

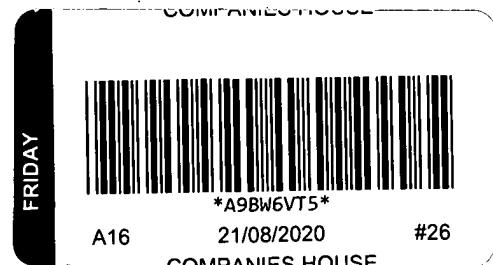
Company Registration No: 08302561

DLG LEGAL SERVICES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2019

Direct Line Group Secretariat  
Churchill Court  
Westmoreland Road  
Bromley  
BR1 1DP



**Annual report and financial statements****For the year ended 31 December 2019****Contents**

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**Officers and professional advisors**

**For the year ended 31 December 2019**

**Directors**

S Maddock  
G Rutherford  
A Sedgwick  
S N Tait  
H M Tomlinson

**Company Secretary**

R C Clifton

**Registered office**

42 The Headrow  
Leeds  
West Yorkshire  
LS1 8HZ

**Auditor**

Deloitte LLP

Statutory auditor  
1 New Street Square  
London  
United Kingdom  
EC4A 3HQ

**Company registration**

Registered in England and Wales: No. 08302561

**Strategic report****For the year ended 31 December 2019**

The Directors present their strategic report for the year ended 31 December 2019.

**Activities and business review****Activity**

The principal activity of DLG Legal Services Limited (the "Company") continues to be the provision of legal services to individual consumers and customers of Direct Line Group, with a primary focus on personal injury, motor claims litigation, legal advice line, employment and civil litigation.

The Company is a member of the Direct Line Group (the "Group") whose ultimate parent company is Direct Line Insurance Group plc ("DLIG") of which the Company is a subsidiary. The Group provides the Company with access to Group central resources and provides policies in key areas such as finance, risk, human resources and the environment. Key performance indicators across the Group taken as a whole are referred to in the DLIG annual report and financial statements 2019 ("DLIG annual report") and accordingly, for an understanding of the development, performance or position of the Company's business, please refer to the DLIG annual report, alongside the Review of the year below. 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.co.uk/en/investors](http://www.directlinegroup.co.uk/en/investors)

**Review of the year***Business review*

The Directors are satisfied with the Company's performance during the year. The Company may 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 Income Statement and Statement of Comprehensive Income on page 11 and 12 respectively. Profit before tax was £2,517,128 (2018: £1,943,336).

The Directors do not recommend the payment of a dividend for the financial year ending 31 December 2019 (2018: £nil).

At the end of the year, total assets were £24,429,461 (2018: £23,033,831). Income generating assets comprise the total assets as per the balance sheet. These total assets include derivative financial instruments that are held for hedging, not speculative, purposes. Total equity was £12,079,780 (2018: £9,928,611).

*Principal risks and uncertainties*

The management of the Company's principal risks are monitored by the Company Board. In addition, the management of the Group's risk, including those of the Company, are monitored at Group level, set out in the Risk Management section in the DLIG annual report. The Directors consider that there is low level of financial risk associated with the Company's assets and liabilities due to the nature of the Company's activities. The DLIG annual report and financial statements for the year ended 2019 contain a comprehensive review of the risk management framework for the whole Group.

- **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 main market risk the Company is exposed to relates to movements in foreign exchange rates, as described below:

*Foreign exchange risk*

To mitigate exposure to foreign exchange rate risk the Company uses foreign currency forward contracts.

- **Counterparty risk**

Counterparty risk is the risk of loss from unexpected default or deterioration in credit standing of the counterparties or debtors of the Company. The Company is exposed to counterparty risk through its trade and other receivables.

**Strategic report (continued)****For the year ended 31 December 2019****Review of the year (continued)**

Counterparty risk is primarily managed through the Credit Risk and Investment Risk Fora. The main responsibility of these fora is to ensure that all material aspects of counterparty risk within the Company are identified, monitored and measured.

- **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 monitored to ensure borrowing limits and funding requirements are at levels appropriate for the Company to operate.

