Línea Directa Aseguradora Group

Consolidated financial statements and consolidated management report
for the year ended
31 December 2018

Línea Directa Aseguradora Group

Consolidated balance sheets at 31 December 2018 and 2017
(in thousand euro)

	ASSETS	Notes	2018	2017 (*)
A.1	**Cash and cash equivalents**	Note 9	**166,776**	**148,917**
A.2	**Financial assets held for trading**		**-**	**-**
	I. Equity instruments		-	-
	II. Debt securities		-	-
	III. Derivatives		-	-
	IV. Other		-	-
A.3	**Other financial assets at fair value through profit or loss**		-	-
	I. Equity instruments		-	-
	II. Debt securities		-	-
	III. Hybrid instruments		-	-
	IV. Investments for the benefit of life-assurance policyholders who bear the investment risk		-	-
	V. Other		-	-
A.4	**Available-for-sale financial assets**	Note 8	**772,393**	**734,518**
	I. Equity instruments		88,763	86,467
	II. Debt securities		683,630	648,051
	III. Investments for the benefit of life-assurance policyholders who bear the investment risk		-	-
	IV. Other		-	-
A.5	**Loans and receivables**	Note 8	**115,944**	**103,709**
	I. Debt securities		2,986	4,000
	II. Loans		-	-
	1. Advance payments on policies		-	-
	2. Loans to group companies and associates	Note 16	-	-
	3. Loans to other related parties		-	-
	III. Deposits with credit institutions		15,000	13,000
	IV. Deposits posted on accepted reinsurance		-	-
	V. Receivables on direct insurance business		50,914	45,616
	1. Policyholders		50,914	45,616
	2. Agents, brokers and intermediaries		-	-
	VI. Receivables on reinsurance business		2,828	1,403
	VII. Receivables on coinsurance business		-	-
	VIII. Payments called up		-	-
	IX. Other receivables		44,216	39,690
	1. Tax and social security receivable		167	123
	2. Other receivables		44,049	39,567
A.6	**Held-to-maturity investments**		-	-
A.7	**Hedging derivatives**		-	-
A.8	**Reinsurers' share of technical provisions**	Note 10	**7,318**	**5,719**
	I. Provision for unearned premiums		2,735	1,175
	II. Life assurance provision		-	-
	III. Provision for claims		4,583	4,544
	IV. Other technical provisions		-	-
A.9	**Property, plant and equipment and investment property**	Note 5	**110,844**	**113,860**
	I. Property, plant and equipment		43,386	39,109
	II. Investment property		67,458	74,751
A.10	**Intangible assets**	Note 6	**7,593**	**7,036**
	I. Goodwill		-	-
	II. Economic rights arising from policy portfolios acquired from intermediaries		-	-
	III. Other intangible assets		7,593	7,036
A.11	**Holdings in group companies and associates**		-	-
	I. Holdings in associates		-	-
	II. Holdings in jointly controlled companies		-	-
	III. Holdings in group companies		-	-
A.12	**Tax assets**	Note 18	**27,425**	**24,000**
	I. Current tax assets		549	555
	II. Deferred tax assets		26,876	23,445
A.13	**Other assets**	Note 7	**86,042**	**81,026**
	I. Assets and reimbursement rights on long-term staff remuneration		-	-
	II. Prepaid fees and other acquisition expenses		75,468	69,433
	III. Accrued income	Note 8	10,343	11,354
	IV. Other assets		231	239
A.14	**Assets held for sale**	Note 15	1,871	-
	TOTAL ASSETS		**1,296,207**	**1,218,785**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 25 form an integral part of the consolidated balance sheet at 31 December 2018.

Línea Directa Aseguradora Group

Consolidated balance sheets at 31 December 2018 and 2017

(in thousand euro)

	LIABILITIES	Notes	2018	2017 (*)
A.1	**Financial liabilities held for trading**		**-**	**-**
A.2	**Other financial liabilities at fair value through profit or loss**		**-**	**-**
A.3	**Debt and accounts payable**	Note 13	**207,303**	**120,178**
	I. Subordinated liabilities		-	-
	II. Deposits received from ceded reinsurance		-	-
	III. Due on direct insurance business		2,023	3,018
	1. Due to policyholders		1,961	1,486
	2. Due to agents, brokers and intermediaries		62	1,532
	3. Conditional claims		-	-
	IV. Due on reinsurance business		1,011	761
	V. Due on coinsurance business		-	-
	VI. Bonds and other negotiable securities		-	-
	VII. Due to credit institutions		-	-
	VIII. Debts arising from activities to draw up insurance contracts		-	-
	IX. Other debts:		204,269	116,399
	1. Taxes and social security payable		15,547	16,775
	2. Due to group companies and associates		44,882	28,393
	3. Other debts		143,840	71,231
A.4	**Hedging derivatives**	Note 8	**3,385**	**-**
A.5	**Technical provisions**	Note 10	**725,891**	**713,681**
	I. Provision for unearned premiums		428,118	402,137
	II. Provision for unexpired risks		-	-
	III. Life assurance provision		-	-
	1. Provision for unearned premiums		-	-
	2. Provision for unexpired risks		-	-
	3. Mathematical provision		-	-
	4. Life assurance provision when the policyholder bears the investment risk		-	-
	IV. Provision for claims		297,773	311,544
	V. Provision for profit sharing and premium refunds		-	-
	VI. Other technical provisions		-	-
A.6	**Non-technical provisions**		**24,652**	**23,199**
	I. Provisions for taxes and other legal contingencies		2,700	700
	II. Provision for pensions and similar obligations		-	-
	III. Provisions for settlement agreements	Note 12	21,708	22,403
	IV. Other non-technical provisions		244	96
A.7	**Tax liabilities**	Note 18	**44,534**	**53,835**
	I. Current tax liabilities		8,777	15,952
	II. Deferred tax liabilities		35,757	37,883
A.8	**Other liabilities**		**2,194.00**	**721**
	I. Accruals		1,331	-
	II. Liabilities due to accounting mismatches		-	-
	III. Commissions and other acquisition expenses on ceded reinsurance		-	-
	IV. Other liabilities		863	721
A.9	**Liabilities associated with assets held for sale**		-	-
	TOTAL LIABILITIES		**1,007,959**	**911,614**
B.	**EQUITY**			
B.1	**Equity**	Note 14	**273,678**	**268,306**
	I. Capital or mutual fund		37,512	37,512
	1. Subscribed capital or mutual fund		37,512	37,512
	2. (Uncalled capital)		-	-
	II. Share premium		-	-
	III. Reserves		220,528	225,217
	1. Legal and bylaw reserves		9,046	9,046
	2. Equalisation reserve		93,506	86,455
	3. Other reserves		23,470	48,144
	4. Reserves at consolidated companies		94,506	81,572
	5. Reserves for equity-accounted companies		-	-
	IV. (Own shares)		-	-
	V. Profit/(loss) carried forward		-	-
	1. Surplus		-	-
	2. (Losses carried forward)		-	-
	VI. Other contributions from owners and mutual members		-	-
	VII. Profit/(loss) for the year		117,233	112,001
	VIII. (Interim dividend and interim equalisation reserve)		(101,595)	(106,424)
	IX. Other equity instruments		-	-
B.2	**Valuation adjustments**	Note 14	**14,570**	**38,865**
	I. Available-for-sale financial assets		14,570	38,865
	II. Hedging arrangements		-	-
	III. Foreign exchange and conversion differences		-	-
	IV. Correction of accounting mismatches		-	-
	V. Other adjustments		-	-
B.3	**Grants, gifts and legacies received**		-	-
	TOTAL EQUITY		**288,248**	**307,171**
	TOTAL LIABILITIES AND EQUITY		**1,296,207**	**1,218,785**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 25 form an integral part of the consolidated balance sheet at 31 December 2018.

Línea Directa Aseguradora Group

Consolidated statement of profit or loss for the years ended 31 December 2018 and 2017
(in thousand euro)

			Notes	2018	2017 (*)
I.	NON-LIFE INSURANCE TECHNICAL ACCOUNT				
I.1	**Earned premiums, net of reinsurance**			**816,289**	**761,303**
	a)	Written premiums			
		a.1) Direct insurance		853,120	797,422
		a.2) Accepted reinsurance		-	-
		a.3) Change due to impairment of outstanding premiums receivable		(595)	(237)
	b)	Premiums from ceded reinsurance		(11,813)	(6,789)
	c)	Change in the provision for unearned premiums and unexpired risks			
		c.1) Direct insurance	Note 10	(25,982)	(29,415)
		c.2) Accepted reinsurance		-	-
	d)	Change in the provision for unearned premiums, reinsurers' share	Note 10	1,559	322
I.2	**Income from property, plant and equipment and from investments**		**Note 8.1.2**	**52,021**	**42,699**
	a)	Income from investment property		4,514	4,397
	b)	Income from financial investments		31,483	32,116
	c)	Application of impairment adjustments for property, plant and equipment, and investments			
		c.1) Property, plant and equipment and investment property		-	929
		c.2) Financial investments		-	-
	d)	Gains on realisation of property, plant and equipment and investments			
		d.1) Property, plant and equipment and investment property		1,443	2
		d.2) Financial investments		14,581	5,255
I.3	**Other technical income**			-	-
I.4	**Claims incurred, net of reinsurance**			**528,754**	**502,152**
	a)	Claims and other expenses paid			
		a.1) Direct insurance		440,457	388,828
		a.2) Accepted reinsurance		-	-
		a.3) Reinsurers' share		(1,257)	(78)
	b)	Change in the provision for claims			
		b.1) Direct insurance	Note 10	(13,772)	20,827
		b.2) Accepted reinsurance		-	-
		b.3) Reinsurers' share	Note 10	(39)	(1,569)
	c)	Claims-related expenses		103,365	94,144
I.5	**Change in Other technical provisions, net of reinsurance**			-	-
I.6	**Profit sharing and premium refunds**			**751**	**379**
	a)	Claims and expenses relating to profit sharing and premium refunds		-	-
	b)	Change in the provision for profit sharing and premium refunds		751	379
I.7	**Net operating expenses**			**195,496**	**171,914**
	a)	Acquisition expenses		178,545	154,834
	b)	Administration expenses		20,829	18,685
	c)	Reinsurance commissions and profit sharing		(3,878)	(1,605)
I.8	**Other technical expenses**		**Note 22**	**(26,479)**	**(24,918)**
	a)	Change in impairment due to insolvencies		-	-
	b)	Change in impairment on property, plant and equipment		-	-
	c)	Change in claims paid under settlement agreements		(32,665)	(31,572)
	d)	Other		6,186	6,654
I.9	**Expenses from property, plant and equipment and investments**			**18,472**	**7,577**
	a)	Management expenses from property, plant and equipment and investments			
		a.1) Expenses from property, plant and equipment and investment property		2,135	1,322
		a.2) Expenses from financial investments and accounts		5,446	4,629
	b)	Valuation adjustments for property, plant and equipment and investments			
		b.1) Depreciation of property, plant and equipment and investment property		27	849
		b.2) Impairment of property, plant and equipment and investment property	Note 5	-	210
		b.3) Impairment of financial investments		-	-
	c)	Losses on property, plant and equipment and investments			
		c.1) Property, plant and equipment and investment property	Note 5	2	-
		c.2) Financial investments		10,862	567
Profit/(loss) from the non-life technical account				**151,316**	**146,898**

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 25 form an integral part of the consolidated statement of profit or loss for 2018.

Línea Directa Aseguradora Group

Consolidated statement of profit or loss for the years ended 31 December 2018 and 2017

(in thousand euro)

			Notes	2018	2017 (*)
III.	NON-TECHNICAL ACCOUNT:				
III.	**Profit/(loss) on the non-life technical account**			**151,316**	**146,898**
III.1	**Income from property, plan and equipment and from investments**			**-**	**-**
	a)	Income from investment property		-	-
	b)	Income from financial investments		-	-
	c)	Application of impairment adjustments for property, plant and equipment, and investments			
		c.1) Property, plant and equipment and investment property		-	-
		c.2) Financial investments		-	-
III.2	**Expenses from property, plant and equipment and investments**			**-**	**-**
	a)	Investment management expenses			
		a.1) Expenses from financial investments and accounts		-	-
		a.2) Expenses from investments in property, plant and equipment		-	-
	b)	Valuation adjustments for property, plant and equipment and investments			
		b.1) Depreciation of property, plant and equipment and investment property		-	-
		b.2) Impairment of property, plant and equipment and investment property		-	-
		b.3) Impairment of financial investments		-	-
	c)	Losses on property, plant and equipment and investments			
		c.1) Property, plant and equipment and investment property		-	-
		c.2) Financial investments		-	-
III.3	**Other income**		**Note 22**	**14,073**	**14,879**
	a)	Income from pension fund management activity		-	-
	b)	Other income		14,073	14,879
III.4	**Other expenses**		**Note 22**	**9,396**	**9,774**
	a)	Expenses from pension fund management activity		-	-
	b)	Other expenses		9,396	9,774
III.5	**Subtotal (Profit/(loss) on the non-technical account)**			**4,677**	**5,105**
III.6	**Profit/(loss) before tax**			**155,993**	**152,003**
III.7	**Income tax**		**Note 18**	38,760	40,002
III.8	**Profit/(loss) for the year**			**117,233**	**112,001**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 25 form an integral part of the consolidated statement of profit or loss for 2018.

Línea Directa Aseguradora Group

Consolidated statement of changes in equity for the years 2018 and 2017
(in thousand euro)

a) Consolidated statement of recognised income and expense

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE	2018	2017 (*)
I) PROFIT OR LOSS FOR THE PERIOD	**117,233**	**112,001**
II) OTHER RECOGNISED INCOME AND EXPENSE	**(24,295)**	**(1,092)**
II.1. Available-for-sale financial assets	**(32,393)**	**(1,456)**
Gains/(losses) on valuation adjustments	(30,068)	3,182
Amounts transferred to the consolidated statement of profit or loss	(2,325)	(4,638)
Other reclassifications	-	-
II.2. Cash flow hedges	-	-
Gains/(losses) on valuation adjustments	-	-
Amounts transferred to the consolidated statement of profit or loss	-	-
Amounts transferred to the initial value of the hedged items	-	-
Other reclassifications	-	-
III.3. Hedging of net investments in foreign operations	-	-
Gains/(losses) on valuation adjustments	-	-
Amounts transferred to the consolidated statement of profit or loss	-	-
Other reclassifications	-	-
II.4. Foreign exchange and conversion differences	-	-
Gains/(losses) on valuation adjustments	-	-
Amounts transferred to the consolidated statement of profit or loss	-	-
Other reclassifications	-	-
II.5. Correction of accounting mismatches	-	-
Gains/(losses) on valuation adjustments	-	-
Amounts transferred to the consolidated statement of profit or loss	-	-
Other reclassifications	-	-
II.6. Assets held for sale	-	-
Gains/(losses) on valuation adjustments	-	-
Amounts transferred to the consolidated statement of profit or loss	-	-
Other reclassifications	-	-
II.7. Actuarial Gains/(losses) on long-term staff remuneration	-	-
II.8. Other recognised income and expense	-	-
II.9. Income tax	**8,098**	**364**
III) CONSOLIDATED TOTAL RECOGNISED INCOME AND EXPENSE	**92,938**	**110,909**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 25 form an integral part of the consolidated statement of changes in equity (consolidated statement of recognised income and expense) for 2018.

Línea Directa Aseguradora Group

Consolidated statement of changes in equity for the years 2018 and 2017 (in thousand euro)

b) Consolidated statement of changes in equity

	Share capital capital	Reserves	Consolidated reserves	Consolidated profit or loss for the period	(Interim dividend and equalisation reserve)	Valuation adjustments	Total
D. ADJUSTED BALANCE AT BEGINNING OF 2017 (*)	**37,512**	**144,592**	**70,107**	**105,593**	**(91,850)**	**39,957**	**305,911**
I. Total recognised income/(expense)	**-**	**-**	**-**	**112,001**	**-**	**(1,092)**	**110,909**
II. Transactions with owners or mutual members	**-**	**(10,000)**	**-**	**-**	**(99,649)**	**-**	**(109,649)**
1. Capital increases or mutual fund	-	-	-	-	-	-	-
2. (-) Capital reductions or mutual funds	-	-	-	-	-	-	-
3. Conversion of financial liabilities into equity	-	-	-	-	-	-	-
4. (-) Distribution of dividends or payments due to mutual members	-	(10,000)	-	-	(99,649)	-	(109,649)
5. Transactions with own shares or holdings (net)	-	-	-	-	-	-	-
6. Increase (decrease) in equity resulting from a business combination	-	-	-	-	-	-	-
7. Other transactions with owners or mutual members	-	-	-	-	-	-	-
III. Other changes in equity	**-**	**9,053**	**11,465**	**(105,593)**	**85,075**	**-**	**-**
1. Payments based on equity instruments	-	-	-	-	-	-	-
2. Transfers between equity items	-	2,278	11,465	(105,593)	91,850	-	-
3. Other changes	-	6,775	-	-	(6,775)	-	-
E. BALANCE AT END OF 2017 (*)	**37,512**	**143,645**	**81,572**	**112,001**	**106,424**	**38,865**	**307,171**
D. ADJUSTED BALANCE AT BEGINNING OF 2018	**37,512**	**143,645**	**81,572**	**112,001**	**106,424**	**38,865**	**307,171**
I. Total recognised income/(expense)	**-**	**-**	**-**	**117,233**	**-**	**(24,295)**	**92,938**
II. Transactions with owners or mutual members	**-**	**(14,424)**	**-**	**-**	**(94,544)**	**-**	**(108,968)**
1. Capital increases or mutual fund	-	-	-	-	-	-	-
2. (-) Capital reductions or mutual funds	-	-	-	-	-	-	-
3. Conversion of financial liabilities into equity	-	-	-	-	-	-	-
4. (-) Distribution of dividends or payments due to mutual members	-	(14,424)	-	-	(94,544)	-	(108,968)
5. Transactions with own shares or holdings (net)	-	-	-	-	-	-	-
6. Increase (decrease) in equity resulting from a business combination	-	-	-	-	-	-	-
7. Other transactions with owners or mutual members	-	-	-	-	-	-	-
III. Other changes in equity	**-**	**(3,199)**	**12,934**	**(112,001)**	**99,373**	**-**	**(2,893)**
1. Payments based on equity instruments	-	-	-	-	-	-	-
2. Transfers between equity items	-	(7,357)	12,934	(112,001)	106,424	-	-
3. Other changes	-	4,158	-	-	(7,051)	-	(2,893)
E. BALANCE AT END OF 2018	**37,512**	**126,022**	**94,506**	**117,233**	**(101,595)**	**14,570**	**288,248**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 25 form an integral part of the consolidated statement of changes in equity for 2018.

