



linea directa

Línea Directa Aseguradora, S.A., Compañía de Seguros y Reaseguros (the “**Company**”), pursuant to legislation regulating the securities market, announces the following:

OTHER RELEVANT INFORMATION

Please find attached presentation for analysts and investors on the overview of IFRS 17 & 9 and criteria adopted by the Company.

Madrid, 21 April 2023



linea directa

IFRS 17 & 9

Presentation for analysts and investors

21 April 2023

This document has been prepared by Línea Directa Aseguradora, S.A., Compañía de Seguros y Reaseguros (“**Línea Directa**” or the “**Company**”) for the sole purpose of illustrating the main effects the new accounting standard will have on the Company and may not be used for any other purpose. The statements contained in this document relating to forecasts, plans, expectations or the future performance of the Company, its businesses or their financial figures do not constitute commitments or any assurance as to the future performance of the Company or the effective achievement of its objectives or estimated results. These statements rely on assumptions and estimates that are conditional on multiple factors, thus exposing them to various risks and uncertainties that could cause the actual results to differ materially from the objectives, projections and expectations expressed or implied in this presentation.

Possible factors that might introduce an element of uncertainty to the estimates include: changes within the insurance industry, in market trends or in the general economic climate; legal reforms; court rulings; technological changes; changes in monetary policy or interest rates; the performance of our peers and competitors; changes in the claims that are covered; fluctuations in liquidity levels, or in the value of or return on the assets that make up the investment portfolio of Línea Directa; changes in the credit capacity and solvency of customers, etc.

Línea Directa is under no obligation to regularly review or update the information contained in this document, nor to adapt that information in response to events or circumstances that occur after this presentation has been published.

Some of the figures included in this document have been rounded off. This could cause discrepancies between the total figures and itemised figures provided in the tables.

This document does not constitute an offer or invitation to acquire or subscribe for shares, in accordance with applicable law and regulations on the securities market, nor does it constitute an offer to buy, sell or exchange securities, or a solicitation to offer, sell or exchange securities.

linea directa

1

Key messages

2

Overview of IFRS 17 & 9 and criteria adopted

3

Transition balance at 1 January 2022

1



línea directa

Key messages

Key messages as at transition date (1 Jan 2022)

Business fundamentals remain unchanged

- IFRS 17 **does not affect** our **business strategy** and **management**, nor the **dividend policy**, which will continue to be conducted in accordance with local GAAP.
- The **solvency position will not be affected** by having own metrics on both funds eligible for solvency and on capital charge.
- The cash position **and liquidity management are not affected either**.

STATEMENT OF PROFIT OR LOSS

- The capacity to **generate income** remains **unchanged**.
- The income statement changes format. **The current business management indicators and the current layout of the income statement will be maintained in parallel.**
- **Unrealised capital gains and losses of investment funds are recorded in the income statement**, which adds volatility.

BALANCE

- The **transitional Own Funds are very similar** to those calculated under IFRS 4.
- **There are no significant differences in the claims reserve**, although it is now discounted at the risk-free curve. The Group's risk adjustment is positioned at the 85th percentile, similar to the margin for prudence under IFRS 4.
- **Provision for remaining coverage** measured by simplified premium allocation approach (PAA)

2



linea directa

Overview of IFRS 17 & 9 and criteria adopted

Three valuation methods for insurance contracts

- The most significant change in IFRS 17 relates to the valuation of insurance contracts at **market value** in order to eliminate accounting asymmetries with assets.
- Grouping of contracts with similar and jointly managed risks should be carried out. In the case of Linea Directa, these are the Motor, Home, Health and Other insurance business lines.

Building Block Approach (BBA)

- The BBA includes 4 components:
 - Expected value of future cash flows
 - Discounting of future cash flows
 - Risk adjustment
 - Contractual Service Margin (CSM)
- The contract will be onerous if the CSM is negative. In such case, the CSM is 0, and the loss is recorded in the income statement at the beginning of the contract.

Variable Fee Approach (VFA)

- The Variable Fee Approach is a variant of the default model (BBA) and is to be applied to contracts with significant direct participation components.

