REPORT

TCFD 2023

LÍNEA DIRECTA ASEGURADORA, S.A.

CONTENTS

LETTER FROM THE CEO

Línea Directa Aseguradora is firmly committed to sustainability and transparency, and is now reporting, for the first time, its climate change strategy according to the parameters of the Task Force on Climate-related Financial Disclosures (TCFD).

The development of an economic model that promotes **decarbonisation** is now a key priority for society as a whole and, more precisely, for the insurance sector, and not only because of the firm commitment of the European Union and its Member States to transition towards this model of a decarbonised economy, based on the global initiatives of the Paris Agreement, the 2030 Agenda, the Sustainable Development Goals and the European Green Pact. It is also due to the increased frequency and intensity of **extreme weather events**, which are already having a hefty impact on the income statements of insurance companies as the cost of claims and reinsurance premiums continue to rise. The growth and profitability of the sector therefore hinges to a large extent on how successful we are in tackling climate change, thus making the drive towards a low-emission economy not only a **social and ethical priority**, but also a pressing **economic necessity**.

Due to its business model, **Línea Directa** is a particularly **efficient** company not only in the financial realm, but also in **environmental** terms. The ability to serve the whole of Spain from a single location, to have a centralised team and to have no network of offices, places the organisation in a **great position** from which to play a prominent role as the industry undergoes its **environmental transition**.

Línea Directa Aseguradora has ambitious three-year **Sustainability Plans** in place that define its corporate strategy in this regard, with the environment is a central pillar. The current Plan, which runs from 2023 to 2025, poses a **demanding decarbonisation roadmap** that includes a wide range of initiatives that aim to make the company carbon neutral by 2030 and Net Zero by 2050.

This strategy is accompanied by the company's absolute commitment to sustainable business, thus allowing for the development of numerous responsible products and services aimed at promoting **good practices** when it comes to **mobility**, the **habitability** and **energy efficiency** of homes and the **well-being and health** of people. Last but not least, Línea Directa also promotes the **efficient management of resources and the circular economy** by reducing its consumption, self-generating its own renewable energy and optimising and systematising waste treatment.

Thanks to this unflinching commitment to sustainability and transparency, Línea Directa Aseguradora is now reporting, for the first time, its climate change strategy according to the parameters of the **Task Force on Climate-related Financial Disclosures** (TCFD). This report contains information on business risks and opportunities in the face of global warming and is an **immensely useful tool** for shareholders, supervisors, customers and other stakeholders in understanding the company's strategy in response to the challenge of global warming. A challenge that everyone must step up to.

Patricia Ayuela de Rueda
Chief Executive Officer
of Línea Directa Aseguradora

INTRODUCTION

The Paris Agreement, signed by 196 countries, aims to keep the increase in the planet's temperature below the threshold of 2 °C compared to pre-industrial times. This is an exceedingly ambitious target, and one that certainly marks a decisive step forward in the fight against global warming.

The Treaty, which is compulsory rather than voluntary, envisions a broad range of measures to achieve decarbonisation that will entail an utter economic and social transformation across the planet, requiring the support, involvement and engagement of citizens, governments and companies alike.

Within its **Sustainability Master Plan**, which runs for the 2023–2025 three-year period, **Línea Directa Aseguradora** has devised an ambitious climate management plan that contains measures such as the **measurement of Scope 3 emissions**, focused on the emissions generated by the investment portfolio and along the value chain; as well as the definition of an **internal carbon price** strategy and the setting of a **Net Zero by 2050 target**, which will also include intermediate reduction targets to be achieved by 2030 and which will be based on science **(SBTi).**

During this period, the company will also gradually join the **UNEPFI initiatives**, the United Nations programme for the protection of the environment in the financial sphere. As a starting point, the company signed up to the **Principles for Sustainable Insurance (PSI) initiative in 2023.**

Línea Directa will look to become more operationally efficient by measuring and reducing its consumption and embracing renewable energies.

As part of its environmental strategy, in the field of eco-efficiency, the organisation will strive to **become more operationally efficient** by measuring and reducing its consumption and embracing the use of renewable energies. Last but not least, the **fleet of courtesy cars and motorcycles** will be renewed with plug-in vehicles or electric vehicles bearing ECO and ZERO labels.

This report is structured around the four pillars of the guidelines of the **Task Force on Climate-related Financial Disclosures** (TCFD), which are aligned with the draft policy proposals still pending approval at the national level.

- **Governance:** the organisation's governance of climate change-related risks and opportunities.
- **Strategy:** the actual and potential impacts of climate change-related risks and opportunities on the organisation's business, strategy and financial planning.
- **Risk management:** the processes used by the organisation to identify, assess and manage risks related to climate change.
- **Metrics and objectives:** the metrics and targets used to assess and manage relevant risks and opportunities relating to climate change.

This report, which marks a further step forward in Línea Directa Aseguradora's ongoing commitment to decarbonisation, and to creating an alternative low-emission economic model, aims to make the company's climate change strategy available to investors, customers and other stakeholders, thus enabling informed decision-making in line with best business practices.

GOVERNANCE

Línea Directa's commitment to sustainability is embodied in a governance system that allows for the coherent and efficient management of all ESG aspects, integrating sustainability transversally within the corporate strategy and into the organisation's risk management model.

Línea Directa's commitment to sustainability is embodied in a governance system that allows for the coherent and efficient management of all ESG aspects (environmental, social and governance), integrating sustainability transversally within the corporate strategy and into the organisation's risk management model.

In particular, this section details the governance structure set up at Línea Directa to ensure the proper identification, assessment and monitoring of risks and opportunities related to sustainability and climate change affecting the organisation.

This structure includes both the governing bodies competent to make decisions in this area, as well as the internal regulatory framework steering the system and ensuring that such decisions are made in accordance with current legislation and with prevailing practices and principles that our shareholders insist upon.

3.1. OVERSIGHT BY THE BOARD OF DIRECTORS ON CLIMATE CHANGE ISSUES

3.1.1. / Climate change monitoring process and frequency

The Board of Directors of Línea Directa Aseguradora is the supreme body entrusted with the management, direction and representation of the Company, with authority to adopt all corporate resolutions, except those powers reserved for the Annual General Meeting.

In particular, the Board determines the overall policies and strategies of the company, including approving, setting and monitoring strategy and risk management policies, including those relating to sustainability and climate change.

Moreover, and while there is no legal requirement to do so, the Board of Directors of Línea Directa Aseguradora voluntarily included a separate item on the agenda of the Annual General Meeting held on 30 March 2023, in order to inform all its shareholders at the meeting about the launch of the 2023–2025 Sustainability Plan.

More precisely, the company informed its shareholders about the environmental, social and corporate governance objectives that the company has embraced through this Plan for the next three years, while also providing useful information on the process of drawing up the materiality matrix.

Notably, the 2023 AGM formally approved the 2022 Non-Financial Statement, with more than 99% of the votes cast in favour, showing broad shareholder support for the company's management of ESG matters.

3.1.2 / Integrating climate change within the organisation

The company addresses climate change through its Sustainability Plans, which are approved by the Board of Directors and monitored by the committees and working groups that make up the governance structure. Climate change is also managed across the organisation through policies approved by the Board of Directors, which lay the foundations for progress towards sustainability and climate change within the company, and through its presence in national and international organisations that showcase the insurer's commitment to the fight against climate change.

Notably, the Board of Directors has devised a roadmap with a starting point of 2022, with the following milestones already reached:

- Approving the company's accession to **national and international initiatives** in the field of sustainability and embracing all the commitments that this implies, as is the case of the TCFD or PSI initiatives.
- Approve a new **Sustainability Master Plan for the 2023–2025 period** that sets out the company's sustainability strategy for the next three years. This strategy is embodied in various indicators used to measure certain short- and long-term objectives that are set on the basis of a materiality analysis, in line with the Sustainable Development Goals (SDGs) and in accordance with the new European regulations (including the CSRD Directive).
- Approving the **ESG risk map**, including the risks associated with climate change. Notably, various bodies and functions of the company are involved in identifying, assessing, overseeing and monitoring these risks, in

accordance with the system described in this section. The Board also approved the public disclosure of such risks in reports that the insurer is required to make public, such as the Own Risk and Solvency Assessment **(ORSA)**.

- Approve **internal policies** setting out the principles on which the group's sustainability performance is based. Aside from the Sustainability Policy, sustainable criteria have also been established in areas as diverse as environmental management (Environmental Management and Climate Change Policy), product approval (Product Governance Policy) and the company's investments (Sustainable Investment Policy), all of which are published on the corporate website, thus ensuring maximum transparency.
- Including sustainability as one of the main subjects of the **Board Training Programme** approved by this body in accordance with best practices in good governance.
- Setting the **level of compliance with the Sustainability Plan** as one of the metrics to which the variable remuneration of the CEO and the company's management team is pegged, both in the short and long term. Similarly, around 35% of employees had targets linked to environmental, social or governance aspects in both 2022 and 2023.

3.1.3. / Supervisory role of the Board of Directors

The Board of Directors monitors the degree of achievement of the three-year Sustainability Plan, for which purpose it keeps regular track of the various actions planned for each year.

3.2 STRUCTURE OF CLIMATE CHANGE GOVERNANCE

3.2.1. / Advisory committees: overseeing, evaluating and proposing

The Board of Directors has two advisory committees that report to the Board, make proposals to it and advise it on decision-making.

- **The Appointments, Remuneration and Corporate Governance Committee** is responsible for, among other things, monitoring the company's sustainability strategy, practices and targets, assessing their level of compliance and reviewing the company's sustainability policy. It also oversees that Línea Directa's environmental and social practices are in line with the policies set.

  In this regard, the Committee monitored compliance with the previous Strategic Sustainability Plan (2020–2022) and reviewed and proposed to the Board for approval the current master plan for the 2023–2025 horizon, as well as all policies related in some respect to sustainability and climate change management.

  Likewise, the Committee is the body competent to determine the remuneration of the members of the Board, Senior Management and those persons who carry out professional activities that may have a relevant impact on risk-taking at the Company. Within this framework, the Committee submitted a proposal to the Board to include the degree of achievement of the Sustainability Plan as one of the targets for the accrual of the variable remuneration of the management team, both in the short and long term.

- **The Audit and Compliance Committee** is competent, among other matters, to hear about, monitor and evaluate the Group's financial and non-financial risk control and management systems (including operational, technological, cybersecurity, legal, social, environmental, political and reputational risks), reviewing the company's risk map and making proposals to the Board.

  The Committee reviewed the Company's ESG risk map, which includes risks related to climate change, and proposed its approval and monitoring by the Board.

  In relation to ESG risks, it will send the relevant reports to the Appointments, Remuneration and Corporate Governance Committee, and a joint meeting of both committees may be held if so requested by the Chairman or the majority of its members.

  The Committee also oversees the risk management and internal control function, periodically reviewing the functioning of appropriate internal control systems to ensure the proper management of the Company's risks.

  Thus, the Committee sees to it that the policies and systems in place in relation to risks and internal control are applied effectively within the Company.

3.2.2. / Internal management structure of the organisation

The day-to-day management of the company and the implementation of the decisions taken by the Board of Directors are the responsibility of the internal organisation headed up by the Chief Executive Officer and the executive Committees.

