

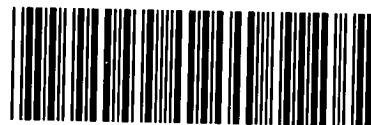
Company Registration No: 02568507

UK Assistance Accident Repair Centres Limited

Annual Report and Financial Statements

For the year ended 31 December 2016

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Company Secretariat
UK Assistance Accident Repair Centres Limited
Churchill Court
Westmoreland Road
Bromley
BR1 1DP

Annual report and financial statements

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Officers and professional advisers

Directors:

C Bradley
S R Forrester
S Maddock
P Nightingale
H C O' Murchu

Company Secretary:

R C Clifton

Registered office:

Churchill Court
Westmoreland Road
Bromley
BR1 1DP

Independent Auditor:

Deloitte LLP
2 New St Square
London
EC4A 3BZ

Company registration

Registered in England and Wales

Strategic report

For the year ended 31 December 2016

The Directors present their Strategic report for the year ended 31 December 2016.

Activities and business review

Activity

The principal activity of the Company continues to be the provision of motor vehicle repair services to the general insurance companies owned by Direct Line Insurance Group plc ("DLIG").

UK Assistance Accident Repair Centres Limited ("the Company") is a member of the Direct Line Group (the "Group") headed by DLIG of which the Company is a subsidiary.

The Group provides the Company with access to all Group central resources and provides policies in all key areas such as finance, risk, human resources and environment. Key performance indicators across the Direct Line Group taken as whole are referred to in DLIG Annual report and accounts 2016 and accordingly for an understanding of the development, performance or position of the Company's business, please refer to this document. Copies can be obtained from Direct Line Group Secretariat, Churchill Court, Westmoreland Road, Bromley, BR1 1DP, the Registrar of Companies or through the Group's website at www.directlinegroup.com.

Review of the year

Business review

The Directors are satisfied with the Company's performance during the year. The Company will take into account proposals provided from within the Group in seeking further opportunities for growth.

Financial performance

The Company's financial performance is presented in the statement of comprehensive income on page 7.

Revenue for the year ended 31 December 2016 was £153,076,000 (2015: £132,967,000), cost of sales were £92,154,000 (2015: £76,057,000) and administration expenses were £23,803,000 (2015: £21,271,000). Comprehensive income for the year was £29,880,000 (2015: £28,680,000).

An interim dividend of £25,000,000 was paid during the year ended 31 December 2016 (2015: £25,000,000). The Directors do not recommend the payment of a final dividend (2015: £nil).

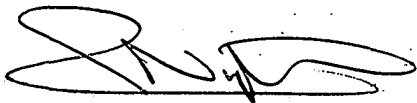
At the end of the year, the balance sheet reflected total assets of £68,576,000 (2015: £59,250,000) and equity of £41,033,000 (2015: £36,153,000).

Two new repair centres in Warwick and Peterborough were acquired by the Company during the year, which have been fully integrated into the repair centre network bringing the number of repair centres to 18 as at 31 December 2016 (2015: 16).

Principal risks and uncertainties

The Company's financial risk management objectives are set out in note 2 to these financial statements.

Approved by the Board of Directors and signed on behalf of the Board by:



P Nightingale

Director

12 June 2017

Directors' report

For the year ended 31 December 2016

The Directors present their Annual report and audited financial statements for the year ended 31 December 2016.

The Company has chosen, in accordance with section 414c(11) of the Companies Act 2006, to include certain additional matters in its Strategic report that would otherwise be required to be disclosed in this Directors' report.

Directors and Secretary

The present Directors and Company Secretary, who have served throughout the year except where noted below, are listed on page 1.

From 1 January 2016 to date there have been the following changes to Directors and Secretary:

Director	Appointed	Resigned
C Bradley	15 June 2016	
H C O'Murchu	15 June 2016	
C E Morton		17 June 2016

Going concern

Having made due enquiries, the Directors reasonably expect that the Company has adequate resources to continue in operational existence for at least 12 months from the date of approval of the financial statements. Accordingly, the Directors have adopted the going concern basis in preparing the financial statements.

