

YORKSHIRE BUILDING SOCIETY COVERED BONDS LLP

Registered Number: OC322580

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

YORKSHIRE BUILDING SOCIETY COVERED BONDS LLP

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YORKSHIRE BUILDING SOCIETY COVERED BONDS LLP

REGISTERED NUMBER: OC322580

MEMBERS AND PARTNERSHIP INFORMATION

Members	Yorkshire Building Society YBS Covered Bonds Finance Ltd
Registered Office	Yorkshire House Yorkshire Drive Bradford Yorkshire BD5 8LJ
Account Bank	Yorkshire Building Society Yorkshire House Yorkshire Drive Bradford BD5 8LJ
Standby Account Bank	HSBC Bank plc 8 Canada Square London E14 5HQ
Auditor	Deloitte LLP Statutory Auditors Leeds LS1 2AL

YORKSHIRE BUILDING SOCIETY COVERED BONDS LLP

MEMBERS' REPORT (continued)

The members present their annual report and audited financial statements for Yorkshire Building Society Covered Bonds LLP (the "LLP") for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The LLP is a special purpose vehicle whose business is the acquisition and management of mortgage loans and their related security. The principal activities of the LLP are summarised in the LLP Deed dated 1 November 2006. The activities of the LLP are dependent upon the future funding strategies within the partnership's UK controlling undertaking, Yorkshire Building Society.

GOING CONCERN

The LLP has adequate financial resources to be classed as a going concern due to the financial guarantee from Yorkshire Building Society. The activities of the LLP are dependent on the future funding strategies within the LLP's controlling parent undertaking, Yorkshire Building Society. Assessment of the potential impacts of the UK's withdrawal from the EU has also been conducted by the parent undertaking and the members of the LLP have a reasonable expectation that the LLP will be able to continue in operation and meet its obligations as they fall due. The LLP has Euro denominated liabilities that have been hedged with the use of cross currency swap positions.

There are no plans to terminate the operations of the LLP within the next year. Therefore it is appropriate to adopt the going concern basis in preparing the financial statements.

DESIGNATED MEMBERS

The designated members during the year and to the date of this report were Yorkshire Building Society and YBS Covered Bonds Finance Ltd.

In the event of Yorkshire Building Society going into administration or liquidation, the second member, YBS Covered Bonds Finance Ltd, will appoint another member.

MEMBERS' INTERESTS

The policy regarding the allocation of profits to members and the treatment of capital contributions is set out in the significant accounting policies note (note 1).

FINANCIAL INSTRUMENTS

The LLP's financial instruments comprise a loan to Yorkshire Building Society (equivalent to the value of the LLP's investment in Yorkshire Building Society mortgages), cash and liquid resources, derivatives, borrowings and various receivables and payables that arise directly from its operations. The main purpose of these financial instruments is to raise finance for Yorkshire Building Society.

It is, and has been throughout the year under review, the LLP's policy that no trading in financial instruments is undertaken. Further discussion of the LLP's approach to financial instruments is set out in the significant accounting policies note (note 1).

YORKSHIRE BUILDING SOCIETY COVERED BONDS LLP

MEMBERS' REPORT (continued)

AUDIT INFORMATION

Each of the persons who is a member at the date of approval of this annual report and financial statements confirms that:

- so far as the member is aware, there is no relevant audit information of which the firm's auditor is unaware; and
- the member has taken all the steps that they ought to have taken as a member in order to make himself aware of any relevant audit information and to establish that the LLP's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

AUDITOR

PricewaterhouseCoopers LLP have expressed their willingness to accept appointment as auditors, and the resolution is to be proposed at the Yorkshire Building Society Group (the "Group") Annual General Meeting.



A Lenman
on behalf of
Yorkshire Building Society
27 February 2019



C L Parrish
on behalf of
YBS Covered Bonds Finance Ltd
27 February 2019

YORKSHIRE BUILDING SOCIETY COVERED BONDS LLP

MEMBERS RESPONSIBILITIES STATEMENT

The members are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

The Limited Liability Partnerships (Accounts & Audit) (Application of Companies Act 2006) Regulations 2008 require the members to prepare financial statements for each financial year. Under that law the members have elected to prepare the financial statements in accordance with IFRSs as adopted by the European Union. The financial statements are also required by law to be prepared in accordance with the Companies Act 2006, as applicable to limited liability partnerships.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the firm's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, members are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The members are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the firm and enable them to ensure that the financial statements comply with the Companies Act 2006, as applicable to limited liability partnerships. They are also responsible for safeguarding the assets of the firm and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

These responsibilities are exercised by the Covered Bond Management Committee on behalf of the members.

