

ACCORD MORTGAGES LIMITED

Registered Number: 02139881

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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ACCORD MORTGAGES LIMITED

DIRECTORS AND COMPANY INFORMATION

(Registered Number: 02139881)

Directors	S White R Purdy R Wells P Howley J Duncombe C Canning
Secretary	D Colley
Registered office	Yorkshire House Yorkshire Drive Bradford BD5 8LJ
Bankers	National Westminster Bank PLC PO Box 90 1 Market Street Bradford BD1 1EG
Auditor	PricewaterhouseCoopers LLP Central Square 29 Wellington St Leeds LS1 4DL

ACCORD MORTGAGES LIMITED

STRATEGIC REPORT

Accord Mortgages Limited ("the "Company" or "Accord") is a dedicated intermediary lender that originates loans secured on residential and buy-to-let property. The Company is limited by shares, and is a wholly owned subsidiary of Yorkshire Building Society ("YBS"). The Company funds its mortgage assets by way of borrowing from its parent undertaking.

REVIEW OF THE BUSINESS

Business objectives and activities

The business objectives and activities are set out in the Directors' report on page 8.

Financial performance

Operating profit before provisions was £77.8m (2018: £47.9m). This figure can be analysed into the following key areas:

	2019 £m	2018 £m
Net interest income	104.1	131.1
Net fee and commission income	2.6	2.4
Total net income	106.7	133.5
Net (losses)/gains from fair value volatility on derivatives	26.8	(30.0)
Administrative expenses	(55.7)	(55.6)
Operating profit before provisions	77.8	47.9

Total net income

Total net income has decreased to £106.7m (2018: £133.5m) reflecting ongoing competition in the retail lending markets which is pushing down interest rates on new mortgages. The cost of funding has increased in comparison to last year, due to growth in the balance sheet and volatility in the funding markets driven by the ongoing uncertainty over the UK's exit from the European Union.

Fair value volatility

The £26.8m fair value volatility gain (2018: £30.0m loss) in the income statement significantly impacts the profit for 2019. The gain is driven by the decrease in Bank on England interest rates (SONIA) by c. 40bps in 2019 on the back of Brexit uncertainties and a weakening economy. The table below shows the fair value volatility on derivative financial instruments over the last five years and the securitisation vehicles the derivatives are transacted in relation to.

	2019	2018	2017	2016	2015
	£m	£m	£m	£m	£m
Brass No.1 PLC	-	-	-	3.2	(3.0)
Brass No.2 PLC	-	-	1.6	(0.7)	0.4
Brass No.3 PLC	-	0.6	(0.9)	0.8	(1.9)
Brass No.4 PLC	1.2	(3.2)	(4.9)	(0.2)	(8.9)
Tombac No.2 PLC	(0.5)	(2.9)	(6.3)	11.8	(4.4)
Brass No.5 PLC	6.5	(9.5)	(10.2)	9.0	-
Brass No.6 PLC	7.1	(7.8)	0.5	-	-
Brass No.7 PLC	17.9	(7.2)	-	-	-
Brass No.8 PLC	(5.4)	-	-	-	-
Other volatility	-	-	-	-	-
	26.8	(30.0)	(20.2)	23.9	(17.8)

ACCORD MORTGAGES LIMITED

STRATEGIC REPORT (continued)

REVIEW OF THE BUSINESS (continued)

Administration expenses

Administration expenses have increased to £55.7m (2018: £55.6m) due to:

- ongoing implementation of a new mortgage processing system, the costs for which are expected to continue into 2020.
- increase in recharge costs from YBS functions due to substantial asset growth.
- development of IT capabilities to support business growth and create head office operational efficiencies.
- these cost increases were largely offset by other efficiency savings.

Dividend

In 2019, a final dividend of £50.0m to the shareholder was approved (2018: £75.0m).

Business volumes

The gross volume of mortgage lending in the year was £6,353m (2018: £6,588m). This resulted in net lending of £2,405m (2018: £2,562m) once repayments and redemptions are accounted for.

The buy-to-let mortgage book has grown 14.6% to £3,178m (2018: £2,774m), representing 13.5% (2018: 13.1%) of the total book.

The proportion of the Company's new lending that is over 90% loan-to-value (LTV) is 7.8% as at 31 December 2019 (2018: 6.0%). The Company restricts the LTV on new lending to 95%, which remains unchanged from last year.

Asset quality - mortgage arrears

The position on our more serious arrears cases, being those with payments 12 months or more in arrears, has seen an improvement during the year with 5 fewer accounts, a £0.6m reduction in balances outstanding and arrears being a smaller proportion of the overall book.

	2019	2018	% of mortgage accounts/balances	
			2019	2018
			£23,627.4m	£21,211.1m
Number of accounts in arrears (>12months)	61	66	0.04%	0.05%
Balances outstanding on accounts	£10.1m	£10.7m	0.04%	0.05%
Amount of arrears included in balances	£1.1m	£1.2m	0.00%	0.01%

Provisions on these accounts have been made in accordance with the impairment policy set out in Note 1. For more details on arrears performance and forbearance, please refer to Note 16.

Customers

The number of mortgage accounts held with the Company increased to 138,081 (2018: 123,480).

RISK MANAGEMENT

The principal risks and uncertainties faced by the Company, and our approach for managing them are set out in our Risk Management Report on page 13.

ACCORD MORTGAGES LIMITED

STRATEGIC REPORT (continued) RISK MANAGEMENT (continued)

KEY PERFORMANCE INDICATORS

The key performance indicators used by the Board of Directors ("the Board") to assess the performance of the Company are set out below.

Financial performance

	2019	2018	2017	2016	2015
	£m	£m	£m	£m	£m
Net interest income	104.1	131.1	142.3	127.8	120.9
Net fee and commission income	2.6	2.4	1.8	1.7	1.6
Fair value volatility	26.8	(30.0)	(20.2)	23.9	(17.8)
Administrative expenses	(55.7)	(55.6)	(43.4)	(44.5)	(41.9)
Operating profit before provisions	77.8	47.9	80.5	108.9	62.8
Net interest margin	0.36%	0.51%	0.63%	0.78%	0.78%

Profit before tax

This is the most commonly used comparative definition of profit, and is the key contributor to the Company's capital.

	2019	2018	2017	2016	2015
	£m	£m	£m	£m	£m
Profit before tax	75.1	51.2	86.3	107.4	49.7

Core operating profit

This is a key measure of underlying performance and is defined as operating profit excluding the impacts of fair value volatility. Fair value volatility reflects changes in market rates on derivatives; these are mostly timing differences which will reverse in time.

	2019	2018	2017	2016	2015
	£m	£m	£m	£m	£m
Core operating profit	51.0	77.9	100.7	85.0	80.6

Business volumes

Net mortgage lending

The Company Board monitors mortgage lending performance in a number of ways, with the key measure being net lending. This covers all portfolios and channels, and measures effectiveness in new lending and borrower retention.

	2019	2018	2017	2016	2015
	£m	£m	£m	£m	£m
Net mortgage lending	2,405	2,562	2,214	1,256	1,504

Asset quality - mortgage arrears

The Board monitors arrears performance using a range of measures including current arrears levels and underlying trends, to indicate how well borrowers are coping with current economic conditions, and therefore how exposed the Company may be to defaults and subsequent loan losses. The key measure used by the Board is the number of borrowers whose loans are in arrears by three monthly payments or more, please see the table below. The current the percentage of borrowers whose loans are in arrears by three months or more is 0.33%, this is lower than the market average of 0.75%.

