



Report & Accounts 2008

Chairman's Report

The Directors have pleasure in presenting the Abridged Financial Statements of Yorkshire Guernsey Limited for the Year ended 31 December 2008.

2008 was an unprecedented year for the Financial Sector as a whole, with world-wide systemic issues leading to the need for the state rescue of a number of banking organisations. Inevitably, Guernsey was not immune from the fall-out from these cataclysmic events, with the demise of Landsbanki and its Guernsey based subsidiary as well as the broader impact of a rapidly falling interest rate environment.

Against this challenging backdrop, I'm delighted to be able to say that Yorkshire Guernsey increased its annual profit by over 14% compared with 2007.

Whilst deposit balances inevitably reduced somewhat given the broader market conditions, the service offered to our customers remained extremely strong throughout the year.

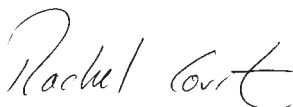
Clearly, in the current climate, financial security is every bit as important to customers as the provision of an attractive rate of return. In this context, Yorkshire Guernsey increased the proportion of liquid assets held locally from 9.7% at the end of 2007 to 17.7% at the end of 2008. It also continues to have an extremely strong capital base, with share capital and reserves representing 12.3% of total liabilities.

Equally, the company's parent, Yorkshire Building Society, has weathered this storm well, and has ended the year in good shape. This is due not only to its prudent approach to mortgage lending but in particular, its approach to funding – how it sources the funds it lends to borrowers. The majority of the Yorkshire Building Society Group's funding comes from retail savings customers - of whom Yorkshire Guernsey's customers are a significant part. Over 88% of its mortgages are funded by these retail savings balances. This has put the Group in a very strong position given the current constraints on wholesale funding. Both the Society's liquidity and solvency ratios increased during 2008 – to 25.4% and 14.8% respectively. These ratios are among the strongest of any Bank or Building Society, and have been achieved without any recourse to fresh capital raising from either the UK Government or the market.

Our parent gives us a legal undertaking to meet our liabilities in the event that we are unable to meet them ourselves and given its strength, this undertaking gives us the confidence to continue to develop our business in a way that provides sustainable long term good value to our customers. Following the introduction of a Deposit Compensation Scheme by the States of Guernsey in November 2008, the outlook for the jurisdiction as a whole going forwards remains strong.

Our ongoing commitment to the Island of Guernsey was demonstrated again in 2008 through our support of a number of cultural and community based events. In particular, I'm delighted that we were again able to be the main sponsor for the GADA run International Dancesport festival in October. This festival brings top amateur dancers from all over the world to Guernsey and is now in its fifth year and is growing from strength to strength. We also continue to support the Guernsey Basketball leagues and a prestigious ladies golf competition.

Last year's performance was only made possible through the support and hard work of the staff of Yorkshire Guernsey Limited and I would like to take this opportunity to thank them all for their contribution and hard work throughout the year.



Rachel Court
Chairman

Directors, Executives & Auditors

Directors

RD Court (Chairman)
AM Caton
TJ Betley
CP Goodwin
AT Gosling
IM Kirk
PJ Symes (Managing Director)

Secretary

SK Oliphant

Auditors

KPMG Channel Islands Limited
Chartered Accountants
20 New Street
St Peter Port
Guernsey

Registered office

Yorkshire House
Le Truchot
St Peter Port
Guernsey

Yorkshire Guernsey Limited is a wholly owned subsidiary of Yorkshire Building Society, which is registered in England and is also the ultimate holding entity.

Copies of the accounts of Yorkshire Building Society are available on request.

Independent Auditor's

report to the Directors of Yorkshire Guernsey Limited

We have examined the abridged financial statements on pages 4 to 10 together with the audited financial statements of Yorkshire Guernsey Limited for the year ended 31 December 2008. The scope of our work for the purpose of this report was limited to confirming whether the abridged financial statements have been properly prepared from the audited financial statements and have been drawn up in a manner authorised by the Guernsey Financial Services Commission.

In our opinion the abridged financial statements have been extracted from the audited financial statements and have been drawn up in accordance with the provisions of The Banking Supervision (Bailiwick of Guernsey) Law, 1994 in a manner authorised by the Guernsey Financial Services Commission.

On 2 March 2009 we reported, as independent auditors of Yorkshire Guernsey Limited, to the Members on the audited financial statements as follows:

"We have audited the financial statements (the "financial statements") of Yorkshire Guernsey Limited for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 64 of The Companies (Guernsey) Law, 1994. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable Guernsey law and UK Accounting Standards as set out in the Statement of Directors' Responsibilities on page 3.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with The Companies (Guernsey) Law, 1994 and The Banking Supervision (Bailiwick of Guernsey) Law, 1994. We also report to you if, in our opinion, the company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Independent Auditor's

report to the Directors of Yorkshire Guernsey Limited continued

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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company'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 financial statements 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 financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Accounting Standards, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended; and
- have been properly prepared in accordance with The Companies (Guernsey) Law, 1994 and The Banking Supervision (Bailiwick of Guernsey) Law, 1994."

