Yorkshire Building Society Covered Bonds LLP

Registered Number: OC322580

Annual Report and Financial Statements

for the year ended 31 December 2022

Contents

Members and Partnership Information

Registered Number	OC322580
Members	Yorkshire Building Society YBS Covered Bonds Finance Limited Accord Mortgages Limited
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
Independent Auditors	PricewaterhouseCoopers LLP Central Square 29 Wellington Street Leeds LS1 4DL

Members' Report

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 2022.

Principal Activities

The LLP is a special purpose vehicle, operating in the United Kingdom. The principal activities of the LLP are summarised in the LLP Deed dated 1 November 2006 and are the acquisition and management of portfolios of mortgage loans and their related security and the collection of payments of principal and interest on these loans, funded by term loans.

Yorkshire Building Society (the 'YBS') administers the mortgage loans on behalf of the LLP. The LLP guarantees the obligations of YBS as issuer under a covered bond programme (the 'programme'). The assets available to meet the LLP's obligations under this guarantee are limited to the mortgage loans and their related security (the 'Cover Pool') that the LLP has acquired from YBS and its subsidiary Accord Mortgages Limited ('Accord'), in accordance with the terms of the Mortgage Sale Agreements. Under the terms of the transactions for the sale of the mortgage loans, and in order to provide over-collateralisation, YBS and Accord are legally treated as having made a capital contribution to the LLP in an amount equal to the difference between the current balance of the mortgage loans sold at transfer date and the cash payment made by the LLP for the mortgage loans and relevant security on that transfer date.

Under the LLP Deed, when YBS issues covered bonds it is required to lend the proceeds to the LLP by way of term loans and the LLP is required to use the term loan to acquire further mortgage loans to increase the size of the Cover Pool. The activities of the LLP are therefore dependent upon the future funding strategies of the YBS and its controlled entities ('the YBS Group').

The members have concluded that the risks and rewards of ownership of the mortgage loans substantially remain with YBS and Accord, due to the fact that the sale of the mortgage loans includes an element of capital contribution from YBS and Accord for overcollateralization and give YBS and Accord the entitlement to receive deferred consideration. As a result, the transfer of the ownership of the beneficial interest in the mortgages loans fails the derecognition criteria of IFRS 9 Financial instruments and the transfer is instead accounted for by YBS, Accord and the LLP as a financing transaction. As a result, notwithstanding the fact that the transaction is a sale transaction from a legal perspective, the LLP has not recognised the mortgage loans on its Statement of Financial Position but has instead recognised receivables from YBS and Accord (the 'deemed loans'). The deemed loans are supported by the mortgage loans and relevant security received from YBS and Accord of £7.8 billion, including over-collateralisation of £3.1 billion.

There has been no change in the principal activities during the year, and there are no changes expected to occur in future years.

Going Concern

The retained deficit reported in the current year of £4.3 million (2021: £16.2 million deficit) is wholly driven by fair value adjustments on derivatives which do not affect the liquidity of the LLP and are expected to reverse in future years. As there are no plans to terminate the operations of the LLP within the next year, the members of the LLP have a reasonable expectation that the LLP will have sufficient liquid resources available to continue in operation for the foreseeable future and be able to meet its obligations as they fall due. It is therefore considered 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 YBS, Accord and YBS Covered Bonds Finance Limited. In the event of YBS and Accord going into administration or liquidation, YBS Covered Bonds Finance Limited will appoint another member.

Members' Report (continued)

Financial Instruments

The LLP's financial instruments comprise term loans from YBS, deemed loans to YBS and Accord (equivalent to the value of the LLP's cash investment in YBS and Accord mortgages), liquid assets, derivatives and other receivables and payables that arise directly from its operations. The main purpose of the LLP and of all of these financial instruments is to help facilitate the raising of finance for the YBS Group.

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 to the financial statements (note 1).

Programme Performance

The programme performance is monitored monthly for financial and non-financial indicators including covenants and limits for managing risks. As at 31 December 2022, and throughout the year, the LLP complied with all covenants and limits that were in place. Further information is provided in a monthly investor report available from YBS's website (https://www.ybs.co.uk/your-society/treasury/index.html#funding-programmes).

The level of over-collateralisation is central to the contractual mechanics and to credit rating agency oversight. This is calculated using the Asset Coverage Test (ACT) which is carried out each month.

Members' Interests

The policy regarding the allocation of excess income to members and the treatment of capital contributions is set out within the accounting policies in note 1 to the financial statements.

Business Review

The LLP's business activities, together with the factors likely to affect the future development, performance and position are described below. The financial position of the LLP, its cash flows, liquidity position and borrowing facilities are disclosed in the financial statements. The LLP's objectives, policies and processes for managing its capital are described in note 14 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.

YBS and Accord are 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.

The financial performance and position of the YBS Group, which includes the LLP, are included in the YBS Group's annual report and accounts, available on the YBS website.

During the year £1,700 million Covered Bonds were issued and €500 million matured.

