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

Independent auditor's report
Special purpose consolidated financial statements
at 31 December 2020, 2019 and 2018
Consolidated management report

This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Independent auditor's report

To the shareholders of Línea Directa Aseguradora, S.A., Compañía de Seguros y Reaseguros:

Opinion

We have audited the special purpose consolidated financial statements of Línea Directa Aseguradora, S.A., Compañía de Seguros y Reaseguros (the Parent company) and subsidiaries (the Group), which comprise the consolidated balance sheets as at 31 December 2020, 2019 and 2018, the consolidated statements of profit or loss, the consolidated statements of other comprehensive income, the consolidated statements of changes in equity, the consolidated cash flow statements for the years then ended and the notes to the special purpose consolidated financial statements which include a summary of the significant accounting policies.

In our opinion, the accompanying special purpose consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2020, 2019 and 2018 and the consolidated results of its operations and consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards adopted by the European Union (IFRS-EU).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the audit of the special purpose consolidated financial statements* section of our report.

We are independent with respect to the Group in accordance with the Code of Ethics for Professional Accountants of the International Ethics Board for Accountants (IESBA) and have complied with other ethical responsibilities under the IESBA Code of Ethics.

We consider that the audit evidence obtained provides a sufficient and appropriate basis for our opinion.

Emphasis of matter - Basis of presentation and special purpose

We draw attention to Note 1 of the accompanying special purpose consolidated financial statements, in which are described the reasons for the preparation of these financial statements in relation to the parent company´s shares admission to trading and for its inclusion in the corresponding prospectus in accordance with the requirements of the Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 as well as with Commission Delegated Regulation (EU) 2019/980 of 14 March 2019, and may therefore not be appropriate for any other purpose. To this effect, they have been prepared in accordance with International Financial Reporting Standards adopted by the European Union in effect at 31 December 2020. Note 2.a) of the accompanying special purpose consolidated financial statements describes the basis of presentation and mentions that they are the first that the Group has prepared under International Financial Reporting Standards adopted by the European Union (IFRS-EU), which generally require that the financial statements present comparative information. As a result, the accompanying figures for the years 2020, 2019 and 2018 are different from those included in the consolidated annual accounts for those years, being the differences derived from the application of IFRS-EU to consolidated equity at 1 January and 31 December 2017 and the Group's consolidated results for 2020 detailed in Note 3. Our opinion has not been modified for this matter.

Other matters

The Parent company's directors have prepared a separate set of consolidated annual accounts for Línea Directa Aseguradora, S.A., Compañía de Seguros y Reaseguros and subsidiaries for the year ended 31 December 2020 in accordance with the Rules on the Preparation of Consolidated Annual Accounts and other provisions within the financial reporting framework applicable in Spain on which on 22 February 2021 we issued a separate audit report in which we expressed an unqualified opinion.

The accompanying special purpose consolidated financial statements have been audited in accordance with ISA and therefore this report may under no circumstances be considered an audit report in the terms envisaged in prevailing audit legislation in Spain.

Other information: Consolidated management report

The Parent company's directors are responsible for other information. Other information comprises the consolidated management report for 2020 but does not include the special purpose consolidated financial statements nor our audit report.

Our opinion on the special purpose financial statements does not cover such other information and we do not express any kind of conclusion that provides a level of assurance thereon.

With respect to our audit of the special purpose consolidated financial statements, our responsibility is to read the other information and having done so, to consider whether there is any material inconsistency between the other information and the special purpose consolidated financial statements or our knowledge obtained in the audit or if a material misstatement appears to exist in the other information for any other reason.

If, based on the work performed, we conclude that there are material misstatements in this other information, we are required to report them. We have nothing to report in this regard.

Responsibility of the Parent company's directors and the Audit and Compliance Committee in relation to the special purpose consolidated financial statements

The Parent company's directors are responsible for the preparation and fair presentation of the accompanying special purpose consolidated financial statements, in accordance with International Financial Reporting Standards adopted by the European Union and the internal control that they consider necessary to enable the preparation of special purpose consolidated financial statements free form material misstatement, due to fraud or error.

In preparing the special purpose consolidated financial statements, the Parent company's directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the aforementioned directors either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The Parent company's Audit and Compliance Committee is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the special purpose consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the special purpose consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with International Standards of Accounting (ISA) will always detect material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the special purpose consolidated financial statements.

As part of an audit in accordance with ISA, we exercise our professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the special purpose consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent company's directors.

- Conclude on the appropriateness of the Parent company's directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the special purpose consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the special purpose consolidated financial statements, including the disclosures, and whether the special purpose consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the special purpose consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent company's Audit and Compliance Committee in relation to, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in that we identify during our audit.

We also provide the Parent company's Audit and Compliance Committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the Audit and Compliance Committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

PricewaterhouseCoopers Auditores S.L.

Original in Spanish signed by Ana Isabel Peláez Morón

April 12, 2021

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

Consolidated financial statements
for the years ended
31 December 2020, 2019 and 2018

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU).

Consolidated balance sheets at 31 December 2020, 2019 and 2018

(in thousand euro)

ASSETS	Notes	2020	2019	2018	2017 (*)	01/01/2017 (*)
Cash and cash equivalents	7	**162,500**	**144,937**	**166,776**	**148,917**	**78,439**
Available-for-sale financial assets	8 a)	**917,074**	**834,498**	**782,715**	**745,722**	**811,711**
Equity instruments		125,855	116,688	88,763	86,467	76,016
Debt securities		791,219	717,810	693,952	659,255	735,695
Loans and receivables	8 a)	**110,373**	**106,760**	**115,951**	**103,710**	**92,514**
Debt securities		9,990	2,987	2,993	4,001	17,263
Deposits with credit institutions		-	-	15,000	13,000	1,101
Receivables on direct insurance business		54,413	51,196	50,914	45,616	43,448
Policyholders		54,413	51,196	50,914	45,616	43,448
Receivables on reinsurance business		5,086	4,175	2,828	1,403	-
Other receivables		40,884	48,402	44,216	39,690	30,702
Tax and social security receivable	16	1,126	1,305	167	123	22
Other receivables		39,758	47,097	44,049	39,567	30,680
Reinsurers' share of technical provisions	14	**12,477**	**9,517**	**7,318**	**5,719**	**3,828**
Provision for unearned premiums		3,705	2,676	2,735	1,175	853
Provision for claims		8,772	6,841	4,583	4,544	2,975
Property, plant and equipment and investment property	9	**111,282**	**114,588**	**110,844**	**113,860**	**113,863**
Property, plant and equipment		45,334	47,918	43,386	39,109	38,817
Investment property		65,948	66,670	67,458	74,751	75,046
Right-of-use assets	10 a)	**2,713**	**3,794**	**4,527**	**3,109**	**2,388**
Intangible assets	11	**12,688**	**11,845**	**7,593**	**7,036**	**8,069**
Other intangible assets		12,688	11,845	7,593	7,036	8,069
Tax assets	16	**24,016**	**24,879**	**27,441**	**24,007**	**22,147**
Current tax assets		14,388	504	549	555	532
Deferred tax assets		9,628	24,375	26,892	23,452	21,615
Other assets	12	**83,410**	**85,808**	**75,713**	**69,821**	**63,249**
Prepaid fees and other acquisition expenses		83,055	84,469	75,468	69,433	62,735
Accrued income		180	1,150	14	149	368
Other assets		175	189	231	239	146
Assets held for sale	13	**-**	**-**	**1,871**	**-**	**-**
TOTAL ASSETS		**1,436,533**	**1,336,626**	**1,300,749**	**1,221,901**	**1,196,208**

(*) Unaudited figures, presented for comparison purposes only.

Notes 1 to 26 to the accompanying consolidated financial statements form an integral part of these consolidated financial statements as at 31 December 2020, 2019 and 2018.

Consolidated balance sheets at 31 December 2020, 2019 and 2018
(in thousand euro)

LIABILITIES	Notes	2020	2019	2018	2017 (*)	01/01/2017 (*)
Debt and accounts payable	8 b)	**174,445**	**207,608**	**211,889**	**123,316**	**157,428**
Due on direct insurance business		2,862	4,165	2,023	3,018	1,772
Due to policyholders		1,893	2,435	1,961	1,486	1,336
Due to agents, brokers and intermediaries		969	1,730	62	1,532	432
Conditional claims		-	-	-	-	4
Due on reinsurance business		981	1,584	1,011	761	704
Lease liabilities		2,766	3,881	4,586	3,138	2,388
Other debts		167,836	197,978	204,269	116,399	152,564
Taxes and social security payable	16	14,489	14,097	15,547	16,775	15,699
Due to group companies and associates		839	32,955	44,882	28,393	78,223
Other debts		152,508	150,926	143,840	71,231	58,642
Hedging derivatives	8 b)	**15,167**	**13,584**	**3,385**	**-**	**-**
Technical provisions	14	**716,491**	**725,860**	**725,891**	**713,681**	**663,440**
Provision for unearned premiums		446,423	443,115	428,118	402,137	372,722
Provision for unexpired risks		4,622	6,115	-	-	-
Provision for claims		265,446	276,630	297,773	311,544	290,718
Non-technical provisions	15	**16,849**	**22,816**	**24,652**	**23,199**	**19,714**
Provisions for taxes and other legal contingencies		492	492	2,700	700	700
Provisions for settlement agreements		16,174	21,968	21,708	22,403	18,884
Other non-technical provisions		183	356	244	96	130
Tax liabilities	16	**45,066**	**39,986**	**44,534**	**53,835**	**49,042**
Current tax liabilities		-	(1,537)	8,777	15,952	12,252
Deferred tax liabilities		45,066	41,523	35,757	37,883	36,790
Other liabilities		**1,156**	**1,712**	**2,194**	**721**	**673**
Accruals		477	645	1,331	-	139
Other liabilities		679	1,067	863	721	534
TOTAL LIABILITIES		**969,174**	**1,011,566**	**1,012,545**	**914,752**	**890,297**
Equity	17	**422,727**	**287,881**	**273,634**	**268,284**	**265,954**
Share capital		37,512	37,512	37,512	37,512	37,512
Subscribed capital		37,512	37,512	37,512	37,512	37,512
Reserves		250,369	236,122	213,455	218,442	214,699
Legal and bylaw reserves		9,046	9,046	9,046	9,046	9,046
Other reserves		241,323	227,076	204,409	209,396	205,653
Profit/(loss) for the year		134,846	107,295	117,211	111,979	105,593
(Interim dividend)		-	(93,048)	(94,544)	(99,649)	(91,850)
Valuation adjustments	17 e)	**44,632**	**37,179**	**14,570**	**38,865**	**39,957**
Available-for-sale financial assets		44,632	37,179	14,570	38,865	39,957
TOTAL EQUITY		**467,359**	**325,060**	**288,204**	**307,149**	**305,911**
TOTAL LIABILITIES AND EQUITY		**1,436,533**	**1,336,626**	**1,300,749**	**1,221,901**	**1,196,208**

(*) Unaudited figures, presented for comparison purposes only.

Notes 1 to 26 to the accompanying consolidated financial statements form an integral part of these consolidated financial statements as at 31 December 2020, 2019 and 2018.

Consolidated statements of profit or loss at 31 December 2020, 2019 and 2018

(in thousand euro)

NON-LIFE STATEMENT OF PROFIT OR LOSS	Notes	2020	2019	2018	2017 (*)
Earned premiums, net of reinsurance		**878,177**	**854,762**	**816,289**	**761,303**
Written premiums		899,638	890,853	852,523	797,185
Direct insurance		898,614	891,295	853,119	797,422
Change due to impairment of outstanding premiums receivable		1,024	(442)	(596)	(237)
Premiums from ceded reinsurance		(20,675)	(14,920)	(11,813)	(6,789)
Change in the provision for unearned premiums and unexpired risks	14	(1,815)	(21,112)	(25,981)	(29,415)
Direct insurance		(1,815)	(21,112)	(25,981)	(29,415)
Change in the provision for unearned premiums, reinsurers' share	14 and 20	1,029	(59)	1,560	322
Income from property, plant and equipment and from investments		**76,613**	**70,687**	**52,021**	**42,699**
Income from investment property		4,121	4,206	4,514	4,397
Income from financial investments	19	35,550	31,676	31,483	32,116
Application of impairment adjustments for property, plant and equipment, and investments		23	1,180	-	929
Property, plant and equipment and investment property		23	1,180	-	929
Gains on realisation of property, plant and equipment and investments		36,919	33,625	16,024	5,257
Property, plant and equipment and investment property		1	212	1,443	2
Financial investments	19	36,918	33,413	14,581	5,255
Claims incurred, net of reinsurance		**(540,064)**	**(580,987)**	**(528,029)**	**(501,687)**
Claims and other expenses paid		(441,320)	(492,927)	(439,200)	(388,751)
Direct insurance		(447,987)	(498,245)	(440,457)	(388,829)
Reinsurers' share		6,667	5,318	1,257	78
Change in the provision for claims	14	13,115	23,401	13,810	(19,257)
Direct insurance		11,184	21,143	13,771	(20,826)
Reinsurers' share		1,931	2,258	39	1,569
Claims-related expenses	21	(111,859)	(111,461)	(102,639)	(93,679)
Profit sharing and premium refunds		**(708)**	**(724)**	**(751)**	**(379)**
+Change in the provision for profit sharing and premium refunds		(708)	(724)	(751)	(379)
Net operating expenses		**(209,603)**	**(199,919)**	**(196,176)**	**(172,352)**
Acquisition expenses	21	(186,745)	(180,474)	(178,999)	(155,274)
Administration expenses	21	(26,690)	(23,229)	(21,055)	(18,683)
Reinsurance commissions and profit participation	20	3,832	3,784	3,878	1,605
Other technical expenses		**18,137**	**30,518**	**26,479**	**24,918**
Change in claims paid under settlement agreements		23,593	34,019	32,665	31,572
Other	21	(5,456)	(3,501)	(6,186)	(6,654)
Expenses from property, plant and equipment and investments		**(47,360)**	**(39,117)**	**(18,547)**	**(7,633)**
Management expenses from property, plant and equipment and investments	21	(7,649)	(7,270)	(7,656)	(6,007)
Expenses from property, plant and equipment and investment property		(2,627)	(2,284)	(2,117)	(1,317)
Expenses from financial investments and accounts	19 and 10 b)	(5,022)	(4,986)	(5,539)	(4,690)
Valuation adjustments for property, plant and equipment and investments		(878)	(28)	(27)	(1,059)
Depreciation of property, plant and equipment and investment property		(27)	(28)	(27)	(849)
Impairment of property, plant and equipment and investment property		(851)	-	-	(210)
Losses on property, plant and equipment and investments		(38,833)	(31,819)	(10,864)	(567)
Property, plant and equipment and investment property		(542)	(6)	(2)	-
Financial assets	19	(38,291)	(31,813)	(10,862)	(567)
Profit/(loss) from non-life insurance		**175,192**	**135,220**	**151,286**	**146,869**

(*) Unaudited figures, presented for comparison purposes only.

Notes 1 to 26 to the accompanying consolidated financial statements form an integral part of these consolidated financial statements as at 31 December 2020, 2019 and 2018.

Consolidated statements of profit or loss at 31 December 2020, 2019 and 2018
(in thousand euro)

OTHER ACTIVITIES	Notes	2020	2019	2018	2017 (*)
Profit/(loss) from non-life insurance		**175,192**	**135,220**	**151,286**	**146,869**
Other income	22	**10,750**	**14,511**	**14,073**	**14,879**
Other income		10,750	14,511	14,073	14,879
Other expenses	21	**(6,318)**	**(6,894)**	**(9,396)**	**(9,774)**
Other expenses		(6,318)	(6,894)	(9,396)	(9,774)
Subtotal (Profit or loss from other activities)		**4,432**	**7,617**	**4,677**	**5,105**
Profit/(loss) before tax		**179,624**	**142,837**	**155,963**	**151,974**
Income tax	16	(44,778)	(35,542)	(38,752)	(39,995)
Profit/(loss) for the year		**134,846**	**107,295**	**117,211**	**111,979**
Profit/(loss) attributable to the Parent		134,846	107,295	117,211	111,979
Profit/(loss) attributable to non-controlling interests		-	-	-	-
Basic earnings per share (in euro)	18	56.19	44.71	48.84	46.66
Diluted earnings per share (in euro)	18	56.19	44.71	48.84	46.66

(*) Unaudited figures, presented for comparison purposes only.

Notes 1 to 26 to the accompanying consolidated financial statements form an integral part of these consolidated financial statements as at 31 December 2020, 2019 and 2018.

Consolidated statements of other comprehensive income at 31 December 2020, 2019 and 2018
(in thousand euro)

	Notes	2020	2019	2018	2017 (*)
Profit/(loss) for the year		**134,846**	**107,295**	**117,211**	**111,979**
Items that can be reclassified to profit or loss		**7,453**	**22,609**	**(24,295)**	**(1,092)**
Available-for-sale financial assets		**9,859**	**30,146**	**(32,393)**	**(1,456)**
Gains/(losses) on valuation adjustments		8,217	31,828	(30,068)	3,182
Amounts transferred to the statement of profit or loss		1,642	(1,682)	(2,325)	(4,638)
Income tax		**(2,406)**	**(7,537)**	**8,098**	**364**
Other comprehensive income	8	**7,453**	**22,609**	**(24,295)**	**(1,092)**
Total comprehensive income for the year, net of tax		**142,299**	**129,904**	**92,916**	**110,887**

(*) Unaudited figures, presented for comparison purposes only.

Notes 1 to 26 to the accompanying consolidated financial statements form an integral part of these consolidated financial statements as at 31 December 2020, 2019 and 2018.

Consolidated statement of changes in equity for the years ended 31 December 2020, 2019 and 2018
(in thousand euro)

	Notes	Subscribed capital	Legal reserve	Other reserves	Consolidated profit or loss for the period	(Interim dividend)	Valuation adjustments	Total
Adjusted balance at 1 January 2017 (*)	17	**37,512**	**9,046**	**205,653**	**105,593**	**(91,850)**	**39,957**	**305,911**
Total recognised income/(expense)		-		-	**111,979**	-	**(1,092)**	**110,887**
Transactions with owners or mutual members		-	-	**(10,000)**	-	**(99,649)**	-	**(109,649)**
Distribution of dividends or payments due to mutual members	17	-		(10,000)	-	(99,649)	-	(109,649)
Other changes in equity		-	-	**13,743**	**(105,593)**	**91,850**	-	-
Transfers between equity items		-		13,743	(105,593)	91,850	-	-
Other changes		-	-	-	-	-	-	-
Closing balance at 31 December 2017 (*)	17	**37,512**	**9,046**	**209,396**	**111,979**	**(99,649)**	**38,865**	**307,149**
Adjusted balance at 1 January 2018	17	**37,512**	**9,046**	**209,396**	**111,979**	**(99,649)**	**38,865**	**307,149**
Total recognised income/(expense)		-	-	-	**117,211**	-	**(24,295)**	**92,916**
Transactions with owners or mutual members		-	-	**(14,424)**	-	**(94,544)**	-	**(108,968)**
Distribution of dividends or payments due to mutual members	17	-		(14,424)	-	(94,544)	-	(108,968)
Other changes in equity		-	-	**9,437**	**(111,979)**	**99,649**	-	**(2,893)**
Transfers between equity items		-	-	12,330	(111,979)	99,649	-	-
Other changes		-		(2,893)	-	-	-	(2,893)
Closing balance at 31 December 2018	17	**37,512**	**9,046**	**204,409**	**117,211**	**(94,544)**	**14,570**	**288,204**
Adjusted balance at 1 January 2019	17	**37,512**	**9,046**	**204,409**	**117,211**	**(94,544)**	**14,570**	**288,204**
Total recognised income/(expense)		-	-	-	**107,295**	-	**22,609**	**129,904**
Transactions with owners or mutual members		-	-	-	-	**(93,048)**	-	**(93,048)**
Distribution of dividends or payments due to mutual members	17	-	-	-	-	(93,048)	-	(93,048)
Other changes in equity		-	-	**22,667**	**(117,211)**	**94,544**	-	-
Transfers between equity items		-	-	22,667	(117,211)	94,544	-	-
Other changes		-	-	-	-	-	-	-
Closing balance at 31 December 2019	17	**37,512**	**9,046**	**227,076**	**107,295**	**(93,048)**	**37,179**	**325,060**
Adjusted balance at 1 January 2020		**37,512**	**9,046**	**227,076**	**107,295**	**(93,048)**	**37,179**	**325,060**
Total recognised income/(expense)		-	-	-	**134,846**	-	**7,453**	**142,299**
Other changes in equity		-	-	**14,247**	**(107,295)**	**93,048**	-	-
Transfers between equity items		-	-	14,247	(107,295)	93,048	-	-
Closing balance at 31 December 2020	17	**37,512**	**9,046**	**241,323**	**134,846**	-	**44,632**	**467,359**

(*) Unaudited figures, presented for comparison purposes only.

Notes 1 to 26 to the accompanying consolidated financial statements form an integral part of these consolidated financial statements as at 31 December 2020, 2019 and 2018.

Consolidated cash flow statements at 31 December 2020, 2019 and 2018
(in thousand euro)

	2020	2019	2018	2017 (*)
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES				
Insurance activities				
Proceeds from premiums on direct insurance, coinsurance and accepted reinsurance	896,421	890,572	847,226	795,017
Proceeds from ceded reinsurance	6,667	5,318	1,257	78
Reimbursements of claims	28,916	25,493	23,196	21,475
Other proceeds from operating activities	115,003	107,210	85,554	89,799
Total proceeds from insurance activities	**1,047,007**	**1,028,593**	**957,233**	**906,369**
Payments for direct insurance, coinsurance and accepted reinsurance	(532,496)	(589,444)	(521,547)	(462,468)
Payments for ceded reinsurance	(18,356)	(11,911)	(9,110)	(6,529)
Payments for intermediaries	(20,187)	(23,311)	(27,599)	(23,830)
Other payments for operating activities	(344,890)	(319,146)	(266,207)	(250,476)
Total payments for insurance activities	**(915,929)**	**(943,812)**	**(824,463)**	**(743,303)**
Other operating activities				
Proceeds from other operating activities	11,295	25,580	24,571	13,822
Total proceeds from other operating activities	**11,295**	**25,580**	**24,571**	**13,822**
Payments for other operating activities	(10,073)	(17,476)	(30,922)	(8,165)
Total payments for other operating activities	**(10,073)**	**(17,476)**	**(30,922)**	**(8,165)**
Income tax				
Income tax collected/(paid)	(25,980)	(27,244)	(32,911)	(32,171)
Total income tax collected/(paid)	**(25,980)**	**(27,244)**	**(32,911)**	**(32,171)**
Total net cash flows from operating activities	**106,320**	**65,641**	**93,508**	**136,552**
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES				
Proceeds from investing activities				
Property, plant and equipment	13,072	6,495	6,445	-
Investment property	145	146	135	110
Intangible assets	890	4,115	-	-
Financial instruments	207,284	258,062	219,139	209,911
Interest received	21,843	23,389	26,404	27,752
Dividends collected	1,745	2,491	2,465	2,630
Total proceeds from investing activities	**244,979**	**294,698**	**254,588**	**240,403**
Payments for investing activities				
Property, plant and equipment	(15,657)	(11,295)	(8,717)	(4,006)
Investment property	(51)	(205)	(28)	(28)
Intangible assets	(6,484)	(13,474)	(5,038)	(3,953)
Financial instruments	(276,945)	(259,572)	(288,377)	(143,084)
Other payments for investing activities	(464)	(802)	(197)	-
Total payments for investing activities	**(299,601)**	**(285,348)**	**(302,357)**	**(151,071)**
Total net cash flows from investing activities	**(54,622)**	**9,350**	**(47,769)**	**89,332**
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES				
Proceeds from financing activities				
Other proceeds from financing activities	6,098	89,866	99,612	13,512
Total proceeds from financing activities	**6,098**	**89,866**	**99,612**	**13,512**
Payments for financing activities				
Dividends to shareholders	(28,344)	(103,824)	(100,750)	(160,174)
Lease liabilities	(1,616)	(1,583)	(1,291)	(898)
Other payments for financing activities	(10,004)	(81,372)	(25,275)	(7,799)
Total payments for financing activities	**(39,964)**	**(186,779))**	**(127,316)**	**(168,871)**
Total net cash flows from/(used in) financing activities	**(33,866)**	**(96,913)**	**(27,704)**	**(155,359)**
Effects of exchange rate changes	(269)	83	(176)	(47)
Total increase/(decrease) in cash and cash equivalents	**17,563**	**(21,839)**	**17,859**	**70,478**
Cash and cash equivalents at beginning of year	**144,937**	**166,776**	**148,917**	**78,439**
Cash and cash equivalents at end of year	**162,500**	**144,937**	**166,776**	**148,917**
Components of cash and cash equivalents at end of year				
Cash and banks	161,008	144,937	166,776	148,917
Other financial assets	1,492	-	-	-
Total cash and cash equivalents at end of year	**162,500**	**144,937**	**166,776**	**148,917**

(*) Unaudited figures, presented for comparison purposes only.

Notes 1 to 26 to the accompanying consolidated financial statements form an integral part of these consolidated financial statements as at 31 December 2020, 2019 and 2018.

1. Overview

1.1 Purpose of the consolidated financial statements

These consolidated financial statements for the financial years 2020, 2019 and 2018 have been drawn up for the sole purpose of presenting the financial information of Línea Directa Aseguradora, S.A., Compañía de Seguros y Reaseguros and its subsidiaries (the "Group" or the "Línea Directa Group") within the context of its imminent admission to trading on the Spanish continuous market.

These consolidated financial statements have been drawn up, in relation to the financial information to be included in a prospectus, in accordance with Commission Delegated Regulation (EU) 2019/980 of 14 March 2019, supplementing Regulation (EU) 2017/1129 of the European Parliament and of the Council as regards the format, content, scrutiny and approval of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market.

These consolidated financial statements under International Financial Reporting Standards as adopted by the European Union (IFRS-EU) will serve as the basis for the financial information that must be included in the prospectus. The preparation of the financial statements does not entail the adoption of IFRS-EU by the Línea Directa Aseguradora Group for the purposes of its bylaws, as this will only become a requirement once its shares have been admitted to trading.

At its meeting of 18 December 2019, the Board of Directors of Bankinter, S.A. resolved to include on the agenda of the Annual General Meeting to be held on 19 March 2020 the distribution in kind of the entire share premium, amounting to € 1,184 million, through the delivery to its shareholders of 82.6% of the share capital of Línea Directa Aseguradora, S.A., Compañía de Seguros y Reaseguros (the "Parent" or "LDA"), with the bank to retain a non-controlling financial interest of 17.4% in the Company. Bankinter, S.A. is the majority shareholder of LDA and the Group's controlling entity.

This proposal was subsequently approved at the aforementioned Annual General Meeting and will now be submitted for regulatory approval. Once this authorisation has been obtained, the Company's shares will be distributed and subsequently admitted to trading on the continuous market, which is expected to take place in the second quarter of 2021.

1.2 Background information

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

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

Its registered office is located at calle Isaac Newton, 7, in the municipality of Tres Cantos (Madrid). The Parent operates entirely in Spain and Portugal.

With respect to Portugal, the Group was authorised to operate in the Assistance segment, included in the Other insurance business, on 25 September 2017. As this line of activity was residual and immaterial in 2020, 2019, 2018 and 2017, it has not been deemed relevant to break down the information by geographical area.

The Parent directs and manages its stakes in other entities by organising human and material resources accordingly. The Parent operates in Motor, Home, Health and Other insurance business, as described in Note 4 b). Its business distribution channels are mainly telephone and internet sales.

The following companies are subsidiaries: Línea Directa Asistencia, S.L.U., Motoclub LDA, S.L.U., Centro Avanzado de Reparaciones, S.L.U., Ambar Medline, S.L.U., LDActivos, S.L.U. and LDA Reparaciones, S.L.U, as described in Note 5, all of which are non-insurance support or investment companies.

In view of the Group's business activities, it has no environmental liabilities, expenses, assets, provisions or contingencies that could be material in respect of its equity, financial position or results.

The Group has drawn up consolidated financial statements for the years ended 31 December 2020, 2019, 2018 and 2017 in accordance with the regulatory financial reporting framework applicable to the Group, as set out in:

- The Spanish Commercial Code (*Código de Comercio*) and other commercial legislation.
- The Accounting Plan for Insurance Entities enacted by Royal Decree 1317/2008 of 24 July 2008 (hereinafter referred to by its Spanish acronym of "PCEA") and subsequently modified by Royal Decree 1736/2010 of 23 December 2010, Royal Decree 1060/2015 of 20 November 2015 and Royal Decree 583/2017 of 12 June 2017.
- The Law and Regulations on the Organisation, Supervision and Solvency of Insurance and Reinsurance Companies (hereinafter referred to by its Spanish acronym of "ROSSEAR" when referring to the Regulations), as enacted by Royal Decree 2486/1998, including all partial modifications thereto.
- The mandatory rules and regulations approved by the Accounting and Auditing Institute in implementing the PCEA, as well as all related rules and provisions prescribed by the Directorate General of Insurance and Pension Funds.
- The Spanish Rules on the Preparation of Consolidated Financial Statements (hereinafter referred to by its Spanish acronym of "NOFCAC").
- The non-repealed articles of the Regulation on the Organisation and Supervision of Private Insurance (hereinafter, "ROSSP", or the "Regulation"), enacted by Royal Decree 2486/1998, including all partial modifications thereto.
- All other applicable Spanish accounting regulations.

The consolidated financial statements for 2020 were approved on 18 March 2021 by shareholders at the Annual General Meeting and will be filed at the Madrid Companies Registry. The 2019 statements were approved on 18 March 2020, the 2018 statements on 20 March 2019 and the 2017 statements on 21 March 2018.

The Group 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. Approval of the consolidated financial statements of the Bankinter Group for financial year 2020 is on the agenda of the Annual General Meeting of Bankinter to be held on 21 April at first call and 22 April at second call, and the statements will be filed at the Madrid Companies Registry. The 2019 statements were approved on 19 March 2020, the 2018 statements on 21 March 2019 and the 2017 statements on 22 March 2018.

1.3. SARS-CoV-2

The year 2020 was marked by the SARS-CoV-2 ("COVID-19") health crisis. The crisis was declared a pandemic by the World Health Organisation ("WHO") in March 2020 and its rapid spread, together with the measures aimed at containing and mitigating its effects, led to a widespread interruption of economic activity, which has had various impacts on the Group's business. On 14 March 2020, the Spanish government decreed a State of Alarm, with the effect of limiting people's mobility until June. Soon after, we witnessed a number of border closures between municipalities and autonomous regions, which have continued to restrict mobility.

The Parent has analysed the possible impacts that these events around the globe may have in terms of both operating results and solvency. The Parent continued to operate and serve its customers as normal, thanks to the effective and efficient roll-out of its contingency plans within four days of the authorities declaring the state of alarm.

This extraordinary situation has led to lower commercial capacity in the production of new business, although this has been mitigated by improved retention in the customer portfolio. However, the potential negative effects on the company's short-term revenues have been more than offset by the reduction of costs from claims incurred.

2. Bases of presentation of the consolidated financial statements

a) Regulatory financial reporting framework applicable to the Group

The consolidated financial statements for the financial years 2020, 2019 and 2018 have been drawn up in accordance with IFRS-EU and other applicable financial reporting provisions to provide a true and fair view of the Group's consolidated equity and consolidated financial position as at 31 December 2020, 2019 and 2018 and its consolidated financial performance, consolidated cash flows and changes in consolidated equity for the years then ended.

These consolidated financial statements are the first financial statements prepared in accordance with IFRS-EU and therefore IFRS 1 "First-time Adoption of International Financial Reporting Standards" applies, with the transition date being 1 January 2017. These consolidated financial statements have been drawn up as per the standards in force at 31 December 2020. The impacts arising from the first-time adoption of IFRS-EU are described in Note 3.

The Group continues to apply all mandatory accounting principles that might have a material impact on the consolidated financial statements.

These consolidated financial statements, drawn up for the purpose described in Note 1.1, have been authorised for issue by the directors of the Línea Directa Group at their meeting held on 23 March 2021, in accordance with the applicable regulatory financial reporting framework, which is as follows:

- The International Financial Reporting Standards adopted by the European Union in the form of EU Regulations, in accordance with Regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002 and its subsequent amendments (IFRS-EU).
- On the IFRS Interpretations Committee (IFRS-IC).
- Regulatory provisions prescribed by the Spanish Directorate General of Insurance and Pension Funds, including the Framework Document in relation to the accounting regime for insurance entities relating to IFRS 4 – Insurance Contracts, published on 22 December 2004.
- The Spanish Commercial Code (*Código de Comercio*) and other commercial legislation.

- The Law and Regulations on the Organisation, Supervision and Solvency of Insurance and Reinsurance Companies (hereinafter referred to by its Spanish acronym of "ROSSEAR" when referring to the Regulations), as enacted by Law 20/2015 and Royal Decree 1060/2015, respectively, and other provisions issued by the Spanish Directorate General for Insurance and Pension Funds.
- The non-repealed articles of the Regulation on the Organisation and Supervision of Private Insurance (hereinafter, "ROSSP", or the "Regulation"), enacted by Royal Decree 2486/1998, including all partial modifications thereto.

b) True and fair view

The accompanying consolidated financial statements 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 consolidated equity, consolidated financial position, consolidated earnings and consolidated cash flows for financial years 2020, 2019 and 2018.

c) Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis, with the following exceptions:

- Derivative financial instruments and financial assets at fair value through other comprehensive income.
- Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs of disposal.

There has been no early adoption of any standards or interpretations that have been approved by the European Commission but that were not yet in effect at year end 2020.

d) Functional currency and presentation currency

The consolidated financial statements are presented in thousands of euro, rounded off to the nearest thousand, which is the functional and presentation currency of the Parent and its Subsidiaries.

e) Critical aspects regarding the valuation and estimation of uncertainty

The preparation of consolidated financial statements in accordance with IFRS-EU requires significant accounting estimates, judgments and assumptions to be made during the process of applying the Group's accounting policies. There follows a summary of the aspects that involved a higher degree of judgement, complexity or where assumptions and estimates were significant in drawing up the consolidated financial statements.

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

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

- Provisions for insurance contracts (Note 4 m)):

Assets and liabilities relating to insurance contracts are recognised in accordance with the accounting policies set out in Note 4 m) to these Notes. The Group also makes judgements and estimates to calculate the technical provisions for its various motor insurance segments. Statistical methods are used to determine these provisions. For the other segments in which the Parent operates, an individual assessment (case by case estimate) is carried out for the non-life insurance technical provisions.

