

**YORKSHIRE BUILDING SOCIETY
PROPOSED MERGER
with
CHELSEA BUILDING SOCIETY
MERGER BOOKLET**

This booklet contains

A Letter from the Yorkshire Chairman
A statement explaining the Merger ("Schedule 16 Statement")
Notice of Special General Meeting to be held on 26 January 2010

PLEASE USE YOUR VOTE

IF YOU REQUIRE THIS DOCUMENT IN AN ALTERNATIVE FORMAT, SUCH AS LARGE PRINT, BRAILLE OR CD, PLEASE TELEPHONE OUR MERGER HELPLINE ON 0845 1669 200 OR EMAIL merger@ybs.co.uk

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IF YOU ARE IN ANY DOUBT ABOUT THE ACTION YOU SHOULD TAKE, PLEASE CONSULT YOUR SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISER.

CONTENTS

	Page
Chairman's Letter	3
Key Dates for Members	10
Definitions	11
The Merger Process	12
Statement required by Schedule 16 to the Building Societies Act 1986:	
Section A: Financial Position of each Society	13
Section B: The Instrument of Transfer	21
Section C: Other Matters	26
Notice of Special General Meeting	28
Guidance on Voting	29
How to Vote	30
Further Help	31

Dear Member,

The Boards of Yorkshire Building Society (**the Yorkshire**) and Chelsea Building Society (**Chelsea**) have recently announced their agreement to merge the two societies (**the Merger**). The merged Society will be called Yorkshire Building Society. Chelsea Building Society will be operated as a separate and distinct brand within the Yorkshire.

The announcement followed detailed consideration by your Board of the benefits to members of the Merger. The Merger requires the approval of the Yorkshire's members at a Special General Meeting (**SGM**) to be held on 26 January 2010, and the approval of Chelsea's members at a special general meeting to be held on 22 January 2010. The Notice of the SGM is on page 28 of this booklet.

This booklet also contains the information you will need to help you decide how to vote. If you are unable to attend the SGM and vote in person, details on how you can cast your vote can be found on the enclosed voting form and on page 30 of this booklet.

Your Board is unanimously of the view that the Merger is in the best interests of the Yorkshire's current and future members and strongly recommends that you vote in favour of it.

In this letter your Board has set out the reasons why it is in favour of the Merger and also answers the main questions which it is anticipated that members will have. Some additional questions that you might have and the replies are set out in a separate leaflet which is enclosed with this booklet.

Why does your Board support the Merger?

Although your Board believes that the Yorkshire has the financial strength to continue to prosper without the Merger, your Board firmly believes that a merger with Chelsea will considerably strengthen the Yorkshire's ability to deliver value to members in the future. This will be achieved as follows:

- your Board believes that the Yorkshire will remain financially secure and a safe place for members' savings;
- against the backdrop of a fragile economy with limited prospects for economic growth, your Board believes that the combination of the added scale, improved efficiency and better market positioning that the Merger will bring represents an exceptional opportunity for the Yorkshire to enhance its ability to compete effectively and deliver greater value to its members in the future;
- the location of the Yorkshire's and Chelsea's branch networks complement each other very well geographically. Chelsea's branches are located predominantly in the south of England, which will provide the enlarged Society with wider access to the mortgage and savings markets in this area;
- Chelsea has a strong presence in key markets which are important to the future success of the Yorkshire. Your Board believes that the Yorkshire will be able to build on this presence by keeping Chelsea as a separate brand within the enlarged Society, and broadening the services available through it on a profitable basis;
- by removing duplicated activities the Merger will allow significant cost savings to be realised. Your Board believes that this will create a more efficient organisation which will be better able to deliver benefits to members. Most of the duplicated activities are within head office operations and your Board believes the cost savings can be achieved without compromising service to members; and
- whilst Chelsea has had financial difficulties in the last two years, your Board believes that members' interests have been safeguarded by the extensive due diligence which has been undertaken on Chelsea's business, together with the steps taken to strengthen the capital and funding position of the enlarged Society.

What does this mean for the Yorkshire's current members?

What will happen to interest rates and terms on my savings or mortgage?

There will be no changes either to interest rates or to the terms and conditions of any Yorkshire savings accounts or mortgages as an immediate result of the Merger. In future, however, as the benefits of the Merger are realised, your Board firmly believes that the Yorkshire will be better placed to deliver benefits to members than it otherwise would have been able to do.

Will I lose my local branch or agency to make the cost savings?

No. The Yorkshire is committed to its branch and agency network. There are a relatively small number of locations (11 branches out of an enlarged total of 178) where the Yorkshire and Chelsea both have a branch. In these locations, we may seek to combine both branches and, where we do this, either the Chelsea branch or the Yorkshire branch may close. In these circumstances, we will notify all Yorkshire members who we believe may be affected and will ensure that Yorkshire members will be able to operate their accounts at the combined branch. In any event, we intend, subject to review in the ordinary course of our business, to keep a branch or agency presence in all the communities where we are currently represented.

How will the Merger affect the Yorkshire staff?

As mentioned above, there are a small number of locations where the Yorkshire and Chelsea branches overlap. Where branches combine there may be some staff reductions and reductions may also occur in small numbers at the Yorkshire head office. In the first instance, we will seek to deal with these by not replacing staff who leave or retire.

Will my money still be safe?

Yes. The Yorkshire will continue to be a financially strong organisation and eligible savers with the Yorkshire will continue to be protected by the Financial Services Compensation Scheme (**FSCS**). Broadly speaking, payments under the FSCS cover 100% of the first £50,000 of each individual's savings with a financial institution which is unable to meet its financial obligations.

What if I am currently a saver with both the Yorkshire and Chelsea?

An eligible Yorkshire saver immediately prior to the Merger who is also an eligible saver with Chelsea at that time will be entitled to separate FSCS depositor protection limits of £50,000 for each of his or her "Yorkshire" and "Chelsea" branded savings. This is a temporary measure until 30 December 2010. For more details of eligibility under the FSCS rules, please refer to the FSCS website at www.fscs.org.uk.

The Merger will not affect any separate FSCS cover for those members who had a Barnsley account immediately prior to the merger of the Barnsley Building Society with Yorkshire Building Society on 31 December 2008.

Will there be a bonus paid to members on completion of the Merger?

No. In order to maintain the financial strength of the enlarged Society, there will be no bonus payment to members of either the Yorkshire or Chelsea on the Merger taking effect.

How is my membership affected?

Your rights as a member of the Yorkshire will be unchanged as a result of the Merger.

Will the Yorkshire still be an independent mutual building society?

Yes. The enlarged Society will continue to be called Yorkshire Building Society, and Chelsea Building Society or "Chelsea" will operate as a separate brand within the enlarged Society.

The Yorkshire intends to remain independent and committed to mutuality because your Board firmly believes that this is in the interests of current and future members.

Will the directors be receiving bonuses or pay-offs as a result of the Merger?

No director or officer of either the Yorkshire or Chelsea is being paid a bonus dependent on, or as a result of, the Merger taking place.

In line with new Financial Services Authority (**FSA**) rules, future bonus payments to executive directors will be made only on the basis of high levels of personal performance, strong and sustained financial performance and high standards of risk management.

All the directors and officers of Chelsea will relinquish their positions as directors and officers of Chelsea immediately prior to the Merger without compensation for loss of office. They will only receive termination payments in line with their contracts and any statutory entitlement if they are made redundant as a result of the Merger. If the executive directors of Chelsea continue to be employed by the Yorkshire after the Merger they would not be executive Directors and would receive remuneration at the same or at a lower level than immediately before the Merger. Other arrangements (which may include an improvement on some but not all current contractual terms) may be agreed between the Yorkshire and each executive director taking into account the role which such executive director of Chelsea may have as an employee of the enlarged Society.

What will happen to the Board?

The Yorkshire's current Chairman will remain as Chairman of the enlarged Society, and all the other non-executive Directors of the Yorkshire will remain on the Board. The Chief Executive and all the other executive Directors of the Yorkshire will retain their positions on the Board following the Merger. Before completion of the Merger, the Board of the Yorkshire will consider (without an obligation to do so) whether a non-executive director of Chelsea is to be appointed as a non-executive Director of the Yorkshire. If a non-executive director of Chelsea is appointed as a non-executive Director of the Yorkshire the fees payable to him will be higher than the fees he receives as a non-executive director of Chelsea in line with the fees paid to non-executive Directors of the Yorkshire (currently £6,350 per annum higher based on a standard fee payable to a non-executive Director of the Yorkshire). If no such appointment is made, then no director of Chelsea will be joining the Board of the Yorkshire.

Why are you recommending the Merger and what does it mean for the Yorkshire?

The background to the Merger

Yorkshire Building Society is the UK's second largest building society. Our core purpose, which will remain unchanged, is to deliver good value products and excellent service to our members, underpinned by our financial strength.

The last two years have seen unprecedented turmoil in the global financial markets and worsening UK economic conditions. Whilst the Yorkshire has weathered these extreme conditions well and remains financially strong, it has not been immune from them. Looking forward, your Board believes the economic climate is likely to remain fragile and that building societies will generally face the prospect of limited growth in their core markets and increasing competition. In order to compete and deliver value to members in this environment, your Board believes that it will be essential:

- to maintain the highest levels of efficiency;
- to have the branch network to serve members and access markets on a national basis; and
- to have the scale to be able to access wholesale funding markets on a cost effective and sustainable basis, although such funding will only be used on a limited basis.

Your Board believes that the Merger provides an exceptional opportunity for the Yorkshire to strengthen its competitive position and improve its ability to deliver benefits to members. The main benefits which the Merger will realise for the Yorkshire and its members are:

- your Board believes significant annual cost savings can be made which will strengthen our ability to deliver value to members. For example, duplicated head office functions will be removed and the enlarged Society will migrate to the Yorkshire's computer system. Your Board believes that the majority of these annual cost savings will come through over an 18 month period following the Merger;
- Chelsea's branches are located mainly in the south of England which will provide the enlarged Society with wider access to this important area of the savings and mortgage markets on an immediate and cost effective basis;
- it is your Board's intention to ensure that the overwhelming majority of lending continues to be funded by the savings of individual members (so called "retail savings"). However, like any major financial institution, it is prudent to make some use of the wholesale funding markets, and size is an increasingly important factor in being able to do this on a cost effective basis; and
- whilst gaining the scale which will enhance the enlarged Society's ability to operate efficiently in the future, your Board is committed to ensuring that the Yorkshire will not be so large that it will lose the distinctive and personalised service which is at the heart of our dealings with members.