- **Operational risk**

Operational risk 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:

- the Company's operations support complex transactions and are highly dependent on the proper functioning of its IT and communication systems;
- a dependency on the use of third-party information technology, software, data and service providers;
- a need to adequately maintain and protect customer and employee information; and
- the ability of the Company to attract and retain key qualified personnel.

Effective operational risk management requires the Company to identify, assess, manage, monitor, report and mitigate all areas of exposure. This risk management helps the Company to achieve its objectives, including:

- focusing on doing things the right way, leading to fewer surprises;
- reducing operational errors and losses, leading to increased customer satisfaction and higher-quality earnings; and
- increased management attention on the risks and issues that really matter.

- **Regulatory risk**

Risk arises from changes in law and regulations (including changes of interpretation) not being identified, interpreted or adopted correctly. In accordance with the Solicitors Regulatory Authority (SRA), the Company has a suitably qualified solicitor in the capacity of Compliance Officer for Legal Practice (COLP) to assess, manage and advise the Board on such matters. Additionally, the Company has access to the Group's risk management tools and resources, such as the Regulatory Risk Team, to help manage exposure to regulatory risk.

- **Change risk**

This is the risk of failing to manage the Company's business 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's strategy.

**Presentation of financial statements**

The Company transitioned from preparing these financial statements under EU-adopted IFRS to FRS 101 'Reduced Disclosure Framework' ("FRS 101") during 2018. This had no impact on the Company's financial position or performance and the primary financial statements are presented in accordance with Company Law requirements. In addition, the Company has now taken advantage of several disclosure exemptions available under FRS 101.

The financial statements also present the impact of the adoption of IFRS 15 'Revenue from Contracts with Customers,' which became effective from 1 January 2018.

**Coronavirus (COVID-19)**

The Company is closely monitoring developments in connection with the spread of COVID-19, including guidance and directions provided by HM Government and public health advisers. Like all businesses, the Company is subject to the consequences of disruption to financial markets, supply chains and its general operations, which over time could impact the performance of the Company. The further implications of the COVID-19 pandemic are uncertain and the Company monitors the situation on an ongoing basis.

**Strategic report (continued)****For the year ended 31 December 2019****Review of the year (continued)***Potential effect of Brexit*

The UK left the EU on 31 January 2020, and entered a transition period until the end of 2020, giving continued uncertainty about the final outcome. The Group has been monitoring events carefully and has proactively taken steps to mitigate the likely impact on the Group and the Company to the extent considered to be appropriate and proportionate, given the considerable uncertainties; however, in the event of a disruptive Brexit the Company will not be immune.

*Section 172(1) Statement and engagement with stakeholders*

The Group is a leading motor, home and commercial insurer which depends on the trust and confidence of its stakeholders to operate sustainably in the long term. It seeks to put its customers' best interests first, invests in its employees, supports the communities in which it operates and strives to generate sustainable profits for shareholders. The principal activity of Company is the provision of insurance intermediary services.

The Directors of the Company have acted in accordance with their duties codified in law, in particular their duty to act in the way in which they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in section 172(1) of the Companies Act 2006.

One Director of the Company is a member of the Group's principal management committee, which helps the Group's Chief Executive Officer manage the Group's operations and implement the Group's strategy, including its approach to sustainability. The Group's governance framework, which is consistent with the 2018 UK Corporate Governance Code, applied to the Company during the year. Further information about the Group's governance arrangements can be found in DLIG's annual report and financial statements for the year ended 31 December 2019 on page 90. The Company relies on resources made available by the Group including staff and suppliers who are respectively employed and contracted by a fellow subsidiary undertaking, DL Insurance Services Limited. Disclosures relating to employees, suppliers, customers and others may be found in the annual report and financial statements of DL Insurance Services Limited and DLIG for the year ended 31 December 2019.

The Group's vision, purpose and values are set out in the Strategic Report of DLIG for the year ended 31 December 2019 on pages 20 and 21 and further information on the Group's five-pillar sustainability strategy, which includes engagement with the community and protection of the environment and which applies to the Company, can be found on pages 59 to 73 in DLIG's 2019 Annual Report.

