NEWS RELEASE

REGULATORY NEWS ANNOUNCEMENT

2 December 2009

YORKSHIRE AND CHELSEA BUILDING SOCIETIES TO MERGE
CREATING A SECOND MAJOR FORCE IN THE BUILDING SOCIETY SECTOR

The Boards of Yorkshire Building Society and Chelsea Building Society announced today that they have agreed to merge, creating a second major force in the building society sector.

The enlarged Society will have assets of £35bn, providing a competitive and secure alternative to the retail banks. With 2.7m members and a national network of 178 branches, the merged Society will focus on the traditional building society business of residential mortgages and savings and will be principally retail funded. The enlarged Society will be known as Yorkshire Building Society with the Chelsea Building Society name retained and operated as a separate and distinct brand within the Yorkshire The merger is subject to the approval of eligible members from both societies and confirmation by the FSA; it is expected to complete on 1st April 2010

Member Benefits

- Members of both societies will continue to benefit from being part of an independent mutual, with savers and borrowers having the security and stability provided by the Yorkshire, the UK's 2nd largest building society
- The merger creates a strong mutual of greater scale, improved efficiency and better market positioning that will be well placed to deliver greater value to its members
- The enlarged Society will continue to be owned and run for the benefit of its members, offering good value products and excellent customer service
- Branches will remain in all communities where either the Yorkshire or Chelsea currently have a presence
- There will be a commitment to continue community activities throughout the UK
- Dual Financial Services Compensation Scheme (FSCS) protection (up to £50,000 per individual) will be retained for eligible savers who have accounts with both the Yorkshire and Chelsea immediately before completion of the merger (until 30 December 2010)

- There will be a commitment to maintain a high level of member engagement in the operation of the enlarged Society

Merger Rationale

- The merger creates a second major force in the building society sector, with the scale, efficiency and financial resources to provide a strong, independent and customer-focused alternative to the banks
- The terms of the merger include arrangements to protect the capital base and funding position of the enlarged Society. The Yorkshire will continue to have one of the strongest capital positions of any major UK bank or building society
- The transaction is expected to deliver significant annual savings which are anticipated to be fully realised within 18 months after the merger, creating a more efficient organisation, without compromising member service
- The good geographical fit of branch networks provides a larger, more diverse and better balanced national presence in the savings and mortgage markets
- The two societies have a shared commitment to member interests and local communities

The Chief Executive of the enlarged Society will be Iain Cornish, currently Chief Executive of Yorkshire Building Society. Ed Anderson, Yorkshire Building Society Chairman will remain as Chairman. Stuart Bernau, Executive Chairman of Chelsea Building Society, who has led the strategic review of Chelsea, will relinquish his Board position immediately prior to the merger becoming effective.

Iain Cornish, Chief Executive of Yorkshire Building Society said "This merger creates a second major force in the building society sector. Joining with Chelsea offers a great opportunity to build on the strengths of both societies and form a strong, independent mutual organisation.

"Chelsea has an excellent reputation, particularly in the savings market, and a strong network of branches in the south. Combining forces with them will strengthen our ability to deliver value to members through good value products and excellent service, underpinned by our significant financial strength. Together our combined expertise will deliver a competitive, member-owned organisation, which will provide real choice to consumers across the UK.

"The enlarged Society will continue to have one of the strongest capital positions of any major UK bank or building society and a secure funding base. As far as Yorkshire is concerned, we are seeing more positive signs and this merger will ensure that we are extremely well placed to prosper as markets recover. I firmly believe that a merger with Chelsea on these terms is in our members' interests and urge them to vote in favour of it".

Stuart Bernau, Executive Chairman of Chelsea Building Society said "Chelsea and Yorkshire have proud histories as mutual organisations; each is committed to providing high levels of customer service to their members and supporting the communities in which they operate. The merger will create a second major force within the building society sector with a strong capital position and deeper financial resources.

"As part of the Yorkshire, the Chelsea name that our members know and love will live on, and they will continue to be able to receive the same style of friendly and personal service that is the pride of our Society. We urge our members to vote in favour of the merger".

Details of the merger

- The merger will be subject to approval by eligible members of both the Yorkshire and Chelsea
- The merger will not involve any distribution payments to either membership
- Members will continue to benefit from being part of an independent mutual
- The enlarged Society will be called Yorkshire Building Society
- Chelsea's name will be retained as a separate brand
- A branch presence will be retained in all communities where there is currently a Yorkshire or Chelsea branch
- Yorkshire's existing head office in Bradford will remain the head office of the enlarged Society, although an operational presence will be retained in Cheltenham
- The merger will lead to a number of job losses. Redundancies will only be considered after full consultation with staff and after other options, including redeployment, have been considered
- Members who are savers of the Yorkshire and Chelsea at the time of the merger will benefit from a separate maximum £50,000 depositor protection per individual under the Financial Services Compensation Scheme (FSCS) (subject to eligibility under FSCS rules). This is a temporary measure until 30 December 2010
- As part of the merger, Yorkshire has agreed arrangements with Chelsea's subordinated debt holders that are beneficial to the enlarged Society's capital base
- The enlarged Society will, subject to usual eligibility criteria, have access to liquidity facilities from the Bank of England, and the Yorkshire will retain its eligibility to issue under HM Treasury's Credit Guarantee Scheme. Access to this funding will reflect the strength of the Yorkshire's position and will improve Chelsea's current situation in terms of such access
- Further details of the financial transaction are published under a separate RNS announcement