Línea Directa Aseguradora Group

Consolidated statement of cash flows for the years 2018 and 2017 (in thousand euro)

		2018	2017 (*)
A)	**CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES**		
A.1	**Insurance activities**		
	1. Proceeds from premiums on direct insurance, coinsurance and accepted reinsurance	847,226	795,017
	2. Payments for direct insurance, coinsurance and accepted reinsurance	521,547	462,468
	3. Proceeds from ceded reinsurance	1,257	78
	4. Payments for ceded reinsurance	9,110	6,529
	5. Reimbursements of claims	23,196	21,475
	6. Payments for intermediaries	27,599	23,830
	7. Other proceeds from operating activities	85,554	89,799
	8. Other payments for operating activities	282,424	250,476
	9. Total proceeds from insurance activities (1+3+5+7) = I	**957,233**	**906,369**
	10. Total payments for insurance activities (2+4+6+8) = II	**840,680**	**743,303**
A.2	**Other operating activities**		
	3. Proceeds from other operating activities	3,719	13,822
	4. Payments for other operating activities	4,994	9,063
	5. Total proceeds from other operating activities (1+3) = III	83,430	**13,822**
	6. Total payments for other operating activities (2+4) = IV	27,219	**9,063**
	7. Income tax collected/(paid) (V)	**87,149**	**32,171**
A.3	**Total net cash flows from operating activities (I-II+III-IV-V)**	**32,213**	**135,654**
B)	**CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES**		
B.1)	**Proceeds from investing activities**		
	1. Property, plant and equipment	6,445	-
	2. Investment property	135	110
	3. Intangible assets	-	-
	4. Financial instruments	230,898	215,624
	5. Holdings in group, jointly controlled and associate companies	-	-
	6. Interest received	26,404	27,752
	7. Dividends collected	2,465	2,630
	8. Business unit	-	-
	9. Other proceeds from investing activities	-	-
	10. Total proceeds from investing activities (1+2+3+4+5+6+7+8+9) = VI	**266,347**	**246,116**
B.2)	**Payments for investing activities**		
	1. Property, plant and equipment	8,717	4,006
	2. Investment property	28	28
	3. Intangible assets	5,038	3,953
	4. Financial instruments	288,377	143,084
	5. Holdings in group, jointly controlled and associate companies	-	-
	6. Business unit	-	-
	7. Other payments for investing activities	-	-
	8. Total payments for investing activities (1+2+3+4+5+6+7) = VII	**302,357**	**151,071**
B.3)	**Total net cash flows from investing activities (VI - VII)**	**(36,010)**	**95,045**
C)	**CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES**		
C.1)	**Proceeds from financing activities**		
	1. Subordinated liabilities	-	-
	2. Proceeds from the issuance of equity instruments and capital increase	-	-
	3. Payments due to mutual members and contributions from owners or mutual members	-	-
	4. Disposal of own shares	-	-
	5. Other proceeds from financing activities	16,217	-
	6. Total proceeds from financing activities (1+2+3+4+5) = VIII	**16,217**	-
C.2)	**Payments for financing activities**	-	-
	1. Dividends to shareholders	100,750	160,174
	2. Interest paid	-	-
	3. Subordinated liabilities	-	-
	4. Payments on return of contributions to shareholders	-	-
	5. Supplementary members' calls and return of contributions to mutual members	-	-
	6. Acquisition of own shares	-	-
	7. Other payments for financing activities	-	-
	8. Total payments for financing activities (1+2+3+4+5+6+7) = IX	**100,750**	**(160,174)**
C.3)	**Total net cash flows from/(used in) financing activities (VIII - IX)**	**(84,533)**	**(160,174)**
	Effects of exchange rate changes (X)	**(176)**	**(48)**
Total increase/(decrease) in cash and cash equivalents (A.3 + B.3 + C.3 + - X)		**17,859**	**70,477**
Cash and cash equivalents at beginning of year		**148,917**	**78,439**
Cash and cash equivalents at end of year		**166,776**	**148,917**

Components of cash and cash equivalents at end of year			
	1. Cash and banks	166,776	148,917
	2. Other financial assets	-	-
	3. Bank overdrafts repayable on demand	-	-
Total cash and cash equivalents at end of year (1 + 2 - 3)		**166,776**	**148,917**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 25 form an integral part of the consolidated statement of cash flows for 2018.

1. General information about the Parent and its Subsidiaries

a) Parent

The Parent was incorporated in Madrid, on 13 April 1994, under the name “Bankinter Seguros Directos, S.A. Compañía de Seguros y Reaseguros”. On 6 July 1994 it changed its name to “Bankinter Aseguradora Directa, S.A. Compañía de Seguros y Reaseguros”. The decision was reached at the General Shareholders’ Meeting held on 26 January 1995 to change its name to “Línea Directa Aseguradora, S.A., Compañía de Seguros y Reaseguros” (hereinafter, the “Parent”).

The Parent engages in insurance and reinsurance activities in the motor, home and other non-life segments, all of which it is authorised to carry out by the Spanish Directorate General of Insurance and Pension Funds. On 19 July 2017, the Directorate granted authorisation to operate also within the illness line of the wider healthcare segment. The Parent started selling health insurance products in October 2017.

Its registered office is located at calle Isaac Newton, 7, in the municipality of Tres Cantos (Madrid). The Parent operates solely within Spain. Its business distribution channels are mainly telephone and internet sales.

The Parent falls within the consolidation perimeter of the Bankinter Group, of which Bankinter, S.A., with registered office at Paseo de la Castellana 29, Madrid, is the direct and ultimate parent company. The consolidated financial statements of the Bankinter Group for 2017 were approved by shareholders at the general meeting held on 22 March 2018 and are filed at the Madrid Companies Registry. The consolidated annual accounts of the Bankinter Group will be drawn up on 20 February 2019.

b) Subsidiaries

The definition of consolidated group is provided in Article 84 of Royal Legislative Decree 20/2015, of 14 July, on the regulation, supervision and solvency of insurance and reinsurance entities (known by its Spanish acronym of “LOSSEAR”), repealing, effective 1 January 2016, Royal Legislative Decree 6/2004, of 29 October, which enacted the consolidated text of the Law on the regulation and supervision of private insurance, with the exception of certain articles. The rules of consolidation are set out in Royal Decree 1159/2010 of 17 September, as subsequently amended by Royal Decree 602/2016 of 2 December, which enacted the rules on the preparation of consolidated financial statements and subsequent implementations.

Subsidiaries are all companies over which the Parent exercises control, or may exercise control, whether directly or indirectly, meaning the power to steer the financial and operating policies of a business in order to obtain economic benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when determining whether there is effective control over an entity. Subsidiaries are considered from the date on which control is transferred to the Parent and are excluded from consolidation on the date on which consolidation ceases. The list of entities included in the scope of consolidation is as follows:

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

Company name	% of ownership	Relationship	Method of consolidation	Activity	Registered office	Auditor
Línea Directa Asistencia, S.L.U.	100%	Subsidiary	Fully consolidated	Valuations, vehicle inspections and roadside assistance	Pozuelo de Alarcón (Madrid)	PricewaterhouseCoopers Auditores S.L.
Moto Club LDA, S.L.U.	100%	Subsidiary	Fully consolidated	Services for motorcycle users	Tres Cantos (Madrid)	PricewaterhouseCoopers Auditores S.L.(*)
Centro Avanzado de Reparaciones, S.L.U.	100%	Subsidiary	Fully consolidated	Vehicle repairs	Torrejón de Ardoz (Madrid)	PricewaterhouseCoopers Auditores S.L.(*)
Ambar Medline, S.L.U.	100%	Subsidiary	Fully consolidated	Insurance brokerage	Tres Cantos (Madrid)	PricewaterhouseCoopers Auditores S.L.(*)
LDActivos, S.L.U.	100%	Subsidiary	Fully consolidated	Asset management on behalf of insurance companies	Tres Cantos (Madrid)	PricewaterhouseCoopers Auditores S.L.(*)
LDA Reparaciones, S.L.U.	100%	Subsidiary	Fully consolidated	Management and repair of special home claims	Tres Cantos (Madrid)	PricewaterhouseCoopers Auditores S.L.(*)

(*) Limited review of condensed annual accounts.

The key financial figures of subsidiary companies at the end of 2018 and 2017 were as follows:

<u>2018:</u>

Subsidiary	Carrying amount of the holding	At 31 December 2018			
		Capital and share premium	**Reserves**	**Profit/(loss) for the year**	**Dividends paid**
Línea Directa Asistencia, S.L.U.	418	30	16,365	11,824	-
Moto Club LDA, S.L.U.	3	3	32	30	250
Centro Avanzado de Reparaciones CAR, S.L.U.	2,103	600	1,016	(209)	-
Ambar Medline, S.L.U.	1,003	1,003	77	12	-
LDActivos, S.L.U.	56,634	56,634	5,920	3,029	-
LDA Reparaciones, S.L.U.	300	300	-	(30)	-
Impairment on holdings in related parties	(772)	-	-	-	-
Total	**59,689**	**58,570**	**23,410**	**14,656**	**250**

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

2017:

Subsidiary	Carrying amount of the holding	At 31 December 2017 Capital and share premium	Reserves and losses carried forward	Profit/(loss) for the year	Dividends paid
Línea Directa Asistencia, S.L.U.	418	30	6,031	10,035	20,000
Moto Club LDA, S.L.U.	3	3	242	40	-
Centro Avanzado de Reparaciones CAR, S.L.U.	2,103	600	914	102	-
Ambar Medline, S.L.U.	1,003	1,003	61	16	-
LDActivos, S.L.U.	56,634	56,634	3,627	2,293	-
LDA Reparaciones, S.L.U.	300	300	-	(47)	-
Impairment on holdings in related parties	(533)	-	-	-	-
Total	**59,928**	**58,570**	**10,875**	**12,739**	**20,000**

The companies forming the Línea Directa Aseguradora Group are, in turn, consolidated entities at the Bankinter Group, of which Bankinter, S.A., the ultimate parent company, holds a 99,999% stake in the Parent.

All significant balances and transactions between consolidated companies have been eliminated in the consolidation process.

There were no changes in the scope of consolidation in 2018 or 2017.

2. Basis of presentation of the consolidated financial statements

a) Regulatory financial reporting framework applicable to the Group

These consolidated financial statements have been authorised for issue by the directors of the Parent in accordance with the regulatory financial reporting framework applicable to the Group, as set out in:

- The Spanish Commercial Code (*Código de Comercio*) and other commercial legislation.
- The Accounting Plan for Insurance Companies enacted by Royal Decree 1317/2008, of 24 July, and subsequently modified by Royal Decree 1736/2010, of 23 December.
- The Law and Regulations on the Organisation, Supervision and Solvency of Insurance and Reinsurance Companies (hereinafter referred to by its Spanish acronym of “LOSSEAR” when referring to the Law and “ROSSEAR” when referring to the Regulations), as enacted by Law 20/2015 and Royal Decree 1060/2015, respectively.
- The non-repealed articles of the Regulation on the Organisation and Supervision of Private Insurance (hereinafter, “ROSSP”, or the “Regulation”), enacted by Royal Decree 2486/1998, including all partial modifications thereto.

- The mandatory rules approved by the Accounting and Auditing Institute, as well as the rules published by the Directorate General of Insurance and Pension Funds to implement the Accounting Plan for Insurance Companies and all related and complementary rules.
- The Rules on the Preparation of Consolidated Annual Accounts
- All other applicable Spanish accounting regulations.

b) True and fair view

The accompanying consolidated financial statements have been prepared from the accounting records of the Parent and the Subsidiaries and are presented in accordance with the applicable consolidated financial reporting framework and, in particular, with the accounting principles and criteria contained therein, so as to provide a true and fair view of the Group's consolidated equity, consolidated financial position, consolidated earnings and consolidated cash flows for the year. These consolidated annual accounts, which were authorised for issue by the directors of the Parent at the meeting held on 19 February 2019, will be submitted for approval by shareholders at the Annual General Meeting of the Parent and are expected to be approved without any changes made. The consolidated annual accounts for 2017 were approved at the Annual General Meeting of the Parent at its meeting of 21 March 2018. The 2017 consolidated financial statements of the Línea Directa Group have been filed with the Companies Registry of Madrid.

c) Critical aspects regarding the valuation and estimation of uncertainty

When drawing up the consolidated annual accounts, the Parent's directors must make certain forward-looking estimates and judgments that are continuously assessed and based on past experience and other factors, including expectations as to future events that are believed to be reasonably likely given the current circumstances.

While these estimates have been made on the basis of the best information available in relation to the events analysed at the balance sheet date, it is possible that future events may require these estimates to be modified (upwards or downwards) in subsequent years. Any resulting changes would be reflected in the corresponding consolidated statements of profit or loss.

The main estimates made by the Parent's directors are as follows:

Tax matters

Under current legislation, taxes cannot be considered definitively settled until the duly submitted returns have been inspected by the tax authorities, or until the four-year limitation period has lapsed (with the exception of corporate income tax, for which the limitation period is five years). In the opinion of the Parent's directors, there are no contingencies that might result in any further significant liabilities for the Group.

Impairment of assets

The Group analyses annually whether there are any indications of impairment on its assets, which are tested for impairment if and when any such indications exist. In particular, the provision for bad debts is calculated on the basis of the age of the invoices, with a different ratio applied for each age bracket. These brackets been determined on the basis of the Group's experience and the mandatory accounting standards binding on all insurance companies.

Insurance contracts

Assets and liabilities relating to insurance contracts are recognised in accordance with the accounting policies set out in Note 4.h) to these Notes. The Group also makes judgements and estimates to calculate the technical provisions for its various motor insurance segments. Statistical methods are used to determine these provisions.

d) Accounting principles

All mandatory accounting principle with a significant impact on the consolidated financial statements have been duly applied.

e) Comparison of information

The figures for financial year 2017 included in this consolidated report are presented solely and exclusively for comparative purposes with the information given for financial year 2018.

f) Grouping of items

Certain items in the consolidated balance sheet, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows are presented together for easier understanding. However, disaggregated information has been included in the relevant notes to the consolidated financial statements where such information is deemed significant.

g) Error correction

The process of drawing up these consolidated annual accounts did not reveal any material errors that would have led to the restatement of the amounts included in the consolidated annual accounts for 2017.

h) Changes in accounting standards

There were no significant changes in accounting criteria in 2018 when compared to those applied in 2017.

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

i) Income and expense recognition criteria

Financial income and expenses arising from investments related to insurance activity are recognised in the consolidated technical account for the non-life insurance business. All other income and expenses are recorded in the consolidated non-technical account.

Other income and expenses are distributed accordingly on the basis of net premiums written, except expenses attributable to claims, which are recognised on the basis of the provision for claims.

3. Distribution of earnings

The proposed distribution of profit of the Parent for financial year 2018, which the Board of Directors will submit to the Annual General Meeting for its approval, is presented comparatively together with the distribution of profit for financial year 2017, as follows:

	Thousand euro	
	2018	**2017**
Distribution basis (Individual profit/(loss) of Línea Directa Aseguradora, S.A. de Seguros y Reaseguros)	102,589	119,317
Distributed:		
To interim dividends (Note 14.c)	94,544	99,649
To the interim equalisation reserve (Note 14.c)	7,051	6,775
To the voluntary reserve	994	10,000
To the final dividend	-	2,893

Note 14 to these consolidated financial statements contains the provisional financial statements drawn up and approved at the Board meetings held on 21 March, 27 June, 27 September and 21 December 2018, respectively, to evidence the existence of sufficient liquidity at the Parent.

4. Recognition and measurement standards

The measurement standards relied on when drawing up the accompanying consolidated annual accounts are described below:

a) Subsidiaries

a.1) Acquisition of control

Acquisitions by the Parent (or another Group company) of control over a subsidiary constitute a business combination accounted for using the acquisition method. This method requires the acquirer to account for, at the acquisition date, the identifiable assets acquired and the liabilities assumed in a business combination and, if any, the related goodwill or badwill on consolidation. Subsidiaries are consolidated from the date on which control is transferred to the Group and are excluded from consolidation on the date on which control ceases.

The acquisition cost is determined as the sum of the acquisition-date fair values of the assets given, the liabilities incurred or assumed and the equity instruments issued by the acquirer and the fair value of any contingent consideration that is contingent on future events or the fulfilment of certain conditions being met and that is required to be recognised as an asset, liability or equity according to its nature.

Expenses related to the issuance of the equity instruments or financial liabilities delivered are not part of the cost of the business combination and are recognised in accordance with the rules governing financial instruments. Fees paid to legal counsel or other professionals involved in the business combination are expensed as incurred. The cost of the combination does not include the expenses generated internally for these concepts, nor any such expenses incurred by the acquired entity.

Any excess, at the acquisition date, of the cost of the business combination above and beyond the proportionate share of the value of the identifiable assets acquired less the liabilities assumed representing the equity interest in the acquired entity is recognised as goodwill. In the exceptional case that this amount exceeds the cost of the business combination, the excess is recognised as income in the consolidated technical statement of profit or loss.

a.2) Method of consolidation

The assets, liabilities, income, expenses, cash flows and other items in the financial statements of the Parent and Subsidiaries are included in the Group's consolidated financial statements using the full consolidation method. This method requires the following:

- *Consistency in timing*: consolidated annual accounts must relate to at the same date and period as the annual accounts of the company to be consolidated. Companies whose year-end is different to the consolidated year-end are included through the use of interim accounts referring to the same date and period as the consolidated accounts.

- *Standard valuation:* the assets and liabilities, income and expenses and other items contained in the annual accounts of the Group companies have been valued using uniform methods. Any assets or liabilities, or items of income or expense that were measured on a basis inconsistent with that applied on consolidation have been remeasured and any necessary adjustments have been made solely for consolidation purposes.

- *Aggregation:* the different items of the previously standardised separate annual accounts have been aggregated by type.

– *Elimination of equity investment:* the carrying amounts of the equity instruments of subsidiaries held directly or indirectly by the Parent are offset against the proportionate share of the equity items of those subsidiaries attributable to those interests, typically on the basis of the values obtained by applying the acquisition method described above. In consolidations subsequent to the year in which control was acquired, the excess or deficit in equity generated by the subsidiary since the date of acquisition that is attributable to the Parent is presented in the consolidated balance sheet under reserves or valuation adjustments, depending on the nature or type. The portion attributable to minority interests is recognised under the heading "Minority interests" of the consolidated balance sheet.

– *Minority interests:* minority interests are valued on the basis of their effective stake or interest in the net assets of the subsidiary after making the above adjustments. Goodwill on consolidation is not attributed to minority interests. Any excess between the losses attributable to a subsidiary's minority shareholders and their proportionate share of the equity is attributed to those shareholders, even if this results in a debit balance under the relevant heading.

