functions are equipped with adequate reporting systems and controls to ensure compliance with this policy and the way they function is described in the specific policies for each type of risk.

The Standing Risk Committee: is responsible for facilitating and monitoring the implementation of effective risk management practices, monitoring and overseeing all the risks.

As to the specific Committees: the way they are organised and their powers are described in the *Governance System of Línea Directa Aseguradora S.A.*

Senior Management: is responsible for creating a culture and organisational structure that promotes effective risk management. The heads of the Business and Support Areas must be aware of the risks in their area of activity and manage them in a way that is consistent with their functions, powers and responsibilities, while also implementing the necessary measures for risk management.

Business and Support Areas: are responsible for detecting and reporting risks that may become apparent in the course of their activities, and for managing them, working alongside the areas that make up the Risk Function.

8. APPROVAL AND MODIFICATION

The content of this policy will be subject to periodic review, and changes or modifications will be made as deemed appropriate. Where it is proposed to amend this policy as a result of a review, it shall first be submitted to the Board of Directors for approval, and employees will be properly informed of the amendment.

This Policy will be effective from date of publication.

This Policy was approved by the Board of Directors of Línea Directa Aseguradora S.A. on 21 July 2022.

Madrid, 21 July 2022