

Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros

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

Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros

Balance sheet at 31 December 2018 and 2017

(in thousand euro)

ASSETS	Notes	2018	2017 (*)
A.1 Cash and cash equivalents	Notes 8 and 9	128,135	128,915
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	772,371	734,496
I. Equity instruments		88,741	86,445
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	129,792	117,333
I. Debt securities		-	-
II. Loans		29,170	27,545
1. Advance payments on policies		-	-
2. Loans to group companies and associates	Notes 8 and 15	29,170	27,545
3. Loans to other related parties		-	-
III. Deposits with credit institutions		5,000	5,000
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		41,880	37,769
1. Tax and social security receivable		160	34
2. Other receivables		41,720	37,735
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	40,916	37,905
I. Property, plant and equipment		39,108	36,069
II. Investment property		1,808	1,836
A.10 Intangible assets	Note 6	7,252	6,738
I. Goodwill		-	-
II. Economic rights arising from policy portfolios acquired from intermediaries		-	-
III. Other intangible assets		7,252	6,738
A.11 Holdings in group companies and associates	Notes 8 and 15	59,689	59,928
I. Holdings in associates		-	-
II. Holdings in jointly controlled companies		-	-
III. Holdings in group companies		59,689	59,928
A.12 Tax assets	Note 17	27,049	23,709
I. Current tax assets		549	554
II. Deferred tax assets		26,500	23,155
A.13 Other assets	Note 7	85,803	80,780
I. Assets and reimbursement rights on long-term staff remuneration		-	-
II. Prepaid fees and other acquisition expenses		75,468	69,433
III. Accrued income	Notes 7 and 8	10,335	11,347
IV. Other assets		-	-
A.14 Assets held for sale		-	-
TOTAL ASSETS		1,258,325	1,195,523

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 24 form an integral part of the balance sheet at 31 December 2018.

Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros

Balance sheet at 31 December 2018 and 2017

(in thousand euro)

	Notes	2018	2017 (*)
LIABILITIES			
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	191,346	109,883
I. Subordinated liabilities		-	-
II. Deposits received from ceded reinsurance		-	-
III. Due on direct insurance business	Note 8	2,518	3,525
1. Due to policyholders		1,961	1,486
2. Due to agents, brokers and intermediaries		557	2,039
3. Conditional claims		-	-
IV. Due on reinsurance business	Note 8	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:	Note 8	187,817	105,597
1. Taxes and social security payable		14,777	16,121
2. Due to group companies and associates		39,979	28,744
3. Other debts		133,061	60,732
A.4 Hedging derivatives	Note 8	3,385	-
A.5 Technical provisions	Note 10	732,986	719,508
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		304,868	317,371
V. Provision for profit sharing and premium refunds		-	-
VI. Other technical provisions		-	-
A.6 Non-technical provisions		24,565	23,141
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		157	38
A.7 Tax liabilities	Note 17	52,502	57,430
I. Current tax liabilities		16,745	19,547
II. Deferred tax liabilities		35,757	37,883
A.8 Other liabilities		2,193	646
I. Accruals		1,331	-
II. Liabilities due to accounting mismatches		-	-
III. Commissions and other acquisition expenses on ceded reinsurance		-	-
IV. Other liabilities		862	646
A.9 Liabilities associated with assets held for sale		-	-
TOTAL LIABILITIES		1,006,977	910,608
B. EQUITY			
B.1 Shareholders' equity	Note 14	236,778	246,050
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		198,272	195,645
1. Legal and bylaw reserves		9,046	9,046
2. Equalisation reserve		93,506	86,455
3. Other reserves		95,720	100,144
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		102,589	119,317
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		251,348	284,915
TOTAL LIABILITIES AND EQUITY		1,258,325	1,195,523

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 24 form an integral part of the balance sheet at 31 December 2018.

Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros

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	797,442
a.2) Accepted reinsurance		-	-
a.3) Change due to impairment of outstanding premiums receivable	Note 8.1.1.2	(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 investments	Note 8.1.2	46,509	38,464
a) Income from investment property		107	110
b) Income from financial investments		32,058	32,666
c) Application of impairment adjustments for property, plant and equipment, and investments			
c.1) Property, plant and equipment and investment property		-	375
c.2) Financial investments	Note 8.1.1	(239)	56
d) Gains on realisation of property, plant and equipment and investments			
d.1) Property, plant and equipment and investment property		-	2
d.2) Financial investments		14,583	5,255
I.3 Other technical income		-	-
I.4 Claims incurred, net of reinsurance		542,079	514,186
a) Claims and other expenses paid			
a.1) Direct insurance		510,832	452,427
a.2) Accepted reinsurance		-	-
a.3) Reinsurers' share		(1,257)	(78)
b) Change in the provision for claims			
b.1) Direct insurance	Note 10	(12,504)	21,467
b.2) Accepted reinsurance		-	-
b.3) Reinsurers' share	Note 10	(39)	(1,569)
c) Claims-related expenses		45,047	41,939
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		751	379
b) Change in the provision for profit sharing and premium refunds		-	-
I.7 Net operating expenses		196,051	172,366
a) Acquisition expenses		179,100	155,286
b) Administration expenses		20,829	18,685
c) Reinsurance commissions and profit sharing		(3,878)	(1,605)
I.8 Other technical expenses	Note 21	(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		17,625	6,730
a) Management expenses from property, plant and equipment and investments			
a.1) Expenses from property, plant and equipment and investment property		1,289	1,296
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		28	28
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		-	-
c.2) Financial investments	Note 5	10,862	567
Profit/(loss) from the non-life technical account		132,771	131,024

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 24 form an integral part of the statement of profit or loss for 2018.

Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros

Statement of changes in equity for the years 2018 and 2017

(in thousand euro)

		2018	2017 (*)
III.	NON-TECHNICAL ACCOUNT:		
III.	Profit/(loss) on the non-life technical account	132,771	131,024
III.1	Income from property, plant and equipment and investments	250	20,000
	a) Income from investment property	-	-
	b) Income from financial investments	250	20,000
	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	7,113	9,121
	a) Income from pension fund management activity		
	b) Other income	7,113	9,121
III.4	Other expenses	3,550	4,996
	a) Expenses from pension fund management activity		
	b) Other expenses	3,550	4,696
III.5	Subtotal (Profit/(loss) on the non-technical account)	3,813	24,124
III.6	Profit/(loss) before tax	136,584	155,149
III.7	Income tax	33,995	35,832
III.8	Profit/(loss) for the year	102,589	119,317

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 24 form an integral part of the statement of profit or loss for 2018.

Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros

Statement of changes in equity for the years 2018 and 2017

(in thousand euro)

a) Statement of recognised income and expense

STATEMENT OF RECOGNISED INCOME AND EXPENSE	2018	2017 (*)
I) PROFIT OR LOSS FOR THE PERIOD	102,589	119,317
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)	3,183
Amounts transferred to the statement of profit or loss	(2,325)	(4,639)
Other reclassifications	-	-
II.2. Cash flow hedges	-	-
Gains/(losses) on valuation adjustments	-	-
Amounts transferred to the statement of profit or loss	-	-
Amounts transferred to the initial value of the hedged items	-	-
Other reclassifications	-	-
II.3. Hedging of net investments in foreign operations	-	-
Gains/(losses) on valuation adjustments	-	-
Amounts transferred to the statement of profit or loss	-	-
Other reclassifications	-	-
II.4. Foreign exchange and conversion differences	-	-
Gains/(losses) on valuation adjustments	-	-
Amounts transferred to the statement of profit or loss	-	-
Other reclassifications	-	-
II.5. Correction of accounting mismatches	-	-
Gains/(losses) on valuation adjustments	-	-
Amounts transferred to the statement of profit or loss	-	-
Other reclassifications	-	-
II.6. Assets held for sale	-	-
Gains/(losses) on valuation adjustments	-	-
Amounts transferred to the 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) TOTAL RECOGNISED INCOME AND EXPENSE	78,294	118,225

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 24 form an integral part of the statement of changes in equity (statement of recognised income and expense) for 2018.

Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros

Statement of changes in equity for the years 2018 and 2017

(in thousand euro)

b) Statement of changes in total equity

	Subscribed capital	Reserves	Profit/(loss) for the year	Interim dividend and interim equalisation reserve	Valuation adjustments	Total
E. BALANCE AT END OF 2016 (*)	37,512	195,593	95,127	(91,850)	39,957	276,339
D. ADJUSTED BALANCE AT BEGINNING OF 2017 (*)	37,512	195,593	95,127	(91,850)	39,957	276,339
I. Total recognised income/(expense)	-	-	119,317	-	(1,092)	118,225
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	-	10,052	(95,127)	85,075	-	-
1. Payments based on equity instruments	-	-	-	-	-	-
2. Transfers between equity items	-	3,277	(95,127)	91,850	-	-
3. Other changes	-	6,775	-	(6,775)	-	-
E. BALANCE AT END OF 2017 (*)	37,512	195,645	119,317	(106,424)	38,865	284,915
D. ADJUSTED BALANCE AT BEGINNING OF 2018	37,512	195,645	119,317	(106,424)	38,865	284,915
I. Total recognised income/(expense)	-	-	102,589	-	(24,295)	78,294
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	-	17,051	(119,317)	99,373	-	(2,893)
1. Payments based on equity instruments	-	-	-	-	-	-
2. Transfers between equity items	-	10,000	(119,317)	106,424	-	(2,893)
3. Other changes	-	7,051	-	(7,051)	-	-
E. BALANCE AT END OF 2018	37,512	198,272	102,589	(101,595)	14,570	251,348

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 24 form an integral part of the statement of changes in equity for 2018.

Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros

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	539,465	477,404
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	29,172	25,383
7. Other proceeds from operating activities	85,554	89,799
8. Other payments for operating activities	280,017	248,703
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	857,764	758,019
A.2 Other operating activities		
3. Proceeds from other operating activities	83,430	9,728
4. Payments for other operating activities	27,219	4,586
5. Total proceeds from other operating activities (1+3) = III	83,430	9,728
6. Total payments for other operating activities (2+4) = IV	27,219	4,586
7. Income tax collected/(paid) (V)	32,911	32,171
A.3 Total net cash flows from operating activities (I-II+III-IV + - V)	122,769	121,321
B) CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		
B.1) Proceeds from investing activities		
1. Property, plant and equipment	3	-
2. Investment property	135	110
3. Intangible assets	-	-
4. Financial instruments	218,452	197,381
5. Holdings in group, jointly controlled and associate companies	-	-
6. Interest received	26,981	28,329
7. Dividends collected	2,715	22,630
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	248,286	248,450
B.2) Payments for investing activities		
1. Property, plant and equipment	6,614	3,489
2. Investment property	28	28
3. Intangible assets	4,895	3,810
4. Financial instruments	275,392	131,088
5. Holdings in group, jointly controlled and associate companies	-	-
6. Business unit	-	-
7. Other payments for investing activities	197	-
8. Total payments for investing activities (1+2+3+4+5+6+7) = VII	287,126	138,415
B.3) Total net cash flows from investing activities (VI - VII)	(38,840)	110,035
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)	(780)	71,134
Cash and cash equivalents at beginning of year	128,915	57,781
Cash and cash equivalents at end of year	128,135	128,915
Components of cash and cash equivalents at end of year		
1. Cash and banks	128,135	128,915
Total cash and cash equivalents at end of year (1 + 2 - 3)	128,135	128,915

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 24 form an integral part of the statement of cash flows for 2018.

Notes to the financial statements for the year ended

31 December 2018 (in thousand euro)

1. Overview of the Company and its activities

The Company 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 by shareholders at the Annual General Meeting held on 26 January 1995 to change its name to “Línea Directa Aseguradora, S.A., Compañía de Seguros y Reaseguros” (hereinafter, “the Company” or “Línea Directa”).

The Company engages in insurance and reinsurance activities in the motor, home, other insurance 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 medical assistance line of the wider healthcare segment. Línea Directa began marketing and selling health insurance in October 2017.

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

The Company 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.

2. Basis of preparation of the annual accounts

a) Regulatory financial reporting framework applicable to the Company

These annual accounts have been drawn up by the directors in accordance with the regulatory financial reporting framework applicable to the Company, 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 any subsequent modifications to that Royal Decree.
- 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.

Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros

Notes to the financial statements for the year ended

31 December 2018 (in thousand euro)

- All other applicable Spanish accounting regulations.

b) True and fair view

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

As the Company is the parent of the Línea Directa Aseguradora Group, the Company's Board of Directors has also drawn up, together with these annual accounts, the consolidated annual accounts for 2018 of the Línea Directa Aseguradora Group. The effect of applying consolidation criteria in relation to the accompanying separate annual accounts for that year is an increase in assets and equity of € 37,882 thousand and € 36,900 thousand at year-end 2018 and an increase in earnings for 2018 of € 16,644 thousand.

The subsidiaries at which the Company holds a direct interest and that are included in the scope of consolidation are as follows:

Subsidiary (see Note 8.1.1.3)	Registered office	Activity	Stake
Línea Directa Asistencia, S.L.U.	Ochandiano 12, 28023, Madrid	Vehicle inspections and roadside assistance	100%
Moto Club LDA, S.L.U.	Isaac Newton 7, 28760, Madrid	Sundry services related to motorcycles	100%
Centro Avanzado de Reparaciones CAR, S.L.U.	Avenida del Sol, 9, 28850, Torrejón de Ardoz	Provision of vehicle repair services	100%
Ambar Medline, S.L.U.	Ronda de Europa 7, 28760, Madrid	Insurance brokerage	100%
LDActivos, S.L.U.	Ronda de Europa 7, 28760, Madrid	Asset management on behalf of insurance companies	100%
LDA Reparaciones, S.L.U.	Ronda de Europa 7, 28760, Torrejón de Ardoz	Claims management, claims-related repair work and other specialised household services.	100%

Investments in subsidiaries are recognised at cost of acquisition or issue, less any accumulated impairment losses.

c) Critical aspects regarding the valuation and estimation of uncertainty

When drawing up the annual accounts, the Company's directors must make certain forward-looking estimates and judgements 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

**Notes to the financial statements for the year ended
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may require these estimates to be modified (upwards or downwards) in subsequent years. Any resulting changes would be reflected in the corresponding statements of profit or loss.

The main estimates made by the Company'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 Company's directors, there are no contingencies that might result in any further significant liabilities for the Company.

Impairment of assets

The Company analyses annually whether there are any indications of impairment on its assets, which are tested for impairment if and when any such indications exist.

Insurance contracts

Assets and liabilities relating to insurance contracts are recognised in accordance with the accounting policies set out in Note 4.g) to these Notes. The Company 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

The Company's annual accounts have been drawn up in accordance with the generally accepted accounting principles set out in Royal Decree 1317/2008 of 24 July and subsequent amendments, which enacted the Accounting Plan for Insurance Companies.

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

e) Comparison of information

The figures for 2017 included in these Notes are presented for comparison purposes only.

f) Grouping of items

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

g) Error correction

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

i) Income and expense recognition criteria

Financial income and expenses arising from investments related to insurance activity are recognised in the technical account for the non-life insurance business. All other income and expenses are recorded in the 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 earnings for 2018, which the Company's Board of Directors will lay before the General Shareholders' Meeting for approval, is as follows:

	Thousand euro	
	2018	2017
Distribution basis (Profit)	102,589	119,317
Distributed to:		
Interim dividends (Note 14.c)	94,544	99,649
Interim equalisation reserve (Note 14.c)	7,051	6,775
Voluntary reserve	994	10,000
Final dividend	-	2,893

Note 14 to these annual accounts 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 Company.

4. Recognition and measurement standards

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

a) 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.

b) Property, plant and equipment and investment property

This heading also shows property owned by the Company for its own use or for investment.

Land, natural assets and buildings that are held to obtain income, capital gains or both qualify as real estate investments. 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 as a result of their operation, use and enjoyment. The following depreciation rates are used to calculate depreciation:

**Notes to the financial statements for the year ended
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Property, plant and equipment and investment property	Rate
Furniture and installations	10 - 12%
IT equipment	20 - 25%
Other property, plant and equipment	12 - 15%
Buildings	2%

At year-end, the relevant valuation adjustments are made to property, plant and equipment, if any. 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.

c) Prepaid fees and other capitalised acquisition expenses

Acquisition expenses, which are included on the assets side of the balance sheet, are accrued in accordance with the method designed by the Company and mainly include 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.

d) Financial instruments

d.1) Financial assets

Note 8 to these 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 Company's normal cash management policy.

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For the purposes of the statement of cash flows, occasional overdrafts that form part of the Company'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 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.

Holdings in group companies and associates

The Company uses this category to show investments in the equity of group, jointly controlled and associate companies, as such terms are defined under current law and regulations.

They are initially measured at cost, which is equivalent to the fair value of the consideration delivered plus transaction costs. The initial measurement includes the amount of any pre-emptive subscription rights that may have been acquired.

Notes to the financial statements for the year ended

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Fees paid to legal advisors or other professionals in relation to the acquisition of investments in the assets of group companies that confer control over those companies are charged directly to the statement of profit or loss.

