Skipton Business Finance Limited

DIRECTORS' REPORT, STRATEGIC REPORT
AND FINANCIAL STATEMENTS
31 DECEMBER 2017
Registered number 4171724

SKIPTON BUSINESS FINANCE

Contents

Directors' report

The directors present their directors' report, strategic report and financial statements for the year ended 31 December 2017.

Directors

The directors who served during the year were as follows:

A C Robinson (Chairman)
G M Bell
A P Grantham
A D Hill
A W Nelson
F E Nightingale
R A Walker

Mr A C Robinson is also a director of the immediate parent undertaking, Skipton Group Holdings Limited.

Proposed dividends

An interim dividend of £963,000 (2016: £878,000) and a final dividend of £1,180,000 (2016: £1,046,000) were declared and paid on 29 June 2017 and 4 December 2017 respectively. These dividends were declared based on the distributable reserves at the time.

Policy and practice on payment of creditors

The company's policy concerning the payment of suppliers for the next financial year is to agree terms of payment in advance and to make the payment in accordance with agreed terms and any other legal obligations. As at 31 December 2017 creditor days were 26 days (2016: 24 days).

Financial instruments

The financial risk management objectives and policies of the company and the exposure of the company to interest rate risk, credit risk and liquidity risk are detailed in Note 14 to the financial statements.

Disclosure of information to the auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware, and each director has taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Going concern

The financial statements of the company have been prepared on a going concern basis, which the directors believe to be appropriate. Based on the performance and expected outlook for the business, the directors are satisfied that the company has adequate resources to continue to trade for the foreseeable future.

By order of the board

***J J Gibson* (Company Secretary)**
Skipton Business Finance Limited
The Bailey
Skipton
North Yorkshire
BD23 1DN
15 February 2018

Strategic report

The principal activity of Skipton Business Finance Limited ('SBF' or 'the company') is the provision of factoring and invoice discounting services and it will continue to be so for the foreseeable future.

The directors of SBF are pleased to report another successful year of results with a profit for the year before taxation of £3,542,032 (2016: £3,259,600). Set out below is an overview of the objectives and strategies of the business and the key measures used to monitor performance.

Objectives
The company aims to be the first choice invoice finance provider for small and medium-sized enterprises ('SMEs') in each of our local regions delivering a quality, value for money service to our clients in a transparent and honest manner. SBF aims to provide SMEs with the financial support to enable each client to fulfil their potential and in turn go on to create wealth and employment in their home region.

Strategy
During 2018 SBF will continue to provide services to SMEs by way of factoring and invoice discounting services for companies based in the UK with annual sales ranging from £250k to £25m. Services are offered to new start entities where the proposed management team can demonstrate a knowledge and success in the market that they wish to operate in and have a supporting business case to outline their key objectives. SBF will continue to provide invoice finance to those businesses that provide goods or services to other commercial entities on a 'sell and forget' basis where credit terms do not exceed 90 days.

Our strategy of aligning the client facing risk management teams and the new business teams in each region will continue in 2018 delivering a local service to clients, with the back office and administrative function undertaken at the company's head office in Skipton.

2017 saw the sustained growth of the fourth regional centre in Bracknell, opened in 2015 and strategically based to complement the existing footprint in Leeds, Manchester and Birmingham.

Since the company's inception SBF has remained committed to helping support owner managed businesses throughout the UK achieve their true potential. This has enabled the company to deliver a dependable service to the market that has contributed to consistent year on year client and profit growth over the past 9 years. SBF will continue to align its vision with the values of its ultimate parent Skipton Building Society, an undoubted and long established mutual building society organisation where customer value is not detrimentally influenced by shareholder strategy.

SBF will continue to benefit from an experienced management team with a proven track record of delivering long term profitability and sustainable growth with a complementary skill set across the core competencies of sales, marketing, finance and risk.

Principal risks and uncertainties
The principal financial risks and uncertainties faced by the company are interest rate risk, credit risk and liquidity risk, and these are monitored on a regular basis by management.

The company's exposure to interest rate risk/interest rate movements is mitigated by linking financial assets and liabilities to the same base rate. Management monitors its exposure to interest rate risk on a continuous basis.

The company is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due, and makes provision for impairment as set out in note 1(n) to the financial statements. Management carefully manages its exposure to credit risk through rigorous due diligence controls and procedures, close client relationships and regular account monitoring. The carrying amount of financial assets net of client retention (see note 9 and 12) represents the maximum credit exposure.

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. Liquidity risk is managed by the company's ultimate parent, Skipton Building Society, on a group basis, and full details for the group are contained within the group annual report and accounts. Liquidity is managed at company level by monitoring the company's internal funding requirements to ensure sufficient funds are made available for projected business needs.

