

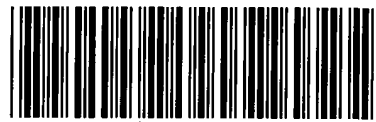
**BRASS No.5 PLC**

**Registered Number: 09728202**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**PERIOD FROM 11 AUGUST 2015 TO 31 DECEMBER 2016**

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## Brass No.5 PLC

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Brass No.5 PLC

**Registered Number: 09728202**

**DIRECTORS AND COMPANY INFORMATION**

<b>Directors</b>	Wilmington Trust SP Services (London) Limited Mr M H Filer
<b>Company Secretary</b>	Wilmington Trust SP Services (London) Limited
<b>Registered Office</b>	c/o Wilmington Trust SP Services (London) Limited Third Floor 1 King's Arms Yard London EC2R 7AF
<b>Bankers</b>	Barclays Bank PLC London Corporate Banking Broadgate 1 Churchill Place London
<b>Auditor</b>	Deloitte LLP Chartered Accountants and Statutory Auditors Leeds LS1 2AL United Kingdom

## **STRATEGIC REPORT**

### **REVIEW OF THE BUSINESS**

The Company was incorporated on 11 August 2015 and commenced trading on 18 November 2016. On that date the company purchased the beneficial ownership of mortgage loans from Accord Mortgages Limited. The mortgage loans were acquired using funds obtained by the issue of floating rate notes.

Since the initial transaction, the deemed loan assets have decreased in line with the mortgage portfolio they reflect, the decrease being due to the mortgage repayments received during the period.

Due to repayments decreasing the capital value of the mortgages each period, both the balance sheet and interest income will decrease in future periods. The rate of decrease is dependent on future redemptions and future advances.

Brass No.5 PLC made a loss for the period 11 August 2015 to 31 December 2016 of £9.0m. The Company is structured such that any realised profits or losses are transferred to the owner of the underlying assets, which is Accord Mortgages Limited. Brass No.5 PLC is therefore not expected to generate distributable profits or accumulated losses from the point of incorporation through to the repayment of all issued debt securities. The profit recorded relates primarily to the movement on fair value of the derivative positions and as such is a timing difference that will be recovered in subsequent periods. The derivative position provides an economic hedge to the interest rate risk inherent in the deemed loan.

For the period since trading commenced on 18 November 2016 to 31 December 2016 profit before fair value adjustments was £189. The directors do not propose the payment of a dividend.

### **RISK MANAGEMENT**

Instruments used for risk management purposes are set up at inception of the securitisation and include derivative financial instruments, such as interest rate swaps. This reflects the overall low risk appetite of the Company. After inception no significant decisions regarding the risk management of the Company are required.

The financial risks faced by the Company are liquidity risk, interest rate risk and credit risk. A summary of these risks is included below and more detail regarding the management of these risks is included in note 15 to the financial statements.

Credit risk on the Company's deemed loan assets is however, considered to be minimal because management does not expect the amount of incurred credit losses on the Originator's securitised loans and advances to customers to exceed the amount of credit enhancement supplied by Accord Mortgages Limited by their holding of the subordinate Class Z Variable Funding Notes.

## **STRATEGIC REPORT (continued)**

### **RISK MANAGEMENT (continued)**

The interest rate risk inherent in the Company's mortgage portfolio has been hedged through the effective use of derivative financial instruments managed by the Yorkshire Building Society Group ("the Group"). The responsibility for mitigating this risk within the agreed risk appetite is the responsibility of Group Treasury. Group Asset & Liability Management (ALM) also monitors the suitability of and compliance with the operating limits set for the activities of the Group's Treasury function by the Board, and it reports and recommends accordingly.

Operational risk is the potential risk of financial loss or impairment to reputation arising from failures in operational processes or the systems that support them. To minimise operational risk, the Group maintains a system of internal controls commensurate with the characteristics of the business, the markets in which it operates, leading practice principles and regulatory considerations.

The Group Operational and Regulatory Risk Committee oversees the functioning of the operational risk framework and compliance with regulatory requirements. The Group aims to maintain a sound system of internal control that provides reasonable, but not absolute, assurance that it will not be hindered in achieving its business objectives, nor in the orderly and legitimate conduct of its business, by circumstances that may be reasonably foreseen. The focus is adapted to current conditions. For example, recent years have seen the development of more refined conduct risk strategies and controls in response to increasing expectations of regulatory authorities.