Following the initial measurement, they are measured at cost less any accumulated impairment losses. However, when there is an investment prior to its classification as a group, jointly controlled or associate company, the cost of the investment is treated as its carrying amount before acquiring that classification. Valuation adjustments previously recognised directly in equity remain there until they are derecognised.

If there is objective evidence that the carrying amount is not recoverable, the appropriate valuation adjustments are made for the difference between the carrying amount and the recoverable amount, the latter being the higher of fair value less costs to sell and the present value of the cash flows 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. The value adjustment and, as the case may be, its reversal are recorded in the statement of profit or loss for the year in which they occur. 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.

Available-for-sale financial assets

The Company uses this heading to show 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 equity until the asset is sold or impaired, whereupon the cumulative gains and losses in equity are taken to the 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 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

Notes to the financial statements for the year ended

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between cost or amortised cost less, where applicable, any valuation allowances previously recognised in the 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 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 Company determines fair value by reference to other substantially similar instruments and estimated future cash flow discounting methods. The Company may use these models directly or the counterparty who acted as seller may do so.

Financial assets are derecognised 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 income is recognised as income in the 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.

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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.

d.2) Financial liabilities

Debt and accounts payable

The Company 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 Company derecognises a financial liability or part of one when it has discharged the underlying obligation or is 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.

**Notes to the financial statements for the year ended
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e) 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%).

f) Corporate 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 statement of profit or loss. However, the tax effect related to items that are recorded directly in equity is recognised in 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 balance sheet date and that are expected to apply when the corresponding deferred tax asset is realised or the deferred tax liability is settled.

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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 Company is 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.

g) 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 Company recognises this provision for an amount that enables it to cover the cost of the claims; i.e. an amount sufficient to cover all external expenses, including late-payment interest and any penalties provided for at law, and internal expenses in managing and processing claims, irrespective of their origin, occurring up until the full settlement and payment of the claims, less any 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.

Provisions for claims are calculated for each separate insurance segment.

On 18 January 2008, the Company was authorised by the Directorate General of Insurance and Pension Funds to apply a 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.

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31 December 2018 (in thousand euro)

The provision for the 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 equity and is not available for distribution. Each year the Company 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 posts the reserve by charging the relevant amount to earnings for the year. Once this distribution of earnings has been approved at the Annual General Meeting, the amount is taken to equity. This reserve can only be used to offset deviations in the loss ratio for retained insurance activities. If the Company reports losses in the year, it reports the amount of the equalisation reserve, which, together with the debit balance shown in the statement of profit or loss for the year, shows the amount of the final earnings to be included under "Prior year losses".

h) 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.

i) Termination benefits

In accordance with current legislation, the Company is 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.

j) 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 Company 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 or more will be entitled to have their vested rights recognised in the insurance policy.

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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 Company's obligations with its employees with regard to retirement or similar pension plans were fully externalised at year-end 2018, 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 Company has also assumed a retirement commitment with certain executives, which has been externalised in the form of an insurance policy (see Note 11).

The aforementioned insurance policies are considered "plan assets" as they are not owned by the Company, 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 Company, 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.

k) 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.

l) 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 personnel dedication for each of the purposes.

m) Related-party transactions

As a general rule, transactions between the Company and a group company are initially recognised at fair value. If the agreed price differs from its fair value, the

**Notes to the financial statements for the year ended
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difference is recorded to reflect the economic reality of the transaction. These transactions are subsequently measured in accordance with the relevant standards.

n) 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 Company'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 Company 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.

o) 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 Company'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 Company 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.

p) 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 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.

q) Foreign currency transactions

Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros

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The Company'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 balance sheet date. The profit or loss for the year is taken to the 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.

r) Accrued income (assets)

This heading mainly shows accrued and unmatured interest 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.

s) 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 Company's own shares are acquired, the consideration paid, including any directly attributable incremental costs, is deducted from 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 equity.

5. Property, plant and equipment and investment property

a) Property, plant and equipment

Details of property, plant and equipment on the accompanying balance sheets at 31 December 2018 and 2017 and changes during both periods 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 31.12.17	14,143	19,960	13,315	20,792	4,346	-	72,556
Additions	-	79	1,022	670	1,241	3,601	6,613
Retirements	-	-	-	-	-	-	-
Cost at 31.12.18	14,143	20,039	14,337	21,462	5,587	3,601	79,169
Accumulated depreciation at 31.12.17	-	(5,095)	(9,744)	(16,626)	(2,756)	-	(34,221)
Additions	-	(400)	(809)	(2,081)	(284)	-	(3,574)
Retirements	-	-	-	-	-	-	-
Accumulated depreciation at 31.12.18	-	(5,495)	(10,553)	(18,707)	(3,040)	-	(37,795)
Impairment allowances at 31.12.17	(2,266)	-	-	-	-	-	(2,266)
Application (allowance) in the period	-	-	-	-	-	-	-
Impairment allowances at 31.12.18	(2,266)	-	-	-	-	-	(2,266)
Carrying amount at 31.12.2018	11,877	14,544	3,784	2,755	2,547	3,601	39,108

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Notes to the 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 31.12.16	14,143	19,547	12,268	19,183	3,936	-	69,077
Additions	-	413	1,047	1,619	410	-	3,489
Retirements	-	-	-	(10)	-	-	(10)
Cost at 31.12.17	14,143	19,960	13,315	20,792	4,346	-	72,556
Accumulated depreciation at 31.12.16	-	(4,698)	(8,994)	(14,549)	(2,481)	-	(30,722)
Additions	-	(397)	(750)	(2,087)	(275)	-	(3,509)
Retirements	-	-	-	10	-	-	10
Accumulated depreciation at 31.12.17	-	(5,095)	(9,744)	(16,626)	(2,756)	-	(34,221)
Impairment allowances at 31.12.16	(2,492)	-	-	-	-	-	(2,492)
Application (allowance) in the period	226	-	-	-	-	-	226
Impairment allowances at 31.12.17	(2,266)	-	-	-	-	-	(2,266)
Carrying amount at 31.12.17	11,877	14,865	3,571	4,166	1,590	-	36,069

The Company did not derecognise any property, plant and equipment in 2018 (in 2017 fully depreciated property, plant and equipment with a gross cost of € 10 thousand was derecognised). No valuation adjustments were recognised in 2018 (€ 226 thousand was recognised in 2017).

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	15,464	12,694
Furniture and other property, plant and equipment	1,979	1,864
	25,207	21,515

The Company has taken out insurance policies with third parties to cover risks that could affect its property, plant and equipment. The coverage provided under these policies is considered sufficient.

There is no property, plant and equipment subject to guarantees or reversion events. The depreciation rates used are described in Note 4.b of these notes to the financial statements.

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

Description	Cost value	Accumulated depreciation	2018		
			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
	34,182	(5,494)	(2,266)	26,422	34,538

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

Description	2017				
	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
	34,103	(5,095)	(2,266)	26,742	34,538

b) Investment property

This item corresponds to the net cost of a property that the Company leases from another Group company, namely Centro Avanzado de Reparaciones, CAR. S.L.U. The Company has operated its business out of this property since December 2011.

The following table shows changes in this heading in 2018 and 2017.

	Land	Buildings	Total investment property
Cost at 31.12.17	940	1,407	2,347
Additions	-	-	-
Retirements	-	-	-
Cost at 31.12.18	940	1,407	2,347
Accumulated depreciation at 31.12.17	-	(174)	(174)
Additions	-	(28)	(28)
Retirements	-	-	-
Accumulated depreciation at 31.12.18	-	(202)	(202)
Impairment allowances at 31.12.17	(337)	-	(337)
Reclassification	-	-	-
Allowance in the period	-	-	-
Impairment allowances at 31.12.18	(337)	-	(337)
Carrying amount at 31.12.18	603	1,205	1,808

	Land	Buildings	Total investment property
Cost at 31.12.16	940	1,379	2,319
Additions	-	28	28
Retirements	-	-	-
Cost at 31.12.17	940	1,407	2,347
Accumulated depreciation at 31.12.16	-	(146)	(146)
Additions	-	(28)	(28)
Retirements	-	-	-
Accumulated depreciation at 31.12.17	-	(174)	(174)
Impairment allowances at 31.12.16	(189)	(87)	(276)
Reclassification	(87)	87	-
Allowance in the period	(61)	-	(61)
Impairment allowances at 31.12.17	(337)	-	(337)
Carrying amount at 31.12.17	603	1,233	1,836

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

Details of fair value at 31 December 2018 and 2017 are as follows:

2018					
Description	Cost value	Accumulated depreciation	Impairment	Net carrying amount	Market value
Land and buildings at Avda. El Sol, 9 (Torrejón de Ardoz)	2,347	(202)	(337)	1,808	1,836
	2,347	(174)	(337)	1,836	1,836
2017					
Description	Cost value	Accumulated depreciation	Impairment	Net carrying amount	Market value
Land and buildings at Avda. El Sol, 9 (Torrejón de Ardoz)	2,347	(174)	(337)	1,836	1,836
	2,347	(174)	(337)	1,836	1,836

The rent paid to subsidiary company Centro Avanzado de Reparaciones CAR, S.L.U. for the lease of this property amounted to € 98 thousand in 2018 and 2017, as recognised under “Income from investment property” in the technical statement of profit or loss.

