

**CBS CAPITAL LIMITED**

**Registered Number: 6981744**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**PERIOD FROM 5 AUGUST 2009 (DATE OF INCORPORATION)  
TO 31 DECEMBER 2010**



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CBS CAPITAL LIMITED

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CBS CAPITAL LIMITED

**DIRECTORS AND COMPANY INFORMATION**

**Directors** A M Caton, BA  
R J Churchouse, MA, ACA

**Secretary** B Murtagh

**Registered Office** Yorkshire House  
Yorkshire Drive  
Bradford  
BD5 8LJ

**Auditors** Deloitte LLP  
1 City Square  
Leeds  
LS1 2AL

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## CBS CAPITAL LIMITED

### **DIRECTORS' REPORT**

The directors present their report and audited financial statements for the period from incorporation on 5 August 2009 to 31 December 2010. This directors' report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption.

#### **Date of incorporation**

CBS Capital Limited was incorporated on 5 August 2009.

#### **Principal activity and review of the period**

The principal activity of the Company was to facilitate a capital exchange transaction through the purchase of subordinated debt.

CBS Capital was established to facilitate a planned capital exchange of Chelsea Building Society Subordinated Debt for new debt. In the event, due to the merger of Chelsea Building Society with the Yorkshire Building Society on 1 April 2010, the company acted to facilitate the redemption of Chelsea Building Society's debt and the issue of Yorkshire Building Society Convertible Loan Notes in its place. The capital exchange transactions involved CBS Capital taking a loan from Chelsea Building Society, purchasing the subordinated debt from the debt holders and subsequently having the notes and loan cancelled. During the course of the transactions, the company earned interest on holding the Chelsea Subordinated debt and incurred an interest charge on the borrowed funds. In addition to this, it received accrued interest on the Subordinated debt which it had to account for to the former note-holders.

#### **Risks, uncertainties and going concern**

Following the capital exchange transaction the Company is not expected to trade in the future. As a result, as disclosed in the statement of accounting policies, the Directors have prepared the financial statements on the basis other than that of a going concern.

#### **Result for the period**

The profit for the period amounted to £10,058. The directors do not propose the payment of a dividend.

#### **Share capital**

During the period from 5 August 2009 to 31 December 2010 the company issued share capital of 1,000 £1 ordinary shares.

#### **Risk Management**

The Company's ultimate parent is Yorkshire Building Society. The Group maintains an independent risk management function that applies its risk management policies and techniques to the risks of the Group as a whole and therefore appropriate risk management activities are deployed wherever risks arise.

**DIRECTORS' REPORT (continued)**  
**Risk Management (continued)**

The Group Credit Committee takes primary responsibility for the task of assessing and monitoring wholesale counterparty creditworthiness and conducting credit research and analysis. It does this by reviewing the Company's exposures and through setting limits to individual counterparties based on its internal ratings methodology. Limits are also set against the aggregate exposure to equally rated institutions and to institutions based in individual countries.

**Directors**

The directors who served from 5 August 2009 (date of incorporation) during the period are set out below:-

P J Ford	(appointed 06 08 2009 and resigned 01 04 2010)
S D M Bernau	(appointed 06 08 2009 and resigned 01 04 2010)
A M Caton	(appointed 01 04 2010)
R J Churchouse	(appointed 01 04 2010)

Each of the persons who are a director at the date of approval of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

**Auditors**

During the period Deloitte LLP were appointed auditors. Deloitte LLP have expressed their willingness to continue in office as auditors.

By order of the board



R Churchouse

Director

30 March 2011

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## CBS CAPITAL LIMITED

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

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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, International Accounting Standard 1 requires that directors

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the company's ability to continue as a going concern

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 also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **CBS CAPITAL LIMITED**

### **REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF CBS CAPITAL LIMITED**

We have audited the financial statements of CBS Capital Limited for the 514 day period ended 31 December 2010 which comprises the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows, and the related notes 1 to 10. 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.

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, 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**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

#### **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 profit for the 514 day period 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.

#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial 514 day period for which the financial statements are prepared is consistent with the financial statements.

CBS CAPITAL LIMITED

**REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF CBS CAPITAL LIMITED (continued)**

**Emphasis – Financial statements prepared other than on a going concern basis**

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in the statement of accounting policies, which explains that the financial statements have been prepared on a basis other than that of a going concern

**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, or
- the directors were not entitled to take advantage of the small companies exemption in preparing the directors' report



Stephen Williams (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Leeds, United Kingdom

30 March 2011



CBS CAPITAL LIMITED

**INCOME STATEMENT**  
**PERIOD 5 AUGUST 2009 TO 31 DECEMBER 2010**

	Notes	5 August 2009 to 31 December 2010 £
Interest receivable	2	17,020
Interest payable	3	(3,050)
Profit before tax		<u>13,970</u>
Tax	4	(3,912)
Profit for the period		<u>10,058</u>

All the profit is attributable to the equity holders of the Company

As the Company is not expected to trade in the future, following completion of the capital exchange transaction, the activities for the period from 5 August 2009 to 31 December 2010 arose from discontinued operations