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due, or can only do so at excessive cost. Liquidity risk arises on the Company's debt securities in issue. The Company is only obliged to make repayments of interest and principal in respect of the Notes to the extent that repayments are received from the mortgage servicer in respect of the securitised Mortgage Loans.



Mark Filer for and on behalf of  
Wilmington Trust SP Services (London) Limited

27 February 2017

## **DIRECTORS' REPORT**

The directors present their report and audited financial statements of the Brass No. 5 PLC ("the Company") (Registered No 09728202) for the period from incorporation on 11 August 2015 to 31 December 2016.

## **PRINCIPAL ACTIVITIES**

Brass No.5 PLC is a company incorporated in England and Wales with the principal activity as that of a securitisation vehicle with beneficial ownership of mortgage loans secured by first charges over residential properties within the UK.

The company was incorporated on 11 August 2015 and shares were issued to the principal shareholder as disclosed in note 14. The company commenced trading on 18 November 2016.

The beneficial ownership of the loans and advances to customers sold to the Company by Accord Mortgages Limited, a wholly owned subsidiary of the Yorkshire Building Society, fail the derecognition criteria of International Accounting Standard (IAS) 39 and consequently, these loans remain on the balance sheet of the originator. IAS 39, therefore, requires the seller to recognise a deemed loan financial liability on its Statement of Financial Position and the resulting deemed loan asset is held on the purchasing Company's Statement of Financial Position.

## **DIRECTORS AND THEIR INTERESTS**

The directors who held office during the period and to the date of this report are given below,

- Wilmington Trust SP Services (London) Limited – appointed on 11 August 2015
- Mr M H Filer – appointed on 11 August 2015

No director had a beneficial interest in the share capital of the Company or any other company in the Yorkshire Building Society Group at any time during the period under review.

## **GOING CONCERN**

The earliest contractual maturity of the debt securities in issue is 16 November 2021, when the balance outstanding on the notes may be repaid, dependent on the optional early redemption of notes clause being exercised. Prior to this option date, repayment of debt securities is required only to the extent that mortgage repayments are received and transferred to Brass No.5 PLC. Consequently, the directors are satisfied that the company will have sufficient liquid resources available over the next twelve months to meet its obligations as they fall due and that it is appropriate to adopt the going concern basis in preparing the financial statements.

## **DIRECTORS' REPORT (continued)**

### **AUDIT INFORMATION**

Each of the persons who is a director at the date of approval of this annual report confirms that:

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

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to re-appoint them will be proposed at the forthcoming AGM.



Mark Filer for and on behalf of  
Wilmington Trust SP Services (London) Limited

27 February 2017

## **DIRECTORS' RESPONSIBILITIES STATEMENT**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union [and Article 4 of the IAS Regulation] and have also chosen to prepare the parent Company financial statements under IFRSs as adopted by the EU. Under Company law the directors 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 Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- 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; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



## **DIRECTORS' RESPONSIBILITIES STATEMENT (continued)**

### **Responsibility statement**

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the board of directors on 27 February 2017 and is signed on its behalf by:



Mark Filer for and on behalf of  
Wilmington Trust SP Services (London) Limited

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRASS No.5 PLC**

We have audited the financial statements of Brass No.5 PLC for the period 11 August 2015 to 31 December 2016 which comprise the Income Statement, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows, and the related notes 1 to 18. 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.

This report is made solely to the company'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 company'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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the period 11<sup>th</sup> August 2015 to 31 December 2016.
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRASS No.5 PLC**  
**(continued)**

**Opinion 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you 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 directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



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

27 February 2017

# Brass No.5 PLC

## INCOME STATEMENT

PERIOD 11 AUGUST 2015 TO 31 DECEMBER 2016

	Note	£000
Interest receivable and similar income	3	2,543
Interest payable and similar charges	4	(2,530)
<b>Net interest income</b>		<b>13</b>
Administrative expenses	5	(13)
<b>Operating profit</b>		<b>-</b>
Net loss on fair value volatility on financial instruments	6	(9,043)
<b>Loss for the period</b>		<b>(9,043)</b>
Tax	7	-
<b>Loss for the period</b>		<b>(9,043)</b>

The Loss shown above is derived from continuing operations.

The Company has no income or expenditure in the period other than the loss stated above. Consequently no Statement of Comprehensive Income has been presented.

The notes on pages 14 to 27 form part of these financial statements.


