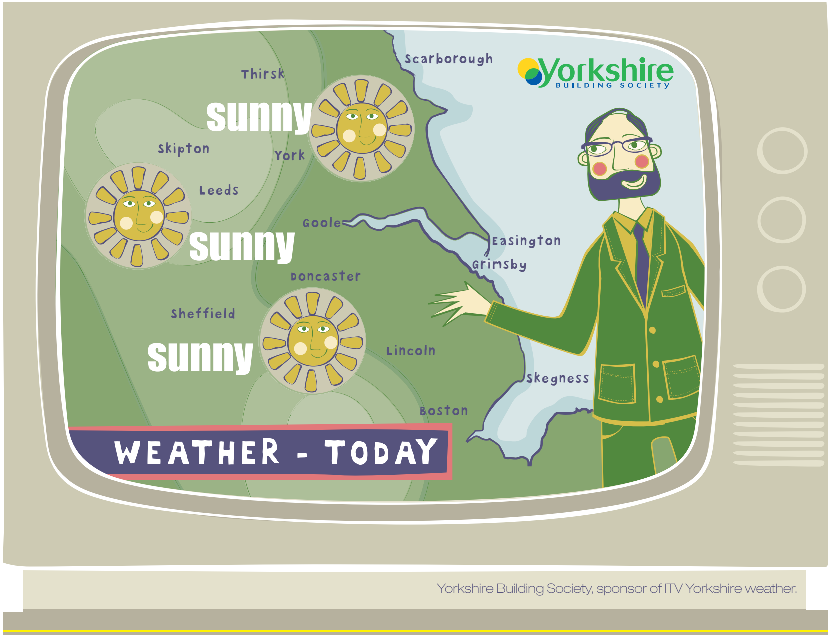
report & accounts 2006

Yorkshire
BUILDING SOCIETY
With you one hundred percent

Yorkshire Building Society, sponsor of ITV Yorkshire weather.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Boston
WEATHER - TODAY
Yorkshire Building Society, sponsor of ITV Yorkshire weather.

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Chairman's report

This is my first review as your Chairman and I am delighted to report that 2006 was a successful year, with the Group achieving strong growth and improving performance across all areas of its business.

Yorkshire Building Society is committed to remaining an independent mutual because the board believes this is in the best interests of our current and future members. We aim to meet the major financial needs of our members and to make them better off by offering them excellent value products, providing exceptional service and treating them fairly in all our dealings with them.

Strategy

Over the last 12 months, the Society's strategy has put greater emphasis on growth than has been the case in recent years. Growth is an important measure of performance in its own right. To achieve it requires that we are successful in attracting new customers, as well as in keeping existing ones, and maintaining optimum scale is vital to ensuring that the Society stays highly competitive.

We do not, however, seek growth at any cost. Our strategy demands that growth is achieved in a way which is prudent and profitable and which balances fairly the interests of current and future members.

There are 3 key elements to achieving our growth aspirations:

• continually enhancing the delivery of products and services through our branches, the telephone and the internet - operating in an integrated way so that we offer excellent service and become the supplier of choice for more members across a broader range of their financial needs;

• operating across more parts of the residential mortgage market, entering new markets where conditions are favourable and growth opportunities exist. In some cases these markets carry greater risk, so we will only operate in markets where the rewards available compensate for the additional risk, where we have appropriate expertise and in the context of an overall risk appetite which maintains the prudent approach of the Group; and

• driving greater efficiency and effectiveness across all areas of the Group, whilst continuing to invest in our people and the services they provide to members.

Success in each of these areas in 2006 resulted in a strong all-round performance.

2006 performance

In 2006 we achieved underlying mortgage asset growth of 10.4% - our best performance in 7 years, with record gross lending of £4bn.

The Society also achieved its best growth in customer savings for 7 years. Retail inflow of £791m increased member balances by 10.6%. This was achieved by a number of successful product launches and through the acquisition of MBNA's savings business and the Abbey's Sharesave operations, both of which were successfully integrated into the Group in 2006.

Our continued focus on organisational effectiveness and cost control in 2006 enabled us to reduce our management expenses ratio from 73p per hundred pounds of assets to a lowest ever level of 69p - one of the lowest of any major high street lender. It is our aim to reduce this figure even further in 2007, whilst ensuring that we continue to drive up the quality of our service.

The Group's pre-tax profits exceeded plan at £77.9m, which amounted to a 12% increase on 2005. This result was helped by gains in Fair Value but also reflects impressive growth in income and the tight control of costs. Against our overall growth levels and the need to maintain a strong capital position, we believe this level of profit to be consistent with our aim to optimise rather than maximise profits.

The Group's solvency ratio was 14.8% and the reserve ratio 5.2%. These ratios are carefully managed to ensure that they meet the requirements of the board in terms of maintaining financial stability and are well in excess of the minimum required by the Financial Services Authority (FSA).

Our approach to lending remains prudent. Through the Society, we continued to target only the prime residential market. We allied this with a carefully controlled entry into new markets through Accord Mortgages Ltd. This prudence is again evident from our arrears performance. The amount of arrears on mortgage balances 12 months or more in arrears was just 0.005% of balances.

Member benefits

We did not and will not lose sight of our core purpose, which is the delivery of benefits to members. One reason for our higher growth in 2006 was the continued emphasis on this. A demonstration of this is that our mortgage and savings products appeared regularly in Best Buy tables throughout the year and 90% of our customers rated our service as either ‘excellent’ or ‘good’ during 2006. We won Mortgage Magazine’s ‘Lender of the Year’ award for the second year running - making us the only lender to have won the award twice.

Treating Customers Fairly is a major FSA initiative, but it has always been at the heart of what we try to do as an organisation. This approach is embedded in our operations and is an essential element of our commitment to acting in the interests of our members.

Outlook

Looking to the future, we share the view of most commentators that a slowdown in house prices and the mortgage market is inevitable. However, we believe that the underlying UK economy is resilient and, in this environment, we will continue to seek an appropriate rate of growth. However, we are also mindful of the risks associated with high levels of household indebtedness, stretched mortgage affordability and rising mortgage arrears and we will continue to ensure that we maintain our overall prudent approach.

We are extremely confident about our future prospects. The Yorkshire is financially strong, with exceptionally sound asset quality, a high level of efficiency and a strong track record in the delivery of value to members. We have the scale to compete and have extended our capabilities to operate in more markets. As a mutual, owned by our members, we also have an inherent advantage in our ability to meet the expectations of consumers, who are quite rightly, ever more demanding.

Your board

The board is committed to following best practice in the area of corporate governance. A detailed Corporate Governance Report is set out on pages 22 to 28.

2006 saw a number of changes to the board. Dame Sue Tinson retired in April after almost 7 years’ service, and Colette Bowe also retired at the end of the year after more than 3 years’ service. I would like to thank them both for their significant contributions to the Yorkshire.

Two new non-executive directors were appointed at the end of 2006, Lynne Charlesworth and David Paige. Lynne has a background in risk management - particularly in financial services - and David has extensive risk, financial and audit experience within the financial services industry. I am delighted to have them on the board and their wealth of experience in the financial services sector will be a tremendous asset going forward.

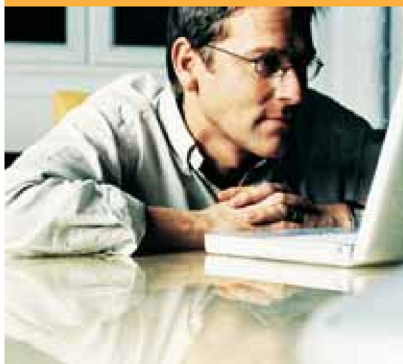
I would like to pay a particular tribute to my predecessor as Chairman, Christopher Sheridan, who retired at the end of 2006. Christopher joined the board in 1995 and became Chairman in 2001. He has made an outstanding contribution to the Society. His time on the board and as Chairman coincided with major developments in our sector and under his stewardship the Society has emerged strong, vibrant and competitive.

I would also like to express my appreciation for the contribution of Paul Lee. Paul stepped down as Vice Chairman during the year, although I am delighted to say he remains on the board. He has been succeeded as Vice Chairman by Richard Davey, who was appointed to the board in 2005.

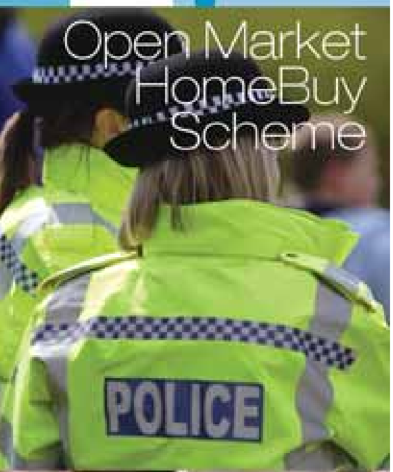
Our people

Finally I would like to thank the Society’s staff - on whom all of our achievements ultimately depend. We are extremely fortunate in having a committed and professional team throughout the organisation, who genuinely care about what they do for members and about the success of the business.

Ed Anderson
Chairman



Chief Executive's report



Although the housing market in 2006 was more buoyant than many commentators, including ourselves, predicted, it was no less challenging with existing players and new entrants all aggressively seeking market share. It was in this context that the Society set itself ambitious objectives across all aspects of its operations, against which I believe we have been very successful.

Fundamentally our success has been built on offering a wider range of innovative and good-value products, which meet the needs of our customers, doing so in a way which matches or exceeds their service expectations and making sure that we run the business as efficiently as possible.

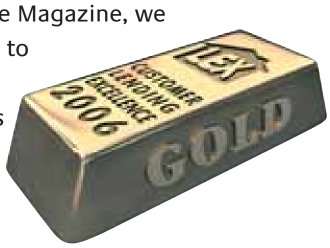
Borrowing

In 2006, the housing market remained strong with activity increasing, particularly in the second half of the year. Housing transactions picked up from low initial levels and growth in house prices regained momentum, rising by over 10% across the year.

Our mortgage products were consistently competitive throughout the year. We had more Moneyfacts Best Buy mentions for our fixed rate mortgages in 2006 than the five largest lenders combined and this contributed to net mortgage lending of £1.3bn, an increase of 52% over 2005. Given our continued focus on the prime house purchase market, we believe this to be a particularly strong performance.

Product innovation is a crucial element of our competitive advantage. Our conventional offset and family offset mortgage propositions continued to be popular with borrowers and demand remained strong for our Fresh Start package for separating couples. We were one of only four lenders involved in the Government's Open Market HomeBuy Scheme for key public sector workers, which was launched in October 2006. It is increasingly difficult for first time buyers to get a foot on the housing ladder. Our mutual origins lie in addressing precisely this challenge and we are proud to be playing a leading role in this initiative.

Service is equally important to us, and in addition to recognition as 'Lender of the Year' from Mortgage Magazine, we were also delighted to receive Lending Strategy magazine's 'Lending Excellence Gold Award' - an award based on extensive independent customer research.



Our intermediary lending operation, Accord Mortgages Ltd, continues to perform strongly and is an important contributor to the Group. As well as continuing to operate in the prime residential market in 2006, it has now established a strong position in the non-conforming and other less traditional markets - a position we intend to build on further in 2007.

Product innovation and service are equally

mortgage EDGE ONLINE TECHNOLOGY AWARDS 2006

HIGHLY COMMENDED NEAR PRIME LENDER

Accord mortgages

MORTGAGE INTRODUCER

LENDER AWARDS 2006

BEST SERVICE

Accord mortgages

important aspects of Accord's strategy. Its operations are entirely internet based, it was given a 'highly commended' award in the 'Best Near Prime Lender' category by Mortgage Edge magazine and it won the 'Best Service Lender' award in the Mortgage Introducer Awards.

Saving

Member savings balances increased by around £1.1bn in 2006. Our products remained competitive throughout 2006 and we achieved almost 200 Best Buy mentions.

Members benefited from a wide range of new savings products throughout the year - for example our new Regular Saver account has already reached the 10,000 mark for new account openings. We were also successful in acquiring the savings balances of MBNA, which boosted our investor numbers by approximately 8,000. In addition, we joined forces with Credit Suisse to offer a Guaranteed Investment Account.

Our Corporate Business team also had an excellent year. New clients to our existing operations included the John Lewis Partnership and National Grid. In addition, we acquired the Sharesave business of Abbey plc and were delighted to welcome over 140 new clients and over 80,000 new accounts to the Society. This acquisition confirmed the Yorkshire as the largest Sharesave scheme provider in the market.

Financial planning and protection

Our approach to providing products and services which we cannot cost-effectively manufacture ourselves, is to work in long-term partnership with 'best in class' providers who share our commitment to value and service.

Our successful partnership with Legal & General continues to prosper and we increased consultant numbers to 48 across the UK to enhance further our service to members looking for additional advice regarding their financial affairs. Over 2006 financial services income grew by 30%.

Our Home Insurance product was awarded 5 stars for the second year running by Defaqto and 18,000 new policies were taken out in 2006 - a 67% increase on the previous year. Our Motor Insurance product was also awarded 5 stars, placing it in the top 10% of policies in the marketplace.

As well as offering new products, we also look to continually enhance the features of more established products. Our Mortgage Payment Insurance, which remains one of the cheapest offered by any major lender, has been improved to allow customers more flexibility in choosing cover options and the level of benefit.

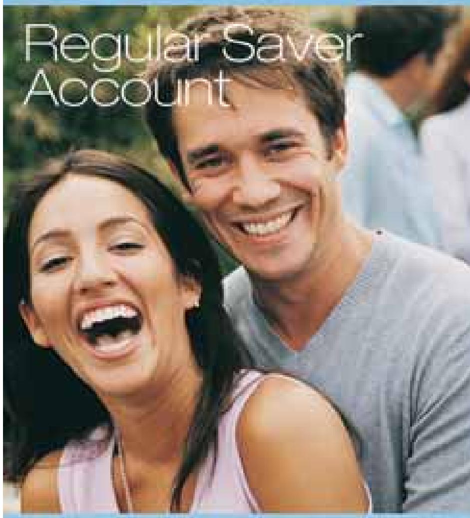
Customer service

Our aim is to be recognised by our members as one of the best organisations, of any description, that they do business with.

Our regular customer satisfaction survey indicates that 9 out of 10 members would recommend us to their friends or family and our regular independent 'mystery shopper' exercises indicate that we do well by comparison with our main competitors.

We are well aware, however, of the need for continuous improvement in this area. This comes through investment in new services and facilities and, just as importantly, through investment in our staff, so that they are able to go on offering the highest quality professional service to our customers.

For all of the growth in the internet, there is no doubt that a significant proportion of customers still want high quality face-to-face service, particularly for more complex financial transactions, and the Society is committed to meeting this need. In 2006 we completed a £10m refurbishment programme which means that our entire branch network has been refreshed over a 3 year period. Building on a highly successful branch opening in Stockton in 2005, we now intend to open a further 15 branches over the next 3 to 5 years, with an initial 3 to be opened in 2007.



John Lewis Partnership

nationalgrid

The expansion of our branch operations will be matched by further investment in our online operations. In 2006 we had well over 1 million unique visitors to our website and 20% of all full mortgage applications we received in the Society were made online. This was helped by the introduction of 'Helen', our online virtual mortgage assistant.

Our branch and internet operations are backed up by our entirely UK-based call centre operations, our aim being to offer excellent service to our customers however they prefer to deal with us.

Member involvement

Everything we aim to do stems from the fact that we are a member-owned organisation, which we seek to run in the interests of current and future members. Giving our members a say in what the Yorkshire does is an essential part of this commitment.

We established our Member Panel 6 years ago and it now has well over 6,000 members. We consult the Panel on a regular basis and frequently make changes based on the feedback we get. We intend to expand the activities of the Panel further in 2007.

The Member Forum was established in 2005 to provide a vehicle for a more detailed dialogue with people drawn from all parts of our membership. The Forum met twice in 2006, and provided input into topics ranging from how we deal with complaints to our plans for the internet. The Forum brings real value to the Society's decision making. One of the members summed up their experience of being on the Forum by saying:

"What's distinctive about the Yorkshire is that it has a transparent and open management. We challenge, question and query decisions that the Society is making but we're making a positive contribution and feel like we are being listened to".

In addition to these formal feedback mechanisms, I held member Question Time sessions and branch Open Days throughout 2006, which will continue in 2007.

Financial security

Like any business we need to make a profit to survive and prosper. However, our goal is profit optimisation rather than profit maximisation. We aim to make enough profit to ensure we are financially strong and can invest in the future, but beyond this we give back as much profit as we can to members by way of improved interest rates and pricing on our products.

Unfortunately the new international accounting regime under which we now report makes it more difficult for the non-specialist to determine the underlying performance of the business from the published accounts. In 2006, profits exceeded our expectations, helped partly by gains in Fair Value but primarily through our significant efforts to improve income and control costs.

The Group's solvency ratio was 14.8%, and its reserve ratio was 5.2%.

