



Report formulated by the Línea Directa Aseguradora, S.A. Appointments, Remuneration and Corporate Governance Committee Compañía de Seguros y Reaseguros relating to the proposed Remuneration Policy for Directors, which is submitted for approval in item seven of the agenda of the Ordinary General Shareholders' Meeting to be held on 24 March 2022, on first call, or on 25 March, 2022, on second call.

This document is drafted in accordance with Article 529 novodecies of the Spanish Corporate Enterprises Law¹, which establishes that the Annual General Meeting must approve the remuneration policy for directors, which must include both remuneration for non-executive directors and remuneration for directors performing executive functions.

Law 5/2021² has redrafted article 529 novodecies of the LSC, relating to approval of the remuneration policy for directors. Even though the system in effect after this amendment still sets out that the Annual General Meeting of a listed company must approve a remuneration policy for directors, it also extends its mandatory content.

The remuneration policy, which will be implemented for a maximum of three years, must still be submitted to Annual General Meeting for approval, as a separate agenda item.

Under the aforementioned article 529 novodecies, the proposed remuneration policy for directors must be justified and must be accompanied with a specific report from the Appointment and Remuneration Committee. Both documents must be published on the corporate website when the General Meeting is called.

In addition, the first transitory provision of the aforementioned Law 5/2021 establishes that listed companies must submit a new remuneration policy for directors, which has been adapted to make it comply with the new requirements established in Law 5/2021, for approval by the first Annual General Meeting after this law enters into force.

1 Royal Legislative Decree 1/2010 of 2 July, approving the revised text of the Spanish Corporate Enterprises Law ("Spanish Corporate Enterprises Law" or "LSC").

2 Law 5/2021 of 12 April, which amends the revised text of the Spanish Corporate Enterprises Law, and other financial regulations, in relation to promoting the long-term involvement of shareholders in listed companies ("Law 5/2021").



In compliance with these legal precepts, the Appointments, Remuneration and Corporate Governance Committee ("**CNRGC**" or the "**Committee**") of Línea Directa Aseguradora, S.A., Compañía de Seguros y Reaseguros ("**Línea Directa**" or the "**Company**") has drawn up this detailed legal report (the "**Report**"), which will be proposed to the Board in plenary session and subsequently to the 2022 Annual General Shareholders Meeting, justifying the proposed Remuneration Policy for Directors (the "**Remuneration Policy**"), which will apply from the date on which it is approved by the 2022 Annual General Meeting, until 31 December 2025, which will annul and replace the Remuneration Policy approved by the Línea Directa General Meeting on 18 March 2021 in its entirety, notwithstanding the effects produced and consolidated while it is in effect.

I. Reason for approving a new Remuneration Policy

The Línea Directa Annual General Meeting held on 18 March 2021 agreed to approve a remuneration policy for directors which was valid from the date on which the admission-to-trading prospectus for company shares was registered on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges until 31 December 2023 ("**2021-2023 remuneration policy for directors**")

In accordance with Article 34 of the Board of Directors Regulations, among its other roles, the CNRGC is responsible for proposing the remuneration policy for directors to the board of directors.

As part of the decision-making process, the CNRGC has reviewed this remuneration policy, with a comprehensive and rigorous approach.

The proposed new Remuneration Policy, which will replace, where appropriate, the policy approved on 18 March 2021 by the Annual General Meeting, is justified by the following reasons:

- (i) fully adapting the wording of the Remuneration Policy to ensure that it complies with the current Spanish Corporate Enterprises Law, after the amendments introduced by Law 5/2021, and also to ensure that it is in line with the best market practices and the latest recommendations for good corporate governance in terms of directors' remuneration;
- (ii) as a result of the relationship with the Línea Directa CEO being terminated on 17 February 2022, establishing the remuneration terms and conditions for a new CEO starting from his appointment date in 2022, as well as the main terms and conditions of his contract, in accordance with the provisions thereof; and



- (iii) references to finalised plans of which the previous CEO was a beneficiary (i.e. 2019-2021 Long-Term Incentive) being removed.

Other formal amendments (i.e. dates and tax years) are also introduced in order to update the Remuneration Policy, so that it reflects the amendments set out above.

Finally, with the approval of the Remuneration Policy by the 2022 Annual General Meeting, it would comply with Law 5/2021, which establishes that listed companies must propose the remuneration policy for directors for approval by the Annual General Meeting.