	2019	2018	2017	2016	2015
	%	%	%	%	%
Mortgage arrears (>=3months)	0.33	0.31	0.40	0.70	0.92

ACCORD MORTGAGES LIMITED

STRATEGIC REPORT (continued)

RISK MANAGEMENT (continued)

Customers

The Company continues to develop our relationship with brokers. We were also recognised as the Best lender for discounted mortgages from the Moneywise Mortgage Awards 2019, Best lender for relationship from the Moneywise Mortgage Awards 2019 and Best Mortgage Lender from the Mortgage Strategy Awards 2019.

Net Promoter Score

The Company uses Net Promoter Score (NPS) as a means of measuring how satisfied our customers are with the service the Company provides. NPS measures how willing our customers are to recommend us to friends and family. The score can range from -100 if all customers are 'detractors' to +100 if all customers are 'promoters'. Continuing improvements made to our broker servicing, including the launch of the Accord Growth Series, have been reflected in the Broker Residential results below. The Broker Buy-to-Let score was negatively impacted in 2018 due to a significantly large volume of mortgage applications at the beginning of the year causing some delays in the processing of these applications. NPS¹ is quoted based on a 12 month rolling average.

Broker Residential 2019	Broker Residential 2018	Broker Buy-to-Let 2019	Broker Buy-to-Let 2018
85	73	78	44

¹ KPMG Nunwood Customer Voice Programme, January - December 2019. Based on 15,911 complete interviews with customers. Net Promoter Score and NPS are trademarks of Satmetrix Systems, Inc., Bain & Company, Inc., and Fred Reich

Section 172(1) Companies Act 2006 Directors Statement

The Board of Directors consider, both individually and collectively, that they have acted in a way that, in good faith, would be most likely to promote the success of the company for the benefit of its members (shareholders) as a whole having regard (amongst other matters) to:

- The likely consequences of any decision in the long term.
- The interests of the company's employees.
- The need to foster the company's business relationships with suppliers, customers and other stakeholders.
- The impact of the company's operations on the community and the environment.
- The desirability of the company maintaining a reputation for high standards of business conduct.
- The need to act fairly as between members of the company.

The following provides a summary of the ways in which the Board have fulfilled their duties during 2019.

Promoting the Success of the Company for the Benefit of Members

The Company is a wholly owned subsidiary of Yorkshire Building Society (YBS). The strategy and purpose of YBS and its controlled entities ("the YBS Group") is supported by the Company in its role as the intermediary lending subsidiary.

The key elements of Section 172(1) that have supported this during 2019 have been:

1. Fostering Business Relationships with Stakeholders

Whilst Accord is a subsidiary of YBS, it is a separate regulated legal entity. YBS performs all processing activities on behalf of Accord and, as such, the Board agree an Intragroup Outsourcing Framework on an annual basis to ensure that the relationship with YBS, as a key stakeholder, is managed appropriately.

The Board is committed to fostering and monitoring the effectiveness of the company's wider business relationships with its key stakeholders which, in addition to YBS, include:

- Customers
- Brokers
- Suppliers
- Investors in the YBS Group's securitisation transactions
- Media
- Regulators
- Sector Groups
- Policy Makers

ACCORD MORTGAGES LIMITED

STRATEGIC REPORT (continued)

Section 172(1) Companies Act 2006 Directors Statement (continued)

As an intermediary business Accord recognises the importance of ensuring that effective business relationships are maintained with our brokers and in turn supporting them in strengthening their relationships with their clients, our customers. This engagement and support is carried out in a range of ways, with new and innovative approaches constantly being sought. For example, during 2019 our 'Growth Series', which aims to provide help and support to brokers in developing their business, continued to develop. It has provided free access for brokers to blogs, podcasts and practical guidance to help them get information on topics such as marketing as well as providing valuable insights from key players in the industry.

The Board receives updates on the progress of initiatives and future proposals which will ensure that those key relationships with brokers continue to be effective, such as future digital developments to improve broker experience.

The Board also monitors the ongoing effectiveness of broker relationships through the Net Promotor Scores (NPS). During 2019 performance remained strong, ending the year at 85 for broker residential and 78 for broker buy to let.

2. Long Term Consequences of Decision Making

The Board recognises that the management of risk is important to understanding the potential long term consequences of decision making. Details on the Company's approach are set out in the Risk Management Report on pages 13 to 15.

Each year the Board considers the annual lending plan for the Company, which is key to the long term sustainability of the business. Further detail on the approval of the lending plan in 2019 is provided in the case study below.

3. Maintaining a Reputation for High Standards of Business Conduct

As part of the wider YBS Group, the Company acts in accordance with the policies set by YBS for whistleblowing and ethics.

The Board considers reports from the YBS Money Laundering Reporting Officer and Legal and Compliance Teams on an annual basis.

The Board also considers and approves the Modern Slavery Statement which explains our position in relation to modern slavery risks and the anti-slavery controls in place. The statement demonstrates Accord's commitment, as part of the YBS Group, to doing everything that can reasonably be done to contribute toward helping eradicate modern slavery and human trafficking.

In addition, the Directors take account of all areas of their duties under section 172(1), including:

- **Interests of Employees** - whilst Accord does not have any employees, it is recognised that decisions could impact on colleagues within the YBS Group, therefore, details of any such impacts are set out in papers submitted to and considered by the Board.
- **Impact on Community and Environment** - as part of the YBS Group, Accord's approach to the environment and wider communities is encompassed within the YBS Group strategy. However, any paper to the Board will include details of any impact a decision would have on these areas
- **Act Fairly Between Members** - whilst the Company has only has one member, as it is a wholly owned subsidiary of YBS, the Directors recognise the importance of ensuring YBS is kept informed of the company's governance and performance. This includes providing a bi-annual report to the YBS Board to assist in its oversight of the Company.

Where relevant, further details on the YBS Group's approach in relation to these areas can be found in the YBS Annual Report and Accounts.

ACCORD MORTGAGES LIMITED

STRATEGIC REPORT (continued)

Section 172(1) Companies Act 2006 Directors Statement (continued)

Case Study on Application of S172 - Accord Annual Lending Plan

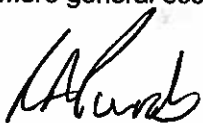
Each year the Accord Board considers the Annual Lending Plan for the company, which forms a key component of the YBS Group's overall lending within its Corporate Plan. The Accord Board recognises that its Lending Plan is a key contributor to the overall success of the Society accounting for over 80% of the Group's residential lending. In approving the Lending Plan for 2020, the Directors took account of:

- *How the Plan aligned with the Group's purpose and strategy, based on the foundations of the Group's purpose to provide Real Help with Real Life.*
- *The impact and sustainability of the Plan including how it aligned with the Group's value strategy and supported the Group in the delivery of its targets in the longer term.*
- *Continued development and expansion of relationships with brokers ensuring Accord's reputation for high standards of business conduct is maintained.*
- *How proposed changes would deliver enhancements to the experience for brokers and customers.*
- *The agreed Plan would be communicated to any impacted YBS colleagues and that teams across the business would be provided with the knowledge, skills and resources to fulfil the Plan.*
- *There were no anticipated impacts in relation to the wider community or environment.*

Outlook

The UK mortgage market is highly competitive and continues to be extremely dynamic due to changing customer behaviours, new regulation and technological advancement. This provides both a requirement for change and further uncertainty beyond that driven by the economic and political landscape. In response, the Company needs to focus on ensuring a balance between offering excellent service and assistance to our customers and maintaining a sustainable business.

There is a continued risk of disruption to the UK economy following the UK's exit from the EU, but despite the intensifying political and economic uncertainty, the Board anticipate that the direct impact on the Company will be low, due to the Company operating entirely within the UK. The potential threat to the Company will be as a result of the more general economic impact from adverse movements in inflation, growth, interest rates and house prices.