The LLP made a gain for the year of £11.9 million (2021: £11.2 million loss) arising from fair value changes on financial instruments.

Members' Report (continued)

Risk Management

Day to day risk management within the LLP is performed centrally by YBS management. The YBS Group maintains an independent risk management function that applies its risk management policies and techniques to the risks of the YBS Group as a whole, with appropriate risk management activities being deployed wherever risks arise.

The YBS Group, through its 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 reviewed internally and against external rating agencies regularly, with revocation or suspension taking place where considered appropriate. Wholesale related credit risks are reported and discussed monthly at the Asset and Liability Committee ("ALCO"). Market risk within the LLP is minimised by the use of loans and deposits with YBS.

The most significant retail credit risk that the YBS 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 deemed loans. A robust credit risk framework helps to ensure that lending remains within risk appetite limits. Adherence is monitored regularly through governance committees. The YBS 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 Director of Treasury. Its objective is to review and approve a number of reports relating to the Covered Bond programme, including investor reports, ALCO papers and Asset Coverage Test reports.

Audit Information

Each 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 auditors are unaware; and
- the member has taken all the steps that they ought to have taken as a member in order to make themselves aware of any relevant audit information and to establish that the LLP's auditors are aware of that information.

This confirmation is given within, and should be interpreted in accordance with, the provisions of section 418 of the *Companies Act 2006*.

Independent Auditors

PricewaterhouseCoopers LLP were approved and appointed as auditors by order of the Designated Members.

[redacted]

A Lenman	D Asker	N Young
on behalf of Yorkshire Building Society	on behalf of YBS Covered Bonds Finance Limited	on behalf of Accord Mortgages Limited
21 March 2023	21 March 2023	21 March 2023

Statement of Members' Responsibilities in Respect of the Financial Statements

The members are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law, as applied to limited liability partnerships by the *Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008* (the "Regulations"), requires the members to prepare financial statements for each financial year. Under that law the members have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) in conformity with the requirements of the *Companies Act 2006* as applied to limited liability partnerships.

Under company law, as applied to limited liability partnerships, members must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the LLP and of the profit or loss of the LLP for that period. In preparing the financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs in conformity with the requirements of the Companies Act 2006 as applied to limited liability partnerships have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the LLP will continue in business.

The members are also responsible for safeguarding the assets of the LLP and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The members are responsible for keeping adequate accounting records that are sufficient to show and explain the LLP's transactions and disclose with reasonable accuracy at any time the financial position of the LLP and enable them to ensure that the financial statements comply with the *Companies Act 2006*, as applied to limited liability partnerships.

The members are responsible for the maintenance and integrity of the LLP's financial statements published on the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

[redacted]

A Lenman on behalf of Yorkshire Building Society 21 March 2023	D Asker on behalf of YBS Covered Bonds Finance Limited 21 March 2023	N Young on behalf of Accord Mortgages Limited 21 March 2023

Independent Auditors' Report to the Members of Yorkshire Building Society Covered Bonds LLP

Report on the audit of the financial statements

Opinion

In our opinion, Yorkshire Building Society Covered Bonds LLP's financial statements:

- give a true and fair view of the state of the LLP's affairs as at 31 December 2022 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

We have audited the financial statements, included within the Annual Report, which comprise: the Statement of Financial Position as at 31 December 2022; the Income Statement, the Statement of Comprehensive Income, the Statement of Cash Flows and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the LLP in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the LLP's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the members' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the LLP's ability to continue as a going concern.

Our responsibilities and the responsibilities of the members with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The members are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

Independent Auditors' Report to the Members of Yorkshire Building Society Covered Bonds LLP (continued)

Report on the audit of the financial statements (continued)

Reporting on other information (continued)

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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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. We have nothing to report based on these responsibilities.

Responsibilities for the financial statements and the audit

Responsibilities of the members for the financial statements

As explained more fully in the Statement of Members' Responsibilities in Respect of the Financial Statements, the members are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The members are also responsible for such internal control as they 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 LLP'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 LLP or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the LLP and industry, we identified that the principal risks of non-compliance with laws and regulations related to any breach of the transaction documents, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate manual journal entries. Audit procedures performed by the engagement team included:

- Enquiries of management and those charged with governance including consideration of known or suspected instances of non-compliance with laws and regulations;
- Incorporation of an element of unpredictability in our testing through altering the nature, timing and/or extent of work performed;
- Testing, on a sample basis, that the priority of payments has been applied in accordance with the transaction documents; and
- Identifying and testing, using a risk-based approach, journal entries.

Independent Auditors' Report to the Members of Yorkshire Building Society Covered Bonds LLP (continued)

Report on the audit of the financial statements (continued)

Responsibilities for the financial statements and the audit (continued)

Auditors' responsibilities for the audit of the financial statements (continued)

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

This report, including the opinions, has been prepared for and only for the members of the partnership as a body in accordance with the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 as applicable to limited liability partnerships we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the LLP, 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.