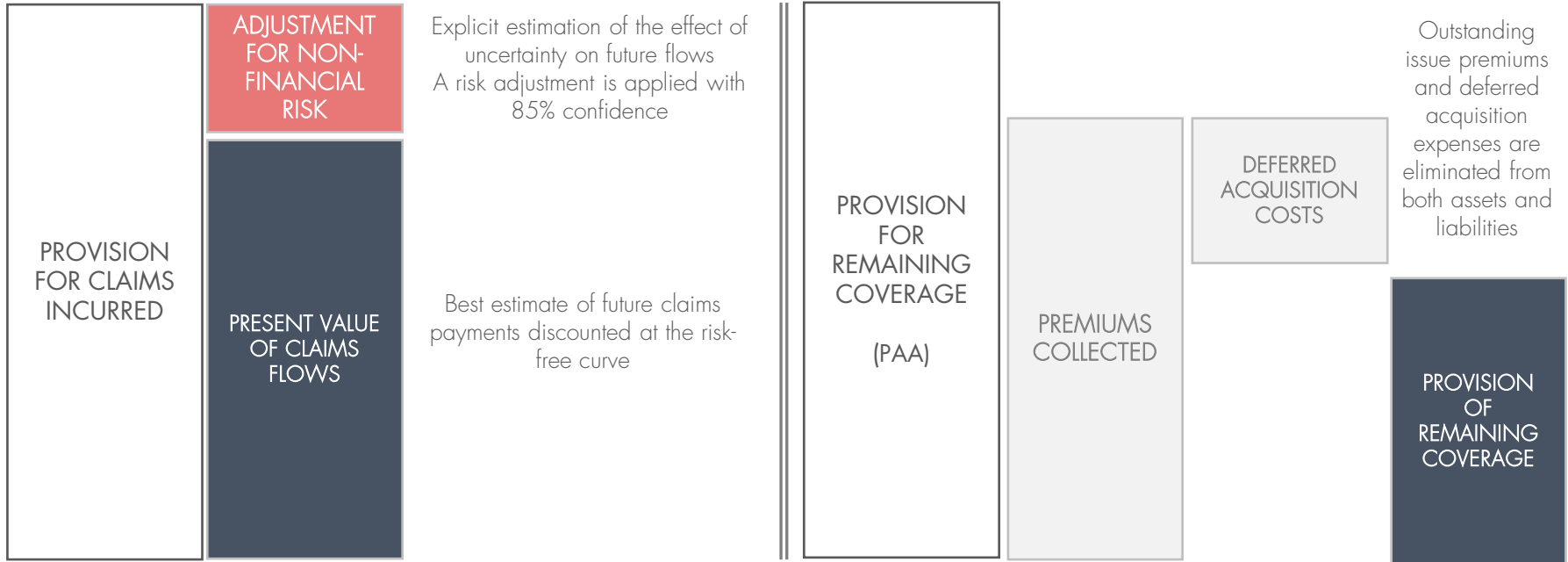
Premium Allocation Approach (PAA)

- This premium allocation method is a simplification of the BBA and is optional for hedging contracts of less than or equal to one year or, for contracts with a longer duration, where there is no valuation materially different from the BBA.
- Simplified liabilities based on premiums collected

ALL LINEA DIRECTA'S INSURANCE AND REINSURANCE CONTRACTS ARE MEASURED BY PAA

IFRS 17

Methodology for calculating provisions



Valuation based on the classification of financial assets and business models

- IFRS 9 establishes a classification of financial assets based on the business model and the characteristics of their cash flows. This classification determines how each financial instrument is valued.
- Property is not covered by IFRS 9.

Classification and valuation

- Cash flow criteria or compliance with the SPPI test. Measured if contractual cash flows represent only principal and interest payments)
- Financial instruments are classified at fair value through profit or loss (FVPL) or equity (FVOCI)
- The standard requires additional recording of potential losses In the previous regulations, losses were registered only when they occurred or there were significant indications that they would occur
 - Fixed income impairments: move to an expected loss model instead of an incurred loss model

Business models

- The regulations define three possible business models depending on the purposes for which the financial assets are held:
 - Hold to Collect (HTC) model, whose objective is to obtain the contractual flows of the assets during the life of the instrument; it allows for slight portfolio turnover
 - **Hold to Collect and Sell model (HTCS¹); it allows for some portfolio turnover.**
 - Others: allow for 100% portfolio turnover; in these models, sales and purchases are actively occurring