II. The main rules applying to directors remuneration

The main rules applying to the remuneration of Línea Directa directors are as follows:

1. The Spanish Corporate Enterprises Law

The LSC establishes that the position of a director in a listed company must be remunerated, unless the articles of association establish otherwise. Línea Directa's Articles of Association confirm that the position is remunerated, while establishing the remuneration system applying to directors in their capacity as such and governing the remuneration for directors who hold executive functions. The remuneration of directors, either in their capacity as such as for the performance of executive functions, must comply with the provisions of the Remuneration Policy. It is the board of director's responsibility to set or determine the individual remuneration of each director, either in their capacity as such, or for the performance of executive functions.

The remuneration of directors in their capacity as such ("**Directors in their capacity as such**"), for merely performing their functions as members of the board of directors, complies with the structure established in article 31 of Línea Directa's Articles of Association. The Remuneration Policy must determine their remuneration within the legally established system and must include the maximum annual remuneration amount to be paid to all of them for their status as directors and the payment criteria based on the powers and responsibilities held by each one.

The maximum annual remuneration limit for directors in their capacity as such will be the limit approved by the Annual General Meeting at all times.



Directors who perform executive functions (currently, this section of the Policy only refers to the new Chief Executive Officer, the "**Chief Executive Officer**"), in accordance with the Articles of Association, will be entitled to receive the agreed remuneration for performing these functions, including taking part in incentive schemes which, where appropriate, are established for the Company's senior management and in the appropriate pension and insurance schemes. Likewise, if these duties are terminated, these directors may be entitled, under the terms and conditions approved by the board of directors, to appropriate compensation.

Therefore, under the aforementioned article 31 of the Articles of Association, the Remuneration Policy will comply the remuneration system set out in this article, as appropriate.

Any remuneration received by directors for performing their role, for their role being terminated and for performing executive duties must comply with the Remuneration Policy in force at all times, except for remuneration explicitly approved by the Annual General Meeting.

2. Línea Directa Articles of Association and internal regulations

Regulations on the remuneration of Línea Directa directors are included in article 31 of the Articles of Association, and are enacted in the Línea Directa Board of Directors Regulations. In turn, these texts govern the composition, functioning and functions of the CNRGC, all in accordance with the precepts of the LSC.

III. Justification of new provisions introduced in relation to the 2021-2023 remuneration policy for directors

The essential aspects of the proposed new Remuneration Policy, which has continuity with the 2021-2023 remuneration policy for directors, are set out below:

a) In relation to the principles of the Remuneration Policy

Two tweaks have been added, which involve:

- Including sustainability risks within prudent and effective risk management.
- In the principle of equality and diversity, mentioning equal pay for positions of equal value.



b) In relation to directors' remuneration for performing their executive functions

The new remuneration scheme for the new CEO has been included, which is made up of the following items:

▪ Fixed remuneration:

The Chief Executive Officer's annual gross fixed remuneration is 300,000 euros, to be paid in twelve (12) monthly payments.

In accordance with market studies and analyses drawn up by external third parties and the average increases in the remuneration of the Línea Directa senior management, following a proposal by the CNRGC, the board of directors will agree to update the fixed remuneration in order to establish appropriate compensation for the functions of a Chief Executive Officer, in such a way as to be competitive in the market and in line with the compensation for similar entities to Línea Directa.

▪ Corporate benefits:

The Chief Executive Officer will be entitled to and be given access to corporate benefits arranged for the Company's management team, as well as those included in the Collective Bargaining Agreement applying to all Línea Directa employees or corporate benefits that, in the future, may be in the collective rules or in specific collective agreements at company level, such as health insurance, life insurance or the right to a vehicle, including vehicle expenses.

Finally, the Company has a liability insurance policy that covers contractual contingencies that the Chief Executive Officer may incur as a result of the activities included within his functions.

▪ Social security systems:

The Chief Executive Officer maintains the rights recognised to him in a collective life insurance policy of the collective unit linked modality, underwritten by Línea Directa, which implements the Company's pension commitments.

It is a defined contribution system to which the Company contributes 30% of the Chief Executive Officer's fixed remuneration every year.



If the Chief Executive Officer continues to provide his services at Línea Directa at the ordinary retirement age, the accumulated funds would be reduced by 1% on a monthly basis for each additional year of service, unless explicitly agreed otherwise.

- Variable remuneration:

The annual variable remuneration will be paid 50% in cash and 50% in shares, depending on whether predetermined objectives are fulfilled, which is linked to how much strategic objectives established at any time by the Company are achieved.

In any case, the 50% of the annual variable remuneration paid in shares will be paid if it is approved by the Línea Directa Annual General Meeting, under the terms of Article 219 of the Spanish Corporate Enterprises Law.

The shares will be delivered once the aforementioned approval has been given by the Annual General Meeting.

The system is based on the premise of a direct relationship between the Company's results and the amount of variable remuneration, considering how much objectives are met.

This annual variable remuneration will account for 40% of the Chief Executive Officer's fixed remuneration (assuming that 100% of the objectives are fulfilled).

