Report and Accounts 2008

money matters...

You matter...

Yorkshire
BUILDING SOCIETY

"All my family are with YBS - always excellent in every way."

91%

of customers who responded rated our service as either 'good' or 'excellent'.*

"Always first class service."

*Source: Yorkshire Building Society December 2008


"I feel at ease and secure when using YBS...."
"Never had a problem in 24 years."

Contents

Chairman's report
Ed Anderson

Last year was a difficult year for all financial institutions, with a combination of worsening economic conditions, a falling housing market and the credit crunch. Whilst some institutions have fallen, and many others have stumbled, I am pleased to say the Yorkshire, whilst not unscathed by the conditions, continues to be a strong, independent mutual organisation.

The Chief Executive's statement on pages 4 to 11 sets out in detail how this environment has affected the Yorkshire - in particular how we have anticipated or reacted to events as they have unfolded, how our results have been impacted, and our many achievements in the year. I do not intend to cover the same ground, but would like to set out some of the highlights:

- the Yorkshire continues to be a strong institution in which its members can have confidence – we have one of the strongest capital positions of any major UK lender, one of the lowest levels of wholesale funding of any major UK lender, high levels of good quality liquid assets and no exposure to many of the higher risk areas of lending such as commercial and buy-to-let;
- our core operating profit, whilst reduced, remains healthy at £53m, and much of the reduction reflects our determination to benefit members to the maximum possible extent rather than to maximise profits. We have taken a number of steps to safeguard our members' interests, including early withdrawal from the few higher risk areas of lending in which we were active, minimising as far as possible the impact of recent rate cuts on our savers and taking a sensible view of potential mortgage losses driven by the worsening economic conditions. We estimate that by not passing on all of the rate cuts in late 2008 our savers are better off than they otherwise would have been by over £50m a year. We can act in this way, despite the impact on our profits, because we are not driven by a short-term need to pay dividends to shareholders. Instead we are motivated only by the need to ensure our business is sustainable and able to deliver value to members over the long-term;
- our assets remain of a high quality. Although, because we are focused by our very nature on UK residential mortgage lending, we are impacted by falling house prices and rising unemployment, our arrears remain below industry averages. At the same time we hold high levels of good quality liquid assets; and
- our continued drive for efficiency and effectiveness in all we do continues to bear fruit. Our costs as a proportion of our assets (a key measure of efficiency) have now improved by 23% in three years. Our focus in this area will continue as long as this is not at the expense of the service we provide to our members.

Unlike many other major UK lenders we did not need to raise additional capital, either from government or market sources. This in itself speaks volumes about our core strengths, especially since the authorities performed their own analyses and concluded that not only did we not require help, but that we were strong enough to provide help to other less well-placed institutions. An example of this is our merger with Barnsley Building Society whose members and staff we are pleased to welcome to the Yorkshire Group.

Our statutory profits have fallen to £8m against £55m in 2007. This is partly because market conditions have further impacted our small portfolio

"We did not need to raise additional capital, either from government or market sources."

"Our continued drive for efficiency and effectiveness in all we do continues to bear fruit."

of higher risk treasury investments. It is also because, in common with other building societies, we have had to bear far more than what we, and many others, believe is our fair share of the cost of the failures of Bradford & Bingley plc and the Icelandic banks.

In view of this fall in statutory profits and in view of the general economic climate, the executive directors and General Managers have voluntarily waived their bonus entitlement for 2008.

Throughout these difficult market conditions we have not lost sight of our key purpose – to deliver value to our members through providing products that are good value over the long-term, and through outstanding customer service. We have continued to invest in our infrastructure and service delivery in 2008, a fact that is reflected in another outstanding set of industry awards as well as continued high ratings from our members in our various feedback forums.

An equally important part of our focus has been to protect our members, as far as is possible, from the impact of current conditions and to help those who find themselves in difficulty. Our savings strategy is based on long-term value rather than offering unsustainable short-term rates that caused problems for many institutions, such as the Icelandic banks. We have also protected savers, as far as we are able to do so, from the impact of recent rate cuts. Meanwhile, we make every effort to help our borrowers through these uncertain times – either by working with them from the earliest stage to manage the sometimes difficult transition when an existing product deal matures, or being proactive with any borrower who is experiencing difficulties. Given the poor economic prospects for 2009, we are committed to continue this approach.

On your behalf I would like to thank the management and staff of your society for their continued diligence and commitment. They have seen the Yorkshire through very difficult times, with a combination of professionalism and dedication, and I know that they will continue to do so in 2009 and beyond.

I would also like to take this opportunity to thank Julie Baddeley, who retired from the board as a non-executive director on 31 December 2008. During seven years on the board Julie made a significant contribution to the Society, including chairing the Remuneration Committee and leading the non-executives' involvement in our Treating Customers Fairly agenda. I would also like to welcome Indira Thambiah who joined the board as a non-executive director in May 2008 and value the contribution that her extensive background in retail is already bringing.

In conclusion, I would repeat that whilst 2008 has been an extremely difficult year, and for some organisations a terminal one, the Yorkshire has emerged, as it entered the year, a strong independent mutual that remains committed to serving its members for many years to come.

Ed Anderson
Chairman

Chief Executive's report

Iain Cornish

Continued market turmoil

In last year's report I anticipated, following the already extreme conditions of 2007, that 2008 would be a year of greater uncertainty than we had experienced for many years. In the event, the extent of the deterioration was even more severe than we had expected and we saw unprecedented turmoil in the global financial markets allied with steadily worsening UK economic conditions. Let me say at the outset that whilst not unaffected, the Yorkshire has weathered these extreme conditions well and remains financially very strong, with one of the strongest capital positions of the major lenders, even after some have been recapitalised.

The first part of 2008 saw a continuation, and indeed steady worsening, of the disruption to the world's financial markets that started in 2007. The situation became markedly worse in September 2008 following the collapse of Lehman Brothers in the USA. This event was the precursor to a string of bank failures across the world, most notably in the UK the Icelandic banking groups and Bradford & Bingley, and to the nationalisation or government recapitalisation of Halifax Bank of Scotland, Royal Bank of Scotland and Bradford & Bingley. The second half of 2008 also saw the merger or proposed merger of a number of UK building societies who found themselves the victim of these uncertain times – and indeed we helped out through our merger with the Barnsley Building Society, an otherwise well run local society that unfortunately had significant exposures to failed Icelandic banks.

Allied to these issues, the second half of 2008 saw the UK economy enter a recession. The Bank of England has cut interest rates to historically low levels and sought to provide ever greater levels of liquidity to the financial system to boost lending to businesses and individuals. In early 2009 further measures are being considered to help the banking and other sectors. The effectiveness of these, along with the wider economic initiatives, remains so far unproven. The outlook remains gloomy, with almost universal forecasts of rising unemployment and negative growth throughout 2009.

At the same time the UK housing market continues to see activity levels at historic lows and rapidly falling house prices. We anticipate that this will continue throughout 2009, with low lending volumes and a further significant fall in house prices.

Whilst there are a range of factors behind the UK and global recession and the downturn in the UK housing market, the crisis in the financial markets can be traced back to a rapid expansion in credit, especially in the UK and the USA. Financial institutions rapidly increased their lending beyond sustainable levels by raising excessive amounts of funding from the wholesale markets. Doubts about the quality of the loans made using that funding (centred initially on certain types of mortgage lending in the USA, but now spread to a range of loans and regions) led to a sudden and almost complete closure of those wholesale funding markets. This is what lies behind the troubles faced by many of the banks and other financial institutions. In the UK this combination of a credit crunch, recession and housing downturn are all exaggerating and amplifying each other.

A position of continued strength

The institutions that have struggled the most in these conditions are those that:

Core operating profit vs Statutory profit

	2008 £m	2007 £m
Core operating profit	**53.0**	**91.1**
Treasury investments		
losses from fair value volatility	(67.1)	(32.5)
losses realised/impairment	(7.0)	(6.9)
	(74.1)	(39.4)
Other fair value volatility	38.3	(11.1)
Other non-recurring items	5.8	14.0
	23.0	**54.6**
Financial Services Compensation Scheme levy	(14.7)	-
Statutory profit before tax	**8.3**	**54.6**

- became dependent on wholesale funding (which is no longer readily available);
- lent in the riskier areas (with those loans now defaulting faster than other, better quality loans); and
- entered the downturn with inadequate levels of liquidity and/or capital (who are struggling to withstand the widespread and sustained shocks to the system).

The Yorkshire entered the downturn from a position of considerable strength. In particular we had:

- one of the lowest levels of wholesale funding of any major UK mortgage lender so that more of our lending is funded from more reliable retail savings balances rather than from the wholesale markets;
- one of the strongest capital positions of any major bank or building society, and capital levels that are significantly higher than those of the banks recapitalised by the government in 2008 even after that new capital was injected;
- high levels of very good quality liquid assets, and during 2008 we have improved even further the quality of these assets even where this means we earn lower levels of income from them; and
- no exposure to a number of the higher risk areas of lending including commercial, unsecured and buy-to-let, nor have we purchased any loan portfolios from other lenders.

However, no financial institution of any size has been unaffected by the extraordinary market conditions in which we have had to operate in 2008. In the Yorkshire's case the main adverse impacts have been:

- the cost of the Financial Services Compensation Scheme (FSCS) imposed by the government in relation to the well publicised failures of Bradford & Bingley and the Icelandic banks, and the less well publicised weighting of these costs towards retail funded institutions, mainly the building societies;
- material negative impacts due to falls in the market value of our relatively small treasury investment portfolio; and
- a very significant deterioration in the housing market and the wider economy. In response to this we are taking a cautious approach to new lending and cutting it back substantially. In anticipation of an increasing number of borrowers facing financial difficulty and rapidly falling house prices we are also sensibly providing for increased mortgage losses.

Conditions have also meant that the retail savings market has become increasingly competitive, and at times unsustainably so in our view. At the same time wholesale funding has become increasingly scarce and at times non-existent, at least partly through the unintended consequences of government action to free up the markets which then tended to favour "failed" institutions over those which remain independently strong! The Yorkshire has successfully managed its way through this funding landscape, with strong retail savings growth in 2008 and the maintenance of its wholesale funding franchise.

The Yorkshire will continue with its strategy, in place for many years, of delivering value to our members through providing products that are good value over the long-term and so building sustainable relationships with them, and remains very well placed to do so. This requires a balanced approach across all areas of the business, including:

- growing only insofar as it does not involve taking unsustainable risks or impact on the service we offer members. In 2008 we focused particularly on ensuring that the funding required for growth is sustainable over the long-term;
- controlling our costs as far as possible, whilst ensuring that the quality and accessibility of our services are maintained at their current high levels; and

Chief Executive's report continued

- ensuring that we have in place adequate capital and liquidity to withstand the most severely stressed environment, even at the expense of short-term growth and profit.

It is against this economic and market background, and adherence throughout to our established strategy and purpose, that our results for 2008 are reported.

Balanced growth in 2008

Overall the Group's mortgage assets grew by just over 3.5%, with 2% of this growth being due to our merger with the Barnsley Building Society. The Group recognised as early as mid-2007 the severity of the change in economic and market conditions, and targeted lower risk and lower growth on its mortgage book. This was a deliberate strategy to protect our strong funding position and reduce the impact of the deteriorating housing market.

The Group's total assets grew much faster, by 12.5%, for a number of reasons including:

- a conscious decision to enhance our portfolio of liquid assets; and
- movements in foreign exchange rates that, under the accounting rules in place, effectively gross up the value of both sides of the balance sheet. This is an 'artificial' effect, and we do not have any material exposure to foreign currency movements.

Our gross mortgage lending in 2008 was £2.5bn, down from a record £4.7bn in 2007 in a deliberate response to the worsening market conditions. At the same time repayments fell from £2.7bn to £2.3bn as more borrowers chose to remain with the Group when their mortgage deals matured rather than redeem and move to other lenders. All of this meant that our net lending was just £267m (£2,016m in 2007), a level that we consider prudent in the current circumstances.

Crucially this increase in mortgage balances was more than funded through growing our savers' balances, which were up by over £1.1bn or 9%, of which £0.3bn was from our merger with the Barnsley and £0.8bn through the Yorkshire. The current market conditions and the tightening of wholesale markets drove many to compete more strongly for retail savings. We made an early decision not to compete where we believed pricing levels from a number of players (such as the Icelandic banks) were unsustainable. Instead we continued our established strategy of offering good value over the long-term. Against this background, growth in savings balances of 6% or £0.8bn (excluding balances transferred with the Barnsley) was an excellent result.

We are acutely conscious that the turmoil of the last 18 months, combined with the well publicised gloomy prospects for 2009 and beyond, are deeply unsettling for both our savers and our borrowers. Our focus throughout has been and remains the balancing of the interests of these two groups of members as fairly as possible whilst protecting the financial position of the Group, which is in the interests of all members. With this in mind, for savers we have:

- continued to offer attractive savings rates and, despite staying out of certain products at times when we believed pricing was unsustainable, have achieved over 369 best buy mentions in the year; and
- sought to protect savers as far as we are able from the financial impact of the low interest rates brought in by the Bank of England in the second half of 2008. Overall we have cut rates by less than the full amount of cuts made by the Bank of England and will continue to do so wherever possible.

We have also taken steps to protect borrowers:

- all existing borrowers are offered an alternative to the Society's standard variable rate when their mortgage deal comes to an end;
- we contact borrowers up to 18 months before the end of their mortgage deal letting them know what their new payments might be so that they have the maximum time to adjust their finances; and
- we offer all borrowers free financial counselling where needed, and are proactive in working constructively with any borrower who is experiencing payment difficulties.

Solid underlying profits

Our core operating profit is down on 2007, at £53m from £91m, but remains strong in a period of unprecedented turmoil. There are two key elements behind this reduction, which actually reflect prudent changes that we have made to the way in which we are managing the business. We initiated these changes in 2007, and so our 2008 results incorporate a full 12 months' impact. The elements are:

- our net interest margin has fallen, accounting for c.£24m of the reduction, as a result of three key actions during 2007 and 2008. **Firstly**, in mid-2007 we foresaw the likelihood of an economic slowdown and severe housing downturn and so changed our lending policies accordingly, withdrawing from areas of the market with higher margins but also with higher risks attached. This has reduced both our mortgage lending and our interest earnings on that lending, but has also helped to minimise future mortgage losses. **Secondly**, we have increased further our holdings of high quality liquid assets, which provide additional financial assurance for the Group and its members, but which are very low yielding and therefore lower our interest earnings. **Finally**, whilst continuing to offer competitive rates to borrowers, as interest rates have fallen to historic lows we have sought to protect savers from the full impact of those reductions, which has again impacted on our net interest income; and
- the other major element is our loan loss provisions – we have prudently provided for a substantial increase in mortgage related losses. Although our actual losses during 2008 were only £2.5m, we have built into our results a provision for potential losses based on peak-to-trough house price falls of nearly 30%.

At the same time our statutory profit has fallen sharply to £8m from £55m, driven principally by two elements:

- a £15m charge through the FSCS for the failures of the Icelandic banks and Bradford & Bingley, without which the Group would have been reporting a statutory profit of £23m. We have lobbied very hard to protect our members from what is undoubtedly an inequitable and disproportionate charge against those who followed the safer funding model. Building societies are by their very nature more focused on retail savings yet are paying a disproportionate share of the cost of the failure of a largely wholesale funded institution and a number of extremely aggressive overseas entrants into the UK savings markets; and
- material changes in the market value of our relatively small treasury investment portfolio which are covered in more detail below. The vast majority of these investments continue to perform and to yield a good return.

Looking at those areas where the Group can exercise greater control than those driven by market sentiment or the government's reaction to market events, we have continued to consolidate our position:

- our non-interest income (excluding the one-off exceptional profit made in 2007 on the sale of our London Strand branch) has remained stable at £32m. This is an excellent performance in a year when mortgage volumes fell sharply. It reflects our continued success in providing added value to members through the provision of quality insurance and investment products; and
- our programme of cost management bore further fruit in 2008, with our ratio of management expenses to mean assets continuing to fall – down to 0.56% from 0.63% in 2007. This ratio has now fallen by almost a quarter from its 2005 level of 0.73%, an achievement worth over £35m to the Group in 2008.

Core strength remains

The Group remains in an exceptionally strong position amidst volatile markets and a range of banking failures:

- our core operating profit remains healthy and the reduction from 2007 is partly driven by our own prudent decisions aimed at managing the Group through these difficult times;
- a significant proportion of the reduced statutory profit reflects the impact of the FSCS costs (imposed on us as a result of the failure of

Chief Executive's report continued

other organisations), or reflects movements in the market value of investments we do not intend to sell and which retain a reasonable probability of recovering much of this value over the coming years;

- our capital position remains extremely strong. Our Group solvency ratio at the year-end was 14.8%, an improvement on the like-for-like figure for 2007 of 14.4%. Most of our capital is in the form of retained earnings, meaning that our core capital ratios are even stronger – the graph opposite shows our Tier 1 capital ratio against those of a number of leading banks and demonstrates a clear margin even after many of those organisations have been recapitalised by the UK taxpayer; and
- our level of liquid assets (which we hold to ensure we can pay our liabilities as they fall due) has improved during the year. The ratio of these assets to our borrowings has increased from 24.7% to 25.4%, whilst at the same time we have improved the quality of these investments.

Part of our underlying strength is based on strong risk management and in 2008 this was exemplified by the manner in which our exposures to other banks across the world have been managed. Through a combination of sound judgement and, inevitably in such conditions, good fortune we avoided any losses from wholesale counterparty defaults such as the Icelandic banks and Lehman Brothers.

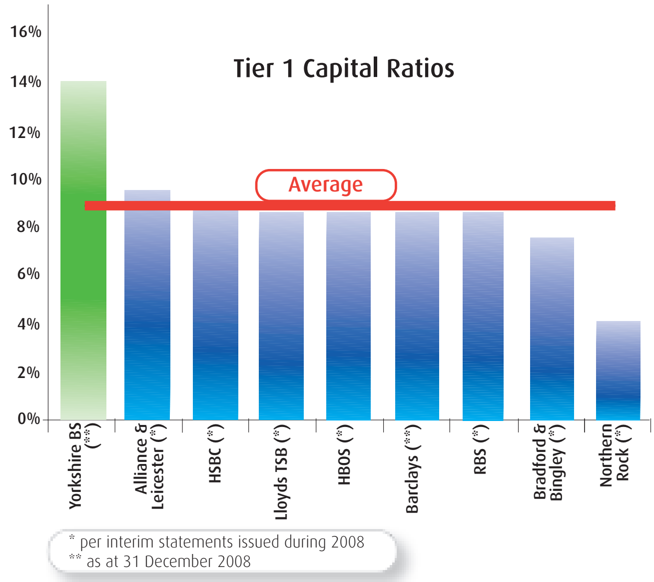
Overall, our strong capital and financial fundamentals have meant that we did not need to raise additional capital or other forms of guaranteed funding from the taxpayer or the private markets during 2008. We have recently decided to utilise the government's guaranteed funding scheme based on the fact that, unintentionally, the very existence of this scheme has further limited the supply of wholesale funding to those institutions not in the guarantee scheme. However, we will do so prudently.

This ability to see 2008 out without government support differentiates us from most of the major banks. The UK authorities conducted their own stress tests on all institutions to establish who did and did not need to be supported, and concluded that the Yorkshire did not require its support. Indeed, we have been perceived by the authorities as being strong enough to act as a safe haven for the members of other societies who are less well placed, including the Barnsley Building Society.

High quality mortgage assets

The Group concentrates on the UK residential mortgage market, which we strongly believe is the primary role of a building society. Clearly this means that we are exposed to the UK housing market which is in a period of material stress. We are exposed through a combination of borrowers struggling to meet repayments and house price falls. Borrower defaults are most closely linked to levels of unemployment which have already risen and, in our view, are likely to continue to do so throughout 2009. Likewise, we believe that UK house prices, which have already fallen almost 20% from their peak in late 2007, will fall further in 2009.

However, we have nearly 150 years of experience in this market and of managing our business through both the good and the bad times. The majority of our senior managers were either with the Group or working elsewhere in the mortgage market during the housing downturn of the 1990s. We are applying all of our experience to managing the Group's loan portfolios through the current conditions – both to provide assistance and support



to borrowers who find themselves in difficulties and to minimise the impact of borrowers who do default on the wider members' interests. We have reviewed our policies and procedures against best practice and the Financial Services Authority's guidance to ensure that they are in line with these, and will continue to do so.

At the end of 2008 the percentage of loans over three months in arrears was 1.59%. Whilst this is, as we expected, an increase on 2007 (0.95%) it remains well below the levels seen in the last housing downturn and the industry average of 1.88% (itself up from 1.08% in 2007). This level of arrears will continue to increase in 2009, especially if unemployment rises as we expect. We will continue to be vigilant and to constantly analyse our arrears and their underlying trends and to adapt our management of this issue accordingly.

The vast majority of our lending is prime residential via the Society's branches, the internet or through Accord Mortgages Ltd, our intermediary lending subsidiary. Only around 8% of our loan balances are credit repair loans, which offer borrowers with poor credit histories the opportunity to restore their credit rating. Arrears on this portfolio are inevitably higher than that for prime lending, although they are in line with what we expected when we entered into this type of lending and the returns that we make also remain correspondingly higher. We currently do not offer these loans.

The Group has not entered into the buy-to-let, commercial or personal unsecured lending markets, nor have we purchased any loan portfolios from other lenders. As we enter the next phase of the economic and housing downturn, these are parts of the market where greater signs of stress are beginning to emerge.

We continually test the financial strength of the organisation to ensure we can withstand even the most extreme economic circumstances, and our very strong capital position gives us tremendous resilience against even a protracted and deep recession.

Treasury investments

In 2001 the Group took the decision to invest a small proportion of its treasury assets in a number of higher risk and higher return structured credit investments. This decision was taken to enhance the returns for members on our treasury assets under management and was taken in the knowledge that these were higher risk investments that required a more intensive form of management, which has been in place since inception.

The market conditions in 2008, as in 2007, have adversely affected the market value of a number of these investments. As a result, one has been sold at a real loss of £7m and we have also recognised through the income statement an additional £67m "book" loss to reflect the reduction in the market value of a number of these investments. The investment that was sold was one where no possibility of recovering the fall in market value was foreseen. The remaining assets, which are valued at £68m, continue to perform and to provide a good return.

These assets now represent less than 0.5% of our total assets and less than 1.5% of our treasury assets.

Going forwards, we continue to closely manage these investments and to seek to identify opportunities to improve the position either through disposal, asset swaps or other mechanisms. No further investments have been made in 2008 nor will any be made in the foreseeable future. Whilst they affected our statutory profit in 2008, they do not present a material risk to the overall financial strength of the Group.

Delivering member value

Throughout the year we have continued to seek to deliver value to our members across all areas of our business. Our mortgage and savings products have been consistently competitive throughout the year. At times we have chosen to withdraw from certain product areas, especially on the savings side, where we believed that products being offered were not sustainable over the longer timeframes across which we seek to deliver value. 2008 saw 305 best buy mentions for our mortgages and 369 for our savings products, an

Chief Executive's report continued

equivalent of around 13 mentions per week.

Examples of new or improved services to members in 2008 included:

- continued evidence of our commitment to our branch network with the opening of new branches in Solihull and Wolverhampton (and the retention of all eight of the Barnsley's branches), bringing our total branch network to 143 ranging from Newquay to Inverness;
- growth in sales of our Guaranteed Investment Account, offered through Credit Suisse, up 80% against 2007, which was itself a record year for this product;
- the launch of a paperless internet savings application process, a market leading process that won an award for innovation from the ifs School of Finance;
- the appointment of our Corporate Business team by 23 new Sharesave clients, including Abbey National and Stagecoach;
- a range of "behind the scenes" investments in our underlying processes and infrastructure. Areas in which we invested were as different as product pricing and product development systems, member enquiry and complaint handling systems, and call centre telephony; and
- a continued commitment to fighting financial crime as it impacts our members and the Group, resulting in over £2.5m being saved.

Whilst not an end in itself, one way to judge our success in delivering value to members is our regular customer satisfaction surveys – and I am pleased to say that yet again more than 9 out of 10 respondents to our customer satisfaction surveys said they are satisfied with our service and that they would recommend us to their friends or family. Another measure is when the Group gains external recognition for its services or systems, and 2008 has seen another set of awards won in many areas, including:

- Winner – Mortgage Finance Gazette - Best Debt and Arrears Management Strategy;
- Winner – ifs School of Finance, Financial Innovation Award for "Most Promising Initiative";
- Winner – Financial Adviser 5 star award for service;
- Winner – five different awards for our subsidiary, Accord Mortgages Ltd, at the Legal & General Awards;
- Highly Commended – National Customer Service Awards Complaints Team of the Year category; and
- ifs ProShare Award for Best New Share Plan and Award for Most Effective Communication of an Employee Share Plan.

Our place in the community

We maintain our position as an active and responsible member of all of the communities in which we are based. This is shown by the amount of support we give to those communities and the funds that we raise across the country for a number of good causes. All of our staff are encouraged to get involved through our Actioneering programme and in 2008 nearly 150 of our head office staff donated days of work to community projects around the country. Since its inception in 1998 the Charitable Foundation has donated nearly £3m to good causes – 2008 saw almost 2,000 donations totalling over £400,000, over 85% of which were nominated by our members.

Our people

2008 has been a difficult year for all financial services organisations, and I must again pay tribute to the dedication, commitment and sheer hard work of our staff. Yet again they have responded with professionalism, enthusiasm and a positive attitude to a range of challenges added to which:

- our absenteeism levels have fallen further from already low levels and our staff turnover levels have dropped to record lows; and
- more than three-quarters of our staff tell us, through our periodic surveys, that they are satisfied with us as an employer and 93% say that they are prepared to "go the extra mile" when required.

I am personally immensely grateful for what all of our staff have achieved in 2008 on behalf of our members in these difficult times.

The future

As alluded to above, 2009 and beyond looks set to be difficult for the UK economy, UK banks and building societies, and for savers and borrowers. In particular:

- growth in the economy as a whole looks set to remain negative for most or all of 2009, and unemployment to rise materially throughout the year;
- as a result the current Bank of England policy of maintaining low interest rates is likely to continue, impacting the returns that savers can achieve on their savings; and
- unemployment will lead to continued increases in levels of arrears and possessions, and will be accompanied by further falls in house prices which will make losses inevitable for borrowers and lenders.

Throughout, our focus has been and will continue to be on helping our members through difficult times, whilst maintaining the underlying strength of the Group. Borrowers facing problems will be managed sympathetically as far as is possible, and we will continue to protect savers from the impact of low interest rates as far as we can sensibly do so. Growth will not be a priority - our focus will continue to be on financial sustainability, maintenance of our capital strength and balanced profitability. Our core purpose, which is at the heart of everything we do, remains providing our members with long-term value through excellent products and services.

In summary, the Group is in a robust state of health, despite the conditions in 2008 and their impact on our results. We entered these times in a strong enough position not just to weather the storms, but to emerge from them in an ultimately stronger position.

I fully expect 2009 to be every bit as difficult as the year that has just passed, but by continuing to focus first and foremost on serving our members' interests and on protecting the financial strength of the business, we remain very confident about our future as an independent mutual building society.

Iain Cornish
Chief Executive

Responsible business practices

Being part of the community means a lot to us and is part of our culture. It's all about considering and meeting the needs of communities, the environment and employees. Both our employees and members fully support our Responsible Business Practices programme, and the response from the communities and charities that benefit is testament to our success.

"We use national scale and local strength to engage employees and members in supporting causes actually identified by them, something few organisations do. As a result, our Responsible Business Practices activities are going from strength to strength. We really are capable of making a difference to thousands of people, ensuring that Yorkshire Building Society is a place we can feel proud to work."