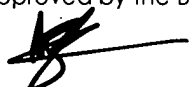
The Directors consider the likely consequences of any decision in the long-term. Each company within the Group is bound by Group policies consistent with the Group's culture in key areas including supplier management and outsourcing, customer conduct, human resources and the environment. Group policies and minimum standards applied by the Company during the financial year included, for example, the group accounting minimum standard to which the Directors adhered before approving the Company's financial statements.

The Directors and management operate the business in a responsible manner with the aim of ensuring that the Company maintains a reputation for high standards of business conduct and good governance. Each year, the Directors of DLIG review the Group's Code of Business Conduct which embodies the Group's culture, purpose and values. The Code of Business Conduct provides guidance to the Group's employees and contractors on the high standards of professional and ethical conduct expected of them and aims to preserve the Group's and the Company's reputation for high standards of conduct. Information on the Group's Ethical Code for Suppliers can be found in the DLIG's annual report and financial statements for the year ended 31 December 2019 on page 67.

*Outlook*

High level strategies of the Company are determined by the Company's Board. The Directors consider that the Company's principal activities will continue unchanged for the foreseeable future.

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



Anthony Sedgwick  
Director  
22 May 2020

## Directors Report

For the year ended 31 December 2019

The Directors present their annual report and the audited financial statements for the year ended 31 December 2019.

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 served throughout the year except where noted below, are listed on page 3. From 1 January 2019 to date, the following changes have taken place:

T Anjam	Resigned 27 June 2019
S Forrester	Resigned 1 August 2019
D Baker	Resigned 11 September 2019
A Sedgwick	Appointed 11 September 2019
R Duncan	Appointed 17 February 2020
M Evans	Appointed 17 February 2020

### Going concern

The Direct Line Group and the Company's priority is to seek to act in the best interest of the Company whilst having due regard to its stakeholders. The Company is taking measures with the objectives of maintaining operational resilience, maintaining the wellbeing of its staff (who are employed by a fellow subsidiary company, DL Insurance Services Limited ("DLIS")), communicating with its customers and suppliers, maintaining liquidity and accessing working capital, and protecting its financial position. The Company will continue to monitor COVID-19 developments over what may be an extended period of uncertainty and aims to ensure that its customers are receiving the best service reasonably possible during this period.

The Directors have reviewed the carrying value of the assets in the light of the uncertainties arising from the COVID-19 outbreak and, whilst continuing to closely monitor the situation, do not consider that any impairment is warranted as at the date of signing these financial statements. The Company has a good capital position, has continued to operate during the outbreak of COVID-19 and continues to review and update contingency plans as appropriate on a regular basis. The Company provides legal services to customers of a fellow Group subsidiary, and the impact of the COVID-19 pandemic is expected to result primarily in lower motor damage and personal injury case referrals whilst there are fewer vehicles on the road. As stated above in the Activities and business review section of the Strategic Report, the Company has access to central resources provided by the Group should these be so required.

The Group made an announcement on 8 April 2020 which included announcing that the holding company, Direct Line Insurance Group plc, was withdrawing its final dividend and continued to maintain strong solvency. The Group continues to keep its solvency and liquidity position under review and has identified a series of potential scenarios and mitigating actions as part of its assessment of the impact of COVID-19 on the Group's ability to continue to operate, which impact is not expected to result in any change to the going concern statement made in the Group's 2019 preliminary results, announced on 3 March 2020. At the date of signing this report, however, it is not possible to give with certainty an estimate of the impact that the pandemic could have on the financial position of the Company due to the uncertainties inherent in such a situation, as the further implications of the pandemic are not yet clear.

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 for the foreseeable future in preparing the financial statements.

All staff are employed by a fellow subsidiary undertaking of DLIG, DLIS. Disclosures relating to employees may be found in the annual report and financial statements of DLIS.

