

**CONVEYANCING DIRECT LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**31 December 2019**

**(Registered Number 04152278)**



Conveyancing Direct Limited  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
31 December 2019

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## Directors' Report

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

### INTRODUCTION AND OVERVIEW

Conveyancing Direct Limited is a private limited company incorporated in England & Wales, registered number: 04152278. The company provides conveyancing and legal services to the residential property market. The Council for Licensed Conveyancers regulates the business. The Company operates under both the Conveyancing Direct and BE Legal brands.

The Company made a loss before tax of £167,000 for the year (2018: profit of £167,000).

### DIRECTORS

The Directors who served during the year and up to the date of this report were:

RS Shipperley (Resigned 01 November 2019)  
J Kelbrick (Resigned 01 November 2019)  
MV Timms  
G Benzies (Resigned 01 November 2019)  
RJ Twigg  
JP Cosson (Appointed 15 March 2019)  
JM Davy (Appointed 17 January 2019)  
M Harris (Appointed 01 November 2019)  
I Goddard (Resigned 14 March 2019)

### DIVIDENDS

A dividend of £nil has been paid during the year (2018: £nil). The Directors do not recommend payment of a final dividend (2018: £nil).

### CHARITABLE AND POLITICAL DONATIONS

The Company made no charitable or political donations in the year (2018: £nil).

### EMPLOYEES

It is Company policy to provide employees with information concerning their roles and responsibilities and the trading performance of the Company. This policy is to ensure opportunities are available at every level to improve employees' and corporate performance. Regular meetings are held which involve directors, managers and staff.

### EMPLOYEE DEVELOPMENT AND EQUAL OPPORTUNITIES

The Company's approach is to ensure it recruits and promotes the right people regardless of gender, disability, age, sexual orientation or race, and is committed to a culture of meritocracy whereby career progression is based on ability. It facilitates opportunities for all employees to progress and regularly reviews practices and policies. It regards its people as its most valuable asset and is committed to investing in them to achieve their full potential, without discrimination.

People with disabilities are given equal opportunities wherever they can fulfil the requirements of the job. If an employee becomes disabled during their employment with the Company every reasonable effort is made to enable them to continue their career within the Company.

### DISCLOSURE OF INFORMATION TO 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 the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### GOING CONCERN

The Directors have assessed the viability of the Company with respect to the Company's current resources and prospects, its risk appetite and the Company's principal risks and uncertainties. As a result, the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

The Directors have reacted quickly to the Covid-19 pandemic. The Government announcement on 23 March 2020, locking down large parts of the UK, effectively stopped the housing market. Our priority during this time has been the health, safety and well-being of our people and customers. The unprecedented nature of the pandemic means that assessing the impact, including on the UK housing market and economy as a whole, is very difficult and there will inevitably be a higher degree of uncertainty attached to the forecasts than usual. However the Company does have experience of operating through a recession before. Management has taken some difficult decisions during this time, including placing on furlough 54% of its people, although the Company is proud to have continued to pay 100% of basic pay and any commissions due during this time.

## Directors' Report (continued)

### GOING CONCERN (continued)

On 12 May 2020 it was announced that lockdown would be eased in England. We have since unfurloughed a large number of people and worked hard to ensure they have all received the required training and personal protective equipment required. This has allowed us to help our customers who had agreed sales before the lockdown complete their transactions, people in difficult renting arrangements find new accommodation, and open up the housing market more widely. Scotland and Wales has followed the same path but with a later timescale.

The Directors have performed extensive forecasting to ensure the future viability of the Company and have taken actions where necessary to ensure the Company remains in a strong position, and able to recover strongly once we return to a more normal environment.

The Company has prepared a stress forecast, including balance sheet and cash flows for 2020 and 2021, to model the expected impact of the Covid-19 pandemic. The key assumptions were that after the property sector reopened in May activity levels would slowly rebuild during the second half of the year, reaching 80% of pre-Covid levels by December. Under this scenario income would be 34% below 2019 for the full year. The Directors expect 2021 to be largely back to pre-Covid levels, but some revenue streams may take slightly longer to recover. The Company has assumed to make use of the Government VAT deferral and furlough schemes. However the Company is proud that furloughed employees have continued to receive 100% of basic pay and any commissions due. Despite this period of significant stress, the Company is forecast to remain solvent throughout, with a positive cash balance and net assets.

Since performing this forecast in June, the housing market recovery has been much quicker than anticipated, and results for June and July have been better than expected. Therefore the forecasts performed above can be considered to be a worst case stress scenario. A reverse stress test has also been performed, which required a significantly deeper and prolonged downturn for the Company to exceed available funds, which the Directors consider to be remote. Were this unlikely situation to occur then there are actions available and within the control of management to reduce costs and manage liquidity.

In terms of its balance sheet, the Company is well positioned to withstand any downturn. It has no long term debt (other than IFRS 16 liabilities) and therefore there are no covenant tests that it must meet. The Directors anticipate that were financing required, they are confident they would be able to obtain it, whether through additional shareholder loans or investment, the Government's Business Interruption Loan scheme or bank lending. However we do not expect a situation where such financing is required, even if market conditions were to deteriorate, and therefore the going concern assumption is not reliant on this.

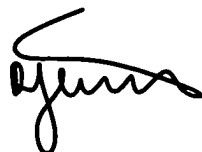
As a result of the above and following careful consideration, the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### AUDITOR

The Group appointed a new external auditor during the year, in line with its ultimate parent, Skipton Building Society. KPMG LLP therefore resigned as the Group's external auditor, and Ernst & Young LLP was formally appointed on 10 May 2019.