We have no exceptions to report arising from this responsibility.

[redacted]

Andrew Batty (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
21 March 2023

Income Statement
for the year ended 31 December 2022

	Note	2022 £000	2021 £000
Interest revenue	3	90,550	22,921
Interest expense	4	(90,538)	(22,897)
Net interest income		12	24
Operating expenses	5	(12)	(24)
Operating result		-	-
Net gains/(losses) from financial instruments held at fair value	6	11,907	(11,184)
Profit/(loss) before tax		11,907	(11,184)
Profit/(loss) for the year for discretionary division among members		11,907	(11,184)

The profit shown above is derived from continuing operations.

Statement of Comprehensive Income
for the year ended 31 December 2022

Yorkshire Building Society Covered Bonds LLP has no other income or expense in the year other than the profit stated above (2021: £nil). As a result, the profit/(loss) for the year for discretionary division among members represents total comprehensive expense in both the current and the prior years.

The notes on pages 13 to 24 form part of these financial statements.

Statement of Financial Position

as at 31 December 2022

		2022	2021
Assets	**Note**	**£000**	£000
Deemed loans	7	4,454,723	3,278,149
Derivative financial instruments	13	13,752	67,662
Loans and advances to credit institutions		249,595	89,363
Intercompany assets		1,828	1,827
Total assets		**4,719,898**	3,437,001
Liabilities			
Interest bearing loans and borrowings	8	4,571,694	3,351,485
Other payables	9	-	17,346
Derivative financial instruments	13	152,534	84,407
Total liabilities		**4,724,228**	3,453,238
Equity			
Retained deficit	14	(4,330)	(16,237)
Total equity		**(4,330)**	(16,237)
Total liabilities and equity		**4,719,898**	3,437,001

The notes on pages 13 to 24 form part of these financial statements.

These financial statements were approved by the members and authorised for issuance on 21 March 2023 and were signed on their behalf by:

[redacted]

A Lenman	D Asker	N Young
on behalf of Yorkshire Building Society	on behalf of YBS Covered Bonds Finance Limited	on behalf of Accord Mortgages Limited
21 March 2023	21 March 2023	21 March 2023

Statement of Changes in Equity
for the year ended 31 December 2022

	Retained Earnings	Total
	£000	£000
Balance at 1 January 2022	(16,237)	(16,237)
Profit for the financial year	11,907	11,907
Balance at 31 December 2022	**(4,330)**	**(4,330)**
Balance at 1 January 2021	(5,053)	(5,053)
Loss for the financial year	(11,184)	(11,184)
Balance at 31 December 2021	(16,237)	(16,237)

The notes on pages 13 to 24 form part of these financial statements.

Statement of Cash Flows

for the year ended 31 December 2022

	Note	2022 £000	2021 £000
Cash flows from operating activities			
Profit/(loss) before tax		11,907	(11,184)
Operating assets:			
Net (increase) in deemed loans		(1,176,574)	(37,047)
Net decrease in derivative financial instruments		53,910	131,023
Net (increase) in intercompany assets		(1)	(1,827)
Operating liabilities:			
Net (decrease) in loans and borrowings	10	(122,791)	(168,085)
Net increase in other payables		17,346	4,739
Net increase in derivative financial instruments		68,127	75,543
Net cash flows used in operating activities		**(1,182,768)**	(6,838)
Cash flows from financing activities			
Proceeds from loans and borrowings	10	1,700,000	427,600
Redemption of loans and borrowings	10	(357,000)	(431,795)
Net cash flows generated/(used in) from financing activities		**1,343,000**	(4,195)
Net increase/(decrease) in cash and cash equivalents		**160,232**	(11,033)
Opening balance		89,363	100,396
Total closing cash and cash equivalents		**249,595**	89,363

The notes on pages 13 to 24 form part of these financial statements.

Notes to the Financial Statements

1. Significant Accounting Policies

Yorkshire Building Society Covered Bonds LLP (the LLP) is a special purpose vehicle whose business is the acquisition and management of portfolios of mortgage loans and their related security and the collection of payments of principal and interest on these loans, funded by term loans. 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 accounting standards, being International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standards Board (IASB) endorsed by the UK Endorsement Board and effective from 1 January 2021.

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of derivative financial instruments as described below. Pounds sterling is both the functional currency of the LLP and the presentation currency applied to these financial statements. Except where otherwise stated, all figures in the financial statements are presented in thousands of pounds sterling (£000).

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 described in Note 2.

Accounting Developments

Changes to Accounting Standards Effective in the Period

Various IFRS amendments became mandatorily effective for periods commencing on or after 1 January 2022 none of which have had any material impact on the disclosures or on the amounts reported in these financial statements.

Standards issued but not yet effective

The following standards or amendments were in issue but were either optional, or not yet effective, and have not been adopted in these financial statements.