Why choose Chelsea?

Chelsea is the UK's fifth largest building society, with total assets at 30 June 2009 of £13.6bn, mortgage assets of £10.0bn and retail savings balances of £10.1bn. Chelsea is around 60% the size of the Yorkshire, and the Merger will create a £35.4bn society.

Chelsea shares our commitment to mutuality and the values which go with this. It has a respected reputation and strong heritage mainly in the south of England through its network of 35 branches, but also nationally with its direct savings facilities through its call centre and website. Your Board believes that there will be a relatively limited overlap between the membership of the two societies as they operate in different parts of the residential lending and retail savings markets.

To capitalise on this, Chelsea will continue to operate as a distinct brand within the enlarged Society. This means that we intend to operate a separate range of Chelsea branded mortgages and savings accounts and maintain a separately branded Chelsea branch network. Over time we will seek to use the strengths of each society across the merged group.

Since the onset of the “credit crunch” Chelsea has experienced a period of disappointing financial performance arising from a range of factors, including:

- significant losses on investments with Icelandic Banks;
- the need to raise large amounts of expensive retail funds due to Chelsea’s difficulty in accessing wholesale markets;
- further exacerbation of these funding issues by a severe credit rating downgrade; and
- fraud in its buy-to-let mortgage book.

These factors contributed to Chelsea recording significant losses in both 2008 and the half year ended 30 June 2009. Since then, the performance of Chelsea’s mortgage assets has continued to be negatively impacted by the challenging economic environment, leading to a rise in arrears and the consequent need to increase the provision for impairment losses on loans to customers. Current projections show that Chelsea will record a loss for the six months from 1 July 2009 and for the full year to 31 December 2009.

As discussed elsewhere in this booklet, your Board has undertaken comprehensive due diligence on Chelsea, and has taken a number of steps to guard against the issues that Chelsea has faced over the last two years having a negative impact on the enlarged Society. These include:

- subject to the usual eligibility criteria, having access to liquidity facilities from the Bank of England and HM Treasury’s Credit Guarantee Scheme. These will, amongst other things, allow the enlarged Society to manage better the retail funding position going forward and alleviate the resulting pressure on income;
- the Merger has been assessed on the assumption that there will be over £200m of additional future losses on Chelsea’s loans, with a material proportion of these being against buy-to-let loans. Your Board believes that this is a conservative approach to the required ‘fair value’ accounting adjustments that are made to reflect potential future losses on Chelsea’s assets beyond those for which Chelsea has already provided; and
- Chelsea is to restructure £200m of its capital (which is the money held to protect a society from unexpected losses). This step is being taken to improve the quality of Chelsea’s capital as it will generate additional core tier 1 capital (which is the strongest form of capital). This is explained below.

Your Board believes that these measures mean that the Merger will be achieved without damaging the security of the Yorkshire’s existing members’ funds, and will allow the benefits of the Merger, which are set out elsewhere in this booklet, to be realised by the enlarged Society.

Will merging with Chelsea put the security of the Yorkshire at risk?

The Yorkshire has taken a number of important steps to ensure that the interests of our members are protected during and after the merger process:

- extensive due diligence has been undertaken, using independent experts, to ensure that we understand fully the nature of Chelsea’s business, especially in relation to the activities where Chelsea has experienced difficulties;
- following our investigations, we are required by accounting standards to estimate any future losses which may arise from Chelsea’s existing loans, and as a result we will be making provision against such losses of over £200m following completion of the Merger. Whilst this will initially reduce the enlarged Society’s capital, it does, to the same degree, protect the future profitability of the combined business from further losses from Chelsea’s mortgage loans;
- it is a condition to the completion of the Merger that Chelsea restructures £200m of its capital. The restructuring will see holders of Chelsea’s subordinated debt exchange £200m of subordinated debt in Chelsea for £100m of new subordinated debt in the Yorkshire. This action by the holders of the debt, in surrendering 50% of their rights to capital, will increase the core tier 1 capital of the enlarged Society as the balance of £100m will convert into core tier 1 capital immediately on completion of the Merger. The new subordinated debt in the Yorkshire would be convertible into profit participating deferred shares of the Yorkshire if the Yorkshire’s core tier 1 capital ratio falls below 5%. In this event, which your Board considers

highly unlikely, the holders of these profit participating deferred shares will be entitled to a proportionate share of the profits of the enlarged Society;

- Chelsea's key capital ratios are weaker than those of the Yorkshire, with a core tier 1 ratio at 30 June 2009 of 8.76% against the Yorkshire's own ratio of 11.06%. This inevitably means that if no steps were taken, the enlarged Society's ratio would be lower than the Yorkshire's standalone position, especially when combined with the additional provisions mentioned above. The capital restructuring referred to above is required to reverse part of this reduction in the capital ratio of the enlarged Society;
- the core tier 1 capital of the enlarged Society, based on the position at 31 October 2009 and adjusting both for the capital restructuring (see above) and for the expected adjustments to Chelsea's asset values on completion of the Merger (including the additional loan losses mentioned above) would have been 10.18% compared to 12.30% for the Yorkshire alone. Nevertheless, your Board believes that this reduction would still leave the Yorkshire continuing to have one of the strongest core tier 1 ratios of any major UK bank or building society;
- moving forward, we will be looking to realise material cost savings as soon as possible after completion of the Merger, and certainly by 2011. The integration of the people, processes and systems of two businesses of this scale, is a major project. A dedicated team has been planning for this integration for some time now, identifying in detail the work that will be needed following the Merger. As a result of this work, your Board is confident in the Yorkshire's ability to deliver the benefits, and that this will not impact on our "business as usual" activities;
- the enlarged Society will also realise real benefits in terms of its ability to access both retail funding (i.e. savings from its members) and funding from other financial institutions (although this type of funding is used to a more limited degree);
- overall, these benefits, combined with prudent loss provisioning at the time of the Merger, should allow profitability to be quickly restored, and, in turn, enable already strong capital positions to be further strengthened; and
- the merged Society will, subject to the 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. It will be used both to manage future funding maturities and to maintain strong liquidity levels.

In summary, based on the detailed analysis which has been carried out, and the stress testing undertaken on the combined business, your Board believes that the enlarged Society will have sufficient capital, funding and liquidity to withstand an economic scenario significantly more severe than even the unprecedented one experienced over the last two years.

Whilst the Merger will initially reduce the enlarged Society's capital ratios, they will remain strong and the Merger will allow the enlarged Society to realise significant cost savings. This in turn should improve our financial strength whilst making us even better placed to continue to provide real benefits to our members.

Your Board therefore believes that as a result of undertaking appropriate investigations, identifying issues and taking actions up-front, the Merger will not put the security of the Yorkshire at risk.

How will the Yorkshire operate following completion of the Merger?

The branch and agency network will remain at the heart of the Yorkshire's operation, although the Society will also continue to offer products through the internet, over the telephone and by post.

The head office of the Yorkshire will remain in Bradford, although a presence will be retained in Cheltenham, which is the location of Chelsea's current central operations, for a minimum of three years following the Merger.

The vast majority of lending will be traditional building society lending which helps borrowers to buy their own home. The Society will continue to lend on a prudent basis. Your Board has no current intention either to acquire mortgage portfolios from other lenders or to carry out commercial lending (other than low risk lending to Housing Associations). Chelsea's small, existing commercial lending portfolio will be managed down.

The majority of lending will be funded by members' savings. Wholesale funding will be used to a limited extent where it can be raised on a prudent and sustainable basis.

The Yorkshire will continue to offer members a wide range of other financial services by working closely with partners who share our values.

The focus on financial strength will be maintained by our continuing to hold a prudent level of capital, and prudent levels of liquidity (the money we hold to protect the Society from an unplanned shortage of funding).

Members will be offered a wide range of ways to “have their say” in the affairs of the Society, and meet best practice standards in the way the Society is managed on behalf of members.

Investment in our staff will continue so that they are motivated and equipped to provide the highest standard of service to members.

The Yorkshire will contribute fairly to the communities that it is a part of and be a good corporate citizen.

The Yorkshire’s performance

The financial results of the Yorkshire for the six months to 30 June 2009 are set out in detail on pages 13 to 20 of this booklet.

From a profit perspective, these show that the Yorkshire’s results have, like most financial institutions, been affected by the recent turmoil in the financial markets and the challenging economic conditions. More importantly they have been affected by actions the Yorkshire has taken to safeguard its members’ interests, rather than managing the business purely to maximise profits. As shown on pages 14 and 15 of this booklet, the Yorkshire made a small core operating profit of £1m for the six months to 30 June 2009. Core operating profits exclude one-off items and volatility that result purely from accounting treatments. As such, your Board believes those core operating profits are more representative of the Yorkshire’s underlying operating performance and uses them to monitor the Society’s performance on an ongoing basis. If these non-core items are included, the Yorkshire showed a statutory pre-tax loss for the period of £22m, or 0.10% of its mean total assets, and current projections show that a loss will be reported for the full year to 31 December 2009.

These results need to be viewed in the context of the Yorkshire’s continued financial strength and in the context of steps taken to safeguard our members’ interests. The Yorkshire has a strong capital position, with a core tier 1 ratio of 11.06% at 30 June 2009. Indeed, the core tier 1 ratio has strengthened again since June 2009, and as at the end of October 2009 stood at 12.30%. Your Board believes that the core tier 1 ratio remains amongst the strongest of any major UK bank or building society and anticipates that it will remain so after completion of the Merger. In addition, the Yorkshire maintains high levels of high quality liquid assets, with the proportion of the balance sheet held in these assets rising from 23.13% at the end of December 2008 to 24.01% at the end of June 2009.