For the purposes of the information contained in this document, the main committees involved in monitoring and controlling the organisation's sustainability activities and risks are as follows:

- **Management Committee:** It is made up of the heads of the various business units and is responsible for reviewing and monitoring key initiatives and projects of particular interest, including those in the area of sustainability.
- **Standing Risk Committee:** Chaired by the Chief Risk Officer, who may summon any executive or member of the organisation to attend when specific issues related to the risks that fall within their remit are to be discussed. Committee meetings are also attended by the heads of key areas, such as the actuarial function, internal control and risk management, and regulatory compliance. It is responsible for facilitating and monitoring the implementation of effective risk management practices in the group through the reporting of risks identified. In this regard, it is responsible for the management and monitoring of all risks

(including ESG risks), their key risk indicators (KRIs) and action plans, ensuring that an appropriate level of internal control is in place, consistent with the risk appetite set by the Board, group standards and compliance with applicable law and regulations.

- **Sustainability Committee:** Composed of the Head of People, Communication and Sustainability, the Chief Financial Officer, the General Secretary, the Head of Marketing and the Head of Services and Benefits. The Sustainability Committee is responsible for drawing up the Sustainability Plan to be submitted to the Appointments, Remuneration and Corporate Governance Committee (ARCGC) and the Board of Directors, supervising and monitoring the degree of compliance, prioritising, making executive decisions and promulgating initiatives, so as to ensure the effective implementation of the Sustainability Plan approved by the Board of Directors. It designs and proposes, to the ARCGC, the approval of the objectives and the Sustainability Plan, so that they may then be submitted to the Board, and receives regular reports from the Sustainability Working Group.

There are also other specific committees in place that analyse, monitor and, where appropriate, take decisions on specific issues, such as the sustainability of an investment (analysed by the **Investment Committee**) or the sustainable characteristics of a product (analysed by the **Product Approval and Monitoring Committee**).

3.2.3. / Reporting process

The **Corporate Risks department** is tasked with the overall management, control and oversight of the risks that the Group may incur (including ESG and climate change risks), after identifying these risks together with the other corporate areas. In fulfilling this duty, it draws up the risk map, coordinates the necessary prevention and mitigation measures and reports periodically to the Audit and Compliance Committee, all in accordance with the Group's Risk Management Policy.

The **People, Communication and Sustainability** department is responsible for proposing, coordinating and implementing the necessary measures in the organisation to implement the sustainability strategy set by the Board of Directors and reports to the Appointments, Remuneration and Corporate Governance Committee. In this way, it promotes the integration of ESG criteria across all areas of the business.

The Company has also set up a **Sustainability Working Group**, in which the following areas and departments are represented: External Communication and Sustainability, Procurement, Investor Relations, Space Management, Corporate Governance, Internal Communication and Social Action, Talent Attraction, Remuneration and Relations, Services and Benefits, Product Innovation and Corporate Risks. This working group proposes to the Sustainability Committee the actions to be included in the Sustainability Plan and allows regular, transversal and detailed monitoring of the status of the actions under way in the Sustainability Plan.

3.2.4. / Monitoring

The indicators and the set of actions included in the 2023–2025 Sustainability Plan, including those targeting the environment and climate change, are monitored by different areas of the organisation, including the Sustainability Working Group, the Sustainability Committee —which comprises the key areas so that these concerns can be addressed by senior management—, the Appointments, Remuneration and Corporate Governance Committee and ultimately the Board of Directors.

STRATEGY

4.1. RISKS AND OPPORTUNITIES IN THE FACE OF CLIMATE CHANGE

Climate change is one of the most pressing global challenges due to the social and economic impact it entails. The need to address this and move towards a low carbon economy is a challenge in which the insurance industry, as part of the wider financial sector, has a key role to play.

Firstly, by **building resilience** to the consequences of this phenomenon, thus helping to cushion the losses caused by natural catastrophes. And secondly, as an agent with the ability to **drive this transition towards a decarbonised and** sustainable economy, through both its insurance activity and its key role as an institutional investor.

The environmental crisis poses short-, medium- and long-term risks for the insurance industry. The most obvious of these is the **increase in the frequency and severity of adverse weather events** and the ensuing increase in the claims ratio. In addition, the transition to a green economy in response to climate change is itself generating market, regulatory and technological transformations with major implications for the sector. **Meanwhile, climate change presents ample business opportunities for insurance firms.**

The Línea Directa Group has integrated environmental, social and governance (ESG) aspects in its corporate and business strategy, and into its risk management and financial planning, with the aim of steering the company towards sustainable growth and respond to industry trends, regulatory requirements and the expectations of the main stakeholders and society as a whole.

To this end, the company has identified, evaluated and incorporated into its sustainability strategy, which is set out in the 2023–2025 Sustainability Plan, those specific climate risks with the potential to affect the insurer's business and financial planning, as well as the financial and business opportunities associated with this challenge as it looks to leverage them and carve out a strong position in order to respond to this new reality.

Many of these risks, such as adverse weather events, changes in business models and legislative changes, are already covered by the company's current risk map. Thus, were any such risk to materialise as a result of climate change, what would inevitably occur is an increase in the group's exposure to that risk. This means that Línea Directa Aseguradora already has climate risk mitigation measures in place, notably:

- An **underwriting and pricing policy** that takes account of the increase in extraordinary weather events. The group is fully aware that certain geographical areas carry a higher risk of these extreme weather events occurring, and with that in mind the group already includes, among the variables it uses to assess the risk of its portfolio, those specific to the regions in which it is exposed to each risk, thus allowing it to define a greater or lesser impact of this type of phenomena.

- **Specific reinsurance programme** for the coverage of catastrophic perils in the company's main lines of business, i.e. Motor and Home. Coverage under this programme focuses on weather phenomena such as hail and cyclonic storms that fall short of certain impact limits not covered by the Insurance Compensation Consortium (CCS). This public body, which is funded through a surcharge on insurance premiums and is a unique model within Europe when it comes to public-private partnership in managing extreme events, steps in to cover damage to people and property in the event of floods caused by rain, snowmelt, lakes, overflowing rivers and estuaries and sea surges, as well as in the case of damage caused by winds exceeding 120km/h or qualifying as a tornado.

- **Rate review, with higher payment frequency** thanks to the more direct, coordinated and structured management structure achieved through the direct business model that the group operates. This enables the organisation to adapt swiftly and nimbly to the changes and impacts on the market resulting from the new climate reality.

- **Analysis of market trends.** The company is looking to adapt its commercial offer to the new and changing needs and interests of consumers, such as electric mobility and new forms of vehicle ownership (carsharing, renting) in the case of the Auto segment, or the supply of photovoltaic energy in homes when talking about the Home segment.

Línea Directa Aseguradora is also conscious about the growing body of environmental law and regulations, so much so that it has established special oversight over this regulatory development. This process involves identifying and analysing legal changes and their potential impact on the group, while also monitoring and implementing action plans to adapt to legislative changes.

Línea Directa Aseguradora's direct business model, with no branch network and with all operations centralised at a single head office, makes the company more environmentally efficient than its peers. Sustainability also happens to be a concern issue for the company, and is fully integrated across the upper management and executive tiers of the organisation and within its business strategy. Along these lines, the company's environmental activities are built around three main pillars:

- **Sustainable business generation.** The group looks to design and develop products and services that promote sustainable mobility practices, improve the liveability and energy efficiency of homes, and enhance people's well-being and health.
- **Eco-efficient management and circular economy.** Línea Directa is committed to the efficient use of resources by reducing consumption, generating its own renewable energy and systematising waste management.
- **Climate roadmap.** The organisation has devised a roadmap for its decarbonisation pathway, with the aim of becoming a net zero emissions company by 2050.

The initiatives deployed by the company in the last decade —since it approved its first Sustainability Plan in 2011— focus on the responsible management of consumption, innovation in products and services, good practices among its critical suppliers and delivery networks, and the inclusion of ESG criteria in its investment portfolio. With these measures, the organisation aims to bring the fight to climate change and make further progress towards the decarbonisation of its activity as an insurer and also as an institutional investor.

4.1.1. / Time horizons: towards 2050

Línea Directa Aseguradora develops and analyses scenarios as a regular financial planning tool with the aim of gaining future insight and anticipating the possible positive and negative impacts associated with potential risks and opportunities, including those relating to global warming and the secondary effects.

Having identified these risks and opportunities, and in order to assess their impact on its own business, financial planning, investment portfolio and even its critical suppliers, **the company has assessed various climate scenarios, looking at a time horizon that reliably reflects the course of climate change** over time. The group has used its own methodology, taking into account the time horizons defined by the European Insurance and Occupational Pensions Authority (EIOPA) as well as scenarios modelled by bodies such as the Intergovernmental Panel on Climate Change (IPCC) and the Network for Greening the Financial System (NGFS).

Designing and assessing long-term stress scenarios is a complex process, due to the absence of sufficient historical data, methodological constraints and having to face hitherto unknown situations. Moreover, the impacts must be assessed under assumptions and over longer time horizons than those typically used in financial risk assessment and strategic planning. Despite this, Línea Directa Aseguradora has made an assessment of all the risks and opportunities arising from climate change in scenarios spanning three time horizons:

Short term: less than 5 years.

Medium term: between 5 and 10 years.

Long term: beyond 10 years.

4.1.2. / Risks

Línea Directa Aseguradora constantly evaluates the factors —both internal and external— that may affect its business and financial situation in order to manage them appropriately. This analysis also includes climate change risk, which is conceptually divided into **physical risks and transitional risks.** These risks largely involve an increase in extreme weather events, regulatory changes, technological disruptions and changes in business models.

Climate risks are part of and affect risk categories already identified and defined by Línea Directa Group in its environmental, social and governance (ESG) Risk Map. The organisation already has processes in place to manage them, from the point of view of issues such as underwriting and reinsurance. These processes, which are supported by the group's policies and procedures and are aligned with current legal and regulatory requirements, are tailored to the specific nature of climate risks.

4.1.2.1. PHYSICAL RISKS

Climate change generates a variety of physical impacts due to both one-off disruptions **(acute physical hazards)** and long-term changes in weather patterns **(chronic physical hazards).** From an insurance standpoint, **acute physical risks** arise predominantly from the increased frequency and severity of extreme weather events, such as cyclones, hurricanes, floods and droughts. Conversely, **chronic physical risks** result from gradual changes in climate models and have more lasting impacts, such as changes in rainfall patterns, rising average temperatures and sea levels, or prolonged periods of heat or drought.

