PATTISON LANE ESTATE AGENTS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 December 2010

(Registered Number 4730529)

Contents

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2010

PRINCIPAL ACTIVITIES AND FUTURE DEVELOPMENTS

The principal activity of the Company is the provision of residential estate agency and associated services

Pattison Lane Estate Agents Limited is a private limited company registered in England and Wales, registered number 4730529

BUSINESS REVIEW

2010 started off on a positive note with incremental increases in house sales, however business levels over the last six months have started to drop off once again due to difficult trading conditions in the current economic climate Although future trading conditions remain uncertain, strategic changes made within the Company mean that the Company is in a stronger position as it enters the new year

GOING CONCERN

The financial statements have been prepared on the going concern basis, notwithstanding current net liabilities, which the Directors believe to be appropriate The Company is dependent for its working capital on funds provided to it by Sharman Quinney Holdings Limited, the Company's immediate parent Sharman Quinney Holdings Limited has indicated that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds if needed by the Company The Directors consider that this should enable the Company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment

Objectives and strategy of the Company

The Company's objectives are to maximise the long-term value and revenue for its shareholders and to deliver a high quality service to participants in the residential property market

Operational performance and key performance indicators

The Directors monitor the business at monthly board meetings

	2010 £000	2009 £000	Change %
Total fees and commissions	211	310	(32)
Total operating profit	(100)	20	(600)
Profit before tax	(110)	13	(946)
Total assets	61	79	(23)

Risks and uncertainties

The Company's objective is to appropriately manage all the risks that arise from its activities Skipton Building Society, the ultimate parent company, has a formal structure for managing risks throughout the Group This has three elements

- First, we have documented our risk appetite in detailed policy risk statements, which are reviewed and approved annually by the Board There is a separate risk committee, which has responsibility for managing Pattison Lane's risks
- Secondly, whilst the primary responsibility for managing risk and ensuring controls are in place to manage risk lies with the Company's management, Skipton Building Society, the ultimate parent company, have relevant risk management functions which covers the Company's risks Their role is to provide a monitoring and oversight role in relation to these
- Finally the Skipton Group Board Audit Committee, through the internal audit department, monitors the effectiveness of the risk management framework

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

Directors' Report – *(continued)*

DIVIDENDS

No interim dividend was declared (2009 nil) The Directors do not propose the payment of a final dividend (2009 nil)

DIRECTORS

The Directors who served during the year were

R S Shipperley
A S Gill
M Sharman
S Quinney

CREDITOR PAYMENT POLICY

The Company's policy concerning the payment of suppliers is to agree terms of payment in advance and to make the payment in accordance with agreed terms and any other legal obligations At the year end, there was an average of 23 days' purchases outstanding (2009 51 days)

CHARITABLE AND POLITICAL DONATIONS

During the year the Company made no donations to charities (2009 £nil) No contributions were made for political purposes (2009 £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

DISABLED PERSONS

The Company continues to recognise its social and statutory duty to employ disabled persons and will do all that is practicable to meet this responsibility

Full consideration will be given to the recruitment of disabled persons, where a disabled person can adequately fulfil the requirements of the job If an employee becomes disabled he or she will continue wherever possible to be employed in the same job If this action is not practicable or possible, then every effort will be made to find a suitable alternative employment

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 he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

AUDITORS

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office

By order of the board

M Sharman
Director

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14 March 2011

The Old Dairy
Elton Hall Estate
Elton
Peterborough
PE8 6SQ

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing 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 judgments 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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PATTISON LANE ESTATE AGENTS LIMITED

We have audited the financial statements of Pattison Lane Estate Agents Limited for the year ended 31 December 2010 set out on pages 7 to 20 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 auditors' 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 auditors

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 (APB'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 APB's web-site at www frc org uk/apb/scope/private cfm

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 2010 and of its loss 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 matter prescribed by the Companies Act 2006

In our opinion the information given in 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

B J Stapleton

B J Stapleton (Senior Statutory Auditor) for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
Registered Auditor
Altius House
One North Fourth Street
Milton Keynes
MK9 1NE

