Solvency and Financial Condition Report

(for the year ended at 31 December 2021)

Telefónica Seguros y Reaseguros Compañía Aseguradora, S.A.U.

28 March 2022

CONTENTS

SUMMARY

This report lies within the framework of the requirements established in Law 20/2015 of 14 July on the regulation, supervision and solvency of insurance and reinsurance companies. It contains the Solvency and Financial Condition Report (hereinafter, ISFS) of Telefónica Seguros y Reaseguros Compañía Aseguradora, S.A.U. (hereinafter, Telefónica Seguros, the Insurer or the Entity) at 31 December 2021, which has been sent to the Directorate General of Insurance and Pensions (hereinafter, the DGSFP or the supervisor) and published on the Insurer's website.

In accordance with the current regulations, this report implements the following sections:

The entity is fully owned by Telefónica Group, which holds its stake through the parent company, Telefónica Luxembourg Holding. During the 2021 financial year, the Entity moved its registered office from Luxembourg to Spain, changing its name to Telefónica Seguros y Reaseguros Compañía Aseguradora, S.A.U. and falling under the supervision and regulations of the DGSFP from that moment onwards.

Telefónica Seguros operates in Spain, the United Kingdom and Germany in the Non-Life business, with authorisation in the branches of other damage to property, miscellaneous pecuniary losses, general liability, assistance, accidents and legal defence.

The Entity's core business line is the insurance of electronic devices, which it covers for damage or theft, or both at the same time. The Insurer has more than 12 years' experience in this sector and it currently has a portfolio of more than 1.5 million policyholders. This line of business is grouped under the "Other damage to property" branch.

The key figures of Telefónica Seguros at 31 December 2021 are those listed below:

- The entity grew by 12% with respect to the premiums earned from direct insurance and accepted reinsurance, which, in 2021, totalled €162,392,000 (€145,400,000 in 2020). 99% of the premiums earned correspond to the devices insurance business (99% in 2020).

  The entity's main market is UK, with 65% of the premiums allocated in 2021.

Thousands of €	Spain*	Germany	United Kingdom	Total
Premiums earned	33,267	23,386	105,739	162,392
% Breakdown	20%	14%	65%	100%

* Includes the Brazil business as Accepted Reinsurance (2,170).

- The entity largely mitigates its underwriting risk by means of reinsurance agreements with different reinsurance entities; the ceding ratio for the 2021 financial year was 71%, compared to 72% in the previous year.

Reinsurance Assignment Ratio	2021	2020	Variation
% Assignment to Premium Reinsurance	71%	72%	-1%

- The claims ratio for the 2021 financial year improved by 9% with respect to the previous year, chiefly due to a change in the calculation criteria for the entity's reserves:

Claims Ratio	2021	2020	Variation	%
Net Allocated Reinsurance Premiums	42,486	41,605	881	2%
Net Reinsurance Claims	14,179	17,686	- 3,506	-20%
Claims Ratio	**33%**	**43%**	**-9%**	

(Thousands of €)

- The income net of expenses from financial investments remains constant with respect to the previous year.

Income from Investments	2021	2020	Variation	%
Net Income from Investments Financial	342	342	0	0%

(Thousands of €)

- The expense ratio increased 15% from the previous year, mainly due to higher fee and commission costs.

Expenses Ratio	2021	2020	Variation	%
Net Allocated Reinsurance Premiums	42,486	41,605	881	2%
Costs and fees	22,742	16,197	6,545	40%
Expenses Ratio	**54%**	**39%**	**15%**	

(Thousands of €)

- The Entity's combined ratio stands at 87% for the 2021 financial year, compared with 81% for the 2020 financial year. This increase is due to an increase in costs, which has been partially offset by an improvement in the claims ratio.

Combined Ratio	2021	2020	Variation
(Claims + Expenses) / Premiums Allocated	87%	81%	5%

- The Entity's profit before tax for the 2021 financial year stands at €5,893,000 compared to €8,064,000 for the 2020 financial year, with a decrease of €2,172,000.

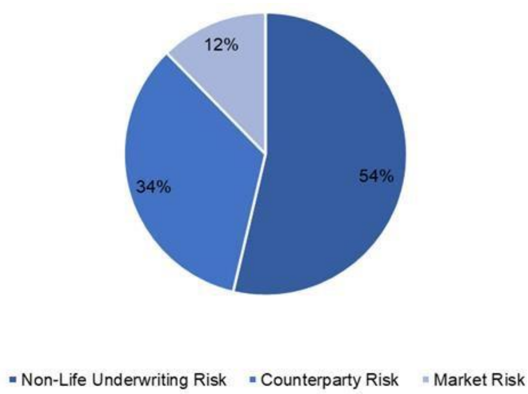
Regarding the Entity's **Governance System**, it has been designed taking into account the insurance regulation and the nature, complexity and volume of the business operations, ensuring sound and prudent management of the Entity.

The structure encompasses the company's supervisory, management and administrative bodies, which are made up of its governing bodies: The General Shareholders' Meeting, the Board of Directors, the Audit Committee, the Governance Committee, the Executive Committee, the Investment Committee, the manager of the distribution function and the person responsible for sound management and compliance with the company's policies.

The **Risk Management system** of Telefónica Seguros is aligned with the principles defined in the Telefónica Group's Risk Management System. The Group's Risk Management Framework is aligned with the recommended practices of Internal Control (COSO1 II Report and BS311002 Draft Code of Risk Management Practices) and it implements the Telefónica Group's Business Principles concerning risk management. In addition, the recommendations on Good Corporate Governance relating to risk management have been taken into account. Telefónica S.A. and its operating companies must implement a process for the early identification, management and notification of risks, with management responsibility for the identification and management of risks in their business areas.

Telefónica Seguros calculates the capital requirements (SCR) under the standard formula. The Solvency Capital Requirement calculation amounts to €23,807,000. The Entity's **risk profile** is characterised by the predominance of the underwriting risk, followed by Counterparty risk and Market risk.

A summary of the risk profile of Telefónica Seguros before correlations appears below:



The Entity complies with the Solvency II regulation in the drawing up of the Economic Balance Sheet, which requires the assets to be valued at the amount for which they could be exchanged between willing and duly informed parties in an arm's length transaction. The financial statements are valued in accordance with the standards of the Accounting Plan of the insurance companies.

A summary of the values of the assets and the liabilities in accordance with the Solvency principles is provided below:

Economic Balance Sheet	2021	2020	Variation	%
Assets	131,766	103,804	27,961	27%
Liabilities	61,453	35,676	25,777	72%
Available Capital and Reserves	**70,313**	**68,128**	**2,185**	**3%**

(In thousands of €)

Telefónica Seguros implements a Capital Management Policy that establishes the main goals to ensure adequate management of its capital and reserves and the items that constitute them. At the end of 2021, the Entity has a Solvency ratio of 295%, 13% higher than the previous year, a figure which complies with the risk appetite thresholds approved by the Board of Directors.

Solvency Ratio	2021	2020	Variation
Available Capital and Reserves	70,313	68,128	2,185
SCR	23,807	24,154	- 347
Mandatory Solvency Ratio	**295%**	**282%**	**13%**
Available Capital and Reserves for MCR	69,654	68,128	1,525
MCR	5,952	6,038	- 86
Minimum Solvency Ratio	**1170%**	**1128%**	**42%**

(In thousands of €)

A. ACTIVITY AND RESULTS

A.1 ACTIVITY

Telefónica Seguros was incorporated in Luxembourg on 15 December 2004 as a public limited company and it was registered in the "Registre de Commerce et des Sociétés de Luxembourg" in section B, under number 105162. The company, initially called Altair Assurances S.A., changed its name to Telefónica Insurance S.A. in December 2011. The company's purpose is to perform insurance and reinsurance transactions for all kinds of risks, except Life Insurance.

On 9 April 2021 the company's registered office was transferred to Spain and it changed its name to Telefónica Seguros y Reaseguros Compañía Aseguradora S.A.U., entered in the Mercantile Register of Madrid under number: 54,108.0/2021.

The registered office was transferred without any loss or dissolution of the company's legal personality and without the creation of a new legal entity, ceasing to be a Société Anonyme governed by Luxembourg legislation and continuing its activities as a public limited company under Spanish legislation.

The company's registered office is located at Ronda de la Comunicación S/N, Oeste 2, 2ª Planta, Madrid.

In addition to Spain, Telefónica Seguros operates in the United Kingdom and Germany in the exercise of the right of free establishment through its branches located in:

- United Kingdom: Telefónica Insurance UK Branch, 260 Bath Road, Slough, Berks SL1 4DX Registered in the United Kingdom under number FC029774: BR014757. The Company is regulated by the Financial Conduct Authority (FCA), which regulates the conduct of companies in the United Kingdom. FCA reference number 430933.

  As at 1 January 2021, Telefónica Seguros is currently under a TPR (Temporary Permissions Regime).

  At 31 January 2021, Telefónica Seguros submitted to the PRA the documentation required to obtain the definitive authorisation to operate in the country as a Third Country Branch.

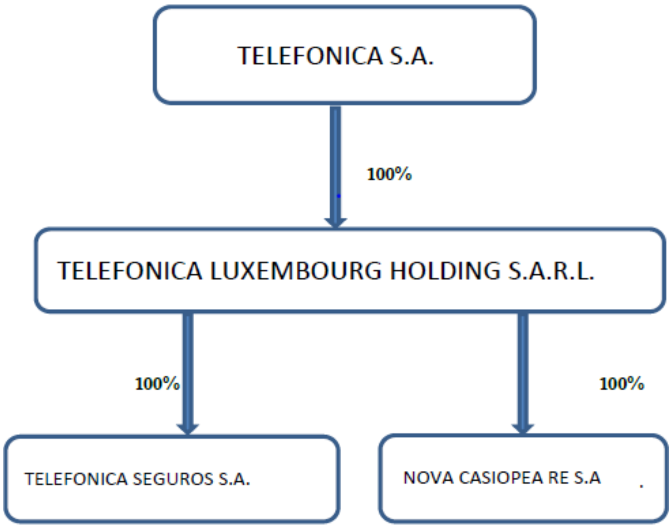
- Germany: Telefónica Insurance S.A. Direktion für Deutschland. Georg-Brauchle-Ring 23-25 80992 Munich. HRB Nr. 198
  107. The Company is regulated by the Federal Financial Supervisory Authority (BaFin), which regulates the conduct of companies in Germany.

The company's appointed auditor is PricewaterhouseCooper Auditores, S.L., domiciled at Paseo de la Castellana 259, B, 28046 Madrid.

The annual accounts of Telefónica Seguros are included in the financial statements of Telefónica S.A., the parent company of the Telefónica Group, domiciled at Gran Vía 28, 28013 Madrid, Spain.

Telefónica Seguros forms part of the Telefónica Group, a diversified telecommunications group that offers a wide range of digital services through one of the largest and most modern telecommunications networks in the world, the purpose of which is to provide telecommunications services and operate chiefly in Europe and Latin America.

The organisation chart is as follows:



Telefónica Seguros offers innovative insurance policies linked to the telecommunications and digital services provided by the Telefónica Group. The company specialises in the insurance of devices, with approximately 1.5 million mobile phones and tablets insured in Europe. The company also participates in the Telefónica Group's Risk Management, taking out insurance policies to cover the Group's subsidiaries domiciled in the European Union.

The business principles of Telefónica Seguros seek to establish, foster and maintain high standards of corporate responsibility in everything the company performs by means of its operations, including promoting and ensuring good product standards. Telefónica Seguros believes that this makes sense from a commercial standpoint, but also that it has the potential to put the customer centre stage, with the aim of offering services and solutions to achieve its full satisfaction and contribute to sustainable development.

Telefónica Seguros applies a set of general principles based on honesty, integrity, trust and respect for the law that define the way in which the company conducts its activities and relationships. Telefónica Seguros firmly abides by and supports the principles of the United Nations Universal Declaration of Human Rights, as well as the declarations of the International Labour Organisation, and it does not tolerate, either directly or indirectly, any type of child labour, forced labour, threats, coercion, abuse, violence or intimidation in its working environment.

A. 2 UNDERWRITING RESULTS

Telefónica Seguros operates in the Non-Life branch and in the following lines of business:

- Other property damage
- Miscellaneous pecuniary losses
- General liability
- Assistance
- Accidents
- Legal defence

Telefónica Seguros has more than 12 years' experience in the insurance of electronic devices, insuring mobiles and tablets, grouped together in the "Other damage to property" line of business.

The premiums earned from direct insurance and accepted reinsurance in the 2021 financial year totalled €162,392 thousands euros (€145,400 in 2020), constituting an increase of 12%. 99% of the premiums earned correspond to the device insurance business (99% in 2020).

Thousands of €	2021	2020	Variation	%
Premiums earned	162,392	145,400	16,993	12%

Telefónica Seguros has branches in Germany and the United Kingdom and it operates in accepted (proportional) reinsurance in Brazil. In these countries, Telefónica Seguros marketed devices insurance in 2020 and 2021. Quantitative information regarding the underwriting results for the 2021 and 2020 financial years by geographical areas is presented below:

Thousands of €	Spain*	Germany	United Kingdom	Total
Premiums earned	33,267	23,386	105,739	162,392
% Breakdown	20%	14%	65%	100%

* Includes the Brazil business as Accepted Reinsurance (2,170).

The United Kingdom accounts for 65% of the premiums earned for the direct insurance and accepted reinsurance of Telefónica Seguros in 2021 (59% in 2020), with 14% for Germany (14% in 2020) and 20% for Spain (16% in 2020).

The cession to reinsurance percentage in the 2021 financial year stood at 71% set against the figure of 72% in the previous year. Telefónica Seguros is characterised by a highly active reinsurance policy, which largely limits the underwriting risk to which the Entity could be exposed.

Reinsurance Assignment Ratio	2021	2020	Variation
% Assignment to Premium Reinsurance	71%	72%	-1%

The allocated premiums net of reinsurance under cession in the 2021 financial year total €42,486,000 (€41,605,000 in 2020), constituting an increase of 2.12% compared to 2020.

Thousands of €	2021	2020	Variation	%
Net Allocated Reinsurance Premiums*	42,486	41,605	881	2%

The figure for the allocated premiums net of reinsurance in the 2021 financial year is negatively affected by the inclusion, for the first time in 2021, of the non-consumed premium provision for the United Kingdom business, amounting to €4,258,000. Without this effect, the increase in the allocated premiums would be 12%.

The claims ratio net of reinsurance under cession in the 2021 financial year totals €14,179,000 (€17,686,000 in 2020), constituting an increase of 16% compared to 2020. The claims ratio for the 2021 financial year stands at 33%, compared to 43% in 2020, an improvement of 9%. This improvement in the claims ratio is chiefly due to a change in the calculation criteria for the entity's reserves:

Claims Ratio	2021	2020	Variation	%
Net Allocated Reinsurance Premiums	42,486	41,605	881	2%
Net Reinsurance Claims	14,179	17,686	- 3,506	-20%
Claims Ratio	**33%**	**43%**	**-9%**	

The expenses ratio stand at 54% at year-end 2021, compared to 39% in the previous year, constituting an increase of 15%, due to an increase in the fee costs.