Wholesale funding

In March 2006, we successfully transacted our first Permanent Interest Bearing Shares issue. We received excellent feedback from institutional investors on the roadshows held to promote the issue, raised £150m of capital and strengthened our solvency position even further. This improves the security provided to members and gives us greater flexibility to consider new business opportunities.

We followed this later in the year with

Yorkshire Building Society CharitableFoundation our first ever Covered Bond issue, raising funding at cost effective rates in the wholesale money markets. We are only the second building society to do this type of deal. The issue, which was 'AAA' rated (the highest credit rating available), raised over £1bn, and was heavily over-subscribed by investors from all over Europe, selling out in a matter of hours. As a result we achieved excellent pricing and overall the issue was a real vote of confidence from the professional investment community in the Society's strategy and business performance.

Community involvement

We have always sought to be an active and responsible member of the many communities of which we are a part and we continue to be engaged in fundraising and community support activities throughout the country. We encourage our staff to get involved in the community by taking on roles such as school governorships and all staff are entitled to take an additional day's holiday to take part in community activities.

Our Charitable Foundation continues to thrive, donating £294,000 to over 1,000 causes in 2006, most of which were nominated by our members and staff. A key part of the Foundation's financial resource comes from the Small Change Big Difference scheme, through which members donate the pence from the interest on their savings and mortgage accounts once a year - a scheme to which nearly 500,000 members now subscribe.

Environmental commitment

We continually strive to find ways to reduce our impact on the environment through energy conservation and recycling. We have participated in the Business in the Community, Yorkshire and Humberside Environmental Index, which measures how well businesses are doing through environmental best practice benchmarking. We have planted over 4,000 trees in UK forests through The Carbon Neutral Company, offsetting the CO_2 emissions of our car fleet, and we participated in National Bike2Work Week in 2006. Multi-functional print devices have been introduced across the network and waste collection procedures have been altered within Head Office with all paper waste now being recycled.

The year ahead

We expect 2007 to be a year of greater economic uncertainty and no less competition. However we believe the underlying UK economy is resilient. A growing and costly regulatory burden with, in many instances, only limited benefits to the consumer, will no doubt continue to be the backdrop to our industry. The Yorkshire is very focused on a clear strategy of organic development of the business. We will be making further investment to improve the experience of our customers and to improve the efficiency of the business. Given our strong starting position, I believe the outlook for the Yorkshire is extremely positive.

Staff

Finally, I too would like to express my huge appreciation to our staff for their efforts during a year which was one of significant change for the business. We set high expectations of colleagues throughout the business and, on behalf of our members, they did a magnificent job demonstrating once again a tremendous level of enthusiasm, professionalism and care.

Iain Cornish
Chief Executive

recycle

non-executive directors

Ed Anderson, BSc, CPFA (age 56)
Chairman

Ed Anderson joined the board in 2003 and was appointed Chairman on 1 January 2007. He is a member of the Remuneration Committee and is also a director of Accord Mortgages Ltd, the Society's intermediary lending subsidiary.

Ed is an accountant by training and has divided his career between airport management and local councils. He is the Managing Director of Leeds Bradford International Airport and was previously an executive director at Leeds City Council. Ed is Chairman, and a past President, of the Leeds Chamber of Commerce, and sits on the Yorkshire Regional Council of the CBI. He is also a director, and past Chairman, of the Airport Operators Association, and a non-executive director of Kelda Group Plc as well as being a member of various local organisations.

Richard Davey, BA (age 58)
Vice Chairman

Richard Davey joined the board in 2005 and is a member of the Audit and Risk Committees. He is also a director of Yorkshire Investment Services Ltd.

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 also a non-executive director of Severn Trent Plc and Amlin Plc.

Julie Baddeley, MA (age 55)
Non-executive Director

Julie Baddeley joined the board in 2001 and is Chairman of the Remuneration Committee. She also, on behalf of the board, oversees the Society's policy on 'Treating Customers Fairly'.

Starting her career in employee relations, Julie is a management consultant. She was formerly an executive director at Woolwich Plc where she had responsibility for e-commerce, information technology and human resources. Julie is an Associate Fellow of the Saïd Business School, Oxford and lectures on a range of management subjects. She also holds a number of directorships in the public and private sectors, including Greggs Plc and ComputerLand UK Plc.

Frank Beckett, CA (age 65)
Non-executive Director

Frank Beckett joined the board in 2000 following his retirement as a partner at PricewaterhouseCoopers where he specialised in audit, accounting and advisory services to the financial sector. He worked closely with building societies for some 15 years and chaired the firm's Building Societies Group in Leeds from 1992 to 1997. Frank is Chairman of the Audit Committee and is also a member of the Risk Committee.

Photographs from top to bottom: Ed Anderson, Richard Davey, Julie Baddeley and Frank Beckett.

Lynne Charlesworth,
BA, MBA (age 50)
Non-executive Director

Lynne Charlesworth joined the board in December 2006 and is a member of the Risk Committee. 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.

During the last ten years, Lynne has founded a successful property and asset management business and is now joint Managing Director of a private investment company, St. James Investments Limited.

Paul Lee, MA, LL.B (age 61)
Non-executive Director

Paul Lee joined the board in 1998. As the senior partner at Addleshaw Goddard, one of the UK's leading law firms, he specialises in strategic planning and practice development.

Paul is a non-executive director on the board of the CBI and was formerly Chairman of the CBI North West region. He holds a number of other directorships in public and private companies. Paul is a keen promoter of the arts and is also actively involved in charitable work. Paul is a Trustee of the Society's pension scheme.

David Paige, BSc, FCA (age 55)
Non-executive Director

David Paige joined the board in December 2006 and is a member of the Audit and 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 and Aviva Plc. At the end of 2006 David retired from his position as Executive Director (Risk) at Royal & SunAlliance Insurance Group Plc.

Simon Turner, BSc (age 55)
Non-executive Director

Simon Turner joined the board in 2005 and is a member of the Audit and Remuneration Committees.

Simon has extensive experience in a large multi-national retail environment. He joined what was the Dixons Group (now DSG International Plc) in 1999, where he became the Managing Director of PC World in the UK, as well as managing all the computing businesses of the Group both in the UK and internationally. He is currently the Group Buying and Supply Chain Director for DSG International Plc and is a member of their Group Executive Committee.

Photographs from top to bottom: Lynne Charlesworth, Paul Lee, David Paige and Simon Turner.

executive directors

Iain Cornish, BSc (age 46)
Chief Executive

Iain Cornish was appointed Chief Executive and a director on 1 July 2003. Iain is a member of the Nominations Committee and a Trustee of the pension scheme. He is also a director of Accord Mortgages Ltd, Yorkshire Key Services Ltd and Yorkshire Investment Services Ltd.

Iain is an economist and started his career in government followed by a move to the private sector. Iain joined the Yorkshire in 1992 as Corporate Development Manager. Prior to being appointed Chief Executive, Iain was a General Manager, responsible for Marketing and Product Development.

Andy Caton, BA (age 43)
Corporate Development Director

Andy Caton joined the Society in 1991 as an economist and was appointed to the General Management team in 1998. On 1 July 2004, he was appointed Corporate Development Director and is responsible for Treasury, Corporate Affairs and Corporate Business functions. Andy is Chairman of Accord Mortgages Ltd, the Society's intermediary lending subsidiary. He is also a director of Yorkshire Investment Services Ltd, Yorksafe Insurance Company Ltd and Yorkshire Guernsey Ltd, the Group's offshore deposit taking subsidiary.

Andrew Gosling, MA, FCA (age 51)
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 and Audit functions. He is Chairman of Yorksafe Insurance Company Ltd, the Society's captive insurance subsidiary based in Guernsey, and Yorkshire Investment Services Ltd. He is also a director of Yorkshire Guernsey Ltd.

Rob Jackson, BA, MBA, FCIB (age 55)
Operations Director

Rob Jackson joined the board in 1996 and is responsible for the Society's systems, service quality and lending and savings administration. He is also Chairman of Yorkshire Key Services Ltd, the subsidiary company set up to promote and deliver the Yorkshire's business-to-business activity, as well as Chairman of MutualPlus Ltd.

Photographs from top to bottom: Iain Cornish, Andy Caton, Andrew Gosling and Rob Jackson.

general managers

Ian Bullock, BSc, FIA (age 46)
General Manager Sales and Marketing

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 July 2004 and now has the responsibility for all Product Development, Marketing and the Society's distribution network, including the branches and e-commerce.

Rachel Court, BA (age 40)
General Manager Human Resources

Rachel Court was appointed to the General Management team in 2006 and is responsible for the Human Resources function. Having joined the Society in 1991, Rachel has gained a broad experience across the Group starting in Mortgage Administration and Investment Services. She was then appointed Sales Director of Accord Mortgages Ltd before becoming the Product Development Manager for the Society's mortgage range. Rachel is Chairman of Yorkshire Guernsey Ltd.

John Warden, BA, ACA, MBA (age 45)
General Manager Business Performance

John Warden joined the Society in 2005 and has responsibility for key strategic projects, developing business processes and introducing process improvement across the organisation. John has a background in financial, retail and industrial sectors, working for a number of organisations including the Coventry Building Society, where he had executive responsibility for corporate strategy, marketing and product development. He has also worked for the Butler Research Group and DBS Management Plc.

Robin Churchouse, MA, ACA (age 41)
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 Society, Robin gained a wide range of experience across a number of financial services organisations, including roles in finance, risk, planning and strategy, management consultancy, corporate finance and prudential regulation.

John Davies, BEng, CEng, MIMechE (age 59) **General Manager Organisational Development**

John Davies joined the Society in 1997 and is responsible for the Group's Facilities, Legal and Secretarial functions and business-to-business activities. His organisational development activities focus on leadership development and coaching the senior management team in achieving both individual and corporate objectives. Prior to joining the Society as General Manager Resources, John specialised as a consultant in organisational change. John is a director of the subsidiary, Yorkshire Key Services Ltd.





Photographs from top to bottom: Ian Bullock, Robin Churchouse, Rachel Court, John Davies and John Warden.

Directors' report

The directors have pleasure in presenting their annual report, together with the Group Accounts and Annual Business Statement, for the year ended 31st December 2006.

Business objectives and activities

The Group's purpose is to maximise long term benefits for a growing membership. This will be 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.

Development of the business

Key developments in the business of the Group and the Chief Executive's assessment of the future outlook are detailed on pages 2 to 7. An important element in developing the business in a controlled manner is risk management, our approach to which is set out on pages 17 to 21. In particular the Group is in the process of implementing the changes required to comply with the Capital Requirements Directive (Basel II).

Business review

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.

Profitability

Group operating profit before provisions was £93.9 million (2005 – £76.7 million). This figure can be analysed into the following key areas:

	2006	2005	**2006**	2005
	£m	£m	% of mean assets	
Net interest income	**164.8**	156.4	**0.97**	1.00
Non interest income	**32.4**	30.7	**0.19**	0.19
Fair value volatility	**13.6**	(2.1)	**0.08**	(0.01)
Net gains on available-for-sale assets	**–**	6.7	**–**	0.04
Total income	**210.8**	191.7	**1.24**	1.22
Management expenses	**(116.9)**	(115.0)	**(0.69)**	(0.73)
Operating profit before provisions	**93.9**	76.7	**0.55**	0.49

As a percentage of mean assets our net interest income has fallen modestly. This movement was in line with the Group's financial plan for the year and is consistent with both providing good value to our members and ensuring financial security.

Non-interest income is in line with last year, as a percentage of mean assets, and slightly ahead of plan.

Fair value volatility results from fluctuations in the value of certain financial instruments and is primarily the result of higher money market interest rates and the advanced hedging of fixed rate mortgages. Since this item derives from timing differences it reflects, to a large extent, the reversal of prior year fluctuations or is expected to reverse in future periods.

Net gains on available-for-sale assets related to the disposal of certain financial instruments. Unrealised losses on these instruments of £18.1 million are recognised directly in reserves, through the statement of recognised income and expense. This amount relates to fixed interest investments, which are generally held to maturity, and results from the increased market rates referred to above.

Our management expenses rose in absolute terms by just 1.6% and fell as a proportion of mean assets (from 73p to 69p) reflecting improving efficiency in the Group.

After making provision for losses on loans and advances, for liabilities and for corporation tax the amount transferred to general reserves was £53.7 million (2005 – £50.9 million). Within this, provisions for liabilities, which allow principally for potential claims for compensation for mis-selling of endowment policies by our discontinued IFA operation, amounted to £12.5 million.

Capital

The Group uses several measures to monitor the level of capital within the business (a key indicator of financial strength), which can be summarised as follows:

	2006	2005
	% of shares and borrowings	
Gross capital/shares and borrowings *	**7.16**	6.36
Free capital/shares and borrowings *	**6.63**	5.86
	%	%
Solvency ratio	**14.78**	13.14

* These terms are defined in section 2 of the Annual Business Statement on page 71.

Our solvency ratio (which is the key capital ratio used by our regulator, the Financial Services Authority, to measure our capital strength), and our gross capital and free capital ratios have all risen substantially. This is principally due to the issue of Permanent Interest Bearing Shares (PIBS), a form of subscribed capital, in March 2006. The ratios remain strong and in line with the board's expectations.

Covered Bonds

In November 2006 the Society launched its first Covered Bonds programme which raised wholesale funds of £1.0 billion. Further details are contained in Note 14 to the accounts on page 49.

Business volumes

As reflected in our business objectives set out above, a key area of focus for the Group is the volume of business achieved during the year. Our 2006 performance shows significant improvements on 2005. The following are the key elements monitored by the Group in this area:

	2006	2005	**2006**	2005
	£m	£m	Estimated share of UK market	
Gross mortgage lending i.e. new loans	**3,979**	3,154	**1.2%**	1.1%
Net mortgage lending i.e. after repayments of existing loans	**1,257**	829	**1.1%**	0.9%
			% increase	
Mortgage balances excluding fair value adjustments and impairment provisions	**13,327**	12,070	**10.4**	7.4

- our gross new mortgage lending of £4.0 billion was a record and represented an estimated 1.2% share of the UK market;
- repayments during the year (i.e. the difference between our gross and net lending measured as a percentage of opening mortgage balances) have increased slightly from 20.7% to 22.5%;
- 2006 saw our net lending increase by 52% to £1.3 billion (our best ever). This represented an estimated 1.1% share of the UK market; and
- overall our mortgage balances grew by 10.4%, a significant improvement on the rate of growth in 2005.

	2006 £m	2005 £m	2006 Estimated share of building societies	2005
Net inflows into savings accounts	**791**	430	**9.5%**	4.4%

Our net inflow into savings accounts of £791 million represents an 84% increase on 2005, significantly ahead of our plan for the year and an estimated 9.5% of the building societies savings market. £345 million of this increase resulted from the acquisition of savings balances from other institutions.

Assets

At 31st December 2006 the total assets of the Group amounted to £17.6 billion, representing growth of 7.8% during the year, in line with both the 2005 growth figure and our 2006 targets.

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, which at 31st December 2006 stood at £4.1 billion (2005 – £3.9 billion) and represented 25.1% of shares, amounts owed to credit institutions and other customers and debt securities in issue (2005 – 26.0%).

Asset quality – mortgage arrears

During 2006 our overall arrears position, which is shown below, remained very benign. The balances on these accounts rose but nevertheless the credit quality of our portfolio remains high, as demonstrated in particular by an arrears ratio for cases with payments three months or more in arrears of just 0.03%.

Accounts with payments three months or more in arrears	2006	2005	2006 % of mortgage accounts/balances	2005
Number of accounts	**1,327**	1,271	**0.8**	0.8
Balances outstanding on accounts	**£106.6m**	£73.6m	**0.8**	0.6
Amount of arrears included in balances	**£3.8m**	£3.0m	**0.03**	0.02

The position on our more serious arrears cases, being those with payments twelve months or more in arrears, has deteriorated slightly but remains at a very low level.

Accounts with payments twelve or more months in arrears	2006	2005	2006 % of mortgage accounts/balances	2005
Number of accounts	**93**	74	**0.06**	0.04
Balances outstanding on accounts	**£8.7m**	£3.8m	**0.07**	0.03
Amount of arrears included in balances	**£0.7m**	£0.6m	**0.005**	0.005

Appropriate provisions have been made for potential losses on mortgages in accordance with the impairment policy set out in Note 1 to the accounts on page 41.

Members and customers

During 2006 our membership increased from 1.8 million to 1.9 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 2006 the percentage of customers rating the service they received as Excellent or Good was 90%.

Staff

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

	2006	2005
Staff costs (salaries and wages, social security costs and pension costs)	**£69.4m**	£67.4m
Number of staff employed (full and part time)	**2,337**	2,344
Number of staff employed (full time equivalent)	**2,092**	2,115
Per full time equivalent member of staff:		
Total management expenses (£000)	**55.9**	54.4
Total assets (£000)	**8,398**	7,706

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 a staff opinion survey, team briefings, listening groups, in-house newspapers 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 2006 are shown on pages 72 and 73 of the Annual Business Statement.

