Company Registration No. 03001989

DL Insurance Services Limited

Annual Report and Financial Statements

31 December 2015

Company Secretariat
DL Insurance Services Limited
Churchill Court
Westmoreland Road
Bromley
BR1 1DP

DL Insurance Services Limited 03001989

Annual Report and Financial Statements

Contents

DL Insurance Services Limited

Officers and professional advisers

Directors:

P R Geddes

J P Greenwood

S Maddock

C E Morton

A J Reizenstein

H M Tomlinson

Company Secretary:

R C Clifton

Registered office:

Churchill Court
Westmoreland Road
Bromley
BR1 1DP

Auditor:

Deloitte LLP
Chartered Accountants
London

Registered in England and Wales

DL Insurance Services Limited

Strategic report

For the year ended 31 December 2015

The Directors present their strategic report for the year ended 31 December 2015.

Activities and business review

Activities

The principal activity of DL Insurance Services Limited continues to be the provision of services to fellow subsidiary companies. The services provided broadly include data processing, administration, operational support, managerial advisory services and lending funds to fellow subsidiaries.

DL Insurance Service Limited ("the Company") is a subsidiary of Direct Line Insurance Group plc ("DLIG") which together with its subsidiaries ("the Group") provides the Company with access to all central resources it needs and provides policies in all key areas such as finance, risk, human resources and environment. The Directors believe that performance indicators specific to the Company are not necessary or appropriate for an understanding of the development, performance or position of the business and the 2015 DLIG annual report reviews these matters on a group basis. Copies can be obtained from DLIG Secretariat, Churchill Court, Westmoreland Road, Bromley, BR1 1DP; the Registrar of Companies or through DLIG'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 be guided by its ultimate shareholder, DLIG, in seeking further opportunities for growth.

Financial performance

The Company's financial performance is presented in the statement of comprehensive income on page 8.

The total comprehensive income for the year ended 31 December 2015 was £20.0 million (2014: £6.9 million).

An interim dividend in specie of £8m was paid during the financial year 31 December 2015 (2014: £nil). The Directors do not recommend the payment of a final dividend (2014: £nil).

At the end of the year, the balance sheet reflected total assets of £735.5 million (2014: £874.4 million) and total equity of £370.4 million (2014: £118.5 million). The net book value of property, plant and equipment was £187.5 million compared with £152.1 million at the end of the previous year. During the year, the Company received a capital contribution of £225.0 million from DLIG which was utilised by reducing its funding requirements from fellow subsidiaries. Further to receiving the capital contribution the Company sought to reduce its reliance on intercompany loans which resulted in the Company reducing these loans from £484.0 million to £157.4 million.

Principal risks and uncertainties

The Company's risk management objectives are set out in note 3 to these financial statements.

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

C E Morton
Director
8 June 2016

DL Insurance Services Limited

Directors' report

For the year ended 31 December 2015

The Directors present their annual report and the audited financial statements for the year ended 31 December 2015.

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 are listed on page 1. From 1 January 2015 to date there were no changes to the Directors and Secretary.

Going concern

The Directors, having a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, have prepared the financial statements on a going concern basis.

Research and development activities

The Company's research and development activities are concentrated around projects to develop computer software and associated operational business capability.

Employees

A new Group wide people strategy was approved in 2015. This supports the Group's new business strategy, particularly regarding culture and our employee's capabilities. In 2015 this focused on pride in the Group, encouraging and celebrating the strength of our workforce.

The Group ensures continued employee consultation by:

Engagement – developing and championing various volunteer groups such as Employee Representative Bodies, Community and Social Committees, Local Coordination Teams, Health and Safety Representatives, and the Diversity Network Alliance. This has helped increase our employees' voice and enable the Group to serve customers better.

Diversity, inclusion and human rights – we continue to work towards an environment based on meritocracy and inclusion, where every employee can achieve their full potential, whatever their characteristics. Our diversity and inclusion practices are in line with the Universal Declaration of Human Rights. Our Ethical Code for Suppliers requires that all our suppliers adhere to the core International Labour Organisation standards. During 2015, our Diversity Network Alliance became more visible throughout the business and externally.

Living wage – we comply with the principles of the Living Wage Foundation, relating to our employees.

Recognised as part of our communities – we believe that our people's feelings about working for the Group link to our reputation in the community. So we seek to align our giving with our employees' interests through our Community and Social Committees, volunteering and matching giving and grants.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that they continue their employment with the Group and that they receive appropriate training. It is the policy of the Group and the Company that the training, career development and promotion of disabled persons, as far as possible, should be identical to that of other employees.

Directors' report continued

For the year ended 31 December 2015

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:

i. so far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and

ii. each Director has taken all the steps that they ought to have taken as a Director in order 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 them under the deemed appointment rules of section 487 of the Companies Act 2006.

Directors' indemnities

DLIG has made qualifying third party provisions for the benefits of certain Directors of the Company which remain in force at the date of this report.

Directors' responsibility 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 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.

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

C E Morton
Director
8 June 2016

Independent auditor's report to the members of DL Insurance Services Limited

For the year ended 31 December 2015

We have audited the financial statements of DL Insurance Services Limited ("the Company") for the year ended 31 December 2015 which comprise the Income statement, the Statement of comprehensive income, the Balance sheet, the Statement of changes in equity, the Cash flow statement and the related notes 1 to 27. 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 to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge by us in the course of performing the 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 2015 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 IFRSs 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 the 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 DL Insurance Services Limited

For the year ended 31 December 2015

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
Chartered Accountants and Statutory Auditor
London, United Kingdom

6 June 2016

DL Insurance Services Limited
Income statement
For the year ended 31 December 2015

	Notes	**2015 £m**	2014 £m
Fee income	4	**961.3**	986.0
Investment return	5	**28.6**	0.9
Operating income	6	**7.3**	6.0
Total income		**997.2**	992.9
Operating expenses	7	**(957.4)**	(980.2)
Operating profit		**39.8**	12.7
Finance costs	8	**(2.9)**	(2.7)
Disposal of asset held for sale	18	**11.1**	-
Impairment of investment in subsidiary undertaking	14	**(26.1)**	-
Profit before tax		**21.9**	10.0
Tax charge	9	**(7.0)**	(6.5)
Profit for the year attributable to owners of the Company		**14.9**	3.5

The attached notes on pages 12 to 38 form an integral part of these financial statements.

DL Insurance Services Limited
Statement of comprehensive income
For the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Profit for the year		**14.9**	3.5
Other comprehensive income			
Items that will not be reclassified subsequently to the income statement:			
Actuarial gain on defined benefit pension scheme	19	**6.7**	2.8
Tax relating to items that will not be reclassified	10	**(1.6)**	(0.6)
Other comprehensive gain for the year net of tax		**5.1**	2.2
Items that may be reclassified subsequently to the income statement:			
Cash flow hedges		**-**	1.2
Other comprehensive income for the year net of tax		**5.1**	3.4
Total comprehensive income for the year attributable to owners of the Company		**20.0**	6.9

The attached notes on pages 12 to 38 form an integral part of these financial statements.