– Income tax and recovery of tax credits (Note 4 x)):

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. In the opinion of the Group's directors, there are no contingencies that might result in any further significant liabilities for the Group.

– Impairment losses on certain assets (Note 4 d), f), g), h) and l)):

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

– Useful life of intangible assets, property, plant and equipment, investment property (Note 4 f) and h)):

The useful lives of these assets have been calculated on the basis of the Group's directors' best estimate of the period over which they will generate income, taking into account the depreciation and amortisation effectively incurred in their operation, use and enjoyment.

– The fair value of certain non-listed assets and liabilities (Note 4 d)):

To determine the fair value of financial instruments when there is no price available in an active market, the Group's directors have made estimates using a valuation model or technique consistent with accepted market pricing methodology, while maximising the use of observable market data.

– Liability adequacy test:

The assumptions used for the liability adequacy test are described in Note 4 m).

– Determination of the lessee's incremental borrowing rate under IFRS 16:

The incremental borrowing rate has been used to determine the relevant rate for leases in which the Group acts as lessee, being the rate of interest that a lessee would have to pay to borrow over a similar term, and with similar conditions and levels of risk, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

To determine the incremental borrowing rate, the Group:

- Employs a cumulative approach based on a risk-free interest rate adjusted to reflect credit risk for leases which have no recent third-party financing; and
- Makes specific adjustments to the lease, such as term, type, asset value and risk.

The Group is exposed to possible future increases in variable lease payments based on a Consumer Price Index (CPI). These changes are not included in the lease liability until they take effect. When the lease payments are eventually updated based on this index, the lease liability is revalued and adjusted against the right-of-use asset.

CPI change in leases in which the Group acts as lessee did not have a significant impact on the Group during the reference periods.

– Impact of COVID-19 on the Línea Directa Group (Notes 6, 8, 9, 17 and 19):

The Group is domiciled in Spain, where it carries out practically all of its activities. Its business has been affected by the outbreak of the COVID-19 pandemic and the measures deployed by the Spanish government to curb the spread of the virus.

As mentioned in Note 9 a) of these notes to the consolidated financial statements, new property valuations were carried out during the period due to the uncertainty of the possible loss in value of the properties owned by the Group in the wake of the COVID-19 health crisis and the general downturn in the real estate market. As a result, an impairment provision of € 851 thousand was recognised at 31 December 2020.

In view of the economic crisis caused by the pandemic, the Group has undertaken various initiatives to make it easier for policyholders to pay their insurance premiums, such as the option of deferring the bill to later months without incurring any surcharge, or offering more economical products. The steps already taken in 2020 and the new campaigns to be launched in early 2021 have led to an improvement in policy retention for the year and in the estimated level of retention for the coming financial year.

Potential impairment of outstanding premiums pending collection has been analysed more closely in the case of vehicle-sharing fleet insurance, which has been particularly affected by the pandemic. The impact has not been significant, as this insurance still accounts for a relatively small portion of the total business. An impairment provision of approximately € 300 thousand has been set aside to cover possible future non-payments and has been recognised as an increase in the provision for outstanding premiums.

In the health segment, the impact of the postponement of non-urgent consultations, treatments and surgeries amid the pandemic has been taken into account when estimating the provision for claims. The impact is not considered significant because visits and treatments got back to normal during the last quarter of the year.

The judgements and estimates described in the preceding paragraphs were made on the basis of the best information available at the end of the current financial year. However, future events may make it necessary to adjust them after the end of financial year 2020 or in subsequent financial years.

The Group has concluded that there are no material uncertainties that may cast significant doubt on its ability to continue as a going concern.

f) Comparison of information

As indicated in section a), these consolidated financial statements are the first set to be prepared in accordance with IFRS-EU, with a transition date of 1 January 2017. Therefore, the years ended 31 December 2020, 2019, 2018 and 2017 are comparable with each other.

Note 3 provides a reconciliation between the balances shown in the consolidated financial statements for the years ended 31 December 2020, 2019, 2018 and 2017 and the balances as at 1 January 2017 prepared under Spanish PCEA and the balances for the same periods prepared under IFRS-EU.

The figures for 2017 included in these notes to the consolidated financial statements have not been audited and are presented solely and exclusively for comparison purposes with the information provided for 2020, 2019 and 2018.

g) Changes in accounting standards

As indicated in section a), these consolidated financial statements have been prepared using the standards in force as at 31 December 2020, from 1 January 2017, which is the transition date chosen for the adoption of IFRS-EU. Therefore, there was no change in accounting policies in financial years 2020, 2019, 2018 and 2017.

h) Standards and interpretations issued but not applied

The Group has elected to apply the temporary exemption from the effective date of IFRS 9 "Financial Instruments", as described in paragraphs 20A - 20N of IFRS 4 "Insurance Contracts", as it considers that it meets the eligibility criteria set out in that standard.

By availing itself of this exemption, the date of application of IFRS 9 will be the date of entry into force of IFRS 17 – Insurance contracts (which according to the decision of the International Accounting Standards Board ("IASB") of 17 March is proposed for 1 January 2023 provided that, following the proposal of the European Financial Reporting Advisory Group ("EFRAG"), the European Union ultimately adopts the standard for application in Europe, said approval effectively issued on 15 December 2020. Once adopted, early adoption is also permitted). Therefore, until that date the Group will continue to apply IAS 39 – Financial Instruments: Recognition and measurement".

The Group has conducted the necessary analyses to be able to apply such deferral and has determined its eligibility by confirming that the percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities is greater than 90%, and that the Group does not engage in a significant activity unconnected with insurance, as indicated in paragraph 20D of IFRS 4. The analysis has been performed as of the yearly close ended 31 December 2015.

The disclosure requirements for financial assets required by IFRS 4 when applying this temporary exemption are set out in Note 8 a) ii).

i) Standards, improvements and interpretations that cannot be adopted early or that have not been endorsed by the European Union

At the date of authorisation for issue of these consolidated financial statements, the IASB and the IFRS-IC had issued the following standards, amendments and interpretations that have yet to be adopted by the European Union:

<u>IFRS 17 "Insurance contracts"</u>

IFRS 17 is expected to apply for annual periods beginning on or after 1 January 2023, although comparative disclosures will be mandatory. IFRS 17 is pending approval by the European Union.

This standard will replace IFRS 4 – Insurance Contracts, which allows for the continued use of local accounting practices and has resulted in insurance contracts being accounted for differently across jurisdictions. This standard sets out principles for the recognition, presentation and disclosure of insurance contracts so that an entity provides relevant and reliable information to enable users of financial information to assess the effect that these contracts have on the entity's financial statements.

The implementation of IFRS 17 will entail consistent accounting for all insurance contracts based on a valuation model that will use calculation assumptions updated at each reporting date (such as the discount rate, actuarial assumptions and with respect to other financial variables).

The effects of changes in the above assumptions may be recognised in either the statement of profit or loss or in equity, depending on their nature and whether or not they are associated with the provision of a service that has already occurred, or involve a reclassification between the components of the recognised insurance liability. Income or expenses may be recorded in full in the statement of profit or loss or in equity.

For all contracts that are not onerous, entities shall recognise a profit margin in the statement of profit or loss (known as a 'contractual service margin') over the period in which the entity performs the service. However, if the contract is onerous at initial recognition or becomes so during the period in which the entity performs the service, the entity shall recognise the loss in profit or loss immediately.

The Group has conducted an impact analysis on the application of IFRS 17, concluding that the first-time adoption of the standard will not have a significant financial impact on the Group as the contracts traded are mainly short-term and the calculation methodology for these contracts is very similar to the method currently used under IFRS 4.

The biggest impact identified by the Group will be the change in methodology in the valuation of claims reserves, as the provisions under the new standard will be much closer to the current Solvency II provisions, including the risk adjustment, and are expected to be lower than the current claims provisions under IFRS 4.

The impact on future earnings is also expected to be immaterial, with the difference in respect of current earnings existing mainly because of the pattern of recognition of contracts with initial loss, as well as the redistribution between operating results and net interest income.

The Group plans to adapt all its systems and processes to the new IFRS 17 standard between the end of 2020 and some point in 2021 to allow sufficient time for testing and stabilisation in order to ensure the sound functioning and timing of the necessary disclosures as of 1 January 2023, this being the date on which the standard will enter into force.

Amendments to IAS 1 – Presentation of Financial Statements

IAS 1 will be amended to promote consistency in application and to clarify the requirements on determining whether a liability is current or non-current. This amendment will apply for annual periods beginning on or after 1 January 2023 and is currently pending adoption by the European Union.

At the date of authorisation for issue of these consolidated financial statements, these amendments are not expected to have a material effect on the Group's future consolidated financial statements.

Amendments to IAS 37 "Provisions, contingent liabilities and contingent assets": Provisions for onerous contracts

The amendments to IAS 37 clarify that costs that relate directly to fulfilling the contract include the incremental costs of fulfilling that contract and an allocation of other costs that directly relate to fulfilling contracts.

The amendments will be effective for periods beginning on or after 1 January 2022 and are currently pending adoption by the European Union.

Amendments to IFRS 3 – Business Combinations: Reference to the 2018 Conceptual Framework

The change in IFRS 3 determines what constitutes an asset or liability in a business combination. It also introduces a new exception under IFRS 3 for liabilities and contingent liabilities T.he amendments will be effective for periods beginning on or after 1 January 2022 and are currently pending adoption by the European Union.

Amendment to IAS 16 – Property, Plant and Equipment Proceeds before intended use

The amendments to IAS 16 prohibit a company from deducting, from the cost of its property, plant and equipment, proceeds received from selling items produced while the company is preparing the asset for its intended use. The amendments will be effective for periods beginning on or after 1 January 2022 and are currently pending adoption by the European Union.

Annual Improvements to IFRSs 2018-2020 Cycle

- Amendments to IFRS 1 “First-time adoption of IFRSs”, on exceptions to the treatment of translation differences.
- Amendments to IFRS 9 “Financial Instruments” to determine the costs of modifications to financial liabilities.
- Amendment to IFRS 16 “Leases”.
- Amendments to IAS 41 “Agriculture”.

The improvements will apply to periods beginning on or after 1 January 2022. This amendment is pending adoption by the European Union.

Amendments to IFRS 10 – Consolidated Financial Statements and IAS 28 – Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 clarify the accounting treatment for sales and contributions of assets between an investor and its associate and joint venture, which will depend on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a ‘business’. Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss. If the assets do not meet the definition of a business, the investor will recognise the gain or loss only to the extent of the other investors’ interest. The amendments will only apply when an investor sells or contributes assets to its associate or joint venture.

Originally, these amendments to IFRS 10 and IAS 28 were prospective and effective for annual periods beginning on or after 1 January 2016. However, at the end of 2015 the IASB reached the decision to postpone the effective date of these amendments (without setting a new specific date), as it is currently planning a broader review that may ultimately simplify the accounting treatment of these transactions and other accounting aspects for associates and joint ventures.

These amendments are pending adoption by the European Union.

<u>Amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates</u>

The amendments to IAS 8 provide a new definition of accounting estimates, among other changes, to help entities distinguish between changes in accounting estimates and changes in accounting policies. An entity is required to apply the standard in its first IFRS financial statements for periods beginning on or after 1 January 2023. The amendments are currently pending adoption by the European Union.

3. Transition to IFRS-EU

As mentioned in note 2 a), these are the first consolidated financial statements to be drawn up by the Group under IFRS-EU.

The accounting policies set out in Note 4 have been applied in drawing up these consolidated financial statements for the years ended 31 December 2020, 2019 2018 and 2017, and in drawing up the opening consolidated balance sheet as at 1 January 2017, this being the Group's date of transition to IFRS-EU.

IFRS 1 requires first-time adopters of IFRS-EU to apply retroactively all IFRS-EU in force at the date of the latest balance sheet presented (31 December 2020 in the Group's case). However, optional exemptions from some IFRS-EU requirements are permitted in certain situations and certain mandatory exemptions from the retrospective effectiveness of IFRS-EU are also envisaged. The Group has applied the following exemption for leases:

At the transition date, for those leases in which the Group acts as lessee, the Group has chosen to measure the lease liability at the residual value of the lease payments discounted using the lessee's incremental borrowing rate at the date of transition to IFRS.

The right-of-use asset has been measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments related to that lease that would have been recognised in the balance sheet immediately prior to the date of transition to IFRSs. In relation of the discount rates, the Group has decided to apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

The Group has elected not to apply the right-of-use asset and lease liability measurement requirements for leases with a term of less than 12 months at the transition date.

The Group has analysed at the transition date whether a contract is, or contains, a lease in accordance with the amendments to IFRS 16 and as described in Note 4 g).

With regard to exemptions for business combinations, the Group has chosen not to apply IFRS 3 "Business Combinations" retroactively for business combinations that took place prior to the transition date.

The impacts of the transition from previous accounting policies to IFRS-EU on the Group's consolidated financial position and the effects on the Group's equity, statements of recognised income and expense and consolidated cash flow statements are explained below.

<u>Operating leases</u>

Under the Spanish Chart of Accounts for Insurance Entities (*Plan Contable de Entidades Aseguradoras*, or PCEA), leases are classified as either operating or finance leases. Leases in which the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Operating lease payments (net of any incentives received from the lessor) are charged to the statement or profit or loss in the year in which they are earned on a straight-line basis over the lease term.

IFRS 16 – Leases provides that companies that are lessees under a lease contract shall recognise an asset in the consolidated balance sheet for the right to use the "underlying asset" and a lease liability for lease payments under the lease. In addition, the operating lease expense has been replaced by a straight-line depreciation charge for right-of-use assets and an interest expense on lease liabilities (see Note 4 g) and 10). The Group has recognised the corresponding deferred tax effect arising from the recognition of the right-of-use asset, as the amortisation expense is not deductible for tax purposes.

<u>Equalisation reserve</u>

Under PCEA, the Group recognised an available equalisation reserve and an interim equalisation reserve in equity. IFRS 4 "Insurance Contracts*"* does not permit the recognition of provisions for incurred but not reported claims if such claims arise from insurance contracts that do not exist at the date of the financial statements. These equalisation reserves have been reclassified to other reserves (Note 17 b)).

<u>Accrued financial interest receivable</u>

Under PCEA, the Group presented explicit accrued interest not yet payable on debt instruments under the sub-heading "Accrued income". However, in accordance with IFRS-EU, such explicit accrued interest receivable must be recorded together with the assets giving rise to the recognition of such interest, to the extent that the ownership rights are retained. Accordingly, at 31 December 2020, 2019, 2018, 2017 and 1 January 2017, all amounts of accrued explicit interest not yet payable were reclassified to debt instruments.

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

Consolidated balance sheets:

ASSETS	2020 PCEA	Adjustments	2020 IFRS-EU	2019 PCEA	Adjustments	2019 IFRS-EU	2018 PCEA	Adjustments	2018 IFRS-EU	2017 PCEA	Adjustments	2017 IFRS-EU	01/01/2017 PCEA	Adjustments	01/01/2017 IFRS-EU
Cash and cash equivalents	**162,500**		**162,500**	**144,937**		**144,937**	**166,776**		**166,776**	**148,917**		**148,917**	**78,439**		**78,439**
Available-for-sale financial assets	**906,655**		**917,074**	**825,187**		**834,498**	**772,393**		**782,715**	**734,518**		**745,722**	**797,987**		**811,711**
Equity instruments	124,796	1,059	125,855	116,688		116,688	88,763		88,763	86,467		86,467	76,016		76,016
Debt securities	781,859	9,360	791,219	708,499	9,311	717,810	683,630	10,322	693,952	648,051	11,204	659,255	721,971	13,724	735,695
Loans and receivables	**110,368**		**110,373**	**106,758**		**106,760**	**115,944**		**115,951**	**103,709**		**103,710**	**92,514**		**92,514**
Debt securities	9,985	5	9,990	2,985	2	2,987	2,986	7	2,993	4,000	1	4,001	17,263	-	17,263
Deposits with credit institutions	-		-	-		-	15,000		15,000	13,000		13,000	1,101		1,101
Receivables on direct insurance business	54,413		54,413	51,196		51,196	50,914		50,914	45,616		45,616	43,448		43,448
Policyholders	54,413		54,413	51,196		51,196	50,914		50,914	45,616		45,616	43,448		43,448
Receivables on reinsurance business	5,086		5,086	4,175		4,175	2,828		2,828	1,403		1,403	-		-
Other receivables	40,884		40,884	48,402		48,402	44,216		44,216	39,690		39,690	30,702		30,702
Tax and social security receivable	1,126		1,126	1,305		1,305	167		167	123		123	22		22
Other receivables	39,758		39,758	47,097		47,097	44,049		44,049	39,567		39,567	30,680		30,680
Reinsurers' share of technical provisions	**12,477**		**12,477**	**9,517**		**9,517**	**7,318**		**7,318**	**5,719**		**5,719**	**3,828**		**3,828**
Provision for unearned premiums	3,705		3,705	2,676		2,676	2,735		2,735	1,175		1,175	853		853
Provision for claims	8,772		8,772	6,841		6,841	4,583		4,583	4,544		4,544	2,975		2,975
Property, plant and equipment and investment property	**111,282**		**111,282**	**114,588**		**114,588**	**110,844**		**110,844**	**113,860**		**113,860**	**113,863**		**113,863**
Property, plant and equipment	45,334		45,334	47,918		47,918	43,386		43,386	39,109		39,109	38,817		38,817
Investment property	65,948		65,948	66,670		66,670	67,458		67,458	74,751		74,751	75,046		75,046
Right-of-use assets	**-**	2,713	**2,713**	**-**	3,794	**3,794**	**-**	4,527	**4,527**	**-**	3,109	**3,109**	**-**	2,388	**2,388**
Intangible assets	**12,688**		**12,688**	**11,845**		**11,845**	**7,593**		**7,593**	**7,036**		**7,036**	**8,069**		**8,069**
Other intangible assets	12,688		12,688	11,845		11,845	7,593		7,593	7,036		7,036	8,069		8,069
Holdings in group companies and associates	**747**		**-**	**-**		**-**	**-**		**-**	**-**		**-**	**-**		**-**
Holdings in group companies	747	(747)	-	-		-	-		-	-		-	-		-
Tax assets	**24,003**		**24,016**	**24,857**		**24,879**	**27,426**		**27,441**	**24,000**		**24,007**	**22,147**		**22,147**
Current tax assets	14,388		14,388	504		504	549		549	555		555	532		532
Deferred tax assets	9,615	13	9,628	24,353	22	24,375	26,877	15	26,892	23,445	7	23,452	21,615		21,615
Other assets	**92,775**		**83,410**	**95,121**		**85,808**	**86,042**		**75,713**	**81,026**		**69,821**	**76,973**		**63,249**
Prepaid fees and other acquisition expenses	83,055		83,055	84,469		84,469	75,468		75,468	69,433		69,433	62,735		62,735
Accrued income	9,545	(9,365)	180	10,463	(9,313)	1,150	10,343	(10,329)	14	11,354	(11,205)	149	14,092	(13,724)	368
Other assets	175		175	189		189	231		231	239		239	146		146
Assets held for sale	**-**		**-**	**-**		**-**	**1,871**		**1,871**	**-**		**-**	**-**		**-**
TOTAL ASSETS	**1,433,495**	**3,038**	**1,436,533**	**1,332,810**	**3,816**	**1,336,626**	**1,296,207**	**4,542**	**1,300,749**	**1,218,785**	**3,116**	**1,221,901**	**1,193,820**	**2,388**	**1,196,208**

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

LIABILITIES	2020 PCEA	Adjustments	2020 IFRS-EU	2019 PCEA	Adjustments	2019 IFRS-EU	2018 PCEA	Adjustments	2018 IFRS-EU	2017 PCEA	Adjustments	2017 IFRS-EU	01/01/2017 PCEA	Adjustments	01/01/2017 IFRS-EU
Debt and accounts payable	**171,679**		**174,445**	**203,727**		**207,608**	**207,303**		**211,889**	**120,178**		**123,316**	**155,040**		**157,428**
Due on direct insurance business	2,862		2,862	4,165		4,165	2,023		2,023	3,018		3,018	1,772		1,772
Due to policyholders	1,893		1,893	2,435		2,435	1,961		1,961	1,486		1,486	1,336		1,336
Due to agents, brokers and intermediaries	969		969	1,730		1,730	62		62	1,532		1,532	432		432
Conditional claims	-		-	-		-	-		-	-		-	4		4
Due on reinsurance business	981		981	1,584		1,584	1,011		1,011	761		761	704		704
Lease liabilities	-	2,766	2,766	-	3,881	3,881	-	4,586	4,586	-	3,138	3,138	-	2,388	2,388
Other debts	167,836		167,836	197,978		197,978	204,269		204,269	116,399		116,399	152,564		152,564
Taxes and social security payable	14,489		14,489	14,097		14,097	15,547		15,547	16,775		16,775	15,699		15,699
Due to group companies and associates	839		839	32,955		32,955	44,882		44,882	28,393		28,393	78,223		78,223
Other debts	152,508		152,508	150,926		150,926	143,840		143,840	71,231		71,231	58,642		58,642
Hedging derivatives	**15,167**		**15,167**	**13,584**		**13,584**	**3,385**		**3,385**	**-**		**-**	**-**		**-**
Technical provisions	**716,491**		**716,491**	**725,860**		**725,860**	**725,891**		**725,891**	**713,681**		**713,681**	**663,440**		**663,440**
Provision for unearned premiums	446,423		446,423	443,115		443,115	428,118		428,118	402,137		402,137	372,722		372,722
Provision for unexpired risks	4,622		4,622	6,115		6,115	-		-	-		-	-		-
Provision for claims	265,446		265,446	276,630		276,630	297,773		297,773	311,544		311,544	290,718		290,718
Non-technical provisions	**16,849**		**16,849**	**22,816**		**22,816**	**24,652**		**24,652**	**23,199**		**23,199**	**19,714**		**19,714**
Provisions for taxes and other legal contingencies	492		492	492		492	2,700		2,700	700		700	700		700
Provisions for settlement agreements	16,174		16,174	21,968		21,968	21,708		21,708	22,403		22,403	18,884		18,884
Other non-technical provisions	183		183	356		356	244		244	96		96	130		130
Tax liabilities	**44,989**		**45,066**	**39,986**		**39,986**	**44,534**		**44,534**	**53,835**		**53,835**	**49,042**		**49,042**
Current tax liabilities	-		-	(1,537)		(1,537)	8,777		8,777	15,952		15,952	12,252		12,252
Deferred tax liabilities	44,989	77	45,066	41,523		41,523	35,757		35,757	37,883		37,883	36,790		36,790
Other liabilities	**1,156**		**1,156**	**1,712**		**1,712**	**2,194**		**2,194**	**721**		**721**	**673**		**673**
Accruals	477		477	645		645	1,331		1,331	-		-	139		139
Other liabilities	679		679	1,067		1,067	863		863	721		721	534		534
TOTAL LIABILITIES	**966,331**	**2,843**	**969,174**	**1,007,685**	**3,881**	**1,011,566**	**1,007,959**	**4,586**	**1,012,545**	**911,614**	**3,138**	**914,752**	**887,909**	**2,388**	**890,297**
Equity	**422,767**		**422,727**	**287,946**		**287,881**	**273,678**		**273,634**	**268,306**		**268,284**	**265,954**		**265,954**
Capital or mutual fund	37,512		37,512	37,512		37,512	37,512		37,512	37,512		37,512	37,512		37,512
Subscribed capital or mutual fund	37,512		37,512	37,512		37,512	37,512		37,512	37,512		37,512	37,512		37,512
Reserves	257,398		250,369	243,278		236,122	220,528		213,455	225,217		218,442	214,699		214,699
Legal and bylaw reserves	9,046		9,046	9,046		9,046	9,046		9,046	9,046		9,046	9,046		9,046
Equalisation reserve	107,582	(107,582)	-	100,619	(100,619)	-	93,506	(93,506)	-	86,455	(86,455)	-	79,680	(79,680)	-
Other reserves	140,770	100,553	241,323	133,613	93,463	227,076	117,976	86,433	204,409	129,716	79,680	209,396	125,973	79,680	205,653
Profit/(loss) for the year	134,821	25	134,846	107,316	(21)	107,295	117,233	(22)	117,211	112,001	(22)	111,979	105,593	-	105,593
(Interim dividend and interim equalisation reserve)	(6,964)	6,964	-	(100,160)	7,112	(93,048)	(101,595)	7,051	(94,544)	(106,424)	6,775	(99,649)	(91,850)	-	(91,850)
Valuation adjustments	**44,397**		**44,632**	**37,179**		**37,179**	**14,570**		**14,570**	**38,865**		**38,865**	**39,957**		**39,957**
Available-for-sale financial assets	44,397	235	44,632	37,179		37,179	14,570		14,570	38,865		38,865	39,957		39,957
TOTAL EQUITY	**467,164**	**195**	**467,359**	**325,125**	**(65)**	**325,060**	**288,248**	**(44)**	**288,204**	**307,171**	**(22)**	**307,149**	**305,911**	**-**	**305,911**
TOTAL LIABILITIES AND EQUITY	**1,433,495**	**3,038**	**1,436,533**	**1,332,810**	**3,816**	**1,336,626**	**1,296,207**	**4,542**	**1,300,749**	**1,218,785**	**3,116**	**1,221,901**	**1,193,820**	**2,388**	**1,196,208**

Consolidated statements of profit or loss

The IFRS 16 translation adjustments resulted in an increase of € 25 thousand and a decrease of € 21 thousand, € 22 thousand and € 22 thousand in consolidated profit or loss for the years ended 31 December 2020, 2019, 2018 and 2017, respectively.

The amount relating to operating leases under PCEA has been adjusted and the amortisation expense of right-of-use assets has been included under the sub-headings "Claims-related expenses", "Acquisition expenses", "Administration expenses" and "Reinsurance commissions and profit sharing" (this much has not changed). The sub-heading "Expenses from financial investments and accounts" now shows the financial expense arising from the lease liabilities.

As the differences in relation to "Equalisation reserve" and "Accrued financial interest receivable" are effectively reclassifications of items from the consolidated balance sheets, they have no effect on the consolidated statements of recognised income and expense.

No other material differences have been identified in the consolidated statement of profit or loss presented under IFRS-EU and the consolidated statement of profit or loss presented previously under Spanish GAAP.

Consolidated cash flow statements

The effect of applying IFRS 16 to the consolidated cash flow statements has resulted in a positive adjustment of € 1,616 thousand, € 1,583 thousand, € 1,291 thousand and € 898 thousand to the sub-heading "Payments for other activities" in relation to cash flows from operating activities and a negative adjustment of € 1,616 thousand, € 1,583 thousand, € 1,291 thousand and € 898 thousand to the sub-heading "Lease liabilities" in relation to cash flows from financing activities for the years ended 31 December 2020, 2019, 2018 and 2017, respectively. These adjustments are included in consolidated cash flows from operating activities.

4. Recognition and measurement standards

The valuation rules and standards relied on in drawing up the accompanying consolidated financial statements are described below:

a) Subsidiaries

a.1) Acquisition of control

Subsidiaries are defined as entities over which the Parent exercises control, whether directly or indirectly through other subsidiaries. The Parent controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee and has the ability to affect those returns through its power over the investee. The Parent has power when it possesses substantive rights that give it the ability to direct the relevant activities. The Parent is exposed, or has rights, to variable returns from its involvement with the investee when the returns it earns from that involvement have the potential to vary as a result of the investee's financial performance.

Acquisitions by the Parent (or another Group company) of control over a Subsidiary constitute a business combination accounted for using the acquisition method.

This method requires the acquirer to account for, at the acquisition date, the identifiable assets acquired and the liabilities assumed in a business combination and, if any, the related goodwill or badwill on consolidation. Subsidiaries are consolidated from the date on which control is transferred to the Group and are excluded from consolidation on the date on which control ceases.

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

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

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

a.2) Method of consolidation

The assets, liabilities, income, expenses, cash flows and other items in the financial statements of the Parent and the Subsidiaries are included in the consolidated financial statements of the Group, on the following basis:

- *Standard valuation:* the assets and liabilities, income and expenses and other items contained in the annual accounts of the Group companies have been valued using uniform methods.

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

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

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

b) Segment information

The Group is structured internally into operating segments, which have been defined according to the different categories of products and services provided by the Group. The earnings and results of these segments are regularly reviewed as part of the decision-making process to decide on the resources to be allocated to the segment and to assess its performance. The Group's Board of Directors, which includes the Chief Executive Officer, identifies the segments from a business perspective and is the supreme decision-making body when it comes to defining these segments. The segments are aligned with the Group's organisational structure and reflect the information provided to Management and the markets.

For the years ended 31 December 2020, 2019, 2018 and 2017, the Group comprised the following operating segments in accordance with IFRS 8, whose principal products, services and operations were as follows:

- Motor
- Home
- Health
- Other insurance businesses
- Other activities

Inter-segment transactions are measured at fair value and eliminated on consolidation.

All segments are directly or indirectly related to the insurance business. The motor, home, health and other insurance business segments correspond to insurance-only activities.

- The motor segment includes private motor insurance through a range of products including comprehensive, with and without excess, extended third party and standard third party, among others, motorbike insurance with products such as comprehensive with excess, third party with theft and fire, extended third party etc., or fleet insurance.

- The home segment includes multi-risk home insurance products with various products that include coverage such as theft damage, civil liability, fire damage, aesthetic damage, etc.

- The health segment includes health insurance products under the Vivaz brand in the health care segment.

- The other insurance business segment includes various products with stand-alone policies that are not linked to motor, home or health insurance, such as travel insurance for holders of credit cards and wellness insurance.

- The other activities segment mainly relates to auxiliary insurance businesses and commissions from the sale of insurance products of other insurers. It also includes roadside assistance and vehicle repair services that Group subsidiaries provide to third parties outside the Group and that are not, therefore, eliminated on consolidation. The income and expenses of this segment are shown in the headings "Other income" and "Other expenses" in the consolidated statement of profit or loss in relation to other activities. These activities do not meet the quantitative criteria for separate presentation.

The Group's management strategy is to analyse the performance of each segment by its profit after tax. The Group performs virtually all its business activities in Spain.

There are no differences in accounting policies, nature of activities, valuation and measurement of assets and liabilities between each of the operating segments and there have been no changes from previous years. Note 19 provides quantitative information on the Group's segments.

c) Cash and cash equivalents

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

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

Other short-term, highly liquid investments are also included under this heading provided that they are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

d) Financial instruments

d.1) Financial assets

The Group classifies its financial assets into the following categories: loans and receivables and available-for-sale financial assets. The precise classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

<u>Loans and receivables</u>

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are mainly bank deposits, outstanding insurance premium receipts, debt securities and reinsurance receivables. This category includes receivables from third parties on reinsurance operations, as well as from intermediaries and policyholders, subject to adequate provisions for impairment.

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 incurred is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate at the time of initial recognition. Value adjustments, and any reversal thereof, are recognised in the consolidated statement of profit or loss. Reversal of impairment is limited to the carrying amount of the asset 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 experience, 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.

If, in a subsequent period, the amount of the impairment loss decreases and the reduction can be objectively attributed to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit quality), the reversal of the previously recognised impairment is recognised in the consolidated statement of profit or loss.

Receivables from claim recoveries are capitalised when their realisation is sufficiently guaranteed, that is, once the other insurer acknowledges that its policyholder is at fault and therefore acknowledges its debt with the Group. The amount is recognised at nominal value.

Available-for-sale financial assets

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

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

At each balance sheet date, the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired, considering those situations that generate such evidence, whether individually or in combination with others. The Group considers evidence of possible impairment to be a significant or prolonged decline in the market value of equity or fixed income securities, individually considered, to below their cost or amortised cost.

When there is a significant or prolonged decline in the fair value of an available-for-sale financial asset, the cumulative loss previously recognised in equity is removed from equity and recognised in the statement of profit or loss for the year, even if the financial asset has not been derecognised. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale are not reversed through profit or loss for the year. Meanwhile, reversals associated with debt instruments are recognised in the statement of profit or loss. 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.

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 issuer's insolvency.

When determining whether investments in equity instruments have become impaired, the Group relies on time or percentage ranges to compare the average cost with the market price of the instrument to establish whether there has been a prolonged or significant decline in its market value. In particular, and in accordance with the time or percentage ranges established by the Group, objective evidence of impairment shall be deemed to exist if the stock market price falls by 40% or more in respect of the average acquisition cost or if there has been a continuous decline in value for a period of 18 months or more.

Derecognition of financial assets

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

Conversely, the Group does not derecognise financial assets, and recognises a financial liability for an amount equal to the consideration received, on transfers of financial assets in which substantially all the risks and rewards of ownership are retained.

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

Dividend distribution

Dividend income is recognised as income in the consolidated statement of profit or loss when the right to receive payment is established.

Measurement of financial instruments

At initial recognition, the Group measures its financial assets at fair value, adjusted (for financial assets not recognised at fair value through profit or loss) to reflect the transaction costs that are directly attributable to the acquisition or issuance of the assets.

After initial recognition, the Group measures financial assets at fair value, without deducting transaction costs that may be incurred on sale, except for certain loans and receivables that are measured at amortised cost using the effective interest method.

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 most objective and common reference for the fair value of a financial instrument is the quoted prices of the instrument on an active market.

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

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

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

If no price can be found in an active market, the price must be estimated instead through a valuation model or technique, consistent with the accepted methodology used in the market for pricing, while maximising the use of observable market data.

For this purpose, financial instruments have been classified into three levels, depending on the inputs used to determine their fair value:

- Level 1: the financial instrument is valued directly on the basis of its quoted price on active markets, to the extent that this price is observable and can be captured from independent sources.

- Level 2: for instruments for which there is no observable price, fair value is estimated using valuation techniques where all significant inputs are based on observable market data (mainly interest rates and risk premiums).
- Level 3: valuation techniques relying on variables other than those obtained from observable market data.

Instruments may be moved between levels following periodic control processes and verification of quoted prices, as follows:

- If the source of an asset's quoted price is no longer representative, it is moved from Level 1 to Level 2.
- Assets are moved from Levels 2 and 3 to Level 1 if and when a reasonable quoted price source is verified.
- Assets are moved to Level 3 when observable market data are no longer available.

The Group recognises transfers between levels in the fair value hierarchy at the date of the event or change in circumstances that warranted the transfer.

d.2) Financial liabilities

The Group classifies its financial liabilities according to the purpose for which they were acquired. Management determines the classification of its financial liabilities at initial recognition.

Debt and accounts payable

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

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

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

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

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

e) Hedge accounting

Hedging derivatives are recognised under "Hedging derivatives" on the assets or liabilities side of the consolidated 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

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the consolidated 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.

Cash flow hedges

Cash flow hedges cover exposure to changes in interest flows attributable to a specific risk associated with interest rate fluctuations. The Group recognised no such hedging arrangements in 2020, 2019, 2018 and 2017.