YORKSHIRE BUILDING SOCIETY COVERED BONDS LLP

STRATEGIC REPORT

BUSINESS REVIEW

The LLP's business activities, together with the factors likely to affect the future development, performance and position are set out below. The financial position of the LLP, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. The LLP's objectives, policies and processes for managing its capital are described in note 13 to the financial statements.

Details of the LLP's financial risk management objectives, its financial instruments and hedging activities; and its exposures to operational, liquidity risk and other risks are set out in note 12 to the financial statements.

Yorkshire Building Society is required to buy back mortgages that breach Representations and Warranties from the LLP, or if the property has been voluntarily surrendered by the borrower. There is no loss suffered by the LLP, as this buy-back comprises all outstanding amounts, including all arrears on the mortgage accounts. Details of this financial guarantee from Yorkshire Building Society are set out in note 12.

The financial performance and position of the Yorkshire Building Society Group, which includes the LLP, are discussed in the Group's report and financial statements which does not form part of this report.

The LLP made a loss for the year of £3.5m (2017 - £1.9m profit). This is due to fair value adjustments on financial instruments.

RISK MANAGEMENT

Risk management within the LLP is undertaken by the Yorkshire Building Society. The Group maintains an independent risk management function that applies its risk management policies and techniques to the risks of the Group as a whole and therefore appropriate risk management activities are deployed wherever risks arise.

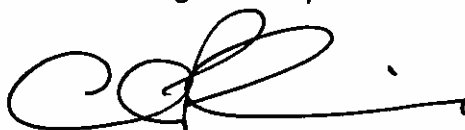
The Group, through the Treasury function, monitors and manages wholesale credit risk using its own internal rating for all its counterparties and sets individual limits accordingly. These limits are regularly reviewed internally and against external rating agencies, with revocation or suspension taking place where considered appropriate. Wholesale related credit risks are reported and discussed monthly at the Executive Risk Committee. Market risk within the LLP is minimised by the use of loans and deposits with the Society.

The most significant retail credit risk that the Group is exposed to, which has particular relevance to the LLP, relates to its core business of providing loans secured on residential property. The beneficial interests in the mortgage portfolio represent the collateral for the loan to originator. A robust credit risk framework helps to ensure that lending remains within risk appetite limits. Adherence is monitored regularly through governance committees. The Group lends to households across the UK and does not consider there to be any significant concentration of credit risks in any particular part of the UK.

In addition to the risk management explained above, the LLP has in place a Covered Bond Management Committee. This committee meets monthly and is chaired by the Head of Treasury. Its objective is to review and approve a number of reports relating to the Covered Bond programme, including the Investor report, Asset and Liability Committee paper and the Asset Coverage Test report.



A Lenman
On behalf of
Yorkshire Building Society
27 February 2019



C L Parrish
On behalf of
YBS Covered Bonds Finance Ltd
27 February 2019

YORKSHIRE BUILDING SOCIETY COVERED BONDS LLP

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF YBS COVERED BONDS LLP

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the limited liability partnership's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Yorkshire Building Society Covered Bonds Limited Liability Partnership (the "limited liability partnership") which comprise:

- the income statement;
- the statement of financial position;
- the statement of changes in members' interests;
- the statement of cash flows; and
- the related notes 1 to 14.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the limited liability partnership in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the members' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the members have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the limited liability partnership's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The members are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

YORKSHIRE BUILDING SOCIETY COVERED BONDS LLP

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF YBS COVERED BONDS LLP

We have nothing to report in respect of these matters.

Responsibilities of members

As explained more fully in the members' responsibilities statement, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the members are responsible for assessing the limited liability partnership's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the members either intend to liquidate the limited liability partnership or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the members' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the members' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the limited liability partnership and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the members' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of members' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

YORKSHIRE BUILDING SOCIETY COVERED BONDS LLP

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF YBS COVERED BONDS LLP

Use of our report

This report is made solely to the limited liability partnership's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the limited liability partnership'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 limited liability partnership and the limited liability partnership's members as a body, for our audit work, for this report, or for the opinions we have formed.