IFRS 9 *Financial Instruments* was issued in 2014 as a replacement of IAS 39 *Financial Instruments: Recognition and Measurement* and was mandatorily effective for periods beginning on or after 1 January 2018. However, IFRS 9 did not replace the requirements for portfolio fair value hedge accounting for interest rate risk since this phase of the project was separated out due to its longer-term nature.

As a result, IFRS 9 included a transitional relief allowing the continued use of the hedge accounting requirements of IAS 39, and the LLP continue to adopt this approach.

The development of requirements will be closely monitored and the Group will continue to assess the impacts of full adoption of IFRS 9 for hedge accounting.

IFRS 17 *Insurance Contracts* is the comprehensive standard establishing recognition and measurement requirements for insurance contracts. It is expected that this standard will be effective for periods beginning on or after 1 January 2023. Its adoption will have no impact on these financial statements.

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

Interest revenue and expense

Interest revenue and expense on financial instruments are recognised in the Income Statement using the effective interest rate basis being 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

The LLP is not subject to UK Corporation Tax and therefore no tax impacts on transactions are recognised in the financial statements.

Notes to the Financial Statements (continued)

1. Significant Accounting Policies (continued)

Operating Expenses

The LLP pays cash management and mortgage loan servicing fees to Yorkshire Building Society (YBS), the LLP's controlling entity. These fees are recognised as incurred.

Financial Instruments

The LLP's financial instruments comprise term loans from YBS, deemed loans to YBS and Accord (equivalent to the value of the LLP's cash investment in YBS and Accord mortgages), liquid assets, derivatives that arise directly from its operations. The main purpose of these financial instruments is to raise finance for YBS to offer mortgages to customers and to manage interest rate and currency risk.

Financial instrument	Significant terms and conditions	Accounting treatment
Deemed loans – between the LLP and YBS and between the LLP and Accord, equivalent to the LLPs cash investment in the mortgage loans transferred under the Mortgage Sale Agreement.	Long term. Fixed and variable interest rate via look through to the underlying mortgage loans. Incorporating deferred consideration, being excess income due to YBS and Accord after servicing of debt securities in issue.	Amortised cost.
Derivative financial instruments – purchased to manage cross currency interest rate risk within the LLP.	Medium term. Value derived from underlying price or rate.	Fair value through profit or loss.
Loans and advances to credit institutions – a liquidity account to facilitate payments under the Secured Funding Programme.	Short-term. Variable interest rates.	Amortised cost.
Interest bearing loans and borrowings – amount due to YBS equivalent to the covered bond securities issued to external investors.	Long term. Fixed interest rate.	Amortised cost except where hedge accounting allows a fair value adjustment to be made.

Deemed loans

The members have concluded that the risks and rewards of ownership of the mortgage loans substantially remain with YBS and Accord, due to the fact that the sale of the mortgage loans includes an element of capital contribution from YBS and Accord for overcollateralization and give YBS and Accord the entitlement to receive deferred consideration. As a result, YBS and Accord do not qualify for derecognition of these loans in their financial statements and therefore the LLP does not recognise the transferred mortgage assets on its Statement of Financial Position. Instead, the transfer is accounted for by YBS, Accord and the LLP as a financing transaction, with the LLP derecognising the cash, or other consideration paid, and recognising a receivable from YBS or Accord (as relevant) as a 'deemed loan'. As a result, notwithstanding the fact that the transaction is a sale transaction from a legal perspective, the LLP has not recognised the mortgage loans on its Statement of Financial Position but has instead recognised receivables from YBS and Accord (the 'deemed loans'). On the basis that the deemed loans are to be held for collection of the underlying contractual cash flows and the cash flows are deemed to represent solely payments of principal and interest ('SPPI'), they are measured at amortised cost.

The day 1 value of the deemed loan represented the initial cash consideration paid to YBS or Accord to acquire the beneficial interest in the mortgage loans. It is subsequently adjusted due to any subsequent mortgage loan sales, capital repayments on the mortgage loans and deferred consideration payable by the LLP to YBS or Accord.

Notes to the Financial Statements (continued)

1. Significant Accounting Policies (continued)

Deemed loans (continued)

The LLP recognises principal and interest cash flows from the mortgage loans only to the extent that it is entitled to retain such cash flows under the transaction documents. After all payments required under the transaction documents have been made, all excess income is returned to YBS or Accord as deferred consideration under the terms of the Mortgage Sale Agreement. The interest income recognised in relation to the deemed loans is therefore limited to that proportion of interest income on the mortgage loans that the LLP is entitled to retain in order to make payments under the transaction documents. Income in excess of this is not recognised by the LLP as it has no entitlement to it and must return it to YBS or Accord, as relevant.

To manage interest rate risk the LLP holds interest rate swap derivative financial instruments with YBS that swap the fixed rate on the underlying mortgages to a floating rate that matches those to which the term loans are exposed. Whilst having separate legal form, these transactions were entered into at the same time as the Mortgage Sale Agreement, relate to the same set of underlying cash flows and there is no apparent economic need or substantive business purpose for structuring the transactions separately that could not have been accomplished as a single transaction. As a result, cash flows arising from these derivative transactions are accounted for on an accruals basis as part of the Deemed loan.