John Faulkner, General Counsel, - overall accountability for Responsible Business Practices.

How does Responsible Business Practices operate?

Financial Donations and Support

Yorkshire Building Society Charitable Foundation was established as a registered charity in 1998 and aims to support good causes across the UK. The Foundation is funded from Society donations, employee fundraising and members who participate in the 'Small Change, Big Difference™' scheme.

The Small Change, Big Difference™ scheme was introduced in 1999 and members donate the pence of interest from their savings and mortgage accounts to the Foundation. The maximum annual donation is 99p - when multiplied by more than 600,000 members that take part in this scheme, it's easy to see how it accounts for more than three-quarters of the Foundation's £370,000 annual funding. We aim to increase the number of participating accounts to over one million in the future.

More than 85% of all causes supported in 2008 were recommended by members. Thanks to a member recommendation, Spectrum Dundee - a charity that helps children that are affected by Autistic Spectrum Disorder (ASD) - received a donation of £2,000.

Jane Baston, Charity Secretary said, "We were delighted to receive this award, which will be used to purchase specialised play equipment to develop and enrich the out-of-school provision for children in the local area who are affected by ASD."

In addition to ongoing donations, the Foundation also holds an annual national appeal during the Christmas period. Following our 2008 appeal and thanks to the generosity of our members, the general public and the fundraising efforts of our staff, Whizz-Kidz received a total donation of £90,000. Our support enabled the charity to provide disabled young people with customised mobility equipment, skills training and advice - providing disabled children with the independence to be themselves.

Although we aim to help as many good causes as possible through the Foundation, some causes may not fall within its areas of support. However, our Community Investment Fund was established to fill this gap and through this over 1,500 causes have received support since it was established in 2003.

Our Employee Involvement

With every member of staff entitled to one day's paid leave per year to spend on voluntary activities, 'Actionteering' provides opportunities throughout the year for our employees to help local projects. Launched in 2007, 'Actionteering' not only helps develop relationships with community partners, it also confirms our place at the heart of the community.

The challenges that are available to our employees are varied, ranging from individual activities such as becoming a school governor, helping a child to read and business mentoring to completing team challenges that focus on making a positive impact on the local community and environment. Over 1,000 hours of 'Actionteering' took place in 2008 and we intend to increase that figure in 2009.

A recent challenge was undertaken at Swain House School, Bradford, where 23 YBS staff volunteers completed a task of building 16 raised growing beds, as part of a School Grounds Project, which will allow each class to grow their own fruit and vegetables. Each volunteer moved no less than 1.5 tonnes of earth and wood during the day, which is equivalent to each person carrying a car 100 metres!

food waste from our Head Office restaurant is composted locally. By acting as a collection point to recycle mobile telephones we have managed to sponsor a Guide Dog for the Blind named 'Buddy' and are currently collecting again to enable us to sponsor a second dog.

Another area that the Society can have a significant impact on is in the use of paper. Through the Buy Recycled programme we have implemented changes to routine statements as well as large mailings. In 2008 the Annual General Meeting (AGM) mailing, which is sent to 1.1 million members, was produced as a smaller pack and members were given the option to access the AGM information online in future years, saving paper and postage costs.

Anthony Waddington from Be Involved Bradford (the business partner responsible for setting up the challenge) said, "Put simply, in five years of working in this field I have never seen a team achieve so much in one day, the school are delighted. Yorkshire Building Society volunteers are among the most enthusiastic and committed we work with and have outstripped our expectations on every challenge."

Our Environmental Policy

We take our Environmental Policy extremely seriously. Here are just a few of the initiatives we've launched over the past seven years that have resulted in gaining and continuing our status as 'Carbon Neutral':

- purchasing all electricity from renewable sources;
- purchasing 100% recycled copier paper;
- introducing Society-wide recycling facilities; and
- offsetting unavoidable CO_2 emissions through sponsorship of overseas carbon reduction programmes.

At the Yorkshire we're very aware of our individual impact on the environment which is why we have a committed recycling programme. This enables us to recycle up to 90% of our Head Office waste. We have added fluorescent tubes and batteries to the paper, plastic bottles, aluminium cans and vending cups we already recycle. Any

Our rollout programme for electric smart meters has been completed for the whole branch network. The meters offer greater energy efficiency, eliminate estimated readings and offer the opportunity to analyse energy consumption with a view to reducing it wherever possible.

In 2008 the Society supported 'Bike to Work Week' and 'National Liftshare Day' and there are plans to do this again in 2009.

"The Yorkshire's approach is to engage with staff, members and community partners, working together for a common good. Our aim is to ensure that everyone can feel proud of their involvement in the things we do under our commitment to Responsible Business Practices."

Non-executive directors

Ed Anderson, BSc, CPFA (age 58) **Chairman**

Ed Anderson joined the board in 2003 and was appointed Chairman on 1 January 2007. He is a member of the Nominations, Remuneration and Group Risk Committees.

Ed is an accountant by training and has divided his career between airport management and local councils. He is Chairman of the Airport Operators Association and was the Managing Director of Leeds Bradford International Airport for 10 years until his retirement in September 2007. Prior to that he was an executive director at Leeds City Council. Ed is Chairman, and a past President, of the Leeds Chamber of Commerce. He is also a member of the Council of the University of Leeds and is involved in various other local organisations.

Richard Davey, BA (age 60) **Vice Chairman**

Richard Davey joined the board in 2005 and is a member of the Audit, Nominations and Group Risk Committees.

Richard has an investment banking background and was formerly Head of Investment Banking at NM Rothschild and Sons. He has extensive experience of the financial services sector having run Rothschild's Financial Services Group, working with a number of high street banks and insurers. Richard is Chairman of London Capital Group Holdings Plc and is also a non-executive director of Severn Trent Plc and Amlin Plc.

Lynne Charlesworth, BA, MBA (age 52) **Non-executive Director**

Lynne Charlesworth joined the board in December 2006 and is a member of the Group Risk Committee and a Trustee of the Society's Pension Scheme. She also, on behalf of the board, overseas the Group's policy on 'Treating Customers Fairly'.

Lynne has a background in risk management, particularly within the financial services and property sectors. She has worked within the building society industry and became Group Risk Manager of Abbey National Plc when it took over the former National & Provincial Building Society. In the 1990s, Lynne founded a successful property and asset management business and is now joint Managing Director of a private investment company, St. James Investments Ltd.

Philip Johnson, FCA (age 62) **Non-executive Director**

Philip Johnson joined the board in June 2007 and is Chairman of the Audit Commitee.

Prior to joining the board, Philip retired as a partner at Deloitte & Touche LLP in 2007 where he was Head of Audit Quality and Risk Management for the UK, a member of the Deloitte Board of Partners and Chairman of the Deloitte Audit Committee.
During his 30 years with Deloitte, Philip specialised in providing advisory and assurance services to large corporate clients. He has considerable experience of financial services through leading some major investigations in the sector.

Philip is Deputy President of the European Federation of Accountants and a member of the Audit Committee of the Wellcome Trust.

Photographs from left to right: Ed Anderson, Richard Davey, Lynne Charlesworth and Philip Johnson

David Paige, BSc, FCA (age 57) **Non-executive Director**

David Paige joined the board in December 2006 and is a member of the Audit, Remuneration and Group Risk Committees.

David, a chartered accountant, has extensive experience within the financial services industry on the risk, financial and audit sides. He was a partner at Coopers & Lybrand in their financial services division before moving into senior executive positions with NatWest Bank Plc, Zurich Financial Services, Aviva Plc and Royal & Sun Alliance Insurance Group Plc where he was Executive Director (Risk). David holds a number of other directorships including Aegon UK Plc.

Indira Thambiah, BSc, MBA (age 41) **Non-executive Director**

Indira Thambiah was appointed to the board on 1 May 2008.

Indira qualified as a Chartered Accountant and has spent most of her professional life within the retail sector. She has worked with Asda Walmart in a number of roles, including setting up Asda's online operation. In 2002 Indira moved to the Home Retail Group, initially as Head of E-commerce for the Argos business and latterly as Head of Multi-Channel Retail which covered e-commerce business across the Group including Argos, Homebase and their associated financial services operation.

At the beginning of 2008 Indira became a freelance consultant, continuing to work in the retail sector. She advises clients predominantly on multi-channel retailing, including global expansion, particularly in India.

Simon Turner, BSc (age 57) **Non-executive Director**

Simon Turner joined the board in October 2005 and is a member of the Audit Committee. He is also Chairman of the Remuneration Committee.

Simon has extensive experience in marketing, sales and general management in a variety of roles in the electrical and publishing markets, and served as the Managing Director of Philips in the UK and Ireland until 1999. He then joined DSG International Plc where he was Group Managing Director of PC World, and all PC City operations in Europe, as well as being responsible for the service business of the Group; he also chaired their pan-european internet business. Prior to retirement at the end of 2008, Simon was the Group Purchasing Director of DSG International Plc. He is now self employed and works in a variety of roles in the electronics industry worldwide.

Photographs from left to right: David Paige, Indira Thambiah and Simon Turner

Executive directors

Iain Cornish, BSc (age 48) **Chief Executive**

Iain Cornish joined the Society in 1992 and has held a number of senior management positions with the Yorkshire prior to being appointed Chief Executive in July 2003. Iain is an economist and started his career in government followed by a move to the private sector.

Iain is a member of the Nominations and Group Risk Committees and a Trustee of the Society's Pension Scheme. He is a director of the Society's subsidiaries Accord Mortgages Ltd and Yorkshire Key Services Ltd. Iain is also a member of the Financial Services Practitioner Panel and a past Chairman of the Building Societies Association.

Ian Bullock, BSc, FIA (age 48) **Sales and Marketing Director**

Ian Bullock is a qualified actuary and joined the Society in February 2003 as Head of Insurance and Financial Services, soon acquiring responsibility for other functions. He was promoted to the General Management team in 2004 and became Sales and Marketing Director in April 2007. Ian has the responsibility for Product Development, Marketing and the Society's distribution network, including the branch and agency network and online business. He is also Chairman of Accord Mortgages Ltd, the Society's intermediary lending subsidiary.

Andy Caton, BA (age 45) **Corporate Development Director**

Andy Caton joined the Society in 1991 as an economist and was appointed to the General Management team in 1998. In July 2004, he was appointed Corporate Development Director and is responsible for the Treasury, Corporate Affairs and Corporate Development functions. Andy is also a director of Yorksafe Insurance Company Ltd and Yorkshire Guernsey Ltd, the Group's offshore deposit taking subsidiary.

Andrew Gosling, MA, FCA (age 53) **Finance Director**

Andrew Gosling joined the Society as Finance Director in 2001. Prior to that he was a partner in the professional services firm Ernst & Young, where he was in charge of its financial services practice in the North of England and also led the firm's Building Societies Group. Andrew is responsible for the Group's Finance, Audit, Legal & Secretarial and Facilities functions. He is Chairman of Yorksafe Insurance Company Ltd, the Society's captive insurance subsidiary based in Guernsey, and is also a director of Yorkshire Guernsey Ltd.

Photographs left to right: Iain Cornish, Ian Bullock, Andy Caton and Andrew Gosling.

General Managers

Robin Churchouse, MA, ACA (age 43) **General Manager Risk and Planning**

Robin Churchouse joined the Society in July 2004 as Head of Finance. He was promoted to the General Management team in June 2006 and now has responsibility for the Group's Risk and Compliance and Corporate Planning functions. Before joining the Yorkshire, Robin gained a wide range of experience across a number of financial services organisations, including roles in finance, planning and strategy, management consultancy, corporate finance and prudential regulation.

Rachel Court, BA (age 42) **General Manager Human Resources and Customer Service**

Rachel Court was appointed to the General Management team in 2006 and is responsible for the Human Resources and Customer Services functions. She is also Chairman of Yorkshire Guernsey Ltd. Having joined the Society in 1991, Rachel has gained a broad experience across the Group starting in Mortgage Administration and Investment Services. She then spent a period as Sales Director of Accord Mortgages Ltd before becoming the Society's Head of Mortgages prior to her appointment as a General Manager.

David Henderson, BSc (age 48) **Chief Information Officer**

David Henderson joined the Society in August 2007 as Chief Information Officer and has responsibility for the Group's IT, Programme Delivery and Corporate Shareplan Business functions. He is also Chairman of the subsidiary Yorkshire Key Services Ltd which offers IT solutions and account administration services to other financial institutions. David started his career in the building society sector and, prior to joining the Yorkshire, he held a range of senior IT positions within a major UK banking group.

Photographs from left to right: Robin Churchouse, Rachel Court and David Henderson.

The directors have pleasure in presenting their annual report, together with the Group Accounts and Annual Business Statement, for the year ended 31st December 2008.

Business objectives and activities

The Group's purpose is to maximise long-term benefits for a growing membership. This is achieved by the pursuit of two principal aims:

- to attract and retain as many members as possible who want long-term benefits; and
- to continually improve the ability to deliver member benefits through:
  - a range of long-term value products and services;
  - excellent service and communication through all distribution channels;
  - continued focus on cost effectiveness; and
  - maintaining a high level of financial security.

Principal risks and uncertainties

The principal risks and uncertainties faced by the Group and our approach to managing them are set out in the Risk Management Report on pages 23 to 30. Financial risk management includes the use of derivative financial instruments. These are not used for trading or speculative purposes but solely to reduce the risk of loss on core assets and liabilities from changes in interest rates, currency rates or other such factors. Full details are given in Note 34. One key tool for mitigating risk is the requirement for all institutions to hold minimum levels of capital. In this regard, the Group uses the standardised approach under the Capital Requirements Directive (Basel II), and holds well in excess of its regulatory requirement.

The disclosures required under Basel Pillar III will be published on the Society's website.

Business review

Key developments in the business, an overview of the impacts of and the Group's reaction to recent market turmoil and the Chief Executive's assessment of the future outlook are detailed on pages 2 to 11.

On 31st December 2008 the Group completed a merger with the Barnsley Building Society which had incurred significant exposure to Icelandic banks and approached the Group as a safe haven for its members. This adds £294 million of mortgage assets and £314 million of savings balances to the Group balance sheet.

The Group uses various performance indicators to monitor its progress. The following sections look at key areas of the business and how the performance indicators for these areas have moved during the year.

Financial performance

Group profit before tax was £8.3 million (2007 – £54.6 million). This figure can be analysed into the following key areas:

	2008 £m	2007 £m	2008 % of mean assets	2007 % of mean assets
Net interest income	**164.5**	188.2	**0.76**	0.99
Non-interest income	**31.5**	40.9	**0.14**	0.22
Volatility on assets held at fair value	**(67.1)**	(32.5)	**(0.31)**	(0.17)
Fair value volatility on derivatives and hedging	**38.3**	(11.1)	**0.18**	(0.06)
Net realised losses	**(1.0)**	(1.8)	**–**	(0.01)
Total income	**166.2**	183.7	**0.77**	0.97
Management expenses	**(122.4)**	(120.2)	**(0.56)**	(0.63)
Operating profit before provisions	**43.8**	63.5	**0.21**	0.34
Provisions for impairment of mortgages	**(25.0)**	(5.0)	**(0.11)**	(0.03)
Provisions for impairment of debt securities	**–**	(6.9)	**–**	(0.04)
Other provisions	**1.0**	3.0	**–**	0.02
Operating profit before exceptional provision	**19.8**	54.6	**0.10**	0.29
Financial Services Compensation Scheme levy	**(14.7)**	–	**(0.07)**	–
Operating profit	**5.1**	54.6	**0.03**	0.29
Negative goodwill	**3.2**	–	**0.01**	–
Profit before tax	**8.3**	54.6	**0.04**	0.29

The Group's underlying performance and balance sheet remain strong as shown by the following analysis.

The net interest margin has reduced from 2007 due to the deliberate "de-risking" of our balance sheet. From mid-2007 the mix of our mortgage lending shifted further towards lower risk, lower return products. Similarly, the Group's liquidity portfolio has been moved further into higher quality (and consequently lower yielding) assets, such as UK Government and Treasury Securities. In addition, our net interest earnings have been affected by the action we have taken to protect our savers by not passing on base rate cuts in full.

Non-interest income includes £0.3 million net expense in relation to property disposals and valuations; in 2007 a profit of £9.0 million was included in relation to the disposal of our London Strand branch. Excluding these items non-interest income is in line with 2007. In the context of considerably reduced new mortgage lending, this is a particularly strong performance and reflects strong growth in income from our sales of investment products.

Losses on assets held at fair value arise from falls in the prices of certain investments, driven largely by the continuing market dislocation in relation to credit spreads and liquidity. Whether some of this item reverses in future depends, in part, on the extent to which credit markets recover from their recent turbulence.

Fair value volatility on derivatives and hedging results from changes in the value of certain financial instruments as a result of fluctuations in money market interest rates. This item is mainly due to timing differences which reverse over time. The hedges in question remain effective commercial hedges reducing the Group's real risk exposures. However, detailed accounting rules can create volatility in their values.

The Group places great importance on cost control as long as this is not at the expense of the service we offer to our members. The continued success in this area has resulted in management expenses growth of just 1.9% over 2007 in absolute terms which is a fall as a proportion of mean assets from 63p per £100 of assets to 56p. Although this partially reflects lower activity levels resulting from slowing mortgage markets, it is also the result of continuing efficiency enhancements across all areas of the business.

Provisions for impairment of mortgage loans have increased as we have taken a prudent view on potential losses. In particular, a further 10% fall in house prices in 2009 has been assumed, together with 20% "forced sale discounts" on properties in possession.

The Financial Services Compensation Scheme levy has resulted in a charge of £14.7 million. The Chief Executive has commented further on the circumstances surrounding this charge in his report on page 7.

After adjusting for items that are considered to be one-off in nature, or the result of either timing differences or the recent market turbulence, the Group's core operating profit was as follows:

	2008 £m	2007 £m
Profit before tax:	**8.3**	54.6
Adjustments:		
Net losses from fair value volatility	**28.8**	43.6
Net realised losses on/impairment of structured assets	**7.0**	6.9
Release of provisions for liabilities	**(1.0)**	(3.0)
Net profits on property, shares and debt repurchase	**(1.6)**	(11.0)
Financial Service Compensation Scheme levy	**14.7**	–
Goodwill	**(3.2)**	–
Core operating profit	**53.0**	91.1

As highlighted above, the key contributors to the fall in core operating profit are the prudent levels of provisioning and the fall in interest margin due to a mixture of balance sheet risk management and saver protection.

Liquidity

The Group's approach to managing liquidity risk is set out in the Risk Management Report on page 25. Liquidity has increased in absolute terms from £4.7 billion to £5.3 billion, increasing its ratio to shares and borrowings from 24.7% to 25.4%.

Capital

The Group's principal measure to monitor the level of capital within the business (a key indicator of financial strength) is the solvency ratio. The Group's solvency ratio (which is also the key capital ratio used by our regulator, the Financial Services Authority, to measure our capital strength) has increased to 14.8% (2007 – 11.8%). Changes to the basis of calculation, on 1st January 2008, increased the 2007 ratio to 14.4% meaning that the actual improvement in the year was 0.4%. Capital levels remain well above the Group's internal and prudential minima and reflect its continued capital strength.

Gross capital and free capital, as defined in Section 2 of the Annual Business Statement on page 90, were 5.66% (2007 – 6.31%) and 5.22% (2007 – 5.86%) respectively.

Business volumes

Due to the continued dislocation in financial markets, access to wholesale funding was severely restricted. Since the majority of the Group's funding is from retail sources, it was less affected than many other financial institutions. Nevertheless these market conditions created a very competitive retail savings market.

In common with many institutions the Group experienced outflow from offshore, non-member, retail deposits in the absence of an equivalent to the UK's Financial Services Compensation Scheme. As a result, the net retail savings inflow of £616 million, which includes £314 million relating to the merger with Barnsley Building Society, is a strong performance.

	2008 £m	2007 £m	**2008** Estimated share of building societies	2007
Net inflows into savings accounts	**616**	649	**6.2%**	4.0%

Members' savings balances increased from £12.4 billion to £13.7 billion as a result of net inflow and interest credited. This means that members' savings balances increased by more than mortgages.

It was deemed prudent to reduce lending activity in order to balance the need for liquidity with the availability of the various sources of funds.

	2008 £m	2007 £m	**2008** Estimated share of UK market	2007
Gross mortgage lending i.e. new loans	**2,529**	4,735	**1.0%**	1.3%
Net mortgage lending i.e. after repayments of existing loans	**267**	2,016	**0.7%**	1.9%
			% increase	
Mortgage balances excluding fair value adjustments and impairment provisions	**15,904***	15,343	**3.7**	15.1

* Including £294 million relating to the merger with Barnsley Building Society.

Assets

The main component of our assets remains mortgage loans, which are discussed above. The other key category is liquid assets in the form of cash and authorised securities (see Liquidity above).

Asset quality – mortgage arrears

During 2008 the Group's overall arrears position deteriorated, driven by the downturn in the UK economy. However, the high quality of the Group's mortgage book means that these figures are lower than the industry average – for example, 1.59% for three month arrears against an industry average of 1.88%.

Accounts with payments more than three months in arrears excluding possessions

	2008	2007	2008	2007
			% of mortgage accounts/balances	
Number of accounts	**2,804**	1,653	**1.59**	0.95
Balances outstanding on accounts	**£317.3m**	£159.0m	**1.99**	1.04
Amount of arrears included in balances	**£11.6m**	£5.6m	**0.07**	0.04

Accounts with payments twelve months or more in arrears including possessions

The position on our more serious arrears cases, being those with payments twelve months or more in arrears, has deteriorated but remains below the industry average (0.30% by number of accounts against an industry average of 0.46%).

	2008	2007	2008	2007
			% of mortgage accounts/balances	
Number of accounts	**530**	175	**0.30**	0.10
Balances outstanding on accounts	**£76.0m**	£19.6m	**0.47**	0.13
Amount of arrears included in balances	**£5.9m**	£1.5m	**0.04**	0.01

Appropriate provisions have been made for potential losses on mortgages in accordance with the impairment policy set out in Note 1 on page 50.

Members and customers

During 2008 our membership remained stable at 2.0 million.

The Society uses a number of measures to track customer satisfaction. In particular, a customer satisfaction measure is maintained based on monthly surveys. During 2008, over 90% of respondents to our customer satisfaction surveys rated the service they received as Excellent or Good, slightly more than last year.

Staff

Our staff are key to our operations. Staff numbers and associated costs and ratios can be summarised as follows:

	2008	2007
Staff costs (salaries and wages, social security costs and pension costs)	**£71.7m**	£69.5m
Number of staff employed (full and part time)	**2,365**	2,364
Number of staff employed (full time equivalent)	**2,097**	2,106
Per full time equivalent member of staff:		
Total management expenses (£000)	**58.4**	57.1
Average total assets (£000)	**10,379**	9,037

The Group's management meet staff representatives regularly to discuss a wide range of topics. Communication with and between all staff is subject to regular review and includes regular "Pulse" staff opinion surveys, team briefings, an intranet site, in-house magazines and bulletins.

An equal opportunities policy is followed and the Group gives full consideration to applicants and staff who are disabled. The Group continues to retain its Investor in People accreditation.

The Group supports the continued learning and development of its staff through regular analyses of training needs and by the provision of a broad range of training opportunities.

Directors

The names of the directors of the Society at 31st December 2008 are shown on pages 91 and 92 of the Annual Business Statement.

Julie Baddeley retired on 31st December 2008. The board wishes to acknowledge her contribution to the continuing success of the Society.

At the 2009 Annual General Meeting (AGM), Richard Davey and Simon Turner retire as directors in accordance with the Society's rules and the Building Societies Act 1986 and, being eligible, offer themselves for re-election. In addition, Indira Thambiah, who was appointed to the board on 1st May 2008, offers herself for election.

None of the directors had an interest in, or share of, any associated body of the Society at any time during the financial year.

Charitable donations

In 2008 Yorkshire Building Society Charitable Foundation donated over £400,000 to some 2,000 causes, of which 85% were suggested by members, maintaining the Foundation Trustees' desire to support causes across the UK with the assistance of member nominations. The funds were primarily raised through the 'Small Change, Big Difference' scheme. Further details can be found in the Responsible Business Practices Report on pages 12 and 13.

Supplier payment policy

It is the general policy of the Group to pay supplier invoices on a weekly basis.

The creditor days were eight days at 31st December 2008.

Auditors

The re-appointment of KPMG Audit Plc as auditors of the Society is to be proposed at the AGM.

On behalf of the board

Ed Anderson
Chairman

2nd March 2009

Risk management report

Introduction

The activities of all financial institutions inevitably involve a degree of risk taking. With this in mind the Group's risk management framework and governance structure is intended to provide appropriate and comprehensive monitoring, control and ongoing management of the major risks to which it is exposed, so as to ensure the security of its members' funds. The Group's ability to properly identify, measure, monitor and report risk is critical to its soundness and its ability to provide value to its membership.

The board is ultimately responsible for every aspect of the Group's activities. In particular, its role is to focus on the Group's strategy and ensure that the necessary resources are in place to meet its objectives and to ensure that robust financial controls and systems of risk management are in place. To assist the board, a Group Risk Committee was established in 2006 (further details are given below) made up of non-executive directors and senior executives. This committee considers all risk matters relating to the Group, including credit risk, operational risk, balance sheet risk and regulatory and prudential requirements.

The Group maintains an independent risk management function (Group Risk) that is responsible for ensuring that appropriate risk management techniques and measures are deployed, and that they reflect leading practice, whilst remaining commensurate with the Group's strategic aims, its appetite for risk and the actual risks it faces at any time. The Group Risk function provides periodic independent reports on risk positions and risk management activities for consideration by General Management, the Group Risk Committee, its sub-committees and the board. The General Manager Risk and Planning provides a formal update to each board meeting covering all areas of risk management, including both routine reporting and ad hoc issues.

The board recognises that risk in various forms arises naturally from the Group's provision of various financial services to members and believes that its risk management philosophy should be based on:

- an awareness of all risk exposures and potential exposures;
- the formulation and quantification of views about the probable impact of such exposures; and
- the development and implementation of measures that contain the potential impact of such exposures within limits consistent with the achievement of the Group's primary business objectives.

The Group aims to identify the major sources of risk to its assets and operations and to deploy, in response to these, appropriate measures to control and monitor those risks. To this end the Group has developed a matrix of the key risks that it believes it faces, being those that, in the view of the board and senior management, represent the greatest threat to the Group's sustainability in terms of combined impact and likelihood. At an operational level, these principal risks and uncertainties can be considered in a number of categories, around which the Group has constructed its systems of monitoring and control. The individual risks, and the Group's response to them, are considered in more detail below within the context of the sub-committees of the Group Risk Committee established to oversee them under delegated authority of the board. The categories are as follows:

- credit risk – This risk arises from the Group's retail lending and wholesale investment activities, and is overseen by the Group Credit Committee. It is the risk that retail borrowers and/or wholesale counterparties fail to repay monies due to the Group;
- market risk – The Group's balance sheet and financial position is exposed to market risk through the normal course of the Group's business. Market risk arises from balance sheet positions that are exposed to changes in interest rates (or similar indices) and to the need to maintain adequate liquidity to meet the Group's cash flow requirements as they arise, as well as meet its ongoing regulatory requirements. This risk is overseen by the Group Asset and Liability Committee; and
- operational and regulatory risk – Overseen by the Group Operational Risk Committee, this risk arises from the possibility of loss or other damage caused by human or technical errors across the Group's operations and includes risks that relate to non-compliance with the statutory and regulatory requirements under which the Group operates.