Your Board believes that balance sheet strength is fundamental to protecting members’ interests, and the strength of these key measures reflects this focus. Your Board also believes that it should look to optimise, rather than maximise, profits. In other words, we look to balance profits so as to allow the delivery of good value products and excellent services to our members whilst maintaining a strong capital base. Unlike Plc banks this does not involve making profits for the benefit of external shareholders, either through direct dividend payments or the boosting of share prices. As such, the results should be viewed in this context. The specific steps, taken in 2008 and continued into 2009, which were aimed at protecting members’ interests include:

- holding high levels of high quality liquid assets which provide additional assurance for the Yorkshire and its members. As these assets are low risk and therefore earn a very low return (for instance, Government Gilts) they therefore reduce our interest earnings;
- as interest rates fell in late 2008 (and early 2009) we sought to protect savers as far as possible from the impact of those reductions. Again this reduces our net interest income;
- continuing to look to protect our strong capital position by restricting lending to lower risk (and therefore lower earning) areas and by focussing on the traditional building society business of savings and residential lending; and
- continuing to take what your Board believes is a prudent view of potential losses on our mortgages and building up further provisions against such potential losses.

Again, it is important that our results are viewed in light of the above steps taken to safeguard our members’ interests, the fact that our capital remains strong, our liquidity remains high in both quantity and quality and our reliance on non-member funding is relatively low and shrinking.

Whilst any projections made in the current market and economic conditions should be viewed with great caution, particularly as regards accounting fair value adjustments, your Board believes that, notwithstanding a continuation of

the current difficult economic conditions, the Yorkshire would expect to return to profitability in 2010 if the Merger did not take place, and that the enlarged Society also expects to trade profitably in 2010.

Details of the Yorkshire's performance in 2008 can be found in the Summary Financial Statement and Annual Report and Accounts, which are available on our website at www.ybs.co.uk or by calling **0845 1200 100**.

What happens next?

The Merger process will involve a number of stages and the proposal to merge requires the approval of the members of the Yorkshire at the SGM to be held on 26 January 2010 and the approval of Chelsea's members at a special general meeting of Chelsea to be held on 22 January 2010. If the proposal is approved by the Yorkshire's members and by Chelsea's members, approved by the Office of Fair Trading, certain other conditions described on pages 24 and 25 are met and the Merger is confirmed by the FSA, the Merger will become effective through a transfer of the business, assets and liabilities of Chelsea Building Society to Yorkshire Building Society, which is expected to take place on 1 April 2010.

In the following pages you will find:

- Pages 13 to 27 - a statutory statement in accordance with Schedule 16 to the Building Societies Act 1986, including a summary of the financial positions of the Yorkshire and Chelsea and details of the main terms of the Merger;
- Page 28 - Notice of the SGM, including the necessary members' resolutions relating to the Merger;
- Pages 29 to 30 - details of members' entitlement to vote on these resolutions and guidance on voting procedure.

Recommendation

Your Board firmly believes that a merger with Chelsea Building Society on the terms outlined in this booklet is in the best interests of the members of Yorkshire Building Society and strongly recommends and encourages all eligible members to vote in favour of the Merger.

You can do this by completing and returning the enclosed voting form, by completing the form online, or by attending and voting in person at the SGM to be held in Bradford on 26 January 2010.

Yours faithfully,



Ed Anderson
Chairman

2 December 2009

KEY DATES FOR MEMBERS

Last date for receipt of completed proxy voting forms	21 January 2010
Special General Meeting	26 January 2010
Last date for receipt by the FSA of written representations and intention to make oral representations	15 February 2010
Expected date for confirmation hearing by the FSA	1 March 2010
Expected Effective Date of the Merger	1 April 2010

DEFINITIONS

“the Act”

means the Building Societies Act 1986 and all statutory instruments, regulations and orders made pursuant to or in exercise of powers conferred by the Act;

“Borrowing Member”

means a person who is a Borrowing Member of Yorkshire Building Society in accordance with the Yorkshire’s rules;

“Borrowing Members’ Resolution”

means the resolution proposing the Merger to be put to Borrowing Members at the Special General Meeting;

“Chelsea”

means Chelsea Building Society;

“Effective Date”

means the date specified in the registration certificate, to be issued in accordance with section 94(8) of the Act, as being the date on which the Merger takes effect. It is expected that the Effective Date will be 1 April 2010;

“FSA”

means the Financial Services Authority;

“Instrument of Transfer”

means the deed recording the terms and conditions on which the engagements of Chelsea are to be transferred to the Yorkshire under section 94 of the Act;

“Merger”

means the transfer by Chelsea Building Society of all its engagements to Yorkshire Building Society under section 94 of the Act and the terms of the Instrument of Transfer;

“Shareholding Member”

means a Shareholding Member of Yorkshire Building Society in accordance with the Yorkshire’s rules and includes a person holding a share account in the Yorkshire;

“Shareholding Members’ Resolution”

means the resolution proposing the Merger to be put to Shareholding Members at the Special General Meeting;

“Special General Meeting”

means the special general meeting of Yorkshire Building Society to be held on 26 January 2010 at which the Borrowing Members’ Resolution will be put to Borrowing Members and the Shareholding Members’ Resolution will be put to Shareholding Members;

“Voting Form”

means the paper voting form for the purpose of enabling members eligible to vote to appoint a proxy to attend the Special General Meeting and vote on their behalf, being either a voting form for:

- (i) Shareholding Members; or
- (ii) Borrowing Members;

“the Yorkshire” or “the Society”

means Yorkshire Building Society.

THE MERGER PROCESS

Statutory provisions

The mechanics of a building society merger are governed by the provisions of sections 94 to 96 of the Act. You will find, set out on pages 13 to 27 of this booklet, a statutory statement in accordance with Schedule 16 to the Act showing the comparative financial positions of the Yorkshire and its connected undertakings as at 30 June 2009 and of Chelsea and its connected undertakings as at 30 June 2009, and summarising the main terms of the Merger.

The Special General Meeting

The Shareholding Members' Resolution is required to be passed by not less than three-quarters of those Shareholding Members eligible to vote and voting in person or by proxy at the Special General Meeting. The Borrowing Members' Resolution is required to be passed by a simple majority of those Borrowing Members eligible to vote and voting in person or by proxy at the Special General Meeting.

In order for the Merger to proceed, a shareholding members' resolution and a borrowing members' resolution to approve the Merger must also be passed by the relevant members of Chelsea at a special general meeting of Chelsea to be held on 22 January 2010.

If the Shareholding Members' Resolution and the Borrowing Members' Resolution are both passed at the Special General Meeting and if a shareholding members' resolution and a borrowing members' resolution to approve the Merger are both passed at the special general meeting of Chelsea, both societies will apply to the FSA for confirmation of the Merger under section 95 of the Act.

Confirmation process

Any interested party has the right to make representations to the FSA with respect to the proposed Merger. Written representations or notice of a person's intention to make oral representations at the hearing must be received by the FSA at the Financial Services Authority, 11th Floor, RFD, Building Societies Department, 25 The North Colonnade, Canary Wharf, London E14 5HS or by email to c-ybsrepresentations@fsa.gov.uk by 15 February 2010. Such parties will be informed of the date, time and place of the hearing. The date provisionally set aside for the hearing by the FSA of any oral representations with respect to the applications is 1 March 2010.

The date by which representations are to be received and the date of the hearing will be confirmed by notices to be published in the London, Edinburgh and Belfast Gazettes and in the Daily Telegraph and Daily Mail.

The FSA is required to confirm the Merger unless it considers that:

- (a) some information material to the members' decision about the Merger was not made available to all members eligible to vote; or
- (b) the vote on any resolution approving the Merger does not represent the views of the members eligible to vote; or
- (c) some relevant requirement of the Act or the rules of either of the societies participating in the Merger was not fulfilled.

The function of the FSA under section 95 of the Act is to establish that the voting on the relevant resolutions fairly represents the properly informed view of the members. It is not for the FSA to substitute its own judgment on the merits of the proposed Merger or the fairness of its terms.

Effective Date

The Merger is expected to become effective on 1 April 2010, subject to approval at the Special General Meeting of the Yorkshire, at the special general meeting of Chelsea and confirmation by the FSA.

STATEMENT REQUIRED BY SCHEDULE 16 TO THE BUILDING SOCIETIES ACT 1986:

SECTION A: FINANCIAL POSITION OF EACH SOCIETY

The financial information used to present the financial position of each society is extracted from the unaudited interim consolidated accounts of the Yorkshire for the half year ended 30 June 2009 and from the unaudited interim consolidated accounts of Chelsea for the half year ended 30 June 2009. Further commentary on the financial performance of the Yorkshire can be found on pages 8 and 9 of this booklet and further commentary on the financial performance of Chelsea can be found on pages 5 and 6 of this booklet.

1 Balance Sheets

Summarised balance sheets derived from the unaudited interim consolidated accounts of the Yorkshire for the half year ended 30 June 2009 and from the unaudited interim consolidated accounts of Chelsea for the half year ended 30 June 2009 are set out below.

	30 June 2009	
	Yorkshire	Chelsea
	£m	£m
Assets		
Liquid assets (note 4(b))	5,246	3,180
Loans and advances to customers (note 4(d))	15,583	9,963
Derivative financial instruments	853	185
Fair value adjustments for portfolio hedged risk (note (i))	-	133
Fixed and other assets (note 4(c))	164	101
Total	<u>21,846</u>	<u>13,562</u>
Liabilities		
Shares	13,661	10,057
Borrowings	6,390	2,588
Other liabilities	168	47
Derivative financial instruments	536	159
Fair value adjustments for portfolio hedged risk (note (i))	-	21
Subordinated liabilities	106	205
Subscribed capital	156	-
Reserves	829	485
Total	<u>21,846</u>	<u>13,562</u>

Note (i): Chelsea discloses fair value adjustments for portfolio hedged risk separately on the face of the balance sheet. The Yorkshire discloses such items with the value of the hedged item. If Chelsea had followed the Yorkshire's approach the reported values would be as follows: Loans and advances to customers £10,096m, Borrowings £2,593m and Subordinated liabilities £221m.

The summarised balance sheets show that the Yorkshire had total assets of £21.8bn at 30 June 2009 (£23.0bn audited as at 31 December 2008), approximately 1.6 times the total assets of Chelsea at 30 June 2009, and reserves of £829m (£909m audited as at 31 December 2008), around 1.7 times the reserves of Chelsea. The total assets and reserves of Chelsea at 31 December 2008 were £14.7bn and £518m respectively.