Peter Birch FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom

27 February 2019

YORKSHIRE BUILDING SOCIETY COVERED BONDS LLP

REGISTERED NUMBER: OC322580

**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	2018 £000	2017 £000
Interest receivable and similar income	3	31,422	51,177
Interest payable and similar charges	4	<u>(31,409)</u>	<u>(51,154)</u>
Net interest income		13	23
Operating expenses	5	<u>(13)</u>	<u>(23)</u>
Operating profit		-	-
Net (losses)/gains on fair value volatility on financial instruments	6	(3,451)	1,861
(Loss)/profit before tax		<u>(3,451)</u>	<u>1,861</u>
(Loss)/profit for the year for discretionary division among members		<u>(3,451)</u>	<u>1,861</u>

The (loss)/profit shown above is derived from continuing operations.

The LLP has no income or expenditure in the year other than the (loss)/profit stated above. Consequently no Statement of Comprehensive Income has been presented.

The notes on pages 12 to 22 form part of these financial statements.

YORKSHIRE BUILDING SOCIETY COVERED BONDS LLP

REGISTERED NUMBER: OC322580

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018**

	Note	2018 £000	2017 £000
Assets			
Loan to originator	7	1,981,219	2,245,002
Derivative financial instruments		260,168	270,208
Loans and advances to credit institutions	8	83,413	69,554
Total assets		<u>2,324,800</u>	<u>2,584,764</u>
Liabilities			
Interest bearing loans and borrowings	9	2,311,778	2,567,887
Other payables	10	8,497	8,901
Total liabilities		<u>2,320,275</u>	<u>2,576,788</u>
Retained surplus	13	4,525	7,976
Total liabilities and equities		<u>2,324,800</u>	<u>2,584,764</u>

STATEMENT OF CHANGES IN MEMBERS' INTERESTS

	2018 £000	2017 £000
Net assets attributable to members		
Balance at 1 January	7,976	6,115
(Loss)/Profit for the year	(3,451)	1,861
Balance at 31 December	<u>4,525</u>	<u>7,976</u>

The notes on pages 12 to 22 form part of these financial statements

These financial statements were approved by the members and authorised for issuance on 27 February 2019 and were signed on their behalf by:



A Lenman
On behalf of
Yorkshire Building Society
27 February 2019



C L Parrish
On behalf of
YBS Covered Bonds Finance Ltd
27 February 2019

YORKSHIRE BUILDING SOCIETY COVERED BONDS LLP

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018**

	2018	2017
	£000	£000
Cash flows from operating activities:		
(Loss)/Profit before tax	(3,451)	1,861
Operating assets:		
Net decrease/(increase) in loan to originator	263,783	(433,798)
Net decrease/(increase) in derivative financial instruments	10,040	(30,842)
Operating liabilities:		
Net (decrease)/increase in loans and borrowings	(6,109)	29,116
Net (decrease)/increase in other payables	(404)	2,666
Net cash flows from/(used in) operating activities	263,859	(430,997)
Cash flows from financing activities:		
Proceeds from loans and borrowings	(250,000)	426,700
Net cash flows (used in)/from financing activities	(250,000)	426,700
Net increase/(decrease) in cash and cash equivalents	13,859	(4,297)
Opening balance	69,554	73,851
Total closing cash and cash equivalents	83,413	69,554
Cash and cash equivalents:		
<u>Loans and advances to credit institutions</u>	<u>83,413</u>	<u>69,554</u>

The Statement of Cash Flows has been prepared in compliance with 'International Accounting Standard 7 Statement of Cash Flows' and is presented under the indirect method.

The Statement of Cash Flows presents cash flows classified by operating, investing and financing activities. The net cash flows from all three categories are totalled to show the movement in cash and cash equivalents during the year, which is then used to reconcile cash and cash equivalents.

For the purposes of the Statement of Cash Flows, 'cash and cash equivalents' comprise cash and other financial instruments with less than three months original maturity.

Reconciliation of movements arising from financing activities	2017 £000	Cash flows:		Non-cash changes caused by:			2018 £000
		Redemption £000	Issue £000	Foreign exchange £000	Accrued interest £000	Fair value adjustment £000	
Loans and borrowings	2,567,887	(750,000)	500,000	15,580	(24,876)	3,187	2,311,778

YORKSHIRE BUILDING SOCIETY COVERED BONDS LLP

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Introduction

Yorkshire Building Society Covered Bonds LLP is a special purpose vehicle whose business is the acquisition and management of mortgage loans and their related security. It is a Limited Liability Partnership domiciled and registered in the United Kingdom.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations (IFRICs) in issue that have been endorsed by the European Union (EU) and are effective at 31 December 2018.

