Summary financial statement

Summary directors' report

This financial statement is a summary of information in the audited Annual Accounts, the Directors' Report and the Annual Business Statement, all of which will be available to members and depositors on demand at every office of Yorkshire Building Society from 11 March 2010.

The directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the going concern basis has continued to be adopted in preparing the Annual Report and Accounts.

Approved by the board of directors on 24 February 2010.

Ed Anderson, Chairman
Richard Davey, Vice Chairman
Iain Cornish, Chief Executive

Chief Executive's review

2009 was a year of opportunity and challenge for the Yorkshire. The recession which the UK entered in 2008 officially became the longest and deepest since records began. Whilst not immune to the prevailing economic conditions, the Yorkshire demonstrated resilience and maintained a strong underlying position. In an extreme economic environment we achieved a core operating profit of £7.7m with an improvement in performance in the second half of the year. This improved position in the second half reduced our overall statutory loss to £12.5m. We maintained one of the strongest capital and funding positions of the major lenders, providing protection to our members and continued to be a strong, independent mutual organisation.

A number of significant events occurred during 2009, changing the competitive landscape in which we operate:

- Lloyds TSB Group acquired HBOS, creating the largest retail bank in the UK. During the year, state-provided capital was needed by both Lloyds and the Royal Bank of Scotland. This resulted in the near nationalisation of the latter, which also reported the biggest loss in British corporate history. It was announced that names such as Alliance & Leicester and Bradford & Bingley would disappear from the high street during 2010, furthering consolidation of the retail banking sector; and
- National Savings & Investments and Northern Rock made headlines – being accused of offering unfairly-competitive rates, fully backed by the government.

The Bank of England cut the base rate of interest to 0.5% in March 2009 and the rate remains at this historically-low level. Low interest rates have been helpful to many borrowers but have damaged the returns available to savers.

In addition, the wider economy deteriorated:

- the Bank of England commenced a programme of quantitative easing in March 2009 which had reached £200bn by the end of 2009 with uncertain consequences for credit supply and inflation;
- unemployment rose throughout the year, ending 2009 at the highest level for 13 years;
- activity in the UK housing market remained at historic lows;
- the UK's national debt ballooned to record levels; and
- the money markets remained difficult with access to wholesale funding being restricted and costly.

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	2009 £m	2008 £m
Core operating profit	**7.7**	**53.0**
Treasury investments		
profit/(losses) from fair value volatility	7.8	(67.1)
impairment/losses realised	(0.9)	(7.0)
	6.9	(74.1)
Other fair value volatility	(18.1)	38.3
Other non-recurring items	(6.3)	5.8
	(9.8)	23.0
Financial Services Compensation Scheme levy	(2.7)	(14.7)
Statutory (loss)/profit before tax	**(12.5)**	**8.3**

Overall, market conditions were very tough throughout 2009 and the outlook for the economy in 2010 remains challenging.

In December 2009, we announced our intention to merge with Chelsea Building Society. The members of both societies approved the merger at their respective Special General Meetings held during January 2010. Subject to confirmation by the Financial Services Authority (FSA), the merger will take effect on 1 April 2010. The merged Society will be called Yorkshire Building Society and Chelsea will operate as a separate brand.

Our vision is **to be the best organisation that our customers deal with** and we strive to achieve this by delivering financial security and long-term value to our members along with excellent service.

The merger is the most significant development in our recent history; it will strengthen the Yorkshire's ability to deliver value, security and excellent service to members. The key reasons for our confidence in merging with Chelsea include:

- greater scale, improved efficiency and better market positioning will enhance our ability to compete in an increasingly consolidated market;
- the ability to access wholesale funding markets on a more cost-effective and sustainable basis;
- the Yorkshire's and Chelsea's complementary branch networks will provide much wider access to mortgage and savings markets across the country;
- Chelsea's strong presence in key markets will be important to the Group's future success; and
- the extensive due diligence performed and the steps taken by us to appropriately provide for losses, as well as acting to strengthen our capital and funding position.

The enlarged Society will have assets of approximately £35bn and will remain one of the most strongly capitalised of any UK building society or bank. Our planning for the merger with Chelsea is progressing well and we look forward to successfully integrating the business into the Group.

Our vision is **to be the best organisation that our customers deal with** and we strive to achieve this by delivering financial security and long-term value to our members along with excellent service.

We continually manage our product range in order to be consistently competitive, whilst acting in the best long-term interests of our members. During 2009 we achieved over 1,100 'Best Buy' mentions, over 15% more than in 2008.

Our approach to savings remains to protect our loyal long-standing investors, whilst ensuring that our products are competitve on a sustainable basis. We estimate that the decisions we made not to pass on the full Bank of England base rate cuts means that during 2009 our savers were better off than they otherwise would have been by over £85m a year. In contrast the Yorkshire's range of accounts offered an average variable interest rate of 1.69% at the year-end, whilst nearly half of all variable rate savings accounts in the market paid interest at base rate of 0.50% or less. Over quarter of a million new savings accounts were opened during 2009.