Three non-executive directors retired during 2006. Sue Tinson retired on 26th April 2006 and Christopher Sheridan, former Chairman, and Colette Bowe retired on 31st December 2006. The board wishes to acknowledge their contribution to the continuing success of the Society.

At the 2007 Annual General Meeting (AGM), Ed Anderson, Frank Beckett and Iain Cornish 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, Lynne Charlesworth and David Paige, who were appointed to the board on 31st December 2006, offer themselves 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.

Land and buildings

The directors consider the estimated market value of the Group's interest in land and buildings (comprising freehold and long leasehold land and buildings) to be not less than its net book value at 31st December 2006.

Charitable donations

The Yorkshire Building Society Charitable Foundation started making donations in 1999, since when it has donated over £2.2 million. The trustees of the Foundation predominantly seek to support small, local charities, which are proposed by members. In 2006, £295,000 was donated to 1,190 causes, of which 1,049 were suggested by members.

Almost 500,000 accounts are now involved through the Society's innovative 'Small Change, Big Difference' scheme, donating the pence on interest to the Foundation. Over 70% of the total donations made by the Foundation in 2006 were funded by the income from this scheme.

Additionally, the Society supports other local community causes directly through its Community Investment Fund (as the Foundation can only support registered charities). In 2006, donations of £80,000 were made to 333 causes, almost 57% of which were suggested by members.

Supplier payment policy

It is the general policy of the Group to pay supplier invoices at the end of the month following the invoice date. The Group is responsive to requests by suppliers for a shorter settlement period.

The creditor days were three days at 31st December 2006.

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

5th March 2007

Risk management report

Introduction

The activities of financial institutions inevitably involve a degree of risk. The Group's risk management framework and governance structure is intended to provide comprehensive controls and ongoing management of its major risks 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 that financial controls and systems of risk management are in place and robust. To assist the board, a Risk Committee was established in 2006 (further details are given on page 27) made up of non-executive directors and senior executives. This committee considers all risk matters relating to the Group, including regulatory and prudential requirements. Prior to its establishment its remit was covered principally by the Audit Committee and the board itself.

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 and remain commensurate with the Group's strategic aims and its appetite for risk. The Group Risk function provides periodic independent reports on risk positions and risk management activities for consideration by General Management, the Risk Committee, its sub-committees and the board.

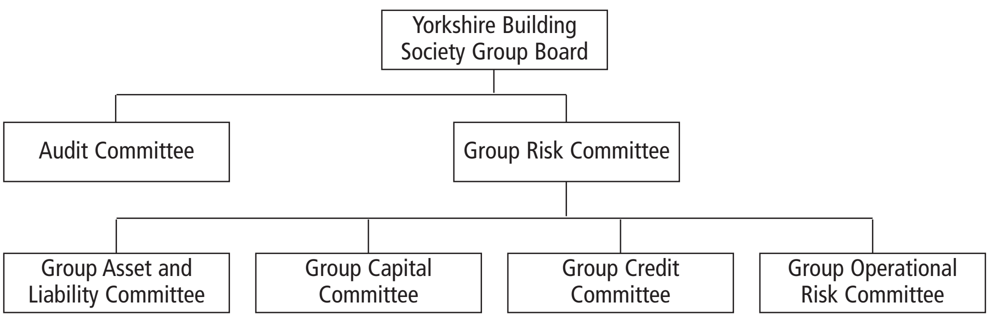
The board recognises that risk in various forms arises naturally from the Group's primary provision of services to members and believes that its risk management philosophy should be based on:

– 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.

To aid the Group's risk management activities it has defined its risks into three broad categories, these being market risk (predominantly the financial risks associated with interest rates and balance sheet structures), credit risk and operational risk. Each of these areas requires active management, monitoring and control. To support this the Group maintains risk management systems operated by individuals with appropriate experience and expertise.

Key risk reporting relationships

At 31st December 2006 the following committees were in place to oversee the Group's risk management processes. The establishment of the Risk Committee referred to above was approved by the board to refine further the Group's risk governance framework. Its terms of reference include the oversight of the Group's risk management practices and the provision of an entity-wide perspective on all risk matters. This committee met for the first time in April 2006 and comprises senior executives and relevant non-executive directors. Following on from a review of the Group's risk governance carried out as part of the Group's continual improvement of its risk management processes, and associated with the project to implement the changes to capital regulation under Basel II, the Capital and Operational Risk committees were established late in 2006, and both met for the first time in January 2007. During 2006 the activities now encompassed by the Risk Committee and its new sub-committees were covered principally by the Group Asset and Liability Committee (GALCO) and the Audit Committee, and by the board itself.



The Risk Committee and its sub-committees are supported by the Group Risk function.

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 is responsible for managing and controlling the balance sheet exposures of the Group. GALCO meets at least monthly and the board is presented with minutes of GALCO meetings and market risk reports.

The board recognises that certain key measures identified for market risk management purposes cannot be controlled 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, or target, for the definition and management of such financial risk. An important factor in the risk measures is the degree of internal consistency between them.

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 provides 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 submit monthly reports to GALCO.

The Group adopts the Comprehensive approach to market risk management (as defined in the Interim Prudential Sourcebook for Building Societies) and as such utilises the following risk management techniques to quantify potential market risk exposures:

Technique	Purpose
● Repricing Gap Analysis	Used primarily for the identification of instrument repricing concentrations.
● 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.
● 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.
● Foreign Exchange Exposure Analysis	Identification of the net asset/liability position denominated in a currency other than sterling.
● Balance Sheet Structure Analysis	An analysis of interest earning/costing elements of the balance sheet to illustrate key areas of structural mismatch.
● Scenario Analysis	Interest income earnings sensitivity analysis based on different possible scenarios for interest rate movements.
● Stress Testing	Net interest income sensitivity based on extreme market conditions.
● Basis Point Value Sensitivity	Provides a measure of the sensitivity of the present value of the balance sheet to a one basis point parallel shift in interest rates.

These methods generally measure the Group's sensitivity to a change in interest, currency and balance sheet structure on net interest income and market value.

Derivatives

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 Group's objective is to manage risk within the Group's 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.

The tables in Note 32 give details of the derivative financial instruments held at 31st December 2006 and the hedging designations in place at that date.

Certain financial instruments (including some retail products) contain features that are similar to derivatives. These features are known as embedded derivatives under the new international financial reporting regime. In the majority of such cases, the Group manages the associated risks by entering into derivative contracts that match these embedded features.

Liquidity

The board recognises that a structural maturity mismatch exists within the balance sheet. This is caused by the fundamental purpose of the Group's business: 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, to retain full public confidence in the solvency of the Group and to enable the Group to meet its financial obligations. This is achieved through maintaining a prudent level of liquid assets, through wholesale funding facilities and through the management of the growth of the business.

It is considered prudent to hold as a minimum level of Prudential Liquidity the amount that the Group estimates would be required in the event of a 'worst case scenario' caused either through an event specific to the Group or general market turbulence.

A liquidity cash flow projection under various stress scenarios is produced on a daily basis. The assumptions incorporated in the Liquidity cash flow projection model are reviewed by GALCO on an annual basis and are designed to exceed the minimum requirements that are defined within the Interim Prudential Sourcebook for Building Societies.

Credit risk

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 structures the levels of credit risk it undertakes by placing limits on the amount of such risk accepted. Credit risk is monitored on a monthly basis.

Specifically, retail credit exposures are managed in accordance with the board approved Group Lending Policy and through 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. Actual retail exposures are monitored and managed against policy limits by the Group Credit Committee.

In addition to the ownership of the Group Lending Policy, the Group Credit Committee takes primary responsibility for the task of assessing and monitoring wholesale counterparty creditworthiness and conducting credit research and analysis. It does this by reviewing the 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 institutions based in individual countries. The minutes of the Group Credit Committee meetings are presented to GALCO and the board.

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.

Recognising the nature of the products that the Group invests in through its subsidiary Yorkshire Investment Services Limited (YISL), these being predominantly structured credit instruments, additional credit risk management techniques are applied. The Group utilises credit monitoring and portfolio valuation techniques specifically designed to allow independent oversight of the YISL portfolio's risks and performance. The Group's Credit Risk Management team undertakes this activity and reports to the YISL board, GALCO and the Group Credit Committee.

The most significant credit risk that the Group is exposed to relates to its prime business of providing loans secured on residential property. Given the collateral on these loans and the recent growth of UK house prices, these loans are considered to be adequately covered by the value of the security (average debt to value ratio of 41% at 31st December 2006). 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.

Operational risk

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.
Market & Liquidity Risk	Changes in financial prices (including interest rates, exchange rates and bond, commodity and equity prices) are not monitored or managed effectively with appropriate actions identified and implemented.
Credit Risk	The Group's lending policy is not in line with strategic objectives and/or adhered to, resulting in counterparties and/or borrowers failing to meet loan payment obligations resulting in financial loss and impacting credit ratings, hence increasing funding costs.
Product & Service Risk	The Society'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.

Operational Risk Category	Definition
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.
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, and/or physical resources, external suppliers and 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. The 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 Capital Requirements Directive (Basel II)
The Group is in the process of implementing the changes to its overall risk management processes required for complying with the Basel II capital requirements regime. These changes will further enhance the Group's processes. Many of these changes were in place and in the process of being embedded at 31st December 2006, including the amended committee structure referred to above. The Group intends to submit its formal application to implement Basel II to the Financial Services Authority during 2007 for implementation in 2008. 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

5th March 2007

Corporate governance report

The board regards good corporate governance as being extremely important, as the board is accountable to the Society's members for the operation of the Society.

The board is firmly of the view that, to comply with best practice in corporate governance, it should aim to adhere to the principles and provisions of the Combined Code issued by the Financial Reporting Council (the Code) which applies to listed companies, to the extent that they are relevant to a building society.

In 2006 the Society also complied with the Code of Governance for building societies contained in the Interim Prudential Sourcebook issued by the Financial Services Authority (FSA). This code was repealed on 1st January 2007. However, in the interest of transparency, the 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 meets a minimum of eleven times a year for board meetings and, in addition, meets at least once a year for a detailed review of the Society's strategy;
- the board's principal role is to focus on the Society's strategy and ensure that the necessary resources are in place for the Group to meet its objectives and that financial 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 which can be found on pages 10 and 11.

  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 25 to 27 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 26) 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.

At the 2007 AGM, members will be asked to re-elect Ed Anderson, Chairman, Frank Beckett, non-executive director, and Iain Cornish, Chief Executive. The board has confirmed that the performance of these directors continues to be effective and that they continue to show commitment to their role. Lynne Charlesworth and David Paige, who were appointed as non-executive directors by the board on 31st December 2006, will be subject to election by members at the 2007 AGM.

Set out below are details of the directors during 2006 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 the year.

Board and Committee Membership and Attendance Record 2006

	Board	Board Committees				
Director	Meetings	Audit	Chairman's	Nomin	Remun	Risk
Ed Anderson Non-executive Director Vice Chairman from 01.07.06	11(11)	–	4(4)	3(3)	3(3)	–
Julie Baddeley Non-executive Director	10(11)	–	–	–	3(3)	–
Frank Beckett Non-executive Director	11(11)	4(4)	–	–	3(3)	4(5)
Colette Bowe Non-executive Director (retired 31.12.06)	9(11)	4(4)	–	–	2(3)	4(5)
Andy Caton Corporate Development Director	10(11)	–	9(11)	–	–	3(5)
Lynne Charlesworth Non-executive Director (appointed 31.12.06)	0(0)	–	–	–	–	–
Iain Cornish Chief Executive	11(11)	–	11(11)	3(3)	–	4(5)
Richard Davey Non-executive Director	11(11)	4(4)	–	–	3(3)	0(2)
Andrew Gosling Finance Director	11(11)	–	10(11)	–	–	4(5)
Rob Jackson Operations Director	11(11)	–	9(11)	–	–	3(5)
Paul Lee Non-executive Director Vice Chairman to 30.06.06	7(11)	1(4)	7(7)	–	1(3)	–
David Paige Non-executive Director (appointed 31.12.06)	0(0)	–	–	–	–	–
Christopher Sheridan Chairman (retired 31.12.06)	11(11)	4(4)	11(11)	3(3)	3(3)	–
Sue Tinson Non-executive Director (retired 26.04.06)	3(4)	–	–	–	2(2)	–
Simon Turner Non-executive Director	10(11)	3(4)	–	–	3(3)	–

On 1st January 2007, Ed Anderson was appointed Chairman and Richard Davey was appointed Vice Chairman.

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 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 eight non-executive directors.

In the opinion of the board, each non-executive director, including the Chairman, is independent in character and judgement.

Paul Lee, non-executive director, is a partner in Addleshaw Goddard, a firm of solicitors, which provides certain legal services to the Society. Despite this connection, the board considers Mr Lee to be independent and that his partnership status with Addleshaw Goddard does not interfere with the exercise of his independent judgement for the following reasons:

- Mr Lee does not personally undertake any legal work on behalf of the Group;
- Addleshaw Goddard is a major commercial legal firm locally and nationally and is the leading national firm for specialist building society work;
- the Society instructed Addleshaw Goddard before Mr Lee was appointed to the board;
- the Society undertakes periodic reviews of the solicitors it uses and Mr Lee's membership of the Society's board has no bearing on this review; and
- a schedule of fees paid to Addleshaw Goddard in 2006 has been submitted to the FSA. A copy is available to members on request from the Group Secretary.

The Vice Chairman is the Society's Senior Independent Director. The non-executive directors meet without the executive directors present at least once a year.

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

Information and professional development

To ensure that the board functions effectively, all directors receive accurate, timely and clear information and it is the responsibility of the Chairman to ensure that this is periodically reviewed. In September 2006 the board undertook a review of the information provided to it, as part of the annual board evaluation process. The board is satisfied that the board papers provide adequate and relevant information and focus on key strategic issues.

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).

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.

A performance evaluation system for non-executive directors, including the Chairman, has been in place since 2003. In 2006, 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 for the board as to whether to recommend to members that a director should be re-elected.

In 2006 an internal performance evaluation process of the board, the Audit Committee and the Remuneration Committee were carried out in order to review the effectiveness of how the board and the board committees operate. This 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. A similar process was undertaken by the members of each of the above mentioned board committees. The relevant results were reviewed by the board and each committee and any appropriate improvement was identified for action.

A review of the Risk Committee was not undertaken as this was a new committee in 2006. However, a review will be carried out in 2007.

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 Audit Committee, the Nominations Committee, the Remuneration Committee and the Risk Committee are available on request from the Group Secretary or on the Society's website www.ybs.co.uk.

Audit Committee

The membership of the committee is set out below:

Frank Beckett, non-executive director (Committee Chairman)
Colette Bowe, non-executive director (retired 31st December 2006)
Richard Davey, non-executive director
Paul Lee (resigned 30th November 2006)
Simon Turner, non-executive director

On 24th January 2007, David Paige was appointed to the Audit Committee.

All members of the committee have relevant audit committee experience and Frank Beckett, Colette Bowe and Richard Davey have relevant financial experience.

The responsibilities of the committee are in line with the provisions of the Smith Guidance on Audit Committees. 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 and risk management processes;
- the internal and external audit processes;
- compliance with applicable laws and regulations;
- 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 2006 the committee met four times in the execution of its responsibilities and considered reports on:

- the system of internal control;
- the integrity of financial statements;
- high level risks and associated controls;
- compliance with laws and regulations, including adherence to Money Laundering regulations;
- enhancements to risk management methodologies;
- 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 reports were provided by the independent Group Internal Audit function, the Group Finance function, the Group Risk function and the external auditors.

The committee considers that it has met its responsibilities and performed its duties with appropriate levels of care and expertise during 2006.

Chairman's Committee

The committee is made up of the Chairman, Vice Chairman and the executive directors.

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, Vice Chairman and the Chief Executive.

The committee is responsible for nominating candidates for the position of non-executive director, taking into account the balance of skills, knowledge and experience on the board, and for making appropriate recommendations to the board.

On 31st December 2006 two new non-executive directors were appointed by the board. The positions were advertised in national and local press to enable them to be brought to the attention of as wide a number of members as possible. In addition, an independent specialist agency was used to assist in the recruitment and search process.

On 1st January 2007, Ed Anderson, an existing non-executive director, was appointed Chairman following Christopher Sheridan's retirement on 31st December 2006. The board considered it appropriate to appoint an existing non-executive director to this position who therefore already had an in-depth knowledge of the business. As part of the process to appoint an internal successor to the position of Chairman, the Chairman and Vice Chairman sought the views of each director on an individual basis and the resulting recommendation was considered by the full board (in the absence of Ed Anderson as the recommended candidate).

Remuneration Committee

The committee previously consisted of all the non-executive directors of the Society (as identified in the table on page 23) and the Society's Chairman was Chairman of the committee.

However, following the 2006 board evaluation review, the board approved a revised make-up of the committee, with effect from 1st January 2007, to consist of three non-executive directors, namely Ed Anderson, Julie Baddeley (Chairman of the committee) and Simon Turner.