Measuring hedge effectiveness

In relation to derivatives held by the Group that are classified as fair value hedges, the following steps are taken to measure the effectiveness of the hedge:

First, the Group defines the hedged item through a synthetic bond whose flows are equivalent to the hedged portion of each government bond (Note 8 b) i)). The change in the fair value of the synthetic bond is calculated by discounting its flows using the standard Euribor 6m curve. Lastly, it is confirmed that the difference between this change and the change in the fair value of the hedging derivative is within the parameters marked as effective hedging (80% - 125%).

f) Property, plant and equipment and investment property

Land, natural assets and buildings that are held to obtain income, capital gains or both and that are not occupied by the Group 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.

Likewise, as indicated in the note on transition to IFRS (Note 3), the Group has chosen to measure these items at cost at the transition date, as it had been doing under the accounting principles previously in effect. The same valuation criterion has been maintained for the subsequent valuation of fixed assets and investment property.

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 is derecognised. Under no circumstances does repair and maintenance work qualify as improvements.

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

Property, plant and equipment and investment property	Rate
Furniture and installations	4 - 12%
IT equipment	20 - 25%
Vehicles	25%
Other property, plant and equipment	12 - 15%
Buildings for own use	2%
Buildings for property investment	2%

The Group reviews the residual value, useful life and depreciation method of property, plant and equipment at the end of each reporting period. Changes in the criteria initially established are recognised as a change in estimates.

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

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

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

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

Recoverable amount must be determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the recoverable amount is determined for the cash-generating unit (CGU) to which it belongs.

Losses related to the impairment of the CGU initially reduce, where applicable, the value of the goodwill allocated to the CGU and subsequently to the other assets of the CGU, pro rata on the basis of the carrying amount of each asset, subject to the limit for each asset of the higher of its fair value less costs of disposal, its value in use and zero.

At each reporting date, the Group assesses whether there is any indication that the impairment loss recognised in prior periods no longer exists or may have decreased. Impairment losses are reversed only if there has been a change in the estimates used to determine the asset's recoverable amount. The reversal of the impairment loss is credited to profit or loss.

However, the reversal of the loss cannot have the effect of increasing the carrying amount of the asset above the carrying amount it would have had, net of depreciation, had the impairment not been recognised.
The amount of the reversal of the impairment loss of a CGU is allocated to the assets of the CGU pro rata on the basis of the carrying amount of the assets, with the limit per asset being the lower of its recoverable amount and the carrying amount it would have had, net of depreciation, had the loss not been recognised.

g) Right-of-use assets and lease liabilities

Identification of a lease

The Group assesses whether a contract contains a lease at inception of the contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The period of time during which the Group uses an asset includes both consecutive and non-consecutive periods of time. The Group only reassesses the terms and conditions of a contract when it is modified.

<u>Accounts of the lessee</u>

For contracts containing one or more lease and non-lease components, the Group allocates the contract consideration to each lease component according to the separate selling price of the lease component and the aggregate individual price of the non-lease components. Such treatment has not been applied to vehicles, applying the practical expedient permitted by the standard, thus not separating the non-lease components and accounting for the lease component and any associated non-lease component as a single lease component.

Payments made by the Group that do not involve the transfer of goods or services from the lessor to the Group are not a separate component of the lease, but form part of the total lease consideration.

The Group, as explained in the note on transition to IFRS (Note 3), has elected not to apply the accounting policies set out below for short-term leases and those where the underlying asset has a fair value of less than five thousand euro. For such contracts, the Group recognises the lease expense on a straight-line basis over the lease term.

The Group recognises a right-of-use asset and a lease liability at the inception of the lease. The right-of-use asset consists of the amount of the lease liability, any lease payments made on or before the commencement date, less incentives received, initial direct costs incurred and, as the case may be, an estimate of the dismantling or restoring costs to be incurred, as indicated in the accounting policy for provisions.

The Group measures lease liabilities at the present value of the lease payments outstanding at the commencement date. The Group discounts lease payments at the appropriate incremental borrowing rate unless it can reliably determine the lessor's implicit interest rate.

Lease payments payable consist of fixed payments, less any incentive receivable, variable payments that depend on an index or rate, initially measured at the index or rate applicable at the commencement date, amounts expected to be payable under residual value guarantees, the exercise price of the purchase option reasonably certain to be exercised and payment of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The Group measures right-of-use assets at cost, less accumulated depreciation and impairment losses, adjusted for any re-estimation of lease liabilities.

If the contract transfers ownership of the asset to the Group at the end of the lease term or the right-of-use asset includes the purchase option price, the depreciation criteria set out in f) Property, plant and equipment and investment property are applied from the commencement date of the lease until the end of the useful life of the asset. Otherwise, the Group depreciates the right-of-use asset from the commencement date to the earlier of the useful life of the underlying asset or the end of the lease term.

The Group applies the impairment criteria for non-current assets described in section f) Property, plant and equipment and investment property to right-of-use assets.

The Group measures the lease liability by increasing it by the accrued finance expense, decreasing it by the payments made and re-estimating the carrying amount for lease modifications or to reflect updates of in-substance fixed payments.

During the financial years 2020, 2019, 2018 and 2017, the Group did not incur any expenses for variable lease payments.

Accounts of the lessor. Operating leases

For contracts containing one or more lease and non-lease components, the Group allocates the contract consideration as indicated in the accounting policy on income and expenses.

The Group classifies as finance leases contracts that at inception substantially transfer the risks and rewards incidental to ownership of the assets to the lessee. Otherwise, they are classified as operating leases.

The Group presents assets leased to third parties under operating leases according to their nature or type in accordance with the accounting principles described in section f) Property, plant and equipment and investment property.

The Group recognises income from operating leases, net of incentives granted, as income over the lease term on a straight-line basis, unless another systematic basis of allocation is more representative of the pattern in which benefit from the use of the asset diminishes.

Initial direct lease costs are included in the carrying amount of the leased asset and are recognised as an expense over the lease term using the same criteria as those used for income recognition.

The Group recognises variable payments as revenue when it is probable that they will be received, which is generally when the events that trigger their collection occur.

The Group recognises modifications to operating leases as a new lease from the effective date of the modification, considering any prepayments or deferred payments for the original lease as part of the lease payments for the new lease.

h) Intangible assets

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

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.

The Group recognises the derecognition of an intangible asset on disposal or when it does not expect to receive future economic benefits from its use or disposal. The date of disposal of an intangible asset is the date on which the buyer acquires control of the asset.

i) Prepaid commissions and other capitalised acquisition expenses

Acquisition expenses on premiums, included on the assets side of the consolidated balance sheet, are deferred subject to the limit established in the technical notes for each product and/or segment and the maturity of the policies.

j) Inventories

The inventories held by the Group include mainly car spare parts from subsidiary Centro Avanzado de Reparaciones, S.L.U. and batteries from Línea Directa Asistencia, S.L.U.

Inventories are stated at the lower of cost and net realisable value. When the net realisable value of inventories is lower than their cost, the appropriate valuation adjustments are made and recognised as an expense in the consolidated statement of profit or loss. If the circumstances to have caused the impairment cease to exist, the amount of the impairment is reversed and recognised as income in the consolidated statement of profit or loss. The balance of inventories is shown under "Other assets" in the consolidated balance sheet (Note 12).

k) Accrued income (assets)

This sub-heading mainly shows the cost of certain services paid in advance by the Group and accrued in the following year.

l) Assets held for sale

The Group classifies assets or disposal groups whose carrying amount will be recovered principally through a sale transaction rather than through continuing use as assets held for sale. To classify assets or disposal groups as held for sale, they must be available for sale in their present condition, subject only to terms that are usual and customary for sales transactions, and the transaction must be considered highly probable.

The Group does not depreciate assets or disposal groups classified as held for sale, but measures them at the lower of carrying amount and fair value less costs of disposal.

The Group recognises initial and subsequent impairment losses on assets classified in this category with a charge to profit or loss from continuing operations in the consolidated statement of profit or loss, unless it qualifies as a discontinued operation.

The Group recognises gains on increases in fair value less costs of disposal in profit or loss, up to the limit of cumulative impairment losses previously recognised for either measurement at fair value less costs of sale or disposal or impairment losses on non-current assets.

m) Technical provisions

IFRS 4 "Insurance Contracts" generally permits the use of local accounting practices for the recognition of liabilities arising from insurance contracts.

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. The accrual of the annual premium for the calculation of the provision for unearned premiums is calculated on a straight-line basis.

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.

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

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

On 18 January 2008, the Group was authorised by the Directorate-General for 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.

The provision for home, health and other insurance 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 provisions of the ROSSP that have not been repealed.

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 Article 42 of the ROSSP.

Liability adequacy test

Technical provisions recognised in the accounts undergo regular reasonableness tests to determine their adequacy. These tests are carried out using the most current estimates of future flows from insurance contracts in effect, taking into account the time value of money and using assumptions based on experience. If the test shows that these provisions are insufficient, they are adjusted, with a charge to profit or loss for the year.

The Group performs this analysis for each of the segments in which it operates: motor, home, health and other insurance businesses (Note 19).

To analyse the adequacy of the provision for claims in the motor and home insurance segments, the Group uses the actuarially accepted and widespread statistical method known as Chain Ladder for projecting claims incurred. This is part of the set of methods based on run-off triangles, which take the value of the best estimate for all business lines.

In the Health segment, which the Group started operating at the end of 2017, there is insufficient historical information from which to draw statistical estimates of the premium shortfall in this segment. Based on the Group's experience, a provision for unexpired risks of € 4,622 thousand (2019: € 6,115 thousand) was posted in December 2020.

For the other insurance segment, the provision for claims pending settlement is calculated individually on a claim-by-claim basis, as the claims for the period are settled pending payment and there is no uncertainty as to future changes in their cost.

For the purposes of these consolidated financial statements, for motor insurance the value of the provision calculated using the aforementioned method is used, applying expert judgement consisting of the discussion of atypical development factors. Meanwhile, the case-by-case provision method is used for both home insurance and health insurance, since the Group does not have authorisation from the regulator to use a statistical method.

To calculate the adequacy of provisioning in respect of the provision for motor premiums, the Group calculates the best estimate of the premium provision for ongoing contracts at the reporting date, which takes into account the expected present value of future cash flows.

The cash flow projections used consider all expenses related to all the recognised insurance and reinsurance obligations of insurance and reinsurance undertakings referred to in Article 78(1) of Directive 2009/138/EC.

To achieve a best estimate of the cash flows resulting from future claims, samples of the Group's historical loss experience are used to obtain a cost forecast for each of the motor business lines. A simulation procedure is used to generate a final annual aggregated distribution of claims costs, the average value of which is the best estimate of the cash flows of future claims costs.

Claims management expenses and projected current management expenses are estimated based on the planning exercise.

The cash flows are discounted to their present value by applying the risk-free interest rate curve published by EIOPA each quarter. Technical provisions are estimated considering future management decisions, which mostly stem from the annual planning exercise, where various management scenarios and actions are considered to achieve LDA's strategic, financial and solvency objectives.

To calculate the best estimate of the premium provision for the home insurance, health insurance and other insurance segments, the Group relies on the simplification method described in Technical Annex III of the Guidelines on valuation of technical provisions issued by EIOPA, which is based on applying the planned combined ratio to the unearned premium at the calculation date.

Most significant assumptions and other sources of uncertainty estimation

For assets, liabilities and income and expenses arising from insurance contracts, as a general rule the assumptions that served as the basis for issuing such contracts are used, as specified in the technical terms and conditions.

The estimates and assumptions used are typically reviewed on a regular basis and are based on historical experience and any other factors that may have been considered more reasonable. If there is a change in estimate in a given period, the effect of the change will be applied in that period and, where appropriate, in subsequent periods.

The main assumption is based on the trend and performance of claims, relying on the frequency and costs of claims in recent years. The estimates also rely on assumptions about delays in claims payments and any other external factors that might affect the estimates.

For liabilities, assumptions are based on the best possible estimate at the time the contracts were issued, and, in the event of a proven shortfall, the necessary provisions are made to cover the shortfall.

n) 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.

o) Provisions and contingencies

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

Provisions are recognised for obligations such as litigation in progress, indemnities or other obligations of undetermined amount or timing when the Group has a present obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation based on a reliable estimate of the amount of the obligation.

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

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

Following the routine labour inspection carried out by the administrative bodies attached to the Social Security system, the Group was informed of certain discrepancies in relation to the percentages it pays for accident risk, considering it more appropriate to pay contributions in accordance with Spanish NACE for certain professional groups. In the 2016 financial year, the tax settlement report was communicated and promptly appealed and in February 2017 the resolutions contained in the tax settlement reports were annulled by the court with jurisdiction over adversary public law disputes. The General Treasury of the Social Security ("TGSS") subsequently lodged an appeal against that judgment and in July 2018 the Company opposed the suit. In April 2019 the Company's appeal was upheld and by virtue of a final judgment the amount in question was returned to the Group, plus the corresponding amount of interest.

p) 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.

q) Equity

The share capital is represented by common shares. The costs of issuing new shares are charged directly to equity, as a reduction in reserves.
Where the Parent's own shares are acquired, the consideration paid, including any directly attributable incremental costs, is deducted from consolidated equity until the shares are redeemed,

reissued or otherwise disposed of. When these shares are sold or subsequently reissued, any amount received, net of any directly attributable incremental transaction costs, is taken to consolidated equity.

As part of its capital management policy, the Línea Directa Group aims to maintain a strong capital position.

The Board of Directors is ultimately responsible for the control and management of the Group's risks and solvency, and therefore monitors the Group's capital position, solvency requirements and available solvency.

Capital management is based on ensuring that the Group has sufficient capitalisation to meet financial obligations; optimising the capital structure through an efficient allocation of resources and managing capital adequacy taking into account the economic, accounting, capital requirements and capital targets set in the risk appetite.

To achieve this, the Group carries out an annual Own Risk and Solvency Assessment (ORSA), based on the outlook for the Group's business and the market. This allows the Group to prospectively project its assets and liabilities and earnings, which in turn can be used to evaluate the likely future performance of the various risks under management, quantify them and estimate changes in solvency and available solvency requirements.

The Parent is required to quantify its solvency ratio, meaning the ratio between available own funds and the solvency capital requirement. The Group is not required to calculate a solvency ratio at Group level as it does not meet the definition of group obligations set out in the Solvency Directive.

The calculation of the Solvency Capital Requirement is regulated by Directive 2009/138 of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), as implemented by Commission Delegated Regulation 2015/35 of 10 October 2014 supplementing Directive 2009-138 EC and its subsequent amendments.

The Solvency Capital Requirement is calculated for the following sub-risks which are the main sub-risks of an insurance company: underwriting risk, market risk, counterparty risk and operational risk.

The aim is to maintain an adequate level of solvency. When determining the adequate level of solvency, the risk profile, the results of capital planning for the coming years at the Company at an individual level, the minimum levels required by the regulations and the existing criteria and regulations for optimal capital management were all taken into consideration. The Parent's solvency ratio was 213% in 2020, taking into account the distribution of the final dividend charged to reserves of € 120 million, 211% in 2019, 209% in 2018 and 227% in 2017.

r) Non-technical income and expenses

Non-technical income

The Group has other revenue not derived from the insurance business, such as roadside assistance services or vehicle repairs and appraisals, all of which are provided to third parties outside the Group, as well as commissions on the sale of insurance products of other entities, remuneration for call forwarding and income from credit card surcharges.

This revenue, in accordance with IFRS 15, is recognised as the performance obligation identified in the customer contract is satisfied. The Group recognises revenue at the fair value of the consideration received or receivable to which it expects to be entitled for the goods or services transferred.

Reclassification of expenses by purpose

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

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

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

The following purposes have been established:

- Claims-related expenses
- Investment-related expenses
- Acquisition expenses
- Administration expenses
- Other technical expenses
- Other non-technical expenses

Expenses have been allocated to the different segments based on the Business Unit at which the activity originated.

s) Income and expenses

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

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

Direct insurance

Business premiums are recognised as income over the term of the contracts on an accruals basis and are accrued by posting the provision for unearned premiums.

Reinsurers' share

Premiums from ceded reinsurance are recognised on the basis of the reinsurance contracts underwritten and by applying the same criteria used for direct insurance.

Income and expense recognition criteria

Financial income and expenses arising from investments related to insurance activity are recognised in the statement of profit or loss for the non-life insurance business. The remainder is recorded in the statement of profit or loss for other activities.

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.

t) Termination benefits

In accordance with current legislation, the Group is obligated to pay compensation to those employees whose employment relationship is terminated under certain conditions. Therefore, termination payments that can be reasonably quantified are recognised as an expense in the year in which the decision is taken and a valid expectation is created vis-à-vis third parties regarding the dismissal. A liability is recognised under the sub-heading “Provisions other than technical provisions” when the disbursement has not been made.

u) Employee benefits

The Group has post-employment pension obligations classified as defined contribution plans and as defined benefit plans.

The Group’s obligations with its employees with regard to retirement or similar pension plans were fully externalised at year-end 2020, 2019, 2018 and 2017 in compliance with prevailing legislation governing 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 aforementioned insurance policies are considered “plan assets” as they are not owned by the Group, but rather by a separate legal entity that is not a related party, as they are only available to pay or finance employee remuneration and as they cannot return to the Group, except where the assets attached to the plan are sufficient to honour all of the obligations.

This collective bargaining agreement also includes coverage for death and disability of employees during the period in which they remain in active service.

<u>Defined contributions</u>

The current General State Collective Agreement for Insurance, Reinsurance and Occupational Accident Mutual Societies ushers in a new employee benefits system 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 Group 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.

This insurance policy will apply to employees hired from 1 January 2017 onward and those who have voluntarily opted to transfer to this new modality. For employees adhered to the old plan who opted to avail themselves of this option, there was a transfer of the mathematical reserve.

The Group has also assumed a retirement commitment with certain executives, which has been externalised in the form of an insurance policy.

The Group records the contributions to be made to defined contribution plans progressively as the employees render their services. The amount of accrued contributions is recorded as an employee benefits expense and as a liability after deducting any amounts already paid. In the event that the amounts paid exceed the accrued expense, the corresponding assets are only recognised to the extent that they can be applied to reductions in future payments or result in a cash refund.

Defined benefit plans

Employees hired prior to 1 January 2017 may choose between the system described above 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 at the company where the employee is retiring.

The Group includes in defined benefit plans those funded through the payment of insurance premiums where there is a legal or constructive obligation to pay benefits directly to employees when they fall due or to pay additional amounts if the insurer fails to pay benefits for services rendered by employees in the year or in prior years.

The defined benefit liability recognised in the consolidated balance sheet is the present value of the defined benefit obligation existing at the balance sheet date, less the fair value of plan assets at that date.

The expense or income relating to defined benefit plans is recognised under employee benefits expenses and is obtained by adding the net amount of the current year services cost and the net interest cost of the net defined benefit liability or asset. The remeasured amount of the net defined benefit liability or asset is recognised in other comprehensive income. This amount comprises actuarial gains and losses, the net return on plan assets and any changes in the effects of the asset ceiling, excluding amounts included in the net interest on the liability or asset. The costs of administering plan assets and any plan-specific taxes, beyond those included in the actuarial assumptions, are deducted from the net return on plan assets. Amounts deferred in other comprehensive income are reclassified to retained earnings in the same period.

In addition, if the plan assets include eligible insurance policies whose cash flows correspond exactly in amounts and timing to some or all of the benefits payable under the plan, their fair value is equal to the present value of the related payment obligations.

v) Related-party transactions

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

w) Foreign currency transactions

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

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

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

x) Income tax

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

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

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

If the Group believes that it is probable that the tax authority will accept an uncertain tax treatment, the Group will determine tax gain (tax loss), tax bases, unused tax losses, unused tax credits or tax rates in a manner consistent with the tax treatment used or expected to be used in its income tax returns.

If the Group believes that it is not probable that the tax authority will accept an uncertain tax treatment, the Group will reflect the effect of the uncertainty when calculating the related tax gain (tax loss), tax bases, unused tax losses or unused tax credits or tax rates. The Group will reflect the effect of the uncertainty of each uncertain tax treatment using the most likely amount or the expected value of the probability-weighted amounts, as applicable in each case.

In accordance with IFRIC 23, the Group recognises under current and deferred tax assets and liabilities the amounts that the entity estimates to reflect contingencies arising from litigation with the tax authorities in relation to corporate income tax.

Deferred taxes are calculated, using the liability method, on the temporary differences arising between the tax bases of the assets and liabilities and their carrying amounts.

Deferred tax is determined by applying the tax regulations and rates approved or about to be approved at the consolidated balance sheet date and that are expected to apply when the corresponding deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is recognised on temporary differences arising on investments in subsidiaries, except where the Parent 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.

y) Cash flow statement

The Group uses the following classification criteria when drawing up its consolidated cash flow statements:

- Cash flows: inflows and outflows of cash and cash equivalents (i.e. short-term, highly liquid investments which are subject to an insignificant risk of changes in value). Cash and cash equivalents means the balances included under “Cash and cash equivalents” in the accompanying consolidated balance sheet.

- Operating activities: typical activities of insurance institutions, as well as other activities that cannot be classified as investing or financing activities.

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

- Investing activities: the acquisition, sale and disposal of long-term assets and other investments not included in cash equivalents.

- Financing activities: activities that result in changes in the size and composition of equity and liabilities that do not form part of operating activities.

5. Scope of consolidation

Subsidiaries are all companies over which the Parent exercises direct or indirect control (see Note 4 a)). Subsidiaries are considered from the date on which control is transferred to the Parent and are excluded from consolidation on the date on which consolidation ceases.

The list of entities included in the scope of consolidation is as follows:

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

(*) Limited review of condensed annual accounts.

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

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

There were no changes in the scope of consolidation in 2020, 2019, 2018 or 2017.

6. Risk management

The Group's supreme governing body is the Board of Directors, the composition of which is compliant with the requirements of Law 20/2015 of 14 July, on the regulation, supervision and solvency of insurance and reinsurance companies, meaning its members possess adequate professional qualifications, competence and experience and likewise meet the requirements of repute and good standing required by the supervisor and included in the Group's Fitness and Propriety Policy.

The Board of Directors understands and manages the Group's risks and discharges management, administration and control functions, within the limits prescribed by the Corporate Enterprises Act (*Ley de Sociedades de Capital*) and doing so through the Audit, Internal Control and Compliance Committee, with the support of the Appointments and Remuneration Committee.

These committees have decision-making powers on matters that fall within their remits, as regulated by the Rules and Regulations of the Board of Directors, and facilitate the preparation of resolutions and their proposal to the Board on all such matters.

The Audit, Internal Control and Compliance Committee exercises powers related to the supervision and control of the Group's risks, the veracity, objectivity and transparency of its accounting, business and financial information, and compliance with the Group's legal and regulatory requirements. It is also responsible for oversight of the Company's risk functions and the four key functions that report directly to it, as described below.

The Appointments and Remuneration Committee submits proposals and reports on remuneration and appointments and dismissal of directors, the chairman and the chief executive officer, members of the management team and the heads of key functions, ensuring that they meet the conditions and have the capabilities to perform their roles, as required by current regulations.

Although it is not a board committee in terms of its composition and functions, the Investment Committee exercises powers relating to the supervision and control of investments and their financial results, economic and financial information, and compliance with the investment guidelines to which the Group is subject. The Investment Committee is chaired by the Chairman of the Board of Directors who, in turn, reports on the Investment Committee's conclusions and decisions to the Board of Directors.

As required by insurance regulations, the Group has an Internal Audit function, which is an independent unit that continuously analyses, evaluates and oversees the procedures, practices and activities involved in the internal control system for the Group's risks, ensuring the reasonable efficiency and effectiveness of the use of resources, the reliability and consistency of accounting and management information, and compliance with current regulations.

The Internal Audit function reports to the Audit, Internal Control and Compliance Committee and reports functionally to the Chairman of the Board of Directors, coordinated by the Office of the General Secretary, without prejudice to the powers vested in the Chief Executive Officer. This guarantees at all times the independence, autonomy and universal scope of the Internal Audit function at the Línea Directa Group.
The Actuarial Function is attached to the Corporate Governance and Risk Department and reports to the Audit, Internal Control and Compliance Committee.

The Risk Management function is responsible for the principles of independence and ring-fencing of functions between business units and risk monitoring and control units. It is decentralised at various areas and departments of the Group, with the Risk Management and Internal Control Unit (attached to the Corporate Governance and Risk Division) being responsible for collating and integrating all risk information for the Group, and for applying risk control policies and verifying compliance with these.

The Compliance function is part of the Office of the General Secretary and reports regularly, like the other key functions, to the Audit, Internal Control and Compliance Committee. It advises administrative, management and supervisory bodies on compliance with the legal rules and obligations applicable to the Group and its activities, and on the voluntary rules and obligations arising from relationships with third parties and from sector and self-imposed standards whose compliance is legitimately expected by stakeholders in the communities where it operates.

The Risk Management function is decentralised at various Group areas of departments and the Internal Control and Risk Management Unit, which reports to the Corporate Governance and Risk Division, is responsible for unifying and integrating all of the Group's risk reporting and for applying and verifying compliance with risk control policies.

All departments provide the Internal Risk Management and Control Unit with the information needed to monitor the Group's risks and apply the risk policies.

The Internal Risk Management and Control unit collates all information on Línea Directa's risks and integrates it into the corporate risk map. It monitors changes in risk through the key risk indicators (KRIs) scorecard and reports to the Standing Risk Committee.

The Group has established various levels of management or defence to ensure adequate management and control of each risk, thus guaranteeing each type of risk identified has:

- A management unit directly responsible for its day-to-day or current management, acting as the first line of defence.

- A structure of committees, each of which is responsible for identifying, managing and reporting risks to the organisation's governing bodies, to which the management units report and submit specific decisions. Due to their composition and functions, these committees are executive in nature as they take decisions on the risks they manage.

- A person responsible for managing and coordinating the Company's risks, namely the head of Corporate Governance and Risk.

- Control functions as the second line of defence, meaning the Risk Management, Actuarial and Compliance functions.

- An oversight function as the third line of defence, in the form of the Internal Audit function.

The following committees have been entrusted risk management functions:

- Operational, Legal and Reputational Risk Committee, which is responsible for operational, legal, compliance and reputational risk management.

- The Reserves Committee is tasked with the management of reserve risk and reinsurance credit risk, claims control and the preparation of the reinsurance programme, all of which is then submitted for scrutiny and, if necessary, approval by the Executive Committee attached to the Company's Board of Directors. This Committee submits proposals regarding the level of the Bank's reserves, reinsurance policy and, in general, any other matters that must be submitted to the Board of Directors or its Executive Committee.

- Investment Committee, responsible for the management of market risk and all other risks exposure to which stems from the decisions taken on the volume and structure of the Group's investment portfolio: ALM risk, concentration risk, liquidity risk and credit risk from lending and investment activities.

- Technical Committee, responsible for underwriting management and thus for premium risk, as well as customer credit risk.

- Internal Models Committee, tasked with analysing the Internal Premium Model and the Internal Reserves Model, including the interaction between the two.

Each of these committees, except the Investment Committee, reports the decisions taken to the Risk Management and Internal Control Unit, which is responsible for centralising and standardising the information so that it may be relayed to the Audit, Internal Control and Regulatory Compliance Committee, which is responsible for analysing and approving the different risk policies and strategies and for reporting to the Board of Directors on all such matters.

This structure ensures:

- Adequate control, management and reporting of all risks at various levels of "defence".
- Risks are monitored and reported both vertically and horizontally by both dependent bodies and independent control functions.
- Adequate escalation of reporting, control and decision-making.
- There are various levels of responsibility for and knowledge and control of risks, up to the Group's highest governance level.

The Internal Risk Management and Control unit collates all information on the Group's risks and integrates it into the corporate risk map. It monitors changes in risk through the key risk indicators (KRIs) scorecard and reports to the Standing Risk Committee.

The Board of Directors is responsible for ensuring the effectiveness of the Risk Management System through compliance with the Group's overall strategies, while the various committees are responsible for ensuring the sound implementation, maintenance and monitoring of the Risk Management System in accordance with the instructions and guidelines emanating from the Board of Directors.

As part of its risk management, the Parent carries out the Own Risk and Solvency Assessment (ORSA) in accordance with the criteria defined in its ORSA Policy. Decision-useful stress scenarios are defined as part of this process. The Audit, Internal Control and Compliance Committee steers the process and verifies and approves the results. The ORSA report contains a projection of capital consumption and available capital for the three-year time horizon.

The main risks that may undermine the Group's efforts to achieve the objectives, including the impact of COVID-19, are broken down as follows:

a) Credit risk

The Group views credit risk as the threat of possible loss or adverse change in financial conditions resulting from fluctuations in the solvency or creditworthiness of issuers of securities, counterparties and any debtors to which the Group is exposed.

Given the nature of the Group's activities, its exposure to credit risk arises from the following factors:

- Reinsurance (credit risk exposure with reinsurance entities)
- Premium financing (credit risk exposure with customers)
- Investment and lending activities (credit risk exposure with security issuers)

The Group has analysed the economic environment in response to the COVID-19 pandemic and is currently taking the following steps to limit its exposure to credit risk.

- The Group only worked with highly solvent reinsurers with a minimum credit rating of "A".
- Premium payment policies have been made more flexible for the Group's customers, with the option to spread premium payments over consecutive months without incurring any additional surcharge.
- The credit risk for motor policies is limited because in the event of non-payment by the policyholder, the Group cancels the policy within a maximum term of 90 days.
- For the investments in financial assets held by the Group in 2020, no coupon defaults occurred and the Group regularly monitors its exposure to all of its investments.

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

The impact of COVID-19 on the Group has not been significant.

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

	2020	2019	2018	2017
Cash and cash equivalents	162,500	144,937	166,776	148,917
Available-for-sale debt securities	791,219	717,810	693,952	659,255
Loans and receivables	110,373	106,760	115,951	103,710
Total	**1,064,092**	**969,507**	**976,679**	**911,882**

When it comes to investments, the Investment Committee approves new investment lines and verifies compliance with the Investment Guidelines.

The rating given to debt securities and cash and cash equivalents is the average of the ratings assigned to the issuance by the three major rating agencies (Moody's, Fitch and Standard & Poor's), with the following rating at year-end 2020, 2019 2018 and 2017:

	2020	2019	2018	2017
AAA	3,072	1,787	1,754	1,667
AA	7,382	3,784	11,947	8,369
A	353,120	301,027	317,689	46,016
BBB	380,743	354,379	259,912	498,723
BB	20,613	20,674	84,420	97,173
B	5,919	700	3,942	3,062
N/R	30,360	38,446	17,281	8,246
Total debt securities	**801,209**	**720,797**	**696,945**	**663,256**

The above table includes debt securities included under "Loans and receivables" amounting to € 9,990 thousand, € 2,987 thousand, € 2,993 thousand and € 4,001 thousand in 2020, 2019, 2018 and 2017, respectively. The rating is A for 2020 and 2019 and BBB for 2018 and 2017.

	2020	2019	2018	2017
A	92,058	62,095	117,074	108,887
BBB	68,950	82,842	49,702	40,016
BB	500	-	-	14
N/R	992	-	-	-
Total cash and cash equivalents	**162,500**	**144,937**	**166,776**	**148,917**

The impairment losses recognised at year-end 2020, 2019 2018 and 2017 are described in Note 8 a) i.

At year-end 2020, 2019, 2018 and 2017, there were no non-performing balances that were not impaired.

In addition, at 31 December 2020, 2019, 2018 and 2017, the Group had a monetary guarantee covering a public debt repo transaction (assignment with repurchase agreement of government bonds). Further information on this matter can be found in Note 8 b) i.

The Group estimates a provision on the assets side of the consolidated balance sheet to cover possible non-payment of outstanding premium receipts and unissued premium receipts, for the following amounts:

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

	2020	2019	2018	2017
Premium payments outstanding	55,678	53,486	52,762	46,869
Provision for outstanding premiums	(1,265)	(2,290)	(1,848)	(1,253)
Policyholders	**54,413**	**51,196**	**50,914**	**45,616**

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 experience 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.

b) Liquidity risk

The Group treats liquidity risk as the potential temporary inability to honour its payment obligations within the agreed timeframes, due to such obligations maturing before receivables from customers fall due or before financial investments reach maturity. The Group generates daily liquidity from premium income.

The Group manages liquidity risk prudently. The Group is committed at all times 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. Therefore, forecasts are systematically drawn up of expected cash generation and cash requirements, which enable the Group's liquidity position to be determined and monitored on an ongoing basis.

Among the measures taken by the Group to respond to potential future liquidity constraints arising from the COVID-19 pandemic and in line with the measures and requirements of regulators, the Group decided that no dividend would be paid in 2020 in order to maintain a strong liquidity position. This policy led to an improvement in cash and cash equivalents at year-end 2020 compared to the previous year.

The Group estimates that the combination of pre-pandemic liquidity management and COVID-19 mitigation measures is enough to ensure sufficient liquidity to meet the Group's commitments in both the short and medium term.

The debts shown under the heading "Debts and accounts payable" fall due in less than one year for 2020, 2019, 2018 and 2017.

The maturities of lease liabilities at 31 December 2020, 2019, 2018 and 2017 are described in Note 10 b).

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

The following table shows the estimated timing of disbursements for the insurance liabilities recognised at 31 December 2020, 2019, 2018 and 2017 (amounts without financial discounting):

2020

	Estimated cash outflows in the periods							Closing balance
	2021	**2022**	**2023**	**2024**	**2025**	**2026 to 2030**	**Subsequent periods**	
Provision for claims	164,292	51,683	26,867	13,221	(3,529)	12,235	677	265,446
Due on direct insurance business and coinsurance	2,862	-	-	-	-	-	-	2,862
Due on reinsurance business	981	-	-	-	-	-	-	981
Total	**168,135**	**51,683**	**26,867**	**13,221**	**(3,529)**	**12,235**	**677**	**269,289**

2019

	Estimated cash outflows in the periods							Closing balance
	2020	**2021**	**2022**	**2023**	**2024**	**2025 to 2029**	**Subsequent periods**	
Provision for claims	188,136	58,048	16,400	(1,526)	11,656	3,862	54	276,630
Due on direct insurance business and coinsurance	4,165	-	-	-	-	-	-	4,165
Due on reinsurance business	1,584	-	-	-	-	-	-	1,584
Total	**193,885**	**58,048**	**16,400**	**(1,526)**	**11,656**	**3,862**	**54**	**282,379**

2018

	Estimated cash outflows in the periods							Closing balance
	2019	**2020**	**2021**	**2022**	**2023**	**2024 to 2028**	**Subsequent periods**	
Provision for claims	208,930	38,155	3,198	37,243	10,540	447	(740)	297,773
Due on direct insurance business and coinsurance	2,023	-	-	-	-	-	-	2,023
Due on reinsurance business	1,011	-	-	-	-	-	-	1,011
Total	**211,964**	**38,155**	**3,198**	**37,243**	**10,540**	**447**	**(740)**	**300,807**

2017

	Estimated cash outflows in the periods							Closing balance
	2018	**2019**	**2020**	**2021**	**2022**	**2023 to 2027**	**Subsequent periods**	
Provision for claims	202,307	32,238	54,352	13,041	4,092	1,264	4,250	311,544
Due on direct insurance business and coinsurance	3,018	-	-	-	-	-	-	3,018
Due on reinsurance business	761	-	-	-	-	-	-	761
Total	**206,086**	**32,238**	**54,352**	**13,041**	**4,092**	**1,264**	**4,250**	**315,323**

The Group determines the provision for claims and the projections of claims payments using, for the most significant business line, namely motor insurance, the actuarially accepted and widely used Chain Ladder methodology for projecting claims incurred, which falls within the set of methods based on "run-off triangles". For the other segments, the provision for claims is estimated on a claim-by-claim basis and the projection of claims payments is made on the basis of payment patterns on the historical experience of each segment.