By order of the Board
R Purdy
Director
26 February 2020

ACCORD MORTGAGES LIMITED

DIRECTORS' REPORT

The directors present their annual report and audited financial statements for Accord Mortgages Limited ("the Company" or "Accord") for the year ended 31 December 2019.

Business objectives and activities

The Company is a dedicated intermediary lender that originates loans secured on residential and buy-to-let property. The Company's approach is to work in partnership with intermediaries to meet customers' needs through competitive products and service excellence; which in turn provides long-term profitable growth to the Company.

The Company is a wholly owned subsidiary of Yorkshire Building Society ("YBS") and is therefore part of the wider YBS Group of controlled entities ("the Group").

The beneficial ownership in a proportion of the Company's loans and advances to customers has been sold to another entity within the Group via Residential Mortgage-Backed Securitisation (RMBS) structures to provide wholesale funding for the Group.

These loans fail the de-recognition criteria of IFRS 9 and, consequently, remain on the statement of financial position of the Company. IFRS 9, requires the seller (the Company) to recognise a deemed loan financial liability on its statement of financial position in respect of the consideration received from the sale of the loans.

Dividends paid to the Company's parent are detailed in the strategic report.

Key Performance Indicators

The Key Performance Indicators reviewed by Directors' are reported in the strategic report on page 4.

Risks, uncertainties and going concern

The principal risks and uncertainties faced by the Company, and approach for managing them, are set out in the Risk Management Report.

In ensuring that the Company has sufficient financial resources, including liquid funds, to meet its liabilities as they fall due, the Board have taken account of the support provided by its parent, YBS, and have undertaken a securitisation transaction during the year.

The directors of YBS have considered in detail the Group's forecast performance and liquidity requirements, as well as its regulatory capital and liquidity resources. On this basis they have a reasonable expectation that the Group has sufficient funding and liquidity facilities to ensure that it will continue in operational existence for the foreseeable future. The directors have received a letter of undertaking from YBS confirming that funding will not be repayable in the foreseeable future.

Accordingly the directors of the Company have adopted the going concern basis in preparing these financial statements.

Future developments

The future developments in the business of the Company are considered in the outlook section in the strategic report on page 7.

Directors

The directors who served during the year and to the date of signing these accounts are set out below:

C Canning
R Purdy
R Wells
P Howley
S White
J Duncombe

ACCORD MORTGAGES LIMITED

DIRECTORS' REPORT (CONTINUED)

Audit information

Each of the directors at the approval of this Directors' Report confirm that:

- So far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- The directors have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company'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.

Independent Auditor

During 2019 PricewaterhouseCoopers LLP were appointed as auditor by order of the Board.

Supplier payment policy

The Company pays supplier invoices in accordance with the terms agreed at the start of trading, aiming to pay all invoices in 30 days from the end of the month following the receipt of a valid invoice. In the second half of 2019, 71% of invoices were paid within 30 days, 28% paid within 60 days and the remaining 1% with 61 or more days.

Wates Corporate Governance Principles

The Board has considered the best practice principles set out in the Wates Corporate Governance Principles for Private Business ("the Wates Principles") and sought to apply them wherever applicable. The table below sets out how the Wates Principles have been applied during 2019:

Principle	How it Applies to Accord
<p>Principle One - Purpose and Leadership An effective board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.</p>	<p>Accord is a dedicated intermediary lender that originates loans secured on residential and buy to let property through a trusted broker network, supporting the long term growth and profitability of the YBS Group.</p> <p>Accord is fully integrated into the YBS governance structure and, as part of the wider YBS Group, supports and promotes the Group's purpose, values and culture in the areas in which it operates. Further information can be found in the YBS Annual Report and Accounts.</p> <p>Every year the Board considers a Lending Plan that sets out its strategy for the year ahead and is built on the foundations of the Group's purpose and strategy. The Plan is aligned to the Group's value strategy with the aim to deliver sustainably funded growth. The Accord Lending Plan in turn forms a key component of the Group's overall lending strategy within its Corporate Plan.</p> <p>All directors understand their duties, including promoting the success of the company. Further detail on how the directors' S172 duties have been fulfilled can be found in the S172 Statement in the Strategic Report on page 5 to 7.</p>
<p>Principle Two - Board Composition Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and</p>	<p>The Accord Board is made up of YBS Senior Managers, Chief Officers and an Executive Director, who is also the Chairman. Each of the directors brings a variety of skills through their experience and their spans of control within the wider Group.</p> <p>The size of the Board is considered appropriate for a subsidiary board where the company's operations are integrated in the wider YBS Group.</p> <p>Members of the Board are appointed by YBS, as the sole shareholder, based on the areas of experience each director brings to the Company, including but not limited to: operations; finance; transformation; and risk. The appointment of a YBS Board Executive Director ensures that there is direct feedback from the Accord Board to the Group Board. The remaining directors are either Chief Officers or</p>

ACCORD MORTGAGES LIMITED

Principle	How it Applies to Accord
<p>complexity of the company.</p>	<p>members of the YBS Operating Committee ensuring that there is direct feedback into the key Management Committee's for the Group. It is recognised that diversity is a challenge, however, the Group is committed to achieving greater diversity and YBS is a signatory to the Women in Finance Charter.</p> <p>The effectiveness of the Accord Board is subject to oversight by the wider Group with bi-annual updates provided to the YBS Board.</p> <p>Professional development of directors is identified through their roles as part of the wider Group together with regular performance evaluation.</p>
<p>Principle Three - Directors Responsibilities The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge.</p>	<p>Accord and the wider YBS Group are committed to maintaining robust corporate governance practices.</p> <p>The governance framework for the company is clearly set out in its Articles of Association and the roles and responsibilities of the Board are set out in its Terms of Reference.</p> <p>The Accord directors are accountable for the governance and management of the Company, including collective responsibility for its long term success, and act in accordance with all the relevant and applicable regulatory and statutory requirements. The Board is also responsible for ensuring YBS, as the parent, is aware of any exceptional matters relating to its operations and governance, particularly where there would be an impact on the overall Group.</p> <p>All activities required for the day to day running of Accord are carried out by YBS and the framework for these arrangements is set out in an Intragroup Outsourcing Agreement.</p> <p>Governance arrangements are periodically reviewed and refreshed to ensure they remain fit for purpose and the next review has been scheduled for 2020.</p> <p>The Board meets at least four times a year and receives information on all key aspects of the business, such as financial and operational performance, including performance against key service levels agreed as part of the Intragroup Outsourcing Agreement.</p>
<p>Principle Four - Opportunity and Risk A board should promote the long term sustainable success of the company by identifying opportunities to create and preserve value, and establishing oversight for identification and mitigation of risks.</p>	<p>Strategic opportunities are identified and developed as part of the overall Group Strategy planning process.</p> <p>The company is part of the wider YBS Group which applies its risk management policies to the risks of the Group as a whole. As such any risks within Accord as an individual entity is considered at Group level, including those arising as a result of relationships and transactions with other Group companies.</p> <p>The YBS Chief Risk Officer is a member of the Accord Board ensuring there is a direct link with the Group Risk function. Each paper presented to the Accord Board includes a section setting out the risk implications of any proposals within the framework of the Group's approach to risk management.</p> <p>Second line of defence reviews by the Compliance team include coverage of Accord both directly and indirectly with relevant outcomes reported to the Accord Board which then monitors the resolution of any actions arising.</p> <p>Further detail in respect of Accord can be found in the Risk Management Report on pages 13 to 15.</p> <p>Further information on the Groups' approach to strategy and risk management can be found in the YBS Annual Report and Accounts.</p>