The company is also exposed to other risks which can be categorised as reputational, operational, credit (in relation to both debtors and clients) and compliance.

Reputational risk can impact on our ability to attract new clients and also retain existing business and this is mitigated by raising the awareness of the potential for reputational damage across the business as a whole. Treating clients fairly is part of our core values, borne out by high approval ratings in our annual client satisfaction survey results.

Operational and credit risk are managed through robust corporate governance, credit committee approval on all new clients (minimum of two signatories) and adherence to SBF's credit policy. Risks are further mitigated by regular client audits and ongoing operational risk monitoring/management, both areas of which report directly to the Managing Director. In addition to the executive management oversight and corporate governance, SBF are subject to regular internal audits on a scheduled basis as determined by Skipton Building Society.

Credit risk in relation to debtors is mitigated by individual exposure monitoring (concentration limits) and credit assessment via third party credit reference agencies to set appropriate debtor exposures.

Compliance risk, which includes anti-money laundering, data protection and other applicable laws, is mitigated by ensuring adherence to group policies, supported by the group compliance functions, with regular compliance reviews on a scheduled basis as determined by Skipton Building Society.

Financial performance

The results for the year are shown in the statement of comprehensive income and notes thereto. The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU.

Key performance indicators:

	2017	**2016**
Client numbers	638	600
Cost income ratio	71.4%	71.6%

Client numbers have increased by 6% and clients' turnover by 2%, whilst the industry client numbers have contracted by 0.2% over 12 months (quarter 3 2016 to quarter 3 2017: source UK Finance statistics). The cost income ratio has decreased marginally over the year.

The directors are pleased with the performance of the company leaving it well placed to build on the improved infrastructure and increasing geographical footprint in 2018.

By order of the board

J J Gibson **(Company Secretary)**
Skipton Business Finance Limited
The Bailey
Skipton
North Yorkshire
BD23 1DN
15 February 2018

Statement of directors' responsibilities in respect of the directors' report, the strategic report and the financial statements

The directors are responsible for preparing the directors' report, the strategic 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. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('IFRS as adopted by the EU') 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 and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRS as adopted by the EU;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or intend to cease operations, or have no realistic alternative but to do so.

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 enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Skipton Business Finance Limited

We have audited the financial statements of Skipton Business Finance Limited ('the company') for the year ended 31 December 2017 which comprise the statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Directors' report and strategic report

The directors are responsible for the directors' report and the strategic report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the directors' report and the strategic report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the directors' report and the strategic report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or intend to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

David Allen

David Allen **(Senior Statutory Auditor)**
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA
15 February 2018

Statement of comprehensive income
for the year ended 31 December 2017

	Note	Year ended 2017 £	Year ended 2016 £
Revenue	2	12,404,797	11,460,188
Cost of sales		(6,034,852)	(5,641,855)
Gross profit		**6,369,945**	**5,818,333**
Administrative expenses		(2,689,959)	(2,452,805)
Profit from operations	3	**3,679,986**	**3,365,528**
Interest payable and similar charges	4	(137,954)	(105,928)
Profit before tax		**3,542,032**	**3,259,600**
Income tax expense	6	(695,892)	(669,317)
Profit for the financial year		**2,846,140**	**2,590,283**
Total comprehensive income for the year		**2,846,140**	**2,590,283**

The profit for the current and comparative financial period was derived wholly from continuing operations.

The notes on pages 11 to 26 form part of these financial statements.

Statement of financial position
as at 31 December 2017

	Note	£	31 Dec 2017 £	£	31 Dec 2016 £
Current assets					
Trade and other receivables	9	118,786,273		112,642,901	
Non current assets					
Investment in subsidiary undertaking	8	1		1	
Property, plant and equipment	10	149,046		126,539	
Deferred tax assets	11	60,077		47,474	
Total assets			**118,995,397**		**112,816,915**
Current liabilities					
Trade and other payables	12	113,724,149		108,343,557	
Bank overdrafts and loans		233,532		201,337	
			113,957,681		108,544,894
Non current liabilities					
Long term liabilities	13		290,045		227,490
Total liabilities			114,247,726		108,772,384
Equity					
Share capital	15	200,000		200,000	
Retained earnings		4,547,671		3,844,531	
			4,747,671		4,044,531
Total equity and liabilities			**118,995,397**		**112,816,915**

These financial statements were approved by the board of directors on 15 February 2018 and signed on its behalf by:

A C Robinson
Chairman

G M Bell
Managing Director

Company registration number: 4171724

The notes on pages 11 to 26 form part of these financial statements.