Events since the balance sheet date

The Company completed the acquisition of an accident repair centre in Edinburgh on 17 January 2017 for a consideration of £1,055,000. The new location became part of the Company's network of accident and repair centres strategically located across the United Kingdom.

Employees

All staff are employed by a fellow subsidiary undertaking of DLIG, DL Insurance Services Limited ("DLIS"). Disclosure relating to employees can be found in the annual report and financial statements of DLIS.

Disclosure of information to the Auditor

Each person who was a Director of the Company on the date of approval of this report confirms that:

- so far as each Director is aware there is no relevant audit information of which the Company's Auditor is unaware; and
- each Director has taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Auditor is aware of that information.

This confirmation is given and shall be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditor

Deloitte LLP has expressed its willingness to continue in office as Auditor and it is the intention of the Directors to reappoint Deloitte LLP under the deemed appointment rules of section 487 of the Companies Act 2006.

Directors' report

For the year ended 31 December 2016

Directors' responsibilities statement

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare a Directors' report and financial statements for each financial year and the directors have elected to prepare them in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU"). In preparing these financial statements, the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board ("IASB"). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs at the end of the year and the profit or loss for the financial year for the Company. In preparing these financial statements, under International Accounting Standard 1, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions; other events and conditions of the entity's financial position and performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for maintaining and ensuring the integrity of the corporate and financial information included on the Company's website www.directlinegroup.com. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approved by the Board of Directors and signed on behalf of the Board by:



P Nightingale

Director

12 June 2017

Independent Auditor's report to the members of UK Assistance Accident Repair Centres Limited

For the year ended 31 December 2016

We have audited the financial statements of UK Assistance Accident Repair Centres Limited ("the Company"), for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement, and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual report to identify material inconsistencies with the audited financial statements and identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge by us in the course of the performing audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Separate opinion in relation to IFRS as issued by the IASB

As explained in Note 1 to the financial statements, the Company, in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board ("IASB").

In our opinion the financial statements comply with IFRSs as issued by the IASB.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditor's report to the members of UK Assistance Accident Repair Centres Limited (continued)

For the year ended 31 December 2016

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Adam Addis

Senior Statutory Auditor - for and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

12 June 2017

Statement of comprehensive income

For the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Vehicle repair revenue	3	153,076	132,967
Cost of sales	4	(92,154)	(76,057)
Gross profit		60,922	56,910
Administration expenses	5	(23,803)	(21,271)
Other operating income	6	-	5
Operating profit		37,119	35,644
Interest received	7	255	312
Profit before tax		37,374	35,956
Tax charge	8	(7,494)	(7,276)
Total comprehensive income for the year		29,880	28,680

The total comprehensive income for the year is entirely attributable to the owners of the Company.

The accompanying notes on pages 11 to 22 form an integral part of these financial statements.

Balance sheet

As at 31 December 2016

	Notes	2016 £'000	2015 £'000
Assets			
Goodwill	11	319	-
Property, plant and equipment	12	9,701	3,955
Inventories	13	1,311	1,047
Trade and other receivables	14	56,474	53,818
Prepayments		57	194
Cash and cash equivalents	15	714	236
Total assets		68,576	59,250
Equity		41,033	36,153
Liabilities			
Trade and other payables	16	19,926	15,710
Deferred tax liabilities	9	130	121
Current tax liabilities	9	7,487	7,266
Total liabilities		27,543	23,097
Total equity and liabilities		68,576	59,250

The accompanying notes on pages 11 to 22 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 12 June 2017. They were signed on its behalf by:



P Nightingale

Director

Statement of changes in equity

For the year ended 31 December 2016

	Note	Equity £'000
Balance at 1 January 2015		32,473
Total comprehensive income for the year		28,680
Dividends paid	10	(25,000)
Balance at 31 December 2015		36,153
Total comprehensive income for the year		29,880
Dividends paid	10	(25,000)
Balance at 31 December 2016		41,033

The accompanying notes on pages 11 to 22 form an integral part of these financial statements.