Expenses Ratio	2021	2020	Variation	%
Net Allocated Reinsurance Premiums	42,486	41,605	881	2%
Costs and fees	22,742	16,197	6,545	40%
Expenses Ratio	**54%**	**39%**	**15%**	

(Thousands of €)

The net combined ratio stands at 87% in the 2021 financial year, compared to 81% in 2020.

Combined Ratio	2021	2020	Variation
(Claims + Costs)/Allocated Premiums	87%	81%	5%

The pre-tax result for the year amounts to €5,893,000 (€8,064,000 in 2020), constituting a fall of 27%.

In thousands of €	2021	2020	Variation	%
Profit before tax	5,893	8,064	-2,172	-27%

Quantitative information regarding the underwriting results for the 2021 financial year by countries is presented below:

TECHNICAL ACCOUNT-NON-LIFE INSURANCE	SPAIN	GERMANY	UK	BRAZIL	Total
Premiums allocated to the year, net of reinsurance	7,286	5,641	27,389	2,170	42,486
Net Operating Costs	- 6,805	- 1,053	- 15,023	- 1,348	- 24,229
Net Reinsurance Claims	- 1,021	- 1,841	- 10,776	- 541	- 14,179
Results of the Non-Life Technical Account	**1,468**	**2,745**	**1,398**	**281**	**5,893**
(In thousands of €)	*25%*	*47%*	*24%*	*5%*	*100%*

As mentioned above, 99% of the business comes from the mobile device insurance business. Together with the other businesses, the company has obtained a profit for the year, before tax, amounting to €5,893,000.

A.3 RETURN ON INVESTMENT

2021 has been affected by the consequences of the pandemic and the monetary stimulation of the central banks. More than 70% of the population was immunised through vaccination, reducing mortality rates.

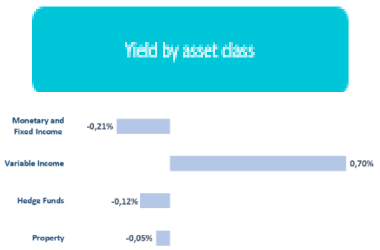
The major stimulation of the money supply through Quantitative Easing (QE) and the Pandemic Emergency Purchase Programme (PPEP) have led nominal economic growth to being excessive in comparison with real growth. As a result, countries such as the United States have seen their economic expansion disrupted by a lack of labour demand due to the high level of supply and relatively low wage growth if the wage-unemployment curve (leading to an economic slowdown) is taken into account, causing inflation to rise by 6.8% year-on-year and leading the Fed to announce more than three rate rises in 2022.

In Europe, the PEPP has caused inflation to affect the worst-positioned countries. This situation has been compounded by an increase in energy prices. The above has resulted in year-on-year inflation above 5%, chiefly due to the energy component in its calculation, well above the figure of 2% set by the European Central Bank's policy. The Spanish economy has been driven by the fall in unemployment, the rise in the average wage, the seasonal tourism and the upturn in consumption. Reflected in 5% annual GDP growth (2020-2021) and a 7.3% increase in per capita income (2020-2021).

2021 will be remembered for how inflation and energy have once again forged the path of concern for economic growth, a situation reminiscent of the oil crisis in 1973, when stagflation caused panic in the US economy. This has meant that the international markets have remained volatile. We should highlight the performance of assets such as Gold, which has been rivalled by the cryptocurrencies, with an annual return of -7.21% in 2021. Brent futures underwent a 39.89% increase in their price. The MSCI World index has once again seen double-digit growth of 29.07%, confirming the upturn in equity over the year. The Spanish 10-year bond yield fell by 5% during the year.

The performance of the Telefónica Seguros portfolio.

Portfolio Yield: 0.32%



Asset Allocation

	Portfolio (To l)	%	Contents
Monetary and Fixed Income	53,22	90%	92%
Variable Income	2,54	4%	5%
Hedge Funds	2,98	5%	3%
Property	0,40	1%	0%
TOTAL PORTFOLIO	59,15		

*Of the Financial Investments totalling €69.15M, €10M are allocated to Operational Treasury.

The company's Investment Policy seeks to secure the financial assets and deploy allocations to instruments that offer limited volatility and risks and high liquidity. Investment in fixed income and money markets may not be less than 50% of the total portfolio, with a total duration not exceeding 2 years. Moreover, the maximum investment in the stock market is 40% and the maximum in alternative investments and property is 5%.

A.4 RESULTS OF OTHER ACTIVITIES

No other activity was recorded in 2021.

A.5 ANY OTHER INFORMATION

There is no other relevant information, except:

Statement on COVID-19 and the War in Ukraine

As at the date of approval of the SFCR, the entity's Board of Directors considers that there are no material uncertainties that may cast doubt on the company's ability to continue as a going concern, but it recognises that future developments are uncertain.

B. GOVERNANCE SYSTEM

B.1 GENERAL INFORMATION ON THE GOVERNANCE SYSTEM

Introduction

The aim of the Governance System is to ensure sound and prudent management. Its two core principles are effectiveness and proportionality within the framework of an Internal Control structure that ensures compliance with the regulations, the efficiency and effectiveness of its operations and the availability and reliability of the financial and non-financial information. To achieve the above with reasonable certainty, the objectives are strategic: operational control and monitoring, information, communication and compliance.

The Company's governance system is aligned with the Guidelines of the European Insurance and Occupational Pensions Authority (EIOPA).

Management and administration of the company

Telefónica Seguros, as an insurance and reinsurance company, has a system of governance that guarantees the sound and prudent management of its activity, which is appropriate to the nature, volume and complexity of its operations. The structure encompasses the company's supervisory, management and administrative bodies, as outlined below:

The **General Shareholders' Meeting** is the highest deliberative body of the Company, through which the corporate will is expressed, and the shareholders exercise their right to take part in the Company's decision-making.

The shareholders acting at the General Shareholders' Meeting have the power to deliberate and adopt resolutions on all matters reserved to them by law and the Articles of Association and, in general, all matters that fall within the scope of the powers attributed by law to the shareholders, as submitted to the General Shareholders' Meeting at the request of the Board of Directors and the shareholders themselves, in the cases and in the manner provided for in the law and the Articles of Association.

The **Board of Directors**, in accordance with the provisions of the law and the Articles of Association, is the highest administrative and representative body of the Company. It is thus empowered to carry out, within the scope of the corporate purpose as defined in the Articles of Association, any legal acts or transactions of administration and disposal, by any legal title, except for those reserved by law or the Articles of Association to the exclusive competence of the General Shareholders' Meeting. The powers reserved exclusively by law or the Articles of Association to the Board of Directors, and any other powers required for the responsible exercise of its basic supervisory and control functions, may not be delegated. Specifically, the Board of Directors of the company approves its general policies and strategies, in particular:

- Strategic plans and annual management and budget targets.
- Definition of the structure of the Company Group.
- Investment Policy
- Underwriting Plan
- Product Management Policy
- Corporate Governance Policy

The Board of Directors organises the implementation of the Company's policies and strategies through the following bodies:

- The Audit and Control Committee: It monitors the effectiveness of the company's internal control, governance systems and risk management.
- The Governance Committee is in charge of the overall governance of the company.
- The Executive Committee makes all the decisions relevant to the implementation of the company's strategic plan.
- The Investment Committee is responsible for the management of the investment portfolio in compliance with the company's Investment Policy.

This organisation provides the Board of Directors with greater efficiency in the performance of its functions, providing it with the necessary support through the work it carries out and ensuring the appropriate segregation of functions and responsibilities.

- The Audit and Control Committee has the functions listed below.

  - To monitor the effectiveness of the Entity's internal control, the internal audit and the governance and risk management systems and to discuss the significant weaknesses of the internal control system with the external auditor.
  - To supervise the process for the drawing up and presentation of the mandatory financial information and to submit recommendations or proposals aimed at safeguarding its integrity to the management body.
  - To submit proposals for the selection, appointment, re-election and replacement of the account auditor to the Board of Directors, taking responsibility for the selection process.
  - To establish the appropriate relations with the external auditor in order to receive information on any matters that may threaten its independence, for examination by the committee, and any other matters related to the process of carrying out the auditing of the accounts.
  - Prior to the submission of the accounts audit report, to submit an annual report expressing an opinion on whether the independence of the account auditor or auditing company has been compromised. In any event, this report must contain the assessment resulting from the provision of each and every one of the additional services referred to in the point above, individually and as a whole, for services other than the statutory audit and with regard to the independence requirements or the regulatory standards on the account auditing activity.
  - To receive regular information on the activities of the Internal Audit Function and check that Management takes into account the findings and recommendations of the Internal Audit reports.

Without detriment to the other functions attributed to it, the Audit and Compliance Committee must receive a report from the external auditors demonstrating the state of independence required of them for the performance of the audit.

- Governance Committee

  The Solvency II Directive stipulates that insurance companies may create an Administrative, Management or Supervisory Body for matters relating to the governance of the company.

The Governance Committee meets whenever it deems it appropriate or suitable to do so to ensure the timely monitoring of Solvency II-related matters, and, in any event, at least twice a year.

The activities and assessments carried out by the Governance Committee shall be recorded in the relevant minutes, which shall be distributed and made constantly available to the directors.

The main competences of this Committee shall be as follows:

- Through its members, to interact with the established functional committees and the key functions of the company in order to compile adequate knowledge of the company's structure and business model.
- To participate in the development and maintenance of the ORSA model.
- To review the annual actuarial report and take the appropriate measures to remedy any identified deficiencies.
- To ensure that the company complies with the policies set out in the Solvency II Directive by reviewing them at least once a year.
- To discuss and approve the internal review of the Governance System.

- The Executive Committee makes all the decisions relevant to the implementation of the company's strategic plan. The Executive Committee meets twice a month and its main topics of discussion include:

  - Updates on legal issues.
  - Updates of Business Development and Operations issues.
  - Reviews of Objectives.
  - Submission of results and forecasts.
  - Submission of budgets.
  - Submission of the Strategic Plan.
  - Submission and monitoring of the Internal Audit Remedial Action Plan.
  - Approval of budget items.
  - Reviews of business model projects.
  - Approval of the company's internal regulations.
  - Approval of business projects.

- The Investment Committee is responsible for the management of the investment portfolio in compliance with the company's Investment Policy.

The Investment Committee meets, at least, on a quarterly basis. The Committee is responsible for the implementation of the company's investment policy. Its functions include:

- Collaborating in the definition and establishment of the Telefónica Seguros investment policy.
- Making investment and divestment decisions within the framework established by the investment management policy and the management policy approved by the Board of Directors.
- Supervising the correct fulfilment or execution of the different strategies and investment/disinvestment orders.
- Keeping the Board of Directors duly and regularly informed of the investment strategies, their degree

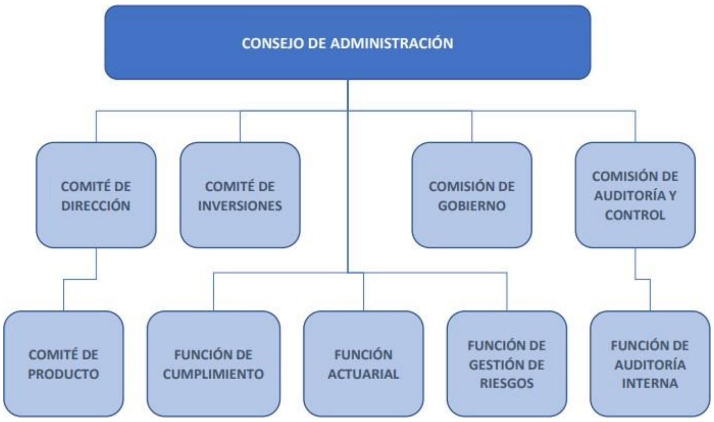
of achievement, the level of risk assumed, the results obtained in relation to those expected and any other aspects which are significant for whatever reason.

Documentation of the decisions made by the Supervisory, Administrative and Management bodies

Telefónica Seguros adequately documents the decisions made by the company's Governance Committee and the way in which the information in the risk management system has been taken into account.

Organisation chart

Telefónica Seguros constantly maintains an updated organisation chart. In accordance with the Solvency II requirements, this organisation chart identifies the key functions and outlines the responsibility of each department in relation to the risk management and the internal control system.



Internal review of the governance system

Telefónica Seguros determines the scope and frequency of the internal reviews of the governance system, taking into account the specificities of the entities (nature, scale, complexity of the business) in individual and group terms. The scope, findings and conclusions of the review are duly documented and reported to the Governance Committee. Suitable feedback loops are necessary to ensure that the follow-up actions are carried out and recorded.

Policies

Telefónica Seguros aligns all the policies required as part of the governance system with each other and with its business strategy. These include, among others, a transparent and appropriate organisational structure with a clear and adequate distribution and separation of functions, as well as effective mechanisms to guarantee the transmission of the information and remuneration practices suited to the characteristics of the entity.

Telefónica Seguros implements the following policies:

- Governance System Framework
- Fitness and Honourability Policy
- Actuarial Function Policy
- Risk Management Function Policy
- Compliance Verification Function Policy
- Internal Audit Function Policy
- Internal Control System Policy
- Remuneration Policy
- Product Governance Policy
- Investment Policy
- Reinsurance Policy
- Reserves Risk Policy
- Underwriting Policy
- Activity Outsourcing Management Policy
- Data Quality Policy
- Information and Reporting Policy
- Accounting Closure Policy

Key functions of the governance system

The operational structure of the governance system is responsible for identifying any processes involving significant risks, assessing them and establishing how they should operate, including the responsibilities and information flows, in order to ensure that they are adequately monitored and controlled.

The basic functions of the Telefónica Seguros governance system include:

- The risk management function;
- The compliance officer function;
- The internal audit function;
- The actuarial function.

Similarly, the current legislation on Insurance Distribution establishes a new function to replace the Technical Director:

- Manager of the Insurance Distribution activity.

Each of the above functions includes a fundamental and strategic activity, area or function within Telefónica Seguros that is implemented in a cross-disciplinary manner by the different elements that make up the organisation (bodies, departments, people) and which, due to their importance, are included and regulated in its corresponding policies.

B.2 FITNESS AND HONOURABILTY REQUIREMENTS

Telefónica Seguros has the procedures in place required to ensure that the persons who effectively manage the company or perform other key functions (not limited to the four key functions mentioned in the Solvency II Directive), including the members of the Board of Directors and all the executive and management bodies, meet the fitness and honourability requirements defined by law.

The company takes into account the respective duties assigned to each person to guarantee the appropriate diversity of qualifications, knowledge and relevant experience, in such a way that the company is managed and supervised in a professional manner. In short, the fitness is related to professional competence.

Telefónica Seguros guarantees that the members of the Board of Directors and the members of the executive and management bodies collectively possess the qualifications and experience and knowledge of at least the subjects listed below to enable them to carry out sound and prudent management of the company:

- Financial and insurance markets
- Business strategy and model
- Governance system
- Financial and actuarial analysis
- Regulatory framework requirements

When assessing whether an individual is “suitable”, the company makes an assessment of said person’s honesty and financial integrity based on the relevant evidence concerning his/her character, personal behaviour and business conduct, including criminal, financial and supervisory aspects, regardless of the jurisdiction. The appropriate requirement is formulated as a person of good character and integrity.

