

# Notes to the Parent Company financial statements

## 1. Accounting policies

### Basis of preparation

Direct Line Insurance Group plc, incorporated in the UK, is the ultimate parent undertaking of the Direct Line Group. The principal activity of the Company is managing its investments in subsidiaries, raising funds for the Group, providing loans to subsidiaries and the receipt and payment of dividends.

The Company's financial statements are prepared in accordance with IFRSs as issued by the IASB and are presented in accordance with the Companies Act 2006. In accordance with the exemption permitted under section 408 of Companies Act 2006, the Company's income statement and related notes have not been presented in these separate financial statements.

The accounting policies that are used in the preparation of these separate financial statements are consistent with the accounting policies used in the preparation of the consolidated financial statements of Direct Line Insurance Group plc as set out in those financial statements.

The additional accounting policies that are specific to the separate financial statements of the Company are set out below.

### Investment in subsidiaries

Investments in subsidiaries are stated at cost less any impairment.

### Dividend income

Dividend income from investments in subsidiaries is recognised when the right to receive payment is established.

## 2. Investment in subsidiary undertakings

	2013 £m	2012 £m
At 1 January	<b>3,226.1</b>	3,415.3
Additions	<b>13.2</b>	105.5
Disposals	<b>(50.7)</b>	–
Impairments	<b>(10.8)</b>	(291.8)
Effect of foreign currency exchange adjustment	<b>3.7</b>	(2.9)
At 31 December	<b>3,181.5</b>	3,226.1

The Company sold 100% of the share capital of its subsidiary Direct Line Life Insurance Company Limited on 28 November 2013. The carrying value of the investment in the Life business was £50.7 million at the date of sale. The total cash consideration received was £39.3 million generating a loss on disposal of £11.4 million.

Full details of investments in principal subsidiaries are set out in note 19 to the consolidated financial statements.

## 3. Other receivables

	2013 £m	2012 £m
Loans to subsidiary undertakings <sup>1</sup>	<b>528.8</b>	521.4
Receivables from subsidiary undertakings	<b>–</b>	0.3
<b>Total</b>	<b>528.8</b>	521.7
Current	<b>28.8</b>	21.7
Non-current	<b>500.0</b>	500.0
<b>Total</b>	<b>528.8</b>	521.7

Note:

1. Included in loans to subsidiary undertakings is a £500 million unsecured subordinated loan to U K Insurance Limited. The loan was advanced on 27 April 2012 at a fixed rate of 9.5% with a repayment date of 27 April 2042. There is an option to repay the loan on specific dates from 27 April 2022. If the loan is not repaid on that date, the rate of interest would be reset at a rate of the six-month LIBOR plus 8.16%.

## Notes to the Parent Company financial statements continued

### 4. Current tax assets

	2013 £m	2012 £m
Corporation tax recoverable	1.6	4.5

### 5. Cash and cash equivalents

	2013 £m	2012 £m
Cash at bank and in hand	0.1	–
Short-term deposits with credit institutions:		
Third parties	6.7	263.6
Related parties – RBS Group	–	4.7
	<b>6.7</b>	268.3
<b>Total</b>	<b>6.8</b>	268.3

### 6. Share capital

Full details of the share capital of the Company are set out in note 27 to the consolidated financial statements.

### 7. Subordinated liabilities

	2013 £m	2012 £m
Subordinated dated notes	502.4	501.7

The subordinated dated notes were issued on 27 April 2012 at a fixed rate of 9.25%. The nominal £500.0 million bonds have a redemption date of 27 April 2042. The Company has the option to repay the notes on specific dates from 27 April 2022. If the notes are not repaid on that date, the rate of interest would be reset at a rate of the six-month LIBOR plus 7.91%.

The notes are unsecured, subordinated obligations of the Company, and rank pari passu without any preference among themselves. In the event of a winding up or of insolvency, they are to be repaid only after the claims of all other creditors have been met.