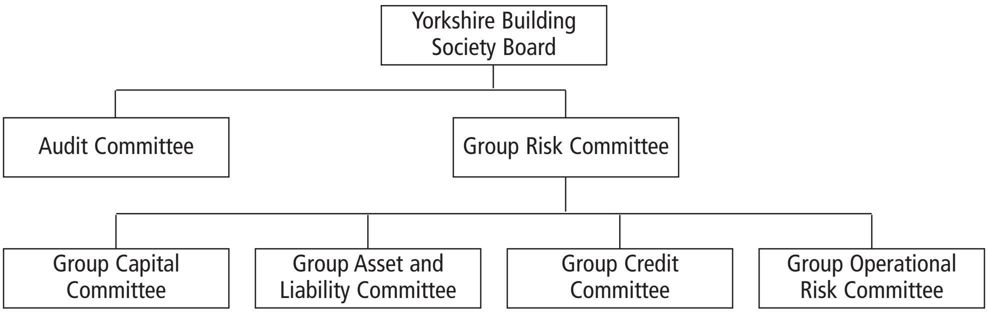
After a turbulent second half of 2007, 2008 saw no let up in the pace of change in the environments in which the Group operates, and therefore in the shifting nature of the risks that it faces. Therefore, as is right, the Group has continued to re-appraise its risk management priorities throughout the year so as to remain focused on the existing and emerging areas that the board considers to be the most material at any given point in time. This does not mean that the Group has not continued to monitor and manage the whole range of risks to which it is exposed, and to continue to analyse its environment for new and emerging risk, but it does mean that the principal risks and uncertainties have shifted through the year. At the end of 2008 and the beginning of 2009 those principal risks and uncertainties can be broadly summarised as follows:

- the wholesale financial markets remain in a state of flux, meaning that the availability of wholesale funding can have a material impact on the Group's liquidity position; that the creditworthiness of previously sound and reputable institutions to which the Group has lent money can change dramatically; and that the value of a number of the Group's investments, which may well be performing as expected, can shift in unpredictable ways. Whilst the Group has not suffered any wholesale credit losses in 2008, as many financial and non-financial institutions did from exposures to, for instance, Icelandic banks, it must and does maintain its vigilance in this area in these uncertain times;
- the UK economy and housing market are now firmly into a downturn and although the depth and breadth of that downturn inevitably remains unclear, what is apparent is that it will not be short-term in its nature or consequences. The UK will be faced with low or negative growth, rising or high unemployment and consequent credit difficulties into 2010 at least. As a result the Group's exposure to potential retail credit losses is heightened and must be monitored, analysed and managed as intensively as ever;
- at times during 2008 the wholesale and retail savings markets in which the Group operates have been uncertain and frequently extremely febrile, which, as a number of institutions such as HBOS and Bradford & Bingley discovered, brings with it the increased risk that the soundness and strength of an organisation is doubted and so confidence lost by savers, borrowers and professional counterparties. Whilst this situation has been faced by, and damaged, a number of institutions in 2008 the Group has not been damaged in this way – but the environment does mean that we have to remain vigilant at all times to ensure that no doubt is cast on our strength and financial soundness in the eyes of our members and counterparties;
- in these difficult times the Government and regulatory authorities are focusing even more strongly on a number of areas, and this includes the launching of rescue packages for major banks, support packages for homeowners and revised regulations in some areas. Some of these actions can have intended or unintended consequences damaging to the Group (e.g. the high degree of cost faced by all building societies in funding the Financial Services Compensation Scheme). Again, the Group must remain strongly focused on analysing and managing the impact of such action; and
- on a wider level, the level of fraud and other financial crime within the UK retail financial services markets remains high and the current economic downturn is likely to increase the pressures in this area. Whilst the Group is not directly exposed to what it considers to be the higher risk areas of the market (e.g. buy-to-let, unsecured personal and commercial lending) it nonetheless continues to maintain a strong focus on minimising the level of fraud and other financial crime to which it is inevitably exposed.

On 31st December 2008 the Society acquired the business of the Barnsley Building Society. The Barnsley had exposures of £10 million to two Icelandic banks which had to be fully written off. These exposures were acquired by the Society at a fully written down value and so represent no further risk to the Group, which itself has no other direct exposures to Icelandic institutions. The risk measures reported in Notes 35 to 39 include the acquired assets and liabilities and their inclusion has not had any material impact.

Group Risk Committee (GRC)

The Group Risk Committee was established in 2006 by the board to oversee the Group's risk governance framework and to provide an entity-wide perspective on all risk matters. It comprises non-executive directors and senior executives and is chaired by the Chief Executive. It is responsible for establishing appropriate risk management committees as detailed below and its broader terms of reference include establishing the Group's risk appetite, monitoring key risks indicators, setting the direction of risk management and the improvement of the Group's risk management processes. Further details of the membership and responsibilities of the committee can be found on page 34 of the Corporate Governance Report.



Group Capital Committee

This committee has been established to monitor, in the broadest sense, the Group's overall capital position and the allocation of capital across its various operations, portfolios and entities.

This includes:

- monitoring in detail the Group's overall capital position, current and forecast, including allocation of capital across activities. This includes responsibility for approving, reviewing and maintaining the central consolidated capital models used under Basel Pillar II to calculate the Group's overall capital requirements;
- reviewing the appropriateness of capital usage in the context of the risks inherent within different business lines and of the returns thereon; and
- establishing target returns on capital across the Group, monitoring performance against those targets and making proposals to GRC for changes to capital usage.

Capital and capital ratios are detailed in Note 31.

Group Asset and Liability Committee (GALCO)

This committee is responsible, under delegated authority of the board, for managing the Group's liquidity and market risks.

Liquidity risk

The board recognises that a structural maturity mismatch inevitably exists within the Group's balance sheet, caused by the fundamental purpose of the Group's business, that is, providing its members with long-term mortgage advances funded, primarily, by contractually short-term retail share accounts.

The Group's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding so as to ensure the ability of the Group to meet its financial obligations as they fall due. This is achieved through maintaining a prudent level of appropriate and high quality liquid assets, through maintaining appropriate wholesale funding facilities and through the management of the growth of the business.

A liquidity cash flow projection under various stress scenarios is produced on a daily basis. It is considered prudent to hold, as a minimum level of Prudential Liquidity, the amount that the Group estimates would be needed to see it through a range of different stress scenarios. These scenarios are modelled to ensure that the Group's liquidity is sufficient to meet its cash flow needs under any one scenario should it arise. The scenarios include ones driven by both Group specific and general market events, and anticipate both severe retail savings outflows and the unavailability of wholesale funding. They are constructed on various timescales as far out as six months. The assumptions incorporated in the Liquidity cash flow projection model are reviewed by GALCO on at least an annual basis.

During 2008 we continued to see unprecedented events in both the wholesale markets in the UK and the wider global financial markets. Whilst the majority of the Group's funding is in the form of retail savings balances from its members, which performed extremely well through the year, the Group was nonetheless affected by the overall market conditions because it has an involvement in these wholesale markets in terms of both its funding and its liquid asset investment programmes. The level of liquidity risk faced by the Group therefore increased, though due to market issues rather than Group specific issues. The Group responded appropriately to the market conditions, which ultimately saw a virtual close down of all wholesale funding markets, through a combination of modified wholesale funding activity, careful management of existing liquidity, reviews of its exposures to (and exposure limits for) a wide range of wholesale counterparties and enhanced monitoring and analysis of its overall liquidity position.

The Group's wholesale funding activities are undertaken through a broadly based programme, in terms of the type of funding instruments used, the nature and size of institutions dealt with and the maturity of funding tranches. This meant that the Group was able to continue to raise wholesale funding throughout much of 2008, focusing on those parts of the market that remained open and resisting the temptation to overpay for its funding. At the same time the frequency with which its liquidity was reviewed by senior management was maintained at the high levels implemented in 2007, with weekly reviews of both the market conditions and the Group's own projected funding and liquidity positions. Although already prudent compared to best practice, the Group's liquidity stress tests were again reviewed and enhanced, and we continue to keep them under review as market conditions develop. The Group also regularly reviewed its existing exposures to and exposure limits for the whole range of counterparties with whom we invest liquid assets. Action was taken in a number of cases to reduce our existing or potential exposures, including suspension of limits for a number of institutions. This heightened level of monitoring continues into 2009.

Detail of actual exposures is contained in Note 35.

Market risk

Market risk is the risk to earnings and capital arising from changes in interest rates, foreign currency exchange rates and the price of financial instruments.

The Group has a formal structure for managing its market risks including established risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by GALCO, which meets at least monthly. The board receives monthly summaries of risk positions and GALCO activity.

The Group's policies for the management of risks arising from movements in interest or currency exchange rates and the composition of the balance sheet provide the framework for the Group's Asset and Liability Management (ALM) and Treasury Risk Management activities. The primary purpose of the Group's ALM process is to ensure the accurate and timely identification, measurement and control of risk faced by the Group on its entire balance sheet. The primary purpose of the Treasury Risk Management process is to ensure that risks connected with all aspects of treasury activity are identified and that suitable measures and risk management practices are applied. Treasury Risk Management also monitors the suitability of and compliance with the operating limits set for the activities of the Group's Treasury function by the board and it reports and recommends accordingly. ALM and Treasury Risk Management form part of the Group Risk function and both submit monthly reports to GALCO.

The Group's principal source of market risk is interest rate risk and it focuses on four main measures for managing this:

- Value at Risk provides a measure of the maximum likely loss that could be sustained over a specified time period at a stated level of confidence;

- Basis point value sensitivity provides a measure of the sensitivity of the present value of the balance sheet to a one basis (0.01%) point parallel shift in interest rates;
- balance sheet structural analysis monitors the composition of the balance sheet in terms of the different interest rate bases of assets and liabilities, in particular between LIBOR and other rates; and
- repricing gap analysis is used primarily for the identification of instrument repricing concentrations.

More details of these risk management measures can be found in Note 36.

The board recognises that the above key measures for managing interest rate risk cannot be optimised in a simultaneous fashion. For instance, attempts to reduce the volatility of net interest income are likely to result in an increase in the volatility of the market value of the balance sheet. The board therefore advocates the use of a wide variety of complementary risk indicators and measures and is disinclined to adopt a narrow definition or 'one figure' measure. An important factor in the risk measures is the degree of internal consistency between them. To facilitate this approach the above key measures are supplemented by other techniques including:

- stress testing is used to monitor the sensitivity of net interest income to extreme market conditions;
- Earnings at Risk provides a measure of the potential variability in net interest income for a given business mix over a given time period at a stated level of confidence; and
- scenario analysis measures variability in net interest income using a number of possible interest rate scenarios.

Currency risk

The Group has certain money market instruments denominated in currencies other than sterling. Its policy is to eliminate currency risk, other than a small operational mismatch, through the use of cross currency interest rate swaps and foreign exchange contracts.

Detail of actual exposures is contained in Note 37.

Other risks

Other market risks are minimised by the use of derivative instruments which are used exclusively for this purpose and not for trading activities.

Group Credit Committee

Credit risk is the potential risk of financial loss arising from the failure of a customer or counterparty to settle their financial and contractual obligations as they fall due. The Group has in place a comprehensive set of controls and limits to monitor and govern the amount of such risk accepted. Credit risk is monitored on an ongoing basis within Group Risk and the Group Credit Committee meets monthly to oversee risk management in this area. It falls into two distinct components – namely credit risk from our retail lending activities and credit risk from our investing of liquid assets with wholesale counterparties.

Retail credit risk

The most significant credit risk that the Group is exposed to relates to its core business of providing loans secured on residential property. The Group lends to households across the UK and does not consider there to be any significant concentration of credit risks in any particular part of the UK.

The Group's mortgage lending is conducted, and hence is monitored and managed, within three key portfolios. The largest two, accounting for 92% of balances, are 'prime' lending to borrowers with a good credit history. These consist of lending by the Society (through its branches or via the internet) and by its subsidiary Accord Mortgages Ltd (through financial intermediaries). The third portfolio is 'credit repair' lending (made via intermediaries and managed within Accord) to borrowers with poorer credit histories. The Group aims to help restore the customers' creditworthiness and ideally, in time, will offer them a prime mortgage. Clearly the credit risk associated with this latter portfolio is higher than for our two prime portfolios, particularly at a time when the housing market is in a downturn. The Group is well aware of this risk disparity, and differentiates its lending criteria, its pricing and its monitoring and management processes and techniques accordingly.

Retail credit exposures are managed in accordance with the board approved Group Lending Policy and through the use of credit scoring systems that factor in the profile of the borrower, the nature of the loan, environmental conditions and the collateral that may be provided as security for the loan. These scoring systems, and the way they are used within the initial lending process, are varied to suit the different risks and profiles of the Group's three loan portfolios. Actual and forecast retail exposures are monitored and managed against policy limits by the Group Credit Committee. In particular the committee monitors arrears, loan-to-value ratios, expected losses and scorecard performance.

The monitoring of retail credit risk is tailored to our different loan portfolios and to the economic and housing market conditions that are in place at any given time. The current focus is strongly on the impact of the housing downturn on our borrowers' behaviour and therefore on identifying, and seeking to help and manage, those borrowers where the exposure to such a downturn is greatest. This is particularly important with some of our credit repair lending where borrowers have had previous problems and so are inherently more likely to suffer in any housing or economic downturn. This risk is reflected in the granularity of monitoring, the degree of proactive help and, if needs be, the intensity of arrears management applied to these loans. However, the nature of these loans was recognised by the Group when they were entered into and so is reflected both in the rates (and other terms) in place and in the overall exposure limits.

Detail of actual exposures is contained in Note 39.

Wholesale credit risk

The Group Credit Committee also 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 Group'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 all institutions based in any one country.

The board recognises that it is not possible to limit the Group's exposure just to institutions with the very highest credit ratings. Nevertheless it considers that the Group's approach (outlined above) is prudent and is designed to minimise the risk of losses.

The Group invests a limited amount of funds into higher yielding, and hence higher risk, structured credit instruments. The purpose of this portfolio is to maintain a range of investments that contribute to the Group's earnings and makes effective use of the capital and treasury management resources available to the Group. The Group is aware that this portfolio carries greater credit and market risk than the core liquidity it holds, and for that reason additional risk management techniques have, from inception, been applied to this portfolio. These additional credit monitoring and portfolio valuation techniques have been specifically designed to allow independent oversight of this portfolio's risks and performance. In addition the Group has established that:

- this portfolio, which has been maintained at less than 5% of the Group's total liquidity, is not treated as part of Prudential Liquidity;
- the Group will only invest where the deal manager has a proven track record in the type of instrument in question;
- a separate management structure is in place to monitor the performance of the investments and any changes to those investments are considered by the Group Credit Committee;
- all investments are assessed financially over their full term to maturity and limits put in place on the maximum weighted average life of the portfolio;
- sensitivity analyses are undertaken monthly on all investments to assess their vulnerability to changes in credit spreads; and
- limits are in place covering asset and instrument types, counterparty and credit rating exposures.

The board has itself monitored the size, constitution and performance of this portfolio and any investments in new types of instruments have involved board approval. The board is satisfied that the Group has had the personnel and systems in place to adequately control these investments. There have been no additions to the portfolio since 2007, and at present there are no plans to increase its size.

The events of 2007 and 2008 have adversely impacted the value of these structured credit investments, principally through the illiquid state of the market but also, in a limited number of cases, through underlying credit issues. The Group was aware that the value of these investments could be impacted by a liquidity shortage but, in common with nearly all institutions and regulatory authorities, it did not foresee the extent of the liquidity issues that have arisen. The Group's response to these events has been to further increase its levels of performance monitoring, including frequent liaison with investment managers, in particular if any individual investments have displayed signs of stress. At the same time it has looked, where available, at all alternatives for the future structure of individual investments and has adopted a prudent approach to their valuation and treatment within the Group's financial statements.

Detail of actual exposures is contained in Note 38.

Group Operational Risk Committee

Operational risk is the potential risk of financial loss or impairment to reputation arising from failures in operational processes or the systems that support them. To minimise operational risk, the Group maintains a system of internal controls commensurate with the characteristics of the business, the markets in which it operates, leading practice principles and regulatory considerations.

The Group's operational risk management framework sets out the group-wide strategy for identifying, assessing and managing operational risk. The framework itself is not static and is updated periodically in line with changes in the business profile, product developments, internal management environment and external developments. The operational risk management programme is embedded in all business operations and provides management and their teams with a structure for managing risk and control issues and to assist management in decision making.

The Group has defined its key operational risks into the following categories:

Operational risk category	Definition
Legal & regulatory risk	External laws, regulations and codes (inclusive of anti-money laundering, mis-selling, Basel II, accounting regulations, Data Protection, Disability Discrimination Act, Consumer Credit Act, Financial Ombudsman Service, HM Revenue & Customs, building regulations, Financial Services and Markets Act 2000, mortgage regulation and Banking Code), are not complied with in an effective manner that remains commercially sound.
Product & service risk	The Group's products or services fail to maximise value and/or meet customer requirements and/or are not distributed effectively or in a timely manner. External factors are not identified, monitored and/or considered with appropriate action taken with respect to economic, technological, political, social, ethical, environmental and reputational risks, competitive behaviour and external pressures and developments.
Governance & strategy risk	The Group is not governed effectively at a Group, divisional and business unit level and/or the strategy selected by the Group is ineffective or inappropriate. Corporate governance in this context embraces the structures, systems and processes that provide direction, control and accountability for the Group and encompasses the provision and use of robust management information for decision making purposes in a timely manner and the delivery of requirements within budget and timescales. Strategy risk is the risk of loss or reduced earnings due to inappropriate senior management/board actions caused by unprepared or misjudged strategic decisions and/or the implementations of those decisions.

Operational risk category	Definition
Process & system risk	Inadequate or failed internal processes and systems, and/or an inability to implement change effectively or realise the desired benefits, resulting in a financial loss and/or a failure to achieve both strategic and business unit objectives.
People & resources risk	Staff are not appropriately recruited, retained, trained and managed to achieve Group objectives whilst complying with external laws and regulations. Resources risk is the risk that physical resources, external suppliers or service providers do not satisfy the Group's requirements, and/or are not managed effectively.
Theft & financial crime risk	The Group's assets are not adequately protected resulting in fraud, theft, damage and other criminal acts.

The Group measures its operational risks based on both numerical and qualitative assessments of the risks it faces. These measures help to determine the level of control required to manage such risk within the overall risk profile of the organisation.

The Group aims to maintain a sound system of internal control that provides reasonable, but not absolute, assurance that it will not be hindered in achieving its business objectives, or in the orderly and legitimate conduct of its business, by circumstances that may be reasonably foreseen. The focus is adapted to current conditions. For example, recent years have seen the development of more refined fraud and financial crime strategies and controls in response to increasing levels of such activity in the financial services market.

The Capital Requirements Directive (Basel II)

The Group has implemented the changes to its overall risk management processes required for complying with the Basel II capital requirements regime. Under the standardised approach as from 31st December 2007 these changes have themselves greatly enhanced its risk management processes. The Group is currently reconsidering its appetite for applying to the Financial Services Authority for approval to adopt the Internal Ratings Based (IRB) approach in certain areas, since, at present, the benefits of this approach would not be material given the low growth environment in which it is operating. The Group has also, as required, completed its second annual Internal Capital Adequacy Assessment Process (ICAAP) and submitted this to the Financial Services Authority for approval. Meanwhile, the Group is committed to implementing the practical benefits of Basel II in parallel with, and as a further enhancement to, its existing risk management processes.

On behalf of the board

Ed Anderson
Chairman

2nd March 2009

The board is accountable to the Society's members for the conduct of the Society's business. To ensure that the board manages the Society in a prudent and effective manner, it is committed to complying with best practice in corporate governance.

The board does this through adherence to the principles and provisions of the Combined Code 2006 issued by the Financial Reporting Council (the Code), which applies to listed companies, to the extent that they are relevant to a building society. Indeed, in the interest of transparency, the Financial Services Authority (FSA) encourages each building society to explain in its Annual Report and Accounts whether, and to what extent, it adheres to the Code.

The objective of this report is to communicate the key elements of the Group's governance structure and relate this to the principles in the Code. The board considers that it complies with all relevant aspects of the Code unless the contrary is stated within this report.

The board

The board applies principles of good governance by adopting the following procedures:

- the board holds ten board meetings each year. In addition, it held three sessions in 2008 for a detailed review of the Group's strategy. The attendance record of each director at board meetings and relevant board committee meetings is set out on page 37;
- the non-executive directors meet without the executive directors present at least twice a year;
- the board's principal role is to focus on the Group's strategy and ensure that the necessary resources are in place for the Group to meet its objectives and that financial and internal controls and systems of risk management are robust. In particular, its role is to provide general direction to the organisation and to safeguard the interest of members;
- the board maintains a schedule of reserved matters in order to ensure that it exercises control over the Group's affairs. These include, amongst other things, approval of the annual results and strategic aims of the Group as well as approval of policies and matters which must be approved by the board under legislation and the Society's Rules. The board is also responsible for the recruitment and terms of employment of the General Management team, which is made up of the executive directors and other General Managers. Details of all the General Managers can be found on pages 16 and 17;
- other matters are delegated to the General Management team or to other specified members of staff or committees, including the board committees referred to on pages 33 to 35 and the Group Asset and Liability Committee;
- all directors have access to independent professional advice if required and have the benefit of appropriate liability insurance cover at the Society's expense; and
- the size and composition of the board is kept under review to ensure that there is adequate succession planning for executive and non-executive directors and that there are the optimum skills and experience represented on the board for the direction of the Group's activities.

Appointments to the board and re-elections

The appointment of new directors is considered by the Nominations Committee (see page 34), which makes recommendations to the board. All directors are subject to election by members at the Annual General Meeting (AGM) following their appointment. In addition, all directors must receive approval from the FSA as Approved Persons in order to fulfil their controlled function as a director.

Under the Society's Rules, directors have to submit themselves for re-election at least once every three years. Non-executive directors are usually expected to serve for two full three-year terms following their first election to the board (subject to the board reviewing their performance prior to any proposal for re-election), and may be asked to serve for a further term of up to three years, as appropriate.

At the 2009 AGM, members will be asked to re-elect Richard Davey, Vice Chairman, and Simon Turner, non-executive director. The board has confirmed that the performance of these directors continues to be effective and that they continue to show commitment to their role.

On 1st May 2008 Indira Thambiah was appointed by the board as a non-executive director and she will be subject to election by members at the 2009 AGM. On 31st December 2008 Julie Baddeley retired as a non-executive director.

Copies of the letters of appointment of the non-executive directors are available on request from the Group Secretary.

Chairman and Chief Executive

The roles of the Chairman and Chief Executive are held by different people and are distinct in their purpose.

The Chairman is responsible for leadership of the board and for ensuring that the board acts effectively. The Chief Executive has overall responsibility for managing the Society and its subsidiaries and for implementing the strategies and policies agreed by the board.

Board balance and independence

As at the date of this report, the board consists of four executive directors and seven non-executive directors.

In the opinion of the board, each non-executive director, including the Chairman, is independent in character and judgement. The Vice Chairman is the Society's Senior Independent Director.

Information and professional development

The Chairman ensures that the directors receive accurate, timely and clear information to enable the board to effectively carry out its responsibilities.

The Chairman also ensures that, on appointment, non-executive directors receive a comprehensive tailored induction programme on the Group's business and regulatory environment. All non-executive directors update their skills, knowledge and familiarity with the Group through regular internal presentations by senior managers and through relevant external and internal courses. Individual training requirements for non-executive directors are discussed during the performance evaluation process (see below). Non-executive directors are encouraged to contact individual members of the senior management team to discuss any queries that they may have.

All directors have access to the advice and services of the Group Secretary who is responsible for ensuring that board procedures are complied with and for advising the board, through the Chairman, on governance matters.

Performance evaluation

The Group has a formal performance evaluation system for all members of staff including the executive directors. The Chief Executive appraises the executive directors on their performance and the Chairman undertakes an appraisal of the Chief Executive. These appraisals take into account the views of the non-executive directors on the performance of each executive director.

A performance evaluation system for non-executive directors, including the Chairman, is undertaken annually. In 2008 this took the format of an appraisal of each individual director by other members of the board and the General Management team through the completion of an anonymous questionnaire. The Chairman and Chief Executive reviewed the output of all questionnaires and used these as a basis for an evaluation interview with each non-executive director. The Vice Chairman and Chief Executive undertook the evaluation interview for the Chairman. This procedure identifies any individual and board training requirements and provides the evidence to the board as to whether to recommend to members that a director should be re-elected.

In 2008 internal performance evaluations of the board, the Audit Committee, the Remuneration Committee and the Group Risk Committee were carried out in order to review the effectiveness of how the board and the board committees operate. The board evaluation was undertaken through the means of a questionnaire, which asked all directors and General Managers to appraise a range of factors relating to the make-up and operation of the board. The process for each of the committees referred to above was either through a similar questionnaire or a general discussion by the relevant committee members. The relevant results were reviewed by the board and each committee and any appropriate improvement was identified for action.

Board committees

The board has established a number of committees which have their own terms of reference. Details of the board committees are set out below.

The terms of reference of the committees are available on request from the Group Secretary or on the Society's website at www.ybs.co.uk/committees.

The Chairman of each committee reports to the subsequent board meeting on the matters discussed at each committee meeting. The minutes of each committee meeting are circulated to all directors.

Audit Committee

The members of the committee are:

Richard Davey, Society Vice Chairman
Philip Johnson, non-executive director (committee Chairman)
David Paige, non-executive director
Simon Turner, non-executive director

All members of the committee have relevant audit committee experience and Richard Davey, Philip Johnson and David Paige have recent relevant financial experience.

The responsibilities of the committee are in line with the provisions of the Financial Reporting Council Guidance on Audit Committees (the "Smith Guidance"). The main function of the committee is to assist the board in fulfilling its oversight responsibilities, specifically the ongoing review, monitoring and assessment of:

- the integrity of the financial statements, any formal announcements relating to financial performance and significant financial reporting judgements contained in them;
- the effectiveness of the system of internal control processes;
- the internal and external audit processes;
- the Society's ethical and business standards;
- the appointment, re-appointment and removal of external auditors; and
- the policy on the use of the external auditors for non-audit work.

During 2008 the committee met four times in the execution of its responsibilities and, in particular considered reports on the following matters which were provided by the independent Group Internal Audit function, the Group Finance function and the external auditors:

- the system of internal control;
- the integrity of financial statements;
- new accounting policies and application of existing policies;
- the activities of internal and external auditors;
- the effectiveness of the Group Internal Audit function;
- the performance of the external auditor; and
- the effectiveness of the committee.

The committee considers that it has met its responsibilities and performed its duties with appropriate levels of care and expertise during 2008.

Chairman's Committee
With effect from 22nd July 2008 the committee is made up of the Chairman, the Vice Chairman and the Chief Executive. Prior to this date, all the executive directors were members of the committee.

The committee's main function is to decide on any item that requires attention before the following board meeting except for specific issues that have to be determined by the full board.

Nominations Committee
The committee is made up of the Chairman, the Vice Chairman and the Chief Executive.

The committee is responsible for considering matters relating to the composition of the board, including nominating candidates for the position of non-executive director, taking into account the balance of skills, knowledge and experience on the board and making recommendations to the board as appropriate. It also reviews the succession planning for directors and other senior executives. All vacancies for non-executive directors are advertised in national and local press and referred to on the Society's website to bring them to the attention of as many members as possible. In addition, an independent specialist agency is used to assist in the recruitment and search process.

Remuneration Committee
The members of the committee are:

Ed Anderson, Society Chairman
Julie Baddeley, non-executive director (committee Chairman. Retired 31st December 2008)
David Paige (appointed 1st January 2009)
Simon Turner, non-executive director (committee Chairman from 1st January 2009)

The committee is responsible for considering and approving the remuneration of the executive directors and other General Managers. Further details of the committee, the remuneration policy and directors' service contracts can be found in the Directors' Remuneration Report on pages 38 to 42.