Telefónica Seguros keeps an updated register of compliance with the suitability requirements, including the relevant records of all the board members and the company's executives and directors. The register is regularly reviewed by the Governance Committee, which reports on the status of the review to the Board of Directors.

B.3 RISK MANAGEMENT SYSTEM, INCLUDING A RISK AND SOLVENCY SELF-ASSESSMENT

The Risk Management system of Telefónica Seguros is in keeping with the principles defined in the Telefónica Group’s Risk Management System. The Group’s Risk Management Framework is in keeping with the recommended practices of Internal Control (COSO1 II Report and BS311002 Draft Code of Risk Management Practices) and it implements the Telefónica Group’s Business Principles concerning risk management. In addition, the recommendations on Good Corporate Governance relating to risk management have been taken into account. Telefónica S.A. and its operating companies must implement a process for the early identification, management and notification of risks, with management responsibility for the identification and management of risks in their business areas.

From an organisational standpoint, the Risk Management Function plays a fundamental role in the identification of the risks and it will be the coordinator and promoter of the Telefónica Seguros Risk Map.

The Risk Function, constantly in keeping with the provisions of the Telefónica Group's Risk Management policy, will carry out the following activities:

- Coordinating and standardising the risk identification, measurement and reporting methodologies.
- Monitoring the policies and procedures and the respective owners of the risks to guarantee their alignment and coordination.
- Analysing and adding the risk reports.
- Providing the necessary support to the management of Telefónica Seguros in its risk identification, assessment and management function while acting as the local risk management function within the Telefónica Group, as defined in the corporate risk management policy.
- Promoting the building of a risk management culture.
- Assisting the Governance Committee in defining the company's risk appetite.
- Monitoring the risks to check that they lie within the approved tolerance levels and reporting and proposing corrective actions in the event of any deviations.
- Developing, implementing, reviewing and proposing the necessary improvements to the Risk Management process.
- Providing the necessary assistance and support to the relevant departments in the drawing up of the risk information to be included in the Company's reports.
- Providing the Board of Directors, at least once a year, with an overview of the company's main risks and related mitigation strategies.
- Reporting on the potential material risks to the Governance Committee (convening an emergency meeting if it is deemed necessary to do so).
- Reporting on other risk areas on its own initiative and meeting any requests from the Governance Committee.

The Board of Directors is ultimately responsible for ensuring the effectiveness of the risk management system, establishing the company's risk appetite and overall risk tolerance limits and approving the main risk management strategies and policies, guaranteeing that they are consistent with the structure, size and specificities of the company. It also has to ensure that specific operations which are material and associated risks are covered. Finally, it must guarantee that integrated, coherent and efficient risk management is put in place.

Effective risk management is not only a key component of the internal control system, it also supports and complements the achievement of the business objectives and underpins the commitment of organisations to their shareholders and customers.

Telefónica Seguros implements a risk management procedure that contains the following elements:

- Risk categories and methods for measuring the risks.
- An outline of how the company will manage each risk category.
- Risk tolerance limits within all the risk categories in line with the company's risk appetite.
- Reinsurance and other risk mitigation techniques.
- Description of the connection with the solvency requirements assessment (based on the company's ORSA).
- The content and frequency of the regular stress tests
- Heat maps
- Process for the submission of annual reports
- Specific treatment of the materialised risks

The main outcome of the Risk Management Procedure is the company's Risk Map, which is updated at least once a year and reviewed and ratified by the Governance Committee and the Board of Directors.

Own Risk Solvency Assessment

Telefónica Seguros assesses its own short and long-term risks and the amount of funds required to cover them. This assessment, defined as an ORSA (Own Risk Solvency Assessment), is approved by the company's management, administrative and supervisory bodies and reported to the regulator. The ORSA can be defined as "the entirety of the processes and procedures used to identify, assess, monitor, manage and report on the short and long-term risks that a (re)insurance company faces or may face and to determine the capital and reserves required to ensure that the company's overall solvency requirements are constantly met".

The ORSA offers a forward-looking view (typically with a 3 to 5 year time frame adjusted to the Business Plan) of the adequacy of its capital and reserves to cover all the risks to which it is or may be exposed. It is updated on an annual basis (in the event of any significant changes in the business). The results of the ORSA and the underlying assumptions are documented in a specific report. The analysis covers the overall profile of the risks facing the local entity (i.e. those that are subject to SCR, such as underwriting and market, and any other relevant risks, such as strategic reputation and liquidity). The ORSA is approved by the Board of Directors.

B.4 INTERNAL CONTROL SYSTEM

In line with the Telefónica Group's regulatory framework, Telefónica Seguros has implemented an internal control system that applies the following fundamental principles:

- The application of the Telefónica Group's Business Principles.
- The application of the General Controls: control environment, risk assessment, reporting and communication, monitoring, etc.

- The implementation of Specific Controls by business cycles: the processes affecting the financial reporting were examined with a view to compliance with the requirements of Section 404 of the Sarbanes-Oxley Act.

Within the Company's policies and procedures, its Internal Control System establishes a control point mechanism. The most important control points cover the following aspects:

- Decision-making within the company.
- Payments made by the company to third parties, customers and employees.
- The process of variations in the submission of reports within the company.
- Invoicing of customers, group companies and third parties that cause damage or harm to the company.
- Conducting financial transactions.
- Unfair competition and control situations to avoid irregular activities.

As a relevant part of the Internal Control, the Company has established the function of a compliance officer. Its primary mission is to ensure that the Company, in the course of its activities, abides by and complies with the relevant legislation and regulations of the countries in which it operates and to provide warning of the risk of regulatory weaknesses.

The scope of the Telefónica Seguros Compliance Verification Officer function is as follows:

- To propose the Telefónica Seguros compliance policy. In compliance with the general principles established in the Regulatory Compliance Policy within the framework of the Governance System of Telefónica Seguros y Reaseguros Compañía Aseguradora, S.A.U.
- To draw up and fulfil an annual compliance plan.
- To identify the applicable regulations in force, those emanating both from the different legal and jurisprudential provisions and from the company's own self-regulation, which affect the operational tasks of Telefónica Seguros, and to assess and anticipate their impact on the processes and procedures.
- To propose the organisational and procedural changes required to ensure adequate management and control of the regulatory compliance risk.
- To maintain updated knowledge of the internal and external regulations that may be applicable to the Entity.
- To maintain an updated regulatory map that will be brought to the attention of the other relevant areas of Telefónica Seguros.
- To monitor the regulatory compliance risks (within the framework of the entity's risk management system) and their associated controls and to keep the monitoring updated.
- To promote personnel training on compliance issues.
- To drive a culture of compliance within the Entity.
- To ensure coordination with the other units and departments of Telefónica Seguros with a view to obtaining and using the information and documentation generated by them.
- To guarantee an adequate structure of the regulatory compliance department of Telefónica Seguros.
- To inform the Board of Directors and the other units and departments of the Entity of the conclusions of each review carried out within the field of regulatory compliance.

- To report any relevant issues to the reviewed units and departments within the Entity and to inform them of any changes in this area owing to which they need to implement adaptations.
- To keep a record of the incidents detected at Telefónica Seguros and its branches with respect to the regulatory compliance function, reporting, at least on an annual basis, to the Board of Directors. In particular, any incident that must be reported to the Board due to its relevance shall be registered, as well as any information to third parties whenever required.
- To regularly report to the Entity's Board of Directors on regulatory compliance issues in relation to the prospective management of the non-compliance risk management with regard to the relevant regulatory projects that are underway.
- To immediately report any attempt to obstruct the performance of his/her duties.
- To make a proposal to review and update (as appropriate) the compliance policy on an annual basis, for submission to the Board of Directors and its subsequent approval.

The Compliance Officer draws up an annual report that includes a checklist outlining the regular reports required by the general and sectoral legislation. The report is submitted to the Governance Committee and ultimately approved by the Board of Directors.

B.5 INTERNAL AUDIT FUNCTION

Telefónica Seguros outsources the internal audit function to the Telefónica Group's Corporate Audit.

Telefónica, S.A. has a modern concept of the internal audit, conceived as the body that advises the management in the search for the best way of achieving greater efficiency by improving the organisation's policies, methods, processes and procedures. The Internal Audit should act independently and without any hierarchical authority or functional link to the audited units. The "Internal Audit Corporate Function Statute" states that: "The Internal Audit will appear in the organisational structure as a body under the General Secretariat that will report hierarchically and functionally to the Audit and Control Committee of the directors, who will report on the results of its work. It shall not have any hierarchical or functional link to the audited units..."

The primary objective of Internal Audit shall be to provide support to the Board of Directors and the Management in their responsibilities related to ensuring the governance, risk management and internal control system of the Group and its companies. Internal Control consists of all the processes that provide reasonable assurance of:

- Compliance with the laws, regulations and internal standards,
- The reliability of the information,
- The effectiveness and efficiency of the operations,
- The integrity of the company's assets.

Each year the Audit and Control Committee shall approve a Work Plan for the Corporate Internal Audit Directorate in which the strategy of the Telefónica Group as a digital telecommunications company shall be considered: This will include, among others, the following responsibilities:

- The drawing up of an annual internal audit work plan for the Telefónica Group, taking into account the new businesses and the evolution of the digital area and using an adequate methodology based on an assessment of the risks in order to define the priorities of the internal audit activity.
- A regular review of the different Group functions and companies in order to verify that they comply with the internal regulations and procedures (regarding management, organisation, and quality) approved by the Management, and that said functions are performed in an effective and efficient manner.
- Verification and analysis of the correction of the accounting and operational Internal Control Systems.
- Review of controls aimed at the protection of the assets of the Group's companies.
- Identification of the problems and improvement opportunities in the course of the operational audit examinations performed.
- Verification of the existence of adequate controls in the information systems.
- Review of the compliance with the internal corporate governance regulations and the Group's Code of Ethics.
- Provision of the consultancy services requested by the Management that fall within the function of the Internal Audit activity, in accordance with the "International Standards for the Professional Practice of Internal Auditing".
- And, at any time, within the area of the Internal Audit function, any other specific issues/investigations of interest to the Board of Directors or Management: legal compliance, reports and lawsuits (litigation, theft, etc.), attention to the complaints channel, analyses of suppliers, customers, problems of fraud, etc.

The internal audit activity shall comply with the "International Standards for the Professional Practice of Internal Auditing" and its Code of Ethics. For this reason, the internal auditors, in addition to the Company's Code of Ethics, shall also comply with the principles and standards of conduct that are mandatory for internal auditors, namely: Integrity, Objectivity, Confidentiality and Diligence.

In the audit of Telefónica Seguros, the internal audit department shall pay particular attention to the policies and procedures listed in the Solvency II Directive and the Company's general adaptation to this Directive. In this respect, the internal audit function monitors the following aspects:

Pillar 1
The Internal Audit function assesses the design and effectiveness of the controls existing in the process for obtaining the quantitative items that form part of Pillar I: balance sheet, Solvency Capital Requirements and Minimum Capital Requirements.

Pillar 2
The Internal Audit function assesses the following aspects of the governance system:

- The decision-making process and the organisational structure
- The flow of information and communication between the different tiers of the company
- The written policies on risk management, internal control, outsourcing and any other policies required by the Solvency II Directive
- The means to verify compliance with the objectives of the governance system and the means to identify and assess the emerging risks
- Verification of the existence of adequate controls in the information systems, an examination of the existing measures and assurance of continuity and regularity in the performance of the company's activities

- Identification of problems and opportunities for improvement when conducting the internal audit of the governance system
- An assessment of the risk management system and the procedures in place within the company to ensure compliance with the applicable regulations
- The monitoring of the internal control systems to guarantee the quality of the data used in the company's important processes

Pillar 3

The Internal Audit function oversees compliance with the obligations to submit reports to the competent Supervisory Authority and to publish the annual report on the company's solvency and financial position, as well as the quantitative models, as appropriate.

In 2020, a five-year audit plan for 2020-2024 was submitted as a result of a risk assessment. The Internal Audit Department regularly reports to the Audit and Internal Control Committee.

B.6 ACTUARIAL FUNCTION

The Actuarial Function at Telefónica Seguros is carried out by people with sufficient knowledge and experience of actuarial and financial mathematics and statistics.

Their responsibilities include:

- Validating the work related to the design and technical feasibility of the insurance products and the technical notes,
- Coordination of the calculation of the technical provisions,
- Verifying the adaptation of the methodologies to the risk profile of Telefónica Seguros and the applicable legislation, as well as the assumptions used in the calculation of the technical provisions,
- Conducting analyses of the estimates with the prior experience,
- Reporting to the Board of Directors on the reliability and adaptation of the calculations of the technical provisions, in legal terms and in accordance with the risk profile of Telefónica Seguros,
- Verifying that Telefónica Seguros y Reaseguros has internal processes and procedures in place to ensure the adequacy, completeness and accuracy of the data used in the calculations of the technical provisions,
- Support for the calculation of the Solvency Capital Requirement (SCR) for underwriting,
- Making a statement on the general underwriting policy, in terms of:

    the sufficiency of the premiums to be allocated to cover future claims and expenses, bearing in mind, in particular, the underlying risks (including underwriting risks) and the impact of the options and guarantees included in the insurance and reinsurance contracts regarding the sufficiency of the premiums;

    the effect of inflation, the legal risk, changes in the composition of the company's portfolio and systems that adjust the premiums paid by the policyholders upwards or downwards depending on their claims history (bonus-malus systems) and similar systems applied in specific homogeneous risk groups;

    the progressive tendency of a portfolio of insurance contracts to attract or retain insured persons with a higher risk profile (anti-selection).

- Making a statement on the adequacy of the reinsurance arrangements, as appropriate, in

  terms of: the company's risk profile and underwriting policy;

  the reinsurance providers, taking into account their solvency;

  the expected coverage in stress scenarios in relation to the underwriting policy;

  the calculation of the amounts recoverable from reinsurance contracts and special purpose vehicles.
- Coordinating the calculations of the technical provisions and the review of the quality of the data, assessing their adequacy and methodology and the assumptions for their calculation, providing recommendations to the Governing Body in its Actuarial Function Report. It will therefore review the defined procedures related to data quality compliance.
- At least on an annual basis, the Actuarial Function shall draw up a report including the suitability of the data quality for the calculations of the technical provisions.

The company outsources part of the work outlined above to authorised independent actuarial consultants. For the calculations of the SCR and MCR, Telefónica procures the services of PRS. The company procures the services of Área XXI S.A. to support the work of calculating the product prices.

B.7 OUTSOURCING

Under Solvency II, (re)insurance companies remain fully liable for the fulfilment of all their obligations when they outsource functions and activities, including cloud services. All the functions and activities can be outsourced, both internally (to a parent or sister company) and externally, taking into account the suitability requirements and the need for independence (internal audit). The only function that cannot be outsourced is the direction and management of the company, i.e. the Board of Directors. The supervisory authorities must be notified prior to the outsourcing of critical or important functions or activities, as well as of any subsequent significant developments in relation to such functions or activities.

Any decision to outsource critical or important operational functions, or activities to service providers in the cloud is based on a comprehensive risk assessment, including all the relevant risks involved in the agreement, such as information and communication technology (ICT), business continuity, legal matters and compliance, concentration, other operational risks and risks associated with the data migration and/or the implementation phase, as appropriate.