## **Directors Report**

**For the year ended 31 December 2019**

### **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:

- a) so far as the Director is aware, there is no relevant audit information, being information needed by auditors in connection with preparing their report, of which the Company's Auditor is unaware; and
- b) 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 Deloitte LLP under the deemed appointment rules of section 487 of the Companies Act 2006.

### **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 the financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework', and applicable law).

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 of the Company at the end of the year and the profit or loss of the Company for the financial year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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, the Company's financial position at any time and enable them to ensure the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the Company's assets and, hence, taking reasonable steps to prevent and detect fraud and other irregularities.

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



Anthony Sedgwick  
Director  
22 May 2020



**Independent Auditor's report to the Members of DLG Legal Services Limited****For the year ended 31 December 2019****Report on the audit of the financial statements****Opinion**

In our opinion the financial statements of DLG Legal Services Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 15.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

**Basis of opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Conclusions relating to going concern**

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

**Other information**

The Directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

**Independent Auditor's report to the Members of DLG Legal Services Limited****For the year ended 31 December 2019****Report on the audit of the financial statements (continued)****Responsibilities of Directors**

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, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**Report on other legal and regulatory requirements****Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the Directors' report.

**Matters on which we are required to report by exception**

Under the Companies Act 2006, we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

**Use of our report**

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.



Jeremy Black ACA  
Senior Statutory Auditor - for and on behalf of Deloitte LLP  
London, United Kingdom  
22 May 2020

**Income statement****For the year ended 31 December 2019**

	Notes	2019 £	2018 £
Revenue from contracts with customers	3	<b>16,695,866</b>	15,210,749
Operating costs	4	<b>(14,105,878)</b>	(13,194,573)
Operating profit		<b>2,589,988</b>	2,016,176
Interest received	6	<b>640</b>	660
Finance cost	7	<b>(73,500)</b>	(73,500)
Profit before tax		<b>2,517,128</b>	1,943,336
Tax charge	8	<b>(481,338)</b>	(379,631)
Profit for the year attributable to owners of the Company		<b>2,035,790</b>	1,563,705

All of the activities of the Company are derived from continuing operations.

The attached notes on pages 15 to 23 form an integral part of these financial statements.

**Statement of comprehensive income**

For the year ended 31 December 2019

	2019 £	2018 £
Profit for the year	2,035,790	1,563,705
Items that may be reclassified subsequently to profit and loss:		
Cash flow hedge movement	115,379	(222,209)
<b>Total comprehensive income for the year attributable to owners of the Company</b>	<b>2,151,169</b>	<b>1,341,496</b>

The attached notes on pages 15 to 23 form an integral part of these financial statements.

**Balance sheet****As at 31 December 2019**

	Notes	2019 £	2018 £
<b>Assets:</b>			
Cash and cash equivalents		<b>2,778,786</b>	3,399,130
Trade and other receivables	9	<b>14,274,927</b>	13,196,048
Contract asset	10	<b>7,081,088</b>	6,366,709
Derivative financial instruments	11	<b>216,679</b>	-
Deferred tax assets	8	<b>77,982</b>	71,944
<b>Total assets</b>		<b>24,429,461</b>	23,033,831
<b>Equity:</b>			
Share capital	12	<b>10,001</b>	10,001
Retained earnings		<b>11,954,400</b>	9,918,610
Cash flow hedge reserve		<b>115,379</b>	-
<b>Total equity</b>		<b>12,079,780</b>	9,928,611
<b>Liabilities:</b>			
Trade and other payables	13	<b>11,862,304</b>	12,584,154
Current tax liabilities	8	<b>487,377</b>	521,066
<b>Total liabilities</b>		<b>12,349,681</b>	13,105,220
<b>Total equity and liabilities</b>		<b>24,429,461</b>	23,033,831

The attached notes on pages 15 to 23 form an integral part of these financial statements.

