

THE PRIVATE HEALTH PARTNERSHIP LIMITED

DIRECTORS' REPORT, STRATEGIC REPORT AND FINANCIAL STATEMENTS

31 December 2013

Registered number 4512698

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Strategic report

OVERVIEW OF THE BUSINESS

The principal activity of The Private Health Partnership Limited ('the Company'), continues to be that of a directly regulated independent intermediary, specialising in the provision of impartial and unbiased advice in the private medical insurance market and the provision of health related services. Central to this is our commitment to proactively seek out the best solutions for each of our clients, to suit their specific circumstances and needs.

Business is obtained principally by referrals from existing clients and professional introductions, a strategy which minimises marketing costs and maximises our profit margin.

The Company has worked closely with its subsidiaries RED ARC Assured Limited and Medical Care Direct Limited to provide a range of differentiated services to its clients.

Set out below is an overview of the objectives of the business and the challenges it faces, as well as the key measures used to monitor the performance of the business.

OBJECTIVES AND STRATEGY OF THE COMPANY

The purpose of The Private Health Partnership Limited is "to proactively seek out the best private health solutions for each of our clients, to suit their specific circumstances and needs". The fairness statement clearly states the Company's commitment to Treating Customers Fairly. At all times we act with fairness to provide services that suit customer needs, we will provide information in plain language and at the right time, we will deliver on our promises and will listen and act appropriately on our customer feedback.

The primary focus of the Company continues to be the core activity of private medical insurance advice to individuals, small and medium sized entities and corporate clients and to build on its existing expertise within the specialist Private Medical Insurance market. Opportunities to provide other health-related services to our clients will be sought and the Company plans to continue to develop relationships with trade associations, introducers and other affinity groups.

In addition to organic growth, The Private Health Partnership Limited will continue to look for high quality acquisition targets, both in terms of portfolios and company acquisitions.

In order to achieve this, the Company will continue to provide high quality, relevant training and development to all staff, which enables them to achieve their full potential and this is vital to the Company in meeting its corporate objectives. All employees have equal access to training and have the opportunity to gain relevant professional qualifications.

PRINCIPAL RISKS AND UNCERTAINTIES

The Private Health Partnership Limited, as part of the Skipton Building Society Group, has a formal structure for managing risks through its risk management framework.

The ability of The Private Health Partnership Limited to maintain profitability in a very difficult market provides confidence that the Company is capable of withstanding the current challenging conditions.

Given the nature of the regulated sector in which we operate one of our key operational risks is the potential failure to maintain ongoing compliance with relevant regulatory bodies. The Company has a dedicated Compliance Officer who monitors both compliance with existing legislation and considers the impact of new requirements; all staff have compulsory training and continuing professional development requirements. Oversight is provided by a central Group Compliance function from our ultimate parent company, Skipton Building Society, which ensures best practice is adhered to and external advisors are also retained.

The risk of our inability to attract and retain customers is mitigated by a number of factors. Attractive products are important to maintain the profile of The Private Health Partnership Limited within the Private Medical Insurance market and services provided by our subsidiaries RED ARC Assured Limited and

Strategic Report (continued)

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Medical Care Direct Limited will continue to strengthen The Private Health Partnership Limited's proposition. The Company also works hard to retain excellent relationships with all the quality product providers, whilst retaining professional integrity at all times.

Retention of existing clients and attraction of new clients is core to the successful achievement of the strategy. Our values of being Impartial, Reliable, Professional, Honest & Proactive, provide the guiding principles under which the business operates, together with an absolute commitment to treat all our customers fairly.

Operational risk, being the risk of loss arising from inadequate or failed processes, people, systems or from external events, is reduced to a low level in a number of ways. Our staff are key to our service proposition and we invest heavily in their development to ensure support to the business objectives and ensure the future development of the organisation. This is evidenced by our Investors in People status. The business also has a reliable IT base supported by robust business continuity plans. Regular internal audits address all areas of operational risk.

FINANCIAL PERFORMANCE

The Directors of The Private Health Partnership Limited are pleased to report an improved result from operating activities despite tough competition in the market place. However, due to the disappointing performance of the subsidiary RED ARC Assured Limited it has been necessary to impair the carrying value of this investment, resulting in an impairment loss of £530k.

The Company achieved pre-tax profits of £636k (2012: £903k) and a return on capital employed of 6% (2012: 9%).

KEY PERFORMANCE INDICATORS

The development, performance and position of the Skipton Building Society Group, which includes this Company, are discussed in the annual report and accounts of Skipton Building Society which does not form part of this report.