21 March 2011

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	Year ended 31 December 2010 £000	Year ended 31 December 2009 £000
Revenue	1	211	310
Administrative expenses	2	(311)	(290)
(Loss)/profit from operations		**(100)**	**20**
Finance costs	3	(10)	(7)
(Loss)/profit before tax		**(110)**	**13**
Taxation	5	31	(3)
(Loss)/profit for the period		**(79)**	**10**

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

There were no recognised income and expense items in the current period (2009 £nil) other than those reflected in the above Statement of Comprehensive Income

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

The notes on pages 11 to 20 form part of these financial statements

Statement of Financial Position

AT 31 DECEMBER 2010

	Notes	2010 £000	31 December 2010 £000	2009 £000	31 December 2009 £000
Current assets					
Trade and other receivables	6	21		26	
Tax receivable		23		1	
Cash and cash equivalents		3		9	
Total current assets			47		36
Non-current assets					
Intangible assets	7	-		18	
Property, plant and equipment	8	6		11	
Deferred tax asset	10	8		14	
Total non-current assets			14		43
Total assets			**61**		**79**
Current liabilities					
Trade and other payables	9	487		394	
Total current liabilities			487		394
Non-current liabilities					
Long-term provisions for liabilities	11	82		114	
Total non-current liabilities			82		114
Total liabilities			569		508
Equity – attributable to equity holders of the Company					
Share capital	12	1		1	
Retained earnings		(509)		(430)	
			(508)		(429)
Total equity and liabilities			**61**		**79**

These accounts were approved by the Board of Directors on 14 March 2011 and signed on its behalf by

M Sharman
Director

Company registration number 4730529

The notes on pages 11 to 20 form part of these accounts

Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2010

	Share Capital £000	Retained Earnings £000	Total Equity £000
Balance at 1 January 2010	1	(430)	(429)
Total comprehensive income for the year	-	(79)	(79)
Balance at 31 December 2010	**1**	**(509)**	**(508)**
Balance at 1 January 2009	1	(440)	(439)
Total comprehensive income for the year	-	10	10
Balance at 31 December 2009	**1**	**(430)**	**(429)**

Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	Year ended 31 December 2010 £000	Year ended 31 December 2009 £000
Cash flows from operating activities			
(Loss)/profit for the period		(79)	10
Adjustments for			
Depreciation charges	8	5	5
Impairment charges	7	18	-
Interest expense	3	10	7
Tax expense	5	(31)	3
Operating (loss)/profit before changes in working capital and provisions		**(77)**	**25**
Decrease in trade receivables		1	3
Decrease in prepayments		4	2
Increase/(decrease) in trade and other payables		93	(61)
Decrease in provisions		(32)	(82)
Cash outflow generated from operations		**(11)**	**(113)**
Interest paid	3	(10)	(7)
Tax received		15	122
Net cash (outflow)/inflow from operating activities		**(6)**	**2**
Cash flows from investing activities			
Purchases of property, plant and equipment		-	-
Net cash outflow from investing activities		-	-
Cash flows from financing activities			
Dividends paid		-	-
Net cash from financing activities		-	-
Net (decrease)/increase in cash and cash equivalents		(6)	2
Cash and cash equivalents at 1 January		9	7
Cash and cash equivalents at 31 December		**3**	**9**

The notes on pages 11 to 20 form part of these accounts

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

Pattison Lane Estate Agents Limited (the "Company") is a company incorporated 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 Financial Statements are presented in accordance with International Financial Reporting Standards (IFRS) and its interpretations as adopted by the EU and effective at 31 December 2010

The Directors have adopted IFRS 3, Business Combinations (Revised) and IAS 27, Consolidated and Separate Financial Statements (2008), and Eligible Hedged Items (Amendment to IAS 39, Financial Instruments Recognition and Measurement) There is no impact on these financial statements on adopting these accounting standards