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Ernst & Young LLP will therefore continue in office.

By order of the board



RJ Twigg  
Director

10 September 2020  
Windmill Road  
St Leonards on Sea  
East Sussex  
TN38 9BY

## Strategic Report

### BUSINESS REVIEW

The principal activity is the provision of property conveyancing and associated services, and will continue to be so for the foreseeable future. The state of the UK housing market therefore has a direct impact on the Company's performance.

In 2019 the business went through a full fundamental re-structure in order to make the business more efficient and increase the capacity of the business in order to return to profitability in 2020. Instructions received by the business were reduced throughout the summer in order to reduce capacity during the business restructure with instructions levels again increasing in Q4 2019 to ensure the business was at optimum capacity going into 2020.

Remortgage volumes reduced in 2019 due to less remortgage instructions being received from Skipton Building (2019: 10,187, 2018: 12,964) which impacted our remortgage revenue.

As part of the restructure, non fee earning headcount was reduced and replaced with fee earning headcount to ensure a higher proportion of the total headcount are revenue generating.

Our transactional department saw an increase in instruction levels (2019: 10,053, 2018: 8,302), and a similar completion levels at 5,240 (2018: 5,189). The increased instruction levels are due to the uplift in Q4 2019 as detailed above.

The combination of the reduced completions and the fundamental business restricted resulted in a loss for 2019.

2020 will be significantly impacted by the Covid-19 pandemic, which has resulted in the Company's branches being forced to close for 7 weeks. Clearly this will have a detrimental effect on earnings, but as noted in the Directors report and note 1, following extensive forecasting and stress testing, the Directors believe the business continues to be a going concern. Management has made many decisions to ensure the future viability of the business, including making use of the government furlough scheme and tax deferrals. However the Company is proud that furloughed employees have continued to receive 100% of basic pay and any commissions due. Prior to this the business was performing well, with key KPIs ahead of 2019, and management has acted swiftly to allow its employees to return to work in a safe and secure way, with a view to returning to this positive performance as soon as possible.

### Objectives and strategy of the Company

The Company's objectives are to maximise the long term value and revenue for its shareholder and to deliver a high quality and flexible service required to meet the various demands of its clients.

### Operational performance and key performance indicators

The Directors monitor the business by using relevant KPI's. Board meetings are held at which results are discussed in detail. The table below shows KPI's that are monitored for the business.

	2019 £000	2018 £000	Change %
Revenue	7,110	7,324	-3%
(Loss)/Profit before tax	-167	167	-200%
<b>Movement in:</b>			
Mortgage Completions	+1%	-11%	
Re-mortgage Completions	-32%	-47%	

### Risks and uncertainties

The Company's objective is to appropriately manage all the risks that arise from its activities. Connells Limited, the immediate parent company and Skipton Building Society, the ultimate parent undertaking, have a formal structure for managing risks throughout the group, which applies to all subsidiaries.

This has three elements:

- The Company's risk appetite is documented in detailed policy risk statements, which are reviewed and approved annually by the Board.

**Strategic Report** (continued)  
**Risks and uncertainties** (continued)

- The primary responsibility for managing risk and ensuring appropriate controls are in place lies with the Company's management. The ultimate parent undertaking, Skipton Building Society, and the immediate parent, Connells Limited, through its risk and compliance function provides monitoring and oversight on behalf of the Society's Board.
- The Board Audit Committee of Skipton Building Society oversees the effectiveness of the risk management framework and the control environment through Skipton Group's Internal Audit function, whose reports are also provided to the Company's Board.

In common with other conveyancing service providers, the Company is reasonably highly operationally geared. Performance is affected by the state of the residential housing market. In the short term, many costs are fixed, so when income falls this has a direct and adverse impact on profits and cash flows. Therefore the Company's policy is to retain sufficient cash to ensure that any future deterioration in trading can be funded without recourse to external borrowing.

Conveyancing Direct Limited is a people business and as such is reliant on the ability, training, skills and motivation of its staff. A key risk to the business is the possibility of losing staff, particularly amongst senior managers and directors. In order to combat this, the Board ensure that service agreements, remuneration packages, and human resources policies are designed to attract, motivate and retain high quality people.

**Covid-19 pandemic**

The majority of businesses in the UK have been impacted since March 2020 by the Covid-19 pandemic, which has resulted in the closure of most premises and therefore activity levels have declined significantly. While the Company has been able to re-open and start to trade again, there remains significant uncertainty over how long restrictive measures will remain in place, how this will impact customer sentiment and the wider economic impact.

The Company has invested heavily in personal protective equipment (PPE), devised comprehensive working practices and rolled out training to allow for a safe and secure environment for its people and customers. The Directors have also taken a number of actions and contingency planning to ensure the future profitability and viability of the business, which is discussed further in the going concern section, and continue to meet regularly to navigate the best course through this situation. Management has been pleased with the response from its people and IT systems, and the Company has remained fully operational despite a significant increase in remote working.

**Events after the reporting period**

As noted above, the Covid-19 pandemic and subsequent UK Government lock down of large parts of the UK on 23 March 2020, effectively stopped the housing market for two months. This had a significant impact on trading during this period, and has added some challenges to post lockdown ways of workings, including ensuring relevant PPE is in place and the Company adheres to social distancing guidelines for the benefit of its colleagues and customers. Since lockdown ended, there have been encouraging signs in the housing market.

The Directors consider the Covid-19 pandemic to be a non-adjusting event, but it will have a material impact on the company's turnover and results for the year ending 31 December 2020.