The key drivers included within the Company's balanced scorecard and used by the Board to manage the business are as follows:

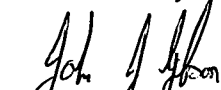
Retention ratio on existing business

Conversion rate of new business leads

Expense ratio

2013 has seen strong performance in each of these measures thereby resulting in an operating profit of £996k (2012: £742k) before tax being achieved.

The Strategic Report was approved by the Board of Directors on 29 January 2014 and signed on behalf of the Board by:



John Gibson
Company Secretary

The Private Health Partnership Limited
The Bailey
Skipton
North Yorkshire
BD23 1DN
29 January 2014

Directors' Report

The Directors present their Directors' Report and the financial statements for the year ended 31 December 2013.

DIRECTORS

The Directors who served during the year were:

J E Lawson
S H Scullion
A C Robinson
I M Cornelius

Mr I M Cornelius is a Director of the ultimate parent undertaking Skipton Building Society. Mr A C Robinson is a Director of Skipton Group Holdings Limited. The interests in the shares of the group companies are not required to be recorded in the register maintained by the Company.

Other Directors of the Company as at 31 December 2013 had no other interests in the shares of any other group undertaking at any time during the year.

DIVIDENDS

A final dividend of £250,000 (2012: £500,000) was declared and paid in December 2013. This dividend was declared based on the distributable reserves at that time.

POLITICAL AND CHARITABLE DONATIONS

During the year the Company made £2,200 in charitable donations (2012: £2,168). The Company made no contribution for political purposes in the year (2012: £nil).

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 is detailed in Note 22 to the financial statements.

DISCLOSURE OF INFORMATION TO AUDITORS

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 auditors are unaware; and each Director has taken all the 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 auditors are 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.

Statement of Directors' responsibilities in respect of the Strategic Report and the Directors' report and the financial statements

The Directors are responsible for preparing the Strategic Report and the Directors' 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 IFRSs 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 and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; 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 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 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of The Private Health Partnership Limited

We have audited the financial statements of The Private Health Partnership Limited for the year ended 31 December 2013 set out on pages 7 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

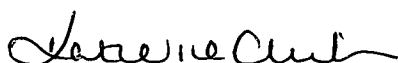
Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



Katherine Clinton (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
The Embankment
Neville Street
Leeds
LS1 4DW
29 January 2014

Statement of Comprehensive Income
for year ended 31 December 2013

	Note	2013	2012
		£	£
Revenue	1b	4,797,079	4,605,818
Cost of sales		(300,408)	(328,256)
Gross profit		4,496,671	4,277,562
Administrative expenses		(3,500,209)	(3,535,260)
Operating profit	3	996,462	742,302
Finance income	4	30,112	23,124
Financial expenses	5	(20,874)	(37,903)
Net financing income /(expense)		9,238	(14,779)
Investment income		160,000	175,000
Impairment of investments in subsidiary undertakings	12	(530,000)	-
Net investment (expense)/income		(370,000)	175,000
Profit before tax		635,700	902,523
Taxation	7	(195,286)	(154,919)
Profit for the year		440,414	747,604

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

There were no other recognised items of income or expenditure during the year or prior period and so a separate statement of other comprehensive income has not been presented.

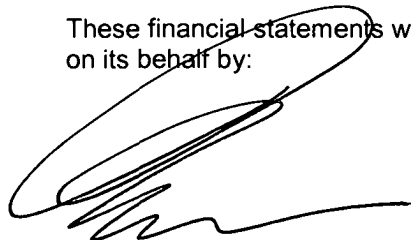
The Statement of Comprehensive Income is prepared on an unmodified historical cost basis.

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

Statement of Financial Position
at 31 December 2013

	Note	2013 £	2012 £
Non-current assets			
Property, plant and equipment	14	297,735	264,128
Intangible assets	13	7,119,104	7,148,407
Investments in subsidiaries	12	2,791,651	3,560,651
		10,208,490	10,973,186
Current assets			
Trade and other receivables	9	1,449,177	1,288,454
Cash and cash equivalents	10	123,353	270,401
		1,572,530	1,558,855
Total assets		11,781,020	12,532,041
Current liabilities			
Trade and other payables	16	1,489,361	2,134,095
Current tax liabilities		98,270	75,099
		1,587,631	2,209,194
Non-current liabilities			
Put option liability	12	193,500	502,500
Deferred tax liabilities	15	228,156	239,028
		421,656	741,528
Total liabilities		2,009,287	2,950,722
Equity			
Share capital	18	2,387	2,387
Share premium		8,646,345	8,646,345
Retained earnings		1,123,001	932,587
Total equity		9,771,733	9,581,319
Total equity and liabilities		11,781,020	12,532,041

These financial statements were approved by the board of directors on 29 January 2014 and were signed on its behalf by:



J E Lawson
Director



A C Robinson
Director

Registered number 4512698

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

Statement of Changes in Equity
for year ended 31 December 2013

	Share capital	Share premium	Retained earnings	Total equity
	£	£	£	£
Balance at 1 January 2013	2,387	8,646,345	932,590	9,581,322
Total comprehensive income for the year	-	-	440,414	440,414
Dividends paid	-	-	(250,000)	(250,000)
Balance at 31 December 2013	2,387	8,646,345	1,123,004	9,771,736
Balance at 1 January 2012	2,387	8,646,345	684,986	9,333,718
Total comprehensive income for the year	-	-	747,604	747,604
Dividends paid	-	-	(500,000)	(500,000)
Balance at 31 December 2012	2,387	8,646,345	932,590	9,581,322

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

Statement of Cash Flows
for year ended 31 December 2013

	Notes	2013 £	2012 £
Cash flows from operating activities			
Profit before tax		635,700	902,523
Adjustments for:			
Depreciation	14	94,954	100,604
Amortisation	13	89,302	91,481
Impairment of investments in subsidiaries	12	530,000	-
Impairment of trade receivables	9	-	264,759
Loss on disposal of fixed assets		6,391	8,331
Investment income		(160,000)	(175,000)
Interest income	4	(30,112)	(23,124)
Interest expense	5	20,874	37,903
(Increase)/decrease in trade and other receivables	9	(160,725)	178,107
Decrease in trade and other payables	16	(644,733)	(675,987)
		381,651	709,596
Interest paid	5	(20,874)	(37,903)
Tax paid		(182,986)	(181,049)
Net cash from operating activities		177,791	490,644
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		32,200	38,500
Interest received	4	112	124
Acquisition of property, plant and equipment	14	(167,153)	(153,526)
Acquisition of intangible fixed assets	13	(59,998)	(16,260)
Dividends received		120,000	131,250
Net cash (used in)/from investing activities		(74,839)	88
Cash flows from financing activities			
Dividends paid	8	(250,000)	(500,000)
Net cash used in financing activities		(250,000)	(500,000)
Net decrease in cash and cash equivalents		(147,048)	(9,268)
Cash and cash equivalents at 1 January		270,401	279,669
Cash and cash equivalents at 31 December	10	123,353	270,401

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

Notes to the financial statements

1 Accounting policies

The Private Health Partnership Limited ("the Company") is a company incorporated and domiciled in the UK.

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.

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

(a) Basis of accounting

The financial statements are presented in accordance with International Financial Reporting Standards (IFRSs) and its interpretations as adopted by the EU and effective at 31 December 2013.

A number of new accounting policies have been adopted in the year.

Note 2 to the accounts sets out details of these new accounting policies adopted in the year and the impact of these adoptions on the financial statements.

Currency presentation

The annual accounts are presented in pounds Sterling and, except where otherwise indicated, have been rounded to the nearest pound.

Historical cost convention

The financial statements have been prepared under the historic cost convention.

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.

(b) Revenue recognition

Commission income is recognised on the commencement or renewal date of the underlying policy.

(c) Critical accounting estimates and judgements 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 estimates, assumptions and judgements are set out below.

Impairment of investments

In determining whether an impairment loss should be recognised in the Statement of Comprehensive Income, management compares the future cash flows of each subsidiary undertaking against its carrying value.

The key assumptions used in these calculations are those regarding discount rates and future growth in the profitability of each of the subsidiary undertakings. The Company estimates discount rates based on the subsidiary undertakings' current cost of capital. Future cash flows are based upon approved profit budgets for the next five years and assumed growth thereafter for the next ten years in line with long term growth rates, currently 2.5%.

Investment

The initial recognition of the put option obligation, which is equal to the additional investment for the purchase of minority shareholdings, is calculated based upon the following assumptions: an estimate of when the put option will be exercised by the minority shareholders, the market value growth of the obligation and the discount rate used at the reporting date.

Impairment of trade receivables

Trade receivables are regularly reviewed to assess for potential impairment. Receivables over 12 months in age are considered by management to be uncollectable and an impairment provision is provided for these amounts.

Notes to the financial statements (continued)

(c) 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:

Plant and equipment	-	3 - 5 years
Fixtures and fittings	-	3 - 5 years
Motor Vehicles	-	25% of reducing balance

(d) Goodwill

Goodwill is stated at cost less any accumulated impairment losses.

Any negative goodwill arising on an acquisition is recognised directly in profit or loss.

Impairment reviews are carried out at least annually on discounted future cash-flows.