The committee is responsible for considering and approving the remuneration of the executive directors and other senior managers. Further details of the committee, the remuneration policy and directors' service contracts can be found in the Directors' Remuneration Report on pages 29 to 32. The contract in respect of Rob Jackson, Operations Director, pre-dates the Society's policy for one year notice periods for new executive director appointments and also the Code provision that notice periods should be set at one year or less. Mr. Jackson's contract is terminable by the Society on two years' notice or by the payment of an amount equivalent to two years' remuneration.

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.

Risk Committee
The membership of the committee is set out below:

Iain Cornish, Chief Executive (Committee Chairman)
Frank Beckett, non-executive director
Colette Bowe, non-executive director (retired 31st December 2006)
Andy Caton, Corporate Development Director
Robin Churchouse, General Manager Risk and Planning (appointed 1st June 2006)
Richard Davey, non-executive director (appointed 1st November 2006)
Andrew Gosling, Finance Director
Rob Jackson, Operations Director

On 24th January 2007, Lynne Charlesworth and David Paige were appointed to the Risk Committee.

The 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, which evolved during 2006, include:

- establishing and reviewing the overall method by which the Group's risk appetite is determined;
- establishing and reviewing the Internal Capital Adequacy Assessment Process (ICAAP) framework by which the Group's existing and forecast risk positions and the resulting capital absorption are calculated and monitored;
- monitoring on an on-going basis the Group's actual and forecast risk and regulatory capital positions;
- considering whether existing activities constitute appropriate utilisation of the Group's available capital;
- recommending, for full board consideration, changes to capital utilisation, including utilisation of any spare capital available to the Group, or the raising of additional capital as required; and
- monitoring the performance and actions of its sub-committees, and ensuring that full coverage of all risk issues is achieved by the structure.

The 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 a General Manager. At 31st December 2006 the sub-committees were as follows:

- Group Asset and Liability Committee
- Group Credit Committee
- Group Capital Committee*
- Group Operational Risk Committee*

* first meeting held in January 2007

Further details of the Group's risk management can be found in the Risk Management Report on pages 17 to 21.

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 some 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 2006 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 17 to 21.

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 small number of non-audit related assignments for the Group during 2006 and 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 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 2006. It is currently made up of 17 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 6,000 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.

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. 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, in branches and are 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.

On behalf of the board

Ed Anderson
Chairman

5th March 2007

Directors' remuneration report

Introduction

The purpose of this report is to explain to members the policy for the remuneration of executive and non-executive directors. It also voluntarily addresses the statutory disclosure requirements for listed companies in relation to directors' remuneration that are considered relevant to a building society. A summary of this report will be sent to all members eligible to vote at the 2007 Annual General Meeting and, once again, members will have the opportunity to vote on the report.

Remuneration Committee

Role of the committee

The committee is responsible for determining, on behalf of the board, the policy and the level of remuneration of the executive directors and other senior managers.

The committee normally meets three 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.

Composition of the committee

During 2006, the committee was made up of all the non-executive directors who are listed in the table on page 23. With effect from 1st January 2007, the committee comprises three non-executive directors, namely Ed Anderson, Julie Baddeley (Chairman of the committee) and Simon Turner.

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

Remuneration policy

Policy for non-executive directors

The remuneration of all non-executive directors, including that of the Chairman, is reviewed on an annual basis by the executive directors and the General Manager Human Resources, 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 32) 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. Non-executive directors do not have service contracts but serve under letters of appointment.

Policy for executive directors

The board has adopted the remuneration policy which is set out below. It is intended that this policy should continue to be reviewed regularly to take into account future market changes in remuneration practice. Members will be kept informed of any such changes in future reports.

The overall policy of the board as recommended by the Remuneration Committee, is set out below:

- the remuneration of executive directors (consisting of basic salary, performance pay, pension benefits and benefits in kind) 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 so as to motivate and reward successful business and personal performance which is in the interest of members and other stakeholders;

- personal reviews of the executive directors should be 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 July 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

The Society's reward strategy for all employees (including executive directors) aims to pay mid-point market salaries within the financial services sector and to recognise individual development and progression through the annual salary and personal review processes. It is envisaged that the policy on basic salaries for all employees will be reviewed in the future to ensure sufficient flexibility, whilst maintaining strong links with individual performance and market salaries.

The Remuneration 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. An overall review of remuneration is carried out by independent reward specialists generally once every three years. The last review was undertaken in 2004 by Watson Wyatt LLP and a further review will be undertaken in 2007.

(b) Performance pay

As a mutual building society the Society does not issue shares on the Stock Exchange. As a result, the executive directors cannot participate in Share Option Schemes or Share Incentive Plans unlike executive directors of quoted companies.

In 2006 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, financial strength, cost control, growth in other income and customer satisfaction (a scheme is also in place with similar characteristics for all other staff). In addition, executive directors (together with other senior managers) had an element of their performance pay based on the achievement of personal objectives.

These measures are set to provide challenging objectives and therefore to give the executive directors an incentive to perform at the highest level in a manner which is 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. A similar scheme will operate in 2007.

There are no long term performance related bonus schemes in place but it is intended to review this in 2007.

(c) Benefits in kind

Each executive director is provided with a company car (or an equivalent allowance), 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 £100,000.

(d) Pensions

The executive directors are members of the contributory final salary section of the Society's pension scheme. The scheme is designed to provide a pension of up to two-thirds of final pensionable salary on retirement. The scheme also provides for dependents' pensions and a lump sum of four times basic salary on death in service. These benefits are provided from the pension scheme to the extent permitted by legislation and otherwise from separate arrangements.

(e) Service contracts

The general policy for new appointments at executive director level is for contractual notice periods by either party to be one year. However, this may be reviewed and extended by the board in specific circumstances in order to attract the appropriate person to the position.

Iain Cornish, Chief Executive, entered into a contract on 1st July 2003, Andrew Gosling, Finance Director, entered into a contract on 1st April 2001 and Andy Caton, Corporate Development Director, entered into a contract on 1st July 2004. These contracts are terminable by either party on one year's notice or by the payment by the Society of an amount equivalent to one year's remuneration.

Rob Jackson, Operations Director, entered into a contract on 1st May 1996 which is terminable by the Society on two years' notice (or by the payment of an amount equivalent to two years' remuneration) and by Mr Jackson on one year's notice.

Unless notice to terminate is given by any party, the contracts for all executive directors continue automatically to the age of 60.

Directors' remuneration

	Salary £000	Performance pay £000	Taxable benefits £000	Increase in accrued pension £000	Total £000
Executive directors					
2006					
Andy Caton	**201**	**85**	**1**	**6**	**293**
Iain Cornish	**292**	**136**	**14**	**16**	**458**
Andrew Gosling	**225**	**92**	**1**	**8**	**326**
Rob Jackson	**206**	**87**	**9**	**4**	**306**
	924	**400**	**25**	**34**	**1,383**
2005					
Andy Caton	194	66	1	7	268
Iain Cornish	281	118	11	16	426
Andrew Gosling	210	72	10	8	300
Rob Jackson	199	68	9	6	282
	884	324	31	37	1,276

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 in 2006

	Contributions from directors £000	Increase in accrued pension £000	Accrued pension as at 31st December 2006 £000	Transfer value of accrued benefits as at 1st January 2006 £000	Transfer value of accrued benefits as at 31st December 2006 £000	Movement in transfer value less directors' contributions £000
Andy Caton	12	6	57	492	595	91
Iain Cornish	20	16	141	1,334	1,601	247
Andrew Gosling	13	8	41	423	569	133
Rob Jackson	12	4	136	2,202	2,393	179
	57	34	375	4,451	5,158	650

Directors' remuneration report

continued

Non-executive directors' fees

	Fees		Subsidiary/committee fees		Total	
	2006 £000	2005 £000	**2006 £000**	2005 £000	**2006 £000**	2005 £000
Ed Anderson (Vice Chairman from 01.07.06)	**39**	32	**5**	3	**44**	35
Julie Baddeley	**33**	32	**5**	–	**38**	32
Frank Beckett	**33**	32	**18**	16	**51**	48
Colette Bowe (retired 31.12.06)	**33**	32	**10**	5	**43**	37
Richard Davey (appointed 27.09.05)	**33**	9	**11**	1	**44**	10
Paul Lee (Vice Chairman to 30.06.06)	**39**	43	**5**	5	**44**	48
Christopher Sheridan (Chairman, retired 31.12.06)	**68**	64	**–**	5	**68**	69
Sue Tinson (retired 26.04.06)	**10**	32	**–**	–	**10**	32
Simon Turner (appointed 13.10.05)	**33**	7	**5**	1	**38**	8
	321	283	**59**	36	**380**	319

Two additional non-executive directors, Lynne Charlesworth and David Paige, were appointed on 31st December 2006 but received no remuneration in 2006.

The above table excludes VAT which is payable in respect of certain non-executive directors' fees.

The subsidiary/committee fees consist of £5,000 per annum for each of the following:

- membership of the boards of the subsidiaries Accord Mortgages Limited (Ed Anderson with effect from 1st July 2005) and Yorkshire Investment Services Limited (Richard Davey with effect from 1st January 2006);
- membership of the Audit Committee and the Risk Committee. Membership of these committees is set out in the Corporate Governance Report on pages 22 to 28. In addition, the Chairman of the Audit Committee (Frank Beckett) receives an additional £7,500 per annum; and
- the 'Treating Customers Fairly' oversight role (Julie Baddeley).

On behalf of the board

Ed Anderson
Chairman

5th March 2007

Statement of directors' responsibilities

Directors' responsibilities in respect of the Annual Report and Accounts
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

5th March 2007

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 2006 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 33.

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.

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 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 the affairs of the group and of the society as at 31st December 2006 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
5th March 2007

Income statements

for the year ended 31st December 2006

	NOTES	Group 2006 £m	Group 2005 £m	Society 2006 £m	Society 2005 £m
Interest receivable and similar income	3	**875.0**	803.8	**829.4**	767.3
Interest payable and similar charges	4	**(710.2)**	(647.4)	**(721.8)**	(651.3)
Net interest income		**164.8**	156.4	**107.6**	116.0
Fees and commissions receivable		**32.3**	29.2	**28.9**	26.6
Fees and commissions payable		**(6.6)**	(5.4)	**(4.4)**	(4.1)
Net fee and commission income		**25.7**	23.8	**24.5**	22.5
Income from investments in subsidiaries	5	**–**	–	**15.1**	11.9
Net gains/(losses) from fair value volatility on financial instruments		**13.6**	(2.1)	**19.0**	(1.4)
Net gains arising on realisation of available-for-sale assets		**–**	6.7	**–**	6.7
Other operating income		**6.7**	6.9	**16.4**	17.7
Total income		**210.8**	191.7	**182.6**	173.4
Administrative expenses	6	**(107.4)**	(102.7)	**(106.5)**	(103.8)
Depreciation and amortisation		**(9.5)**	(12.3)	**(6.6)**	(5.7)
Operating profit before provisions		**93.9**	76.7	**69.5**	63.9
Impairment of loans and advances	8	**(3.5)**	(0.3)	**(0.1)**	0.6
Provisions for liabilities	27	**(12.5)**	(6.9)	**(12.3)**	(6.9)
Amounts written off investments in subsidiaries	9	**–**	–	**–**	(5.6)
Operating profit before tax		**77.9**	69.5	**57.1**	52.0
Tax expense	10	**(24.2)**	(18.6)	**(18.4)**	(17.8)
Net profit		**53.7**	50.9	**38.7**	34.2

Net profit arises from continuing operations and is attributable to members.

The notes on pages 39 to 70 form part of these accounts.

Statements of recognised income and expense

for the year ended 31st December 2006

		Group		Society	
		2006	2005	**2006**	2005
	NOTES	**£m**	£m	**£m**	£m
Change in accounting policies in respect of IAS 39		**–**	21.0	**–**	17.7
Available-for-sale investments:					
Valuation losses taken to equity	30	**(18.1)**	(1.2)	**(17.4)**	(1.2)
Cash flow hedges:					
Gains/(losses) taken to equity	30	**2.8**	(4.6)	**2.8**	(4.6)
Actuarial gain/(loss) on retirement benefit obligations	26	**22.0**	(21.4)	**22.0**	(21.4)
Tax on items taken directly to or transferred from equity	10	**(1.0)**	6.7	**(1.2)**	6.7
Net income/(expense) not recognised directly in the income statement		**5.7**	0.5	**6.2**	(2.8)
Net profit		**53.7**	50.9	**38.7**	34.2
Total recognised income and expense for the year		**59.4**	51.4	**44.9**	31.4

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

The notes on pages 39 to 70 form part of these accounts.

Balance sheets

as at 31st December 2006

ASSETS	NOTES	Group 2006 £m	Group 2005 £m	Society 2006 £m	Society 2005 £m
Liquid assets					
Cash in hand and balances with the Bank of England	11	**36.2**	32.7	**36.2**	32.7
Loans and advances to credit institutions	12	**167.8**	441.0	**20.2**	360.4
Debt securities	13	**3,868.0**	3,452.7	**3,481.6**	3,070.4
Loans and advances to customers					
Loans secured on residential property	14	**13,263.6**	12,085.9	**8,840.5**	8,688.0
Other loans	14	**5.4**	8.0	**5.4**	8.0
Derivative financial instruments	32	**95.4**	145.2	**95.7**	145.2
Investments	9	**0.1**	0.1	**6,261.0**	3,746.9
Intangible assets	15	**11.4**	9.5	**10.5**	8.2
Investment properties	16	**6.7**	6.9	**6.6**	6.7
Property, plant and equipment	17	**78.2**	82.0	**56.7**	58.1
Deferred tax assets	18	**17.5**	26.3	**14.9**	24.1
Other assets	19	**9.4**	3.9	**12.6**	13.1
Prepayments and accrued income	20	**5.9**	4.0	**20.0**	16.4
Total assets		**17,565.6**	16,298.2	**18,861.9**	16,178.2
LIABILITIES					
Shares	21	**11,286.3**	10,202.4	**11,286.3**	10,202.4
Amounts owed to credit institutions	22	**72.5**	471.7	**1,244.5**	1,583.2
Other deposits	23	**1,596.4**	1,649.9	**1,855.6**	530.2
Debt securities in issue	24	**3,262.0**	2,778.3	**3,262.0**	2,778.3
Derivative financial instruments	32	**42.0**	72.2	**43.7**	72.2
Current tax liabilities		**27.1**	19.0	**21.3**	19.1
Deferred tax liabilities	18	**30.6**	36.2	**9.6**	18.8
Accruals and deferred income	25	**14.9**	13.0	**13.1**	11.9
Retirement benefit obligations	26	**30.7**	55.6	**30.7**	55.6
Other liabilities	27	**41.6**	39.7	**41.2**	39.4
Subordinated liabilities	28	**105.3**	108.6	**130.3**	133.6
Subscribed capital	29	**145.2**	–	**145.2**	–
		16,654.6	15,446.6	**18,083.5**	15,444.7
Total equity attributable to members	30	**911.0**	851.6	**778.4**	733.5
Total liabilities		**17,565.6**	16,298.2	**18,861.9**	16,178.2

The accounts on pages 35 to 70 were approved by the board of directors on 5th March 2007 and were signed on its behalf by:

Ed Anderson	Chairman
Richard Davey	Vice Chairman
Iain Cornish	Chief Executive

The notes on pages 39 to 70 form part of these accounts.

Cash flow statements

for the year ended 31st December 2006

	NOTES	Group 2006 £m	Group 2005 £m	Society 2006 £m	Society 2005 £m
Cash flows from operating activities					
Interest received		**972.9**	812.9	**738.7**	634.6
Interest paid		**(307.2)**	(306.3)	**(308.1)**	(301.3)
Dividends received		**0.1**	0.1	**15.2**	12.0
Net fees and commissions		**25.0**	24.4	**24.4**	22.5
Net trading and other income		**6.6**	6.8	**16.3**	17.6
Recoveries on loans previously written off		**0.2**	0.2	**0.1**	0.2
Cash payments to employees and suppliers		**(107.5)**	(103.6)	**(106.6)**	(104.1)
Taxes paid		**(14.0)**	(13.8)	**(17.4)**	(21.2)
Cash flows from operating profits before changes in operating assets and liabilities		**576.1**	420.7	**362.6**	260.3
Changes in operating assets and liabilities:					
net (increase)/decrease in loans and advances to credit institutions		**(0.4)**	6.5	**(0.4)**	(0.1)
net (increase)/decrease in loans and advances to customers		**(1,271.5)**	(802.1)	**(224.6)**	249.0
net (increase)/decrease in other assets		**(117.1)**	70.4	**(2,461.2)**	(817.6)
net increase in shares		**778.5**	237.2	**778.5**	237.2
net (decrease)/increase in amounts owed to credit institutions		**(399.5)**	284.5	**(403.6)**	478.3
net (decrease)/increase in other deposits		**(111.5)**	138.8	**1,321.3**	(51.1)
net decrease in other liabilities		**(12.0)**	(23.3)	**(13.2)**	(29.9)
Net cash flows from operating activities		**(557.4)**	332.7	**(640.6)**	326.1
Cash flows from investing activities					
Purchase of property, plant and equipment, intangible assets and investment property		**(7.4)**	(11.8)	**(7.2)**	(11.0)
Proceeds from sale of property, plant and equipment, intangible assets and investment property		**0.2**	2.9	**–**	0.7
Purchase of debt securities		**(6,976.4)**	(5,943.5)	**(6,857.0)**	(5,738.9)
Proceeds from sale and redemption of debt securities		**6,526.5**	5,999.5	**6,421.7**	5,858.5
Net cash flows from investing activities		**(457.1)**	47.1	**(442.5)**	109.3
Cash flows from financing activities					
Proceeds from borrowed funds and debt securities		**795.7**	(22.3)	**795.7**	(22.3)
Net cash flows from financing activities		**795.7**	(22.3)	**795.7**	(22.3)
Effect of exchange rate changes on cash and cash equivalents in the year		**0.9**	11.5	**2.4**	11.3
Net (decrease)/increase in cash and cash equivalents	34	**(217.9)**	369.0	**(285.0)**	424.4
Cash and cash equivalents at start of year		**1,010.8**	641.8	**930.2**	505.8
Cash and cash equivalents at end of year		**792.9**	1,010.8	**645.2**	930.2

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 2006 and with those parts of the Building Societies (Accounts and Related Provisions) Regulations applicable to societies reporting under IFRS.