DL Insurance Services Limited
Balance sheet
As at 31 December 2015

	Notes	2015 £m	2014 £m
Assets			
Intangible assets	11	**313.5**	305.9
Property, plant and equipment	12	**187.5**	152.1
Investment property	13	**6.0**	5.9
Investment in subsidiaries	14	**0.2**	26.3
Deferred tax assets	10	**7.0**	8.8
Trade and other receivables	16	**165.8**	303.9
Prepayments and other assets		**34.8**	38.0
Derivative financial instruments	22	**0.3**	0.5
Retirement benefit asset	19	**13.1**	3.5
Cash and cash equivalents	17	**2.7**	17.8
Assets held for sale	18	**4.6**	11.7
Total assets		**735.5**	874.4
Equity		**370.4**	118.5
Liabilities			
Borrowings	21	**168.1**	528.8
Derivative financial instruments	22	**-**	0.1
Trade and other payables	24	**185.4**	220.2
Current tax liabilities	9	**11.6**	6.8
Total liabilities		**365.1**	755.9
Total equity and liabilities		**735.5**	874.4

The attached notes on pages 12 to 38 form an integral part of these financial statements.

The financial statements of DL Insurance Services Limited were approved by the Board of Directors and authorised for issue on 8 June 2016 and were signed on its behalf by:

C E Morton
Director

DL Insurance Services Limited
Statement of changes in equity
For the year ended 31 December 2015

	Notes	Foreign exchange translation reserve £m	Capital reserve £m	Retained earnings £m	Total £m
Balance at 1 January 2014		(1.2)	-	105.1	103.9
Profit for the year		-	-	3.5	3.5
Other comprehensive income		1.2	-	2.2	3.4
Equity-settled share-based payments		-	-	6.7	6.7
Tax on share-based payments		-	-	1.0	1.0
Balance at 31 December 2014		-	-	118.5	118.5
Profit for the year		-	-	**14.9**	**14.9**
Other comprehensive income		-	-	**5.1**	**5.1**
Dividend		-	-	**(8.0)**	**(8.0)**
Capital contribution		-	**225.0**	-	**225.0**
Equity-settled share-based payments		-	-	**12.0**	**12.0**
Tax on share-based payments		-	-	**2.9**	**2.9**
Balance at 31 December 2015		**-**	**225.0**	**145.4**	**370.4**

The attached notes on pages 12 to 38 form an integral part of these financial statements.

DL Insurance Services Limited
Cash flow statement
For the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Cash generated by operating activities	25	**233.9**	77.1
Cash flows from investing activities:			
Interest received	5	**0.4**	0.4
Dividend income	5	**27.3**	-
Rental income received from investment property	5	**0.8**	0.8
Disposal / (acquisition) of subsidiary undertaking	14	**-**	(26.2)
Disposal / (acquisition) of asset held for sale	18	**26.9**	(12.6)
Purchases of property, plant and equipment	12	**(91.1)**	(81.4)
Purchases of intangible assets	11	**(74.7)**	(89.2)
Net cash used by investing activities		**(110.4)**	(208.2)
Cash flows from financing activities:			
Capital contribution		**225.0**	-
Proceeds from borrowings	27	**214.1**	93.6
Repayments of borrowings	27	**(543.6)**	(15.2)
Net cash (used) / generated by financing activities		**(104.5)**	78.4
Net increase / (decrease) in cash and cash equivalents		**19.0**	(52.7)
Cash and cash equivalents at the beginning of the year	17	**(27.0)**	25.7
Cash and cash equivalents at the end of the year	17	**(8.0)**	(27.0)

The attached notes on pages 12 to 38 form an integral part of these financial statements.

Company information

The Company is incorporated in the UK and registered in England and Wales. The Company accounts are prepared in accordance with the Companies Act 2006.

1. Accounting policies

1.1 Basis of preparation
The financial statements have been prepared in accordance with and in full compliance with IFRSs issued by the IASB as adopted by the EU. The financial statements have been prepared on the going concern basis (see the Directors' report on page 3).

The Company's financial statements are prepared on the historical cost basis, investment property and derivative financial instruments are measured at fair value.

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. The Directors have a reasonable expectation, at the time of approving the financial statements, that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the 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 Activities and business review section of the strategic report on page 2. In addition, note 3 to the financial statements include the Company's objectives, policies and processes for risk management.

Adoption of new and revised standards

The following standards and amendments have been adopted in the year and have not had a material impact on the Company's financial statements.

IFRS 2 (amended), 'Share-Based Payments' – the amendment defines "performance condition" and "service condition".

IFRS 3 (amended), 'Business Combination' – the first amendment deals with the accounting for contingent consideration in a business combination and the second amendment clarifies that joint arrangements, not just joint ventures, are outside the scope of IFRS 3.

IFRS 13 (amended), 'Fair Value Measurement' – the amendment clarifies that the portfolio exception in IFRS 13 can also be applied to other contracts within the scope of IFRS 9 or IAS 39.

IAS 16 (amended), 'Property, Plant and Equipment' and IAS 38 (amended), 'Intangible Assets' – these amendments clarify that an asset may be revalued by reference to observable data either by adjusting the gross carrying amount of the asset to market value of the carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, they also clarify that accumulated depreciation and amortisation is different between gross and carrying amounts of the asset.

IAS 19 (amended), 'Employee Benefits' - introduced an amendment to simplify the accounting for employee contributions in respect of defined benefit plans that are independent of the number of years of service.

IAS 24 (amended), 'Related Party Disclosure' – the amendment provides additional clarification as to when an entity which provides managerial services is a related party.

IAS 40 amended), 'Investment Property' – the amendment clarifies that IFRS 3 should be used to assess whether a transaction is the purchase of an asset or a business combination.

1.2 Consolidated financial statements
The financial statements contain information about DL Insurance Services Limited as an individual Company and do not contain consolidated financial information. The company is exempt under IFRS 10 Consolidated Financial Statements and section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as the Company is included by full consolidation in the IFRS consolidated financial statements of its parent, Direct Line Insurance Group plc, a public company registered in the United Kingdom.

1.3 Foreign currencies
The Company's financial statements are presented in Pounds Sterling which is the functional currency of the Company. Transactions in foreign currencies are translated into sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at the foreign exchange rates ruling at the balance sheet date.

Foreign exchange differences arising on the settlement of foreign currency transactions and from the translation of monetary assets and liabilities are

1. Accounting policies continued

reported in the income statement. Non-monetary items denominated in foreign currencies that are stated at fair value are translated into sterling at foreign exchange rates ruling at the dates the values were determined.

1.4 Revenue recognition
Fee Income
This relates to management services which are provided to other members of the Group. These fees are credited to the income statement in the year in which the management and service fees are billed.

Fee Income excludes VAT.

Chargeable activity is based on criteria set out in the Company's cost allocation model. Non customer-facing staff costs are recovered at a 6% mark-up above the cost to the Company. Costs other than these are recovered at the cost to the Company.

Investment return
Interest income 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

Rental income
Rental income from investment property is recognised in the income statement on a straight-line basis over the period of the contract. Any gains or losses arising from a change in fair value are recognised in the income statement.

1.5 Intangible assets
Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement over the estimated useful economic lives of the assets, using methods that best reflect the pattern of economic benefits and is included in other operating expenses. The estimated useful economic lives are as follows:

Software development costs	Up to 10 years

Direct costs relating to the development of internally developed computer software and associated business processes are capitalised once technical feasibility and economic viability have been established. These costs include payroll costs, the costs of materials and services, and directly attributable overheads. Capitalisation of costs ceases when the software is capable of operating as intended. During and after development, accumulated costs are reviewed for impairment against the projected benefits that the software is expected to generate. Costs incurred prior to the establishment of technical feasibility and economic viability are expensed as incurred as are all training costs and general overheads.