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of derivative contracts. The financial statements are presented in sterling, which is the functional currency of the Society.

The financial statements have been prepared on the going concern basis as discussed in the Members' Report on page 2, under the heading, 'Going concern'.

The preparation of financial statements under IFRS requires the use of certain critical accounting estimates and judgement. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are set out in Note 2.

Accounting Developments

The following Accounting Standard amendments became mandatorily effective for periods commencing on or after 1 January 2018 and have been adopted in the current year. Their adoption, unless otherwise stated, has not had any impact on the disclosures or on the amounts reported in these financial statements:

- IFRS 15 'Revenue from Contracts with Customers' is effective for periods beginning on or after 1 January 2018, with early adoption permitted. IFRS 15 introduces a framework for determining whether, how much and when revenue is recognised and it replaces the existing guidance in IAS 18 'Revenue'.
- IFRIC 22 'Foreign currency transactions and advance consideration', provides guidance on considerations denominated in a foreign currency.
- Amendments to IFRS 2 'Classification and Measurement of Share-based Payment Transactions', IAS 40 'Transfers of Investment Property', and 'Annual Improvements to IFRSs 2014-2016 Cycle' December 2016.
- IFRS 9 'Financial Instruments' was published in July 2014 and is effective for periods beginning on or after 1 January 2018. This replaces IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Under IFRS 9, financial assets are classified as amortised cost, fair value through other comprehensive income, or fair value through profit or loss, depending on the entity's business model and the contractual cash flow characteristics of the instruments. The application of the business model and the contractual cash flow characteristics tests resulted in no differences in the population of financial assets measured at amortised cost or fair value compared with IAS 39 with all non-derivative financial instruments continuing to be measured on an amortised cost basis.

Under IFRS 9, impairment is based on a more forward looking expected credit loss (ECL) approach for financial assets classified as amortised cost and fair value through other comprehensive income, rather than the incurred loss approach applied under IAS 39. The application of the impairment requirements did not materially impact the financial statements. This is due to the strict criteria for loans that form part of the mortgage pool such as the original LTV being less than 90% and restrictions on the current balance of loans

YORKSHIRE BUILDING SOCIETY COVERED BONDS LLP

NOTES TO THE FINANCIAL STATEMENTS

that are more than three months in arrears. Losses are initially absorbed by the mortgage Originator; as a result no impairment provision has been recorded.

The following Standards which have not been adopted in these financial statements were in issue but not yet effective for the 2018 year end. Except otherwise stated, the adoption of the following standards is not expected to have material impact on the financial statements.

- IFRS 16 'Leases' is effective for periods beginning on or after 1 January 2019. IFRS 16 eliminates the distinction between operating and finance leases that currently exists in IAS 17, with virtually all leases recognised on Balance Sheet.
- IFRS 17 'Insurance Contracts' is effective for periods beginning on or after 1 January 2021. IFRS 17 is the comprehensive IFRS establishing specific accounting requirements for insurance contracts. This replaces IFRS 4 for which entities were permitted to account for insurance contracts differently across jurisdictions.
- IAS 19 'Employee Benefits – Defined Benefit (DB) Pension Schemes'. This amendment is effective for reporting periods that commence on or after 1 January 2019 and applies to where settlements, curtailments or amendments occur for the pension plan. This amendment clarifies the treatment of past service cost, current service cost and net interest.
- IFRIC 23 'Uncertainty of Income Tax Treatments, and 'Annual Improvements to IFRSs 2015-2017 Cycle: IAS 12 'Income Taxes', IAS 23 'Borrowing Costs', IFRS 3 'Business Combinations', and IFRS 11 'Joint Arrangements'.

The following is a list of the LLP's significant accounting policies.

Interest income and expense

Interest income and expense on all financial instruments are recognised within interest receivable or payable on an effective interest rate basis.

The effective interest rate is a method of calculating the amortised cost of financial instruments and of allocating interest income and expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated cash flows (excluding credit losses) through the expected life of the instrument to the net carrying amount at initial recognition

Tax

Tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case the tax is recognised in the Statement of Comprehensive Income.