The financial statements of DLG Legal Services Limited were approved by the Board of Directors and authorised for issue and signed on its behalf by:



Anthony Sedgwick  
Director  
22 May 2020

## Statement of changes in equity

For the year ended 31 December 2019

	Share capital £	Retained earnings £	Cash flow hedge reserve £	Total £
Balance at 1 January 2018	10,001	8,354,905	222,209	8,587,115
Profit for the year		1,563,705	-	1,563,705
Other comprehensive expense	-	-	(222,209)	(222,209)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>1,563,705</b>	<b>(222,209)</b>	<b>1,341,496</b>
<b>Balance at 31 December 2018</b>	<b>10,001</b>	<b>9,918,610</b>	<b>-</b>	<b>9,928,611</b>
Balance at 1 January 2019	10,001	9,918,610	-	9,928,611
Profit for the year		2,035,790	-	2,035,790
Other comprehensive income	-	-	115,379	115,379
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>2,035,790</b>	<b>115,379</b>	<b>2,151,169</b>
<b>Balance at 31 December 2019</b>	<b>10,001</b>	<b>11,954,400</b>	<b>115,379</b>	<b>12,079,780</b>

The attached notes on pages 15 to 23 form an integral part of these financial statements.

## Notes to the financial statements

For the year ended 31 December 2019

### General information

DLG Legal Services Limited is a private Company limited by shares incorporated in the United Kingdom under the Companies Act and registered in England and Wales.

### 1. Accounting Policies

#### 1.1 Basis of preparation

The Company's financial statements are prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'. This is the first period of adoption of FRS 101 having previously presented its financial statements under International Financial Reporting Standards as adopted by the EU ("EU-adopted IFRS"). The Company's financial statements have been prepared on the historical cost basis, except for those financial instruments which are measured at fair value, as explained in the accounting policies below.

No transitional adjustments to the financial position of the Company were required as FRS 101 follows EU-adopted IFRS recognition and measurement principles. Therefore in preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of EU-adopted IFRS but makes amendments where necessary to comply with Companies Act 2006, and to take advantage of the following disclosure exemptions available under FRS 101:

- FRS 101.8 (d): the requirements of IFRS 7 Financial Instruments: Disclosures;
- FRS 101.8 (e): the requirements of paragraphs 91 – 99 of IFRS 13 Fair Value Measurement;
- FRS 101.8 (eA): the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a)-(c), 120 to 127 and 129 of IFRS 15 Revenue from contracts with customers;
- FRS 101.8 (g): the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D and 111, and 134 to 136 of IAS 1 Presentation of Financial Statements to produce a cash flow statement, a third balance sheet and to make an explicit and unreserved statement of compliance with IFRSs, and capital management information;
- FRS 101.8 (h): the requirements of IAS 7 Statements of Cash Flows to produce a cash flow statement and related notes;
- FRS 101.8 (i): the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to include a list of new IFRSs that have been issued but are not yet effective; and
- FRS 101.8 (k): the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary party to the transaction is wholly owned by such a member.

#### 1.2 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 despite the current uncertain economic climate. After making enquiries, the Directors have at the time of approving the financial statements 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 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 Strategic report on pages 4 to 6 and the Directors' report on pages 7 to 8.

#### 1.3 Adoption of new and revised standards

The Company has adopted the following new standards and amendments to IFRSs and the International Accounting Standards ("IAS") that became mandatorily effective for the Company for the first time during 2019.

The Company has adopted IFRS 16 'Leases' for the first time in 2019. IFRS 16 replaces IAS 17 'Leases' and sets out the principles for recognition, measurement and disclosure of lease arrangements entered into by the Company. Following an assessment, no material lease arrangements were identified and it was concluded that IFRS 16 had no impact on the Company.

In September 2019, the IASB issued 'Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7' which although not mandatory for the Company until 2020, has been adopted in 2019. The amendments modify some specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by the IBOR reform. In addition, it requires companies to disclose additional information about their hedging relationships which are directly affected by these uncertainties. The change has no impact on the Company.

## Notes to the financial statements (continued)

For the year ended 31 December 2019

### 1. Accounting Policies (continued)

A number of further narrow scope amendments which become mandatorily effective for the Company but do not have an impact on existing accounting policies, are as follows:

Amendments to IAS 28: 'Long-term Interests in Associates and Joint Ventures' clarifies that an entity applies IFRS 9 to long-term interests in associates or joint ventures that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

IFRIC 23 'Uncertainty over Income Tax Treatments' provides interpretation when there is uncertainty over income tax treatments under IAS 12 'Income Taxes'.