Both cases can have financial implications, such as direct damage to assets or indirect impacts resulting from supply chain disruption. The physical risks arising from climate change identified by Línea Directa Aseguradora include the following:

Type	Risk	Description	Financial impact	Magnitude of impact	Time horizon
Acute	Increase in the cost of insurance (reinsurance).	The increase in extreme weather claims could lead to higher reinsurance rates, as their losses must be charged to premiums. While it is true that the Spanish market is not as hard hit by climatic events as certain other countries, reinsurers are international undertakings. In addition, drought events affect other segments, such as agricultural insurance, so reinsurers —in an attempt to cover the costs— may pass it on to the rates charged in other segments.	Increased reinsurance costs.	High	Short term
Acute	Increase in both the claims ratio and operational costs due to the increased frequency and severity of physical impacts of adverse weather events.	Climate change is leading to an increase in extreme weather events, which may lead to more episodes of explosive cyclogenesis and 'Dana' events on the east coast of Spain, as well as snow squalls in inland areas, which would predominantly lead to an increase in motor and home insurance claims. It should also be noted that a higher number of extreme weather events means an increase in call volumes, thus affecting costs and quality of service.	Increase in motor and home insurance claims.	High	Short term
Chronic	Increased default risk for reinsurers due to higher exposure.	An increase in claims due to the increased frequency and severity of extreme weather events, and exposure to sectors with a higher probability of default due to the transition to low-carbon economies, could push up reinsurers' default risk.	While it does not affect the statement of profit or loss directly, it does affect the Solvency balance sheet due to the increase in the net reinsurance provision.	Low	Medium term

4.1.2.2. TRANSITION RISKS

The very process that aims to prevent, avoid and mitigate the effects of climate change, and to move towards a zero net emissions economy is leading to far-reaching economic, regulatory, technological and social changes that may affect the strategy, business model and investment policies of insurance companies.

In this regard, Línea Directa has identified transition risks and classified them in four areas:

- **Market risks.** Increased environmental awareness, together with legislation that aims to step up the fight against climate change, can lead to changes in people's consumption habits, such as a greater propensity to consume certain goods and services to the detriment of others, with a notable example being electric and fossil-fuelled vehicles.
- **Reputational risks.** If a company fails to do its bit in the transition to a low-carbon economy, its reputation may be tarnished in the eyes of customers, employees, shareholders, suppliers, regulators and communities.
- **Technology risks.** Technological improvements or innovations that underpin the transition to a low-carbon economic system can have a significant impact within an organisation. For example, the development and use of emerging technologies such as renewable energy and battery storage can be disruptive as the new technology effectively displaces the old one, causing some organisations to become less competitive, while pushing up their production and distribution costs, and altering consumer demand for products and services.
- **Legal or political risks.** Those arising from existing regulations or from the approval or modification of potential or emerging public policies and regulations in a bid to limit any activities might that exacerbate the adverse effects of climate change.

The Línea Directa Group has identified and assessed the following transition risks with the potential to affect its insurance activity, results and financial position:

Area	Risk	Description of the risk	Financial impact	Magnitude of impact	Time horizon
Legal	Risk of portfolio decline due to lower sales of fossil-fuelled cars and the banning of vehicles from cities.	The transition towards a low-carbon economy, stemming from European regulations following the Paris Agreement, as well as national sustainability legislation in Spain (Climate Change and Energy Transition Act), are driving changes in mobility that could cause the vehicle population to shrink and vehicle sales to drop. The so-called ZBEs (low emission zones) currently affect 52% of Spain's inhabitants and almost 30% of the vehicle population fleet does not have an eco label (data for 2023). A large part of the population will not be able to change cars any time soon and will have to buy cheaper vehicles, such as motorbikes, or otherwise rely on public transport. Cheaper or second-hand vehicles also cause part of the portfolio to migrate to third-party products charging lower premiums. We may also see a change in vehicle ownership patterns (leasing, car sharing, etc.) due to the inability of many people to purchase their own vehicle, which would result in a loss of business. Last but not least, it is believed that insurers may be less able to influence the claims rate and levels of quality due to the rise in vehicle leasing.	Drop in revenues due to lower demand for products and lower premiums.	High	Short term
Legal	Increased regulatory capital requirement for climate change risks.	Adverse regulatory changes could cause certain balance sheet positions associated with climate change to become more capital intensive. It is also considered that there could be higher capital requirements if sustainability risk is ultimately included under Solvency Pillar I (regulatory capital).	While this does not affect the statement of profit or loss directly, it would lead to an increase in the company's solvency capital.	High	Short term
	Higher costs due to an increase in staff and money spent on analysing, monitoring and tracking environmental requirements.	The new environmental requirements will lead to an increase in the number of people needed to analyse and oversee the value chain. Other concerns include a likely increase in costs for consultancy, adaptation or acquisition of systems, as well as obtaining certifications and adherence to initiatives promoting environmentally friendly practices, responsible investments, alliances of entities for a zero net emissions economy, and so forth.	Increased staff costs and expenses for consultancy, certifications and accessions.	Low	Short term
Reputation	Having to step away from profitable business due to reputational risk or industry regulation prohibiting it.	Línea Directa could stop investing in certain sectors or companies if the regulatory framework changes or due to the reputational risk this would entail for the company, thus causing a loss of profitability and an opportunity cost. It is also believed that a legislative change or a new sectoral regulation could lead to a hasty sell-off of certain positions at a time when all institutions would have to sell, resulting in a total loss of market value.	Impairment of financial income.	Low	Long term

4.1.3. / Opportunities

Decarbonisation plans require significant investments to finance this transition to a zero-emission economy and society, as set out in the 2019 European Green Pact, with its 47 actions and its Fit for 55 package. Alongside this, increased environmental awareness and public policies aimed at combating climate change are leading to new consumption trends and causing market disruptions. The insurance industry, as a major institutional investor and through its insurance activity, has the potential to capture the opportunities presented by the fight against climate change **in terms of sustainable investment and innovation.**

Indeed, Línea Directa Aseguradora is already busy **designing sustainable products and services** that respond to these changes in customer consumption patterns, just as it has **made ESG criteria part of its investment policy.** In this regard, the organisation has identified and assessed the following climate opportunities with the potential to generate a positive financial and business impact for the group.

Opportunity	Description	Financial impact	Magnitude of impact	Time horizon
Products and services: design and development of products aimed at reducing emissions and enhancing the circular economy in customers' motor policies, while improving the habitability and energy efficiency of their homes.	The European Union's objective of decarbonising the economy by 2050 has prompted legislation such as Spanish Law 7/2021 of 20 May, on climate change and energy transition. This law is hugely important in terms of sustainability, as it envisions measures to achieve a more environmentally friendly economy by championing the transition towards sustainable mobility based on clean energy and zero emissions by 2050. It also requires the establishment of low-emission zones in Spanish municipalities with more than 50,000 inhabitants by 2023. Línea Directa is committed to sustainable mobility and has developed products and services focused on ecological vehicles. It is also continuing to work on the design of sustainable solutions, analysing market options and moving towards new business models and solutions for other forms of mobility, in order to offer the best products to customers and contribute to sustainability.	In relation to the insurance underwriting portfolio, increase in revenues amid higher demand for sustainable products and services.	Moderate.	Medium term.
Market: increased financial return on investment by being able to access new markets.	The number of sustainable investment products continues to grow rapidly. Assets in ESG funds have multiplied and are garnering more interest among investors. Renewable energies and technologies to aid in the decarbonisation are likely to become more mainstream, which would provide an opportunity to generate higher revenues. There is also an opportunity to be had in increasing the number of available assets, and once these become more profitable, they will have the effect of increasing the financial income earned by the company.	Increase in financial income in relation to the investment portfolio (Asset Manager).	Moderate.	Short term.
Eco-efficiency, making the company more operationally efficient in the environmental realm.	When it comes to taking part in renewable energy programmes and embracing energy efficiency measures, there is an opportunity to be had in eco-efficiency, by strengthening the company's operational efficiency in environmental matters. Improving energy efficiency through enclosures, insulation, façades, and other areas to prevent air infiltration inexorably leads to lower costs and emissions, while also pushing down costs through investment in renewable technologies, such as the installation of photovoltaic panels. It is not only the return on investment that counts, but also the reduced dependence on electricity, allowing the company to become self-sufficient in some buildings and at certain times of the day.	Cost reduction through improved efficiency and lower consumption.	Low.	Short term.
Products and services: design and development of products aimed at reducing emissions and enhancing the circular economy in customers' motor policies.	When it comes to resource efficiency and the use of recycling, the focus is firmly on reducing the cost of claims by selling products that help to reduce emissions and champion the circular economy in customers' motor policies. It is seen not only as a business opportunity, by offering sustainable solutions to customers, but also as an opportunity to reduce the cost of claims.	Reduction in the cost of claims.	Low.	Medium term.

4.2. IMPACT ON THE ORGANISATION: BUSINESS, STRATEGY AND FINANCIAL PLAN

4.2.1 / Areas affected.

Corporate risk management provides a complete overview of all risks to which the company is exposed, not only from its own operations and activities, but also from indirect activities carried out upstream and downstream of its main activity, as well as their potential impact should they materialise. Notably, since this year the company's governing bodies have been receiving regular reports on the main risks that could affect the business, including climate change risks, thus enabling the Board of Directors to determine and supervise the risk management strategy and policy in this regard.

Sound risk management helps the governing bodies make informed decisions on matters relating to investments, underwriting, reinsurance, product and service design, and strategy.

4.2.1.1. IMPACT ON UNDERWRITING

The growth in the frequency and average costs of atmospheric phenomena has been increasing in recent years within the Spanish market. In the specific case of Línea Directa, this trend has a moderate impact, as the company only operates in the Spanish market; a territorial area that also has the presence and operations of the Consorcio de Compensación de Seguros (Insurance Compensation Consortium).

However, the impact of this type of phenomena has been increasing in recent years, with a possible worsening in the medium to long run due to high-impact atmospheric phenomena that fall outside the scope of the coverage offered by the Consortium. In this context, the programmes and collaboration agreements with reinsurance partners become even more important, especially those providing coverage for these types of event.

The company is therefore going the extra mile in the quest for increasingly efficient coverage that adapts to this new climatological reality, by working alongside the reinsurance industry. This process includes new variables and predictive models that make it possible to achieve a higher degree of efficiency and will also ensure a closer alignment of the reinsurance policy on the required solvency capital.

Given the impact of this new scenario on the company's underwriting and pricing processes, it should be noted that innovation has been part of Línea Directa's DNA since its inception in 1995. The very emergence of Línea Directa as a new player in the insurance market caused, thanks to its direct model, a disruption that helped to wake up and modernise the industry.

This culture of innovation is now being applied in response to the new mobility and energy efficiency challenges arising from new climate scenarios. Notably, Línea Directa was one of the first companies to launch a specific product for electric vehicles (the Respira policy) in 2016. It has also developed a completely differentiating product to cover customer mobility (Safe&Go, launched in 2021) and offers ground-breaking coverage solutions for solar panels, which are becoming an increasingly popular choice for homes seeking greater energy efficiency. The company is currently working towards the development of additional products and coverage to respond to the new needs of customers in the transition to a more sustainable energy model.

The company's pricing models include a wide range of variables that allow it to tailor the process to the risk profile of each customer. Along these lines, Línea Directa is working on the development and incorporation of new risk variables to enable medium and long-term projections of the impact of meteorological phenomena and the aggravation of certain risks, with the geolocation variable being a decisive factor.

4.2.1.2. INVESTMENT ON INVESTMENTS

Against a backdrop of growing sensitivity and awareness of environmental, social and corporate governance issues, the company has drawn up a sustainable investment policy that defines the decision-making process in this regard. Taking ESG variables and criteria into account in investment decisions allows for a more comprehensive and holistic risk management, while generating value creation opportunities for investors, for other stakeholders of the Group and for society as a whole. The company aims to minimise the negative impact of its investments on society and the environment.