By order of the board



RJ Twigg  
Director

10 September 2020  
Windmill Road  
St Leonards on Sea  
East Sussex  
TN38 9BY

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS**

The directors are responsible for preparing the Strategic Report, 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 International Financial Reporting Standards as adopted by the European Union (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, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs 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 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 CONVEYANCING DIRECT LIMITED**

### **Opinion**

We have audited the financial statements of Conveyancing Direct Limited for the year ended 31 December 2019 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes 1 to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

### **Emphasis of Matter - Effects of Covid-19**

We draw attention to Note 1a of the financial statements, which describes the economic and social consequences the company is facing as a result of COVID-19 which is impacting supply chains, consumer demand and personnel available for work and or being able to access offices. Our opinion is not modified in respect of this matter.

### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CONVEYANCING DIRECT LIMITED *(continued)***

### **Opinions on other matters prescribed by the Companies Act 2006**

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

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

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

We have nothing to report in respect of the following matters in relation to which 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

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

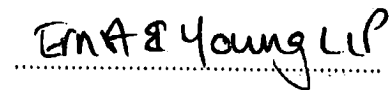
### **Auditor's responsibilities for the audit of the financial statements**

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### **Use of our report**

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

  
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Joanne Mason (Senior Statutory Auditor)  
For and on behalf of Ernst & Young LLP, Statutory Auditor  
Luton  
14 September 2020

## Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Year ended 2019 £000	Year ended 2018 £000
Revenue	3	7,110	7,324
Employee benefit expenses	6	(3,831)	(3,754)
Administrative expenses	2	(3,459)	(3,432)
<b>Operating (loss)/profit</b>		<b>(180)</b>	<b>138</b>
Finance income	4	22	29
Finance costs	5	(9)	-
<b>(Loss)/Profit before tax</b>		<b>(167)</b>	<b>167</b>
Income tax credit/(expense)	7	37	(45)
<b>(Loss)/Profit for the year being total comprehensive income</b>		<b>(130)</b>	<b>122</b>

In both the current and preceding year the Company made no acquisitions and had no discontinued operations.

There were no recognised income and expense items in the current or preceding year other than those reflected in the above Statement of Comprehensive Income.

The notes on pages 14 to 29 form part of these financial statements.

## Statement of Financial Position

AT 31 DECEMBER 2019

	Notes	£000	31 December 2019 £000	£000	31 December 2018 £000
<b>Non-current assets</b>					
Property, plant and equipment	8	65		139	
Right of Use Asset	9	575		-	
Deferred tax assets	10	25		24	
<b>Total non-current assets</b>			665		163
<b>Current assets</b>					
Trade and other receivables	11	428		877	
Cash and cash equivalents		1,200		950	
Tax asset		33		-	
<b>Total current assets</b>			1,661		1,827
<b>Total assets</b>			<b>2,326</b>		<b>1,990</b>
<b>Current liabilities</b>					
Trade and other payables	12	761		856	
Provisions	13	25		-	
Lease Liabilities	18	119		-	
Tax liabilities		-		38	
<b>Total current liabilities</b>			904		894
<b>Non-current liabilities</b>					
Lease Liabilities	18	459		-	
Provisions	13	75		75	
<b>Total non-current liabilities</b>			534		75
<b>Total liabilities</b>			<b>907</b>		<b>969</b>
<b>Equity – attributable to equity holders of the Company</b>					
Share capital	14	-		-	
Retained earnings	14	887		1,021	
<b>Total equity</b>			887		1,021
<b>Total equity and liabilities</b>			<b>2,326</b>		<b>1,990</b>

These accounts were approved by the Board of Directors on 10 September 2020 and signed on its behalf by:



RJ Twigg  
Director

Company registration number: 04152278

The notes on pages 14 to 29 form part of these financial statements.

## Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Share capital £000	Retained earnings £000	Total equity £000
Balance at 1 January 2019		-	1,021	1,021
Total income for the year		-	(130)	(130)
Prior Year Adjustment	1(b)	-	(4)	(4)
<b>Balance at 31 December 2019</b>		<b>-</b>	<b>887</b>	<b>887</b>
Balance at 1 January 2018		-	899	899
Total income for the year		-	122	122
<b>Balance at 31 December 2018</b>		<b>-</b>	<b>1,021</b>	<b>1,021</b>

The notes on pages 14 to 29 form part of these financial statements.

## Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Year ended 2019 £000	Year ended 2018 £000
<b>Cash flows from operating activities</b>			
(Loss)/Profit for the year		(130)	122
Adjustments for:			
Depreciation and impairment of tangible assets	8	68	99
Depreciation and impairment of ROU assets	9	120	-
Profit on disposal of property, plant and equipment		16	-
Finance income	4	(22)	(29)
Finance expense	5	9	-
Tax (credit)/expense	7	(37)	45
<b>Operating profit before changes in working capital</b>		24	237
Decrease/(Increase) in trade receivables		43	(231)
Decrease in other receivables and prepayments		406	18
(Decrease) in trade and other payables		(95)	(121)
Increase in provisions		25	75
<b>Cash inflow/(outflow) from operations</b>		403	(22)
Tax paid		(34)	(116)
<b>Net cash inflow/(outflow) from operating activities</b>		369	(138)
<b>Cash flows from investing activities</b>			
Interest received	4	22	29
Purchases of property, plant and equipment	8	(7)	-
<b>Net cash inflow from investing activities</b>		15	29
<b>Cash flows from financing activities</b>			
Payment of principal portion of lease liabilities		(125)	-
Interest paid		(9)	-
<b>Net cash outflow from financing activities</b>		(134)	-
<b>Net increase/(decrease) in cash and cash equivalents</b>		250	(109)
Cash and cash equivalents at 1 January		950	1,059
<b>Cash and cash equivalents at 31 December</b>		<b>1,200</b>	<b>950</b>

The notes on pages 14 to 29 form part of these Financial Statements.