For our borrowers we recognise that, as a result of the downturn in the housing market, a number of them have seen the loan-to-value ratio on their homes increase. We have offered our existing customers further fixed-rate mortgage products at the end of their current mortgage deal, regardless of the loan-to-value on their property at the time - proactively helping them to manage their finances in what are difficult conditions.

Our results were naturally affected by the challenging conditions of 2009; but more importantly by the decisions we took to protect members' interests and should be viewed in this context.

We emerged from 2009 in robust shape:

- the Yorkshire is the UK's 2nd largest building society, having maintained one of the strongest capital positions compared to major UK banks (see graph on page 23) and a high level of liquidity – both providing protection to our members. Our capital position strengthened over the year. Our Group solvency ratio was 15.6% at the end of the year compared to 14.8% in 2008, reflecting some internal capital restructuring;
- we are reporting a statutory pre-tax loss for 2009 of £12.5m, compared to a profit of £8.3m in 2008 but an improvement on the position at 30 June 2009 when, in the Merger Booklet, we reported a statutory loss of £22m. We reported a core operating profit for the half year of £1m. By the year-end this figure had risen to £7.7m reflecting an improvement in performance in the second half of the year. Core operating profit is down from £53.0m in 2008; however, under the unprecedented economic conditions of 2009, the ability of the Group to continue to provide real value and protection to members under even the worst conditions is encouraging. The reduction in our core operating profit is due mainly to the decisions taken to protect our members which affected our net interest margin and appropriate provisions for mortgage losses:
  - protecting our funding position by increasing our holdings of very high quality liquid assets which generate a low return in exchange for greater security - at the year-end, the Group's liquidity ratio was 31.9% up from 25.4% in 2008;
  - minimising the impact of the fall in bank base rate on our savers, whilst offering competitive mortgage products to our existing borrowing members;
  - maintaining a prudent approach to new lending, concentrating on lower-risk lending; and
  - incurring a charge of £59m

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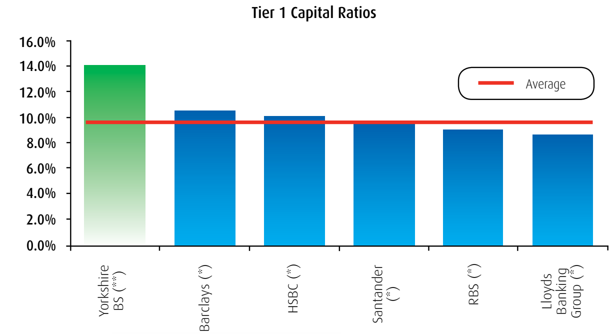

*per interim statements issued during 2009
** as at 31 December 2009

> We are very optimistic about the future prospects of the Yorkshire and we look forward to welcoming members of Chelsea.

in 2009 in contrast to £25m in 2008, as a result of appropriately providing for mortgage loan losses.

- excluding the costs of the merger, the Group achieved a ratio of management expenses to mean assets of 54p per £100 in 2009 (57p including merger costs) compared to 56p in 2008, reflecting our continuing drive for efficiency and effectiveness despite the low-growth environment;
- total assets were £22.7bn, 1.3% down compared to £23.0bn in 2008, reflecting low levels of mortgage lending due to low demand from potential borrowers and our conservative approach to lending in an uncertain climate;
- we focussed on maintaining high-quality prime residential mortgage assets, this being the traditional role of a building society. During a recession it is inevitable that some borrowers will face difficulties. Our focus on arrears management bore fruit during 2009 as arrears levels began to reduce from their first quarter peak and, we believe, remain below industry averages - the percentage of loans over three months in arrears had increased only slightly to 1.84% compared to 1.59% in 2008;
- we achieved non-interest income of £30.7m in comparison to £31.5m in 2008, despite a major reduction in gross lending by the Society - a result of offering competitive insurance, protection and investment products;
- we bore a charge through the Financial Services Compensation Scheme in 2009 of £2.7m versus £14.7m in 2008. We continue to lobby against the inequitable way in which the levy is calculated, as it unfairly penalises lower-risk organisations such as building societies, who adopt a safer funding model based on retail deposits rather than wholesale funding; and
- we are able to report a modest profit on our small book of structured credit investments of £6.9m versus losses previously incurred.

We continued to invest in our infrastructure and service delivery in 2009:

- we expanded our distribution network with the net addition of 10 agencies. Following the merger with Chelsea our total distribution network will include 178 branches and 75 agencies;
- we completed the successful integration of Barnsley Building Society which now offers an improved product range and maintains its own branch network; and
- YBS Share Plans achieved further success including acquiring 13 new corporate clients in 2009.

Our success in achieving our ongoing commitment to customer service is reflected in two ways:

- in regular customer satisfaction surveys, once again 9 out of 10 respondents said they would recommend us to their family or friends; and
- industry awards in 2009, including; Which 'Best Financial Services Provider' (short-listed), Moneyfacts 'Best Monthly Savings Account Provider' (commended), Moneyfacts 'Best Internet Savings Account Provider' (commended) and Moneyfacts 'Best Long Term Fixed Rate Mortgage Provider' (winner).