– *Eliminations of intra-group items:* receivables and payables, income and expenses and cash flows between Group companies are eliminated in full. In addition, all results of internal transactions are eliminated and deferred until they are realised vis-à-vis third parties outside the Group.

a.3) Change in shareholding without loss of control

Once control over a subsidiary has been obtained, subsequent transactions that result in a change in the Parent's stake in the subsidiary, but without entailing loss of control over the subsidiary, are recognised in the consolidated financial statements as a transaction with own equity instruments, subject to the following rules:

1. No change is made to the amount of goodwill or negative goodwill recognised, nor to the amount of other assets and liabilities recognised;

2. The profit or loss recognised in the separate accounts is eliminated on consolidation, with a corresponding adjustment made to the reserves of the company whose shareholding is reduced;

3. The amounts of "Valuation adjustments" and "Grants, gifts and legacies received" are adjusted accordingly to reflect the equity interest held by Group companies in the subsidiary;

4. Minority interests in the net assets of the subsidiary are shown on the basis of the percentage interest held by the non-Group third parties in the subsidiary after the transaction, which includes the percentage interest in the goodwill recognised in the consolidated accounts as a result of the shareholding change to have taken place;

5. The necessary adjustment resulting from points 1, 2 and 3 above shall be accounted for in reserves.

b) Intangible assets

Intangible assets are recognised at acquisition cost or, where applicable, at production cost, less the corresponding amortisation.

In particular, the following criteria apply:

- Software

  Includes amounts paid for ownership of, or the right to use software where the term of the arrangement exceeds one year. These assets are amortised on a straight-line basis over a period of four years.

  For the purposes of impairment, the Group assesses whether there is any indication of impairment at least once a year if the asset's carrying amount exceeds its recoverable amount. If so, the carrying amount is immediately lowered to match the recoverable amount.

c) Property, plant and equipment and investment property

This heading also shows the property owned by the Parent and subsidiary company LDActivos, S.L.U. for their own use or investment.

Land, natural assets and buildings that are held to earn income, capital gains or both and that are not occupied by any Group company qualify as investment property. Land, natural assets and buildings held for the provision of services or for administrative purposes for own use are treated as property, plant and equipment.

Property, plant and equipment and investment property are recognised at their acquisition price, which includes, in addition to the purchase price, all additional expenses incurred, including finance expenses, until the asset is put into operation.

Asset expansion and improvement costs are added to assets as an increase in the value of the asset only when they result in an increase in its capacity, floor area, or return, or when they lengthen its useful life, whereupon the carrying amount of the replaced items replaced is derecognised. Under no circumstances does repair and maintenance work qualify as improvements.

These assets are depreciated systematically on a straight-line basis over their estimated useful life, taking into account the depreciation effectively sustained from their operation, use and enjoyment. The following rates are used to calculate depreciation:

Property, plant and equipment and investment property	**Rate**
Furniture and installations	5 - 12.5%
IT equipment	20 - 25%
Vehicles	25%
Other property, plant and equipment	12 - 15%

Buildings for own use	2%
Buildings for property investment	2%

At year-end, the corresponding valuation adjustments, if any, are made to property, plant and equipment and investment property. For the purposes of impairment, the Group assesses whether there is any indication of impairment at least once a year if the asset's carrying amount exceeds its recoverable amount. If so, the carrying amount is immediately lowered to match the recoverable amount.

Recoverable amount is the higher of fair value less costs to sell and value in use. For property assets, fair value is equal to the appraisal value determined by a valuation company authorised to value property within the mortgage market, in accordance with Order ECO/805/2003 of 27 March, regulating the valuation of property assets and specific rights for certain financial purposes.

Value in use is the present value of expected future cash flows through use and, as the case may be, disposal of the asset in the normal course of business.

Order ECC 371/2013 of 4 March requires insurance companies to instruct an appraisal company to review the valuations of their property assets once two years have elapsed from the previous valuation.

d) Prepaid fees and other capitalised acquisition expenses

Acquisition expenses, included on the assets side of the consolidated balance sheet, are deferred in accordance with the method designed by the Parent and relate largely to advertising costs.

The calculation for the deferral of such expenses has been made on the basis of the time limit established in the technical notes and the maturity of the policies.

e) Financial instruments

e.1) Financial assets

Note 8 to these consolidated statements shows financial assets at 31 December 2018, by type and classified in accordance with the following criteria:

Cash and cash equivalents

This heading comprises cash in hand, bank current accounts, deposits and reverse repurchase agreements that meet all the following criteria:

- They are convertible into cash.
- At time of acquisition, the item matures within three months.
- They are not subject to significant risk of change in value.
- They form part of the Group's normal cash management policy.

For the purposes of the statement of cash flows, occasional overdrafts that form part of the Group's cash management process are deducted from cash and cash equivalents.

Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, such as bank deposits and outstanding insurance premiums. This category also includes receivables from third parties on reinsurance operations, as well as from intermediaries and policyholders, with the appropriate impairment allowances posted where applicable.

These financial assets are initially measured at fair value, including directly attributable transaction costs, and subsequently at amortised cost. Accrued interest is recognised at the effective interest rate, which is defined as the discount rate that exactly discounts the carrying amount of the instrument to its total estimated cash flows through to maturity. However, trade receivables with a maturity of up to one year are measured, both on initial recognition and subsequently, at nominal value where the effect of not discounting the flows is not material.

At least at year end, the necessary valuation adjustments for impairment are made if there is objective evidence that not all the amounts owed will be recovered.

The amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate at the time of initial recognition. Value adjustments, and any reversal thereof, are recognised in the consolidated statement of profit or loss. Reversal of impairment is limited to the carrying amount of the credit recognised at the date of the reversal had no such impairment been recorded.

In particular, impairment of outstanding premiums is calculated on the part of the tariff premiums accrued in the financial year net of the loading for contingencies which, foreseeably and in accordance with lessons learned from previous years, is not going to be collected. This will depend on the age of the premiums and, as the case may be, the current status of the claim before the courts. Note that certain premium receipts may require special treatment due to their unique characteristics or features.
Receivables from claim recoveries are capitalised when their realisation is sufficiently guaranteed, based on the principle of prudence.

Available-for-sale financial assets

Group companies use this heading to recognise debt securities, swaps of certain or predetermined flows and equity instruments that were not previously classified as assets held for trading, as other assets at fair value through profit or loss, or as loans or receivables.

They are measured at fair value, which, unless there is evidence to the contrary, will be the transaction price. Changes are recognised directly in consolidated equity until the asset is sold or impaired, whereupon the cumulative gains and losses in consolidated equity are taken to the consolidated statement of profit or loss, provided that it is possible to determine their fair value. Otherwise, they are recorded at cost less any impairment losses. Gains and losses resulting from exchange rate differences on monetary financial assets denominated in foreign currency are recognised in the consolidated statement of profit or loss.

In the case of debt securities, value adjustments are made if there is objective evidence that their value has deteriorated as a result of a reduction or delay in the estimated future cash flows, which may be down to the debtor's insolvency.

For investments in equity instruments, the non-recoverability of the asset's carrying amount, evidenced by, for example, a prolonged or significant decline in its fair value, will warrant a value adjustment. On this point, there is a presumption that impairment exists (on a permanent basis) if there has been a decline of more than 40% in the listed value of the asset, or if there has been a prolonged decline in the value of the asset over a period of one and a half years without seeing any recovery in its value. Valuation allowance is the difference between cost or amortised cost less, where applicable, any valuation allowances previously recognised in the consolidated statement of profit or loss and the fair value at time of valuation.

For equity instruments measured at cost because their fair value cannot be determined, value adjustments are made for the difference between their carrying amount and recoverable amount, the latter being the higher of fair value less costs to sell and the present value of the cash flows deriving from the investment. Unless there is better evidence of the recoverable amount, the process of estimating the impairment of these investments is based on the equity of the investee, adjusted by any unrealised gains existing at the measurement date.

Value adjustments and, as the case may be, their reversal, are recognised in the consolidated statement of profit or loss for the year in which they occur, except for equity instruments, the reversal of which is recorded against equity. Reversal of impairment is limited to the carrying amount of the investment that would have been recognised at the date of reversal had no impairment been recorded.

The fair value of a financial instrument on a given date means the amount for which it could be bought or sold between knowledgeable, willing buyers and sellers on an arm's length basis.

The fair values of listed investments are based on current purchase prices. If the market for a financial asset is not active (and for unlisted securities), the Group companies determine fair value by reference to other substantially similar instruments and estimated future cash flow discounting methods. The Group companies may use these models directly or the counterparty who acted as seller may do so.

Financial assets are derecognised from the consolidated balance sheet when all the risks and rewards of ownership of the asset have been substantially transferred. In the specific case of accounts receivable, this is generally understood to occur if and when the risks of insolvency and default have been transferred.

Dividend and interest income is recognised as income in the consolidated statement of profit or loss when the right to receive payment is established. However, if dividends are distributed from profits generated prior to the acquisition date, they are not recognised as income, but rather as a reduction in the carrying amount of the investment.

System for measuring financial instruments for accounting and supervisory purposes

Financial instruments are valued by taking their price in an active market or, failing that, by applying suitable valuation models and techniques.

An active market is one in which the following conditions exist simultaneously:

- The goods or services exchanged in the market are homogeneous.
- Buyers or sellers for a given good or service can be found at virtually any time.
- The prices are known and readily accessible to the public. These prices must also reflect actual, current and regularly occurring market transactions.

There is no need for the market to be regulated, though it must be transparent and deep. Therefore, prices that are known and readily accessible to the public from financial information providers, and that reflect actual, current and regularly occurring market transactions will be considered as valid prices in an active market.

If no price can be found in an active market, the price must be estimated instead through a valuation model or technique, consistent with the accepted methodology used in the market for pricing, while maximising the use of observable market data. For debt instruments, the method of discounting certain or likely flows at a discount rate for credit risk and liquidity risk adjusted to market conditions may be used.

e.2) Financial liabilities

Debt and accounts payable

The Group uses this heading to show both trade and non-trade payables.

These debts are initially recognised at fair value adjusted for directly attributable transaction costs, and are subsequently recognised at amortised cost using the effective interest method. The effective interest rate is the discount rate that exactly discounts the carrying value of the instrument to the expected flow of future payments through to maturity of the liability.

However, trade payables with a maturity not exceeding one year and that do not have a contractual interest rate are measured, both initially and subsequently, at their nominal value when the effect of not discounting the cash flows is immaterial.

If existing debts are renegotiated, no substantial change to the financial liability will be deemed to exist when the present value of the cash flows of the new liability, including net fees, does not differ significantly from the present value of the outstanding cash flows under the original liability, both discounted at the effective interest rate of the latter.

Derecognition of financial liabilities

The Group derecognises a financial liability or part of one when it has discharged the underlying obligation or is otherwise legally released from the underlying responsibility, whether by virtue of a court ruling or by the creditor itself.

Derecognition of a financial liability entails the recognition, in the statement of profit or loss, of the difference between the carrying amount of the financial liability and the consideration paid, including attributable transaction costs. Any assets transferred other than the cash or liability assumed are also recognised.

f) Hedge accounting

Hedging derivatives are recognised under “Hedging derivatives” on the assets or liabilities side of the balance sheet, as appropriate.

Hedging derivatives are derivatives whose fair value or future cash flows are intended to offset changes in the fair value or future cash flows of hedged items.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the statement of profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Hedging instruments are measured and recorded in accordance with their nature to the extent that they are not, or cease to be, effective hedges.

Interest rate hedges

Interest rate hedging cover exposure to changes in interest flows attributable to a specific risk associated with interest rate fluctuations.

Measuring hedge effectiveness

The following steps are taken to measure the effectiveness of hedges: Firstly, the Company has made a synthetic bond equivalent to payment of a fixed coupon plus the collection of the variable rate (in the Company's case, Euribor 6m + spread). The standard Euribor 6m curve has been used for discounting flows. The present value of the future flows is then calculated. The final step is to confirm that the difference between both current values falls within the parameters marked as effective hedging (80% - 125%).

g) Income tax

Corporate income tax expense is the amount accruing in the year for that tax, comprising both current and deferred tax expense.

Both current and deferred tax expense are recognised in the consolidated statement of profit or loss. However, the tax effect related to items that are recorded directly in consolidated equity is recognised in consolidated equity.

Current tax assets and liabilities are measured at the amounts expected to be paid to, or recovered from, the tax authorities in accordance with prevailing legislation or approved and pending publication at year-end.

Deferred taxes are calculated, using the liability method, on the temporary differences arising between the tax bases of the assets and liabilities and their carrying amounts. Deferred tax is determined by applying the tax regulations and rates approved or about to be approved at the consolidated balance sheet date and that are expected to apply when the corresponding deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is recognised on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the Group companies are able to control the timing of the reversal of the temporary differences and it is probable that the reversal will not occur in the foreseeable future.

h) Technical provisions

– Provision for unearned premiums

  This represents the fraction of premiums written in the period that is recognised in the period between the reporting date and the end of the policy's coverage period on a policy-to-policy basis and using the premium prices accrued during the period as the basis for calculation, net of the loading for contingencies.

- Provision for unexpired risks

  This complements the provision for unearned premiums where the amount of the latter is not enough to cover the amount of all risks and expenses to be covered during the period of coverage not elapsed since the year end. When calculating this provision, the guarantees are grouped by product and the reference periods of two and four years set out in Article 31 of the ROSSP are applied to the respective segments or commercial products. There was no need to post this provision at 31 December 2018 and 2017.

- Provisions for claims

  The provision for claims represents the total amount of the insurance company's outstanding obligations arising from claims to have occurred prior to the reporting date.

  The Parent recognises this provision for an amount that enables it to cover the cost of the claims; i.e. the amount that includes all external and internal claims management and processing expenses, irrespective of their origin, produced and to be produced up until the full settlement and payment of the claims, less the cost for amounts already paid.

  The provision for claims in turn comprises the following two provisions: the provision for claims pending settlement or payment and for claims not reported, and the provision for internal claims settlement costs.

  On 18 January 2008, the Company was authorised by the Directorate-General for Insurance and Pension Funds to apply the statistical approach in calculating the technical provision for claims in the motor segment, in accordance with Additional Provision 18 of Law 20/2015, of 14 July.

  The provision for internal expenses for the settlement of claims is recognised for an amount that is sufficient to cover the expenses necessary for the full completion of the outstanding claims at the end of the period.

  The provision for Home, Other insurance and Health segment claims has been estimated on the basis of an individual analysis of each claim (according to the best information available at the end of the reporting period), calculated in accordance with the Spanish Regulation on the Organisation and Supervision of Private Insurance.

  A sufficient amount is posted to the provision to cover internal expenses from claim settlements so as to cover the expenses needed for the resolution of all claims outstanding at the close of the financial year. It is calculated in accordance with the Regulation on the Organisation and Supervision of Private Insurance.

- Equalisation reserve

  This reserve, unlike those mentioned above, is recognised in the Company's consolidated equity and is not available for distribution. Each year the Parent determines the amount by which this reserve should be increased, taking into account the loading for contingencies included in the rate premiums for certain insurance contracts, as well as the other terms of the Regulation. It then posts the reserve by charging the relevant amount to earnings for the year. Upon approval of such distribution of earnings by the Parent's shareholders at the Annual General Meeting, the resulting amount is credited to consolidated equity. This reserve can only be used to offset deviations in the loss ratio for retained insurance activities. If the Group reports losses in the year on a consolidated basis, it reports the amount of the equalisation reserve, which, together with the debit balance shown in the consolidated statement of profit or loss for the year, shows the amount of the final earnings to be included under "Prior year losses".

i) Reinsurers' share of technical provisions

Technical provisions for ceded reinsurance are calculated in the same way as described for direct insurance, taking into account, where appropriate, the specific terms of the reinsurance contracts underwritten.

j) Termination benefits

In accordance with current legislation, Group companies are obligated to pay compensation to those employees whose employment relationship is terminated under certain conditions. Therefore, termination benefits that can be reasonably quantified are reported as an expense in the year in which the relevant decision is reached and a valid expectation is created vis-à-vis third parties regarding the dismissal.

k) Employee benefits

The current General State Collective Agreement for Insurance, Reinsurance and Occupational Accident Mutual Societies ushers in a new employee benefits system to be implemented through a collective life insurance policy suitable for the externalisation of pension commitments in accordance with the provisions of Royal Decree 1588/1999, of 29 November. The Parent will contribute an annual premium per employee of 1.9% of their base salary to this insurance policy by no later than 30 September of each year, bearing in mind that employees who had provided services at the same company for 10 years of more will be entitled to have their vested rights recognised in the insurance policy.

All employees hired after 1 January 2017 will be included within this new pension system. Employees hired prior to this date may choose between this new system and the financial incentive for retirement, whereby if an employee asks to retire in the month in which he or she reaches the normal retirement age defined by Social Security legislation to be eligible for the retirement pension, the company will pay, in a lump sum, an amount equal to one month of salary per five years of service, capped at 10 months, the limit of which will be reached at 30 years of service in the company where the employee is retiring.

The Parent's obligations with its employees with regard to retirement or similar pension plans were fully externalised at year-end 2017, in compliance with the legislation in force regarding the externalisation of pension obligations (Royal Decree 1588/1999, of 15 October, approving the Regulations on the externalisation of company pension obligations with employees and beneficiaries). The Parent has also assumed a retirement commitment with certain executives, which has been externalised in the form of an insurance policy.

The aforementioned insurance policies are considered "plan assets" as they are not owned by the Group, but rather by a separate legal entity that is not a related party, as they are only available to pay or finance employee remuneration and as they cannot return to the Group, except where the assets attached to the plan are sufficient to honour all of the obligations.

This agreement also includes coverage for death and disability of employees during the period in which they remain in the Company's service.

l) Provision and credit for payments and recoveries under settlement agreements

Shows the estimated amount due to policyholders from the insurer of the injured party and the recoveries made by the latter upon enforcing the settlement agreements.

m) Non-technical income and expenses – reclassification of expenses by purpose

Non-technical income and expenses are recognised as they accrue and taking into account the correlation between the income generated and the corresponding expenses.

The reclassification of expenses by type to expenses by purpose has been made on the basis of the following criteria:

- Purpose-specific costs incurred have been classified directly as such.
- Staff expenses are distributed according to the percentage of estimated dedication to each of the purposes.
- Costs that cannot be charged directly are distributed according to the estimated percentage of staff dedication to each purpose.

n) Related-party transactions

As a general rule, transactions between the Parent and a Group company are initially recognised at fair value. If the agreed price differs from its fair value, the difference is recorded to reflect the economic reality of the transaction. These transactions are subsequently measured in accordance with the relevant standards.

o) Provisions and contingencies

Contingent liabilities are possible obligations arising from past events whose materialisation is conditional upon the occurrence or non-occurrence of one or more future events beyond the Group's control. These contingent liabilities are not recognised in the accounts, though they may be disclosed in the notes to the financial statements.

Provisions are recognised for obligations such as litigation in progress, indemnities or other obligations of undetermined amount or timing, for which it is probable that the obligation will eventually have to be met.

Provisions are measured at the present value of the best possible estimate of the amount required to settle or transfer the obligation, taking into account available information on the event and its consequences. Any adjustments arising from the updating of these provisions are recognised as a financial expense as it accrues. If the liabilities mature within one year, they are recognised at the nominal value of the obligation.