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

The table below shows the estimated timing of disbursements for the hedging derivatives recognised at 31 December 2020, 2019 and 2018:

2020

	2021	2022	2023	2024	2025	Subsequent periods	Total
Hedging derivatives	(1,423)	(1,455)	(1,447)	(1,396)	(1,366)	(8,080)	(15,167)
Total	**(1,423)**	**(1,455)**	**(1,447)**	**(1,396)**	**(1,366)**	**(8,080)**	**(15,167)**

2019

	2020	2021	2022	2023	2024	Subsequent periods	Total
Hedging derivatives	(1,721)	(1,659)	(1,543)	(1,399)	(1,250)	(6,012)	(13,584)
Total	**(1,721)**	**(1,659)**	**(1,543)**	**(1,399)**	**(1,250)**	**(6,012)**	**(13,584)**

2018

	2019	2020	2021	2022	2023	Subsequent periods	Total
Hedging derivatives	(1,601)	(1,544)	(1,325)	(1,031)	(708)	2,824	(3,385)
Total	**(1,601)**	**(1,544)**	**(1,325)**	**(1,031)**	**(708)**	**2,824**	**(3,385)**

The classification of financial assets by maturity (for those with a specific or determinable maturity) is as follows:

2020

	2021	2022	2023	2024	2025	Subsequent periods	Total
Financial assets at fair value through other comprehensive income	**104,328**	**36,059**	**117,151**	**52,320**	**45,845**	**435,516**	**791,219**
Debt securities	104,328	36,059	117,151	52,320	45,845	435,516	791,219
Financial assets at amortised cost	**105,381**	**4,992**	-	-	-	-	**110,373**
Total	**209,709**	**41,051**	**117,151**	**52,320**	**45,845**	**435,516**	**901,592**

2019

	2020	2021	2022	2023	2024	Subsequent periods	Total
Financial assets at fair value through other comprehensive income	**71,816**	**77,710**	**37,566**	**110,650**	**36,788**	**383,280**	**717,810**
Debt securities	71,816	77,710	37,566	110,650	36,788	383,280	717,810
Financial assets at amortised cost	**106,760**	-	-	-	-	-	**106,760**
Total	**178,576**	**77,710**	**37,566**	**110,650**	**36,788**	**383,280**	**824,570**

2018

	2019	2020	2021	2022	2023	Subsequent periods	Total
Financial assets at fair value through other comprehensive income	**85,057**	**24,716**	**80,347**	**39,574**	**111,595**	**352,663**	**693,952**
Debt securities	85,057	24,716	80,347	39,574	111,595	352,663	693,952
Financial assets at amortised cost	**112,966**	**2,985**	-	-	-	-	**115,951**
Total	**198,023**	**27,701**	**80,347**	**39,574**	**111,595**	**352,663**	**809,903**

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2017

	2018	2019	2020	2021	2022	Subsequent periods	Total
Financial assets at fair value through other comprehensive income	**114,059**	**65,442**	**26,821**	**83,599**	**45,237**	**324,097**	**659,255**
Debt securities	114,059	65,442	26,821	83,599	45,237	324,097	659,255
Financial assets at amortised cost	**103,710**	**-**	**-**	**-**	**-**	**-**	**103,710**
Total	**217,769**	**65,442**	**26,821**	**83,599**	**45,237**	**324,097**	**762,965**

c) Market risk

The Group views market risk as the risk of loss or of adverse change in its financial situation, resulting directly or indirectly from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.

The level of assumable risk for the financial investments undertaken by the Group 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 Group's Investment Committee to undertake investments.

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

The Group's activities are exposed to fair value interest rate risk arising from fixed-income instruments. The Group enters into fixed-to-floating interest rate swaps to hedge this risk (Note 8 b) i)).

The Group's investment portfolio was impacted by the announcement of the COVID-19 pandemic. However, the market recovery seen in late 2020 allowed the Group to recover its unrealised capital gains, resulting in an ultimately positive impact on the investments held by the Línea Directa Group.

The following table provides significant information on the interest rate exposure of the Group's financial assets:

Portfolio	Amount of the asset exposed to interest rate risk at fair value											
	Fixed interest rate				Not exposed to risk				Total			
	2020	2019	2018	2017	2020	2019	2018	2017	2020	2019	2018	2017
Available for sale:												
Debt securities	692,578	592,040	578,334	645,173	98,641	125,770	115,618	14,082	791,219	717,810	693,952	659,255
Total	**692,578**	**592,040**	**578,334**	**645,173**	**98,641**	**125,770**	**115,618**	**14,082**	**791,219**	**717,810**	**693,952**	**659,255**

Assets subject to hedging arrangements are not included in the above breakdown, as these assets are not exposed to interest rate risk.

If interest rates at 31 December 2020 had been 100 basis points higher with all other variables constant, other comprehensive income would have been € 18,831 thousand (€ 20,737 thousand in 2019, € 20,435 thousand in 2018 and € 22,107 thousand in 2017) lower, gross of tax, mainly due to a reduction in the fair value of fixed rate financial assets classified as available-for-sale.

If interest rates at 31 December 2020 had been 100 basis points lower with all other variables constant, other comprehensive income would have been € 29,349 thousand (€ 27,645 thousand in 2019, € 30,392 thousand in 2018 and € 37,784 thousand in 2017) higher, gross of tax, mainly due to an increase in the fair value of fixed rate financial assets classified as available-for-sale.

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The Group's activities are also exposed to equity risk, meaning the risk of a reduction in the return on equity investments due to changes in the market price of equities or equity-based indices or financial instruments.

	2020	**2019**	**2018**	**2017**
Equity instruments	125,855	116,688	88,763	86,467

One of the standard metrics for measuring market risk is Value at Risk (VaR), which is based on a variance-covariance methodology using the historical volatility of stock index prices, exchange rates and yield curves, and the correlation between them, as the main inputs.

This risk metric measures the maximum potential loss of financial instruments due to adverse movements in equity prices, exchange rates and interest rates within a fixed period of time and with a specified confidence level (probability).

The Group uses this indicator as additional baseline information in conjunction with the other regular risk controls it runs on its investment portfolios. For the Group's own calculations, a confidence level of 99.5% and a 12-month period are used, implying that there is a 0.5% probability of underestimating the maximum potential loss for the next 12 months.

If we measure the Group's sensitivity to a 10% fall in the market prices of the equity instruments recognised under "Available-for-sale financial assets" at 31 December 2020, 2019, 2018 and 2017, holding all other variables constant, the impact on the Group's equity would be € 8,579 thousand in 2020, € 7,586 thousand in 2019, € 6,460 thousand in 2018 and € 6,482 thousand in 2017.

In 2016, Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) entered into force for insurance undertakings. This Directive regulates the solvency calculation of insurance undertakings, to measure the ability of the undertakings to meet their future obligations. The result is to compare eligible own funds under Solvency II with the Solvency Capital Requirement (SCR). The Solvency Capital Requirement includes all risks to which the undertaking is exposed (underwriting and non-life health, market, counterparty and operational). The calculation is standardised at European level and is not an accounting ratio. The solvency ratio of the Parent was 213% in 2020, 211% in 2019, 209% in 2018 and 227% in 2017.

The main sensitivities that have been performed on financial market risk are as follows:

- A 10% decline in equity instruments would have an impact on the solvency ratio of -3% in 2020 and -2% in 2019, 2018 and 2017.
- A 30% decline in equity instruments would have an impact on the solvency ratio of -8% in 2020, -7% in 2019 and 2018 and -6% in 2017.
- A 10% decline in the value of property assets would have an impact on the solvency ratio of -3% in 2020 and -4% in 2019, 2018 and 2017.
- A combination of these two scenarios, that is, a 10% decline in equities and a 10% decline in property assets, would have an impact on the solvency ratio of -6% in 2020, 2019, 2018 and 2017.

Given the results of these solvency sensitivity analyses, it is not believed that the risks threaten the target solvency ratio set by the Group's governing body of 150%.

d) Insurance risk

Insurance business risk focuses on non-life and health underwriting risk, comprising mainly the premium sub-risk (premium adequacy risk) and the reserve sub-risk (technical provisions adequacy risk) for the Motor, Home, Health and Other insurance segments. These risks are managed differently for each business line. Underwriting and health risks also include catastrophe risk and downside risk, with a lower impact than premium and reserve risks.

The Group analyses inherent insurance-related risks for each line of business, both in terms of premiums and reserves, depending on the unique characteristics of each segment.

In the Motor and Home segments, the technical rules and standards are constantly changing and underwriting is adapted accordingly through automatic and preventive mechanisms through which the various products are analysed in order to determine the sufficiency of premiums and technical provisions. Policy performance and returns are also monitored to analyse possible deviations.

The Motor segment has a longer duration between the opening and closing of claims than the Home segment, mainly due to the civil liability guarantee, which lasts longer than the other guarantees. In both segments, the performance of the run-offs of the provision for claims over the life of the claim is positive, as can be seen in Note 14, thanks to an efficient claims management process. The Health segment is heavily influenced by seasonality, with higher levels of policy renewal at the beginning of the year.

The Group relies on reinsurance as a primary tool for mitigating the premium, reserve and catastrophe 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 used by the Group is based mainly on an Excess of Loss (XL) structure for each segment, so as 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 a quota share reinsurance contract for the health insurance segment signed in 2017.

On 1 September 2017, the Parent entered into a quota share reinsurance contract for the health insurance business, which expires on 31 December 2025 and comes with a two-year renewal option. This contract includes an assignment of 50% of the premium income and claims cost of most of the policies of the Health segment.

The contract also includes a table of fixed and variable reinsurance commissions payable to the Group. 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 Group based on whether positive technical results are obtained.

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

The performance of the technical result and the credit recognised by the Group 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 Group.

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 entities 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 entities 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 Area of Línea Directa Aseguradora is responsible for modifying products and prices in accordance with the general strategy for the Motor, Home and Other insurance businesses of the Group. 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 Health segment is monitored by the Health Technical Area.

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 relevant business areas for each of the segments.

Reserve sub-risk

To estimate the liabilities arising from insurance contracts in the Motor segment, the Group relies on statistical methods based on the "chain ladder" methodology and performs an annual comparison with the "average cost" method to ensure reasonableness.

When estimating the provision for claims in the Home, Other insurance and Health segments, the Group relies on an individual claim-by-claim valuation methodology.

The Claims and Reserves Committee is responsible for managing the Group's reserve risk and reinsurance credit risk. It is entrusted with monitoring the Group's reserves and provisions to ensure adequate coverage of claims, and with approving 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 Group's Board of Directors.

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

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

2. Performance of monthly and quarterly forecasts of claim costs.

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

Concentrations of insurance risk

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

The following table shows the premium concentration for those autonomous communities of Spain with a concentration of above 5% for the periods between 2018 and 2020.

	2020	**2019**	**2018**
Andalusia	23.1%	23.2%	23.0%
Catalonia	20.6%	20.5%	20.0%
Madrid	13.0%	12.7%	12.9%
Valencia	12.4%	12.6%	12.7%
Murcia	4.9%	5.0%	5.1%
Other	26.0%	26.0%	26.3%
Total	**100%**	**100%**	**100%**

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

2020	Total	Risks Motor	Multi-risks Home	Other insurance businesses	Risks Health
Premiums written (Direct Insurance)	898,614	754,656	120,654	1,478	21,826
Premiums ceded	(20,675)	(5,537)	(4,930)	(191)	(10,017)

2019	Total	Risks Motor	Multi-risks Home	Other insurance businesses	Risks Health
Premiums written (Direct Insurance)	891,295	761,158	111,357	3,036	15,744
Premiums ceded	(14,920)	(3,852)	(3,356)	(555)	(7,157)

2018	Total	Risks Motor	Multi-risks Home	Other insurance businesses	Risks Health
Premiums written (Direct Insurance)	853,119	741,178	100,690	3,733	7,518
Premiums ceded	(11,813)	(4,830)	(2,655)	(645)	(3,683)

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

Sensitivity to insurance risk

At 31 December 2020, the Group performed a mixed sensitivity analysis on certain key business parameters. Based on expert judgement and experience of the most sensitive parameters of the business, the effect of a 1% increase in the cost of claims and of a 1% increase in the combined ratio on profit for the year net of tax of each business unit (Motor, Home, Health and Other insurance), and therefore on consolidated equity, was analysed as a measure of sensitivity to insurance risk.

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Impact on profit or loss of a 1% increase in the cost of claims by segment:

	2020	2019	2018	2017
Motor	(4,654)	(5,197)	(4,767)	(4,615)
Home	(637)	(531)	(482)	(531)
Health	(107)	(79)	(29)	(79)
Other insurance businesses	(3)	(3)	(2)	(3)
Total	(5,401)	(5,810)	(5,280)	(5,228)

At the same tax rate as the consolidated financial statements, the change in profit or loss net of tax and consequently in consolidated equity would be € 4,054 thousand for 2020, € 4,362 thousand for 2019, € 3,968 thousand for 2018 and € 3,770 thousand for 2017.

Impact on profit or loss of a 1% increase in the combined ratio by segment:

	2020	2019	2018	2017
Motor	(7,526)	(7,483)	(7,185)	(6,761)
Home	(1,115)	(1,027)	(924)	(820)
Health	(120)	(7)	(21)	-
Other insurance businesses	(20)	(30)	(32)	(32)
Total	**(8,781)**	**(8,547)**	**(8,162)**	**(7,613)**

At the same tax rate as the consolidated financial statements, the change in profit or loss net of tax and consequently in consolidated equity would be € 6,593 thousand for 2020, € 6,421 thousand for 2019, € 6,135 thousand for 2018 and € 5,610 thousand for 2017.
Combined ratio = (Claims incurred net of reinsurance + change in other technical provisions + operating expenses net of reinsurance − other technical income + other technical expenses + profit sharing and premium refunds) / Premiums earned net of reinsurance.

The combined ratio measures the impact of management costs and claims incurred in a financial year on the premiums for that year.

These sensitivity analyses show no direct impact on the solvency ratio due to the Group's shareholder dividend policy, except for the impact associated with the increase in the claims ratio due to the increase in the combined ratio.

e) Reputational risk

The Group views reputational risk as the potential loss of customers, reduction in revenues or legal proceedings that the Group may incur due to loss of reputation, bad image or negative publicity with stakeholders.

The Group's stakeholders —at whom it targets its corporate reputation actions and for whom the impact of reputational risk is included in the risk management system— are customers, employees, suppliers, public institutions, shareholders, society, the community, consumers, the press and media and the wider industry.

The Group attaches great importance to reputational risk management and therefore includes reputational risk management within the organisation's overall risk management system and has specific units in place to perform this function.

Thus, reputational risk management falls upon the shoulders of the Corporate Governance Division, more specifically through the departments of External Communication and Corporate Reputation and Risk Management and Internal Control.

f) Legal risk

The Group distinguishes between the following two main types of legal risk:

- Regulatory risk: regulatory risk is the possibility that the Group's processes and operations may become obsolete or non-compliant with prevailing law and regulation in the event of legal or regulatory changes or new developments.

- Regulatory compliance risk: regulatory compliance risk is the possibility that changes in the Group's processes and operations may result in non-compliance with current regulations.

g) Operational risk

The Group treats operational risk as the potential loss due to inadequate or failed internal processes, people and systems or due to external events.

The Group considers losses caused by operational risks to be all the ways in which these risks may affect the Parent and its subsidiaries, such as economic losses, reputational damage, non-compliances with the law, technological or security failures or degradation of business processes or impact on customers or employees.

The Group's operational risk management system is structured as a cyclical process of continuous improvement consisting of the following phases (Identification, Assessment/Measurement, Mitigation and Monitoring and Control).

Prior to the announcement of the pandemic, the Group already had teleworking arrangements in place for its back and front office departments, thus allowing all Group staff to work remotely and continue their normal activities without any significant impact. During the pandemic period, the Group's operational review and monitoring processes remained within the thresholds agreed by the Board.

h) Currency risk

The Group had a currency position of € 28,091 thousand at 31 December 2020, € 19,895 thousand at 31 December 2019, € 25,821 thousand at 31 December 2018 and € 17,812 thousand at 31 December 2017. The position relates to direct investments in financial instruments listed in these currencies and in no case is there any currency hedging.

The following table shows the Group's exposure to foreign currency risk at 31 December 2020, 2019, 2018 and 2017 and the carrying amount of the Group's financial instruments or classes of financial instruments denominated in foreign currencies.

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	2020		2019		2018		2017	
	Assets	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
US dollar	19,244	-	15,624	-	22,573	-	15,298	-
Pound sterling	3,054	-	588	-	-	-	-	-
Japanese yen	-	-	-	-	-	-	-	-
Swiss franc	2,097	-	-	-	1,294	-	1,842	-
Norwegian krone	-	-	-	-	-	-	-	-
Swedish krona	-	-	-	-	-	-	-	-
Danish kroner	138	-	1,649	-	69	-	671	-
Other	3,558	-	2,034	-	1,885	-	-	-
Total	**28,091**	**-**	**19,895**	**-**	**25,821**	**-**	**17,811**	**-**

The Group has no significant exposure to any foreign currency.

i) Internal control system

Pursuant to Article 66 of Law 20/2015, on the regulation, supervision and solvency of insurance entities, the Group must have an effective internal control system in place. That system shall include administrative and accounting procedures, an internal control framework, appropriate reporting arrangements at all levels of the undertaking and a compliance function, at least.

The control activities should be proportionate to the risks arising from the activities and processes being controlled.

It must ensure that the control and reporting mechanisms of the internal control system provide the administrative, management and control body with the information needed for decision-making processes.

Internal Control Framework

The Group has the processes necessary for the continuous identification, measurement, control, management and reporting of all the risks to which it is exposed or may be exposed in the future, at both the individual and aggregate level and based at all times on the principle of proportionality.

The Group has a risk map of the business processes that includes all of its potentially serious inherent risks, with the residual risk level based on the effectiveness of existing controls. This covers specific transactions that are significant and the risks associated with each process.

Through the risks identified and the key risk indicators (KRIs) defined, the risk management system underpins the Group's process for defining strategies and decision-making, as these KRIs are included in the Group's scorecard, enabling proactive management of these risks.

This report is made available to the board on a monthly basis through reporting to the Audit, Internal Control and Compliance Committee, the Standing Risk Committee and the Management Committee.

The Group has an effective risk management system that determines how to manage each risk category and area, and any risk aggregation. The risk management system assesses the overall solvency needs identified in the Group's assessment of its own risks (based on the ORSA principles), its legal capital requirements and risk tolerance limits, as well as the description of the frequency and content of the regular stress tests and situations that require specific stress tests. Policies are in place that define the risk categories and risk measurement methods.

The Board has set the risk profile and overall risk tolerance limits and supervises the various committees set up to monitor and manage potentially serious risks, doing so through the Audit, Internal Control and Compliance Committee.

The internal control environment is therefore considered to have the control and notification mechanisms required to provide the Board of Directors with relevant and accurate information for decision-making. The controls are proportional to the risks and cover all of the Group's areas and lines of business.

The degree to which the risk culture and risk management system have been embedded makes it easier to understand the implications of decisions taken by the Board and Management, depending on the level of risk they are willing to assume.
<u>Risk reporting and information mechanisms</u>

The Risk Management and Internal Control Unit collates all of the Group's risk information for regular reporting to the Audit, Internal Control and Compliance Committee. It also reports the status of the key risk indicators (KRI scorecard) to enable proper oversight by the Group's management bodies.

The regular risk reports are as follows:

- The Corporate Governance and Risk division reports on the status of the Group's risks, as well as the possibility of risks materialising and the status of all recommendations arising from testing, to the Group's Management Committee each month and to the Standing Risk Committee every quarter.

- The Audit, Internal Control and Compliance Committee is informed by the Head of Corporate Governance and Risk of the most significant risks in the Group's risk map, the status of recommendations issued in testing of Línea Directa and the performance of the key risk indicators.

- The Internal Audit function reports to the Audit, Internal Control and Compliance Committee every quarter.

7. Cash and cash equivalents

The composition of cash and cash equivalents at banks, cheques and cash in hand at 31 December 2020, 2019, 2018 and 2017, in thousand euro, is as follows:

	2020	**2019**	**2018**	**2017**
Cash at credit institutions	161,005	144,934	166,772	148,913
Cash in hand	3	3	4	4
Financial instruments maturing within 3 months	1,492	-	-	-
Total	**162,500**	**144,937**	**166,776**	**148,917**

Of the balance of cash held at credit institutions at 31 December 2020, 2019, 2018 and 2017, a total of € 68,946 thousand, € 62,843 thousand, € 49,680 thousand and € 38,626 thousand, respectively, relate to balances with Bankinter, S.A. (see Note 24).

At 31 December 2020, 2019, 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 further restriction on its use and disposal.

The interest rate on the Group's current accounts is negotiated with each bank and did not accrue any amounts in 2020, 2019 2018 or 2017, except for the current account in dollars, which paid a yield of between 0.17% and 1.65% in 2020; of between 1.91% and 2.45% in 2019; of between 1.40% and

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2.19% in 2018; and of between 0% and 0.04% in 2017, amounting to € 1 thousand in 2020, € 28 thousand in 2019, € 10 thousand in 2018 and € 8 thousand in 2017.

At year-end 2020, 2019, 2018 and 2017, the Group had no cash denominated in non-euro currencies. Accrued interest is recorded under the sub-heading "Income from financial investments" in the consolidated statement of profit or loss.

8. Financial instruments

a) Financial assets

i. Balances of financial assets

The classification of financial assets by category and class at year-end 2020, 2019, 2018 and 2017 is as follows:

	2020	2019	2018	2017
Financial assets at fair value through other comprehensive income				
Available-for-sale financial assets				
Equity instruments				
Listed	85,975	71,992	68,803	71,491
Non-listed	39,880	44,696	19,960	14,976
Debt securities				
Listed	791,219	717,810	693,952	659,255
Total financial assets at fair value through other comprehensive income	917,074	834,498	782,715	745,722
Financial assets at amortised cost				
Loans and receivables				
Debt securities	9,990	2,987	2,993	4,001
Deposits with credit institutions	-	-	15,000	13,000
Receivables on direct insurance business – policyholders	54,413	51,196	50,914	45,616
Receivables on reinsurance business	5,086	4,175	2,828	1,403
Other receivables	39,758	47,097	44,049	39,567
Total financial assets at amortised cost	109,247	105,455	115,784	103,587
Total financial assets	**1,026,321**	**939,953**	**898,499**	**849,309**

Details of financial assets at fair value through other comprehensive income are as follows:

Equity instruments

The sub-heading "Equity instruments" consisted of € 60,508 thousand in shares at year-end 2020, € 59,231 thousand in 2019, € 45,094 thousand in 2018 and € 36,969 thousand in 2017, as well as participations or units in investment and venture capital funds amounting to € 65,319 thousand in 2020, € 57,457 thousand in 2019, € 43,669 thousand in 2018 and € 49,471 thousand in 2017. Of the total investment in shares, a total of € 10,000 thousand is included in 2020 in two listed real estate investment companies in which a Bankinter Group financial institution holds a stake, € 10,400 thousand in 2019, € 10,300 thousand in 2018 and € 5,000 thousand in 2017.

In 2020, the Group acquired a total of 239,678 shares of Bankinter S.A. at an average price of € 3.12, with a par value of € 747 thousand, which are carried at fair value for an amount of € 1,059 thousand (Note 24).

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Debt securities

This sub-heading shows € 791,219 thousand in 2020, € 717,810 thousand in 2019, € 693,952 thousand in 2018, and € 659,255 thousand in 2017 corresponding to fixed income securities and their accrued interest not yet due, of which € 3,316 thousand related to group companies at 31 December 2020, € 3,241 thousand at 31 December 2019, € 3,039 thousand at 31 December 2018 and € 5,015 thousand at 31 December 2017.

Accrued interest not yet due on these investments amounted to € 9,360 thousand in 2020, € 9,311 thousand in 2019, € 10,322 thousand in 2018 and € 11,204 thousand in 2017. The average yield on the fixed income portfolio in 2020 was 2.62% (3.23% in 2019, 3.46% in 2018 and 3.46% in 2017).

At year-end 2020, 2019, 2018 and 2017 there were no impairment losses on these debt securities.

Details of financial assets at amortised cost are as follows:

Debt securities

This balance includes investments in commercial paper issued by local banks maturing in 2021 for the financial year 2020; in 2020 for the financial year 2019; in 2019 for the financial year 2018; and in 2018 for the financial year 2017, as well as unmatured accrued interest thereon.

The accrued and unmatured interest on these investments amounted to € 5 thousand in 2020, € 2 thousand in 2019, € 7 thousand in 2018 and € 1 thousand in 2017.

At year-end 2020, 2019, 2018 and 2017 there were no impairment losses on these debt securities.

Deposits with credit institutions

The balances comprising the sub-heading “Deposits with credit institutions” of the accompanying consolidated balance sheet and the changes therein during 2020, 2019, 2018 and 2017 are as follows:

	2020	**2019**	**2018**	**2017**
Balance at the beginning of the year	-	15,000	13,000	1,101
Additions	-	-	15,000	13,000
Retirements	-	(15,000)	(13,000)	(1,101)
Balance at the end of the year	**-**	**-**	**15,000**	**13,000**

Receivables on direct insurance business

The “Receivables on direct insurance business” sub-heading shows loans to policyholders for premium receipts that are overdue and for premium fractions yet to be issued. The balances comprising this sub-heading of the accompanying consolidated balance sheets at the end of 2020, 2019, 2018 and 2017 and the related impairment adjustments are as follows:

	2020	**2019**	**2018**	**2017**
Receivable from policyholders	55,678	53,486	52,762	46,869
Impairment adjustment	(1,265)	(2,290)	(1,848)	(1,253)
Total	**54,413**	**51,196**	**50,914**	**45,616**

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Impairment losses at year-end 2020, 2019, 2018 and 2017 were as follows:

	2020	2019	2018	2017
Balance at the beginning of the year	(2,290)	(1,848)	(1,253)	(1,015)
Allowances	(1,265)	(2,290)	(1,848)	(1,253)
Amounts utilised	2,290	1,848	1,253	1,015
Balance at the end of the year	**(1,265)**	**(2,290)**	**(1,848)**	**(1,253)**

The adjustment for impairment of premiums receivable is calculated on the basis of the age of the outstanding premium receipts and on the loss experience for the 0-3 month tranche.

Receivables on reinsurance business

The "Receivables on reinsurance business" sub-heading shows receivables from reinsurers under reinsurance arrangements.

On 1 September 2017, the Group 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.

At year-end 2020, 2019, 2018, and 2017, the balances comprising this sub-heading of the accompanying consolidated balance sheet were € 5,086 thousand, € 4,175 thousand, € 2,828 thousand, and € 1,403 thousand, respectively, for health quota share reinsurance.

Other receivables

The balances comprising the "Other receivables" sub-heading at the end of 2020, 2019, 2018 and 2017 and related impairment adjustments are as follows:

	2020	2019	2018	2017
Bonds and deposits	295	300	300	271
Receivables from recoveries and claims	34,956	40,358	36,212	31,707
Receivables under claim settlement agreements	1,661	2,379	2,785	2,771
Sundry receivables	2,153	2,590	3,249	2,757
Receivable from Group companies and associates	754	1,521	1,711	2,208
Impairment allowances on other receivables	(61)	(51)	(208)	(147)
Total	**39,758**	**47,097**	**44,049**	**39,567**

The "Receivables from recoveries and claims" sub-heading shows the amount of outstanding claims that will be recovered under the modules governed by agreement and claims not subject to agreement. A total of € 34,956 thousand was recognised in 2020, € 40,358 thousand in 2019, € 36,212 thousand in 2018 and € 31,707 thousand in 2017. The balance in 2020 is significantly lower than in the previous year due to a reduction in claims amid the COVID-19 pandemic (see Note 19).

The amount of outstanding claims to be recovered under the modules governed by agreement was € 15,623 thousand in 2020, € 21,473 thousand in 2019, € 21,418 thousand in 2018 and € 20,031 thousand in 2017. The amount relating to claims with a high probability of recovery, based on acknowledgement of fault by the counterparty, amounted to € 19,333 thousand in 2020, € 18,885 thousand in 2019, € 14,794 thousand in 2018 and € 11,676 thousand in 2017. The realisation of recoveries by module governed by agreement is sufficiently guaranteed because they are classified as such when there is an acknowledgement of fault by the opposing insurer. For all other recoveries, the Group relies on available information to form expectations as to whether the counterparty will acknowledge fault. Premium refunds are only capitalised in the consolidated balance sheets when they are considered certain, which occurs when the other insurer accepts the claim and there is evidence of this. Refunds are confirmed as certain on a claim-by-claim basis according to the status of the claim at a given date.

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"Receivables under claims settlement agreements" corresponds to the monthly settlement with TIREA for the agreement modules.

ii. Classification under SPPI criteria

The fair value of financial assets based on the SPPI approach (required under the temporary exemption provided for in IFRS 9, see note 2 h)) as at 31 December 2020, 2019, 2018 and 2017 and the change in fair value during those periods are presented below. According to the SPPI criterion, assets are classified into two categories:

- **SPPI**: financial assets whose cash flows represent solely payments of principal and interest on the amount outstanding, excluding any asset that is classified as held for trading under IFRS 9, or that is managed and its performance assessed on a fair value basis.

- **Other**: all financial assets not included in the SPPI category:

    - o whose contractual terms do not give rise to cash flows at specified dates that are solely payments of principal and interest on the amount outstanding;
    - o classified as held for trading under IFRS 9 or that are managed and their performance evaluated on a fair value basis.