The Línea Directa Group's purpose in defining and implementing the Sustainable Investment Policy is to maximise the risk-return balance, also taking into account ESG risks in its investments, and thus enabling a more sustainable operation, supporting certain activities with a positive impact and avoiding or limiting those whose impact is adverse and which may affect the confidence of its stakeholders. Thanks to this ESG awareness, specific actions and objectives have been included as part of the company's Sustainability Plan. However, it should be noted that market risk is low due to the low exposure to sectors sensitive to transition risk in both the equity and bond portfolios and the prudent investment approach.

4.2.2. / Decarbonisation: transition towards a low-emission economy

Línea Directa is firmly committed to the fight against climate change and has made it part of its sustainability strategy set out in the environmental dimension of its Sustainability Plan for the 2023–2025 horizon.

Under this plan, various actions have been identified to drive a series of measures that will enable the group to make an orderly transition towards the goal of achieving net zero emissions by 2050.

4.2.2.1. PROGRESS MADE BY LÍNEA DIRECTA BETWEEN 2010 AND 2023

The initiatives undertaken by the company over the last decade illustrate its commitment to the fight against climate change. The company has three-year Sustainability Plans in which it targets measures aimed at reducing greenhouse gas emissions, guaranteeing the achievement of carbon neutrality by 2030 and favouring an activity aligned with the objectives of the Paris Agreement.

Other notable actions include:

- Consumption of renewable electricity obtained from Guarantee of Origin sources.
- Implementation of a photovoltaic plant for self-generation.
- Have a complete, third-party verified inventory of Scope 1, Scope 2 and Scope 3 emissions.
- Carbon Footprint Register at the Ministry of Ecological Transition and Environment.
- Implementation of certified Environmental Management and Energy Efficiency Systems (ISO 14001 and ISO 50001, respectively) to monitor the consumption derived from its activity.
- Offsetting of Scope 1 and Scope 2 GHG emissions through reforestation projects for CO2 absorption.
- Sustainability certification and offsetting of emissions from the company's most relevant events.
- Approval of a Sustainable Investment Policy, which includes a periodic review of the company's positioning in Oil&Gas and coal assets, assessing the merits of disinvestment by 2030 in sectors with an impact on climate change, as long as they do not have an Energy Transition Plan.
- Training for all staff on the causes, effects and mitigation measures of climate change.

4.2.2.2. SCOPES 1 AND 2 EMISSION REDUCTION TARGETS

Línea Directa set itself a combined Scopes 1 and 2 emissions reduction target of 50% for 2022 compared to 2021.

In 2022, Scope 1 emissions amounted to 470.95 tonCO_2e and were down 22% on 2021, thus meeting the reduction target set at 480 tonCO_2e. Scope 2 emissions were 395.96 tonCO_2e, a 66% reduction compared to 2021, meeting the reduction target of 410 tonCO_2e.

This is a definite success for the company, as it reached the jointly set target of reducing its Scope 1 and 2 emissions by 50%. All information concerning the calculation of emissions and the setting of the reduction target is published annually in the consolidated Non-Financial Statement.

4.2.2.3. SENIOR MANAGEMENT FINANCIAL INCENTIVES LINKED TO CLIMATE CHANGE TARGETS

As a show of the company's firm commitment to the fight against climate change, the variable remuneration incentives of the CEO and the Management Team have been pegged to the emission reduction targets set out in the prevailing Sustainability Plan.

Moreover, in the last quarter of 2022 and the third quarter of 2023, the quarterly variable of 35% of the workforce was linked to compliance with the Sustainability Plan, with actions aimed at protecting the environment.

4.2.2.4. SPECIFIC ACTIVITIES TO MITIGATE THE EFFECTS OF CLIMATE CHANGE

In its 2023–2025 Sustainability Plan, Línea Directa is pursuing two main objectives in relation to climate change.

First, the company has pledged to reduce its greenhouse gas emissions in order to keep up with the ongoing decarbonisation of the European and world economy. This strategy of moving away from fossil fuel consumption is set out in the Sustainability Plan through a roadmap of actions, including the setting of emission reduction targets, according to SBTi (Science Based Targets initiative).

The main actions set out in the 2023–2025 Sustainability Plan are as follows:

MEASUREMENT AND CO_2 emission targets

- **Measuring Scope 3 emissions:** calculating both portfolio emissions and value chain emissions.
- **Internal CO2 price:** Defining an internal carbon price to raise awareness among the company's various areas and departments of their environmental impact.
- **Decarbonisation objectives:** Definition and approval of a Net Zero target for 2050, including interim reduction targets for 2030 in accordance with the SBTi (Science Based Targets initiative).

POSITIONING AGAINST CLIMATE CHANGE

- Presence and proactive involvement of Línea Directa in key ESG initiatives:
  - Adherence to the UN UNEP-FI initiatives.
  - CDP (Carbon Disclosure Project) report

ECO-EFFICIENCY

- Further improvements in operational efficiency:
  - Measuring and achieving growth in energy for self-consumption: 745 MWh self-generated by 2025.
  - Reduction of energy consumption (natural gas, diesel, non-self-generated electricity) by Línea Directa Aseguradora: 15% reduction by 2025 vs. 2022.

SUSTAINABLE RENEWAL OF THE COURTESY VEHICLE FLEET

- Renewal of the fleet of replacement vehicles with plug-in hybrid or electric models, bearing Eco and Zero environmental labels and with CO2 emissions below 100g, and Eco vehicles or electric motorbikes for RIS, claims adjusters, etc.: 10% of the fleet bearing the Eco or Zero label

ESG QUESTIONNAIRE FOR SUPPLIERS WITH ACTIVE CONTRACTS

- Assessment of the degree of maturity in supply chain emissions management.

The company has also joined the TCFD to report, on a voluntary basis, on the management of risks and opportunities associated with climate change, including information on governance, strategy, risk, opportunity management and metrics and related objectives. Similarly, the company will work to integrate climate risk scenarios into its next ORSA *(Own Risk and Solvency Assessment)* report, as requested by the Spanish Directorate General of Insurance and Pension Funds.

4.3. RESILIENCE OF THE ORGANISATION'S STRATEGY

4.3.1. / Resilient strategy: transition towards zero emissions

Línea Directa pursues a short-, medium- and long-term strategy to support its transition towards a low carbon economy, and pays close attention to both the transition and physical risks identified in the climate risk map drawn up by the Corporate Risks area.

4.3.1.1. RESILIENCE TO TRANSITION RISKS: MARKET AND REGULATORY CHANGES

Transition risks, as explained earlier, arise from the gradual change in the current economic model towards one based on activities with low greenhouse gas (GHG) emissions. Most notably, they reflect risks related to changes in prevailing regulations, policies, taxation, technologies and market prices, among other factors.

With respect to market and legal risk, climate change will lead to **policies that reduce or eliminate sales of fossil fuel cars and ban fuel vehicles across the board and more sharply in large cities, while** generating new needs for products and services among customers. For this reason, Línea Directa is pursuing a **commercial strategy** with the following objectives in sight:

- **growth in the market share of electric vehicles,** which in the long term will occupy a significant share of the total portfolio;
- **growth in the personal mobility vehicle segment;**
- **and responding to the needs and uncertainties of customers** by launching **new products, services or coverage** in any of the segments given the short- and medium-term impacts of climate change.

As part of this strategy, in 2016 it launched the Respira policy, an **all-risk insurance policy with excess** aimed at insuring electric vehicles. In 2022, it was extended to include **plug-in hybrid vehicles and motorbikes.** The company ended 2023 with upwards of 26,400 electric and plug-in hybrid vehicles in its portfolio.

Línea Directa has also taken the car insurance market by storm with its innovative **"Llámalo X"** product, the first fully comprehensive insurance with excess that includes a vehicle and the cost of maintenance and taxes for a fixed monthly price, turning the traditional model of linking insurance and car financing upside down. The offer includes **two new models in hybrid versions.** By the end of 2023, **Llámalo X** had around **2,600 policies** with a car included.

With this type of initiative, Línea Directa is offering pioneering and innovative products to ensure a stronger position from which to respond to the changes brought about by climate change policies, including the regulatory change that will lead to a ban on the sale of combustion cars in the EU by 2035.

It is important to take into account international initiatives, such as the *World Economic Forum* (WEF), otherwise known as the Davos Forum, which has announced plans to phase out most vehicles by 2050, with the aim of replacing the vehicle population with a new urban mobility scorecard tool: the **Urban Mobility Scorecard Tool, based on the** so-called SEAM transport model, which includes shared, electric, connected and automated vehicles. It estimates that the **number of private vehicles on the road in 2050 should be just 500 million worldwide**. This level would represent **a 75% reduction compared to the 2050 baseline scenario of 2.1 billion vehicles.** Yet it also implies a reduction in the world's mobile fleet of around 65% compared to the current level of around 1.45 billion.

This new urban mobility scenario is also part of the transition risks, which includes a surge in the use of **personal mobility vehicles** (PMVs), such as electric scooters and bicycles. The rising popularity of this type of vehicle, which has the effect of reducing emissions from urban transport, prompted the Spanish Government in 2022 to consider the possibility of a legislative reform requiring compulsory civil liability insurance in order to use them.

In 2021 Línea Directa Aseguradora launched, under the Safe&Go brand, the market's first fully digital personal accident insurance that includes personal mobility vehicles (PMVs), such as scooters, electric bicycles, skateboards, *skates, segways, unicycles and hoverboards.*

4.3.1.2. RESILIENCE TO PHYSICAL RISKS: MODELLING, CIRCULAR ECONOMY AND GEOGRAPHICAL DIVERSIFICATION OF THE PORTFOLIO

Commission Delegated Regulation (EU) 2021/2139 came into force in 2022, **establishing the** technical screening criteria **for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives became applicable.**

This text complements Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment, **also known as the Taxonomy Regulation. A section dedicated to the technical screening criteria for non-life insurance and reinsurance business has been included to assess the extent to which it contributes to the objective of adaptation to climate change.**

Notable criteria include:

1. **The insurance business uses modelling techniques that adequately reflect climate change risks.**
2. **Insurance products offer discounts** based on **the preventive steps taken by customers.**
3. A significant quantity of claims data relating to the insurer's business is made available, free of charge, to one or more authorities for analytical research purposes.
4. There is a **high level of response** from the insurer **in post-disaster situations.**
5. **The activity does not cover the extraction, storage, transport or manufacture of fossil fuels or vehicles, goods or other assets intended for such purposes.**

The **2023–2025 Sustainability Plan** includes the **progressive assessment and incorporation of these aspects,** which determine the **degree of alignment of the company's policy portfolio.** They will begin to be measured this year, as they must be disclosed in the 2023 NFS, which will be drawn up in 2024. This also means **incorporating of new approaches to modelling and awarding discounts on premiums due to the effects of climate change.**

Moreover, and as a means of cushioning the effects of climate change and harnessing the opportunities arising from the new climate panorama, the Sustainability Plan happens to include an action aimed at mitigating emissions from repair activities. This initiative involves **promoting the use of green spare parts** to **promote the circular economy.**

According to PwC's ***Insurance 2025 and beyond*** report, which outlines the key trends that will shape the future of the insurance industry in the coming years, the insurance industry is exposed to risks associated with climate change that could generate premiums totalling 183 billion dollars globally by 2040. Most of this amount would be insurance related to the protection of homes and property against various natural catastrophes such as floods, earthquakes and extreme weather events, including storms and wildfires.