Statement of changes in equity
for the year ended 31 December 2017

	Share capital £	Retained earnings £	Total equity £
Balance at 1 January 2017	200,000	3,844,531	4,044,531
Total comprehensive income for the year	-	2,846,140	2,846,140
Dividends to shareholder	-	(2,143,000)	(2,143,000)
Balance at 31 December 2017	**200,000**	**4,547,671**	**4,747,671**
Balance at 1 January 2016	200,000	3,178,248	3,378,248
Total comprehensive income for the year	-	2,590,283	2,590,283
Dividends to shareholder	-	(1,924,000)	(1,924,000)
Balance at 31 December 2016	**200,000**	**3,844,531**	**4,044,531**

The notes on pages 11 to 26 form part of these financial statements.

Statement of cash flows
for the year ended 31 December 2017

	Note	Year ended 2017 £	Year ended 2016 £
Cash flows from operating activities			
Profit before tax		3,542,032	3,259,600
Adjustments for:			
Depreciation charges	10	41,020	46,071
Impairment increase, net of write offs		148,639	54,340
Loss on disposal of property, plant and equipment		320	-
Interest payable and similar charges		137,954	105,928
Cash flows generated from operating activities before changes in working capital		**3,869,965**	**3,465,939**
Increase in trade debtors		(6,284,319)	(1,050,450)
Increase in prepayments and accrued income		(7,692)	(2,202)
Increase/(decrease) in client retention		1,852,737	(2,758,336)
Increase in accruals and deferred income		37,735	1,190,483
Income taxes paid		(682,164)	(666,378)
Net cash (used in)/generated from operating activities		**(1,213,738)**	**179,056**
Cash flows from investing activities			
Interest payable and similar charges	4	(137,954)	(105,928)
Proceeds on disposal of property, plant and equipment		28,980	-
Purchases of property, plant and equipment	10	(92,827)	(4,868)
Net cash used in investing activities		**(201,801)**	**(110,796)**
Cash flows from financing activities			
Dividends paid	7	(2,143,000)	(1,924,000)
Increase in amounts owed to group undertakings		3,526,344	1,720,324
Net cash generated from/(used in) financing activities		**1,383,344**	**(203,676)**
Net decrease in cash and cash equivalents		(32,195)	(135,416)
Cash and cash equivalents at 1 January		(201,337)	(65,921)
Cash and cash equivalents at 31 December		**(233,532)**	**(201,337)**

The notes on pages 11 to 26 form part of these financial statements.

Notes to the financial statements

1. Accounting policies

Skipton Business Finance Limited is a company incorporated and domiciled in the UK.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements:

(a) Basis of preparation

The financial statements are presented in accordance with International Financial Reporting Standards ('IFRS') and their interpretations as adopted by the EU and effective at 31 December 2017.

Note 1(b) to the financial statements sets out details of any new accounting policies adopted in the year and the impact of these adoptions on the financial statements.

(b) Adoption of new and revised International Financial Reporting Standards

Disclosed below are amendments to existing standards which have been adopted during the year, all of which are effective for accounting periods starting on or after 1 January 2017. There are no new accounting standards which have been adopted during the year.

- Amendments to IAS 7 *Statement of Cash Flows*. These amendments enhance disclosure requirements to enable users of financial statements to better evaluate changes in liabilities arising from financing activities. This has resulted in further disclosure in the movements during the year in liabilities that the company categorises as being held for financing activities for the purposes of presentation in the statements of cash flows;
- Amendments to IAS 12 *Income Taxes*, which clarify how to account for deferred tax assets related to debt instruments measured at fair value and this has had no impact on these financial statements.

Amendments to accounting standards effective but not yet EU endorsed

The company notes amendments to accounting standards which are effective for accounting periods starting on or after 1 January 2017 but have not yet been EU endorsed. These are amendments to IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates and Joint Ventures* as part of the *Annual Improvements to IFRS 2014 – 2016 Cycle*. These amendments are not expected to have a material impact on the company's financial statements.

Standards issued but not yet effective

The company notes a number of new accounting standards which will be effective for future reporting periods and note 21 to the financial statements sets out details of these new standards and their impacts. The company has not early adopted these new standards in preparing these financial statements.

Notes to the financial statements

1. Accounting policies (continued)

(c) Historical cost convention
The financial statements have been prepared under the historical cost convention.

(d) Currency presentation
The financial statements are presented in pounds sterling and, except where otherwise indicated, have been rounded to the nearest pound.