There have been no defaults on any of the notes during the year. The Company has the option to defer interest payments on the notes but to date has not exercised this right.

The aggregate fair value of subordinated dated notes at 31 December 2013 is £625.4 million (2012: £597.6 million).

### 8. Derivative financial instruments

	2013		2012	
	Notional amounts £m	Liabilities £m	Notional amounts £m	Liabilities £m
Forward foreign exchange contracts <sup>1</sup>	–	–	134.0	1.7

Note:

1. The derivative was held with RBS Group.

## 9. Borrowings

	2013 £m	2012 £m
Loans from subsidiary undertakings	-	255.4
<b>Total</b>	<b>-</b>	<b>255.4</b>
Current	-	255.4

## 10. Trade and other payables

	2013 £m	2012 £m
Payables to subsidiary undertakings	<b>0.5</b>	-

## 11. Dividends

Full details of the dividends paid by the Company are set out in note 14 to the consolidated financial statements.

## 12. Cash generated from operations

	2013 £m	2012 £m
Profit for the period	<b>193.1</b>	1,240.4
Adjustments for:		
Impairment in subsidiary undertakings	<b>10.8</b>	291.8
Investment income	<b>(268.4)</b>	(1,578.1)
Other operating (gain) / loss	<b>(0.2)</b>	1.3
Finance costs	<b>47.1</b>	41.6
Loss on disposal of subsidiary undertaking	<b>11.4</b>	-
Tax credit	<b>(1.3)</b>	(5.5)
Operating cash flows before movements in working capital	<b>(7.5)</b>	(8.5)
Net decrease in related party balances	<b>0.8</b>	23.4
Tax received	<b>4.2</b>	2.3
Finance costs	<b>(0.5)</b>	(9.8)
<b>Cash (used by) / generated from operations</b>	<b>(3.0)</b>	7.4

## Notes to the Parent Company financial statements continued

### 13. Related parties

Direct Line Insurance Group plc, which is incorporated in England and Wales, is the ultimate parent undertaking of the Direct Line Group of companies.

The Company is an associate of RBS Group.

During the year RBS Group sold 551.7 million of the Company's Ordinary Shares, representing 36.8% of the total share capital of the Company. Following the sale, the RBS Group shareholding in Direct Line Group fell to 28.5%. Full details of related parties are set out in note 39 to the consolidated financial statements.

The following transactions were carried out with related parties:

#### Sale of services

	2013 £m	2012 £m
Interest income from subsidiary undertakings	47.4	32.9

Interest income from loans to subsidiary undertakings was charged at rates ranging from 0.5% to 9.50% (2012: 0.51% to 9.50%).

	2013 £m	2012 £m
Dividend income from subsidiary undertakings	220.8	1,545.0

#### Purchase of services

	2013 £m	2012 £m
Management fees payable to subsidiary undertakings	7.7	8.7
Interest payable to subsidiary undertakings	0.1	7.1
Interest payable to RBS Group	-	2.7
Total	7.8	18.5

Interest charged on borrowings from related parties were at rates ranging from 0.5% to 2.0% (2012: 0.51% to 1.92%).

### 14. Share-based payments

Full details of share-based compensation plans are provided in note 33 to the consolidated financial statements.

### 15. Risk management

The risks faced by the Company are considered to be from its investment in subsidiaries. Its risks are considered to be the same as those in the operations of the Group itself and details of the key risks to the Group and the steps taken to manage them are disclosed in the Risk management section of the consolidated financial statements (note 3).

### 16. Directors and key management remuneration

The Directors and key management of the Group and the Company are the same. The aggregate emoluments of the Directors are set out in note 10 of the consolidated financial statements, the compensation for key management is set out in note 39 of the consolidated financial statements and the remuneration and pension benefits payable in respect of the highest paid Director, are included in the Directors' remuneration report in the Governance section of the Annual Report & Accounts.