The statement of directors' responsibilities referred to in our audit report on the full financial statements, reproduced above, was as follows:

"The directors are responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year and are in accordance with applicable laws. In preparing those financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business;

The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 1994 and The Banking Supervision (Bailiwick of Guernsey) Law, 1994. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities."

KPMG
Chartered Accountants
Guernsey

2 March 2009

Profit and loss account

for the year ended 31 December 2008

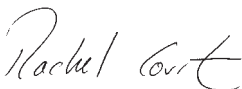
	Notes	2008 £'000	2007 £'000
Net interest income		12,577	11,735
Other income		239	64
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Total income		12,816	11,799
Expenses including taxation		2,598	3,032
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Profit for the financial year	8	£10,218	£8,767

Balance sheet

at 31 December 2008

	Notes	2008 £'000	2007 £'000
Assets			
Cash, current accounts with banks, money at call		1,390	1
Loans and advances to banks	4	791,870	1,182,285
Investments	1,6	101,926	97,154
Debtors and other accounts including taxation		3,655	5,462
Fixed assets		303	314
		£899,144	£1,285,216
Liabilities and shareholders' funds			
Share capital	7	7,700	7,700
Reserves	8	102,913	144,995
Equity shareholders' funds		110,613	152,695
Customer accounts	4	763,526	1,097,698
Creditors and other accounts including taxation		25,005	34,823
		£899,144	£1,285,216

The abridged financial statements on pages 5 to 12 were approved by the Board of Directors on 4 February 2009 and are signed on its behalf by:



RD Court
Director



PJ Symes
Director

Notes to the financial statements

1. Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards.

Interest income

Interest income is received on deposits placed with the parent company and other local financial institutions, including an investment portfolio and accounted for on an accruals basis.

Interest expense

Interest expense is paid in accordance with the terms and conditions of the products in operation and accounted for on an accruals basis.

Penalty interest

Monies withdrawn without requisite prior written notice will be subject to a loss of interest. This loss of interest is then deducted from interest cost.

Investments

Investments are held for long term investment and are included at cost adjusted for amortisation of premiums and accretion of discounts. Gains and losses on sales are recognised in the profit and loss account upon realisation.

Fixed assets

Fixed assets are stated at cost less depreciation.

Depreciation

Depreciation is calculated so as to write off the cost of fixed assets over anticipated useful lives.

Taxation

Taxation provided is that chargeable on profits for the year.

Notes to the financial statements continued

2. Review of the company's risk profile

The company's financial instruments comprise customer deposits, money market assets and liabilities, some cash and liquid resources, and other various items that arise directly from its operations.

The main risks arising from the company's financial instruments are liquidity risk, interest rate risk, credit risk, concentration risk and operational risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have changed during 2008 to take account of emerging risks.

Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in realising assets or otherwise raising funds to meet commitments. The company monitors expected cash outflow for each of the next seven days. Its policy throughout the year has been to ensure liquidity by maintaining at all times sufficient high quality liquid assets to cover the expected net cash outflow over each of the next seven days.

The customer retail deposit base represents a stable source of funding due to the number and diversity of depositors. Liquidity is further managed through dealings in the money markets.

Furthermore, the company benefits from a deed of undertaking from its parent Yorkshire Building Society to discharge its liabilities if the company itself is unable to do so. Yorkshire Building Society has strong tier 1 capital ratios (over 14%). It has no exposure to unsecured or commercial lending and holds high levels of good quality liquidity providing access to large amounts of realisable cash at short notice.

Interest rate risk

Exposure to interest rate risk is the risk that arises when there is an imbalance between rate and non rate-sensitive assets and liabilities. The table in note 3 summarises this position as at 31 December 2008. The inherent interest rate risk is managed by group treasury as part of the group's overall interest rate risk.

Credit risk

Approximately 82.2% (2007: 90.5%) of the loans and advances to banks and investments are placed with group. The amount of this upstreaming is now managed within a maximum limit of 85% agreed with the Guernsey Financial Services Commission and the remainder is invested with other institutions which have a minimum credit rating of "A".

Credit risk is the risk that a customer or counterparty will be unable or unwilling to meet a commitment that it has entered into with a member of the group. The group manages its credit risk centrally to optimise the use of credit availability and to avoid excessive risk concentration.

Concentration risk

Concentration Risk arises where a single exposure or group thereof has the potential to produce losses large enough to be material, and is not covered by other categories.

Concentration on key funding sources is managed within both credit and liquidity risk.

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 company maintains a system of control commensurate with the characteristics of the business and markets in which it operates, best practice principles and regulatory considerations.