Apart from the loss of £15m for the six month period as outlined in Section A2 on pages 14 and 15, the reduction in the Yorkshire's reserves between 31 December 2008 and 30 June 2009 resulted principally from movements in the pensions surplus/deficit and the movement in the value of "Available for Sale" assets. The pensions movement resulted from a desk-top high-level review by the actuaries as distinct from a formal IAS19 valuation (last performed 31 December 2008). At 31 October 2009 the Yorkshire's reserves were £883m, the £54m increase from June 2009

STATEMENT REQUIRED BY SCHEDULE 16 TO THE BUILDING SOCIETIES ACT 1986:

being mainly due to improvements in the pensions deficit and the value of "Available for Sale" assets, offset by a £4m increase in the post-tax loss. At 31 October 2009 Chelsea's reserves were £481m, the £4m decrease from June 2009 being mainly due to a £6m increase in the post-tax loss and a small increase in the pension scheme deficit offset by improvements in the value of "Available for Sale" assets.

2 Results

Particulars derived from the unaudited interim consolidated accounts of the Yorkshire for the six months ended 30 June 2009 and from the unaudited interim consolidated accounts of Chelsea for the six months ended 30 June 2009 are set out below.

	6 months ended 30 June 2009	
	Yorkshire	Chelsea
	£m	£m
Net interest income (note (i))	70	42
Other income and charges	15	7
Realised profit from available for sale assets	10	-
Fair value gains and losses (note (i))	(22)	-
Administrative expenses	(58)	(27)
Depreciation and amortisation	(5)	(4)
Provision for impairment losses on loans to customers	(31)	(53)
Other provisions	(1)	9
Loss before taxation	(22)	(26)
Taxation	7	7
Loss after taxation	(15)	(19)

Note (i): Chelsea includes fair value gains, of £18m, within net interest income in its Income Statement whereas the Yorkshire discloses it as a separate item in its Income Statement.

Core operating profit/(loss), consistent with the disclosure in the Yorkshire's Annual Report and Accounts, but not adjusted for differences in accounting policies, was as follows:

	6 months ended 30 June 2009	
	Yorkshire	Chelsea
	£m	£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

STATEMENT REQUIRED BY SCHEDULE 16 TO THE BUILDING SOCIETIES ACT 1986:

Loss before taxation	(22)	(26)
Taxation	7	7
Loss after taxation	(15)	(19)

The Yorkshire's results have, like those of most financial institutions, been affected both by the recent turmoil in the financial markets and by the challenging economic conditions. They show that the Yorkshire made a small core operating profit of £1m for the six months to 30 June 2009.

Since the onset of the "credit crunch" Chelsea has experienced a period of disappointing financial performance arising from a range of factors.

For a detailed commentary on the results of Chelsea and the context in which they should be read, please refer to pages 5 and 6 of this booklet.

For a detailed commentary on the results of the Yorkshire and the context in which they should be read, please refer to pages 8 and 9 of this booklet.

3 Key financial ratios

The following percentages have been calculated from the unaudited interim consolidated accounts of the Yorkshire for the six months ended 30 June 2009 and from the unaudited interim consolidated accounts of Chelsea for the six months ended 30 June 2009.

	Yorkshire	Chelsea
As a percentage of shares and borrowings:		
Gross capital	5.44%	5.46%
Liquid assets	26.16%	25.15%
As a percentage of Risk Weighted Assets:		
Core tier 1 capital	11.06%	8.76%
As a percentage of mean total assets (annualised):		
Net interest income (note (i))	0.63%	0.60%
Other income and charges	0.13%	0.10%
Loss after tax	(0.13)%	(0.27)%
Management expenses - comprising administrative expenses, depreciation and amortisation	0.56%	0.44%

Note (i): If Chelsea disclosed net interest income, as the Yorkshire does, excluding fair value gains/losses then Chelsea's net interest income ratio would be 0.34%.

Gross capital comprises reserves, subscribed capital and subordinated liabilities for the Yorkshire and amounts to £1,091m. It comprises reserves and subordinated liabilities for Chelsea and amounts to £690m.

Shares and borrowings amount to £20,051m for the Yorkshire and £12,645m for Chelsea.

Risk Weighted Assets are calculated to reflect the amount of capital that an entity carries in relation to the size and relative risk of its assets. Each type of asset has a different weighting applied, the riskier the asset the higher the weighting and the higher this number.

Mean total assets are calculated as the average of the total assets at the beginning and end of the period and amount to £22,439m for the Yorkshire and £14,106m for Chelsea.

Using the financial positions in Section A1 on pages 13 and 14, the ratio of gross capital to shares and borrowings of the enlarged Society is estimated to be 5.45%.

Pages 6 and 7 of this booklet set out the steps that the Yorkshire has taken to ensure that its members' interests are protected before and during the merger process, including it being a condition of completion of the Merger that Chelsea restructures £200m of its capital. Chelsea's key capital ratios are weaker than the Yorkshire's with a core tier 1 ratio at

STATEMENT REQUIRED BY SCHEDULE 16 TO THE BUILDING SOCIETIES ACT 1986:

30 June 2009 of 8.76% against the Yorkshire's own ratio of 11.06%. This inevitably means that, if no steps were taken, the enlarged Society's ratio would be lower than the Yorkshire's standalone position, especially when combined with the additional provisions mentioned in this booklet on pages 6 and 7.

The capital restructuring will see holders of Chelsea's subordinated debt exchange £200m of subordinated debt in Chelsea for £100m of new subordinated debt in the Yorkshire with the balance of £100m effectively converting into core tier 1 capital immediately on completion of the Merger. The new subordinated debt in the Yorkshire would be convertible into profit participating deferred shares of the Yorkshire if the Yorkshire's core tier 1 capital ratio falls below 5%. If that conversion were triggered, which the Board of the Yorkshire considers highly unlikely, the holders of profit participating deferred shares of the Yorkshire would be entitled to a proportionate share of the profits of the enlarged Society.

At 31 October 2009 the core tier 1 ratios had improved to 12.30% for the Yorkshire and 9.11% for Chelsea. Based on this position, adjusted both for the capital restructuring (see above) and for the expected adjustment to Chelsea's asset values on completion of the Merger, the core tier 1 ratio for the enlarged Society would have been 10.18%.

For a detailed commentary on the terms of the capital restructuring, please refer to pages 26 and 27 of this booklet.

4 Notes to the financial position

(a) Accounting policies

The unaudited interim consolidated accounts of the Yorkshire have been prepared in accordance with International Financial Reporting Standards (**IFRS**) as adopted by the European Union, under the historical cost convention 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 unaudited interim consolidated accounts of Chelsea have been prepared in accordance with the Act, the Building Societies (Accounts and Related Provisions) Regulations 1998 and IFRS as adopted by the European Union, under the historical cost convention, except for the revaluation of land and buildings, "Available for Sale" investments, derivatives and other financial assets at fair value through the Income Statement which are held at fair value.

Set out below are the material differences between the accounting policies and the impact of these.

Chelsea discloses its property at fair value whereas the Yorkshire carries it at amortised cost. If Chelsea had applied the Yorkshire's accounting policy there would have been no material impact on its results for the six months to 30 June 2009 but its reserves would have been £28m lower at the period end.

Both Chelsea and the Yorkshire hold financial assets and liabilities which they are required, by accounting rules, to classify into one of a number of categories. These classifications determine whether the items in question must be held at cost or at fair (i.e. market) value. In addition, for those items held at fair value, they determine how movements in value are to be disclosed - either included in reported profit/(loss) or taken directly to reserves.

Chelsea has elected to classify certain financial assets into categories requiring fair value movements to be taken to the Income Statement (i.e. reported profit/(loss)) which the Yorkshire classifies differently, with such movements being taken directly to reserves. The net result of this difference in classification is that Chelsea's reported pre-tax results would have been improved by £18m had it followed the Yorkshire's approach.

Chelsea has elected to classify certain financial liabilities so that they are held at fair value with movements in value being taken to the Income Statement whereas the Yorkshire holds them at amortised cost. The result of this difference is that Chelsea's pre-tax results include a profit of £27m being the movement in that element of the fair value of its own debt that relates to credit risk. This profit would not have arisen under the Yorkshire's accounting policy.

(b) Liquid assets comprise:

	30 June 2009	
	Yorkshire	Chelsea
	£m	£m
Cash, balances with the Bank of England, Treasury and other bills	331	1,374
Loans and advances to banks and credit institutions	567	392

STATEMENT REQUIRED BY SCHEDULE 16 TO THE BUILDING SOCIETIES ACT 1986:

Debt securities	4,348	1,408
Other liquid assets	-	6
	<u>5,246</u>	<u>3,180</u>

Debt securities are classified as follows:

	30 June 2009	
	Yorkshire	Chelsea
	£m	£m
Held at fair value		
Fair value through income and expenditure	10	778
Available for sale	3,610	630
Held at amortised cost		
Held to Maturity	728	-
	<u>4,348</u>	<u>1,408</u>
Market value of Held to Maturity items	625	-

(c) Fixed and other assets

	30 June 2009	
	Yorkshire	Chelsea
	£m	£m
Tangible fixed assets	89	72
Intangible fixed assets	11	3
Other assets	64	26
	<u>164</u>	<u>101</u>

The following are included within tangible fixed assets:

	30 June 2009	
	Yorkshire	Chelsea
	£m	£m
Property		
Land and buildings	65	54
Investment properties	7	2
	<u>72</u>	<u>56</u>
Plant and other equipment	17	16
	<u>89</u>	<u>72</u>

Property

The property of the Yorkshire is stated at cost, less accumulated depreciation and impairment losses. In the opinion of the Directors of the Yorkshire there is no material difference between the carrying value and market value of its property.

The property of Chelsea is stated at fair value and is subject to an annual impairment review.

STATEMENT REQUIRED BY SCHEDULE 16 TO THE BUILDING SOCIETIES ACT 1986:

Depreciation

The estimated useful life allocated to the major assets of each society are:

	30 June 2009	
	Yorkshire	Chelsea
Freehold and long leasehold property		
Head Office and administration buildings	50 yrs	30 yrs
Branches	50 yrs	60 yrs
Other plant and equipment	3 to 8 yrs	3 to 20 yrs

If Chelsea were to adopt the Yorkshire's estimated useful lives, there would be no material impact on profits.