Meanwhile, compensation to be received from a third party at the time the obligation is settled —provided there is no doubt that such reimbursement will be received— is recognised as an asset, except where there is a legal relationship through which part of the risk has been externalised and by virtue of which the Group is not liable. In this situation, the compensation will be taken into account when estimating the amount at which the corresponding provision, if any, should be posted.

Following the routine labour inspection carried out by the administrative bodies attached to the Social Security system, subsidiary company Línea Directa Asistencia, S.L.U. was informed of certain discrepancies in relation to the percentages it pays for accident risk, considering it more appropriate to pay contributions in accordance with Spanish NACE for certain professional groups. In the 2016 financial year, the tax settlement report was communicated and promptly appealed and in February 2017 the resolutions contained in the tax settlement reports were annulled by the court with jurisdiction over adversary public law disputes. As a result, in August 2016 the amount of € 213 thousand indicated in the tax settlement report was recognised in the accounts. The General Treasury of the Social Security (TGSS) lodged an appeal against that ruling and in July 2018 the Company opposed the suit. A final decision on the matter remains pending.

p) Income and expenses

Income is recorded at the fair value of the consideration to be received and represents amounts receivable for goods delivered and services rendered in the ordinary course of the Group’s business, less discounts and value added tax. Expenses are recognised as they accrue and taking into account the correlation between the income generated and the corresponding expenses.

However, the Group only records profits that have realised by year-end, while foreseeable risks and possible losses arising in the year or in a previous year are reported as soon as they become known.

q) Leases

Under operational leasing arrangements, the lessor retains ownership of the leased asset and substantially all the risks and rewards relating to the asset.

Income and expenses arising from operating lease agreements are charged to the consolidated statement of profit or loss in the year in which they accrue.
Any collection or payment that may be made on entering into an operating lease is treated as a collection or advance payment to be charged to profit and loss over the lease term, as the benefits and rewards of the leased asset are transferred or received.

r) Foreign currency transactions

The Group's functional currency is the euro. Consequently, transactions in non-euro currencies are deemed to be denominated in foreign currency and are recognised at the exchange rates prevailing on the relevant transaction date.

At year-end, monetary assets and liabilities denominated in foreign currency are converted into euro at the exchange rate prevailing at the consolidated balance sheet date. The profit or loss for the year is taken to the consolidated statement of profit or loss.

Changes in the fair value of money instruments denominated in foreign currency classified as available for sale are analysed for translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount. The translation difference is recognised in profit and loss and other changes in the carrying amount are taken to equity.

s) Inventories

Inventories are stated at the lower of cost and net realisable value. When the net realisable value of inventories is lower than their cost, the appropriate valuation adjustments are made and recognised as an expense in the consolidated statement of profit or loss. If the circumstances to have caused the impairment cease to exist, the amount of the impairment is reversed and recognised as income in the consolidated statement of profit or loss. The balance of inventories is shown under "A-13 Other Assets – IV. Other Assets" in the consolidated balance sheet.

t) Accrued income (assets)

This heading mainly shows accrued interest not yet due on financial investments to the extent that this does not form part of the repayment value obtained by applying the contractual interest rate of the financial instrument.

u) Equity

The share capital is represented by common shares. The costs of issuing new shares or options are charged directly to equity, as a reduction in reserves.

Where the Parent's own shares are acquired, the consideration paid, including any directly attributable incremental costs, is deducted from consolidated equity until the shares are redeemed, reissued or otherwise disposed of. When these shares are sold or subsequently reissued, any amount received, net of any directly attributable incremental transaction costs, is taken to consolidated equity.

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

5. Property, plant and equipment and investment property

a) Property, plant and equipment

At 31 December 2018 and 2017, the balances of these headings of the accompanying consolidated balance sheets and changes during 2018 and 2017 are as follows:

	Land	Buildings	Plant	IT equipment	Furniture and other property, plant and equipment	Assets in course of construction	Total property, plant and equipment
Cost at 31.12,2017	**15,083**	**21,367**	**14,232**	**22,058**	**6,060**	**-**	**78,800**
Additions	-	79	2,785	852	1,259	3,601	8,576
Retirements	-	-	-	(2)	(294)	-	(296)
Transfers	-	-	-	-	-	-	-
Cost at 31.12,2018	**15,083**	**21,446**	**17,017**	**22,908**	**7,025**	**3,601**	**87,079**
Accumulated depreciation at 31.12,2017	**-**	**(5,269)**	**(11,031)**	**(17,604)**	**(3,184)**	**-**	**(37,088)**
Additions	-	(428)	(1,051)	(2,234)	(290)	-	(4,002)
Retirements	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-
Accumulated depreciation at 31.12,2018	**-**	**(5,697)**	**(12,082)**	**(19,838)**	**(3,474)**	**-**	**(41,090)**
Impairment allowances at 31.12,2017	**(2,603)**	**-**	**-**	**-**	**-**	**-**	**(2,603)**
Application (allowance) in the period	-	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-	-
Impairment allowances at 31.12,2018	**(2,603)**	**-**	**-**	**-**	**-**	**-**	**(2,603)**
Carrying amount at 31.12,2018	**12,480**	**15,749**	**4,934**	**3,071**	**3,551**	**3,601**	**43,386**

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

	Land	Buildings	Plant	IT equipment	Furniture and other property, plant and equipment	Assets in course of construction	Total property, plant and equipment
Cost at 31.12,2016	**15,083**	**20,926**	**14,128**	**20,275**	**4,365**	-	**74,777**
Additions	-	441	1,081	1,765	750	-	4,037
Retirements	-	-	-	(10)	(4)	-	(14)
Transfers	-	-	(977)	28	949	-	-
Cost at 31.12,2017	**15,083**	**21,367**	**14,232**	**22,058**	**6,060**	-	**78,800**
Accumulated depreciation at 31.12,2016	**-**	**(4,843)**	**(10,183)**	**(15,333)**	**(2,833)**	**-**	**(33,192)**
Additions	-	(426)	(848)	(2,281)	(355)	-	(3,910)
Retirements	-	-	-	10	4	-	14
Transfers	-	-	-	-	-	-	-
Accumulated depreciation at 31.12,2017	**-**	**(5,269)**	**(11,031)**	**(17,604)**	**(3,184)**	**-**	**(37,088)**
Impairment allowances at 31.12,2016	**(2,636)**	**(132)**	**-**	**-**	**-**	-	**(2,768)**
Application (allowance) in the period	165	-	-	-	-	-	165
Reclassifications	(132)	132	-	-	-	-	-
Impairment allowances at 31.12,2017	**(2,603)**	**-**	**-**	**-**	**-**	-	**(2,603)**
Carrying amount at 31.12,2017	**12,480**	**16,098**	**3,201**	**4,454**	**2,876**	-	**39,109**

In 2018, the Group did not derecognise any fully depreciated items of property, plant and equipment (€ 14 thousand in 2017).

In 2018, no impairment losses (€ 165 thousand in 2017) were recognised under "Impairment of property, plant and equipment and investment property" in the accompanying consolidated statement of profit or loss.

Fully depreciated items of property, plant and equipment assets still in use at 31 December 2018 and 2017 amounted to:

	2018	**2017**
Plant	7,764	6,957
IT equipment	17,125	13,947
Furniture and other property, plant and equipment	2,179	1,955
	27,068	**22,859**

The Group companies have taken out insurance policies with third parties to cover risks that could affect their property, plant and equipment. The coverage provided under these policies is considered sufficient.

The fair value of property, plant and equipment was as follows at 31 December 2018 and 2017:

	2018				
Description	**Cost value**	**Accumulated depreciation**	**Impairment**	**Net carrying amount**	**Market value**
Land and buildings at I. Newton, 7 (Tres Cantos)	4,958	(1,565)	-	3,393	11,275
Land and buildings at I. Newton, 9 (Tres Cantos)	7,371	(1,113)	(771)	5,487	5,563
Land and buildings at Ronda Europa, 7 (Tres Cantos)	21,853	(2,816)	(1,495)	17,542	17,700
Land and buildings at Avda. El Sol, 9 (Torrejón de Ardoz)	2,347	(202)	(337)	1,808	1,836
	36,529	(5,696)	(2,603)	28,230	36,374

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

	2017				
Description	**Cost value**	**Accumulated depreciation**	**Impairment**	**Net carrying amount**	**Market value**
Land and buildings at I. Newton, 7 (Tres Cantos)	4,958	(1,479)	-	3,479	11,275
Land and buildings at I. Newton, 9 (Tres Cantos)	7,371	(1,037)	(771)	5,563	5,563
Land and buildings at Ronda Europa, 7 (Tres Cantos)	21,774	(2,579)	(1,495)	17,700	17,700
Land and buildings at Avda. El Sol, 9 (Torrejón de Ardoz)	2,347	(174)	(337)	1,836	1,836
	36,450	(5,269)	(2,603)	28,578	36,374

b) Investment property

The Group's investment property comprises property assets held for lease or rental. In 2018, rental income from investment property owned by the Group amounted to € 4,505 thousand (2017: € 4,397 thousand), recognised under "Income from property, plant and equipment and from investments" in the accompanying consolidated statement of profit or loss.

The breakdown of this heading in 2018 and 2017 is as follows:

	Land	**Buildings**	**Plant**	**Total property, plant and equipment**
Cost at 31.12.17	**36,293**	**41,252**	**95**	**77,640**
Additions	-	-	-	-
Retirements	(3,884)	(3,011)	-	(6,895)
Reclassifications	-	-	-	-
Cost at 31.12.18	**32,409**	**38,241**	**95**	**70,745**
Accumulated depreciation at 31.12.17	-	**(2,818)**	**(44)**	**(2,862)**
Additions	-	(822)	(24)	(846)
Retirements		421	-	421
Reclassifications	-	-	-	-
Accumulated depreciation at 31.12.18	-	**(3,219)**	**(68)**	**(3,287)**
Impairment allowances at 31.12.17	**-**	**(27)**	**-**	**(27)**
Allowance in the period	-	-	-	-
Amounts utilised in the period	-	27	-	27
Impairment allowances at 31.12.18	**-**	**-**	-	**-**
Carrying amount at 31.12.18	**32,409**	**35,022**	**27**	**67,458**

	Land	**Buildings**	**Plant**	**Total property, plant and equipment**
Cost at 31.12.16	**36,293**	**41,252**	**95**	**77,640**
Additions	-	-	-	-
Reclassifications	-	-	-	-
Cost at 31.12.17	**36,293**	**41,252**	**95**	**77,640**
Accumulated depreciation at 31.12.16	-	**(1,993)**	**(20)**	**(2,013)**
Additions	-	(825)	(24)	(849)
Reclassifications	-	-	-	-

Accumulated depreciation at 31.12.17	-	**(2,818)**	**(44)**	**(2,862)**
Impairment allowances at 31.12.16	-	**(581)**	-	**(581)**
Allowance in the period	-	-	-	-
Amounts utilised in the period	-	**554**	-	**554**
Impairment allowances at 31.12.17	-	(27)	-	(27)
Carrying amount at 31.12.17	**36,293**	**38,407**	**51**	**74,751**

At year-end 2018, there were no restrictions whatsoever on the realisation of new investment property or on the collection of income therefrom, or on the proceeds from any possible sale or disposal. Furthermore, no investment property was subject to guarantees or reversion.

The depreciation rates used are described in Note 4.c of these notes to the consolidated financial statements.

In 2018, the Company sold investment property with a net carrying amount of € 4,576 thousand. The gain on these sales amounted to € 1,443 thousand. In addition, two properties with a net carrying amount of € 1,871 thousand were transferred to "Non-current assets held for sale" (see Note 15).

All properties were insured against the risk of fire and third-party liability in 2018 and 2017.

The following table compares the carrying amount and fair value of investment property at 31 December 2018 and 2017.

<u>2018</u>

Property	Cost of purchase	Accumulated depreciation	Impairment allowances	Carrying amount	Value in use
C/ José Echegaray, 9 Madrid	6,902	(536)	-	6,366	8,393
C/ Chamberí 8, Madrid	41,867	(1,557)	-	40,310	45,258
Avenida de Bruselas, 22 Madrid	21,881	(1,127)	-	20,754	22,041
	70,650	**(3,220)**	-	**67,430**	**75,692**

<u>2017</u>

Property	Cost of purchase	Accumulated depreciation	Impairment allowances	Carrying amount	Value in use
C/ Bravo Murillo 211, Madrid	1,362	(76)	(27)	1,259	1,259
Avenida Reina Victoria, 68 Madrid	1,875	(92)	-	1,783	1,865
Avda. Pagés del Corro 79, Seville	662	(34)	-	628	648
C/ Balmes Numero 284, Barcelona	1,600	(92)	-	1,508	1,781
C/ Muntaner, 401-403, Barcelona	1,396	(69)	-	1,327	1,407
C/ José Echegaray, 9 Madrid	6,902	(437)		6,465	8,393
C/ Chamberí 8, Madrid	41,867	(1,205)		40,662	45,258
Avenida de Bruselas, 22 Madrid	21,881	(813)		21,068	22,041
	77,545	**(2,818)**	**(27)**	**74,700**	**82,652**

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

Intangible assets

At 31 December 2018 and 2017 the balance of this heading related entirely to software. Changes in 2018 and 2017 are as follows:

	Thousand euro
Cost at 31.12,2017	**82,834**
Additions	5,197
Retirements	(6)
Cost at 31.12,2018	**88,025**
Accumulated amortisation at 31.12,2017	**(75,798)**
Additions	(4,640)
Retirements	6
Accumulated amortisation at 31.12,2018	**(80,432)**
Accumulated impairment losses	-
Carrying amount at 31.12,2018	**7,593**

	Thousand euro
Cost at 31.12,2016	**78,879**
Additions	3,955
Retirements	-
Cost at 31.12,2017	**82,834**
Accumulated amortisation at 31.12,2016	**(70,810)**
Additions	(4,988)
Retirements	-
Accumulated amortisation at 31.12,2017	**(75,798)**
Accumulated impairment losses	-
Carrying amount at 31.12,2017	**7,036**

Fully amortised intangible assets at 31 December 2018 and 2017 amounted to € 70,747 thousand and € 63,661 thousand, respectively.

At 31 December 2018 and 2017, there were no intangible assets subject to guarantees or reversals.

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

6. Other assets

The following table provides a breakdown of this heading at 31 December 2018 and 2017.

	2018	2017
Acquisition expenses	75,468	69,433
Accruals	10,343	11,354
Inventories	231	239
	86,042	**81,026**

Deferred acquisition expenses are recognised in accordance with the accounting principles explained in Note 4 c).

The “Accrued income” subheading mainly shows explicit interest accrued and not yet due on available-for-sale bank deposits and fixed-income investments totalling € 10,327 thousand (€ 11,208 thousand in 2017), of which a total of € 34 thousand (€ 141 thousand in 2017) relates to securities for which the issuer is a Group company. It also shows the cost of certain services prepaid by the Parent that will accrue in 2018, for a total of € 16 thousand (€ 146 thousand in 2017).

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

8. Financial instruments

8.1 Information on the significance of financial instruments in relation to the financial position and results of Group companies

8.1.1 Information related to the consolidated balance sheet

Financial assets and liabilities fell into the following categories at the end of 2018 and 2017:

2018

Financial assets	Cash and cash equivalents	Available-for-sale financial assets		Loans and receivables	Total
		At fair value	At cost		
Equity instruments:	**-**	**88,735**	**28**	**-**	**88,763**
- Financial investments in capital	-	45,094	28	-	45,122
- Units/interests in mutual funds	-	43,641	-	-	43,641
- Units/interests in private equity funds	-	-	-	-	-
- Other equity instruments	-	-	-	-	-
Debt securities:	**-**	**683,630**	**-**	**2,986**	**686,616**
- Fixed-income securities	-	683,630	-	2,986	686.66
- Other debt securities	-	-	-	-	-
Derivatives	-	-	-	-	-
Loans:	-	-	-	-	-
- Loans and advances on policies	-	-	-	-	-
- Loans to group companies	-	-	-	-	-
- Mortgage loans	-	-	-	-	-
- Other loans	-	-	-	-	-
Deposits with credit institutions	**-**	**-**	**-**	**15,000**	**15,000**
Deposits posted on accepted reinsurance	-	-	-	-	-
Receivables on direct insurance business:	**-**	**-**	**-**	**50,914**	**50,914**
- Policyholders:	-	-	-	50,914	50,914
Premium payments outstanding	-	-	-	52,762	52,762
Provision for outstanding premiums	-	-	-	(1,848)	(1,848)
Receivables on reinsurance business:	**-**	**-**	**-**	**2,828**	**2,828**
- Outstanding balances with reinsurers	-	-	-	2,828	2,828
- Provision for impairment of balances subject to reinsurance	-	-	-	-	-
Receivables on coinsurance business:	-	-	-	-	-
- Outstanding balances with coinsurers	-	-	-	-	-
- Provision for impairment of balances subject to coinsurance	-	-	-	-	-
Called up share capital	-	-	-	-	-
Other receivables:	**-**	**-**	**-**	**44,216**	**44,216**
- Tax and social security receivable	-	-	-	167	167
- Other receivables	-	-	-	44,049	44,049
Other financial assets	-	-	-	-	-
Cash	**166,776**	**-**	**-**	**-**	**166,776**
Total	**166,776**	**772,365**	**28**	**115,944**	**1,055,113**

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

2017

Financial assets	Cash and cash equivalents	Available-for-sale financial assets		Loans and receivables	Total
		At fair value	At cost		
Equity instruments:	**-**	**86,440**	**27**	**-**	**86,467**
- Financial investments in capital	-	36,969	27	-	36,996
- Units/interests in mutual funds	-	49,471	-	-	49,471
- Units/interests in private equity funds	-	-	-	-	-
- Other equity instruments	-	-	-	-	-
Debt securities:	**-**	**648,051**	**-**	**4,000**	**652,051**
- Fixed-income securities	-	648,051	-	4,000	652,051
- Other debt securities	-	-	-	-	-
Derivatives	-	-	-	-	-
Loans:	**-**	**-**	**-**	**-**	**-**
- Loans and advances on policies	-	-	-	-	-
- Loans to group companies	-	-	-	-	-
- Mortgage loans	-	-	-	-	-
- Other loans	-	-	-	-	-
Deposits with credit institutions	**-**	**-**	**-**	**13,000**	**13,000**
Deposits posted on accepted reinsurance	-	-	-	-	-
Receivables on direct insurance business:	**-**	**-**	**-**	**45,616**	**45,616**
- Policyholders:	-	-	-	45,616	45,616
Premium payments outstanding	-	-	-	46,869	46,869
Provision for outstanding premiums	-	-	-	(1,253)	(1,253)
Receivables on reinsurance business:	**-**	**-**	**-**	**1,403**	**1,403**
- Outstanding balances with reinsurers	-	-	-	1,403	1,403
- Provision for impairment of balances subject to reinsurance	-	-	-	-	-
Receivables on coinsurance business:	-	-	-	-	-
- Outstanding balances with coinsurers	-	-	-	-	-
- Provision for impairment of balances subject to coinsurance	-	-	-	-	-
Called up share capital	-	-	-	-	-
Other receivables:	**-**	**-**	**-**	**39,690**	**39,690**
- Tax and social security receivable	-	-	-	123	123
- Other receivables	-	-	-	39,567	39,567
Other financial assets	-	-	-	-	-
Cash	**148,917**	**-**	**-**	**-**	**148,917**
Total	**148,917**	**734,491**	**27**	**103,709**	**987,144**