Impairment of the deemed loans

Under IFRS 9 the LLP assesses, on a forward-looking basis, the expected credit losses (ECL) associated with the deemed loans. The LLP treats the deemed loans as a single unit of account but makes an assessment of the performance of the loans by reference to the beneficial interest in the mortgage loans which, in effect, collateralise the deemed loans.

The deemed loans do not result in a day one ECL being booked, as the 12-month ECL on day 1 was determined to be immaterial. Unlike other financial instruments, the deemed loans are, by their construction, instruments that incorporate over-collateralisation. Expected losses for a deemed loan would only be recognised where the ECLs on the underlying mortgage loans were large enough that no over-collateralisation remained.

Derivative financial instruments

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

In addition to the interest rate swaps with YBS described above, the LLP also holds external cross currency swap agreements to hedge the economic risk of the Euro exchange rate moving unfavourably when the relevant term loans are redeemed. These are initially held at fair value and any movements in this are recorded 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 cross currency swaps is accounted for under the effective interest rate method within interest income and expense in the Income Statement.

Contributions

Under the terms of the transaction for the sale of the mortgage loans, including the LLP Deed, YBS and Accord are legally treated as having made a capital contribution to the LLP in an amount equal to the difference between the current balance of the loans sold at transfer date and the cash payment made by the LLP for the loans and relevant security on that transfer date (the over-collateralisation).

These capital contributions have not been recorded in these financial statements, as the transfer of the mortgage loans failed the derecognition criteria as described above.

Capital distributions may only be made in accordance with the LLP Deed where sufficient principal receipts are available and higher priority payments in accordance with the transaction documents have been made.

Notes to the Financial Statements (continued)

1. Significant Accounting Policies (continued)

Loans and advances to credit institutions

The LLP places available revenue and principal receipts on mortgage loans into a deposit account with an external credit institution. Withdrawals from this account are restricted by the detailed priority of payments set out in the Covered Bond 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. However, it is considered as cash for the purposes of the Statement of Cash Flows.

The LLP is contractually entitled to a variable rate of interest of SONIA.

Interest bearing loans and borrowings

Interest bearing loans and borrowings comprise a series of term advances from YBS, equivalent to the amounts raised under its covered bonds programme.

YBS does not rely on repayment of these term advances, or the interest thereon, in order to meet its repayment or interest obligations to covered bond investors. 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 under the term loans will be subordinated to amounts owed by the LLP under the Covered Bond Guarantee described below.

The covered bonds are unconditionally guaranteed by YBS. Under the terms of the Trust Deed, the LLP has also provided a guarantee of payments of interest and principal to covered bond investors should these be unpaid by YBS. The obligations of the LLP under its guarantee constitute direct obligations of the LLP secured against its assets, primarily the beneficial interest in the mortgage loans acquired from YBS. In this respect, the LLP treats the above guarantee contract as a contingent liability unless such time arises as it becomes probable that the LLP will be required to make a payment under the guarantee.

Interest bearing loans and borrowings are recognised initially at fair value, being the amount advanced, and subsequent measured at amortised cost with amounts being recognised in Income Statement under the effective interest rate method.

Hedging

All derivatives entered into by the LLP are for the purposes of providing an economic hedge. Hedge accounting is applied when the specific accounting standard rules and conditions 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.

Foreign currency

Assets and liabilities denominated in foreign currencies are translated into Sterling at the appropriate rates of exchange prevailing at the reporting date and exchange differences are recognised in the Income Statement. All income and expense are translated into Sterling at the rate of exchange on the day of receipt or payment.

Notes to the Financial Statements (continued)

2. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The LLP makes the following critical accounting judgements in applying its accounting policies that have a significant impact on the amounts recognised in the financial statements.

Classification and measurement of the deemed loans

The LLP accounts for 'deemed loans', because whilst the legal form of the arrangements giving rise to them was an asset sale, the substance of the arrangement is a secured funding transaction. As noted above, the members have concluded that the deemed loans should be measured at amortised cost under IFRS 9, having assessed the business model and underlying cash flows against the relevant criteria below:

Business model test: Given the nature of the LLP's activities, the applicable business model was identified as being one that holds to collect the cash flows of the deemed loans.

SPPI test: It was then necessary to confirm that cash flows received in respect of the deemed loans represent SPPI. IFRS 9 does not provide specific guidance on assessing the SPPI criterion for deemed loan assets. Furthermore, a deemed loan does not have a single contract which sets out its contractual terms, but instead is formed from elements of different contracts that give rise to the deemed loan. It is therefore necessary to determine what the contractual terms of the deemed loan are by considering the various contractual rights and obligations that the deemed loan represents. This requires consideration of the terms of the underlying assets, as well as any associated instruments to determine which of the cash flows of the underlying assets are incorporated into the deemed loan.