(e) Going concern
The financial statements of the company have been prepared on a going concern basis, which the directors believe to be appropriate. Based on the performance and expected outlook for the business, the directors are satisfied that the company has adequate resources to continue to trade for the foreseeable future.

(f) Foreign currency
Transactions in foreign currencies are translated to the company's functional currencies at the foreign currency exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are retranslated to the functional currency at the foreign currency exchange rate ruling at that date.

(g) Critical accounting estimates and judgments in applying accounting policies
The company makes estimates and assumptions that affect the reported amount of assets and liabilities within the next financial year. The company also has to make judgements in applying its accounting policies which affect the amounts recognised in the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key area where estimates and judgements are made is impairment as detailed in Note 1 (n) below.

(h) Revenue recognition
Revenue, which excludes value added tax, represents total invoiced sales of the company. Interest income is recognised on an accruals basis and in accordance with IAS 39 on an effective yield basis.

(i) Property, plant and equipment
Property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation. Depreciation is charged so as to write off the cost of assets over their estimated useful lives on the following bases:

Office equipment	20% straight line
Motor vehicles	25% reducing balance

Notes to the financial statements

1. Accounting policies (continued)

(j) Operating leases
Costs of operating leases are charged to the statement of comprehensive income on a straight line basis over the lease term.

(k) Taxation
Income tax on the profits for the year comprises current tax and deferred tax and is recognised in the statement of comprehensive income. Current tax is the expected tax payable on the income for the year, using tax rates enacted or substantially enacted on the statement of financial position date, and any adjustment to tax payable in respect of previous years. Deferred tax is provided using the statement of financial position liability method, which recognises temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. It is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which temporary differences reverse, based on tax rates and laws enacted or substantially enacted at the statement of financial position date.

(l) Pensions
All material pension costs are in respect of company employees who are eligible to join the Skipton Building Society's defined contribution stakeholder pension scheme. The company contributes to the stakeholder scheme on behalf of its employees. A minimum 1% contribution is required by employees and the company contributes an additional 2% (i.e. a minimum of 3%), with a maximum contribution of 10% by the company. The assets of the scheme are held separately from those of the society and the company.

A number of current and former employees were members of the Skipton Building Society Pension & Life Assurance Scheme. This scheme is a defined benefit scheme. The scheme was closed to future accrual with effect from 1 January 2010.

In May 2011, the company entered into a Scheme Apportion Arrangement with the trustee of the scheme and Skipton Building Society whereby the 'Section 75 debt' of the company was reduced to £100 with the remainder being apportioned to Skipton Building Society. The company subsequently ceased to participate in the scheme and paid the Section 75 debts due of £100. The company therefore has no further legal liability to pay contributions to the scheme under any circumstances. However, deficit contributions are recharged to the company under an internal agreement with Skipton Building Society based on the proportion of active members who were employees of the company at the time of closure to future accrual.

(m) Financial instruments
Trade receivables and payables are recognised on a fair value basis. Financial assets are derecognised when the contractual right to cash flows expires, or the financial asset is transferred to another party and the right to receive cash flows is also transferred. Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or has expired.

(n) Impairment
The carrying amounts of the company's assets are reviewed at each year end to determine whether there is any indication of impairment. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. The carrying amount of the asset is reduced through a provision account and the amount of the loss is recognised in the statement of comprehensive income.

Notes to the financial statements

1. Accounting policies (continued)

(o) Cash and cash equivalents

For the purpose of the statement of cash flows, cash comprises cash in hand and loans and advances to/from credit institutions repayable on demand, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of three months or less. The statement of cash flows has been prepared using the indirect method.

(p) Investment in subsidiary undertaking

Subsidiaries are entities controlled by the company. Control exists where the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are held on the statement of financial position at cost, less the value of any impairment recognised at the statement of financial position date.

(q) Consolidation

The company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the company as an individual undertaking and not about its group.

2. Revenue

Turnover arises from the company's principal activity and represents fees and interest charged on factoring and invoice discounting services exclusive of VAT. All turnover arises in the United Kingdom therefore segmental analysis has not been provided.

3. Profit from operations

Profit from operations has been arrived at after charging:

	2017	**2016**
	£	**£**
Depreciation of property, plant and equipment	41,020	46,071
Staff costs (see note 5)	4,757,084	4,399,588
Rentals payable under operating leases	120,335	111,201
Fees payable to the company's auditor for the audit of the company's financial statements	11,950	11,650

Notes to the financial statements

4. Interest payable and similar charges

	2017	2016
	£	£
Bank charges	137,954	105,928
	137,954	**105,928**

Borrowing costs in relation to the group banking arrangements are not included here but are included within 'cost of sales'.