1. Model adopted by Linea Directa; old model available for sale

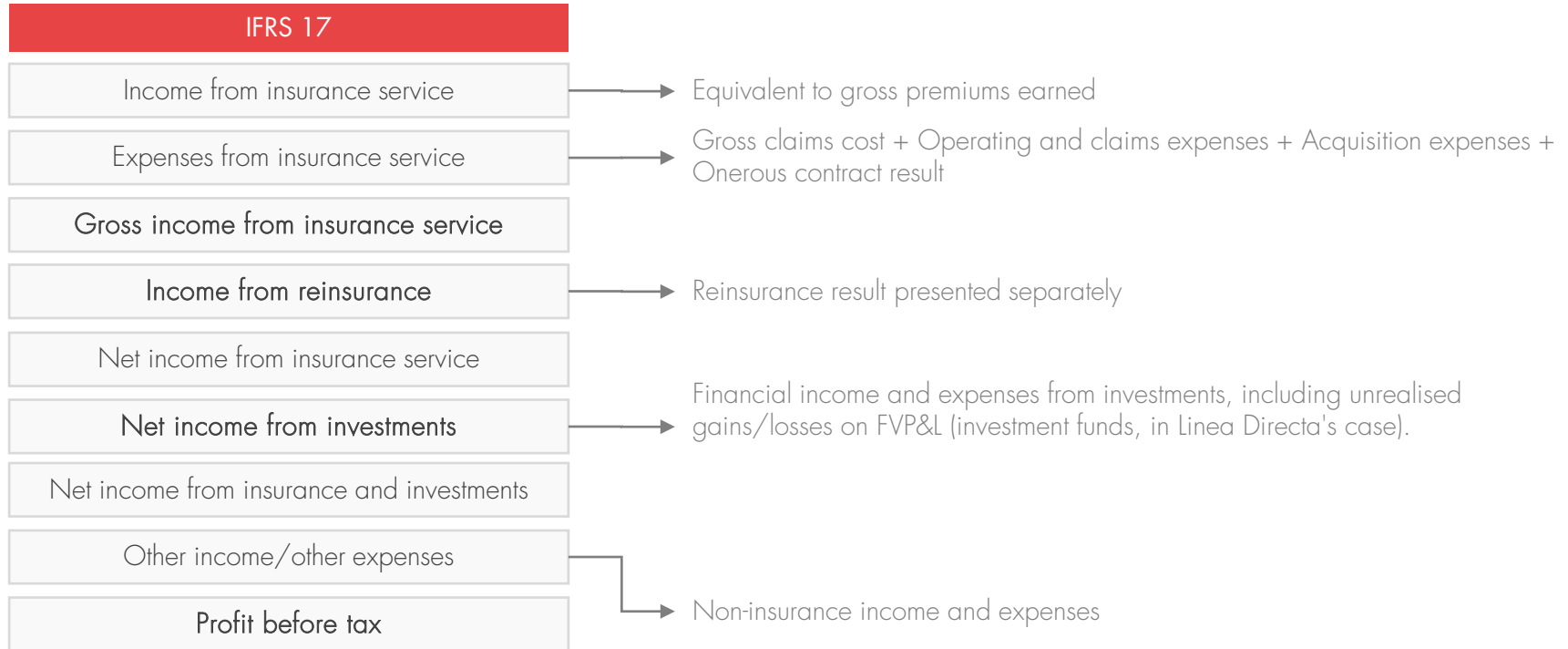


Comparison in the recording of fair value and realised capital gains at Linea Directa

	Capital gains (losses) realised		Mark-to-market		
	IAS 39	IFRS 9	IAS 39	IFRS 9	
1 FIXED INCOME ¹	P&L	P&L	OCI	OCI	1 Fixed income <ul style="list-style-type: none"> The effects of the recalculation of impairment are not significant given the credit quality of the fixed income portfolio.
LISTED EQUITIES	P&L	2 OCI <i>No recycling in P&L</i>	OCI	OCI <i>No recycling in P&L</i>	2 Equities <ul style="list-style-type: none"> Listed equities with changes in Other Comprehensive Income without recycling in P&L (irrevocable option)
INVESTMENT FUNDS & OTHERS (including non-listed)	P&L	P&L	OCI	3 P&L	3 Investment funds <ul style="list-style-type: none"> Classified at fair value with changes in P&L, adding volatility to the result. These portfolios are not subject to impairment testing
	Capital gains (losses) realised		Mark-to-market		
INVESTMENT PROPERTY	P&L	P&L	Off balance sheet	Off balance sheet	Not affected by IFRS 9

Statement of profit or loss

The new statement of profit or loss pays attention to the margins generated



3



línea directa

Transition balance

Transition balance (1 Jan 2022) – equity remains stable in transition

IFRS 4 BALANCE		IFRS 17 BALANCE	
Financial assets	992	Financial assets	992
Investment property	65	Investment property	65
Receipts	54		
Reinsurers' share of technical provisions	20	Reinsurers' share of technical provisions	24
Deferred acquisition costs	87		
Provision for certain recoveries	43		
Other assets	107	Other assets	107
Total assets	1,368	Total assets	1,188
Equity	378	Equity	378
		Transition reserve	0.3
Provision for claims	285	Liability for claims incurred	263
Provision for unearned premiums and unexpired risks	453	Remaining coverage liability	317
Provision for settlement liabilities	22		
Other liabilities	230	Other liabilities	230
Liabilities and Equity	1,368	Liabilities and Equity	1,188

Million euros

The **transition reserve** reflects the net effect of all changes in the balance sheet at the transition date.

Liabilities for claims incurred follow a similar approach to **Solvency II**.

A risk adjustment is applied with 85% confidence

Includes settlement claims and the provision for certain recoveries

The **remaining coverage liabilities** are the unearned premium less deferred expenses and outstanding receipts.

The Ongoing Risk provision is replaced by the Loss Component.



linea directa

For more information:

Beatriz Izard
beatriz.izard@lineadirecta.es

Mark Brewer
mark.brewer@lineadirecta.es



Follow us on:

[Facebook.com/LineaDirectaAseguradora](https://www.facebook.com/LineaDirectaAseguradora)

[Twitter.com/lineadirecta_es](https://twitter.com/lineadirecta_es)

[Instagram.com/lineadirectaaseguradora](https://www.instagram.com/lineadirectaaseguradora)

[Youtube.com/LineaDirectaSeguros](https://www.youtube.com/LineaDirectaSeguros)

[Lineadirectaaseguradora.com/blog](https://lineadirectaaseguradora.com/blog)

recta linea directa

Thank you



linea directa