6. 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:

	Software	Intangible assets in progress	Total intangible assets
Cost at 31.12.17	79,210	79,210	79,210
Additions	4,895	4,895	4,895
Retirements	-	-	-
Cost at 31.12.18	84,105	84,105	84,105
Accumulated amortisation at 31.12.17	(72,474)	(72,474)	(72,474)
Additions	(4,381)	(4,381)	(4,381)
Retirements	-	-	-
Accumulated amortisation at 31.12.18	(76,853)	(76,853)	(76,853)
Accumulated impairment losses	-	-	-
Carrying amount at 31.12.18	7,252	7,252	7,252

	Thousand euro	Intangible assets in progress	Total intangible assets
Cost at 31.12.16	75,400	79,210	79,210
Additions	3,810	4,895	4,895
Retirements	-	-	-
Cost at 31.12.17	79,210	84,105	84,105
Accumulated amortisation at 31.12.16	(67,740)	(72,474)	(72,474)
Additions	(4,732)	(4,381)	(4,381)
Retirements	-	-	-
Accumulated amortisation at 31.12.17	(72,472)	(76,853)	(76,853)
Accumulated impairment losses	-	-	-
Carrying amount at 31.12.17	6,738	7,252	7,252

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Fully amortised intangible assets at 31 December 2018 and 2017 amounted to € 68,056 thousand and € 61,326 thousand, respectively. At 31 December 2018 and 2017, there were no intangible assets subject to guarantees or reversion events.

7. 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	10,335	11,347
	85,803	80,780

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 € 10,329 thousand (€ 11,206 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 prepaid services that will accrue in 2018, for a total of € 6 thousand (€ 141 thousand in 2017).

8.

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

Financial instruments

8.1. Information on the relevance of financial instruments to the Company's equity and earnings

8.1.1 Information related to the balance sheet

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

Financial assets	Cash and cash equivalents	Available-for-sale financial assets		Loans and receivables	Holdings in group companies and associates	Total
		At fair value	At cost			
Equity instruments:	-	88,735	6	-	59,689	148,430
- Financial investments in capital	-	45,094	6	-	59,689	104,789
- Units/interests in investment funds	-	43,641	-	-	-	43,641
- Units/interests in private equity funds	-	-	-	-	-	-
- Other equity instruments	-	-	-	-	-	-
Debt securities:	-	683,630	-	-	-	683,630
- Fixed-income securities	-	683,630	-	-	-	683,630
- Other debt securities	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-
Loans:	-	-	-	29,170	-	29,170
- Loans and advances on policies	-	-	-	-	-	-
- Loans to group companies	-	-	-	29,170	-	29,170
- Mortgage loans	-	-	-	-	-	-
- Other loans	-	-	-	-	-	-
Deposits with credit institutions	-	-	-	5,000	-	5,000
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:	-	-	-	41,880	-	41,880
- Tax and social security receivable	-	-	-	160	-	160
- Other receivables	-	-	-	41,720	-	41,720
Other financial assets	-	-	-	-	-	-
Cash	128,135	-	-	-	-	128,135
Balance at 31 December 2018	128,135	772,365	6	129,792	59,689	1,089,987

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

Financial assets	Cash and cash equivalents	Available-for-sale financial assets		Loans and receivables	Holdings in group companies and associates	Total
		At fair value	At cost			
Equity instruments:	-	86,439	6	-	59,928	146,373
- Financial investments in capital	-	36,968	6	-	59,928	96,902
- Units/interests in investment funds	-	49,471	-	-	-	49,471
- Units/interests in private equity funds	-	-	-	-	-	-
- Other equity instruments	-	-	-	-	-	-
Debt securities:	-	648,051	-	-	-	648,051
- Fixed-income securities	-	648,051	-	-	-	648,051
- Other debt securities	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-
Loans:	-	-	-	27,545	-	27,545
- Loans and advances on policies	-	-	-	-	-	-
- Loans to group companies	-	-	-	27,545	-	27,545
- Mortgage loans	-	-	-	-	-	-
- Other loans	-	-	-	-	-	-
Deposits with credit institutions	-	-	-	5,000	-	5,000
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:	-	-	-	37,769	-	37,769
- Tax and social security receivable	-	-	-	34	-	34
- Other receivables	-	-	-	37,735	-	37,735
Other financial assets	-	-	-	-	-	-
Cash	128,915	-	-	-	-	128,915
Balance at 31 December 2017	128,915	734,490	6	117,333	59,928	1,040,672

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Notes to the 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	2,518	3,525	-	-
- Due to policyholders	1,961	1,486	-	-
- Due to agents, brokers and intermediaries	557	2,039	-	-
- Conditional claims	-	-	-	-
Due on reinsurance business:	1,011	761	-	-
Other debts	187,817	105,597	-	-
- Tax and social security payable	14,777	16,121	-	-
- Due to group companies and associates (Notes 5, 13 and 15)	39,979	28,744	-	-
- Other debts	133,061	60,732	-	-
Hedging derivatives	-	-	3,385	-
Total	191,346	109,883	3,385	-

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

	Financial assets						Total
	2019	2020	2021	2022	2023	Subsequent periods	
Investments in group companies and associates	9,051	137	137	137	137	22,610	32,209
- Loans to group companies (Note 15)	9,051	137	137	137	137	19,571	29,170
- Debt securities (Note 15)	-	-	-	-	-	3,039	3,039
Other financial investments:	79,735	24,716	80,347	39,574	111,594	349,625	685,591
- Debt securities	74,735	24,716	80,347	39,574	111,594	349,625	680,591
- Deposits with credit institutions	5,000	-	-	-	-	-	5,000
31 December 2018	88,786	24,853	80,484	39,711	111,731	372,235	717,800

	Financial assets						Total
	2018	2019	2020	2021	2022	Subsequent periods	
Investments in group companies and associates	12,891	123	123	123	-	19,300	32,560
- Loans to group companies (Note 15)	7,876	123	123	123	-	19,300	27,545
- Debt securities (Note 15)	5,015	-	-	-	-	-	5,015
Other financial investments:	107,855	60,427	26,821	83,599	45,237	324,097	648,036
- Debt securities	102,855	60,427	26,821	83,599	45,237	324,097	643,036
- Deposits with credit institutions	5,000	-	-	-	-	-	5,000
31 December 2017	120,746	60,550	26,944	83,722	45,237	343,397	680,596

Debts included under financial liabilities at 31 December 2018 and 2017 mature in 2018 and 2017, respectively.

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8.1.1.1 Available-for-sale financial assets

At the end of 2018 and 2017, this heading showed € 45,100 thousand and € 36,974 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.

The total investment in shares includes € 10,300 thousand at 31 December 2018 (€ 5,000 thousand in 2017) in two listed real estate investment trusts in which a Bankinter Group financial institution holds a stake.

It also includes € 683,630 thousand and € 648,051 thousand, respectively, in fixed-income securities, of which € 3,039 thousand related to group companies in 2018 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.

Accrued and unmatured interest on fixed-income assets under this heading amounted to € 10,322 thousand at 31 December 2018 (€ 11,206 thousand at 31 December 2017), of which € 34 thousand (€ 141 thousand in 2017) related to investments in group companies (see Note 15) and is included under “Other assets – Accrued income” on the assets side of the accompanying balance sheet. The average return on the fixed income portfolio in 2018 was 3.14% (3.28% in 2017).

8.1.1.2 Loans and receivables

a) Loans to group companies and associates

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

	2018	2017
Loans to companies		
Loan to LDActivos, S.L.U.	19,300	19,300
Loan to Centro Avanzado de Reparaciones, CAR, S.L.U.	956	493
Loans to LD Asistencia, S.L.U.	7,342	6,408
Loans to LDActivos, S.L.U.	1,599	1,267
Créditos Ámbar Medline, S.L.U.	52	47
Loans to Moto Club LDA, S.L.U.	18	26
Loans to Centro Avanzado de Reparaciones, CAR, S.L.U.	(72)	20
Loans to LDA Reparaciones, S.L.U.	(25)	(16)
Balance at 31 December	29,170	27,545

In July 2014, the Company granted its subsidiary LDActivos, S.L.U. a loan of € 19,300 thousand for the acquisition in cash of a property the latter company intended to lease out as part of its corporate purpose. This loan, which accrues an annual interest rate of three per cent, payable monthly, has a repayment period of up to ten years, and the lender is entitled to demand accelerated repayment of the loan. The Company’s directors consider that this loan will be repaid in full before

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the contract expires, as the Company, as sole shareholder, had undertaken to provide its subsidiary with all the liquidity needed to repay the loan.