## NOTES TO FINANCIAL STATEMENTS

### 1. Accounting policies

Conveyancing Direct Limited (the "Company") is a company incorporated, registered and domiciled in the UK. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's accounts:

#### a) Basis of accounting

The Company's financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") and effective as at 31 December 2019, and those parts of the Companies Act 2006 applicable to Companies reporting under IFRS.

During the year the Group adopted the new IFRS 16 *Leases* accounting standard, further details of which are provided in note 1b).

The Group also adopted the following amendments to existing accounting standards during the year, none of which had a material impact on these financial statements:

- IFRIC 23 *Uncertainty over income tax treatments*
- Plan amendment, curtailment or settlement (amendments to IAS 19)

There are no new standards at 31 December 2019 that have been endorsed by the EU but not yet effective.

#### Measurement convention

The financial statements are prepared on the historical cost basis.

#### Currency presentation

These financial statements are presented in pounds sterling and, except where otherwise indicated, have been rounded to the nearest one thousand pounds. The functional currency is pounds sterling.

#### Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Review on pages 5 to 6. The financial position of the Company, its cash flows, and liquidity position are shown on pages 10 to 13. In addition, the Directors' Report and notes to these financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements. The Directors have assessed the viability of the Company with respect to the Company's current resources and prospects, its risk appetite and the Company's principal risks and uncertainties. In particular the Directors have considered the impact of the Covid-19 pandemic. The unprecedented nature of the pandemic means that assessing the impact, including on the UK housing market and economy as a whole, is very difficult and there will inevitably be a higher degree of uncertainty attached to the forecasts than usual. However the Company does have experience of operating through a recession before.

The Company has prepared a stress forecast, including balance sheet and cash flows for 2020 and 2021, to model the expected impact of the Covid-19 pandemic. The key assumptions were that after the property sector reopened in May activity levels would slowly rebuild during the second half of the year, reaching 80% of pre-Covid levels by December. Under this scenario income would be 34% below 2019 for the full year. The Directors expect 2021 to be largely back to pre-Covid levels, but some revenue streams may take slightly longer to recover. The Company has assumed to make use of the Government VAT deferral and furlough schemes. However the Company is proud that furloughed employees have continued to receive 100% of basic pay and any commissions due. Despite this period of significant stress, the Company is forecast to remain solvent throughout, with a positive cash balance and net assets.

Since performing this forecast in June, the housing market recovery has been much quicker than anticipated, and results for June and July have been better than expected. Therefore the forecasts performed above can be considered to be a worst case stress scenario. A reverse stress test has also been performed, which required a significantly deeper and prolonged downturn for the Company to exceed available funds, which the Directors consider to be remote. Were this unlikely situation to occur then there are actions available and within the control of management to reduce costs and manage liquidity.

In terms of its balance sheet, the Company is well positioned to withstand any downturn. It has no long term debt (other than IFRS 16 liabilities) and therefore there are no covenant tests that it must meet. The Directors anticipate that were financing required, they are confident they would be able to obtain it, whether through additional shareholder loans or investment, the Government's Business Interruption Loan scheme or bank lending. However we do not expect a situation where such financing is required, even if market conditions were to deteriorate, and therefore the going concern assumption is not reliant on this.

As a result of the above and following careful consideration, the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 1. Accounting policies *(continued)*

#### b) Changes to significant accounting policies

The Company has adopted IFRS 16 *Leases* with effect from 1 January 2019. The effect of initially adopting this standard is outlined below.

#### **IFRS 16**

IFRS 16 *Leases* replaces the previous standard IAS 17, and determines how all leases are accounted for and has materially impacted the Company's 2019 consolidated accounts. The accounting policy is disclosed in note 1i). The Company has adopted IFRS 16 using the modified retrospective approach, so that the right-of-use asset is equal to the lease liability on 1 January 2019, adjusted for any rent prepayments or accrued lease payments. The 2018 comparatives have not been restated, as allowed by the specific transitional provisions within the standard. The reclassifications and adjustments arising from the new standard are therefore recognised in the opening balance sheet as at 1 January 2019.

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases that had previously been classified as operating leases under IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as at 1 January 2019. The table below reconciles the operating lease commitments disclosed under IAS 17, to the lease liability recognised under IFRS 16.

	<b>£000</b>
Operating lease commitments disclosed under IAS 17 at 31 December 2018	546
Discounted using the Group's incremental borrowing rate at 1 January 2019	(36)
<b>Lease liability recognised at 1 January 2019</b>	<b>510</b>
Of which:	
Current lease liabilities	119
Non-current lease liabilities	391
	<b>510</b>

The associated right-of-use assets for all leases were measured at an amount equal to the lease liability, adjusted by any prepaid (or accrued) lease payments. The recognised right-of use assets at 1 January 2019 relate to the following types of assets:

	<b>£000</b>
Properties	510
<b>Total right-of-use assets recognised at 1 January 2019</b>	<b>510</b>

The change in accounting policy affected the following items in the balance sheet on 1 January 2019.