Registered Number: 09728202

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2016**

	Note	31 December 2016 £000
<b>Assets</b>		
Cash and cash equivalents	8	66,284
Deemed loans to group undertakings	9	2,492,244
Other receivables	10	12
<b>Total assets</b>		<u>2,558,540</u>
<b>Liabilities</b>		
Debt securities in issue	11	2,554,040
Other payables	12	11,005
Derivative financial instruments	13	2,526
<b>Total liabilities</b>		<u>2,567,571</u>
<b>Equity</b>		
Called up equity share capital	14	12
Retained deficit	16	(9,043)
<b>Total equity</b>		<u>(9,031)</u>
<b>Total liabilities and equity</b>		<u>2,558,540</u>

The notes on pages 14 to 27 form part of these financial statements.

These financial statements were approved by the directors and authorised for issuance on 27 February 2017 and were signed on their behalf by:



Mark Filer for and on behalf of  
Wilmington Trust SP Services (London) Limited

Brass No.5 PLC

**STATEMENT OF CHANGES IN EQUITY  
AS AT 31 DECEMBER 2016**

	<b>Called up equity share capital £000</b>	<b>Retained deficit £000</b>	<b>Total equity £000</b>
11 August 2015 (incorporation)	-	-	-
Share capital issued on incorporation	12	-	12
Loss for the period	-	(9,043)	(9,043)
31 December 2016	12	(9,043)	(9,031)

The notes on pages 14 to 27 form part of these accounts.

**STATEMENT OF CASH FLOWS**  
**PERIOD 11 AUGUST 2015 TO 31 DECEMBER 2016**

£000

**Cash flows from operating activities:**

Loss for the period	(9,043)
Income tax expense	-

## Operating assets:

Net increase in deemed loans from group undertakings	(2,492,244)
Net increase other receivables	(12)

## Operating liabilities:

Net increase in derivative financial instruments	2,526
Net increase in other payables	11,005

<b>Net cash flows used in operating activities</b>	<b>(2,487,768)</b>
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**Cash flows from financing activities:**

Net increase in debt securities in issue	2,554,040
Issue of share capital	12

<b>Net cash flows from financing activities</b>	<b>2,554,052</b>
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<b>Net increase in cash and cash equivalents</b>	<b>66,284</b>
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Opening balance	-
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<b>Total closing cash and cash equivalents</b>	<b>66,284</b>
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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 period, 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Introduction

Brass No.2 PLC is a special purpose vehicle whose business is the acquisition and management of mortgage loans and their related security. It is a Company 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 2016.

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of derivative contracts held at fair value through the Income Statement.

The financial statements have been prepared on the going concern basis as discussed in the Directors' Report on page 4, under the heading, 'Risks, uncertainties and 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 effective for periods commencing on or after 1 January 2016 have been adopted in the current year:

- Amendments to IAS 1 'Disclosure Initiative' which provide guidance on the application of the concept of materiality. The application of this amendment did not have a material impact on the financial statements.
- Annual improvements to IFRSs 2012-2014 Cycle included amendments to the following standards which are relevant to the Entity: IFRS 7 'Financial Instruments: Disclosures', IAS 19 'Employee Benefits' and IAS 34 'Interim Financial Reporting'. The application of these amendments did not have a material impact on the financial statements.

The following Standards which have not been adopted in these financial statements were in issue but not yet effective for the 2016 year end. Except otherwise stated, the adoption of the following new or amended standards are not expected to have material impact on the financial statements.

- IFRS 9 'Financial Instruments' published in July 2014 is effective for periods beginning on or after 1 January 2018, with early adoption permitted. This standard replaces the existing guidance in IAS 39 'Financial Instruments: Recognition and Measurement' and includes revised guidance on:



## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Classification and measurement**

Financial assets will be 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 classification and measurement requirements is not expected to materially impact the financial statements.

#### **Impairment of financial assets**

Impairment will be 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 is not expected to materially impact the financial statements.

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

#### **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.

The Statement of Cash Flows has been prepared using the indirect method.

#### **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.

#### **Financial assets**

The Company's financial assets are categorised as follows.

#### **Deferred consideration payable**

Deferred consideration payable depends on the extent to which the surplus income generated by the underlying mortgage books to which the Company has a beneficial interest, exceeds the administration costs of the mortgage books, and is deducted from interest income, since the Company 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 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

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

#### **Financial Instruments**

The Company's financial instruments comprise principally of deemed loans due from group undertakings, derivative financial instruments, debt securities in issue and cash and cash equivalents. These financial instruments are classified in accordance with the principles of IAS 39 as described below.