(e) Intangible assets

In addition to goodwill, intangible assets include software development costs and purchased software that in the opinion of the directors meets the definition of an intangible asset. Amortisation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the day they are available for use. The estimated useful lives are as follows:

Purchased Software	-	3 years
Databases	-	3 years
Portfolio Acquisitions	-	20 years

In addition portfolio acquisitions are subject to impairment reviews which are carried out at least annually.

(f) Leases

A lease that transfers substantially all the risks and rewards of ownership of an asset, is treated as a finance lease. The asset is recorded in the statement of financial position as an item of property, plant and equipment at an amount equal to the lower of its fair value and the present value of the minimum lease payments, less accumulated depreciation and impairment losses. Rentals payable are apportioned between the finance element, which is charged to the statement of comprehensive income, and the capital element, which reduces the outstanding obligation

All other leases are accounted for as operating leases. Costs of operating leases are charged to the statement of comprehensive income on a straight line basis over the lease term.

(g) Taxation

Income tax on the profits for the year comprises current tax and deferred tax. Income tax is recognised in the statement of comprehensive income except where items are recognised directly in equity, in which case the associated income tax asset or liability is recognised via equity.

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 balance sheet 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 substantively enacted at the statement of financial position date.

The UK corporation tax rate will reduce to 21% effective from 1 April 2014 and to 20% from 1 April 2015. It has not been possible to quantify the full anticipated effect of the reduction.

Notes to the financial statements (continued)

(h) Pensions

The Company operates a defined contribution pension scheme. Contributions for the year are charged to the statement of comprehensive income.

(i) Cash and cash equivalents

For the purpose of the statement of cash flows, cash comprises cash in hand and loans and advances to credit institutions repayable on demand, and cash 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.

(j) Investment in subsidiaries

The cost of investment arising on the acquisition of subsidiary undertakings comprises the consideration paid and the fair value of the put option obligation to acquire the minority shareholding, when such an option exists. Subsequent re-estimates of the market value or the expected exercise date of the option are carried out by management. This results in the periodic revaluation of the cost of investment.

(k) 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.

(l) Impairment of trade receivables

The carrying amounts of the Company's trade receivables 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 recoverable amount. The carrying amount of the asset is reduced through an impairment account and the amount of the loss is recognised in the Statement of Comprehensive Income.

2 Adoption of new and revised International Financial Reporting Standards

The following standards and amendments to standards have been adopted during the year:

- Amendments to IAS 1, *Presentation of items of Other Comprehensive Income*. This amendment is effective from 1 January 2013 and requires items presented in the statement of other comprehensive income to be grouped on the basis of whether they are potentially re-classifiable to profit or loss in subsequent periods. There has been no impact of this amendment on the financial statements of the Company.
- IFRS 13, *Fair Value Measurement*. Effective from 1 January 2013, this new standard defines fair value and sets out in a single framework comprehensive guidance for measuring fair value. The standard does not change the requirements with regards to which financial and non-financial assets and liabilities will be measured at fair value. This amendment does not have a financial impact on these financial statements.
- IFRS 7, *Financial Instruments – Disclosures*. Amendments to IFRS 7 '*Disclosures – Offsetting Financial Assets and Financial Liabilities*' is effective from 1 January 2013 and requires new disclosures for all recognised financial instruments that are offset in the Statement of Financial Position. The amendment has had no impact on the financial statements of the Company.

The Company notes that there are also new accounting standards on the horizon, which are neither adopted by the EU nor effective at 31 December 2013 including IFRS 9. IFRS 9 is still subject to EU endorsement, the timing of which is uncertain, but is currently expected to be effective for annual periods beginning on or after 1 January 2015. As such the Company is monitoring developments and considering the associated impact on the Company financial statements.

Notes to the financial statements (continued)

3 Operating profit

	2013 £	2012 £
Operating profit has been arrived at after:		
Depreciation of property, plant and equipment (note 14)	94,955	100,603
Amortisation of intangibles (note 13)	89,301	91,481
Impairment losses on trade receivables	-	264,759
Staff costs (see note 6)	2,453,004	2,274,361
Rentals payable under operating leases	111,337	111,337
Auditor's remuneration and expenses:		
Audit of these accounts	14,050	13,650
Other services	3,225	3,100

4 Finance income

	2013 £	2012 £
Interest on bank deposits	112	124
Unwind of put option liability	30,000	23,000
	30,112	23,124

5 Financial expenses

	2013 £	2012 £
Interest payable to group undertaking	(20,874)	(37,903)
	(20,874)	(37,903)

6 Staff numbers and costs

The average monthly number of persons employed by the Company (including Directors) during the period was as follows:

	2013	2012
Directors	2	3
Other	72	70
	74	73

The aggregate payroll cost of these persons was as follows:

	2013 £	2012 £
Wages and salaries	2,130,098	1,992,089
Social security costs	244,112	223,702
Other pension costs	78,794	58,570
	2,453,004	2,274,361

A number of staff employed by the parent company also carry out duties for the subsidiary companies. Their costs are reflected within each company according to the amount of time allocated. Staff are included in the headcount of the company in which they spend the majority of their time.