Financial assets	2020	2019	2018	2017	FV change, 2020-2019	FV change, 2019-2018	FV change, 2018-2017
Financial assets at fair value through other comprehensive income							
Available-for-sale financial assets							
Equity instruments							
SPPI	-	-	-	-	-	-	-
Other	125,855	116,688	88,763	86,467	9,167	27,925	2,296
Debt securities							
SPPI	791,219	717,810	693,952	659,255	73,409	23,858	34,697
Other	-	-	-	-	-	-	-
Financial assets at amortised cost							
Loans and receivables							
Debt securities							
SPPI	9,990	2,987	2,993	4,001	7,003	(6)	(1,008)
Other	-	-	-	-	-	-	-
Deposits with credit institutions							
SPPI	-	-	15,000	13,000	-	(15,000)	2,000
Other	-	-	-	-	-	-	-
Receivables on insurance business							
SPPI	54,413	51,196	50,914	45,616	3,217	282	5,298
Other	-	-	-	-	-	-	-
Receivables on reinsurance business							
SPPI	5,086	4,175	2,828	1,403	911	1,347	1,425
Other	-	-	-	-	-	-	-
Other receivables							
SPPI	39,758	47,097	44,049	39,567	(7,339)	3,048	4,482
Other	-	-	-	-	-	-	-
Total financial assets	**1,026,321**	**939,953**	**898,499**	**849,309**	**86,368**	**41,454**	**49,190**

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

The credit rating of fixed income issuers and deposits held at credit institutions at 31 December 2020, 2019, 2018 and 2017 is as follows:

					2020		
Rating	**AAA**	**AA**	**A**	**BBB**	**Below investment grade**	**No rating**	**Total**
Public fixed income							
SPPI	3,072	-	220,749	214,942	-	-	438,763
Other	-	-	-	-	-	-	-
Private fixed income							
SPPI		7,382	132,371	165,801	26,532	30,360	362,446
Other	-	-	-	-	-	-	-
Total fixed income	**3,072**	**7,382**	**353,120**	**380,743**	**26,532**	**30,360**	**801,209**
% fixed income	0%	1%	44%	48%	3%	4%	100%
Deposits with credit institutions							
SPPI	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-

					2019		
Rating	**AAA**	**AA**	**A**	**BBB**	**Below investment grade**	**No rating**	**Total**
Public fixed income							
SPPI	1,787	-	247,394	145,475	-	-	394,656
Other	-	-	-	-	-	-	-
Private fixed income							
SPPI	-	3,784	53,633	208,904	21,374	38,446	326,141
Other	-	-	-	-	-	-	-
Total fixed income	**1,787**	**3,784**	**301,027**	**354,379**	**21,374**	**38,446**	**720,797**
% fixed income	0%	1%	42%	49%	3%	5%	100%
Deposits with credit institutions							
SPPI	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-

					2018		
Rating	**AAA**	**AA**	**A**	**BBB**	**Below investment grade**	**No rating**	**Total**
Public fixed income							
SPPI	1,754	-	263,899	84,417	47,497	-	397,567
Other	-	-	-	-	-	-	-
Private fixed income							
SPPI	-	11,947	53,790	175,495	40,865	17,281	299,378
Other	-	-	-	-	-	-	-
Total fixed income	**1,754**	**11,947**	**317,689**	**259,912**	**88,362**	**17,281**	**696,945**
% fixed income	0%	2%	46%	37%	13%	2%	100%
Deposits with credit institutions							
SPPI	-	-	-	15,000	-	-	15,000
Other	-	-	-	-	-	-	-

Rating	AAA	AA	A	BBB	Below investment grade	No rating	Total
				2017			
Public fixed income							
SPPI	1,667	-	1,062	306,298	46,824	-	355,851
Other	-	-	-	-	-	-	-
Private fixed income							
SPPI	-	8,369	44,954	191,839	53,411	8,246	306,819
Other	-	-	-	586	-	-	586
Total fixed income	**1,667**	**8,369**	**46,016**	**498,723**	**100,235**	**8,246**	**663,256**
% fixed income	0%	1%	7%	75%	15%	1%	100%
Deposits with credit institutions							
SPPI	-	-	-	13,000	-	-	13,000
Other	-	-	-		-	-	-

The credit rating is based on the scales used by the major international credit agencies.

iii. Income and expenses from financial assets

The amount of net gains and losses by category of financial asset at year-end 2020, 2019, 2018 and 2017 is as follows:

	2020		
	Financial assets at amortised cost	**Financial assets at fair value through other comprehensive income**	**Other financial assets**
Interest on bank deposits	512	-	-
Income from premium instalments	4,537	-	-
Net losses on swap valuation	-	-	(1,583)
Losses on realisation of investments	-	(12,741)	-
Interest on fixed-income securities	-	21,187	-
Income on equity instruments	-	1,649	-
Net valuation gains on fixed income securities covered by swap	-	-	1,583
Gains on realisation of investments	-	11,368	-
Positive exchange differences	-	236	-
Negative exchange differences		(505)	
Other expenses/income	-	4,524	(1,578)
Net result in profit and loss	**5,049**	**25,718**	**(1,578)**
Change in fair value	-	7,453	-
Net result in other comprehensive income	**-**	**7,453**	**-**

	2019		
	Financial assets at amortised cost	**Financial assets at fair value through other comprehensive income**	**Other financial assets**
Interest on bank deposits	459	-	-
Income from premium instalments	4,313	-	-
Net losses on swap valuation	-	-	(11,258)
Losses on realisation of investments	-	(3,360)	-
Interest on fixed-income securities	-	22,101	-
Income on equity instruments	-	2,383	-
Net valuation gains on fixed income securities covered by swap	-	-	11,258
Gains on realisation of investments	-	4,960	-
Positive exchange differences	-	253	-
Negative exchange differences	-	(171)	-
Other expenses/income		(958)	(1,612)
Net result in profit and loss	**4,772**	**25,208**	**(1,612)**
Change in fair value	-	22,609	-
Net result in other comprehensive income	**-**	**22,609**	**-**

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

	2018		
	Financial assets at amortised cost	**Financial assets at fair value through other comprehensive income**	**Other financial assets**
Interest on bank deposits	359	-	-
Income from premium instalments	3,850	-	-
Net losses on swap valuation	-	-	(3,204)
Losses on realisation of investments	-	(884)	-
Interest on fixed-income securities	-	23,986	-
Income on equity instruments	-	2,465	-
Net valuation gains on fixed income securities covered by swap	-	-	3,204
Gains on realisation of investments	-	4,600	-
Positive exchange differences	-	197	-
Negative exchange differences	-	(373)	-
Other expenses/income		(3,085)	(1,369)
Net result in profit and loss	**4,209**	**26,906**	**(1,369)**
Change in fair value	-	(24,295)	-
Net result in other comprehensive income	-	**(24,295)**	-

	2017		
	Financial assets at amortised cost	**Financial assets at fair value through other comprehensive income**	**Other financial assets**
Interest on bank deposits	155	-	-
Income from premium instalments	3,787	-	-
Losses on realisation of investments	-	(567)	-
Interest on fixed-income securities	-	25,229	-
Income on equity instruments	-	2,630	-
Gains on realisation of investments	-	5,255	-
Positive exchange differences	-	281	-
Negative exchange differences	-	(327)	-
Other expenses/income		(3,543)	
Net result in profit and loss	**3,942**	**28,958**	-
Change in fair value	-	(1,092)	-
Net result in other comprehensive income	-	**(1,092)**	-

iv. Fair value breakdown

Financial assets at fair value with changes in other comprehensive income are as follows, by valuation level:

	2020			
	Carrying amount	**Fair value**		
		Level 1	**Level 2**	**Level 3**
Financial assets at fair value through other comprehensive income				
Available-for-sale financial assets				
Equity instruments				
Listed	85,975	85,975	-	-
Non-listed	39,880	-	28	39,852
Debt securities				
Listed	791,219	767,539	23,680	-
Non-listed	-	-	-	-
Total	**917,074**	**853,514**	**23,708**	**39,852**

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

	2019			
	Carrying amount	Fair value Level 1	Level 2	Level 3
Financial assets at fair value through other comprehensive income				
Available-for-sale financial assets				
Equity instruments				
Listed	71,992	71,992	-	-
Non-listed	44,696	-	28	44,668
Debt securities				
Listed	717,810	677,701	40,109	-
Non-listed	-	-	-	-
Total	**834,498**	**749,693**	**40,137**	**44,668**

	2018			
	Carrying amount	Fair value Level 1	Level 2	Level 3
Financial assets at fair value through other comprehensive income				
Equity instruments				
Listed	68,803	68,803	-	-
Non-listed	19,960	-	28	19,932
Debt securities				
Listed	693,952	680,462	13,490	-
Non-listed	-	-	-	-
Total	**782,715**	**749,265**	**13,518**	**19,932**

	2017			
	Carrying amount	Fair value Level 1	Level 2	Level 3
Financial assets at fair value through other comprehensive income				
Available-for-sale financial assets				
Equity instruments				
Listed	71,491	71,491	-	-
Non-listed	14,976	-	27	14,949
Debt securities				
Listed	659,255	653,559	5,696	-
Non-listed	-	-	-	-
Total	**745,722**	**725,050**	**5,723**	**14,949**

The fair values of non-current loans and receivables are not included because their carrying amounts are a reasonable approximation of fair value.

To determine Level 2 fair values for the years 2020, 2019, 2018 and 2017, a model has been used in which discounted future cash flows, including the redemption value, are discounted from a yield curve with two main components:

• Zero coupon swap curve of the currency in which the issue is denominated, which is considered to be the best approximation of the risk-free interest rate.

• Additional risk spread, which will be the spread added or deducted from the zero-coupon swap curve reflecting the risks inherent in the issuance being assessed, such as: Credit risk, illiquidity and optionality risk.

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

The following table sets out the valuation methods used in 2020, 2019, 2018 and 2017 to determine Level 3 fair values, along with the unobservable inputs used and the interrelationship between key inputs and fair value.

Type	Valuation method	Variables used (non-observable)	Interrelationship between key variables and fair value
Net asset value of investments in private equity funds with renewable energy generating assets as the underlying	Discounted cash flows: the most widely accepted method, which treats the investment as a cash flow generator. To obtain its value, this method calculates the present value of the future cash flows by taking into account the implicit risk of achieving them. Thus, the discounted cash flow method estimates the cash flows that the asset/investment will generate in the future, and then discounts them at an appropriate discount rate, depending on the risk associated with achieving those cash flows. The discount rate used is based on the resulting WACC (weighted average cost of capital), according to the different sources of financing (equity vs. debt) and their respective weights. For the 2020 measurements, the discount rate is between 3.5% and 4.5%. The discount rate was between 4% and 5% for 2019. The expected cash flows are determined on the basis of the following key assumptions: Regulated income – return on investment and operations in accordance with Spanish Order ETU/130/2017, which places this reasonable return at 7,398% for the 2020-2031 period. Price Pool Production – number of hours Inflation OPEX of each facility CAPEX Residual value and cost of dismantling Cash flows are discounted at a discount rate representing the average of the various sources of financing for each asset, weighted by the market value of each source of financing, reflecting in each case the risk assumed in financing the assets.	WACC and Return on investment	The higher the WACC the lower the fair value, and the higher the return on investment the higher the fair value (bearing in mind that income depends on prevailing regulations)
Net asset value of the underlying funds	As funds of funds, the value of each unit is calculated as the sum of the net asset values provided by each of the underlying funds. Valuation as per the amounts communicated by the fund management companies, which are compared with the net asset values included in the annual accounts. These fund management companies are filed and registered with the CNMV. In each fund the fair value is calculated according to the valuation reports and financial statements provided by each of the Investee Entities.	Net asset value of each fund % holding in the portfolio of each fund	The higher the net asset value of the underlying funds, the higher the value of these funds. The higher the percentage holding in the underlying funds, the greater the proportional value of that fund to the investing funds.
Net asset value of shares	Relates to shares held in SOCIMIs (Spanish REITs). The valuation methodology is based on the standards and techniques recommended by RICS, using the relevant methods of comparison (comparable transactions) and cash flow discounts (based on the estimated income and expenses of the asset over a 10-year period).	Market data on returns, discount rates and annual valuation by an independent expert.	The higher the value of the property investments, the higher the net asset value of the Company.
Net asset value of loans	The manager of the BNY Mellon fund conducts a daily valuation of the fund. In carrying out its calculation, the fund manager relies on public sources to retrieve the daily price of the loans. These public sources are independent price providers, such as Bloomberg, Markit and Reuters. These price providers generate their information from actual transactions supplied to them by the trading desks of the main financial institutions, on the basis of cross-trading during the day and the level of supply and demand for each loan during the day.	Quotations provided by the trading desks of the main financial institutions. Specialised sources, Markit Partners/LoanX and IDC/Reuters	Prices calculated on the basis of the information supplied to them by the trading desks of the main financial institutions.

The Investment Committee is responsible for supervising and controlling investments and their financial results, together with economic and financial information, and ensuring compliance with the Investment Guidelines to which the Group is subject.

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

Changes in financial assets measured in accordance with valuation techniques based on unobservable data (Level 3) are as follows:

Equity instruments	Non-listed
Balance at 1 January 2017	**6,258**
Purchases	8,900
Sales	(763)
Issuances	-
Settlements	-
Transfers from level 1 or 2	-
Transfers to level 1 or 2	-
Statement of profit or loss	108
Other comprehensive income	446
Balance at 31 December 2017	**14,949**
Purchases	4,780
Sales	(1,136)
Issuances	-
Settlements	-
Transfers from level 1 or 2	-
Transfers to level 1 or 2	-
Statement of profit or loss	238
Other comprehensive income	1,101
Balance at 31 December 2018	**19,932**
Purchases	23,628
Sales	(1,838)
Issuances	-
Settlements	-
Transfers from level 1 or 2	-
Transfers to level 1 or 2	-
Statement of profit or loss	365
Other comprehensive income	2,581
Balance at 31 December 2019	**44,668**
Purchases	3,767
Sales	(8,007)
Issuances	-
Settlements	-
Transfers from level 1 or 2	-
Transfers to level 1 or 2	(4,016)
Statement of profit or loss	2,273
Other comprehensive income	1,167
Balance at 31 December 2020	**39,852**

The amounts recognised under "Other comprehensive income" can be found under the sub-heading "Gains/(losses) on valuation adjustments" in the consolidated statement of other comprehensive income.

In 2020, transfers from level 3 to level 1 occurred at Healthcare Activos Yield Socimi S.A. The Group considers transfers between levels to occur on the date on which the event or change in circumstances that caused the reclassification occurs (IFRS 13.95). During the years ended 31 December 2019, 2018 and 2017, there were no transfers of financial assets between the different levels.

b) Financial liabilities

i. Balances of financial liabilities

The classification of financial liabilities by category and class at year-end 2020, 2019, 2018 and 2017 is as follows:

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

	2020	2019	2018	2017
Financial liabilities at amortised cost				
Debt and accounts payable				
Due on insurance business with policyholders	1,893	2,435	1,961	1,486
Due on insurance business with brokers	969	1,730	62	1,532
Due on reinsurance business	981	1,584	1,011	761
Lease liabilities (Note 10 b))	2,766	3,881	4,586	3,138
Due to group companies and associates	839	32,955	44,882	28,393
Other debts	152,508	150,926	143,840	71,231
Total financial liabilities at amortised cost	**159,956**	**193,511**	**196,342**	**106,541**
Hedging derivatives	15,167	13,584	3,385	-
Total hedging derivatives	**15,167**	**13,584**	**3,385**	**-**
Total financial liabilities	**175,123**	**207,095**	**199,727**	**106,541**

Details of financial liabilities at amortised cost are as follows:

Due on reinsurance business

The sub-heading "Due on reinsurance business" shows the debts owed to reinsurers. The balances comprising this sub-heading of the accompanying consolidated balance sheets at the end of 2020, 2019, 2018 and 2017 are as follows, by reinsurance type:

	2020	2019	2018	2017
Reinsurance – Penalties and other guarantees	682	1,279	541	692
Reinsurance XL	299	305	470	69
Total	**981**	**1,584**	**1,011**	**761**

Due to group companies and associates

At 31 December 2020, the sub-heading "Due to group entities and associates" did not include dividends payable by the Parent to Bankinter S.A.

At 31 December 2019, the sub-heading "Due to group entities and associates" included dividends payable by the Parent to Bankinter S.A., mainly in the form of dividends payable by the Group to Bankinter amounting to € 28,344 thousand (€ 39,120 thousand at 31 December 2018 and € 28,008 thousand at 31 December 2017), by virtue of the resolutions carried by shareholders at the general meeting (Note 24).

Other debts

Details of the sub-heading "Other payables" at the end of 2020, 2019, 2018 and 2017 are as follows:

	2020	2019	2018	2017
On goods delivered and services rendered	30,023	25,484	21,348	25,615
On securities lending	115,730	119,637	111,142	36,805
Outstanding remuneration	6,755	5,805	11,350	8,811
Total other debts	**152,508**	**150,926**	**143,840**	**71,231**

At 31 December 2020, the sub-heading "On securities lending" showed the monetary collateral received on a public debt repurchase transaction (assignment with repurchase agreement of government bonds) with a total carrying amount of € 115,730 thousand, including uncollected accrued interest and comprising three repos on Spanish government securities maturing on 18 January 2021. The counterparty to the transactions is Banco BBVA. Guarantees on the transactions amount to € 115,730 thousand. On 18 January 2021, the three repo operations with the same Spanish government securities were renewed, resulting in a new maturity date of 18 February 2021 at an

average negative interest rate of 0.47% per annum. The counterparty to these transactions is Banco Santander S.A. The carrying value of the transferred assets amounted to € 115,322 thousand.

At 31 December 2019, "Due on securities lending" showed the monetary guarantee received under a public debt repurchase agreement (assignment with repurchase agreement of government bonds) with a total carrying amount of € 119,637 thousand, including uncollected accrued interest and comprising repos, two on Spanish government securities (€ 82,661 thousand) that matured on 17 January 2020 and another on Portuguese government securities (€ 36,976 thousand) that matured on 17 January 2020. The counterparty to these transactions was Banco BBVA. Guarantees on the transactions amounted to € 119,637 thousand.

On 17 January 2020, all three repo operations (the two Spanish government debt contracts and the Portuguese government debt contract) were renewed, with the new maturity set for 17 March 2020 at an average negative interest rate of 0.40% per annum. At 17 March 2020, the two positions held in Spanish government debt were renewed, subject to a new maturity of 17 April and paying an average negative interest rate of €0.41 per annum. The carrying amount of the transferred assets came to € 119,771 thousand and at maturity on 17 April the same positions were rolled over to give a new maturity of 20 May, at an average negative interest rate of 0.38% and presenting a new carrying amount of € 117,357 thousand. The carrying amount of the transferred assets was € 119,067 thousand.

At 31 December 2018, the sub-heading "Due on securities lending" showed the monetary guarantee received under a public debt repurchase agreement (assignment with repurchase agreement of government bonds) with a total carrying amount of € 111,142 thousand, including uncollected accrued interest and comprising repos, two on Spanish government securities (€ 76,897 thousand) that matured on 13 January 2019 and another on Portuguese government securities (€ 34,245 thousand) that matured on 29 March 2019. The counterparty to these transactions was Banco BBVA. Guarantees on the transactions amounted to € 111,142 thousand. The Spanish government bond repo arrangement was renewed on 14 January 2019, with the new maturity set for 15 February 2019 at a negative interest rate of 0.38% per annum. The carrying value of the transferred assets amounted to € 111,682 thousand.

At 31 December 2017, the sub-heading "On securities lending" showed the monetary collateral received on a public debt repurchase transaction (assignment with repurchase agreement of government bonds) with a total carrying amount of € 36,805 thousand, including uncollected accrued interest and comprising three repos on Spanish government securities that matured on 12 January 2018. The counterparty to the transactions was Banco BBVA. Guarantees on the transactions amounted to € 36,805 thousand. The government bond repo arrangement was rolled over on 12 January 2018, with the new maturity set for 12 March 2018 at a negative interest rate of 0.38% per annum. The carrying value of the transferred assets amounted to € 36,716 thousand.

Under the repo transactions described above, the Group retains both the risks and the rights of ownership of the asset. It therefore retains the contractual rights to receive the cash flows from the financial asset, but assumes the contractual obligation to pay the cash flows to BBVA under the terms of the agreement signed with the bank.
The heading "Hedging derivatives" includes two financial swap contracts (three swap contracts in 2019 and 2018).

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

The balance at year-end 2020, 2019, 2018 and 2017 and changes during the year were as follows:

	Initial value at 12.31.2017	Valuation adjustment	Final value at 12.31.2018	Valuation adjustment	Final value at 31.12.2019	Valuation adjustment	Final value at 31.12.2020
SWAP	-	3,385	3,385	10,199	13,584	1,583	15,167
Total	**-**	**3,385**	**3,385**	**10,199**	**13,584**	**1,583**	**15,167**

The breakdown by type of contract at year-end 2020, 2019, 2018 and 2017 is as follows:

				2020			
Type of asset	**Counterparty**	**Number of contracts**	**Carrying amount**	**Market value**	**Nominal value**	**Rate**	**Currency**
Current account	BBVA S.A.	1	20,099	20,099	20,099	**Eonia**	**EUR**
Subtotal – Current Account			**20,099**	**20,099**	**20,099**	**Eonia**	**EUR**
Swaps	BBVA S.A.	1	(10,140)	(10,140)	50,000		**EUR**
	BBVA S.A.	1	(5,027)	(5,027)	25,000		**EUR**
Subtotal – Swaps			**(15,167)**	**(15,167)**	**75,000**		**EUR**
Total			**4,932**	**4,932**	**95,099**		**EUR**

				2019			
Type of asset	**Counterparty**	**Number of contracts**	**Carrying amount**	**Market value**	**Nominal value**	**Rate**	**Currency**
Current account	BBVA S.A.	1	20,741	20,741	20,741	**Eonia**	**EUR**
Subtotal – Current Account			**20,741**	**20,741**	**20,741**	**Eonia**	**EUR**
Swaps	BBVA S.A.	1	(2,946)	(2,946)	25,000		**EUR**
	BBVA S.A.	1	(3,548)	(3,548)	25,000		**EUR**
	BBVA S.A.	1	(7,090)	(7,090)	50,000		**EUR**
Subtotal – Swaps			**(13,584)**	**(13,584)**	**100,000**		**EUR**
Total			**7,157**	**7,157**	**120,741**		**EUR**

				2018			
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)	25,000		**EUR**
	BBVA S.A.	1	(1,996)	(1,996)	50,000		**EUR**
	BBVA S.A.	1	(1,006)	(1,006)	25,000		**EUR**
Subtotal – Swaps			**(3,385)**	**(3,385)**	**100,000**		**EUR**
Total			**6,737**	**6,737**	**110,122**		**EUR**

The current account of the collateral swaps is not offset against the value of the swap and is therefore recorded separately.

The fair value is calculated as the present value of the outstanding flows between the two parties.

For these swaps, the risk arises from the interest rate or market risk of the underlying securities themselves. The derivative product associated with the underlying is also exposed to these same risks.

The hedged item consists of the payment of coupons of 2.35% on one SPGB bond worth € 25,000 thousand per annum through to its 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 of the SPGB bond through to its maturity on 30 July 2033; and of Euribor 6M+1.03% on € 50,000 thousand of the BTPS bond through to its maturity on 1 September 2033.

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

When compared to 31 December 2019, the hedged SPGB position maturing 30 July 2033 fell by € 25,000 thousand during the period, including the swap associated with that position.

ii. Income and expense on financial liabilities

No amount for significant ineffectiveness in derivative hedging needed to be recognised in the consolidated statements of profit or loss in 2020, 2019 and 2018.
The amounts of fair value hedge adjustments made to the hedged item recognised in the statements of profit or loss are as follows:

				2020	
31 December 2020	**Nominal**	**Carrying amount**	**Heading of the consolidated balance sheet**	**Changes in fair value used as the basis for recognising ineffectiveness in the period**	**Ineffectiveness reported**
Hedging derivatives	75,000	15,167	Hedging derivatives	4,529	-

				2020	
31 December 2020	**Nominal**	**Carrying amount**	**Heading of the consolidated balance sheet**	**Cumulative fair value adjustment on the hedged item**	**Changes in fair value used as the basis for recognising ineffectiveness in the period**
Fixed-income instruments	75,000	91,812	Debt securities	15,167	4,529

				2019	
31 December 2019	**Nominal**	**Carrying amount**	**Heading of the consolidated balance sheet**	**Changes in fair value used as the basis for recognising ineffectiveness in the period**	**Ineffectiveness reported**
Hedging derivatives	100,000	13,584	Hedging derivatives	10,199	-

				2019	
31 December 2019	**Nominal**	**Carrying amount**	**Heading of the consolidated balance sheet**	**Cumulative fair value adjustment on the hedged item**	**Changes in fair value used as the basis for recognising ineffectiveness in the period**
Fixed-income instruments	100,000	114,912	Debt securities	13,584	10,199

				2018	
31 December 2018	**Nominal**	**Carrying amount**	**Heading of the consolidated balance sheet**	**Changes in fair value used as the basis for recognising ineffectiveness in the period**	**Ineffectiveness reported**
Hedging derivatives	100,000	3,385	Hedging derivatives	3,385	-

				2018	
31 December 2018	**Nominal**	**Carrying amount**	**Heading of the consolidated balance sheet**	**Cumulative fair value adjustment on the hedged item**	**Changes in fair value used as the basis for recognising ineffectiveness in the period**
Fixed-income instruments	100,000	99,168	Debt securities	3,385	3,385

In 2017, expenses of € 733 thousand were recognised in the consolidated statements of profit or loss due to the discounting of interest arising from long-term dividends payable.

iii. Fair value breakdown

The fair value of derivatives is calculated through the use of valuation techniques. Valuation techniques maximise the use of available observable market data and rely as little as possible on entity-specific estimates.

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

As all significant inputs required to calculate their fair value are observable, the swaps are included in Level 2. The fair value has been calculated as the present value of estimated future cash flows based on estimated interest rate curves.

For current debts and payables, details of fair values have not been provided because their carrying amounts are a reasonable approximation of fair value.

During the years ended 31 December 2020, 2019, 2018 and 2017, there were no transfers of financial liabilities between the different levels.

9. Property, plant and equipment and investment property

a) Property, plant and equipment

At 31 December 2020, 2019, 2018 and 2017, the balance of this sub-heading in the accompanying consolidated balance sheets and the changes therein during those years 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 01.01.2017	**15,083**	**20,926**	**14,128**	**20,275**	**4,365**	**-**	**74,777**
Additions	-	441	1,081	1,765	750	-	4,037
Retirements	-	-	-	(10)	(4)	-	(14)
Transfers	-	-	(977)	28	949	-	-
Cost at 31.12.2017	**15,083**	**21,367**	**14,232**	**22,058**	**6,060**	**-**	**78,800**
Additions	-	79	2,785	852	1,259	3,601	8,576
Retirements	-	-	-	(2)	(294)	-	(296)
Cost at 12.31.2018	**15,083**	**21,446**	**17,017**	**22,908**	**7,025**	**3,601**	**87,080**
Additions	-	-	115	1,581	33	5,299	7,028
Retirements	-	-	(11)	(11)	-	-	(22)
Cost at 12.31.2019	**15,083**	**21,446**	**17,121**	**24,478**	**7,058**	**8,900**	**94,086**
Additions	-	234	274	1,545	61	507	2,621
Retirements	-	-	(66)	(2,849)	(888)	-	(3,803)
Transfers	2,822	3,147	2,297	-	634	(8,900)	-
Cost at 12.31.2020	**17,905**	**24,827**	**19,626**	**23,174**	**6,865**	**507**	**92,904**
Accumulated depreciation at 01.01.2017	**-**	**(4,843)**	**(10,183)**	**(15,333)**	**(2,833)**	**-**	**(33,192)**
Additions	-	(426)	(848)	(2,281)	(355)	-	(3,910)
Retirements	-	-	-	10	4	-	14
Accumulated depreciation at 12.31.2017	**-**	**(5,269)**	**(11,031)**	**(17,604)**	**(3,184)**	**-**	**(37,088)**
Additions	-	(428)	(1,051)	(2,234)	(290)	-	(4,003)
Accumulated depreciation at 12.31.2018	**-**	**(5,697)**	**(12,082)**	**(19,838)**	**(3,474)**	**-**	**(41,091)**
Additions	-	(429)	(1,098)	(1,856)	(285)	-	(3,668)
Retirements	-	-	11	3	-	-	14
Accumulated depreciation at 12.31.2019	**-**	**(6,126)**	**(13,169)**	**(21,691)**	**(3,759)**	**-**	**(44,745)**
Additions	-	(500)	(1,285)	(1,736)	(311)	-	(3,832)
Retirements	-	-	48	3,183	27	-	3,258
Accumulated depreciation at 12.31.2020	**-**	**(6,626)**	**(14,406)**	**(20,244)**	**(4,043)**	**-**	**(45,319)**
Impairment allowances at 01.01.2017	**(2,636)**	**(132)**	**-**	**-**	**-**	**-**	**(2,768)**
Amounts utilised in the period	165	-	-	-	-	-	165
Reclassifications	(132)	132	-	-	-	-	-
Impairment allowances at 12.31.2017	**(2,603)**	**-**	**-**	**-**	**-**	**-**	**(2,603)**
Impairment allowances at 12.31.2018	**(2,603)**	**-**	**-**	**-**	**-**	**-**	**(2,603)**
Amounts utilised in the period	1,003	-	-	-	-	-	1,003
Reclassifications	177	-	-	-	-	-	177
Impairment allowances at 12.31.2019	**(1,423)**	**-**	**-**	**-**	**-**	**-**	**(1,423)**
Allowance in the period	(851)	-	-	-	-	-	(851)
Amounts utilised in the period	23	-	-	-	-	-	23
Impairment allowances at 12.31.2020	**(2,251)**	**-**	**-**	**-**	**-**	**-**	**(2,251)**
Carrying amount at 12.31.2017	**12,480**	**16,098**	**3,201**	**4,454**	**2,876**	**-**	**39,109**
Carrying amount at 12.31.2018	**12,480**	**15,749**	**4,935**	**3,070**	**3,551**	**3,601**	**43,386**
Carrying amount at 12.31.2019	**13,660**	**15,320**	**3,952**	**2,787**	**3,299**	**8,900**	**47,918**
Carrying amount at 12.31.2020	**15,654**	**18,201**	**5,220**	**2,930**	**2,822**	**507**	**45,334**

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

At 31 December 2019 the Group had recognised € 8,900 thousand in relation to a new building acquired by the Group. Its definitive capitalisation and commencement of activity took place in 2020.

The main additions recognised as at 31 December 2020 relate to information processing equipment following the purchase of laptops for employees due to the increase in teleworking arrangements amid the COVID-19 health crisis. The main additions recognised as at 31 December 2019 and 2018 correspond to property, plant and equipment under construction, where the Group had reported a total of € 8,900 thousand and € 3,601 thousand relating to the new building.

In 2020 and 2019, the Group derecognised fully depreciated items of property, plant and equipment amounting to € 1,300 thousand and € 14 thousand, respectively. In 2018, the Group did not derecognise any fully depreciated items of property, plant and equipment. In 2017, the Group derecognised fully depreciated items of property, plant and equipment amounting to € 14 thousand.

At year-end 2020, the Group ran the corresponding impairment test taking into consideration the changes in assumptions due to the uncertainties caused by the spread of COVID-19 and its impact on the recoverable amount of the assets. As part of this valuation, the Group also assumed that the current situation, and therefore business indicators, would return to normality or near normality in 2021.

At 31 December 2020, as a result of the COVID-19 health crisis and the downturn in economic activity, impairment losses of € 851 thousand were recognised on property assets under "Impairment of property, plant and equipment and investment property" in the consolidated statement of profit or loss.

In 2019 and 2017, impairment losses of € 1,003 thousand and € 165 thousand, respectively, were reversed in respect of property, plant and equipment. The impact of these reversals is recorded under "Impairment of property, plant and equipment and investment property" in the consolidated statement of profit or loss. No valuation adjustments were recognised or reversed in 2018.

The Group 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.

The following table provides a breakdown of the fair value at 31 December 2020, 2019, 2018 and 2017 of the properties included under property, plant and equipment, such fair value as determined by an authorised property valuation company (see Note 4 f)):

	2020				
Description	**Cost value**	**Accumulated depreciation**	**Impairment**	**Net carrying amount**	**Market value**
Land and buildings at I. Newton, 7 (Tres Cantos)	4,958	(1,737)	-	3,221	11,231
Land and buildings at I. Newton, 9 (Tres Cantos)	7,371	(1,268)	(734)	5,369	5,369
Land and buildings at Ronda Europa, 7 (Tres Cantos)	21,853	(3,291)	(1,275)	17,287	17,287
Land and buildings at Torres Quevedo, 1 (Tres Cantos)	6,203	(72)	(104)	6,027	6,027
Land and buildings at Avda. El Sol, 9 (Torrejón de Ardoz)	2,347	(258)	(138)	1,951	1,951
	42,732	**(6,626)**	**(2,251)**	**33,855**	**41,865**

	2019				
Description	**Cost value**	**Accumulated depreciation**	**Impairment**	**Net carrying amount**	**Market value**
Land and buildings at I. Newton, 7 (Tres Cantos)	4,958	(1,652)	-	3,306	11,581
Land and buildings at I. Newton, 9 (Tres Cantos)	7,371	(1,191)	(614)	5,566	5,566
Land and buildings at Ronda Europa, 7 (Tres Cantos)	21,853	(3,053)	(649)	18,151	18,151
Land and buildings at Avda. El Sol, 9 (Torrejón de Ardoz)	2,347	(230)	(160)	1,957	1,957
	36,529	**(6,126)**	**(1,423)**	**28,980**	**37,255**

2018

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

Description	Cost value	Accumulated depreciation	Impairment	Net carrying amount	Market value
Land and buildings at I. Newton, 7 (Tres Cantos)	4,958	(1,566)	-	3,392	11,275
Land and buildings at I. Newton, 9 (Tres Cantos)	7,371	(1,113)	(771)	5,487	5,563
Land and buildings at Ronda Europa, 7 (Tres Cantos)	21,853	(2,816)	(1,495)	17,542	17,700
Land and buildings at Avda. El Sol, 9 (Torrejón de Ardoz)	2,347	(202)	(337)	1,808	1,836
	36,529	**(5,697)**	**(2,603)**	**28,229**	**36,374**

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

The market value is based on the comparison method (based on the replacement principle), which values property assets by comparison with other property values on the market and, on the basis of concrete information on actual transactions and firm offers, derives current cash purchase prices for these properties on the basis of homogenisation coefficients (Level 2).

b) Investment property

The Group's investment property comprises property assets held for lease. Rental income from investment property owned by the Group amounted to € 4,093 thousand in 2020, € 4,188 thousand in 2019, € 4,505 thousand in 2018 and € 4,397 thousand in 2017, all recognised under "Income from property, plant and equipment and investments" in the consolidated statement of profit or loss.

Activity recognised under this sub-heading in 2020, 2019, 2018 and 2017 was as follows:

	Land	Buildings	Plant	Total investment property
Cost at 01.01,2017	**36,293**	**41,252**	**95**	**77,640**
Cost at 12.31.2017	**36,293**	**41,252**	**95**	**77,640**
Retirements	(3,884)	(3,011)	-	(6,895)
Cost at 12.31.2018	**32,409**	**38,241**	**95**	**70,745**
Cost at 12.31.2019	**32,409**	**38,241**	**95**	**70,745**
Additions	-	-	62	62
Cost at 12.31.2020	**32,409**	**38,241**	**157**	**70,807**
Accumulated depreciation at 01.01.2017	**-**	**(1,993)**	**(20)**	**(2,013)**
Additions	-	(825)	(24)	(849)
Accumulated depreciation at 12.31.2017	**-**	**(2,818)**	**(44)**	**(2,862)**
Additions	-	(822)	(24)	(846)
Retirements	-	421	-	421
Accumulated depreciation at 12.31.2018	**-**	**(3,219)**	**(68)**	**(3,287)**
Additions	-	(765)	(23)	(788)
Accumulated depreciation at 12.31.2019	**-**	**(3,984)**	**(91)**	**(4,075)**
Additions	-	(765)	(19)	(784)
Accumulated depreciation at 12.31.2020	**-**	**(4,749)**	**(110)**	**(4,859)**
Impairment allowances at 01.01.2017	-	**(581)**	**-**	**(581)**
Amounts utilised and reversed	-	554	-	554
Impairment allowances at 12.31.2017	**-**	**(27)**	**-**	**(27)**
Amounts utilised and reversed	-	27	-	27
Impairment allowances at 12.31.2018	**-**	-	-	-
Impairment allowances at 12.31.2019	**-**	-	-	-
Impairment allowances at 12.31.2020	**-**	-	-	-
Carrying amount at 12.31.2017	**36,293**	**38,407**	**51**	**74,751**
Carrying amount at 12.31.2018	**32,409**	**35,022**	**27**	**67,458**
Carrying amount at 12.31.2019	**32,409**	**34,257**	**4**	**66,670**
Carrying amount at 12.31.2020	**32,409**	**33,492**	**47**	**65,948**

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At year-end 2020, there were no restrictions whatsoever on the realisation of new investment property or on the collection of income therefrom, or on the proceeds from any possible sale or disposal. Furthermore, no investment property was subject to guarantees or reversion.

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

No investment property was sold or disposed of in 2020. In 2019, the Group disposed of investment property with a net carrying amount of € 4,576 thousand. The gain on these sales amounted to € 1,443 thousand. In addition, two properties with a net carrying amount of € 1,871 thousand were transferred to "Assets held for sale" (see Note 13). The profit on these sales amounted to € 212 thousand.

At year-end 2020, the Group ran the corresponding impairment test on its investment property, taking into consideration the changes in assumptions due to the uncertainties caused by the spread of COVID-19 and its impact on the recoverable amount of the assets. As part of this valuation, the Group also assumed that the current situation, and therefore business indicators, would return to normality or near normality in 2021. This test did not reveal any impairment losses at 31 December 2020.

No impairment losses were recognised in the consolidated statement of profit or loss in 2019. In 2018 and 2017, impairment losses of € 27 thousand and € 554 thousand, respectively, were reversed and recognised under "Impairment and gains/(losses) on disposal of fixed assets" in the consolidated statement of profit or loss.

All properties were insured against the risk of fire and third-party liability in 2020, 2019, and 2018 and 2017.