In 2018, the interest income on this loan amounted to € 579 thousand (€ 579 thousand in 2017), as recognised under “Income from property, plant and equipment and investments – Income from investment property” in the accompanying non-life insurance technical account. All such interest had been collected at 31 December 2018.

The loan granted to Centro Avanzado de Reparaciones CAR, S.L.U. is a participation loan signed on 21 July 2011, with a principal of € 1,232 thousand. On 19 April 2018 the Company signed an extension of this loan for € 600 thousand, thus bringing the total amount to € 1,093 thousand, for the same period of 10 years. Interest consists of a fixed part (Euribor + one percentage point) and a variable part (8% of the pre-tax profits obtained by the borrower, which will begin to be paid when there is no impairment). A fixed amount of € 137 in principal will be repaid at the end of each year.

Changes in the balances of this loan in 2018 and 2017 are as follows:

	2018	2017
Balance at the beginning of the year	493	616
Additions	600	-
Repayments	(137)	(123)
Balance at the end of the year	956	493

At 31 December 2018 there was an outstanding balance of € 3 thousand in accrued interest (no outstanding accrued interest in 2017).

The loans to LD Asistencia, S.L.U., LDActivos, S.L.U., Ámbar Medline, S.L.U. and Moto Club LDA, S.L.U., Centro Avanzado de Reparaciones, CAR, S.L.U. and LDA Reparaciones, S.L.U. relate to the balances payable by these entities to Tax Consolidation Group 485/15, of which Línea Directa Aseguradora is the Parent (see Note 17). These amounts do not accrue interest and will be settled after final settlement of corporate income tax for the Tax Consolidation Group.

**Notes to the financial statements for the year ended
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b) Deposits with credit institutions

This heading of the accompanying balance sheet at 31 December 2018 and 2017 was as follows, including the net value of the deposits:

Deposits with credit institutions		
	2018	2017
Balance at the beginning of the year	5,000	-
Additions	5,000	5,000
Retirements	(5,000)	-
Balance at the end of the year	5,000	5,000
Market value	5,000	5,000

At 31 December 2018, the balance of deposits with credit institutions related to a fixed-term deposit of € 5,000 thousand held at Banco Sabadell, S.A. This instrument matures in March 2019 and pays interest at 0.1%. Accrued and unmatured interest at 31 December 2018 amounted to € 4 thousand, as recognised under “Other assets – Accrued income” on the assets side of the accompanying balance sheet. At 31 December 2017, accrued and unmatured interest amounted to € 1 thousand. Term deposits that matured during the year bore interest of € 4 thousand.

c) 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

d) 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 notes on the subject of debts and payables):

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

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

e) Other receivables

	2018	2017
Tax and social security receivable	160	34
Bonds and deposits	17	17
Receivables from recoveries and claims	36,212	31,707
Receivables under claim settlement agreements	2,785	2,771
Sundry receivables	1,043	996
Receivable from group companies and associates (Note 15)	1,663	2,244
	41,880	37,769

8.1.1.3 Holdings in group companies and associates

At 31 December 2018 and 2017, the Company owned 100% of the share capital of its subsidiaries. This heading of the accompanying balance sheets at 31 December 2018 and 2017, including the relevant carrying amounts, breaks down as follows:

Subsidiary	Carrying amount of the holding	Capital and share premium	At 31 December 2018		
			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

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

Subsidiary	At 31 December 2017				
	Carrying amount of the holding	Capital and share premium	Reserves and prior year profit/(loss)	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

None of the Group companies in which the Company holds a stake is listed on the stock market.

A provision for impairment of the investments held in Centro Avanzado de Reparaciones CAR, S.L.U. and LDA Reparaciones, S.L.U. was recognised at 31 December 2018 for a total of € 772 thousand (€ 533 thousand at 31 December 2017). Changes in the provision were as follows:

	2018	2017
Balance at the beginning of the year	533	588
Allowances	239	47
Amounts utilised	-	(102)
Balance at the end of the year	772	533

In 2018, subsidiary company Moto Club LDA, S.L.U. paid out a dividend of € 250 thousand against its unrestricted reserves. In 2017, subsidiary company LD Activos, S.L.U. paid out an interim dividend totalling € 20 million. These dividends are recorded under the heading “Income from property, plant and equipment and investments – Income from financial property” in the accompanying non-technical account.

8.1.1.4 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

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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 Company 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.

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.

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8.1.2 Information relating to the statement of profit or loss and equity

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

Investment income	Cash and cash equivalents	Loans and receivables	Available-for-sale assets	Property, plant and equipment and investment property	Group companies and associates	Total
Interest on fixed-income securities	-	-	24,600	-	-	24,600
Income on equity instruments	-	-	2,465	-	-	2,465
Interest on loans with group companies (Note 15)	-	583	-	-	-	583
Interest on current accounts	8	-	-	-	-	8
Interest on bank deposits	-	355	-	-	-	355
Effect of change in investment value	-	-	-	-	(239)	(239)
Income from premium instalments	-	3,850	-	-	-	3,850
Income from investment in property, plant and equipment	-	-	-	107	-	107
Income from investments in group companies (note 15)	-	-	-	-	250	250
Gains on realisation of investments	-	-	14,578	3	-	14,581
Positive exchange differences	-	-	197	-	-	197
Balance at 31 December 2018	8	4,788	41,840	110	11	46,757

Expenses from property, plant and equipment and investments	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	-	28	-	-	28
Impairment allowances for property, plant and equipment and investment property	-	-	-	-	-
Discounting of interest on long-term dividends	-	-	-	-	-
Negative exchange difference	2,355	-	-	-	2,355
Investment management expenses and other	-	-	-	1,289	1,289
Balance at 31 December 2018	16,308	28	-	1,289	17,625

Investment income	Cash and cash equivalents	Loans and receivables	Available-for-sale assets	Property, plant and equipment and investment property	Group companies and associates	Total
Interest on fixed-income securities	-	-	25,230	-	-	25,230
Income on equity instruments	-	-	2,630	-	-	2,630
Interest on loans with group companies (Note 15)	-	579	-	-	-	579
Interest on current accounts	8	-	-	-	-	8
Interest on bank deposits	-	152	-	-	-	152
Effect of change in investment value	-	-	-	375	56	431
Income from premium instalments	-	3,787	-	-	-	3,787
Income from investment in property, plant and equipment	-	-	-	110	-	110
Income from investments in group companies (note 15)	-	-	-	-	20,000	20,000
Gains on realisation of investments	-	-	280	2	-	282
Positive exchange differences	-	-	5,255	-	-	5,255

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Balance at 31 December 2017	8	4,518	33,395	487	20,056	58,464
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Expenses from property, plant and equipment and investments	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	-	28	-	-	28
Impairment allowances for property, plant and equipment and investment property	-	210	-	-	210
Discounting of interest on long-term dividends	-	-	733	-	733
Negative exchange difference	328	-	-	-	328
Investment management expenses and other	-	-	-	1,296	1,296
Balance at 31 December 2017	4,463	238	733	1,296	6,730

At 31 December 2018 and 2017, the balance of “Income from investments in property, plant and equipment” in the above table included € 98 thousand in income from the lease arranged with group company Centro Avanzado de Reparaciones CAR, S.L.U. (see Note 15).

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 Company 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 Company’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:

RATING – “Available for sale” portfolio	2018	2017
AAA	1,746	1,663
AA	11,725	4,985
A	309,559	67,560
BBB	256,240	518,686
BB	83,203	35,186
B	3,921	4,490
N/R	17,237	15,481
Total	683,630	648,051

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Credit risk

The counterparties with which the Company 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 Company 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 cash and cash equivalents at credit institutions, cheques and cash on hand at 31 December 2018 and 2017 is as follows:

	2018	2017
Cash at credit institutions (Note 8.1.1)	128,134	128,914
Cash on hand (Note 8.1.1)	1	1
	128,135	128,915

Of the total balance of cash at banks at 31 December 2018 and 2017, a total of €11,302 thousand and € 20,181 thousand, respectively, was held at Bankinter, S.A. (see Note 15).

At 31 December 2018 and 2017 a current account had been pledged to a reinsurer for a total of € 2,100 thousand to secure compliance with certain contractual obligations. The remaining amount of cash

and cash equivalents is subject to no restriction on its availability and use.