Notes to the financial statements (continued)

Included in the above aggregate payroll costs are the following directors' emoluments:

	2013 £	2012 £
Directors' emoluments	268,626	289,422
Social security costs	32,543	35,196
Other payroll costs	14,035	16,105
	315,204	340,723

Information regarding the highest paid director is as follows:

	2013 £	2012 £
Salary	121,794	120,319
Benefits in kind	11,672	8,893
Pension contributions to money purchase scheme	8,526	8,422
	141,992	137,634

Pension benefits are accruing to 2 directors (2012: 3) under money purchase schemes.

The Company was recharged £33,000 (2012: £20,900) in respect of director services provided by Skipton Building Society.

7 Tax expense

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

	2013 £	2012 £
a) Analysis of expense in the year at 23.25% (2012: 24.5%)		
Current tax expense		
Current tax at 23.25%	202,269	142,099
Adjustment in respect of prior periods	3,888	33
Total current tax	206,157	142,132
Deferred tax expense		
Current year (note 15)	(7,222)	12,916
Adjustment in respect of prior periods	(3,649)	(129)
Total deferred tax	(10,871)	12,787
Income tax expense	195,286	154,919

b) Factors affecting current 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	635,701	902,523
Tax on profit on ordinary activities at UK standard rate of 23.25% (2011: 24.5%)	147,779	221,093
Effects of:		
Expenses not deductible for tax purposes	125,950	2,534
Income not deductible for tax purposes	(44,168)	(48,505)
Adjustment to tax expense in respect of prior periods	238	(96)
Effects of other timing differences	(34,513)	(20,107)
Income tax expense	195,286	154,919

Notes to the financial statements (continued)

8 Dividends

	2013 £	2012 £
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2013 of £104.74 (2012: £209.47) per share	250,000	500,000
	250,000	500,000

9 Trade and other receivables

	2013 £	2012 £
Trade debtors	716,732	702,543
Impairment of trade debtors	(8,945)	(34,702)
Amounts owed by subsidiary companies	618,316	504,367
Other debtors	6,211	5,741
Prepayments and accrued income	116,863	110,505
	1,449,177	1,288,454

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

	2013 £	2012 £
At 1 January 2013	34,702	-
Provisions (released)/made during the year	(19,916)	264,759
Debtors written off during the year	(5,841)	(230,057)
At 31 December 2013	8,945	34,702

The ageing of trade receivables at the year end is provided in note 22.

10 Cash and cash equivalents

	2013 £	2012 £
Bank balances	123,353	270,401

11 Money held off balance sheet on behalf of clients

A sum of £990,823 (2012: £887,605) is held in bank accounts on behalf of clients in order to be able to make payments on instruction from the Company to members of the scheme.

Notes to the financial statements (continued)

12 Investment in subsidiary undertakings

	2013 £	2012 £
Cost of Investment		
At 1 January 2013	3,560,651	3,528,651
Change of Medical Care Direct Limited put option exercise date	2,000	3,000
Change of RED ARC Assured Limited put option exercise date	29,000	29,000
Change of RED ARC Assured Limited valuation	(270,000)	-
Cost of investment impairment of RED ARC Assured Limited	(530,000)	-
At 31 December	2,791,651	3,560,651

At 31 December 2013 the liability in respect of minority shareholders put options was £193,500 (2012: £502,500).

The movement within the fair value of put option is summarised below:

	2013 £	2012 £
At 1 January	502,500	537,250
Unwind of the discount factor	74,000	84,000
Amendment of estimate of future exercise dates	(73,000)	(75,000)
Change of RED ARC Assured Limited valuation	(270,000)	-
Dividends paid to minority shareholders	(40,000)	(43,750)
At 31 December	193,500	502,500

The Company's investments at the year-end in the share capital of unlisted companies include the following:

Name of subsidiary undertaking	Principal Activity	Percentage of Ownership	
		2013	2012
RED ARC Assured Limited *	Providing support to people with serious illnesses, trauma and disability	75%	75%
Medical Care Direct Limited *	Sourcing of private surgery for individuals, trust funds and small insurers	80%	80%

*Indicates where an option to purchase minority interests in the future exists.

The Company holds a majority stake in these subsidiary undertakings and the minority shareholders have options to require the Company to purchase the remaining shareholding at some future date. IAS 32, Financial Instruments Presentation, requires the Company to recognise a financial liability for the present value of the estimated future payments under the option, with a corresponding entry in cost of investment.