1.6 Property, plant and equipment
Items of property, plant and equipment (except investment property – see accounting policy 1.8) 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 income statement 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 long leasehold buildings	50 years or the period of the lease if shorter
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 intangible assets and property, plant and equipment
At each reporting date, the Company assesses whether there is any indication that its intangible assets 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 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.

If the recoverable amount of an intangible or a tangible asset is less than its carrying value, an impairment loss is recognised immediately in the

1. Accounting policies continued

income statement and the carrying value of the asset is reduced by the amount of the impairment loss.

A reversal of an impairment loss on intangible assets or property, plant and equipment 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.

1.8 Investment property
Investment property comprise freehold properties that are held to earn rentals or for capital appreciation or both. Investment property is not depreciated but is stated at fair value based on valuations by independent registered valuers. Fair value is based on current prices for similar properties adjusted for the specific characteristics of each property. Any gain or loss arising from a change in fair value is recognised in the income statement.

Investment property is derecognised when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from disposal. Any gains or losses on the retirement or disposal of investment property are recognised in the income statement in the period of retirement or disposal.

1.9 Financial assets
Financial assets can be classified as held-to-maturity, available for sale, designated at fair value through profit or loss, or loans and receivables. The Company only has loans and receivables.

Loans and receivables are initially recognised at fair value plus directly related transaction costs and are subsequently measured at amortised cost using the effective interest rate method less any impairment losses.

Loans and receivables principally comprise loans to related parties and other debtors.

Impairment of financial assets
At each balance sheet date the Company assesses whether there is any objective evidence that a financial asset or group of financial assets classified as loans and receivables is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset has adversely affected the amount or timing of future cash flows from the asset.

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

Impairment losses are recognised in the income statement and the carrying amount of the financial asset or group of financial assets 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.

Derecognition of financial assets
A financial asset is derecognised when the rights to receive the cash flows from that asset have expired or when the Company has transferred its rights to receive cash flows from the asset and has transferred substantially all the risk and rewards of ownership of the asset.

1.10 Cash and cash equivalents
Cash and cash equivalents comprise cash in hand and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

Borrowings, comprising bank overdrafts and intercompany loans, are measured at amortised cost using the effective interest rate method.

1.11 Financial liabilities
Financial liabilities are initially recognised at fair value net of transaction costs incurred. Other than derivatives which are recognised and measured at fair value, all other financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

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

1.12 Provisions
The Company recognises a provision for a present legal or constructive obligation from a past event when it is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount can be reliably estimated.

When the Company has an onerous contract, it recognises the present obligation under the contract as a provision. A contract is onerous when the unavoidable costs of meeting the contractual obligations exceed the future economic benefit.

In respect of leasehold properties, a provision is recognised when the Company has a detailed formal plan to vacate the leasehold property, or significantly reduce its level of occupancy. The plan has been communicated to those affected and the future property costs under the lease exceed future economic benefits.

Restructuring provisions are made, including redundancy costs, when the Company has a constructive obligation to restructure.

1. Accounting policies continued

An obligation exists when the Company has a detailed formal plan and has communicated the plan to those affected.

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

1.14 Pensions and other post-retirement benefits
The Company provides post-retirement benefits in the form of pensions and healthcare plans to eligible employees.

Contributions to defined contribution pension schemes are recognised in the income statement when payable.

As described in note 19, the Company's defined benefit pension scheme was closed in 2003. Scheme liabilities are measured on an actuarial basis, using the projected unit credit method and discounted at a rate that reflects the current rate of return on a high quality corporate bond of equivalent term and currency to the scheme liabilities.

Scheme assets are measured at their fair value. Any surplus or deficit of scheme assets over liabilities is recognised in the balance sheet as an asset (surplus) or liability (deficit). The current service cost and any past service costs, together with the net interest on net pension liability or asset, is charged or credited to operating expenses. Actuarial gains and losses are recognised in full in the period in which they occur outside the income statement and presented in other comprehensive income under 'Items that will not be reclassified subsequently to the income statement'.

1.15 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 period 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.

Deferred tax assets and liabilities are calculated at the tax rates expected to apply when the assets are realised 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 income statement, except when it relates to items charged or credited to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

1.16 Share-based payments
The Group operates a number of share-based compensation plans under which it awards Ordinary Shares and share options to its employees. Such awards are generally subject to vesting conditions that vary the amount of cash or shares to which an employee is entitled.

Vesting conditions include service conditions (requiring the employee to complete a specified period of service) and performance conditions (requiring the employee to meet specified performance targets).

The fair value of options granted is estimated using valuation techniques which incorporate exercise price, term, risk-free interest rates, the current share price and its expected volatility.

The cost of employee services received in exchange for an award of shares or share options granted is measured by reference to the fair value of the shares or share options on the date the award is granted and takes into account non-vesting conditions and market performance conditions (conditions related to the market price of DLIG's shares).

The cost is expensed on a straight-line basis over the vesting period (the period during which all the specified vesting conditions must be satisfied) with a corresponding increase in equity in an equity-settled award, or a corresponding liability in a cash-settled award. The cost is adjusted for vesting conditions (other than market performance conditions) so as to reflect the number of shares or share options that actually vest.

1. Accounting policies continued

The cancellation of an award through failure to meet non-vesting conditions triggers an immediate expense for any unrecognised element of the cost of an award.

1.17 Accounting developments
In July 2014, the IASB issued IFRS 9 'Financial Instruments' that will replace IAS39 'Financial instruments: Recognition and Measurement' in its entirety. The classification and measurement of financial assets and liabilities will be directly linked to the nature of the instrument's contractual cash flows and the business model employed by the holder of the instrument.

The standard introduces a new expected loss model that is a departure from the current incurred loss model. The model requires a 12 month expected loss to be recognised for all financial instruments when they are first originated or acquired. In subsequent periods, if there is a significant increase in credit risk of a financial instrument since it was first entered into or acquired, a full lifetime expected credit losses would then be recognised.

The standard has introduced greater flexibility in the type of transactions eligible for hedge accounting and broadened the type of instruments that qualify as hedging instruments. The hedge effectiveness test has been replaced with the principle of an 'economic relationship'.

The standard is effective for annual periods beginning on or after 1 January 2018, although early adoption is permitted. At this point in time the company is not able to fully quantify the impact of adopting IFRS 9 on its financial statements.

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, from contracts (note: insurance contracts are excluded from the scope of IFRS 15) with customers. The standard provides guidance on when and how combined contracts should be unbundled and when a transaction price includes a variable consideration element. The standard will require the Company to consider contracts with customers to determine if changes are required to existing accounting practices, but is not expected to have a material impact on the Company's financial statements.

The effective date of this new standard has been revised to annual periods beginning on or after 1 January 2018, although early adoption is permitted.

In January 2016 the IASB issued IFRS 16 'Leases'. There are some changes to the guidance with the definition of a lease, in particular, more detail is provided on determining whether a contract conveys the right to use a particular asset; however, in most areas companies will find that their arrangements under the new guidance will not change. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors will continue to classify leases as operating or finance, with the approach to lessor accounting substantially unchanged. The standard will require the Company to consider how some of the lease arrangements are currently treated to determine if changes are required to existing accounting practices.