The following are included within intangible fixed assets:

	30 June 2009	
	Yorkshire	Chelsea
	£m	£m
Software	10	3
Other intangibles	1	-
	11	3

Software

Computer software which is not integral to a related item of hardware is recorded at cost as an intangible asset, and amortised over its useful economic life. Both Chelsea and the Yorkshire amortise computer software over three to five years.

Other intangibles

Other intangibles in the Yorkshire include amounts paid for the transfer of the administration of a number of employee sharesave schemes and the fair value of the retail customers and renewable contracts on transfer of engagements.

(d) Impairment losses and provisions

At each balance sheet date, both societies assess whether evidence of impairment exists for all financial assets. Evidence of impairment includes arrears, default or delinquency in contractual payments. Where evidence of impairment exists, a provision is raised to reduce the carrying amount of the asset to the present value of estimated future cash flows discounted at the asset's original effective interest rate. Individual provisions are raised for separately significant assets and collective provisions for groups of assets with similar credit risk characteristics.

Impairment provisions on mortgages and other loans:

	30 June 2009	
	Yorkshire	Chelsea
	£m	£m
Collective provision	5	6
Individual provision	59	54
Total provision	64	60

Financial Services Compensation Scheme (FSCS)

Based on their respective market shares each society has provided for the FSCS levy. At 30 June 2009 the Yorkshire had provided £16m in relation to the scheme years 2008/9, 2009/10 and 2010/11; Chelsea had provided £8m for 2008/9 and 2009/10. If Chelsea had provided for the full year 2010/11 then a further £5m would have been required.

STATEMENT REQUIRED BY SCHEDULE 16 TO THE BUILDING SOCIETIES ACT 1986:

(e) Retirement benefit obligations

Chelsea

Chelsea operates both a defined benefit and a defined contribution scheme on behalf of employees. The defined benefit scheme is closed to new entrants and the funds of the scheme, which are administered by trustees, are independent of the funds of Chelsea.

The defined benefit scheme known as the Chelsea Building Society Retirement Benefit Scheme (the **Chelsea Scheme**) is based on final pensionable salaries and is contributory. A full actuarial valuation of the Chelsea Scheme is carried out every three years by a qualified actuary with the latest one carried out as at 1 April 2007.

As at the date of the last full actuarial valuation, the market value of the assets of the Chelsea Scheme (excluding voluntary contributions) was £111.6m. The actuarial valuation to those assets represented 98% of the aggregate benefits which had accrued to members after allowing for expected future increases in earnings. Chelsea is maintaining a level of contributions so that the actuarial valuation of the Chelsea Scheme fund will be equal to the value of accrued benefits within the future life of the current membership. Contributions to 30 June 2009 are included in the results to 30 June 2009.

The latest International Accounting Standard 19 "Employee Benefits" valuation took place as at 31 December 2008 and resulted in a liability of £3m.

Chelsea also contributes to a defined contribution scheme. Contributions to this scheme are charged against profits in the period in which they are made. Contributions to 30 June 2009 are included in the financial position given above.

The Yorkshire

The Yorkshire operates two defined benefit schemes and a defined contribution scheme on behalf of employees. The defined benefit schemes are closed to new entrants and the funds of the schemes, which are administered by trustees, are independent of the funds of the Yorkshire.

The defined benefit scheme known as the Yorkshire Building Society Retirement Benefit Scheme (the **Yorkshire Scheme**) is based on final pensionable salaries and is contributory. With effect from 1 April 2010 future accruals will move to a career average revalued earnings basis. A full actuarial valuation of the Yorkshire Scheme is carried out every 3 years by a qualified actuary with the latest one carried out as at 31 December 2007.

As at the date of the last full actuarial valuation, the market value of the assets of the Yorkshire Scheme (excluding voluntary contributions) was £269.8m. The actuarial valuation of those assets represented 96% of the aggregate benefits which had accrued to members after allowing for expected future increases in earnings.

The defined benefit scheme known as the Barnsley Building Society Pension and Assurance Scheme (the **Barnsley Scheme**) is based on final pensionable salaries and is contributory. A full actuarial valuation of the Barnsley Scheme is carried out every three years by a qualified actuary with the latest one carried out as at 31 December 2008.

Consultations began on 2 November 2009 to merge the Barnsley Scheme with the Yorkshire Scheme and move future accruals to a career average revalued earnings basis.

As at the date of the last full actuarial valuation, the market value of the assets of the Barnsley Scheme (excluding voluntary contributions) was £6.1m. The actuarial valuation of those assets represented 57% of the aggregate benefits which had accrued to members after allowing for expected future increases in earnings.

The Yorkshire is maintaining a level of contributions so that the actuarial valuation of the Yorkshire Scheme and Barnsley Scheme funds will be equal to the value of accrued benefits within the future life of the current membership. Contributions to 30 June 2009 are included in the financial position given above.

The latest International Accounting Standard 19 "Employee Benefits" valuation took place as at 31 December 2008 and resulted in an overall net asset, for the combined Yorkshire and Barnsley Schemes, of £28.8m.

The Yorkshire also contributes to a defined contribution scheme. Contributions to this scheme are charged against profits in the period in which they are made. Contributions to 30 June 2009 are included in the financial position given above.

STATEMENT REQUIRED BY SCHEDULE 16 TO THE BUILDING SOCIETIES ACT 1986:

(f) Summary information on the businesses of connected undertakings

The financial information given above in respect of Chelsea includes the assets and liabilities and results of Chelsea and the following connected undertakings:

Name of connected undertaking	Principal activity
Chelsea Mortgage Services Ltd	Acquiring and administering third party residential mortgage portfolios
BCS Loans and Mortgages Ltd	Loan and mortgage broker
Chelsea Covered Bonds LLP	Mortgage acquisition and guarantor of covered bonds

Chelsea also has two subsidiaries which did not trade or otherwise carry on business during the half year ended 30 June 2009. Chelsea holds 100% of the issued share capital of all its connected undertakings except Chelsea Covered Bonds LLP in respect of which it is only one of two members.

The financial information given above in respect of the Yorkshire includes the assets and liabilities and results of the Yorkshire and the following connected undertakings:

Name of connected undertaking	Principal activity
Accord Mortgages Ltd	Mortgage lending
YBS Properties Ltd	Property holding
YBS Properties (Edinburgh) Ltd	Property holding
Yorkshire Building Society Estate Agents Ltd	Property holding
Yorkshire Investment Services Ltd	Investments
Yorkshire Building Society Covered Bonds LLP	Mortgage acquisition and guarantor of covered bonds
YBS Covered Bonds Finance Ltd	Holding company
Yorkshire Key Services Ltd	Computer services
Yorkshire Guernsey Ltd	Deposit taking
Yorksafes Insurance Company Ltd	Insurance
MutualPlus Ltd	Branch sharing

The Yorkshire has 19 subsidiaries which did not trade or otherwise carry on business during the half year ended 30 June 2009. The Yorkshire holds 100% of the issued share capital of all its connected undertakings except MutualPlus Ltd (50.00%), YBS Covered Bonds Finance Ltd (20.00%), Yorkshire Building Society Covered Bonds LLP (the Yorkshire is one of two members) and Yorksafes Insurance Company Ltd (99.01%). These figures are stated as at 30 June 2009.

(g) Post balance sheet events

The Directors of the Yorkshire consider that the only material change to its financial position since 30 June 2009 has been that the reserves have increased by 7% from £829m to £883m (at 31 October 2009) with a consequent improvement in its capital ratios.

The directors of Chelsea consider that there has been no material change to the financial position of Chelsea since 30 June 2009.

5 Costs and benefits of the Merger

The boards of the Yorkshire and Chelsea recognise that the Merger will give rise to additional costs in the short term. First, in the period before the Merger, the Yorkshire and Chelsea will each incur costs in communicating with their members to provide details of the Merger proposal, resolving members' queries and circulating voting documents in advance of each special general meeting. The Yorkshire and Chelsea will also incur costs in relation to professional advice received in connection with the Merger. Secondly, if the Merger receives members' approval and becomes effective, further costs will arise from the need to integrate systems and harmonise procedures and operations.

The benefits of the Merger are set out in this booklet on pages 3 to 9.

STATEMENT REQUIRED BY SCHEDULE 16 TO THE BUILDING SOCIETIES ACT 1986:

SECTION B: THE INSTRUMENT OF TRANSFER

Set out below is a summary of those terms of the Instrument of Transfer which are relevant for the members of the Yorkshire. For members of the Yorkshire who are also eligible voting members of Chelsea, a more detailed summary of those terms of the Instrument of Transfer relevant to your membership of Chelsea is contained in the Chelsea Merger Booklet. A copy of the Chelsea Merger Booklet will be mailed to eligible voting members of Chelsea separately by Chelsea. Copies of the societies' merger booklets are available on their respective websites.

1 Transfer of assets and liabilities

On the Effective Date, the property, rights and liabilities of Chelsea will be transferred to and vest in the Yorkshire.

2 Membership rights

Under the rules of the Yorkshire, on the Effective Date, shareholding members and borrowing members of Chelsea will be deemed to have been Shareholding Members or Borrowing Members from the date that they became shareholding members or borrowing members of Chelsea (where this date is earlier than any existing membership of the Yorkshire).

On the Effective Date, all shareholding members and borrowing members of Chelsea will become subject to the rules of the Yorkshire. Members can obtain copies of the rules of the Yorkshire from any branch of the Yorkshire or by writing to the Group Secretary of Yorkshire Building Society at Yorkshire House, Yorkshire Drive, Bradford BD5 8LJ or by contacting the Yorkshire Merger Helpline on 0845 1669 200.

In order to preserve capital within the enlarged Society for the benefit of the combined membership, there will be no distribution of reserves by way of bonus to members of either the Yorkshire or Chelsea as a result of the Merger.

3 Share, deposit and mortgage accounts

On the Effective Date, all share and deposit accounts of Chelsea will become share and deposit accounts of the Yorkshire. They will retain their current names, including being branded "Chelsea Building Society" share or deposit accounts and (subject to what is stated below) will be on the same terms and conditions as exist with Chelsea immediately before the Effective Date.