Measurement convention

The financial statements are prepared on the historical cost basis

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 Business Review on page 3 The financial position of the Company, its cash flows and liquidity position are presented in these financial statements on pages 7 to 10 In addition, note 16 to the financial statements includes the Company's policies and processes for managing its financial risk management objectives, details of its financial instruments, and its exposure to credit risk and liquidity risk

As described in the Directors Report on page 3, the current economic environment is difficult and the Company has reported an operating loss for the period Confirmation has been received from Sharman Quinney Holdings Limited, that it will provide such support as Pattison Lane Estate Agents Limited require enabling it to meet its liabilities as and when they fall due for a period of not less than one year from the date of approval of these financial statements

The Directors have concluded that the combination of these circumstances gives a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future For these reasons, they continue to adopt the going concern basis of accounting in the financial statements

Currency presentation

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

b) Revenue recognition

Revenue, which excludes value added tax, represents total invoiced sales of the Company Residential, new homes, land sales and auctions income is recognised on the date contracts are exchanged Mortgage Services income is recognised when cash is received

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

Buildings	-	25 years, 5-10 years for office refurbishments
Fixtures & Fittings	-	5 years
Office equipment	-	4 years

All depreciation is charged on a straight-line basis

d) Goodwill

Goodwill arising on the acquisition of a business represents the excess of the fair value of consideration over the fair value of identifiable net assets and contingent liabilities acquired at the date of acquisition Goodwill is calculated after also taking into account the fair value of contingent liabilities of the acquiree

In accordance with IFRS 3, *Business Combinations*, goodwill is not amortised but is tested for impairment at each year end or when there is an indication of impairment

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1 Accounting policies (continued)

d) Goodwill (*continued*)

The recoverable amount of goodwill is determined as the higher of its fair value less costs to sell and its value in use The value in use calculations are carried out by discounting the future cash flows of the cash generating unit ("CGU"), and comparing this to its value in use Future cash flows are based upon approved profit budgets for the next three years (adjusted for depreciation and amortisation) and assumed growth thereafter for the next 12 years of 2 5% (2009 2 0%) The Company estimates discount rates based on a current cost of capital of the business Impairment of goodwill is recognised where the present value of future cash flows of the business is less than its carrying value A fifteen year time horizon has been used to reflect that businesses are held for the long term

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount Impairment losses are recognised in the Statement of Comprehensive Income Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis An impairment loss in respect of goodwill is not reversed

e) Trade and other receivables

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

f) 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 at the year end, and any adjustment to tax payable in respect of previous years

Deferred tax is provided using the Statement of Financial Position liability method, which recognises temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes It is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which temporary differences reverse, based on tax rates and laws enacted or substantively enacted at the year end

h) Employee benefits

Obligations for contributions to defined contribution pension plans are recognised as an expense in the Statement of Comprehensive Income as incurred

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

The Statement of Cash Flows has been prepared using the indirect method

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) Net financing costs

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

2 Expenses and auditors' remuneration

	Year ended 31 December 2010 £000	Year ended 31 December 2009 £000
Included in (loss)/profit are the following		
Depreciation of property, plant and equipment	5	5
Staff costs (see note 4)	162	202
Rentals payable under operating leases	35	44
Auditors' remuneration and expenses		
Audit of these financial statements	5	4

3 Finance costs

	Year ended 2010 £000	Year ended 2009 £000
Interest payable to group undertakings	10	7

4 Staff numbers and costs

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

	Year ended 2010 No	Year ended 2009 No
Directors	4	4
Sales and administration	7	7
	11	11

The aggregate payroll costs of these persons were as follows	£000	£000
Wages and salaries	149	185
Social security costs	13	17
	162	202

All of the Directors are remunerated by other Group companies and do not receive any remuneration from Pattison Lane Estate Agents Limited