Whilst the Code states that the committee should set the remuneration of the Chairman, the board believes that it is more appropriate for the remuneration of the Chairman to be set and reviewed in the same manner as that used to determine the remuneration for all other non-executive directors. It is therefore dealt with by the board and not by the Remuneration Committee.

Group Risk Committee
The members of the committee are:

Ed Anderson, Society Chairman (appointed 23rd January 2008)
Andy Caton, Corporate Development Director
Lynne Charlesworth, non-executive director
Robin Churchouse, General Manager Risk and Planning
Iain Cornish, Chief Executive (committee Chairman)
Rachel Court, General Manager Human Resources and Customer Service (appointed 23rd January 2008)
Richard Davey, Society Vice Chairman
Andrew Gosling, Finance Director
David Paige, non-executive director

The Group Risk Committee has delegated responsibility for the more detailed ownership of the Group's risk appetite, risk monitoring and capital management framework.

The committee's primary responsibilities are:

- establishing methods for measuring risk appetite and positions;
- recommending for board approval the Group risk management policies, standards and limits;
- monitoring on-going risk positions and issues, in particular for compliance with Group risk management policies, standards and limits;

- the annual review and approval of the Group's Basel II/ICAAP reviews and validations, on recommendation from the Group Capital Committee;
- reviewing the Group's current and proposed activities against its risk appetite and capital budgets; and
- establishing and monitoring appropriate sub-committees and associated governance structures.

The Group Risk Committee has established a number of sub-committees with day-to-day responsibility for risk management oversight. Some of these committees have been in place for a number of years; others were established in 2006 following a review of the Group's risk management structures. All of the sub-committees meet at least quarterly and are chaired by an executive director or a General Manager. At 31st December 2008 the sub-committees were as follows:

- Group Asset and Liability Committee;
- Group Credit Committee;
- Group Capital Committee; and
- Group Operational Risk Committee.

Further details of the Group's approach to risk management can be found in the Risk Management Report on pages 23 to 30.

System of internal controls

The Society recognises the importance of a sound system of internal control in the achievement of its objectives and the safeguarding of member and Society assets. Internal control facilitates the effectiveness and efficiency of operations, helps ensure the reliability of internal and external reporting and assists in compliance with applicable law and regulations.

The Society operates in a dynamic business environment and, as a result, the risks it faces are continually changing. The system of internal control has been designed to ensure thorough and regular evaluation of the nature and extent of risk and the ability to react accordingly. It is the role of the Society's management to implement the board's policies on risk and control. It is also recognised that all employees have responsibility for internal control as part of their accountability for achieving objectives. Staff training and induction is designed to ensure that they are clear on their accountabilities in this area and are competent to operate and monitor the system of internal control.

The Group Internal Audit function provided independent assurance to the board on the effectiveness of the system of internal control through the Audit Committee. The information received and considered by the committee provided reasonable assurance that during 2008 there were no material breaches of control or regulatory standards and that, overall, the Society maintained an adequate system of internal control that met the principles of the Code and the supplementary Turnbull guidance.

Further details of actual risk management practices are provided in the Risk Management Report on pages 23 to 30.

Auditors

The Society has a policy on the use of the external auditor for non-audit work which is implemented by the Audit Committee. The purpose of this policy is to ensure the continued independence and objectivity of the external auditor. The external auditor, KPMG Audit Plc, undertook a number of non-audit related assignments for the Group during 2008. These were conducted within the limits set out in the policy and are considered to be consistent with the professional and ethical standards expected of the external auditor in this regard.

Relations with members

The Society's members are made up of its investors (except deposit account holders) and borrowers. The majority of its customers are therefore its members and the Society encourages feedback from them on any aspect of the Society's activities.

This feedback takes various forms, including member 'Question Time' meetings and 'Meet the Chief Executive' events which give members the opportunity to meet and ask questions of the Chief Executive, the senior management team and local branch staff. The Members' Forum was established in 2005 and continued to meet in 2008. It is currently made up of 19 members who are drawn from a cross section of the Society's membership. The aim is to debate and obtain views on specific relevant issues.

The Society operates a Member Panel, consisting of more than 10,000 members, who are invited to complete surveys on a variety of topical issues. In addition, a monthly customer satisfaction survey is undertaken, the results of which are a key performance indicator, which is monitored by the board on a monthly basis.

AGM

At the AGM, the Chairman and Chief Executive give presentations on the previous financial year's performance and on future plans. The meeting also provides an opportunity for members to question the Chairman and Chief Executive on the resolutions to be proposed at the meeting and on any other aspect of the Society's business. All directors attend the AGM (unless their absence is unavoidable) including the chairmen of all of the board committees.

All members who are eligible to vote at the AGM receive a proxy voting form, which includes a 'vote withheld' option, and a pre-paid reply envelope to encourage them to exercise their vote through the appointment of a proxy if the member cannot attend and vote at the meeting. Members are also able to appoint a proxy online.

At the AGM, the Chairman calls for a poll on all resolutions so that all proxy votes are recorded. The results of the proxy votes, and the votes cast at the AGM, are published on the Society's website and in branches. They are also available on a telephone results line for a specified period after the AGM. A separate resolution is proposed on each issue, including a resolution on the Annual Report and Accounts.

Board and committee membership and attendance record 2008

Set out below are details of the directors during 2008 and their attendance record at board meetings and relevant board committee meetings in the year. The figure in brackets indicates the number of meetings that the director was eligible to attend during 2008.

Director	Board Meetings	Board Committees: Audit	Chairman's (Note 1)	Nominations	Remuneration	Risk
Ed Anderson Chairman	10(10)	–	2(2)	1(1)	8(8)	3(3)
Julie Baddeley Non-executive director (Note 2)	9(10)	–	–	–	8(8)	–
Ian Bullock Sales & Marketing Director	10(10)	–	–	–	–	–
Andy Caton Corporate Development Director	10(10)	–	–	–	–	4(4)
Lynne Charlesworth Non-executive director	10(10)	–	–	–	–	4(4)
Iain Cornish Chief Executive	10(10)	–	1(2)	1(1)	–	3(4)
Richard Davey Vice Chairman	10(10)	4(4)	2(2)	1(1)	–	4(4)
Andrew Gosling Finance Director	10(10)	–	–	–	–	4(4)
Philip Johnson Non-executive director	10(10)	4(4)	–	–	–	–
David Paige Non-executive director	10(10)	4(4)	–	–	–	3(4)
Indira Thambiah Non-executive director (Note 3)	6(6)	–	–	–	–	–
Simon Turner Non-executive director	8(10)	4(4)	–	–	7(8)	–

Notes:

1. In addition to the two Chairman's Committee meetings, the committee considered business on a further four occasions using the written resolution procedure under the Society's Rules.
2. Retired as a director on 31st December 2008.
3. Appointed a director on 1st May 2008.

On behalf of the board

Ed Anderson
Chairman

2nd March 2009

Introduction

This report:

- explains to members the policy for the remuneration of executive and non-executive directors;
- voluntarily addresses the statutory disclosure requirements for listed companies in relation to directors' remuneration that are considered relevant to a building society; and
- includes a table showing each director's remuneration for the year ended 31st December 2008.

A summary of this report will be sent to all members eligible to vote at the 2009 Annual General Meeting and members will have the opportunity to vote on the report.

Remuneration Committee

The committee is responsible for determining, on behalf of the board, the overall remuneration policy for all staff and, in particular, the policy and the level of remuneration of the executive directors and other senior managers. The full terms of reference of the committee can be found at www.ybs.co.uk/committees.

The committee normally meets four times a year with additional meetings if required. It takes independent external professional advice, as appropriate, and monitors comparative remuneration packages within the financial sector.

The committee is made up of three non-executive directors. In 2008, they were Ed Anderson (Chairman of the Society), Julie Baddeley (Chairman of the committee) and Simon Turner. Following Julie Baddeley's retirement as a director on 31st December 2008, David Paige, non-executive director, was appointed a member of the committee and Simon Turner was appointed Chairman of the committee.

The Society's Chief Executive and the General Manager Human Resources and Customer Service present proposals and supporting evidence as and when required and attend meetings at the committee's request.

Remuneration policy for non-executive directors

The committee does not set the remuneration of the non-executive directors. Instead, their remuneration, including that of the Society's Chairman, is reviewed on an annual basis by the executive directors and the General Manager Human Resources and Customer Service, using data from other building societies.

A recommendation is made to the full board, which determines any change in the remuneration of non-executive directors, which takes effect from 1st July. Additional fees (details of which are given on page 42) are paid to those non-executive directors who undertake additional duties and responsibilities, including directorships of subsidiary boards and membership of certain board committees.

The non-executive directors are only entitled to receive fees and do not participate in any performance pay scheme, nor do they receive any pension arrangements or other benefits.

Remuneration policy for executive directors

The overall policy is that:

- the remuneration of executive directors (together with that of other General Managers) should be competitive with those of other comparable organisations in the financial sector so as to attract and retain high calibre individuals with the relevant experience;
- a significant part of the remuneration of executive directors should be based on the Society's financial and service performance (including customer satisfaction) and individual performance using pre-determined targets to motivate and reward successful business and personal performance which is in the interests of current and future members;
- personal reviews of the executive directors are carried out at least annually to assess their performance in meeting individual and strategic objectives. These are reflected in pay reviews which take effect from 1st May each year; and
- no executive director should be involved in deciding his or her remuneration.

The various elements of the policy are set out below.

(a) Basic salary

Basic pay for executive directors (as for all employees) will be market related thus ensuring a competitive salary that fairly reflects the market rate, skill, experience and expertise for the role. Individual development and progression is reflected through the annual salary and personal review processes.

The committee considers external data from independent national salary surveys of the financial sector and a comparator group of financial institutions to ensure salaries remain competitive. Independent reward specialists carry out an overall review of remuneration, generally once every three years. The last review was undertaken in 2007 by Hays Plc. The review concluded that the basic pay of the executive directors was in line with the market median position, but that overall packages including performance pay were lower than those offered by competitors. Hays Plc also undertakes recruitment consultancy services on behalf of the Group.

(b) Performance pay

In 2008 the executive directors participated in a non-pensionable performance incentive scheme, the elements of which reflected the Society's key measures of mortgage asset growth, cost control, growth in other income and customer satisfaction (a scheme with similar characteristics is in place for all other staff). The scheme also contained clawbacks in certain circumstances regarding asset quality and profit performance. In addition, executive directors (together with all staff and other senior managers) had an element of their performance pay based on the achievement of personal objectives.

These measures were all set to provide challenging objectives giving the executive directors an incentive to perform at the highest level in a manner consistent with the interests of members. There was no minimum amount of performance pay and the maximum amount, as a percentage of basic salary, was 50% for executive directors with 60% for the Chief Executive.

Given the significant reduction in pre-tax profit reported by the Society for 2008 – due in large part to factors outside the Society's control such as the Financial Services Compensation Scheme levy – executive directors and General Managers have voluntarily waived their entitlement to the payment of any bonus for 2008. Bonuses have been paid to other managers and staff in line with the underlying performance of measures in the scheme.

The committee has reviewed the Society's performance pay schemes for executive directors in the light of the Financial Services Authority's (FSA) letter to Chief Executives setting out best practice on remuneration policies, issued in October 2008. The review demonstrated that the Society's scheme already complied with best practice in key areas. However, a small number of changes have been agreed for the 2009 scheme as follows:

- the inclusion of pre-tax profit as a larger element in the scheme;
- the introduction of new risk measures around liquidity and capital adequacy; and
- the inclusion of retail savings inflow in the scheme.

The committee has already agreed in principle to introduce a long-term incentive plan for executive directors and General Managers in response to the last external review by Hays Plc. This is also in keeping with the FSA's desire to reward executive directors for long-term, rather than short-term performance. In view of the changed economic backdrop however, the committee has decided to defer the introduction of a new scheme to allow time for the development of long-term measures appropriate to the current environment.

The committee will continue to review the operation of the performance pay scheme for the executive directors in light of emerging best practice and to take into account the performance of the Society as a whole and the interests of members.

(c) Benefits

Each executive director is provided with benefits which comprise a company car (or an equivalent allowance), pension arrangements, private medical insurance and permanent health insurance.

In common with all other staff, the executive directors can participate in a concessionary mortgage scheme which is subject to a maximum concessionary amount of £160,000.

The executive directors are either members of the contributory defined benefit section or the defined contribution section of the Society's pension scheme. The defined benefit section of the scheme is designed to provide a pension of up to two-thirds of final pensionable salary on retirement (based on the number of years' service). The pension scheme also provides for dependants' pensions and a lump sum of four times basic salary on death in service.

Service contracts

All the current executive directors, with the exception of Ian Bullock, have rolling contracts that can be terminated by either party on one year's notice or by the payment by the Society of an amount equivalent to one year's remuneration. Ian Bullock has a rolling contract which can be terminated by the Society on one year's notice or by him on six months' notice. Unless notice to terminate is given by any party, the contracts for all executive directors continue automatically to the age of 60.

Non-executive directors are appointed by letter for an initial term of three years. They will generally be expected to serve a second three year term. Where the board considers that it is in the interests of the Society, a non-executive director may be asked to serve a further term of up to three years.

Executive directors' remuneration

	Salary £000	Performance pay £000	Taxable benefits £000	Increase in accrued pension £000	Society's contribution to pension scheme* £000	Total £000
Executive directors						
2008						
Ian Bullock	**215**	**–**	**11**	**–**	**34**	**260**
Andy Caton	**224**	**–**	**–**	**10**	**–**	**234**
Iain Cornish	**323**	**–**	**15**	**19**	**–**	**357**
Andrew Gosling	**244**	**–**	**–**	**9**	**–**	**253**
	1,006	**–**	**26**	**38**	**34**	**1,104**
2007						
Ian Bullock (appointed 12.04.07)	155	61	8	–	16	240
Andy Caton	213	80	–	8	–	301
Iain Cornish	308	140	14	17	–	479
Andrew Gosling	233	88	–	9	–	330
Rob Jackson (retired 31.07.07)	126	47	2	2	–	177
	1,035	416	24	36	16	1,527

*Defined contribution pension scheme.

The increase in accrued pension represents the change in the annual pension to which each director is entitled as a result of changes in pensionable earnings (excluding inflation) and increases in pensionable service during the year. For Andy Caton, Iain Cornish and Andrew Gosling, the value of executive directors' pension benefits includes those arising from unfunded arrangements.

Executive directors' pension benefits (defined benefit section) in 2008

	Contributions from directors £000	Increase in accrued pension £000	Accrued pension as at 31st December 2008 £000	Transfer value of accrued benefits as at 1st January 2008* £000	Transfer value of accrued benefits as at 31st December 2008 £000	Movement in transfer value less directors' contributions £000
Andy Caton	**17**	**10**	**74**	**790**	**902**	**95**
Iain Cornish	**26**	**19**	**177**	**2,108**	**2,399**	**265**
Andrew Gosling	**19**	**9**	**60**	**854**	**1,032**	**159**
	62	**38**	**311**	**3,752**	**4,333**	**519**

Ian Bullock is a member of the defined contribution section of the pension scheme and therefore he is not included in the above table.

* In light of new legislation, changes in market conditions and actuarial advice, the Trustees of the Yorkshire Building Society Pension Scheme reviewed and amended the basis for the calculation of cash equivalent transfer values during 2008. The transfer value figures at 1st January 2008 have been recalculated under the new basis and are between 15% and 20% higher than those calculated under the previous basis and disclosed in 2007.

Non-executive directors' fees

	Fees		**Subsidiary/committee fees (note 1)**		**Total**	
	2008 £000	2007 £000	**2008 £000**	2007 £000	**2008 £000**	2007 £000
Ed Anderson (Chairman)	**75**	72	**9**	6	**84**	78
Julie Baddeley	**36**	35	**10**	10	**46**	45
Frank Beckett (retired 31.12.07)	**–**	35	**–**	18	**–**	53
Lynne Charlesworth	**36**	35	**6**	4	**42**	39
Richard Davey (Vice Chairman)	**49**	46	**11**	13	**60**	59
Philip Johnson (appointed 01.06.07)	**36**	20	**13**	3	**49**	23
Paul Lee (retired 31.12.07)	**–**	35	**–**	–	**–**	35
David Paige	**36**	35	**11**	9	**47**	44
Indira Thambiah (appointed 01.05.08)	**27**	–	**–**	–	**27**	–
Simon Turner	**36**	35	**9**	8	**45**	43
	331	348	**69**	71	**400**	419

Notes:

1. The subsidiary/committee fees consist of:
   - £5,000 per annum for membership of boards of the subsidiaries Accord Mortgages Limited (Ed Anderson who resigned from that board on 31st July 2007) and Yorkshire Investment Services Limited (Richard Davey who resigned from that board on 31st July 2007);
   - £6,000 per annum (£5,000 per annum up to 30th June 2008) for membership of each of the Audit Committee and the Group Risk Committee and £3,500 per annum for membership of the Remuneration Committee. In addition, the Chairman of the Audit Committee (Philip Johnson) received an additional £7,500 per annum and the Chairman of the Remuneration Committee (Julie Baddeley) received an additional £1,500 per annum. Membership of these committees is set out in the Corporate Governance Report on pages 33 to 35; and
   - £5,000 per annum for the 'Treating Customers Fairly' oversight role (Julie Baddeley).
2. The above table excludes VAT which was payable in respect of certain non-executive directors' fees in 2007.

On behalf of the board

Simon Turner
Chairman of the Remuneration Committee

2nd March 2009

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and Accounts including the Annual Business Statement, Directors' Report and the annual accounts in accordance with applicable law and regulations.

The Building Societies Act (the Act) requires the directors to prepare Group and Society annual accounts for each financial year. Under that law they are required to prepare the Group annual accounts in accordance with IFRS as adopted by the EU and applicable law and have elected to prepare the Society annual accounts on the same basis.

The Group and Society annual accounts are required by law and IFRS as adopted by the EU to present fairly the financial position and the performance of the Group and the Society; the Building Societies Act 1986 provides in relation to such annual accounts that references in the relevant part of that Act to annual accounts giving a true and fair view are references to their achieving a fair presentation.

In preparing these annual accounts, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the annual accounts on the going concern basis, unless it is inappropriate to presume that the Group and the Society will continue in business.

In addition to the annual accounts, the Act requires the directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Group and the Society.

Directors' responsibilities for accounting records and internal control
The directors are responsible for ensuring that the Group:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and Society, in accordance with the Act; and
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Services Authority under the Financial Services and Markets Act 2000.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

On behalf of the board

Ed Anderson
Chairman

2nd March 2009

Independent auditors' report

to the members of Yorkshire Building Society

We have audited the group and society annual accounts of Yorkshire Building Society for the year ended 31st December 2008 which comprise the Group and Society Income Statements, the Group and Society Statements of Recognised Income and Expense, the Group and Society Balance Sheets, the Group and Society Cash Flow Statements and the related notes. These annual accounts have been prepared under the accounting policies set out therein.

We have examined the Annual Business Statement (other than the details of directors and officers upon which we are not required to report) and the Directors' Report.

This report is made solely to the Society's members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society'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 Society and the Society'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

The directors' responsibilities for preparing the Report and Accounts including the Directors' Report, the Annual Business Statement and the annual accounts in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 43.

Our responsibility is to audit the annual accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We are also responsible for examining the Annual Business Statement (other than the details of directors and officers) and for reading the information in the Directors' Report and assessing whether it is consistent with the accounting records and the annual accounts.

We report to you our opinion as to whether the annual accounts give a true and fair view and are properly prepared in accordance with the Building Societies Act 1986, regulations made under it and, as regards the group annual accounts, Article 4 of the IAS Regulation. In addition, we report to you our opinion as to whether certain information in the Annual Business Statement gives a true representation of the matters in respect of which it is given, whether the information in the Directors' Report is consistent with the accounting records and the annual accounts and whether the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations made under it. The information given in the Directors' Report includes that specific information given in the Chief Executive's Report that is cross referred from the Business Review section of the Directors' Report. It also includes that specific information given in the Risk Management Report that is cross referred from the Principal Risks And Uncertainties section of the Directors' Report.

We also report to you if, in our opinion, the annual accounts are not in agreement with the accounting records or if we have not received all the information and explanations that we require for our audit.

We read the other information contained in the Annual Report and Accounts accompanying the annual accounts, the Annual Business Statement and the Directors' Report and consider whether it is consistent with the audited annual accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the annual accounts, Annual Business Statement and Directors' Report. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the annual accounts and the Annual Business Statement. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the annual accounts, and of whether the accounting policies are appropriate to the Group's and Society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the annual accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the annual accounts.

Opinion

In our opinion:

- the annual accounts give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of affairs of the Group and of the Society as at 31st December 2008 and of the income and expenditure of the Group and of the Society for the year then ended;
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given;
- the information given in the Directors' Report is consistent with the accounting records and the annual accounts; and
- the annual accounts, the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986, regulations made under it and, as regards the group annual accounts, Article 4 of the IAS Regulation.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

Leeds
2nd March 2009

Income statements

for the year ended 31st December 2008

	NOTES	Group 2008 £m	Group 2007 £m	Society 2008 £m	Society 2007 £m
Interest receivable and similar income	3	**1,229.1**	1,136.7	**1,255.5**	1,151.3
Interest payable and similar charges	4	**(1,064.6)**	(948.5)	**(1,175.5)**	(1,031.3)
Net interest income		**164.5**	188.2	**80.0**	120.0
Fees and commissions receivable		**32.1**	34.2	**28.9**	30.1
Fees and commissions payable		**(5.4)**	(7.1)	**(4.7)**	(4.6)
Net fee and commission income		**26.7**	27.1	**24.2**	25.5
Income from investments in subsidiaries	5	**–**	–	**3.5**	2.5
Net losses from fair value volatility on financial instruments	6	**(28.8)**	(43.6)	**(64.0)**	(47.4)
Net realised losses		**(1.0)**	(1.8)	**(0.9)**	(1.3)
Other operating income		**4.8**	13.8	**18.2**	27.8
Total income		**166.2**	183.7	**61.0**	127.1
Administrative expenses	7	**(113.1)**	(110.5)	**(112.5)**	(110.1)
Depreciation and amortisation		**(9.3)**	(9.7)	**(8.2)**	(7.7)
Operating profit/(loss) before provisions		**43.8**	63.5	**(59.7)**	9.3
Impairment of loans and advances to customers	9	**(25.0)**	(5.0)	**0.9**	2.3
Impairment of debt securities	9	**–**	(6.9)	**–**	(6.9)
Provisions	27	**1.0**	3.0	**0.9**	3.0
Operating profit/(loss) before exceptional provision		**19.8**	54.6	**(57.9)**	7.7
Financial Services Compensation Scheme levy	27	**(14.7)**	–	**(14.7)**	–
Operating profit/(loss)		**5.1**	54.6	**(72.6)**	7.7
Negative goodwill	43	**3.2**	–	**3.2**	–
Profit/(loss) before tax		**8.3**	54.6	**(69.4)**	7.7
Tax credit/(expense)	11	**0.5**	(15.4)	**20.1**	(1.5)
Net profit/(loss)		**8.8**	39.2	**(49.3)**	6.2

Net profit/(loss) arises from continuing operations and is attributable to members.

The notes on pages 49 to 89 form part of these accounts.

Statements of recognised income and expense

for the year ended 31st December 2008

	NOTES	Group 2008 £m	Group 2007 £m	Society 2008 £m	Society 2007 £m
Available for sale investments:					
Valuation losses taken to equity		**(63.4)**	(24.6)	**(66.8)**	(23.5)
Amounts released		**6.1**	7.4	**6.1**	7.0
Cash flow hedges:					
Losses taken to equity		**(34.7)**	(8.6)	**(34.7)**	(8.6)
Amounts released		**1.1**	0.5	**1.1**	0.5
Actuarial gain on retirement benefit obligations	25	**17.8**	33.8	**17.8**	33.8
Tax on items taken directly to or transferred from equity	11	**11.1**	(5.0)	**12.1**	(5.2)
Net (expense)/income not recognised directly in the income statement		**(62.0)**	3.5	**(64.4)**	4.0
Net profit/(loss)		**8.8**	39.2	**(49.3)**	6.2
Total recognised income and expense for the year		**(53.2)**	42.7	**(113.7)**	10.2

Total recognised income and expense for the year is attributable to members.

The notes on pages 49 to 89 form part of these accounts.

Balance sheets

as at 31st December 2008

ASSETS	NOTES	Group 2008 £m	Group 2007 £m	Society 2008 £m	Society 2007 £m
Liquid assets					
Cash in hand and balances with the Bank of England	12	**291.9**	434.9	**291.9**	434.9
Loans and advances to credit institutions	13	**542.0**	756.8	**486.9**	732.2
Debt securities	14	**4,493.8**	3,530.2	**4,149.3**	3,184.5
Loans and advances to customers					
Loans secured on residential property	15	**16,287.2**	15,357.8	**9,765.4**	9,324.5
Other loans	15	**4.6**	4.2	**4.6**	4.2
Derivative financial instruments	34	**1,226.7**	294.9	**466.2**	132.3
Investments	10	**2.1**	2.1	**12,800.0**	9,217.9
Intangible assets	16	**8.6**	8.1	**8.1**	7.5
Investment properties	17	**7.2**	6.3	**7.0**	6.0
Property, plant and equipment	18	**82.7**	80.2	**63.7**	60.3
Deferred tax assets	19	**41.6**	6.7	**46.3**	4.8
Retirement benefit surplus	25	**30.7**	8.0	**30.7**	8.0
Other assets	20	**12.7**	8.1	**37.0**	19.8
Total assets		**23,031.8**	20,498.3	**28,157.1**	23,136.9
LIABILITIES					
Shares	21	**13,683.1**	12,448.2	**13,683.1**	12,448.2
Amounts owed to credit institutions	22	**1,090.5**	249.4	**1,830.6**	1,410.0
Other deposits	23	**1,762.0**	2,423.5	**6,425.3**	4,103.8
Debt securities in issue	24	**4,477.1**	3,967.4	**4,477.1**	3,967.4
Derivative financial instruments	34	**672.2**	94.0	**672.2**	94.0
Current tax liabilities		**16.7**	12.5	**11.3**	10.6
Deferred tax liabilities	19	**63.2**	40.6	**22.0**	7.7
Retirement benefit obligations	25	**1.9**	–	**1.9**	–
Other liabilities	26	**58.6**	53.4	**52.8**	51.3
Provisions	27	**17.1**	4.6	**17.0**	4.3
Subordinated liabilities	28	**112.9**	105.0	**112.9**	105.0
Subscribed capital	29	**167.2**	146.0	**167.2**	146.0
		22,122.5	19,544.6	**27,473.4**	22,348.3
Total equity attributable to members	30	**909.3**	953.7	**683.7**	788.6
Total liabilities		**23,031.8**	20,498.3	**28,157.1**	23,136.9

The accounts on pages 45 to 89 were approved by the board of directors on 2nd March 2009 and were signed on its behalf by:

Ed Anderson	Chairman
Richard Davey	Vice Chairman
Iain Cornish	Chief Executive

The notes on pages 49 to 89 form part of these accounts.