5. Staff numbers and costs

The average monthly number of persons employed by the company during the year was as follows:

	2017	2016
Office and management	89	89
	89	**89**

The aggregate payroll costs of these persons were as follows:

	2017	2016
	£	£
Wages and salaries	4,091,651	3,790,961
Social security costs	450,712	396,641
Other pension costs	214,721	211,986
	4,757,084	**4,399,588**

The aggregate emoluments paid to directors directly employed by the company and to the highest paid director were as follows:

	Highest paid director		Total	
	2017	2016	2017	2016
	£	£	£	£
Directors' salaries and other benefits	159,758	156,111	499,026	488,646
Pension contributions to money purchase schemes	14,920	14,555	45,038	43,935
Bonuses and other variable remuneration	91,032	66,998	253,583	192,684
	265,710	**237,664**	**797,647**	**725,265**

Amounts paid to the directors of the company in 2017 in respect of services to Skipton Business Finance Limited were £839,824 (2016: £768,171). For directors not directly employed by the company the remuneration is paid by the ultimate parent undertaking, Skipton Building Society.

Notes to the financial statements

6. Tax expense

A reconciliation of current tax on profit on ordinary activities at the standard UK corporation tax rate to the actual income tax expense is as follows:

	2017	2016
	£	£
a) Analysis of expense in the year at 19.25% (2016: 20%)		
Current tax expense		
Current tax at 19.25% (2016: 20%)	702,993	666,662
Adjustment in respect of prior years	5,502	(461)
Total current tax	708,495	666,201
Deferred tax expense		
Origination and reversal of temporary differences	(6,617)	2,827
Adjustment in respect of prior years	(5,986)	289
Total deferred tax	(12,603)	3,116
Income tax expense	**695,892**	**669,317**

b) Factors affecting income tax expense in the year

The charge for the year can be reconciled to the profit per the statement of comprehensive income as follows:

Profit on ordinary activities before tax	3,542,032	3,259,600
Tax on profit on ordinary activities at UK standard rate of 19.25% (2016: 20%)	681,720	651,920
Effects of:		
- expenses not deductible for tax purposes	13,782	14,780
- adjustment to tax expense in respect of prior years	(484)	(172)
- reduction in tax rate	874	2,789
Income tax expense	**695,892**	**669,317**

The UK corporation tax rate will remain at 19% effective from 1 April 2017 and fall to 17% effective from 1 April 2020.

7. Dividends

Amounts recognised as distributions to the equity holder in the period:

	2017	2016
	£	£
Interim and final dividend for the year ended 31 December 2017 of 1,071.5p (2016: 962p) per share	2,143,000	1,924,000
	2,143,000	**1,924,000**

Notes to the financial statements

8. Investment in subsidiary undertaking

	2017	2016
	£	£
At 1 January	1	1
At 31 December	**1**	**1**

The investment in subsidiary undertaking represents the acquisition at cost of the entire £1 ordinary share capital of Yorkshire Factors Limited, a dormant company limited by shares, with its registered office at The Bailey, Skipton, North Yorkshire, BD23 1DN.

9. Trade and other receivables

	2017	2016
	£	£
Trade debtors not impaired	117,095,630	109,680,611
Trade debtors impaired	2,441,717	3,572,417
Impairment provision on trade debtors impaired	(782,461)	(633,822)
Prepayments and accrued income	31,387	23,695
	118,786,273	**112,642,901**

The company's financial assets comprise trade debtors net of client retention (see note 12). Trade debtors not impaired relate to invoices less than 90 days old due from clients' debtors under the company's recourse agreement. Trade debtors impaired relate to those trade debtors where objective evidence exists to doubt ultimate recoverability of the company's net exposure, for which an impairment provision is made. Such credit risk exposures are reviewed on a monthly basis by management.

The movement in the provision for impairment in respect of trade debtors during the year was as follows:

	2017	2016
	£	£
At 1 January	(633,822)	(579,482)
Provisions made during the year	(197,505)	(191,960)
Debtors written off during the year	48,866	137,620
At 31 December	**(782,461)**	**(633,822)**

Notes to the financial statements

10. Property, plant and equipment

	Office equipment £	Motor vehicles £	Total £
Cost			
At 1 January 2017	136,742	199,730	336,472
Additions	3,137	89,690	92,827
Disposals	(128)	(86,839)	(86,967)
At 31 December 2017	**139,751**	**202,581**	**342,332**
Accumulated depreciation and impairment			
At 1 January 2017	101,509	108,424	209,933
Depreciation charge for the year	15,143	25,877	41,020
Eliminated on disposals	(128)	(57,539)	(57,667)
At 31 December 2017	**116,524**	**76,762**	**193,286**
Carrying amounts			
At 1 January 2017	**35,233**	**91,306**	**126,539**
At 31 December 2017	**23,227**	**125,819**	**149,046**