Central to our mutual ethos is good corporate citizenship; that means playing an active role as a responsible member of the communities in which we live and work. Our responsible business practices include fundraising for good causes, staff volunteering and a commitment to sound environmental practices.

There were no changes to the membership of your board in 2009. Lynne Charlesworth, non-executive director, became Chairman of the Group Risk Committee during the year and Simon Turner, non-executive director, became Chairman of the Remuneration Committee at the start of 2009.

On your behalf the board would like to pay tribute to the continued efforts of our colleagues in your Society during another challenging year. We know that all colleagues will continue to live up to the Yorkshire's values, taking the Yorkshire forward through 2010 and beyond, providing excellent service to members.

We are very optimistic about the future prospects of the Yorkshire and we look forward to welcoming members of Chelsea.

Our commitment to remaining an independent mutual will remain unaltered because we continue to believe that it is in the best interests of current and future members. We will stick to the same values that the Yorkshire aims to live up to, with an emphasis on the delivery of long-term value backed up by excellent personal service.

We will continue to operate very much as a traditional building society. Our lending will be very largely focussed on traditional mortgage lending which allows people to own their own homes, funded mainly by the savings of individual members. We will build on the strengths of both societies to enhance our ability to deliver benefits to our members.

How to vote: attend the AGM post it ybs.co.uk/agm

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Group results for the year	2009 £m	2008 £m
Net interest income	147.8	164.5
Net losses from fair value volatility	(10.3)	(28.8)
Net realised profits/(losses)	11.5	(1.0)
Other income and charges	30.7	31.5
	179.7	166.2
Administrative expenses	(124.3)	(122.4)
Chelsea Building Society merger costs	(6.7)	-
Provisions*	(58.5)	(24.0)
	(9.8)	19.8
Financial Services Compensation Scheme levy	(2.7)	(14.7)
Operating (loss)/profit	(12.5)	5.1
Negative goodwill	-	3.2
(Loss)/profit before taxation	(12.5)	8.3
Taxation	9.2	0.5
(Loss)/profit for the year	(3.3)	8.8

* "Provisions" encompasses provisions for impairment of loans and advances and debt securities and provisions for liabilities.

Group financial position at end of year

	2009 £m	2008 £m
Assets		
Liquid assets	6,700.4	5,327.7
Mortgages	14,979.4	16,291.8
Derivative financial instruments	904.5	1,226.7
Fixed and other assets	137.7	185.6
Total assets	22,722.0	23,031.8
Liabilities		
Shares	13,793.4	13,683.1
Borrowings	7,183.1	7,329.6
Derivative financial instruments	468.1	672.2
Other liabilities	106.6	157.5
Subordinated liabilities	111.7	112.9
Subscribed capital	159.3	167.2
Reserves	899.8	909.3
Total liabilities	22,722.0	23,031.8

summary of key financial ratios

	2009	2008
Gross capital as a percentage of shares and borrowings The gross capital ratio is the relationship between the Group's capital and its liabilities to investors. Capital comprises general reserves (i.e. accumulated profits), hedging and revaluation reserves, subordinated liabilities and subscribed capital (Permanent Interest Bearing Shares).	5.58%	5.66%
Liquid assets as a percentage of shares and borrowings The liquid asset ratio measures those assets available to meet requests by investors to withdraw their money, to fund mortgage advances and to fund general business activities. It expresses cash and assets easily converted into cash as a percentage of the Group's liabilities to investors.	31.94%	25.35%
(Loss)/profit for the year as a percentage of mean total assets This ratio expresses profit or loss, after tax, as a percentage of average total assets.	(0.01)%	0.04%
Management expenses as a percentage of mean total assets The management expense ratio measures how cost-effective the Group is. It is calculated by comparing the management expenses (administrative expenses plus merger costs above) for the year with average total assets.	0.57%	0.56%

Statement of the independent auditors to the members and depositors of Yorkshire Building Society

Pursuant to Section 76 of the Building Societies Act 1986, we have examined the summary financial statement for the year ended 31 December 2009 which comprises the group results for the year and group financial position at end of year and summary of key financial ratios as well as the Summary Directors' Report.

This report is made solely to the Society's members, as a body, in accordance with section 76(5) of the Building Societies Act 1986. Our work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, for our audit report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing this AGM booklet, in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within this AGM booklet with the full Annual Report and Accounts, Annual Business Statement and Directors' Report and its compliance with the relevant requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

We also read the other information contained in this AGM booklet as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

We conducted our work in accordance with Bulletin 2008/3 issued by the Auditing Practices Board. Our report on the Society's Annual Report and Accounts describes the basis of our audit opinion on those financial statements.

Opinion

In our opinion the summary financial statement is consistent with the full Annual Report and Accounts, the Annual Business Statement and Directors' Report of Yorkshire Building Society for the year ended 31 December 2009 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986 and regulations made thereunder.

Deloitte LLP
Chartered Accountants and Statutory Auditors, Leeds
24 February 2010