5 Taxation

	Year ended 2010 £000	Year ended 2009 £000
a) Analysis of (credit)/expense in the year at 28% (2009 28 %)		
Current tax (credit)/expense		
Current tax at 28% (2009 28 %)	(37)	3
Adjustment for prior years	-	11
Total current tax	(37)	14
Deferred tax expense/(credit)		
Origination and reversal of temporary differences	6	1
Adjustment for prior years	-	(12)
Total deferred tax	6	(11)
Income tax credit expense/(credit)	(31)	3

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5 Taxation (continued)

b) Factors affecting current tax (credit)/expense in the period	**Year ended 2010 £000**	**Year ended 2009 £000**
The (credit)/expense for the year can be reconciled to the profit/loss per the Statement of Comprehensive Income as follows		
(Loss)/profit before tax	(110)	13
Tax on (loss)/profit at UK standard rate of 28% (2009 28%)	(31)	4
Effects of		
Adjustments to tax in respect of prior years	-	(1)
Income tax (credit)/expense	**(31)**	**3**

6 Trade and other receivables

	31 December 2010 £000	**31 December 2009 £000**
Trade receivables	10	12
Prepayments and accrued income	11	15
Bad debt provision	-	(1)
	21	**26**

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

	2010 £000 Gross	**2010 £000 Impairment**	**2009 £000 Gross**	**2009 £000 Impairment**
Not overdue	7	-	2	-
Overdue 0 – 30 days	3	-	7	-
Overdue 31 – 120 days	-	-	2	(1)
Overdue 120 days plus	-	-	1	-
	10	-	12	(1)

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

	Year ended 2010 £000	**Year ended 2009 £000**
At 1 January	(1)	(6)
Provision made during the year	-	(4)
Receivables written off during the year	1	4
Provision no longer required	-	5
At 31 December	-	(1)

7 Intangible assets

	Goodwill £000
Cost	
At 1 January and 31 December 2010	**191**
Amortisation and impairment losses	
At 1 January 2010	173
Impairment charge for the year	18
At 31 December 2010	**191**
Carrying amounts	
At 1 January 2010	**18**
At 31 December 2010	**-**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

7 Intangible assets (*continued*)

	Goodwill £000
Cost	
At 1 January and 31 December 2009	191
Amortisation and impairment losses	
At 1 January and 31 December 2009	173
Carrying amounts	
At 1 January and 31 December 2009	18

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGU's) that are expected to benefit from that business combination, the only CGU is the Estate Agency Business Before recognition of impairment losses, the cost of goodwill before impairment had been allocated is £191,000 (2009 £191,000)

The recoverable amounts of the CGU's 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 businesses' are held for long-term investment The cash flows are derived from the most recent financial budgets for the next three years, which take into account the risks inherent in the businesses, and extrapolate cash flows for subsequent years (up to an additional 12 years) based on a long-term growth rate of 2 5% (2009 2 0%) The Company estimates discount rates based on the current cost of capital adjusted for the risks inherent in the cash generating unit of 10 96% (2009 10%)

At 31 December 2010, impairment of £191,000, (2009 £173,000) was allocated to the Estate Agency Businesses, to fully impair the goodwill

8 Property, plant and equipment

	Land and Buildings £000	Office Equipment £000	Total £000
Cost			
At 1 January 2010	3	25	28
Disposals	-	(2)	(2)
At 31 December 2010	3	23	26
Accumulated depreciation and impairment			
At 1 January 2010	1	16	17
Depreciation charge for the year	1	4	5
Eliminated on disposals	-	(2)	(2)
At 31 December 2010	2	18	20
Carrying amounts			
At 1 January 2010	2	9	11
At 31 December 2010	1	5	6

	Land and Buildings £000	Office Equipment £000	Total £000
Cost			
At 1 January and 31 December 2009	3	25	28
Accumulated depreciation and impairment			
At 1 January 2009	1	11	12
Depreciation charge for the period	-	5	5
At 31 December 2009	1	16	17
Carrying amounts			
At 1 January 2009	2	14	16
At 31 December 2009	2	9	11

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

9 Trade and other payables

	31 December 2010 £000	31 December 2009 £000
Trade payables	6	13
Amounts owed to group undertakings	456	359
Other taxes and social security costs	10	9
Accruals and deferred income	15	13
	487	394