No changes will be made to the terms of the Yorkshire share, deposit or mortgage accounts opened prior to the Effective Date as a result of the Merger.

Each Chelsea share account which, immediately before the Effective Date, was an open account of Chelsea will, on and from the Effective Date, continue to be operated by the Yorkshire as an open account (meaning that new accounts of that type can continue to be opened and that money can continue to be added to or withdrawn from existing accounts).

Each Chelsea share or deposit account which, immediately before the Effective Date, was a closed account of Chelsea will, on and from the Effective Date, become a closed account of the Yorkshire (meaning that no new accounts of that type can be opened, but that money can continue to be added to or withdrawn from existing closed accounts).

Certain changes may be made to the terms of Chelsea share, deposit and mortgage accounts to allow for migration between administration and computer systems and operation in a manner consistent with the Yorkshire's administration, interest calculation payment systems and processing requirements (including but not limited to IT requirements), to ensure consistency of notice procedures and consistency with the Yorkshire's rules. These changes are set out in detail in the Chelsea Merger Booklet.

The Yorkshire will continue to offer "Chelsea Building Society" branded mortgage and loan accounts to new borrowers on and after the Effective Date and, for that purpose, will continue to set a rate which will be known as "Chelsea Building Society's Standard Variable Rate" (in this booklet referred to as the **New CSV**R).

Each mortgage or loan account with Chelsea which, immediately before the Effective Date, includes a term that interest is then, or will in future be, charged at or by reference to Chelsea's existing standard variable rate (in this booklet referred to as the **Existing CSV**R) will be varied with effect from the Effective Date so far as necessary to provide that references (however expressed) to the Existing CSV

STATEMENT REQUIRED BY SCHEDULE 16 TO THE BUILDING SOCIETIES ACT 1986:

The Yorkshire intends that borrowers with “Chelsea Building Society” branded mortgage and loan accounts will be treated no less favourably on and after the Effective Date than they have been treated prior to that date. In particular:

- (a) the Yorkshire will set the initial level of the New CSVr on the Effective Date so that it is equal to the level of the Existing CSVr immediately before the Effective Date;
- (b) the Yorkshire will, so far as possible, exercise its power to change the New CSVr after the Effective Date (as regards both the extent and timing of any change in the New CSVr) in the same way as Chelsea has exercised its power to vary the Existing CSVr prior to the Effective Date.

The Yorkshire will, however, set the New CSVr independently of the Yorkshire standard variable rate (in this booklet referred to as the **Yorkshire SVR**) and will do so with a view to maintaining the competitiveness and financial strength of the part of the Yorkshire’s business which derives from Chelsea (as opposed to the Yorkshire’s business as a whole). Accordingly, the New CSVr may be different from the Yorkshire SVR at any time. At 30 November 2009 the Existing CSVr was 0.8% higher than the Yorkshire SVR. There is no guarantee as to what the New CSVr will be in the future and no guarantee is given as to the relationship between the New CSVr and the Yorkshire SVR. For the avoidance of doubt, the “Chelsea Building Society” branded mortgage and loan accounts may have different pricing structures from those which apply to the “Yorkshire Building Society” branded mortgage and loan accounts.

Although the Yorkshire is planning to enable the integration of the systems underlying the provision and maintenance of mortgage loans and products (and for this reason requires the opportunity to make changes to terms and conditions outlined above), it does not intend to consolidate the borrower and customer databases which also hold the product terms and criteria for each brand (including “Chelsea Building Society” branded loans and mortgages). Accordingly it will not be practicable for borrowers from Chelsea or from the Yorkshire to transfer to the system supporting the other brand or brands. This will mean that, for example, borrowers with a “Chelsea Building Society” branded mortgage or loan account who wish to transfer to a “Yorkshire Building Society” branded mortgage or loan account (or vice versa), will be in no different position from other prospective borrowers.

Details of all the Yorkshire’s share, deposit and mortgage accounts and interest payable on them can be obtained from any Yorkshire branch, from the Yorkshire’s website www.ybs.co.uk, by writing to the Group Secretary of Yorkshire Building Society at Yorkshire House, Yorkshire Drive, Bradford BD5 8LJ, or by telephone on **0845 1200 100**.

Details of all Chelsea’s share, deposit and mortgage accounts and interest payable on them can be obtained from any Chelsea branch, from Chelsea’s website www.theChelsea.co.uk, by writing to the Secretary of Chelsea Building Society at Thirlestaine Hall, Thirlestaine Road, Cheltenham GL53 7AL, or by telephone on **0854 744 6622**.

Financial Services Compensation Scheme

Individuals who have share or deposit accounts with Chelsea which become share or deposit accounts with the Yorkshire on the Effective Date will continue to enjoy the protection of the FSCS. The FSCS gives protection to eligible depositors with deposit taking institutions in the event of insolvency to recover a proportion of their savings. Share and deposit account holders of a building society are treated as depositors for the purposes of the FSCS. Broadly, the FSCS will pay out to an affected depositor 100% of the first £50,000 held with an insolvent deposit taking institution. This compensation limit applies to the aggregate value of deposits held by an affected depositor with a single deposit taking institution, rather than to each individual deposit held. In the case of a joint account, the FSCS will assume that the money in the account is split equally between account holders (giving £50,000 of protection to each joint account holder), unless evidence shows otherwise.

Under the relevant FSCS rules, in certain circumstances where a building society merges with another building society, subject to meeting certain conditions, including continuing to operate under the former name of the transferring building society, a separate £50,000 FSCS depositor protection limit can be retained for the pre-merger account holders. It should however be noted that this change to the rules applicable to the FSCS is a temporary measure until 30 December 2010.

In relation to the Merger, the Yorkshire has made the appropriate notification to the FSA that it wishes to take advantage of these new arrangements and that it intends to continue to use the name “Chelsea” in relation to all former Chelsea share and deposit accounts (for example, in the title of the account, on account statements and in passbooks). On this basis, this separate £50,000 FSCS depositor protection limit will apply to individuals who have a share or deposit account with Chelsea immediately prior to the Effective Date.

STATEMENT REQUIRED BY SCHEDULE 16 TO THE BUILDING SOCIETIES ACT 1986:

Accordingly, under the current rules applicable to the FSCS, an eligible Chelsea shareholding member or depositor immediately prior to the Effective Date who is also an eligible shareholding member or depositor of the Yorkshire immediately prior to the Effective Date will be entitled to a separate FSCS limit of £50,000 for each of their “Chelsea” and “the Yorkshire” branded savings. For more details of eligibility under the FSCS rules, please refer to the FSCS website at www.fscs.org.uk.

4 Directors (Non-Executive and Executive)

On the Effective Date:

- (a) all directors and other officers of Chelsea will relinquish their positions as directors and officers of Chelsea without compensation for loss of office or otherwise (save for any termination payments in accordance with their contractual and statutory entitlement); and
- (b) all directors and other officers of Chelsea’s connected undertakings will relinquish their positions without compensation for loss of office or otherwise in their capacity as directors or officers of Chelsea’s connected undertakings.

If the executive directors of Chelsea were to be made redundant as a result of the Merger they would receive a termination payment in accordance with their contractual and statutory entitlement as follows:

- Mr Bernau (the Executive Chairman of Chelsea) would receive a termination payment of £90,000 before tax and national insurance deductions (based on a three month notice period).
- Mr Ford (the Resources Director & Secretary of Chelsea) would receive a termination payment of £371,000 before tax and national insurance deductions (based on a 12 month notice period), together with the non-cash benefits (including pension loss) for 12 months due in accordance with his contract.
- Mr Jenkins (the Strategy & Planning Director of Chelsea) would receive a termination payment of £21,000 before tax and national insurance deductions (based on a one month notice period).

If the executive directors of Chelsea continue to be employed by the Yorkshire after the Effective Date they would not be executive Directors and would receive remuneration at the same or at a lower level than immediately before the Merger. Other arrangements (which may include an improvement on some but not all current contractual terms) may be agreed between the Yorkshire and each executive director taking into account the role which such executive director of Chelsea may have as an employee of the enlarged Society.

No director or officer of either society will receive any compensation for loss of office or reduction or loss of earnings, other than any payment on being made redundant as a result of the Merger which would be no greater than their contractual and statutory entitlement.

No director or officer of either society will receive any benefits in connection with the Merger or will have any material interest in the Merger other than as described in this booklet which would require the approval of the members under section 96 of the Act.

The Yorkshire’s current Chairman will remain as Chairman of the enlarged Society, and all the other non-executive Directors of the Yorkshire will remain on the Board. The Chief Executive and all the other executive Directors of the Yorkshire will retain their positions on the Board following the Merger. The Yorkshire will prior to the Effective Date consider (without an obligation to do so) whether a non-executive director of Chelsea is to be appointed as a non-executive Director of the Yorkshire, subject to the relevant person meeting the requirements of the Yorkshire’s rules and being approved by the FSA. If a non-executive director of Chelsea is appointed as a non-executive Director of the Yorkshire the fees payable to him will be higher than the fees he receives as a non-executive director of Chelsea in line with the fees paid to non-executive Directors of the Yorkshire (currently £6,350 per annum higher based on a standard fee payable to a non-executive Director of the Yorkshire). If the Yorkshire does not make such an appointment, no director of Chelsea would be joining the Yorkshire Board.

5 Employees

All employees of Chelsea at the Effective Date will be transferred to the Yorkshire automatically by operation of law on their current terms and conditions of employment.

There will be a transfer of various functions from Chelsea’s head office to the Yorkshire’s head office. There will be

STATEMENT REQUIRED BY SCHEDULE 16 TO THE BUILDING SOCIETIES ACT 1986:

redundancies of Chelsea's head office staff as a result of the Merger and there may be staff reductions in small numbers at the Yorkshire head office. In respect of any redundancies of individuals who were employed by Chelsea on the date of the Merger, Chelsea's redundancy policy will apply. The Yorkshire policy will apply to anyone else. However, the Yorkshire will seek to deal with staff reductions in the first instance by not replacing staff who leave or retire. The societies will comply with their consultation obligations in relation to the Merger and any consequences of the Merger with respect to employees. The Yorkshire will act fairly and reasonably and (in respect of roles where the Yorkshire deems it appropriate to do so) in assigning employees for roles at the enlarged Society, the Yorkshire will consider relevant employees of Chelsea, as well as relevant employees of the Yorkshire, both before and after the date of the Merger.