The Directors have not adopted International Accounting Standard 1 (amended): 'Presentation of Financial Statements (capital disclosures)' (IAS 1) and IFRS 7: 'Financial Instruments: Disclosures' which, although endorsed by the EU, are currently not mandatory.

IAS 1 will introduce the requirement for the Society to provide more detailed disclosure in relation to its capital from 1st January 2007.

IFRS 7 revises and combines the disclosures requirements of IAS 30: 'Disclosures in the financial statements of banks and similar financial institutions' and IAS 32: 'Financial Instruments: Disclosures and presentation', into one standard. The standard will apply from 1st January 2007 onwards.

The financial statements have been prepared on an 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.

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The Group financial statements consolidate the financial statements of the Society and its subsidiary undertakings. Subsidiary undertakings are all entities over which the Group has the power to determine financial and operating policies. Inter-company transactions and balances are eliminated upon consolidation.

Tax

Tax on the profit or loss for the year 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 provided 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.

Temporary differences relating to investments in subsidiaries have not been provided to the extent that they will probably 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.

Joint ventures

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

Tangible Fixed Assets

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. 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation

Depreciation is provided by the Group to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their 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.

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.

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.

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 past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. Actuarial gains or losses are recognised in full in the period in which they occur. 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.

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.

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.

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 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets at fair value through the income statement

These comprise assets that have been specifically designated by the Group at inception. They are recorded at fair value with changes in value being taken to the income statement. Currently these include certain financial assets containing embedded derivatives where the Group has decided to measure the entire asset at fair value rather than separating and valuing the embedded portion only.

Available-for-sale financial assets

Available-for-sale financial assets comprise securities held for liquidity purposes. 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 and any impairment is recognised in the income statement on disposal.

Held to maturity

The Group does not classify any of its financial assets as held to maturity.

Financial liabilities

The Group records all of its financial liabilities at amortised cost other than where an adjustment is made as part of a fair value hedging arrangement. Income is recognised on an effective interest rate basis.

Impairment losses on loans and advances

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.

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.

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 the Risk Management Report on pages 17 to 21. 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 using the effective interest rate method.

Cash flow hedges
Where the cash flow hedging requirements are met in relation to a forecast transaction the effective portion of the fair value adjustment is taken directly to reserves. The ineffective portion is recognised in the income statement. If the forecast transaction is no longer expected to occur then the fair value adjustment is recognised in the income statement. Where hedge accounting is terminated for any other reason then the fair value adjustment is released from reserves to the income statement over the remaining period of the derivative.

Interest income and expense
Interest income and expense are recognised in the income statement for all instruments measured at amortised cost on an effective interest rate basis.

Interest income and expense on all financial instruments are recognised within interest receivable or payable on an effective interest rate basis. In addition the adjustment to bring derivatives and certain financial assets to fair value through the income statement is recognised in Net gains/(losses) from fair value volatility on financial instruments.

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.

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 26. 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 £7.1 million. The impact of a one year increase in each of the quoted life expectances at age 60 would be to increase the present value of the liabilities by £9.0 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 period. A 1% increase would increase the balance sheet value of the loans by £0.5 million.

Impairment of financial 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 price inflation) and customer behaviour (e.g. default rates). The most critical estimate is of the population of loans where some impairment has occurred. A 10% increase would result in an increase of £1.1 million in the level of provision required. A 10% increase in the loss given default rate would increase provisions by £1.5 million.

Fair value of financial assets
The Group, through its subsidiary Yorkshire Investment Services Ltd, holds a small number of structured investments that have been designated as being held at fair value with movements in value being taken to the income statement. These investments are not quoted in active markets, and so fair values are determined internally using financial models based on directly observable market parameters and calibrated to market sales.

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	Group		Society	
	2006	2005	**2006**	2005
	£m	£m	**£m**	£m
On loans fully secured on residential property	**650.5**	600.8	**438.3**	443.5
On other loans				
Connected undertakings	**–**	–	**190.8**	141.9
Other	**0.5**	0.7	**0.5**	0.7
On available-for-sale debt securities	**164.8**	150.5	**149.4**	136.3
On non-derivative financial instruments held at fair value through the income statement	**5.9**	4.6	**–**	–
On other liquid assets/cash and short term funds				
Interest and other income	**18.0**	27.6	**15.1**	25.3
On securities borrowed and reverse repos	**–**	0.8	**–**	0.8
On derivatives	**35.3**	18.8	**35.3**	18.8
Total interest receivable	**875.0**	803.8	**829.4**	767.3

4. INTEREST PAYABLE AND SIMILAR CHARGES

	Group		Society	
	2006	2005	**2006**	2005
	£m	£m	**£m**	£m
On shares held by individuals	**433.1**	407.4	**433.1**	407.4
On deposits from banks	**19.7**	13.0	**19.7**	13.0
On deposits from other financial institutions	**11.2**	11.1	**11.2**	11.1
On deposits from connected undertakings	**–**	–	**64.6**	47.5
On other deposits	**70.1**	57.4	**16.2**	12.4
On certificates of deposit	**10.8**	13.6	**10.8**	13.6
On other debt securities	**121.2**	97.5	**121.2**	97.5
On derivatives	**29.3**	39.0	**28.8**	39.0
On subordinated liabilities	**7.6**	7.6	**9.0**	9.0
On subscribed capital	**6.6**	–	**6.6**	–
Other interest payable	**0.6**	0.8	**0.6**	0.8
Total interest payable	**710.2**	647.4	**721.8**	651.3

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. ADMINISTRATIVE EXPENSES

	Group 2006 £m	Group 2005 £m	Society 2006 £m	Society 2005 £m
Staff costs				
Salaries and wages	**57.4**	56.0	**56.9**	55.4
Social security costs	**5.3**	5.1	**5.3**	5.1
Pension costs – defined benefit plans (see Note 26)	**5.2**	5.0	**5.2**	5.0
Other post retirement benefits (see Note 26)	**1.5**	1.3	**1.5**	1.2
Staff costs capitalised – computer systems enhancements	**(0.2)**	(0.9)	**(0.2)**	(0.3)
Operating lease rentals	**–**	–	**2.5**	6.7
Remuneration of auditors and their associates				
Audit work	**0.2**	0.3	**0.1**	0.2
Non-audit work	**0.2**	0.1	**0.2**	0.1
Other expenses	**37.8**	35.8	**35.0**	30.4
	107.4	102.7	**106.5**	103.8

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.

STAFF NUMBERS

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

	2006 Full time	2006 Part time	2005 Full time	2005 Part time
Building Society				
Central administration	**1,118**	**246**	1,144	236
Branches	**704**	**251**	689	261
Subsidiaries' offices	**17**	**1**	13	1
	1,839	**498**	1,846	498

7. REMUNERATION OF AND TRANSACTIONS WITH DIRECTORS

Total directors' remuneration amounted to £1,763,000 (2005 – £1,595,000).

Full details of directors' remuneration, bonuses and pensions are given in the Directors' Remuneration report on pages 29 to 32. In addition, past directors' pensions in respect of services as directors (closed scheme) amounted to £53,000 (2005 – £63,000).

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 33.

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 2006 will be available for inspection at the Head Office for a period of fifteen days up to and including the Annual General Meeting.

8. IMPAIRMENT OF LOANS AND ADVANCES

	Group		Society	
	2006	2005	**2006**	2005
	£m	£m	**£m**	£m
At 1st January				
Collective	**9.0**	9.2	**3.2**	3.4
Individual	**2.7**	2.0	**0.7**	0.9
	11.7	11.2	**3.9**	4.3
Amounts written off during the year				
Collective	**–**	–	**–**	–
Individual	**(0.2)**	–	**–**	–
	(0.2)	–	**–**	–
Impairment adjustment for the year				
Collective	**1.7**	(0.2)	**0.2**	(0.2)
Individual	**2.0**	0.7	**–**	(0.2)
	3.7	0.5	**0.2**	(0.4)
At 31st December				
Collective	**10.7**	9.0	**3.4**	3.2
Individual	**4.5**	2.7	**0.7**	0.7
	15.2	11.7	**4.1**	3.9
The charge for the year comprises:				
Impairment adjustment for the year	**3.7**	0.5	**0.2**	(0.4)
Recoveries relating to amounts previously written off	**(0.2)**	(0.2)	**(0.1)**	(0.2)
Net provision charge/(release) for the year	**3.5**	0.3	**0.1**	(0.6)

Provisions for impairment relate wholly to Loans secured on residential property.

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

9. INVESTMENTS

Investments in equity shares

The Society has the following equity shareholding which represents not more than 20% of the issued share capital of the relevant company.

	Fair value	Principal activity	Country of registration
LINK Interchange Network Ltd	Nil	Provision of funds transfer services	England

Investment in joint venture

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

	2006 £m	2005 £m
Share of joint ventures		
Gross assets	**0.4**	0.4
Gross liabilities	**(0.3)**	(0.3)
	0.1	0.1

Investment in subsidiaries

Society	Shares £m	Loans £m	Total £m
Cost			
At 1st January 2006	**294.8**	**3,452.6**	**3,747.4**
Additions	**–**	**2,519.4**	**2,519.4**
Write off against impairment loss	**–**	**–**	**–**
Repayments	**–**	**(5.3)**	**(5.3)**
At 31st December 2006	**294.8**	**5,966.7**	**6,261.5**
Impairment losses			
At 1st January 2006	**(0.5)**	**–**	**(0.5)**
Provided in year	**–**	**–**	**–**
Write off	**–**	**–**	**–**
At 31st December 2006	**(0.5)**	**–**	**(0.5)**
Net book value			
At 31st December 2006	**294.3**	**5,966.7**	**6,261.0**
Cost			
At 1st January 2005	192.8	2,513.0	2,705.8
Additions	102.0	1,085.6	1,187,6
Write off against impairment loss	–	(5.6)	(5.6)
Repayments	–	(140.4)	(140.4)
At 31st December 2005	294.8	3,452.6	3,747.4
Impairment losses			
At 1st January 2005	(0.5)	–	(0.5)
Provided in year	–	5.6	5.6
Write off	–	(5.6)	(5.6)
At 31st December 2005	(0.5)	–	(0.5)
Net book value			
At 31st December 2005	294.3	3,452.6	3,746.9

Included within Shares is an investment of £60.0 million (2005 – £60.0 million) in Yorkshire Guernsey Ltd which is a credit institution.

In 2005, the Society wrote off a loan of £5.6 million to its subsidiary Yorkshire Computer Services Ltd, against which full provision had been made during the year.

9. 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
YBS Properties (York) Ltd	Non-trading
Yorkshire Building Society Estate Agents Ltd	Non-trading
Yorkshire Computer Services Ltd	Non-trading
Yorkshire (YBS) Finance B.V.	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, and Yorkshire (YBS) Finance B.V. which is incorporated in The Netherlands.

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.

10. TAX EXPENSE

	Group		Society	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Current tax:				
UK corporation tax at 30% (2005 – 30%)	**20.3**	8.7	**19.1**	11.4
Corporation tax – adjustment in respect of prior periods	**8.5**	0.4	**8.0**	0.2
Overseas tax	**0.9**	0.3	**–**	–
Total Current tax	**29.7**	9.4	**27.1**	11.6
Deferred tax (Note 18):				
Current year	**2.6**	9.4	**(1.0)**	6.3
Adjustment in respect of prior periods	**(8.1)**	(0.2)	**(7.7)**	(0.1)
Total tax expense in income statement	**24.2**	18.6	**18.4**	17.8

The actual tax 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	
	2006 £m	2005 £m	**2006** £m	2005 £m
Profit before tax	**77.9**	69.5	**57.1**	52.0
Tax calculated at a tax rate of 30% (2005 – 30%)	**23.4**	20.8	**17.2**	15.6
Effects of:				
Lower tax rate on overseas earnings	**(0.7)**	(2.8)	**–**	–
Income not subject to tax	**–**	(0.5)	**–**	(0.5)
Expenses not deductible for tax purposes	**1.1**	0.9	**0.9**	2.6
Adjustment to tax charge in respect of previous periods	**0.4**	0.2	**0.3**	0.1
Total tax expense in income statement	**24.2**	18.6	**18.4**	17.8

10. TAX EXPENSE (continued)

	Group 2006 £m	Group 2005 £m	Society 2006 £m	Society 2005 £m
Tax expense/(credit) recognised directly in equity:				
Tax on available-for-sale securities	**(5.6)**	(0.3)	**(5.4)**	(0.3)
Tax on pension costs	**(2.1)**	(1.1)	**(2.1)**	(1.1)
Deferred tax on pension costs	**8.7**	(5.3)	**8.7**	(5.3)
	1.0	(6.7)	**1.2**	(6.7)

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

	Group 2006 £m	Group 2005 £m	Society 2006 £m	Society 2005 £m
Cash in hand	**15.5**	12.4	**15.5**	12.4
Cash ratio deposit with the Bank of England	**18.4**	16.9	**18.4**	16.9
Other deposits with the Bank of England	**2.3**	3.4	**2.3**	3.4
	36.2	32.7	**36.2**	32.7

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 and as such are excluded from the cash flow statement. These balances are non-interest-bearing, whereas other deposits are at variable money market rates.

12. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

	Group 2006 £m	Group 2005 £m	Society 2006 £m	Society 2005 £m
Loans and advances to banks	**164.8**	393.8	**17.2**	313.2
Loans and advances to other credit institutions	**3.0**	47.2	**3.0**	47.2
	167.8	441.0	**20.2**	360.4

13. DEBT SECURITIES

	Group 2006 £m	Group 2005 £m	Society 2006 £m	Society 2005 £m
Debt securities issued by:				
Public bodies	**268.6**	184.1	**234.9**	139.4
Banks	**3,599.4**	3,268.6	**3,246.7**	2,931.0
	3,868.0	3,452.7	**3,481.6**	3,070.4
Analysis by type:				
Listed on a recognised investment exchange	**2,359.8**	2,425.1	**2,067.0**	2,110.7
Certificates of deposit	**1,508.2**	1,027.6	**1,414.6**	959.7
	3,868.0	3,452.7	**3,481.6**	3,070.4
Debt securities available for sale	**3,774.3**	3,352.1	**3,481.6**	3,070.4
Debt securities held at fair value*	**93.7**	100.6	**–**	–
	3,868.0	3,452.7	**3,481.6**	3,070.4

*A number of debt securities are structured so that they can pay a bonus over and above their regular return. This feature meets the IAS 39 definition of Embedded Derivatives that have to be separated and held at fair value. 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.

13. DEBT SECURITIES (continued)

	Group Available for sale £m	Group Held at fair value through the income statement £m	Society Available for sale £m	Society Held at fair value through the income statement £m
Movements in debt securities during the year are analysed as follows:				
At 1st January 2006	**3,352.1**	**100.6**	**3,070.4**	**–**
Additions	**7,028.2**	**–**	**6,908.7**	**–**
Disposals	**(6,526.5)**	**–**	**(6,421.7)**	**–**
Exchange translation	**(61.2)**	**(6.7)**	**(58.0)**	**–**
Other changes in value	**(18.3)**	**(0.2)**	**(17.8)**	**–**
At 31st December 2006	**3,774.3**	**93.7**	**3,481.6**	**–**
Movements in debt securities during the year are analysed as follows:				
At 1st January 2005	3,014.0	116.3	2,799.3	–
Additions	6,256.9	30.1	6,102.5	–
Disposals	(5,949.5)	(50.0)	(5,858.5)	–
Exchange translation	37.5	1.9	35.3	–
Other changes in value	(6.8)	2.3	(8.2)	–
At 31st December 2005	3,352.1	100.6	3,070.4	–

14. LOANS AND ADVANCES TO CUSTOMERS

	Group **2006 £m**	Group 2005 £m	Society **2006 £m**	Society 2005 £m
Loans and advances to customers comprise:				
Loans fully secured on residential property	**13,202.1**	12,040.2	**8,885.0**	8,649.0
Other loans secured on residential property	**119.9**	21.4	**6.0**	18.6
Fair value hedging adjustments	**(43.2)**	36.0	**(46.4)**	24.3
Impairment provisions	**(15.2)**	(11.7)	**(4.1)**	(3.9)
Loans secured on residential property	**13,263.6**	12,085.9	**8,840.5**	8,688.0
Loans fully secured on land	**5.4**	8.0	**5.4**	8.0

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.