The company has no income or expenditure in either the period other than the profits stated above and consequently no statement of other comprehensive income has been presented

The notes on pages 10 to 14 form part of these financial statements

CBS CAPITAL LIMITED

**STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2010**

	Notes	2010 £
<b>ASSETS</b>		
Other assets	5	11,058
<b>Total assets</b>		<u>11,058</u>
<b>EQUITY</b>		
Share capital	6	1,000
General reserve		10,058
<b>Total equity</b>	7	<u>11,058</u>

Company number - 6981744

**STATEMENT OF CHANGES IN EQUITY  
PERIOD FROM 5 AUGUST 2009 TO 31 DECEMBER 2010**

	Share Capital £	General reserve £	Total reserves £
At incorporation	1,000	-	1,000
Retained profit for the period	-	10,058	10,058
<b>Total equity</b>	<u>1,000</u>	<u>10,058</u>	<u>11,058</u>

These financial statements were approved by the board of directors on 30 March 2011 and were signed on its behalf by

A M Caton  Director

R J Churchouse  Director

The notes on pages 10 to 14 form part of these financial statements

CBS CAPITAL LIMITED

**STATEMENT OF CASH FLOWS**  
**PERIOD FROM 5 AUGUST 2009 TO 31 DECEMBER 2010**

	<b>2010</b>
	<b>£</b>
<b>Cash flows from operating activities</b>	
Profit before taxation	13,970
Adjustments for non cash items	
Interest	(13,970)
Waiver of loan from parent	(100,000,000)
Write off of Investment	100,000,000
Net interest from parent undertaking	(11,058)
<b>Taxation</b>	
Tax paid	(3,912)
<b>Net cash from operating activities</b>	<b>(14,970)</b>
<b>Cash flows from investing activities</b>	
Purchase of debt securities	(100,000,000)
Interest received on debt securities	2,167,320
<b>Net cash from investing activities</b>	<b>(97,832,680)</b>
<b>Cash flows from financing activities</b>	
Issue of share capital	1,000
Loan from parent company	100,000,000
Interest paid on subordinated liabilities	(2,150,300)
Interest paid on loan from parent company	(3,050)
<b>Net cash from financing activities</b>	<b>97,847,650</b>
<b>Net increase in cash</b>	<b>-</b>
Cash and cash equivalents comprise	
Bank balance	
As at 5 August 2009	-
As at 31 December 2010	-
<b>Cash flow</b>	<b>-</b>

The statement of cash flows has been prepared in compliance with 'International Accounting Standard 7 Statement of Cash Flows' and is presented under the indirect method

The statement presents cash flows classified by operating activities. The net cash flows show the movement in cash and cash equivalents during the period, which is then used to reconcile cash and cash equivalents

For the purposes of the statement of cash flows, 'cash and cash equivalents' comprise cash and other financial instruments with less than three months original maturity

## NOTES TO THE FINANCIAL STATEMENTS

### Introduction

CBS Capital Limited was incorporated on 5 August 2009 it is domiciled and registered in the United Kingdom. The financial statements, for the period ended 31 December 2010, were authorised for issue by the directors on 30 March 2011.

### Basis of preparation

The financial statements have been prepared on an historical cost basis. The financial statements have also been prepared in accordance with International Financial Reporting Standards ("IFRS") in issue that have been endorsed by the EU and are effective at 31 December 2010.

As set out in the Statement of Directors' Responsibilities on page 4, the directors are required to prepare these financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business. As required by IFRS's Framework for the Preparation and Presentation of Financial Statements, the directors have prepared the financial statements on a basis other than that of a going concern, following the capital exchange transaction taking place and no trading expected in the future.

Under Risks, uncertainties and going concern on page 2, the directors have set out the matters they have taken into consideration in determining that it is appropriate to prepare the financial statements on the basis other than that of a going concern.

### Accounting Developments

The following Accounting Standard amendments have been applied in 2010:

- Amendment to 'IFRS 7 Financial Instruments Disclosures' extends the scope of IFRS 7 disclosures but does not change the recognition or measurement of transactions in the financial statements,
- Amendments to IFRIC 9 and IAS 39 relating to the timing of recognition of embedded derivatives. The adoption of these amendments did not have a material impact on the financial statements, and
- 'Improvements to IFRSs' (April 2009). This pronouncement includes several small amendments which have had no material impact upon the financial statements.