IFRS 16 applies to annual reporting periods beginning on or after 1 January 2019, although early adoption is permitted.

2. Critical accounting estimates and judgements

The reported results of the Company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial information. The Company's principal accounting policies are set out on pages 12 to 16. UK company law and IFRSs require the Directors, in preparing the Company's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent.

In the absence of an applicable standard or interpretation, IAS 8, 'Accounting policies, Changes in Accounting Estimates and Errors', require management to develop and apply an accounting policy that results in relevant reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and IASB's Framework for the Preparation and Presentation of Financial Statements. The judgements and assumptions involved in the Company's accounting policies that are considered to be the most important to the portrayal of its financial condition are discussed below.

The use of estimates, assumptions or models that differ from those adopted by the Company would affect its reported results.

2.1 Pensions
The Direct Line Group Staff Pension and Life Assurance Scheme (the "Staff Scheme") was a non-contributory defined benefit scheme. On 1 April 2003, the assets and liabilities of the Staff Scheme were transferred into the Green Flag Group Pension Plan, subsequently, on the same date, renamed as the Direct Line Group Closed Pension Scheme (the "Closed Scheme"). The Staff Scheme is a closed scheme, which continues to provide benefits based on final pensionable salary to pensioners and deferred members. The Staff Scheme was wound up

2. Critical accounting estimates and judgements
continued on 10 December 2003. The Closed Scheme has no active members.

The Closed Scheme continues to provide benefits for individuals that were pensioners at the time the scheme closed based on their final pensionable salary at the time the member left the scheme and defined contribution benefits for other members. The liabilities of the Closed Scheme relate to payment of pensions and deferred pensions.

The assets and liabilities of the Closed Scheme are held separately from those of the Company, however, the net liability is accounted for on the Company balance sheet. The assets of the Closed Scheme are measured at their fair value at the balance sheet date. Scheme liabilities are measured using the projected unit method, which takes account of projected earnings increases, using actuarial assumptions that give the best estimate of the future cash flows that will arise under the scheme liabilities. These cash flows are discounted at the interest rate applicable to high-quality corporate bonds of the same currency and term as the liabilities.

Any surplus or deficit of scheme assets over liabilities is recognised in the balance sheet as an asset/surplus or liability / deficit. An asset is only recognised to the extent that the surplus can be recovered through reduced contributions in the future or through refunds from the scheme. The retirement benefit asset recognised by the Company at 31 December 2015 was £13.1 million (2014: £3.5 million).

An actuarial valuation was performed by the Scheme Administrators at 31 December 2015 and at 31 December 2014. The deficit and surplus on the above dates and the movements thereon have been accounted for as per note 19.

In determining the value of scheme liabilities assumptions are made as to price inflation, dividend growth and pension increases. There is a range of assumptions that could be adopted in valuing the scheme's liabilities. Different assumptions could significantly alter the amount of the surplus recognised in the balance sheet and the pension cost charged to the income statement. The assumptions underlying the 2015 deficit and pension cost are set out in note 19 to the financial statements.

2.2 Deferred tax
The Company makes provision for deferred tax on short-term and other temporary differences where tax recognition occurs at a different time from accounting recognition. The deferred tax asset recognised by the Company at 31 December 2015 was £7.0 million (2014: £8.8 million).

2.3 Property, plant and equipment
The Company does not revalue property, plant and equipment. However, it takes appropriate steps to consider whether the aggregate value of property, plant and equipment exceeds the balance sheet carrying value of such items.

The Company is satisfied that the aggregate value of property, plant and equipment is not less than their carrying value. The carrying value of property, plant and equipment at 31 December 2015 was £187.5 million (2014: £152.1 million).

3. Risk management

3.1 Risk management overview

The Direct Line Insurance Group plc Board ("Group Board") monitors adherence to the risk strategy, risk appetite and risk framework of 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

The annual report of DLIG contains a comprehensive review of the risk management framework for the whole group. The Company adheres to this risk management framework.

3.1.1 Risk Strategy and Risk Appetite

Direct Line Group's risk appetite statements express the level of risk the Group (including DL Insurance Services Limited) is prepared to accept to achieve our business objectives. Details of the Group's risk strategy and risk appetite are contained in the DLIG annual report.

3.1.2 Enterprise-wide Risk Management Framework

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

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

3.1.3 Principal risks and uncertainties

Risks are always present in our business. It is important to ensure that we identify measure, monitor and report these risks throughout the business on an ongoing basis. We also monitor changes in these risks over time. We believe these risks are broadly unchanged over the last year.

The key risks applicable to the Company are detailed below.

3.2 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 mainly exposed to the following market risk factors:

- interest rate risk;
- Property risk; and
- foreign currency risk.

Interest rate risk

This is the risk of loss from all assets and liabilities for which the net asset value is sensitive to changes in the term structure of interest rate and interest rate volatility. The Company's interest rate risk arises mainly from its loans and borrowings with fellow subsidiaries.

Property Risk

This risk results from adverse price fluctuations on commercial property investments. At 31 December 2015, the value of these property investments was £6.0 million (2014: £5.9 million). The property investments are located in the UK.

Foreign currency risk

The Company had limited exposure to currency risk in the form of its assets held for sale up to the point of sale of this investment. The majority of other financial assets and liabilities are denominated in Pounds Sterling and do not bear any exposure to currency risk.

3. Risk management continued

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%)
Currency	The impact of an increase of 5% in the value of sterling against major currencies.
Expenses	The impact of an increase in ongoing administrative expenses by 10%

Sensitivity at 31 December 2015

	Interest rates +1%	Currency +5%	Expenses +10%
Impact on profit before tax (£million)	(4.4)	-	(95.7)
Impact before tax on shareholders' equity (£million)	(4.4)	-	(95.7)

Sensitivity at 31 December 2014

	Interest rates +1%	Currency +5%	Expenses +10%
Impact on profit before tax (£million)	(4.3)	(0.4)	(98.0)
Impact before tax on shareholders' equity (£million)	(4.3)	(0.4)	(98.0)

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.

3.3 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 is 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 the counterparties and debtors of the Company. It is primarily managed by the 1st Line of Defence and monitored by the Credit Risk Forum. The main responsibility of this forum is to ensure that all material aspects of counterparty risk within the the Company are identified, monitored and measured.

3. Risk management continued

3.4 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 business change programme resulting in conflicting priorities and failure to deliver strategic outcomes to time, cost or quality.

IT continuity risk
This is the risk of loss of technology services due to data, systems or data centre failure and / or failure of a third party to restore services.

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 services providers and intragroup relationships.

3.5 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.

4. Fee income

	2015	2014
	£m	£m
Fees in respect of management services provided to fellow subsidiaries within the Group[1]	**961.3**	986.0
Total	**961.3**	986.0

Note 1: The nature of services provided include administration, data processing, data management, operational support and managerial advisory services.

5. Investment return

	2015	2014
	£m	£m
Investment income:		
Interest income on cash held	**0.3**	0.3
Dividend income	**27.3**	-
Interest on loans to fellow subsidiaries within the Group	**0.1**	0.1
Rental income from investment property	**0.8**	0.8
Unrealised gain/(loss) on investment property	**0.1**	(0.3)
Total	**28.6**	0.9

6. Operating income

	2015	2014
	£m	£m
Other operating income[1]	**7.3**	6.0

Note 1: Other operating income includes salvage income of £4.3m (2014: £3.3m).