Covered Bonds

Loans and advances to customers include £1,408.8 million (2005 – £nil) 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 £1,014.0 million (2005 – £nil) 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 risks and rewards relating to the loans.

15. INTANGIBLE ASSETS

	Software £m	Other £m	Total £m
Group			
Cost			
At 1st January 2006	**39.4**	**–**	**39.4**
Additions	**3.4**	**1.5**	**4.9**
Disposals	**(0.2)**	**–**	**(0.2)**
At 31st December 2006	**42.6**	**1.5**	**44.1**
Depreciation			
At 1st January 2006	**29.9**	**–**	**29.9**
Charged in year	**3.0**	**–**	**3.0**
Disposals	**(0.2)**	**–**	**(0.2)**
At 31st December 2006	**32.7**	**–**	**32.7**
Net book value			
At 31st December 2006	**9.9**	**1.5**	**11.4**
Cost			
At 1st January 2005	35.7	–	35.7
Additions	5.8	–	5.8
Disposals	(2.1)	–	(2.1)
At 31st December 2005	39.4	–	39.4
Depreciation			
At 1st January 2005	25.7	–	25.7
Charged in year	5.9	–	5.9
Disposals	(1.7)	–	(1.7)
At 31st December 2005	29.9	–	29.9
Net book value			
At 31st December 2005	9.5	–	9.5

Other intangible assets consist of an amount paid for the transfer of the administration of a number of employee sharesave schemes to the Society.

Depreciation is provided to write off the cost less the estimated residual value of intangible assets by equal instalments 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.

15. INTANGIBLE ASSETS (continued)

	Software £m	Other £m	Total £m
Society			
Cost			
At 1st January 2006	**25.5**	**–**	**25.5**
Additions	**3.4**	**1.5**	**4.9**
Disposals	**(0.2)**	**–**	**(0.2)**
At 31st December 2006	**28.7**	**1.5**	**30.2**
Depreciation			
At 1st January 2006	**17.3**	**–**	**17.3**
Charged in year	**2.6**	**–**	**2.6**
Disposals	**(0.2)**	**–**	**(0.2)**
At 31st December 2006	**19.7**	**–**	**19.7**
Net book value			
At 31st December 2006	**9.0**	**1.5**	**10.5**
Cost			
At 1st January 2005	22.0	–	22.0
Additions	5.2	–	5.2
Disposals	(1.7)	–	(1.7)
At 31st December 2005	25.5	–	25.5
Depreciation			
At 1st January 2005	16.6	–	16.6
Charged in year	2.4	–	2.4
Disposals	(1.7)	–	(1.7)
At 31st December 2005	17.3	–	17.3
Net book value			
At 31st December 2005	8.2	–	8.2

16. INVESTMENT PROPERTIES	Group		Society	
	2006	2005	**2006**	2005
	£m	£m	**£m**	£m
Cost				
At 1st January	**8.0**	8.2	**7.7**	7.9
Additions	**0.2**	–	**0.2**	–
Disposals	**(0.1)**	(0.2)	**(0.1)**	(0.2)
At 31st December	**8.1**	8.0	**7.8**	7.7
Depreciation				
At 1st January	**1.1**	1.0	**1.0**	0.9
Charged in year	**0.3**	0.1	**0.2**	0.1
Disposals	**–**	–	**–**	–
At 31st December	**1.4**	1.1	**1.2**	1.0
Net book value				
At 31st December	**6.7**	6.9	**6.6**	6.7
Fair value				
At 31st December	**16.5**	12.5	**16.2**	11.9

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 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 2006 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'.

17. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings £m	Equipment Fixtures, Fittings and Vehicles £m	Total £m
Group			
Cost			
At 1st January 2006	**78.2**	**66.4**	**144.6**
Additions	**1.0**	**1.5**	**2.5**
Disposals	**(0.2)**	**(1.4)**	**(1.6)**
Transfers	**(1.8)**	**1.8**	**–**
At 31st December 2006	**77.2**	**68.3**	**145.5**
Depreciation			
At 1st January 2006	**12.4**	**50.2**	**62.6**
Charged in year	**1.9**	**4.3**	**6.2**
Disposals	**–**	**(1.5)**	**(1.5)**
At 31st December 2006	**14.3**	**53.0**	**67.3**
Net book value			
At 31st December 2006	**62.9**	**15.3**	**78.2**
Cost			
At 1st January 2005	76.8	65.0	141.8
Additions	4.3	2.6	6.9
Disposals	(0.5)	(3.6)	(4.1)
Transfers	(2.4)	2.4	–
At 31st December 2005	78.2	66.4	144.6
Depreciation			
At 1st January 2005	10.8	47.3	58.1
Charged in year	1.6	4.7	6.3
Disposals	–	(1.8)	(1.8)
At 31st December 2005	12.4	50.2	62.6
Net book value			
At 31st December 2005	65.8	16.2	82.0

17. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and Buildings £m	Equipment Fixtures, Fittings and Vehicles £m	Total £m
Society			
Cost			
At 1st January 2006	**56.4**	**20.6**	**77.0**
Additions	**1.0**	**1.3**	**2.3**
Disposals	**(0.2)**	**(1.2)**	**(1.4)**
Transfers	**(1.8)**	**1.8**	**–**
At 31st December 2006	**55.4**	**22.5**	**77.9**
Depreciation			
At 1st January 2006	**10.1**	**8.8**	**18.9**
Charged in year	**1.5**	**2.2**	**3.7**
Disposals	**–**	**(1.4)**	**(1.4)**
At 31st December 2006	**11.6**	**9.6**	**21.2**
Net book value			
At 31st December 2006	**43.8**	**12.9**	**56.7**
Cost			
At 1st January 2005	55.6	17.6	73.2
Additions	3.7	2.4	6.1
Disposals	(0.5)	(1.8)	(2.3)
Transfers	(2.4)	2.4	–
At 31st December 2005	56.4	20.6	77.0
Depreciation			
At 1st January 2005	8.9	8.6	17.5
Charged in year	1.2	2.0	3.2
Disposals	–	(1.8)	(1.8)
At 31st December 2005	10.1	8.8	18.9
Net book value			
At 31st December 2005	46.3	11.8	58.1

18. DEFERRED TAX ASSETS AND LIABILITIES

	Group		Society	
	2006 £m	2005 £m	**2006 £m**	2005 £m
The movement on the deferred tax liability/(asset) is as follows:				
At 1st January	**9.9**	6.0	**(5.3)**	(6.2)
Income statement (credit)/charge	**(5.5)**	9.2	**(8.7)**	6.2
Pensions and other post retirement benefits	**8.7**	(5.3)	**8.7**	(5.3)
At 31st December	**13.1**	9.9	**(5.3)**	(5.3)
Deferred tax assets and liabilities are attributable to the following items:				
Deferred tax assets				
Pensions and other post retirement benefits	**11.5**	20.0	**11.5**	20.0
Provision for loan impairment	**1.6**	1.9	**1.1**	1.3
Other provisions	**4.4**	4.4	**2.3**	2.8
	17.5	26.3	**14.9**	24.1
Deferred tax liabilities				
Accelerated tax depreciation	**1.7**	1.5	**1.3**	1.1
Overseas dividends	**4.1**	3.6	**4.1**	3.6
Implementation of IAS 39 – mortgages and hedging	**5.8**	9.4	**4.2**	8.5
Other temporary differences	**19.0**	21.7	**–**	5.6
	30.6	36.2	**9.6**	18.8

18. DEFERRED TAX ASSETS AND LIABILITIES (continued)

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

	Group		Society	
	2006	2005	**2006**	2005
	£m	£m	**£m**	£m
Accelerated tax depreciation	**0.2**	0.6	**0.2**	0.2
Pensions and other post retirement benefits	**(0.2)**	(0.4)	**(0.2)**	(0.4)
Overseas dividends	**0.5**	0.3	**0.5**	0.3
Other provisions	**–**	0.4	**0.5**	0.5
Other temporary differences	**(6.0)**	8.3	**(9.7)**	5.6
	(5.5)	9.2	**(8.7)**	6.2

A deferred tax liability of £31.6 million (2005 – £26.1 million) on the unremitted earnings of overseas subsidiaries has not been recognised as there is no requirement or expectation that these earnings will be distributed in the foreseeable future.

19. OTHER ASSETS

	Group		Society	
	2006	2005	**2006**	2005
	£m	£m	**£m**	£m
Due from subsidiary undertakings	**–**	–	**8.4**	7.7
Other	**9.4**	3.9	**4.2**	5.4
	9.4	3.9	**12.6**	13.1

20. PREPAYMENTS AND ACCRUED INCOME

Due from subsidiary undertakings	**–**	–	**14.1**	12.4
Other	**5.9**	4.0	**5.9**	4.0
	5.9	4.0	**20.0**	16.4

21. SHARES

Shares comprising balances held by individuals	**11,283.0**	10,172.5	**11,283.0**	10,172.5
Fair value hedging adjustments	**3.3**	29.9	**3.3**	29.9
	11,286.3	10,202.4	**11,286.3**	10,202.4

The maturity analysis of Shares is contained in Note 32.

22. AMOUNTS OWED TO CREDIT INSTITUTIONS

Amounts owed to:				
Banks	**72.4**	441.6	**72.4**	441.6
Group companies	**–**	–	**1,172.0**	1,111.5
Other credit institutions	**–**	30.0	**–**	30.0
Fair value hedging adjustments	**0.1**	0.1	**0.1**	0.1
	72.5	471.7	**1,244.5**	1,583.2

Amounts due to Group companies comprise balances due to the Society's offshore deposit-taking subsidiary Yorkshire Guernsey Ltd. The maturity analysis of Amounts owed to credit institutions is contained in Note 32.

23. OTHER DEPOSITS

Amounts owed to:				
Group companies	**–**	–	**1,442.7**	–
Other customers	**1,596.4**	1,649.9	**412.9**	530.2
	1,596.4	1,649.9	**1,855.6**	530.2

Amounts due to Group companies comprise balances due to Yorkshire Building Society Covered Bonds LLP. The maturity analysis of Other deposits is contained in Note 32.

24. DEBT SECURITIES IN ISSUE

	Group 2006 £m	Group 2005 £m	Society 2006 £m	Society 2005 £m
Commercial paper	**507.3**	614.7	**507.3**	614.7
Certificates of deposit	**170.5**	149.5	**170.5**	149.5
Fixed rate notes	**1,094.2**	103.1	**1,094.2**	103.1
Floating rate notes	**1,485.6**	1,910.8	**1,485.6**	1,910.8
Fair value hedging adjustment	**4.4**	0.2	**4.4**	0.2
	3,262.0	2,778.3	**3,262.0**	2,778.3

The maturity analysis of Debt securities in issue is contained in Note 32.

Debt securities in issue include £1,014.0 million (2005 – £nil), for both Group and Society, of covered bonds secured on certain loans and advances to customers.

25. ACCRUALS AND DEFERRED INCOME

	Group 2006 £m	Group 2005 £m	Society 2006 £m	Society 2005 £m
Due to subsidiary undertakings	**–**	–	**–**	–
Other	**14.9**	13.0	**13.1**	11.9
	14.9	13.0	**13.1**	11.9

26. RETIREMENT BENEFIT OBLIGATIONS

The Group operates one main employee benefit scheme (the Scheme) with both defined benefit and defined contribution sections. This Scheme has been accounted for under International Accounting Standard 19 'Employee benefits' (IAS 19) which requires disclosure of certain information about the Scheme as set out below.

In addition, the Group operates unfunded defined benefit pension schemes for certain current and former members of staff. These schemes have also been accounted for under IAS 19 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 the defined benefit section. The expense recognised for the defined contribution section is £1.5 million (2005 – £1.3 million).

Defined benefit post-employment benefits

The Group operates a funded defined benefit section of the main scheme for certain employees, providing benefits based on final salary. The assets of this section are held in a separate trustee-administered fund. Contributions to the defined benefit section 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.

The defined benefit section is a group scheme for related entities where risks are shared. The overall costs of the Scheme have been recognised in the Group's accounts according to IAS 19.

Summary of assumptions	31st Dec 2006 %	31st Dec 2005 %	31st Dec 2004 %	31st Dec 2003 %
Inflation rate	**3.0**	2.8	2.7	2.8
Discount rate	**5.1**	4.7	5.3	5.5
Expected return on assets	**7.0**	6.7	7.1	6.9
Rate of increase in pay	**4.5**	4.3	4.2	4.8
Rate of increase of pensions in payment*				
Service before 1st January 2000	**3.7**	3.5	3.5	3.0
Service after 31st December 1999	**3.0**	2.8	2.7	2.8
Rate of increase for deferred pensioners*	**3.0**	2.8	2.7	2.8

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.

26. RETIREMENT BENEFIT OBLIGATIONS (continued)

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:

	2006 Years	2005 Years
Male pensioner	**24.7**	24.7
Female pensioner	**27.7**	27.7
Male non-pensioner	**25.6**	25.6
Female non-pensioner	**28.6**	28.6

Categories of assets

	31st Dec 2006 %	31st Dec 2005 %	31st Dec 2004 %	31st Dec 2003 %
Equities	**66**	66	73	81
Bonds	**30**	28	21	11
Cash and other	**4**	6	6	8
	100	100	100	100

Reconciliation of funded status	£m	£m	£m	£m
Present value of defined benefit obligation	**(286.3)**	(285.0)	(228.1)	(204.0)
Assets at fair value	**255.6**	229.4	180.1	162.7
Funded status/Defined benefit liability	**(30.7)**	(55.6)	(48.0)	(41.3)

Statement of recognised income and expense (SORIE)	2006 £m	2005 £m	2004 £m
Actuarial gain/(loss) recognised in SORIE	**22.0**	(21.4)	(4.5)
Cumulative actuarial losses recognised at 1st January	**(25.9)**	(4.5)	–
Cumulative actuarial losses recognised at 31st December	**(3.9)**	(25.9)	(4.5)

Experience gain and losses	2006 £m	2005 £m
Experience gain/(loss) on defined benefit obligation	**14.6**	(43.1)
Experience gain on assets	**7.4**	21.7
Actuarial gain/(loss) recognised in SORIE	**22.0**	(21.4)
Components of pension expense as shown in the income statement		
Service cost	**7.2**	5.8
Interest cost	**13.3**	11.9
Expected return on assets	**(15.3)**	(12.7)
Total pension expense	**5.2**	5.0

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		
Present value of defined benefit obligation at 1st January	**285.0**	228.1
Defined benefit service cost	**7.2**	5.8
Interest cost	**13.3**	11.9
Defined benefit employee contributions	**1.7**	1.3
Actuarial (gain)/loss	**(14.6)**	43.1
Defined benefit actual benefits paid	**(6.3)**	(5.2)
Present value of defined benefit obligation at 31st December	**286.3**	285.0

26. RETIREMENT BENEFIT OBLIGATIONS (continued)

Movement in defined benefit fair value of assets	**2006 £m**	2005 £m
Fair value of assets at 1st January	**229.4**	180.1
Expected return on assets	**15.3**	12.7
Actuarial gain on assets	**7.4**	21.7
Defined benefit actual company contributions	**8.1**	18.8
Defined benefit employee contributions	**1.7**	1.3
Defined benefit actual benefits paid	**(6.3)**	(5.2)
Fair value of plan assets at 31st December	**255.6**	229.4

None of the assets were invested in the Group's own financial instruments (2005 – £nil) or property (2005 – £nil).

Estimated contributions in 2007

	2007 £m
Society contributions	8.1
Employee contributions	1.7
Total contributions	9.8

27. OTHER LIABILITIES

	Group		**Society**	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Income tax	**28.8**	27.5	**28.8**	27.5
Provisions for regulatory and other liabilities	**12.0**	6.6	**11.6**	6.4
Other	**0.8**	5.6	**0.8**	5.5
	41.6	39.7	**41.2**	39.4

Movements in Provisions for regulatory and other liabilities, principally relating to previous sales of endowment policies, during the year were as follows:

	Group		**Society**	
	2006 £m	2005 £m	**2006 £m**	2005 £m
At 1st January	**6.6**	7.6	**6.4**	7.4
Amounts utilised during the year	**(7.1)**	(7.9)	**(7.1)**	(7.9)
Additional provisions during the year	**12.5**	6.9	**12.3**	6.9
At 31st December	**12.0**	6.6	**11.6**	6.4

It is anticipated that the majority of claims relating to these provisions will be cleared within the next 3 years.