In order to achieve the best results for the Company, variable remuneration will be paid out based on financial and business objectives, with a weighting of 70%, and non-financial objectives, with a weighting of 30%.

Each of the objectives will have a minimum threshold of compliance, below which the right to receive the variable remuneration will not apply. In addition, each of these objectives may be surpassed by up to 140%.

The CNRGC proposes the annual variable remuneration amount for the Chief Executive Officer for approval by the board of directors, which will be paid out annually, notwithstanding any adjustments that may apply in each case (including deferral in the payment of variable remuneration).

This variable remuneration payment will be determined based on how much the objectives set by the Company for the period in question are fulfilled. In any case, whether and how much the objectives are fulfilled will depend on different indicators, which are always linked to improvement in the Company's management, profitability and growth, and will never involve or create situations that result in the Company's risk profile increasing.



The annual variable remuneration system will be reviewed by the CNRGC on a regular basis, which will determine whether it is appropriate to measure the contribution against the Company's results.

The Chief Executive Officer may also be part of all of the multiannual incentive plans approved by the board of directors and, where appropriate, by the Annual General Meeting, during the term of the Remuneration Policy which grants any type of rights to receive a certain number of shares or a cash amount, including, but not limited to, share option systems, appreciation rights over Línea Directa shares, free delivery of shares or multi-year bonuses.

In any case, the variable remuneration paid to the Chief Executive Officer, as a member of staff whose professional activities affect the Company's risk profile (identified group), will be adjusted as stipulated by the regulations on remuneration applying to insurance companies (i.e. among others, deferral, reduction clauses, "malus", and "clawback" recovery).

- Extraordinary variable remuneration plan in shares linked to Línea Directa shares being listed on the stock exchange:

The Chief Executive Officer is part of the extraordinary variable remuneration plan in shares (the "**Plan**") that has been introduced for the members of the Company's management team, as a result of Línea Directa's shares being listed on the stock exchange, which were granted to her in his capacity as a Línea Directa director on the date that this Plan was approved.

c) In relation to the extraordinary variable remuneration plan in shares linked to Línea Directa shares being listed on the stock exchange

Greater details of the terms of the Extraordinary Variable Remuneration Plan in shares have been included.

d) In relation to the terms and conditions of the new Chief Executive Officer's contract

The main terms and conditions of the new contract signed between the Company and the new Chief Executive Officer have been included.

In particular, (i) the term, (ii) the confidentiality obligation, (iii) exclusivity, (iv) the causes of termination and compensation, (v) the directors' non-competition and no-hire agreement, and (vi) permanent holding of shares.



e) In relation to the contribution of the Remuneration Policy to the Company's strategy, interests and long-term sustainability

The functions performed by the CNRGC in relation to sustainability have been included and the inclusion of non-financial objectives in the annual variable remuneration has been explicitly set out.

IV. Validity

The Remuneration Policy for Directors will be in force, should it be approved by the Annual General Meeting, from the date that it is approved until 31 December 2025, notwithstanding any adaptations or updates made, where appropriate, by the board of directors in accordance with its provisions, and the amendments that may be approved by the Línea Directa Annual General Meeting at any time.

V. Conclusion

On the basis of this report, the Línea Directa Appointments, Remuneration and Corporate Governance Committee considers that the Remuneration Policy contains the information required under the applicable regulations, that its content complies the applicable regulations, that it is in line with the latest recommendations and practices around remuneration and that it is aligned with shareholder interests.

In light of all of the above-mentioned aspects, in the CNRGC's judgment, Línea Directa has a suitable remuneration policy for the years ahead, which is aligned with shareholders' interests and promotes the Company's long-term sustainability.

And for the appropriate legal purposes, it should be noted that the CNRGC formulated this Report about the proposed "Remuneration Policy for Línea Directa Aseguradora, S.A. Director" at its meeting on 15 February 2022.



APPENDIX

PROPOSED AGREEMENT

The following resolution will be proposed to board of directors, which will be submitted for approval by the Annual General Meeting:

Item Seven of the Agenda.- "Approval of the Remuneration Policy for Línea Directa Aseguradora, S.A. Directors"

In accordance with Article 529 novodecies of the Spanish Corporate Enterprises Law, approving the Remuneration Policy for Línea Directa Directors, which will be valid from the date that it is approved by the 2022 Annual General Meeting until 31 December 2025. The full text has been provided to shareholders, along with the other documents relating to this General Meeting, from the date that it is called (the "New Remuneration Policy").

As a result, it has been agreed that the New Remuneration Policy will replace, for all purposes, the remuneration policy that was agreed by the Annual General Meeting on 18 March 2021 (which was initially stipulated to remain in force until 31 December 2023).