	Office equipment £	Motor vehicles £	Total £
Cost			
At 1 January 2016	135,405	199,730	335,135
Additions	4,868	-	4,868
Disposals	(3,531)	-	(3,531)
At 31 December 2016	**136,742**	**199,730**	**336,472**
Accumulated depreciation and impairment			
At 1 January 2016	89,405	77,988	167,393
Depreciation charge for the year	15,635	30,436	46,071
Eliminated on disposals	(3,531)	-	(3,531)
At 31 December 2016	**101,509**	**108,424**	**209,933**
Carrying amounts			
At 1 January 2016	**46,000**	**121,742**	**167,742**
At 31 December 2016	**35,233**	**91,306**	**126,539**

Notes to the financial statements

11. Deferred tax assets

The movement on the deferred tax account is as shown below:

	2017	2016
	£	£
At 1 January	47,474	50,590
Statement of comprehensive income credit/(charge)	12,603	(3,116)
At 31 December	**60,077**	**47,474**

Deferred tax assets are attributable to the following:

	2017	2016
	£	£
Long term liabilities	49,045	38,673
Accelerated tax depreciation	11,032	8,801
	60,077	**47,474**

The deferred tax assets are considered to be recoverable in full.

12. Trade and other payables

	2017	2016
	£	£
Client retention	39,672,874	37,820,137
Amounts owed to group undertakings	68,361,821	64,835,477
VAT	241,821	221,040
Income tax	383,993	357,662
Accruals and deferred income	5,063,640	5,109,241
	113,724,149	**108,343,557**

The company's financial liabilities comprise amounts owed to group undertakings and are repayable on demand.

Client retention represents the difference between the total of outstanding debts purchased by the company under its recourse agreement and the amounts already advanced to clients in relation to those debts, net of any charges and adjustments. It will be due to the clients when the debts are paid by the clients' debtors subject to any further charges and adjustments.

Notes to the financial statements

13. Long term liabilities

	2017	2016
	£	£
Accruals	290,045	227,490
	290,045	**227,490**

Accruals fall due within one to five years.

14. Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability of another entity.

The fair values of financial instruments are deemed to be equal to their carrying amounts.

The financial risks faced by the company include interest rate risk, credit risk and liquidity risk and these are monitored on a regular basis by management.

Interest rate risk
The company's exposure to interest rate movements is mitigated by linking financial assets and liabilities to the same base rate. Management monitors its exposure to interest rate risk on a continuous basis.

Credit risk
The company is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due, and makes provision for impairment as set out in note 1(n). Management carefully manages its exposure to credit risk through rigorous due diligence controls and procedures, close client relationships and regular account monitoring. The carrying amount of financial assets net of client retention represents the maximum credit exposure.

Liquidity risk
Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. Liquidity risk is managed by the company's ultimate parent, Skipton Building Society, on a group basis, and full details for the group are contained within the group annual report and accounts. Liquidity is managed at company level by monitoring the company's internal funding requirements to ensure sufficient funds are made available for projected business needs.

The company's financial liabilities are represented by amounts due to the ultimate parent, which are repayable on demand as disclosed in note 12. Consequently no table of gross contractual cash flows has been disclosed.

15. Share capital

	2017	2016
	£	£
Issued and fully paid		
200,000 ordinary A shares of £1 each	200,000	200,000
	200,000	**200,000**

Notes to the financial statements

16. Financing activities

The table below shows the movement during the year of the company's financing activity liabilities, namely amounts owed to group undertakings:

	2017
	£
At 1 January	64,835,477
Changes from financing cash flow	
Additions	5,669,344
Dividends paid	(2,143,000)
Total changes from financing cash flow	**3,526,344**
Liability-related changes	
Interest expense	1,586,311
Interest paid	(1,586,311)
Total liability-related changes	-
At 31 December	**68,361,821**

17. Management of capital

Capital is considered to be the audited retained earnings and ordinary share capital in issue.

	2017	2016
	£	£
Capital		
Ordinary share capital	200,000	200,000
Retained earnings	4,547,671	3,844,531
	4,747,671	**4,044,531**

Company objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The company is not subject to externally imposed capital requirements other than the minimum share capital required by the Companies Act 2006, with which it complies.

The period end capital position is reported to the board of directors on a monthly basis. The capital position is also given due consideration when corporate plans are prepared, calculating the future levels based upon the five year financial forecast.