	As previously reported £000	Impact of IFRS 16 £000	Restated £000
<b>Non-current assets</b>			
Right-of-use assets	-	510	510
<b>Total impact on assets</b>	-	510	510
<b>Non-current liabilities</b>			
Lease liabilities	-	391	391
<b>Current liabilities</b>			
Lease liabilities	-	119	119
<b>Total impact on equity and liabilities</b>	-	510	510

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 1. Accounting policies (continued)

#### b) Changes to significant accounting policies (continued)

The impact on the Statement of Comprehensive Income for the year ended 31 December 2019 was as follows:

	2019 £000
Operating expenses	125
<b>Earnings before interest, tax, depreciation, amortisation, impairment and contingent consideration</b>	<b>125</b>
Depreciation	(120)
<b>Operating profit</b>	<b>5</b>
Interest	(9)
<b>(Loss)/Profit before tax</b>	<b>(4)</b>

The impact on the Statement of Cash Flow for the year ended 31 December 2019 was as follows:

	2019 £000
(Loss)/Profit for the year	(4)
Depreciation in right-of-use asset	120
Interest paid	9
<b>Net cash flows from operating activities</b>	<b>125</b>
Payment of principal portion of lease liabilities	(125)
<b>Net cash flows from financing activities</b>	<b>(125)</b>
<b>Net total impact on cash flow statement</b>	<b>-</b>

The Group used the following practical expedients available when applying IFRS 16 for the first time:

- The application of a single discount rate to a portfolio of leases with similar characteristics, for example based on term length and type of lease.
- Reliance on previous assessments of whether a contract is, or contains a lease.
- Exemptions available for low-value and short-term leases.
- Reliance on previous assessments of whether leases are onerous.

#### c) Revenue recognition

Revenue, which excludes value added tax, represents total invoiced sales adjusted for deferred income of the Company and is recognised as follows:

- Conveyancing income and remortgage services is recognised on the date of completion of the underlying transaction at which point all performance obligations are considered to have been fulfilled. Invoices are usually payable on completion.

#### d) 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 at the following rates:

Office Equipment	-	5 to 10 years
Land & Buildings	-	5 to 10 years
Motor Vehicles	-	4 years
Leasehold premises	-	Over the unexpired term of the lease in equal instalments

All depreciation is charged on a straight-line basis.



## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 1. Accounting policies (continued)

#### e) Trade and other receivables

Trade and other receivables are stated at their nominal amount (discounted if material) less impairment losses.

#### f) Trade and other payables

Trade and other payables are stated initially at their fair value and then subsequently carried at amortised cost.

#### 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 other comprehensive income, in which case the associated income tax charge or credit is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantively enacted at the year end, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of 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 reporting date.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for the company.

The carrying amount of deferred tax assets is reviewed at each year end and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each year end and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

#### h) Employee benefits

The Company operates a Group Personal Pension Plan. Contributions are charged to the Statement of Comprehensive Income as they become payable in accordance with the rules of the scheme.

#### i) Leases

The Company's lease commitments relate to properties. Leases are typically negotiated on an individual basis and thus contain a wide range of terms and conditions, including options to extend or terminate. The lease liability is considered to be an indicator of the future cash outflows, there are no significant restrictions or covenants, residual value guarantees or sale and leaseback transactions. Previously, payments made under operating leases were charged to the income statement on a straight-line basis over the period of the lease.

From 1 January 2019, the Company assesses at contract inception whether a contract is, or contains, a lease. The Company initially recognises a right-of-use asset and a corresponding liability at the date at which the leased asset is available.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets is equal to the aggregate lease liabilities recognised on day 1, adjusted for any initial direct costs incurred, any lease incentives received and any lease payments made at or before the commencement date. Right-of-use assets are depreciated on a straight line basis over the lease term. Right of use assets are tested for impairment at each year end.

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of the lease payments to be made over the lease term, discounted at the incremental borrowing rate. The lease payments include fixed payments less any lease incentives received and amounts expected to be paid under residual value guarantees. In calculating the present value of the lease payments, the Company uses its incremental borrowing rate at the lease commencement date as the interest rate implicit in the lease is not readily determinable. Following recognition, the liability is reduced for the lease payments made and increased by the interest accrued. Moreover, the carrying amount of the lease liability is re-measured in the event of a modification, such as a change in the lease term or change in the lease payments. The interest cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining liability for each period.

The Company applies the short-term lease exemption to those leases that have a lease term of 12 months or less from the commencement date and also applies the exemption for leases of low value assets to office equipment. Lease payments relating to these exemptions are recognised in operating expenses on a straight line basis over the lease term. These exemptions are not applied to property leases and any short term property leases are accounted for as above.

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 1. Accounting policies (continued)

#### j) Provisions for liabilities and charges

A provision is recognised in the Statement of Financial Position when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### k) Restatement of provisions classification

During the year, the Company reviewed its classification of Trade and other payables, which has historically included provisions. Subsequent to this review we have reclassified the provisions balance out of Trade and other payables and separately disclosed this in its own note (note 13) in order to be consistent with the requirements under the International Financial Reporting Standards. This restatement to the prior year numbers sees a £75,000 decrease in the Trade and other payables balance as the provisions number is separately disclosed. The comparative number for 2019 is £100k.

#### l) Cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash comprises cash in hand and balances with banks and similar institutions. Cash equivalents comprise highly liquid investments which 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.

The Company recognises an allowance for expected credit losses (ECLs). The Company takes a simplified approach and recognises a loss allowance based on lifetime ECLs at each reporting date. The Company uses a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and economic environment. This is applied to third party and intercompany receivables and cash balances

#### m) Net financing costs

Interest income and interest payable are recognised in the Statement of Comprehensive Income as they accrue, using the effective interest method.

### 2. Expenses and auditor's remuneration

	Year ended 2019 £000	Year ended 2018 £000
(Loss)/Profit after tax is stated after charging the following:		
Depreciation of property, plant and equipment	68	99
Staff costs (see note 6)	3,831	3,754
Auditor's remuneration and expenses:		
Audit of these financial statements	11	13

### 3. Revenue

All revenue in the Company is considered to originate from contracts with customers. The table below disaggregates the revenue from contracts with customers into the significant service lines. All revenue relates to the UK.