Amendments to IAS 19 'Employee Benefits: Plan Amendment, Curtailment or Settlement' clarify the accounting when a pension plan amendment, curtailment or settlement occurs.

#### 1. Accounting policies continued

'Annual Improvements to IFRS Standards 2015-2017 Cycle' includes the following three amendments:

- IFRS 3 'Business Combinations' and IFRS 11 'Joint Arrangements' – the amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business; the amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business;
- IAS 12 'Income Taxes' – the amendments clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits; and
- IAS 23 'Borrowing Costs' – the amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

### 2. Significant accounting policies

#### 2.1 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 pounds sterling at the foreign exchange rate ruling at the date of the transaction.

Foreign exchange differences arising on the settlement of foreign currency transactions and from the translation of monetary assets and liabilities are reported in the income statement. 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.

#### 2.2 Revenue recognition

Revenue from contracts with customers

Legal services income represents the amount charged to clients for professional services provided during the year including recovery of expenses but excluding value added tax. Income relating to handling of cases with a variable or contingent fee component is recognised at the best estimate of the total consideration receivable. A contract asset is recognised representing the right to consideration for unbilled services performed to that point in time.

#### Interest income

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.

#### 2.3 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.

#### 2.4 Financial assets

Financial assets including trade receivables and contract assets are classified at initial recognition, and subsequently measured at amortised cost less expected credit losses. The classification of financial assets at initial



## Notes to the financial statements (continued)

For the year ended 31 December 2019

### 2. Significant accounting policies (continued)

recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value plus transaction costs.

On recognition of the financial asset an expected credit loss allowance assessment is conducted. A financial asset is written off when there is no reasonable expectation of recovery.

#### 2.5 Impairment of financial assets

The company always recognises expected credit losses for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

The Company applies the simplified impairment approach to its trade receivables, grouping receivables into categories with shared credit risk characteristics and estimating expected future loss rates based on historical experience. Impairment losses, including the expected credit allowance, 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 expected impairment allowance reduces and this can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance.

#### 2.6 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.

#### 2.7 Derivatives and hedging

Derivative financial instruments are recognised initially, and subsequently measured, at fair value. Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models.

Gains and losses arising from changes in the fair value of a derivative are recognised as they arise in the income statement unless the derivative is the hedging instrument in a qualifying hedge.

Hedge relationships are formally documented at inception. The documentation identifies the hedged item and the hedging instrument and details the risk that is being hedged and the way in which effectiveness will be assessed at inception and during the period of the hedge. If the hedge is not highly effective in offsetting changes in cash flows attributable to the hedged risk, consistent with the documented risk management strategy, or if the hedging instrument expires or is sold, terminated or exercised, hedge accounting is discontinued.

In a cash flow hedge, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity. Any ineffective portion is recognised in the income statement.

#### 2.8 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.

#### 2.9 Unbilled and unpaid disbursements

Unbilled and unpaid disbursement costs are incurred on live cases. Both the asset and liability are recognised at the point the service is performed less a provision for uncollectible balances, unless the disbursement cost has been paid in advance, in which case just an asset is recognised. Upon completion of the case the disbursement costs are billed onto the counterparty insurer. Both the asset and liability are fully derecognised upon completion of the case. The provision for uncollectible balances is calculated using age and historic write off levels to determine the risk of non-recovery. Whilst there is an element of uncertainty and therefore judgement being applied, the overall provision is reviewed on a regular basis, and any changes made are based on the most recent available information.

## Notes to the financial statements (continued)

For the year ended 31 December 2019

### 2. Significant accounting policies (continued)

#### 2.10 Taxation

The tax charge or credit represents the proportion of the tax payable and receivable arising in the current year only.

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 or equity, in which case the deferred tax is also dealt with in other comprehensive income or directly in equity.

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 on a net basis.