Cash flow statements

for the year ended 31st December 2008

		Group		Society	
	NOTES	**2008 £m**	2007 £m	**2008 £m**	2007 £m
Cash flows from operating activities:					
Profit/(loss) before tax		**8.3**	54.6	**(69.4)**	7.7
Working capital adjustments	42	**59.9**	32.0	**42.3**	29.5
Net decrease/(increase) in operating assets	42	**33.9**	(2,091.5)	**(2,461.8)**	(3,267.7)
Net increase in operating liabilities	42	**1,059.5**	2,165.9	**3,622.0**	3,575.6
Net cash flows from operating activities		**1,161.6**	161.0	**1,133.1**	345.1
Cash flows from investing activities:					
Cash acquired on transfer of engagements		**0.5**	–	**0.5**	–
Purchase of property, plant and equipment and intangible assets		**(10.3)**	(8.9)	**(10.1)**	(8.7)
Proceeds from sale of property, plant and equipment		**0.4**	10.0	**0.4**	10.0
Purchase of debt securities		**(10,985.7)**	(8,176.7)	**(10,598.1)**	(7,652.6)
Proceeds from sale and redemption of debt securities		**9,774.7**	8,692.1	**9,348.0**	8,079.7
Net cash flows from investing activities		**(1,220.4)**	516.5	**(1,259.3)**	428.4
Cash flows from financing activities:					
Proceeds from issue of covered bonds		**–**	1,023.5	**–**	1,023.5
Redemption of securities		**(1,439.1)**	(3,342.1)	**(1,439.1)**	(3,342.1)
Issue of securities		**936.2**	2,859.9	**936.2**	2,859.9
Redemption of subordinated capital		**–**	–	**–**	(25.0)
Interest paid on subordinated liabilities and subscribed capital		**(16.2)**	(15.1)	**(16.2)**	(16.5)
Net cash flows from financing activities		**(519.1)**	526.2	**(519.1)**	499.8
Taxation refunded/(paid)		**4.0**	(14.3)	**6.2**	(9.2)
Net (decrease)/increase in cash and cash equivalents		**(573.9)**	1,189.4	**(639.1)**	1,264.1
Opening balance		**1,961.1**	771.7	**1,888.1**	624.0
Total closing cash and cash equivalents		**1,387.2**	1,961.1	**1,249.0**	1,888.1
Cash and cash equivalents:					
Cash and balances with central banks		**270.0**	413.7	**270.0**	413.7
Loans and advances to banks		**542.0**	756.8	**486.9**	732.2
Debt securities		**575.2**	790.6	**492.1**	742.2
		1,387.2	1,961.1	**1,249.0**	1,888.1

The cash flow statement has been prepared in compliance with International Accounting Standard 7 'Cash Flow Statements' and has been presented under the indirect method.

For the purposes of the cash flow statement, cash and cash equivalents comprises cash and other financial instruments with original maturities of less than three months.

The notes on pages 49 to 89 form part of these accounts.

INTRODUCTION

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) in issue that have been endorsed by the EU and are effective at 31st December 2008 and with those parts of the Building Societies Act 1986 and the Building Societies (Accounts and Related Provisions) Regulations applicable to societies reporting under IFRS.

The financial statements have been prepared on a historical cost basis, as modified by the revaluation of available for sale financial assets, derivative contracts and financial assets held at fair value through the income statement.

The preparation of financial statements under IFRS requires the use of certain critical accounting estimates and judgement. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are set out in Note 2.

Accounting developments

The following Accounting Standard amendments have been applied in 2008:

- Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures. The application of these amendments has not affected the Group;
- IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. This interpretation has been applied in full. Due to the financial rules of the Group's defined benefit schemes, its application has not impacted upon the Group's disclosures under IAS 19 Employee Benefits, nor is it expected to at future reporting dates; and
- the combination of two mutual entities is excluded from IFRS 3 Business Combinations. Therefore, for the transfer of engagements of Barnsley Building Society, in the absence of an IFRS that specifically applies to the transaction, the Group has used its judgement to develop and apply an accounting policy that reflects the economic substance of the transaction. The Group believes the principles and methodology of the unendorsed IFRS 3 Business Combinations (Revised) best reflect the economic substance of the transfer of engagements. The main changes in IFRS 3 (Revised), in addition to the inclusion of mutual entities, 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 income. Further, any pre-existing stake held will, where control is subsequently gained, be revalued with any profit or loss arising being booked to income.

The following Standard has been adopted by the EU but is not yet effective:

- IFRS 8 Operating Segments is effective for periods commencing on or after 1st January 2009. This standard replaces IAS 14 Segmental Reporting and its application will not have any impact upon the financial results of the Group as it does not change the recognition or measurement of transactions in the consolidated financial statements. The standard aligns the disclosure of operating segments in the financial statements with the internal reporting of segments to senior management.

The following Standards and interpretations are neither adopted by the European Union nor effective for the 2008 year end:

- Amendments to IAS 1 Presentation of Financial Statements: A Revised Presentation which is effective for periods commencing on or after 1st January 2009. The revised standard will affect the presentation of owner changes in equity and of comprehensive income. Adoption will not change the recognition, measurement or disclosure of specific transactions or events as required by other standards;
- Amendment to IAS 23 Borrowing Costs which is applicable to borrowing costs related to qualifying assets for which the commencement date for capitalisation is on or after 1st January 2009. The application of this revised standard in 2008 would not have had a material impact on the financial statements;
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items which is effective for periods commencing on or after 1st July 2009. This amendment clarifies what can be designated as a hedged item in a hedge accounting relationship. It is not expected that this amendment will have any impact on the Group's ability to achieve hedge accounting; and
- Amendments to IAS 39 Reclassification of Financial Assets: Effective Date and Transition which is effective on or after 1st July 2008. This amendment clarifies the effective date and transition requirements for the change to the standard issued in October 2008, which permits entities to reclassify non-derivative financial assets out of the Fair value through profit and loss category in particular circumstances. The Group has not applied any of the reclassification options available in this amendment.

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The Group financial statements consolidate the financial statements of the Society and its subsidiary undertakings. Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Inter-company transactions and balances are eliminated upon consolidation.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest income and expense
Interest income and expense on all financial instruments are recognised within interest receivable or payable on an effective interest rate basis.

The effective interest rate is the method used to calculate the amortised cost of financial instruments and to recognise 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. The main impact for the Group relates to mortgage advances where fees and costs, such as application and arrangement fees, are incorporated in the calculation. This has the effect of spreading these fees and costs over the expected life of the mortgage. Expected lives are estimated using historic data and management judgement and the calculation is adjusted when actual experience differs from estimates, with changes in deferred amounts being recognised immediately in the income statement.

Fees and commissions
Fees payable and receivable in relation to the provision of loans are accounted for on an effective interest rate basis. Other fees and commissions are recognised on the basis of when the relevant service is provided.

Derivative financial instruments and hedge accounting

Derivative financial instruments
Derivative financial instruments are held at fair value with movements in value being recognised in the income statement. Fair values of exchange traded derivatives are valued using closing prices from the appropriate exchanges. Other derivatives are calculated using valuation techniques including discounted cash flow models.

Embedded derivatives
Certain derivatives are embedded in other financial instruments. These are treated as separate derivatives where the economic characteristics and risks are not closely related to the host instrument and the host instrument is not measured at fair value. These embedded derivatives are measured at fair value with movements in value being recognised in the income statement. Where the Group is unable to value separately the embedded derivative the entire instrument is measured at fair value with changes in value being taken to the income statement.

Hedging
All derivatives entered into by the Group are for the purposes of providing an economic hedge. Full details of hedging strategies are contained in Note 34. Hedge accounting is an optional treatment but the specific rules and conditions in IAS 39 have to be complied with before it can be applied. The Group has classified the majority of its derivatives as fair value and cash flow hedges in order to reduce volatility in the income statement.

Fair value hedges
Where the fair value hedging requirements are met, changes in fair value of the hedged item arising from the hedged risk are taken to the income statement thereby offsetting the effect of the derivative. Where the hedge no longer meets the criteria, or is terminated for any other reason, the adjustment to the hedged item is released to the income statement, over its remaining life, using the effective interest rate method.

Cash flow hedges
Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity and recycled to the income statement over the life of the forecasted transaction. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement immediately. If the forecast transaction is no longer expected to occur, the cumulative unrealised gain or loss recognised in equity is then recognised immediately in the income statement.

Impairment losses on loans and advances to customers
At each balance sheet date the Group assesses whether or not there is objective evidence that individual financial assets (or groups of financial assets with similar credit characteristics) are impaired. In determining whether an impairment loss should be recognised, the Group makes judgements as to whether there is any evidence indicating a measurable decrease in the present value of cash flows expected from a financial asset or group of financial assets, resulting from an event (or events) that have occurred after initial recognition of the asset, but before the balance sheet date.

Individual assessments are made of all loans and advances on properties which are in possession, or in arrears by two months or more. All other loans and advances are grouped according to their credit characteristics, and a collective review undertaken of any evidence of impairment. Future cash flows are estimated on grouped credit characteristics in all cases.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Where there is objective evidence of impairment or that trigger events exist at the balance sheet date, then the impairment loss is calculated as the difference between the assets' carrying value and the present value of the estimated cash flows from those assets. In assessing these cash flows a number of factors are taken into account, including the Group's historic default experience, historic and current loss emergence periods, the effect of changes in house prices and adjustments to allow for ultimate forced sales discounts.

Any increases or decreases in projected impairment losses are recognised through the income statement. If a loan is ultimately uncollectable, then any loss incurred by the Group on extinguishing the debt is written off against the provision for loan impairment. Any subsequent recoveries of amounts previously written off are recognised through the income statement as an adjustment to the loan impairment provision. If, in a subsequent period, the extent of impairment loss decreases, and that decrease can objectively be related to an event occurring after the initial impairment was recognised, then the impairment provision is adjusted accordingly and the reversal recognised through the income statement.

Impairment losses on debt instruments

At each balance sheet date the Group assesses whether or not there is objective evidence that individual debt instruments are impaired. In determining whether there is any objective evidence of impairment the Group takes into account a number of factors including:

- significant financial difficulties of the issuer or obligor;
- any breach of contract or covenants;
- the granting of any concession or rearrangement of terms;
- the disappearance of an active market;
- any significant downgrade of ratings; and
- any significant reduction in market value.

In some cases a significant adverse change in one of the above factors will cause the Group to determine that there is objective evidence of impairment. In other cases it may not be possible to identify a single event that identifies impairment. The Group may additionally determine that there is impairment where there are a number of factors contributing to that view.

Where the Group determines that there is objective evidence of impairment or that trigger events exist at the balance sheet date, then, in the case of available for sale instruments, the cumulative loss that had been recognised directly in reserves is removed from reserves and recognised in the income statement. In the case of held to maturity instruments an appropriate charge is made to the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be related to an event occurring after the impairment loss was recognised through the income statement, the impairment loss shall be reversed, with the amount of the reversal recognised through the income statement.

Business combinations between mutual organisations

Identifiable assets and liabilities are measured at fair value. Intangible assets are amortised through the income statement over their estimated useful lives, being between three and five years.

A deemed purchase price is calculated by measuring the fair value of the acquired business. Goodwill is measured as the difference between the adjusted value of the acquired assets and liabilities and the deemed purchase price. Goodwill is recorded as an asset, negative goodwill is recognised in the income statement.

Cash and cash equivalents

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

The cash flow statements have been prepared using the indirect method.

Financial assets

The Group classifies its financial assets into the following categories:

Loans and receivables

Loans and receivables are predominately mortgage loans to customers and money market advances held for liquidity purposes. They are initially recorded at fair value plus any attributable costs and less any attributable fees and are subsequently held at amortised cost less any impairment losses other than where an adjustment is made as part of a fair value hedging arrangement. Income is recognised on an effective interest rate basis.

Financial assets at fair value through the income statement

These comprise assets that have been specifically designated at inception and certain structured investments containing embedded derivatives where the Group has been unable to separately calculate the fair value of the embedded derivative. Where the embedded derivative has not been separated from the host instrument the entire (hybrid) instrument has been recorded at fair value with changes in value being taken to the income statement. Interest income is recognised on an effective interest rate basis.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Held to maturity

These comprise assets where there is no active market from which a reliable measure of fair value can be obtained and where the Group has both the intention and ability to hold to maturity. This category contains certain assets that have been specifically designated at inception and other assets that have been reclassified where we have the intention and ability to hold to maturity. They are initially recorded at fair value plus any attributable costs and less any attributable fees and are subsequently held at amortised cost less any impairment losses. Income is recognised on an effective interest rate basis.

Available for sale financial assets

Available for sale financial assets are securities held for liquidity and investment purposes. They comprise all non-derivative financial assets that are not classified as loans and receivables, held to maturity investments or financial assets at fair value through the income statement. These are recorded at fair value with changes in value being taken to reserves. Interest is recognised on an effective interest rate basis. Any profit or loss on sale is recognised in the income statement on disposal.

Financial liabilities

The Group records all of its financial liabilities at fair value less directly attributable transaction costs, and subsequently measures them at amortised cost, other than derivative financial instruments and where an adjustment is made as part of a fair value hedging arrangement. Expense is recognised on an effective interest rate basis.

Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. The consolidated financial statements include the Group's proportionate share of the entities' assets, liabilities, revenue and expenses on a line by line basis.

Investment properties, property, plant and equipment

Investment properties

Investment properties comprise freehold properties and parts of freehold properties that are not used in the business. These properties are generally flats and offices ancillary to branch premises and earn rental income. Investment properties are stated at cost less accumulated depreciation and impairment losses.

Property, plant and equipment

Buildings, major alterations to office premises, fixtures and fittings, equipment and other tangible fixed assets are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs

Costs incurred after initial purchase of assets are expensed unless it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Repairs and maintenance are treated as an expense.

Depreciation

Depreciation is provided by the Group to write off the cost (excluding land) less the estimated residual value by equal instalments over estimated useful economic lives as follows:

Freehold/long leasehold buildings (including investment properties)	–	50 years
Short leasehold property	–	Life of lease
Equipment, fixtures, fittings and vehicles	–	3 to 8 years

Land is stated at cost less accumulated impairment losses and is not depreciated. Any impairment in the value of assets is dealt with through the income statement as it arises.

Intangible assets

Computer Software

Costs incurred in the development of computer software for internal use are capitalised as intangible assets where the expenditure leads to the creation of an identifiable non-monetary asset and it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group. Acquired software is classified as an intangible asset where it is not an integral part of the related hardware. Intangible assets are amortised over their estimated useful lives, which are generally three to five years. Any impairment in the value of intangible assets is dealt with through the income statement as it arises.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits – Pension obligations

Defined contribution plans
Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Defined benefit plans
The asset or liability recognised in the balance sheet in respect of the defined benefit pension scheme is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past service costs. The asset is recognised on the balance sheet to the extent that it is recoverable by the Group. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. Projected benefit obligations are discounted to present value using the rate of return available on high quality corporate bonds of equivalent currency and term to the obligations. Actuarial gains or losses are recognised in full in the period in which they occur in the statement of recognised income and expense. Past service costs are recognised immediately in the income statement to the extent that benefits are already vested or amortised on a straight-line basis over the average period until the benefits become vested.

Scheme surplus
The Group has received a legal opinion that it can recognise in full any surplus valuation of the scheme.

Tax
Tax 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 year, using tax rates enacted or substantively enacted on the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amount of certain assets and liabilities for accounting purposes and for taxation purposes. Deferred tax is provided using tax rates enacted or substantively enacted at the balance sheet date, depending on the rate at which they are expected to reverse.

The following temporary differences are not provided for:

- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and
- differences relating to investments in subsidiaries, to the extent that the parent company is able to control reversal of temporary differences and it is probable they will not reverse in the foreseeable future.

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.

Leases
The leases entered into by the Group are operating leases. Operating lease rentals are expensed to the income statement on a straight line basis over the period of the lease agreement.

Foreign currency
Assets and liabilities denominated in foreign currencies are translated into sterling at the appropriate rates of exchange prevailing at the year end date and exchange differences are dealt with in the income statement as they arise. All income and expense is translated into sterling at the rate of exchange at the day of receipt or payment.

Derecognition of financial assets and liabilities
Financial assets are only derecognised when the contractual rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. The Group has not derecognised the loans securing its issue of covered bonds because substantially all the risks and rewards are retained. Financial liabilities are only derecognised when the obligation is discharged, cancelled or has expired.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group's financial statements are prepared in accordance with IFRS, as adopted by the EU, and with its accounting policies, the most significant of which are set out in Note 1. The results are inevitably sensitive to certain estimates and judgements exercised by the Group, the most critical of which are described below:

Pensions
The Group operates a defined benefit pension scheme. Significant judgements (on areas such as future interest and inflation rates, membership levels and mortality rates) have to be exercised in estimating the value of the assets and liabilities of the scheme, and hence of its net surplus/deficit. These are outlined in Note 25. The impact of a 0.1% increase in the rate used to discount the future value of the liabilities would be to reduce the present value of the liabilities by £4.9 million. The impact of a one year increase in each of the quoted life expectancies at age 60 would be to increase the present value of the liabilities by £5.5 million.

Effective interest rate
IAS 39 requires that all of the cash flows directly associated with financial instruments held at amortised cost must be recognised in the income statement through the interest margin using the effective interest rate method. When this approach is applied to a mortgage portfolio, judgements must be made to estimate the average life of that portfolio. These judgements are applied to segments of the mortgage portfolio, taking into account factors including the terms of the particular products, historic repayment data and economic conditions. These estimates are updated in each reporting period to reflect the portfolio's actual performance. The most critical is the estimated number of customers who will remain with the Society after the end of the initial product deal period. A 1% increase would increase the balance sheet value of the loans by £0.1 million.

Impairment of mortgage assets
The creation of impairment provisions for a portfolio of mortgage loans is inherently uncertain and requires the exercise of a significant degree of judgement. Provisions are calculated using historic default and loss experience, but require judgement to be exercised in predicting future economic conditions (e.g. interest rates and house prices), customer behaviour (e.g. default rates) and the length of time before impairments are identified (emergence period). The most critical estimate is of the future level of house prices where a variance of 10% equates to £7 million of provision. Other sensitivities include the emergence period, where a variance of three months equates to £2.8 million, and the loss given default rate, where a 10% variance equates to £3.8 million of provision.

Debt securities
In current illiquid market conditions there is not a reliable market price for certain securities. In such instances models are used to estimate the fair value. These models use externally verifiable factors such as asset credit ratings, credit spreads, defaults in underlying instruments and credit enhancement or subordination factors.

Financial Services Compensation Scheme (FSCS)
At the time of preparing the accounts there was a lack of clarity surrounding the levels of contribution that the Society would be required to make to the FSCS. The amount provided is the latest estimate of the contribution required for the eighteen months to 31st March 2010 as advised by the Financial Services Authority. The Society is aware that further fees and exit fees are likely but has not made any provision for them as they cannot be reliably estimated. More detail of the FSCS and the Society's provision are contained in note 27.

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	Group		Society	
	2008 £m	2007 £m	**2008 £m**	2007 £m
On assets held at amortised cost				
Loans fully secured on residential property	**870.4**	800.2	**482.8**	489.2
Connected undertakings	**–**	–	**462.0**	348.4
Other loans	**0.3**	0.4	**0.3**	0.4
Other liquid assets/cash and short-term funds	**31.8**	36.9	**28.8**	35.0
On available for sale securities	**187.4**	218.0	**169.0**	199.1
On held to maturity securities	**38.1**	–	**38.1**	–
On financial instruments held at fair value through the income statement				
Derivatives	**95.8**	76.3	**69.2**	76.3
Other assets	**5.3**	4.9	**5.3**	2.9
Total interest receivable	**1,229.1**	1,136.7	**1,255.5**	1,151.3

4. INTEREST PAYABLE AND SIMILAR CHARGES

	Group 2008 £m	Group 2007 £m	Society 2008 £m	Society 2007 £m
On liabilities held at amortised cost				
Shares held by individuals	**606.2**	560.3	**606.2**	560.3
Deposits from banks	**41.4**	19.5	**41.4**	19.5
Deposits from other financial institutions	**23.1**	16.8	**23.1**	16.8
Deposits from connected undertakings	**–**	–	**74.1**	76.9
Other deposits	**94.3**	92.0	**40.1**	29.1
Certificates of deposit	**27.2**	23.5	**27.2**	23.5
Other debt securities	**157.9**	164.8	**157.9**	164.8
Subordinated liabilities	**7.6**	6.5	**7.6**	7.9
Subscribed capital	**8.6**	8.6	**8.6**	8.6
Other interest payable	**0.9**	0.8	**0.9**	0.8
On financial instruments held at fair value through the income statement				
Deposits from connected undertakings	**–**	–	**100.8**	68.5
Derivatives	**97.4**	55.7	**87.6**	54.6
Total interest payable	**1,064.6**	948.5	**1,175.5**	1,031.3

5. INCOME FROM INVESTMENTS IN SUBSIDIARIES

This income arises from dividends declared and payable to the Society by its subsidiary Yorksafe Insurance Company Ltd.

6. NET LOSSES FROM FAIR VALUE VOLATILITY ON FINANCIAL INSTRUMENTS

	Group 2008 £m	Group 2007 £m	Society 2008 £m	Society 2007 £m
Assets held at fair value	**(29.9)**	(24.2)	**(29.4)**	(23.6)
Embedded derivatives	**(37.2)**	(8.3)	**(37.2)**	(8.3)
Derivatives and hedging – gains/(losses)	**38.3**	(11.1)	**2.6**	(15.5)
Net losses from fair value volatility on financial instruments	**(28.8)**	(43.6)	**(64.0)**	(47.4)

Assets held at fair value relate to structured assets containing profit participation features that meet the definition of embedded derivatives. The Society is unable to separate the value of the embedded derivative from the host item and so has to treat the whole asset as held at fair value through the income statement in accordance with IAS 39.

The embedded derivative category relates to synthetic features contained in certain structured investments which can be valued separately from the host instruments.

The derivative and hedging category mainly relates to changes in fair value of derivatives that provide effective economic hedges but where the Group has not achieved hedge accounting. Ineffectiveness on those cash flow and fair value hedges for which hedge accounting has been achieved is an immaterial amount.

7. ADMINISTRATIVE EXPENSES

	Group 2008 £m	Group 2007 £m	Society 2008 £m	Society 2007 £m
Staff costs				
Salaries and wages	**60.4**	59.5	**59.7**	58.7
Social security costs	**5.8**	5.4	**5.7**	5.4
Pension costs – defined benefit plans (see Note 25)	**3.5**	2.9	**3.5**	2.9
Other post retirement benefits (see Note 25)	**2.0**	1.7	**1.9**	1.7
Operating lease rentals	**–**	–	**2.5**	2.5
Other expenses	**41.4**	41.0	**39.2**	38.9
	113.1	110.5	**112.5**	110.1

The Society "Operating lease rentals" category, above, relates to rental payments paid by the Society to subsidiary companies in the Group which own properties and equipment.

Remuneration of auditors and their associates

Included in other expenses above are the following:

	Group 2008 £000	Group 2007 £000	Society 2008 £000	Society 2007 £000
Audit	**185**	175	**139**	122
Other related services	**17**	23	**17**	23
Tax advice	**53**	–	**49**	–
Information technology	**49**	45	**24**	18
Internal audit	**7**	35	**7**	35
Advisory	**85**	–	**85**	–
All other services	**33**	59	**33**	59
	429	337	**354**	257

The above figures, relating to auditors' remuneration, exclude value added tax.

Staff numbers

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

	2008 Full time	2008 Part time	2007 Full time	2007 Part time
Building Society				
Central administration	**1,100**	**273**	1,100	267
Branches	**730**	**245**	729	250
Subsidiaries' offices	**16**	**1**	17	1
	1,846	**519**	1,846	518

8. REMUNERATION OF AND TRANSACTIONS WITH DIRECTORS

Total directors' remuneration amounted to £1,504,000 (2007 – £1,946,000).

Full details of directors' remuneration, bonuses and pensions are given in the Directors' Remuneration Report on pages 38 to 42. In addition, past directors' pensions in respect of services as directors (closed scheme) amounted to £40,000 (2007 – £37,000).

None of the directors had an interest in shares in, or debentures of, any associated body of the Society at any time during the financial year. Details of transactions with directors and loans held by directors and connected persons are disclosed in Note 41.

A register is maintained at the Head Office of the Society, containing details of loans, transactions and arrangements between the Society and its directors and connected persons. A statement of the appropriate details for 2008 will be available for inspection at the Head Office for a period of fifteen days up to and including the Annual General Meeting.

9. IMPAIRMENT

Loans and advances to customers	Group 2008 £m	Group 2007 £m	Society 2008 £m	Society 2007 £m
At 1st January				
Collective	**8.8**	10.7	**0.9**	3.4
Individual	**10.0**	4.5	**0.7**	0.7
	18.8	15.2	**1.6**	4.1
Amounts written off during the year				
Collective	**–**	–	**–**	–
Individual	**(2.5)**	(1.5)	**(0.1)**	(0.3)
	(2.5)	(1.5)	**(0.1)**	(0.3)
Impairment adjustment for the year				
Collective	**(3.0)**	(1.9)	**(0.7)**	(2.5)
Individual	**28.1**	7.0	**(0.1)**	0.3
	25.1	5.1	**(0.8)**	(2.2)
At 31st December				
Collective	**5.8**	8.8	**0.2**	0.9
Individual	**35.6**	10.0	**0.5**	0.7
	41.4	18.8	**0.7**	1.6
The charge for the year comprises:				
Impairment adjustment for loans and advances	**25.1**	5.1	**(0.8)**	(2.2)
Recoveries relating to amounts previously written off loans and advances	**(0.1)**	(0.1)	**(0.1)**	(0.1)
Net provision charge/(credit) for the year	**25.0**	5.0	**(0.9)**	(2.3)

The interest arising from the unwind of the discount of expected future recoveries is not material.

Debt Securities	Group 2008 £m	Group 2007 £m	Society 2008 £m	Society 2007 £m
At 1st January	**6.9**	–	**6.9**	–
Individual impairment adjustment for the year	**–**	6.9	**–**	6.9
At 31st December	**6.9**	6.9	**6.9**	6.9

Provisions for impairment of debt securities relate to cash collateralised debt obligations.

10. INVESTMENTS

	Group 2008 £m	Group 2007 £m	Society 2008 £m	Society 2007 £m
Equities	**2.0**	2.0	**2.0**	2.0
Joint ventures	**0.1**	0.1	**0.3**	0.3
Subsidiaries	**–**	–	**12,797.7**	9,215.6
	2.1	2.1	**12,800.0**	9,217.9

Investment in equities

The Society has an equity investment in VocaLink Holdings Limited relating to its operation of cash machines, which is classified as an available for sale asset.

10. INVESTMENTS (continued)

Investment in joint venture

The Group has a 50% interest in a joint venture, MutualPlus Ltd, a branch sharing company.

	2008 £m	2007 £m
Share of joint ventures		
Gross assets	**0.1**	0.1
Gross liabilities	**–**	–
	0.1	0.1

Investment in subsidiaries

Society	Shares £m	Loans £m	Total £m
Cost			
At 1st January 2008	**294.6**	**8,921.5**	**9,216.1**
Additions	**–**	**4,582.0**	**4,582.0**
Repayments	**(52.3)**	**(947.6)**	**(999.9)**
At 31st December 2008	**242.3**	**12,555.9**	**12,798.2**
Impairment losses			
At 1st January 2008	**(0.5)**	**–**	**(0.5)**
Provided in year	**–**	**–**	**–**
At 31st December 2008	**(0.5)**	**–**	**(0.5)**
Net book value			
At 31st December 2008	**241.8**	**12,555.9**	**12,797.7**
Cost			
At 1st January 2007	294.6	5,966.6	6,261.2
Additions	–	4,183.0	4,183.0
Repayments	–	(1,228.1)	(1,228.1)
At 31st December 2007	294.6	8,921.5	9,216.1
Impairment losses			
At 1st January 2007	(0.5)	–	(0.5)
Provided in year	–	–	–
At 31st December 2007	(0.5)	–	(0.5)
Net book value			
At 31st December 2007	294.1	8,921.5	9,215.6

Included within Shares is an investment of £7.7million (2007 – £60.0 million) in Yorkshire Guernsey Ltd which is a credit institution. During the year, share capital of £52.3 million was repaid to the Society.