10 Deferred tax

The movement on the deferred tax account is as shown below

	31 December 2010 £000	31 December 2009 £000
At 1 January	14	3
Statement of Comprehensive Income (charged)/ credit	(6)	11
At 31 December	8	14

Deferred tax asset

	Accelerated capital allowances £000	Total £000
At 1 January 2010	14	14
Charged to Statement of Comprehensive Income	(6)	(6)
At 31 December 2010	8	8

Net deferred tax asset

At 31 December 2010	8

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 timing differences under the liability method using an effective tax rate of 27% (2009 28%) as this is the enacted rate that is expected to apply when the temporary differences reverse

11 Provisions

	Insurance commission clawback £000	Dilapidations £000	Lease cost of closed branches £000	Total £000
Balance at 1 January 2010	26	38	50	114
Provisions made during the year	-	-	-	-
Provisions used during the year	(11)	(21)	-	(32)
Balance at 31 December 2010	15	17	50	82
Balance at 1 January 2009	19	40	137	196
Provisions made during the year	-	-	-	-
Provisions used during the year	7	(2)	(87)	(82)
Balance at 31 December 2009	26	38	50	114

All provisions are classed as non-current The insurance commission clawback, is estimated based upon anticipated cancellation rates of term insurance policies The dilapidations provision is accrued on the basis of amounts identified at the date of acquisition, less any subsequent expenditure, or where a section 412 notice or schedule of dilapidations has been received from the landlord Provision is made for properties with non-cancellable leases where the Group no longer utilises the property during the course of their business operation The provision represents the rent to the end of the lease, less any rental income from subletting the properties The provision for the costs of closed branches is expected to reverse over the remaining life of the leases, or the period to the anticipated date of disposal or sooner

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

12 Share capital

	31 December 2010 £	31 December 2009 £
Allotted, issued and fully paid		
£0 01 Ordinary A shares	950	950
£0 01 Ordinary B shares	50	50
	1,000	1,000

The concept of authorised share capital was abolished under the UK Companies Act 2006 with effect from 1 October 2009 and consequential amendments to the Company's Articles of Association were approved by shareholders at the 2009 Annual General Meeting

Each shareholder is entitled to the number of votes as equal to the number of shares held by them save that where the A shares constitute more than 50% of the Company's issued equity share capital they shall have such number of votes as represents at least 75% of the votes capable of being cast on the resolution concerned In all other respects the A and B ordinary shares rank pari passu

There is a Shareholders' agreement that includes an annual option entitling the ordinary "B" shareholders to require Sharman Quinney Holdings Limited to purchase their entire shares at a price to be determined by an independent valuation of the Company This option can be exercised on or after 26 May 2009

Management of capital

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

	Year ended 2010 £000	Year ended 2009 £000
Capital		
Ordinary A and B shares	1	1
Retained earnings	(509)	(430)
	(508)	(429)

The Company objectives when managing capital are
- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk

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

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

13 Employee benefits

The Company operates a stakeholder scheme, which is administered by Legal & General Contributions are charged to the Statement of Comprehensive Income and are included in staff costs, no contributions were made in the current or prior period

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

14 Related party transactions

The Company has related party relationships within the Skipton Group as detailed below All such transactions are priced on an arms-length basis

	2010			2009		
	Ultimate parent undertaking £000	Intermediate parent undertaking £000	Parent undertaking £000	Ultimate parent undertaking £000	Intermediate parent undertaking £000	Parent undertaking £000
a) Net interest						
Interest receivable	-	-	-	-	-	-
Interest payable	-	-	10	-	-	7
Total	-	-	10	-	-	7
b) Sales of goods and services						
Commission receivable	-	8	-	-	-	-
Total	-	8	-	-	-	-
c) Purchase of goods and services	-	14	32	-	-	24
Total	-	14	32	-	-	24
d) Outstanding balances						
Interest receivable	-	-	-	-	-	-
Interest payable	-	-	-	-	-	-
Receivables from related parties	-	-	-	-	-	-
Payables to related parties	-	-	(456)	-	-	(359)
Total	-	-	(456)	-	-	(359)