Cash flow statement

For the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Cash flows from operating activities			
Profit before tax		37,374	35,956
Adjustments for:			
Depreciation of property, plant and equipment	12	948	570
Loss on disposal of property, plant and equipment		73	-
Impairment provision movements on trade receivables	14	(20)	(28)
Interest received	7	(255)	(312)
Operating cash flow before movements in working capital		38,120	36,186
Movements in working capital			
Net (increase) / decrease in inventories		(264)	123
Net (increase) / decrease in trade and other receivables (excluding loans)	14	(4,490)	3,468
Net decrease / (increase) in prepayments, accrued income and other assets		137	(50)
Net increase / (decrease) in trade and other payables		4,216	(2,068)
Net cash generated from operating activities before tax		37,719	37,659
Taxes paid		(7,264)	(6,252)
Net cash generated from operating activities		30,455	31,407
Cash flows from investing activities			
Purchases of property, plant and equipment	12	(6,767)	(1,074)
Purchases of goodwill	11	(319)	-
Loan repayments from / (advances to) related parties	19	2,109	(4,814)
Net cash flow used by investing activities		(4,977)	(5,888)
Cash flows from financing activities			
Dividends paid	10	(25,000)	(25,000)
Net cash flows used by financing activities		(25,000)	(25,000)
Net increase in cash and cash equivalents		478	519
Cash and cash equivalents at the beginning of the year		236	(283)
Cash and cash equivalents at the end of the year	15	714	236

The accompanying notes on pages 11 to 23 form an integral part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2016

1. Accounting policies**1.1 Presentation of accounts**

The financial statements have been prepared on the going concern basis (see the Directors' report on pages 3 and 4) and in accordance with International Financial Reporting Standards and Interpretations (collectively IFRSs), issued by the International Accounting Standards Board ("IASB") as adopted by the European Union ("EU"). The financial statements are prepared on the historical cost basis.

The Company's financial statements are presented in Sterling and accounts are rounded to the nearest thousand except where otherwise indicated.

The Company is incorporated in the United Kingdom and registered in England and Wales.

The Company's financial statements are presented in accordance with the Companies Act 2006.

Going concern

The Company has sufficient financial resources and as a consequence, the Directors believe the Company is well placed to manage its business risks successfully. After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis of accounting in preparing the annual report and financial statements. The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on page 2 and the Directors' report on pages 3 and 4. In addition, note 2 to the financial statements includes the Company's objectives, policies and processes for risk management.

New standards, interpretations and amendments effective from 1 January 2016

There were no new standards or interpretations effective for the first time for periods beginning on or after 1 January 2016 that had a significant effect on the Company's financial statements. None of the amendments to standards that are effective from 1 January 2016 had a significant effect on the Company's financial statements.

1.2 Revenue recognition

The Company's revenue comprises vehicle repair services provided to related parties as well as other third party customers. Revenue in respect of repairs to vehicles is recognised upon completion of the repair. The price is determined using market rates for the services and materials used after discounts and sales taxes have been deducted where applicable. All revenue arises in the United Kingdom.

Interest received on financial assets is determined using the effective interest rate method. The effective interest rate method is a way of calculating the amortised cost of a financial asset (or group of financial assets) and of allocating the interest income over the expected life of the asset.

1.3 Taxation

The tax charge or credit represents the sum of the tax currently payable or receivable and deferred tax.

The current tax charge is based on the taxable profits for the year as determined in accordance with the relevant tax legislation, after any adjustments in respect of prior years. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Provision for taxation is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date, and is allocated over profits before taxation and amounts charged or credited to components of other comprehensive income and equity, as appropriate.

Deferred taxation is accounted for in full using the balance sheet liability method on all temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes.

Deferred tax liabilities are generally recognised for all taxable temporary timing differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is probable that they will not be recovered.

Notes to the financial statements (continued)

For the year ended 31 December 2016

1. Accounting policies (continued)**1.3 Taxation (continued)**

Deferred tax assets and liabilities are calculated at the tax rates expected to apply when the assets are cashed or liabilities are settled based on laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the statement of comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current assets and liabilities.

1.4 Dividends

Interim dividends on ordinary shares are recognised in equity in the period in which they are paid. Final dividends on ordinary shares are recognised when they have been approved at a general meeting.

1.5 Goodwill

Acquired goodwill, being the excess of the cost of an acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the business combination acquired, is initially recognised at cost and subsequently at cost less any accumulated impairment losses.

1.6 Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for separately.