10. INVESTMENTS (continued)

The Society has the following subsidiary undertakings, all of which are consolidated:

	Principal activity
Accord Mortgages Ltd	Mortgage lending
YBS Properties Ltd	Property holding
YBS Properties (Edinburgh) Ltd	Property holding
Yorkshire Building Society Covered Bonds LLP	Mortgage acquisition and guarantor of covered bonds
Yorkshire Key Services Ltd	Computer services
Yorkshire Key Services (No. 2) Ltd	Retail deposit services
Yorkshire Guernsey Ltd	Deposit taking
Yorksafe Insurance Company Ltd	Insurance
YBS Investments (No. 1) Ltd	Investments
YBS Investments (No. 2) Ltd	Investments
Yorkshire Investment Services Ltd	Investments
Barnsley Property Services Ltd	Non-trading
YBS Properties (York) Ltd	Non-trading
Yorkshire Building Society Estate Agents Ltd	Non-trading
Yorkshire Computer Services Ltd	Non-trading

Yorkshire Key Services (No. 2) Ltd is wholly-owned by Yorkshire Key Services Ltd.

YBS Investments (No. 2) Ltd is wholly-owned by Yorkshire Investment Services Ltd.

All the companies are registered in England and operate in the United Kingdom except for Yorkshire Guernsey Ltd and Yorksafe Insurance Company Ltd which are registered and operate in Guernsey.

All the companies are wholly-owned except for Yorksafe Insurance Company Ltd and Yorkshire Building Society Covered Bonds LLP. The Society's interests in these companies are, in substance, no different than if they were 100% held subsidiary undertakings and consequently they are consolidated in the Group accounts.

11. TAX CREDIT/EXPENSE

	Group		Society	
	2008	2007	**2008**	2007
	£m	£m	**£m**	£m
Current tax:				
UK corporation tax at 28.5% (2007 – 30%)	**–**	5.2	**(5.3)**	5.2
Corporation tax – adjustment in respect of prior periods	**(0.5)**	0.4	**(0.4)**	0.3
Overseas tax	**0.5**	1.0	**–**	–
Total Current tax	**–**	6.6	**(5.7)**	5.5
Deferred tax (Note 19):				
Current year	**(0.5)**	9.0	**(14.4)**	(3.9)
Adjustment in respect of prior periods	**–**	(0.2)	**–**	(0.1)
Total tax (credit)/expense in income statement	**(0.5)**	15.4	**(20.1)**	1.5

The actual tax (credit)/expense for the year differs from that calculated using the standard rate of corporation tax in the UK. The differences are explained below:

	Group		Society	
	2008	2007	**2008**	2007
	£m	£m	**£m**	£m
Profit/(loss) before tax	**8.3**	54.6	**(69.4)**	7.7
Tax calculated at a tax rate of 28.5% (2007 – 30%)	**2.4**	16.4	**(19.8)**	2.3
Effects of:				
Lower tax rate on overseas earnings	**(2.5)**	(2.0)	**–**	–
Income not subject to tax	**(1.0)**	(1.3)	**(1.0)**	(1.3)
Expenses not deductible for tax purposes	**0.9**	3.7	**0.8**	0.5
Adjustment to tax charge in respect of previous periods	**(0.5)**	0.2	**(0.4)**	0.2
Change in tax rate	**0.2**	(1.6)	**0.3**	(0.2)
Total tax (credit)/expense in income statement	**(0.5)**	15.4	**(20.1)**	1.5

11. TAX CREDIT/EXPENSE (continued)

	Group 2008 £m	Group 2007 £m	Society 2008 £m	Society 2007 £m
Tax (credit)/expense recognised directly in equity:				
Tax on available for sale securities	**(16.4)**	(5.1)	**(17.3)**	(4.9)
Tax on pension costs	**–**	(2.1)	**–**	(2.1)
Deferred tax on pension costs	**5.1**	12.3	**5.1**	12.3
Change in tax rate	**0.2**	(0.1)	**0.1**	(0.1)
	(11.1)	5.0	**(12.1)**	5.2

12. CASH IN HAND AND BALANCES WITH THE BANK OF ENGLAND

	Group 2008 £m	Group 2007 £m	Society 2008 £m	Society 2007 £m
Cash in hand	**14.2**	15.0	**14.2**	15.0
Cash ratio deposit with the Bank of England	**21.9**	21.2	**21.9**	21.2
Other deposits with the Bank of England	**255.8**	398.7	**255.8**	398.7
	291.9	434.9	**291.9**	434.9

Cash ratio deposits are mandatory requirements of the Bank of England. They are not available for use in the Group's day to day operations. These balances are non-interest-bearing, whereas other deposits are at variable money market rates.

13. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

	Group 2008 £m	Group 2007 £m	Society 2008 £m	Society 2007 £m
Loans and advances to banks	**518.5**	601.5	**463.4**	576.9
Loans and advances to other credit institutions	**23.5**	155.3	**23.5**	155.3
	542.0	756.8	**486.9**	732.2

Loans and advances to credit institutions are all due within one year.

14. DEBT SECURITIES

	Group 2008 £m	Group 2007 £m	Society 2008 £m	Society 2007 £m
Debt securities issued by:				
Public bodies	**1,355.4**	267.2	**1,355.3**	267.2
Other borrowers	**3,138.4**	3,263.0	**2,794.0**	2,917.3
	4,493.8	3,530.2	**4,149.3**	3,184.5
Analysis by type:				
Listed on a recognised investment exchange	**3,625.7**	2,495.3	**3,577.6**	2,424.4
Unlisted	**868.1**	1,034.9	**571.7**	760.1
	4,493.8	3,530.2	**4,149.3**	3,184.5

Debt securities of £2.0 billion (2007 – £2.3 billion) are due in over one year.

14. DEBT SECURITIES (continued)

Group	Held at fair value through the income statement £m	Embedded Derivative £m	Available for sale £m	Held to maturity £m
Movements in debt securities during the year were:				
At 1st January 2008	**40.3**	**(8.3)**	**3,498.2**	**–**
Reclassified	**–**	**–**	**(456.0)**	**456.0**
Acquired on transfer of engagements	**–**	**–**	**26.3**	**–**
Additions	**–**	**–**	**11,245.2**	**315.7**
Disposals and repayments	**(22.7)**	**–**	**(10,763.7)**	**(47.3)**
Exchange translation	**5.3**	**–**	**206.4**	**65.4**
Other changes in value	**(7.3)**	**(37.2)**	**(25.6)**	**3.1**
At 31st December 2008	**15.6**	**(45.5)**	**3,730.8**	**792.9**
Movements in debt securities during the year were:				
At 1st January 2007	93.7	–	3,774.3	–
Additions	10.3	–	8,956.9	–
Disposals and repayments	(40.5)	–	(9,253.0)	–
Exchange translation	1.4	–	42.9	–
Other changes in value	(24.6)	(8.3)	(22.9)	–
At 31st December 2007	40.3	(8.3)	3,498.2	–

Society				
Movements in debt securities during the year were:				
At 1st January 2008	**40.3**	**(8.3)**	**3,152.5**	**–**
Reclassified	**–**	**–**	**(456.0)**	**456.0**
Acquired on transfer of engagements	**–**	**–**	**26.3**	**–**
Additions	**–**	**–**	**10,774.5**	**315.7**
Disposals and repayments	**(22.7)**	**–**	**(10,286.0)**	**(47.3)**
Exchange translation	**5.3**	**–**	**206.4**	**65.4**
Other changes in value	**(7.3)**	**(37.2)**	**(31.4)**	**3.1**
At 31st December 2008	**15.6**	**(45.5)**	**3,386.3**	**792.9**
Movements in debt securities during the year were:				
At 1st January 2007	–	–	3,481.6	–
Additions	85.3	–	8,309.5	–
Disposals and repayments	(23.5)	–	(8,656.9)	–
Exchange translation	2.5	–	43.1	–
Other changes in value	(24.0)	(8.3)	(24.8)	–
At 31st December 2007	40.3	(8.3)	3,152.5	–

The Group has reclassified its investments in UK residential mortgage backed securities, with effect from 1st January 2008, since it now has the intention and ability to hold them to maturity.

The disposals and repayments for the Held to maturity category relate entirely to repayments.

A number of debt securities are structured so that they can pay a return over and above their regular coupon. This feature is regarded as an embedded derivative. The Group is unable to value this element separately from the host instrument so in accordance with IAS 39 has designated these securities as being held at fair value with movements in value being taken to the income statement.

The Group also holds synthetic collateralised debt obligations, which also contain embedded derivatives. These embedded derivatives are separated from the host instrument and movements in fair value are taken to the income statement. The embedded derivative component is held at fair value through the income statement.

15. LOANS AND ADVANCES TO CUSTOMERS	Group		Society	
	2008	2007	**2008**	2007
	£m	£m	**£m**	£m
Loans and advances to customers comprise:				
Loans fully secured on residential property	**15,843.7**	15,267.6	**9,318.1**	9,277.0
Other loans secured on residential property	**55.4**	71.6	**18.4**	11.6
Fair value hedging adjustments	**429.5**	37.4	**429.6**	37.5
Allowances for impairment	**(41.4)**	(18.8)	**(0.7)**	(1.6)
Loans secured on residential property	**16,287.2**	15,357.8	**9,765.4**	9,324.5
Loans fully secured on land	**4.6**	4.2	**4.6**	4.2

Loans and advances to customers are held at amortised cost, with interest and associated costs being recognised in the interest receivable and similar income line of the income statement on an effective interest rate basis. Amounts totalling £15.9 billion (2007 – £15.0 billion) are due in over one year.

Fair value hedging adjustments of £429.5 million (2007 – £37.4 million) have been made to certain fixed rate mortgages that are in fair value hedging relationships.

Covered Bonds

Loans and advances to customers include £5.4 billion (2007 – £2.6 billion) for both the Group and Society which have been transferred from the Society to Yorkshire Building Society Covered Bonds LLP, a Limited Liability Partnership which is consolidated by the Group. The loans secure £3.0 billion (2007 – £2.2 billion) of covered bonds issued by the Society. The covered bonds are included in debt securities in issue (see Note 24). The loans are retained on the Society's balance sheet as the Society substantially retains the associated risks and rewards.

16. INTANGIBLE ASSETS

	Software £m	Other £m	Total £m
Group			
Cost			
At 1st January 2008	**41.8**	**1.5**	**43.3**
Additions	**2.7**	**–**	**2.7**
Disposals	**(3.5)**	**–**	**(3.5)**
Acquired on transfer of engagements	**0.1**	**0.6**	**0.7**
At 31st December 2008	**41.1**	**2.1**	**43.2**
Depreciation			
At 1st January 2008	**34.9**	**0.3**	**35.2**
Charged in year	**2.6**	**0.3**	**2.9**
Disposals	**(3.5)**	**–**	**(3.5)**
At 31st December 2008	**34.0**	**0.6**	**34.6**
Net book value			
At 31st December 2008	**7.1**	**1.5**	**8.6**
Cost			
At 1st January 2007	42.6	1.5	44.1
Additions	1.8	–	1.8
Disposals	(0.3)	–	(0.3)
Transfers	(2.3)	–	(2.3)
At 31st December 2007	41.8	1.5	43.3
Depreciation			
At 1st January 2007	32.7	–	32.7
Charged in year	2.9	0.3	3.2
Disposals	(0.3)	–	(0.3)
Transfers	(0.4)	–	(0.4)
At 31st December 2007	34.9	0.3	35.2
Net book value			
At 31st December 2007	6.9	1.2	8.1

Transfers relate to the reclassification of assets between intangible assets and property, plant and equipment.

Other intangible assets include an amount paid for the transfer of the administration of a number of employee sharesave schemes to the Society, plus the fair value of the retail customers and income streams from renewable contracts, primarily property insurance, on transfer of engagements. Further details of these are contained in Note 43.

Depreciation is provided to write off the cost less the estimated residual value of intangible assets over their estimated useful economic lives of between three and five years.

Any impairment in the value of intangible assets is dealt with through the income statement as it arises.

16. INTANGIBLE ASSETS (continued)

	Software £m	Other £m	Total £m
Society			
Cost			
At 1st January 2008	**27.9**	**1.5**	**29.4**
Additions	**2.7**	**–**	**2.7**
Disposals	**(0.1)**	**–**	**(0.1)**
Acquired on transfer of engagements	**0.1**	**0.6**	**0.7**
At 31st December 2008	**30.6**	**2.1**	**32.7**
Depreciation			
At 1st January 2008	**21.6**	**0.3**	**21.9**
Charged in year	**2.5**	**0.3**	**2.8**
Disposals	**(0.1)**	**–**	**(0.1)**
At 31st December 2008	**24.0**	**0.6**	**24.6**
Net book value			
At 31st December 2008	**6.6**	**1.5**	**8.1**
Cost			
At 1st January 2007	28.7	1.5	30.2
Additions	1.8	–	1.8
Disposals	(0.3)	–	(0.3)
Transfers	(2.3)	–	(2.3)
At 31st December 2007	27.9	1.5	29.4
Depreciation			
At 1st January 2007	19.7	–	19.7
Charged in year	2.6	0.3	2.9
Disposals	(0.3)	–	(0.3)
Transfers	(0.4)	–	(0.4)
At 31st December 2007	21.6	0.3	21.9
Net book value			
At 31st December 2007	6.3	1.2	7.5

Transfers relate to the reclassification of assets between intangible assets and property, plant and equipment.

17. INVESTMENT PROPERTIES

	Group 2008 £m	Group 2007 £m	Society 2008 £m	Society 2007 £m
Cost				
At 1st January	**7.6**	8.1	**7.3**	7.8
Additions	**–**	0.2	**–**	0.2
Disposals	**(0.2)**	(0.6)	**(0.2)**	(0.6)
Acquired on transfer of engagements	**0.2**	–	**0.2**	–
Transfers	**2.1**	(0.1)	**2.2**	(0.1)
At 31st December	**9.7**	7.6	**9.5**	7.3
Depreciation				
At 1st January	**1.3**	1.4	**1.3**	1.2
Charged in year	**0.1**	0.1	**0.1**	0.1
Impairment	**0.5**	–	**0.5**	–
Disposals	**–**	(0.2)	**–**	–
Transfers	**0.6**	–	**0.6**	–
At 31st December	**2.5**	1.3	**2.5**	1.3
Net book value				
At 31st December	**7.2**	6.3	**7.0**	6.0
Fair value				
At 31st December	**10.5**	11.4	**10.1**	11.0

Transfers relate to the reclassification of assets between investment properties and property, plant and equipment.

Investment properties are generally flats and offices, ancillary to branch premises and not used by the Group.

Depreciation is provided by the Group to write off the cost less the estimated residual value of investment properties (excluding land) by equal instalments over their estimated useful economic life of 50 years.

Land is not depreciated. Any impairment in the value of properties is dealt with through the income statement as it arises.

The fair value of the Group’s investment properties at 31st December 2008 has been arrived at on the basis of a valuation carried out by the Group’s Estates Manager.

The method used to estimate the fair value of investment properties is to obtain their market value as an approximation. Market value is calculated in accordance with the RICS Appraisal and Valuation Manual issued by the Royal Institution of Chartered Surveyors and is defined as ‘the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion, assuming that the buyer is granted vacant possession of all parts of the property required by the business’.

18. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress £m	Land and Buildings £m	Equipment Fixtures, Fittings and Vehicles £m	Total £m
Group				
Cost				
At 1st January 2008	**–**	**81.2**	**72.5**	**153.7**
Additions	**2.4**	**2.6**	**2.8**	**7.8**
Disposals	**–**	**(0.1)**	**(1.4)**	**(1.5)**
Acquired on transfer of engagements	**–**	**2.1**	**0.6**	**2.7**
Transfers	**–**	**(4.1)**	**2.0**	**(2.1)**
At 31st December 2008	**2.4**	**81.7**	**76.5**	**160.6**
Depreciation				
At 1st January 2008	**–**	**15.5**	**58.0**	**73.5**
Charged in year	**–**	**1.6**	**4.8**	**6.4**
Disposals	**–**	**–**	**(1.4)**	**(1.4)**
Transfers	**–**	**(0.6)**	**–**	**(0.6)**
At 31st December 2008	**–**	**16.5**	**61.4**	**77.9**
Net book value				
At 31st December 2008	**2.4**	**65.2**	**15.1**	**82.7**
Cost				
At 1st January 2007	–	77.2	68.3	145.5
Additions	–	4.5	2.4	6.9
Disposals	–	(0.6)	(0.5)	(1.1)
Transfers	–	0.1	2.3	2.4
At 31st December 2007	–	81.2	72.5	153.7
Depreciation				
At 1st January 2007	–	14.3	53.0	67.3
Charged in year	–	1.5	4.9	6.4
Disposals	–	(0.1)	(0.5)	(0.6)
Transfers	–	(0.2)	0.6	0.4
At 31st December 2007	–	15.5	58.0	73.5
Net book value				
At 31st December 2007	–	65.7	14.5	80.2

Transfers relate to the reclassification of assets between intangible assets, investment properties and property, plant and equipment.

18. PROPERTY, PLANT AND EQUIPMENT (continued)

	Construction in progress £m	Land and Buildings £m	Equipment Fixtures, Fittings and Vehicles £m	Total £m
Society				
Cost				
At 1st January 2008	**–**	**59.3**	**26.6**	**85.9**
Additions	**2.4**	**2.5**	**2.7**	**7.6**
Disposals	**–**	**(0.1)**	**(0.6)**	**(0.7)**
Acquired on transfer of engagements	**–**	**2.1**	**0.6**	**2.7**
Transfers	**–**	**(4.2)**	**2.0**	**(2.2)**
At 31st December 2008	**2.4**	**59.6**	**31.3**	**93.3**
Depreciation				
At 1st January 2008	**–**	**12.5**	**13.1**	**25.6**
Charged in year	**–**	**1.2**	**4.0**	**5.2**
Disposals	**–**	**–**	**(0.6)**	**(0.6)**
Transfers	**–**	**(0.6)**	**–**	**(0.6)**
At 31st December 2008	**–**	**13.1**	**16.5**	**29.6**
Net book value				
At 31st December 2008	**2.4**	**46.5**	**14.8**	**63.7**
Cost				
At 1st January 2007	–	55.4	22.5	77.9
Additions	–	4.3	2.3	6.6
Disposals	–	(0.5)	(0.5)	(1.0)
Transfers	–	0.1	2.3	2.4
At 31st December 2007	–	59.3	26.6	85.9
Depreciation				
At 1st January 2007	–	11.6	9.6	21.2
Charged in year	–	1.2	3.4	4.6
Disposals	–	(0.1)	(0.5)	(0.6)
Transfers	–	(0.2)	0.6	0.4
At 31st December 2007	–	12.5	13.1	25.6
Net book value				
At 31st December 2007	–	46.8	13.5	60.3

Transfers relate to the reclassification of assets between intangible assets, investment properties and property, plant and equipment.

19. DEFERRED TAX ASSETS AND LIABILITIES

	Group 2008 £m	Group 2007 £m	Society 2008 £m	Society 2007 £m
The movement on the deferred tax liability/(asset) is as follows:				
At 1st January	**33.9**	13.1	**2.9**	(5.3)
Income statement (credit)/charge	**(0.5)**	8.8	**(14.4)**	(4.0)
Tax (credit)/expense recognised directly in equity	**(11.1)**	12.0	**(12.1)**	12.2
Acquired on transfer of engagements	**(0.7)**	–	**(0.7)**	–
At 31st December	**21.6**	33.9	**(24.3)**	2.9
Deferred tax assets and liabilities are attributable to the following items:				
Deferred tax assets				
Provision for loan impairment	**1.2**	1.4	**0.9**	0.9
Other provisions	**9.4**	5.0	**2.6**	2.3
Other temporary differences	**0.1**	0.3	**11.6**	1.6
Accelerated tax depreciation	**–**	–	**0.3**	–
Tax value of losses carried forward	**30.2**	–	**30.2**	–
Transfer of engagements – Accelerated tax depreciation	**0.2**	–	**0.2**	–
Transfer of engagements – Pensions and other post retirement benefits	**0.5**	–	**0.5**	–
	41.6	6.7	**46.3**	4.8
Deferred tax liabilities				
Pensions and other post retirement benefits	**8.6**	1.2	**8.5**	1.2
Accelerated tax depreciation	**0.1**	1.4	**–**	1.1
Implementation of IAS 39 – mortgages and hedging	**13.9**	6.1	**12.9**	4.9
Overseas operations	**39.2**	30.9	**–**	–
Other temporary differences	**1.4**	1.0	**0.6**	0.5
	63.2	40.6	**22.0**	7.7

The deferred tax asset (which has not been discounted) on the tax value of losses carried forward has arisen on trading losses and on fair value adjustments, including available for sale securities in reserves. It is anticipated that the asset will be recoverable against future taxable profits including the reversal of fair value adjustments.

The deferred tax (credit)/charge in the income statement comprises the following temporary differences:

	Group 2008 £m	Group 2007 £m	Society 2008 £m	Society 2007 £m
Accelerated tax depreciation	**(1.3)**	(0.3)	**(1.3)**	(0.2)
Tax value of losses carried forward	**(11.1)**	–	**(11.1)**	–
Pensions and other post retirement benefits	**0.2**	0.5	**0.2**	0.5
Overseas dividends	**–**	(4.1)	**–**	(4.1)
Other provisions	**(4.3)**	(0.6)	**(0.3)**	–
Overseas operations	**8.2**	12.4	**–**	–
Other temporary differences	**7.8**	0.9	**(1.9)**	(0.2)
	(0.5)	8.8	**(14.4)**	(4.0)

Deferred tax liabilities have not been recognised on unremitted earnings of overseas subsidiaries of £110.5 million (2007 – £100.7 million) as the Group is in a position to control the timing of distribution of these profits and it is probable that no liability will arise on reversal of temporary differences associated with unremitted earnings in the foreseeable future.

20. OTHER ASSETS

	Group 2008 £m	Group 2007 £m	Society 2008 £m	Society 2007 £m
Prepayments and accrued income	**4.8**	4.4	**4.7**	4.6
Due from subsidiary undertakings	**–**	–	**28.4**	12.4
Other assets	**7.9**	3.7	**3.9**	2.8
	12.7	8.1	**37.0**	19.8

21. SHARES

	Group 2008 £m	Group 2007 £m	Society 2008 £m	Society 2007 £m
Shares comprising balances held by individuals	**13,683.1**	12,446.9	**13,683.1**	12,446.9
Fair value adjustments	**–**	1.3	**–**	1.3
	13,683.1	12,448.2	**13,683.1**	12,448.2

22. AMOUNTS OWED TO CREDIT INSTITUTIONS

	Group 2008 £m	Group 2007 £m	Society 2008 £m	Society 2007 £m
Amounts owed to:				
Banks	**945.5**	214.7	**945.5**	214.7
Group companies	**–**	–	**740.1**	1,160.6
Other credit institutions	**144.8**	34.7	**144.8**	34.7
Fair value adjustments	**0.2**	–	**0.2**	–
	1,090.5	249.4	**1,830.6**	1,410.0

Amounts due to Group companies comprise balances due to the Society's offshore deposit-taking subsidiary Yorkshire Guernsey Ltd.

23. OTHER DEPOSITS

	Group 2008 £m	Group 2007 £m	Society 2008 £m	Society 2007 £m
Amounts owed to:				
Group companies	**–**	–	**5,480.4**	2,846.0
Other customers	**1,762.0**	2,423.5	**944.9**	1,257.8
	1,762.0	2,423.5	**6,425.3**	4,103.8

Amounts due to Group companies comprise balances due to Yorkshire Building Society Covered Bonds LLP.

24. DEBT SECURITIES IN ISSUE

	Group 2008 £m	Group 2007 £m	Society 2008 £m	Society 2007 £m
Commercial paper	**–**	24.9	**–**	24.9
Certificates of deposit	**395.2**	757.0	**395.2**	757.0
Fixed rate notes	**2,904.5**	2,310.1	**2,904.5**	2,310.1
Floating rate notes	**1,094.6**	900.9	**1,094.6**	900.9
Fair value hedging adjustment	**82.8**	(25.5)	**82.8**	(25.5)
	4,477.1	3,967.4	**4,477.1**	3,967.4

Debt securities in issue include €3.0 billion, for both Group and Society, of covered bonds secured on certain loans and advances to customers. The Sterling equivalent value of these bonds is £3.0 billion (2007 – £2.2 billion).

25. RETIREMENT BENEFIT OBLIGATIONS

The Group operates one main employee benefit scheme (the Scheme), the costs of which are borne by the Society, with both defined benefit and defined contribution sections. With effect from 31st December 2008, the Society also operates an additional defined benefit employee benefit scheme (the Barnsley Scheme) in relation to the Society's transfer of engagements of Barnsley Building Society. The assumptions and figures below include the Barnsley scheme where appropriate.

In addition, the Group operates unfunded defined benefit pension schemes for certain current and former members of staff. The present value at 31st December 2008 of the defined benefit obligation in relation to these schemes was £3.8 million (2007 – £3.7 million) and the relevant disclosures have been aggregated with those of the main employee benefits scheme.

Defined contribution post-employment benefits

In addition to the defined benefit section (see below) the Group operates a defined contribution section of the main scheme for new employees and for existing employees who are not members of a defined benefit scheme. The expense recognised for the defined contribution section is £1.9 million (2007 – £1.7 million).

Defined benefit post-employment benefits

The Group operates a funded defined benefit scheme for certain employees, providing benefits based on final salary. The assets of the scheme are held in a separate trustee-administered fund. Contributions are assessed in accordance with the advice of an independent qualified actuary using the projected unit method. The defined benefit section was closed to new employees in 2000.

The Group's policy for recognising actuarial gains and losses is to recognise them immediately on the balance sheet through the statement of recognised income and expense.

Summary of assumptions	**31st Dec 2008 %**	31st Dec 2007 %	31st Dec 2006 %	31st Dec 2005 %	31st Dec 2004 %
Inflation rate	**3.2**	3.4	3.0	2.8	2.7
Discount rate	**6.4**	5.8	5.1	4.7	5.3
Expected return on assets	**5.9**	6.4	7.0	6.7	7.1
Rate of increase in pay	**4.7**	4.9	4.5	4.3	4.2
Rate of increase of pensions in payment*					
Service before 1st January 2000	**3.4**	3.6	3.7	3.5	3.5
Service after 31st December 1999	**3.2**	3.4	3.0	2.8	2.7
Rate of increase for deferred pensioners*	**3.1**	3.4	3.0	2.8	2.7

The expected return on assets has been derived as the weighted average of the expected returns from each of the main asset classes. The expected return for each asset class reflects a combination of historical performance analysis, the forward looking view of the financial markets (as suggested by the yields available) and the views of investment organisations.

*In excess of any Guaranteed Minimum Pension (GMP) element.

The most significant non-financial assumption is the assumed rate of longevity. The assumptions made are equivalent to the following life expectancies for scheme members at age 60:

	2008 Years	2007 Years
Male pensioner	**25.9**	24.7
Female pensioner	**27.3**	27.7
Male non-pensioner	**27.5**	25.6
Female non-pensioner	**28.4**	28.6

Categories of assets	**31st Dec 2008 %**	31st Dec 2007 %	31st Dec 2006 %	31st Dec 2005 %	31st Dec 2004 %
Equities	**42**	44	66	66	73
Bonds	**17**	50	30	28	21
Cash and other	**41**	6	4	6	6
	100	100	100	100	100

25. RETIREMENT BENEFIT OBLIGATIONS (continued)

Reconciliation of funded status	**31st Dec 2008 £m**	31st Dec 2007 £m	31st Dec 2006 £m	31st Dec 2005 £m	31st Dec 2004 £m
Present value of defined benefit obligation*	**(231.1)**	(262.7)	(286.3)	(285.0)	(228.1)
Assets at fair value*	**259.9**	270.7	255.6	229.4	180.1
Funded status/Defined benefit asset/(liability)	**28.8**	8.0	(30.7)	(55.6)	(48.0)

*The 2008 balances include those of the Barnsley scheme, present value of defined benefit obligation – £8.0 million; assets at fair value – £6.1million.