7. Operating expenses

	2015	2014
	£m	£m
Staff costs	**467.5**	466.8
Depreciation	**29.8**	22.0
Amortisation of intangible assets	**62.8**	53.6
Impairment of intangible assets	**4.3**	9.5
Impairment of property, plant and equipment	**17.0**	0.1
Other operating expenses	**376.0**	428.2
Total	**957.4**	980.2

7. Operating expenses continued

The average number of employees (including executive directors) employed by the Company was:

	2015	2014
Operations	**9,564**	9,959
Support	**1,257**	1,278
Total	**10,821**	11,237

The aggregate remuneration of company employees comprised:

	2015	2014
	£m	£m
Wages and salaries	**333.6**	346.4
Social security costs	**37.5**	37.5
Pension costs	**23.4**	19.1
Share based payments	**12.1**	6.7
Total	**406.6**	409.7

Operating profit before tax is stated after charging:

	2015	2014
	£m	£m
Fees payable to Deloitte for the audit of the Company's annual accounts – Deloitte LLP:	**0.1**	0.1

Directors' emoluments

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

8. Finance costs

	2015	2014
	£m	£m
Interest expense:		
Borrowings from fellow subsidiaries within the Group	**2.9**	2.7
Total	**2.9**	2.7

9. Tax charge

	2015 £m	2014 £m
Current taxation:		
Charge for the year	**9.9**	3.6
(Over) / under provision in respect of prior periods	**(4.8)**	6.1
	5.1	9.7
Deferred taxation:		
(Credit) / charge for the year	**(1.0)**	3.1
Under / (over) provision in respect of prior periods	**2.9**	(6.3)
	1.9	(3.2)
Current taxation	**5.1**	9.7
Deferred taxation (note 10)	**1.9**	(3.2)
Total tax charge	**7.0**	6.5

The actual income tax charge differs from the expected income tax charge computed by applying the standard rate of UK corporation tax of 20.25%[1] (2014: 21.5%)[1] as shown below:

	2015 £m	2014 £m
Profit before tax	**21.9**	10.0
Expected tax charge	**4.4**	2.1
Effects of:		
Gain recognised on disposal of associate held for sale	**(1.9)**	-
Disallowable expenses	**6.2**	4.8
Effect of change in UK taxation rate	**0.4**	(0.2)
Dividend income from subsidiaries	**(5.5)**	-
Net movement in impairment of subsidiaries	**5.3**	-
Over provision in respect of prior periods	**(1.9)**	(0.2)
Total tax charge for the year	**7.0**	6.5
Effective income tax rate	**32%**	65%

Note 1: In the Finance Act 2013 the UK Government enacted a reduction in the UK corporation tax rate from 23% to 21% effective from 1 April 2014 and a further reduction 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. 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.

	2015 £m	2014 £m
Per balance sheet:		
Current tax liabilities	**11.6**	*6.8*

10. Deferred tax

The following are the deferred tax assets and liabilities recognised by the Company, and the movements thereon, during the current and prior reporting years.

	Other temporary differences	Retirement benefit obligation	Accelerated capital allowances	Share-based payments	**Total**
	£m	£m	£m	£m	£m
At 1 January 2014	2.9	0.4	-	1.9	5.2
Credit / (charge) to income statement	2.3	(0.5)	0.6	0.8	3.2
Charge to other comprehensive income	-	(0.6)	-	-	(0.6)
Credit direct to equity	-	-	-	1.0	1.0
At 31 December 2014	5.2	(0.7)	0.6	3.7	8.8
Credit / (charge) to income statement	**(2.3)**	**(0.1)**	**0.2**	**0.3**	**(1.9)**
Charge to other comprehensive income	**-**	**(1.6)**	**-**	**-**	**(1.6)**
Credit direct to equity	**-**	**-**	**-**	**1.7**	**1.7**
At 31 December 2015	**2.9**	**(2.4)**	**0.8**	**5.7**	**7.0**

	2015	2014
	£m	£m
Per balance sheet:		
Deferred tax assets	**7.0**	8.8

In addition, the Company has an unrecognised deferred tax asset at 31 December 2015 of £4.1 million (2014: £1.9 million) in relation to capital losses.

11. Intangible assets

	Work in progress £m	Completed assets £m	Total £m
Cost			
At 1 January 2014	129.3	272.5	401.8
Additions	89.2	-	89.2
Derecognition of assets[1]	-	(67.2)	(67.2)
Transfer to completed projects	(91.2)	91.2	-
At 31 December 2014	127.3	296.5	423.8
Additions	**74.7**	**-**	**74.7**
Derecognition of assets[1]	**-**	**(8.0)**	**(8.0)**
Transfer to completed projects	**(32.8)**	**32.8**	**-**
At 31 December 2015	**169.2**	**321.3**	**490.5**

	Work in progress £m	Completed assets £m	Total £m
Accumulated amortisation and impairment			
At 1 January 2014	-	122.0	122.0
Charge for the year	-	53.6	53.6
Derecognition of assets[1]		(67.2)	(67.2)
Impairment losses		(9.5)	(9.5)
At 31 December 2014	-	117.9	117.9
Charge for the year	**-**	**62.8**	**62.8**
Derecognition of assets[1]	**-**	**(8.0)**	**(8.0)**
Impairment	**-**	**4.3**	**4.3**
At 31 December 2015	**-**	**177.0**	**177.0**
Carrying amount			
At 31 December 2015	**169.2**	**144.3**	**313.5**
At 31 December 2014	**127.3**	**178.6**	**305.9**

Note 1: Derecognition: represents assets which are fully amortised and are no longer used by the Company in its operating activities.

12. Property, plant and equipment

	Land and buildings £m	Other equipment £m	Total £m
Cost			
At 1 January 2014	13.2	114.8	128.0
Additions	43.3	38.1	81.4
Disposals	-	(15.4)	(15.4)
At 31 December 2014	56.5	137.5	194.0
Additions	**43.0**	**48.1**	**91.1**
Disposals	**-**	**(15.4)**	**(15.4)**
Transfer to assets held for sale (note 18)	**(21.9)**	**-**	**(21.9)**
At 31 December 2015	**77.6**	**170.2**	**247.8**

	Land and buildings £m	Other equipment £m	Total £m
Accumulated depreciation and impairment			
At 1 January 2014	0.2	34.7	34.9
Charge for the year	0.6	21.4	22.0
Disposals	-	(15.1)	(15.1)
Impairments losses	-	0.1	0.1
At 31 December 2014	0.8	41.1	41.9
Charge for the year	**0.8**	**29.0**	**29.8**
Disposals	**-**	**(11.1)**	**(11.1)**
Transfer to assets held for sale (note 18)	**(0.3)**	**-**	**(0.3)**
At 31 December 2015	**1.3**	**59.0**	**60.3**
Carrying amount			
At 31 December 2015	**76.3**	**111.2**	**187.5**
At 31 December 2014	55.7	96.4	152.1

13. Investment property

	2015	2014
	£m	£m
At 1 January	**5.9**	6.2
Increase/(decrease) in fair value during the year	**0.1**	(0.3)
At 31 December	**6.0**	5.9

The investment property is measured at fair value which was arrived at on the basis of a valuation carried out at the balance sheet date by independent valuers.