There are no provisions in respect of goods and services to Related Parties, either at 31 December 2010 or at 31 December 2009

15 Capital and operating lease commitments

The Company had no capital commitments at the year end (2009 nil)

The Company has annual commitments due under operating leases in respect of rental payable on land and buildings Total commitments under these non-cancellable operating leases are as follows

	31 December 2010 £000	31 December 2009 £000
Amounts falling due		
Less than one year	34	40
Between one and five years	128	130
More than five years	78	112
	240	282

16 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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

16 Financial instruments (continued)

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 netting agreements

	Carrying amount £000	Contractual cash flows £000	In not more than one month £000	In not more than 3 months £000	In more than 3 months but not less than 1 year £000	In more than one year but not more than 5 years £000
Trade and other payables	31	31	31	-	-	-
Amounts owing to group companies	456	456	456	-	-	-
Total	**487**	**487**	**487**	-	-	-

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

Currency risk

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

Interest rate risk

The Company has no interest bearing liabilities, the Company monitors any exposure on a continuous basis

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 trade receivables at the year end Specific impairment provisions are made for customers who do not have a good payment record with the Company before 90 days For maximum credit exposure see note 6 Management carefully manages its exposure to credit risk

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

17 Accounting estimates and judgements

The Company makes estimates and assumptions regarding the future The resulting accounting estimates will, by definition, seldom equal the related actual results The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying values of assets and liabilities within the next financial year are discussed below

- Accounting policies – certain critical judgments have been made in applying the Company's accounting policies in relation to closed branch and onerous lease provisions (note 11), provision for clawback of insurance commission (note 11), and impairment provisions on trade receivables (note 6)

- Impairment testing – the recoverable amounts of the operating segments 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 subsidiaries are held for long-term investment The cash flows are derived from the most recent financial budgets for the next three years, which take into account the risks inherent in the businesses, and extrapolate cash flows for subsequent years (up to an additional 12 years) based on long-term growth rate of 2 5% (2009 2 0%) The Company estimates discount rates based on the current cost of capital adjusted for the risks inherent in its subsidiaries The discount rate used in 2010 was 10 96% (2009 10%)

- Taxation - significant estimates are required in determining the provision of corporation tax

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

18 Adoption of new and revised International Financial Reporting Standards

Disclosed below are new standards and interpretations, which have been adopted during the period

- *IFRS 3 2010 Business Combinations (Revised)* This standard replaces IFRS 3, *Business Combinations (2004)* and is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009 The main changes in this standard are that the cost of investment will comprise the consideration paid to the vendors for equity with acquisition costs being expensed immediately, goodwill will be accounted for only upon the acquisition of a subsidiary as subsequent changes in interest will be recognised in equity and only upon the loss of control will any profit or loss be recognised in the Statement of Comprehensive Income Further, any pre-existing holding within the acquired entity will, where control is subsequently gained, be revalued with any profit or loss arising being credited / charged through the Statement of Comprehensive Income This standard has had no impact on these financial statements in 2010

- IAS 27,*Consolidated and Separate Financial Statements (2008)* The amended standard must be applied for annual periods beginning on or after 1 July 2009 The amendments to this standard require the effects of all transactions with non-controlling interests to be recorded in equity if there has been no change in control The changes also specify the accounting where control of an entity is lost This standard has had no impact on these financial statements in 2010

- Eligible Hedged Items (Amendment to IAS 39 *Financial Instruments Recognition and Measurement*) The amended standard must be applied for annual periods beginning on or after 1 July 2009 The amendment clarifies how the existing principles underlying hedge accounting should be applied in the designation of a one-sided risk in a hedged item and inflation in a financial hedged item This amendment has had no impact on these financial statements in 2010

19 Ultimate parent undertaking

The Company is a 95% owned subsidiary of Sharman Quinney Holdings 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

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