

# Corporate governance report

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

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

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

## **The board**

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

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

## **Appointments to the board and re-elections**

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

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

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

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

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

### **Chairman and Chief Executive**

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

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

### **Board balance and independence**

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

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

### **Information and professional development**

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

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

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

### **Performance evaluation**

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

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

In 2008 internal performance evaluations of the board, the Audit Committee, the Remuneration Committee and the Group Risk Committee were carried out in order to review the effectiveness of how the board and the board committees operate. The board evaluation was undertaken through the means of a questionnaire, which asked all directors and General Managers to appraise a range of factors

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relating to the make-up and operation of the board. The process for each of the committees referred to above was either through a similar questionnaire or a general discussion by the relevant committee members. The relevant results were reviewed by the board and each committee and any appropriate improvement was identified for action.

### **Board committees**

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

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

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

### **Audit Committee**

The members of the committee are:

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

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

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

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

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

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

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

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### **Chairman's Committee**

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

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

### **Nominations Committee**

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

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

### **Remuneration Committee**

The members of the committee are:

Ed Anderson, Society Chairman

Julie Baddeley, non-executive director (committee Chairman. Retired 31st December 2008)

David Paige (appointed 1st January 2009)

Simon Turner, non-executive director (committee Chairman from 1st January 2009)

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

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

### **Group Risk Committee**

The members of the committee are:

Ed Anderson, Society Chairman (appointed 23rd January 2008)

Andy Caton, Corporate Development Director

Lynne Charlesworth, non-executive director

Robin Churchouse, General Manager Risk and Planning

Iain Cornish, Chief Executive (committee Chairman)

Rachel Court, General Manager Human Resources and Customer Service (appointed 23rd January 2008)

Richard Davey, Society Vice Chairman

Andrew Gosling, Finance Director

David Paige, non-executive director

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

The committee's primary responsibilities are:

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

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

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

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

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

### **System of internal controls**

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

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

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

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

### **Auditors**

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

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### **Relations with members**

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

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

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

### **AGM**

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

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

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

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## Board and committee membership and attendance record 2008

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

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

### Notes:

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

On behalf of the board

Ed Anderson  
Chairman

2nd March 2009