#### 2.11 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis.

The following are the critical judgements that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

#### Valuation of contract asset

The valuation of the contract asset requires Management to establish the portfolio of case types, for which historic MI data is extracted and applied to live case volumes. Due to the nature of the cases, the exact value and stage of completion of current cases is not 100% certain until they are completed. Therefore, in addition to specific live case data, information derived from historic closed cases - including dge and type - is used to inform the valuation of the future performance obligations, and the expected value of cases at completion.

### 3. Revenue from contracts with customers

	2019	2018
	£	£
Legal fees from handling of cases <sup>(1)</sup>	10,319,742	10,842,471
Administration and advisory fees	6,376,124	4,368,278
<b>Total</b>	<b>16,695,866</b>	<b>15,210,749</b>

Note:

(1) This represents legal fee income where services have been provided. All income derives from business performed in the UK.

**Notes to the financial statements (continued)**

For the year ended 31 December 2019

**4. Operating costs**

	2019 £	2018 £
Costs incurred in respect of cases where outcome established <sup>(1)</sup>	6,547,022	6,419,969
Administration expenses <sup>(2)</sup>	7,558,856	6,774,604
<b>Total</b>	<b>14,105,878</b>	<b>13,194,573</b>

Notes:

(1) Costs incurred include all direct and indirect costs associated with providing legal services in respect of cases.

(2) Included in administration expenses is a net foreign exchange gain of £210,143 (2018: gain of £202,754).

**Management charges**

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

**Staff costs and number of employees**

The Company has no employees. The Company pays a management charge for the services provided by the staff and Directors employed by DLIS who are seconded to the Company.

**Auditor's remuneration**

Fees paid to the Auditor of the Company were £30,000 for the audit of the Company's statutory financial statements (2018: £56,783) and £20,000 for other audit related assurance services (2018: £26,500).

**5. Directors' Emoluments**

The following table analyses emoluments paid to directors in respect of their services to the Company:

	2019 £	2018 £
Salaries, fees, bonuses and benefits in kind	477,461	392,410
Compensation for loss of office	-	-
<b>Total</b>	<b>477,461</b>	<b>392,410</b>

Emoluments to the highest paid director of £210,220 (2018: £223,423) are included in the amounts shown above. One director (2018: one) exercised share options during the year under a share plan available to all Group employees.

**6. Interest received**

	2019 £	2018 £
Bank interest received	640	660
<b>Total</b>	<b>640</b>	<b>660</b>

## Notes to the financial statements (continued)

For the year ended 31 December 2019

## 7. Finance cost

	2019 £	2018 £
In respect of finance facilities provided within the Group	73,500	73,500
<b>Total</b>	<b>73,500</b>	<b>73,500</b>

## 8. Tax charge

	2019 £	2018 £
Current taxation:		
Charge for the year	487,376	443,738
(Credit) / charge for the prior year	-	(72)
Current tax charge for the year	487,376	443,666
Deferred taxation:		
(Credit) / charge for the year	(6,038)	(64,035)
Over provision for prior year	-	-
Deferred tax charge for the year	(6,038)	(64,035)
<b>Tax charge for the year</b>	<b>481,338</b>	<b>379,631</b>

The following table analyses the difference between the actual income tax charge and the expected income tax charge computed by applying the standard rate of corporation tax of 19.00% (2018: 19%).

	2019 £	2018 £
Profit before tax:	2,517,128	1,943,336
Expected tax charge	478,254	369,234
Effects of:		
Disallowable expenses	2,373	2,936
Effect of change in corporation tax rate	711	7,533
(Over) provision for prior year	-	(72)
<b>Tax charge for the year</b>	<b>481,338</b>	<b>379,631</b>
Effective income tax rate	19.1%	19.5%

## Note:

In the Finance Act 2016 the UK Government enacted a reduction in the UK corporation tax rate from 19% to 17% effective from 1 April 2017 to 2020. As a consequence the closing deferred tax assets 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.