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

Financial liabilities	Debt and accounts payable		Hedging derivatives	
	2018	2017	2018	2017
Due on direct insurance business	**2,023**	**3,018**	-	-
- Due to policyholders	1,961	1,486	-	-
- Due to agents, brokers and intermediaries	62	1,532	-	-
- Conditional claims	-	-	-	-
Due on reinsurance business:	**1,011**	**761**	-	-
Other debts	**204,269**	**116,399**	-	-
- Tax and social security payable	15,547	16,775	-	-
- Other payables to group companies	44,882	28,393	-	-
- Other debts	143,840	71,231	-	-
Hedging derivatives	-	-	**3,385**	-
Total	**207,303**	**120,178**	**3,385**	-

The classification of financial assets and liabilities by maturity, for those with a given or determinable maturity for each asset category, was as follows at 31 December 2018 and 2017:

2018

	Financial assets						
	2019	2020	2021	2022	2023	subsequent periods	Total
Investments in group companies and associates	-	-	-	-	-	**3,039**	**3,039**
- Loans to group companies (Note 16)	-	-	-	-	-	-	-
- Debt securities (Note 16)	-	-	-	-	-	3,039	3,039
Other financial investments:	**89,735**	**27,702**	**80,347**	**39,574**	**111,595**	**349,625**	**698,578**
- Debt securities	74,735	27,702	80,347	39,574	111,595	349,625	683,578
- Deposits with credit institutions	15,000	-	-	-	-	-	15,000
Total	**89,735**	**27,702**	**80,347**	**39,574**	**111,595**	**352,664**	**701,617**

2017

	Financial assets						
	2018	2019	2020	2021	2022	subsequent periods	Total
Investments in group companies and associates	**5,015**	-	-	-	-	-	**5,015**
- Loans to group companies (Note 16)	-	-	-	-	-	-	-
- Debt securities (Note 16)	5,015	-	-	-	-	-	5,015
Other financial investments:	**119,855**	**60,427**	**26,821**	**83,599**	**45,237**	**324,097**	**660,036**
- Debt securities	106,855	60,427	26,821	83,599	45,237	324,097	647,036
- Deposits with credit institutions	13,000	-	-	-	-	-	13,000
Total	**124,870**	**65,427**	**26,821**	**83,599**	**45,237**	**324,097**	**665,051**

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

The debts and payables shown under financial liabilities mature within one year for both 2018 and 2017.

8.1.1.1 Available-for-sale financial assets

At the end of 2018 and 2017, this heading showed € 45,116 thousand and € 36,996 thousand in shares, respectively, together with units and interests in investment and private equity funds amounting to € 43,641 thousand and € 49,471 thousand, respectively. Of the total investment in shares and equities, a total of € 10,300 thousand is included in two listed real estate investment companies in which a Bankinter Group financial institution holds a stake.

It also includes € 683,630 thousand and € 652,051 thousand, respectively, in fixed-income securities, of which € 3,039 thousand related to group companies in 2017 and € 5,015 thousand in 2017 (see Note 15).

At 31 December 2018 and 2017, there were no impairment losses due to credit risk or the impairment of assets under this heading.

8.1.1.2 Loans and receivables

a) Loans to group companies and associates

At 31 December 2018 and 2017, no loans had been granted to Group companies.

b) Debt securities

The balance of "debt securities" includes investments in commercial paper issued by local credit institutions and maturing in 2018. No accrued interest not yet due on these investments was recognised in 2018 (31 December 2017: € 1 thousand, recognised under "Other assets – Accrued income" on the asset side of the accompanying consolidated balance sheet).

c) Deposits with credit institutions

The following table shows the balances comprising this heading of the accompanying consolidated balance sheets, along with changes in 2018 and 2017 and their realisable value:

	Deposits with credit institutions	
	2018	**2017**
Balance at the beginning of the year	13,000	1,101
Additions	15,000	13,000
Retirements	(13,000)	(1,101)
Balance at the end of the year	**15,000**	**13,000**
Market value	15,000	13,000

Interest accrued and not yet due at 31 December 2018 amounted to € 5 thousand (31 December 2017: € 2 thousand) and is recognised under "Other assets – Accrued income” on the asset side of the accompanying consolidated balance sheets.

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

d) Receivables on direct insurance business

This heading shows loans to policyholders for premium receipts that are overdue and for premium fractions yet to be issued.

Impairment adjustments for outstanding premium payments are calculated as per the criteria set out in the Accounting Plan for Insurance Companies in its section two on recognition and measurement rules, based on the age of the pending receipts.

This heading breaks down as follows at 31 December 2018 and 2017:

	Receivable from policyholders	Impairment adjustment	Total
Balance at 31 December 2018	52,762	(1,848)	50,914
Balance at 31 December 2017	46,869	(1,253)	45,616

e) Receivables and payables on reinsurance business

This heading shows claims and debts with reinsurers at year end, broken down by type of reinsurance (see Note 13 to these consolidated notes on the subject of debts and payables):

	2018		2017	
	Receivable	**Payable**	**Receivable**	**Payable**
Reinsurance – Penalties and other guarantees	-	541	-	692
Reinsurance XL	-	470	-	69
Reinsurance QS	2,828	-	1,403	-
	2,828	**1,011**	**1,403**	**761**

e) Other receivables

	31.12,2018	31.12,2017
Tax and social security receivable	167	123
Bonds and deposits	300	271
Receivables from recoveries and claims	36,212	31,707
Receivables under claim settlement agreements	2,785	2,771
Sundry receivables	3,249	2,757
Receivable from group companies and associates (Note 16)	1,711	2,208
Impairment allowances on other receivables	(208)	(147)
Total	**44,216**	**39,690**

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

8.1.1.3 Hedging derivatives

The Company has included three swaps under this category, the value of which amounted to € 3,385 thousand at 31 December 2018. At 31 December 2017 the Company held no hedging derivatives.

		At 31 December 2018				
Concept	**Initial value**	**Accumulated impairment**	**Impairment adjustment**	**Valuation adjustment**	**Purchases/Sales**	**Final value**
SWAP	-	-	-	3,385	-	3,385
Total	**-**	**-**	**-**	**3,385**	**-**	**3,385**

Fair value has been calculated for the purpose of measuring financial assets using quoted prices in active markets.

In some cases, where it was considered that the market was not sufficiently active, a valuation offered by a counterparty that qualified as a financial institution has been obtained.

The following table shows the type of contracts guaranteed:

Type of asset	Counterparty	Number of contracts	Carrying amount	Market value	Nominal value	Rate	Currency
Current account	BBVA S.A.	1	10,122	10,122	10,122	**Eonia**	**EUR**
Subtotal – Current Account			**10,122**	**10,122**	**10,122**	**Eonia**	**EUR**
Swaps	BBVA S.A.	1	(383)	(383)	(383)		**EUR**
	BBVA S.A.	1	(1,996)	(1,996)	(1,996)		**EUR**
	BBVA S.A.	1	(1,006)	(1,006)	(1,006)		**EUR**
Subtotal – Swaps			**(3,385)**	**(3,385)**	**(3,385)**		**EUR**
Total			**6,737**	**6,737**	**6,737**		**EUR**

The risk of these swaps arises from the interest rate or market risk of the swapped securities' own underlyings, as well as from the credit risk of the issuing institutions. The derivative product associated with the underlying is also exposed to these same risks.

At 31 December 2018, a total of € 3,385 thousand was recognised under "Hedging derivatives" on the liabilities side of the balance sheet in relation to three financial swaps. The entity with which this contract has been signed relies on the clearing house to calculate the current value of the outstanding flows between the two parties.

In February 2018 Línea Directa transferred € 3,374 thousand to a current account held in the name of BBVA S.A., as the balance of collateral deriving from the contracts, which are managed and operated through daily collateral exchanges as per the calculations made by the central counterparty clearing house (CCP).

It was not necessary to recognise any amount in the statement of profit or loss due to ineffectiveness of the hedge in 2018.

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

The hedged item consists of the payment of coupons of 2.35% on two SPGB bonds of € 25,000 thousand each per annum through to their maturity on 30 July 2033; and of 2.45% on one BTPS bond worth € 50,000 thousand through to its maturity on 1 September 2033. In exchange, the Company receives collections of Euribor 6M+0.94% and Euribor6M+1.11% on € 25,000 thousand, respectively, of the SPGB bonds through to their maturity on 30 September 2033; and of Euribor 6M+1.03% on € 50,000 thousand of the BTPS bond through to its maturity on 1 September 2033.

8.1.2 Information on the consolidated statement of profit or loss and consolidated equity

The following table shows the breakdown of financial income and expenses, as per the category to which each asset and liability has been assigned:

2018

	Cash and cash equivalents	Loans and receivables	Available-for-sale assets	Property, plant and equipment and investment property	Total
Investment income					
Interest on fixed-income securities	-	-	24,601	-	24,601
Income on equity instruments	-	-	2,465	-	2,465
Interest on current accounts	10	-	-	-	10
Interest on bank deposits	-	359	-	-	359
Income from premium instalments	-	3,850	-	-	3,850
Effect of change in investment value	-	-	-	-	-
Income from investment in property, plant and equipment	-	-	-	4,514	4,514
Gains on realisation of investments	-	-	14,580	1,446	16,026
Positive exchange differences	-	-	197	-	197
Total income from property, plan and equipment and from investments	**10**	**4,209**	**41,843**	**5,960**	**52,022**

	Available-for-sale assets	Property, plant and equipment and investment property	Non-current dividends payable	Other	Total
Investment costs					
Fixed income valuation	13,953	-	-	-	13,953
Depreciation of investment property	-	846	-	-	846
Long-term discounting of interest and dividends	-	-	-	-	-
Property impairment allowances	-	-	-	-	-
Negative exchange difference	2,354	-	-	-	2,354
Investment management expenses and other	-	-	-	1,319	1,319
Total expenses from property, plant and equipment and from investments	**16,307**	**846**	**-**	**1,319**	**18,472**

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

2017:

	Cash and cash equivalents	Loans and receivables	Available-for-sale assets	Property, plant and equipment and investment property	Total
Investment income					
Interest on fixed-income securities	-	-	25,255	-	25,255
Income on equity instruments	-	-	2,630	-	2,630
Interest on current accounts	8	-	-	-	8
Interest on bank deposits	-	155	-	-	155
Income from premium instalments	-	3,787	-	-	3,787
Income from investment in property, plant and equipment	-	-	-	929	929
Gains on realisation of investments	-	-	-	4,397	4,397
Positive exchange differences	-	-	5,255	2	5,257
	-	-	281	-	281
Total income from property, plan and equipment and from investments	**8**	**3,942**	**33,421**	**5,328**	**42,699**

	Available-for-sale assets	Property, plant and equipment and investment property	Non-current dividends payable	Other	Total
Investment costs					
Fixed income valuation	4,135	-	-	-	4,135
Depreciation of investment property	-	849	-	-	849
Long-term discounting of interest and dividends	-	-	733	-	733
Property impairment allowances	-	210		-	210
Negative exchange difference	327	-	-	-	327
Investment management expenses and other	-	-	-	1,323	1,323
Total expenses from property, plant and equipment and from investments	**4,462**	**1,059**	**733**	**1,323**	**7,577**

8.1.3 Information on the nature and level of risk associated with financial instruments

Market risk

The level of assumable risk for the financial investments undertaken by the Parent is explained in the Investment Guidelines approved by the Board of Directors. This document describes the types of permitted assets for investment purposes, along with the maximum proportion of these assets within the portfolio, and authorises the Parent's Investment Committee to undertake investments.

The Investment Committee, which meets monthly, is responsible for analysing the portfolio's performance, approving new lines of investment, verifying compliance with the Investment Guidelines and keeping the Board of Directors regularly informed.

The rating of debt securities classified as "available for sale" was as follows at the end of 2018 and 2017:

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

RATING – "Available for sale" portfolio	2018	2017
AAA	1,746	1,663
AA	11,725	4,985
A	312,544	67,560
BBB	256,240	518,686
BB	83,203	35,186
B	3,921	4,490
N/R	17,237	15,481
Total	**686,616**	**648,051**

Credit risk

The counterparties with which the Group acquires or may acquire significant positions must invariably undergo a prior scoring process. These counterparties include companies that provide insurance for large vehicle fleets and, in particular, reinsurance companies. For the latter, a minimum credit rating of "A" is required as a prerequisite for inclusion within the reinsurance programme. Exceptions to this solvency threshold, together with the reinsurance table for each year, are expressly approved by the Board of Directors.

Liquidity risk

The Parent is firmly committed to having sufficient liquidity to be able to honour its payments to suppliers, policyholders and counterparties in due course. Consequently, cash management is always carried out with the utmost prudence, avoiding at all times any possible overdraft or overlimit situation.

9. Cash and cash equivalents

The composition of unrestricted cash and cash equivalents at credit institutions, cheques and cash on hand at 31 December 2018 and 2017 is as follows:

	Balance at 31.12,2018	Balance at 31.12,2017
Cash at credit institutions	166,772	148,913
Cash in hand	4	4
	166,776	**148,917**

Of the total balance of cash at banks at 31 December 2018 and 2017, a total of € 49,680 thousand and € 38,626 thousand, respectively, was held at Bankinter, S.A. (see Note 16).

At 31 December 2018, the Group had a current account pledged to a reinsurer for a total of € 2,100 thousand to secure the performance of certain contractual obligations. The remaining amount of cash and cash equivalents is subject to no further restriction on its use and disposal.

The interest rate on the Company's current accounts is negotiated with each bank and did not accrue any return or yield in 2018 (yield of between 0% and 0.04% in 2017), except for the current account denominated in dollars, which paid between 1.40% and 2.19% in 2018.

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

10. Technical provisions

The following table shows changes in 2018 and 2017 in each of the technical provisions shown in the accompanying consolidated balance sheets.

2018

	Provision for unearned premiums	Provision for claims
Direct insurance		
Balance at 31 December 2017	**402,137**	**317,371**
Allowances	428,118	304,868
Amounts utilised	(402,137)	(317,371)
Balance at 31 December 2018	**428,118**	**304,868**
Ceded and retroceded reinsurance		
Balance at 31 December 2017	1,175	4,544
Allowances	2,735	4,583
Amounts utilised	(1,175)	(4,544)
Balance at 31 December 2018	**2,735**	**4,583**

2017

	Provision for unearned premiums	Provision for claims
Direct insurance		
Balance at 31 December 2016	**372,722**	**295,904**
Allowances	402,137	317,371
Amounts utilised	(372,722)	(295,904)
Balance at 31 December 2017	**402,137**	**317,371**
Ceded and retroceded reinsurance		
Balance at 31 December 2016	**853**	**2,975**
Allowances	1,175	4,544
Amounts utilised	(853)	(2,975)
Balance at 31 December 2017	**1,175**	**4,544**

The change in 2018 in the Parent's provision for claims (excluding insurance for fines and other insurance) pertaining only to claims pending at 31 December 2017, by segment, is as follows:

	Provision at 31.12,2017	Net payments	Provision at 31.12,2018	Surplus (Deficit)
Motor, general liability insurance	213,723	101,352	89,602	22,769
Motor, other coverage	73,007	35,239	22,820	14,948
Home	14,305	8,434	4,625	1,246
TOTAL	**301,035**	**145,025**	**117,047**	**38,963**

The changes in 2017 in the Parent's provision for claims without coverage for fines and other insurance, corresponding only to claims outstanding at 31 December 2016, and excluding claims incurred but not reported, is as follows, by segment:

	Provision at 31.12,2016	Net payments	Provision at 31.12,2017	Surplus (Deficit)
Motor, general liability insurance	198,598	79,143	92,218	27,237
Motor, other coverage	65,912	31,639	22,857	11,416

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

Home	13,914	7,754	2,532	3,628
TOTAL	**278,424**	**118,536**	**117,607**	**42,281**

Claims incurred but not reported (IBNR) are not included in the provision at the end of 2018 and 2017 for the Home segment but are included in the Motor segment, as the provision for outstanding, reported and unreported claims is calculated jointly using statistical methods (Note 4.h).

11. Pension commitments

Under the terms of the collective bargaining agreement for the industry, the Parent is required to take out life insurance for its employees and, on retirement, to pay out an amount based on their length of service. This obligation has been externalised in the form of an insurance contract, for which the following assumptions have been applied in valuing the commitments:

-Wage growth:	1.5%
-Mortality tables:	The tables used are the GR95 for the initial group of employees and PERMF 2000 for new hires since 2005.
-Interest rates:	Based on year in which the premium is issued.

This agreement resulted in total accrued insurance premiums net of premium refunds of € 109 thousand in 2018 (€ 321 thousand in 2017). The mathematical provision for retirement insurance at 31 December 2018 came to € 2,894 thousand (€ 2,698 thousand at 31 December 2017). Policy surrenders in 2018 amounted € 8 thousand (2017: € 90 thousand).

The Parent also has a collective insurance policy in effect to formalise its retirement pension commitments with certain members of Senior Management. In 2018, this policy accrued premiums of € 1,298 thousand and a mathematical provision of € 6,206 thousand. In 2017, this policy accrued premiums of € 350 thousand and its mathematical provision at year-end was € 5,055 thousand. There were no policy surrenders in 2018 or 2017. The Parent is under no obligation to make contributions to this policy, with the Board of Directors deciding on whether to make such contributions.

The Parent has also arranged a defined contribution pension plan for members of Senior Management, in the form of a savings policy. This policy accrued premiums of € 82 thousand in 2018 and its mathematical provision at year-end came to € 273 thousand.

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

12. Provisions for payments under claims settlement agreements

The following changes occurred during the year:

	Carrying amount	
	2018	**2017**
Balance at the beginning of the year	22,403	18,884
Allowances (Note 22)	21,708	22,403
Amounts utilised (Note 22)	(22,403)	(18,884)
Balance at the end of the year	**21,708**	**22,403**

13. Debt and accounts payable

The heading “Debts and accounts payables” breaks down as follows at 31 December 2018 and 2017:

	Balance at 31.12,2018	Balance at 31.12,2017
Due on direct insurance business	**2,023**	**3,018**
Due to policyholders	1,961	1,486
Due to agents, brokers and intermediaries	62	1,532
Conditional claims	-	-
Due on reinsurance business (Note 8.1.1.2)	**1,011**	**761**
Other debts:	**15,547**	**16,775**
Personal income tax withholdings payable	1,928	1,662
VAT payable	588	438
Social security payable	2,486	2,342
Insurance Compensation Consortium payable	1,522	1,522
Tax payable on insurance premiums	4,310	4,115
Other taxes payable	4,713	6,696
Due to group companies and associates (Notes 14 and 16)	**44,882**	**28,393**
Other debts	**143,840**	**71,231**
On goods delivered and services rendered	21,348	25,615
On securities lending	111,142	36,805
Outstanding remuneration	11,350	8,811
	207,303	**120,718**

At 31 December 2018, the subheading “Due to group companies and associates” mainly showed a total of € 39,120 in dividends pending payment by the Parent to Bankinter S.A. (€ 28,008 thousand at 31 December 2017), deriving from resolutions reached by shareholders at the annual general meeting of the Parent, as explained in Note 14.