In addition, in order to become more resilient to scenarios of high concentration of emissions that imply an increase of more than 2 °C compared to pre-industrial times, the company could consider the incorporation of measures such as **geographic diversification of the portfolio in order to avoid risk concentration.**

4.3.1.3. RESILIENCE TO PHYSICAL RISKS: NEW TECHNICAL PROFILES

Línea Directa is aware of the importance of having new technical profiles capable of responding to the new questions posed by climate change within the markets. To succeed in this task, it has made training and awareness in sustainability and the environment an integral part of its Sustainability Plan, as a means of building the long-term vision of sustainability into the business, which is essential for anticipating the risks of climate transition. Along these lines, the company will look to **deploy training and development programmes for internal talent** so as to be able to respond to the new challenges arising from climate change, identify these needs and develop specific training programmes in response.

It will also rely on external collaborative support from third party climate change experts to provide further knowledge for adaptation, mitigation, reporting, and market and regulatory environment disruption arising from the effects of climate change and pressure from governments, customer decision-making and societal trends.

4.3.1.4. RESILIENCE TO PHYSICAL RISKS: REINSURANCE

In view of the possible increase in **reinsurance costs** or the risk of non-payment by reinsurers as they become more exposed to the costs arising from climate change, Línea Directa is looking to gradually include new measures in its reinsurance contracting processes, in addition to those already in place, so as to ensure solvency, in the same way as it analyses the solvency of critical suppliers along the supply chain via the Procurement Department.

More **diversified portfolios can also be curated**, so as to avoid **reinsurance with portfolios highly concentrated in areas of high climate impact or in sectors heavily affected** by this event. Notably, Línea Directa has a Reinsurance Policy that contains clear limits on the level of rating that can be arranged, as well as processes to mitigate the probability of default by the reinsurer.

4.3.2. / Physical (>2 °C) and transitional (>1.5 °C) risk scenarios

Scenario analysis is a **planning tool** and a best practice for companies to **develop forward-looking projections that** anticipate potential positive and negative impacts.

In order to identify and develop the risks and opportunities arising from climate change, Línea Directa has looked at different climate scenarios. The scenarios used include those relating to transition risks and physical risks and that meet two additional conditions:

- That at least one scenario from the **transition risks** category looked at temperatures **rising by 1.5 °C and that it be a disorderly scenario.** The analysis focused on the NGFS scenarios assuming both orderly and abrupt change ***(Net Zero 2050 and Divergent Net Zero).***
- That the scenarios include mixed RCP and SSP scenarios modelled by the IPCC, and that at least one scenario looked at temperatures rising under 2 °C **(SSP1-2.6)** and that at least one scenario looked the most stressed physical risks **(SSP5-8.5).**

4.3.2.1. SCENARIOS FOR ANALYSING PHYSICAL RISKS: RCP AND SSP

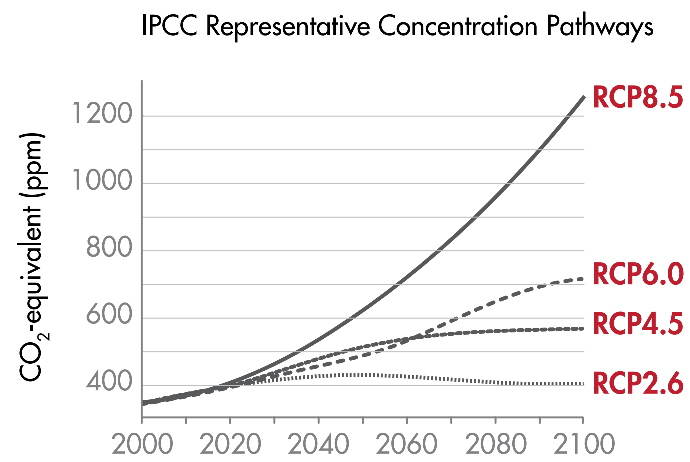
The IPCC, in its **fifth assessment report** (AR5), defined emission scenarios known as Representative Concentration Pathways (RCPs). These pathways are essentially projections that attempt to show atmospheric concentrations of greenhouse gases (not emissions).

The trajectories describe various **climate futures**, which are considered plausible depending on the volume of greenhouse gases (GHG) emitted in the coming years.

The RCPs are consistent with a wide range of possible changes in future anthropogenic GHG emissions.

The IPCC recently published its **Sixth Assessment Report**, in which these scenarios were updated and replaced by Shared Socioeconomic Pathways (SSPs), which are expected to provide flexible descriptions of possible futures within each RCP.

Each scenario is labelled to identify both the **level of emissions** and the SSP used in those calculations.



- **SSP1-1.9:** The most optimistic scenario of the (IPCC) report describes a world in which global CO_2 emissions are reduced to zero net emissions by 2050. This assumes that societies shift to more sustainable practices and migrate from economic growth to general well-being. Investments in education and health are on the rise. Inequality is decreasing. While extreme weather events are more frequent, the world has managed to avoid the worst impacts of climate change. This first scenario is the only one that meets the **Paris Agreement's goal** of keeping **global warming to around 1.5 °C above pre-industrial temperatures,** with warming reaching 1.5 °C, but then declining and stabilising at around 1.4 °C by the end of the century.

- **SSP1-2.6:** In the next best scenario, global CO_2 emissions are reduced drastically, but not as fast, reaching zero after 2050. There are the same socio-economic shifts towards sustainability as in SSP1-1.9, but **temperatures stabilise at around 1.8 °C higher by the end of the century.**

- **SSP2-4.5:** This is an "interim" scenario. CO_2 emissions hover around current levels before starting to decline by mid-century, but do not reach net zero until 2100. Socio-economic factors follow their historical trends, with no noticeable change. Progress towards sustainability is slow, and development and income grow unevenly. **Under this scenario, temperatures rise by 2.7 degrees by the end of the century.**

- **SSP3-7.0:** Following this pathway, emissions and temperatures rise steadily and CO_2 emissions roughly double from current levels by 2100. Countries become more competitive with each other, focusing on national security and securing their own food supply ahead of others. **By the end of the century, the average temperature has risen by 3.6 degrees.**

- **SSP5-8.5:** Current levels of CO_2 emissions roughly double by 2050. The world economy is growing rapidly, but it is fuelled by fossil fuel exploitation and energy-intensive lifestyles. By the year 2100, the global average temperature has risen by 4.4 degrees.

4.3.2.2. SCENARIOS FOR ANALYSING TRANSITION RISKS: NGFS

The financial sector generally uses the three scenarios defined by the NGFS (Network for Greening the Financial System), which serve to identify different climate variables:

1. **Orderly:** where government and business take early action and policies to achieve net zero CO_2 emissions and a temperature increase of less than 2 °C by 2070. This scenario is divided into **two projections:**

- **Net Zero 2050:** which is an ambitious scenario that succeeds in limiting global warming to 1.5 °C through stringent climate policies and innovation, reaching net zero CO_2 emissions by around 2050. Some jurisdictions such as the United States, the EU and Japan reach Net Zero for all greenhouse gases at that time with a global warming limit.

- **Below 2 °C:** in this scenario, the stringency of climate policies gradually rises, resulting in a 67% chance of keeping global warming below 2 °C. This scenario assumes that **climate policies are introduced immediately and steadily become more stringent,** although not as stringent as in Net Zero 2050. The deployment of Carbon Dioxide Removal (CDR) technologies is relatively low. Net zero CO_2 emissions are achieved after 2070. **Physical and transition risks are relatively low.**

2. **Disorderly:** where measures are taken late and therefore investments need to be higher to achieve the emissions targets. This scenario is further divided into:

- **Divergent Net Zero:** in which Net Zero is achieved by 2050, but with higher costs due to divergent policies introduced in different sectors and a faster phase-out of fossil fuels. This scenario differs from Net Zero 2050 by assuming that climate policies are more stringent in the transport and buildings sectors.

This mimics a situation where the lack of coordination of policy stringency across sectors results in a high burden on consumers, while the decarbonisation of energy supply and industry is less stringent. In addition, the availability of **CDR *(Carbon Dioxide Removal)*** technologies is assumed to be lower than under Net Zero 2050. Emissions are in line with a climate target that offers at least a 50% chance of limiting global warming to below 1.5 °C by the end of the century, with no or low (<0.1 °C) exceedance of 1.5 °C in previous years.

This carries considerably higher transition risks than Net Zero 2050, but overall poses the lowest physical risks of the six NGFS scenarios.

- **Delayed 2 °C:** The **delayed transition** assumes that global annual emissions do not decrease until 2030. Thereafter, strong policies are needed to limit warming to below 2 °C. Negative emissions are limited.

Hot House World, where **no additional measures are taken in addition to** existing ones, leading to a considerable temperature increase.

- **Nationally Determined Contributions**: include all committed policies, even if they have yet to be implemented.

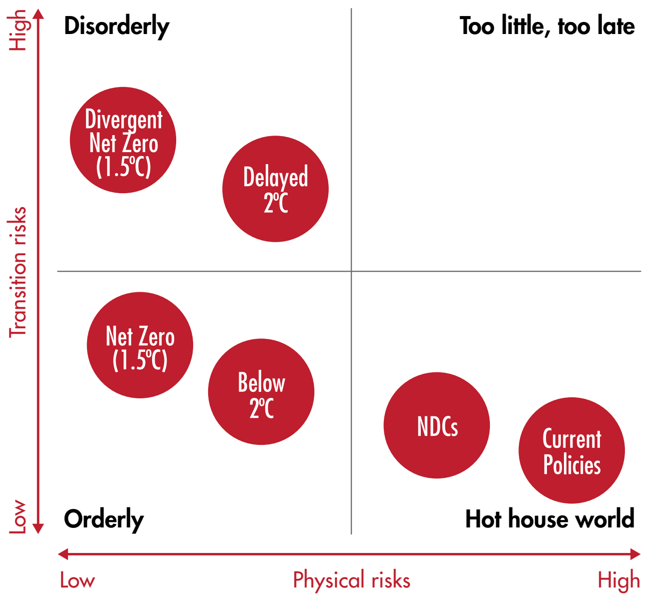
- **Current Policies:** assumes that only currently applied policies are maintained, which entails high physical risks. **Emissions increase through to 2080, leading to a warming of about 3 °C and severe physical risks.** This includes **irreversible changes** such as higher sea level rise. This scenario may help central banks and supervisors to consider the long-term physical risks to the economy and the financial system if we continue to move towards a **"hot world".**

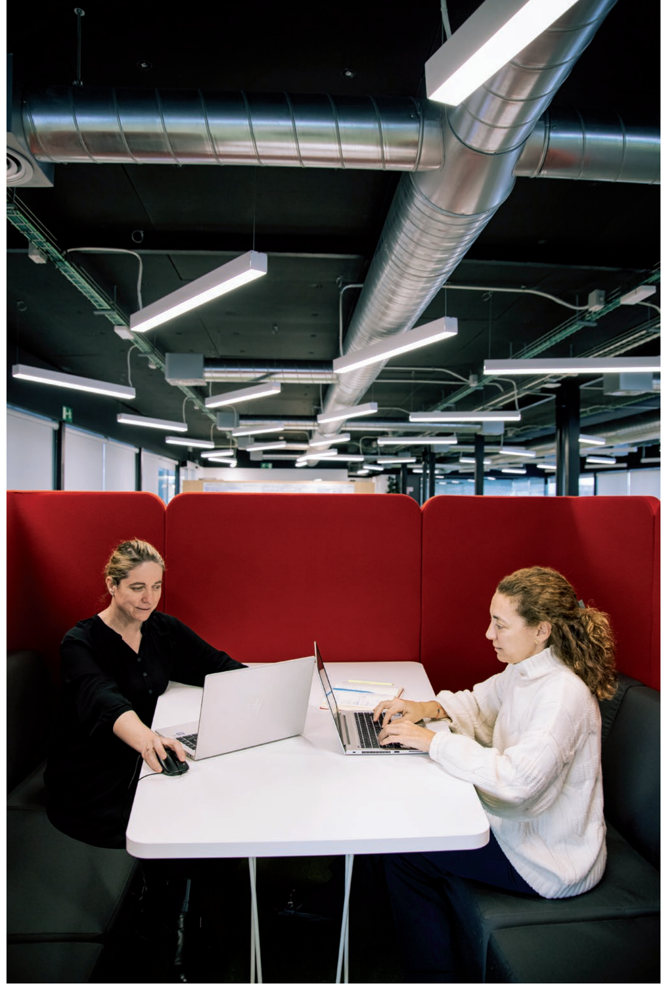
3 There is also a fourth, ***"too little, too late"*** scenario, which is usually not used due to its extreme severity and implies catastrophic effects on a global scale.