2019	Products and services transferred at a point in time £000	Products and services transferred over time £000	Total 2019 £000
Conveyancing fees	6,440	-	6,440
Other fees and commissions	670	-	670
	<u>7,110</u>	<u>-</u>	<u>7,110</u>

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 3. Revenue (continued)

2018	Products and services transferred at a point in time £000	Products and services transferred over time £000	Total 2019 £000
Conveyancing fees	6,730	-	6,730
Other fees and commissions	594	-	594
	<u>7,324</u>	<u>-</u>	<u>7,324</u>

### 4. Finance income

	Year ended 2019 £000	Year ended 2018 £000
Interest on bank deposits	22	29
	<u>22</u>	<u>29</u>

### 5. Finance costs

	Year ended 2019 £000	Year ended 2018 £000
Interest on lease liabilities	(9)	-
	<u>(9)</u>	<u>-</u>

### 6. Staff numbers and costs

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

	Year ended 2019 No.	Year ended 2018 No.
Directors	7	6
Administration	141	167
	<u>148</u>	<u>173</u>

The aggregate payroll costs of these persons were as follows:

	Year ended 2019 £000	Year ended 2018 £000
Wages and salaries	3,403	3,355
Social security costs	265	271
Other pension costs	163	128
	<u>3,831</u>	<u>3,754</u>

### Directors' emoluments

	£000	£000
Directors' emoluments	244	251
Company contributions to DC pension schemes	9	7
<b>Remuneration as Directors</b>	<u>253</u>	<u>258</u>

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 6. Staff numbers and costs (continued)

Four (2018: three) directors are not directly remunerated by the Company. The notional allocation of cost to the Company for their services was £18,855 (2018: £6,549).

The aggregate of emoluments of the highest paid Director was £77,000 (2018: £135,000).

Contributions to the defined contribution pension schemes of the Directors totalled £9,167 (2018: £7,015) and are included in the above total.

There are not considered to be further key management personnel other than the Directors of the Company noted above.

### 7. Tax Expense

#### a) Analysis of expense in the year at 19% (2018: 19%)

	Year ended 2019 £000	Year ended 2018 £000
<b>Current tax (credit)/expense</b>		
Current tax at 19% (2018: 19%)	(27)	51
Adjustment for prior years	(9)	(1)
Total current tax	<u>(36)</u>	<u>50</u>
<b>Deferred tax (income)</b>		
Current year	(1)	(4)
Adjustment for prior years	-	(1)
Total deferred tax	<u>(1)</u>	<u>(5)</u>
<b>Tax (credit)/expense</b>	<u>(37)</u>	<u>45</u>

#### b) Factors affecting income tax expense in the year

The tax assessed in the Statement of Comprehensive Income is lower than (2018: higher than) the standard UK corporation tax rate because of the following factors:

	Year ended 2019 £000	Year ended 2018 £000
(Loss)/Profit before tax	<u>(167)</u>	<u>167</u>
Tax on (loss)/profit at UK standard rate of 19% (2018: 19%)	(32)	32
Effects of:		
Adjustment to tax expense in respect of prior periods	(9)	(2)
Expenses not deductible for tax purposes	3	3
Effect of other tax rates / credits	-	3
Other	1	9
<b>Tax (credit)/expense</b>	<u>(37)</u>	<u>45</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

8. Property, plant and equipment

	Land and buildings £000	Office equipment £000	Motor vehicles £000	Total £000
<b>Cost</b>				
At 1 January 2019	123	1,070	25	1,218
Additions	7	-	-	7
Disposals	-	-	(25)	(25)
<b>At 31 December 2019</b>	<b>130</b>	<b>1,070</b>	<b>-</b>	<b>1,200</b>
<b>Accumulated depreciation and impairment</b>				
At 1 January 2019	106	964	9	1,079
Depreciation charge for the year	9	56	3	68
Disposals	-	-	(12)	(12)
<b>At 31 December 2019</b>	<b>115</b>	<b>1,020</b>	<b>-</b>	<b>1,135</b>
<b>Carrying amounts</b>				
At 1 January 2019	17	106	16	139
<b>At 31 December 2019</b>	<b>15</b>	<b>50</b>	<b>-</b>	<b>65</b>
	Land and buildings £000	Office equipment £000	Motor vehicles £000	Total £000
<b>Cost</b>				
At 1 January 2018	123	1,070	25	1,218
Additions	-	-	-	-
<b>At 31 December 2018</b>	<b>123</b>	<b>1,070</b>	<b>25</b>	<b>1,218</b>
<b>Accumulated depreciation and impairment</b>				
At 1 January 2018	103	876	1	980
Depreciation charge for the year	3	88	8	99
<b>At 31 December 2018</b>	<b>106</b>	<b>964</b>	<b>9</b>	<b>1,079</b>
<b>Carrying amounts</b>				
At 1 January 2018	20	194	24	238
<b>At 31 December 2018</b>	<b>17</b>	<b>106</b>	<b>16</b>	<b>139</b>

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 9. Right-of-use assets

On 1 January 2019 the Group adopted IFRS 16 *Leases* and has reclassified the cost of leases into Right-of-use assets as follows:

	Land and buildings £000
<b>Cost</b>	
At 31 December 2018	-
Change in accounting policy	510
At 1 January 2019	510
Additions	187
Disposals	(54)
<b>At 31 December 2019</b>	<b>643</b>
<b>Accumulated depreciation and impairment</b>	
At 1 January 2019	-
Depreciation charge for the year	120
Disposals	(52)
<b>At 31 December 2019</b>	<b>68</b>
<b>Carrying amounts</b>	
At 1 January 2019	510
<b>At 31 December 2019</b>	<b>575</b>

### 10. Deferred Tax

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

	Accelerated capital allowances 31 Dec 2019 £000	Accelerated capital allowances 31 Dec 2018 £000
At 1 January	23	18
Adjustment in respect of prior periods	-	1
Income statement credit	2	4
<b>At 31 December</b>	<b>25</b>	<b>23</b>

A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at least annually and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred taxes are calculated on temporary differences under the liability method using an effective tax rate of 17% (2018: 17%) this is the enacted rate that is expected to apply when the temporary differences reverse.