Notes to the financial statements

18. Related party transactions

The company has related party relationships with other entities within the Skipton Group as detailed below. All such transactions are priced on an arm's length basis.

	2017		2016	
	Ultimate parent undertaking	**Other**	**Ultimate parent undertaking**	**Other**
	£	**£**	**£**	**£**
a) Net interest and purchase of goods and services				
Funding interest paid and accrued	1,586,311	-	1,552,768	-
Office rental and other support services	340,576	-	319,999	-
	1,926,887	**-**	**1,872,767**	**-**
b) Outstanding balances				
Payable to related parties	68,361,821	-	64,835,477	-
	68,361,821	**-**	**64,835,477**	**-**
c) Key management compensation				
Salaries and other employee benefits	-	741,525	-	670,246
Post employment benefits	-	45,038	-	43,935
	-	**786,563**	**-**	**714,181**

Key management personnel comprise Messrs G M Bell, A P Grantham and A D Hill and Ms F E Nightingale to whom retirement benefits are accruing under money purchase schemes in respect of qualifying services. The company was recharged £33,428 (2016: £32,773) in respect of director services provided by Skipton Building Society.

There are no provisions in respect of sales of goods and services to related parties, either as at 31 December 2016 or as at 31 December 2017.

The company is part of the group banking arrangements involving the pooling of funds with other group companies.

19. Commitments under operating leases

The company has annual commitments due under operating leases. At the statement of financial position date the total of future minimum lease payments under non-cancellable operating leases for each of the periods was as follows:

	2017	2016
	£	**£**
Not later than one year	76,253	53,000
Later than one year and not later than five	179,417	-
	255,670	**53,000**

Notes to the financial statements

20. Ultimate parent undertaking

The company is a 100% owned subsidiary of Skipton Group Holdings Limited. The ultimate parent undertaking is Skipton Building Society, which is registered in the United Kingdom. A copy of the group annual report and accounts into which the results of this company are consolidated is available from:

The Secretary
Skipton Building Society
The Bailey
Skipton
North Yorkshire
BD23 1DN

21. New accounting standards issued but not yet effective

The company is required to adopt IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* for accounting periods commencing on or after 1 January 2018. The company has assessed the estimated impact that the initial application of IFRS 9 and IFRS 15 will have on its financial statements. The estimated impact of the adoption of these standards on the company's reserves as at 1 January 2018 is based on assessments undertaken to date and is summarised below. These assessments are preliminary because not all transition work has been finalised and therefore may be subject to adjustment. The actual impacts of adopting the standards at 1 January 2018 may change because the new accounting policies, assumptions, judgements and estimation techniques are subject to change until the company presents its first financial statements that include the date of initial application.

	Retained earnings
	£
As reported at 31 December 2017	4,547,671
Estimated adjustment on adoption of IFRS 9	(172,816)
Estimated adjusted opening balance at 1 January 2018	**4,374,855**

The estimated adjustment is due to deferral of interest receivable. The company expects no material impact on initial application of IFRS 15.

IFRS 9 *Financial Instruments*
IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised requirements on the classification and measurement of financial instruments. It also carries forward the requirements on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for accounting periods commencing on or after 1 January 2018, with early adoption permitted. The company will adopt IFRS 9 in its financial statements for the year ending 31 December 2018, with an initial application date of 1 January 2018.

In October 2017, the IASB issued *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*. Subject to EU endorsement, the amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted. These amendments are not expected to have a material impact on the company's financial statements.

Notes to the financial statements

21. New accounting standards issued but not yet effective (continued)

The company has assessed the expected impact of IFRS 9 application on its financial statements, the results of which are summarised below:

i) Financial assets - classification

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available-for–sale. Financial assets are classified into the appropriate category on initial recognition.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

On adoption of IFRS 9, the company's financial assets will be classified as and continue to be measured at amortised cost. The company's financial assets comprise funds advanced, being trade debtors (included in trade and other receivables) net of client retention (included in trade and other payables). Client retention represents the difference between the total of outstanding debts purchased by the company under its recourse agreement and the amounts already advanced to clients in relation to those debts, net of any charges and adjustments. It will be due to the clients when the debts are paid by the clients' debtors subject to any further charges and adjustments. On adoption of IFRS 9, trade debtors and client retention will be replaced with funds advanced within trade and other receivables, representing the financial assets and the maximum credit exposure of the company.

ii) Financial assets – impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This new impairment model will apply to the company's financial assets, measured at amortised cost. IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

Skipton Group policy is to apply lifetime losses for all trade receivables and contract assets that are due in 12 months or less (regardless of whether they contain a significant financing component or not). This simplified approach does not require an entity to track the changes in credit risk, but instead requires the entity to recognise a loss allowance based on lifetime ECLs at each reporting date, right from origination. The current impairment calculation conforms to the definition of ECL in the standard, given the short term nature of the cash flow estimates involved, with the 12 month ECLs the same as the lifetime ECLs.

