# General Risk Policy of Linea Directa Group

linea directa

## TABLE OF CONTENTS



## 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 and its subsidiaries'.

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. ("Linea Directa Group")

## 2. PRINCIPLES OF ACTION

The Linea Directa 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 Integrity and Compliance Policies* 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 Linea Directa 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 main categories of risks to be the following:

- Non-life underwriting risk
- Health risk (sickness underwriting)
- Market and concentration risk
- Financial, Credit and Counterparty Risks, including contingent liabilities and other off-balance sheet risks

- Operational risks
- Technological and cybersecurity risks
- Regulatory Compliance risks
- ESG (Environmental, Social and Governance) or non-financial risks
- Reputational risk
- Strategical and emerging risks

Risks, irrespective of the category to which they are assigned, may be combined according to any criterion of interest to the organisation, generating multiple approaches or risk perspectives, such as the "GDPR Perspective" or the "Brand Perspective".

In line with the main international corporate risk observatories, considering the nature of our business, the regulation supporting it and the commitments undertaken by the organisation, the "Top 10 Perspective" has been created, comprising the risks which, due to their potential impact, may compromise the achievement of the Group's objectives. The risks included in the "Top 10 Perspective" have a risk appetite aligned with the corporate strategy and have a robust mitigation environment which is reviewed annually.

Certain risk categories, due to their relevance or scope, among other factors, are supplemented by a specific policy which, like this general policy, is subject to approval by the Board of Directors.

## 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
- Integrity Policy
- Actuarial function policy
- Policy for the internal control over financial reporting (SCIIF)
- Policy for the internal control over sustainability information (SCIIS)
- Investment policy
- Reserves risk management policy
- Underwriting policy
- Reinsurance policy
- Operational risk management policy

- Policy on the management of technological risks, information security and cybersecurity
- Reputational risk management policy
- Product governance policy
- Tax policy

The entity has an **Assurance Map** which provides an overview of the assurance obtained over the organisation's main risks by the different teams forming the Group's three lines of defence. This map identifies the control areas and the functions responsible for providing assurance over the effectiveness of the controls implemented. It also facilitates coordination between the different lines of defence and ensures that there are no gaps in risk coverage, promoting more efficient and effective risk management.

The report on the **Own Risk and Solvency Assessment** (ORSA) sets out the risk profile of Línea Directa Aseguradora, S.A. Its subsidiaries are not included due to their corporate purpose. The ORSA constitutes a risk management tool that helps to provide 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 Internal Audit 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**, as the third line of defence, has the mission of improving and protecting the value of the organisation by providing objective assurance, advice and risk-based information, assisting the Board of Directors and the Group's Executive Management in protecting the assets, reputation and sustainability of the organisation and the interests of shareholders.

**The Risk Management Functions** as the second line of defence, 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 mentioned on 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.

- Periodically reporting the status of the Company's risks, any possible risk events, the results of the tests performed on the controls and the status of all recommendations arising therefrom to the Management Committee and, as often as deemed appropriate, to the Audit and Compliance Committee and the Permanent Risk Committee.

The risk management functions are equipped with adequate information 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 Permanent Risk Committee:** is responsible for facilitating and monitoring the implementation of effective risk management practices, monitoring and overseeing all risks. It periodically receives reports from the first line of defence.

**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.

The **Corporate Risks Department** coordinates the second-line defence functions — Risk Management, Actuarial, Regulatory Compliance, SCIIF, SCIIS and Fraud Management — and channels their reporting to the Group's governance bodies.

The **first line of defence** is composed of the Business and Support Areas and is responsible for detecting and reporting to the Permanent Risk Committee the risks that may arise in the course of their activities, and for managing them in coordination with the Risk Department. Its mission is to implement effective controls and manage risks in the day-to-day conduct of its operations, ensuring that the organisation's objectives are met and that operations are carried out efficiently and in compliance with legal, regulatory and ethical standards.

## 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 be submitted to the Board of Directors for approval, and will be properly disclosed.

This Policy will be effective from date of publication.