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.

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10. Technical provisions

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

	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

	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

(*) At the end of 2018 and 2017, this provision included € 6,304 thousand and € 6,260 thousand, respectively, as the provision for outstanding other insurance claims, a service provided by Línea Directa Asistencia, S.L.U. (see Note 15).

The change in 2018 in the Company'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 Company's provision for claims without insurance 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:

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	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
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.

11. Pension commitments

Under the terms of the collective bargaining agreement for the industry, the Company 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 of € 61 thousand in 2018 (€ 278 thousand in 2017). The mathematical provision for retirement insurance at 31 December 2018 came to € 2,726 thousand (€ 2,615 thousand at 31 December 2017). There were no policy surrenders in 2018 (€ 74 thousand in 2017).

The Company 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. The contributions made to this policy are entirely voluntary for the Company and are made at the discretion of the Board of Directors.

The Company 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.

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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 21)	21,708	22,403
Amounts utilised (Note 21)	(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:

	2018	2017
Due on direct insurance business	2,518	3,525
Due to policyholders	1,961	1,486
Due to agents, brokers and intermediaries	557	2,039
Conditional claims	-	-
Due on reinsurance business (Note 8.1.1.2)	1,011	761
Other debts:	14,776	16,121
Personal income tax withholdings payable	1,708	1,550
VAT payable	322	135
Social security payable	2,201	2,103
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 15)	39,979	28,744
Other debts	133,062	60,732
On goods delivered and services rendered	11,588	15,879
On securities lending	111,143	36,805
Outstanding remuneration	10,331	8,048
	191,346	109,883

At 31 December 2018 and 2017, the account “Due to agents, brokers and intermediaries” in the above table included € 495 thousand and € 507 thousand payable to Ámbar Medline, S.L.U., respectively (see Note 15).

At 31 December 2018, the subheading “Due to group companies and associates” included a total of € 39,120 in dividends pending payment to Bankinter, S.A. (€ 28,088 thousand at 31 December 2017), deriving from agreements reached by shareholders at their annual general meeting, as explained in Note 14.

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The following table provides a breakdown of this item:

	2018	2017
Dividend payable	39,120	28,008
Trade payables to group companies	835	712
Deposit with Centro Avanzado de Reparaciones, CAR, S.L.U.	24	24
Total	39,979	28,744

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 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 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	25.60	30.29
Ratio of transactions paid	25.66	35.54
Ratio of transactions outstanding	12.08	30.37
	Amount (thousand euro)	Amount (thousand euro)
Total payments made	237,811	209,452
Total payments outstanding	998	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.

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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 annual accounts), and the denominator is the total amount of payments pending.

14. Equity

Changes in the Company’s equity in 2018 and 2017 are shown in the accompanying statements of changes in total equity.

At 31 December 2018 and 2017, 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 the transferability of the shares and they are not listed on the stock exchange.

At 31 December 2018 and 2017, the Company’s shareholders were as follows:

	Number of shares
Bankinter, S.A.	2,399,999
Hispanamarket, S.A.	1

At 31 December 2018 and 2017, the Company 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.

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b) Voluntary reserves

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

At their meeting of 30 June 2014, the shareholders agreed to distribute an extraordinary 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 Company'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; see Note 13). The final payment of € 50,000 thousand under this dividend was made in December 2017.

c) 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:

	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)

	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)

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At its meetings of 21 March 2018, 27 June 2018, 27 September 2018 and 21 December 2018, the Board of Directors (see paragraph b)) agreed to pay out a total of € 94,544 thousand as an interim dividend charged to profits for 2018. At 31 December 2018, a total of € 39,120 thousand under the terms of this resolution remained outstanding, of which € 24,696,000 was on account of profits for the fourth quarter of the year, while € 14,424,000 was charged to unrestricted reserves (see Note 13).

The following interim financial statements have been drawn up by the Company 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:				
Interim equalisation reserve	(1,798)	(3,573)	(5,350)	(7,094)
Interim dividends charged to profit or loss for the year	-	(21,800)	(42,608)	(69,848)
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

d) Valuation adjustments

The main item recognised off the 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).

e) Solvency

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

The Company 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.

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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.

15. Related party transactions

The following transactions were carried out with related parties:

a) Direct insurance operations

Direct insurance	Premiums	Commissions	Claims
Subsidiaries of the Company			
Línea Directa Asistencia, S.L.U.	-	-	75,259
Centro Avanzado de Reparaciones CAR, S.L.U.	-	-	6,515
Ambar Medline, S.L.U.	-	6,224	-
LDA Reparaciones, S.L.U.	-	-	1,000
Parent of the Company			
Bankinter, S.A.	231	4,663	-
Bankinter S.A., Sucursal en Portugal	16	2	-
Bankinter Consumer Finance, S.L.U.	977	-	-
Total at 31 December 2018	1,224	10,889	82,774

Direct insurance	Premiums	Commissions	Claims
Subsidiaries of the Company			
Línea Directa Asistencia, S.L.U.	-	-	68,675
Centro Avanzado de Reparaciones CAR, S.L.U.	-	-	5,010
Ambar Medline, S.L.U.	-	5,836	-
LDA Reparaciones, S.L.U.	-	-	54
Parent of the Company			
Bankinter, S.A.	207	4,085	-
Bankinter S.A., Sucursal en Portugal	-	-	-
Bankinter Consumer Finance, S.L.U.	783	-	-
Total at 31 December 2017	990	9,921	73,739

Claims-related transactions mainly relate to vehicle inspection services arranged with subsidiary company Línea Directa Asistencia, S.L.U., as well as roadside assistance and vehicle repair services by Centro Avanzado de Reparaciones CAR, S.L.U., a company that is also wholly owned by the Company.

Commission-based transactions accrue on the sale of Company policies through Bankinter, S.A. and Ámbar Medline, S.L.U, the Company's exclusive agent.

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b) Transactions due to services rendered and received

Services rendered and received	Expenses		Income	
	Services received	Interest and financial services	Services rendered	Finance income and leases
Subsidiaries of the Company				
Línea Directa Asistencia, S.L.U.	3,316	-	182	-
Moto Club LDA, S.L.U.	-	-	16	252
Centro Avanzado de Reparaciones CAR, S.L.U.	10	-	-	98
LDActivos, S.L.U.	-	-	16	580
Parent of the Company				
Bankinter, S.A.	951	355	-	134
Bankinter Consumer Finance, S.L.U.	616	-	5,207	-
Total at 31 December 2018	4,893	355	5,421	1,064

Services rendered and received	Expenses		Income	
	Services received	Financial services	Services rendered	Finance income and leases
Subsidiaries of the Company				
Línea Directa Asistencia, S.L.U.	3,239	-	138	20,000
Moto Club LDA, S.L.U.	-	-	16	2
Centro Avanzado de Reparaciones CAR, S.L.U.	27	-	-	96
LDActivos, S.L.U.	-	-	16	580
Parent of the Company				
Bankinter, S.A.	676	1,088	107	22
Bankinter Consumer Finance, S.L.U.	351	-	5,441	-
Total at 31 December 2017	4,293	1,088	5,718	20,700

Transactions on services received from the subsidiary Línea Directa Asistencia, S.L.U. mainly relate to vehicle inspection services carried out prior to the arrangement of policies with policyholders, while financial income relates entirely to dividends charged to reserves distributed by this company (see Note 8.1.1.3).

Financial income from the subsidiary Moto Club LDA, S.L.U. mainly comprises dividends paid out of reserves (see Note 8.1.1.3).

Financial income received from LDActivos, S.L.U. is a product of the loan granted to that subsidiary by the Company, as described in Note 8.1.2) to these financial statements.

As explained in Note 14 c), 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.

Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros

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

c) Balance sheet accounts with related parties

The following table shows balances with related parties at 31 December 2018 and 2017.