The estimate of the liability is principally dependant on the forecast performance of the subsidiary undertaking and the estimated timing of the exercise of the option. The change in the fair value of the financial liability due to the accretion of the discount of the liability is expressed in the Statement of Financial Position. In subsequent periods, any adjustment to the Company's estimation of the present value of the liability will result in an adjustment of the cost of investment and the accretion of the discount.

The Company reviews the carrying value of its investments in subsidiary undertakings and of goodwill relating to its subsidiary undertakings at each reporting date. The carrying value is assessed against the recoverable amount of the subsidiary undertakings. The recoverable amounts are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the cash flows, discount rates and growth rates. The Company prepares cash flow forecasts on the assumption that the subsidiary undertakings are held for long term investment. The cash flows are derived from the most recent financial budgets for the next five years, which take into account the risks inherent in the businesses, and extrapolate cash flows for subsequent years (up to an additional 15 years) based on a long term growth rate of 2.5% (2012: 2.5%). The Company estimates discount rates based upon

the weighted average cost of capital of each subsidiary undertaking which takes into account the market risks associated with each subsidiary. The pre-tax discount rate for Red Arc Assured Limited and Medical Care Direct Limited is 14.02%. This review resulted in a cost of investment impairment of Red Arc Assured Limited of £530,000 at 31 December 2013.

All of the above companies are incorporated and registered in England.

Notes to the financial statements (continued)

13 Intangible assets

	Goodwill £	Portfolios £	Database £	Total £
Cost				
At 1 January 2013	6,648,621	1,121,298	222,101	7,992,020
Additions	-	-	59,998	59,998
Disposals	-	-	(65,312)	(65,312)
At 31 December 2013	6,648,621	1,121,298	216,787	7,986,706
Amortisation and impairment losses				
At 1 January 2013	287,470	370,047	186,096	843,613
Amortisation for the year	-	56,065	33,236	89,301
Disposals	-	-	(65,312)	(65,312)
At 31 December 2013	287,470	426,112	154,020	867,602
Carrying amounts				
At 1 January 2013	6,361,151	751,251	36,005	7,148,407
At 31 December 2013	6,361,151	695,186	62,767	7,119,104

	Goodwill £	Portfolios £	Database £	Total £
Cost				
At 1 January 2012	6,648,621	1,121,298	205,841	7,975,760
Additions	-	-	16,260	16,260
At 31 December 2012	6,648,621	1,121,298	222,101	7,992,020
Amortisation and impairment losses				
At 1 January 2012	287,470	313,982	150,680	752,132
Amortisation for the year	-	56,065	35,416	91,481
At 31 December 2012	287,470	370,047	186,096	843,613
Carrying amounts				
At 1 January 2012	6,361,151	807,316	55,161	7,223,628
At 31 December 2012	6,361,151	751,251	36,005	7,148,407

All amortisation charges in the year have been charged through administrative expenses.

Goodwill is reviewed for impairment on annual basis and the recoverable amount is assessed by applying a consistent methodology as set out in note 12.

Notes to the financial statements (continued)

14 Property, plant and equipment

	Office Equipment £	Motor Vehicles £	Total £
Cost			
At 1 January 2013	786,464	284,402	1,070,866
Additions	70,939	96,214	167,153
Disposals	(210,259)	(72,701)	(282,960)
At 31 December 2013	647,144	307,915	955,059

Accumulated depreciation			
At 1 January 2013	703,806	102,932	806,738
Depreciation charge for the year	47,045	47,910	94,955
Eliminated on disposals	(207,976)	(36,393)	(244,369)
At 31 December 2013	542,875	114,449	657,324

Carrying amounts

At 1 January 2013	82,658	181,470	264,128
At 31 December 2013	104,269	193,466	297,735

	Office Equipment £	Motor Vehicles £	Total £
Cost			
At 1 January 2012	735,874	314,948	1,050,822
Additions	56,757	96,769	153,526
Disposals	(6,167)	(127,315)	(133,482)
At 31 December 2012	786,464	284,402	1,070,866

Accumulated depreciation			
At 1 January 2012	657,165	135,621	792,786
Depreciation charge for the year	52,808	47,795	100,603
Eliminated on disposals	(6,167)	(80,484)	(86,651)
At 31 December 2012	703,806	102,932	806,738

Carrying amounts

At 1 January 2012	78,709	179,327	258,036
At 31 December 2012	82,658	181,470	264,128

Notes to the financial statements (continued)

15 Deferred tax

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

	2013 £	2012 £
At 1 January	239,028	226,241
Deferred tax charge in Statement of Comprehensive Income for the period (note 7)	(7,222)	12,916
Adjustment in respect of prior year	(3,650)	(129)
At 31 December	228,156	239,028