At 31 December 2018 the subheading “On securities lending” shows monetary collateral received under a government debt repo arrangement (sale and repurchase agreement of government bonds), with a total carrying amount of € 111,142 thousand, including accrued but uncollected interest and comprising two repurchase agreements involving Spanish government securities maturing on 13 January 2019 and a further transaction involving Portuguese government securities maturing on 29 March 2019. The counterparty to all such transactions is Banco BBVA. Guarantees on the transactions amount to € 111,142 thousand. The Spanish government bond repo arrangement was renewed on 14 January 2018, with the new maturity set for 15 February 2019 at a negative interest rate of 0.38% per annum.

At 31 December 2017, the subheading "On securities lending" showed the monetary collateral received under a government debt repo arrangement (sale and repurchase agreement of government bonds), with a total carrying amount of € 36,565 thousand and including accrued but uncollected interest. The counterparty to the transaction is Banco BBVA. Guarantees on the transactions amount to € 36,805 thousand. The Spanish government bond repo arrangement was renewed on 12 January 2018, with the new maturity set for 12 March 2018 at a negative interest rate of 0.37% per annum.

Information on the average payment period to suppliers. Final Provision Two of Law 31/2014, of 3 December

The following table provides the information required under Final Provision Two of Law 31/2014, of 3 December.

	2018 Days	**2017 Days**
Average supplier payment period*	23.73	27.22
Ratio of transactions paid*	23.63	27.32
Ratio of transactions outstanding*	27.89	24.65
	Amount (thousand euro)	**Amount (thousand euro)**
Total payments made	301,607	264,095
Total payments outstanding	8,155	3,601

(*) When a figure is shown in brackets, it means that the amount is negative, representing either a faster average payment in relation to the maximum payment period prescribed by law, or otherwise that the outstanding transactions are, on average, at a point in time prior to reaching that maximum period.

The data shown in the table above on the average payment period to suppliers relate to trade payables on debts with suppliers of goods and services, excluding payments of claims in 2018.

The term "average payment period to suppliers" means the time taken in paying, or the delay in paying, trade payables. This "average payment period to suppliers' is calculated as a ratio where the numerator is the sum of the ratio of transactions paid divided by the total amount of payments made plus the ratio of transactions outstanding divided by the total amount of payments outstanding, while the denominator is the total amount of payments made divided by the amount of payments outstanding.

The ratio of transactions paid is calculated as a ratio where the numerator is the sum of the products corresponding to the amounts paid divided by the number of days of payment (difference between the calendar days running from the end of the maximum legal payment period through to effective payment of the transaction), while denominator is the total amount of payments made.

Meanwhile, the ratio of transactions pending payment is a ratio where the numerator is the sum of the products corresponding to the amounts pending payment, divided by the number of days pending payment (difference between the calendar days running from the end of the maximum legal payment period through to the end date of the consolidated annual accounts), and the denominator is the total amount of payments pending.

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

14. Equity

Changes in the consolidated equity in 2018 and 2017 are shown in the accompanying consolidated statements of changes in total equity.

At 31 December 2018 and 2017, the Parent's share capital amounted to € 37,512 thousand and was represented by 2,400,000 registered shares, each having a par value of € 15.63, all fully subscribed for and paid up and conferring the same rights and obligations. There are no restrictions on their free transferability and they are not listed on any stock exchange.

At 31 December 2018 and 2017, the Parent's shareholders were as follows:

	Number of shares
Bankinter, S.A.	2,399,999
Hispamarket, S.A. (Bankinter Group)	1

At 31 December 2018 and 2017, the Parent had posted the minimum capital required under the Law on the Organisation and Supervision of Private Insurance to operate in authorised insurance segments.

a) Legal reserve

In accordance with prevailing commercial legislation, companies that obtain profits during the financial year must allocate 10% of these profits to the legal reserve until this reaches at least 20% of share capital. The legal reserve may be used to increase share capital but only in respect of the part of the reserve that exceeds 10% of share capital already increased. Aside from this purpose, and until the legal reserve exceeds 20% of share capital, it may only be used to offset losses and provided that no other reserves are available for this purpose.

At 31 December 2018 and 2017 the balance of this reserve was above the minimum requirement.

b) Voluntary reserves

The balance of these reserves was unrestricted at 31 December 2018 and 2017.

At their Annual General Meeting of 30 June 2014, the shareholders of the Parent agreed to distribute a final dividend charged to reserves for a total of € 150,000 thousand, payable until 31 December 2017 on the basis of € 50,000 thousand per year. The first payment of this dividend was made in December 2015.

In accounting for this resolution, the implicit financial effect has been taken into account by deducting from available reserves the present value of total dividends payable, discounted at the inter-transaction interest rate required by Bankinter, S.A., the Parent's main shareholder, for similar transactions, which is equivalent to 1.48% per annum. This amount, discounted at 30 June 2014 (the date of the resolution), came to € 144,560 thousand and the voluntary reserves were therefore reduced by this amount during the year. The effect of updating the value of dividends pending payment is recognised as an expense in the non-life insurance technical account under "Expenses from property, plant and equipment and investments – Expenses from financial investments and accounts" and no amount was recognised in 2018 (€ 733 thousand in 2017). The final payment of € 50,000 thousand under this dividend was made in December 2017. Meanwhile, the Board of Directors of the Parent resolved, at its meeting of 21 December 2018, to distribute a dividend of € 14,424 thousand charged to reserves. At the date of the consolidated balance sheet, this dividend had yet to be paid.

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

c) Contributions made by Group companies to the consolidated statement of profit or loss:

Company	2018	2017
Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros.	102,589	119,317
Línea Directa Asistencia, S.L.U.	11,824	10,335
LDActivos, S.L.U.	3,029	2,293
Moto Club LDA, S.L.U.	30	40
Ambar Medline, S.L.U.	12	16
Centro Avanzado de Reparaciones CAR, S.L.U.	(209)	102
LDA Reparaciones, S.L.U.	(30)	(47)
Consolidated profit or loss for the period	**117,245**	**132,056**

The 2018 earnings of Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros, the Parent, were adjusted on consolidation by € 12 thousand (€ 20,055 thousand in 2017) to eliminate the effect of applying the provision for impairment on investments in group companies and the dividend income received from Moto Club LDA, S.L.U.

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

d) Reserves at fully consolidated companies

The breakdown of this reserve by company at 31 December 2018 and 2017 is as follows:

Company	2018	2017
Línea Directa Asistencia, S.L.U.	85,977	75,642
LDActivos, S.L.U.	6,920	4,627
Moto Club LDA, S.L.U.	1,532	1,241
Ambar Medline, S.L.U.	77	62
Centro Avanzado de Reparaciones CAR, S.L.U.	-	-
LDA Reparaciones, S.L.U.	-	-
	94,506	**81,572**

e) Equalisation Reserve and interim dividend

The equalisation reserve is a mandatory reserve prescribed by law and may only be used to cover deviations in terms of claims incurred.

At 31 December 2018, this reserve amounted to € 93,506 thousand, net of the tax effect (€ 86,455 thousand, net of the tax effect, in 2017). An interim reserve of € 7,051 thousand was recognised in the year (€ 6,775 thousand in 2017), which will be charged to profit for the year (see Note 3).

Changes in the equalisation reserve during the year were as follows:

<u>2018:</u>

	Equalisation reserve	Tax effect	Interim Equalisation Reserve
Balance at 31 December 2017	96,425	9,970	(6,775)
Allowances	7,051	-	(7,051)
Amounts utilised	-	-	6,775
Balance at 31 December 2018	**103,476**	**9,970**	**(7,051)**

<u>2017:</u>

	Equalisation reserve	Tax effect	Interim Equalisation Reserve
Balance at 31 December 2016	89,650	9,970	(6,314)
Allowances	6,775	-	(6,775)
Amounts utilised	-	-	6,314
Balance at 31 December 2017	**96,425**	**9,970**	**(6,775)**

The Board of Directors, at its meetings of 21 March 2017, 27 June 2017, 27 September 2017 and 21 December 2018, and the Parent's General Shareholders' Meeting, at the extraordinary meeting held on 28 September (see paragraph b)), resolved to distribute interim dividends out of 2018 profits for a total of € 94,544 thousand. At 31 December 2018, a total of € 39,120 thousand remained outstanding in respect of the resolution passed by the shareholders, of which €24,696 thousand will be paid against fourth quarter earnings while € 14,424 thousand will be charged to unrestricted reserves (see Note 13).

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

The following interim financial statements have been drawn up by the Parent based on the latest available accounting records at the dates of the proposed dividends, in accordance with legal requirements, showing the existence of sufficient liquidity for the distribution of these interim dividends:

Liquidity statements

	Resolution of			
	21/03/2018	**27/06/2018**	**27/09/2018**	**21/12/2018**
Net profit at date of resolution	23,639	46,253	75,281	101,717
Less:	(1,798)	(3,573)	(5,350)	(7,094)
Interim equalisation reserve	-	(21,800)	(42,608)	(69,848)
Interim dividends charged to profit or loss for the year	23,639	46,253	75,281	101,717
Unrestricted profit	**21,841**	**20,880**	**27,323**	**24,775**
Proposal to pay interim dividends	**21,800**	**20,808**	**27,240**	**24,696**
Unrestricted reserves	-	-	-	110,144
Dividends charged to unrestricted reserves	-	-	-	14,424
Total dividend to be paid	**21,800**	**20,808**	**27,240**	**39,120**
Cash liquidity prior to payment	**107,181**	**89,881**	**136,135**	**116,869**
Expected receipts less expected payments	59,086	47,589	4,409	(29,801)
Remaining cash	**166,267**	**137,470**	**140,544**	**87,068**

f) Valuation adjustments

The main item recognised off the consolidated statement of profit or loss is the valuation adjustments made to available-for-sale assets to reflect the amount of capital gains net of tax. Capital gains net of tax came to € 14,570 thousand at 31 December 2018 (€ 38,865 thousand in net gains at 31 December 2017).

g) Solvency

At the date of authorisation for issue of these annual accounts, the Parent's directors can confirm that an internal assessment of risks and solvency has been carried out and that the Línea Directa Aseguradora Group is compliant with overall solvency requirements based on its risk profile, approved risk tolerance limits and business strategy.

The Group has implemented processes that are commensurate with the nature, scale and complexity of the risks inherent in its business and that enable it to properly identify and assess all existing or potential risks to which it may be exposed in the short and long run.

The directors do not expect to encounter any significant obstacles that might impede the Company's compliance with regulatory solvency and minimum capital requirements and that might affect the application of the going concern principle and the continuity of the Company's operations.

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

15. Assets held for sale

The heading "Assets held for sale" in the balance sheet includes the amount of the following two buildings to be sold in 2019:

Property	**Cost of purchase**	**Accumulated depreciation**	**Impairment allowances**	**Carrying amount**
C/ Bravo Murillo 211, Madrid	1,362	(88)	(26)	1,248
Avda. Pagés del Corro 79, Seville	662	(39)	-	623
	2,024	**(127)**	**(26)**	**1,871**

16. Related party transactions

The following transactions were carried out with Bankinter Group entities:

a) Direct insurance operations

A total of € 4,663 thousand € 4,085 thousand in insurance brokerage fees accrued in favour of Bankinter S.A. in 2018 and 2017, respectively, while brokerage fees totalling € 2 thousand accrued in favour of Bankinter S.A., Sucursal en Portugal in 2018 (no fees in 2017). In addition, a total of €231 thousand in insurance premiums was issued in favour of Bankinter S.A. (€ 207 thousand in 2017), € 977 thousand in favour of Bankinter Consumer Finance, S.L.U. (€ 783 thousand in 2017) and € 16 thousand in favour of Bankinter S.A., Sucursal en Portugal (no premiums issued in 2017).

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

b) Transactions due to services rendered and received

	Expenses		Income	
Services rendered and received	**Services received**	**Interest and financial services**	**Services rendered**	**Finance income and leases**
2018				
Bankinter, S.A.	951	355	-	134
Bankinter Consumer Finance, S.L.	616		5,207	
2017				
Bankinter, S.A.	676	1,088	107	22
Bankinter Consumer Finance, S.L.U.	351	-	5,441	-

As explained in Note 14 e), interim dividends totalling € 94,544 thousand were declared in 2018 (€ 99,649 thousand in 2017), in addition to final dividends charged to reserves of € 14,424 thousand (€ 10,000 thousand in final dividends charged to reserves in 2017).

All transactions with Group companies were carried out at arm’s length.

c) Balances with related parties shown on the consolidated balance sheet

The following table shows balances with related parties as shown on the consolidated balance sheet at 31 December 2018 and 2017.

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

2018

	Notes	Group companies	Jointly controlled companies	Associates	Total
Assets					
Debt securities					
Available-for-sale assets – Equity instruments	**8.1.1.1**	10,300	-	-	10,300
Fixed-income securities	**8.1.1.2**	3,039	-	-	3,039
Cash and cash equivalents	**9**	49,680	-	-	49,680
Other receivables					
Other receivables	**8.1.1.2**	1,603	-	-	1,603
Other assets					
Accruals	**8.1.1.1, 8.1.1.2**	37	-	-	37
Total asset balances		**64,659**	**-**	**-**	**64,659**
Liabilities					
Due to group companies and associates	**13**	39,979	-	-	39,979
Total liability balances		**39,979**	**-**	**-**	**39,979**

2017

	Notes	Group companies	Jointly controlled companies	Associates	Total
Assets					
Debt securities					
Available-for-sale assets – Equity instruments	**8.1.1.1**	5,000	-	-	5,000
Fixed-income securities	**8.1.1.2**	5,015	-	-	5,015
Cash and cash equivalents	**9**	38,626	-	-	38,626
Other receivables					
Other receivables	**8.1.1.2**	2,194	-	-	2,194
Other assets					
Accruals	**8.1.1.1, 8.1.1.2**	141	-	-	141
Total asset balances		**50,976**	**-**	**-**	**50,976**
Liabilities					
Due to group companies and associates	**13**	28,393	-	-	28,393
Total liability balances		**28,393**	**-**	**-**	**28,393**

17. Territorial distribution of the business

The Parent’s premiums and technical provisions businesses are carried out in Spain.

18. Tax position

The Boards of Directors of both Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros and its subsidiary, Línea Directa Asistencia S.L.U., agreed that the two companies would avail themselves of the special tax regime provided for in Chapter IX of Law 37/1992, on value added tax, effective 1 January 2010, thus joining VAT Group 128/09, whose parent company is Bankinter, S.A. In 2011, subsidiary company Centro Avanzado de Reparaciones, CAR, S.L.U. also joined the same VAT Group. Subsequently, the integration of subsidiary Ambar Medline, S.L.U. to the VAT Group, effective 1 January 2012, was formally notified. Lastly, LDA Reparaciones joined the tax group effective from 1 January 2018.

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

On 22 April 2015, Línea Directa Aseguradora, S.A. notified the tax authorities of its decision to file consolidated tax returns, as permitted under the Spanish Corporate Income Tax Law, thus forming and becoming the parent of a new consolidated tax group (Tax Consolidation Group No. 486/15) comprising the following companies:

	Tax no.
Parent	
Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros	A80871031
Subsidiary	
LDActivos, S.L.U.	B86322880
Línea Directa Asistencia, S.L.U.	B80136922
Centro Avanzado de Reparaciones CAR, S.L.U.	B84811553
Ambar Medline, S.L.U.	B85658573
Moto Club LDA, S.L.U.	B83868083
LDA Reparaciones, S.L.U.	B87619961

Law 27/2014 of 27 November, on income tax, sets, inter alia, the tax rate payable by the Group in 2018 and 2017 at 25%.

The reconciliation between accounting profit and taxable income for income tax purposes for 2018 and 2017 is as follows:

	2018		**2017**	
	Statement of profit or loss	**Income and expenses recognised directly in equity**	**Statement of profit or loss**	**Income and expenses recognised directly in equity**
Accounting profit/(loss) for the year	**117,233**	-	**112,001**	-
Income tax	38,760	-	40,002	-
Permanent differences:				
- Increases	2,555	-	1,035	-
- Reductions	(250)		-	
Taxable profit/(loss)	**158,297**	-	**153,038**	-
Temporary differences:				
Originating in the year				
- Increases	75,382	32,393	84,670	-
- Reductions	(7,051)	-	(6,775)	(1,456)
Originating in previous years				
- Increases	112	-	199	-
- Reductions	(78,562)	-	(76,748)	-
Tax losses carried forward	-	-	(74)	-
Tax base	**148,179**	**32,393**	**154,310**	**(1,456)**

Details of current and deferred income tax expense recognised in the consolidated statement of profit or loss for 2018 and 2017 are as follows:

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

	2018	2017
Current tax expense	36,230	40,357
Adjustments to deferred taxes	2,530	(355)
Corporate income tax expense	**38,760**	**40,002**

Income tax expense recognised in 2018 and 2017 was calculated on the basis of the taxable profit/(loss) shown in the above table, as follows:

	2018	2017
Accounting profit/(loss) before tax	**155,993**	**155,149**
Tax rate	**25%**	**25%**
Tax payable	38,998	**38,787**
Deductions on tax payable	(1059)	-
Adjustment for settlement of previous year CIS	102	2,710
Non-deductible expenses	639	259
Non-taxable income	(63)	-
Deductions and amounts utilised, net	142	(968)
Corporate income tax expense	**38,760**	**40,002**

Contingent tax liabilities may exist due to possible differences in the interpretation of tax legislation applicable to the transactions. The Company's directors estimate these contingencies to amount to € 2,700 thousand, for which a provision has been recognised under "Provision for taxes and other legal contingencies" in the balance sheet.

Consolidated statement of profit or loss

The increases in permanent differences in 2018 arise from various transactions that are not deductible for income tax purposes, relating specifically to contributions made by the Parent for contingencies under pension plans, which are not tax deductible in accordance with section 14.2 of the Corporate Income Tax Law, extraordinary expenses due to sanctions and, lastly, donations made by the Company to Fundación Línea Directa and certain other entities.

The increase in temporary differences originating in the year, as well as reductions originating in previous years, is mainly down to the adjustment of the provision for claims calculated through the use of statistical methods, as set out in Additional Provision Three of the Regulation on the Organisation and Supervision of Private Insurance.