The valuation conforms to international valuation standards. The fair value was determined using a methodology based on recent market transactions for similar properties, which have been adjusted for the specific characteristics of the property which also consider the level of future rental income to be generated from existing lease agreements.

The lease agreements with tenants are drawn up in line with local practice and the Company has no exposure to leases that include contingent rents.

14. Investments in subsidiaries

Investments in subsidiaries are carried at cost less impairments.

Name of subsidiary	Place of incorporation and operation	Type of ownership interest (share type)	Proportion of voting power held	Principal activity
DL Support Services India Private Limited	India	Ordinary	99.9%	Managerial services
DLG Legal Services Limited	United Kingdom	Ordinary	100%	Legal services
Farmweb Limited	United Kingdom	Ordinary	100%	Dormant
DLG Pension Trustee Limited	United Kingdom	Ordinary	100%	Dormant
10 - 15 Livery Street, Birmingham UK Limited	Jersey	Ordinary	100%	Property rental company

	2015	2014
Investment in subsidiaries	**£m**	£m
At 1 January	**26.3**	0.1
Additions	-	26.2
Impairment	**(26.1)**	-
At 31 December	**0.2**	26.3

On 17th December 2015, the Company purchased the freehold of 10-15 Livery Street, Birmingham, from it's subsidiary *10-15 Livery Street, Birmingham UK Limited, for the total consideration of £25.1 million. Having sold this* freehold property, 10-15 Livery Street, Birmingham UK Limited, reduced its share capital by £24,000,072.45 to £1 and then declared a dividend of £27,241,434 to be paid to its shareholder, DLIS. The Company recognised this dividend income and also the associated impairment to the carrying value of its investment in 10-15 Livery Street, Birmingham UK Limited.

15. Investment in associate

The investment in associate was carried at cost less impairment.

	2015	2014
	£m	£m
At 1 January 2015	-	8.7
Transfer to asset held for sale (note 18)	-	(8.7)
At 31 December 2015	-	-

16. Trade and other receivables

	2015	2014
	£m	£m
Receivables from the provision of services	**136.4**	266.7
Other debtors	**29.4**	37.2
Total	**165.8**	303.9

In respect of trade and other receivables, £160.7 million (2014: £282.5 million) is neither past due nor impaired and is classified as unrated. The remaining balance of £5.1 million (2014: £21.4 million) is past due more than 30 days and is classified as A+ to BB+ and unrated and is not impaired.

17. Cash and cash equivalents

	2015	2014
	£m	£m
Cash at bank and in hand	**2.7**	9.4
Short-term deposits with credit institutions	-	8.4
Total	**2.7**	17.8

Cash and cash equivalents are neither past due or impaired and are classified with a credit quality of 'BBB' or above.

The effective interest rate on short-term deposits with credit institutions for the year ended 31 December 2015 was 0.49% (2014: 0.47%) and had an average maturity of 10 days (2014: 10 days).

The following table details cash and bank overdrafts for the purpose of the cash flow statement.

	2015	2014
	£m	£m
Cash and cash equivalents	**2.7**	17.8
Bank overdrafts (note 21)	**(10.7)**	(44.8)
Total	**(8.0)**	(27.0)

18. Assets held for sale

	2015	2014
	£m	£m
Freehold property	**4.6**	3.0
Investment in associate	**-**	8.7
Total	**4.6**	11.7

On 29 May 2015, DLIG completed the sale of its International business including the Company's 10% holding in Direct Line Insurance S.p.A. in Italy. There was a gain on disposal of £11.1m.

The freehold property held at 31 December 2015 comprises the Pudsey sites which were transferred from property, plant and equipment to assets held for sale in 2015 with a carrying value of £21.6 million and impaired by £17.0 million to reflect the estimated realisable value.

The freehold property held at 31 December 2014 with a value of £3.0 million comprised the formerly occupied Coombe Court site in Croydon which was disposed of during 2015 realising proceeds of £7.1 million and generating an impairment reversal of £4.1 million.

The total impact of impairments was £12.9m; £17.0m relating to Pudsey and (£4.1m) relating to Coombe Court.

19. Retirement benefits obligations

Defined contribution scheme
The pension charge for the year ended 31 December 2015 was £24.4 million (2014: £19.1 million).

Defined benefit scheme
The Company's defined benefit pension scheme was closed in 2003 although the Company remains the sponsoring employer for obligations to current and deferred pensioners based on qualifying years' service and final salaries. The defined benefit scheme is legally separated from the Company with trustees who are required by law to act in the interests of the scheme and of all the relevant stakeholders. The trustees of the pension scheme are responsible for the investment policy with regard to the assets of the scheme.

The weighted average duration of the defined benefit obligation at 31 December 2015 is 20 years (2014: 20 years) using accounting assumptions.

The table below sets out the principal assumptions used in determining the defined benefit scheme obligations:

	2015	2014
	%	%
Rate of increase in pension payment	**2.1**	2.1
Rate of increase of deferred pensions	**2.1**	2.1
Discount rate	**3.8**	3.4
Inflation rate	**3.2**	3.1

No assumption has been made for salary growth as there are no obligations in the scheme that are linked to future increases in salaries.

19. Retirement benefits obligations continued

Post retirement mortality assumptions:

	2015	2014
Life expectancy at age 60 now:		
Males	**87.8**	88.5
Females	**89.9**	90.2
Life expectancy at age 60 in 20 years time:		
Males	**90.1**	90.4
Females	**92.3**	92.3

The table below analyses the fair value of the scheme assets by type of asset.

	2015 £m	2014 £m
Equities	-	3.0
Index-linked bonds	**21.5**	22.2
Government bonds	**13.7**	12.8
Corporate bonds	**43.8**	44.4
Other	**6.1**	0.7
Total market value of assets	**85.1**	83.1

The majority of debt and equity instruments have quoted prices on active markets.

Movement in net pension surplus / (deficit):

	Fair value of defined benefit scheme assets £m	Present value of defined benefit scheme obligation £m	Net pension surplus/(deficit) £m
At 1 January 2014	66.0	(68.0)	(2.0)
Income statement			
Net interest income / (cost) [1]	2.9	(3.0)	(0.1)
Statement of comprehensive income			
Actuarial gains arising from experience adjustments	12.9	1.0	13.9
Actuarial losses arising from changes in financial assumptions	-	(11.1)	(11.1)
Contributions by employer	2.8	-	2.8
Benefits paid	(1.5)	1.5	-
At 31 December 2014	83.1	(79.6)	3.5
Income statement			
Net interest income / (cost) [1]	**2.8**	**(2.7)**	**0.1**
Statement of comprehensive income			
Actuarial loss arising from experience adjustments	**(1.9)**	**1.2**	**(0.7)**
Actuarial gains arising from changes in demographic assumptions	**-**	**1.1**	**1.1**
Actuarial gains arising from changes in financial assumptions	**-**	**6.3**	**6.3**
Contributions by employer	**2.8**	**-**	**2.8**
Benefits paid	**(1.7)**	**1.7**	**-**
At 31 December 2015	**85.1**	**(72.0)**	**13.1**

Note 1: The net interest income and net interest cost in the income statement have been included under other operating expenses.

19. Retirement benefits obligations continued

The table below details the history of the scheme for the current and prior years.