Current tax is the expected tax payable on the taxable profits for the year, using tax rates enacted or the substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

YORKSHIRE BUILDING SOCIETY COVERED BONDS LLP

NOTES TO THE FINANCIAL STATEMENTS

Deferred consideration payable

Deferred consideration payable depends on the extent to which the surplus income generated by the underlying mortgage books to which the LLP has a beneficial interest, exceeds the administration costs of the mortgage books, and is deducted from interest income, since the LLP does not recognise income to which it is not beneficially entitled. Contingent deferred consideration arising in future periods is recorded in the income statement in the period in which it arises.

Financial Instruments

The LLP's financial instruments comprise principally of deemed loans due from Society undertakings, derivative financial instruments, debt securities in issue and cash and cash equivalents. These financial instruments are classified in accordance with the principles of IFRS 9 as described below.

(i) Cash and cash equivalents

The LLP holds deposits and a transaction bank account. These accounts are held in the LLP's name and meet the definition of cash and cash equivalents but their use is restricted by a detailed priority of payments set out in the Secured Funding Programme Documentation (the "Programme Documentation"). As the cash can only be used to meet certain specific liabilities and is not available to be used with discretion, it is viewed as restricted cash.

(ii) Deemed loan

In accordance with IFRS 9, and IAS 39 in the prior period, where a transfer of a financial asset does not qualify for derecognition in the financial statements of the transferor, the transferee does not recognise the transferred asset as its asset. The transferee derecognises the cash or other consideration paid and recognises a receivable from the transferor. In relation to the mortgage portfolios transferred to the LLP, derecognition is considered to be inappropriate for the Originator's (Accord Mortgages Limited) own financial statements as the Originator has retained significant risks and rewards of ownership of that financial asset. The LLP's financial statements are therefore prepared on the basis that those acquisitions of beneficial interests in mortgage portfolios are recognised as a collateralised loan to the Originator.

(iii) Deferred consideration

Under the terms of the mortgage sale agreement, the Originator retains the right to receive excess income arising on those loans, after certain higher priority payments have been met by the LLP. As per the programme requirements, any surplus receipts from the receivables after servicing the notes and all other obligations of the LLP are payable to the originator. These amounts are presented as a deduction of interest income in the income statement with amounts outstanding at year end being recorded as 'Other payables' in the statement of financial position.

(iv) Derivative financial instruments

The LLP uses derivative financial instruments to hedge its exposure to interest rate risk arising from investment activities. The LLP does not hold or issue derivative financial instruments for trading purposes.

IFRS 9, and IAS 39 in the prior period, requires all derivative financial instruments to be recognised initially at fair value in the statement of financial position. Subsequent to initial recognition, derivatives are re-measured to fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement. The fair value of interest rate swaps is the estimated amount that the LLP would receive or pay to terminate the swap or transfer to another party at the reporting date taking into account current interest rates and the current creditworthiness of the swap counterparty.

Interest income and expense on the swaps is accounted for under the effective interest rate method within interest receivable and payable in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

(v) Hedging

All derivatives entered into by the LLP are for the purposes of providing an economic hedge. Hedge accounting is applied when the specific rules and conditions in IAS 39 are fulfilled. The LLP has classified its derivatives as fair value hedges in order to reduce volatility in the Income Statement.

Where the fair value hedging requirements are met, changes in the fair value of the hedged item arising from the hedged risk are taken to the Income Statement thereby offsetting the effect of the related movements in the fair value of the derivative. Where the hedge no longer meets the criteria, or is terminated for any other reason, the adjustment to the hedged item is released to the Income Statement, over its remaining life, using the effective interest rate method.

(vi) Debt securities in issue

Interest-bearing debt securities in issue are recognised initially at fair value. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings under the effective interest rate method. Directly attributable issue costs, including premiums and discounts, commissions and other costs incurred in the issuing of fixed and floating rate notes are amortised using the effective interest rate method.

(vii) Financial Liabilities

Financial liabilities are contractual obligations to deliver cash or some other asset to a third party. They include:

- derivatives
- debt securities; and
- other borrowed funds and liabilities

Financial liabilities are recognised initially at fair value. Fair value includes the issue proceeds (the fair value of consideration received) net of issue costs incurred.