There will be no compulsory redundancies of Chelsea branch staff as a direct result of the Merger within 12 months of the Merger.

From the Effective Date, the Yorkshire will take over the existing pension arrangements of Chelsea.

6 Head Office and Branches

The head office of the Yorkshire is at Yorkshire House, Yorkshire Drive, Bradford BD5 8LJ and this will remain the head office of the Yorkshire following the Merger.

After the Merger, the Yorkshire will retain an operating presence in Cheltenham at either Chelsea's Charlton Kings site or Thirlestaine Hall site for a minimum of three years following the Merger but various functions currently carried out in Cheltenham will be transferred to Bradford. The Yorkshire intends to periodically review Chelsea's existing administrative centres and non-branch premises in accordance with the Yorkshire's usual procedures and practices.

Subject to the position stated below in the case of overlapping branches, it is currently envisaged that the Yorkshire will retain each Chelsea branch as an operational branch under the Chelsea brand. Subject to review by the Yorkshire in the ordinary course of its business, it is proposed that members of Chelsea will be able to use Chelsea's branch network, telephone, postal and internet facilities. Subject to the position stated below in the case of overlapping branches, it will only be possible to access Chelsea's products and services through the Chelsea and/or the Chelsea Building Society branded branches, telephone, postal and internet facilities and to access the Yorkshire's products and services through the Yorkshire and/or the Yorkshire Building Society branded branches, telephone, postal and internet facilities.

The Yorkshire intends to periodically review the existing branch locations of Chelsea and the Yorkshire to identify any areas of overlap in accordance with the Yorkshire's usual procedures and practices. The Yorkshire has identified 11 locations where such overlap currently occurs. In all such cases the Yorkshire may look to operate from a single branch. There will be a fair assessment (in accordance with the usual procedures, practices and criteria - including size, relative performance, staff and quality of location and premises - which the Yorkshire applies to its current branches and brands) of which branch and brand to maintain in the case of overlap. If the Yorkshire does operate from a single branch in an area of overlap, the Yorkshire will use all reasonable endeavours to notify members likely to be affected (and will act in line with regulatory requirements as to notice) and to ensure that members with accounts branded Chelsea will be able to operate their accounts at the Yorkshire branch. Equivalent provisions will apply in the event that the Yorkshire considers that the Yorkshire branch is to close.

7 Conditions and rights of termination

The proposed transfer of Chelsea's engagements to the Yorkshire is conditional upon:

- (i) the Shareholding Members' Resolution and the Borrowing Members' Resolution being approved at the Special General Meeting by the requisite majorities of Shareholding Members and Borrowing Members eligible to vote;
- (ii) the Merger being approved at a special general meeting of Chelsea to be held on 22 January 2010 by the requisite majorities of shareholding members and borrowing members of Chelsea eligible to vote;
- (iii) it being established that the Merger or any matters arising therefrom will not be referred to the Competition Commission for investigation;
- (iv) the Mutual Societies (Transfers of Business) (Tax) Regulatory 2009 in the form laid before the House of Commons on 10 November 2009 having come into full force and effect;
- (v) in relation to Chelsea's subordinated notes (the **Notes**), noteholders' resolutions being passed to allow for the

STATEMENT REQUIRED BY SCHEDULE 16 TO THE BUILDING SOCIETIES ACT 1986:

conversion of the Notes into lower-tier 2 subordinated notes convertible into profit participating deferred shares;

- (vi) receipt by the Yorkshire of an eligibility certificate under the Credit Guarantee Scheme in respect of the issue by the Yorkshire of notes under its MTN programme on terms reasonably acceptable to the Yorkshire;
- (vii) adherence by Chelsea and the Yorkshire to a funding, liquidity and lending plan agreed between Chelsea and the Yorkshire;
- (viii) receipt by the Yorkshire of confirmation from the Bank of England that the Yorkshire will be permitted to drawdown funds; and
- (ix) the Merger being confirmed and registered by the FSA.

If the Merger has not been confirmed and registered by 1 June 2010 then the Instrument of Transfer will terminate, unless the Yorkshire and Chelsea agree otherwise.

The Instrument of Transfer may also be terminated where, in the reasonable opinion of the directors of either the Yorkshire or Chelsea acting in good faith and (where appropriate) having notified and taken account of any requirements or directions of the FSA (and after taking external legal advice), the Yorkshire or Chelsea (as the case may be) is prevented from proceeding with the Merger on the grounds that to do so would result in a breach of its duties or the regulations or directions of a regulatory body. Either Chelsea or the Yorkshire may also terminate the Instrument of Transfer if it determines that there has been a Material Adverse Event (as defined in the Instrument of Transfer) in relation to the other society and/or certain identified subsidiaries of each society taken as a whole.

For these purposes a Material Adverse Event includes, in summary:

- an undisclosed material adverse change in, or material development adversely affecting, the condition, solvency, tax position, liquidity position, funding position or business of the relevant society taken as a whole;
- a material breach by the relevant society of the Instrument of Transfer which cannot be remedied to the other society's satisfaction;
- an action (or omission) by the other society which is materially prejudicial to the Merger;
- an undisclosed material liability affecting the other society; or
- a fraud or wilful concealment of material information by the other society.

The Yorkshire may also terminate the Instrument of Transfer if it determines that there has been a material adverse change in, or material development adversely affecting, the condition, solvency, tax position, liquidity position, funding position or business of the Yorkshire taken as a whole.

STATEMENT REQUIRED BY SCHEDULE 16 TO THE BUILDING SOCIETIES ACT 1986:

SECTION C: OTHER MATTERS

- 1 No director or other officer of the Yorkshire or Chelsea will receive any benefits in connection with the Merger or will have any material interest in the Merger other than as described in this booklet.
- 2 The directors and officers of Chelsea will not receive any payments in connection with the Merger which would require the approval of members under section 96 of the Act.
- 3 The Directors of the Yorkshire confirm that the Merger will not conflict with any material contractual commitments of the Yorkshire or its connected undertakings.
- 4 The directors of Chelsea confirm that the Merger will not conflict with any contractual commitments of Chelsea or its connected undertakings other than:
 - (a) two agreements for the supply of micro filming document management services dated 23 September 2003 and 7 January 2004 between Chelsea and AMI – The Advanced Group Ltd;
 - (b) a cheque clearing agreement dated 17 July 1984 between Chelsea and The Co-Operative Bank plc;
 - (c) a licence agreement dated 26 April 2001 between Chelsea and Richmond Software Limited; and
 - (d) an introducer agreement between Legal & General Assurance Society Limited and Chelsea dated 25 April 2008.

In relation to any contractual commitments of Chelsea or its connected undertakings which conflict with the Merger in respect of which the Yorkshire requires continuity after the Effective Date, the Yorkshire proposes to enter into negotiations with the relevant counterparty and/or make alternative arrangements where appropriate. Neither Chelsea nor the Yorkshire envisage that the interests of members will be materially prejudiced as a result of any conflicting contractual commitments of Chelsea or its connected undertakings or the negotiations envisaged above.

- 5 The Directors of the Yorkshire confirm that there has been no material change in the financial position of the Yorkshire or its connected undertakings since 30 June 2009 (the date to which the financial information on the Yorkshire in Section A relates) other than as set out in part 4(g) of Section A above.
- 6 The directors of Chelsea confirm that there has been no material change in the financial position of Chelsea or its connected undertakings since 30 June 2009 (the date to which the financial information on Chelsea in Section A relates).
- 7 It is a condition of completion of the Merger that Chelsea restructures £200m of its capital. This will have the benefit of reversing part of the reduction that will occur in the capital ratio of the enlarged Society on the Merger. The principal terms of this capital exchange are as follows:
 - (a) The Merger is conditional on the holders of Chelsea's tier 2 subordinated debt passing resolutions to agree to implement the capital exchange following the Merger. The capital exchange is conditional on the Merger becoming effective.
 - (b) Under the capital exchange, Chelsea's wholly owned subsidiary will buy back Chelsea's £200m existing outstanding lower tier 2 subordinated debt (two series of £100m of 6.25% fixed rate notes due 2017 and £100m of 5.875% fixed rate notes due 2019) and in exchange, the Yorkshire will, immediately following the Effective Date, issue £100m of new convertible notes.
 - (c) In order to effect the capital exchange, the terms and conditions of Chelsea's two existing series of subordinated debt need to be amended by resolutions passed at meetings by the noteholders of each series. Chelsea and the Yorkshire have entered into a capital exchange agreement with holders of more than 75% of the notes of each series under which such holders have irrevocably agreed to vote in favour of the resolutions to be proposed, each of which needs to be passed by a 75% majority. Once passed, each relevant resolution will bind all of the holders of the two series of subordinated debt.
 - (d) The convertible notes to be issued by the Yorkshire, which will have an aggregate principal amount of £100m, will be unsecured and subordinated obligations of the Yorkshire but senior to any issues of permanent interest bearing shares of the Yorkshire and will have the following principal terms:

STATEMENT REQUIRED BY SCHEDULE 16 TO THE BUILDING SOCIETIES ACT 1986:

- (i) repayable after 15 years;
 - (ii) coupon (payable semi-annually and non-deferrable) of 13.5%;
 - (iii) mandatorily convertible in full into profit participating deferred shares (PPDS) of the Yorkshire if the Yorkshire's core tier 1 capital ratio falls below 5%;
 - (iv) subject to events of default triggered upon a winding up or dissolution of the Yorkshire, non-payment of interest or principal within applicable grace periods will trigger a right to institute proceedings for the Yorkshire's winding up; and
 - (v) it is intended that the convertible notes will be listed on a recognised stock exchange prior to first interest payment date.
- (e) The PPDS to be issued by the Yorkshire on conversion of the convertible notes, which are expected to constitute core tier 1 capital of the Yorkshire, will have the following principal terms:
- (i) perpetual instruments with no maturity date or right to repayment, other than a right on a winding up or dissolution of the Yorkshire, after payment of the claims of all creditors (including all subordinated creditors) and Shareholding Members of the Yorkshire (other than holders of deferred shares), of the nominal amount of the PPDS at that time less the amount of any negative balance on the reserve account of the Yorkshire relating to the PPDS;
 - (ii) the PPDS will be eligible for a discretionary non-cumulative dividend up to an aggregate profit participation percentage in each year referable to the net profits of the Yorkshire for the relevant financial year. However no dividend may be paid in any year in which the Yorkshire makes a loss or there is a negative balance in the PPDS reserve account;
 - (iii) the PPDS profit participation percentage will be determined at the time of conversion as the percentage that the aggregate amount of the convertible notes represents of the sum of the aggregate amount of the convertible notes and the core tier 1 capital of the Yorkshire at the relevant time, subject to a minimum of 10%; and
 - (iv) in the event that the Yorkshire makes net losses in any financial year following the issue of PPDS, an amount equal to the profit participation percentage of such losses will be debited to the PPDS reserve account.
- 8 The Yorkshire and Chelsea have entered into repurchase arrangements as part of the funding, liquidity and lending plan referred to in part 7(vii) of Section B on page 25. Under those arrangements the Yorkshire may purchase up to a total of £750 million of securities from Chelsea pursuant to a number of separate agreements. The Yorkshire will fund those purchases by using some of the monies it intends to raise under HM Treasury's Credit Guarantee Scheme, as referred to elsewhere in this booklet.