Reductions arising in prior years relate mainly to the reversal of positive adjustments to the provision for claims.

Income and expenses recognised directly in consolidated equity

Temporary changes originating in the year include the depreciation or revaluation of investments classified as available for sale.

Tax assets and liabilities

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

Tax assets and liabilities were as follows at 31 December 2018 and 2017:

	2018	2017
Tax assets		
Current tax		
Withholdings for the year	547	555
Deferred tax		
Temporary differences	26,888	23,445
Tax liabilities		
Current tax		
Corporate income tax debt	8,777	15,952
Deferred tax		
Temporary differences	35,757	37,883

Current tax assets relate to corporate income tax deductions for the year that will be settled in the following year.

The tax assets due to temporary differences relate to temporary differences arising in the year, as indicated in the reconciliation of accounting profit and prior taxable income and the tax effect on capital losses of the "available-for-sale" investment portfolio.

Temporary differences existing at 31 December 2018 will be reversed from 2019 onwards, and deferred income tax is therefore calculated by applying a tax rate of 25% to the deductible temporary differences arising at the end of the year (increases) and the reversal of deductible temporary differences from the prior year (reductions).
Current tax liabilities show the amount of corporate income tax payable for the year, net of payments on account.

At 31 December 2018 and 2017, deferred tax liabilities relate to the tax effect on:

1. The balance arising from the equalisation reserve at year-end of € 25,869 thousand (€ 24,106 thousand in 2017), which will be paid to the tax authorities in the year in which that provision is posted.

2. The tax impact of capital gains on the "available-for-sale" investment portfolio amounting to € 9,869 thousand (€ 13,729 thousand in 2017).

3. The tax impact of the carrying amount of certain assets acquired in 2012, 2011, 2010 and 2009, which are fully depreciated for tax purposes, in accordance with Additional Provision 11 of the Income Tax Law, amounting to € 19 thousand (€ 47 thousand in 2017).

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

The following table shows changes in deferred tax assets and liabilities in 2018.

	Balance at 31.12,2017	Originating in profit and loss: Additions	Originating in profit and loss: Retirements	Originating in equity: Additions	Originating in equity: Retirements	Balance at 31.12,2018
Deferred assets						
Positive temporary differences in assets	22,544	18,857	(19,641)	-	-	21,760
Capital losses on available-for-sale assets	774	-	-	-	4,238	5,012
Rights to deductions and rebates	127	43	(54)		-	115
Total	**23,445**	**18,900**	**(19,695)**	**-**	**4,238**	**26,888**
Deferred liabilities						
Tax effect of the equalisation reserve	(24,106)	-	(1,763)	-	-	(25,869)
Capital gains on the portfolio of available-for-sale assets	(13,729)	-	-	-	3,860	(9,869)
Liabilities – temporary differences from tax deduction for maintaining jobs	(47)	-	28	-	-	(19)
Total	**(37,883)**	**-**	**(1,735)**	**-**	**3,860**	**(35,757)**

Inspections in progress

On 14 September 2016, the Parent was notified of the commencement of inspection proceedings by the Central Delegation of Large Taxpayers attached to the Spanish Tax Agency, for the verification and general investigation of the following taxes and periods:

- Corporate income tax for 2011 to 2013.
- Value added tax from July 2012 to December 2013.
- Withholdings/payments on account of investment income from July 2012 to December 2013.
- Withholdings/income on account of work/professional earnings from July 2012 to December 2013.
- Withholdings/income on account of property leases from July 2012 to December 2013.
- Non-resident withholding tax from July 2012 to December 2013.
- Annual statement of transactions for the years 2012 and 2013.
- Tax on insurance premiums from July 2012 to December 2013.

In relation to income tax for 2011, 2012 and 2013, tax assessments were signed at the end of 2018 in agreement and in protest of the findings. A final decision on these disputes will be delivered in 2019. In any event, there are no significant aspects in this regard that have not already been addressed and provisioned for. For the other taxes subject to inspection, the findings have been verified and accepted.

Pursuant to Inspection Order 51/2016 of 14 November 2016, inspection proceedings were initiated in relation to the surcharges payable to the Insurance Compensation Consortium (CSS) in 2016. On 22 December 2017, the Parent was notified of the findings and the corresponding arguments were then lodged by the Company on 25 January 2018. On 21 June 2018, a resolution was received from the Directorate General of Insurance and Pension Funds. Meanwhile, on 23 November 2016, the Parent received notification of inspection proceedings regarding market practices, with further information requested for 31 December 2015. On 27 March 2018, the Parent was notified of the findings, and the corresponding arguments were then lodged by the Parent on 27 April 2018. On 25 September 2018, a resolution was received from the Directorate General of Insurance and Pension Funds.

The Board of Directors does not believe that these proceedings will ultimately result in any significant contingency, control measure or any other risks that might have a significant impact on the Group's consolidated annual accounts.

19. Income and technical expenses by non-life insurance segment

Details of technical income and expenses for 2018 and 2017 are as follows for each of the main segments:

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

2018:

	Total	Motor, general liability insurance	Motor, other coverage	Home	Other insurance	Health
I.1.1. Direct insurance	853,120	352,546	388,632	100,691	3,733	7,518
I.1.3. Change in provision for outstanding premiums	(595)	(239)	(225)	(27)	(40)	(64)
I.2. Premiums from ceded reinsurance	(11,813)	(2,255)	(2,575)	(2,655)	(645)	(3,683)
I.3. Change in the provision for unearned premiums	**(25,982)**	**(6,113)**	**(11,370)**	**(5,603)**	**167**	**(3,063)**
I.3.1. Direct insurance	(25,982)	(6,113)	(11,370)	(5,603)	167	(3,063)
I.4. Change in the provision for unearned premiums on reinsurance	1,559	120	-	-	-	1,439
I. Total premiums earned, net of reinsurance	**816,289**	**344,059**	**374,462**	**92,406**	**3,215**	**2,147**
II.1. Income from investments in property, plant and equipment	4,514	1,924	2,062	499	17	12
II.2. Income from financial investments	31,483	17,684	10,245	3,032	133	389
II.3. Application of value adjustments for investments	-	-	-	-	-	-
II.3.2.Investments in property, plant and equipment	-	-	-	-	-	-
II.3.2.Financial investments	-	-	-	-	-	-
II.4. Gains/(losses) on realisation of investments	**16,024**	**9,801**	**6,050**	**163**	**6**	**4**
II.4.1.Investments in property, plant and equipment	1,443	610	660	163	6	4
II.4.2.Financial investments	14,581	9,191	5,390	-	-	-
II. Total investment income	**52,021**	**29,409**	**18,357**	**3,694**	**156**	**405**
III. Other technical income	-	-	-	-	-	-
IV.1. Claims paid	**439,200**	**244,744**	**156,976**	**36,164**	**175**	**1,141**
IV.1.1. Direct insurance	440,457	244,744	156,988	36,323	175	2,227
IV.1.3. Reinsurers' share	(1,257)	-	(12)	(159)	-	(1,086)
IV.2. Change in the provision for claims	**(13,811)**	**(16,304)**	**(3,475)**	**5,414**	**27**	**527**
IV.2.1. Direct insurance	(13,772)	(16,958)	(3,559)	5,712	(14)	1,047
IV.2.3. Reinsurers' share	(39)	654	84	(298)	41	(520)
IV.3. Claims-related expenses	**103,365**	**30,592**	**64,916**	**6,637**	**22**	**1,198**
IV. Total claims incurred in the period, net of reinsurance	**528,754**	**259,032**	**218,417**	**48,215**	**224**	**2,866**
B.V. Changes in technical provisions	-	-	-	-	-	-
B.VI. Profit sharing	**751**	-	-	-	**751**	-
VII.1. Acquisition expenses	178,545	66,036	71,359	30,572	1,027	9,551
VII.2. Administration expenses	20,829	6,954	8,970	4,465	30	410
VII.3. Reinsurance commissions and profit sharing	(3,878)	-	-	-	-	(3,878)
VII. Total net operating expenses	**195,496**	**72,990**	**80,329**	**35,037**	**1,057**	**6,083**
VIII. Change in equalisation provision	-	-	-	-	-	-
IX.1. Change in provision for insolvencies	-	-	-	-	-	-
IX.3. Change in provision for payments under claims settlement agreements	(32,665)	(40,276)	7,611	-	-	-
IX.4. Other technical expenses	6,186	2,396	3,090	460	-	240
IX. Other technical expenses	**(26,479)**	**(37,880)**	**10,701**	**460**	**-**	**240**
X.I. Investment management expenses	7,581	4,604	2,878	96	3	-
X.1.1.Expenses from managing investments in property, plant and equipment	2,135	1,171	865	96	3	-
X.1.2. Expenses from managing financial investments	5,446	3,433	2,013	-	-	-
X.2. Investment valuation adjustments	**27**	18	9	-	-	-
X.2.1. Depreciation of investments in property, plant and equipment	27	18	9	-	-	-
X.2.3. From provisions for financial investments	-	-	-	-	-	-
X.3. Losses on investments	**10,864**	**6,847**	**4,017**	**-**	**-**	**-**
X.3.1. Losses on investments in property, plant and equipment	2	-	2	-	-	-
X.3.2. Losses on financial investments	10,862	6,847	4,015	-	-	-
X. Total investment expenses	**18,472**	**11,469**	**6,904**	**96**	**3**	**-**

Result of the non-life insurance technical account (I+II+III-IV-V-VI-VII-VIII-IX-X)	**151,316**	**67,857**	**76,468**	**12,292**	**1,336**	**(6,637)**

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

2017:

	Total	Motor, general liability insurance	Motor, other coverage	Home	Other insurance	Health
I.1.1. Direct insurance	797,422	338,738	364,881	89,599	3,766	438
I.1.3. Change in provision for outstanding premiums	(237)	(129)	(75)	(13)	(18)	(2)
I.2. Premiums from ceded reinsurance	(6,789)	(2,004)	(2,082)	(1,911)	(583)	(209)
I.3. Change in the provision for unearned premiums	**(29,415)**	**(11,200)**	**(12,168)**	**(5,667)**	**1**	**(381)**
I.3.1. Direct insurance	(29,415)	(11,200)	(12,168)	(5,667)	1	(381)
I.4. Change in the provision for unearned premiums on reinsurance	**322**	**142**	**-**	**-**	**-**	**180**
II. Total premiums earned, net of reinsurance	**761,303**	**325,547**	**350,556**	**82,008**	**3,166**	**26**
II.1. Income from investments in property, plant and equipment	4,397	1,904	2,013	462	18	-
II.2. Income from financial investments	32,116	18,440	10,329	3,193	148	6
II.3. Application of value adjustments for investments	**929**	**512**	**375**	**40**	**2**	**-**
II.3.2.Investments in property, plant and equipment	929	512	375	40	2	-
II.3.2.Financial investments	-	-	-	-	-	-
II.4. Gains/(losses) on realisation of investments	**5,257**	**3,356**	**1,901**	**-**	**-**	**-**
II.4.1.Investments in property, plant and equipment	2	2	-	-	-	-
II.4.2.Financial investments	5,255	3,354	1,901	-	-	-
II. Total investment income	**42,699**	**24,176**	**14,634**	**3,715**	**168**	**6**
III. Other technical income	-	-	-	-	-	-
IV.1. Claims paid	**388,750**	**210,384**	**145,020**	**33,244**	**97**	**5**
IV.1.1. Direct insurance	388,828	210,384	145,020	33,317	97	10
IV.1.3. Reinsurers' share	(78)	-	-	(73)	-	(5)
IV.2. Change in the provision for claims	**19,258**	**10,659**	**9,088**	**(481)**	**(27)**	**19**
IV.2.1. Direct insurance	20,827	11,271	9,028	563	(72)	37
IV.2.3. Reinsurers' share	(1,569)	(612)	60	(1,044)	45	(18)
IV.3. Claims-related expenses	**94,144**	**27,840**	**59,005**	**6,990**	**24**	**285**
IV. Total claims incurred in the period, net of reinsurance	**502,152**	**248,883**	**213,113**	**39,753**	**94**	**309**
B.V. Changes in technical provisions	-	-	-	-	-	-
B.VI. Profit sharing	**379**	**-**	**-**	**-**	**379**	**-**
VII.1. Acquisition expenses	154,834	59,561	63,917	25,401	1,120	4,835
VII.2. Administration expenses	18,685	6,535	8,367	3,530	31	222
VII.3. Reinsurance commissions and profit sharing	(1,605)	-	-	-	-	(1,605)
VII. Total net operating expenses	**171,914**	**66,096**	**72,284**	**28,931**	**1,151**	**3,452**
VIII. Change in equalisation provision	-	-	-	-	-	-
IX.1. Change in provision for insolvencies	-	-	-	-	-	-
IX.3. Change in provision for payments under claims settlement agreements	(31,572)	(35,734)	4,162	-	-	-
IX.4. Other technical expenses	6,654	2,611	3,343	460	-	240
IX. Other technical expenses	**(24,918)**	**(33,123)**	**7,505**	**460**	**-**	**240**
X.I. Investment management expenses	6,773	4,092	2,504	170	7	-
X.1.1.Expenses from managing investments in property, plant and equipment	2,144	1,190	859	91	4	-
X.1.2. Expenses from managing financial investments	4,629	2,902	1,645	79	3	-
X.2. Investment valuation adjustments	**237**	**152**	**85**	**-**	**-**	**-**
X.2.1. Depreciation of investments in property, plant and equipment	27	18	9	-	-	-
X.2.3. From provisions for financial investments	210	134	76	-	-	-
X.3. Losses on investments	**567**	**362**	**205**	**-**	**-**	**-**
X.3.1. Losses on investments in property, plant and equipment	-	-	-	-	-	-
X.3.2. Losses on financial investments	567	362	205	-	-	-
X. Total investment expenses	**7,577**	**4,606**	**2,794**	**170**	**7**	**-**

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

Result of the non-life insurance technical account (I+II+III-IV-V-VI-VII-VIII-IX-X)	**146,898**	**63,261**	**69,494**	**16,409**	**1,703**	**(3,969)**

20. Non-life insurance technical result by year of occurrence

Technical results by year of occurrence for non-life segments for the years ended 31 December 2018 and 2017 are as follows:

2018:

		Motor	Home	Health (*)
I.	**Premiums earned (Direct)**	**716,181**	**95,061**	**4,390**
	Premiums net of cancellations	734,127	100,691	7,517
	+/- Change in provisions for unearned premiums	(17,482)	(5,603)	(3,063)
	+/- Change in provisions for outstanding premiums	(464)	(27)	(64)
II.	**Premiums from ceded reinsurance**	**4,709**	**2,655**	**2,245**
	Premiums net of cancellations	4,829	2,655	3,684
	+/- Change in provisions for unearned premiums	(120)	-	(1,439)
	A. Total premiums earned, net of reinsurance (I-II)	**711,472**	**92,406**	**2,145**
III.	**Claims incurred (Direct)**	**548,767**	**49,875**	**4,470**
	Benefits and expenses paid for claims incurred during the year, including attributable claims-related expenses	549,983	49,937	4,324
	Technical provisions for claims incurred during the year	(1,216)	(62)	146
IV.	**Claims incurred from reinsurance (ceded)**	**1**	**173**	**1,605**
	Benefits and expenses paid on claims incurred during the year	1	173	1,532
	Technical provisions for claims incurred during the year	-	-	73
	B. Total net reinsurance claims incurred (III-IV)	**548,766**	**49,702**	**2,865**
V.	**Acquisition expenses**	**137,395**	**30,572**	9,551
VI.	**Administration expenses**	**15,924**	**4,465**	410
VII.	**Other technical expenses and income**	**(27,179)**	**460**	240
VIII.	**Commissions on ceded reinsurance**	-	-	(3,878)
IX.	**Technical financial income net of the same expenses**	**28,125**	**3,435**	**401**
	Profit/(loss)	**64,691**	**10,642**	**(6,642)**

2017:

	Motor	Home	Health (*)
I. Premiums earned (Direct)	**673,272**	**83,919**	**56**
Premiums net of cancellations	696,844	89,599	439
+/- Change in provisions for unearned premiums	(23,368)	(5,667)	(381)
+/- Change in provisions for outstanding premiums	(204)	(13)	(2)
II. Premiums from ceded reinsurance	**3,944**	**1,911**	**29**
Premiums net of cancellations	4,086	1,911	209
+/- Change in provisions for unearned premiums	(142)	-	(180)
A. Total premiums earned, net of reinsurance (I-II)	**669,328**	**82,008**	**27**
III. Claims incurred (Direct)	**536,829**	**43,501**	**331**
Benefits and expenses paid for claims incurred during the year, including attributable aims-related expenses	536,272	43,235	326
Technical provisions for claims incurred during the year	557	266	5
IV. Claims incurred from reinsurance (ceded)	**1,672**	**892**	**23**
Benefits and expenses paid on claims incurred during the year	1,672	892	20
Technical provisions for claims incurred during the year	-	-	3
B. Total net reinsurance claims incurred (III-IV)	**535,157**	**42,609**	**309**
V. Acquisition expenses	**123,478**	**25,401**	**4,835**
VI. Administration expenses	**14,902**	**3,530**	**222**
VII. Other technical expenses and income	**(25,618)**	**460**	**240**
VIII. Commissions on ceded reinsurance	-	-	**(1,605)**

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

IX. Technical financial income net of the same expenses	**31,408**	**3,545**	**6**
Profit/(loss)	**52,817**	**13,553**	**(3,968)**

In the Other insurance segment, claims are settled at the time they occur and there are therefore no claims incurred from previous periods. As such, there is no difference between the technical account and the account by occurrence, meaning it is not necessary to post provisions for unexpired risks.

(*) The marketing and sale of Health segment products commenced in October 2017.

21. Remuneration and other benefits of the Board of Directors

Remuneration received by the directors and Senior Management of Group companies in 2018 amounted to € 101 thousand and € 4,443 thousand, respectively (€ 112 thousand and € 3,797 thousand, respectively, in 2017), broken down as follows:

2018

	Fixed salary	Variable salary	Remuneration in kind	Per diems/allowances	Total
Senior Management	3,315	989	139	-	4,443
Directors	-	-	-	101	101
	3,315	**989**	**139**	**101**	**4,544**

2017:

	Fixed salary	Variable salary	Remuneration in kind	Per diems/allowances	Total
Senior Management	2,765	859	173	-	3,797
Directors	-	-	-	112	112
	2,765	**859**	**173**	**112**	**3,909**

The mathematical provision for Senior Management pensions amounted to € 6,206 thousand at 31 December 2018 (€ 5,055 thousand at 31 December 2017) and has been externalised (see Note 11). These commitments vis-à-vis members of the Group's management resulted in the payment of € 1,298 thousand in premiums in 2018, with no policy surrenders taking place (premiums of € 350 thousand and no policy surrenders in 2017) (see Note 11).