Depreciation is charged to the statement of comprehensive income on a straight-line basis so as to write off the depreciable amount of property, plant and equipment over their estimated useful lives.

The depreciable amount is the cost of an asset less its residual value. Land is not depreciated. Estimated useful lives are as follows:

Freehold and leasehold buildings	50 years or the period of the lease if shorter
Vehicles	Up to 3 years
Computer equipment	Up to 5 Years
Other equipment, including property adaptation costs	2 to 15 years

The gain or loss arising from the derecognition of an item of property, plant and equipment, is determined as the difference between the disposal proceeds, if any, and the carrying amount of the item.

1.7 Impairment of goodwill and property, plant and equipment

At each reporting date, the Company assesses whether there is any indication that its goodwill or property, plant and equipment are impaired. If any such indication exists, the Company estimates the recoverable amount of the asset and the impairment loss, if any. If an asset does not generate cash flows that are independent of those of other assets or groups of assets, the recoverable amount is determined for the cash-generating unit ("CGU") to which the asset belongs. The recoverable amount of an asset is the higher of its fair value, less costs to sell and its value in use. Value in use is the present value of future cash flows from the asset, discounted at a rate that reflects market interest rates, adjusted for risks specific to the asset that have not been reflected in the estimation of future cash flows. Value in use is the present value of future cash flows from the asset or CGU, discounted at a rate that reflects market interest rates, adjusted for risks specific to the asset or CGU that have not been reflected in the estimation of future cash flows.

Notes to the financial statements (continued)

For the year ended 31 December 2016

1. Accounting policies (continued)**1.7 Impairment of goodwill and property, plant and equipment (continued)**

If the recoverable amount of an asset is less than its carrying value, an impairment loss is recognised immediately in the statement of comprehensive income and the carrying value of the asset is reduced by the amount of the impairment loss.

A reversal of an impairment loss is recognised as it arises provided the increased carrying value does not exceed the carrying amount that would have been determined had no impairment loss been recognised. Impairment losses on goodwill are not reversed.

1.8 Financial assets

The Company only holds assets that are classified as loans and receivables which are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

Impairment of financial assets

At each balance sheet date the Company assesses whether there is any objective evidence that loans and receivables balances are impaired. A financial asset is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the Company measures the amount of the loss as the difference between the carrying amount of the asset and the present value of estimated future cash flows from the asset, discounted at the effective interest rate of the instrument at initial recognition.

Impairment losses are assessed individually where significant or collectively for assets that are not individually significant.

Impairment losses are recognised in the statement of comprehensive income and the carrying amount of loans or receivables is reduced by establishing an allowance for the impairment losses. If in a subsequent period the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance.

1.9 Financial liabilities

Financial liabilities are initially recognised at fair value net of transaction costs incurred and subsequently measured at amortised cost using the effective interest method.

A financial liability is derecognised when the obligation under the liability is discharged, or cancelled, or expires.

1.10 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits with banks.

1.11 Inventories

Inventories comprise work in progress, including labour, parts, paint and consumable materials used in the repair of vehicles. They are stated at the lower of cost and net realisable value less provisions for obsolete and slow-moving items. Cost is based on the first-in first-out principle.

1.12 Leases

Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the term of the lease.

Notes to the financial statements (continued)

For the year ended 31 December 2016

1. Accounting policies (continued)**1.13 Accounting developments**

New IFRSs and amendments that are issued, but not yet effective for the 31 December 2016 reporting periods and have not been early adopted by the Group are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective, except for IFRS 9 as explained below.

In July 2014, the IASB issued the final version of IFRS 9 'Financial Instruments' that replaces IAS 39 'Financial Instruments: Recognition and Measurement' and all previous versions of IFRS 9 which was endorsed by the EU in 2016. IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets and is effective for annual periods beginning on or after 1 January 2018.

In 2016 the Group conducted a high-level assessment of the three aspects of IFRS 9 and based on current available information expects no significant impact on its balance sheet and equity of any of the companies within the Group, except for the impact of applying the expected loss model for the first time and this impact is currently immaterial. The Group and its companies plan to defer the application of IFRS 9 until the effective date of the new insurance contracts standard IFRS 17 of 1 January 2021, applying the temporary exemption from applying IFRS 9 as introduced by the amendments to IFRS 4 'Insurance Contracts', detailed below.