ACCORD MORTGAGES LIMITED

Principle	How it Applies to Accord
<p>Principle Five - Remuneration A board should promote executive remuneration structures aligned to the long term sustainable success of a company, taking into account pay and conditions elsewhere in the company.</p>	<p>Accord is not an employer, all services required for the conduct of its operations are provided by YBS employees or contractors.</p> <p>The directors of the Accord Board are not separately remunerated for their role on the subsidiary. Further detail on the YBS approach to remuneration, including its Remuneration Policy, can be found in the YBS Annual Report and Accounts 2019.</p>
<p>Principle Six - Stakeholder Relationships and Engagement Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.</p>	<p>The Board is committed to taking into account the views of and understanding its impact on its key stakeholders. These include YBS as its sole shareholder, YBS's employees, customers, brokers, the regulator and as part of the wider Group, local communities. Papers considered by the Accord Board set out the implications of any decision on the company's key stakeholders, including customers, YBS members where relevant as a group wide impact, YBS colleagues and so on.</p> <p>Accord recognises the role of YBS as its sole shareholder and parent company and provides updates to the YBS Board on its performance and governance arrangements.</p> <p>As a dedicated intermediary lender, Accord recognises the importance of working in partnership with intermediaries to meet the needs of customers and maintain service excellence. Engagement and support is provided to brokers through a variety of means, including a dedicated team of Business Development Managers, and updates on service and engagement initiatives are provided to the Accord Board where appropriate.</p> <p>The Board recognises that the quality of service provided is key to the success of the company and continues to monitor feedback together with the Net Promoter Score (NPS) to measure satisfaction and identify any improvements required.</p> <p>Accord is sole regulated by the FCA and the Board receives at least an annual update on the Group's regulatory engagement highlighting areas which may be of significance to Accord, including the outcomes of any site visits specifically conducted by the FCA.</p> <p>Whilst Accord does not have any employees, it is recognised that decisions could impact on colleagues within the YBS Group, therefore, details of any such impacts are set out in papers submitted to and considered by the Accord Board.</p>

Approved by order of the Board of Directors
and signed on behalf of the Board



R Purdy
Director
26 February 2020

ACCORD MORTGAGES LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare individual accounts for each financial year. Under that law the directors have elected to prepare individual accounts in accordance with international accounting standards, being International Accounting Standards, International Financial Reporting Standards and International Financial Reporting Interpretations Committee interpretations (collectively "IFRS") as issued by the International Accounting Standards Board and adopted by the European Union. 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, IAS 1 *Presentation of Financial Statements* 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 accounts and 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of Accord Mortgages Limited ("the Company");
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, 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 the shareholder to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 26 February 2020 and is signed on its behalf by:

S White



Chairman

R Purdy



Director

ACCORD MORTGAGES LIMITED

RISK MANAGEMENT REPORT

Introduction

Accord Mortgages Limited ("the Company") is a wholly owned subsidiary of Yorkshire Building Society ("YBS") and is therefore part of the wider YBS Group of controlled entities ("the Group").

The Group applies its risk management policies and techniques to the risks of the Group as a whole using its Enterprise Risk Management Framework (ERMF), and therefore appropriate risk management activity is deployed wherever risks arise. Any risks arising within the individual subsidiaries as a result of their relationships and transactions with other Group companies are not actively managed within the individual entities but considered at the Group level. For further information on the ERMF please refer to the Group's Annual Report and Accounts. The Group financial statements explain the Group's obligation and commitment to discharge the liabilities of those subsidiaries unable to do so and also explains the Group's approach to risk management.

Key elements of the approach to risk management and its effect on the Company are outlined below:

The Group board is responsible for every aspect of the Group's activities. In particular, its role is to focus on the Group's strategy and ensure that the necessary resources are in place to meet its objectives and to ensure that robust financial controls and systems of risk management are in place. To assist the Board, a Group Risk Committee, consisting of non-executive directors and attended by senior executives, considers all risk matters relating to the Group, including credit risk, operational risk, market risk, liquidity risk, business risk and regulatory and prudential requirements.

The Group maintains an independent second line risk management function (Group Risk) that is responsible for ensuring that appropriate risk management and measurement techniques are used that are commensurate with the Group's strategic aims, its appetite for risk and the actual risks it faces at any time. The Group Risk function ensures that the Group Risk Committee receives a comprehensive programme of decision papers and reviews to ensure that it is fully sighted on such matters. The Group's Chief Risk Officer provides a formal update to the Group Board and to the Group Risk Committee on a quarterly basis covering all areas of risk management, including routine reporting, emerging risks, the results of the risk team's independent oversight and ad hoc issues that merit escalation.

Market risk

Interest rate mismatch risk

The risk that the value of, or income derived from, the Company's assets and liabilities changes unfavourably due to movements in interest rates. Interest rate mismatch risk arises from the different re-pricing characteristics of the Company's assets and liabilities.

Basis risk

Basis risk arises from possible changes in spreads where assets and liabilities re-price at the same time, but move in differing amounts causing unfavourable impacts to earnings.

- Market Risk is constrained by a Group Board approved risk appetite, which is further governed through the Market Risk Policy.
- The Group adopts a risk averse approach to interest rate mismatch although some scope for exposure is allowed in line with an agreed in house rate view, subject to the agreed risk appetite.
- The Group operates a wide range of measures and scenarios that review this risk in respect of both earnings and value. Earnings are stressed over a 12 month period for +/- 250 bps changes in rates. Rates are assumed to be floored at 0%.
- The Group limits for basis risk include limits for sensitivities around isolated movements in underlying rates (LIBOR/SONIA), for overall mismatch ratios and for ensuring the Group has sufficient levels of margin management capability.

ACCORD MORTGAGES LIMITED

RISK MANAGEMENT REPORT (continued)

Retail credit risk

The risk to the Company of credit losses as a result of failure to design, implement and monitor an appropriate credit risk appetite.

- Retail credit risk is constrained by a Group Board approved risk appetite, which is further governed through the Retail Lending Policy.
- A robust credit risk framework helps to ensure that lending remains within risk appetite limits and appropriate remedial action is taken if a breach occurs. Adherence is monitored regularly through governance committees.
- Stress testing confirms portfolio resilience.
- A model governance framework ensures that credit risk models are operating as intended.

Wholesale credit risk

The risk of credit losses following default on exposures arising from balances with other financial institutions, liquid asset holdings and derivative instruments.

- Wholesale credit risk is constrained by a Group Board approved risk appetite, which is further governed through the Treasury Risk Policy.
- The majority of derivative contracts within the Group are subject to centralised clearing to minimise credit risk exposures to counterparties. Where this is not possible, derivative exposures are restricted to high quality counterparties which are subjected to regular review and scrutiny by the Asset and Liability Committee (ALCO) within overall risk limits.

Funding and liquidity risk

The risk of the Company having inadequate cash flow to meet current or future requirements and expectations.

- Liquidity and funding risk is constrained by a Group Board approved risk appetite, which is further governed through the Liquidity and Funding Policy.
- The key assumptions, risks and controls for the management of liquidity risk are outlined in the Group ILAAP document which is approved annually by the Group Board.
- The Group operates a range of internal stress tests to ensure that sufficient liquidity is available at all times to address stress and business as usual requirements.
- The Group also manages liquidity to the external regulatory measure, the Liquidity Coverage Ratio (LCR).
- The Group is primarily funded through retail savings balances, supported by a strong franchise in key wholesale funding markets.

Operational risk

The risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events.