Functions cannot be outsourced if the outsourcing could:

a) Materially impair the quality of the Telefónica Seguros governance system;
b) Unduly increase the operational risk;
c) Affect or impair the ability of the supervisory authorities to verify Telefónica's compliance with its obligations;
d) Affect the provision of a continuous and satisfactory service to the policyholders.

The service provider may be a supervised entity, an entity belonging to the same group as Telefónica Seguros or otherwise, and it may be located in the EU or outside it (United Kingdom). The selection process for a supplier must meet the requirements outlined below.

Telefónica Seguros shall determine whether the activity or function to be outsourced is regarded as critical or important and, if so, this policy would be applied.

In the assessment, it should be taken into account:

- whether the outsourced operational function or activity (or part thereof) is performed on a recurring or ongoing basis; and
- whether this operational function or activity (or part thereof) would normally fall within the scope of the operational functions or activities that would or could be performed by the company in the ordinary course of its activities, even if the company has not performed this operational function or activity in the past.

The managers of the critical function or activity shall be responsible for its monitoring and the assessment of the service provider's performance and results. Outsourcing does not exempt the person responsible for the function or activity from carrying it out successfully and meeting its goals.

The activities subject to outsourcing have been assessed as Critical or Important in accordance with the internal Outsourcing Policy, corresponding to the following considerations:

- <u>Critical outsourced functions/activities</u>

The following functions or activities may be regarded as critical:

- Risk management
- Compliance
- Internal audit
- Actuarial function
- Investments and portfolio management
- Any other function or activity that affects the governance system, increases the operational and/or financial risk or changes the provision of a continuous and satisfactory service to the policyholders of Telefónica Seguros.

- <u>Significant outsourced functions/activities</u>

Significant activities shall be all those identified in the Business Contingency Plan and, in particular, those related to:

- Underwriting.
- Claims management.
- Distribution.
- Accounting and financial reporting.

Risk assessment:

Subject to compliance with the standards and instructions of Telefónica Seguros on the procurement of services, the process of selecting service providers must be carried out in accordance with the following rules:

■ The manager of the outsourced function or activity has to draw up an outsourcing assessment plan that includes, at least, the following elements:

- Due diligence

The provider of the due diligence should perform it before outsourcing any operational function or activity. It should include:

- A clear definition and description of the functions and activities;
- Financial data on the function or activity;
- A profile of the provider, its technical and financial capacity to perform the outsourced service and the authorisations required by law to perform the outsourced function or activity;

As appropriate, the company may use evidence, certifications based on international standards, audit reports by recognised third parties and internal audit reports to support the due diligence performed.

- Risk assessment

Telefónica Seguros shall identify the main risks that may arise from the outsourcing. In the assessment, the company shall take into account, at least, together with the result of the risk assessment, the following factors:

a) the potential impact of any major disruption of the outsourced operational function or activity or the inability of the provider to deliver the services at the company's agreed service levels;
   i. ongoing compliance with its regulatory obligations;
   ii. the resilience and financial viability and solvency in the short and long terms;
   iii. the business continuity and operational resilience;
   iv. the operational risk, including conduct, ICT and legal risks;
   v. Reputational risks.
b) the potential impact of the outsourcing agreement on the company's capacity:
   i. identifying, monitoring and managing all the relevant risks;
   ii. complying with all the legal and regulatory requirements;
   iii. conducting the relevant audits of the outsourced operational function or activity.
c) the aggregate exposure of the company (and/or the group, as appropriate) to the same supplier and the potential cumulative impact of the outsourcing agreements in the same business area;
d) the size and complexity of the company's business areas affected by the outsourcing agreement;
e) the capacity, if necessary or desirable, to transfer the proposed outsourcing agreement to another cloud service provider or to reintegrate the services ("substitutability");
f) the protection of personal and non-personal data and the potential impact on the company, policyholders or other relevant parties in the event of a breach of confidentiality or failure to ensure data availability and integrity based, inter alia, on Regulation (EU) 2016/6797. The company should pay particular attention to:

- The strategies to mitigate or manage these risks and the internal control and risk assessment mechanisms of a similar scope and nature that already existed within the company prior to the outsourcing and the identification of the person responsible for them;
- A detailed examination of each supplier's capacity and an analysis of any potential conflicts of interest, e.g. between the service provider and the Company or any agreements that the supplier may enter into with the Company's competitors.

- <u>Risk assessment of outsourcing in the cloud</u>

In the event of the outsourcing of critical or important operational functions or activities to cloud service providers, Telefónica Seguros shall:

- take into account the expected benefits and costs of the proposed cloud outsourcing agreement, including
- weighing any significant risks that may be reduced or better managed against any significant risks that may arise as a result of the proposed cloud outsourcing agreement.
- assessing, whenever relevant and appropriate, the risks, including the legal, ICT, compliance and reputational risks,
- and the resulting supervisory constraints:
    - the selected cloud service and the proposed deployment models (i.e. public/private/hybrid/community);
    - the migration and/or the application;
    - the activities and the related data and systems under consideration for outsourcing (or already outsourced) and their sensitivity and the required security measures;
    - the political stability and the security situation in the countries (inside or outside the EU) in which the outsourced services are or may be provided and in which the data are or may be stored. The assessment should take into account:
        - the current legislation, including any related to data protection;
        - the law enforcement provisions currently in force;
        - the provisions of the insolvency law that would apply in the event of the bankruptcy of a service provider and the limitations that would arise with respect to the urgent recovery of the company's data;
        - the outsourcing, including the additional risks that may arise if the subcontractor is located in a third country or in a country different from that of the cloud service provider, and the risk of the long and complex chains of outsourcing reducing the company's ability to monitor its critical or important operational functions or activities and the capacity of the supervisory authorities to monitor them effectively;
        - The risk of the global concentration of the companies in the same cloud service provider, including the outsourcing of a cloud service provider that is not easily replaceable.
        - multiple outsourcing agreements with the same cloud service provider. When assessing the concentration risk, the company (and/or the group, as appropriate) should take into account all its cloud outsourcing agreements with the cloud provider in question.

The company regularly carries out inspections and audits of the established third-party providers in a risk-based approach, as outlined in the diagram below.

Telefónica Seguros outsources certain functions to the Telefónica Group which, in accordance with the Group's Corporate Governance System, are centralised in corporate services such as Internal Audit.

B.8 ANY OTHER INFORMATION

Apart from the above, no other information has a relevant impact on the governance system.

C. RISK PROFILE

The company has a process in place for the early identification, management and notification of the risks, with management responsibility for the identification and management of the risks in all the company's areas. The process is the responsibility of the company's Risk Management function, which reports to the Governance Committee and, ultimately, to the Board of Directors.

The process starts with the identification of the risks. This process is carried out by the Risk Management function and the Processes and Compliance area of Telefónica Seguros by means of workshops with the managers of the company's business areas. The risks identified are included in the company's risk records. At the same time, the Risk Owners assess each of the risks and define the appropriate controls and the action plan to eliminate, transfer or mitigate them.

The risk assessment is carried out in accordance with the following principles: The level of inherent risk is determined by means of a combination of the likelihood of the risk occurring and its impact, i.e. the estimated economic value of the risk in the event that it materialises.

The main result of the risk management is the company's Risk Map, which includes a detailed sheet for each of the risks included in the records. Each sheet includes a description and assessment of the risk and the controls and the action plan. The overall results are displayed on the Heat Map, which represents the resulting qualitative and quantitative assessments of the likelihood of a risk occurring and the impact of each risk.

The company's Risk Profile is presented in accordance with the categories defined by the prudential regulation; Article 309 of Commission Delegated Regulation (EU) 2015/35. For each category, the different risks resulting from the application of the standard formula, as appropriate, are outlined and quantified, including those determined on the company's Risk Map and, as appropriate, by the Solvency Capital Requirement.

In 2021, the main risks to which the entity is exposed include:

- The Underwriting Risk, accounting for 54% of the BSCR before correlations between modules, down from the previous year (59%).

- The Market Risk, accounting for 12% of the BSCR before correlations between modules, down from the previous year (13%).

- The Default Risk, accounting for 34% of the BSCR before correlations between modules, down from the previous year (28%).

SCR	2021	2020	Variation
Underwriting Risk	54%	59%	-6%
Market Risk	12%	13%	-1%
Default Risk	34%	28%	6%

C.1 UNDERWRITING RISK

The underwriting risk is the risk of loss or an adverse change in the value of the insurance liabilities due to inappropriate pricing and provisioning assumptions. The non-life underwriting risk includes the premium and reserve risk, the risk of lapses and the catastrophe risk.

The underwriting risk tolerance of Telefónica Seguros is established by two metrics:

- **Underwriting capacity**: defined as the maximum aggregate liability that the company can underwrite. Telefónica Seguros establishes its underwriting capacity upon the basis of the maximum overall risk exposure. In this respect, the company may underwrite any business as long as the SCR coverage ratio remains at 120% or higher.

- **Combined ratio**: this is a measurement of the profitability. It is calculated by taking the sum of the incurred losses and expenses and dividing them by the earned premium. As an underwriting target, Telefónica Seguros sets profitability that achieves an average combined ratio of 95%, with an upper threshold of 110% per business line. Whenever the combined ratio of a single business line reaches 110%, the Company's executive bodies shall immediately take the appropriate remedial action to correct the deviation.

Risk measures

The underwriting risks are identified in the Company's Risk Register under risk 15, "Underwriting and new product development risk". The risks were measured by the submission of the company's Risk Map report. In accordance with the tolerance threshold defined by the company, these risks were classified as follows:

- Likelihood, Possible (11% - 30%) Impact:
- Low (500,000 - 1,000,000 euros)

The underwriting risk for the 2021 financial year totals €12,793,000, compared to €14,335,000 in the previous year, a fall which is due to the lower volume of reserves:

Underwriting Risk	2021	2020	Variation
Premium and reserves	12,121	14,335	- 2,214
Lapses	540	-	540
Catastrophic	2,033	-	2,033
SCR Underwriting before diversification	**14,694**	**14,335**	**359**
Diversification	- 1,900	-	- 1,900
Underwriting SCR	**12,793**	**14,335**	**- 1,542**

(In thousands of €)

Risk concentrations

The scale and scope of the main line of business of Telefónica Seguros, mobile phone insurance policies (with insurance underwritten in foreign branches in Spain, Germany and the United Kingdom), results in a fairly relevant diversification of the underwriting risks, due to the independence of the insured risks, mobile phones.

Risk mitigation

The main element of the company's underwriting risk mitigation is the purchase of reinsurance. Telefónica Seguros transfers significant underwriting risks through proportional reinsurance agreements. The average transferred risk totals 71% in 2021, a figure slightly lower than in the previous year. The level of this reinsurance cover is reviewed and approved on an annual basis.

Reinsurance Cession Ratio	2021	2020	Variation
% Cession to Premium Reinsurance	71%	72%	-1%

Other additional elements of mitigation include the pricing guidelines that ensure the accurate and consistent pricing of the premiums across the company, an examination and evaluation of the reserves and the management's regular reviews of the underwriting results by line of business, with the actions taken to expand or reduce business based on performance.

Sensitivity

The main sensitivity for the underwriting risks is defined and assessed in accordance with the ORSA analysis.

C.2 MARKET RISK

The market risk can be defined as the potential loss of economic capital stemming from adverse movements in the financial markets. This risk arises from financial assets and liabilities whose values are subject to such movements. It's the risk of the fair value or future cash flows of a financial instrument fluctuating due to changes in the market prices. As defined in the Solvency II legal framework, the market risk is divided into the following sub-module. The main elements of the market risk defined in the Solvency II legal framework include:

- Interest rate risk

  The interest rate risk affects all the assets and liabilities whose net value is sensitive to changes in the temporary structure or the volatility of the interest rates, provided that they are not related to policies in which the policyholder bears the investment risk.

  Direct investments in property, investments in shares and investments in related companies should not be regarded as sensitive to interest rates. Assets sensitive to interest rate movements include fixed income investments, financing instruments (e.g. loans), policy loans, interest rate derivatives and insurance assets.

- Equity risk

  The risk measured is that of the market prices of securities and property moving adversely, leading to unexpected losses. Exposure to these risks arises from ownership of ordinary shares and mutual funds, as well as from the direct ownership of property and investments in publicly traded property companies and property funds.

- Property risk
  The risk measured is that of the market prices of property moving adversely, leading to unexpected losses.

  Exposure to these risks arises from direct ownership of property and investments in publicly traded property companies and property funds.

- Credit Risk
  This risk is discussed in section C.3, “Credit Risk”.

- Foreign currency rate risk
  The foreign currency rate risk is the financial risk of the value of an investment changing due to changes in the foreign currency rates.

- Concentration risk
  The concentration risk provides for the allocation of capital risk to cover either a lack of asset diversification or significant exposure to the default risk of one or more counterparties.

Risk measures

1. **Risk map**

- Interest rate risk

  The interest rate risk is identified on the Company’s 2021 Risk Map under Registration no. 14, “Interest rate risk”. In accordance with the tolerance threshold defined by the company, these risks were classified as follows:

  - Likelihood, Possible (11% - 30%)
  - Impact: Low (500,000 - 1,000,000 euros)

- Equity risk

  The risk to the securities is identified on the Company’s 2021 Risk Map under Registration no. 13, “Interest rate risk”.
  In accordance with the tolerance threshold defined by the company, these risks were classified as follows:

- Likelihood: Possible (11% - 30%)
- Impact: Low (0.5 - 1 million euros)

- Currency risk

  The interest rate and currency risk is identified on the Company's 2021 Risk Map under Registration no. 14, "Interest rate risk". In accordance with the tolerance threshold defined by the company, these risks were classified as follows:

  - Likelihood, Possible (11% - 30%)
  - Impact: Low (500,000 - 1,000,000 euros)

  However, as a mitigating factor for this risk by corporate mandate, all the currency risk exposure is permanently covered.

- Concentration risk

  This is the risk arising from a lack of diversification of the asset portfolio or significant exposure to the default risk of a single issuer of securities or a group of related issuers. Therefore, the concentration risk is not identified on the company's 2021 Risk Map.

  The concentration risk is minimal for Telefónica Seguros (8% of the market risk).

2. **Standard Formula**

The market risk is defined in accordance with the standard formula of the Solvency II directive. In the 2021 financial year it stands at €2,933,000, slightly below the previous year's result (€3,122,000); this fall is chiefly due to the lower exposure to equity, while the currency risk has increased:

Market Risk	2021	2020	Variation
Interest rate risk	146	349	- 203
Equity risk	1,439	2,263	- 824
Concentration risk	353	720	- 367
Spread risk	364	374	- 10
Currency risk	1,766	1,025	741
Property risk	101	-	101
SCR market before diversification	**4,168**	**4,730**	**- 562**
Diversification	- 1235	- 1608	373
Market SCR	**2,933**	**3,122**	**- 189**

(In thousands of €)

Risk mitigation

The main mitigation elements of the market risk are set out in the company's Investment Policy. This is governed by the general prudent person investment principle and guarantees the security, quality, liquidity and profitability of the investment portfolio. The Strategic Asset Allocation defined in the investment policy includes exposure thresholds for each type of asset class. The Investment Committee is responsible for the implementation of the company's investment policy. The Investment Committee meets on a quarterly basis to monitor the company's investment portfolio. The Investment Department draws up monthly reports to monitor the evolution and compliance with the quantitative asset and exposure thresholds of the portfolio. The company enters into a forward currency risk contract with the Group to cover the currency risk exposure.