The following table provides a comparison between the carrying amount and the fair value of investment property (land and buildings), as determined by an authorised property valuation company (see Note 4 f)), at 31 December 2020, 2019, 2018 and 2017:

			2020		
Description	**Cost value**	**Accumulated depreciation**	**Impairment**	**Net carrying amount**	**Fair value**
C/ José Echegaray, 9 (Madrid)	6,902	(733)	-	6,169	8,077
C/ Chamberí 8 (Madrid)	41,867	(2,260)	-	39,607	45,050
Avda. de Bruselas 22 (Madrid)	21,881	(1,756)	-	20,125	25,564
Total	**70,650**	**(4,749)**	**-**	**65,901**	**78,691**

			2019		
Description	**Cost value**	**Accumulated depreciation**	**Impairment**	**Net carrying amount**	**Fair value**
C/ José Echegaray, 9 (Madrid)	6,902	(634)	-	6,268	8,570
C/ Chamberí 8 (Madrid)	41,867	(1,908)	-	39,959	48,572
Avda. de Bruselas 22 (Madrid)	21,881	(1,442)	-	20,439	23,475
Total	**70,650**	**(3,984)**	**-**	**66,666**	**80,617**

			2018		
Description	**Cost value**	**Accumulated depreciation**	**Impairment**	**Net carrying amount**	**Fair value**
C/ José Echegaray, 9 (Madrid)	6,902	(536)	-	6,366	8,393
C/ Chamberí 8 (Madrid)	41,867	(1,556)	-	40,311	45,258
Avda. de Bruselas 22 (Madrid)	21,881	(1,127)	-	20,754	22,041
Total	**70,650**	**(3,219)**	**-**	**67,431**	**75,692**

			2017		
Description	**Cost value**	**Accumulated depreciation**	**Impairment**	**Net carrying amount**	**Fair value**
C/ Bravo Murillo 211, Madrid	1,362	(76)	(27)	1,259	1,259
Avda. Reina Victoria, 68, Madrid	1,875	(92)	-	1,783	1,865
Avda. Pagés del Corro 79, Seville	662	(34)	-	628	648

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C/ Balmes 284, Barcelona	1,600	(92)	-	1,508	1,781
C/ Muntaner, 401-403, Barcelona	1,396	(69)	-	1,327	1,407
C/ José Echegaray, 9 (Madrid)	6,902	(437)	-	6,465	8,393
C/ Chamberí 8 (Madrid)	41,867	(1,205)	-	40,662	45,258
Avda. de Bruselas 22 (Madrid)	21,881	(813)	-	21,068	22,041
Total	**77,545**	**(2,818)**	**(27)**	**74,700**	**82,652**

The rental income discount method is used to obtain fair value. This method discounts expected future profits (expected cash flows from rent or associated economic activity) and uses unobservable inputs such as current occupancy and the probability of future occupancy and/or current or expected delinquency of collections (Level 3).

The state of alarm proclaimed by the Spanish government in response to the COVID-19 pandemic led to the closure of all non-essential businesses. As a result, lease payments for some of the properties were renegotiated, leading to an immaterial reduction in income for the Group in 2020.

Future receivables from undiscounted operating leases for the years 2020, 2019, 2018 and 2017 are as follows:

	2020	**2019**	**2018**	**2017**
Within one year	4,093	4,177	4,059	4,384
Between 1 and 5 years	9,323	13,612	16,236	13,004
Beyond 5 years	-	-	2,310	4,026
Total future receivables	**13,416**	**17,789**	**22,605**	**21,414**

10. Right-of-use assets and lease liabilities

a) Right-of-use assets

Details and movements by asset class for rights of use in 2020, 2019, 2018 and 2017 are as follows:

	Buildings	**Furniture and other property, plant and equipment**	**Total right-of-use assets**
Cost at 01.01.2017	**1,399**	**989**	**2,388**
Additions	1,359	228	1,587
Cost at 12.31.2017	**2,758**	**1,217**	**3,975**
Additions	27	2,619	2,646
Cost at 12.31.2018	**2,785**	**3,836**	**6,621**
Additions	296	476	772
Cost at 12.31.2019	**3,081**	**4,312**	**7,393**
Additions	466	-	466
Cost at 12.31.2020	**3,547**	**4,312**	**7,859**
Accumulated depreciation at 01.01.2017	-	-	-
Additions	(292)	(574)	(866)
Accumulated depreciation at 12.31.2017	**(292)**	**(574)**	**(866)**
Additions	(368)	(860)	(1,228)
Accumulated depreciation at 12.31.2018	**(660)**	**(1,434)**	**(2,094)**
Additions	(392)	(1,113)	(1,505)
Accumulated depreciation at 12.31.2019	**(1,052)**	**(2,547)**	**(3,599)**
Additions	(462)	(1,085)	(1,547)
Accumulated depreciation at 12.31.2020	**(1,514)**	**(3,632)**	**(5,146)**
Carrying amount at 12.31.2017	**2,466**	**643**	**3,109**
Carrying amount at 12.31.2018	**2,125**	**2,402**	**4,527**

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Carrying amount at 12.31.2019	**2,029**	**1,765**	**3,794**
Carrying amount at 12.31.2020	**2,033**	**680**	**2,713**

The "Buildings" heading mainly includes offices and car parks leased by the Group to third parties. The average duration of these contracts is 7 years. The lease term has been determined as the non-cancellable period together with the contractual renewal options that the Group is reasonably certain to exercise.

"Furniture and other property, plant and equipment" mainly shows the leasing of replacement vehicles which the Group offers to insured customers while their vehicle is under repair. The average duration of these vehicle leasing contracts is 3 years. The lease term has been determined as the non-cancellable period on the basis of the vehicle leasing contracts.

As indicated in note 4 g), the Group has elected not to recognise in the balance sheet lease liabilities and right-of-use assets relating to short-term leases (leases of one year or less) and leases of low-value assets (amount in euro of € 5 thousand or lower).

The expense associated with these exemptions is classified in the consolidated statement of profit or loss by purpose and in the cash flow statement under the sub-heading "Payments for other activities". Total lease expense subject to IFRS 16 treatment but exempted by reason of term or amount came to € 97 thousand in 2020, € 144 thousand in 2019, € 105 thousand in 2018 and € 110 thousand in 2017.

During the financial years 2020, 2019, 2018 and 2017, the Group did not incur any expenses for variable lease payments.

b) Lease liabilities

Details of movements in lease liabilities during the years ended 31 December 2020, 2019, 2018 and 2017 are as follows:

	2020	**2019**	**2018**	**2017**
Balance at the beginning of the year	3,881	4,586	3,138	2,388
Additions	466	772	2,646	1,587
Finance costs	35	106	93	61
Payments	(1,616)	(1,583)	(1,291)	(898)
Balance at the end of the year	**2,766**	**3,881**	**4,586**	**3,138**

The contractual maturities of undiscounted lease liabilities, i.e. including future interest payable, for the years 2020, 2019, 2018 and 2017 are as follows:

	2020	**2019**	**2018**	**2017**
Within one year	1,105	1,550	1,477	828
Between 1 and 5 years	1,552	2,259	3,083	2,100
Beyond 5 years	63	213	363	537
Total future payments	**2,720**	**4,022**	**4,923**	**3,465**

The discount rate used by the Group is the incremental borrowing rate, which is the rate at which the Group could obtain financing under comparable terms and conditions.

The weighted average incremental borrowing rate was 0.94%, 2.48%, 2.60% and 2.15% for 2020, 2019, 2018 and 2017, respectively.

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

11. Intangible assets

At 31 December 2020, 2019, 2018 and 2017, the balance of this heading related entirely to software. Changes in 2020, 2019, 2018 and 2017 are as follows:

	Software	Assets in course of construction	Total intangible assets
Cost at 01.01.2017	**78,879**	-	**78,879**
Additions	3,955	-	3,955
Cost at 12.31.2017	**82,834**	-	**82,834**
Additions	5,197	-	5,197
Retirements	(6)	-	(6)
Cost at 12.31.2018	**88,025**	-	**88,025**
Additions	9,354	102	9,456
Retirements	(839)	-	(839)
Cost at 12.31.2019	**96,540**	**102**	**96,642**
Additions	5,621	4	5,625
Retirements	(5,824)	-	(5,824)
Cost at 12.31.2020	**96,337**	**106**	**96,443**
Accumulated amortisation at 01.01.2017	**(70,810)**	-	**(70,810)**
Additions	(4,988)	-	(4,988)
Accumulated amortisation at 12.31.2017	**(75,798)**	-	**(75,798)**
Additions	(4,640)	-	(4,640)
Retirements	6	-	6
Accumulated amortisation at 12.31.2018	**(80,432)**	-	**(80,432)**
Additions	(4,993)	-	(4,993)
Retirements	628	-	628
Accumulated amortisation at 12.31.2019	**(84,797)**	-	**(84,797)**
Additions	(910)	-	(910)
Retirements	1,952	-	1,952
Accumulated amortisation at 12.31.2020	**(83,755)**	-	**(83,755)**
Carrying amount at 12.31.2017	**7,036**	-	**7,036**
Carrying amount at 12.31.2018	**7,593**	-	**7,593**
Carrying amount at 12.31.2019	**11,743**	**102**	**11,845**
Carrying amount at 12.31.2020	**12,582**	**106**	**12,688**

The additions recognised in 2020, 2019, 2018 and 2017 mainly relate to technological developments and the purchase of software licences.

Retirements of computer software in 2020 were largely due to the disposal of all intangible assets carried out by subsidiary company Ambar Medline, S.L.U., following the stoppage of business at Nuez.

At 31 December 2020, 2019, 2018 and 2017, there were no intangible assets subject to guarantees or reversals.

12. Other assets

The following table provides a breakdown of this heading at 31 December 2020, 2019, 2018 and 2017.

	2020	2019	2018	2017
Acquisition expenses	83,055	84,469	75,468	69,433
Accruals	180	1,150	14	149
Inventories	175	189	231	239
Total	**83,410**	**85,808**	**75,713**	**69,821**

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

Deferred acquisition expenses relate to expenses directly attributable to the collection of premiums that accrue annually over the term of the policy, mainly commission expenses and marketing expenses.

Deferred acquisition expenses are recognised in accordance with the accounting principles explained in Note 4 i). Changes in 2020, 2019, 2018 and 2017 are as follows:

	2020	2019	2018	2017
Balance at the beginning of the year	84,469	75,468	69,433	62,735
Additions	83,055	84,469	75,468	69,433
Retirements	(84,469)	(75,468)	(69,433)	(62,735)
Balance at the end of the year	**83,055**	**84,469**	**75,468**	**69,433**

Additions shows acquisition expenses for the year that are to be accrued in the following year, in correlation with the income earned from premiums written in each year. Unearned premium income corresponds to the unearned premium provision at that date. Retirements for each year relate to the derecognition of accrued acquisition expenses from the previous year.

The sub-heading "Accruals" includes the cost of certain services prepaid by the Group and due to accrue in 2021, amounting to € 180 thousand at 31 December 2020, € 1,150 thousand at 31 December 2019, € 14 thousand at 31 December 2018 and € 149 thousand at 31 December 2017.

13. Assets held for sale

As at 31 December 2020, 2019 and 2017, no amount was recognised under "Assets held for sale" in the consolidated balance sheet.

At 31 December 2018, it showed the amount of two buildings reclassified to this heading during the year due to their imminent sale (Note 9 b)). Details of these buildings are as follows:

Property	Cost of purchase	Accumulated depreciation	Impairment allowances	Carrying amount
C/ Bravo Murillo 211, Madrid	1,362	(87)	(27)	1,248
Avda. Pagés del Corro 79, Seville	662	(39)	-	623
Total	**2,024**	**(126)**	**(27)**	**1,871**

The Group did not dispose of any properties in 2020.

In 2019, the Group disposed of properties with a net carrying amount of € 1,871 thousand, obtaining a gain on the sale of € 212 thousand, as recognised under the sub-heading "Gains on realisation of property, plant and equipment and investments".

14. Technical provisions

Activity in 2020, 2019, 2018 and 2017 in relation to each of the technical provisions shown in the accompanying consolidated balance sheets is as follows:

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

Direct insurance

Thousand euro	Balance at 1 January 2020	Change in the statement of profit or loss	Change in exchange rates	Change in adjustments and settlements in the statement of profit or loss	Balance at 31 December 2020
Technical provisions:					
Unearned premiums	443,115	3,308	-	-	446,423
Provision for unexpired risk	6,115	(1,493)	-	-	4,622
Provision for claims	276,630	(5,089)	-	(6,095)	265,446
Total	**725,860**	**(3,274)**	**-**	**(6,095)**	**716,491**

Thousand euro	Balance at 1 January 2019	Change in the statement of profit or loss	Change in exchange rates	Change in adjustments and settlements in the statement of profit or loss	Balance at 31 December 2019
Technical provisions:					
Unearned premiums	428,118	14,996	-	-	443,115
Provision for unexpired risk	-	6,115	-	-	6,115
Provision for claims	297,773	(14,217)	-	(6,926)	276,630
Total	**725,891**	**6,894**	**-**	**(6,926)**	**725,860**

Thousand euro	Balance at 1 January 2018	Change in the statement of profit or loss	Change in exchange rates	Change in adjustments and settlements in the statement of profit or loss	Balance at 31 December 2018
Technical provisions:					
Unearned premiums	402,137	25,982	-	-	428,118
Provision for unexpired risk	-	-	-	-	-
Provision for claims	311,544	(6,677)	-	(7,095)	297,773
Total	**713,681**	**19,305**	**-**	**(7,095)**	**725,891**

Thousand euro	Balance at 1 January 2017	Change in the statement of profit or loss	Change in exchange rates	Change in adjustments and settlements in the statement of profit or loss	Balance at 31 December 2017
Technical provisions:					
Unearned premiums	372,722	29,415	-	-	402,137
Provision for unexpired risk	-	-	-	-	-
Provision for claims	290,718	26,654	-	(5,827)	311,544
Total	**663,440**	**56,069**	**-**	**(5,827)**	**713,681**

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

Ceded and retroceded reinsurance

Thousand euro	Balance at 1 January 2020	Change in the statement of profit or loss	Change in exchange rates	Change in adjustments and settlements in the statement of profit or loss	Balance at 31 December 2020
Technical provisions:					
Unearned premiums	2,676	1,029	-	-	3,705
Provision for unexpired risk	-	-	-	-	-
Provision for claims	6,841	1,931	-	-	8,772
Total	**9,517**	**2,960**	**-**	**-**	**12,477**

Thousand euro	Balance at 1 January 2019	Change in the statement of profit or loss	Change in exchange rates	Change in adjustments and settlements in the statement of profit or loss	Balance at 31 December 2019
Technical provisions:					
Unearned premiums	2,735	(59)	-	-	2,676
Provision for unexpired risk	-	-	-	-	-
Provision for claims	4,583	2,258	-	-	6,841
Total	**7,318**	**2,199**	**-**	**-**	**9,517**

Thousand euro	Balance at 1 January 2018	Change in the statement of profit or loss	Change in exchange rates	Change in adjustments and settlements in the statement of profit or loss	Balance at 31 December 2018
Technical provisions:					
Unearned premiums	1,175	1,560	-	-	2,735
Provision for unexpired risk	-	-	-	-	-
Provision for claims	4,544	39	-	-	4,583
Total	**5,719**	**1,599**	**-**	**-**	**7,318**

Thousand euro	Balance at 1 January 2017	Change in the statement of profit or loss	Change in exchange rates	Change in adjustments and settlements in the statement of profit or loss	Balance at 31 December 2017
Technical provisions:					
Unearned premiums	853	322	-	-	1,175
Provision for unexpired risk	-	-	-	-	-
Provision for claims	2,975	1,569	-	-	4,544
Total	**3,828**	**1,891**	**-**	**-**	**5,719**

The provision for claims breaks down into the following provisions:

Thousand euro	2020	2019	2018	2017
Provision for benefits pending settlement and payment	253,018	265,178	284,816	298,713
Provision for claims not reported	1,294	1,184	998	760
Provision for internal claims settlement expenses	11,134	10,268	11,959	12,071
Provision for claims	**265,446**	**276,630**	**297,773**	**311,544**

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

The following table shows changes in 2020, 2019, 2018 and 2017 in the provision for claims pending settlement and payment and in the provision for payments under claims settlement agreements, net of premium refunds considered certain.

Thousand euro		2020	2019	2018	2017
Balance at 1 January		**246,788**	**270,312**	**289,410**	**272,913**
Cost incurred					
	Current year	437,044	512,429	464,662	451,161
	Prior years	(25,202)	(71,727)	(75,968)	(77,408)
Total		**411,842**	**440,702**	**388,694**	**373,753**
Expenses paid					
	Current year	(271,357)	(312,520)	(279,238)	(252,029)
	Prior years	(153,037)	(151,706)	(128,554)	(105,228)
Total		**(424,394)**	**(464,226)**	**(407,792)**	**(357,257)**
Balance at 31 December		**234,236**	**246,788**	**270,312**	**289,409**

Looking at the above table, it should be noted that the opening and closing balance for each year relates to the provision for claims pending settlement and payment and the provision for payments under claims settlement agreements, net of premium refunds considered certain, which are included under Other receivables on the assets side of the consolidated balance sheets.

The provision for unexpired risks is there to supplement the provision for unearned premiums, if the latter is not enough to cover the cost of all the risks and expenses for which the insurance company is responsible over the period of coverage that has not elapsed upon reaching the end date of the financial year. In 2020, the Group recognised a total of € 4,622 thousand for this item under the Health segment (€ 6,115 thousand in 2019).

The following table shows changes in 2020, 2019, 2018 and 2017 in the Group's provision for claims without reinsured coverage and roadside assistance, corresponding solely to claims outstanding as at 31 December 2020, 2019, 2018 and 2017, respectively, and broken down by segment.

	Provision at 12.31.2019	Net payments	Provision at 12.31.2020	Surplus (Deficit)
Motor, general liability insurance	174,763	119,730	80,138	(25,105)
Motor, other coverage	67,236	35,409	21,818	10,009
Home	21,175	15,203	5,563	409
Total	**263,174**	**170,342**	**107,519**	**(14,687)**

	Provision at 12.31.2018	Net payments	Provision at 12.31.2019	Surplus (Deficit)
Motor, general liability insurance	195,793	118,652	57,540	19,601
Motor, other coverage	68,873	35,990	20,840	12,043
Home	20,199	13,150	4,065	2,984
Total	**284,865**	**167,792**	**82,445**	**34,628**

	Provision at 12.31.2017	Net payments	Provision at 12.31.2018	Surplus (Deficit)
Motor, general liability insurance	211,605	101,352	89,602	20,651
Motor, other coverage	72,283	35,239	22,820	14,224
Home	14,305	8,434	4,625	1,246
Total	**298,193**	**145,025**	**117,047**	**36,121**

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

	Provision at 01.01.2017	Net payments	Provision at 12.31.2017	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**

In the above tables, please note that:

a) The column "Provision at prior year-end" relates to the provision for claims pending settlement and payment in the consolidated balance sheets at that date, on the understanding that:
   i. It does not include roadside assistance coverage and other supplementary reinsured coverage, such as claims for fines, or legal assistance. The amount of the provision for these types of coverage at each date is certain and there is no uncertainty as to their subsequent performance.
   ii. Claims incurred but not reported (IBNR), which form part of the provisions for claims on the liabilities side of the consolidated balance sheets, are not included in the provision at the end of 2020, 2019, 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 the statistical methods described in Note 4 m).
   iii. Provisions arising from the Health segment are not included in the tables above given the relatively short life of the segment, which started at the end of financial year 2017, and because amount of the provision for claims is not yet significant. Provisions under the "other insurance business" segment are not included either, as the amounts involved are similarly insignificant.
   iv. Provisions for claims settlement expenses, which, together with the provision for outstanding claims and the provision for claims incurred but not reported (IBNR), make up the provision for claims on the liabilities side of the consolidated balance sheets are not included in the above tables as they are posted to meet all the internal costs of settling claims outstanding at a date on which the Group ceases operations and therefore have no further life beyond the date on which the provision is posted.

b) The second column, "Net payments", relates to the heading "Claims and expenses paid – Direct insurance" in the statement of profit or loss for the insurance business, but counting only those claims incurred prior to the date of the provision shown in the first column of the table. Therefore, net claims payments for claims incurred in the reference year are not counted.

c) The third column showing the provision at the end of the following year includes the amount of the provision for claims incurred in the previous year and prior years.

d) Lastly, the fourth column, "Surplus (Deficit)", is the result of:
   i. (+) First column showing the provision at the end of the previous financial year.
   ii. (-) Second column showing net payments.
   iii. (-) Third column showing the provision at the end of the following financial year.

   If this addition yields a positive figure, it means that the provision at the end of the previous year will show a surplus one year later, while if it is negative, it will show a deficit.

As can be seen in the following tables, the Group, due to its reserve management policies, has historically positive run-offs, with efficient management of its claims, where the performance of claims incurred (loss ratio) is linked to the Group's organic growth, with no major deviations from one year to the next. As described in Note 6 d), the Claims and Reserves Committee is the body responsible for managing the Group's reserve risk. It is entrusted with monitoring the Group's reserves and provisions to ensure adequate coverage of claims, and with approving 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 Group's Board of Directors.

However, since 2020 was an atypical year due to the pandemic, the provision shows a deficit of € 14,687 when comparing figures for year-end 2019 and for 2020. This deficit is mainly down to the increase in provisioning in the last quarter of the year, which was due to various factors:

The first factor relates to the handling of civil liability claims for personal injury, especially serious claims (which take longer to handle), as the victim's health may change significantly over time, thus requiring the related provision to be updated accordingly to reflect new medical information as it is received. Until the victim's condition stabilises, these updates push up the provision and when the claim is terminated, they trigger the release of the provision. In a normal situation, increases and releases of provisions for all serious claims are typically netted. The existence of a deficit in 2020 can largely be explained by the fact that the provision increases made that year relate to more recent claims, where the victim still remains in the stabilisation phase, which are subject to indemnification under the new injury scale (more demanding than the old one), although the settlement of serious claims under the new injury scale, which would release the provision, has been delayed due to the pandemic. Serious claims finalised in 2020 relate to claims settled under the old injury scale, which released less in the way of provisions.

Secondly, and given the exceptional and atypical nature of the year, a certain degree of prudence was added to the management of the most serious outstanding claims due to the difficulty of maintaining normal management processes amid the current pandemic.

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

Changes in Non-Life direct insurance claims incurred, without counting reinsured coverage and roadside assistance, from the year of occurrence of the claims through to the end of financial year 2020 are as follows, including a breakdown by year of occurrence of the provision for claims for this insurance segment at year-end:

Year of occurrence	Item	Year of occurrence	Trend of claims in the years following year of occurrence									
			1 year later	2 years later	3 years later	4 years later	5 years later	6 years later	7 years later	8 years later	9 years later	Beyond 9 years
2010 and earlier	Provision pending	327,905	136,451	77,510	44,517	26,859	15,922	11,580	8,299	4,673	2,672	1,142
	Accumulated payments	3,193,836	3,333,998	3,367,716	3,383,085	3,390,406	3,395,177	3,397,779	3,399,528	3,400,145	3,401,969	3,402,388
	Total cost	**3,521,741**	**3,470,449**	**3,445,226**	**3,427,602**	**3,417,265**	**3,411,099**	**3,409,359**	**3,407,827**	**3,404,818**	**3,404,641**	**3,403,530**
2011	Provision pending	184,297	60,016	31,198	16,799	9,405	4,742	2,444	1,193	120	191	
	Accumulated payments	285,823	374,398	388,504	395,125	398,650	400,947	401,432	402,192	402,917	403,031	
	Total cost	**470,120**	**434,414**	**419,702**	**411,924**	**408,055**	**405,689**	**403,876**	**403,385**	**403,037**	**403,222**	
2012	Provision pending	164,859	49,794	23,798	11,410	7,078	4,404	2,833	1,197	841		
	Accumulated payments	261,666	339,021	352,145	357,905	360,665	362,877	363,207	363,911	364,063		
	Total cost	**426,525**	**388,815**	**375,943**	**369,315**	**367,743**	**367,281**	**366,040**	**365,108**	**364,904**		
2013	Provision pending	168,299	44,455	19,354	10,791	5,824	2,722	1,198	759			
	Accumulated payments	246,639	320,884	332,654	336,978	339,963	343,087	344,508	344,210			
	Total cost	**414,938**	**365,339**	**352,008**	**347,769**	**345,787**	**345,809**	**345,706**	**344,969**			
2014	Provision pending	177,602	51,834	24,189	13,814	6,871	4,050	3,122				
	Accumulated payments	221,088	294,931	308,934	315,023	319,287	321,867	322,606				
	Total cost	**398,690**	**346,765**	**333,123**	**328,837**	**326,158**	**325,917**	**325,728**				
2015	Provision pending	182,936	56,880	26,026	13,680	6,850	3,223					
	Accumulated payments	225,679	300,189	316,174	322,957	327,630	329,532					
	Total cost	**408,615**	**357,069**	**342,200**	**336,637**	**334,480**	**332,755**					
2016	Provision pending	207,263	79,077	43,010	16,326	9,691						
	Accumulated payments	230,827	305,991	327,735	341,728	348,315						
	Total cost	**438,090**	**385,068**	**370,745**	**358,054**	**358,006**						
2017	Provision pending	211,923	72,338	30,089	15,076							
	Accumulated payments	250,648	343,649	368,838	380,254							
	Total cost	**462,571**	**415,987**	**398,927**	**395,330**							
2018	Provision pending	195,821	58,128	33,936								
	Accumulated payments	277,560	377,926	405,224								
	Total cost	**473,381**	**436,054**	**439,160**								
2019	Provision pending	208,765	84,183									
	Accumulated payments	315,092	420,000									
	Total cost	**523,857**	**504,183**									
2020	Provision pending	165,276										
	Accumulated payments	267,760										
	Total cost	**433,036**										

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

Changes in Non-Life direct insurance claims incurred, without counting coverage for fines and roadside assistance, from the year of occurrence of the claims through to the end of financial year 2019 are as follows, including a breakdown by year of occurrence of the provision for claims for this insurance segment at year-end:

Year of occurrence	Item	Year of occurrence	Trend of claims in the years following year of occurrence									
			1 year later	2 years later	3 years later	4 years later	5 years later	6 years later	7 years later	8 years later	9 years later	Beyond 9 years
2009 and earlier	Provision pending	291,315	122,485	68,100	42,336	25,395	14,894	9,144	7,047	4,616	3,284	2,311
	Accumulated payments	2,777,102	2,898,772	2,934,499	2,948,759	2,956,692	2,960,765	2,963,757	2,964,819	2,966,093	2,966,037	2,967,231
	Total cost	**3,068,417**	**3,021,257**	**3,002,599**	**2,991,095**	**2,982,087**	**2,975,659**	**2,972,901**	**2,971,866**	**2,970,709**	**2,969,321**	**2,969,542**
2010	Provision pending	205,420	68,351	35,174	19,122	11,965	6,779	4,534	3,683	1,389	361	
	Accumulated payments	295,064	399,499	418,957	426,393	429,641	431,420	432,960	433,435	434,109	434,737	
	Total cost	**500,484**	**467,850**	**454,131**	**445,515**	**441,606**	**438,199**	**437,494**	**437,118**	**435,498**	**435,098**	
2011	Provision pending	184,297	60,016	31,198	16,799	9,405	4,742	2,444	1,193	120		
	Accumulated payments	285,823	374,398	388,504	395,125	398,650	400,947	401,432	402,192	402,917		
	Total cost	**470,120**	**434,414**	**419,702**	**411,924**	**408,055**	**405,689**	**403,876**	**403,385**	**403,037**		
2012	Provision pending	164,859	49,794	23,798	11,410	7,078	4,404	2,833	1,197			
	Accumulated payments	261,666	339,021	352,145	357,905	360,665	362,877	363,207	363,911			
	Total cost	**426,525**	**388,815**	**375,943**	**369,315**	**367,743**	**367,281**	**366,040**	**365,108**			
2013	Provision pending	168,299	44,455	19,354	10,791	5,824	2,722	1,198				
	Accumulated payments	246,639	320,884	332,654	336,978	339,963	343,087	344,508				
	Total cost	**414,938**	**365,339**	**352,008**	**347,769**	**345,787**	**345,809**	**345,706**				
2014	Provision pending	177,602	51,834	24,189	13,814	6,871	4,050					
	Accumulated payments	221,088	294,931	308,934	315,023	319,287	321,867					
	Total cost	**398,690**	**346,765**	**333,123**	**328,837**	**326,158**	**325,917**					
2015	Provision pending	182,936	56,880	26,026	13,680	6,850						
	Accumulated payments	225,679	300,189	316,174	322,957	327,630						
	Total cost	**408,615**	**357,069**	**342,200**	**336,637**	**334,480**						
2016	Provision pending	207,263	79,077	43,010	16,326							
	Accumulated payments	230,827	305,991	327,735	341,728							
	Total cost	**438,090**	**385,068**	**370,745**	**358,054**							
2017	Provision pending	211,923	72,338	30,089								
	Accumulated payments	250,648	343,649	368,838								
	Total cost	**462,571**	**415,987**	**398,927**								
2018	Provision pending	195,821	58,128									
	Accumulated payments	277,560	377,926									
	Total cost	**473,381**	**436,054**									
2019	Provision pending	208,765										
	Accumulated payments	315,092										
	Total cost	**523,857**										

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

Changes in Non-Life direct insurance claims incurred, without counting coverage for fines and roadside assistance, from the year of occurrence of the claims through to the end of financial year 2018 are as follows, including a breakdown by year of occurrence of the provision for claims for this insurance segment at year-end:

Year of occurrence	**Item**	**Year of occurrence**	**Trend of claims in the years following year of occurrence**									
			1 year later	**2 years later**	**3 years later**	**4 years later**	**5 years later**	**6 years later**	**7 years later**	**8 years later**	**9 years later**	**Beyond 9 years later**
2008 and earlier	Provision pending	267,028	97,757	56,711	36,162	24,038	15,876	9,735	6,761	5,268	3,745	2,731
	Accumulated payments	2,367,540	2,485,456	2,510,285	2,524,393	2,531,216	2,535,412	2,538,231	2,540,576	2,541,488	2,541,743	2,541,586
	Total cost	**2,634,568**	**2,583,213**	**2,566,996**	**2,560,555**	**2,555,254**	**2,551,288**	**2,547,966**	**2,547,337**	**2,546,756**	**2,545,488**	**2,544,317**
2009	Provision pending	193,558	65,774	31,938	18,298	9,519	5,159	2,382	1,778	870	553	
	Accumulated payments	291,646	388,487	410,106	417,544	421,280	422,534	423,181	423,331	424,350	424,451	
	Total cost	**485,204**	**454,261**	**442,044**	**435,842**	**430,799**	**427,693**	**425,563**	**425,109**	**425,220**	**425,004**	
2010	Provision pending	205,420	68,351	35,174	19,122	11,965	6,779	4,534	3,683	1,389		
	Accumulated payments	295,064	399,499	418,957	426,393	429,641	431,420	432,960	433,435	434,109		
	Total cost	**500,484**	**467,850**	**454,131**	**445,515**	**441,606**	**438,199**	**437,494**	**437,118**	**435,498**		
2011	Provision pending	184,297	60,016	31,198	16,799	9,405	4,742	2,444	1,193			
	Accumulated payments	285,823	374,398	388,504	395,125	398,650	400,947	401,432	402,192			
	Total cost	**470,120**	**434,414**	**419,702**	**411,924**	**408,055**	**405,689**	**403,876**	**403,385**			
2012	Provision pending	164,859	49,794	23,798	11,410	7,078	4,404	2,833				
	Accumulated payments	261,666	339,021	352,145	357,905	360,665	362,877	363,207				
	Total cost	**426,525**	**388,815**	**375,943**	**369,315**	**367,743**	**367,281**	**366,040**				
2013	Provision pending	168,299	44,455	19,354	10,791	5,824	2,722					
	Accumulated payments	246,639	320,884	332,654	336,978	339,963	343,087					
	Total cost	**414,938**	**365,339**	**352,008**	**347,769**	**345,787**	**345,809**					
2014	Provision pending	177,602	51,834	24,189	13,814	6,871						
	Accumulated payments	221,088	294,931	308,934	315,023	319,287						
	Total cost	**398,690**	**346,765**	**333,123**	**328,837**	**326,158**						
2015	Provision pending	182,936	56,880	26,026	13,680							
	Accumulated payments	225,679	300,189	316,174	322,957							
	Total cost	**408,615**	**357,069**	**342,200**	**336,637**							
2016	Provision pending	207,263	79,077	43,010								
	Accumulated payments	230,827	305,991	327,735								
	Total cost	**438,090**	**385,068**	**370,745**								
2017	Provision pending	211,923	72,338									
	Accumulated payments	250,648	343,649									
	Total cost	**462,571**	**415,987**									
2018	Provision pending	195,821										
	Accumulated payments	277,560										
	Total cost	**473,381**										

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

Changes in Non-Life direct insurance claims incurred, without counting coverage for fines and roadside assistance, from the year of occurrence of the claims through to the end of financial year 2017 are as follows, including a breakdown by year of occurrence of the provision for claims for this insurance segment at year-end:

Year of occurrence	Item	Year of occurrence	Trend of claims in the years following year of occurrence									
			1 year later	2 years later	3 years later	4 years later	5 years later	6 years later	7 years later	8 years later	9 years later	Beyond 9 years later
2007 and earlier	Provision pending	274,877	91,786	48,491	29,763	19,311	12,951	9,218	6,214	4,235	3,278	2,733
	Accumulated payments	1,958,079	2,100,422	2,125,937	2,136,087	2,144,008	2,146,999	2,149,522	2,150,924	2,152,787	2,153,424	2,153,539
	Total cost	**2,232,956**	**2,192,208**	**2,174,428**	**2,165,850**	**2,163,319**	**2,159,950**	**2,158,740**	**2,157,138**	**2,157,022**	**2,156,702**	**2,156,272**
2008	Provision pending	175,243	49,266	26,948	16,851	11,088	6,658	3,521	2,526	1,990	1,012	
	Accumulated payments	267,118	359,519	374,198	380,385	384,216	385,890	387,307	387,789	388,064	388,204	
	Total cost	**442,361**	**408,785**	**401,146**	**397,236**	**395,304**	**392,548**	**390,828**	**390,315**	**390,054**	**389,216**	
2009	Provision pending	193,558	65,774	31,938	18,298	9,519	5,159	2,382	1,778	870		
	Accumulated payments	291,646	388,487	410,106	417,544	421,280	422,534	423,181	423,331	424,350		
	Total cost	**485,204**	**454,261**	**442,044**	**435,842**	**430,799**	**427,693**	**425,563**	**425,109**	**425,220**		
2010	Provision pending	205,420	68,351	35,174	19,122	11,965	6,779	4,534	3,683			
	Accumulated payments	295,064	399,499	418,957	426,393	429,641	431,420	432,960	433,435			
	Total cost	**500,484**	**467,850**	**454,131**	**445,515**	**441,606**	**438,199**	**437,494**	**437,118**			
2011	Provision pending	184,297	60,016	31,198	16,799	9,405	4,742	2,444				
	Accumulated payments	285,823	374,398	388,504	395,125	398,650	400,947	401,432				
	Total cost	**470,120**	**434,414**	**419,702**	**411,924**	**408,055**	**405,689**	**403,876**				
2012	Provision pending	164,859	49,794	23,798	11,410	7,078	4,404					
	Accumulated payments	261,666	339,021	352,145	357,905	360,665	362,877					
	Total cost	**426,525**	**388,815**	**375,943**	**369,315**	**367,743**	**367,281**					
2013	Provision pending	168,299	44,455	19,354	10,791	5,824						
	Accumulated payments	246,639	320,884	332,654	336,978	339,963						
	Total cost	**414,938**	**365,339**	**352,008**	**347,769**	**345,787**						
2014	Provision pending	177,602	51,834	24,189	13,814							
	Accumulated payments	221,088	294,931	308,934	315,023							
	Total cost	**398,690**	**346,765**	**333,123**	**328,837**							
2015	Provision pending	182,936	56,880	26,026								
	Accumulated payments	225,679	300,189	316,174								
	Total cost	**408,615**	**357,069**	**342,200**								
2016	Provision pending	207,263	79,077									
	Accumulated payments	230,827	305,991									
	Total cost	**438,090**	**385,068**									
2017	Provision pending	211,923										
	Accumulated payments	250,648										
	Total cost	**462,571**										

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

15. Non-technical provisions

Details of the provision for tax and other legal contingencies in 2020, 2019, 2018 and 2017 are as follows:

	2020	2019	2018	2017
Balance at the beginning of the year	492	2,700	700	700
Allowances	-	-	2,000	-
Amounts utilised	-	(2,208)	-	-
Balance at the end of the year	**492**	**492**	**2,700**	**700**

Details of the provision for payments under claims settlement agreement in 2020, 2019, 2018 and 2017 are as follows:

	2020	2019	2018	2017
Balance at the beginning of the year	21,968	21,708	22,403	18,884
Allowances	16,174	21,968	21,708	22,403
Amounts utilised	(21,968)	(21,708)	(22,403)	(18,884)
Balance at the end of the year	**16,174**	**21,968**	**21,708**	**22,403**

Details of other non-technical provisions in 2020, 2019, 2018 and 2017 are as follows:

	2020	2019	2018	2017
Balance at the beginning of the year	356	244	96	131
Allowances	183	356	244	96
Amounts utilised	(356)	(244)	(96)	(131)
Balance at the end of the year	**183**	**356**	**244**	**96**

The reduction in the balance of provisions is due to the payment of provisions and in no case due to a reduction in the estimate.