- Operational risk is constrained by a Group Board approved risk appetite, which is further governed through the ERMF.
- The ERMF sets out how colleagues are expected to identify, assess, monitor, manage and report their risk exposures.

Compliance and conduct risk

- A Risk & Control Self-Assessment process outlines the controls that must be followed and the frequency of assurance in order to determine whether the current set of controls is appropriate to manage the Company's risks going forward.
- The Executive Risk Committee provides oversight across the Group's operational risk exposures.

ACCORD MORTGAGES LIMITED

RISK MANAGEMENT REPORT (continued)

Business risk

The risk of direct or indirect loss as a result of a failure to comply with regulation or to ensure fair customer outcomes.

- Conduct risk is constrained by a Group Board approved risk appetite, which is further governed through the Conduct Risk Strategy and Group Risk Management Policy.
- Key conduct risk metrics are in place to protect customer outcomes in all key areas including sales, service, complaints and collections.
- Clear responsibilities have been determined in a governance model that has established defined risk management and oversight accountability within the divisions
- A comprehensive programme of independent oversight with reporting to Group Risk Committee takes place.

The risk of direct or indirect loss as a result of the pursuit of inappropriate strategy or a failure to effectively manage the Group's corporate affairs.

- Capital risk is constrained by a Group Board approved risk appetite, which is further governed through the Capital Strategy.
- Current and projected capital positions are regularly monitored and also considered in stress scenarios as part of the Group ICAAP.
- Specific details on capital management can be seen in the Group's Pillar 3 disclosures (available on the Group's website).

Governance

The **Group Board** is ultimately responsible for the effective management of risk. The approval of risk appetite and associated high level risk strategy are amongst a number of specific areas which are matters reserved for the Board.

Group Risk Committee is a Board committee that reviews, on behalf of the Board, the key risks inherent in the business and the system of control necessary to manage such risks, presenting its findings to the Board.

The Group Risk Committee oversees the Group's risk management framework and assists the Board by providing an enterprise-wide perspective on all risk matters. It normally meets four times a year, but will meet more frequently when the need arises.

Executive Risk Committee is responsible for the oversight of day-to-day risk management activity including, but not limited to, review of the effectiveness of the Group's risk management framework and system of internal controls. It has authority to direct the business in relation to mitigating actions and to approve or endorse risk acceptance within defined levels.

Compliance and conduct risk

Below the Group's Board and senior management committee structure is a set of **Divisional Risk Committees**. These committees oversee risk management activity across the Group's core divisions, acting as the point of escalation for matters of Group-level significance. Again, the Committees have authority to direct mitigating actions and to approve or endorse risk acceptance for risks within the Division, in accordance with defined levels.

By order of the Board

R Purdy
Director
26 February 2020



ACCORD MORTGAGES LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ACCORD MORTGAGES LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Accord Mortgages Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRS's) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2019; the income statement, 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 company 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

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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 directors 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, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify 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.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

ACCORD MORTGAGES LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ACCORD MORTGAGES LIMITED

Report on the audit of the financial statements (continued)

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement, the directors 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 directors 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 directors are responsible for assessing the company'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 directors either intend to liquidate the company 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.

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 company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

H Varley

Heather Varley (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
26 February 2020

ACCORD MORTGAGES LIMITED

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

		2019	2018
	Notes	£m	£m
Interest income and similar income:			
Calculated using the effective interest rate method	3	511.2	474.5
Other	3	80.9	61.1
Interest Income and similar Income		592.1	535.6
Interest expense	4	(488.0)	(404.5)
Net interest income		104.1	131.1
Fees and commissions receivable		10.7	12.6
Fees and commissions payable		(8.1)	(10.2)
Net fee and commission income		2.6	2.4
Net gains/(losses) from fair value volatility on derivatives		26.8	(30.0)
Administrative expenses	6	(55.7)	(55.6)
Operating profit before provisions		77.8	47.9
Impairment (charge)/release on financial instruments	8	(2.7)	3.2
Provisions for liabilities and charges		0.0	0.1
Profit before tax		75.1	51.2
Tax expense	7	(17.2)	(5.7)
Profit for the year		57.9	45.5

Accord Mortgages Limited had no income or expenditure in either the current or prior year, other than the profits stated above, and consequently no statement of comprehensive income has been presented.

All the profit has originated from continuing operations and is attributable to the equity holder of the Company.

The notes on pages 22 to 40 form part of these financial statements.

ACCORD MORTGAGES LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Notes	2019 £m	2018 £m
ASSETS			
Loans and advances to customers	9	23,627.4	21,211.1
Derivative financial instruments	5	10.9	-
Amounts owed from parent undertaking	18	6,385.3	6,157.4
Other assets		1.3	1.5
Total assets		30,024.9	27,370.0
LIABILITIES			
Amounts due to parent undertaking	18	23,663.9	21,159.8
Amounts due to other group entities	18	5,667.4	5,549.5
Derivative financial instruments	5	15.1	28.9
Current tax liability		11.5	3.6
Deferred tax liabilities	10	1.5	1.7
Other liabilities	11	347.9	316.8
Total liabilities		29,707.3	27,060.3
EQUITY			
Called up equity share capital	12	100.0	100.0
Retained earnings		217.6	209.7
Total equity		317.6	309.7
Total equity and liabilities		30,024.9	27,370.0

These financial statements were approved by the board of directors on 26 February 2020 and were signed on its behalf by:

R Purdy



Director

The notes on pages 22 to 40 form part of these financial statements.

ACCORD MORTGAGES LIMITED**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Share capital	Retained earnings	Total
	£m	£m	£m
Balance at 1 January 2019	100.0	209.7	309.7
Profit for the financial year	-	57.9	57.9
Dividend paid	-	(50.0)	(50.0)
Balance at 31 December 2019	<u>100.0</u>	<u>217.6</u>	<u>317.6</u>
Balance at 1 January 2018	100.0	239.2	339.2
Profit for the financial year	-	45.5	45.5
Dividend paid	-	(75.0)	(75.0)
Balance at 31 December 2018	<u>100.0</u>	<u>209.7</u>	<u>309.7</u>

The notes on pages 22 to 40 form part of these financial statements.

ACCORD MORTGAGES LIMITED

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Notes	2019 £m	2018 £m
Cash flows from operating activities:			
Profit before tax		75.1	51.2
Non-cash items included in profit before tax		2.4	(15.4)
(Increase) in operating assets		(2,429.5)	(2,563.1)
Increase in operating liabilities		15.4	56.7
Taxation paid		(9.5)	(14.3)
Net cash flow from operating activities	17	(2,346.1)	(2,484.9)
Cash flows used in financing activities:			
Net amounts owed to parent undertaking		2,276.2	2,274.1
Amounts owed to other group entities		117.9	300.5
Dividend paid		(50.0)	(75.0)
Net (decrease)/increase in cash and cash equivalents		(2.0)	14.7
Cash and cash equivalents comprise:			
Bank overdraft			
1 January		(1.6)	(16.3)
31 December		(3.6)	(1.6)
Cash flow		(2.0)	14.7

The notes on pages 22 to 40 form part of these financial statements.

ACCORD MORTGAGES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Accord Mortgages Limited ("the Company") is a dedicated intermediary lending company domiciled and registered in England. The financial statements for the year ended 31 December 2019 were authorised for issue by the directors on 26 February 2020.

Basis of preparation

The financial statements have been prepared in accordance with international accounting standards, being International Accounting Standards, International Financial Reporting Standards and International Financial Reporting Interpretations Committee interpretations (collectively "IFRS") as issued by the International Accounting Standards Board, are effective at 31 December 2019 and have been adopted by the European Union.