In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the upcoming new insurance contracts standard (IFRS 17). The amendment to IFRS 4 is expected to be endorsed by the EU before the effective date of IFRS 9.

The amendments introduce two alternative options, the overlay approach and the temporary exemption from IFRS 9. The overlay approach allows an entity applying IFRS 9 to reclassify between the income statement and other comprehensive income an amount that results in the income statement at the end of the reporting period for the designated financial assets being the same as if an entity had applied IAS 39 'Financial Instruments – Recognition and Measurement' to these designated financial assets. The temporary exemption from IFRS 9 allows entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2021, if it has not applied any version of IFRS 9 previously and its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016.

In May 2014 the IASB issued IFRS 15 'Revenue from Contracts with Customers' to establish a single comprehensive model to use in accounting for revenue recognition and measurement. The standard provides guidance on when and how combined contracts should be unbundled and when a transaction price includes a variable consideration element. IFRS 15 was endorsed by the EU in 2016 and either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Company expects to apply IFRS 15 fully retrospectively. The Company does not expect the impact on its financial statements to be material.

In January 2016 the IASB issued IFRS 16 'Leases' to replace the existing standard IAS 17, which subject to endorsement from the EU will be effective from 1 January 2019. IFRS 16 sets out the principles for recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. There are two exemptions for leases of a low value and for leases of short-term nature of 12 months or less. At the start of a lease, a lessee will recognise a liability for the lease payments and an asset representing the right to use the asset during the lease term. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the current approach under IAS 17. In 2017, the Company will assess the potential effect of IFRS 16 on its financial statements, the undiscounted value of the Company's lease obligations are disclosed in note 18.

The following amendments to IFRSs and IASs have been issued during 2016 that are expected to be endorsed by the EU during 2017. The Company does not expect the amendments to have a material impact on the financial statements of the Company in future periods.

The IASB amended IAS 12 'Income Taxes' – Recognition of Deferred Tax Assets for Unrealised Losses to clarify the accounting for deferred tax assets where an asset is measured at fair value and that fair value is below the asset's tax base for accounting; the amendment is effective from 1 January 2017.

Amendments to IAS 7 'Statement of Cash Flows' was issued as part of the IASB's Disclosure Initiative to require entities to explain changes in their liabilities arising from financing activities; the amendment is effective from 1 January 2017.

Notes to the financial statements (continued)

For the year ended 31 December 2016

2. Risk management**2.1 Risk management overview**

The Direct Line Insurance Group plc Board ("Group Board") monitors adherence to the risk strategy, risk appetite and risk framework across the Direct Line Group. The Group Board has established a risk management model that separates the business's risk management responsibilities into "3 lines of defence" as set out below.

- 1st line of defence - Risk ownership
- 2nd line of defence - Oversight, challenge and support of 1st line
- 3rd line of defence - Independent assurance

DLIG's annual report and accounts 2016 contains a comprehensive review of the risk management framework for the Group. The Company adheres to this risk management framework.

2.1.1 Risk strategy and risk appetite

The Group's risk appetite statements express the level of risk the Group (including the Company) is prepared to accept to achieve its business objectives. Details of the Group's risk strategy and risk appetite are contained in the DLIG annual report and accounts 2016.

2.1.2 Enterprise-wide Risk Management Framework

This sets out, at high level, the Group's (which includes the Company) approach to setting risk strategy and the Enterprise-wide Risk Management Framework ("ERMF") for managing risk. Details of the Group's ERMF are contained in the DLIG annual report and accounts 2016.

Copies of the DLIG annual report and accounts 2016 can be obtained from Direct Line Group Secretariat, Churchill Court, Westmoreland Road, Bromley, BR1 1DP, the Registrar of Companies or through Direct Line Insurance Group's website at www.directlinegroup.com

2.1.3 Principal risks and uncertainties

Risks are always present in business. It is important to ensure that the Company identifies, measures, monitors and reports these risks throughout the business on an ongoing basis. It also monitors changes in these risks over time. It believes these risks are broadly unchanged over the last year.

2.2 Market risk

Market risk is the risk of loss resulting from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.