	Notes	Group companies	Jointly controlled companies	Associates	Total
Assets					
Equity instruments					
Holdings in group companies	8.1.1.3	59,689	-	-	59,689
Available-for-sale assets – Equity instruments	8.1.1.1	10,300	-	-	10,300
Debt securities					
Fixed-income securities	8.1.1.1	3,039	-	-	3,039
Loans	8.1.1.2	28,707	-	-	28,707
Cash and cash equivalents	9	11,302	-	-	11,302
Other receivables					
Other receivables	8.1.1.2	1,663	-	-	1,663
Other assets					
Accrued income	8.1.1.1 and 8.1.1.2	37	-	-	37
At 31 December 2018		114,737	-	-	114,737
Liabilities					
Due to agents, brokers and intermediaries	13	495	-	-	495
Dividend outstanding	13 and 14	39,120	-	-	39,120
Due to group companies and associates	13	859	-	-	859
Provision for claims	10	6,304	-	-	6,304
At 31 December 2018		46,778	-	-	46,778

Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros

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

	Notes	Group companies	Jointly controlled companies	Associates	Total
Assets					
Equity instruments					
Holdings in group companies	8.1.1.3	59,928	-	-	59,928
Available-for-sale assets – Equity instruments	8.1.1.1	5,000	-	-	5,000
Debt securities					
Fixed-income securities	8.1.1.1	5,015	-	-	5,015
Loans	8.1.1.2	27,545	-	-	27,545
Cash and cash equivalents	9	20,181	-	-	20,181
Other receivables					
Other receivables	8.1.1.2	2,244	-	-	2,244
Other assets					
Accrued income	8.1.1.1 and 8.1.1.2	141	-	-	141
At 31 December 2017		120,054	-	-	120,054
Liabilities					
Due to agents, brokers and intermediaries	13	507	-	-	507
Interim dividend outstanding	13 and 14	28,008	-	-	28,008
Due to group companies and associates	13	736	-	-	736
Provision for claims	10	6,260	-	-	6,260
At 31 December 2017		35,511	-	-	35,511

16. Territorial distribution of the business

Both the premiums and technical provisions businesses extend to operations carried out in Spain.

17. 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.

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:

Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros

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

	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	102,589	-	119,137	-
Income tax	33,995	-	35,832	-
Permanent differences:				
- Increases	2,511	-	978	-
- Reductions	(250)	-	(20,000)	-
Taxable profit/(loss)	138,845	-	136,127	-
Temporary differences:				
Originating in the year				
- Increases	74,842	-	84,140	-
- Reductions	(7,051)	32,393	(6,775)	(1,456)
Originating in previous years				
- Increases	112	-	199	-
- Reductions	(78,365)	-	(76,216)	-
Tax base	128,383	32,393	137,475	(1,456)

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

	2018	2017
Current tax expense	31,379	36,170
Adjustments to deferred taxes	2,616	(338)
Corporate income tax expense	33,995	35,832

Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros

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

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	136,584	155,149
Tax rate	25%	25%
Tax payable	34,146	38,787
Deductions on tax payable	(985)	(1,036)
Adjustment for settlement of previous year CIS	129	2,681
Non-deductible expenses	628	244
Non-qualifying income	(63)	(5,000)
Other deductions and amounts utilised, net	139	156
Corporate income tax expense	33,995	35,832

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.

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 Company 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 equity

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

Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros

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

Tax assets and liabilities

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

	2018	2017
Receivable from the Tax Consolidation Group	8,914	7,733
Tax assets		
Current tax		
Withholdings for the year	545	554
Deferred tax		
Temporary differences	26,512	23,155
Tax liabilities		
Current tax		
Income tax payable – Tax Consolidation Group (Note 15)	16,745	19,547
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).

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

Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros

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

	Balance at 31.12.2017	Originating in profit and loss		Originating in equity		Balance at 31.12.2018
		Additions	Retirements	Additions	Retirements	
Deferred assets						
Prepaid income tax	22,254	18,722	(19,591)	-	-	21,385
Capital losses on available-for-sale assets	774	-	-	-	4,238	5,012
Rights to deductions and rebates	127	43	(54)	-	-	115
Total	23,155	18,765	(19,645)	-	4,238	26,512
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 Company 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 Company was notified of the findings and the corresponding counter arguments were lodged by the Company on 25 January. On 21 June 2018, a resolution was received from the Directorate General of Insurance and Pension Funds. Meanwhile, on 23 November 2016, the Company received notification of inspection proceedings regarding market practices, with further information requested for 31 December 2015. On 27 March 2018, the Company was notified of the findings, and the corresponding arguments were then lodged by the Company on 27 April 2018. On 25 September 2018, a resolution was received from the Directorate General of Insurance and Pension Funds.

Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros

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

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.

Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros

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

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

Technical income and expenses for 2018 and 2017 are as follows:

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	107	67	40	-	-	-
II.2. Income from financial investments	32,058	17,926	10,509	3,097	135	391
II.3. Application of value adjustments for investments	(239)	(151)	(88)	-	-	-
II.3.2. Investments in property, plant and equipment	-	-	-	-	-	-
II.3.2. Financial investments	(239)	(151)	(88)	-	-	-
II.4. Gains/(losses) on realisation of investments	14,583	9,193	5,390	-	-	-
II.4.1. Investments in property, plant and equipment	3	2	1	-	-	-
II.4.2. Financial investments	14,580	9,191	5,389	-	-	-
II. Total investment income	46,509	27,035	15,851	3,097	135	391
III. Other technical income	-	-	-	-	-	-
IV.1. Claims paid	509,575	244,744	226,470	37,045	175	1,141
IV.1.1. Direct insurance	510,832	244,744	226,482	37,204	175	2,227
IV.1.3. Reinsurers' share	(1,257)	-	(12)	(159)	-	(1,086)
IV.2. Change in the provision for claims	(12,543)	(16,304)	(2,207)	5,414	27	527
IV.2.1. Direct insurance	(12,504)	(16,958)	(2,291)	5,712	(14)	1,047
IV.2.3. Reinsurers' share	(39)	654	84	(298)	41	(520)
IV.3. Claims-related expenses	45,047	30,592	7,519	5,716	22	1,198
IV. Total claims incurred in the period, net of reinsurance	542,079	259,032	231,782	48,175	224	2,866
B.V. Changes in technical provisions	-	-	-	-	-	-
B.VI. Profit sharing	751	-	-	-	751	-
VII.1. Acquisition expenses	179,100	66,036	71,914	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	196,051	72,990	80,884	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	6,735	4,246	2,489	-	-	-
X.1.1. Expenses from managing investments in property, plant and equipment	1,289	813	476	-	-	-
X.1.2. Expenses from managing financial investments	5,446	3,433	2,013	-	-	-
X.2. Investment valuation adjustments	28	18	10	-	-	-
X.2.1. Depreciation of investments in property, plant and equipment	28	18	10	-	-	-
X.2.3. From provisions for financial investments	-	-	-	-	-	-
X.3. Losses on investments	10,862	6,847	4,015	-	-	-
X.3.1. Losses on investments in property, plant and equipment	-	-	-	-	-	-
X.3.2. Losses on financial investments	10,862	6,847	4,015	-	-	-
X. Total investment expenses	17,625	11,111	6,514	-	-	-
Result of the non-life insurance technical account (I+II+III-IV-V-VI-VII-VIII-IX-X)	132,771	65,841	60,432	11,831	1,318	(6,651)

Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros

Notes to the 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	110	70	40	-	-	-
II.2. Income from financial investments	32,666	18,675	10,583	3,252	150	6
II.3. Application of value adjustments for investments	431	275	156	-	-	-
II.3.2. Investments in property, plant and equipment	375	239	136	-	-	-
II.3.2. Financial investments	56	36	20	-	-	-
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	38,464	22,376	12,680	3,252	150	6
III. Other technical income	-	-	-	-	-	-
IV.1. Claims paid	452,349	210,384	208,574	33,289	97	5
IV.1.1. Direct insurance	452,427	210,384	208,574	33,362	97	10
IV.1.3. Reinsurers' share	(78)	-	-	(73)	-	(5)
IV.2. Change in the provision for claims	19,898	10,659	9,728	(481)	(27)	19
IV.2.1. Direct insurance	21,467	11,271	9,668	563	(72)	37
IV.2.3. Reinsurers' share	(1,569)	(612)	60	(1,044)	45	(18)
IV.3. Claims-related expenses	41,939	27,840	6,908	6,882	24	285
IV. Total claims incurred in the period, net of reinsurance	514,186	248,883	225,210	39,690	94	309
B.V. Changes in technical provisions	-	-	-	-	-	-
B.VI. Profit sharing	379	-	-	-	379	-
VII.1. Acquisition expenses	155,286	59,561	64,369	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	172,366	66,096	72,736	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	5,925	3,729	2,114	79	3	-
X.1.1. Expenses from managing investments in property, plant and equipment	1,296	827	469	-	-	-
X.1.2. Expenses from managing financial investments	4,629	2,902	1,645	79	3	-
X.2. Investment valuation adjustments	238	152	86	-	-	-
X.2.1. Depreciation of investments in property, plant and equipment	28	18	10	-	-	-
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	6,730	4,243	2,405	79	3	-
Result of the non-life insurance technical account (I+II+III-IV-V-VI-VII-VIII-IX-X)	131,024	61,824	55,380	16,100	1,689	(3,969)

Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros

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

19. 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)	562,132	49,835	4,470
Benefits and expenses paid for claims incurred during the year, including attributable claims-related expenses	562,080	49,897	4,324
Technical provisions for claims incurred during the year	52	(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)	562,131	49,662	2,865
V. Acquisition expenses	137,950	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	25,261	3,097	391
Profit/(loss)	47,907	10,344	(6,652)

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)	548,926	43,438	331
Benefits and expenses paid for claims incurred during the year, including attributable claims-related expenses	547,729	43,172	326
Technical provisions for claims incurred during the year	1,197	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)	547,254	42,546	309
V. Acquisition expenses	123,930	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)
IX. Technical financial income net of the same expenses	28,409	3,173	6
Profit/(loss)	37,269	13,244	(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

Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros

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

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.