	2015	2014	2013	2012	2011
	£m	£m	£m	£m	£m
Present value of defined benefit scheme obligations	**(72.0)**	(79.6)	(68.0)	(61.2)	(54.1)
Fair value of defined benefit scheme assets	**85.1**	83.1	66.0	63.7	56.7
Net surplus /(deficit)	**13.1**	3.5	(2.0)	2.5	2.6
Experience adjustment gains / (losses) on scheme liabilities	**1.2**	1.0	(0.2)	(0.1)	0.4
Experience adjustment gains / (losses) on scheme assets	**(1.9)**	12.9	(1.3)	2.2	(2.6)

Sensitivity analysis

The table below provides a sensitivity analysis of the potential impact of a change in a single factor with all other assumptions left unchanged. Other potential risks beyond the ones described in the table could have an additional financial impact on the Company. This sensitivity analysis has been selected to reflect the changes to discounted cash flows as a result of changes to the discount rate, inflation rate and mortality assumptions. The methodology adopted involves actuarial techniques.

	Impact on pension cost		Impact on present value of scheme obligations	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Discount rate				
0.25% increase in discount rate	**(0.2)**	(0.2)	**(3.7)**	(4.1)
0.25% decrease in discount rate	**0.2**	0.1	**3.7**	4.1
Inflation rate				
0.25% increase in inflation rate	**-**	-	**1.7**	2.1
0.25% decrease in inflation rate	**-**	-	**(1.7)**	(2.1)
Life expectancy				
1 year increase in life expectancy	**0.1**	0.1	**2.0**	1.8
1 year decrease in life expectancy	**(0.1)**	(0.1)	**(2.0)**	(1.8)

The most recent funding valuation of the defined benefit scheme took place as at 1 October 2014. The Company has agreed with the trustees to make a contribution of £2.8 million in 2016 with further contributions of up to £1.5m per annum in 2017 and 2018 to meet the scheme's funding requirements.

20. Share capital

	2015	2014
	£	£
Issued and fully paid: equity shares		
2 Ordinary Shares of £1 each	**2**	2

21. Borrowings

	2015	2014
	£m	£m
Loans from fellow subsidiaries within the Group[1] (note 27)	**157.4**	484.0
Bank overdrafts	**10.7**	44.8
Total	**168.1**	528.8

Note 1: Included in the above is a loan of £52.4 million (2014: £413.8 million) from U K Insurance Limited which is unsecured and is repayable on January 2017. It is subject to interest on the outstanding balance using the average 3 month LIBOR plus 10 basis points. Other loans of £105m (2014: £70.2m) from fellow group subsidiaries are repayable on demand and are subject to interest on outstanding balances based on the average 3 month LIBOR rate.

22. Derivative financial instruments

	Notional amount	Fair Value	Notional amount	Fair Value
	2015	**2015**	2014	2014
	£m	**£m**	£m	£m
Derivative assets				
Designated as hedging instruments:				
Parent Company	**4.6**	**0.3**	0.5	0.5
Third parties	**0.4**	**-**	-	-
Total	**5.0**	**0.3**	0.5	0.5
Derivative liabilities	**-**	**-**	0.1	0.1

Derivative financial instruments as shown above are all classified as level 2 under the fair value hierarchy. These are measured at fair value, which equates to their carrying value.

23. Share-based payments

Direct Line Group operates equity-settled, share-based compensation plans in which eligible employees of the Company are able to participate.

The plans include a Long-Term Incentive Plan, Restricted Shares Plan, Deferred Annual Incentive Plan and Direct Line Group Share Incentive Plans, including both the Free Share awards and Buy-As-You-Earn plan, details of which are set out below. All awards are to be satisfied using market purchased shares of DLIG.

Long-Term Incentive Plan
Executive Directors and certain members of senior management are eligible to participate in the LTIP with awards are granted in the form of nil-cost options. Under the plan, the awards vest at the end of a three-year period dependent upon the continued employment by the Group and also the Group achieving predefined performance conditions associated with Total Shareholders Return and Return on Tangible Equity.

Awards were made in the year ended 31 December 2015 over 1.7 million DLIG Ordinary Shares with an estimated fair value of £5.5 million at the March 2015 grant date (2014: 2.2 million DLIG Ordinary Shares with an estimated fair value of £4.3 million) and 1.7 million DLIG Ordinary Shares with an estimated fair value of £5.9 million at the August 2015 grant date (2014: 2.0 million Ordinary Shares with an estimated fair value of £4.7 million).

The estimated fair value of the LTIP share awards with market-based performance conditions was calculated using a Monte-Carlo simulation model.

The table below details the inputs into the model.

Weighted average assumptions during the year	2015	2014
Share price (pence)	**339**	270
Exercise price (pence)	**0**	0
Volatility of DLIG share price	**20%**	26%
Average comparator volatility	**27%**	30%
Expected life	**3 years**	3 years
Risk-free rate	**0.8%**	1.1%

23. Share-based payments continued

Expected volatility and median historic activity have been calculated by comparing the share price movements of DLIG's shares to a group of comparable FTSE 350 Insurance Sector companies using daily share price data over a period commensurate with the expected life assumption.

Plan participants are entitled to receive additional shares in respect of dividends paid by DLIG to shareholders over the vesting period. Therefore no deduction has been made from the fair value of awards in respect of dividends by DLIG.

Expected life was based on the contractual life of the awards and adjusted based on management's best estimate for the effects of exercise restrictions and behavioural considerations.

Restricted Shares Plan
The purpose of the Restricted Shares Plan is to facilitate the wider participation in DLIG share-based compensation plans to eligible employees. These awards can be granted at any time during the year, generally have no performance criteria, and vest over periods ranging between one and three years from the date of the grant, subject to continued employment by the Group. During the year awards were made over 15,705 DLIG Ordinary Shares (2014: 509,103 DLIG Ordinary Shares) with an estimated fair value of £0.1 million (2014: £1.4 million) using the market value of DLIG Ordinary Shares at the date of grant of the award.

Deferred Annual Incentive Plan
To incentivise delivery of performance over a one year operating cycle, Executive Directors and certain members of senior management are eligible for awards under the Annual Incentive Plan, of which at least 40% is granted in the form of a nil-cost option under the Deferred Annual Incentive Plan with the remainder being settled in cash following year end.

In March 2015 awards were made over 1.0 million DLIG Ordinary Shares (2014: 1.1 million DLIG Ordinary Shares) under this plan with an estimated fair value of £3.4 million (2014: £2.6 million) using the market value of DLIG Ordinary Shares at the date of grant.

The awards outstanding at 31 December 2015 have no performance criteria attached, other than the requirement that the employee remains in employment with the Group for three years from the date of award.

Direct Line Share Incentive Plans: Free share awards
In March 2015, Direct Line Insurance Group plc offered all eligible UK employees a Free Share award granting 122 Ordinary shares free of charge. These awards have no performance criteria attached and vest on the third anniversary of the award grant date, subject to completion of three years, continuing employment. DLIG initially granted 1.3 million Ordinary Shares with an estimated fair value of £4.2 million using the market value at the date of grant.

Direct Line Share Incentive Plans: Buy-As-You-Earn Plan
The Buy-As-You-Earn Plan entitles employees to purchase shares from pre-tax pay for between £10 and £150 per month and receive one matching share for every two shares purchased.