16. Tax position

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

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

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

Parent	**Tax no.**
Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros	A80871031

Subsidiary	**Tax no.**
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 2020, 2019, 2018 and 2017 at 25%.

The reconciliation between accounting profit and taxable income for income tax purposes for 2020, 2019, 2018 and 2017 is as follows:

	2020		**2019**		**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**	**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	**134,846**	-	**107,295**	-	**117,211**	-	**111,979**	-
Corporate income tax	(44,778)	-	(35,542)	-	(38,752)	-	(39,995)	-
Permanent differences:								
Increases	3,458	-	2,385	-	2,555	-	1,035	-
Reductions	-	-	-	-	(250)	-	-	-
Taxable profit/(loss)	**183,082**	-	**145,222**	-	**158,268**	-	**153,009**	-
Temporary differences:								
Originating in the year								
Increases	2,963	-	62,008	-	75,382	32,393	84,670	1,456
Reductions	(6,964)	(9,624)	(7,112)	(30,145)	(7,051)	-	(6,775)	-
Originating in previous years								
Increases	11	-	51	-	112	-	199	-
Reductions	(59,631)	-	(82,688)	-	(78,562)	-	(76,748)	-
Tax losses carried forward	-	-	-	-	-	-	(74)	-
Tax base	**119,461**	**(9,624)**	**117,481**	**(30,145)**	**148,149**	**32,393**	**154,281**	**1,456**

Details of current and deferred income tax expense recognised in the consolidated statement of profit or loss for 2020, 2019, 2018 and 2017 are as follows:

	2020	**2019**	**2018**	**2017**
Current tax expense	29,012	28,614	36,230	40,357
Adjustments to deferred taxes	15,766	6,928	2,522	(362)
Corporate income tax expense	**44,778**	**35,542**	**38,752**	**39,995**

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

Income tax expense recognised in 2020, 2019, 2018 and 2017 was calculated on the basis of the taxable profit/(loss) shown in the above table, as follows:

	2020	**2019**	**2018**	**2017**
Accounting profit/(loss) before tax	179,624	142,837	155,963	151,974
Tax rate	25%	25%	25%	25%
Tax payable	44,906	35,709	38,991	37,994
Deductions on tax payable	(1,110)	(1,080)	(1,059)	(1,103)
Adjustment for settlement of previous year CIS	174	115	102	2,709
Non-deductible expenses	717	649	639	805
Non-taxable income	-	-	(63)	-
Deductions and amounts utilised, net	91	156	142	(337)
Tax losses carried forward	-	(7)	-	(73)
Corporate income tax expense	**44,778**	**35,542**	**38,752**	**39,995**

Contingent tax liabilities may exist due to possible differences in the interpretation of tax legislation applicable to the transactions. The Group's directors estimate these contingencies at a total of € 492 thousand at 31 December 2020, € 492 thousand at 31 December 2019, € 2,700 thousand at 31 December 2018 and € 700 thousand at 31 December 2017, for which a provision has been recognised under "Provision for taxes and other legal contingencies" in the balance sheet (see Note 15).

Consolidated statements of profit or loss

The increases in permanent differences in 2020, 2019, 2018 and 2017 arose from various transactions that are not deductible for income tax purposes, relating specifically to the contributions made by the Parent for contingencies under pension plans, which are not tax deductible in accordance with Article 14.2 of the Corporate Income Tax Law, and to the donations made by the Parent to Fundación Línea Directa and certain other entities.

The reductions originating in prior years relate mainly to the adjustment to 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.

Income and expenses recognised directly in consolidated equity

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

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

Tax assets and liabilities

Tax assets and liabilities were as follows at 31 December 2020, 2019, 2018 and 2017:

	2020	2019	2018	2017
Tax assets				
Current tax				
Withholdings for the year / Corporate income tax credit	14,388	504	549	555
Deferred tax				
Temporary differences	9,628	24,375	26,892	23,452
Other receivables				
Tax and social security receivable	1,126	1,305	167	123
Tax liabilities				
Current tax				
Corporate income tax debt	-	(1,537)	8,777	15,952
Deferred tax				
Temporary differences	45,066	41,523	35,757	37,883
Other debts				
Personal income tax withholdings payable	2,109	2,003	1,928	1,662
VAT payable	619	544	588	438
Social security payable	2,851	2,739	2,486	2,342
Insurance Compensation Consortium payable	1,427	1,390	1,522	1,522
Tax payable on insurance premiums	4,360	4,371	4,310	4,115
Other taxes payable	3,123	3,050	4,713	6,696

Current tax assets correspond to income tax withholdings for the year that will be settled in the following year and the amount of income tax payable (receivable) for the year, net of payments on account.

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. For the purposes of the tax deductibility of the provision for claims calculated using statistical methods, calculations have been made to determine the minimum amount of the provision, in accordance with the requirements set out in Additional Provision Six of the ROSSEAR. The differences between the allowances posted and those considered as a tax-deductible expense have been treated as temporary differences.

Temporary differences existing at 31 December 2020 will be reversed from 2021 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 2020, 2019, 2018 and 2017, deferred tax liabilities related to the tax effect on:

1. Under PCEA, the Group recognises an equalisation reserve which, as described in Note 3, is reclassified for presentation purposes in accordance with IFRS requirements. The Group calculates its taxes on the basis of the Spanish PCEA. Therefore, from the balance arising from the equalisation reserve recognised under the PCEA, a deferred tax liability of € 29,389 thousand existed at year-end 2020, of € 27,648 thousand in 2019, of € 25,869 thousand in 2018 and of € 24,107 thousand in 2017. This deferred tax liability will be settled with the tax authorities in the year in which it is applied in accordance with the PCEA.

2. The tax impact of capital gains on the “available-for-sale” investment portfolio, amounting to € 15,674 thousand at 31 December 2020, € 13,869 thousand at 31 December 2019, € 9,869 thousand at 31 December 2018 and € 13,729 thousand at 31 December 2017.

3. The tax impact of the carrying amount of certain assets acquired in 2012, 2011, 2010 and 2009 that are fully depreciated for tax purposes in accordance with Additional Provision 11 of the Corporate Income Tax Law, amounting to € 3 thousand in 2020, € 6 thousand in 2019, € 19 thousand in 2018 and € 47 thousand in 2017.

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

Changes in deferred tax assets and liabilities in 2020, 2019, 2018 and 2017 are as follows:

	Balance at 12.31.2018	Originating in profit and loss		Originating in equity		Balance at 12.31. 2019	Originating in profit and loss		Originating in equity		Balance at 12.31. 2020
		Additions	Retirements	Additions	Retirements		Additions	Retirements	Additions	Retirements	
Deferred assets											
Positive temporary differences in assets	21,760	15,502	(20,672)	-	-	16,590	887	(14,904)	-	-	2,573
Capital losses on available-for-sale assets	5,002	-	-	-	(3,525)	1,477	-	-	-	(677)	800
Taxes deferred	-	-	-	6,161	-	6,161	-	-	-	-	6,161
Rights to deductions and rebates	115	-	-	33	(23)	125	-	-	30	(74)	81
Temporary differences due to IFRS conversion adjustments	15	7	-	-	-	22	(9)	-	-	-	13
Total	**26,892**	**15,509**	**(20,672)**	**6,194**	**(3,548)**	**24,375**	**878**	**(14,904)**	**30**	**(751)**	**9,628**
Deferred liabilities											
Tax effect of the Equalisation Reserve	(25,869)	-	(1,779)	-	-	(27,648)	-	(1,741)	-	-	(29,389)
Capital gains on the portfolio of available-for-sale assets	(9,869)	-	-	-	(4,000)	(13,869)	-	-	(77)	(1,728)	(15,674)
Liabilities – temporary differences from tax deduction for maintaining jobs	(19)	-	13	-	-	(6)	-	3	-	-	(3)
Total	**(35,757)**	-	**(1,766)**	-	**(4,000)**	**(41,523)**	-	**(1,738)**	**(77)**	**(1,728)**	**(45,066)**

	Balance at 01.01.2017	Originating in profit and loss		Originating in equity		Balance at 01.01. 2018	Originating in profit and loss		Originating in equity		Balance at 12.31. 2018
		Additions	Retirements	Additions	Retirements		Additions	Retirements	Additions	Retirements	
Deferred assets											
Positive temporary differences in assets	20,563	21,167	(19,186)	-	-	22,544	18,857	(19,641)	-	-	21,760
Capital losses on available-for-sale assets	943	-	-	-	(168)	775	-	-	4,227	-	5,002
Rights to deductions and rebates	109	64	(47)	-	-	126	43	(54)	-	-	115
Temporary differences due to IFRS conversion adjustments	-	7	-	-	-	7	8	-	-	-	15
Total	**21,615**	**21,238**	**(19,233)**	-	**(168)**	**23,452**	**18,908**	**(19,695)**	**4,227**	-	**26,892**
Deferred liabilities											
Tax effect of the Equalisation Reserve	(22,413)	-	(1,694)	-	-	(24,107)	-	(1,762)	-	-	(25,869)
Capital gains on the portfolio of available-for-sale assets	(14,280)	-	-	-	551	(13,729)	-	-	3,860	-	(9,869)
Liabilities – temporary differences from tax deduction for maintaining jobs	(97)	-	50	-	-	(47)	-	28	-	-	(19)
Total	**(36,790)**	-	**(1,644)**	-	**551**	**(37,883)**	-	**(1,734)**	3,860	-	**(35,757)**

Inspections in progress

On 14 September 2016, the Group 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, these inspection proceedings had been completed by 31 December 2020 and the final report signed in acceptance of the findings. Those signed under protest have been appealed before the Central Tax Appeals Board (TEAC). In any event, this situation will not give rise to any contingency that has not already been considered and adequately provisioned for. For the other taxes subject to inspection, the findings have been verified and accepted.

In addition to the above, the Group has analysed each uncertain tax treatment separately by virtue of IFRIC 23. The analysis revealed that it is probable that the Spanish tax authorities will accept the current tax treatments considered uncertain. Therefore, no additional contingency was disclosed at 31 December 2020 relating to the calculation and presentation of the Group's income tax expense.

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 Group was notified of the findings and the corresponding arguments were then lodged by the Entity on 25 January. On 21 June 2018, a resolution was received from the Directorate General of Insurance and Pension Funds. On 27 May 2019, a lawsuit was filed with the Supreme Court of Justice in Madrid.

Meanwhile, on 23 November 2016, the Group received notification of inspection proceedings regarding market practices, with further information requested for 31 December 2015. On 27 March 2018, the Group was notified of the findings and the corresponding counter arguments were lodged by the Group on 27 April 2018. On 25 September 2018, a decision was received from the Directorate General of Insurance and Pension Funds and in December 2018 a document was received evidencing compliance with the requirements imposed by that regulatory body. Subsequently, the Group received notification of the closure of inspection proceedings on 30 December 2020, having fulfilled all requirements prescribed by the regulator.

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 financial statements.

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

17. Equity

The composition and movement in equity in the financial years 2020, 2019, 2018 and 2017 is presented in the accompanying consolidated statements of changes in equity.

At 31 December 2020, 2019, 2018 and 2017, the Parent's share capital amounted to € 37,512 thousand and was represented by 2,400,000 registered shares, each with a nominal value of € 15.63, all fully subscribed for and paid up and all conferring the same rights and obligations. At the date of authorisation for issue of these financial statements, there are no restrictions on the free transferability of these securities and they are not listed on any stock exchange at the reporting date.

At 31 December 2020, 2019, 2018 and 2017, the Parent's shareholders were as follows:

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

The Annual General Meeting of Bankinter S.A. held on 19 March 2020 resolved to distribute in kind the entire share premium (amounting to € 1,184 million) by delivering 82.6% of the share capital of Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros to its shareholders, with the bank retaining a non-controlling financial stake of 17.4% in the Company.

Following the approval of the Annual General Meeting, the requisite regulatory clearance was requested. Once this is obtained, the Company's share premium will be apportioned accordingly and its shares will be admitted to trading on the continuous market. This is expected to take place in the first half of 2021.

At 31 December 2020, 2019, 2018 and 2017, the Parent had posted the minimum capital required under the Law on the Organisation and Supervision of Private Insurance to operate in authorised insurance segments.

a) Legal reserve

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

At 31 December 2020, 2019, 2018 and 2017, the balance of this reserve was above the minimum requirement.

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

b) Other reserves

At 31 December 2020, 2019, 2018 and 2017, the balance of these reserves was unrestricted and included reserves for shares of the Group's parent company (Bankinter, S.A.).

c) Interim dividend

2020

Pursuant to Articles 40.6 *bis* and 41.3 of Royal Decree-Law 8/2020, of 17 March, on extraordinary and urgent measures to address the economic and social impact of COVID-19, and within the framework of the recommendations of the European Insurance and Occupational Pensions Authority and the Spanish Directorate General for Insurance and Pension Funds —as per their respective notes of 2 and 8 April 2020— the Board of Directors of the Parent has resolved not to distribute interim dividends out of the profit for the year.

2019

At its meetings of 28 March 2019, 27 June 2019, 26 September 2019 and 20 December 2019, the Board of Directors (see paragraph b)) agreed to pay out a total of € 93,048 thousand as an interim dividend charged to profits for 2019. At 31 December 2019, a total of € 28,344 thousand remained outstanding under the last resolution, to be charged to profits for the fourth quarter of the year (see Note 8 b) i)).

The following interim financial statements have been drawn up by the Group 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			
	03.28.2019	**06.27.2019**	**09.26.2019**	**12.20.2019**
Net profit at date of resolution	21,104	44,456	70,336	114,316
Less:				
Other reserves	(1,754)	(3,658)	(5,429)	(7,150)
Interim dividends charged to profit or loss for the year	-	(19,272)	(40,704)	(64,704)
Unrestricted profit	**19,350**	**21,526**	**24,203**	**42,462**
Proposal to pay interim dividends	**19,272**	**21,432**	**24,000**	**28,344**
Total dividend to be paid	**19,272**	**21,432**	**24,000**	**28,344**
Cash liquidity prior to payment	**82,824**	**105,022**	**114,050**	**84,669**
Expected receipts less expected payments	87,927	55,440	1,392	(20,152)
Remaining cash	**170,751**	**160,462**	**115,442**	**64,517**

2018

The Board of Directors, at its meetings of 21 March 2018, 27 June 2018, 27 September 2018 and 21 December 2018, and the Group's General Shareholders' Meeting, at the extraordinary meeting held on 28 September, resolved to distribute interim dividends out of 2018 profits for a total of € 94,544 thousand. At 31 December 2018, a total of € 39,120 thousand under the terms of this resolution remained outstanding, of which € 24,696 thousand was on account of profits for the fourth quarter of the year, while € 14,424 thousand was charged to unrestricted reserves.

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

The following interim financial statements have been drawn up by the Group 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			
	03.21.2018	**06.27.2018**	**09.27.2018**	**12.21.2018**
Net profit at date of resolution	23,639	46,253	75,281	101,717
Less:				
Other reserves	(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**
Total dividend to be paid	**21,800**	**20,808**	**27,240**	**24,696**
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**

2017

The Board of Directors, at its meetings of 31 March 2017, 29 June 2017, 28 September 2017 and 27 December 2017, and the Group's General Shareholders' Meeting, at the extraordinary meeting held on 28 September, resolved to distribute interim dividends out of 2017 profits for a total of € 99,649 thousand. At 31 December 2017, a total of € 28,008 thousand under the last resolution remained outstanding. At its meeting on 28 September 2017, the Board of Directors resolved to distribute a dividend of € 10,000 thousand out of unrestricted reserves.

The following interim financial statements have been drawn up by the Group 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			
	03.31.2017	**06.29.2017**	**09.28.2017**	**12.27.2017**
Net profit at date of resolution	20,051	40,538	87,002	117,092
Less:				
Other reserves	(1,603)	(3,380)	(5,110)	(6,821)
Interim dividends charged to profit or loss for the year	-	(18,401)	(37,001)	(71,641)
Unrestricted profit	**18,448**	**18,757**	**44,891**	**38,630**
Proposal to pay interim dividends	**18,401**	**18,600**	**34,640**	**28,008**
Total dividend to be paid	**18,401**	**18,600**	**34,640**	**28,008**
Cash liquidity prior to payment	**126,469**	**132,436**	**132,436**	**155,405**
Expected receipts less expected payments	10,467	(10,425)	(36,455)	49,588
Remaining cash	**136,936**	**122,011**	**95,981**	**204,993**

At the general meeting held on 30 June 2014, the shareholders agreed to distribute an extraordinary dividend charged to reserves for 2014 of € 150,000 thousand, payable until 31 December 2017 thousand on the basis of € 50,000 thousand per year. A total of € 49,997 thousand was paid in 2017.

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

d) Distribution of profits at the Parent

The proposed distribution of profit of the Parent for financial year 2020, which the Board of Directors submitted to the Annual General Meeting for its approval, is presented comparatively together with the distribution of profit for financial years 2019, 2018 and 2017, as follows:

	Thousand euro			
	2020	**2019**	**2018**	**2017**
Distribution basis (Individual profit/(loss) of Línea Directa Aseguradora, S.A. de Seguros y Reaseguros)	132,671	115,001	102,589	119,317
Distributed:				
to interim dividends	-	93,048	94,544	99,649
to Voluntary Reserve	132,671	21,953	8,045	16,775
to final dividend	-	-	-	2,893

e) Valuation adjustments

The main item recognised off the consolidated statement of profit or loss is the valuation adjustments made to available-for-sale assets to reflect the amount of capital gains net of tax. The amount of capital gains net of tax effect was € 44,632 thousand at 31 December 2020, € 37,179 thousand at 31 December 2019, € 14,570 thousand at 31 December 2018 and € 38,865 thousand at 31 December 2017.

f) Solvency

At the date of authorisation for issue of these consolidated financial statements, the Group'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 Group has implemented processes that are commensurate with the nature, scale and complexity of the risks inherent in its business and that enable it to properly identify and assess all existing or potential risks to which it may be exposed in the short and long run.

The directors do not expect to encounter any significant obstacles that might impede the Group'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 Group's operations. The Solvency and Financial Condition Report for 2020 was approved by the Group's directors on 23 March 2021.

18. Earnings per share

Basic:

Basic earnings per share are calculated by dividing the profit for the year attributable to owners of the Parent by the weighted average number of ordinary shares outstanding during the year, which, in this case, does not differ from the total number of issued shares as no own shares were acquired by the Parent in any year:

	2020	**2019**	**2018**	**2017**
Profit/(loss) for the year attributable to the owners of the Parent	134,846	107,295	117,211	111,979
Weighted average of common shares outstanding	2,400	2,400	2,400	2,400
Basic earnings per share (in euro)	**56.19**	**44.71**	**48.84**	**46.66**

As mentioned in Note 26), the Group's General Shareholders' Meeting approved a capital increase, charged to reserves, of € 6,025 thousand and a stock split from 2,400 thousand shares to 1,088,416.84

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

thousand shares. The effect of this split, in retrospective terms, would have yielded the following basic earnings per share:

	2020	2019	2018	2017
Profit/(loss) for the year attributable to the owners of the Parent	134,846	107,295	117,211	111,979
Weighted average of common shares outstanding	1,088,416.84	1,088,416.84	1,088,416.84	1,088,416.84
Basic earnings per share (in euro)	**0.12**	**0.10**	**0.11**	**0.10**

Diluted:

Diluted earnings per share are calculated by adjusting the profit for the year attributable to owners of the Parent and the weighted average number of ordinary shares outstanding for all dilutive potential ordinary shares.

The Parent has no potentially dilutive effects. Therefore, basic earnings per share match diluted earnings per share.

19. Segment information

Below is a breakdown of income and expenses by segment, as well as the profit/(loss) of the insurance business for the year by segment, this being a performance measure used by the Group's Management.

The breakdown of non-life insurance business income and expenses by segment, as well as the profit or loss for the year by segment, for the years ended 31 December 2020, 2019, 2018 and 2017 is as follows:

	2020				
	Motor	Home	Health	Other insurance businesses	Consolidated
Total premiums earned, net of reinsurance	752,605	111,546	12,020	2,006	878,177
Total investment income	71,327	3,452	1,790	44	76,613
Total claims incurred in the period, net of reinsurance	(465,382)	(63,678)	(10,712)	(292)	(540,064)
Profit sharing	-	-	-	(708)	(708)
Total net operating expenses	(159,468)	(40,873)	(8,920)	(342)	(209,603)
Other technical income and expenses	18,726	(311)	(278)	-	18,137
Total investment expenses	(47,244)	(103)	(11)	(2)	(47,360)
Income from the non-life insurance business account	**170,564**	**10,033**	**(6,111)**	**706**	**175,192**

	2019				
	Motor	Home	Health	Other insurance businesses	Consolidated
Total premiums earned, net of reinsurance	748,309	102,660	748	3,045	854,762
Total investment income	65,739	3,622	1,199	127	70,687
Total claims incurred in the period, net of reinsurance	(519,666)	(53,137)	(7,856)	(328)	(580,987)
Profit sharing	-	-	-	(724)	(724)
Total net operating expenses	(152,748)	(37,209)	(9,085)	(877)	(199,919)
Other technical income and expenses	30,638	33	(153)	-	30,518
Total investment expenses	(39,019)	(95)	-	(3)	(39,117)
Income from the non-life insurance business account	**133,253**	**15,874**	**(15,147)**	**1,240**	**135,220**

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

	2018				
	Motor	**Home**	**Health**	**Other insurance businesses**	**Consolidated**
Total premiums earned, net of reinsurance	718,521	92,406	2,147	3,215	816,289
Total investment income	47,766	3,694	405	156	52,021
Total claims incurred in the period, net of reinsurance	(476,725)	(48,215)	(2,866)	(223)	(528,029)
Profit sharing	-	-	-	(751)	(751)
Total net operating expenses	(154,001)	(35,037)	(6,083)	(1,055)	(196,176)
Other technical income and expenses	27,179	(460)	(240)	-	26,479
Total investment expenses	(18,448)	(96)	-	(3)	(18,547)
Income from the non-life insurance business account	**144,292**	**12,292**	**(6,637)**	**1,339**	**151,286**

	2017				
	Motor	**Home**	**Health**	**Other insurance businesses**	**Consolidated**
Total premiums earned, net of reinsurance	676,103	82,008	26	3,166	761,303
Total investment income	38,810	3,715	6	168	42,699
Total claims incurred in the period, net of reinsurance	(461,528)	(39,753)	(309)	(97)	(501,687)
Profit sharing	-	-	-	(379)	(379)
Total net operating expenses	(138,857)	(28,931)	(3,452)	(1,112)	(172,352)
Other technical income and expenses	25,618	(460)	(240)	-	24,918
Total investment expenses	(7,456)	(170)	-	(7)	(7,633)
Income from the non-life insurance business account	**132,690**	**16,409**	**(3,969)**	**1,739**	**146,869**

As a result of the COVID-19 crisis and the state of alarm imposed by the Spanish government, which confined the population to their homes from March to June, claims incurred dropped significantly in the Motor segment, as the use of cars saw a notable reduction. Conversely, there was an increase in the number of claims in the Home segment, again due to these measures, because policyholders were spending more time at home.

Given the type of products marketed by the Group and the segments in which it operates, there are no individual customers that can be considered significant in terms of concentration of ordinary revenues.

The amount of Other income and expenses in the statement of profit or loss for other activities, for the years ended 31 December 2020, 2019, 2018 and 2017, is as follows:

	2020	**2019**	**2018**	**2017**
Other income	10,750	14,511	14,073	14,879
Other expenses	(6,318)	(6,894)	(9,396)	(9,774)
Profit/(loss) from other activities	**4,432**	**7,617**	**4,677**	**5,105**

Details of "Other income" are shown in Note 22.

The breakdown of investment income and expenses of the consolidated non-life insurance business by segment for the years ended 31 December 2020, 2019, 2018 and 2017 is as follows:

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

	2020				
	Motor	**Home**	**Health**	**Other insurance businesses**	**Consolidated**
Income from investments in property, plant and equipment	3,548	509	55	9	4,121
Income from financial investments	30,837	2,943	1,735	35	35,550
Application of value adjustments for investments	23	-	-	-	23
On investments in property, plant and equipment	23	-	-	-	23
Gains/(losses) on realisation of investments	36,919	-	-	-	36,919
On investments in property, plant and equipment	1	-	-	-	1
Financial investments	36,918	-	-	-	36,918
Total investment income	**71,327**	**3,452**	**1,790**	**44**	**76,613**
Investment management expenses	(7,537)	(99)	(11)	(2)	(7,649)
Expenses from managing investments in property, plant and equipment	(2,515)	(99)	(11)	(2)	(2,627)
Expenses from managing financial investments	(5,022)	-	-	-	(5,022)
Investment valuation adjustments	(878)	-	-	-	(878)
Depreciation of investments in property, plant and equipment	(27)	-	-	-	(27)
From provisions for financial investments	(851)	-	-	-	(851)
Losses on investments	(38,829)	(4)	-	-	(38,833)
Losses on investments in property, plant and equipment	(538)	(4)	-	-	(542)
Losses on financial investments	(38,291)	-	-	-	(38,291)
Total investment expenses	**(47,244)**	**(103)**	**(11)**	**(2)**	**(47,360)**

	2019				
	Motor	**Home**	**Health**	**Other insurance businesses**	**Consolidated**
Income from investments in property, plant and equipment	3,696	491	4	15	4,206
Income from financial investments	27,264	3,106	1,195	111	31,676
Application of value adjustments for investments	1,180	-	-	-	1,180
On investments in property, plant and equipment	1,180	-	-	-	1,180
Gains/(losses) on realisation of investments	33,599	25	-	1	33,625
On investments in property, plant and equipment	186	25	-	1	212
Financial investments	33,413	-	-	-	33,413
Total investment income	**65,739**	**3,622**	**1,199**	**127**	**70,687**
Investment management expenses	(7,172)	(95)	-	(3)	(7,270)
Expenses from managing investments in property, plant and equipment	(2,186)	(95)	-	(3)	(2,284)
Expenses from managing financial investments	(4,986)	-	-	-	(4,986)
Investment valuation adjustments	(28)	-	-	-	(28)
Depreciation of investments in property, plant and equipment	(28)	-	-	-	(28)
Losses on investments	(31,819)	-	-	-	(31,819)
Losses on investments in property, plant and equipment	(6)	-	-	-	(6)
Losses on financial investments	(31,813)	-	-	-	(31,813)
Total investment expenses	**(39,019)**	**(95)**	**-**	**(3)**	**(39,117)**

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

	2018				
	Motor	**Home**	**Health**	**Other insurance businesses**	**Consolidated**
Income from investments in property, plant and equipment	3,986	499	12	17	4,514
Income from financial investments	27,929	3,032	389	133	31,483
Gains/(losses) on realisation of investments	15,851	163	4	6	16,024
On investments in property, plant and equipment	1,270	163	4	6	1,443
Financial investments	14,581	-	-	-	14,581
Total investment income	**47,766**	**3,694**	**405**	**156**	**52,021**
Investment management expenses	(7,557)	(96)	-	(3)	(7,656)
Expenses from managing investments in property, plant and equipment	(2,018)	(96)	-	(3)	(2,117)
Expenses from managing financial investments	(5,539)	-	-	-	(5,539)
Investment valuation adjustments	(27)	-	-	-	(27)
Depreciation of investments in property, plant and equipment	(27)	-	-	-	(27)
Losses on investments	(10,864)	-	-	-	(10,864)
Losses on investments in property, plant and equipment	(2)	-	-	-	(2)
Losses on financial investments	(10,862)	-	-	-	(10,862)
Total investment expenses	**(18,448)**	**(96)**	**-**	**(3)**	**(18,547)**

	2017				
	Motor	**Home**	**Health**	**Other insurance businesses**	**Consolidated**
Income from investments in property, plant and equipment	3,917	462	-	18	4,397
Income from financial investments	28,769	3,193	6	148	32,116
Application of value adjustments for investments	887	40	-	2	929
On investments in property, plant and equipment	887	40	-	2	929
Gains/(losses) on realisation of investments	5,257	-	-	-	5,257
On investments in property, plant and equipment	2	-	-	-	2
Financial investments	5,255	-	-	-	5,255
Total investment income	**38,830**	**3,695**	**6**	**168**	**42,699**
Investment management expenses	(5,830)	(170)	-	(7)	(6,007)
Expenses from managing investments in property, plant and equipment	(1,222)	(91)	-	(4)	(1,317)
Expenses from managing financial investments	(4,608)	(79)	-	(3)	(4,690)
Investment valuation adjustments	(1,059)	-	-	-	(1,059)
Depreciation of investments in property, plant and equipment	(849)	-	-	-	(849)
From provisions for financial investments	(210)	-	-	-	(210)
Losses on investments	(567)	-	-	-	(567)
Losses on financial investments	(567)	-	-	-	(567)
Total investment expenses	**(7,456)**	**(170)**	**-**	**(7)**	**(7,633)**

20. Reinsurance activities

The results of ceded and retroceded reinsurance activities for financial years 2020, 2019, 2018 and 2017 are as follows:

	2020	**2019**	**2018**	**2017**
Premiums from ceded reinsurance	(20,675)	(14,920)	(11,813)	(6,789)
Change in the provision for unearned premiums, reinsurers' share	1,029	(59)	1,560	322
Claims paid, reinsurance share	6,667	5,318	1,257	78
Change in the provision for claims, reinsurance share	1,931	2,258	39	1,569
Reinsurance commission and profit participation	3,832	3,784	3,878	1,605
Profit/(loss) from ceded and retroceded reinsurance	**(7,216)**	**(3,619)**	**(5,079)**	**(3,215)**

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

21. Other operating expenses

Below is a breakdown of net operating expenses by purpose and nature for 2020, 2019, 2018 and 2017:

Operating expenses by purpose:

	2020	2019	2018	2017
Operating expenses by purpose				
Claims-related expenses	(111,859)	(111,461)	(102,639)	(93,679)
Acquisition expenses	(186,745)	(180,474)	(178,999)	(155,274)
Administration expenses	(26,690)	(23,229)	(21,055)	(18,683)
Investment expenses	(7,649)	(7,270)	(7,656)	(6,007)
Other technical expenses	(5,456)	(3,501)	(6,186)	(6,654)
Other non-technical expenses	(6,318)	(6,894)	(9,396)	(9,774)
Total operating expenses by purpose	**(344,717)**	**(332,829)**	**(325,931)**	**(290,071)**

Operating expenses by type:

	2020	2019	2018	2017
Operating expenses by type				
Fees and other portfolio expenses	(42,128)	(49,323)	(51,944)	(43,020)
Staff expenses (Note 25 b))	(117,314)	(113,664)	(105,929)	(96,203)
External services	(155,447)	(152,533)	(149,936)	(135,066)
Leases (Note 10 b))	(97)	(144)	(105)	(110)
Repair and maintenance work (premises and properties)	(2,349)	(2,089)	(1,969)	(1,861)
Other IT services	(29,183)	(23,931)	(23,219)	(19,653)
Utilities and supplies	(3,638)	(1,466)	(1,165)	(1,786)
Advertising and publicity	(45,906)	(45,995)	(45,260)	(39,295)
Public relations	(394)	(412)	(196)	(255)
Independent professional services	(575)	(689)	(611)	(1,403)
Other services	(73,305)	(77,807)	(77,411)	(70,703)
Taxes	(656)	(738)	(566)	(536)
Depreciation and amortisation (Notes 9, 10 a) and 11)	(7,073)	(10,954)	(10,717)	(10,613)
Expenses recognised directly to purpose	(22,099)	(5,617)	(6,839)	(4,633)
Total operating expenses by type	**(344,717)**	**(332,829)**	**(325,931)**	**(290,071)**

Each expenditure heading in the above table corresponds to the corresponding expenditure type as per its description. “Other services” shows expenses incurred by subsidiaries for services associated with claims incurred in the policy portfolio of the Group’s parent, such as services rendered by crane drivers and vehicle inspectors, which are allocated to “Claims-related expenses” on the statement of profit or loss of the Group’s non-life insurance business.