Sensitivity

The sensitivities to the market risk may include macro and micro-economic trends, the political framework, environmental factors and a wide range of other factors. The Investment Committee tracks and monitors the market sensitivities by means of the slant of the reports drawn up by the Telefónica Group's Capital Markets and Economic Development research departments and the financial institutions that provide services to the company.

C.3 CREDIT RISK

The credit risk is defined in Solvency II, with a dual focus on the extension risk and the counterparty default risk. The extension risk represents a change in the volatility of the credit extensions over the term structure of the risk-free interest rates. The counterparty risk is defined as the potential loss of economic capital arising from the failure of the counterparties to meet their financial obligations. The financial assets exposed to the counterparty are divided into three main groups.

1) Reinsurance assets

The exposures to this risk are balances due under existing reinsurance contracts. These contracts have been concluded in accordance with the reinsurance strategy.

The counterparties are reinsurance companies and the risk that is measured is that of these counterparties defaulting on their obligations. The potential loss of value due to the risk of the migration of the rating is also measured; this is the potential reduction in the value of reinsurance assets if the counterparty ratings are downgraded.

2) Receivables of policyholders, agents and brokers and other insurance companies.
The risks are the premiums due from counterparties and the amounts due under insurance agreements and other contractual obligations. The counterparties are policyholders, brokers, intermediaries and other insurance companies and the risk measured is that of counterparties defaulting on their obligations.

3) Cash at the bank, deposits with transfer companies and other legally binding commitments, ordinary share capital and preferential shares called up but not paid, legally binding commitments to subscribe to and pay subordinated liabilities that are called up but not paid, initial funds called up but not paid, members' contributions or the equivalent item of basic capital and reserves for mutual and mutual-type companies, guarantees called up but not paid, letters of credit called up but not paid and claims called up but not paid that mutual and mutual-type associations may have against their members by way of a requirement for supplementary contributions.

Risk measures

The credit risk is identified on the Company's Risk Map for 2021 under Registration no. 16, "Credit Risk", Registration no. 12, "Default", and Registration no. 8, "Reinsurance Risk". The risks were measured by means of the submission of the company's Risk Map report. In accordance with the tolerance threshold defined by the company, these risks were classified as follows:

No. 16 Credit risk

- Likelihood, Possible (11% - 30%)
- Impact: Low (0.5 - 1 million euros)

No. 12, Default Risk

- Likelihood, Very Possible (31% - 50%)
- Impact: Low (0.5 - 1 million euros)

No. 8, Reinsurance Risk

- Likelihood, Remote (0% - 10%)
- Impact: High (5 - 10 million euros)

The credit risk is defined in the Solvency II directive standard formula in two separate risk sub-modules, the extension risk and the counterparty default risk. The results of the extension risk as at 31 December 2021 were displayed in the Market Risks section; the results of the counterparty default risk in thousands of € are displayed below:

Counterparty Risk	2021	2020	Variation
Default Risk type 1	5,003	4,437	566
Default Risk type 2	3,647	2,641	1,006
Counterparty SCR before diversification	**8,650**	**7,079**	**1,571**
Diversification	- 544	- 427	- 118
Counterparty SCR	**8,106**	**6,652**	**1,454**

(In thousands of €)

Risk concentrations

The individual holdings of the greatest value are the cash in the banks of BGL BNP Paribas (€14.36M), Société Générale Bank & Trust (€15.70M) and Telfisa (€19.96m).

Risk mitigation

The main mitigation elements of the credit risk are set out in the company's Investment Policy. This is governed by the general prudent person investment principle and guarantees the security, quality, liquidity and profitability of the investment portfolio. The Strategic Asset Allocation defined in the investment policy includes exposure thresholds for each type of asset class. The Investment Committee is responsible for the implementation of the company's investment policy. The Investment Committee meets on a quarterly basis to monitor the company's investment portfolio. The Investment Department draws up monthly reports to monitor the evolution and compliance with the quantitative asset and exposure thresholds of the portfolio.

C.4 LIQUIDITY RISK

The liquidity risk is defined as the risk of not having sufficient realisable financial resources to meet the company's financial obligations.

The company defines the following elements of the liquidity risk management:

- The process for determining the level of misalignment between the cash inflows and outflows relating to both assets and liabilities, including the expected cash flows from direct insurance and reinsurance, such as claims, expiries and waivers.
- Consideration of the total short and mid-term liquidity needs, including an adequate liquidity buffer for protection against a liquidity shortfall.
- Consideration of the level and supervision of the liquid assets, including a quantification of the potential financial costs or losses arising from forced realisation.
- The identification and assessment of the costs of the alternative financing instruments.
- Consideration of the effect of the planned new businesses on the liquidity position.

Risk measures

The Liquidity Risk is identified in the Company's Risk Register in chapter 17, "Liquidity Risk". The risks were measured by the submission of the company's Risk Map report. In accordance with the tolerance threshold defined by the company, these risks were classified as follows:

- Likelihood, Possible (11% - 30%) Impact: Low (0.5 - 1 million euros)

The Liquidity Risk is not explicitly defined in accordance with the standard formula of the Solvency II directive.

Risk mitigation

The company uses the following elements to monitor and mitigate the liquidity risk.

- The cash flow position is supervised and a monthly report is submitted to the Company's management and the Group's Financial Office.
- Minimum available cash threshold.
- Credit Risk Analysis of the Financial Institutions in which the cash and financial assets are held.
- The premium collection cycle and the disbursement of the claims and expenses are regularly monitored.

Sensitivity

The company performs an annual stress test of the liquidity risk in the financial investment portfolio. Among other elements, the methodology takes into account the market depth and the variation of the bid-ask spread for each asset category. No relevant liquidity risk exposures were identified by means of the 2021 stress test.

C.5 OPERATIONAL RISK

The operational risk is defined as the potential loss of economic capital resulting from inadequate or failed internal processes or systems, personnel shortages or the impact of external events, such as failures in the outsourcing agreements, changes in the legislation or tax laws or external fraud, including cyberattacks.

The company defines the following elements of the operational risk management:

- The identification and quantification of the operational risks to which it is or may be exposed and an assessment of how to mitigate them.
- The internal activities and processes for the operational risk management, including the IT system that supports them.
- The risk tolerance thresholds with respect to the company's main operational risk areas.

Telefónica puts processes in place to identify, analyse and report on operational risk events. To this effect, a process will be developed to compile and monitor the operational risk incidents and the monitoring of the resolutions.

Risk measures

The Company's Risk Register identifies a set of risks that may fall into the category of Operational Risks as defined in Solvency II. The following table shows these risks, assessed in accordance with the Company's Risk Map.

Nº.	Description of the risk	Likelihood	Impact
5	Cybersecurity Risk	Very possible (31% - 50%)	High (5-10 million)
6	Quality of the Information/Quality of the Data	Very possible (31% - 50%)	Average (1-5 million)
7	Dependence of the supply chain	Possible (11% - 30%)	Average (1-5 million)
10	Tax declaration/submission	Possible (11% - 30%)	Average (1-5 million)
11	External fraud	Very possible (31% - 50%)	Low (0.5-1 million)
18	Pandemics	Possible (11% - 30%)	Low (0.5-1 million)
20	HR/Insufficient Resources	Very possible (31% - 50%)	Very Low (0-0.5 million)

The operational risk is defined in accordance with the standard formula of the Solvency II directive. As at 31 December 2021, the operational risk stands at €4,511,000, a slight increase compared to the previous year.

SCR	2021	2020	Variation
Operational risk (In thousands of €)	4.511	4.467	45

Risk mitigation

The company's Risk Management function monitors and reports on the operational risk mitigation measures. The different mitigation elements include the business continuity plans, the insurance, the SLA and KPI definitions and the outsourced services, etc.

C.6 OTHER MATERIAL RISKS

The Company's Risk Register identifies three risks that may be included in the Other Material Risks category.

 # 1 Business model risk. The risk is defined as the negative impact on the company's activities caused by high dependence on the Telefónica Group's strategy. The Risk Map assesses the risk of Brexit in the following manner:

- Likelihood, Possible (11% - 30%)
- Very High Impact (> 10 million euros)

 # 2. Competition/**Market environment** The risks are defined as the negative impact on the company's activities caused by the increased competition in the insurance market, chiefly due to the digitisation of the economy and the emergence of new players, broadly defined as InsurTech.

- Likelihood, Possible (11% - 30%)
- Impact: Very low (0 - 0.5 million euros)

C.7. ANY OTHER INFORMATION

There is no other relevant information in this section.

D. ASSESSMENT FOR SOLVENCY PURPOSES

D.1. ASSETS

Telefónica Seguros recognises and values its Economic Balance Sheet assets for Solvency II purposes in accordance with the international accounting standards adopted by the Commission, pursuant to Regulation (EC) no. 1606/2002, provided that these standards include valuation methods that are consistent with the valuation approach set out in article 75 of Directive 2009/138 EC.

As stipulated in article 68.1 of Law 20/2015 on the regulation, supervision and solvency of insurance and reinsurance companies, the assets of Telefónica Seguros, in general terms, have been valued within the framework of Solvency II "at the amount for which they could be exchanged between willing and duly informed parties in an arm's length transaction".

Telefónica Seguros recognises and values its assets in the annual accounts in accordance with the PCEA (Accounting Plan for Insurance Companies). An asset is recognised on the balance sheet when future benefits or returns are likely for Telefónica Seguros, provided that they are reliably measured. The valuation criteria shall be in accordance with the provisions of the second part of the above-mentioned Plan, depending on the asset in question.

The quantitative information (Accounting and Solvency II) on the Entity's Assets as at 31 December 2021 and 31 December 2020 is listed below:

Asset	2021			2020		
	Accounting	Economic	Difference	Accounting	Economic	Difference
Investments	9,237	9,237	-	11,530	12,359	829
Recoverable Reinsurance	21,858	18,169	- 3688	14,021	9,051	- 4970
Credits	36,250	36,250	-	29,209	29,209	-
Other Assets	67,449	67,449	-	53,185	53,185	-
Direct Fees	3,095	-	- 3095	2,227	-	- 2227
Intangible Assets	1,312	-	- 1312	1,123	-	- 1123
Total	**139,201**	**131,106**	**- 8095**	**111,295**	**103,804**	**- 7491**

The asset valuation on the Entity's economic balance sheet totals €131,106,000, compared to €139,201,000 of the carrying amount, due to the lower value of the recoverable reinsurance and the cancellation of the both intangible assets and fees prepaid under the Solvency II criteria.

As at 31 December 2021, there are no assets that are not regularly traded on a Financial Market in the Investment portfolio.

As at 31 December 2021, all the assets are recognised at fair value for accounting and solvency purposes.

II. Whenever possible, the prices quoted in active markets are used. If these prices are not available, valuation techniques are used.

The financial assets as at 31 December 2021 and 31 December 2020 are listed below:

Financial Assets	2021			2020		
	Accounting	Economic	Difference	Accounting	Economic	Difference
Participations						
Shares				11,507	12,336	829
Public debt						
Private debt						
Investment funds	9,230	9,230	-			
Deposits	8	8	-	23	23	
Cash and cash equivalents	59,913	59,913	-	52,644	52,644	
Total	**69,150**	**69,150**	**-**	**64,174**	**65,003**	**829**

(In millions of €)

The deferred Tax Assets result from applying the tax rate to the valuation differences between the Solvency II value and the carrying amount representing a decrease in assets or an increase in liabilities.

The amount of the Deferred Tax Assets recognised on the Solvency II balance sheet arising from the accounting Deferred Tax Assets and those generated by the valuation differences between the accounting and Solvency II will be accounted for by means of the reversal of the Deferred Tax Liabilities, leaving a surplus of €495,000 at 31 December 2021 and €40,000 at 31 December 2020, as shown below:

Deferred Tax	2021			2020		
	Asset	Liabilities	Difference	Asset	Liabilities	Difference
Accounting Balance	139,201	66,910	72,291	111,295	43,006	68,289
Solvency Balance	131,766	61,453	70,313	103,804	35,676	68,128
Economic Balance Impact	7,436	5,457	1,978	7,491	7,330	160
Deferred Tax (25%)	**1,859**	**1,364**	**495**	**1,873**	**1,833**	**40**

(In thousands of €)

D.2. LIABILITIES

The Entity values the liabilities at the amount at which they could be transferred or settled between willing and duly informed parties in an arm's length transaction (market to model).

Liabilities and Capital and Resources	2021			2020		
	Accounting	Economic	Difference	Accounting	Economic	Difference
Capital and Reserves	72,291	70,313	- 1978	68,289	68,128	-160
Technical Provisions	30,071	26,413	- 3658	18,698	13,038 -	5,659
Debts	31,475	31,475	-	17,633	17,633	-
Prov. For Taxes Fees	3,440	3,4400	-	5,005	5,005	-
Reinsurance Other	1,800 - 125	- 125	1,800 -	1,671 -	- -	1,671 -
Total	**139,201**	**131,766-1**	**7,436**	**111,295**	**103,804**	**7,491**

(In millions of €)

The valuation of the liabilities, together with the capital and reserves on the Entity's economic balance sheet amounts to €131,766,000, compared to €139,201,000 of the carrying value, due to the lower value of the provisions and the cancellation of the anticipated reinsurance fees under Solvency II criteria.

The list of the Technical Provisions under Statutory and Solvency II rules as at 31 December 2021 is as follows:

2021	Accounting Balance	Solvency II Balance Sheet	Difference
Best Estimate Provisions	**30,071**	**25,304**	**- 4767**
Best Estimate Premiums	26,746	20,974	- 5772
Best Estimate Claims	3,325	4,330	1,005
Risk Margin	**-**	**1,109**	**1,109**
Total Technical Provisions Direct Insurance	**30,071**	**26,413**	**- 3658**
Reinsurance Recoverables	**21,856**	**18,168**	**- 3688**
Premium Recoverables	19,493	15,070	- 4423
Claim Recoverables	2,364	3,098	734
Technical Provisions net of Reinsurance	**8,214**	**8,245**	**31**

(In thousands of €)

The Technical Provisions under Solvency II at 31 December 2021 amount to €26,413,000, with a difference of €3,658,000 compared to the carrying amount. This difference is chiefly due to the improved estimation of the premiums, given that the Solvency II regulation methodology allows the inclusion of part of the future results of the contracts in force in the provision. This impact of a lower provision totalling €5,772,000 is offset by a higher claims provision totalling €1,005,000 and by the constitution of the risk margin totalling €1,109,000.

The list of the Technical Provisions under Statutory and Solvency II rules as at 31 December 2020 is as follows:

2020	Accounting Balance	Solvency II Balance Sheet	Difference
Best Estimate Provisions	**18,698**	**11,775**	**-6,922**
Best Estimate Premiums	12,223	5,361	-6,863
Best Estimate Claims	6,474	6,415	-60
Risk Margin	**-**	**1,263**	**1,263**
Total Technical Provisions Direct Insurance	**18,698**	**13,083**	**-5,659**
Reinsurance Recoverables	**14,021**	**9,051**	**-4,907**
Premium Recoverables	9,229	4,322	-4,907
Claim Recoverables	4,792	4,792	-63
Technical Provisions net of Reinsurance	**4,677**	**3,987**	**-689**

(In thousands of €)

The Technical Provisions under Solvency II at 31 December 2020 amount to €13,038,000, with a difference of €5,659,000 compared to the carrying amount. This difference is chiefly due to the improved estimation of the premiums, given that the Solvency II regulation methodology allows the inclusion of part of the future results of the contracts in force in the provision. This impact of a lower provision totalling €6,863,000 is offset by a higher claims provision for the constitution of the risk margin totalling €1,263,000.