In assessing SPPI the members concluded that, given the level of over-collateralisation inherent in the deemed loans, the LLP is not deemed to be materially exposed to external risks other than credit risk associated with the mortgage loans. As a result, the members concluded that the deemed loan does not violate the SPPI test and therefore should be measured at amortised cost under IFRS 9.

Determining a significant increase in credit risk under IFRS 9

In determining whether there has been a significant increase in credit risk, the LLP considers both qualitative and quantitative criteria. The qualitative criteria include the IFRS 9 staging of the mortgages that collateralise the deemed loans, the eligibility criteria for selection under the Covered Bond covenants and the degree of over-collateralisation available in the structure. Given the credit rating of the Covered Bonds in issue is considered to represent a reasonable proxy for the expected performance of the mortgage pool, the quantitative trigger is considered to be a reduction in the credit rating of the Covered Bonds below Aa3. At the year-end date and the date of signing these financial statements, the credit rating of the Covered Bonds was AAA (Fitch) and Aaa (Moody's).

The assessment of a significant increase in credit risk and the calculation of ECL both incorporate forward looking information and therefore require significant management judgement. The impairment of the underlying mortgage portfolio itself does not result in the impairment of the deemed loan. This is due to the credit enhancement incorporated into the deemed loan as its recoverability is dependent on the collections from the underlying mortgage loans. Due to the levels of over-collateralisation the income from the underlying mortgage loans is expected to exceed the obligations associated with the liabilities prior, leaving excess income to be paid back to the YBS and Accord as deferred consideration. To date, the credit enhancement has remained more than sufficient to cover the one loss which has arisen on a mortgage loan since the structure began.

Applying the above criteria, given the headroom available, the probability of default ('PD') on the deemed loans is considered to remain close to zero, and the deemed loan is deemed to fall within stage 1 of the ECL model. As such, on the basis of materiality, no 12-month ECL has been recognised in the financial statements (2021: £nil).

Estimates and assumptions are used which could affect the reported amounts of assets and liabilities. The most critical key source of estimation uncertainty relates to fair value.

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 internal valuations, which is the best estimate of the exit value of the derivatives. This is analysed further in Note 11 and Note 13.

Notes to the Financial Statements (continued)

3. Interest Revenue

	2022	2021
	£000	£000
On deemed loans	88,454	21,773
On other liquid assets	2,025	-
Derivative financial instruments in hedge relationships	71	1,148
	90,550	22,921

4. Interest Expense

	2022	2021
	£000	£000
On deposits from connected undertakings	55,202	15,566
On derivative financial instruments in hedge relationships	35,336	7,331
	90,538	22,897

5. Operating Expenses

	2022	2021
	£000	£000
Servicer fees	12	24
	12	24

Fees payable of £15,500 (2021: £14,000) to the LLP's auditors for the audit of the LLP's annual financial statements have been borne by Yorkshire Building Society, the LLP's controlling entity. There were no other fees paid to the auditors.

6. Net gains/(losses) from financial instruments held at fair value

The following shows the ineffectiveness in relation to the hedging relationships designated by the LLP:

	2022	2021
	£000	£000
Derivative financial instruments and hedging	11,907	(11,184)
	11,907	(11,184)

7. Deemed Loans

	2022	2021
	£000	£000
At 1 January	3,278,149	3,241,102
Pool additions	3,199,455	1,627,394
Repayments	(1,976,969)	(1,590,347)
Deferred Consideration	(45,912)	-
At 31 December	**4,454,723**	3,278,149

The deemed loans are expected to be repaid on the final maturity date of the interest bearing loans.

As deferred consideration is considered to be a key component of the credit enhancement provided in the transaction, the deferred consideration accrual at the year-end has been included within the Deemed loan on the Statement of Financial Position, but in the prior year was included within Other Payables. The comparative period has not been restated on the basis of materiality.

Notes to the Financial Statements (continued)

8. Interest Bearing Loans and Borrowings

The amounts due to Yorkshire Building Society mature on the following dates:

Covered Bond	Maturity Date	Interest Rate	2022 £000	2021 £000
11	10 November 2022	Fixed 0.750%	-	420,570
12	11 April 2023	Fixed 0.375%	444,447	421,269
13	20 November 2023	Compounded Daily SONIA + 0.60%	501,997	500,388
14	08 May 2024	Fixed 0.125%	443,604	420,469
15	21 November 2024	Compounded Daily SONIA + 0.58%	752,979	750,525
16	13 October 2027	Fixed 0.01%	443,255	420,139
17	16 November 2028	Fixed 0.01%	443,251	420,135
18	18 January 2027	Compounded Daily SONIA + 0.27%	503,077	-
19	30 March 2026	Compounded Daily SONIA + 0.42%	600,063	-
20	23 May 2028	Compounded Daily SONIA + 0.50%	602,218	-
Fair value hedging adjustments			(163,197)	(2,010)
			4,571,694	3,351,485

See Note 12 for maturity analysis of Loans and Borrowings.