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain financial instruments measured at fair value through the income statement. The financial statements are presented in sterling, which is the functional currency of the Company.

Except where otherwise stated, all figures in the financial statements are presented in millions of pounds sterling (£m). The financial statements have been prepared on the going concern basis as discussed in the Directors' Report on page 8, under the heading, 'Risks, uncertainties and going concern'. The accounting policies have been consistently applied, except where a new accounting standard has been introduced.

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

Various IFRS amendments became mandatorily effective for periods commencing on or after 1 January 2019 none of which have had any material impact on the disclosures or on the amounts reported in these financial statements.

IFRS 17 'Insurance Contracts' is effective for periods beginning on or after 1 January 2021 and is the comprehensive IFRS establishing specific accounting requirements for insurance contracts. This replaces IFRS 4 for which entities were permitted to account for insurance contracts differently across jurisdictions. The adoption of these standards is not expected to have material impact on these financial statements.

IAS 1 Amendments

Following the introduction of IFRS 9 in 2018 there were some consequential amendments to 'IAS 1' Presentation of Financial Statements. The amendments require separate disclosure of interest revenue calculated using the effective interest rate method ('EIR'). During the year to 31 December 2019 interest receivable and similar income of £592.1m (December 2018: £535.6m) was all calculated using the EIR method except for £80.9m (December 2018: £61.1m) of net income on financial instruments and interest on loans to parent. This has resulted in an amendment to presentation only and is reflected in both the current year and the prior year comparative.

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 to original maturity less overdrafts.

The statement of cash flows has been prepared using the indirect method.

Classification and measurement

Under IFRS 9, financial assets are classified as amortised cost, fair value through other comprehensive income, or fair value through profit or loss, depending on the entity's business model and the contractual cash flow characteristics of the instruments. For further details on the classification and measurement of financial instruments refer to note 14.

Loans and receivables are predominantly mortgage loans to customers and money market advances held for liquidity purposes. They are initially recorded at fair value plus any attributable costs and less any attributable fees and are subsequently held at amortised costs and less any impairment losses.

ACCORD MORTGAGES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

Under IFRS 9, impairment is based on a forward looking expected credit loss (ECL) approach for financial assets classified as amortised cost.

At initial recognition, financial assets are categorised as 'stage 1' and an impairment provision is required for expected credit losses ('ECL') resulting from default events projected within the next 12 months ('12-month ECL'). Subsequently, financial assets are considered to be in 'stage 2' when their credit risk has increased significantly since initial recognition so it is appropriate to recognise lifetime ECL. The Company assesses loans to be in stage 2 when the accounts are more than 30 days past due or there has been a significant relative increase in the lifetime probability of default (PD) compared to initial recognition. The PD for retail mortgages is derived based on the customer's credit quality, including analysis of behaviour score and other account characteristics.

The threshold applied to assess whether a significant relative increase has occurred will depend on the credit quality at initial recognition, with a lower percentage change in PD being required for higher risk accounts.

Financial assets are included in 'stage 3' when there is objective evidence that the loan is credit impaired, with expected credit losses still calculated on a lifetime basis. The objective evidence that is used to determine whether a loan is impaired is whether they are more than 90 days past due, have been renegotiated for credit risk reasons, or otherwise considered to be in default (including possession, insolvency and assets beyond term expiry). The impairment provision is determined using the same calculation as stage 2 accounts, but with the PD set to 100%. The Company's use of forbearance tools remains consistent with 2018 and is detailed in Note 16. Arrears arrangements, payment holiday, term extension, transfers to interest only and interest capitalisation are factored into the criteria for identifying stage 3 accounts.

The Accord Buy-to-Let (BTL) portfolio is not yet subject to behaviour scoring, there has only been one possession to date and limited default history. The IFRS 9 model requires behaviour score to generate a probability of default, so for these loans an alternative modelling solution is in place, proxying losses based on a sample of residential mortgages run through the group's BTL model adjusting for any other known differences between Residential and BTL lending. A fully modelled solution for these accounts is expected in the next two years.

ECLs are calculated at the individual loan level using three main components, PD, a loss given default ('LGD') and the exposure at default ('EAD'). The LGD represents losses expected on default, taking into account the mitigating effect of collateral, its expected value when realised and the time value of money. The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the Balance Sheet date to the default.

The Company has based the ECL calculations for retail portfolios on those used to calculate Basel III expected losses ('EL's) given the similarities in the calculations. However, the IFRS 9 approach has been further developed to meet IFRS 9 requirements, including:

- Calculation of a separate PD, EAD and LGD for every month that a financial assets is due to be outstanding.
- PD is based on a point in time calculation based on current conditions, adjusted to take into account estimates of future conditions that will impact PD. A default backstop of 90+ days past due has also been applied.
- EAD has been modelled based on expected payments over the term and is not floored at the current balance.
- LGD is based on an estimate of loss given default including the expected impact of future economic conditions such as changes in value of collateral and does not include any floors. Only costs associated with obtaining/selling collateral are included.
- Discounting of the expected cashflow is performed using the effective interest rate of the loan.

In addition, the IFRS 9 PD and LGD estimates have to be flexed to capture the effects of forward-looking macroeconomic variables (including interest rates, unemployment, house prices and inflation). The Company has used existing stress testing models to measure these effects, with the calculated provision having a significant sensitivity to the macroeconomic variables and the associated probability weightings applied to these.

ACCORD MORTGAGES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

A Group committee, supported by Finance, Credit Risk, Balance Sheet Management and economic experts, has been established to consider and approve the forward-looking macroeconomic assumptions, with the objective of developing internally coherent economic scenarios. This committee is charged with ensuring that ECL allowance meets the IFRS 9 measurement principle for unbiased and probability weighted amounts derived by evaluating a range of possible outcomes and assumptions.

Loans are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security.

Derivative financial instruments

The Company enters a variety of derivative financial instruments to manage its risk exposure to interest rates. Derivatives are measured at fair value through the income statement.

Fair values are derived using valuation techniques including discounted cash flow models.

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 method is used to calculate the amortised cost of financial instruments and to recognise interest income and expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (excluding credit losses) over the expected life of the instrument to the net carrying amount on initial recognition. The main impact for the Group relates to mortgage advances where fees (such as application and arrangement fees) and costs are incorporated in the calculation. This has the effect of spreading these fees and costs over the expected life of the mortgage.

Expected lives are estimated using historical data and management judgement and the calculation is adjusted when actual experience differs from estimates, with changes in deferred amounts being recognised immediately in the income statement.

Fees and commissions

Fees payable and receivable in relation to the provision of loans are accounted for on an effective interest rate (EIR) basis. Other fees and commissions are recognised on an accruals basis as the relevant service is provided or at a point in time if the service or product provided relates to a one-off action.

Tax

Tax comprises current tax and deferred 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 substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised on temporary differences arising between the carrying amount of certain assets and liabilities for accounting purposes and for taxation purposes. Deferred tax is provided using tax rates enacted or substantively enacted at the reporting date, depending on the date at which they are expected to reverse.

Temporary differences are not provided for on the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

The carrying amount of the deferred tax assets is reviewed at the reporting date, and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

ACCORD MORTGAGES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Other assets

Other assets represent mortgage repayments received from customers' awaiting allocation to mortgage accounts.

Other liabilities

The Company recognises amounts due to customers on offset mortgage products within other liabilities. Accruals for operating activities and any amounts in respect of bank overdrafts are also recognised in other liabilities.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Company makes judgements in applying its accounting policies that have a significant impact on 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 judgements and key sources of estimation uncertainty are described below.