The Best Estimate of Premiums and Claims is calculated in accordance with the following methodology:

BE Premiums:

The best estimate of the premium reserves should be calculated as the expected present value of the future incoming and outgoing cash flows, constituting a combination, among others, of:

- the cash flows stemming from future premiums.
- the cash flows stemming from future claims.
- the cash flows stemming from expenses.
- the cash flows stemming from the ongoing administration of policies currently in force.

The following formula is used to mathematically translate the principles, as dictated by EIOPA. The best estimate of the premium reserves is calculated as follows:

$$PP = CR * UPR + (\mathrm{CR} - 1 + \mathrm{AER}) * \mathrm{PVFP}$$

where CR represents the combined ratio, UPR the non-earned premium reserve, AER the acquisition cost ratio and PVFP the present value of the cash flows explained above. Depending on the combined ratios and the present value of the cash flows, the differences between the statutory and Solvency II premium reserves may be significant.

The claim and premium reserves are calculated upon a gross and net basis, applying the same formula and procedure to determine the part of the reserves transferred to reinsurance (which is shown as an asset on the balance sheets) as well.

No future premiums are currently projected, and, for the time being, 2021 is as follows:

$$PP = CR * UPR$$

BE Claims:

For Mobiles product 99% premiums

The Entity has calculated the Best Estimate of Claims, without costs attributable to provisions, using the deterministic Chain Ladder of Payments method, taking into account a historical experience lasting 1 year.

The following actions are taken upon the basis of the incremental payment triangles:

- Creation of the accumulated payment triangle by years.
- Calculation of the Age to Age Factors for each of the occurrences as “Cumulative payments in t+1/Cumulative payments in t” for each of the implementation periods.
- Calculation of averages for the Age to Age Factors, final selection of the Age to Age Factors and Tail Factor and expert judgement considerations.
- The Best Estimate or Estimated Ultimate Cost of the claims is calculated for each of the occurrences. Subsequently, as a difference from the payments accrued at the closing date, the reserves required for the full settlement of the claims occurring until the closing date are obtained.

- Based on the adjusted reserve settlement pattern obtained by means of the Chain Ladder methodology, the future payment flows until the full settlement of the reserves are obtained and financially discounted on the EIOPA Rate Curve without a Volatility Adjustment at 31 December 2021.

- The Best Estimate of Costs attributable to provisions is regarded as the accounting data of the Internal Claims Settlement Expense Provision, which is also financially updated to the EIOPA Rate Curve without a Volatility Adjustment at 31 December 2021, in accordance with the adjusted reserve settlement pattern obtained by means of the Chain Ladder methodology.

For the remaining products, 1% of the premiums, the best estimate is regarded as equal to the accounting estimate. Based on the reserve settlement pattern, the future payment flows until the full settlement of the reserves are obtained and financially discounted on the EIOPA Rate Curve without a Volatility Adjustment at 31 December 2021.

Risk Margin:

The Entity calculates the Risk Margin in accordance with method 2, as specified in Guideline 62 of the Guidelines on the Valuation of Technical Provisions (EIOPA-BoS-14/166 ES).

D.3. OTHER LIABILITIES

The valuations of liabilities other than the technical provisions for Solvency II purposes, as well as the qualitative explanations of the main differences in their valuation between the Solvency II criteria and those used for the drawing up of the annual accounts (carrying amount) at 31 December 2021, are listed below:

The Other Liabilities for accounting purposes amount to €5,364,000, of which €3,565,000 apply to solvency, given that the deferred income from transferred reinsurance (reinsurance fees) is adjusted to zero for solvency valuation purposes.

Other Liabilities	2021			2020		
	Accounting	Economic	Difference	Accounting	Economic	Difference
Prov. For Taxes	3,440	3,440	-	5,005	5,005	-
Reinsurance Fees	1,800	-	- 1800	1,671	-	- 1671
Other	125	125	-	-	-	-
Total	**5,364**	**3,565**	**- 1800**	**6,676**	**5,005**	**- 1671**

(In thousands of €)

D.4. ALTERNATIVE VALUATION METHODS

The Entity does not apply any alternative valuation methods.

D.5. ANY OTHER INFORMATION

During the 2021 financial year, no other relevant circumstances have arisen that would significantly affect the information set out in this section.

E. CAPITAL MANAGEMENT

E.1. CAPITAL AND RESERVES

The items of the capital and reserves shall be classified on three tiers, as laid down in the Solvency II Directive, for the purposes of their capacity to meet the different capital requirements.

Telefónica Seguros has mainly tier-one capital and reserves, consisting of its Share Capital and any reserves that may be set up in the future, and it may also have tier-three capital and reserves in respect of deferred taxes.

Telefónica Seguros, as part of the execution of the ORSA (internal risk and solvency assessment process), also carries out a projection exercise on the capital reserves and solvency capital to analyse the evolution of the solvency ratio.

With regard to the projection of the capital and reserves, an expected evolution of the capital reserves of Telefónica Seguros is performed under stressed conditions during the period for the planning of its activity in accordance with its business plan.

With regard to the solvency capital projection, an expected evolution of the solvency capital requirement is made under stressed conditions for each of the risk modules to which Telefónica Seguros is exposed and the capital required at a global level, during the period for the planning of its activity in accordance with its business plan.

These projections are based on the capital plans, duly subjected to stressed conditions, taking into account any expected actions that could affect their amount or composition. For example, if any capital and reserve items are to be repaid or redeemed or plans to obtain additional capital reserves are made, etc.

Telefónica Seguros calculates the solvency capital in accordance with the methodology established by the standard formula.

- Solvency capital requirement: this is what insurance companies must have at all times in order to financially guarantee their commitments to their policyholders, the calculation methodology of which is defined by the standard formula.

- Minimum capital requirement: this is the amount of capital below which Telefónica Seguros would be intervened, the calculation methodology of which is defined, depending on the SCR, by the standard formula.

The financial capacity of Telefónica Seguros is measured by the ratio between the level of capital and reserves and the solvency capitals.

This ratio measures the capacity of Telefónica Seguros to cover the solvency capitals. The following concepts must be taken into account for the analysis and management of the capital of Telefónica Seguros:

Concept (related to Capital and Reserves)	Description
Minimum Level	Lower threshold for the capitalisation of Telefónica Seguros. This is the solvency capital requirement. This is the lowest level of capital and reserves that Telefónica Seguros should have.
Level of Security	The level of capitalisation considered suitable for the balance sheet of Telefónica Seguros in a stable business environment. In this case, the Entity's capital and reserves should be able to cover the solvency capital requirement plus a safety margin.
Target Level	This is the level of capital and reserves desired by Telefónica Seguros, by means of which the solvency capital requirement and future contingencies can be covered. Its level shall be determined, at least annually, upon the basis of: • The business position. • The ability to generate capital. • Relevant risks and volatilities.

At 31 December 2021, the Entity has capital and reserves classified as TIER 1 for the amount of €70,316 (In thousands of €).

Available Capital and Reserves 2021	TOTAL	TIER 1	TIER 2	TIER 3
Statutory Capital and Reserves	72,291	69,654	-	659
Reconciliation Reserve	- 1978	-	-	-
TOTAL	**70,313**	**69,654**	**-**	**659**

(In thousands of €)

At 31 December 2020, the Entity has capital and reserves classified as TIER 1 for the amount of €68,128 (In thousands of €).

Available Capital and Reserves 2020	TOTAL	TIER 1	TIER 2	TIER 3
Statutory Capital and Reserves	68,128	68,128		
Reconciliation Reserve	-160	-	-	-
TOTAL	**68,128**	**68,128**	**-**	**-**

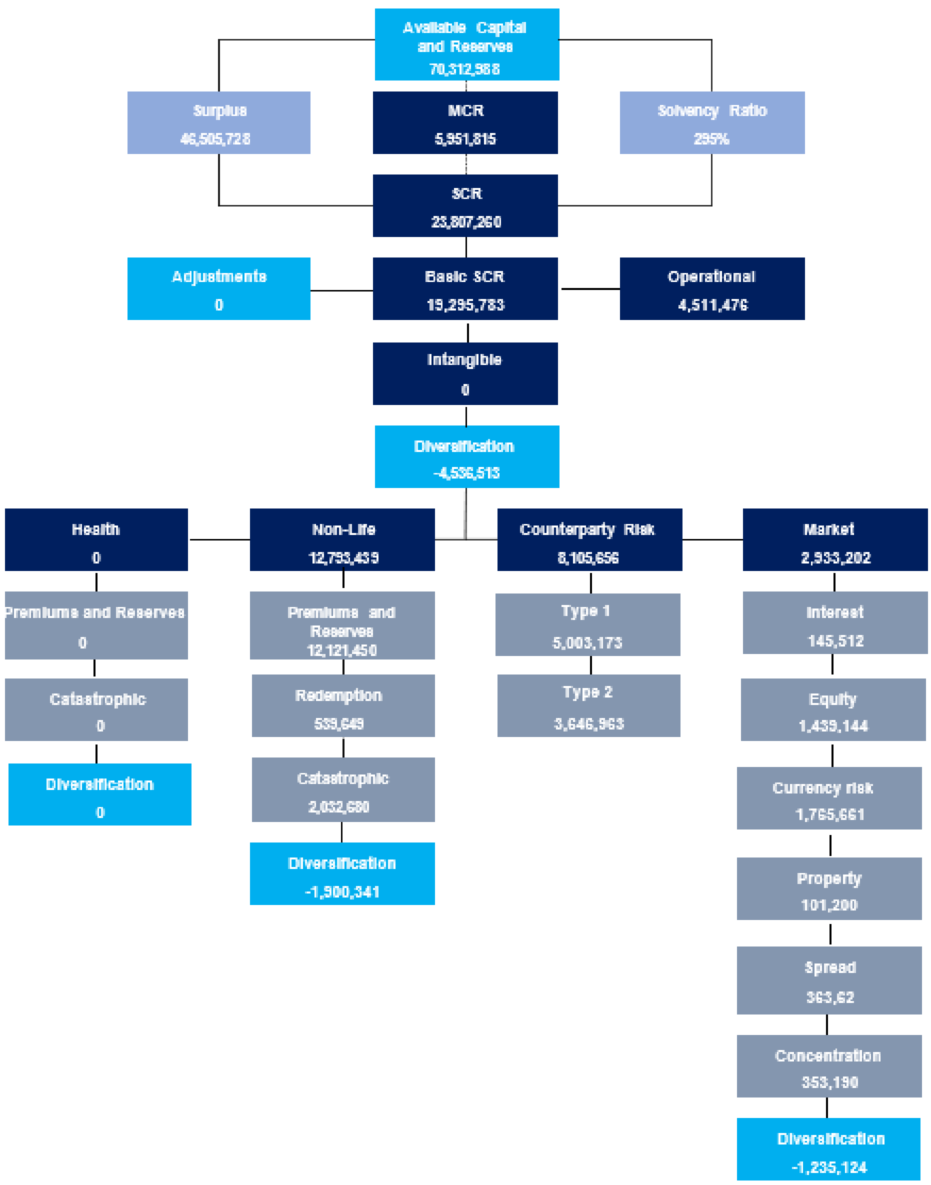
(In thousands of €)

Telefónica Seguros, as at 31 December 2021:

- It has no Supplementary Capital and Reserves.
- There have been no significant movements in the Capital and Reserves.

E.2. SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

The Entity uses the Standard Formula for the determination of the Solvency Capital Requirement (SCR). The SCR follows a modular approach, whereby the amount of the capital requirements will be approximated by aggregating the individualised requirements of each risk module/sub-module:



The composition of the solvency risk at 31 December 2021 is as follows:

SCR	2021	2020	Variation
Underwriting Risk	**12,793**	**14,335**	**- 1,542**
Premiums and reserves	12,121	14,335	- 2,214
Lapses	540	-	540
Catastrophe	2,033	-	2,033
Diversification	- 1,900	-	- 1,900
Market Risk	**2,933**	**3,122**	**- 189**
Interest rate risk	146	349	- 203
Equity risk	1,439	2,263	- 824
Concentration risk	353	720	- 367
Spread risk	364	374	- 10
Currency risk	1,766	1,025	741
Property risk	101	-	101
Diversification	- 1,235	- 1,608	373
Counterparty Risk	**8,106**	**6,652**	**1,454**
Default Risk type 1	5,003	4,437	566
Default Risk type 2	3,647	2,641	1,006
BSCR (before correlation between modules)	**23,832**	**24,109**	**- 277**
BSCR (correlation between modules)	- 4,537	- 4,421	- 116
BSCR	**19,296**	**19,688**	**- 392**
Operational risk	4,511	4,467	45
SCR	**23,807**	**24,154**	**- 347**

(In thousands of €)

The total Solvency Capital Requirement (SCR) in 2021 amounts to €23,807,000, compared to € 24,154,000 last year.

SCR Composition	2021	2020	Variation
BSCR	19,296	19,688	- 392
Operational risk	4,511	4,467	45
Adjustments	-	-	-
SCR	**23,807**	**24,154**	**- 347**

(In thousands of €)

At 31 December 2021, the Entity's Solvency Ratio Requirement stands at 295% (282% at 31 December 2020). This ratio measures the relationship between the Eligible Capital and Reserves and the Solvency Capital Requirement (SCR).

Solvency Ratio	2021	2020	Variation
Available Capital and Reserves	70,313	68,128	2,185
SCR	23,807	24,154	- 347
Mandatory Solvency Ratio	**295%**	**282%**	**13%**

The Minimum Capital Requirement (MCR) is the level of capital that is configured as a minimum level of security below which the financial resources must not fall. The MCR corresponds to the amount of the eligible Capital and Reserves below which the policyholders and beneficiaries would be exposed to an unacceptable level of risk if the Entity were to continue its activity.

At 31 December 2021 the MCR amounts to €5,952,000 (€6,038,000 at 31 December 2020) and the Entity's Minimum Solvency Ratio is 1,170% (1,128% at 31 December 2020). This ratio measures the relationship between the Eligible Capital and Reserves and the Minimal Capital Requirement (MCR).

Solvency Ratio	2021	2020	Variation
MCR	5,952	6,038	86
Available Capital and Reserves for MCR	69,654	68,128	1,525
Mandatory Solvency Ratio	**1170%**	**1128%**	**42%**

(In thousands of €)

During the 2021 financial year there has been no addition of capital applied to the SCR.

E.3. USE OF THE DURATION-BASED STOCK RISK SUB-MODULE IN THE CALCULATION OF THE SOLVENCY CAPITAL REQUIREMENT

Neither this heading nor any of its sections apply, as Telefónica Seguros does not make use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement.

E.4. DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED

Neither this heading nor any of its sections apply, as Telefónica Seguros does not use any partial or complete Internal Model and, instead, calculates the Solvency Capital Requirement in accordance with the standard formula.