Financial liabilities, other than derivatives, are subsequently stated at amortised cost. Any difference between issue proceeds net of issue costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method. Directly attributable issue costs, including premiums and discounts, commissions and other costs incurred in the issuing of fixed and floating rate notes are amortised using the effective interest rate method.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The LLP makes no key judgements in applying its accounting policies that have a significant impact on the amounts recognised in the financial statements. Estimates and assumptions are used which could affect the reported amounts of assets and liabilities in the next financial year. The most critical key source of estimation uncertainty is described below.

Key source of estimation uncertainty

Fair values

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale and are measured at fair value with the resultant profits or losses included in the income statement.

The fair values of the derivatives are based on counterparty valuations, which is the best estimate of the exit value of the derivatives. This is analysed further in note 12.

YORKSHIRE BUILDING SOCIETY COVERED BONDS LLP

NOTES TO THE FINANCIAL STATEMENTS

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	2018	2017
	£000	£000
On deemed loan	25,102	27,549
On other liquid assets	277	32
Derivative financial instruments in hedge relationships	6,043	23,596
	31,422	51,177

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2018	2017
	£000	£000
On deposits from connected undertakings	23,340	48,028
Derivative financial instruments in hedge relationships	8,069	3,126
	31,409	51,154

5. OPERATING EXPENSES

Loss for the year has been arrived at after charging:

	2018	2017
	£000	£000
Servicer fees	13	23

Fees payable of £5,628 (2017 - £5,305) to the LLP's auditor for the audit of the LLP's annual accounts and financial statements have been borne by the parent. There were no other fees paid to the auditor.

6. NET (LOSSES)/GAINS ON FAIR VALUE VOLATILITY ON FINANCIAL INSTRUMENTS

	2018	2017
	£000	£000
Derivative financial instruments and hedging	(3,451)	1,861

7. LOAN TO ORIGINATOR

	Total
	£000
At 31 December 2017	2,245,002
Repayments	(263,783)
At 31 December 2018	1,981,219

Loan to originator is due in over 1 year. This is collateralised by the benefit interests in the underlying mortgage portfolios.

YORKSHIRE BUILDING SOCIETY COVERED BONDS LLP

NOTES TO THE FINANCIAL STATEMENTS

8. LOAN AND ADVANCES TO CREDIT INSTITUTIONS

The LLP places available revenue and principal receipts in a deposit account with an external credit institution. Withdrawals from this account are restricted by the detailed priority of payments set out in the Programme Documentation. The LLP is contractually entitled to a variable rate of interest of 0.25 per cent per annum below LIBOR for one-month Sterling deposits.

9. INTEREST BEARING LOANS AND BORROWINGS

Interest-bearing loans and borrowings comprise a series of term advances from Yorkshire Building Society, equivalent to the amounts raised by Yorkshire Building Society under its Covered Bonds Programme.

Yorkshire Building Society will not be relying on repayment of any term advance by the LLP or the interest thereon in order to meet its repayment or interest obligations under the Covered Bonds. The term advances will not be repaid by the LLP until all amounts payable under the corresponding series of Covered Bonds have been repaid in full. Amounts owed by the LLP will be subordinated to amounts owed by the LLP under the Covered Bond Guarantee described below.

The Covered Bonds are unconditionally guaranteed by Yorkshire Building Society. Under the terms of the Trust Deed, the LLP has also provided a guarantee as to payments of interest and principal under the Covered Bonds, where amounts would otherwise be unpaid by Yorkshire Building Society.

The obligations of the LLP under its guarantee constitute direct obligations of the LLP secured against the assets from time to time of the LLP and recourse against the LLP is limited to such assets. The principal asset is the beneficial interest in the mortgage loans acquired from Yorkshire Building Society.

In this respect, the LLP treats the above guarantee contract as a contingent liability until such time as it becomes probable that the LLP will be required to make a payment under the guarantee. The amounts due to Yorkshire Building Society mature on the following dates:

Covered Bond	Maturity Date	Interest rate	2018 £000	2017 £000
7	12 Apr 2018	Fixed 4.750%	-	775,670
9	11 Jun 2021	Fixed 1.250%	450,676	446,748
10	19 Jun 2020	Fixed 0.500%	448,761	444,855
11	10 Nov 2022	Fixed 0.750%	448,017	444,132
12	11 Apr 2023	Fixed 0.375%	448,779	444,873
13	20 Nov 2023	SONIA	500,749	-
Fair value hedging adjustments			14,796	11,609
			2,311,778	2,567,887

10. OTHER PAYABLES

	2018 £000	2017 £000
Deferred consideration	8,497	8,901
	8,497	8,901

YORKSHIRE BUILDING SOCIETY COVERED BONDS LLP

NOTES TO THE FINANCIAL STATEMENTS

11. FINANCIAL GUARANTEE FROM YORKSHIRE BUILDING SOCIETY

Yorkshire Building Society has provided a financial guarantee to the LLP, the terms of which, as detailed in the Programme Documentation, are described below.