In addition to the undertaking issued by our parent, deposits made with Yorkshire Guernsey by individuals are now covered by the Guernsey Banking Deposit Compensation Scheme (the "Scheme") established by The Banking Deposit Compensation Scheme (Bailiwick of Guernsey) Ordinance, 2008 (the "Ordinance").

3. Interest rate sensitivity gap analysis

Part of the company's return on financial instruments is obtained from controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature. The table on page 10 summarises these repricing mismatches on the company's balance sheet as at 31 December 2008 and is representative of the whole year. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

Notes to the financial statements continued

3. Interest rate sensitivity gap analysis continued

	Within 3 months £'000	After 3 months but within 6 months £'000	After 6 months but within 1 year £'000	After 1 year but within 5 years £'000	Non- interest bearing funds £'000	Total £'000
Assets						
Loans and advances to banks	793,259	-	-	-	-	793,259
Treasury and other eligible bills	43,900	17,000	21,700	-	-	82,600
Debt and equity Securities	17,106	-	2,220	-	-	19,326
Other assets	-	-	-	-	3,959	3,959
Total assets	£854,265	17,000	23,920	-	3,959	899,144
Liabilities						
Customer accounts	508,897	104,859	119,335	30,435	-	763,526
Other liabilities	-	-	-	-	25,005	25,005
Shareholders' Funds	-	-	-	-	110,613	110,613
Total liabilities	508,897	104,859	119,335	30,435	135,618	899,144
Off balance sheet items	-	-	-	-	-	-
Interest rate sensitivity gap	£345,368	(87,859)	(95,415)	(30,435)	(131,659)	-
Cumulative interest rate sensitivity gap at 31 December 2008	£345,368	257,509	162,094	131,659	-	-
Cumulative interest rate sensitivity gap at 31 December 2007	£379,265	316,525	204,288	181,484	-	-

Notes to the financial statements continued

4. Maturities of certain assets and liabilities

Loans and advances to banks	2008 £'000	2007 £'000
Repayable:		
Up to one month	£791,870	£1,182,285
Customer accounts	2008 £'000	2007 £'000
Repayable:		
Up to one month	490,471	823,206
From one month to three months	18,426	32,369
From three months to one year	224,194	217,077
More than one year	30,435	25,046
	£763,526	£1,097,698

5. Related party assets and liabilities

The following is a summary of assets and liabilities in respect of related parties:

	2008 £'000	2007 £'000
Assets		
Loans and advances to banks	739,069	1,157,634
Debtors and other accounts	1,049	2,971
	£740,118	£1,160,605
Liabilities	-	£590

Notes to the financial statements continued

6. Investments

Investments are stated at cost adjusted for amortisation of premiums and accretion of discounts and it is the intention of the company to hold these investments as long term assets. The market values are £102,209,170 (2007: £96,950,495).

7. Share capital

	2008 £'000	2007 £'000
Authorised:		
10,000,000 ordinary shares of £1 each	£10,000	£10,000
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Allotted, called up and fully paid:		
7,700,000 ordinary shares of £1 each	£7,700	£7,700
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8. Reserves

	Share Premium £'000	Profit and Loss £'000	Total £'000
Balance at 1 January 2008	52,300	92,695	144,995
Repayment of Share Premium	(52,300)	-	(52,300)
Profit for the financial year	-	10,218	10,218
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Balance at 31 December 2008	-	£102,913	£102,913
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Share Premium amounting to £52,300,000 was repatriated to the parent company in December 2008.

Contact us:



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In Person

At our office in Guernsey. 9am–5pm Monday to Friday

Licensed under the Banking Supervision (Bailiwick of Guernsey) Law 1994 as amended.

Yorkshire Guernsey Limited is a wholly owned subsidiary of Yorkshire Building Society.

Paid up share capital and reserves of Yorkshire Guernsey Limited exceed £20 million.

Yorkshire Guernsey is the business name of Yorkshire Guernsey Limited.

Yorkshire Building Society has issued an undertaking agreeing to discharge the liabilities of Yorkshire Guernsey Limited in so far as Yorkshire Guernsey Limited is unable to discharge them out of its own assets. This undertaking remains effective whilst Yorkshire Guernsey Limited is a subsidiary of Yorkshire Building Society.

As a licensed bank in Guernsey, Yorkshire Guernsey Limited is a participant in the Guernsey Banking Deposit Compensation Scheme established by The Banking Deposit Compensation Scheme (Bailiwick of Guernsey) Ordinance, 2008.

Deposits made with Yorkshire Guernsey are not covered by the Financial Services Compensation Scheme under the Financial Services & Markets Act 2000.

Registered office and principal place of business: Yorkshire House, Le Truchot, St Peter Port, Guernsey, Channel Islands, GY1 1WD.

The content of this financial promotion has been approved for distribution in the United Kingdom by Yorkshire Building Society.

All communication with us may be monitored/recorded to improve our service and for your protection and security.