Deferred tax liabilities

2012

Deferred tax liabilities are attributable to the following items:		£
Accelerated capital allowances	233,644	226,241
Temporary differences	(5,488)	12,787
At 31 December	228,156	239,028

Notes to the financial statements (continued)

16 Trade and other payables

	2013	2012
	£	£
Trade and insurer creditors	44,021	13,368
Amounts owed to ultimate parent	557,145	1,244,123
Amounts owed to RED ARC Assured Limited	223,000	300,000
Income tax	81,835	81,335
Other creditors	1,304	6,480
Deferred revenue	1,997	3,378
Accruals	580,059	485,411
	1,489,361	2,134,095

17 Maturity analysis for financial liabilities

	0-2 Months	3-12 Months	Total
	£	£	£
Trade and insurer creditors	44,021	-	44,021
Amounts owed to ultimate parent	557,145	-	557,145
Amounts owed to RED ARC Assured Limited	223,000	-	223,000
Income tax	81,835	-	81,835
Other creditors	1,304	-	1,304
Deferred revenue	-	1,997	1,997
Accruals	580,059	-	580,059
Total liabilities at 31 December 2013	1,487,364	1,997	1,489,361

	0-2 Months	3-12 Months	Total
	£	£	£
Trade and insurer creditors	13,368	-	13,368
Amounts owed to ultimate parent	1,244,123	-	1,244,123
Amounts owed to RED ARC Assured Limited	300,000	-	300,000
Income tax	81,335	-	81,335
Other creditors	6,480	-	6,480
Deferred revenue	1,782	1,596	3,378
Accruals	485,411	-	485,411
Total liabilities at 31 December 2012	2,132,499	1,596	2,134,095

18 Share Capital

	At 1 January 2013	At 31 December 2013
	£	£
Allotted, called up and fully paid		
Class 'A' ordinary shares of £1 each	2,118	2,118
Class 'B' ordinary shares of £1 each	269	269
	2,387	2,387

The rights attached to the A shares and the B Share are as follows:

Dividends

The profits and reserves distributable in respect of any financial year which the Company determines to distribute in respect of any financial year shall be applied in paying dividends to the holders of the A shares and the B shares in proportion to the number of the Shares of the relevant class actually held by each shareholder of the relevant class as if they constituted one class of shares.

Notes to the financial statements (continued)

18 Share Capital (continued)

Voting

All the holders of the equity shares shall be entitled to receive notice of and to attend and speak at any general meeting of the Company and:

(a) each holder of A shares who (being an individual) is present in person or by proxy or (being a corporation) is present by duly authorised representative or by proxy shall, on a show of hands and on a poll have such number of votes as is equal to the number of A shares held by them: and

(b) each holder of B shares who (being an individual) is present in person or by proxy or (being a corporation) is present by duly authorised representative or by proxy shall, on a show of hands and on a poll have such number of votes as is equal to the number of B shares held by them.

Return of capital

On a return of capital on liquidation or capital reduction or otherwise, the surplus assets of the Company remaining after the payment of its liabilities shall belong to and be distributed to the holders of the A shares and the B shares in proportion to the number of shares of the relevant class actually held by each shareholder of the relevant class as if they constituted one class of shares.

Redemption Issues

There are no redemption rights attached to either the A or B ordinary shares.

19 Management of capital

The Company is subject to FCA capital requirements which are monitored on a monthly basis and a formal submission sent to the FCA on half-yearly basis. The FCA's capital requirements are in place in order to cover the regulated activities of the Company.

The period end capital position is reported to the Operational Board on a monthly basis. The capital position is also given due consideration when corporate plans are prepared, calculating the future requirements based upon the three year financial forecast.

The Company manages the capital balance in order to ensure that both the internal limit and the regulatory limit are not breached.

The Board considers that at all times during the year both external and internal requirements were met.

	31 December 2013 £	31 December 2012 £
Capital resource requirement – 5% of annual income from regulated activities		
Actual turnover per statutory accounts	4,797,080	4,393,761
5% FCA requirement	239,854	219,688
Capital resources available		
Fully paid up ordinary shares	2,387	2,387
Share premium account	8,646,345	8,646,345
Audited reserves	1,123,001	932,587
Deduct:		
Intangible assets	(7,119,103)	(7,148,407)
Total capital available	2,652,630	2,432,912
Excess capital over FCA requirement	2,412,776	2,213,224

Notes to the financial statements (continued)

20 Related party transactions

All such transactions are placed at an arm's length basis.