Yorkshire Building Society is required to buy back all mortgages that breach Representations and Warranties from the LLP, or if the property has been voluntarily surrendered by the borrower. There is no loss suffered by the LLP, as this buy-back comprises all outstanding amounts, including all arrears on the mortgage accounts. The maximum potential amount payable to the LLP under the guarantee is equal to the amount outstanding on the loan to originator. The loan to originator amounted to £2.0billion (2017 - £2.2billion).

12. FINANCIAL INSTRUMENTS

The LLP's financial instruments comprise a loan to Yorkshire Building Society (equivalent to the value of the LLP's investment in Yorkshire Building Society mortgages), cash and liquid resources, derivatives, borrowings and various receivables and payables that arise directly from its operations. The main purpose of these financial instruments is to raise finance for Yorkshire Building Society.

Summary

The table below summarises the main financial instruments, their significant terms and conditions and the accounting treatment adopted.

Financial instrument	Significant terms and conditions	Accounting treatment
Loan to originator	Long term Fixed and variable interest rate	Amortised cost
Cash and loans to credit institutions	Short term cash balances	Amortised cost
Derivative financial instruments	Medium term Value derived from underlying price or rate	Fair value through profit or loss
Interest bearing loans and borrowings	Long term Fixed interest rate	Amortised cost except where hedge accounting allows a fair value adjustment to be made
Amounts owed to credit institutions	Short-term Variable interest rates	Amortised cost

YORKSHIRE BUILDING SOCIETY COVERED BONDS LLP

NOTES TO THE FINANCIAL STATEMENTS

12. FINANCIAL INSTRUMENTS (continued)

Fair Values

The following is a comparison of book and fair values of the LLP's financial instruments by category as at the Statement of Financial Position date. Where external market prices are available they have been used to determine fair values, otherwise internal pricing models using external market data have been used.

	2018	2018	2017	2017
	Book value	Fair value	Book value	Fair value
	£000	£000	£000	£000
31 December				
Assets				
Loan to originator	1,981,219	1,981,219	2,245,002	2,245,002
Derivative financial instruments	260,168	260,168	270,208	270,208
Loans and advances to credit institutions	83,413	83,413	69,554	69,553
Liabilities				
Interest bearing loans and borrowings	2,311,778	2,356,324	2,567,887	2,610,581
Derivative financial instruments	-	-	-	-

The fair value of the loan to originator and loans and advances to credit institutions are recognised on an amortised cost basis that is considered to be a close approximation to fair value. For other receivables and other payables, no calculation of fair value is prepared as their carrying amount is viewed as a reasonable approximation of fair value. Interest bearing loans and borrowings have been calculated using external quoted prices.

The fair value of the derivative financial instruments is determined by using a discounted cash flow analysis model that is consistent with commonly used market techniques. All inputs into valuation models adopted by the entity, including the sterling zero coupon yield curve used as the discount rate on the swap, are obtained from observable market data.

The table below classifies all financial instruments held at fair value according to the method used to establish the fair value.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
At 31 December 2018				
Derivative asset	-	260,168	-	260,168
Derivative liability	-	-	-	-
At 31 December 2017				
Derivative asset	-	270,208	-	270,208
Derivative liability	-	-	-	-

YORKSHIRE BUILDING SOCIETY COVERED BONDS LLP

NOTES TO THE FINANCIAL STATEMENTS

12. FINANCIAL INSTRUMENTS (continued)

Market risk

Detail of how the Group manages market risk can be found in the financial statements of the LLP's parent Yorkshire Building Society.

The LLP has been established in such a way that market risk is minimal. Certain derivatives have been documented with notional principals that reference other financial instruments so as to maintain a neutral position.

Liquidity risk

Liquidity risk is managed at a Group level and is monitored on a daily basis by the independent Group Risk function. All liquidity risk in subsidiary companies, including the LLP, is eliminated by the use of appropriate inter-company loans and deposits. The table below illustrates the gross contractual cash flows on the LLP's financial liabilities.