9. Other Payables

	2022 £000	2021 £000
Deferred consideration	-	17,346
	-	17,346

10. Notes to the Statement of Cash Flows

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.

Reconciliation of liabilities arising from financing activities

		Cash flows		Non-cash changes caused by			
Loans and Borrowings	**Brought forward £000**	Redemption £000	Issue £000	Foreign exchange £000	Accrued interest £000	Fair value adjustment £000	**Carried forward £000**
2022	**3,351,485**	**(357,000)**	**1,700,000**	**29,330**	**9,066**	**(161,187)**	**4,571,694**
2021	3,523,765	(431,795)	427,600	(144,605)	(3,207)	(20,273)	3,351,485

Notes to the Financial Statements (continued)

11. Fair Values

The following is a comparison of the carrying value and fair values of the LLP's financial instruments held at amortised cost. 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.

	2022		2021	
	Carrying Value £000	**Fair Value £000**	Carrying Value £000	Fair Value £000
Assets				
Deemed Loans	4,454,723	4,565,023	3,278,149	3,369,766
Loans and advances to credit institutions	249,595	249,595	89,363	89,363
Liabilities				
Loans and borrowings	4,571,694	4,577,012	3,351,485	3,320,522
Other payables	-	-	17,346	17,346

The fair value of both the deemed loan and the loans and borrowings has been derived by reference to the fair value of the covered bonds issued by YBS, the proceeds of which were lent on back to back terms to the LLP. Accordingly, both the deemed loan and the loans and borrowings are considered to be level 2 per the accounting standard definition below. For the loans and advances to credit institutions and other payables amortised cost is considered to be a close approximation to fair value.

The fair value of 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. This is deemed to be level 2 per the following accounting standard definition of fair value inputs.

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).

	Fair Value			
	Level 1 £000	**Level 2 £000**	**Level 3 £000**	**Total £000**
As at 31 December 2022				
Derivative asset	-	13,752	-	**13,752**
Derivative liability	-	152,534	-	**152,534**
31 December 2021				
Derivative asset	-	67,662	-	67,662
Derivative liability	-	84,407	-	84,407

Notes to the Financial Statements (continued)

12. Risk Management Policy and Control

The principal risks arising from the LLP's financial instruments (both assets and liabilities) are market, liquidity, credit, interest rate and currency risk. The principal nature of such risks are summarised below.

Market risk

The LLP has been established in such a way that market risk is minimal. Certain derivatives have been placed into hedge relationships to maintain a neutral position.

Liquidity risk

Liquidity risk is managed at YBS 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 up to one year £000	Repayable between one and five years £000	More than five years £000	Total £000
31 December 2022				
Loans and borrowings	1,022,512	2,890,378	1,059,000	4,971,890
Other payables	-	-	-	-
Total	**1,022,512**	**2,890,378**	**1,059,000**	**4,971,890**
31 December 2021				
Loans and borrowings	433,523	2,105,990	840,386	3,379,899
Other payables	17,346	-	-	17,346
Total	450,869	2,105,990	840,386	3,397,245

The LLP's ability to meet payments on the term loans as they fall due is dependent on timely receipt of funds from the deemed loans to YBS and Accord.

Principal repayments are made on the term loans with YBS in accordance with the LLP's principal priority of payment. In the event that the LLP does not have sufficient cash flows from the underlying mortgage loans in order to be able to repay the term loans as and when they fall due, YBS may be required to make a cash capital contribution, extend the repayment of the term loans for up to 12 months or sell mortgages from the mortgage pool in accordance with the terms of the transaction documents.

Credit risk

Key concentrations of credit risk to the LLP are in respect of the deemed loans, 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 deemed collateralised loan to the originators, YBS and Accord. Therefore, ultimately, the LLP's exposure to credit risk primarily relates to that associated with the underlying mortgage borrowers. For the LLP, credit risk is additionally mitigated by the over-collateralisation of the beneficial interest in mortgages and by eligibility for selection under the Covered Bond covenants.

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 either YBS or Accord. To provide protection for the Covered Bond structure, additional mortgage loan collateral over and above the loans and borrowings owed are held. Rating agencies have determined that level of this 'over-collateralisation' is adequate given the quality of the underlying pool of mortgage loans.

As at 31 December 2022 the value of the dedicated mortgage pool held by the LLP, backing the covered bond programme, is £7.8 billion (2021: £5.8 billion) compared to the covered bonds issued of £4.7 billion (2021: £3.4 billion).

Notes to the Financial Statements (continued)

12. Risk Management Policy and Control (continued)

Credit risk (continued)

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 expected credit loss category, is less than 30 days past due and is deemed to be low risk due to the level of over-collateralisation held.

Credit Valuation Adjustments (CVA) and Debit Valuation Adjustments (DVA) are incorporated into the fair value of derivative valuations to reflect the impact of counterparty credit risk and the Group's own credit quality respectively for uncollateralised derivatives.

Interest rate risk

The LLP is protected from interest rate risk as a result of the interest rate swap with YBS. As a result of the swap the LLP's interest revenue and interest expense is economically hedged and it therefore has no material sensitivity to changes in interest rates.