During the year to 31 December 2013, the following related transactions were entered into with related parties:

	2013.			2012		
	Ultimate parent under- taking £	Subsidiary under- taking £	Other £	Ultimate parent under- taking £	Subsidiary under- taking £	Other £
a) Net Interest						
Interest receivable	-	10,359	-	-	10,671	-
Interest Payable	15,123	-	-	33,778	-	-
Total	15,123	10,359	-	33,778	10,671	-
b) Sales of goods and services						
Management charges	-	283,255	-	-	242,986	-
Commission & fees receivable	21,704	-	-	17,448	-	-
Total	21,704	283,255	-	17,448	242,986	-
c) Purchase of goods and services						
IT services	-	-	7,200	-	-	7,200
Group shared service costs	125,001	-	-	115,344	-	-
Introducer fees	-	799	-	-	3,302	-
Marketing services	-	-	75	-	-	-
Professional services	-	-	350	-	-	1,166
Group loan provided	556,426	-	-	1,241,809	-	-
Total	681,427	799	7,625	1,357,153	3,302	8,366
d) Outstanding balances						
Group loan provided – receivable	-	607,956	-	-	503,509	-
RED ARC Assured Limited loan provided - payable	-	223,000	-	-	300,000	-
Group loan provided - payable	571,549	-	-	1,275,588	-	-
Total	571,549	830,956	-	1,275,588	803,509	-
e) Key management compensation						
Salaries and other short term employee benefits	-	279,437	-	-	252,675	-
Key management personnel short term loan, now repaid in full	-	-	-	-	-	20,000
Post employment benefits	-	13,306	-	-	13,547	-
Total	-	292,743	-	-	266,222	20,000

Key management personnel comprise:

J E Lawson
C A Husbands
S H Scullion

There are no provisions in respect of sales of goods and services to related parties, either at 31 December 2012 or at 31 December 2013.

Notes to the financial statements (continued)

21 Capital commitments

The Company has annual commitments due under operating leases. At the statement of financial position date these were as follows:

	2013 £	2012 £
On leases expiring		
Within one year	111,337	111,337
Within two to five years	250,509	361,846
	361,846	473,183

22 Financial instruments

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

The Company takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Management carefully manages its exposure to credit risk. The maximum exposure to credit risk at the reporting date was:

	Carrying Amount 31 December 2013 £	31 December 2012 £
Other debtors	6,212	5,741
Trade debtors	716,732	702,543
Amounts owed by subsidiaries	618,316	504,367
Cash and cash equivalents	123,353	270,401
Total gross balances	1,464,613	1,483,052
Impairment of trade receivables	(8,945)	(34,702)
Total	1,455,668	1,448,350

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	Carrying Amount 31 December 2013 £	31 December 2012 £
Commission debtors net of impairment	707,787	667,841
Total	707,787	667,841

Impairment losses

The ageing of trade receivables at the reporting date was:

	31 December 2013			31 December 2012		
	Gross	Impairment	Net	Gross	Impairment	Net
	£	£	£	£	£	£
Not past due	636,627	-	636,627	548,783	-	548,783
Past due 0-30 days	45,385	-	45,385	84,005	-	84,005
Past due 31-120 days	13,405	-	13,405	17,893	-	17,893
More than 120 days	21,315	8,945	12,370	51,862	34,702	17,160
Total	716,732	8,945	707,787	702,543	34,702	667,841

Notes to the financial statements (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company at all times maintains adequate committed credit facilities in order to meet all its commitments as and when they fall due. The Directors believe they have minimal exposure to liquidity risk.

31 December 2013

	Carrying amount	Contractual cash flows	
		Total	6 months or less
Non-derivative financial liabilities			
Trade & other payables	44,021	44,021	44,021
Amounts owing to parent	557,145	557,145	557,145
Amounts owing to RED ARC Assured Limited	223,000	223,000	223,000
Income tax	81,835	81,835	81,835
Other creditors	1,305	1,305	1,305
Deferred revenue	1,997	1,997	1,997
Accruals	580,059	580,059	580,059
Total	1,489,362	1,489,362	1,489,362

31 December 2012

	Carrying amount	Contractual cash flows	
		Total	6 months or less
Non-derivative financial liabilities			
Trade & other payables	13,368	13,368	13,368
Amounts owing to parent	1,244,123	1,244,123	1,244,123
Amounts owing to RED ARC Assured Limited	300,000	300,000	300,000
Income tax	81,335	81,335	81,335
Other creditors	6,480	6,480	6,480
Deferred revenue	3,378	3,378	3,378
Accruals	485,411	485,411	485,411
Total	2,134,095	2,134,095	2,134,095

There are no differences between the fair values of financial assets and liabilities and their carrying amounts shown in the Statement of Financial Position.

23 Ultimate parent undertaking

The Company is an 88.73% 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