Critical judgement

Effective interest rate

IFRS 9 requires that all of the cash flows directly associated with financial instruments held at amortised cost must be recognised in the Income Statement through the interest or expense using the effective interest rate method. This includes the cash flows for arrangement fees, introducer fees, incentive arrangements and early repayment charges.

Key source of estimation uncertainty

Impairment of mortgage assets

The calculation of impairment provisions for a portfolio of mortgage loans is inherently uncertain. Provisions are calculated using historical default and loss experience but require judgement to be exercised in predicting future economic conditions (e.g. interest rates and house prices) and customer behaviour (e.g. default rates). The most critical sources of estimation uncertainty are:

- The economic scenarios and associated probability weightings, further details of which can be found in Note 16. The committee established to set the forward looking macroeconomic assumptions, has assessed the uncertainty associated with the UK's upcoming trade negotiation with the EU, and determined that applying a combined 40% weighting to downside and stress scenarios as at the balance sheet date represents the best estimate of there being a significant impact on the UK economy. The Group has applied a 20% weighting to upside, 40% to core, 25% to downside and 15% to stress. The Group considered alternative sets of weightings in reaching these results. The most severe applied a 5% movement from downside to stress scenario weightings, which would give rise to a £1.0m (2018: £1.0m) increase in provisions; the least severe applied a 5% movement from stress to upside, which would give rise to a £1.6m (2018: £0.9m) decrease in provisions. These changes in weightings have been fully modelled and been allowed to impact staging.
- The threshold applied to assess whether a significant relative increase in credit risk has occurred. If 10% of the accounts in stage 1 were to be transferred to stage 2 and subject to a calculation of full lifetime expected credit losses, this would result in a £2.7m (2018: £3.6m) increase in the provision.
- The calculation of the probability of default (PD) for accounts in stage 2 and the probability of possession (PP) for accounts in stage 3. A 10% relative increase or decrease in these probabilities would give rise to a £1.7m (2018: £1.9m) increase or decrease in the provision, respectively.
- The assessment of staging for customers who are currently in arrears on their unsecured lending with other lenders but allocated to stage 1. The majority of these accounts were originated at high credit risk, so whilst there has been an increase in credit risk this has not been sufficiently high to breach the transfer criteria for classification as stage 2. For these accounts, if this was treated as a hard indicator of increased credit risk and these loans were transferred to stage 2, there would be a £6.2m (2018: £6.4m) increase in provisions.

ACCORD MORTGAGES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

- The group continues to refine its approach to staging to better align with what is becoming generally accepted practice. As part of the regular review process there is a cohort of customers identified where the group does not consider them to have increased risk and the level of risk is aligned to that on origination. A post model adjustment (PMA) has been applied transferring them back to stage 1. If this PMA had not been in place then provisions would be £0.1m (2018: n/a) higher and stage 2 balances would be £325m (2018: n/a) higher. This PMA is expected to be released during 2020 following a recalibration of the PD model.

3. INTEREST INCOME

	2019 £m	2018 £m
Calculated using the effective interest rate method:		
On loans secured on residential property	511.2	474.5
Interest income calculated using the effective interest rate method	511.2	474.5
Other:		
On loans to parent company	79.4	56.3
On derivatives	1.5	4.8
Other interest income	80.9	61.1
Total interest income	592.1	535.6

4. INTEREST EXPENSE

	2019 £m	2018 £m
On deposits from parent Company (note 18)	401.8	335.9
On deemed loans from other Group entities (note 18)	77.8	65.6
On derivatives	8.4	3.0
Total interest payable	488.0	404.5

5. DERIVATIVE FINANCIAL INSTRUMENTS

	2019 £m		2018 £m	
	Asset	Liability	Asset	Liability
Derivative financial instruments	10.9	15.1	-	28.9

Derivative assets and liabilities relate to internal swaps with the securitisation entities. The Company recognises a £10.9m derivative financial asset in respect of Tombac No.2 PLC and a £15.1m liability with the remaining securitisation entities.

ACCORD MORTGAGES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. ADMINISTRATIVE EXPENSES

	2019	2018
	£m	£m
Management charge	55.6	55.5
Other expenses	0.1	0.1
Total administrative expenses	55.7	55.6

Fees payable to the Company's auditor for the audit of the Company's annual financial statements of £154,500 (2018: £12,103) have been borne by the parent. There were no other fees paid to the auditor.

No staff were employed by the Company during the current or prior year.

Directors' fees are paid by the Yorkshire Building Society to its directors or other key management personnel in relation to their services to the Company. Further information on the Accord directors' remuneration is in Note 18 and further disclosures are available in the Group's consolidated financial statements.

7. TAX EXPENSE

	2019	2018
	£m	£m
Current tax:		
UK corporation tax at 19.00% (2018: 19.00%)	14.0	6.1
Corporation tax - adjustment in respect of prior periods	3.4	(0.2)
Total current tax	17.4	5.9
Deferred tax:		
Current year credit	(0.2)	(0.2)
Total tax expense in income statement	17.2	5.7

The main rate of UK corporation tax reduced to 19% from 1 April 2017.

The Finance Act 2016, substantively enacted on 6 September 2016, further reduced the main rate of corporation tax to 17% from 1 April 2020.

Following announcements made in the run up to the December 2019 Election, the reduction in the tax rate to 17% is not expected to occur.

The rates which are substantively enacted are reflected in this note.

The actual tax expense differs from that calculated using the standard rate of corporation tax in the UK.

The differences are explained below:

	2019	2018
	£m	£m
Profit before tax	75.1	51.2
Tax calculated at a tax rate of 19.00% (2018: 19.00%)	14.3	9.8
Effects of:		
Expenses not deductible for tax purposes	0.0	0.0
Adjustments to tax charge in respect of prior periods	3.4	(0.2)
Other permanent difference	(0.5)	(3.9)
Tax expense in income statement	17.2	5.7

The other permanent difference represents a UK transfer pricing adjustment between the Company and its parent.

ACCORD MORTGAGES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. IMPAIRMENT OF LOANS AND ADVANCES

	2019	2018
	£m	£m
At 1st January	14.0	18.5
Amounts written off in the year	(1.4)	(2.8)
Reduction in discounting	0.3	0.3
Impairment adjustment for the year	3.6	(2.0)
At 31st December	16.5	14.0
The (release)/charge for the year comprises:		
Impairment adjustment	3.5	(2.0)
Recoveries relating to amounts previously written off	(0.8)	(1.2)
Net provision charge/(release) for the year	2.7	(3.2)

Income on impaired assets is calculated using the effective interest rate method based on the amortised cost of the asset after adjusting for expected credit losses, and not the gross carrying value. This gives rise to a reduction in the interest income recorded on impaired assets, but also an offsetting reduction in the impairment charge for the year due to the reduction in discounting on the future credit losses (as shown in the table above). In 2019 & 2018 this was immaterial.

9. LOANS AND ADVANCES TO CUSTOMERS

	2019	2018
	£m	£m
Loans and advances to customers comprise:		
Loans secured on residential property	23,643.9	21,225.1
Impairment provisions (Note 8)	(16.5)	(14.0)
	23,627.4	21,211.1

£23.3m of the loans and advances are contractually due in less than one year (2018: £23.1m).

10. DEFERRED TAX LIABILITIES

The movements on the deferred tax liability are as follows:

	2019	2018
	£m	£m
At 1 January	1.7	1.9
Income statement credit	(0.2)	(0.2)
At 31 December	1.5	1.7

ACCORD MORTGAGES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. OTHER LIABILITIES

	£m	£m
Creditors (amounts falling due within one year)		
Bank overdraft	3.6	1.6
Amounts due to customers	342.6	312.7
Accruals	1.7	2.5
	347.9	316.8

12. CALLED UP EQUITY SHARE CAPITAL

	2019 £m	2018 £m
Authorised, allotted, called up and fully paid: 100,000,000 Ordinary shares of £1 each	100.0	100.0

13. CAPITAL MANAGEMENT

In 2019 a dividend payment of £50.0m was made to the parent (2018: £75.0m).