The Parent has also arranged a defined contribution pension plan for members of Senior Management, in the form of a savings policy. This policy accrued premiums of € 82 thousand in 2018 and its mathematical provision at year-end came to € 273 thousand.

The Parent paid a total of € 8 thousand in civil liability insurance premiums in both 2018 and 2017, such policies covering Senior Management and other executives with decision-making powers at the Company.

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

22. Other expenses and other income

Other income and other expenses in the technical account of the consolidated statement of profit or loss for 2018 and 2017 is as follows:

	2018	2017
Other technical expenses		
Change in provision for payments under settlement agreements (Note 12)	(695)	3,519
Change in certain recoveries due to settlement agreements	(1,683)	(3,428)
Payments and recoveries under claim settlement agreements	(30,287)	(31,663)
Expenses recognised at destination	6,186	6,654
	(26,479)	**(24,918)**

The breakdown of other income and other expenses in the consolidated non-technical statements of profit or loss is as follows:

	2018	2017
Other non-technical expenses		
Costs of sending documentation to customers	3,089	4,027
Costs of distributing policies of other insurers	461	969
Reclassified non-technical expenses	5,846	4,778
	9,396	**9,774**
Other non-technical income		
Intermediation income from credit cards and other insurers' policies	1,565	2,062
Commission payment for Insurance Compensation Consortium	534	511
Income from bank branch management	1,008	914
Income from management expenses passed on	3,089	4,034
Income from profit sharing in businesses delivered to Bankinter	1,015	1,115
Reclassified non-technical income	6,862	6,243
	14,073	**14,879**

23. Other information

a) Guarantees with third parties

Guarantees provided to third parties amounted to € 1,955 thousand at 31 December 2018, mainly in the form of guarantees for investments in advertising (€ 1,604 thousand at 31 December 2017), and € 3,441 thousand in the form of court guarantees and deposits due on legal claims (€ 4,234 thousand at 31 December 2017). The Group had likewise posted € 83 thousand as security for office leases at 31 December 2018 (31 December 2017: € 95 thousand), which expire annually.

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

b) Staff expenses and average number of employees

The breakdown of staff expenses in 2018 and 2017 is as follows:

	2018	2017
Wages and salaries	80,425	73,582
Termination benefits	1,562	1,222
Social security contributions and others	23,942	21,399
	105,929	**96,203**

The average number of employees at Group companies in 2018 and 2017, broken down by professional category, is as follows:

	2018			2017		
	Total	**Women**	**Men**	**Total**	**Women**	**Men**
Managers	14	4	10	14	4	10
Heads of department	82	39	43	85	39	46
Accident managers	510	356	154	512	359	153
Sales managers	839	539	300	728	470	258
Supervisors and coordinators	248	109	139	244	103	141
Qualified personnel	480	167	313	516	260	256
Total	**2,173**	**1,214**	**959**	**2,099**	**1,235**	**864**

Meanwhile, the distribution by gender of the employees and directors of Group companies, broken down by category and gender, was as follows at 31 December 2018 and 2017:

	2018			2017		
	Total	**Women**	**Men**	**Total**	**Women**	**Men**
Directors	9	2	7	9	2	7
Managers	14	4	10	14	4	10
Heads of department	82	39	43	84	39	45
Accident managers	517	358	159	527	371	156
Sales managers	886	572	314	797	515	282
Supervisors and coordinators	254	112	142	252	106	146
Qualified personnel	603	261	342	520	256	264
Total	**2,356**	**1,346**	**1,010**	**2,203**	**1,293**	**910**

The average number of employees with a degree of disability greater than or equal to 33% is 34 (32 employees in 2017).

c) Audit fees

Fees payable to PricewaterhouseCoopers Auditores, S.L. in 2018 for audit services and limited reviews provided to Group companies amounted to € 122 thousand, excluding expenses and VAT (€ 118 thousand in 2017). PricewaterhouseCoopers Auditores, S.L. also reviewed the solvency and financial condition report for 2017, for which its fees amounted to € 30 thousand, excluding expenses and VAT.

d) Financial structure

At 31 December 2018 and 2017, the Parent was the head of the Línea Directa Aseguradora Group, whose subsidiaries are listed in Note 1 to these consolidated financial statements.

In turn, Línea Directa Aseguradora S.A., Compañía de Seguros y Reaseguros belongs to the Bankinter Group and is fully consolidated.

On 17 February 2014, the Línea Directa Foundation was set up through a non-refundable contribution of € 30 thousand to the founding endowment. The Foundation strives to improve road safety by preventing and reducing road accidents, promoting responsible behaviour at the wheel, fostering education in road safety, getting involved in post-accident prevention, intervention and care activities for victims, while also carrying out whatever other actions may be conducive to the best achievement of its goals.

e) Information on the environment and on greenhouse gas emission allowances

The Group companies did not make any investment in, or incur any expenses from environmental protection activities in either 2018 or 2017.

The Parent's directors consider that no significant contingencies exist when it comes to the environmental protection and improvement and did not consider it necessary to post any provision for environmental risks and expenses at 31 December 2018 and 2017.

No amount was allocated to those items, nor was there any changes in expenses or provisions in 2018 and 2017, and nor were any forward contracts signed or grants received in relation to greenhouse gas emission allowances.

f) Information on conflicts of interest affecting directors and their related persons

At the end of 2018, none of the Parent's directors, nor any person related to them within the meaning of Article 229 of the Capital Companies Law (*Ley de Sociedades de Capital*), notified the other directors of any conflict they may have, either directly or indirectly, with the Company's own interests.

g) Customer Service Department

The Customer Service Department operates in compliance with Order ECO 734/2004, of 11 March, on customer care departments and services of financial institutions, which seeks to regulate the requirements all such departments and services must meet.

The aim of the Customer Service Department (CCS) and the Consumer Ombudsman is to address and resolve any complaints or claims that any individual or legal entity may submit to the Parent, guided by the principles of impartiality, speed, economy, publicity, due process and efficiency, and acting with total autonomy in respect of the Company's other departments with regard to the criteria and guidelines to be applied in discharging its functions so as to ensure fully independent decision-making.

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

In 2018, a total of 11,947 incidents were handled (4,014 incidents in 2017), 1,926 (16.12%) of which were complaints (1,069 (26.63%) complaints in 2017) and 10,021 (83.88%) claims (2,945 (73.37%) claims in 2017). Of the total, 24.77% related to Policy quoting and management, 66.51% to Accident management and 4.03% to the Roadside assistance service (2017: 44.79%, 48.16% and 4.03%, respectively).

Main issues raised by customers:

1. Policy cancellation, in relation to processing and reimbursement of unearned premiums.
2. Rejection of damage claim following expert inspection.
3. Application of terms and conditions when managing claims.

Of the total complaints and claims received in 2018, 23.05% of decisions were delivered in favour of the claimant (51.5% in 2017).

Meanwhile, a total of 920 cases were heard by the Consumer Ombudsman in 2018 (1,153 cases in 2017).

h) Operating leases

The Group's operating lease receivables were as follows in 2018 and 2017:

	2018	2017
Within one year	4,059	4,384
Between 1 and 5 years	16,236	13,004
Beyond 5 years	2,310	4,026
	22,605	**21,414**

24. Objectives, policies and procedures for managing risks arising from insurance contracts

Insurance business risk attaches mainly to non-life insurance contracts, which in turn consists of premium sub-risk (risk of sufficiency of premiums) and reserve sub-risk (risk of sufficiency of technical provisions).

The Group manages reinsurance as a primary tool for mitigating the premium and reserve sub-risks. Reinsurance also forms part of counterparty risk due to the risk of default of the amounts recoverable from the reinsurance companies.

Reinsurance policy

The reinsurance system followed by the Group is based mainly on an Excess of Loss (XL) structure to achieve protection against serious losses or catastrophic losses and events caused by natural phenomena not covered by the Insurance Compensation Consortium, using reinsurance to provide stability against this type of random natural catastrophes, for both occurrence and amount, and quota share reinsurance arrangement for the health insurance segment signed in 2017.

On 1 September 2017, the Parent entered into a quota share reinsurance contract for the health insurance business, which expires on 31 December 2025 and comes with a two-year renewal option. This agreement includes the assignment of 50% of the majority of the policies of the business covered.

The contract also includes a table of fixed and variable reinsurance commissions for the Parent. The variable commission is calculated on the basis of the premiums ceded over the term of the agreement and changes in claims incurred (loss ratio) over the last three years. There is also a further variable commission based on the premium written over the first five years of the agreement. These commissions are subject to a maximum limit.

It also envisions profit sharing at the Parent based on whether positive technical results are obtained.

In the case of the early termination, compensation will be paid due to cancellation by any of the parties if they are unable to reach an agreement or in any other situation that frustrates the continuation and normal performance of the contract. However, early termination clauses that may pose a threat to the effective transfer of risks and rewards relate in all cases to extremely remote situations.

The performance of the technical result and the credit recognised by the Parent will depend on the changes in the main technical aggregates, such as premiums, claims incurred, and acquisition and administrative expenses. There may therefore be differences in respect of the business plan defined by the Parent.

Reinsurers must be filed with the National Financial Services Commission, CNSF (Comisión Nacional de Servicios Financieros) and comply with strict security requirements. They must also possess outstanding ratings that demonstrate their financial solvency. Foreign companies must present a certificate of residence in Spain.

The criteria followed for establishing the reinsurance network requires at least an 'A' rating of reinsurance companies. However, a deposit clause will be included in contracts of reinsurance companies with an S&P of rating below AA-. Any exception is approved by the Board of Directors.

The ratings of the various companies that are included in the reinsurance network are reviewed on a quarterly basis, with monitoring of the credit risk ratings published by Standard & Poor's, to control any changes in probability of default of the commitments undertaken.

Premium sub-risk

The Technical Department of Línea Directa Aseguradora adjusts products and prices in accordance with the Group's general strategy. All these modifications are supported by actuarial analyses documented in the related technical notes and approved by the Technical Committee, which is the body responsible for managing this sub-risk.

The Technical Committee takes operational decisions that affect prices and risk underwriting terms for the products offered by Línea Directa Aseguradora, ensuring that they are consistent with the strategy and objectives established by the Board of Directors. To do so, it considers the proposals presented by the Technical Department, also taking into account data on the position of the business and the outlook provided by the different business areas.

Reserve sub-risk

When estimating liabilities under insurance contracts in the Motor insurance segment, the Group relies on statistical methods based on the "chain ladder" methodology, and stochastic methods based on the "bootstrapping" methodology. Finally, it runs a comparison with the "average cost" method to ensure reasonableness.

To estimate the provision for claims in the home, other insurance, health and medical assistance segments, the Parent analyses each claim on its merits.

The Claims and Reserves Committee is responsible for managing the Parent's reserve risk and reinsurance credit risk. It functions are to monitor the Parent's reserves and provisions to ensure adequate coverage of claims, and to approve changes in the policies for the opening and provisioning of claims for all the different levels of coverage and guarantee, thus ensuring the adequacy of reserves, in accordance with the guidelines approved by the Parent's Board of Directors.

Furthermore, to ensure that the Group complies with the obligations arising from Additional Provision 18 of Law 20/2015 of 14 July, and so that the technical provisions shown on the consolidated balance sheet reflect the obligations arising from the contracts underwritten, the controls listed below have been put in place to post the provision for claims:

1. Analysis of the trend in subsequent periods of cost deviations of claims occurring before the end of each period. The analysis is carried out on the basis of claims incurred and reported at the end of the reference period. Its purpose is to check and to correct possible cost deviations that occur in claims of those referred to as "long tail", which are caused as a result of not having sufficient information at the reporting date to properly assess them.

2. Performance of monthly and quarterly forecasts of claim costs

3. The Parent's reserves position is also analysed by independent consultants at least once a year and the findings are presented to the Board of Directors.

Concentrations of insurance risk

The Group's insurance business is located entirely within Spain, with no particularly significant concentration in any given geographical area.

The Group's business focuses on non-life segments (mainly motor risks), which, in terms of insurance premiums, show the following distribution:

	2018

Notes to the consolidated financial statements for the year ended 31 December 2018 (in thousand euro)

	Total	Risks – Motor	Multi-risks – Home	Risks – Other insurance	Risks – Health
Premiums written	853,120	741,178	100,691	3,733	7,518
Premiums ceded	(11,813)	(4,830)	(2,655)	(645)	(3,683)

			2017		
	Total	Risks – Motor	Multi-risks – Home	Risks – Other insurance	Risks – Health
Premiums written	797,422	703,619	89,599	3,766	438
Premiums ceded	(6,789)	(4,086)	(1,911)	(583)	(209)

25. Events after the reporting period

On 31 January 2019, the two properties recognised under “Assets held for sale” were sold. Aside from the event just mentioned, no further significant events have occurred since the end of 2018 through to the date of authorisation for issue of these consolidated financial statements.

Business performance

Despite the prevailing crisis environment affecting all sectors of the Spanish economy, the Group reported net reinsurance premiums of € 816 million in 2018, up 7.27% on the previous year.

The number of customers gained 7.9% on 2017 to reach 3.01 million.

The non-life insurance technical account shows a profit of € 132.77 million, up 1.34% on the profit reported in 2017, mainly due to an improvement in the combined ratio. In 2018, net reinsurance claims incurred stood at 64.78%, compared to 67.54% in 2017.

Premium turnover for the Home segment, which has been operating for 11 years, totalled € 100.7 million in 2018, marking an increase of 12.47% on the previous year. The Other insurance segment contributed € 1.32 million to the result of the technical account in 2018. In September 2017, the Group launched the Vivaz brand to start operating in the health insurance segment. This new segment generated premium income of € 7.5 million in its first three months of activity.

The average rate of return on fixed income securities was 3.14%, while on deposits at credit institutions it was 0.10% in the period, and the return on the equity portfolio was 7.65%.

The Group has continued to pursue its investment policy with the aim of guaranteeing the security, liquidity and profitability of its investments, applying principles of dispersion and diversification and ensuring a suitable mix of investment maturities (terms) in respect of the technical liabilities to be covered, in a bid to mitigate market, credit, liquidity and cash flow risks.

Outlook for 2019

Financial year 2019 looks promising for the Línea Directa, S.A. Group, with projected premium growth expected to exceed the level reported in 2018 across all segments, plus further growth in the policy portfolio in line with the trend seen in previous years.

The Group will continue to focus on improving technical infrastructure, particularly information systems, while focusing on the need to promote the use of the Internet as a sales channel and ensuring the continuous improvement of risk selection processes and pricing policies in order to become more efficient.

Information on deferred payments to suppliers

The Group settles payments to suppliers before the legal deadlines (30 days) and in certain specific cases as per the conditions explicitly agreed upon with the suppliers, without in any case exceeding 60 days. The average payment period to suppliers is 23.73 days.

Transactions with treasury shares

The Group does not engage in transactions involving its own shares or those of its ultimate Parent (Bankinter, S.A.).

Use of derivative financial instruments

The Parent did not use derivative financial instruments in 2018 to hedge the risk of its investments.

These investments adhere strictly to the Investment Policy approved by the Board of Directors. Compliance with the Investment Framework is regularly checked by the Group's Internal Control Area.

Events after the reporting date

No material event has taken place since the end of the 2018 financial year.

Research and development

The Group continued to engage in research and development activities in 2018, involving the development of advanced IT applications applied to motor insurance management.

Claims and Consumer Ombudsman

In accordance with Order ECO/734/2004 of 11 March, the Línea Directa Customer Service Department and the Consumer Ombudsman have drawn up reports to explain their activities and performance in 2016. These reports are summarised below:

a) Complaints and claims – 2018

In 2018, a total of 11,947 incidents were handled, 16.12% of which qualified as complaints (1,926) and 83.88% as claims (10,021). Of this total, 24.77% related to Policy quoting and management, 66.51% to Accident management and 4.03% to the Roadside assistance service.

1. Policy cancellation, in relation to processing and reimbursement of unearned premiums.
2. Rejection of damage claim following expert inspection.
3. Application of terms and conditions when managing claims.

Of the total complaints and claims received in 2018, 23.05% of decisions were delivered in favour of the claimant (51.5% in 2017).

b) Consumer Ombudsman:

A total of 920 cases were heard before the Consumer Ombudsman in 2018.

The most notable reasons for complaints and claims relating to the MOTOR segment are as follows:

- Concurrent acts of vandalism with prior damage to the vehicle and the application of multiple deductibles.
- Freedom of Action alongside CICOS (IT Centre for Claims Compensation).

The most notable reasons for complaints and claims relating to the HOME segment are as follows:

- Pre-existing damage.
- Disagreement over pipes covered by the policy.
- Burglary without evidence of forced entry.

Recommendations and suggestions on the following topics:

- While case processing and resolution times have decreased significantly following the new processes implemented by LINEA DIRECTA, it is recommended that they continue to be constantly monitored.
- It is advisable to monitor and control compliance with favourable decisions or decisions delivered in favour of the policyholder by LINEA DIRECTA itself.

Other non-financial information

The Group is exempt from disclosing the non-financial information set out in Law 11/2018, of 28 December, as this information is included in the management report of the Bankinter Group, of which the Línea Directa Group falls within the scope of consolidation. The annual accounts of Bankinter Group, together with its Management Report, will be filed at the Companies Registry of Madrid in due course.

Consolidated management report for the year ended 31 December 2018 (in thousand euro)

AUTHORISATION FOR ISSUE BY THE BOARD OF DIRECTORS

The Board of Directors of LÍNEA DIRECTA ASEGURADORA, S.A. COMPAÑÍA DE SEGUROS Y REASEGUROS drew up the 2018 consolidated financial statements and consolidated management report of the LINEA DIRECTA ASEGURADORA GROUP at a meeting held on 19 February 2019, said meeting held in writing without the physical attendance of Board members, pursuant to Article 253 of the Spanish Companies Law (*Ley de Sociedades de Capital*) and Article 37 of the Code of Commerce (*Código de Comercio*). The statements and report are set out in this document, comprising 75 pages (including this one), all scrutinised and approved by the Secretary of the Board of Directors.

Alfonso Botín-Sanz de Sautuola y Naveda Chairman	María Dolores Dancausa Treviño Director
Pedro Guerrero Guerrero Director	Rafael Mateu de Ros Cerezo Director
Antonio Muñoz Calzada Director	Gonzalo de la Hoz Lizcano Director
Alfonso Sáez Alonso-Muñumer Director	Miguel Ángel Merino González Director
John de Zulueta Greenebaum Director	

Statement to confirm that the above signatures correspond to those of all the members of the Board of Directors of the Parent, LINEA DIRECTA ASEGURADORA, S.A. COMPAÑÍA DE SEGUROS Y REASEGUROS, all of whom, at the meeting held by the Board of Directors on 19 February 2019, drew up and signed the consolidated financial statements and consolidated management report of the LINEA DIRECTA ASEGURADORA GROUP for the 2018 financial year, in accordance with Article 253 of the Spanish Companies Law.

Pablo González-Schwitters Grimaldo
Secretary to the Board of Directors