	Repayable on demand and up to one year £000	In more than one year but not more than five years £000	More than five years £000	Total £000
At 31 December 2018				
Interest bearing loans and borrowings	19,431	2,346,727	-	2,366,158
Other payable	8,497	-	-	8,497
Total	27,928	2,346,727	-	2,374,655
At 31 December 2017				
Interest bearing and borrowings	798,381	1,372,049	445,334	2,615,764
Other payable	8,901	-	-	8,901
Total	807,282	1,372,049	445,334	2,624,665

Credit risk

Key concentrations of credit risk to the LLP are in respect of the loan to originator, and more generally, to Yorkshire Building Society in its role as the mortgage administrator and cash manager.

The LLP's financial statements are prepared on the basis that its acquisitions of beneficial interests in mortgage portfolios are recognised as a collateralised loan to the Originator.

To the extent that the mortgage loans in the portfolios do not provide sufficient funds to recover the LLP's investment in the mortgage portfolio, the LLP has no preferential claim on the assets of Yorkshire Building Society. To provide protection for the Covered Bond structure, additional mortgage loan collateral over and above the interest bearing loans and borrowings owed are held. Rating agencies govern the adequate level of this 'over-collateralisation' having considered the quality of the underlying pool of mortgage loans. As at 31 December 2018 the value of its investment in the mortgage portfolio is £3.1billion (2017 - £3.3billion) compared to outstanding interest bearing loans and borrowings of £2.3billion (2017 - £2.6billion).

The LLP's maximum gross exposure to credit loss is equal to the balance on the mortgage portfolio as shown above plus credit risk exposure to the deposit account balance within loans with credit institution and the derivative asset balance.

No further analysis has been provided on the credit quality of deemed loans as the balance is within the stage 1 ECL category, is less than 30 days past due and is deemed to be low risk.

YORKSHIRE BUILDING SOCIETY COVERED BONDS LLP

NOTES TO THE FINANCIAL STATEMENTS

12. FINANCIAL INSTRUMENTS (continued)

Interest rate risk

Interest rate risk is managed at a Group level and is monitored on a daily basis by the independent Group Risk function. The LLP is protected from the interest rate risk by the provision of interest rate swaps.

Currency risk

The LLP minimises currency risk by matching its currency financial assets and liabilities and through the use of cross currency interest rate swaps.

13. CAPITAL MANAGEMENT

	2018	2017
	£000	£000
Retained surplus	4,525	7,976
Total surplus	4,525	7,976

Capital is managed centrally in the Yorkshire Building Society Group. The entity is not subject to any externally imposed capital requirements.

The committee and the Board therefore believe that the current level of capital is appropriate for the LLP's activities.

YORKSHIRE BUILDING SOCIETY COVERED BONDS LLP

NOTES TO THE FINANCIAL STATEMENTS

14. RELATED PARTIES

The LLP is a special purpose LLP controlled by Yorkshire Building Society, one of the two designated members. The second designated member is YBS Covered Bonds Finance Ltd. Both members are subsidiary undertakings of Yorkshire Building Society. During the year, the LLP undertook the transactions set out below with companies within the Yorkshire Building Society Group.

The LLP has provided a loan to Yorkshire Building Society (the originator of the mortgages), on which the LLP receives income. In addition, the LLP pays cash management and mortgage loan servicing fees to Yorkshire Building Society in connection with its provision of services defined under the Programme Documentation. Yorkshire Building Society is the counterparty to the interest rate swap agreement, on which there is an associated interest benefit for the LLP.

Yorkshire Building Society has provided a series of term advances to the LLP, on which the LLP pays a variable rate of interest. Certain expenses, which are included in other professional and legal expenses, may subsequently be paid or reimbursed by Yorkshire Building Society.

	As at 31 December 2018	Interest receivable and similar income for the year ended 31 December 2018
Assets	£000	£000
Loan to originator	1,981,219	25,102

	As at 31 December 2018	Interest payable and similar charges for the year ended 31 December 2018
Liabilities	£000	£000
Interest bearing loans and borrowings	2,311,778	23,340

	As at 31 December 2017	Interest receivable and similar income for the year ended 31 December 2017
Assets	£000	£000
Loan to originator	2,245,002	27,549

	As at 31 December 2017	Interest payable and similar charges for the year ended 31 December 2017
Liabilities	£000	£000
Interest bearing loans and borrowings	2,567,887	48,028