Where deferred tax balances are expected to reverse after 31 March 2020 they have been calculated at the currently enacted corporation tax rate of 17% which applies from 1 April 2020.

The Prime Minister indicated before the December 2019 general election that the enacted reduction from 19% to 17% would not take place if his government was re-elected and this was confirmed in the March 2020 budget. As this measure will be made under a budget resolution which has statutory effect it is regarded as being substantively enacted for IFRS.

If this change had been enacted prior to 31 December 2019, an additional deferred tax credit of £3k would have been recognised and the closing deferred tax asset for the Company would be £28k.

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NOTES TO THE FINANCIAL STATEMENTS *(continued)*

11. Trade and other receivables

	31 Dec 2019 £000	31 Dec 2018 £000
Trade receivables	161	232
Amounts due from group undertakings	193	426
Prepayments and accrued income	104	277
Bad debt provision	(30)	(58)
	<u>428</u>	<u>877</u>

The ageing of trade receivables (which all arose in the UK) at the year end was:

	31 Dec 2019 £000 Gross	31 Dec 2019 £000 Impairment	31 Dec 2018 £000 Gross	31 Dec 2018 £000 Impairment
Not overdue	29	-	99	-
Overdue 120 days plus	132	(30)	133	(58)
	<u>161</u>	<u>(30)</u>	<u>232</u>	<u>(58)</u>

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

	2019 £000	2018 £000
At 1 January	(58)	(44)
Provisions made during the year	-	(57)
Provisions released during the year	(28)	43
At 31 December	<u>(30)</u>	<u>(58)</u>

The Company does not require collateral in respect of trade and other receivables. All overdue amounts have been fully provided.

12. Trade and other payables

	Restated Year ended 2019 £000	Restated Year ended 2018 £000
Trade payables	10	110
Amounts owed to group undertakings	333	323
Other taxes and social security costs	142	167
Accruals and deferred income	266	246
Other payables	10	10
	<u>761</u>	<u>856</u>

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 13. Provisions

	Restated Total £000
Balance at 1 January 2019	75
Transfers made during the year	(50)
Provisions made during the year	75
<b>Balance at 31 December 2019</b>	<b>100</b>
Due within one year or less	25
Due after more than one year	75
	<b>100</b>
Balance at 1 January 2018	-
Provisions made during the year	75
<b>Balance at 31 December 2018</b>	<b>75</b>
Due within one year or less	-
Due after more than one year	75
	<b>75</b>

\* During the year, The Company reviewed its classification of Trade and other payables, which has historically included provisions. Subsequent to this review we have reclassified the provisions balance out of Trade and other payables and separately disclosed this in its own note (note 13) in order to be consistent with the requirements under the International Financial Reporting Standards. This restatement to the prior year numbers sees a £75,000 decrease in the Trade and other payables balance as the provisions number is separately disclosed. The comparative number for 2019 is £100k.

### 14. Share capital

	Year ended 2019 £000	Year ended 2018 £000
<b>Authorised, Allotted, called up and fully paid</b>		
1 (2018: 1) Ordinary share of £1 each	-	-

#### Management of capital

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

	Year ended 2019 £000	Year ended 2018 £000
<b>Capital</b>		
Ordinary shares	-	-
Retained earnings	887	1,021
	<b>887</b>	<b>1,021</b>

The Company's 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 commensurate 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, with which it complies.



## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 15. Related party transactions

The Company has related party relationships within the Skipton Group as detailed below.

	Ultimate parent undertaking £000	2019 Immediate parent undertaking £000	Other group companies £000	Ultimate parent undertaking £000	2018 Immediate parent undertaking £000	Other group companies £000
<b>a) Sales of goods and services</b>						
Commission receivable	1,357	-	-	1,758	-	-
<b>Total</b>	<b>1,357</b>	<b>-</b>	<b>-</b>	<b>1,758</b>	<b>-</b>	<b>-</b>
<b>b) Purchase of goods and services</b>						
	-	-	(1,515)	-	-	(1,409)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>(1,515)</b>	<b>-</b>	<b>-</b>	<b>(1,409)</b>
<b>c) Outstanding balances</b>						
Receivables from related parties	193	-	-	426	-	-
Payables to related parties	-	(333)	-	-	(323)	-
<b>Total</b>	<b>193</b>	<b>(333)</b>	<b>-</b>	<b>426</b>	<b>(323)</b>	<b>-</b>

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 16. Defined contribution pension scheme

The Company operates a Group Personal Pension Plan, the assets of which are held separately from those of the Company, as independently administered funds. The amount charged to the Statement of Comprehensive Income in respect of the Group Personal Pension Plan is the contribution payable in the year which amounted to £163,486 (2018: £128,717). There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

### 17. Capital Commitments

There were no capital commitments at the year end (2018: £nil).