- The Yorkshire and Chelsea's strong community connections, through their Charitable Foundations, sponsorship and affinity partnerships, will continue
- No director or officer of either Chelsea or the Yorkshire will be paid a bonus as a result of the merger taking place
- In addition to the merger being subject to the approval of eligible members from both societies, it is also subject to confirmation by the FSA; it is expected to complete on 1st April 2010
- The merger will proceed under sections 94 - 96 of the Building Societies Act

Financial Update – 30 June 2009

Yorkshire's performance has not been immune to the economic recession, however the underlying financial strength of the Society, its prudent business strategy and the actions it has taken to protect savers and to safeguard members' interests have seen it deliver a £1m core operating profit for the six months to 30 June 2009. When non-core operating items (including one off items and timing differences) are included, the Yorkshire recorded a statutory post-tax loss of £15m.

These results need to be considered in the context of the Yorkshire's fundamental financial strength:

- Yorkshire Building Society has one of the strongest capital ratios in the sector - Tier 1 12.98%* (of which 11.06%* is Core Tier 1)
- Yorkshire Building Society has a high level of high quality liquid assets, providing additional assurance to members but which are low risk and therefore low yielding (26% of Shares, Deposits & Loans)

The Yorkshire has also taken steps to safeguard its members' interests, which has reduced profitability in the short term, in particular:

- protecting savers from the full impact of the Bank of England base rate cuts in late 2008 and early 2009, resulting in an additional £60m interest being paid to savers over the course of a year
- reducing lending volumes and restricting to lower risk borrowers which generates lower returns
- taking a prudent view of potential mortgage losses and increasing the level of provisions held
- having no exposure to buy-to-let, commercial or unsecured lending and no purchased loan books from third parties

Chelsea has experienced a period of disappointing financial performance, partly due to the challenging economic environment, recording post-tax losses in both 2008 (£29m) and the half year to 30 June 2009 (£19m).

In light of this, the Yorkshire has completed extensive due diligence on Chelsea and taken a number of steps to ensure that the capital and funding position of the enlarged Society remains very strong, including

- arrangements to improve the quality of Chelsea's capital and thereby strengthen the capital base of the enlarged Society post-completion
- subject to the usual eligibility criteria, having access to liquidity facilities from the Bank of England and HM Treasury's Credit Guarantee Scheme
- making prudent provisions against potential future losses on Chelsea's loans

Timetable

- Special General Meetings will be held for members of the Yorkshire on 26th January 2010 and Chelsea 22nd January 2010
- The merger is subject to the approval of members of both societies and to confirmation by the FSA; it is expected to complete on 1 April 2010

Notes

* Figures as at 30 June 2009

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Yorkshire Building Society

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Yorkshire Building Society, which is authorised and regulated by the Financial Services Authority, chooses to introduce its customers to: - Legal & General for the purposes of advising on and arranging life assurance and investment products bearing Legal & General's name; and engage Mutual Assurance for the purpose of arranging stakeholder Child Trust Funds.

All communications with us may be monitored/recorded to improve the quality of our service and for your protection and security.

Chelsea Building Society

Chelsea Building Society, Thirlestaine Hall, Thirlestaine Road, Cheltenham, Gloucestershire, GL53 7AL, United Kingdom.

Chelsea Building Society is authorised and regulated by the Financial Services Authority and is entered in its Register under number 206039.

Notes to Editors

Financial Information to 30 June 2009

Core operating profit/(loss)

	6 months ended 30 June 2009 Yorkshire £m	6 months ended 30 June 2009 Chelsea £m
Net interest income	70	24
Other income and charges	15	7
Realised profit from available for sale assets	10	-
Administrative expenses	(58)	(27)
Depreciation and amortisation	(5)	(4)
Provision for impairment losses on loans to customers	(31)	(12)
Core operating profit / (loss)	**1**	**(12)**
Fair value gains and (losses)	(22)	18
Provision for impairment due to mortgage fraud	-	(41)
Other provisions	(1)	9
Loss before taxation	(22)	(26)
Taxation	7	7
Loss after taxation	(15)	(19)

Key capital ratios

As a percentage of Risk Weighted Assets:

	Yorkshire	Chelsea
Core Tier 1 capital	11.06%	8.76%
Tier 1	12.98%	8.76%

About Yorkshire and Chelsea Building Societies

	Yorkshire Building Society	**Chelsea Building Society**
Head office:	Based in Bradford	Based in Cheltenham
Size:	2nd largest building society	5th largest building society
No of branches :	135 Yorkshire Building Society 8 Barnsley Building Society	35
No of agencies:	73	0
No of savers:	1.8m	606,000
No of borrowers:	273,000	140,700
Total members:	Approx 2.0 million	Approx 700,000
Asset size:	£21.8 billion	£13.6 billion
Size of mortgage book:	£15.6 billion	£10.0 billion