20. Remuneration and other benefits of the Board of Directors

Remuneration received by the Company's directors and Senior Management in 2018 amounted to € 101 thousand and € 3,777 thousand, respectively (€ 112 thousand and € 3,593 thousand, respectively, in 2017), broken down as follows:

2018	Fixed salary	Variable salary	Remuneration in kind	Per diems/allowances	Total
Senior Management	2,748	897	132	-	3,777
Directors	-	-	-	101	101
Total	2,748	897	132	101	3,878

2017	Fixed salary	Variable salary	Remuneration in kind	Per diems/allowances	Total
Senior Management	2,636	816	141	-	3,593
Directors	-	-	-	112	112
Total	2,636	816	141	112	3,705

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).

The Company 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.

Life insurance commitments to members of the Company's management resulted in the payment of € 1,298 thousand in premiums in 2018 and there were no policy surrenders (premiums of € 350 thousand and no surrenders in 2017) (see Note 11).

In 2018 and 2017, the Company paid € 8 thousand in civil liability insurance premiums for members of Senior Management and other executives with decision-making powers at the Company.

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

21. Other expenses and other income

Expenses shown on the technical account for 2018 and 2017 are as follows:

	2018	2017
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 by purpose	6,186	6,654
Total other technical expenses	(26,479)	(24,918)

Other income and other expenses on the non-technical accounts are as follows:

	2018	2017
Costs of sending documentation to customers	3,089	4,027
Costs of distributing policies of other insurers	461	969
Total Other non-technical expenses	3,550	4,996
Income from credit card intermediation and policies of other insurers	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
Other sundry income	(98)	485
Total Other non-technical income	7,113	9,121

22. 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).

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	70,237	64,111
Termination benefits	1,425	964
Other staff expenses	20,700	18,481
92,362	83,556	

The average number of employees on the payroll in 2018 and 2017, broken down by job category, is as follows:

Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros

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

	2018			2017		
	Total	Women	Men	Total	Women	Men
Managers	13	4	9	13	4	9
Heads of department	71	37	34	74	37	37
Accident managers	392	277	115	398	281	117
Sales managers	839	539	300	728	470	258
Supervisors and coordinators	214	93	121	203	88	115
Qualified personnel	410	227	183	382	221	161
Total	1,939	1,177	762	1,798	1,101	697

Meanwhile, the distribution by gender of the Company's employees and directors, 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	13	4	9	13	4	9
Heads of department	71	37	34	73	37	36
Accident managers	395	277	118	407	290	117
Sales managers	886	572	314	797	515	282
Supervisors and coordinators	219	95	124	213	93	120
Qualified personnel	412	220	192	385	217	168
Total	2,005	1,207	798	1,897	1,158	739

The average number of employees with a degree of disability greater than or equal to 33% is 28 (26 employees in 2017).

c) Audit fees

Fees accrued in 2018 by PricewaterhouseCoopers Auditores, S.L. for audit services amounted to € 98 thousand, excluding expenses and VAT (€ 98 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 Company was the head of the Línea Directa Aseguradora Group, whose subsidiaries are as follows:

Subsidiary	Activity	Stake
Línea Directa Asistencia, S.L.U.	Vehicle inspections and roadside assistance	100%
Moto Club LDA, S.L.U.	Sundry services related to motorcycles	100%
Centro Avanzado de Reparaciones CAR, S.L.U.	Provision of vehicle repair services	100%
Ambar Medline, S.L.U.	Insurance brokerage	100%
LDActivos, S.L.U.	Asset management	100%
LDA Reparaciones, S.L.U.	Repair of Home insurance claims	100%

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

Notes to the financial statements for the year ended

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On 17 July 2014, Fundación Línea Directa was founded through a non-refundable donation to the foundation's endowment fund. 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 Company did not make any investments or incur any expenses in relation to environmental protection activities during 2018.

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

No amount has been allocated to these items, nor was there any changes in expenses or provisions in 2018, 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 and 2017, none of the Company's directors, nor any person related to them within the meaning of Law 229 on Public Limited Companies, 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 Company, 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.

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.

Notes to the financial statements for the year ended

31 December 2018 (in thousand euro)

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).

23. 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 Company 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 Company 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 Company 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 Company. 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 Company based if 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 represent 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 Company 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 Company.

Notes to the financial statements for the year ended

31 December 2018 (in thousand euro)

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 Company'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 units.

Reserve sub-risk

When estimating liabilities under insurance contracts in the Motor insurance segment, the Company 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 Company analyses each claim on its merits.

The Claims and Reserves Committee is tasked with managing the Company's reserve risk and reinsurance credit risk. Its functions are to monitor the Company'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 Company's Board of Directors.

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

Notes to the financial statements for the year ended

31 December 2018 (in thousand euro)

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 Company’s reserves position is also analysed by independent consultants at least once a year and the findings are submitted to the Board of Directors.

Concentrations of insurance risk

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

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

2018					
	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)

24. Events after the reporting period

No significant events have occurred after the end of 2018 and up to the date of authorisation for issue of these annual accounts.

Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros

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

Business performance

Despite the prevailing crisis environment affecting all sectors of the Spanish economy, in 2018 the Company reported net reinsurance premiums for the year of € 816 million, 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, largely due to the healthy performance of premiums without any impairment of the loss ratio (claims incurred), which actually improved with respect to the previous year. Further support factors included the sound results of the cost containment policy implemented by the Company. 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, Línea Directa Aseguradora launched the Vivaz brand to operate in the health insurance sector. The Health segment generated premium income of € 7.5 million.

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 Company 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.

Financial position and equity

The solvency ratio, calculated in accordance with Solvency II regulations, is 209%.

Outlook for 2019

Financial year 2019 looks relatively bright for Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros, with premium growth forecasts above those reported in 2018 for all segments, and policy portfolio growth in line with previous years.

Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros will continue to focus its efforts on improving the technical infrastructure, particularly information systems, focusing on the need to promote the use of the Internet as a sales channel, while also ensuring the continuous improvement of risk selection processes and pricing policies in order to become more efficient.

Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros

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

Information on deferred payments to suppliers

The Company 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 25.60 days.

Transactions with treasury shares

The Company does not carry out transactions involving its own shares or those of its ultimate parent (Bankinter, S.A.).

Events after the reporting date

There have been no significant events subsequent to the closing date of the financial statements.

Research and development

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

Information on employees

At 31 December 2018 the Company's workforce comprised 1,207 women and 798 men, of whom 28 were employees with a degree of disability equal to or greater than 33%.

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.

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).

Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros

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

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 Company 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, the scope of consolidation of which includes the Company. The annual accounts of Bankinter Group, together with its Management Report, will be filed at the Companies Registry of Madrid in due course.

AUTHORISATION FOR ISSUE BY THE BOARD OF DIRECTORS

The Board of Directors of LÍNEA DIRECTA ASEGURADORA, S.A. COMPAÑÍA DE SEGUROS Y REASEGUROS, at its meeting of 19 February 2019 held virtually and in writing, and in compliance with the requirements set out in Article 253 of the Revised Text of the Capital Enterprises Law (*Ley de Sociedades de Capital*) and article 37 of the Commercial Code (*Código de Comercio*), drew up the annual accounts of LINEA DIRECTA ASEGURADORA, S.A. COMPAÑÍA DE SEGUROS Y REASEGUROS and the Management Report, as contained in this document, for the 2018 financial year, comprising 72 pages (including this page), all of which have been signed by the Secretary to the Board.

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 LINEA DIRECTA ASEGURADORA, S.A. COMPAÑÍA DE SEGUROS Y REASEGUROS, all of whom, at the meeting of the Board of Directors held on 19 February 2019, drew up and signed the annual accounts and management report of LINEA DIRECTA ASEGURADORA, S.A. COMPAÑÍA DE SEGUROS Y REASEGUROS for 2018, in accordance with Article 253 of the Capital Enterprises Law.

Pablo González-Schwitters Grimaldo
Secretary of the Board of Directors