##### **(i) Cash and cash equivalents**

The Company holds deposits and a transaction bank account. These accounts are held in the Company'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 and deferred consideration**

In accordance with IAS 39, 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 Company, 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 Company'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. 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 Company. As per the programme requirements, any surplus receipts from the receivables after servicing the notes and all other obligations of the Company 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.

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **(iii) Derivative financial instruments**

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

IAS 39 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. Where the value of the derivative is positive, it is carried as a derivative asset and where negative, as a derivative liability. 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 Company 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.

#### **(iv) Debt securities in issue**

Interest-bearing debt securities in issue are recognised initially when issued 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.

## 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Company makes judgements in applying its accounting policies which affect the amounts recognised in the financial statements. In addition estimates and assumptions are used which could affect the reported amounts of assets and liabilities in the next financial year. The most critical estimates and judgements are described below.

### *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 15.

## 3. INTEREST RECEIVABLE AND SIMILAR INCOME

	11 August 2015 to 31 December 2016 £000
On deemed loan	2,540
On other liquid assets	3
	<hr/> 2,543 <hr/>

## 4. INTEREST PAYABLE AND SIMILAR CHARGES

	11 August 2015 to 31 December 2016 £000
On debt securities in issue	2,530
	<hr/> 2,530 <hr/>

## 5. OPERATING EXPENSES

Loss for the period has been arrived at after charging:

	11 August 2015 to 31 December 2016 £000
Servicer fees	13
	<hr/>

Fees payable of £5,000 to the Company auditor for the audit of the Company's accounts have been borne by Yorkshire Building Society, the ultimate parent. There were no other fees paid to the auditor.

**NOTES TO THE FINANCIAL STATEMENTS (continued)****6. NET LOSS ON FAIR VALUE VOLATILITY ON FINANCIAL INSTRUMENTS**

	<b>11 August 2015 to 31 December 2016 £000</b>
Derivatives	<u>(9,043)</u>

The above figure is the fair value loss on derivative financial instruments transacted to hedge the exposure to interest rate risk.

**7. TAX**

	<b>11 August 2015 to 31 December 2016 £000</b>
Current tax:	-
UK Corporation tax at 20%	<u>-</u>
<b>Total tax charge in income statement</b>	<u>-</u>

The main rate of UK corporation tax will reduce to 19% from 1 April 2017 and to 17% from 1 April 2020. The actual tax expense differs from that calculated using the standard rate of corporation tax in the UK. The differences are explained below:

	<b>11 August 2015 to 31 December 2016 £000</b>
Loss before tax	<u>(9,043)</u>
Tax calculated at a tax rate of 20%	(1,809)
Effects of:	
Differences due to permanent regime	1,809
<b>Tax charge in income statement</b>	<u>-</u>

Secondary tax legislation, enacted on November 2006 under powers conferred by the Finance Act 2005, ensures that for the companies who first meet the definition of a 'securitisation company' for an accounting period commencing on or after 1 January 2007, corporation tax will be calculated by reference to the retained profit of the securitisation company required to be retained under the agreement that governs the company.

The directors are satisfied that this company meets the definition of a 'securitisation company' as defined by both the Finance Act 2005 and relevant subsequent secondary legislation and that no incremental unfunded tax liabilities arise.

**NOTES TO THE FINANCIAL STATEMENTS (continued)****8. CASH AND CASH EQUIVALENTS**

	<b>2016</b>
	<b>£000</b>
Cash and cash equivalents	66,284
	<u>66,284</u>

The Company has placed its deposit account with a provider of a Guaranteed Investment Contract. Withdrawals from this account are restricted by the detailed priority of payments set out in the Programme Documentation. The Company is contractually entitled to a variable rate of interest of 35bps below 1 month LIBOR.

**9. DEEMED LOANS TO GROUP UNDERTAKINGS**

	<b>2016</b>
	<b>£000</b>
Deemed loans recoverable	2,492,806
Unpaid fees and advances	(562)
At 31 December	<u>2,492,244</u>

The deemed loans recoverable earn interest on a blended rate dependent on the mix of fixed and floating rates on the loans in the pool. The loans are repaid as and when the cash is received by the originator from the customers as principal repayments of the loans and advances. Consequently, a proportion of the deemed loans recoverable will be repaid within 12 months although the amount cannot be quantified.