E.5. NON-COMPLIANCE WITH THE MINIMUM CAPITAL REQUIREMENT AND THE SOLVENCY CAPITAL REQUIREMENT

The Entity has not breached the MCR and SCR during the period of reference of this report.

E.6. ANY OTHER INFORMATION

During the 2021 financial year, no other relevant circumstances have arisen that would significantly affect the information set out in this section.

ANNEX - TEMPLATES

S.02.01.01

		Solvency II value	Value in the mandatory accounts
		C0010	C0020
ASSET			
Goodwill	R0010	0.00	0.00
Deferred acquisition costs	R0020	0.00	3,094,588.20
Intangible assets	R0030	0.00	1,312,079.43
Deferred tax assets	R0040	659,421.84	0.00
Pension benefits surplus	R0050	0.00	0.00
Property, plant and equipment for proprietary use	R0060	11,300.22	11,300.22
Investments (other than assets held for index-linked and investment fund contract purposes)	R0070	9,237,446.30	9,237,446.30
Property (other than any for proprietary use)	R0080	0.00	0.00
Shareholdings in related companies	R0090	0.00	0.00
Shares	R0100	0.00	0.00
Shares - listed	R0110	0.00	0.00
Shares - non-listed	R0120	0.00	0.00
Bonds	R0130	0.00	0.00
Public bonds	R0140	0.00	0.00
Company bonds	R0150	0.00	0.00
Structured bonds	R0160	0.00	0.00
Collateralised securities	R0170	0.00	0.00
Collective investment undertakings	R0180	9,229,946.30	9,229,946.30
Derivatives	R0190	0.00	0.00
Deposits other than cash equivalents	R0200	7,500.00	7,500.00
Other investments	R0210	0.00	0.00
Assets held for index-linked and investment fund contract purposes	R0220	0.00	0.00
Secured and unsecured mortgage loans	R0230	0.00	0.00
Policy loans	R0240	0.00	0.00
Secured and unsecured mortgage loans to individuals	R0250	0.00	0.00
Other secured and unsecured mortgage loans	R0260	0.00	0.00
Recoverable reinsurance amounts of:	R0270	18,167,875.10	21,856,328.60
Non-life and health similar to non-life	R0280	18,167,875.10	21,856,328.60
Non-life, excluding health	R0290	18,167,875.10	21,856,328.60
Health similar to non-life	R0300	0.00	0.00
Life and health similar to life, excluding health and index-linked and investment funds	R0310	0.00	0.00
Health similar to life	R0320	0.00	0.00
Life, excluding health and index-linked and investment funds	R0330	0.00	0.00
Life index-linked and investment funds	R0340	0.00	0.00
Deposits with transferors	R0350	1,307.67	1,307.67
Accounts receivable from insurance and brokers	R0360	33,034,272.14	33,034,272.14
Reinsurance receivables	R0370	281,729.67	281,729.67
Accounts receivable (commercial, non-insurance)	R0380	2,933,994.74	2,933,994.74
Treasury shares (direct holding)	R0390	0.00	0.00
Amounts owed in respect of capital and reserve items or the initial mutual fund called up but not yet paid	R0400	0.00	0.00
Cash and cash equivalents	R0410	59,913,043.27	59,913,043.27
Other assets not recorded under other headings	R0420	7,525,123.44	7,525,123.44
TOTAL ASSETS	**R0500**	131,765,514.40	139,201,213.68

S.02.01.01

		Solvency II value	Value in the mandatory accounts
		C0010	C0020
LIABILITIES			
Technical provisions - non-life	R0510	26,413,090.43	30,070,769.95
Technical provisions - non-life (excluding health)	R0520	26,413,090.43	30,070,769.95
Technical provisions calculated as a whole	R0530	0.00	0.00
Best estimate	R0540	25,303,716.71	0.00
Risk margin	R0550	1,109,373.72	0.00
Technical provisions - health (similar to non-life)	R0560	0.00	0.00
Technical provisions calculated as a whole	R0570	0.00	0.00
Best estimate	R0580	0.00	0.00
Risk margin	R0590	0.00	0.00
Technical provisions - life (excluding index-linked and investment funds)	R0600	0.00	0.00
Technical provisions - health (similar to life)	R0610	0.00	0.00
Technical provisions calculated as a whole	R0620	0.00	0.00
Best estimate	R0630	0.00	0.00
Risk margin	R0640	0.00	0.00
Technical provisions - life (excluding health and index-linked and investment funds)	R0650	0.00	0.00
Technical provisions calculated as a whole	R0660	0.00	0.00
Best estimate	R0670	0.00	0.00
Risk margin	R0680	0.00	0.00
Technical provisions - index-linked and investment funds	R0690	0.00	0.00
Technical provisions calculated as a whole	R0700	0.00	0.00
Best estimate	R0710	0.00	0.00
Risk margin	R0720	0.00	0.00
Other technical provisions	R0730	0.00	0.00
Contingent liabilities	R0740	0.00	0.00
Other non-technical provisions	R0750	3,439,613.44	3,210,468.07
Pension benefit obligations	R0760	0.00	0.00
Reinsurers' deposits	R0770	0.00	0.00
Deferred tax liabilities	R0780	0.00	229,145.37
Derivatives	R0790	0.00	0.00
Debt with credit agencies	R0800	0.00	0.00
Financial liabilities other than debts with credit institutions	R0810	124,977.00	124,977.00
Accounts payable of insurers and brokers	R0820	5,340,012.76	5,340,012.76
Reinsurance payables	R0830	20,525,696.36	20,525,696.36
Accounts payable (commercial, non-insurance)	R0840	5,609,136.45	5,609,136.45
Subordinated liabilities	R0850	0.00	0.00
Subordinated liabilities that do not form part of basic capital and reserves	R0860	0.00	0.00
Subordinated liabilities that form part of basic capital and reserves	R0870	0.00	0.00
Other liabilities not recorded under other headings	R0880	0.00	1,799,754.24
TOTAL LIABILITIES	R0900	61,452,526.44	66,909,960.20
Excess of assets with respect to liabilities	R1000	70,312,987.96	72,291,253.48

S.05.01.01

Premiums, claims and expenses by line of business

		Line of business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical costs insurance	Payment protection insurance	Workers' compensation insurance	Motor vehicle general liability insurance	Other car insurance	Maritime, aviation and transport insurance	Fire and other property damage insurance	General liability insurance	Credit and surety insurance	Legal protection insurance	Assistance	Miscellaneous financial loss	Health	Accidents	Maritime, aviation, transport	Material damage	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums earned																		
Gross amount, direct insurance	R0110	0	0	0	0	0	0	159,402,653	0	0	0	0	819,654					160,222,307
Gross amount, RPA	R0120	0	0	0	0	0	0	2,169,926	0	0	0	0	0					2,169,926
Gross amount, RNP	R0130													0	0	0	0	0
Reinsurers' fee	R0140	0	0	0	0	0	0	115,169,320	0	0	0	0	478,152	0	0	0	0	115,647,473
Net Amount	R0200	0	0	0	0	0	0	46,403,259	0	0	0	0	341,502	0	0	0	0	46,744,760
Allocated Premiums		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross amount, direct insurance	R0210	0	0	0	0	0	0	145,225,739	0	0	0	0	474,107					145,699,846
Gross amount, RPA	R0220	0	0	0	0	0	0	2,169,926	0	0	0	0	0					2,169,926
Gross amount, RNP	R0230													0	0	0	0	0
Reinsurers' fee	R0240	0	0	0	0	0	0	105,055,123	0	0	0	0	328,378	0	0	0	0	105,383,501
Net Amount	R0300	0	0	0	0	0	0	42,340,542	0	0	0	0	145,729	0	0	0	0	42,486,272
Claims		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross amount, direct insurance	R0310	0	0	0	20,000	0	0	53,255,560	0	0	0	0	230,790					53,506,351
Gross amount, RPA	R0320	0	0	0	0	0	0	540,695	0	0	0	0	0					540,695
Gross amount, RNP	R0330													0	0	0	0	0
Reinsurers' fee	R0340	0	0	0	19,000	0	0	39,925,285	0	0	0	0	213,865	0	0	0	0	40,158,150
Net Amount	R0400	0	0	0	1,000	0	0	13,870,970	0	0	0	0	16,925	0	0	0	0	13,888,895
Variation of other technical provisions		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross amount, direct insurance	R0410	0	0	0	0	0	0	0	0	0	0	0	0					0
Gross amount, RPA	R0420	0	0	0	0	0	0	0	0	0	0	0	0					0
Gross amount, RNP	R0430													0	0	0	0	0
Reinsurers' fee	R0440	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Amount	R0500	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Costs Incurred	R0550	0	0	0	0	0	0	24,326,735	0	0	0	0	192,906	0	0	0	0	24,519,641
Administrative costs		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross amount, direct insurance	R0610	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross amount, RPA	R0620	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross amount, RNP	R0630	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reinsurers' fee	R0640	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Amount	R0700	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investment management costs		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross amount, direct insurance	R0710	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross amount, RPA	R0720	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross amount, RNP	R0730	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reinsurers' fee	R0740	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Amount	R0800	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Claims management costs		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross amount, direct insurance	R0810	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross amount, RPA	R0820	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross amount, RNP	R0830	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reinsurers' fee	R0840	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Amount	R0900	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition costs		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross amount, direct insurance	R0910	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross amount, RPA	R0920	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross amount, RNP	R0930	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reinsurers' fee	R0940	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Amount	R1000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General Costs		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross amount, direct insurance	R1010	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross amount, RPA	R1020	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross amount, RNP	R1030	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reinsurers' fee	R1040	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Amount	R1100	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Costs	R1200																	-84,322
Total Costs	R1300																	24,435,320

Telefónica Seguros

S.05.02.01.02

S.05.02.01.01 Country of origin - non-life obligations			Country of origin
			C0080
Premiums written	Gross - Direct business	R0110	31,097,279
	Gross - Accepted proportional reinsurance	R0120	0
	Gross - Accepted non-proportional reinsurance	R0130	0
	Reinsurers' fee	R0140	20,847,703
	Net Amount	R0200	10,249,575
Premiums earned	Gross - Direct business	R0210	19,277,279
	Gross - Accepted proportional reinsurance	R0220	0
	Gross - Accepted non-proportional reinsurance	R0230	0
	Reinsurers' fee	R0240	11,991,534
	Net Amount	R0300	7,285,745
Claims incurred	Gross - Direct business	R0310	5,049,182
	Gross - Accepted proportional reinsurance	R0320	0
	Gross - Accepted non-proportional reinsurance	R0330	0
	Reinsurers' fee	R0340	4,275,182
	Net Amount	R0400	774,000
Changes in other technical provisions	Gross - Direct business	R0410	0
	Gross - Accepted proportional reinsurance	R0420	0
	Gross - Accepted non-proportional reinsurance	R0430	0
	Reinsurers' fee	R0440	0
	Net Amount	R0500	0
Costs incurred	Costs incurred	R0550	7,052,235
Other costs	Other costs	R1200	0
Total costs	Total costs	R1300	0

Telefónica Seguros

S.05.02.01.02

S.05.02.01.02 The top 5 countries (by amount of the gross premiums written) - non-life obligations			Country (by amount of gross premiums written) -			
			SPAIN	GERMANY	UNITED KINGDOM	BRAZIL
Premiums written	Gross - Direct business	R0110	31,097,279	23,385,678	105,739,350	0
	Gross - Accepted proportional reinsurance	R0120	0	0	0	2,169,926
	Gross - Accepted non-proportional reinsurance	R0130	0	0	0	0
	Reinsurers’ fee	R0140	20,847,703	17,761,410	77,038,359	0
	Net Amount	R0200	10,249,575	5,624,268	28,700,991	2,169,926
Premiums earned	Gross - Direct business	R0210	19,277,279	25,047,974	101,374,593	0
	Gross - Accepted proportional reinsurance	R0220	0	0	0	2,169,926
	Gross - Accepted non-proportional reinsurance	R0230	0	0	0	0
	Reinsurers’ fee	R0240	11,991,534	19,406,803	73,985,163	0
	Net Amount	R0300	7,285,745	5,641,171	27,389,430	2,169,926
Claims incurred	Gross - Direct business	R0310	5,049,182	7,041,087	41,416,022	0
	Gross - Accepted proportional reinsurance	R0320	0	0	0	322,930
	Gross - Accepted non-proportional reinsurance	R0330	0	0	0	0
	Reinsurers’ fee	R0340	4,275,182	5,231,682	30,651,287	0
	Net Amount	R0400	774,000	1,809,405	10,764,735	322,930
Changes in other technical provisions	Gross - Direct business	R0410	0	0	0	0
	Gross - Accepted proportional reinsurance	R0420	0	0	0	0
	Gross - Accepted non-proportional reinsurance	R0430	0	0	0	0
	Reinsurers’ fee	R0440	0	0	0	0
	Net Amount	R0500	0	0	0	0
Costs incurred	Costs incurred	R0550	7,052,235	1,085,064	15,034,214	1,348,129
Other costs	Other costs	R1200	0	0	0	0
Total costs	Total costs	R1300	0	0	0	0

S.05.02.01.02

S.05.02.01.03 Total Top 5 and Country of origin - non-life obligations			Total Top 5 and Country of origin
			C0140
Premiums written	Gross - Direct business	R0110	160,222,307
	Gross - Accepted proportional reinsurance	R0120	2,169,926
	Gross - Accepted non-proportional reinsurance	R0130	0
	Reinsurers' fee	R0140	115,647,473
	Net Amount	R0200	46,744,760
Premiums earned	Gross - Direct business	R0210	145,699,846
	Gross - Accepted proportional reinsurance	R0220	2,169,926
	Gross - Accepted non-proportional reinsurance	R0230	0
	Reinsurers' fee	R0240	105,383,501
	Net Amount	R0300	42,486,272
Claims incurred	Gross - Direct business	R0310	53,506,291
	Gross - Accepted proportional reinsurance	R0320	322,930
	Gross - Accepted non-proportional reinsurance	R0330	0
	Reinsurers' fee	R0340	40,158,150
	Net Amount	R0400	13,671,071
Changes in other technical provisions	Gross - Direct business	R0410	0
	Gross - Accepted proportional reinsurance	R0420	0
	Gross - Accepted non-proportional reinsurance	R0430	0
	Reinsurers' fee	R0440	0
	Net Amount	R0500	0
Costs incurred	Costs incurred	R0550	24,519,641
Other costs	Other costs	R1200	-84,322
Total costs	Total costs	R1300	24,435,320