### 18. Lease Liabilities

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

	£000
Cost	
At 31 December 2018	-
Change in accounting policy	(510)
At 1 January 2019	(510)
Additions	(184)
Interest charged	(9)
Lease payments	125
At 31 December 2019	<u>578</u>

The present value of lease liabilities by repayment date is as follows.

	£000
<i>Lease liabilities are repayable:</i>	
In not more than 3 months	30
In more than 3 months but less than 1 year	89
In more than 1 year but less than 5 years	348
In more than 5 years	111
	<u>578</u>

The discount rates for the leases disclosed above ranged from 2.0% to 3.5%. The Group has several lease contracts that include termination options, usually through a break clause. These options are negotiated by management to provide flexibility in managing the leased asset portfolio and adapt to the Group's business needs. Management exercises judgement in determining whether these termination options are reasonably certain to be exercised.

### 19. Financial instruments

#### *Financial risks*

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

The principal financial risks to which the Company is exposed are liquidity risk, market risk and credit risk, these are monitored on a regular basis by management. Each of these is considered below.

#### *Liquidity risk*

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at excessive cost.

The Company's liquidity policy is to maintain sufficient liquid resources to cover imbalances and fluctuations in funding, to maintain solvency of the Company and to enable the Company to meet its financial obligations as they fall due. This is achieved through maintaining a prudent level of liquid assets and through rigorous management control of the growth of the business.

The following are contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 19. Financial instruments (continued)

2019	Carrying amount £000	Contractual cash flows £000	In not more than 3 months £000	In more than 3 months but less than 1 year £000	In more than 1 year but less than 5 years £000	In more than 5 years £000
Trade and other payables	286	286	286	286	-	-
Amounts owing to group companies	333	333	333	333	-	-
Lease liabilities	578	647	32	95	441	79
<b>Total</b>	<b>1,197</b>	<b>1,266</b>	<b>651</b>	<b>714</b>	<b>441</b>	<b>79</b>

2018	Carrying amount £000	Contractual cash flows £000	In not more than 3 months £000	In more than 3 months but less than 1 year £000	In more than 1 year but less than 5 years £000	In more than 5 years £000
Trade and other payables	366	366	366	-	-	-
Amounts owing to group companies	323	323	323	-	-	-
<b>Total</b>	<b>689</b>	<b>689</b>	<b>689</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

#### **Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risk: interest rate risk and currency risk.

#### **Interest rate risk**

The Company is not exposed to interest rate risk as it has no interest bearing liabilities.

#### **Currency risk**

The Company is not exposed to any currency risk as all transactions are denominated in Sterling.

#### **Credit risk**

Credit risk is the risk of financial loss to the Company if a customer fails to meet its contractual obligations, and arises principally from the Company's receivables from customers. Based on historic default rates, the Company believes that no impairment provision is necessary in respect of most of its trade receivables. For maximum credit exposure see note 11. Management carefully manages its exposure to credit risk.

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 19. Financial instruments (continued)

The Company's financial assets at the year end were as follows:

	Year ended 2019 £000	Year ended 2018 £000
Cash and cash equivalents	1,200	950
Trade receivables	161	232
Amounts due from group undertakings	193	426
	<u>1,554</u>	<u>1,608</u>

Trade and other receivables are current assets and are expected to convert to cash over the next twelve months.

There are no significant concentrations of credit risk within the Company. The Company is exposed to credit risk from sales. It is Company policy to assess the credit risk of major new customers before entering contracts. The majority of customers use the Company's services as part of a housing transaction and consequently the sales are paid from the proceeds of the house sale. The majority of the major lenders are large financial institutions and as such the credit risk is not significant. The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the balance sheet date. The following table presents a breakdown of the gross trade receivables between the two main types of customer:

	2019 £000	2018 £000
Individual customers	132	58
Major lenders	29	174
	<u>161</u>	<u>232</u>

The Company uses an allowance matrix to measure the expected credit losses (ECLs) of trade receivables, which comprise a large number of small balances. Loss rates are based on actual credit loss experience over the previous year, and adjusted for the Company's view of current economic conditions over the expected lives of the receivables. However given the low levels of impairment loss experience, the ECL allowance is very small.

The cash and cash equivalents consist only of bank balances and are held with an institution with an A+ credit rating.

#### **Capital management**

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board monitors the return on capital and level of dividends to ordinary shareholders. There were no changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

### 20. Post balance sheet events

The World Health Organisation (WHO) declared a pandemic as a result of the Covid-19 outbreak. The UK Government announcement on 23 March 2020, locking down large parts of the UK, effectively stopped the housing market for two months. This had a significant impact on trading during this period, and has added some challenges to post lockdown ways of workings, including ensuring relevant PPE is in place and the Company adheres to social distancing guidelines for the benefit of its colleagues and customers. Since lockdown ended, there have been encouraging signs in the housing market.

The Directors consider the Covid-19 pandemic to be a non-adjusting event, but it will have a material impact on the company's turnover and results for the year ending 31 December 2020. In addition the Company's ability to recover outstanding trade receivables from customers could be negatively impacted by the Covid-19 pandemic, and other assets could need to be tested for impairment.

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### **21. Ultimate Parent Undertaking**

The Company is a wholly owned subsidiary of Connells Limited. The ultimate parent undertaking is Skipton Building Society, which is registered in the United Kingdom. The largest group in which the results are consolidated is that headed by Skipton Building Society. The smallest group is that headed by Connells Limited and the consolidated accounts of this company are available to the public and can be obtained from:

Connells Limited  
16 - 20 Hockliffe Street  
Cumbria House  
Leighton Buzzard  
Bedfordshire  
LU7 1GN