**10. OTHER RECEIVABLES**

	<b>2016</b>
	<b>£000</b>
Other receivables	12
	<u>12</u>

**11. DEBT SECURITIES IN ISSUE**

	<b>2016</b>
	<b>£000</b>
Class A floating rate notes (1mth LIBOR + 55bp)	2,300,000
Class Z variable funding notes (1mth LIBOR)	251,510
Interest accrued	2,530
	<u>2,554,040</u>

The earliest contractual maturity of the debt securities in issue is 16 November 2021, when the balance outstanding on the notes may be repaid, dependent on the optional early redemption of notes clause being exercised. This date represents the earliest contractual date that Brass No.5 PLC could repay the noteholders.

**NOTES TO THE FINANCIAL STATEMENTS (continued)****11. DEBT SECURITIES IN ISSUE (continued)**

The Company has not had any defaults on principal, interest or any other breaches with respect to their liabilities during the period.

**12. OTHER PAYABLES**

	<b>2016</b>
	<b>£000</b>
Deferred consideration payable	11,005
	<u>11,005</u>

**13. DERIVATIVE FINANCIAL INSTRUMENTS**

	<b>2016</b>
	<b>Fair Value</b>
	<b>Liability</b>
	<b>£000</b>
Interest rate swaps	2,526
	<u>2,526</u>

**14. CALLED UP EQUITY SHARE CAPITAL**

	<b>2016</b>
	<b>£000</b>
Authorised:	
50,000 Ordinary shares of £1 each	50
Allotted, called up and fully paid:	
2 Ordinary shares of £1 each	-
Allotted, partly called up and paid:	
49,998 Ordinary shares (25p partly paid)	12
	<u>12</u>



**NOTES TO THE FINANCIAL STATEMENTS (continued)****15. FINANCIAL INSTRUMENTS**

A financial instrument is a contract that gives rise to a financial asset of one entity and financial liability of another entity. The Company's financial instruments consist principally of deemed loans, amounts due from group undertakings, derivative financial instruments, debt securities in issue and cash and cash equivalents.

**Summary**

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

<b>Financial instrument</b>	<b>Significant terms and conditions</b>	<b>Accounting treatment</b>
Deemed loans to group undertakings	Long term Fixed and variable interest rate	Amortised cost
Cash and cash equivalents	Short term cash balances Restricted use per transaction documentation	Amortised cost
Debt securities in issue	Long term Fixed interest rate	Amortised cost
Derivative financial instruments	Medium term Value derived from underlying price or rate	Fair value through profit or loss

**Fair Values**

The following table summarises the book and fair values of the Company's financial assets and liabilities measured at amortised cost on the face of the statement of financial position. 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.

	<b>Book value £000</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair value £000</b>
<b>At 31 December 2016</b>					
<b>Assets</b>					
Deemed loans to group undertakings	2,492,244	-	2,549,207	-	2,549,207
Cash and cash equivalents	66,284	-	66,284	-	66,284
<b>Liabilities</b>					
Debt securities in issue	2,554,040	2,302,543	-	251,628	2,554,171

For Debt securities in issue, the fair value of the Class A notes has been calculated using external quoted prices and are reported under level 1. Z notes are quoted at book value as in the absence of an external market for these notes it is considered to be a reasonable estimate of the fair value.

**NOTES TO THE FINANCIAL STATEMENTS (continued)****15. FINANCIAL INSTRUMENTS (continued)**

The fair value of the deemed loan has been calculated using a discounted cash flow analysis. Cash and cash equivalents are recognised on an amortised cost basis that is considered to be a close approximation to fair value. Debt securities in issue have been calculated using external quoted prices.

In accordance with IFRS 13 Fair Value Measurement, the fair values of the derivatives are based on counterparty valuations, which is the best estimate of the exit value of the derivatives.

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).

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>At 31 December 2016</b>				
Derivative financial instruments	-	-	2,526	2,526
<b>Total</b>	-	-	<b>2,526</b>	<b>2,526</b>

**NOTES TO THE FINANCIAL STATEMENTS (continued)****15. FINANCIAL INSTRUMENTS (continued)****Liquidity risk**

Liquidity risk is managed at a Group level by Yorkshire Building Society, the ultimate parent, and is monitored on a daily basis by the independent Group Risk function. All liquidity risk in subsidiary companies, including Brass No.5 PLC, is eliminated by the use of appropriate inter-company loans and deposits. The table below illustrates the gross contractual cash flows on the Company's financial liabilities.