In the year ended 31 December 2015, matching share awards were granted over 0.3 million DLIG Ordinary Shares (2014: 0.3 million DLIG Ordinary Shares) with an estimated fair value of £1.1 million (2014: £0.8 million). The fair value of each matching share award is estimated using the market value of DLIG Ordinary Shares at the date of grant.

Under the plan, the shares vest at the end of a three-year period dependent upon the continued employment with the Group together with continued ownership of the associated purchased shares up to the point of vesting.

23. Share-based payments continued

The following table details the outstanding number of share awards in issue (all nil-cost).

	2015 Number million	2014 Number million
At 1 January	**16.4**	11.4
Granted during the year	**6.8**	6.1
Impact of share consolidation in DLIG	**(1.6)**	-
Forfeited during the year	**(1.5)**	(0.8)
Exercised during the year	**(2.9)**	(0.3)
At 31 December	**17.2**	16.4
Exercisable at 31 December	**1.6**	0.3

In respect of the outstanding options at 31 December 2015, the weighted average remaining contractual life is 1.44 years (2014: 1.66 years). No share options expired during the year (2014: nil).

The weighted average share price for awards exercised during the year ended 31 December 2015 was £3.95 (2014: £2.56).

The Company recognised total expenses in the year ended 31 December 2015 of £12.1 million (2014: £6.7 million) relating to equity settled share-based compensation plans.

24. Trade and other payables

	2015 £m	2014 £m
Trade creditors and accruals	**126.6**	156.0
Other creditors	**0.1**	0.4
Other taxes	**12.5**	10.1
Provisions	**45.3**	51.3
Deferred income	**0.9**	2.4
Total	**185.4**	220.2

Movements during the year in provisions are as follows:

	Restructuring	Other	Total £m
At 1 January 2015	**8.5**	**42.8**	**51.3**
Additional provision	**6.0**	**33.8**	**39.8**
Release to income statement	**(1.7)**	**(6.5)**	**(8.2)**
Utilisation of provision	**(3.8)**	**(33.8)**	**(37.6)**
At 31 December 2015	**9.0**	**36.3**	**45.3**

Other provisions include £1.7 million (2014: £1.9 million) held in respect of costs associated with vacated leasehold properties, £28.3 million (2014: £29.5 million) staff rewards and £6.3 million for business reorganisation 2014: £11.4 million)

The following table analyses the maturity of trade and other payables as shown in note 24.

	Within 1 year £m	1 – 3 years £m	3 – 5 years £m	5 – 10 years £m	Over 10 years £m
2015	**184.5**	**0.9**	**-**	**-**	**-**
2014	219.0	1.2	-	-	-

25. Notes to the cash flow statement

	Notes	2015 £m	2014 £m
Profit before tax		**21.9**	10.0
Adjustments for:			
Investment return	5	**(28.6)**	(0.9)
Finance costs	8	**2.9**	2.7
Share-based payments	23	**12.1**	6.7
Depreciation of property, plant and equipment	12	**29.8**	22.0
Profit on disposal of asset held for sale	18	**(11.1)**	-
Amortisation of intangible assets	11	**62.8**	53.6
Impairment loss on property, plant and equipment	12	**-**	0.1
Loss on sale of property, plant and equipment	12	**4.3**	0.3
Impairment and write off of intangible asset	11	**4.3**	9.5
Impairment losses on asset held for sale	18	**12.9**	9.6
Impairment of investment in subsidiary	14	**26.1**	-
Operating cash flows before movements in working capital		**137.4**	113.6
Movements in working capital:			
Contributions to retirement benefit obligations	19	**(2.8)**	(2.8)
Net increase in loans to related parties	27	**(16.7)**	(6.0)
Net decrease in loans and other receivables		**11.0**	27.5
Net decrease / (increase) in trade and other payables		**104.4**	(41.0)
Cash generated by operations		**233.3**	91.3
Tax received / (paid)		**0.5**	(13.6)
Cash flow hedges		**0.1**	(0.6)
Cash generated by operating activities		**233.9**	77.1

26. Commitments

Operating lease commitments

The Company leases vehicles and properties under both non-cancellable and cancellable operating lease agreements.

	2015	2014
	£m	£m
Minimum lease payments under operating leases recognised as an expense in the year	**5.3**	8.1

At the balance sheet date, the Company had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2015	2014
	£m	£m
Within one year	**3.7**	4.8
In the second to fifth years inclusive	**5.5**	9.8
After five years	**0.2**	13.5
Total	**9.4**	28.1

Operating lease commitments where the Company is the lessor

The following table analyses future aggregate minimum lease payments receivable under non-cancellable operating leases, which fall as follows:

	2015	2014
	£m	£m
Within one year	**0.5**	0.5
In the second to fifth years inclusive	**1.2**	1.6
After five years	**0.4**	0.5
Total	**2.1**	2.6

27. Related parties

The ultimate holding company is Direct Line Insurance Group plc, which is also the immediate parent company and is incorporated in the United Kingdom and registered in England and Wales.

RBS Group, was formerly a related party of the Company (being the ultimate holding company, the Company's immediate parent company), however this relationship ceased on 27 February 2014 when RBS sold its remaining shares in DLIG.

The following transactions were carried out with related parties.

i. Sales and other services

	2015 £m	2014 £m
Subsidiaries of the Group	**961.3**	986.0
Total	**961.3**	986.0

ii. Purchases of services

	2015 £m	2014 £m
RBS Group plc	-	16.5
Subsidiaries of the Group	**1.0**	3.5
Total	**1.0**	20.0

Purchases of services are charged on an arm's length basis.

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

Receivables from related parties

	2015 £m	2014 £m
Subsidiaries of the Group	**111.0**	250.0

Movements in receivables from related parties were as follows:

	2015 £m	2014 £m
At 1 January	**250.0**	227.5
Transactions in the year	**578.0**	2,691.4
Settled in the year	**(717.0)**	(2,668.9)
At 31 December	**111.0**	250.0

Due to related parties

	2015 £m	2014 £m
Subsidiaries of the Group	**0.8**	1.4
Total	**0.8**	1.4

27. Related Parties continued

iii. Year end balances arising from sales and purchases of products and services (continued)

Movements in amounts due to related parties were as follows:

	2015 £m	2014 £m
At 1 January	**1.4**	2.3
Transactions in the year	**5.0**	20.8
Settled in the year	**(5.6)**	(21.7)
At 31 December	**0.8**	1.4

iv. Loans to related parties

	2015 £m	2014 £m
Subsidiaries of the Group	**25.4**	16.7

Movements in loans to related parties were as follows:

	2015 £m	2014 £m
At 1 January	**16.7**	10.7
Loans made during the year	**19.9**	14.3
Interest charged	**0.1**	0.1
Loan repayments received	**(11.3)**	(8.4)
At 31 December	**25.4**	16.7

v. Loans from related parties

	2015 £m	2014 £m
Subsidiaries of the Group	**157.4**	484.0

Movements in loans from related parties were as follows:

	2015 £m	2014 £m
At 1 January	**484.0**	402.9
Loans received during the year	**214.1**	93.6
Loan repayments made	**(543.6)**	(15.2)
Interest charged	**2.9**	2.7
At 31 December	**157.4**	484.0

Compensation of key management personnel

As stated in note 7, all strategic and management decisions for the Company are made by the executive of the Group, comprising the Board of Directors and Executive Committee.

Compensation of these individuals, deemed to be key management personnel is stated in the Annual Report and Accounts of DLIG, copies of which 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.