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 and therefore there is no sensitivity to changes in foreign exchange rates.

13. Derivative Financial Instruments

The principal derivatives used in balance sheet risk management are external cross currency interest rate swaps.

The foreign currency and interest rate risk associated with the EUR debt is mitigated by the use of cross currency swaps, which exchange fixed interest payments in the foreign currency for floating interest payments in GBP. These derivatives hedge the specific loans from YBS (equivalent to the covered bonds issued by YBS) and are in fair value micro hedge relationships where the hedging ratio of 1:1 is established by matching the notional and maturity profile of these instruments to the loans being hedged.

The foreign currency risk component is determined as the change in cash flows of the foreign currency debt arising solely from changes in the relevant foreign currency exchange rate. The interest rate risk component is determined as the change in fair value of the debt arising solely from changes in the benchmark rate of interest. Such changes are usually the largest component of the overall change in fair value. This strategy is designated as a fair value hedge and its effectiveness is assessed by comparing changes in the fair value of the debt attributable to changes in the hedged risk(s) with changes in the fair value of the hedging derivatives.

Possible sources of ineffectiveness are as follows:

- differences in discounting approach between the hedged item and hedging instrument, including the cross-currency basis spread applied in the valuation of cross currency swaps;
- hedging derivatives with a non-zero fair value at the date of initial designation as a hedging instrument;
- difference in the designated coupon rate % of the hedged liability and the hedging derivative; and
- counterparty credit risk which impacts the value of uncollateralised cross currency swaps but not the hedged items.

Notes to the Financial Statements (continued)

13. Derivative Financial Instruments (continued)

The following tables summarise the notional and fair value of all derivative financial instruments and the hedging designations in place at that date:

	Contract / Notional amount	Fair values		Change in fair value used for calculating ineffectiveness
		Assets	Liabilities	
	£000	£000	£000	£000
2022				
Cross currency interest rate swaps	1,772,980	13,752	152,534	(149,280)
2021				
Cross currency interest rate swaps	2,100,650	67,662	84,407	(31,457)

The following tables show the maturity profile, by notional amount, of the hedging instruments designated in hedge relationships:

	Repayable up to one year £000	Repayable between one and five years £000	More than five years £000	Total £000
2022				
Cross currency interest rate swaps	443,245	886,490	443,245	**1,772,980**
2021				
Cross currency interest rate swaps	420,130	840,260	840,260	2,100,650

The following table shows the average price/rate of the hedging instruments by maturity:

	2022			2021		
	Repayable up to one year	**Repayable between one and five years**	**More than five years**	Repayable up to one year	Repayable between one and five years	More than five years
Average fixed interest rate (%)						
Cross currency interest rate swaps	**0.38**	**0.07**	**0.01**	0.75	0.25	0.01
Average EUR:GBP FX rate						
Cross currency interest rate swaps	**1.17**	**1.13**	**1.17**	1.40	1.16	1.13

14. Capital Management

Capital is managed centrally at the YBS Group level. The entity is not subject to any externally imposed capital requirements.

The retained deficit at 31 December 2022 of £4.3 million (2021: £16.2 million deficit) is wholly driven by fair value adjustments on derivatives which do not affect the liquidity of the LLP and are likely to reverse in future years.

Notes to the Financial Statements (continued)

15. Related Parties

Designated members

The LLP has three designated members; Accord Mortgages Limited, Yorkshire Building Society and YBS Covered Bonds Finance Limited, itself a controlled entity of YBS. All members are therefore related parties of the LLP, along with other members of the YBS Group. All entities are incorporated in the UK and registered in England and Wales.

Controlling entities

The ultimate parent undertaking is Yorkshire Building Society. Copies of the Group accounts can be obtained from: *Yorkshire Building Society, Yorkshire House, Yorkshire Drive, Bradford, BD5 8LJ* or on its website: *www.ybs.co.uk/your-society/financial-results/index.html*

Other related party transactions

During the year, the LLP undertook the transactions set out below entities within the YBS Group. The LLP has recognised two deemed loans to its members, one to Accord and another to YBS, on which it receives income. In addition, the LLP pays cash management and mortgage loan servicing fees to YBS in connection with its provision of services defined under the Programme Documentation. YBS is the counterparty to an interest rate swap agreement, on which there is an associated interest benefit for the LLP.

YBS 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 YBS.

	Carrying value £000	Interest revenue £000	Interest expense £000
31 December 2022			
Assets			
Deemed Loans	4,454,723	88,454	-
Liabilities			
Loans and borrowings	4,571,694	-	55,202
31 December 2021			
Assets			
Deemed Loan	3,278,149	21,773	-
Liabilities			
Loans and borrowings	3,351,485	-	15,567

Yorkshire Building Society and Accord Mortgages Limited 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 deemed loan, being £4,454,723,000 at 31 December 2022 (2021: £3,278,149,000).