Statement of recognised income and expense (SORIE)	**2008 £m**	2007 £m	2006 £m	2005 £m	2004 £m
Actuarial gain/(loss) recognised in SORIE	**17.8**	33.8	22.0	(21.4)	(4.5)
Cumulative actuarial gains/(losses) recognised at 1st January	**29.9**	(3.9)	(25.9)	(4.5)	–
Cumulative actuarial gains/(losses) recognised at 31st December	**47.7**	29.9	(3.9)	(25.9)	(4.5)
Experience gain and losses					
Experience gain/(loss) on defined benefit obligation	**53.8**	38.0	14.6	(43.1)	(10.9)
Experience (loss)/gain on assets	**(36.0)**	(4.2)	7.4	21.7	6.4
Actuarial gain/(loss) recognised in SORIE	**17.8**	33.8	22.0	(21.4)	(4.5)

Components of pension expense as shown in the income statement	**2008 £m**	2007 £m
Service cost	**5.6**	6.2
Interest cost	**15.0**	14.4
Expected return on assets	**(17.1)**	(17.7)
Total pension expense	**3.5**	2.9

Service cost is the Group's cost net of employee contributions and inclusive of interest to the reporting date.

Reconciliation of present value of defined benefit obligation	**2008 £m**	2007 £m
Present value of defined benefit obligation at 1st January	**262.7**	286.3
Acquired on transfer of engagements	**8.0**	–
Defined benefit service cost	**5.6**	6.2
Interest cost	**15.0**	14.4
Defined benefit employee contributions	**1.5**	1.6
Actuarial gain	**(53.8)**	(38.0)
Defined benefit actual benefits paid	**(7.9)**	(7.8)
Present value of defined benefit obligation at 31st December	**231.1**	262.7

Movement in defined benefit fair value of assets	**2008 £m**	2007 £m
Fair value of assets at 1st January	**270.7**	255.6
Acquired on transfer of engagements	**6.1**	–
Expected return on assets	**17.1**	17.7
Actuarial loss on assets	**(36.0)**	(4.2)
Defined benefit actual company contributions	**8.4**	7.8
Defined benefit employee contributions	**1.5**	1.6
Defined benefit actual benefits paid	**(7.9)**	(7.8)
Fair value of plan assets at 31st December	**259.9**	270.7

None of the assets were invested in the Group's own financial instruments (2007 – £nil) or property (2007 – £nil).

25. RETIREMENT BENEFIT OBLIGATIONS (continued)

Estimated contributions in 2009

	2009 £m
Society contributions	**8.9**
Employee contributions	**1.6**
Total contributions	**10.5**

26. OTHER LIABILITIES

	Group		Society	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Accruals and deferred income	**17.4**	15.6	**16.4**	13.9
Income tax deducted at source	**38.0**	36.1	**36.2**	36.1
Other	**3.2**	1.7	**0.2**	1.3
	58.6	53.4	**52.8**	51.3

27. PROVISIONS

Movements in provisions during the year were as follows:

	FSCS Levy £m	Regulatory and Other £m	Total £m
Group			
At 1st January 2008	**–**	**4.6**	**4.6**
Acquired on transfer of engagements	**0.1**	**–**	**0.1**
Amounts utilised during the year	**–**	**(1.3)**	**(1.3)**
Provision charge/(release) during the year	**14.7**	**(1.0)**	**13.7**
At 31st December 2008	**14.8**	**2.3**	**17.1**
At 1st January 2007	–	12.0	12.0
Amounts utilised during the year	–	(4.4)	(4.4)
Provision released during the year	–	(3.0)	(3.0)
At 31st December 2007	–	4.6	4.6
Society			
At 1st January 2008	**–**	**4.3**	**4.3**
Acquired on transfer of engagements	**0.1**	**–**	**0.1**
Amounts utilised during the year	**–**	**(1.2)**	**(1.2)**
Provision charge/(release) during the year	**14.7**	**(0.9)**	**13.8**
At 31st December 2008	**14.8**	**2.2**	**17.0**
At 1st January 2007	–	11.6	11.6
Amounts utilised during the year	–	(4.3)	(4.3)
Provision released during the year	–	(3.0)	(3.0)
At 31st December 2007	–	4.3	4.3

Provisions for regulatory and other liabilities principally relate to previous sales of endowment policies. It is anticipated that the majority of claims relating to these provisions will be cleared within the next year.

Financial Services Compensation Scheme

In common with all regulated UK deposit takers, the Society pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims against it. The FSCS levy consists of two parts – a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it. In September 2008 a claim was triggered against the FSCS by the transfer of Bradford and Bingley plc's retail deposit business to Abbey National plc. In October 2008 a further claim was triggered against the FSCS by the transfer of Kaupthing Singer and Friedlander's (KSF) internet deposit business ('Kaupthing Edge') and Heritable Bank's (a subsidiary of Landsbanki hf) deposit business to ING Direct. The FSCS will also be liable to claims from depositors of Landsbanki hf and KSF whose balances have not been transferred to ING Direct, but are covered by the FSCS.

27. PROVISIONS (continued)

We understand that the FSCS has met, or will meet, the claims by way of loans received from the Bank of England which will eventually be replaced by a loan from HM Treasury. The FSCS has, in turn, acquired the rights to the realisation of the assets of these banks. The FSCS is liable to pay interest on the loans from the Bank of England. The FSCS may have a further liability if there are insufficient funds available from the realisation of the assets of the banks to fully repay the respective Bank of England loans.

As a result of notifications it has received from the Financial Services Authority, the Society has recognised in this year's results a provision for a levy of £6.0 million for the scheme year 2008/9 and a levy of £8.7 million for the scheme year 2009/10, which are calculated with reference to the protected deposits it held at 31st December 2007 and 31st December 2008 respectively. Based on the Society's current market share it is estimated that in the next financial year the Society will be liable for a further levy totalling at least £8 million for the scheme year 2010/2011. At the date of signing these accounts there remains uncertainty over the amounts provided: given that the scheme year 2008/09 runs to 31st March 2009 and scheme year 2009/2010 runs to 31st March 2010, additional levies for these scheme years may be raised up to those dates. The amounts above do not take account of any compensation levies which may arise from any ultimate payout on claims.

28. SUBORDINATED LIABILITIES

	Group		Society	
	2008	2007	**2008**	2007
	£m	£m	**£m**	£m
6% Subordinated Bonds 2019	**25.8**	25.8	**25.8**	25.8
11⅜% Subordinated Bonds 2022	**25.3**	25.3	**25.3**	25.3
6⅜% Subordinated Bonds 2024	**51.5**	51.5	**51.5**	51.5
Fair value hedging adjustments	**10.3**	2.4	**10.3**	2.4
	112.9	105.0	**112.9**	105.0

Interest on the Floating Rate Notes is payable at rates linked to the London Interbank Offered Rate (LIBOR). All subordinated liabilities are denominated in sterling. The notes are repayable at the dates stated or earlier at the option of the Society and with the prior consent of the Financial Services Authority under the following conditions:

- redemption of all (but not some only) of the 6% Notes at par on 7th May 2014 after giving not less than fifteen nor more than thirty days' notice to the holders. In the event the Society does not redeem the notes on 7th May 2014 the fixed rate of interest will become the aggregate of 2.03% and the then current five year benchmark Gilt rate; and
- redemption of all (but not some only) of the 11⅜% Notes at par on 27th November 2017 after giving not less than thirty nor more than sixty days' notice to the holders. In the event the Society does not redeem the notes on 27th November 2017 the fixed rate of interest will become the greater of 11⅜% and an aggregate of 3.10% and the then current five year benchmark Gilt rate.

The rights of repayment of the holders of subordinated debt are subordinated to the claims of all depositors, creditors and members holding shares in the Society, as regards the principal of their shares and interest due on them.

29. SUBSCRIBED CAPITAL

	Group		Society	
	2008	2007	**2008**	2007
	£m	£m	**£m**	£m
5.649% Permanent Interest Bearing Shares	**151.0**	150.9	**151.0**	150.9
Fair value hedging adjustments	**16.2**	(4.9)	**16.2**	(4.9)
	167.2	146.0	**167.2**	146.0

All Permanent Interest Bearing Shares (PIBS) are unsecured and denominated in Sterling. Interest is payable half yearly on 27th March and 27th September. PIBS are repayable at the option of the Society, in whole, in March 2019 or any interest payment date thereafter.

Repayment requires the prior consent of the Financial Services Authority, if the PIBS are not repaid on a call date the interest rate is reset at a margin to the then prevailing LIBOR rate. They are deferred shares of the Society and the rights of repayment of the holders of PIBS are subordinated to the claims of all depositors, creditors, members holding shares in the Society and holders of subordinated debt, as regards the principal of their shares and interest due on them. The interest rate risk arising from the issuance of fixed rate PIBS has been mitigated through the use of interest rate swaps.

30. TOTAL EQUITY ATTRIBUTABLE TO MEMBERS

Group	General reserve £m	Hedging reserve £m	Available for sale reserve £m	Total reserves £m
At 1st January 2008	**995.8**	**(10.0)**	**(32.1)**	**953.7**
Transfer of engagements	**8.8**	**–**	**–**	**8.8**
Current year movement	**37.7**	**(33.6)**	**(57.3)**	**(53.2)**
At 31st December 2008	**1,042.3**	**(43.6)**	**(89.4)**	**909.3**

Society	General reserve £m	Hedging reserve £m	Available for sale reserve £m	Total reserves £m
At 1st January 2008	**829.7**	**(10.0)**	**(31.1)**	**788.6**
Transfer of engagements	**8.8**	**–**	**–**	**8.8**
Current year movement	**(19.4)**	**(33.6)**	**(60.7)**	**(113.7)**
At 31st December 2008	**819.1**	**(43.6)**	**(91.8)**	**683.7**

The hedging reserve relates to fair value adjustments on derivative financial instruments designated as cash flow hedges. It is expected that the forecast transactions will largely occur over the next five years and the amount deferred will be recognised over this period.

31. CAPITAL MANAGEMENT

More detail of capital management strategies can be found in the Risk Management Report on page 25.

	Group 2008 £m	Group 2007 £m
Tier 1		
General reserve	**1,042.3**	995.8
Subscribed capital	**167.2**	146.0
Pension fund adjustments (Note a)	**(34.9)**	(13.8)
Intangible fixed assets	**(8.6)**	(8.1)
Deductions from Tier 1 capital	**(61.9)**	(57.5)
	1,104.1	1,062.4
Tier 2		
Subordinated liabilities	**112.9**	105.0
Collective allowances for impairment	**5.8**	8.8
Deductions from Tier 2 capital	**(61.9)**	(57.5)
	56.8	56.3
Other items excluded	**0.5**	1.0
Total capital	**1,161.4**	1,119.7

	2008 £bn	2007 £bn
Risk weighted assets	**7.8**	7.8
Tier 1 ratio (%)	**14.1%**	13.6%
Solvency ratio (%)	**14.8%**	14.4%

The above ratios, deductions and definitions are in accordance with Financial Services Authority (FSA) guidelines.

The capital ratios for 2007 have been restated due to the changes to the basis of calculation which took effect on 1st January 2008 under Basel II. At all times capital has been significantly in excess of that required by the FSA.

Throughout the year the Group Capital Committee has kept the Group's capital position under review as well as considering the current market conditions for capital issuance and has seen no benefit to the Group in issuing further capital in 2008.

Note:

a. The regulatory capital rules allow a pension fund surplus/deficit to be deducted from/added back to regulatory capital and a deduction taken instead for an estimate of the additional contributions to be made in the next five years, less associated deferred tax.

32. FINANCIAL COMMITMENTS

	Group		Society	
	2008	2007	**2008**	2007
	£m	£m	**£m**	£m
Committed undrawn standby facilities	**3.5**	7.5	**3.5**	7.5

The Society has an obligation under the Building Societies Act 1986 to discharge the liabilities incurred up to 11th June 1996 of all subsidiaries in so far as those subsidiaries are unable to discharge the liabilities out of their own assets. The Society has given undertakings whereby it has agreed to discharge the liabilities incurred after 11th June 1996 by certain of its subsidiaries, including Yorkshire Guernsey Ltd, in the event that these subsidiaries may be unable to discharge them out of their own assets. The Society accounts for these guarantees in accordance with IFRS 4 'Insurance Contracts'.

Capital commitments contracted for at 31st December 2008, but for which no provision has been made in the accounts, amounted to £2.2 million (Society £2.0 million), (2007 – Group £0.5 million and Society £0.5 million).

The Group is not in default on any of its financial liabilities or commitments.

33. FINANCIAL INSTRUMENTS

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
Cash in hand and balances with the Bank of England	Short-term cash balances in branches Statutory deposits, primarily non interest bearing	Amortised cost
Loans and advances to credit institutions	Short-term Fixed and variable interest rates	Amortised cost*
Debt securities	Short, medium and long-term Fixed and variable interest rates	Generally held at fair value as available for sale assets Certain investments are held at fair value through the income statement or held to maturity at amortised cost. Detail is given in Note 14
Loans fully secured on residential property	Loan period is typically up to 25 years A variety of mortgage products offering fixed and variable interest rates	Amortised cost*
Derivative financial instruments	Primarily medium-term Value derived from underlying price, rate or index	Fair value through income statement
Intercompany deposit from Covered Bond Limited Liability Partnership	Long term Fixed and variable interest rates	Fair value through income statement
Investments	Investment in subsidiary companies	Amortised cost
Shares	Deposits made by individuals Varying withdrawal notice periods Fixed and variable interest rates	Amortised cost*
Amounts owed to credit institutions and other customers	Primarily short-term Time Deposits Fixed and variable interest rates	Amortised cost*
Debt securities in issue	Short and medium-term Fixed and variable interest rates	Amortised cost*
Subordinated liabilities	Long-term Fixed and variable interest rates	Amortised cost*
Subscribed capital	Long-term Fixed interest rates	Amortised cost*

* Except where hedge accounting allows a fair value adjustment to be made for interest rate risk.

34. DERIVATIVE FINANCIAL INSTRUMENTS

Instruments used for the management of market risk include derivative financial instruments (derivatives), which are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates, exchange rates or stock market indices.

Derivatives are only used by the Group in accordance with the Building Societies Act 1986. This means that such instruments are not used in trading activity or for speculative purposes and accordingly they are only used to reduce the risk of loss on core assets or liabilities arising from changes in interest rates, currency rates or other factors of a prescribed description.

The principal derivatives used in balance sheet risk management are interest rate swaps, interest rate options, cross currency interest rate swaps, forward rate agreements, futures contracts and foreign exchange contracts. These are used to hedge Group balance sheet exposures arising from fixed rate mortgage lending and savings products, funding and investment activities.

The following table describes the significant activities undertaken by the Group, the related risks associated with such activities and the type of derivatives which are typically used in managing such risks. Such risks may alternatively be managed using on-balance sheet instruments as part of the Group's integrated approach to risk management.

Activity	Risk	Type of hedge
Management of the investment of reserves and other net non-interest bearing liabilities	Sensitivity to changes in interest rates	Interest rate swaps
Fixed rate savings products and options, forward fixed rate funding	Sensitivity to changes in interest rates	Interest rate swaps, rate agreements and futures
Fixed rate mortgage lending and options, forward fixed rate investments	Sensitivity to changes in interest rates	Interest rate swaps, rate agreements and futures
Management of the interest basis risk arising from differences in the underlying pricing basis of assets and liabilities	Sensitivity to changes in relationships between interest rate bases	Interest rate swaps where one leg is referenced to LIBOR and the other to bank base rate
Equity linked investment products	Sensitivity to changes in equity indices	Equity linked interest rate swaps
Investment and funding in rate swaps and foreign currencies	Sensitivity to changes in foreign exchange rates	Cross-currency interest foreign exchange contracts

The Group's objective is to manage risk within its risk tolerance irrespective of the accounting treatment.

Those derivative products which are combinations of more basic derivatives are used only in circumstances where the underlying position being hedged contains the same risk features. In such cases the derivatives used will be designed to match the risks of the underlying asset or liability and therefore to hedge the associated market risk.

Certain financial instruments (including some retail products) contain features that are similar to derivatives. In the majority of such cases, the Group manages the associated risks by entering into derivative contracts that match these features.

Whilst all derivatives have been entered into for hedging purposes, only certain ones have been designated as such for accounting purposes. In some cases a natural offset can be achieved without applying the requirements of IAS 39. The Group only designates hedges where a high degree of effectiveness can be achieved.

Fair value hedges are designated where interest rate swaps are used to minimise the variability in the fair value of fixed interest financial instruments (mainly fixed rate mortgages).

Cash flow hedges are designated where interest rate swaps are used to convert the interest rate variability on short-term financial instruments into fixed rates.

34. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following tables summarise the notional and fair value of all derivative financial instruments held at the year end and the hedging designations in place at that date.

Group

At 31st December 2008	Contract/notional amount £m	Fair values Assets £m	Liabilities £m
Interest rate swaps designated as fair value hedges	8,656.8	32.4	427.6
Interest rate swaps designated as cash flow hedges	2,587.8	47.6	65.1
Cross currency interest swaps designated as fair value hedges	2,854.2	962.5	–
Derivatives not designated as hedges:			
Interest rate swaps	5,653.0	76.7	46.4
Cross currency interest rate swaps	586.5	106.2	3.8
Equity linked interest rate swaps	4.3	1.2	–
Forward foreign exchange	541.8	–	120.9
Interest rate options	45.0	0.1	–
Interest rate futures	1,150.0	–	7.6
Forward rate agreements	100.0	–	0.8
Total derivatives held for hedging	**22,179.4**	**1,226.7**	**672.2**

Society

At 31st December 2008	Contract/notional amount £m	Fair values Assets £m	Liabilities £m
Interest rate swaps designated as fair value hedges	8,656.8	32.4	427.6
Interest rate swaps designated as cash flow hedges	2,587.8	47.6	65.1
Derivatives not designated as hedges:			
Interest rate swaps	10,842.3	278.7	46.4
Cross currency interest rate swaps	586.5	106.2	3.8
Equity linked interest rate swaps	4.3	1.2	–
Forward foreign exchange	541.8	–	120.9
Interest rate options	45.0	0.1	–
Interest rate futures	1,150.0	–	7.6
Forward rate agreements	100.0	–	0.8
Total derivatives held for hedging	**24,514.5**	**466.2**	**672.2**

34. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Group
At 31st December 2007

	Contract/notional amount £m	Fair values Assets £m	Fair values Liabilities £m
Interest rate swaps designated as fair value hedges	8,766.8	50.5	49.6
Interest rate swaps designated as cash flow hedges	1,990.1	36.6	13.6
Cross currency interest swaps designated as fair value hedges	2,198.3	174.0	–
Derivatives not designated as hedges:			
Interest rate swaps	8,132.8	30.8	26.8
Cross currency interest rate swaps	448.9	7.8	6.4
Equity linked interest rate swaps	6.7	4.1	–
Forward foreign exchange	424.7	–	16.8
Interest rate options	45.0	0.1	–
Collateral received	–	(9.0)	–
Collateral pledged	–	–	(19.2)
Total derivatives held for hedging	22,013.3	294.9	94.0

Society
At 31st December 2007

	Contract/notional amount £m	Fair values Assets £m	Fair values Liabilities £m
Interest rate swaps designated as fair value hedges	8,766.8	50.5	49.6
Interest rate swaps designated as cash flow hedges	1,990.1	36.6	13.6
Derivatives not designated as hedges:			
Interest rate swaps	10,769.3	42.2	26.8
Cross currency interest rate swaps	448.9	7.8	6.4
Equity linked interest rate swaps	6.7	4.1	–
Forward foreign exchange	424.7	–	16.8
Interest rate options	45.0	0.1	–
Collateral received	–	(9.0)	–
Collateral pledged	–	–	(19.2)
Total derivatives held for hedging	22,451.5	132.3	94.0

The Group has in place a number of ISDA (International Swaps and Derivatives Association) master agreements where collateral is passed between parties to mitigate the market contingent counterparty risk inherent in outstanding derivative positions.

35. LIQUIDITY RISK

Liquidity risk is an intrinsic part of the Group's business as long-term mortgages are funded by short-term retail customer balances. Most mortgages have a contractual maturity date of around 25 years but in practice are frequently repaid early; currently the estimated average life of a mortgage is approximately five years. Conversely experience shows that retail deposits, nominally repayable on demand or with short notice periods, actually remain with the Society for relatively long periods. It is this inherent mismatch in the maturity profiles of retail assets and liabilities that creates liquidity risk.

The Group's liquidity management policy is designed to ensure maintenance of adequate investments in liquid assets to cover statutory, regulatory and operational requirements. The primary function of liquidity is the provision of sufficient assets in realisable form to ensure the Group is able to meet its liabilities as they arise and to absorb potential cash flow requirements created by the maturity mismatches referred to above. The policy is further designed to delegate liquidity management, within limits and a structure established by the board, as well as to monitor the composition of liquidity in line with risk management objectives and to optimise returns on liquidity investments insofar as these are consistent with other operational objectives.

The Group's liquidity management is focused in three areas:

- limits are established by the board that govern the quantity, quality (counterparty creditworthiness), marketability and returns from the Group's portfolio of liquidity investments. The portfolio is managed by the Treasury function, monitored by the Risk function and overseen by the Group Asset and Liability Committee (GALCO) under a series of delegated authorities;
- the Group conducts a series of daily stress tests that are designed to ensure that its liquidity is sufficient to meet its cash flow needs under any one of a number of adverse scenarios should they arise. The scenarios include ones caused by both Group specific and general market events, and incorporate both severe retail savings outflows and the unavailability of wholesale funding. They are constructed on various timescales as far out as six months; and

35. LIQUIDITY RISK (continued)

- the Group has established its own method for rating counterparties with whom it invests its liquid assets. Each counterparty has a number of limits set for different types of exposure, and these are reviewed for each counterparty at least once a year. Reviews of limits, including suspension or withdrawal of limits, can be and are undertaken more frequently if conditions or events warrant it. The Group's Credit Committee meets at least monthly, and often more frequently, to review the overall wholesale credit risk profile of the Group, as well as reviewing individual limits either as a part of the rolling annual process or on an ad hoc basis.

There are three key ratios that the Group considers key to monitoring its liquidity position:

- group prudential liquidity – which provides an overall measure of the amount of the highest quality liquidity held by the Group. As at 31st December 2008 this ratio was 20.6% (31st December 2007 – 21.7%);
- group 8 day liquidity – which measures the amount of liquidity that is realisable (i.e. can be turned into cash) within eight working days. As at 31st December 2008 this ratio was 10.1% (31st December 2007 – 7.8%); and
- liquidity stress tests – where, as noted above, the Group models how far its liquid asset holdings would fall under a number of different stress scenarios that cover both retail and wholesale stresses and cover periods from one week to six months. The results of these stress tests are reviewed by Group Risk on a daily basis, and by GALCO on a monthly basis.

All liquidity risk in subsidiary companies, with the exception of Other deposits, is eliminated by the use of appropriate inter-company loans and deposits. The tables below show contractual cash flows for all financial liabilities including interest payments. Further details of liquidity management are contained within the Risk Management Report on pages 23 to 30.

Group	Repayable on demand and up to one year £m	In more than one year but not more than five years £m	Over five years £m	Total £m
As at 31st December 2008				
Shares	**12,713.9**	**1,161.2**	**–**	**13,875.1**
Amounts owed to credit institutions	**1,047.2**	**3.4**	**48.5**	**1,099.1**
Other deposits				
Society	**931.5**	**–**	**–**	**931.5**
Subsidiaries	**786.0**	**64.5**	**–**	**850.5**
	1,717.5	**64.5**	**–**	**1,782.0**
Debt securities in issue	**1,056.9**	**3,633.1**	**3.7**	**4,693.7**
Subordinated liabilities	**7.5**	**30.1**	**169.7**	**207.3**
Subscribed capital*	**8.5**	**33.9**	**42.4**	**84.8**
Operating lease payments	**4.8**	**14.6**	**17.2**	**36.6**
Derivative financial liabilities	**379.2**	**353.8**	**66.1**	**799.1**
Total	**16,935.5**	**5,294.6**	**347.6**	**22,577.7**
Group				
As at 31st December 2007				
Shares	11,966.5	615.6	–	12,582.1
Amounts owed to credit institutions	216.7	7.5	37.6	261.8
Other deposits				
Society	1,258.9	2.1	–	1,261.0
Subsidiaries	1,151.9	43.5	–	1,195.4
	2,410.8	45.6	–	2,456.4
Debt securities in issue	1,031.4	3,356.1	–	4,387.5
Subordinated liabilities	7.5	30.1	177.2	214.8
Subscribed capital*	8.4	33.9	42.4	84.7
Operating lease payments	3.9	12.7	16.1	32.7
Derivative financial liabilities	(7.9)	89.4	16.8	98.3
Total	15,637.3	4,190.9	290.1	20,118.3

* Interest payments on subscribed capital are £8.4 million per year. The liquidity table includes these for 10 years.

36. MARKET RISK

Value at Risk (VaR)

VaR is a risk management tool which evaluates the potential losses that may be incurred as a result of movements in market conditions over a specified holding period and to a given level of confidence. The model used is based on a 10 day holding period and a 99% confidence level.

The VaR model calculates potential movements in market prices by reference to market data from the last 90 days, and incorporates underlying risk factors based on historic interest rate volatilities and correlations.

VaR for the Treasury portfolios is calculated and reported on a daily basis and for the Group balance sheet on a monthly basis. A quarterly back test of the VaR model is performed to test the validity of the assumptions and parameters within the model.

A number of limitations should be considered in relation to the VaR model:

- historic data is not necessarily a good guide to future events;
- the model, by definition, does not capture the potential losses outside the 99% confidence level, particularly those events that are extreme in nature; and
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

VaR measures below are based upon full balance sheet positions including the investment of the Group's free reserves.

Balance sheet structure analysis (Basis risk)

An analysis of interest bearing items by rate type is performed to illustrate key areas of structural mismatch. It identifies mismatches between administered rates, fixed rates and other rates including those linked to Bank Base Rate and LIBOR. The effect of LIBOR mismatches within the balance sheet is measured as the impact on net interest income (for a 12 month rolling period) of an isolated increase in LIBOR of one basis point (0.01%).

Basis point value (BP) sensitivity

This measure calculates the change in value of the assets and liabilities resulting from a one basis point parallel shift in interest rates. Within the Treasury portfolio this is calculated and reported on a daily basis separately for each currency and at the full balance sheet level on a monthly basis.

Repricing gap analysis

Repricing dates are analysed, primarily to avoid repricing risk concentrations - the situation where too great a proportion of the Group's assets and liabilities see the interest rates earned or charged on them resetting within a given time period. The aim is to prevent excessive volatility in the net interest margin that could arise if rates shifted adversely within a given time period, and since we cannot dictate interest rate movements themselves, the best approach is to limit the amount of assets or liabilities that are exposed in this way. The analysis identifies the net asset/liability repricing position across a series of time intervals. Positions are calculated using nominal amounts and exclude interest flows. General reserves, fixed assets and other liabilities are classified as having 'non-specific' repricing characteristics with a zero rate of interest. The measure is calculated as a reverse cumulative gap.

All market risk is managed in the Society on behalf of the Group, hence the tables below apply to both the Group and the Society.

2008	Year-end £000	Average £000	Maximum £000	Minimum £000
VaR	**9,644**	**9,585**	**15,461**	**5,724**
Basis risk	**305**	**226**	**334**	**173**
BP sensitivity	**84**	**9**	**140**	**(62)**

	Greater than one year £m	Greater than five years £m	Greater than 10 years £m
Repricing gap	**(100)**	**(93)**	**(27)**

36. MARKET RISK (continued)

2007	Year-end £000	Average £000	Maximum £000	Minimum £000
VaR	6,529	4,727	6,529	2,210
Basis risk	196	296	407	196
BP sensitivity	(6)	(40)	52	(138)

	Greater than one year £m	Greater than five years £m	Greater than 10 years £m
Repricing gap	343	(22)	(34)

This year the Group has seen an increase in the underlying VaR measure, which is mainly as a result of an increase in market volatility parameters that are used in the model. The model takes account of market volatility within its calculations and typically VaR will increase if market volatility increases for the same underlying nominal position.