4.3.2.3. SCENARIO ANALYSIS TOOLS AVAILABLE

When conducting the scenario analysis, different viewers and atlases of geographical representation have been used as a guide to provide references for the future climate-related projections described above. These tools allow short-, medium- and long-term analysis of the impact of climate change to be forecast, according to the concentration of emissions, the temperature reached and various socio-economic indicators.

NGFS SCENARIOS FRAMEWORK





The following tools have been reviewed, among others:

- **IPCC WGI Interactive Atlas:** https://interactive-atlas.ipcc.ch/
  - Includes the following scenarios at low granularity, based on global models (CMIP6):
    - SSP1-2.6
    - SSP2-4.5
    - SSP3-7.0
    - SSP5-8.5
- **Climate impact explorer by Climate Analytics:** https://climate-impact-explorer.climateanalytics.org/
  - In collaboration with the NGFS (Network for Greening the Financial System), it includes regional scenarios:
    - RCP2.6
    - RCP4.5
    - RCP6.0
    - RCP8.5
    - NGFS Current Policies
    - NGFS Net-Zero 2050
    - NGFS Delayed Transition
    - CAT Current Policies
- **NASA Sea Level Change:** https://sealevel.nasa.gov/
  - With sea level projections according to the IPCC's 6th Assessment Report. The scenarios considered in terms of future greenhouse gas emissions, at low granularity, are as follows:
    - SSP1-1.9: Very Low
    - SSP1-2.6: Low
    - SSP2-4.5: Intermediate
    - SSP3-7.0: High
    - SSP5-8.5: Very High
- **AdapteCCa:** https://escenarios.adaptecca.es/
  - **Climate Change scenario viewer.** AdapteCCa is a **platform for consulting and sharing information** on impacts, vulnerability and adaptation to climate change. The ultimate aim of AdapteCCa is to make society and governments more adept in adapting, in accordance with the objectives and principles of the National Plan for Adaptation to Climate Change (PNACC).
  - - AdapteCCa is a joint initiative of the **Spanish Climate Change Office and Fundación Biodiversidad**, both attached **to the Ministry of Ecological Transition and the Demographic Challenge.** The granularity in these scenarios is medium level, with regional models (EUROCORDEX). It employs these two scenarios:
    - RCP 4.5
    - RCP 8.5
- **Water Risk Atlas:** https://www.wri.org/applications/aqueduct/water-risk-atlas
  - Initiative of the **World Resources Institute.** With low granularity.
    - Physical risks quantity
    - Physical risks quality
    - Regulatory and reputational risk
- **ECE Scenario Services Manager of IIASA:** https://manager.ece.iiasa.ac.at/
  - IIASA's Energy, Climate and Environment programme has cemented its status as a community data centre, providing crucial scenario services to the global modelling community and international institutions involved in climate change mitigation scenarios.
    - NGFS Phase 3 – Network for Greening the Financial System

4.3.2.4. CUSTOMISED SCENARIOS AND ASSUMPTIONS

Once the risks associated with climate change have been identified and defined, they are assessed under different scenarios that are representative of these risks. This valuation has been carried out from underwriting, reinsurance and financial investment standpoints. In general, the impacts have been calculated independently.

We have already mentioned at various points in this document that the company has relied on the time horizons defined by EIOPA. All risks in the short term have been assumed to be already occurring, which facilitates impact calculations. As the risks have already materialised, it is possible to extrapolate known behaviours to the projections. Thus, the impact study will be carried out from 2024 onwards, starting from the planned figure for 2023, which, at the time of writing this report, has already made some decent progress.

In the medium and long term, the deviations will be greater, as a larger number of assumptions need to be made.

For short-term transition risks, a scenario is considered in which the company adapts to and/or anticipates new challenges arising from climate change, so that any negative impacts are adequately mitigated, along with another scenario in which no action is taken, leading to action only as and when required by some kind of regulation, which hinders freedom of action and control over possible consequences.

The assessment of adaptation scenarios to physical risks is more complicated, because it is globally dependent on external factors, but having them identified is an important tool with which to minimise their impact. We will now outline the scenarios considered when producing the financial impacts.

1. The risk of a decline in the portfolio amid lower sales of fossil fuel cars and the ban on vehicles driving within cities leads to a scenario of portfolio outsourcing in which, however, the electric car must gain weight. The role of leasing and car sharing fleets will also become very important.

2. Increased regulatory capital requirement for climate change risks. The probability of occurrence of this scenario is high, because according to the regulations this risk must already be part of the internal ORSA risk self-assessment.

3. Higher costs due to an increase in staff and money spent on analysing, monitoring and tracking environmental requirements.

4. Related to reputational risk are exclusions from investment in certain sectors due to market trends. What seems like a market trend is that the smaller the portfolio exposed to those sectors, the lower the risk.

5. Increase in the cost of insurance (reinsurance). Reinsurance rates have been rising in recent years, following an increase in the frequency and average costs of catastrophic perils and natural catastrophes. Notably, these rates will continue to climb under these scenarios, in which a worsening of the situation is assumed.

6. Increased risk of default among reinsurers due to greater exposure to this type of event. The probability of default among reinsurers —due to having to assume more catastrophic and higher impact events— is a genuine concern. The impact of this on the Solvency II balance sheet is a higher net reinsurance provision.

7. Following on, the increase in claims and operating costs due to the increased frequency and severity of the physical impacts of adverse weather events will inevitably push up the cost of claims. In the case of Línea Directa, the most affected segment is Home. A number of scenarios have been assumed in which catastrophic events such as 'Danas', explosive cyclogenesis and other phenomena occur more frequently.

It should also be noted that the increase in claims associated with this kind of climate change will require additional claims handling staff. Moreover, the new regulations call for more specialised staff to implement and monitor all these new developments, or else a significant investment in training for existing professionals will be needed.

RISK MANAGEMENT

The Línea Directa Group, based on the general methodology it already has in place for analysing corporate risks, has also defined the processes needed to identify and assess specific risks arising from climate change.

These, while still considered emerging, expand the categories of risks already identified by the company in its risk map. This gives the organisation a proper procedure to follow, in order to prevent, mitigate and adapt to these risks and their consequences for the organisation.

The company is implementing climate risk management and analysis, together with internal control processes, in accordance with best market practice, current regulations and the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

5.1. RISK IDENTIFICATION AND ASSESSMENT

The company's organisational structure for risk management and control is based upon the principles of independent and segregated functions between business units and risk monitoring and control units. In this regard, the group has defined the main roles and responsibilities of the governing bodies within the risk control and management process, as described in the Governance section of this document.

The company has devised various levels of defence and designed an organisational structure for each risk identified type, based on the three lines of defence model:

- A management unit with direct responsibility for the day-to-day or ongoing management of such risks, **as a first line of defence.**
- Other control functions as the **second line of defence.** These functions include Risk Management, Actuarial Function, Compliance Function and ICFR, with the following responsibilities:
  - Ensuring the proper functioning of risk management and control systems and, in particular, seeing to it that all significant risks to which the organisation is exposed are identified, managed and properly quantified, including ESG risks.
  - Playing an active role in drawing up the risk strategy and in important decisions around risk management.
  - 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 the controls, understood to be the measures in place to mitigate the impact of the identified risks. It will also issue recommendations to the relevant risk officers, which should then be converted into action plans.
  - Regularly reporting to the Management Committee —and, as often as deemed appropriate, 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.
- An oversight function as the **third line of defence,** performed by the Internal Audit function.

The Group has defined the key roles and responsibilities of the governance bodies when it comes to risk management and control process.

This structure corresponds to four essential objectives. Firstly, it ensures there is proper control, management and reporting of all risks across the various levels of defence. Secondly, control and reporting is vertical and horizontal, through both dependent entities and independent control functions. Thirdly, there is adequate scalability of reporting, control and decision-making. Lastly, responsibility, knowledge and control of risks is carried out at different levels, including the highest level of governance.

5.1.1. / Process for identifying risks and opportunities

In response to heightened awareness of sustainability, and especially of climate change, the group has made genuine progress in identifying the challenges related to this phenomenon in order to face different scenarios of climate change and to analyse the risks and opportunities of developing products and services that allow us to progress towards a decarbonised economy.

The Línea Directa Group uses different mechanisms that consider both financial aspects and ESG aspects.

Climate change risks are included in the risk categories already defined by Línea Directa Aseguradora in its general risk map. Therefore, once their possible impact has been identified and assessed, they are incorporated into these previously determined types. Similarly, as part of the process of managing these risks, the group considers and analyses the necessary action plan to avoid and minimise their effects.

Material risks present in the Group's processes are identified jointly by the risk analysts attached to the Corporate Risk area, and the business areas responsible for running such processes. The business areas regularly review the organisation's processes in order to identify possible new risks, including emerging risks such as those related to climate change, which are assessed in terms of impact and probability for inclusion in the Línea Directa Group's risk map. Along similar lines, the Corporate Risks area, the Sustainability Working Group and certain other key profiles within the organisation hold annual meetings in order to identify risks specifically linked to climate change.

The organisation also keeps its risk control environment under constant review in order to

update those controls and their level of integrity and effectiveness. Thus, based on the actual level of control, the company reassesses the risks previously identified.

5.1.2. / Process for assessing climate change risks

The company's global risk methodology also includes an own risk and solvency self-assessment tool (ORSA), allowing it to identify, monitor, manage and report short-, medium- and long-term risks and to verify the adequacy of its capital resources. This analysis covers both the negative impacts and the opportunities that arise for the company within its environment. Therefore, within the current context, the assessment of related risks is already a key exercise for the company.

After identifying the risks linked to climate change, the group has flagged the most relevant ones and analysed various scenarios of occurrence of both physical and transitional risks. These risks have been assessed taking into account these scenarios and the institution's internal risk assessment methodology.