The Company is exposed to interest rate risk through its loans to fellow subsidiaries. This is the risk of loss resulting from changes in the term structure of interest rates or interest rate volatility. In addition the Company is exposed to inflationary risk on its cost of sales and administrative expenses.

Sensitivity analysis

The results of sensitivity testing are set out below. For each sensitivity test the impact of a reasonably possible change in a single factor on the current balance sheet is shown, with other assumptions left unchanged.

Sensitivity factor	Description of sensitivity analysis
Interest rate and investment return	The impact of a change in market interest rates by +/- 1% (e.g. if a current interest rate is 2%, the impact of an immediate change to 1% or 3%)
Expenses	The impact of an increase in ongoing administrative expenses by 10%
Cost of sales	Impact of increase of 10% in cost of sales

Notes to the financial statements (continued)

For the year ended 31 December 2016

2. Risk management (continued)**2.2 Market risk (continued)****Sensitivity at 31 December 2016**

	Interest rates +1%	Expenses +10%	Cost of sales +10%
Impact on profit before tax (£'000)	503	(2,380)	(9,215)
Impact before tax on shareholder equity (£'000)	503	(2,380)	(9,215)

Sensitivity at 31 December 2015

	Interest rates +1%	Expenses +10%	Cost of sales +10%
Impact on profit before tax (£'000)	542	(2,127)	(7,605)
Impact before tax on shareholder equity (£'000)	542	(2,127)	(7,605)

Limitations of sensitivity analysis

The above tables show the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated from these results.

2.3 Credit risk

This is the risk of loss resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which the Company are exposed. The Company is mainly exposed to counterparty default risk.

This is the risk of loss from unexpected default, deterioration in the credit standing of counterparties and debtors of the Company. It is primarily managed by the 1st line of defence and monitored by the Group's Credit Risk Forum. The main responsibility of this forum is to ensure that all material aspects of counterparty risk within the Group and Company are identified, monitored and measured.

The main source of counterparty default risk is related to its trade and other receivables with fellow subsidiaries.

2.4 Operational risk

This is the risk of loss due to inadequate or failed internal processes, people, systems or from external events. Sources of operational risk for the Company include:

Change risk

This is the risk of failing to manage the Company's change portfolio resulting in conflicting priorities and failure to deliver strategic outcomes to time, cost or quality.

Technology and infrastructure risk

This is the risk that the IT infrastructure is insufficient to deliver the Company strategy.

Outsourcing risk

This is the risk of failing to implement a robust framework for the sourcing, appointment and ongoing contract management of external suppliers, outsourced service providers and intragroup relationships.

2.5 Liquidity risk

This is the risk of being unable to realise investments in order to settle financial obligations when they fall due.

The Company has limited exposure to liquidity risk as it has access to Group funding which is constantly being monitored to ensure borrowing limits and funding requirements are at levels appropriate for the Company to operate.

Notes to the financial statements (continued)

For the year ended 31 December 2016

3. Revenue

	2016 £'000	2015 £'000
Vehicle repairs	153,076	132,967

4. Cost of sales

	2016 £'000	2015 £'000
Cost of vehicle repairs	92,154	76,057

5. Administration expenses

	2016 £'000	2015 £'000
Marketing and administrative expenses	22,840	20,686
Depreciation (note 12)	948	570
Auditor's remuneration	15	15
Total	23,803	21,271

Management charges

DLIS, a fellow subsidiary company, charges the Company on an annual basis for use of IT, staff costs and other central resources.

Staff costs, number of employees and Directors' emoluments

All staff and Directors were employed by DLIS, the financial statements for which contain full disclosure of employee benefit expenses incurred in the period including pensions. The Company has no employees and pays a management charge for services provided by other Group companies.

The services provided by the Directors of the Company are non-executive in nature and it is not appropriate to allocate their emoluments in respect of services to the Company.

Auditor's remuneration

Fees for audit and non-audit services, included within marketing and administrative expenses, are borne and recharged by a related party, DLIS.

Fees paid to the auditor in respect of the statutory audit of the Company amount to £15,450 (2015: £15,000).