The following Standards which have not been applied in these financial statements were in issue but not yet effective for the 2010 year end:

- 'IAS 32 (Amended) Classification of Rights Issues'. This amendment is not expected to have any impact on the financial statements,
- 'IFRIC 14 (Amended) Prepayments of a Minimum Funding Requirement'. The application of this amendment is not expected to have a material impact on the financial statements,
- 'IAS 24 (Revised) Related Party Disclosures'. The application of this revised Standard is not expected to have a material impact on the financial statements, and

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Accounting Developments (continued)

- 'IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments' This Standard is not expected to have a material impact on the financial statements

The following Standards have not been adopted by the European Union and hence have not been applied

- 'Improvements to IFRSs' (May 2010) This pronouncement includes several small amendments which are not likely to have a material impact upon the financial statements

The following Standard is neither adopted by the European Union nor effective for the 2010 year end

- 'IFRS 9 Financial Instruments' was issued in November 2009 and is effective for periods commencing on or after 1st January 2013 This Standard is concerned with the classification of financial assets however it is not expected that this will have a significant impact on the Company on the basis that no assets are currently classified as available for sale

## 1. SIGNIFICANT ACCOUNTING POLICIES

The following is a list of the Company's significant accounting policies

### Income recognition

Interest income and expense are recognised in the income statement for all financial instruments measured at amortised cost on an effective interest rate basis. The effective interest rate is the method used to calculate the amortised cost of financial instruments and of recognising interest receivable or payable over the relevant period. The effective interest rate is the rate that exactly discounts estimated cash flows (excluding credit losses) to zero, through the expected life of the instrument.

### Tax

Tax on the profit or loss for the period comprises current tax and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity in which case the tax is also recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted on the statement of financial position date and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amount of certain assets and liabilities for accounting purposes and taxation purposes. Deferred tax is provided using tax rates enacted or substantively enacted at the statement of financial position date. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

## CBS CAPITAL LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Cash and cash equivalents**

For the purpose of the cash flow statement, 'cash and cash equivalents' comprise cash and other financial instruments with less than three months original maturity

##### **Financial Instruments**

In accordance with IAS 39, Financial Instruments Recognition and Measurement, the financial instruments of the Company have been classified into the following categories

##### *Loans and receivables*

Loans and receivables are measured at amortised cost using the effective interest rate method

#### 2. INTEREST RECEIVABLE

	<b>2010</b>
	<b>£</b>
On investments	<u>17,020</u>

#### 3. INTEREST PAYABLE

	<b>2010</b>
	<b>£</b>
On borrowings with connected undertakings	<u>3,050</u>

Fees payable to the company's auditors for the audit of the company's annual accounts have been borne by the parent. There were no other fees paid to the auditors.

#### 4. TAX EXPENSE

	<b>2010</b>
	<b>£</b>
Current tax	
Profit before tax	<u>13,970</u>
Tax calculated at a tax rate of 28%	<u>3,912</u>
<b>Total tax expense in income statement</b>	<u><b>3,912</b></u>

CBS CAPITAL LIMITED

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

**5. OTHER ASSETS**

	2010 £
Amounts due from parent undertakings	<u>11,058</u>

**6. CALLED UP EQUITY SHARE CAPITAL**

	2010 £
Authorised	
Ordinary shares of £1 each	<u>1,000</u>
Allotted, called up and fully paid	
Ordinary shares of £1 each	<u>1,000</u>

**7. CAPITAL MANAGEMENT**

	2010 £
Ordinary shares of £1 each	1,000
General reserve	<u>10,058</u>
Total capital	<u>11,058</u>

Capital is managed centrally in the Yorkshire Building Society Group. The Board believe that the current level of capital is appropriate for the Company's activities.

**8. FINANCIAL INSTRUMENTS – SUMMARY**

The table below summarises the main financial instruments, their significant terms and conditions and the accounting treatment adopted.

Financial instrument	Significant terms and conditions	Accounting treatment
Amounts due from parent undertaking	<ul style="list-style-type: none"> <li>• No fixed maturities</li> <li>• Fixed interest rates</li> </ul>	Amortised cost

The fair value of "Amounts due to parent" is the same as the book value as it is technically repayable on demand.

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

**9. MARKET RISK**

**Liquidity risk**

Liquidity risk is the risk that the Company will be unable to meet current and future financial commitments as they fall due. Liquidity risk within the Company has been eliminated by the provision of undated funding from its parent Yorkshire Building Society.

**Interest rate risk**

Interest rate risk on debt securities within the Company has been mitigated by the provision of appropriate fixed rate funding from its parent Yorkshire Building Society.

**Currency risk**

The Company has no currency risk as all its financial assets and liabilities are denominated in sterling.

Details of how the Group manages market risk can be found in the accounts of the Company's parent Yorkshire Building Society.

**Credit risk**

Credit risk is the risk of financial loss where counterparties are not able to meet their obligations as they fall due. All transactions have been settled, the Company is not expected to trade in the future and as the only remaining assets or liabilities are due from related parties, there is no remaining credit risk.

**10. RELATED PARTIES**

The Company is a wholly-owned subsidiary of Yorkshire Building Society which is domiciled and incorporated in the United Kingdom.

Copies of the Group accounts can be obtained from

Yorkshire Building Society  
Yorkshire House  
Yorkshire Drive  
Bradford  
BD5 8LJ

The Company has a related party relationship with its parent, other Group companies and its key management personnel.

**Transactions with key management personnel**

None of the directors or other key management personnel received any emoluments in the period in relation to their services for the Company. No staff were employed by the Company.