Línea Directa Aseguradora has happens to have carried out a prior identification of the climate change risks to which its portfolio is exposed, as well as the opportunities that this reality could generate for the company. Following this exercise, the insurer has also identified the most material risks.

5.1.3. / Geography, insurance segment and product segment

Valuation processes have been established for each of the risk scenarios drawn up, taking into account variables such as geographical location, the characteristics of each insurance segment and the company's reinsurance arrangements.

- The company has carried out a simulation of atmospheric phenomena, taking into account the geographical location of its portfolio. The frequency and impact of these extreme events on the company's cost of claims fluctuates, depending on the geographical variable and the extent to which climate change affects them in the medium and long term, as well as the extent of the impact defined under each scenario, depending on the expected course that climate change takes.
- Looking at the history of material impacts on the portfolio, the group has projected the potential future impacts arising from climate change risk by simulating scenarios that consider, among other factors, the outsourcing of the motor insurance segment and a reduction in the vehicle population.
- Different weather events have distinct impacts on each insurance product. Similarly, the risks and opportunities arising from climate change also differ, depending on the particularities and the insurance cycle of each insurance segment. In response, the group has defined the various scenarios and gauged their impacts with regard to each insurance segment.
- The company has assessed the various scenarios also on the basis of the risk assessment structures developed within the framework of Solvency II regulations. Most notably, the company has taken into account the mitigating effect of reinsurance on this type of event and the probability of default of the reinsurers it works with, based on a capacity-managed market.
- Línea Directa Aseguradora also happens to conduct an annual study of the most efficient reinsurance structure, in accordance with the levels of priority, coverage and optimal capital consumption.

5.2. MANAGING CLIMATE CHANGE RISKS AND OPPORTUNITIES

Climate change is one of the greatest challenges now facing society as a whole. As part of the company's risk management system, and in line with best practices and current regulations, Línea Directa Aseguradora has been identifying risks and opportunities related to climate change with a view to including include them in the corporate risk map and gauging their impact on the business.

The Línea Directa Group is exposed to a series of risks intrinsically associated with its activity and business, as well as those arising from external factors, any of which may affect its strategy, the fulfilment of its objectives and its reputation, and may have an impact on the relationship with its stakeholders. To ensure that these risks are properly identified, measured, managed and controlled, the organisation has a series of principles of action and procedures in place that are systematically applied to all group companies. The entity also analyses those events that could have an impact on the business should they materialise. Along these lines, the company has identified different types of risks, including environmental, social and governance (ESG) risks.

5.2.1. / Risk management decision-making

The group's risk management and internal control processes are based on the continuous and integrated management of all business processes. It monitors risk levels through its corporate risk map and key risk indicator scorecard (KRIS), which provide relevant information for decision-making to achieve the entity's strategic objectives. In keeping with the group's global strategy, sustainability KRIs have been incorporated into the scorecard so as to facilitate the task of tracking progress towards the company's Sustainability Plan.

In parallel to the actions being taken to prevent, minimise or avoid the impacts of climate change, reinsurance happens to be one of the main climate risk mitigation tools identified by Línea Directa Aseguradora in its risk and control map. In this respect, the group conducts a broad-scope annual exercise to determine the most efficient reinsurance programme for the organisation. In doing so, it looks at underwriting policies, reinsurance policies, own and industry-wide claims experience, and the potential impact of weather risk, with a particular focus on catastrophe reinsurance programmes. With the same aim of minimising the potential impact of increasingly frequent and severe weather events, the group has defined the most efficient coverage tranches and priorities based, in a complementary manner, on the methodologies developed within the framework of Solvency II.

In addition, together with the reinsurance programmes of each company, the Spanish insurance sector relies on the Insurance Compensation Consortium (CCS) as a key tool for mitigating the impact associated with the growing risk of meteorological phenomena.

5.2.2. / Key instruments and tools

The business strategy of the Línea Directa Group takes account of the potential negative and positive impacts arising from climate change. Notably, the company has developed models and procedures with the aim of developing and bringing to market insurance products and services that adapt to and expedite the orderly transition to a decarbonised economy. It is also working hard to adapt its pricing policy to the frequency and impact of extreme weather events.

Línea Directa Aseguradora has a group-wide New Product Innovation department that works to develop sustainable products, accompany customers in their own ecological transition when it comes to sustainable mobility, energy-efficient homes and health, and harness the business opportunities that are now arising within this new landscape.

From an underwriting and pricing standpoint, the group is working to implement prices that discriminate risk according to the impact that climatic events such as hail have on the various geographic areas of Spain across which the company's auto and home insurance portfolio is distributed.

5.3. INTEGRATION INTO END-TO-END RISK MANAGEMENT PROCESS

5.2.3. / Integrating climate change risks into the company's ESG risk map

In 2022, the Línea Directa Group updated the specific ESG risk map, which in turn forms part of the organisation's general risk map. This ESG risk map already included certain risks related to climate change, such as the extent to which the entity's range of products and services has been adapted to reflect the effects of climate change and the inclusion or otherwise of climate change risks themselves in the valuation of financial and risk ratios.

Indeed, throughout 2023 the company reviewed its ESG risk map to ensure its full alignment with the rest of the corporate risks and thus achieve a comprehensive picture of the company's risks and a consolidated valuation.

Furthermore, in line with current and future legislation and with the reporting commitment acquired with its adherence to the Task Force on Climate-related Financial Disclosures (TCFD), Línea Directa Aseguradora has carried out an active listening process among various areas of influence of the company, covering different types of risks. Thanks to this exercise and its stakeholder analysis, the organisation has identified the main climate change risks and opportunities it now faces.

METRICS AND OBJECTIVES

6.1. RISK METRICS AND OPPORTUNITIES ALIGNED WITH THE STRATEGY

6.1.1. / Key metrics: risks and opportunities associated with climate change

Línea Directa has run impact calculations and assessments for each of the risks identified, establishing quantitative assumptions and projecting them over various time horizons. The metrics used to calculate the different economic impacts on the two types of risks described earlier —transitional and physical— are explained below.

Transition risks

The following metrics have been defined for the transition risks identified. Two scenarios have been analysed for these risks, one relating to the socio-economic characteristics of an orderly transition and the other to a disorderly transition:

- **Legal and regulatory risks**

1. Regulatory changes with an impact on the products sold

In this risk, the insurer has calculated the impact on the statement of profit or loss of the following working assumptions for the products marketed and sold in its motor segment:

- Quantitative projection of possible portfolio outsourcing.
- Quantification of the impact of an increase in the portfolio of hybrid and electric vehicles.
- Assessment as to the effect of a longer age of the insured vehicle population.
- Calculation of the decline in the portfolio due to a reduction in the number of vehicles.

Goal: Monitor the share of plug-in hybrids and electrics in the total fleet and the net premiums generated by this segment in relation to the total.

2. Stricter regulatory capital requirements for risks associated with climate change

This calculation takes into account the high probability that sustainability risk will ultimately become regulatory and therefore part of the solvency capital calculation under Pillar I within the next five years.

Goal: Annual calculation of the impact on climate solvency capital.

3. Increased costs to adapt to new requirements

For this risk, the company has parameterised the increase in costs that it may face if it has to increase the number of qualified and specific staff it has to deal with climate change-related matters and to cover the resources allocated to the process of analysing monitoring the value chain to ensure compliance with new environmental requirements, securing certifications, managing new regulatory compliance requirements in this area, requesting specialised consultancy or acquiring or adapting systems.

Goal: Annually assess the costs of adapting to legal requirements on climate change.

- **Reputational risk**

4. Exclusions from investment in certain sectors due to market trends

In this risk, the company observes the possibility of disengaging from, or otherwise not partaking in, profitable businesses due to reputational risk or industry regulations that prohibit it.

Goal: Annual review of market opportunities and the investment portfolio to ensure optimal returns during the transition.

Physical risks

With regard to the physical risks identified, the following metrics have been defined, projecting the calculations in two scenarios: one below the 2 °C temperature increase and the other above the 2 °C temperature increase:

- **Chronic risks**

5. Reinsurers defaulting on reinsurance due to increased exposure

One of the risks identified is the increased probability of reinsurers' default due to greater exposure to the steady increase in climate change-related events. This implies an increase in claims that, due to their exposure to sectors and lines of business with a higher probability of default, will ultimately generate crises within the system.

Goal: Review reinsurance offers and update rates.

- **Acute risks**

6. Changes in precipitation patterns and extreme variability in weather patterns

Metrics have been deployed to capture the expected increase in claims and operational costs due to the more frequent and severe physical impacts of adverse weather events resulting from climate change. The calculation metrics have captured their impact on the home, motor and reinsurance limits.

Further metrics have been included to quantify the costs of maintaining customer service at the company's optimal quality thresholds in the event of an increase in external climatic phenomena that simultaneously affect part of the portfolio.

Goal: Monitor the performance of the portfolio located in those areas at the highest risk of suffering adverse and extreme precipitation effects. Assess quality of service at times coinciding with severe weather events.

7. Increased severity of extreme weather events

For this risk, metrics have been deployed to assess the growing impact of extreme events on the Home segment. Along these lines, the company has analysed the impact of high intensity events to have occurred in recent years, including:

- The cold drop (high impact rain event) that took place in September 2019 on the east coast of Spain, heavily affecting Murcia and Alicante.
- Storm Gloria in January 2020, affecting Valencia, Tarragona, Barcelona, Gerona, Castellón and Alicante, among other localities.
- Storm Filomena, in January 2021, which affected much of Spain. A total of 47 provinces were affected, with the worst hit being Toledo, Guadalajara, Cuenca and Madrid.

Goal: Monitor the number, intensity and portfolio impact of adverse weather events.

6.1.2. / OPERATIONAL EFFICIENCY INDICATORS

Línea Directa, due to its direct model, has a more efficient starting point when it comes to managing consumption and waste. In this regard, it optimises an operational model that prioritises control and transparency, with the clear objective of driving the transition towards a low carbon economy.

For the company, it is essential to work tirelessly to make its operations more efficient and to minimise the waste of resources and the impact on the environment and climate change. Thus, Línea Directa manages its consumption responsibly by reducing unnecessary consumption, seeking more efficient ways of doing business and neutralising its impact on climate change by championing the use of renewable energy and boosting the circular economy through its consumption habits.

An important step forward in this respect has been the initiative to make the company's advertising productions as close to zero emissions as possible. To succeed in this task, a "Spot Net Zero" control system has been put in place, whereby an expert report is drawn up and issued with the aim of optimising consumption.

The following table shows the trend in Línea Directa Aseguradora's energy consumption. In 2022, self-generated consumption was fully achieved, following the start-up of a photovoltaic plant.

ENERGY CONSUMED (GROUP)	2020	2021	2022	2023
Diesel (MWh)	102.66	81.50	111.77	120.05
Natural gas (MWh)	2,414.99	3,143.34	2,414.50	2,370.53
Electricity (MWh)	4,762.60	5,209.90	5,223.10	4,916.57
Self-generated electricity (MWh)	-	-	318.40	688.48

Self-generated electricity in 2023 accounted for 14% of the total and 72% of the electricity consumed is of renewable origin.

The following table shows the trend in water consumption up to 2023. Comparing consumption now with the figure for 2019 —which is a more reliable comparison period in terms of the levels of activity between then and now— consumption in 2023 was down by almost 31%.