28. SUBORDINATED LIABILITIES

	Group		Society	
	2006	2005	**2006**	2005
	£m	£m	**£m**	£m
6% Subordinated Bonds 2019	**25.7**	25.7	**25.7**	25.7
11⅜% Subordinated Bonds 2022	**25.3**	25.3	**25.3**	25.3
6⅜% Subordinated Bonds 2024	**51.5**	51.4	**51.5**	51.4
Floating Rate Subordinated Notes 2012	**–**	–	**25.0**	25.0
Fair value hedging adjustments	**2.8**	6.2	**2.8**	6.2
	105.3	108.6	**130.3**	133.6

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.

Included within the Society's subordinated liabilities is £25.0 million (2005 – £25.0 million) due to Yorkshire Guernsey Ltd, the Society's offshore deposit taking subsidiary. The Society has the option to redeem all (but not some only) of these floating rate notes on 21st March 2007. In the event that the Society does not redeem the Notes on 21st March 2007 the margin will increase by 0.5%.

29. SUBSCRIBED CAPITAL

	Group		Society	
	2006	2005	**2006**	2005
	£m	£m	**£m**	£m
5.649% Permanent Interest Bearing Shares	**150.8**	–	**150.8**	–
Fair value hedging adjustments	**(5.6)**	–	**(5.6)**	–
	145.2	–	**145.2**	–

All Permanent Interest Bearing Shares (PIBS) are unsecured and denominated in Sterling. Interest is payable half yearly on the 5.649% PIBS 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 FSA, 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	Revaluation Reserve £m	Total Reserves £m
At 1st January 2006	**857.4**	**(4.6)**	**(1.2)**	**851.6**
2006 Income Statement	**53.7**	**–**	**–**	**53.7**
Statement of recognised income and expense:				
Amounts deferred	**21.0**	**5.6**	**(18.4)**	**8.2**
Amounts released	**–**	**(2.8)**	**0.3**	**(2.5)**
At 31st December 2006	**932.1**	**(1.8)**	**(19.3)**	**911.0**
At 1st January 2005	800.2	–	–	800.2
2005 Income Statement	50.9	–	–	50.9
Statement of recognised income and expense:				
Amounts deferred	6.3	(5.0)	(4.9)	(3.6)
Amounts released	–	0.4	3.7	4.1
At 31st December 2005	857.4	(4.6)	(1.2)	851.6
Society				
At 1st January 2006	**739.3**	**(4.6)**	**(1.2)**	**733.5**
2006 Income Statement	**38.7**	**–**	**–**	**38.7**
Statement of recognised income and expense:				
Amounts deferred	**20.8**	**5.6**	**(17.7)**	**8.7**
Amounts released	**–**	**(2.8)**	**0.3**	**(2.5)**
At 31st December 2006	**798.8**	**(1.8)**	**(18.6)**	**778.4**
At 1st January 2005	702.1	–	–	702.1
2005 Income Statement	34.2	–	–	34.2
Statement of recognised income and expense:				
Amounts deferred	3.0	(5.0)	(4.9)	(6.9)
Amounts released	–	0.4	3.7	4.1
At 31st December 2005	739.3	(4.6)	(1.2)	733.5

The hedging reserve relates to fair value adjustments on derivative financial instruments designated as cash flow hedges.
The revaluation reserve relates to fair value adjustments on available-for-sale investments.

31. FINANCIAL COMMITMENTS

	Group		Society	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Committed undrawn standby facilities	**9.5**	8.0	**9.5**	8.0

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 2006, but for which no provision has been made in the accounts, amounted to £0.1 million (Society £nil), (2005 – Group and Society £nil).

Amounts payable under non-cancellable operating leases are as follows:

	2006		2005	
Group	**Land and buildings £m**	**Other £m**	Land and buildings £m	Other £m
Operating leases which expire:				
Within one year	**0.1**	**0.9**	0.1	0.1
Within two to five years inclusive	**0.7**	**2.1**	0.4	1.6
Over five years	**2.1**	**–**	2.0	–
	2.9	**3.0**	2.5	1.7

32. 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. Detail is given in Note 13
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
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.

32. FINANCIAL INSTRUMENTS (continued)

Liquidity risk

The following tables have been compiled, in accordance with IAS 30, on a contractual maturity basis. Liquidity risk is an intrinsic part of a Building Society's business since 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 several years. It is this inherent mismatch in the maturity profiles of retail assets and liabilities that creates the significant liquidity gaps in the Over five years and In not more than three months columns. Fair value hedging, effective interest rate, accrued interest and impairment adjustments have been allocated to the No specific maturity column. The market value of derivatives is shown as No specific maturity within Other assets and Other liabilities as appropriate. Further details of liquidity management are contained within the Risk Management Report on pages 17 to 21.

The tables below show the allocation of assets and liabilities to time bands according to their contractual maturity.

Group	In not more than three months £m	In more than three months but not more than one year £m	In more than one year but not more than five years £m	Over five years £m	No specific maturity £m	Total £m
As at 31st December 2006						
Assets						
Liquid assets	**1,079.6**	**977.0**	**1,284.4**	**712.5**	**18.5**	**4,072.0**
Loans and advances to customers	**90.1**	**258.7**	**1,658.5**	**11,323.2**	**(61.5)**	**13,269.0**
Investments	**–**	**–**	**–**	**–**	**0.1**	**0.1**
Other assets	**–**	**–**	**–**	**–**	**224.5**	**224.5**
Total assets	**1,169.7**	**1,235.7**	**2,942.9**	**12,035.7**	**181.6**	**17,565.6**
Liabilities						
Shares	**8,558.5**	**1,586.0**	**918.2**	**–**	**223.6**	**11,286.3**
Amounts owed to credit institutions	**38.7**	**–**	**–**	**33.7**	**0.1**	**72.5**
Other deposits	**1,234.7**	**265.6**	**58.5**	**–**	**37.6**	**1,596.4**
Debt securities in issue	**776.7**	**504.7**	**1,940.6**	**10.1**	**29.9**	**3,262.0**
Other liabilities	**–**	**–**	**–**	**–**	**186.9**	**186.9**
Subordinated liabilities	**–**	**–**	**–**	**100.0**	**5.3**	**105.3**
Subscribed capital	**–**	**–**	**–**	**150.0**	**(4.8)**	**145.2**
Reserves	**–**	**–**	**–**	**–**	**911.0**	**911.0**
Total liabilities	**10,608.6**	**2,356.3**	**2,917.3**	**293.8**	**1,389.6**	**17,565.6**
Net Liquidity gap	**(9,438.9)**	**(1,120.6)**	**25.6**	**11,741.9**	**(1,208.0)**	**–**
As at 31st December 2005						
Assets						
Liquid assets	1,283.1	488.8	1,505.1	613.6	35.8	3,926.4
Loans and advances to customers	81.7	250.3	1,589.5	10,139.9	32.5	12,093.9
Investments	–	–	–	–	0.1	0.1
Other assets	–	–	–	–	277.8	277.8
Total assets	1,364.8	739.1	3,094.6	10,753.5	346.2	16,298.2
Liabilities						
Shares	8,003.0	1,546.2	411.8	–	241.4	10,202.4
Amounts owed to credit institutions	436.5	–	–	34.3	0.9	471.7
Amounts owed to other customers	1,372.1	230.0	18.9	–	28.9	1,649.9
Debt securities in issue	660.9	455.6	1,618.4	23.1	20.3	2,778.3
Other liabilities	–	–	–	–	235.7	235.7
Subordinated liabilities	–	–	–	100.0	8.6	108.6
Subscribed capital	–	–	–	–	–	–
Reserves	–	–	–	–	851.6	851.6
Total liabilities	10,472.5	2,231.8	2,049.1	157.4	1,387.4	16,298.2
Net Liquidity gap	(9,107.7)	(1,492.7)	1,045.5	10,596.1	(1,041.2)	–

32. FINANCIAL INSTRUMENTS (continued)
Liquidity risk

Society	In not more than three months £m	In more than three months but not more than one year £m	In more than one year but not more than five years £m	Over five years £m	No specific maturity £m	Total £m
As at 31st December 2006						
Assets						
Liquid assets	**842.4**	**970.9**	**1,179.8**	**530.9**	**14.0**	**3,538.0**
Loans and advances to customers	**67.9**	**207.3**	**1,328.3**	**7,279.3**	**(36.9)**	**8,845.9**
Investments	**–**	**–**	**–**	**–**	**6,261.0**	**6,261.0**
Other assets	**–**	**–**	**–**	**–**	**217.0**	**217.0**
Total assets	**910.3**	**1,178.2**	**2,508.1**	**7,810.2**	**6,455.1**	**18,861.9**
Liabilities						
Shares	**8,558.5**	**1,586.0**	**918.2**	**–**	**223.6**	**11,286.3**
Amounts owed to credit institutions	**1,208.2**	**–**	**–**	**33.7**	**2.6**	**1,244.5**
Other deposits	**275.8**	**120.5**	**1,459.2**	**–**	**0.1**	**1,855.6**
Debt securities in issue	**776.7**	**504.7**	**1,940.6**	**10.1**	**29.9**	**3,262.0**
Other liabilities	**–**	**–**	**–**	**–**	**159.6**	**159.6**
Subordinated liabilities	**–**	**–**	**–**	**125.0**	**5.3**	**130.3**
Subscribed capital	**–**	**–**	**–**	**150.0**	**(4.8)**	**145.2**
Reserves	**–**	**–**	**–**	**–**	**778.4**	**778.4**
Total liabilities	**10,819.2**	**2,211.2**	**4,318.0**	**318.8**	**1,194.7**	**18,861.9**
Net Liquidity gap	**(9,908.9)**	**(1,033.0)**	**(1,809.9)**	**7,491.4**	**5,260.4**	**–**
As at 31st December 2005						
Assets						
Liquid assets	1,137.6	469.6	1,416.0	408.8	31.5	3,463.5
Loans and advances to customers	65.1	202.5	1,291.0	7,099.6	37.8	8,696.0
Investments	–	–	–	–	3,746.9	3,746.9
Other assets	–	–	–	–	271.8	271.8
Total assets	1,202.7	672.1	2,707.0	7,508.4	4,088.0	16,178.2
Liabilities						
Shares	8,003.0	1,546.2	411.8	–	241.4	10,202.4
Amounts owed to credit institutions	1,547.7	–	–	34.3	1.2	1,583.2
Other deposits	435.7	84.1	7.0	–	3.4	530.2
Debt securities in issue	660.9	455.6	1,618.4	23.1	20.3	2,778.3
Other liabilities	–	–	–	–	217.0	217.0
Subordinated liabilities	–	–	–	125.0	8.6	133.6
Subscribed capital	–	–	–	–	–	–
Reserves	–	–	–	–	733.5	733.5
Total liabilities	10,647.3	2,085.9	2,037.2	182.4	1,225.4	16,178.2
Net Liquidity gap	(9,444.6)	(1,413.8)	669.8	7,326.0	2,862.6	–

32. FINANCIAL INSTRUMENTS (continued)

Interest rate risk

The table below shows the allocation of assets and liabilities at the balance sheet date to time bands by reference to the earlier of the next interest repricing date and the maturity date. Fair value hedging, effective interest rate, accrued interest and impairment adjustments have been allocated to the Non-interest bearing column. The market value of derivatives is shown as Non-interest bearing within Other assets and Other liabilities as appropriate. The notional principal of derivatives is shown within the line Interest rate derivatives to show how derivatives have been used to hedge positions between on-balance sheet financial instruments. The net interest rate gap represents the cash flow interest rate risk within the balance sheet as modified by the use of derivative financial instruments. The majority of the Group's financial assets and liabilities are subject to interest rate risk. It has only a small number of investments held at fair value through the income statement which are subject to fair value interest rate risk. More detail of how the Group manages its interest rate risk is included in the Risk Management Report on pages 17 to 21.

Group	In not more than three months £m	In more than three months but not more than one year £m	In more than one year but not more than five years £m	Over five years £m	Non-interest bearing £m	Total £m
As at 31st December 2006						
Assets						
Liquid assets	**2,534.0**	**809.5**	**633.3**	**76.7**	**18.5**	**4,072.0**
Loans and advances to customers	**4,480.8**	**2,166.3**	**6,188.7**	**494.7**	**(61.5)**	**13,269.0**
Investments	**–**	**–**	**–**	**–**	**0.1**	**0.1**
Other assets	**–**	**–**	**–**	**–**	**224.5**	**224.5**
Total assets	**7,014.8**	**2,975.8**	**6,822.0**	**571.4**	**181.6**	**17,565.6**
Liabilities						
Shares	**8,226.7**	**1,880.8**	**947.6**	**7.6**	**223.6**	**11,286.3**
Amounts owed to credit institutions	**38.4**	**34.0**	**–**	**–**	**0.1**	**72.5**
Other deposits	**1,206.2**	**295.9**	**56.7**	**–**	**37.6**	**1,596.4**
Debt securities in issue	**1,981.2**	**167.9**	**1,083.0**	**–**	**29.9**	**3,262.0**
Other liabilities	**–**	**–**	**–**	**–**	**186.9**	**186.9**
Subordinated liabilities	**–**	**–**	**–**	**100.0**	**5.3**	**105.3**
Subscribed capital	**–**	**–**	**–**	**150.0**	**(4.8)**	**145.2**
Reserves	**–**	**–**	**–**	**–**	**911.0**	**911.0**
Total liabilities	**11,452.5**	**2,378.6**	**2,087.3**	**257.6**	**1,389.6**	**17,565.6**
Interest rate derivatives	**4,739.0**	**(913.0)**	**(3,553.4)**	**(272.6)**	**–**	**–**
Net interest rate gap	**301.3**	**(315.8)**	**1,181.3**	**41.2**	**(1,208.0)**	**–**
As at 31st December 2005						
Assets						
Liquid assets	2,694.3	378.2	788.1	30.0	35.8	3,926.4
Loans and advances to customers	5,245.2	1,293.9	4,891.3	631.0	32.5	12,093.9
Investments	–	–	–	–	0.1	0.1
Other assets	–	–	–	–	277.8	277.8
Total assets	7,939.5	1,672.1	5,679.4	661.0	346.2	16,298.2
Liabilities						
Shares	7,798.8	1,631.9	528.3	2.0	241.4	10,202.4
Amounts owed to credit institutions	436.5	34.3	–	–	0.9	471.7
Other deposits	1,362.3	220.7	38.0	–	28.9	1,649.9
Debt securities in issue	2,563.9	117.1	77.0	–	20.3	2,778.3
Other liabilities	–	–	–	–	235.7	235.7
Subordinated liabilities	–	–	–	100.0	8.6	108.6
Subscribed capital	–	–	–	–	–	–
Reserves	–	–	–	–	851.6	851.6
Total liabilities	12,161.5	2,004.0	643.3	102.0	1,387.4	16,298.2
Interest rate derivatives	3,275.6	230.6	(3,124.8)	(381.4)	–	–
Net interest rate gap	(946.4)	(101.3)	1,911.3	177.6	(1,041.2)	–

32. FINANCIAL INSTRUMENTS (continued)

Interest rate risk (continued)

Society	In not more than three months £m	In more than three months but not more than one year £m	In more than one year but not more than five years £m	Over five years £m	Non-interest bearing £m	Total £m
As at 31st December 2006						
Assets						
Liquid assets	**2,090.2**	**793.5**	**570.3**	**70.0**	**14.0**	**3,538.0**
Loans and advances to customers	**3,321.4**	**1,526.7**	**3,658.8**	**375.9**	**(36.9)**	**8,845.9**
Investments	**–**	**–**	**–**	**–**	**6,261.0**	**6,261.0**
Other assets	**–**	**–**	**–**	**–**	**217.0**	**217.0**
Total assets	**5,411.6**	**2,320.2**	**4,229.1**	**445.9**	**6,455.1**	**18,861.9**
Liabilities						
Shares	**8,226.7**	**1,880.8**	**947.6**	**7.6**	**223.6**	**11,286.3**
Amounts owed to credit institutions	**1,207.9**	**34.0**	**–**	**–**	**2.6**	**1,244.5**
Other deposits	**275.8**	**120.5**	**1,459.2**	**–**	**0.1**	**1,855.6**
Debt securities in issue	**1,981.2**	**167.9**	**1,083.0**	**–**	**29.9**	**3,262.0**
Other liabilities	**–**	**–**	**–**	**–**	**159.6**	**159.6**
Subordinated liabilities	**25.0**	**–**	**–**	**100.0**	**5.3**	**130.3**
Subscribed capital	**–**	**–**	**–**	**150.0**	**(4.8)**	**145.2**
Reserves	**–**	**–**	**–**	**–**	**778.4**	**778.4**
Total liabilities	**11,716.6**	**2,203.2**	**3,489.8**	**257.6**	**1,194.7**	**18,861.9**
Interest rate derivatives	**5,749.3**	**(913.0)**	**(4,563.7)**	**(272.6)**	**–**	**–**
Net interest rate gap	**(555.7)**	**(796.0)**	**(3,824.4)**	**(84.3)**	**5,260.4**	**–**
As at 31st December 2005						
Assets						
Liquid assets	2,317.4	353.0	731.6	30.0	31.5	3,463.5
Loans and advances to customers	3,323.6	1,066.0	3,680.8	587.8	37.8	8,696.0
Investments	–	–	–	–	3,746.9	3,746.9
Other assets	–	–	–	–	271.8	271.8
Total assets	5,641.0	1,419.0	4,412.4	617.8	4,088.0	16,178.2
Liabilities						
Shares	7,798.8	1,631.9	528.3	2.0	241.4	10,202.4
Amounts owed to credit institutions	1,547.7	34.3	–	–	1.2	1,583.2
Other deposits	435.7	84.1	7.0	–	3.4	530.2
Debt securities in issue	2,563.9	117.1	77.0	–	20.3	2,778.3
Other liabilities	–	–	–	–	217.0	217.0
Subordinated liabilities	25.0	–	–	100.0	8.6	133.6
Subscribed capital	–	–	–	–	–	–
Reserves	–	–	–	–	733.5	733.5
Total liabilities	12,371.1	1,867.4	612.3	102.0	1,225.4	16,178.2
Interest rate derivatives	3,275.6	230.6	(3,124.8)	(381.4)	–	–
Net interest rate gap	(3,454.5)	(217.8)	675.3	134.4	2,862.6	–

32. FINANCIAL INSTRUMENTS (continued)

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.