6. Other operating income

	2016 £'000	2015 £'000
Commission income		5

7. Interest received

	2016 £'000	2015 £'000
Interest received on loans to related parties (note 19)	255	312

Notes to the financial statements (continued)

For the year ended 31 December 2016

8. Tax

	2016 £'000	2015 £'000
Current taxation:		
Charge for the year	7,487	7,266
(Over) / under provision in respect of prior year	(2)	3
	7,485	7,269
Deferred taxation (note 9):		
Charge for the year	2	7
Under provision in respect of prior year	7	-
	9	7
Tax charge for the year	7,494	7,276

The actual income tax charge differs from the expected income tax charge computed by applying the standard rate of UK corporation tax of 20%¹ (2015: 20.25%) as follows:

	2016 £'000	2015 £'000
Profit for the year	37,374	35,956
Expected tax charge	7,475	7,281
Non-deductible items	25	7
Non-taxable items	(2)	(2)
Effect of change in UK taxation rate	(9)	(13)
Adjustments in respect of prior year	5	3
Actual tax charge for the year	7,494	7,276

Note

- 1: In the Finance Act 2013 the UK Government enacted a reduction in the UK corporation tax rate from 21% to 20% effective from 1 April 2015. The Finance (No 2) Act 2015 enacted further reductions to 19% effective from 1 April 2017 and 18% effective from 1 April 2020. The Finance Act 2016 then enacted a further reduction to 17% effective from 1 April 2020. As a consequence the closing deferred tax assets and liabilities have been recognised at the tax rates expected to apply when the assets or liabilities are settled. The impact of these changes on the tax charge for the year is set out in the table above.

9. Current and deferred tax

The aggregate current and deferred tax relating to items that are credited to equity is £1.5 million (2015: £2.9million).

	2016 £'000	2015 £'000
Per balance sheet:		
Deferred tax liabilities	130	121
Current tax liabilities	7,487	7,266

The table below analyses deferred tax liabilities recognised by the Company, and the movements thereon.

	Accelerated capital allowances £'000
At 1 January 2015	114
Charge to income (note 8)	7
At 31 December 2015	121
Charge to income (note 8)	9
At 31 December 2016	130

Notes to the financial statements (continued)

For the year ended 31 December 2016

10. Dividends

	2016 £'000	2015 £'000
Interim dividend of £12,500,000 per share paid on 29 June 2016	25,000	-
Interim dividend of £12,500,000 per share paid on 20 October 2015	-	25,000
	25,000	25,000

11. Goodwill

	Goodwill £'000
At 1 January 2016	-
Arising on acquisitions.	319
At 31 December 2016	319

Note

- 1: Goodwill in the year ended 31 December 2016 of £319,000 arose from the business acquisition of two accident repair centres which included total net assets of £3,281,000 for a combined purchase price of £3,600,000.

12. Property, plant and equipment

	Land and buildings £'000	Vehicles £'000	Computer and other equipment £'000	Total £'000
Cost				
At 1 January 2015	825	2,111	13,789	16,725
Additions	-	5	1,069	1,074
Disposals	-	(165)	-	(165)
At 31 December 2015	825	1,951	14,858	17,634
Additions	2,650	241	3,876	6,767
Disposals	-	(5)	(624)	(629)
At 31 December 2016	3,475	2,187	18,110	23,772
Accumulated depreciation				
At 1 January 2015	178	1,846	11,250	13,274
Charge for the year	14	130	426	570
Disposals	-	(165)	-	(165)
At 31 December 2015	192	1,811	11,676	13,679
Charge for the year	30	148	770	948
Disposals	-	(3)	(553)	(556)
At 31 December 2016	222	1,956	11,893	14,071
Carrying amount				
At 31 December 2016	3,253	231	6,216	9,701
At 31 December 2015	633	140	3,182	3,955

13. Inventories

	2016 £'000	2015 £'000
Work in progress	1,311	1,047

Notes to the financial statements (continued)

For the year ended 31 December 2016

14. Trade and other receivables

	2016 £'000	2015 £'000
Trade receivables	6,239	1,749
Less provision for impairment of trade receivables	(94)	(114)
Other loans and receivables:		
Loans to related parties	50,329	52,183
Total	56,474	53,818

The following assets were past due at the balance sheet date but not considered to be impaired:

	1 – 29 days £'000	30 – 59 days £'000	60 – 89 days £'000	90 days and over £'000	Total £'000
2016					
Trade receivables	60	25	56	89	230
2015					
Trade receivables	35	15	20	114	184

The trade and other receivables are, with the exception of the above, neither past due nor impaired and are classified as unrated. All receivables from related parties are considered current.