Notes to the financial statements

21. New accounting standards issued but not yet effective (continued)

Entities are required to use not only historical information (e.g. their credit loss experience) that is adjusted to reflect the effects of current conditions, but they are also required to consider how forecasts of future conditions would affect expected credit losses. However given the short time frames of the cash flows and the client specific nature of the data used in the calculation, any impact due to changes in future economic conditions is not considered material.

iii) Financial assets – effective interest rate

Revenue includes fees calculated on the average balance of funds advanced and fees calculated on the value of trade debts assigned. Cost of sales includes funding interest and commissions payable to third parties as a result of the trade debts assigned, and interest payable and similar charges include bank charges. The company has assessed the impact on these fees and costs of IFRS 9's requirements for accounting for interest receivable and interest payable under the effective interest rate method. Based on this assessment, these fees net of commissions payable to third parties will be shown as interest receivable, and funding interest and bank charges will be shown as interest payable immediately following interest receivable, and the company expects a decrease of approximately £213,353 (before tax) in the general reserve due to deferral of interest receivable.

iv) Financial liabilities - classification

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in other comprehensive income; and
- The remaining amount of change in the fair value is presented in profit or loss.

Based on its assessment, the company does not expect to designate any financial liabilities at FVTPL and expects no material impact regarding the classification of financial liabilities at 1 January 2018.

v) Disclosures

IFRS 9 may require extensive new disclosures. The company believes appropriate systems and controls are in place to capture the required data.

vi) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively. The company plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognised in reserves as at 1 January 2018.

In addition, the determination of the business model within which a financial asset is held has to be made on the basis of the facts and circumstances that exist at the date of initial application.

vii) Impact on capital planning

The company is not subject to externally imposed capital requirements other than the minimum share capital required by the Companies Act 2006, with which it complies, and expects no material impact on its management of capital.

The company estimates that the impact of IFRS 9 implementation will reduce its total capital at 1 January 2018 by 4% to £4,375,388.

Notes to the financial statements

21. New accounting standards issued but not yet effective (continued)

IFRS 15 *Revenue from Contracts with Customers*
IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition requirements, including IAS 18 *Revenue*. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The company will adopt IFRS 15 in its financial statements for the year ending 31 December 2018, with an initial application date of 1 January 2018.

The company has performed a detailed assessment of the expected impact of IFRS 15 application on its financial statements for each of the services offered by the company. Based on its assessment, the company does not expect the application of IFRS 15 to result in significant change to its existing policies for the timing or measurement of revenue, except for the changes on adoption of IFRS 9 noted above, and therefore does not expect the impact to be material. The main impact for the financial statements will relate to disclosure requirements, including transitional disclosures in the year of implementation and ongoing disclosure in subsequent years.

IFRS 16 *Leases*
IFRS 16 replaces the existing requirements in IAS 17 *Leases,* IFRIC 4 *Determining Whether an Arrangement Contains a Lease,* SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* IFRS 16 introduces a single, on-balance sheet accounting model for lessees. A lessee recognises a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments. There are optional recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the existing standard in that lessors will continue to classify leases as finance leases or operating leases. IFRS 16 is effective for accounting periods beginning on or after 1 January 2019, with early adoption permitted (subject to also applying IFRS 15). The company currently plans to adopt IFRS 16 in its financial statements for the year ending 31 December 2019, with an initial application date of 1 January 2019.

The company is assessing the potential impact of IFRS 16 application on its financial statements and has not yet completed its detailed assessment. The most significant impact identified to date is that the company will recognise new assets and liabilities for its operating leases, which mainly relate to regional centre premises. As at 31 December 2017, the company's future minimum lease payments under non-cancellable operating leases amounted to £255,670 on an undiscounted basis (see Note 19). In addition, the nature of expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and an interest expense on lease liabilities. The quantitative impact of adopting IFRS 16 on the financial statements in the period of initial application is not yet known and cannot yet be reliably estimated. The quantitative effect will depend on, inter alia, the transition method chosen, the extent to which the company uses practical expedients and recognition exemptions, the composition of the company's lease portfolio at the initial application date and the company's latest assessment of whether it will exercise any lease renewal options. The company expects to disclose further information prior to adopting IFRS 16.