Basis risk sensitivity within the balance sheet has increased relative to last year-end due to the reduced duration of the Group's basis risk swap portfolio.

More detail of how the Group manages its interest rate risk is included in the Risk Management Report on pages 23 to 30.

37. CURRENCY RISK

Currency exchange risk is monitored daily and the Group seeks to minimise its net exposure to assets and liabilities denominated in currencies other than sterling. Actual positions, which represent the net amount on which the Group is exposed to movements in exchange rates, were around 0.01% of total assets throughout 2008. More detail of this policy can be found in the Risk Management Report on pages 23 to 30. Actual exposures were:

	2008 £m	2007 £m
Year-end	**0.5**	0.3
Maximum	**5.8**	2.1

38. WHOLESALE CREDIT RISK

The Group's wholesale credit risk arises principally from assets held for liquidity purposes. The risk is that counterparties with whom the Group invests liquid assets fail to repay those investments when they fall due. The Group, through the Group Risk function, undertakes its own internal rating of all its counterparties and sets individual limits accordingly. These limits are reviewed at least annually, with revocation or suspension taking place where considered appropriate. The ratings are compared with those produced by external rating agencies at least annually. Whilst recognising that exposures will be maintained across a spectrum of counterparties, and that it is not commercially feasible to limit exposure to the highest (i.e. best) rated organisations, the board has established a risk averse policy. Individual exposure limits are set according to the credit rating applied to a given institution, i.e. lower limits for lower rated institutions. Limits are in place governing the types of instrument in which the Group will invest, as well as geographic and sector limits designed to prevent over-exposure to a given country or business type. The following table breaks down exposures using Basel exposure methodology and composite external ratings.

	2008	2007
AAA	**46%**	28%
AA+ to AA-	**34%**	37%
A+ to A-	**17%**	34%
Other	**3%**	1%
	100%	100%

The maximum exposure to any one country (other than the UK) is £471 million (2007 – £373 million), or 8.8% of total liquid assets.

98% of all wholesale exposures are to major industrial countries with less than 1% being to the USA. The largest exposure to a single institution (other than the UK Government) is £448 million (2007 – £243 million), and this is to an AA rated institution.

There is no direct exposure to any Icelandic bank, although on 31st December 2008 the Society acquired the business of Barnsley Building Society which had exposures of £10 million to two Icelandic banks. These exposures had been fully provided against and so represent no further risk to the Group.

38. WHOLESALE CREDIT RISK (continued)

Wholesale credit risk is recorded in the following balance sheet captions:

	2008 £m	2007 £m
Cash in hand and balances with the Bank of England	**291.9**	434.9
Loans and advances to credit institutions	**542.0**	756.8
Debt securities	**4,493.8**	3,530.2
Derivative financial instruments	**1,226.7**	294.9
Investments (note a)	**2.1**	2.1
Total wholesale credit risk	**6,556.5**	5,018.9

Debt securities, which are shown after fair value and impairment adjustments, can be further analysed as:

	2008 £m	2007 £m
UK Government securities	**1,355.4**	267.2
Medium term notes issued by financial institutions	**1,414.5**	1,539.8
Certificates of deposit	**869.3**	1,035.0
Mortgage backed securities (note b)	**785.6**	553.0
Structured investment vehicles (note c)	**–**	22.7
Combination note (note d)	**10.6**	10.5
Synthetic collateralised debt obligations (note e)	**27.0**	58.0
Cash collateralised debt obligations (note f)	**31.4**	44.0
	4,493.8	3,530.2

(a) Principally the equity investment in VocaLink Holdings Limited which is associated with the Group's operation of cash machines.

(b) Mortgage backed securities are all backed by UK prime residential mortgages.

(c) There are three investments in structured investment vehicles where the fair value has now been reduced to zero.

(d) The combination note is an investment in a AAA rated capital protected vehicle that is structured to pay a return over and above its regular coupon.

(e) There are six investments in synthetic collateralised debt obligations. These contain embedded derivatives that have been separated with changes in fair value being taken directly to the income statement.

(f) There are eight investments in cash based collateralised debt obligations, each of which continues to perform and there is no evidence of any impairment. However, in most cases fair values have fallen in line with the general credit market. These investments have been classified as available for sale and falls in value have been recorded in reserves.

The maximum exposure to wholesale credit risk at 31st December is as reported in the Balance Sheet.

39. RETAIL CREDIT RISK

The Group employs automated credit scoring tools in its mortgage lending activities to support sound credit decision-making. A proactive approach to the identification and control of changing risk profiles and loan impairment is maintained in the Lending Risk and Group Risk functions with challenge and oversight provided by the Group Credit Committee. This committee receives regular reports from Retail Credit Risk (part of Group Risk) on the risk profile of the Group portfolio by defined key risk indicators, to ensure the business profile remains within risk appetite.

The measures considered include analysis of the movement of loans into arrears and between arrears bands by differing loan portfolios and loan characteristics (e.g. loan-to-value, behavioural scores) as well as monitoring of the overall characteristics of the loan portfolios (e.g. geographic, behavioural credit score, indexed loan-to-value concentrations, income multiples). In addition the Group undertakes a number of stress tests that subject the portfolios to different levels of default, house price deflation and other factors to identify the potential loan losses under the different economic conditions represented by those stress tests.

Retail credit risk within the Group is predominantly related to mortgage lending of £9.8 billion (2007 – £9.3 billion) conducted through the branch network. Additionally the Group's subsidiary Accord Mortgages Limited has mortgage lending of £6.5 billion (2007 – £6.0 billion) conducted through professional intermediaries.

The maximum exposure to retail credit risk is £16.3 billion (2007 – £15.4 billion).

Geographic distribution of mortgage balances	2008 %	2007 %
Scotland	**12**	12
North East	**6**	6
Yorkshire & Humberside	**17**	17
North West	**14**	14
Midlands	**11**	11
East Anglia	**3**	3
South West	**5**	5
Greater London	**11**	11
South East	**15**	15
Wales & Northern Ireland	**6**	6
	100	100

Loan to Value distribution	Book		New Lending	
	2008	2007	**2008**	2007
Loan to Value	%	%	%	%
>90%	**23**	9	**6**	23
75%-90%	**19**	21	**30**	35
50%-75%	**27**	30	**46**	28
<50%	**31**	40	**18**	14
	100	100	**100**	100

The Group's average indexed loan-to-value is 50.14% (2007 – 43.43%).

The proportion of the Group's loan books that are over 90% loan-to-value has risen to 23% as at 31st December 2008 due to falling house prices across the UK. At the same time the Group has materially reduced the loan-to-values it permits on new lending.

	Book		New Lending	
Customer type	**2008**	2007	**2008**	2007
	%	%	%	%
First time buyer	**19**	21	**10**	22
Other buyers, i.e. movers	**47**	50	**31**	41
Remortgage	**34**	29	**59**	37
	100	100	**100**	100

Arrears statistics	Group		Society	
	2008	2007	**2008**	2007
Arrears outstanding as a percentage of debt	%	%	%	%
No arrears	**92.54**	94.29	**97.22**	97.24
<3 months	**5.01**	4.49	**2.11**	2.26
3 to 6 months	**1.36**	0.83	**0.42**	0.35
6 to 12 months	**0.62**	0.26	**0.14**	0.11
Over 12 months	**0.09**	0.04	**0.03**	0.02
Property in possession	**0.38**	0.09	**0.08**	0.02
	100.00	100.00	**100.00**	100.00
Number of properties in possession at the year end	**410**	110	**57**	23

39. RETAIL CREDIT RISK (continued)

The Group's arrears have grown proportionally during 2008, in line with anticipated increases in the level of higher risk lending via intermediaries and in the Group's credit repair portfolio and also driven by increases in the market as a whole. Nevertheless, the Group's arrears ratios remain healthy compared to industry standards, and where they relate to higher risk lending our pricing approach looks to ensure that the Group is adequately rewarded for the additional risks taken.

	Loans and advances		Fair value of collateral	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Collectively assessed for impairment	**15,328.1**	15,039.6	**15,322.3**	15,030.8
Individually assessed for impairment	**575.6**	303.8	**540.0**	293.8
Total loans and advances	**15,903.7**	15,343.4	**15,862.3**	15,324.6

The Group has assisted borrowers who have had financial difficulties by rearranging the terms of their loans. The total of such loans is £157.9 million (2007 – £49.9 million).

Substantially all loans and advances are secured on property. Collateral is measured as the lower of the balance outstanding and the estimated current value of the property.

40. FAIR VALUES

The tables below are a comparison of book and fair values of the Group's financial instruments by category as at the balance sheet date. Where external market prices are available they have been used to determine fair value. Otherwise, internal pricing models using external market data have been used.

	2008		2007	
	Book Value £m	**Fair Value £m**	Book Value £m	Fair Value £m
Group				
Assets				
Cash in hand and balances with the Bank of England	**291.9**	**291.9**	434.9	434.9
Loans and advances to credit institutions	**542.0**	**542.0**	756.8	756.8
Debt securities – fair value	**15.6**	**15.6**	40.3	40.3
Debt securities – embedded derivative	**(45.5)**	**(45.5)**	(8.3)	(8.3)
Debt securities – available for sale	**3,730.8**	**3,730.8**	3,498.2	3,498.2
Debt securities – held to maturity	**792.9**	**676.6**	–	–
Loans and advances to customers	**16,291.8**	**15,946.1**	15,362.0	15,436.8
Investments	**2.1**	**2.1**	2.1	2.1
Liabilities				
Shares	**13,683.1**	**13,683.1**	12,448.2	12,448.2
Amounts due to credit institutions	**1,090.5**	**1,090.5**	249.4	249.4
Other deposits	**1,762.0**	**1,762.0**	2,423.5	2,423.5
Debt securities in issue	**4,477.1**	**4,471.0**	3,967.4	3,950.8
Subordinated liabilities	**112.9**	**86.5**	105.0	112.9
Subscribed capital	**167.2**	**75.5**	146.0	148.8
Society				
Assets				
Cash in hand and balances with the Bank of England	**291.9**	**291.9**	434.9	434.9
Loans and advances to credit institutions	**486.9**	**486.9**	732.2	732.2
Debt securities – fair value	**15.6**	**15.6**	40.3	40.3
Debt securities – embedded derivative	**(45.5)**	**(45.5)**	(8.3)	(8.3)
Debt securities – available for sale	**3,386.3**	**3,386.3**	3,152.5	3,152.5
Debt securities – held to maturity	**792.9**	**676.6**	–	–
Loans and advances to customers	**9,770.0**	**9,382.0**	9,328.7	9,338.8
Investments	**12,800.0**	**12,800.0**	9,217.9	9,217.9
Liabilities				
Shares	**13,683.1**	**13,683.1**	12,448.2	12,448.2
Amounts due to credit institutions	**1,830.6**	**1,830.6**	1,410.0	1,410.0
Other deposits	**6,425.3**	**6,425.3**	4,103.8	4,103.8
Debt securities in issue	**4,477.1**	**4,471.0**	3,967.4	3,950.8
Subordinated liabilities	**112.9**	**86.5**	105.0	112.9
Subscribed capital	**167.2**	**75.5**	146.0	148.8

40. FAIR VALUES (continued)

Fair values of derivative financial instruments are shown in Note 34.

The fair values of all cash in hand, balances with the Bank of England and loans and advances to credit institutions have been recorded at par as they are all due in under one year and there is no impairment.

The fair values of debt securities are determined wherever possible from external market prices. Where reliable prices are not available valuations are determined using models and externally verifiable market factors. The main inputs used in these models are underlying asset credit ratings, credit spreads, defaults in underlying instruments and credit enhancement or subordination factors.

The fair value of loans and advances to customers has been calculated on an individual loan basis taking into account factors such as impairment and interest rates. It is not considered appropriate to value them collectively as a portfolio sale.

41. RELATED PARTIES

Identity of related parties
The Group and Society have a related party relationship with their subsidiaries, joint venture, the pension scheme and key management personnel. The Group considers its key management personnel to be its directors.

Contributions to the pension scheme
The Society paid contributions of £10.3 million to the pension scheme (2007 – £9.5 million).

Key management compensation
The key management personnel compensations are as follows:

	No. of key management personnel	**2008 £000**	No. of key management personnel	2007 £000
Short-term employee benefits		**1,432**		1,894
Post employment benefits		**72**		52
Total key management personnel compensation	**12**	**1,504**	14	1,946

Transactions with key management personnel
Key management personnel and their close family members have undertaken the following transactions with the Society under normal business terms.

	No. of key management personnel 2008	**Amounts in respect of key management personnel and their close family members 2008 £000**	No. of key management personnel 2007	Amounts in respect of key management personnel and their close family members 2007 £000
Mortgage loans				
At 1st January		**699**		352
Net movements in the year		**(72)**		347
At 31st December	**2**	**627**	2	699
Deposit accounts and investments				
At 1st January		**1,193**		1,095
Net movements in the year		**–**		98
At 31st December	**11**	**1,193**	11	1,193

Mortgage loans made to key management personnel and their close family members were granted in the ordinary course of business and are subject to repayment under normal lending terms. The maximum outstanding balances during the year were £699,326.

Amounts deposited by key management personnel and their close family members earn interest at the same rates offered to the public.

Key management personnel and their close family members paid interest totalling £25,974 (2007 – £28,682), received interest totalling £34,238 (2007 – £36,934), and paid no fees and commissions during the year. Interest paid reflects amounts relating to 'offset' mortgages where savings balances are used to reduce the interest bearing balance of mortgage loans.

41. RELATED PARTIES (continued)

Transactions with subsidiaries

The Society enters into a number of transactions with its subsidiaries in the normal course of business. These include loans and shares. The value of related party transactions, outstanding balances at the year end and related income and expense for the financial year are as follows:

	2008 £m	2007 £m
Shares in subsidiaries		
At 1st January	**294.1**	294.1
Net movements	**(52.3)**	–
At 31st December	**241.8**	294.1
Loans to subsidiaries		
At 1st January	**8,921.5**	5,966.6
Net movements	**3,634.4**	2,954.9
At 31st December	**12,555.9**	8,921.5
Deposits from subsidiaries		
At 1st January	**3,991.4**	2,614.7
Net movements	**1,999.7**	1,376.7
At 31st December	**5,991.1**	3,991.4
Interest receivable on loans	**462.0**	348.4
Interest payable on deposits	**(175.0)**	(145.4)
Fees and expenses receivable	**15.9**	16.4
Fees and expenses payable	**(2.5)**	(2.6)

Transactions with joint ventures

The Society holds 50% of the share capital of MutualPlus Ltd, a branch sharing company. The outstanding balances at the year end are as follows:

	2008 £m	2007 £m
Loans		
At 1st January	**–**	0.1
Net movements	**–**	(0.1)
At 31st December	**–**	–

42. CASH FLOWS FROM OTHER OPERATING ACTIVITIES

	Group		Society	
	2008	2007	**2008**	2007
	£m	£m	**£m**	£m
Working capital adjustments:				
Depreciation and amortisation	**9.8**	9.7	**8.6**	7.7
Profit on sale of assets	**(0.2)**	(9.1)	**(0.2)**	(9.0)
Interest on subordinated liabilities and subscribed capital	**16.2**	15.1	**16.2**	16.5
Provisions	**38.7**	8.9	**12.9**	1.6
Gain attributable to transfer of engagements	**(3.2)**	–	**(3.2)**	–
Fair value of subordinated liabilities and subscribed capital	**29.1**	0.5	**29.1**	0.5
Loss on realisation of debt securities	**1.0**	–	**0.9**	–
(Increase)/decrease in other assets	**(8.7)**	(0.8)	**(21.3)**	4.8
(Decrease)/increase in other liabilities	**(22.8)**	7.7	**(0.7)**	7.4
Working capital adjustments	**59.9**	32.0	**42.3**	29.5
Decrease/(increase) in operating assets:				
Loans and advances to credit institutions	**46.2**	–	**46.2**	–
Loans and advances to customers	**(635.7)**	(2,098.0)	**(147.2)**	(480.5)
Investments	**–**	(2.0)	**(3,582.1)**	(2,956.9)
Derivative financial instruments	**623.4**	8.5	**1,221.3**	169.7
Net decrease/(increase) in operating assets	**33.9**	(2,091.5)	**(2,461.8)**	(3,267.7)
Increase/(decrease) in operating liabilities:				
Shares	**924.9**	1,161.9	**924.9**	1,161.9
Amounts owed to credit institutions	**810.9**	176.9	**390.4**	165.5
Other deposits	**(676.3)**	827.1	**2,306.7**	2,248.2
Net increase in operating liabilities	**1,059.5**	2,165.9	**3,622.0**	3,575.6

43. TRANSFER OF ENGAGEMENTS

On 31st December 2008 the Society acquired the business of the Barnsley Building Society (the Barnsley) under section 42B(3)(b) of the Building Societies Act on the basis of a board resolution of the Barnsley as permitted by a direction given by the Financial Services Authority.

The Barnsley had identified exposures to two Icelandic banks that would require a write-off of up to £10 million. This sum could have been fully absorbed by the general reserves but its board determined that the long-term interests of its members would best be served by a transfer of engagements to the Society.

At the date of preparing the Group financial statements information required when valuing the acquisition was incomplete and as such the valuations are provisional and may be adjusted in the following period.

The assets and liabilities acquired and the associated accounting adjustments are set out below:

Assets	Notes	Cessation Accounts £m	Reclassifications £m	Adjustments £m	Take on balances £m
Cash in hand and balances with the Bank of England		0.5	–	–	0.5
Loans and advances to credit institutions	c	46.2	–	0.1	46.3
Debt securities	c	26.1	–	0.2	26.3
Loans fully secured on residential properties	d	292.1	–	0.6	292.7
Other loans		1.4	–	–	1.4
Tangible fixed assets	e	3.7	(0.3)	(0.7)	2.7
Investment properties	e	–	0.2	–	0.2
Intangible assets	f	–	0.1	0.6	0.7
Deferred tax	g	0.3	0.5	(0.1)	0.7
Current tax		1.0	–	–	1.0
Prepayments and accrued income		0.2	–	–	0.2
Total assets		371.5	0.5	0.7	372.7
Liabilities					
Shares		310.0	–	–	310.0
Amounts owed to credit institutions	c	30.0	–	0.2	30.2
Amounts owed to other customers		14.8	–	–	14.8
Derivative financial instruments	h	–	–	2.1	2.1
Accruals and deferred income		0.4	–	–	0.4
Provision for liabilities		0.1	–	–	0.1
Deferred tax		(0.5)	0.5	–	–
Net pension liability		1.9	–	–	1.9
Other liabilities		1.2	–	–	1.2
Total liabilities		357.9	0.5	2.3	360.7
General Reserves		13.6	–	(1.6)	12.0
Total reserves and liabilities		371.5	0.5	0.7	372.7
Goodwill					
Fair value of net assets					12.0
Purchase consideration	i				8.8
Negative goodwill	j				3.2

43. TRANSFER OF ENGAGEMENTS (continued)

Notes and adjustments

a The results of the Group do not include any material amounts of income or expense relating to the business acquired on 31st December 2008. The income and expenditure account for the Barnsley for the period to 30th December 2008 is reported in the table below for information only.

b The cessation accounts of the Barnsley have been prepared in accordance with UK Generally Accepted Accounting Principles. Certain reclassifications have been made to comply with IFRS and balances have been adjusted in accordance with IFRS 3, 'Business Combinations'.

c Money market instruments have been adjusted to fair value by applying appropriate market interest rates and prices.

d Mortgage balances have been adjusted to fair value by comparing them with the Society's current product range.

e Properties ancillary to branches and not used by the business have been reclassified as Investment Properties. Properties have been adjusted to their current fair value. Computer software has been reclassified as intangible assets.

f Identifiable intangible assets relate to the intrinsic value of a retail savings book and income streams from renewable contracts, primarily property insurance. They will be amortised over their useful lives of between three and five years.

g Deferred taxation relating to mortgage provisions has been written off.

h Derivative financial instruments have been recognised at their fair value.

i The combination of the two societies did not result in any transfer of consideration. The deemed purchase price has been calculated by measuring the fair value of the Barnsley business. This calculation has been based on a forward projection of cash flows generated by the business assuming modest growth in business assets and a saving in management expenses due to synergies. These projections have been discounted at a rate of 12% which approximates to the estimated cost of long-term unsecured funding.

j Negative goodwill results from the transaction, this gain has been recognised in the Income statement in Negative goodwill.

Income and expenditure account of the Barnsley Building Society
For the period 1st January 2008 to 30th December 2008

	£m
Net interest income	**5.0**
Net fee and commission income	**0.4**
Administrative expenses	**(4.4)**
Depreciation and amortisation	**(0.7)**
Other operating expenses	**(0.2)**
Impairment charge	**(10.0)**
Taxation	**1.1**
Net loss for the period*	**(8.8)**

* The above Income and Expenditure relates to the cessation accounts of the Barnsley and these amounts have not been included in the Income Statements of the Society or the Group. They are reported here for information only.

Annual business statement

for the year ended 31st December 2008

1. STATUTORY PERCENTAGES

	2008 %	Statutory Limit %
Lending Limit	**7.7**	25.0
Funding Limit	**33.0**	50.0

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986.

The Lending Limit measures the proportion of business assets not in the form of loans fully secured on residential property.

The Funding Limit measures the proportion of shares and borrowings (excluding offshore deposits held by individuals) not in the form of shares.

The statutory limits are as laid down under the Building Societies Act 1986 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

2. OTHER PERCENTAGES

	2008 %	2007 %
As a percentage of shares and borrowings:		
Gross capital	**5.66**	6.31
Free capital	**5.22**	5.86
Liquid assets	**25.35**	24.74
Profit for the financial year as a percentage of mean total assets	**0.04**	0.21
Management expenses as a percentage of mean total assets	**0.56**	0.63

The above percentages have been prepared from the Group accounts and in particular:

- 'Shares and borrowings' represent the total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue;
- 'Gross capital' represents the aggregate of general reserve, hedging reserve, available for sale reserve, subordinated liabilities and subscribed capital;
- 'Free capital' represents the aggregate of gross capital and collective impairment provision less property, plant and equipment, intangible assets and investment properties;
- 'Liquid assets' represent the total of cash in hand and balances with the Bank of England, loans and advances to credit institutions, debt securities and other liquid assets;
- 'Mean total assets' represent the amount produced by halving the aggregate of total assets at the beginning and end of the financial year; and
- 'Management expenses' represent the aggregate of administrative expenses, depreciation and amortisation.

3. INFORMATION RELATING TO THE DIRECTORS AND OTHER OFFICERS AT 31ST DECEMBER 2008

Director Name and Date of Birth	Business Occupation	Date of Appointment	Other Directorships
E. J. S. Anderson, BSc, CPFA 22nd December 1950	Company Director	19th May 2003	Airport Operators Association Ltd Leeds Chamber of Commerce and Industry Leeds International Pianoforte Competition Leeds Trinity and All Saints College Marketing Leeds Ltd St. Gemma's Hospice University of Leeds
Ms J. M. Baddeley, MA 21st March 1951 (retired 31st December 2008)	Associate Fellow Saïd Business School, Oxford	2nd November 2001	Art VPS Ltd Browning Properties Ltd Camelot Group plc Chrysalis VCT Plc Department of Health Greggs Plc
I. J. Bullock, BSc, FIA 7th November 1960	Building Society Sales and Marketing Director	12th April 2007	Accord Mortgages Ltd MutualPlus Ltd
A. M. Caton, BA 27th July 1963	Building Society Corporate Development Director	1st July 2004	YBS Investments (No. 1) Ltd YBS Investments (No. 2) Ltd Yorksafe Insurance Company Ltd Yorkshire Guernsey Ltd Yorkshire Investment Services Ltd
Mrs L. F. Charlesworth, BA, MBA 24th August 1956	Company Director	31st December 2006	St. James Investments Ltd St. James Investment Company UK No. 2 Ltd St. James Investment Company UK No. 3 Ltd
I. C. A. Cornish, BSc 11th November 1960	Building Society Chief Executive	1st July 2003	Accord Mortgages Ltd Yorkshire Investment Services Ltd Yorkshire Key Services Ltd Yorkshire Key Services (No. 2) Ltd
R. H. Davey, BA 22nd July 1948	Company Director	27th September 2005	Amlin Plc London Capital Group Holdings Plc Severn Trent Plc Severn Trent Water Ltd
A. T. Gosling, MA, FCA 1st June 1955	Building Society Finance Director	1st May 2001	Barnsley Property Services Ltd YBS Investments (No. 1) Ltd YBS Investments (No. 2) Ltd YBS Properties Ltd YBS Properties (Edinburgh) Ltd YBS Properties (York) Ltd Yorksafe Insurance Company Ltd Yorkshire Building Society Estate Agents Ltd Yorkshire Computer Services Ltd Yorkshire Guernsey Ltd Yorkshire Investment Services Ltd

3. INFORMATION RELATING TO THE DIRECTORS AND OTHER OFFICERS AT 31ST DECEMBER 2008 (continued)

Director Name and Date of Birth	Business Occupation	Date of Appointment	Other Directorships
P. R. Johnson, FCA 12th October 1946	Chartered Accountant	1st June 2007	Cheadle Hulme School
D. V. Paige, BSc, FCA 3rd July 1951	Company Director	31st December 2006	Aegon UK Plc Aegon Direct Marketing Services Europe Ltd Cornerstone International Holdings Ltd Edgecumbe Consulting Group Ltd Guardian Assurance Plc Guardian Linked Life Assurance Ltd Guardian Pensions Management Ltd Helphire Group Plc Scottish Equitable Plc Scottish Equitable (Managed Funds) Ltd Stonebridge International Insurance Ltd
Ms I. Thambiah, BSc, MBA 16th February 1968	Independent Retail Adviser	1st May 2008	Thambiah Consulting Ltd
S. Turner, BSc 29th November 1951	Company Director	13th October 2005	SCM Microsystems Inc

Mr A. M. Caton, Mr I. C. A. Cornish and Mr A. T. Gosling entered into contracts with effect from 1st July 2004, 1st July 2003 and 1st April 2001 respectively which are terminable by the Society or the director on one year's notice. Mr I. J. Bullock entered into a contract with effect from 12th April 2007 which is terminable by the Society on one year's notice and by Mr Bullock on six months' notice. Unless notice to terminate is given, the contracts continue automatically to the age of 60.

Documents may be served on the above-named directors: Ref."Yorkshire Building Society" c/o KPMG Audit Plc at the following address:
1 The Embankment, Neville Street, Leeds LS1 4DW.

Officer	Business Occupation	Directorships
R. J. Churchouse, MA, ACA	General Manager Risk and Planning	None
Mrs R. D. Court, BA	General Manager Human Resources and Customer Service	Yorkshire Guernsey Ltd Prism (England) Ltd
Mrs A. L. FitzPatrick, LLB	Group Secretary	Newhall Park Daycare Ltd
D. N. Henderson, BSc	Chief Information Officer	Yorkshire Key Services Ltd Yorkshire Key Services (No. 2) Ltd

Principal Office:
Yorkshire House, Yorkshire Drive, Bradford BD5 8LJ. www.ybs.co.uk
Auditors:
KPMG Audit Plc, 1 The Embankment, Neville Street, Leeds LS1 4DW

Report and Accounts 2008

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Yorkshire BUILDING SOCIETY

YBM 0019 27 02 2009