15. Cash and cash equivalents

	2016 £'000	2015 £'000
Cash at bank and in hand	714	236

16. Trade and other payables

	2016 £'000	2015 £'000
Trade payables due to related parties (note 19)	18,193	15,091
Accruals	1,687	465
Indirect taxes	46	154
Total	19,926	15,710

The trade and other payables are neither past due nor impaired and are classified as unrated. All payables to related parties are considered current. Loans are short-term in nature and repayable when required.

17. Share capital

	2016 £	2015 £
Issued and fully paid equity shares		
2 Ordinary Shares of £1 each	2	2

Notes to the financial statements (continued)

For the year ended 31 December 2016

18. Commitments

Operating lease commitments

The Company leases certain of its properties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewable rights. The Company also leases vehicles under non-cancellable lease agreements.

	2016 £'000	2015 £'000
Lease payments under operating leases recognised as an expense in the year	1,455	1,390

The following table analyses the outstanding commitments for future lease payments under non-cancellable operating leases by the period in which they fall due:

At 31 December	2016		2015	
	Property £'000	Vehicles £'000	Property £'000	Vehicles £'000
Within 1 year	532	1,222	475	1,151
After 1 year but within 5 years	963	1,172	979	1,801
After 5 years	-	83	120	67
	1,495	2,477	1,574	3,019

19. Related parties

As at 31 December 2016 the immediate parent and ultimate holding company was DLIG which is incorporated in the United Kingdom and registered in England and Wales.

As at 31 December 2016 DLIG heads the largest and smallest group in which the Company is consolidated. Copies of the consolidated financial statements of the Group may be obtained from Direct Line Group Secretariat, DLIG, Churchill Court, Westmoreland Road, Bromley, BR1 1DP.

The following transactions were carried out with related parties, who are members of RBS Group or Direct Line Group:

i. Sales of services

	2016 £'000	2015 £'000
Sale of services to fellow subsidiaries	137,769	120,508

	2016 £'000	2015 £'000
Interest received from fellow subsidiaries	255	312

ii. Purchases of products and services

	2016 £'000	2015 £'000
Purchases of services from fellow subsidiaries	122,811	66,177

All employees were employed by DLIS, a fellow subsidiary company. Total employee costs, including Directors' remuneration, recharged to the Company by DLIS during the year were £52,253,000 (2015: £46,727,000).

Employee costs recharged by DLIS include the full costs of key managers and other staff in respect of share-based payments.

iii. Year-end balances arising from sales/purchases of products/services

	2016 £'000	2015 £'000
Trade receivables from fellow subsidiaries	5,607	1,405

Notes to the financial statements (continued)

For the year ended 31 December 2016

19. Related parties (continued)

Movements in trade receivables from fellow subsidiaries were as follows:

	2016 £'000	2015 £'000
At 1 January	1,405	4,286
Transactions in the year	137,769	120,508
Settled in the year	(133,567)	(123,389)
At 31 December	5,607	1,405

	2016 £'000	2015 £'000
Trade creditor balances with fellow subsidiaries	18,193	15,091

Movements in trade payables with fellow subsidiaries were as follows:

	2016 £'000	2015 £'000
At 1 January	15,091	15,818
Transactions in the year	122,810	66,177
Settled in the year	(119,708)	(66,904)
At 31 December	18,193	15,091

iv. Loans to fellow subsidiaries

	2016 £'000	2015 £'000
Fellow subsidiaries	50,329	52,183

Movements in loans to fellow subsidiaries were as follows:

	2016 £'000	2015 £'000
At 1 January	52,183	47,057
Loans advanced during year	-	4,814
Repayments received during the year	(2,109)	-
Interest received (note 7)	255	312
At 31 December	50,329	52,183

20. Post balance sheet event

The Company completed the acquisition of an accident repair centre in Edinburgh on 17 January 2017. The new location became part of the Company's network of accident and repair centres strategically located across the United Kingdom.