	2006		2005	
	Book Value £m	**Fair Value £m**	Book Value £m	Fair Value £m
Group				
Assets				
Cash in hand and balances with the Bank of England	**36.2**	**36.2**	32.7	32.7
Loans and advances to credit institutions	**167.8**	**167.8**	441.0	441.0
Debt securities	**3,868.0**	**3,868.0**	3,452.7	3,452.7
Loans and advances to customers	**13,269.0**	**13,279.1**	12,093.9	12,139.7
Investments	**0.1**	**0.1**	0.1	0.1
Liabilities				
Shares	**11,286.3**	**11,286.3**	10,202.4	10,202.4
Amounts due to credit institutions	**72.5**	**72.5**	471.7	471.7
Other deposits	**1,596.4**	**1,596.4**	1,649.9	1,649.9
Debt securities in issue	**3,262.0**	**3,250.3**	2,778.3	2,790.5
Subordinated liabilities	**105.3**	**119.9**	108.6	125.8
Subscribed capital	**145.2**	**145.2**	–	–
Society				
Assets				
Cash in hand and balances with the Bank of England	**36.2**	**36.2**	32.7	32.7
Loans and advances to credit institutions	**20.2**	**20.2**	360.4	360.4
Debt securities	**3,481.6**	**3,481.6**	3,070.4	3,070.4
Loans and advances to customers	**8,845.9**	**8,865.6**	8,696.0	8,736.8
Investments	**6,261.0**	**6,261.0**	3,746.9	3,746.9
Liabilities				
Shares	**11,286.3**	**11,286.3**	10,202.4	10,202.4
Amounts due to credit institutions	**1,244.5**	**1,244.5**	1,583.2	1,583.2
Other deposits	**1,855.6**	**1,855.6**	530.2	530.2
Debt securities in issue	**3,262.0**	**3,250.3**	2,778.3	2,790.5
Subordinated liabilities	**130.3**	**145.0**	133.6	151.0
Subscribed capital	**145.2**	**145.2**	–	–

Fair values of derivative financial instruments are shown on page 67.

32. FINANCIAL INSTRUMENTS (continued)

Effective interest rates

The table below summarises the effective interest rate based on monthly average balances for financial instruments not carried at fair value through the income statement.

	Group		Society	
	2006	2005	**2006**	2005
	£m	£m	**£m**	£m
Assets				
Loans and advances to credit institutions	**4.36%**	4.25%	**5.05%**	4.61%
Debt securities	**4.71%**	4.32%	**4.61%**	4.37%
Loans and advances to customers	**5.15%**	5.17%	**5.00%**	5.09%
Liabilities				
Shares	**4.20%**	4.06%	**4.20%**	4.06%
Amounts due to credit institutions	**4.41%**	4.06%	**4.77%**	4.65%
Other deposits	**4.72%**	4.60%	**4.65%**	4.85%
Debt securities in issue	**4.64%**	3.74%	**4.64%**	3.74%
Subordinated liabilities	**7.11%**	7.20%	**6.82%**	6.90%
Subscribed capital	**5.88%**	–	**5.88%**	–

Derivatives

The following tables summarise the notional and fair value of all derivative financial instruments.

Group

At 31st December 2006	Contract/notional amount	Fair values	
		Assets	Liabilities
	£m	£m	£m
Interest rate swaps designated as fair value hedges	**7,689.3**	**88.2**	**(5.9)**
Interest rate swaps designated as cash flow hedges	**1,913.6**	**15.9**	**(5.2)**
Cross currency interest swaps designated as fair value hedges	**1,010.3**	**–**	**(1.2)**
Derivatives not designated as hedges:			
Interest rate swaps	**1,292.1**	**11.6**	**(2.5)**
Cross currency interest rate swaps	**984.2**	**4.7**	**(28.9)**
Equity linked interest rate swaps	**16.7**	**4.0**	**–**
Forward foreign exchange	**283.8**	**0.1**	**(1.7)**
Interest rate options	**20.0**	**–**	**–**
Interest rate futures	**50.0**	**–**	**–**
Collateral received	**–**	**(29.1)**	**–**
Collateral pledged	**–**	**–**	**3.4**
Total derivatives held for hedging	**13,260.0**	**95.4**	**(42.0)**

Society

At 31st December 2006	Contract/notional amount	Fair values	
		Assets	Liabilities
	£m	£m	£m
Interest rate swaps designated as fair value hedges	**7,689.3**	**88.2**	**(5.9)**
Interest rate swaps designated as cash flow hedges	**1,913.6**	**15.9**	**(5.2)**
Derivatives not designated as hedges:			
Interest rate swaps	**2,704.3**	**11.6**	**(5.4)**
Cross currency interest rate swaps	**984.2**	**4.7**	**(28.9)**
Equity linked interest rate swaps	**16.7**	**4.0**	**–**
Forward foreign exchange	**417.2**	**0.4**	**(1.7)**
Interest rate options	**20.0**	**–**	**–**
Interest rate futures	**50.0**	**–**	**–**
Collateral received	**–**	**(29.1)**	**–**
Collateral pledged	**–**	**–**	**3.4**
Total derivatives held for hedging	**13,795.3**	**95.7**	**(43.7)**

32. FINANCIAL INSTRUMENTS (continued)

Group and Society

At 31st December 2005	Contract/notional amount £m	Fair values Assets £m	Fair values Liabilities £m
Interest rate swaps designated as fair value hedges	6,295.5	51.9	(38.0)
Interest rate swaps designated as cash flow hedges	2,117.1	33.6	(6.6)
Derivatives not designated as hedges:			
Interest rate swaps	2,135.2	22.3	(21.9)
Cross currency interest rate swaps	1,071.0	15.3	(5.7)
Equity linked interest rate swaps	104.6	18.6	–
Forward foreign exchange	175.0	3.5	–
Interest rate options	20.0	–	–
Interest rate futures	173.0	–	–
Collateral received	–	–	–
Collateral pledged	–	–	–
Total derivatives held for hedging	12,091.4	145.2	(72.2)

All derivatives entered into by the Group are for hedging purposes. All derivatives are held at fair value in accordance with IAS 39. The Group has chosen to designate some as fair value or cash flow hedges where material volatility in the income statement can be offset. Further detail on the Group's use of derivative financial instruments is included in the Risk Management Report on pages 17 to 21.

All derivative counterparties are financial institutions.

33. RELATED PARTIES

Identity of related parties

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

Key management compensation

The key management personnel compensations are as follows:

	No. of key management personnel	2006 £000	No. of key management personnel	2005 £000
Short term employee benefits		**1,729**		1,558
Post employment benefits		**34**		37
Total key management personnel compensation	**13**	**1,763**	13	1,595

Transactions with key management personnel

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

	No. of key management personnel 2006	Amounts in respect of key management personnel and their close family members 2006 £000	No. of key management personnel 2005	Amounts in respect of key management personnel and their close family members 2005 £000
Mortgage loans				
At 1st January		**217**		249
Net movements in the year		**135**		(32)
At 31st December	**2**	**352**	2	217
Deposit accounts and investments				
At 1st January		**1,106**		772
Net movements in the year		**(11)**		334
At 31st December	**10**	**1,095**	13	1,106

33. RELATED PARTIES (continued)

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 those as at 31st December.

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 £5,897 (2005 – £4,176), received interest totalling £53,692 (2005 – £33,739), and paid no fees and commissions during the year. Interest paid includes amounts relating to 'offset' mortgages where savings balances are used to reduce the interest bearing balance of mortgage loans.

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 volume of related party transactions, outstanding balances at the year end and related income and expense for the financial year are as follows:

	2006 £m	2005 £m
Shares in subsidiaries		
At 1st January	**294.3**	192.3
Net movements	**–**	102.0
At 31st December	**294.3**	294.3
Loans to subsidiaries		
At 1st January	**3,452.6**	2,513.0
Net movements	**2,514.1**	939.6
At 31st December	**5,966.7**	3,452.6
Deposits from subsidiaries		
At 1st January	**1,111.5**	870.2
Net movements	**1,503.2**	241.3
At 31st December	**2,614.7**	1,111.5
Provision for bad and doubtful debts	**–**	5.6
Write off against provision	**–**	(5.6)
Interest receivable on loans	**190.8**	141.9
Interest payable on deposits	**(64.6)**	(47.5)
Fees and expenses receivable	**14.4**	14.1
Fees and expenses payable	**(2.4)**	(5.5)

Transactions with Joint Ventures

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

	2006 £m	2005 £m
Loans		
At 1st January	**0.1**	0.1
Net movements	**–**	–
At 31st December	**0.1**	0.1

34. CASH AND CASH EQUIVALENTS

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

	Group £m	Society £m
At 1st January 2006	1,010.8	930.2
Flow	(217.9)	(285.0)
At 31st December 2006	792.9	645.2

	Group		Society	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Cash and cash equivalents comprise:				
Cash and balances with central banks	**36.2**	32.7	**36.2**	32.7
Loans and advances to banks	**167.8**	441.0	**20.2**	360.4
Debt securities	**588.9**	537.1	**588.8**	537.1
	792.9	1,010.8	**645.2**	930.2

Annual business statement

for the year ended 31st December 2006

1. STATUTORY PERCENTAGES

	2006 %	Statutory Limit %
Lending Limit	**1.8**	25.0
Funding Limit	**30.4**	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 not in the form of shares held by individuals.

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

	2006 %	2005 %
As percentage of shares and borrowings:		
Gross capital	**7.16**	6.36
Free capital	**6.63**	5.86
Liquid assets	**25.11**	26.00
Profit for the financial year as a percentage of mean total assets	**0.32**	0.32
Management expenses as a percentage of mean total assets	**0.69**	0.73

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, revaluation 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.

Annual business statement

for the year ended 31st December 2006 continued

3. INFORMATION RELATING TO THE DIRECTORS AND OTHER OFFICERS AT 31ST DECEMBER 2006

Director Name and Date of Birth	Business Occupation	Date of Appointment	Other Directorships
E. J. S. Anderson, B.Sc, CPFA 22nd December 1950	Company Director	19th May 2003	Accord Mortgages Ltd Airport Operators Association Ltd Kelda Group Plc Leeds Bradford International Airport Ltd Leeds Chamber of Commerce and Industry Leeds International Pianoforte Competition Marketing Leeds Ltd St.Gemma's Hospice
Ms J. M. Baddeley, MA 21st March 1951	Associate Fellow Said Business School, Oxford	2nd November 2001	Art VPS Ltd Browning Properties Ltd Chrysalis A VCT Plc Chrysalis B VCT Plc Chrysalis C VCT Plc Chrysalis VCT Plc ComputerLand UK Plc Department of Health Greggs Plc
F. B. Beckett, CA 30th October 1941	Chartered Accountant (retired) and Company Director	27th July 2000	Harrogate Golf Club Ltd Paperworks (Harrogate) Ltd
Ms M. C. Bowe, B.Sc, M.Sc, PhD 27th November 1946 (retired 31st December 2006)	Company Director	19th May 2003	Axa Framlington Group Ltd Camden People's Theatre Morgan Stanley Bank International Ltd National Institute for Economic and Social Research Queen Mary, University of London Foundation
A. M. Caton, BA 27th July 1963	Building Society Corporate Development Director	1st July 2004	Accord Mortgages Ltd 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 Saltersgate Investment Ltd
I. C. A. Cornish, B.Sc 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	Yorkshire Investment Services Ltd Amlin Plc Amlin Underwriting Ltd Severn Trent Plc

Annual business statement

for the year ended 31st December 2006 continued

3. INFORMATION RELATING TO THE DIRECTORS AND OTHER OFFICERS AT 31ST DECEMBER 2006 (continued)

Director Name and Date of Birth	Business Occupation	Date of Appointment	Other Directorships
A. T. Gosling, MA, FCA 1st June 1955	Building Society Finance Director	1st May 2001	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
R. B. Jackson, BA, MBA, FCIB 5th June 1951	Building Society Operations Director	1st May 1996	Yorkshire Computer Services Ltd Yorkshire Key Services Ltd Yorkshire Key Services (No. 2) Ltd Yorkshire Syndications Ltd MutualPlus Ltd
P. A. Lee, MA, LL.B 26th January 1946	Solicitor	22nd May 1998	A G Secretarial Ltd Barlows Plc Chepstow Trustee Ltd Exchange Productions Ltd Hopkins & Jones Ltd Inhoco Formations Ltd Leaf 2 Let Ltd Leaf Properties Ltd Royal Exchange Theatre Catering Ltd Royal Exchange Theatre Company Ltd Royal Exchange Theatre Trustees Ltd
D. V. Paige, B.Sc, FCA 3rd July 1951	Company Director	31st December 2006	Aegon UK Plc Edgecumbe Consulting Group Ltd Rigps Pension Trustee Ltd Rigps Properties Ltd
C. J. Sheridan, FCIB, MSI 18th February 1943 (retired 31st December 2006)	Company Director	27th June 1995	Alpha Bank London Ltd Artic Services AG Francis Holland (Church of England) Schools Trust Ltd Hanover Acceptances Ltd Inspace Ltd Minerva plc Sports Road Holdings Ltd Standard Bank Plc Ltd
S. Turner, B.Sc 29th November 1951	Managing Director	13th October 2005	DSG International Wholesale Ltd DSG Retail Ltd SCM Microsystems Inc.

Mr. R.B. Jackson entered into a two year contract with effect from 1st May 1996 which is terminable by the Society on two years' notice and by Mr Jackson on one year's notice. Mr A.M. Caton, Mr I.C.A. Cornish and Mr A.T. Gosling entered into one year 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. 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.

Annual business statement

for the year ended 31st December 2006 continued

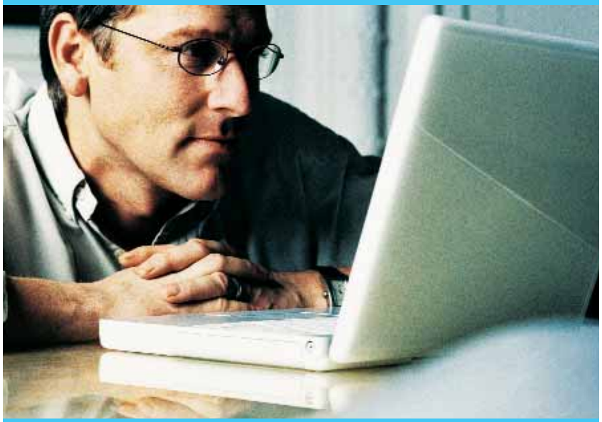
3. INFORMATION RELATING TO THE DIRECTORS AND OTHER OFFICERS AT 31ST DECEMBER 2006 (continued)

Officer	Business Occupation	Directorships
I. J. Bullock, B.Sc, FIA	General Manager Sales and Marketing	None
R. J. Churchouse, MA, ACA	General Manager Risk and Planning	None
Mrs R. D. Court, BA	General Manager Human Resources	Yorkshire Guernsey Ltd
D. J. Davies, BEng, CEng, MIMechE	General Manager Organisational Development	Yorkshire Key Services Ltd Yorkshire Key Services (No. 2) Ltd Dixons City Academy Charitable Trust
Mrs A. L. FitzPatrick, LL.B	Group Secretary	Newhall Park Daycare Ltd
J. H. Warden, BA, ACA, MBA	General Manager Business Performance	None

Stills from Yorkshire Building Society
advertising campaign 'Fantastic
Mortgage Rate' September 2006.

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



YBM 0019 02/2007

Principal Office: Yorkshire Building Society,
Yorkshire House, Yorkshire Drive, Bradford
BD5 8LJ. www.ybs.co.uk

Yorkshire
BUILDING SOCIETY
With you one hundred percent