	<b>Repayable on demand and up to one year</b>	<b>In more than one year but not more than five years</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>At 31 December 2016</b>			
Debt securities in issue	21,181	2,636,236	2,657,417
Derivative financial instruments	(4,736)	9,137	4,401
<b>Total</b>	<b>16,445</b>	<b>2,645,373</b>	<b>2,661,818</b>

**Interest rate risk**

Interest rate risk is managed on a daily basis at a Group level by Yorkshire Building Society. Brass No.5 PLC is protected from interest rate risk by the provision of interest rate swaps. The swaps, which are not deemed to be in formal hedge relationships are fair valued and hence are "naturally hedged" since the movements net to nil.

**Credit risk**

Key concentrations of credit risk to the Company are in respect of the deemed loans and more generally, to Accord Mortgages Limited in its role as the mortgage administrator and cash manager.

The financial statements are prepared on the basis that its acquisitions of beneficial interests in mortgage portfolios are recognised as a deemed loan.

To the extent that the mortgage loans in the portfolio do not provide sufficient funds to recover the investment in the mortgage portfolio, the Company has no preferential claim on the assets of Accord Mortgages Limited. To provide protection for the structure, the Originator, Accord Mortgages Limited, holds subordinate notes at a level governed by the rating agencies, having considered the quality of the underlying pool of mortgages, to absorb the first losses on the deemed loans.

**NOTES TO THE FINANCIAL STATEMENTS (continued)****15. FINANCIAL INSTRUMENTS (continued)****Credit risk (continued)**

The table below represents a worst-case scenario of credit risk exposure to the Company without taking into account any collateral held or other credit enhancements attached. The exposures are based on gross carrying amounts as reported in the Statement of Financial Position. Further details on the underlying collateral can be found in the published Investor Reports.

<b>Category (as defined by IAS 39)</b>	<b>Class</b>	<b>2016 £000</b>
Loans and receivables	Deemed loans	2,492,244
Cash and cash equivalents	Cash and cash equivalents	66,284
<b>Total</b>		<b>2,558,528</b>

**Deemed loans**

The above table shows the maximum exposure to credit risk on deemed loans. The risk on the deemed loan is mitigated by the size and quality of the securitised loans and advances to customers.

**16. RETAINED DEFICIT**

	<b>2016 £000</b>
Balance at 11 August 2015	-
Loss for the year	(9,043)
Balance at 31 December 2016	(9,043)

As the current deficit is primarily due to fair value adjustments on derivatives which do not affect the liquidity of the partnership and are likely to reverse in future periods, the Directors therefore believe that the current level of capital is appropriate for the Company's activities.

**17. ULTIMATE PARENT UNDERTAKING AND CONTROLLING ENTITY**

The Company's immediate parent undertaking and controlling entity is Brass No.5 Mortgage Holdings Limited, a company registered in England.

Wilmington Trust SP Services (London) Limited holds 100% of the issued share capital of Brass No.5 Mortgage Holdings Limited, subject to terms of declaration of trust for general charitable purposes.

The Company meets the definition of a special purpose entity under IFRS. In accordance with the requirements of IFRS 10 'Consolidated Financial Statements', the Company's accounts are consolidated within the group accounts of Yorkshire Building Society. Yorkshire Building Society is a mutual organisation owned by its members and consequently has no controlling body. It is incorporated in England and registered under the Building Societies Act. The financial statements of the ultimate parent company are available from Yorkshire House, Yorkshire Drive, Bradford, BD5 8LJ.

**NOTES TO THE FINANCIAL STATEMENTS (continued)****18. RELATED PARTY TRANSACTIONS**

Total remuneration paid by the Yorkshire Building Society to its directors or other key management personnel in relation to their services to the company amounted to £nil. No employees were employed by the Company during the period.

As stated in the note above, the Company's accounts are consolidated within the group accounts of Yorkshire Building Society. Consequently the directors of the Company consider Yorkshire Building Society and its subsidiaries to be related parties of the company. The Company pays cash management and mortgage loan servicing fees to Yorkshire Building Society in connection with its provision of services defined under the Programme Documentation. During the period, these fees amounted to £nil. Transactions with the Yorkshire Building Society and its subsidiaries are disclosed below.

As at 31 December 2016	Deemed loans from group undertakings £000	Debt securities in issue £000
Yorkshire Building Society	-	2,302,530
Accord Mortgages Limited	2,492,244	251,510
	<u>2,492,244</u>	<u>2,554,040</u>

Period 11 August 2015 to 31 December 2016	Interest receivable and other income £000	Interest expense and other charges £000
Yorkshire Building Society	-	2,097
Accord Mortgages Limited	2,543	118
	<u>2,543</u>	<u>2,215</u>

All related party transactions were made on terms equivalent to those that prevail in arm's length transactions.