## Notes to the financial statements (continued)

For the year ended 31 December 2019

## 8. Tax charge (continued)

	2019 £	2018 £
Per balance sheet:		
<b>Current tax liability</b>	<b>(487,377)</b>	(521,066)
<b>Deferred tax assets</b>	<b>77,982</b>	71,944

The following are the major deferred tax assets recognised by the Company, and the movements thereon.

	Provisions and other temporary differences £
<b>At 1 January 2018</b>	7,909
Credit to income statement	64,035
<b>At 31 December 2018</b>	71,944
Credit to income statement	<b>6,038</b>
<b>At 31 December 2019</b>	<b>77,982</b>

## 9. Trade and other receivables

	2019 £	2018 £
Trade receivables	475,855	161,845
Unbilled disbursements	13,154,419	12,439,317
Receivables from related parties	462,081	498,425
Prepayments	182,571	186,461
<b>Total</b>	<b>14,274,927</b>	<b>13,196,048</b>

In respect of trade and other receivables, £14,266,001 (2018: £13,177,968) is neither past due nor impaired and is classified as unrated. The remaining balance of £8,926 (2018: £18,080) is overdue greater than 30 days and is also classified as unrated.

Disbursements are presented as receivable within one year; however, some disbursements may be receivable over one year as they are due when a case is completed which can be longer than one year.

Receivables from related parties represent amounts due for legal services delivered to group parties, and are billed monthly in arrears, and paid within 30 days.

**Notes to the financial statements (continued)**

For the year ended 31 December 2019

**10. Contract asset**

	2019	2018
	£	£
Unbilled receivables	7,081,088	6,366,709
<b>Total</b>	<b>7,081,088</b>	<b>6,366,709</b>

**11. Derivative financial instruments**

	2019	2018
	£	£
Derivative assets	216,679	-
<b>Total</b>	<b>216,679</b>	<b>-</b>

**Cash flow hedges**

Forward foreign exchange contracts hedge currency exposures of forecast outsourced service costs. As the contracts for 2019 were entered into during March 2019, at 31 December 2018 the notional amount of such contracts was £nil (2017: £2.0m). The associated fair value gains and losses will be transferred to expenses when the payments occur.

**12. Share capital**

	2019	2018
	£	£
Issued:		
Ordinary Shares of £1 each	10,000	10,000
Non-voting Share of £1 each	1	1
<b>Total</b>	<b>10,001</b>	<b>10,001</b>

**Notes to the financial statements (continued)**

For the year ended 31 December 2019

**13. Trade and other payables**

	2019 £	2018 £
Trade creditors	-	9,890
Unpaid disbursements	8,513,428	8,795,396
Payables to related parties	1,618,122	1,902,444
Accruals	1,286,412	1,355,601
Other taxes	444,342	520,823
<b>Total</b>	<b>11,862,304</b>	<b>12,584,154</b>

Disbursements are presented as payable within one year; however, some disbursements may be payable over one year as they can be due when a case is completed which can be longer than one year.

**14. Related parties**

At 31 December 2019 the controlling party and ultimate holding Company was DLIG which is incorporated in the United Kingdom and registered in England and Wales. The Company's immediate parent Company was DL Insurance Services Limited, a Company incorporated in the United Kingdom and registered in England and Wales.

At 31 December 2019 DLIG heads the largest and smallest group in which the Company is consolidated. Copies of the consolidated financial statements of DLIG may be obtained from The Secretary, DLIG, Churchill Court, Westmoreland Road Bromley, BR1 1DP.

**15. Events after the balance sheet date**

The Group is closely monitoring developments in connection with the spread of COVID-19, including guidance and directions provided by HM Government and public health advisers. Like all businesses, the Company is subject to the consequences of disruption to financial markets, supply chains and its general operations, which over time could impact the performance of the Company. The further implications of the COVID-19 pandemic are uncertain and the Company monitors the situation on an ongoing basis.

The Directors consider that the outbreak of COVID-19 is a non-adjusting post balance sheet event. It is not possible to determine the financial impact of the pandemic on the Company, however, but as stated in the Directors' report, the Company continues to operate and to review and update contingency plans on a regular basis.