S.17.01.01

Non-life Technical Provisions

		Direct business and accepted proportional reinsurance			Total of the non-life obligation
		Fire and other property damage insurance	General liability insurance	Miscellaneous financial loss	
		C0080	C0090	C0130	C0180
Provision of premiums					
Best estimate premium provision, total gross amount	**R0060**	20,958,244	0	15,760	20,974,004
Direct insurance	**R0070**	20,958,244	0	15,760	20,974,004
Accepted proportional reinsurance	**R0080**	0	0	0	0
Accepted non-proportional reinsurance	**R0090**				0
Recoverable reinsurance and special purpose and finite reinsurance entities, before the adjustment for non-payment	**R0100**	15,055,633	0	14,184	15,069,817
Recoverable reinsurance except special purpose and finite reinsurance entities, before the adjustment for non-payment	**R0110**	15,055,633	0	14,184	15,069,817
Recoverables of special purpose entities before the adjustment for losses	**R0120**	0	0	0	0
Finite reinsurance recoverables before the adjustment for losses	**R0130**	0	0	0	0
Recoverable reinsurance and special purpose and finite reinsurance entities, after the adjustment for non-payment	**R0140**	15,055,633	0	14,184	15,069,817
Net best estimate of the premium provisions	**R0150**	5,902,611	0	1,576	5,904,187
Claims provision					
Best estimate of the claims provision, total gross amount	**R0160**	4,309,792	19,920	0	4,329,713
Direct insurance	**R0170**	4,309,792	19,920	0	4,329,713
Accepted proportional reinsurance	**R0180**	0	0	0	0
Accepted non-proportional reinsurance	**R0190**				0
Recoverable reinsurance and special purpose and finite reinsurance entities, before the adjustment for non-payment	**R0200**	3,079,134	18,924	0	3,098,058
Recoverable reinsurance except special purpose and finite reinsurance entities, before the adjustment for non-payment	**R0210**	3,079,134	18,924	0	3,098,058
Recoverables of special purpose entities before the adjustment for losses	**R0220**	0	0	0	0
Finite reinsurance recoverables before the adjustment for losses	**R0230**	0	0	0	0
Recoverable reinsurance and special purpose and finite reinsurance entities, after the adjustment for non-payment	**R0240**	3,079,134	18,924	0	3,098,058
Net best estimate of the claims provisions	**R0250**	1,230,658	996	0	1,231,654
Best estimate total, gross amount	**R0260**	25,268,036	19,920	15,760	25,303,717
Best estimate total, net amount	**R0270**	7,133,270	996	1,576	7,135,842
Risk margin	**R0280**	1,108,974	155	245	1,109,374
Amount of the interim measure on technical provisions					
Total provisions after deducting the interim measure, gross amount	**R0320**	26,377,010	20,075	16,005	26,413,090
Recoverable reinsurance and special purpose and finite reinsurance entities, after the adjustment for non-payment	**R0330**	18,134,767	18,924	14,184	18,167,875
Total amount technical provisions, net	**R0340**	8,242,243	1,151	1,821	8,245,215
Cash flows for the calculation of the BE premiums					
Outflows					
Present value of cash flows corresponding to provisions and claims	**R0370**	11,126,163	0	6,114	11,132,277
Present value of cash flows corresponding to costs and other outflows	**R0380**	9,832,081	0	9,646	9,841,727
Input flows					
Present value of cash flows corresponding to future premiums	**R0390**	0	0	0	0
Present value of other cash flows	**R0400**	0	0	0	0
Cash flows for the calculation of the BE Claims					
Outflows					
Present value of cash flows corresponding to provisions and claims	**R0410**	4,309,792	19,920	0	4,329,713
Present value of cash flows corresponding to costs and other outflows	**R0420**	0	0	0	0
Input flows					
Present value of cash flows corresponding to future premiums	**R0430**	0	0	0	0
Present value of other cash flows	**R0440**	0	0	0	0
Percentage of BE calculated by means of approximations	**R0450**	0	0	0	0
Amount of BE subject to volatility adjustment	**R0480**	0	0	0	0
Technical provisions without adjustment due to volatility and other interim measures	**R0490**	0	0	0	0

Claims paid gross (non-cumulative)

Line of business: **Fire and other property damage insurance direct business and accepted proportional reinsurance**

Year of Accident

S.19.01.01.01 Gross claims paid (non-cumulative) - Year of implementation (absolute amount)		0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15 & +
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160
Prior	R0100																0
N-14	R0110	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-13	R0120	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-12	R0130	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-11	R0140	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-10	R0150	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-9	R0160	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-8	R0170	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-7	R0180	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-6	R0190	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-5	R0200	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-4	R0210	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-3	R0220	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-2	R0230	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-1	R0240	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N	R0250	56,552,933	0	0	0	0	0	0	0	0	0	0	0	0	0	0	

Line of business: **Miscellaneous financial losses direct business and accepted proportional reinsurance**

Year of Accident

S.19.01.01.01 Gross claims paid (non-cumulative) - Year of implementation (absolute amount)		0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15 & +
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160
Prior	R0100																0
N-14	R0110	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-13	R0120	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-12	R0130	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-11	R0140	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-10	R0150	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-9	R0160	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-8	R0170	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-7	R0180	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-6	R0190	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-5	R0200	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-4	R0210	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-3	R0220	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-2	R0230	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-1	R0240	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N	R0250	320,446	0	0	0	0	0	0	0	0	0	0	0	0	0	0	

Telefónica
Seguros

Gross best estimate without deducting provisions for claims

Line of business: **Fire and other property damage insurance direct business and accepted proportional reinsurance**

Year of Accident

S.19.01.01.03 Gross non-discounted provisions for best estimate claims - Year of implementation		0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15 & +
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0310	C0320	C0330	C0340	C0350
																	0
N-14	R0110	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-13	R0120	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-12	R0130	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-11	R0140	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-10	R0150	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-9	R0160	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-8	R0170	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-7	R0180	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-6	R0190	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-5	R0200	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-4	R0210	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-3	R0220	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-2	R0230	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-1	R0240	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N	R0250	4,309,792	0	0	0	0	0	0	0	0	0	0	0	0	0	0	

Line of business: **General liability insurance direct business and accepted proportional reinsurance Year of**

Accident

S.19.01.01.03 Gross non-discounted provisions for best estimate claims - Year of implementation		0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15 & +
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0310	C0320	C0330	C0340	C0350
																	0
N-14	R0110	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-13	R0120	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-12	R0130	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-11	R0140	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-10	R0150	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-9	R0160	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-8	R0170	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-7	R0180	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-6	R0190	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-5	R0200	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-4	R0210	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-3	R0220	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-2	R0230	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N-1	R0240	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
N	R0250	19,920	0	0	0	0	0	0	0	0	0	0	0	0	0	0	

Telefónica Seguros

S.23.01.01

		Total	Level 1 Unrestricted	Level 1 Restricted	Level 2	Level 3
		C0010	C0020	C0030	C0040	C0050
Basic capital and reserves						
Share capital of ordinary shares (including treasury shares)	R0010	9,015,000	9,015,000		0	
Issue premium of the ordinary shares	R0030	27,525,000	27,525,000		0	
Initial mutual fund	R0040	0	0		0	
Subordinated mutual accounts	R0050	0	0		0	0
Surplus funds	R0070	0	0			
Preferential shares	R0090	0	0	0	0	0
Issue premiums of shares and preferential holdings	R0110	0	0	0	0	0
Reconciliation Reserve	R0130	33,113,566	33,113,566			
Subordinated liabilities	R0140	0		0	0	0
Amount equivalent to the value of the assets from net deferred taxes	R0160	659,422				659,422
Other items approved by the supervisory authority as basic capital and reserves not specified above	R0180	0	0	0	0	0
Capital and reserves from the financial statements that do not need to be represented by the reconciliation reserve and do not meet the criteria for classification as Solvency II capital and reserves						
Capital and reserves from the financial statements that do not need to be represented by the reconciliation reserve and do not meet the criteria for classification as Solvency II capital and reserves	R0220	0				
Deductions not included in the reconciliation reserve						
Deduction for holdings in financial and credit institutions	R0230	0	0	0	0	0
Total basic capital and reserves after adjustments	R0290	70,312,988	69,653,566	**0**	0	659,422
Supplementary Capital and Reserves						
Ordinary share capital unpaid and not called up	R0300	0			0	
Initial mutual fund unpaid and not called up	R0310	0			0	
Preferential share capital unpaid and not called up	R0320	0			0	0
Legal commitment to underwrite and pay the subordinated liabilities at the holder's request	R0330	0			0	0
Letters of credit and guarantees set out in article 96(2) of Directive 2009/138/EC	R0340	0			0	
Letters of credit and guarantees held in escrow other than those set out in article 96(2) of Directive 2009/138/EC	R0350	0			0	0
Future income required from mutual insurance companies and mutual societies of shipowners provided for in article 96(1), point 3 of Directive 2009/138/EC	R0360	0			0	
Future income required from mutual insurance companies and mutual societies of shipowners different from those provided for in article 96(1), point 3 of Directive 2009/138/EC	R0370	0			0	0
Other supplementary capital and reserves	R0390	0			0	0
Total Supplementary Capital and Reserves	R0400	0	0		0	0
Available and eligible capital and reserves		-	-	-	-	-
Total capital and reserves available to cover the SCR	R0500	70,312,988	69,653,566	0	0	659,422
Total capital and reserves available to cover the MCR	R0510	69,653,566	69,653,566	0	0	0
Total eligible capital and reserves to cover the SCR	R0540	70,312,988	69,653,566	0	0	659,422
Total eligible capital and reserves to cover the MCR	R0550	69,653,566	69,653,566	0	0	
SCR	R0580	23,807,260				
MCR	R0600	5,951,815				
Ratio of eligible capital and reserves to SCR	R0620	295%				
Ratio of eligible capital and reserves to MCR	R0640	1170%				

S.23.01.01.02

		C0060
Reconciliation Reserve		....
Surplus of assets over liabilities	**R0700**	70,312,988
Own shares (included as assets on the balance sheet	**R0710**	0
Dividends and anticipated distributions	**R0720**	0
Other basic equity fund elements	**R0730**	37,199,422
Adjustment of restricted equity fund on limited availability funds	**R0740**	0
Total reconciliation reserve	**R0760**	33,113,566.12
Anticipated profits	**R0750**	----
Anticipated profits included in future premiums (APIFP) – Life insurance activities	**R0770**	0
Anticipated profits included in future premiums (APIFP) – Non-life insurance activities	**R0780**	0.00
Total APIFP	**R0790**	0

S.25.01.01

Z0010	A001

		Net solvency capital requirement	Gross solvency capital requirement	Allocation of the adjustments due to the RFF portfolios and matching adjustments
		C0030	C0040	C0050
Market Risk	R0010	2,933,202	2,933,202	
Default risk	R0020	8,105,656	8,105,656	
Life underwriting risk	R0030	0	0	
Health underwriting risk	R0040	0	0	
Non-life underwriting risk	R0050	12,793,439	12,793,439	
Diversification	R0060	-4,536,513	-4,536,513	
Intangible Assets Risk	R0070	0	0	
Basic Solvency Capital Requirement	R0100	19,295,783	19,295,783	

Calculation of the Solvency Capital Requirement		C0100
Adjustment due to the aggregation of the RFF/MAP nSCR	R0120	0
Operational risk	R0130	4,511,476.17
Loss absorption capacity of the technical provisions	R0140	0.00
Loss absorption capacity of the deferred taxes	R0150	0.00
Capital requirement for the businesses operated in accordance with article 4 of Directive 2003/41/EC	R0160	0.00
Solvency capital requirement, excluding the capital supplement	R0200	23,807,259.57
Capital supplement already set	R0210	0.00
Solvency capital requirement	R0220	23,807,259.57
Other information on the SCR		
Capital requirement for the duration-based equity risk sub-module	R0400	0.00
Total amount of the notional solvency capital requirement for the remaining part	R0410	0.00
Total amount of the notional solvency capital requirement for the ring-fenced funds	R0420	0.00
Total amount of the notional solvency capital requirement for the corresponding adjustment portfolios	R0430	0.00
Diversification effects due to the aggregation of the RFF nSCR for article 304	R0440	0.00
Method used to calculate the adjustment due to the RFF/MAP nSCR aggregation	R0450	No adjustment (s2c_AP:x38)
Net future discretionary profits	R0460	0.00

Adjustment

S.28.01.01

Minimum Capital Requirement (except for health insurance entities)

S.28.01.01.01

Component of the linear formula for insurance or reinsurance liabilities other than life insurance

		Components of the MCR
		C0030
MCR Result	R0010	3,878,830

S.28.01.01.02

General Information

		General Information	
		Best net estimate plus provisions calculated globally	Net premiums issued
		C0020	C0030
Medical expense insurance and its proportional reinsurance	R0020	0	0
Income protection insurance and its proportional reinsurance	R0030	0	0
Workplace accident insurance and its proportional reinsurance	R0040	0	0
Automobile general liability insurance and its proportional reinsurance	R0050	0	0
Other automobile insurance and its proportional reinsurance	R0060	0	0
Shipping, aviation and freight transport insurance and its proportional reinsurance	R0070	0	0
Fire insurance and other property damage and its proportional reinsurance	R0080	7,111,270	42,707,014
General liability insurance and its proportional reinsurance	R0090	0	0
Credit insurance and sureties and its proportional reinsurance	R0100	0	0
Legal defence insurance and its proportional reinsurance	R0110	0	0
Hospitalisation insurance and its proportional reinsurance	R0120	0	0
Miscellaneous pecuniary losses and its proportional reinsurance	R0130	1,576	40,006
Non-proportional health reinsurance	R0140	0	0
Non-proportional civil responsibility reinsurance for damages	R0150	0	0
Non-proportional shipping, aviation and freight transport reinsurance	R0160	0	0
Non-proportional property damage reinsurance	R0170	0	0

S.28.01.01.03

Component of the linear formula for life insurance or reinsurance liabilities

		Components of the MCR
		C0040
MCR Result	R0200	0

S.28.01.01.04

Total capital at risk in life insurance or reinsurance liabilities

		General Information	
		Best net estimate plus provisions calculated globally	Capital at risk
		C0050	C0060
Liabilities with profit sharing – guaranteed provisions	R0210	0	---
Liabilities with profit sharing – future discretional provisions	R0220	0	---
Index-linked and unit-linked liabilities	R0230	0	---

Other life (re)insurance liabilities	**R0240**	0	---
Capital at risk with regard to the total life (re)insurance liabilities	**R0250**	0	---

S.28.01.01.05

Global calculation of the Minimum Capital Requirement (MCR)

		Global calculation
		C0070
Minimum Capital Requirement - linear	**R0000**	3,878,830
Solvency Capital Requirement	**R0010**	23,807,259.57
Upper limit of Minimum Capital Requirement	**R0020**	10,713,267
Lower limit of Minimum Capital Requirement	**R0030**	5,951,815
Combined Minimum Capital Requirement	**R0040**	5,951,815
Absolute lowest limit of the Minimum Capital Requirement	**R0050**	3,700,700
Minimum Capital Requirement	**R0400**	5,951,815

TELEFÓNICA SEGUROS Y REASEGUROS COMPAÑÍA ASEAGURADORAS, SAU

The above Financial Position and Solvency Report, transcribed onto 68 pages, including the signature pages, numbered from 1 to 68, both inclusive, corresponds to TELEFÓNICA SEGUROS Y REASEGUROS COMPAÑÍA ASEGURADORA, SAU, and it has been approved by the Board of Directors at its meeting held on 28 March 2022 and signed below by the Chairman of the Board of Directors and the Non-Director Secretary. In addition, the Non-Director Secretary has initialled all the preceding pages in witness thereof.

Madrid, 28 March 2022

Mr Juan Antonio Mielgo Carrizo	Mr Omar Chelala Riva
Chairman of the Board	Non-Director Secretary