Ann L FitzPatrick
Group Secretary
YORKSHIRE BUILDING SOCIETY

Peter Ford
Director & Secretary
CHELSEA BUILDING SOCIETY

2 December 2009

2 December 2009

NOTICE OF SPECIAL GENERAL MEETING

Notice is hereby given that a Special General Meeting of the members of Yorkshire Building Society will be held on 26 January 2010 at 2.30pm at the Cedar Court Hotel, Mayo Avenue, Off Rooley Lane, Bradford BD5 8HW for the following purposes:

- 1 To consider, and if thought fit, to pass the following resolution which will be moved as a Shareholding Members' Resolution:
"That Yorkshire Building Society undertakes to fulfil the engagements of Chelsea Building Society in accordance with the terms of the Instrument of Transfer of Engagements dated 2 December 2009."
- 2 To consider, and if thought fit, to pass the following resolution which will be moved as a Borrowing Members' Resolution:
"That Yorkshire Building Society undertakes to fulfil the engagements of Chelsea Building Society in accordance with the terms of the Instrument of Transfer of Engagements dated 2 December 2009."

By order of the Board

Ann L FitzPatrick

Group Secretary

Yorkshire Building Society

2 December 2009

Note 1

Admission to the Special General Meeting will be on production of evidence of membership, for example, the personalised letter from the Chairman which accompanies this booklet, your share account passbook for Shareholding Members or your latest mortgage account statement for Borrowing Members. In order to assist our registration procedures, the doors will be open, and members may register, from 1.30pm.

Note 2

Where appropriate, words and expressions used in this Notice have the meanings given on page 11 of this booklet.

Note 3

With effect from 14 December 2009 until 4.30pm on 25 January 2010 a copy of the Instrument of Transfer may be inspected by any member of the Society at the principal office of Yorkshire Building Society at Yorkshire House, Yorkshire Drive, Bradford, BD5 8LJ between the hours of 9.30am and 4.30pm Monday to Friday (excluding bank holidays).

These Notes, the Guidance on Voting on pages 29 to 30 and How to Vote on page 30 form part of this Notice.

GUIDANCE ON VOTING

1. If you are entitled to vote at the Special General Meeting you may either:

- attend the Special General Meeting and vote in person; or
- appoint a proxy to attend the Special General Meeting and vote on your behalf. A proxy is someone you choose to attend the Special General Meeting to vote on your behalf. Further details relating to voting by proxy are set out under the heading "How to Vote" on page 30 of this booklet.

2. Entitlement to vote

Full details of your entitlement to vote are contained in the Yorkshire's rules and in particular rules 36 to 38 but the effect of those rules is summarised below. A copy of the rules may be obtained upon written request to the Group Secretary of Yorkshire Building Society.

(1) To qualify to vote on resolution 1

You will be entitled to vote as a Shareholding Member whether in person or by proxy if:

- (a) you were a sole or first-named holder of shares in the Yorkshire to the value of £100 or more at midnight at the end of 31 December 2009; and
- (b) you do not cease to be the sole or first-named holder of shares in the Yorkshire at any time between midnight at the end of 31 December 2009 and:
 - (i) 21 January 2010 (if voting by proxy); or
 - (ii) 26 January 2010 (if voting in person at the Special General Meeting); and
- (c) you will be a sole or first-named holder of shares in the Yorkshire on:
 - (i) 21 January 2010 (if voting by proxy); or
 - (ii) 26 January 2010 (if voting in person at the Special General Meeting); and
- (d) if you are an individual, you will be aged 18 or over on 26 January 2010.

A Shareholding Member entitled to vote has only one vote regardless of the number of share accounts which he/she holds.

(2) To qualify to vote on resolution 2

You will be entitled to vote as a Borrowing Member whether in person or by proxy if:

- (a) you were a sole or first-named Borrowing Member of the Yorkshire with a mortgage debt of £100 or more outstanding at midnight at the end of 31 December 2009; and
- (b) you will be a sole or first-named Borrowing Member of the Yorkshire with a mortgage debt of £100 or more outstanding on:
 - (i) 21 January 2010 (if voting by proxy); or
 - (ii) 26 January 2010 (if voting in person at the Special General Meeting); and
- (c) if you are an individual, you will be aged 18 or over on 26 January 2010.

A Borrowing Member entitled to vote has only one vote regardless of the number of mortgages in which he/she has an interest.

(3) If you qualify to vote as both a Shareholding Member and a Borrowing Member you may vote on both resolutions 1 and 2.

(4) Joint Accounts

Where a share account or mortgage account is held in joint names, only the Shareholding Member or Borrowing Member named first in the Yorkshire's records is entitled to vote in person or by proxy. Accordingly, only the first-named member has been sent the Notice of Special General Meeting.

(5) Bodies Corporate

If you are a corporate representative of a body corporate entitled to vote under paragraphs 2.(1) or 2.(2) above, in order to vote you have to attend the Special General Meeting and vote in person. You cannot appoint a proxy to attend the Special General Meeting and vote on your behalf.

(6) Attorneys

The holder of a power of attorney cannot appoint a proxy but can vote in person at the Special General Meeting as long as the power of attorney has been registered at the Yorkshire's head office and the power of attorney gives the holder the right to exercise the right to vote. A member entitled to vote who has given a power of attorney is not prohibited from appointing a proxy or attending and voting in person at the Special General Meeting instead of the attorney.

HOW TO VOTE

IF YOU ARE ENTITLED TO VOTE AT THE SPECIAL GENERAL MEETING YOU MAY VOTE IN ANY OF THE FOLLOWING WAYS:

1. At the Special General Meeting

You can vote in person by attending the Special General Meeting at the Cedar Court Hotel, Mayo Avenue, Off Rooley Lane, Bradford BD5 8HW, on 26 January 2010 at 2.30pm. Members attending the Special General Meeting will be required to produce evidence of membership, for example, the personalised letter from the Chairman which accompanies this booklet, your share account passbook for Shareholding Members or your latest mortgage account statement for Borrowing Members. A voting paper to enable you to cast your vote on the appropriate resolution(s) will be handed to you at the meeting.

If you are attending the Special General Meeting in person, you are not required to return your enclosed Voting Form.

Details of the location of the Special General Meeting are set out on the map enclosed with this booklet.

2. By appointing a proxy to attend the Special General Meeting and vote on your behalf.

You can appoint a proxy in one of the following ways:

- (a) **By Post** – by completing the enclosed Voting Form and returning it in the enclosed pre-paid envelope or post to The Independent Scrutineers, Electoral Reform Services, The Election Centre, 33 Clarendon Road, London N8 0NW.

To be valid, this must be received no later than midnight at the end of 21 January 2010. You should ensure that your Voting Form is posted in good time to arrive by that time and date.

- (b) **Online** – by logging onto the Yorkshire's website at www.ybs.co.uk/sgm and following the links to the Society's secure independent voting site. To do this you will need the two-part security code printed on your enclosed Voting Form. Online voting is available 24 hours a day until midnight at the end of 21 January 2010.

To be valid, your online vote must be submitted no later than midnight at the end of 21 January 2010.

Returning a completed Voting Form either by post or online will not prevent you from attending the Special General Meeting.

Voting by post or online means that you are appointing someone else (who is known as your proxy) to attend the Special General Meeting and vote on your behalf.

A proxy need not be a member of the Society and you may instruct your proxy how to vote when you vote online or when you complete the enclosed Voting Form. The Voting Form and the instructions if you vote online give you two options: either to appoint the Chairman of the Special General Meeting to act as your proxy or to appoint someone else to attend the meeting and vote on your behalf. If you wish to appoint someone other than the Chairman of the meeting as your proxy, you must enter the name and address of the person you appoint in the space provided on the Voting Form or online. Do not enter your own name and address in this space. You can show in the space provided on the Voting Form or online whether you wish your proxy to vote FOR or AGAINST the resolution or if you do not wish to vote on the resolution you can place a cross in the vote WITHHELD box. If you do not complete this section, your proxy may vote or withhold the vote as he or she thinks fit.

FURTHER HELP

If you have any queries regarding your eligibility to vote or the voting process or if you need any other help or information regarding the Special General Meeting, please:

- call the Yorkshire Merger Helpline on 0845 1669 200. We will be open from 8.00am to 8.00pm, Monday to Friday and from 9.00am to 1.00pm, Saturday
- email us at merger@ybs.co.uk

Details of all the Yorkshire's share, deposit and mortgage accounts and interest payable on them can be obtained from any Yorkshire branch, from the Yorkshire's website **www.ybs.co.uk**, by writing to the Group Secretary of Yorkshire Building Society at Yorkshire House, Yorkshire Drive, Bradford BD5 8LJ, or by telephone on **0845 1200 100**.

Details of all Chelsea's share, deposit and mortgage accounts and interest payable on them can be obtained from any Chelsea branch, from Chelsea's website **www.theChelsea.co.uk**, by writing to the Secretary of Chelsea Building Society at Thirlestaine Hall, Thirlestaine Road, Cheltenham GL53 7AL, or by telephone on **0854 744 6622**.