The statement of profit or loss shows expenses by purpose, i.e. on the basis of their function in the operating cycle of the insurance business (expenses attributable to claims, acquisition of insurance contracts, administrative activities, investments or other technical items).

Expenses are initially recognised by type, and are then reclassified to purpose if their purpose does not coincide with their type. The reclassification made under the following headings is shown below:

1) Claims-related expenses. Shows the expenses of claims handling staff, depreciation of fixed assets assigned to claims management, fees paid for claims management and expenses incurred for other services necessary for claims handling.

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

2) Net operating expenses. This heading includes:

    - Acquisition expenses. Showing fees and commissions, production staff costs, depreciation of fixed assets assigned to this activity, costs of studying and processing applications and drawing up policies, as well as advertising, propaganda and commercial organisation costs directly related to the acquisition of insurance contracts.
    - Administration expenses. These mainly include the costs of staff engaged in these functions and depreciation of the fixed assets assigned to this activity, as well as costs of litigation related to premiums and costs of handling claims and of ceded and accepted reinsurance.

3) Investment costs. These include the costs of investment management staff, depreciation of fixed assets assigned to this activity and other internal and external investment management expenses, the latter including fees, commissions and brokerage fees accrued.

4) Other technical expenses are those belonging to the statement of profit or loss for the non-life insurance business that cannot be allocated to one of the above-mentioned purposes. They are mainly general management expenses.

22. Other income

Details of other income in the statement of profit or loss for other activities is as follows:

	2020	2019	2018	2017
Other income from other activities				
Intermediation income from credit cards and other insurers' policies	655	907	1,565	2,062
Commission payment for Insurance Compensation Consortium	563	537	534	511
Income from bank branch management	858	1,110	1,008	914
Income from management expenses passed on	928	902	3,089	4,034
Income from commercial agreements with Bankinter	1,291	1,765	1,015	1,115
Reclassified non-technical income	6,455	9,290	6,862	6,243
Total Other income from other activities	**10,750**	**14,511**	**14,073**	**14,879**

The sub-heading "Non-technical income reclassified" shows income from Subsidiaries that is not eliminated upon consolidation, as well as other ancillary insurance income. "Reclassified non-technical expenses" shows the expenses associated with this income.

23. Pension commitments

a) Defined contribution

Under the terms of the collective bargaining agreement for the industry, the Group is required to take out a collective life insurance policy for all of its employees. This policy has been externalised in the form of a life risk insurance policy renewable annually. This insurance policy generated staff expenses for the premiums paid of € 448 thousand in 2020, € 265 thousand in 2019, € 329 thousand in 2018 and € 321 thousand in 2017.

The collective bargaining agreement also imposes a savings and pension insurance obligation. For employees hired on or after 1 January 2017 and those who have voluntarily opted to transfer to this new system (approximately 95% of the total workforce), the Group has externalised the obligations by arranging a new insurance contract as an alternative to the existing defined benefit policy. This new contract is for a defined contribution policy covering more contingencies than the old system. The initial effective date of the commitments under the new policy is 1 January 2018 for all staff members concerned.

To ensure the effective transfer of the mathematical reserve set up for this group under the old plan, this reserve was surrendered and a premium covering the value of this reserve was then contributed to the new defined contribution policy. This insurance resulted in staff costs for the premiums contributed of € 3,088 thousand in 2020, € 609 thousand in 2019, € 439 thousand in 2018 and no premiums in 2017, along with a mathematical provision of € 4,139 thousand at 31 December 2020 and of € 609 thousand at 31 December 2019 (no mathematical provision at 31 December 2018 or 31 December 2017).

The mobilisation of the rights of employees who have decided to adhere to the new system became effective in 2020.

No policy surrenders took place in 2020, 2019, 2018 or 2017. The premiums for 2020 and 2019 were paid in full in December 2020.
The Group also has a collective insurance policy in effect to formalise its retirement pension commitments with certain members of Senior Management. These defined contribution policies are also externalised and regular contributions are made for the different members of the group. In 2020, this policy accrued premiums of € 1,420 thousand and a mathematical provision of € 10,299 thousand at year-end. In 2019, this policy accrued premiums of € 1,031 thousand and a mathematical provision of € 8,287 thousand at year-end. In 2018, this policy accrued premiums of € 1,298 thousand and its mathematical provision at year-end was € 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 Group and are made at the discretion of the Board of Directors.

The Group also has a defined contribution savings and retirement insurance policy in effect for members of Senior Management. This policy accrued premiums of € 111 thousand in 2020 and its mathematical provision at year-end came to € 489 thousand. In 2019, the policy accrued premiums of € 93 thousand and its mathematical provision at year-end was € 371 thousand. In 2018, the policy accrued premiums of € 82 thousand and its mathematical provision at year-end was € 273 thousand. In 2017, the policy accrued premiums of € 67 thousand and its mathematical provision at year-end was € 187 thousand.

b) Defined benefit

For those employees hired prior to 1 January 2017 and who have decided not to migrate to the new system under the collective agreement, there is an obligation to pay a retirement bonus that will only be collected if the employee retires at the corresponding ordinary age at any given time and does so while in the entity's active employ. This obligation is externalised in the form of a matching policy and therefore the Group does not recognise any provision in its consolidated financial statements.

In 2020, 2019, 2018 and 2017, the Company made contributions only for those employees hired prior to 1 January 2017 and who chose not to avail themselves of the new system, with total premium payments of € 35 thousand, € 14 thousand, € 61 thousand and € 278 thousand, respectively.

The present value of the commitments assumed by the entity for post-employment benefits came to € 180 thousand at 31 December 2020, € 2,828 thousand at 31 December 2019, € 2,726 thousand at 31 December 2018 and € 2,698 thousand at 31 December 2017. These amounts include the outstanding mobilisation rights of employees who decided to join the new plan as of 1 January 2018. There were no policy surrenders in 2020 or 2019, with surrenders totalling € 8 thousand in 2018 and € 90 thousand in 2017.

In financial year 2020, the Company mobilised the rights of employees who decided to avail themselves of the new plan as of 1 January 2018, for the amount of € 3,684 thousand.

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

Defined benefit pension obligations are externalised through group life insurance contracts, which allocates investments whose flows coincide in both time and amount with the amounts and timing of the insured benefits.

The present value of the commitments has been determined by independent qualified actuaries, who have applied the following actuarial assumptions for their quantification:

Actuarial assumptions	2020	2019	2018	2017
Technical interest rate	Based on year in which premium is issued	Based on year in which premium is issued	Based on year in which premium is issued	Based on year in which premium is issued
Mortality tables	GR95 for the initial segment. For new hires from 2005: PERMF 2000	GR95 for the initial segment. For new hires from 2005: PERMF 2000	GR95 for the initial segment. For new hires from 2005: PERMF 2000	GR95 for the initial segment. For new hires from 2005: PERMF 2000
Annual wage growth rate	1.50%	1.50%	1.50%	1.50%

At 31 December 2020, 2019, 2018 and 2017, there were no accrued contributions outstanding.

24. Related party transactions

a) Direct insurance transactions

Direct insurance transactions are as follows:

<u>Insurance brokerage fees:</u>

In 2020, insurance brokerage fees payable to Bankinter S.A. totalled € 5,355 thousand (€ 5,192 thousand in 2019, € 4,663 thousand in 2018 and € 4,085 thousand in 2017), while no brokerage fees were payable to Bankinter S.A., Sucursal en Portugal (€ 3 thousand in 2019, € 2 thousand in 2018 and € 0 thousand in 2017), as shown below:

	2020	2019	2018	2017
Bankinter, S.A.	5,355	5,192	4,663	4,085
Bankinter, S.A. Sucursal en Portugal	-	3	2	-
Total	**5,355**	**5,195**	**4,665**	**4,085**

<u>Issuance of insurance premiums:</u>

In 2020, a total of € 398 in insurance premiums was issued to Bankinter S.A. (€ 273 thousand in 2019, € 231 thousand in 2018 and € 207 thousand in 2017); € 847 thousand was issued to Bankinter Consumer Finance, E.F.C, S.A. (€ 1,018 thousand in 2019, € 977 thousand in 2018 and € 0 thousand in 2017); and € 44 thousand was issued to Bankinter S.A., Sucursal en Portugal (€ 32 thousand in 2019, € 16 thousand in 2018 and € 0 thousand in 2017):

	2020	2019	2018	2017
Bankinter, S.A.	398	273	231	207
Bankinter Consumer Finance, E.F.C, S.A	847	1,018	997	-
Bankinter, S.A. Sucursal en Portugal	44	32	16	-
Total	**1,289**	**1,323**	**1,244**	**207**

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

b) Transactions due to services rendered and received

	Expenses		Income	
Services rendered and received	**Services received**	**Interest and financial services**	**Services rendered**	**Finance income and leases**
2020				
Bankinter, S.A.	1,059	285	-	408
Bankinter Consumer Finance, E.F.C, S.A	464	-	2,826	-
Bankinter, S.A. Sucursal en Portugal	14	-	-	-
2019				
Bankinter, S.A.	857	341	-	469
Bankinter Consumer Finance, E.F.C, S.A	673	-	3,770	-
Bankinter, S.A. Sucursal en Portugal	13	-	-	-
2018				
Bankinter, S.A.	951	355	-	134
Bankinter Consumer Finance, E.F.C, S.A	616	-	5,207	-
2017				
Bankinter, S.A.	676	1,088	107	22
Bankinter Consumer Finance, E.F.C, S.A	351	-	5,441	-

The transactions shown in the above table are of a non-insurance nature and are carried out with Bankinter S.A. and Bankinter Consumer Finance, E.F.C, S.A. The resulting income relates largely to partnership agreements for the marketing and issuance of “Affinity” cards and for offering policyholders of Línea Directa Aseguradora financial products and services tailored to the customer profile. Meanwhile, the expenses relate mainly to financial services, such as fees and commissions for managing receipts and for collecting card-based payments of insurance policy receipts.

No interim dividends were declared for 2020, as described in Note 17 c). Interim dividends of € 93,048 thousand were declared in 2019, compared to € 94,544 thousand in 2018 and € 99,649 thousand in 2017, in addition to extraordinary dividends charged to reserves of € 14,424 thousand.

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

c) Balances with related parties on the consolidated balance sheet

The following table shows the related party headings of the consolidated balance sheets at 31 December 2020, 2019, 2018 and 2017.

		Parent company – Bankinter, S.A.			
	Note	**2020**	**2019**	**2018**	**2017**
Assets					
Available-for-sale financial assets					
Equity instruments	8 a)	11,059	10,400	10,300	5,000
Fixed-income securities	8 a)	3,316	3,241	3,039	5,015
Cash and cash equivalents					
Cash and cash equivalents	7	68,946	62,843	49,680	39,580
Other receivables					
Other receivables	8 a)	1	120	126	204
Other assets					
Accruals		34	36	37	141
Total asset balances		**83,356**	**76,640**	**63,182**	**49,940**
Liabilities					
Due to group companies and associates	8 b)	208	32,291	44,342	28,008
Total liability balances		**208**	**32,291**	**44,342**	**28,008**

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

		Group company – Bankinter Consumer Finance EFC SA			
	Note	**2020**	**2019**	**2018**	**2017**
Other receivables					
Other receivables	8 a)	753	1,401	1,585	2,004
Total asset balances		**753**	**1,401**	**1,585**	**2,004**
Liabilities					
Due to group companies and associates	8 b)	631	664	540	385
Total liability balances		**631**	**664**	**540**	**385**

In 2020, the Group acquired 239,678 shares of Bankinter S.A. at an average price of € 3.12, with a par value of € 747 thousand. These shares have been recognised as equity instruments at fair value for € 1,059 thousand under available-for-sale financial instruments (Note 8 a) i)).

d) Remuneration and other benefits of the Board of Directors

Remuneration received by the Group's directors and Senior Management amounted to € 82 thousand and € 4,337 thousand, respectively, in 2020; € 86 thousand and € 8,724 thousand, respectively, in 2019; € 101 thousand and € 4,443 thousand, respectively, in 2018, and € 112 thousand and € 3,797 thousand, respectively in 2017, as shown below:

2020:

	Fixed salary	**Variable salary**	**Remuneration in kind**	**Per diems/allowances**	**Total**
Senior Management	3,068	1,048	221	-	4,337
Directors	-	-	-	82	82
Total	**3,068**	**1,048**	**221**	**82**	**4,419**

2019:

	Fixed salary	**Variable salary**	**Remuneration in kind**	**Per diems/allowances**	**Total**
Senior Management	2,985	5,530	209	-	8,724
Directors	-	-	-	86	86
Total	**2,985**	**5,530**	**209**	**86**	**8,810**

2018:

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

2017:

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

The variable salary received in 2019 included, in addition to the annual variable salary, the payment under the 2016-2018 Three-Year Plan, which was delivered in cash in 2019.

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

The Group has a group insurance policy in effect to cover its retirement pension commitments with certain members of Senior Management. For these purposes, Senior Management means the heads of the different business areas of the Group. These defined contribution policies are also externalised and regular contributions are made for the different members of the group (Note 23). This policy entailed premium payments of € 1,420 thousand and no surrenders in 2020; premium payments of € 1,031 thousand and no surrenders in 2019; premium payments of € 1,298 thousand and no surrenders in 2018; and premium payments of € 350 thousand and no surrenders in 2017. The mathematical pension provision for members of Senior Management amounted to € 10,299 thousand at 31 December 2020, € 8,287 thousand at 31 December 2019, € 6,206 thousand at 31 December 2018 and € 5,055 thousand at 31 December 2017 and is externalised (Note 23).

The Group also has a defined contribution pension plan in effect for members of Senior Management in the form of a savings policy. This policy accrued premium payments of € 111 thousand and a year-end mathematical provision of € 489 thousand in 2020; € 93 thousand in premium payments and a year-end mathematical provision of € 371 thousand in 2019; € 82 thousand in premium payments and a year-end mathematical provision of € 273 thousand in 2018; and € 67 thousand in premium payments and a year-end mathematical provision of € 187 thousand in 2017.

The Group paid € 13 thousand in 2020, € 5 thousand in 2019, € 8 thousand in 2018 and € 8 thousand in 2017 in third-party liability insurance premiums, with these policies covering members of Senior Management and other decision-makers at the Group.

25. Other information

a) Guarantees with third parties

The amount of guarantees committed to third parties amounted to € 2,204 thousand at 31 December 2020, mainly corresponding to a guarantee facility for investment in advertising. This figure was € 2,338 thousand at 31 December 2019, € 1,955 thousand at 31 December 2018 and € 1,604 thousand at 31 December 2017. In addition, a total of € 494 thousand was pledged under a guarantee facility for court deposits on claims at 31 December 2020, with this figure totalling € 1,637 thousand at 31 December 2019, € 3,441 thousand at 31 December 2018 and € 4,234 thousand at 31 December 2017. The Group had posted a total of € 97 thousand in guarantees on office leases at 31 December 2020, € 97 thousand at 31 December 2019, € 83 thousand at 31 December 2018 and € 95 thousand at 31 December 2017, all expiring at the end of the year.

b) Staff expenses and average number of employees

The breakdown of staff expenses in 2020, 2019, 2018 and 2017 is as follows:

	2020	2019	2018	2017
Wages and salaries	87,952	85,864	80,425	73,582
Termination benefits	872	1,757	1,562	1,222
Social security contributions and others	28,490	26,043	23,942	21,399
Total personnel expenses	**117,314**	**113,664**	**105,929**	**96,203**

The average number of Group employees on the payroll in 2020, 2019, 2018 and 2017, broken down by job category, is as follows:

	2020			2019			2018			2017		
	Total	Women	Men	Total	Women	Men	Total	Women	Men	Total	Women	Men
Managers	54	26	28	55	26	29	59	26	33	51	21	30
Middle managers	168	80	88	160	74	86	159	79	80	167	81	86
Senior sales reps/technicians	237	123	114	242	130	112	251	130	121	190	109	81
Sales reps/technicians	678	338	340	657	322	335	593	297	296	538	296	242
Staff	1,371	855	516	1,285	806	479	1,211	782	429	1,248	784	464
Total	**2,508**	**1,422**	**1,086**	**2,399**	**1,358**	**1,041**	**2,273**	**1,314**	**959**	**2,194**	**1,291**	**903**

Notes to the consolidated financial statements for the years ended 31 December 2020, 2019 and 2018 (in thousand euro)

Meanwhile, the distribution by gender of the Company's employees and directors, broken down by category and gender, was as follows at 31 December 2020, 2019, 2018 and 2017:

	2020			2019			2018			2017		
	Total	Women	Men	Total	Women	Men	Total	Women	Men	Total	Women	Men
Directors	9	1	8	9	1	8	9	2	7	9	2	7
Managers	46	24	22	55	26	29	58	25	33	50	21	29
Middle managers	155	72	83	160	75	85	162	81	81	165	80	85
Senior sales reps/technicians	219	107	112	241	129	112	255	129	126	187	108	79
Sales reps/technicians	766	407	359	660	325	335	614	296	318	540	298	242
Staff	1,375	856	519	1,337	826	511	1,267	815	452	1,158	729	429
Total	**2,570**	**1,467**	**1,103**	**2,462**	**1,382**	**1,080**	**2,365**	**1,348**	**1,017**	**2,109**	**1,238**	**871**

The average number of employees with a degree of disability greater than or equal to 33% was 40 in 2020, 38 in 2019, 34 in 2018 and 32 in 2017.

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

The Group did not make any investments or incur any expenses in relation to environmental protection activities in 2020, 2019, 2018 or 2017.

The Group's directors consider that no significant contingencies exist when it comes to the environmental protection and improvement and did not consider it necessary to post any provision for environmental risks and expenses at 31 December 2020, 2019, 2018 or 2017.

No amount has been allocated to these items, nor was there any changes in expenses or provisions in 2020, 2019, 2018, or 2017, and nor were any forward contracts signed or grants received in relation to greenhouse gas emission allowances.

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

At the end of 2020, 2019, 2018 and 2017, none of the Group'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 Group's own interests.

e) 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 Group, guided by the principles of impartiality, speed, economy, publicity, due process and efficiency, and acting with total autonomy in respect of the Group'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 2020, a total of 7,717 cases were handled, 8.62% of which qualified as complaints (665 cases) and 91.38% as claims (7,052 cases). Of this total, 28.75% related to policy quotes and management, 61.32% to accident management and the remaining 9.93% mainly to roadside assistance services and the share price.

In 2019, a total of 7,663 cases were handled, 16.51% of which qualified as complaints (1,265 cases) and 83.49% as claims (6,398 cases). Of the total, 32.27% related to policy quotes and management, 58.27% to accident management and the remaining 9.46% mainly to roadside assistance services and the share price.

In 2018, a total of 11,947 cases were handled, 16.12% of which qualified as complaints (1,926 cases) and 83.88% as claims (10,021 cases). Of the total, 24.77% related to policy quotes and management, 66.51% to accident management and the remaining 4.03% mainly to roadside assistance services and the share price.

In 2017, a total of 4,014 cases were handled, 26.63% of which qualified as complaints (1,069 cases) and 73.37% as claims (2,945 cases). Of the total, 44.79% related to policy quotes and management, 48.16% to accident management and the remaining 4.03% mainly to roadside assistance services and the share price.

The breakdown by type of case managed by the Group in 2020, 2019, 2018 and 2017 is as follows:

	2020		2019		2018		2017	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Complaints	665	9%	1,265	17%	1,926	16%	1,069	27%
Claims	7,052	91%	6,398	83%	10,021	84%	2,945	73%
Total cases handled	**7,717**	**100%**	**7,663**	**100%**	**11,947**	**100%**	**4,014**	**100%**

The breakdown by department of the cases generated by the Group in 2020, 2019, 2018 and 2017 is as follows:

	2020		2019		2018		2017	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Quotations and policy management	2,219	29%	2,473	32%	2,959	25%	1,933	48%
Accident management	4,732	61%	4,465	58%	7,947	67%	1,933	48%
Roadside assistance service	766	10%	725	9%	481	4%	148	4%
Other	-	0%	-	0%	560	5%	-	0%
Total cases handled	**7,717**	**100%**	**7,663**	**100%**	**11,947**	**100%**	**4,014**	**100%**

The main issues raised by customers are as follows:

1. Policy cancellation, in relation to processing and reimbursement of unearned premiums.
2. Rejection of damage claim following expert inspection.
3. Delays in handling cases, carrying out appraisals and valuations and repairing damage.
4. Requests to review the premium.

Of the total number of complaints and claims received in 2020, 30.92% concerned complaints (33.76%, 23.05% and 30.92% in 2019, 2018 and 2017, respectively). In addition, 66.37% (5,121 complaints) were resolved in favour of the customer in 2020. This percentage includes well-founded complaints and other grievances in which exceptional measures were applied to retain customers with a suitable risk profile (68.42%, 45% and 66.49% in 2019, 2018 and 2017, respectively).

Meanwhile, a total of 1,045 cases were heard and resolved by the Consumer Ombudsman in 2020, with this figure standing at 491 cases in 2019, 920 in 2018 and 1,153 in 2017.

f) Average supplier payment period

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

	2020	2019	2018	2017
	Days	**Days**	**Days**	**Days**
Average supplier payment period*	24.27	24.12	23.73	27.22
Ratio of transactions paid*	22.86	24.12	23.63	27.32
Ratio of transactions outstanding*	61.56	24.00	27.89	24.65
	Amount (in thousand euro)	**Amount (in thousand euro)**	**Amount (in thousand euro)**	**Amount (in thousand euro)**
Total payments made	304,372	327,812	301,607	264,095
Total payments outstanding	11,489	14,543	8,155	3,601

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

The data shown in the table above on the average payment period to suppliers relate to trade payables on debts with suppliers of goods and services, excluding payments of claims in 2020, 2019, 2018 and 2017.

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 close date of the consolidated financial statements), and the denominator is the total amount of payments pending.

26. Events after the reporting period

a) Capital increase and new number of shares of the Parent

On 18 March 2021, the General Shareholders' Meeting of the Parent passed the following resolutions in unison:

i. To modify the number of shares into which the Company's share capital is divided, such that the resulting share capital is divided into a total of ONE BILLION, EIGHTY-EIGHT MILLION FOUR HUNDRED AND SIXTEEN THOUSAND EIGHT HUNDRED AND FORTY (1,088,416,840) shares

ii. Pursuant to Article 296 of the Corporate Enterprises Act, to increase the Company's share capital in the amount of SIX MILLION TWENTY-FOUR THOUSAND SIX HUNDRED AND SEVENTY-THREE EURO AND SIXTY CENTS (€ 6,024,673.60), to be charged to voluntary and unrestricted reserves, on the basis of the consolidated financial statements for the period ended 31 December 2020, as duly audited and approved by shareholders at the general meeting under Resolution 1. As a result, the Company's share capital will rise from its current amount to FORTY THREE MILLION FIVE HUNDRED AND THIRTY-SIX THOUSAND SIX HUNDRED AND SEVENTY-THREE EURO AND SIXTY CENTS (€ 43,536,673.60), all this to be achieved by raising the nominal value of the shares by € 0,005535263126 per share (taking into account also the new number of shares approved at the same time as this capital increase under the terms of the preceding paragraph, thus yielding a total of 1,088,416,840 shares, with a par value of € 0.04 each); in accordance with Article 303 of the Corporate Enterprises Act, the financial statements have been audited by PricewaterhouseCoopers, S.L.

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The Parent's existing 2,400,000 registered shares with a par value of € 15.63 each will therefore increase to 1,088,416,840 shares with a par value of € 0.04 each.

Name of shareholder	Amount of voluntary reserve to be netted	Shares that increase in par value	Numbering (both inclusive)			Final par value per share
Bankinter, S.A.	6,024,671.09 €	1,088,416,386.00 €	1	a	1,088,416,386	0.04 €
Hispamarket, S.A.	2.51 €	454.00 €	1,088,416,386	a	1,088,416,840	0.04 €
	6,024,673.60 €	1,088,416,840.00 €	-	a	-	

b) Initial public offering of the shares of the Parent

As mentioned in Note 1, the Annual General Meeting of Bankinter S.A. held on 19 March 2020 resolved to distribute in kind the entire share premium (amounting to € 1,184 million) by delivering 82.6% of the share capital of Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros to its shareholders, with the bank retaining a non-controlling financial stake of 17.4% in the Company.

The Transaction was cleared on 22 March 2021 by the European Central Bank and by the Spanish Directorate General for Insurance and Pension Funds. According to the agreed timetable, on 30 April 2021 the shares of the Parent will be delivered as a dividend in kind to Bankinter shareholders, subject to an exchange ratio of one share for every one Bankinter share. Trading in the shares on the continuous market of the Spanish stock exchange is expected to commence on or around 3 May 2021.

c) Planned extraordinary dividend

Prior to the admission to trading of the Parent's shares, the General Shareholders' Meeting plans to approve an extraordinary dividend of € 120 million payable to Bankinter.

The proposed decision to distribute dividends is based on a thorough and reflective analysis of the Company's situation and does not compromise the Company's future solvency -as discussed in Note 4 q) of these consolidated financial statements- its ability to protect the interests of policyholders and insured persons. Rather, the decision has been reached further to the supervisors' recommendations on this matter.

The Management Centre attached to the Directorate General for Insurance and Pension Funds analysed the proposal to distribute the extraordinary dividend and raised no objection to its implementation as it will have no material effect on the Company's future solvency or its ability to protect the rights and interests of policyholders.

d) Share-based remuneration programme

The Management Team, including the Group's Chief Executive Officer, will take part in a share-based variable remuneration plan following the admission to trading of the Línea Directa Aseguradora share on the continuous market.

This plan was approved by the Board of Directors and, in the specific case of the Chief Executive Officer, also by the General Shareholders' Meeting of the Parent on 18 March 2021. It describes matters relating to duration, the maximum number of shares that may be delivered to the Management Team and the Chief Executive Officer, the reference share price and other terms and conditions of the plan.

The plan is intended as a tool to motivate and retain the staff members at whom it is aimed.

The number of shares to be delivered to each of the 13 members of the plan will be obtained by dividing € 100,000 by the weighted average of the share price over the thirty trading days following the date on which the shares are admitted to trading.

The plan will have a term of three years and pursuant to the delivery schedule one third of the shares will be delivered at the end of each of the three years. Following each consignment of shares, the plan envisions a one year lock-out period during which the shares cannot be transferred.

The cost of the plan for each of the three share consignments will be charged on a straight-line basis. Thus, in year one the full cost of the first consignment, plus half the cost of the second consignment and one third of the cost of the third consignment will be accrued. In year two, half of the cost of the second consignment and one third of the cost of the third consignment shall accrue. In year three, one third of the cost of the third consignment will accrue. The accounting treatment of the plan shall be in accordance with IFRS 2 on share-based payments.

Business performance

The year 2020 was marked by the COVID-19 health crisis. The crisis was declared a pandemic by the WHO and its rapid spread, together with the measures aimed at containing and mitigating its effects, led to a widespread interruption of economic activity, which has had various impacts on the business. On 14 March 2020, the Spanish government decreed a State of Alarm, with the effect of limiting people's mobility until June. Soon after, we witnessed several border closures between municipalities and autonomous regions, which have continued to restrict mobility.

The Group has analysed the possible impacts that these global events relating to COVID-19 may have in terms of both operating results and solvency. On the operational front, the Group continued to operate and serve its customers as normal, thanks to the effective and efficient roll-out of its contingency plans within four days of the authorities declaring the state of alarm.

This extraordinary situation has led to lower commercial capacity in the production of new business, although this has been mitigated by improved retention in the customer portfolio. However, the potential negative effects on the Group's short-term revenues have been more than offset by the reduction in costs from claims incurred.

Despite the prevailing crisis environment affecting all sectors of the Spanish economy, the Group reported net reinsurance premiums of € 878 million in 2020, up 2.7% on the previous year.

The number of customers gained 3.3% on 2019 to reach 3.2 million.

Earnings on the Group's non-life insurance technical account shows a profit of € 175.19 million, up 29.56% on the profit reported in 2019. Claimed incurred, net of reinsurance came to 61.50% in 2020, versus 67.97% in 2019.

Premium turnover for the Home segment, which has been operating for 13 years now, totalled € 120.6 million in 2020, marking an increase of 8.47% on the previous year. The Other insurance segment contributed € 0.7 million to the result of the technical account in 2020. In September 2017, the Group launched the Vivaz brand to start operating in the health insurance segment. The Health segment generated premium income of € 21.8 million.

The average rate of return on fixed-income securities was 2.62%, while the return on the equity portfolio was 0.37%.

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

Outlook for 2021

Uncertainty over how the COVID-19 pandemic will pan out will remain present throughout 2021. The current climate should begin to normalise as we move through the year, leading to a stabilisation of business indicators. Therefore, COVID-19 will continue to impact our business performance in 2021, especially in the early stages of the year.

As for premium performance, a year of moderate growth is expected in the Motor segment, with certain pressure on average premiums and sales volumes due to the situation described above and the resulting macro landscape. In the Home insurance segment, more significant growth is expected in terms of volumes, with less pressure on average premiums. The Health segment will continue to grow, and we hope to maintain the same levels of growth as in previous years.

Regarding claims incurred (loss ratio), the first part of the year in the Motor segment is expected to be affected by the pandemic, which should keep the ratio in check. In the latter stages of the year, we could see similar ratios to those reported in previous years. In the Home segment, the weather will continue to be the factor shaping the loss ratio. Financial year 2019 was one such year in which this factor had a strong influence and a similar year is now expected. In health, we do not expect to see any major changes in the loss ratio.

Regarding average costs, we will continue to focus on efforts on efficiency in 2021.

The Group's overhead expenses will under close control when compared with 2020, and we do not expect to see significant increases except for technology-related expenses.

When it comes to financial investments, we will continue to operate within a near-zero interest rate environment. Therefore, our aim will be to maintain the levels reported a year earlier.

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

The Annual General Meeting of Bankinter S.A. held on 19 March 2020 resolved to distribute in kind the entire share premium (amounting to € 1,184 million) by delivering 82.6% of the share capital of Línea Directa Aseguradora, S.A. Compañía de Seguros y Reaseguros, the Group's Parent, to its shareholders, with the bank retaining a non-controlling financial stake of 17.4% in the Parent.

Following the approval of the Annual General Meeting, the requisite regulatory clearance was requested. Once this is obtained, the Parent's share premium will be apportioned accordingly, and its shares will be admitted to trading on the continuous market. This is expected to take place in the first half of 2021.

Information on deferred payments to suppliers

The Group settles payments to suppliers before the legal deadlines (30 days) and in certain specific cases as per the conditions explicitly agreed upon with the suppliers, without in any case exceeding 60 days. The average payment period to suppliers is 24.27 days.

Transactions with treasury shares

The Group does not engage in treasury share transactions.

Use of derivative financial instruments

At 31 December 2020, the Group had two Interest Rate Swaps (IRSs) in effect to hedge against interest rate rises over an initial period of 15 years (13 years at 31 December 2019). It has been confirmed that the hedge complies strictly with the effectiveness criteria for this type of financial instrument.

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

Events after the reporting date

No material event has taken place since the end of the 2020 financial year.

Research and development

The Group continued to engage in research and development activities in 2020, involving the development of advanced IT applications applied to motor insurance management.

Claims and Consumer Ombudsman

In accordance with Order ECO/734/2004 of 11 March, the Línea Directa Customer Service Department and the Consumer Ombudsman have drawn up reports to explain their activities and performance in 2020. These reports are summarised below:

a) Complaints and grievances – 2020

In 2020, a total of 7,717 incidents were handled (7,663 incidents in 2019), 665 (8.62%) of which qualified as complaints (1,265 (16.51%) complaints in 2019) and 7,052 (91.38%) as grievances (6,398 (83.49%) grievances in 2019). Of the total, 28.75% related to Policy quoting and management and 61.32% to Accident management, while the remaining 9.93% related mainly to the Roadside assistance service and the share price (2019: 32.27%, 58.27% and 9.46%, respectively).

Main issues raised by customers:

1. Policy cancellation, in relation to processing and reimbursement of unearned premiums.
2. Rejection of damage claim following expert inspection.
3. Delays in handling cases, carrying out appraisals and valuations and repairing damage.
4. Requests to review the premium.

Of the total complaints and grievances received in 2020, 30.92% of decisions were delivered in favour of the claimant (33.76% in 2019).

b) Consumer Ombudsman:

In 2020, a total of 1,045 cases were heard by the Consumer Ombudsman (491 cases in 2019). A decision was handed down against the insured claimants in 76% of these cases, which relate to the following main grievances:

- application/interpretation of insurance coverage; and
- valuation/compensation of claims.

The percentage of decisions delivered in favour of the policyholders was slightly down on the previous year, as 24.30% of decisions went with the policyholder in 2020, while in 2019 they were 31.61%.

In his report, the Consumer Ombudsman calls for prompter handling of claims so that, between LINEA DIRECTA and the Consumer Ombudsman, they can be resolved ahead of the maximum deadlines prescribed by applicable law and regulations on consumer affairs, pursuant to Royal Legislative Decree 1/2007, of 16 November. It is also suggested that LINEA DIRECTA itself monitor and verify its compliance with the decisions handed down in favour of the policyholder.

Other non-financial information

The Group is exempt from disclosing the non-financial information set out in Law 11/2018, of 28 December, as this information is included in a separate report, namely the Statement of Consolidated Non-Financial Information – 2020 of the Bankinter Group, of which the Línea Directa Aseguradora Group falls within the scope of consolidation.

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 23 March 2021 held virtually and in writing, and in compliance with the requirements set out in Article 253 of the Revised Text of the Corporate Enterprises Act (*Ley de Sociedades de Capital*) and Article 37 of the Commercial Code (*Código de Comercio*), drew up the consolidated financial statements of LINEA DIRECTA ASEGURADORA, S.A. COMPAÑÍA DE SEGUROS Y REASEGUROS AND SUBSIDIARIES for financial years 2020, 2019 and 2018, together with the consolidated management report for financial year 2020, comprising 126 pages (including this page), all of which have been approved by the Secretary of 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

María Ana María Plaza Arregui
Director

Statement to confirm that the above signatures correspond to those of all the members of the Board of Directors of the Parent, LINEA DIRECTA ASEGURADORA, S.A. COMPAÑÍA DE SEGUROS Y REASEGUROS, who, at the meeting held by the Board of Directors on 23 Marzo 2021, drew up and signed the consolidated financial statements for 2020, 2019 and 2018 and the consolidated management report for 2020 of LINEA DIRECTA ASEGURADORA, S.A. COMPAÑÍA DE SEGUROS Y REASEGUROS AND SUBSIDIARIES, in accordance with Article 253 of the Corporate Enterprises Act.

Pablo González-Schwitters Grimaldo
Secretary to the Board of Directors