WATER CONSUMED (GROUP)	2020	2021	2022	2023
Drinking water (ml)	12.43	14.32	16.12	15.27

Lastly, the following table shows data on paper consumption and waste management at Línea Directa.

WASTE GENERATED – GROUP (KG)	2021	2022	2023
Paper consumption	11,712	9,705	9,158
Total waste (kg)	107,822	112,042	113,968
Paper waste (kg)	14,839	17,898	21,915
Plastic waste (kg)	16,976	14,010	18,777

In 2023, 73% of the total amount of waste generated was recycled or reused.

6.1.3. / PAY-RELATED METRICS

For 2023, the company set a target to reduce energy consumption by 5% compared to 2022, which should have a direct impact on reducing emissions. This target for 2023 is included in a broader medium-term objective, which aims to reduce consumption (natural gas and electricity) by more than 15% in 2025 as compared to 2022.

Moreover, in the last quarter of 2022, the quarterly variable pay of 35% of the workforce was pegged to the achievement of the targets set out in the Sustainability Plan, including the emissions reduction target along with other actions aimed at combating climate change.

The target was achieved, resulting in a 51% reduction for Scopes 1 and 2. The increase in both self-consumption and the procurement of renewable energy led to a reduction of up to 900 tonnes of carbon emissions.

6.2. GHG EMISSIONS

Línea Directa Aseguradora has been calculating its carbon footprint for more than ten years across all three emissions scopes.

Línea Directa identifies the main sources of energy and consumption and assesses their performance in order to set targets and monitor them through an environmental management system. This management system is effective in cushioning the impact of the company's activities, protecting the environment, ensuring a process of continuous improvement, complying with applicable legal requirements, promoting the acquisition of more efficient products and services, and guaranteeing the availability of information for control and reporting purposes.

Based on this information, we have drawn up the following tables showing the greenhouse gas emissions emitted through the activities of Línea Directa.

6.2.1. / INVENTORY, SCOPES 1, 2 AND 3

SCOPE 1. DIRECT GREENHOUSE GAS EMISSIONS

Scope 1 refers to emissions from sources directly owned or controlled by the company. In the case of Línea Directa, this means the emissions caused by the burning of gas and fuel in its office buildings to guarantee adequate air conditioning for regulatory standards.

TONNES OF $CO2_{e\ GROUP}$	2020	2021	2022	2023	Target 2023
Direct emissions	469.6	602.3	471.0	464.2	<2022
Direct emissions per employee	0.19	0.23	0.19	0.18	

SCOPE 2. INDIRECT GREENHOUSE GAS EMISSIONS

Scope 2 emissions mean those that Línea Directa causes indirectly from the production of the energy it purchases and then uses. Línea Directa includes in this scope the electricity it uses for its activities.

When calculating Scope 2 emissions, the Guarantees of Origin (GOs) issued by the National Markets and Competition Commission (CNMC) —which are the instrument certifying that the origin of the electricity consumed comes from renewable sources— are requested and reviewed.

TONNES OF $CO2_{e\ GROUP}$	2020	2021	2022	2023	Target 2023
Indirect emissions	431.7	1,178.3	426.2	346.7	<2022
Indirect emissions per employee	0.17	0.46	0.15	0.13	

SCOPE 3. INDIRECT GREENHOUSE GAS EMISSIONS

Last but not least, Scope 3 covers emissions that are not produced by the company itself, nor are they the result of activities of assets owned or controlled by the company; rather, they are emitted by those activities for which the company is indirectly responsible, both upstream and downstream of its activity.

Scope 3 emissions include all sources that do not fall within Scope 1 or 2.

In 2023, the categories included in Scope 3 in respect of the 2022 emissions of Línea Directa were calculated for the first time. In previous years, only some of the categories were included: water, paper, business travel and employee commuting.

Scope 3 has been classified into two blocks:

Scope 3: indirect upstream emissions

Tonnes of CO_2e GROUP	2020	2021	2022	2023
Category 1: Purchased goods	-	-	144,006	92,534
Category 2. Capital goods	-	-	330	278
Category 3. Fuel- and energy-related activities (not included in Scope 1 or 2)	-	-	1,677.4	1,689.7
Category 4. Upstream transportation and distribution	-	-	0	0
Category 5. Waste generated in operations	25.7	16.5	17.6	6.6
Category 6. Business travel	6.9	7.0	22	19.8
Category 7. Employee commuting	1,305.3	2,296.4	2,653.4	2,451.2
Category 8. Upstream leased assets	-	-	0	0

Scope 3: indirect downstream emissions

Tonnes of CO_2e GROUP	2020	2021	2022	2023
Category 9. Transportation and distribution	-	-	691.4	334.3
Category 10. Processing of sold products	-	-	0	0
Category 11. Use of sold products.	-	-	0	0
Category 12. End-of-life treatment of sold products.	-	-	0	0
Category 13. Downstream leased assets	-	-	283.6	343.4
Category 14. Franchises	-	-	0	0
Category 15. Investments	-	-	197,852	217,724
Other emissions: Water	3.97	4.58	2.4	2.7

The total Scope 3 emissions are shown in the table below.

Tonnes of CO_2e GROUP	2020	2021	2022	2023
Total Scope 3 emissions	1,341.9	2,324.5	359,584.1	315,381.5
Induced emissions per employee	0.5	0.9	143.8	125.9

6.2.2. / Methodology

The group's carbon footprint is calculated on an annual basis, enabling it to estimate the greenhouse gases associated with the company's activity and to take appropriate action to reduce its emissions. The standards of the Greenhouse Gas Protocol (GHG Protocol) are followed when calculating the footprint.

The calculation is made on the basis of an operational control approach, which includes all the offices from which it operates, as well as its repair shops in Madrid and Barcelona and the activities that fall under its direct control.

When calculating the carbon footprint, emission factors are used from the annual publication of the Ministry of Ecological Transition and from the official publication of emission factors for companies of the UK Department for Environment, Food and Rural Affairs (Defra) and econometric factors, when the only activity data are economic.

This report shows emissions from fossil fuel consumption, electricity consumption and other indirect sources arising from the company's activity, both upstream and downstream.

6.2.3. / ACTION PLAN TOWARDS DECARBONISATION

Managing the sustainable growth of the economy —especially its decarbonisation— will involve changes in policies, social norms and technology that will affect the entire business world. These transition risks include the possible introduction of a universal carbon price.

There must be more widespread awareness of the social and environmental cost of greenhouse gas emissions arising from activities. Internally, the carbon pricing mechanism aims to establish an internal charge, initially in shadow form, on the amount of carbon dioxide emitted by the company's activities, assets and investment projects so that the competent areas or departments can see how emissions could affect their expenditure and become more aware of the social impact of the direct emissions they generate, and thus positively influence a change in their most polluting habits.

Línea Directa firmly believes that an internal carbon price is an essential tool for driving the transition of its activity towards a low carbon economy and also for anticipating potential regulatory changes in this regard. It therefore included this measure in its Sustainability Plan 2023–2025.

To this end, the company has started by estimating the social cost of the impact of its carbon footprint and of its efforts in supporting the transition to electric and hybrid vehicles.

In doing so, it used the International Carbon Price Floor (ICPF) set by the International Monetary Fund in its report titled "Proposal for an International Carbon Price Floor Among Large Emitters". The report, published in June 2021, estimates a price of USD 75 per tonne of carbon in high-income countries.

By applying this price to the emissions referred to above, the following data were estimated:

- The carbon footprint of Línea Directa's Scope 1 and 2 emissions have a social impact of USD 65,010. For Scope 3 emissions associated with the value chain, the impact rises to USD 11.1 million.
- In contrast, the social impact of specific products for the underwriting of electric and hybrid vehicle risks is very positive, avoiding up to USD 2.35 million in social costs.

6.3. MANAGEMENT OBJECTIVES

A number of targets are set as part of the roadmap for climate change risk mitigation and to track the progress made towards the company's climate change strategy. Due to the nature of these objectives, these metrics will be analysed and monitored on an annual basis.

6.3.1. / Objectives relating to our own operations

SCOPE 1 AND SCOPE 2 EMISSION REDUCTION TARGETS

Línea Directa set a combined Scopes 1 and 2 emissions reduction target of 50% for 2022 compared to the 2021 baseline. Individually, this meant that Scope 1 emissions should not exceed 480 tonnes, while Scope 2 emissions should not exceed 410 tonnes.

In 2023, an energy reduction target of 5% was set for 2023 compared to 2022, which will have a direct effect on the reduction of emissions generated by such consumption. Given the company's commitment to rely on renewable electricity —both grid and self-generated— its emissions will be limited to those generated by the combustion of natural gas and diesel for air conditioning and other activities.

Moreover, this target for 2023 is included in a broader medium-term objective, which aims to reduce consumption (natural gas and electricity) by more than 15% in 2025 as compared to 2022.

SCOPE 3 EMISSION REDUCTION TARGETS

Línea Directa has included, in its Sustainability Plan roadmap for 2025, some general objectives to make further progress towards the decarbonisation of its business. A Net Zero target by 2050 will be adopted in 2024, which will include interim reduction targets for 2030, and will be based on the recommendations of the Science Based Targets initiative (SBTi).

The Group has defined the key roles and responsibilities of the governance bodies when it comes to risk management and control process.

6.3.2. / Goals for our upstream activity

GOALS FOR THE VALUE CHAIN

The company has pledged to obtain ESG information for all of its upstream activities, especially in relation to its critical suppliers. To succeed, it has undertaken to conduct annual ESG supply chain consultations. In 2023, it carried out its first waves and aims to have all its critical suppliers assessed by 2025. This questionnaire includes information relevant to the management of decarbonisation and alignment in the fight against climate change.

In this regard, carbon footprint data are requested as the main indicator on the path towards decarbonisation. The company also asks whether its suppliers have environmental management systems in place to monitor and optimise the consumption of resources, as well as good waste management processes, to help promote a circular economy. Given the heterogeneity of its suppliers, the questionnaires are adapted to each profile, thus allowing it to gather specific information for each activity, as well as more general information required of all suppliers.

6.3.3. / Goals for our downstream activity

GOALS FOR THE INVESTMENT PORTFOLIO

Línea Directa firmly intends to support the economy in its decarbonisation until Net Zero is ultimately reached by 2050. Accordingly, a Sustainable Investment Policy was approved which includes a periodic review of its positioning regarding assets in the oil & gas and coal industries. The company's roadmap envisions a review of this policy so as to establish certain limitations on exposure to industries that can adversely affect climate change. In this regard, the final milestone is to define a target for the decarbonisation of the investment portfolio.

Línea Directa firmly intends to support the economy in its decarbonisation until Net Zero is ultimately reached by 2050.

GOALS REGARDING OWNED PROPERTY

The Group holds various owned properties in its investment portfolio, most of which are held for lease. In this regard, the aim is to ensure the annual renewal of the ISO 50001 certification regarding the energy efficiency of the buildings that Línea Directa uses for its business and to evaluate further actions to improve their energy efficiency characteristics and thus adapt them to anticipate the legal requirements associated with climate change.

6.3.4. / Further objectives.

The company has pledged to analyse and start promoting measures to foster sustainable mobility and improve travel habits among employees over the 2023–2025 three-year period.

linea directa

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