Capital is managed centrally by the Group and for capital adequacy purposes the Company is consolidated within the Group. The Group's Executive Risk Committee and the Board believe that the current level of capital is appropriate for the Company's activities. The Company's parent Yorkshire Building Society provides all external funding to the Company.

14. FINANCIAL INSTRUMENTS

Summary

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

Financial instrument	Significant terms and conditions	Accounting treatment
Loans secured on residential property	<ul style="list-style-type: none"> • Loan period is typically up to 35 years. • A variety of mortgage products offering fixed and variable interest rates. 	Amortised cost
Amounts owed from parent undertaking	<ul style="list-style-type: none"> • Fixed and variable interest rates. • No fixed maturities. 	
Amounts due to parent undertaking and other group entities	<ul style="list-style-type: none"> • Fixed and variable interest rates. • No fixed maturities. 	
Derivative financial instruments	<ul style="list-style-type: none"> • Primarily medium-term. • Value derived from underlying price, rate or index. 	Fair value through profit or loss
Amounts due to customers	<ul style="list-style-type: none"> • Deposits made by individuals. • Varying withdrawal notice periods. • Fixed and variable interest rates. 	Amortised cost

ACCORD MORTGAGES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. FINANCIAL INSTRUMENTS (continued)

Fair values

Fair value is the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company measures fair value using the following fair value hierarchy:

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).

The following is a comparison of book and fair values of the Company's financial instruments as at the reporting date.

For the year ended 31 December 2019	Carrying value £m	Level 1 £m	Fair value Level 2 £m	Level 3 £m	Total fair value £m
Assets					
Loans and advances to customers	23,627	-	-	23,833	23,833
Derivative financial instruments	11	-	-	11	11
Amounts owed from parent undertaking	6,385	-	6,385	-	6,385
Liabilities					
Amounts owed to parent undertaking and other group entities	29,331	-	29,537	-	29,537
Derivative financial instruments	15	-	-	15	15

For the year ended 31 December 2018	Carrying value £m	Level 1 £m	Fair value Level 2 £m	Level 3 £m	Total fair value £m
Assets					
Loans and advances to customers	21,211	-	-	21,355	21,355
Derivative financial instruments	-	-	-	-	-
Amounts owed from parent undertaking	6,157	-	6,157	-	6,157
Liabilities					
Amounts owed to parent undertaking and other group entities	26,709	-	26,853	-	26,853
Derivative financial instruments	29	-	-	29	29

Fixed rate mortgages are discounted using current market product rates. The difference between book value and fair value results from market rate volatility relative to the fixed rate at inception of the loan deal period; in addition to assumptions applied in relation to redemption profiles, which are regularly reviewed and updated where necessary. As these redemption profiles are not considered to be observable by the market, the fair value of loans and advances to customers is considered to be derived by using Level 3 valuation techniques. Overall the fair value is higher than the carrying value by £206m which arises primarily due to the product rates being above prevailing market rates. A similar technique is used to assess the fair value of the financial liabilities based on the contractual terms and market rates of interest.

Derivatives are classified as Level 3 within the fair value hierarchy as they are economically hedging a pool of mortgage loans and the notional is dependent on the prepayment rate of the underlying mortgages. A 15% decrease in the notional due to changes in the prepayment rate would lead to a £1m increase in the valuation of derivative liabilities.

ACCORD MORTGAGES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. FINANCIAL INSTRUMENTS (continued)

Maturity analysis

		In more than one year but not more than five years	In more than five years	Total
	Repayable on demand and up to one year	£m	£m	£m
2019				
Financial liabilities:				
Borrowings from parent and other group entities	(4)	-	(29,328)	(29,332)
Customer offset mortgage funds	(343)	-	-	(343)
	(347)	-	(29,328)	(29,675)
2018				
Financial liabilities:				
Borrowings from parent and other group entities	(2)	-	(26,708)	(26,710)
Customer offset mortgage funds	(313)	-	-	(313)
	(315)	-	(26,708)	(27,023)

15. MARKET RISK

The Group's principal source of market risk is interest rate risk which focuses on four main measures:

Value at Risk (VaR)

VaR is a risk management tool which evaluates the potential losses that may be incurred as a result of movements in market conditions over a specified holding period and to a given level of confidence. The model used is based on a 10 day holding period and a 99% confidence level.

Basis point value (BP) sensitivity

This measure calculates the change in value of the assets and liabilities resulting from a one basis point parallel shift in interest rates.

Structural risk analysis (Basis risk)

An analysis of interest bearing items by rate type is performed to illustrate key areas of structural mismatch. It identifies mismatches between administered rates, fixed rates and other rates including those linked to Bank Base Rate, LIBOR and SONIA.

Liquidity risk

Liquidity risk within the Company has been eliminated by the provision of undated funding from its parent Yorkshire Building Society.

Re-pricing gap analysis

Re-pricing dates are analysed, primarily to avoid re-pricing risk concentrations - the situation where too great a proportion of the Group's assets and liabilities see the interest rates earned or charged on them resetting within a given time period.

As all market risk is managed by the Group on behalf of Accord Mortgages Limited, further details of how the Group manages market risk can be found in the accounts of the Company's parent Yorkshire Building Society.

ACCORD MORTGAGES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. MARKET RISK (Continued)

Interest rate risk

Interest rate risk within the Company has been eliminated by the provision of appropriate fixed and floating rate funding from its parent Yorkshire Building Society.

Currency risk

The Company has no currency risk as all its financial assets and liabilities are denominated in pounds sterling.

16. Credit Risk on loans and advances to customers

The Company's exposure to credit risk on loans and advances to customers can be broken down as follows:

	2019 £m	2018 £m
Total gross exposure (contractual amounts)	23,579.6	21,173.8
Impairment Provisions	(16.5)	(14.0)
EIR adjustments	64.3	51.3
Total net exposure	23,627.4	21,211.1

Credit risk management

The Retail Credit Risk section of the Risk Management Report describes how the Company manages credit risk via a robust risk appetite, credit risk framework, governance framework and through stress testing.

The company's exposure to mortgage related credit risk is monitored closely by the Customer Risk team. Reporting on risk exposures is provided regularly to the Company's risk committees and includes analysis of mortgages in arrears as well as monitoring of the characteristics of the loan portfolios (e.g. geographic location and loan-to-value).

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Arrears Status	2019 %	2018 %
No arrears	98.0	98.0
Less than three months	1.7	1.7
Equal to or more than three months, less than six months	0.2	0.2
Equal to or more than six months, less than 12 months	0.1	0.1
12 months or more	-	-
In possession/collections	-	-
Total gross exposure (contractual amounts)	100.0	100.0
Number of properties in possession at the year end	11	31

The percentage of Accord mortgages with arrears of three months or more (as a % of outstanding balances, including possessions) has increased during 2019 from 0.31% to 0.33%. The UK Finance industry average ratio for mortgage arrears is measured using the number of accounts (including possessions). On this basis, the company's retail mortgage arrears ratio of 0.56% (2018: 0.50%) is below the comparable UK Finance ratio 0.75% (Q4 2019, Q4 2018: 0.80%).

ACCORD MORTGAGES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Credit Risk on loans and advances to customers (continued)

Arrears on more recent lending are minimal, reflecting the Company's credit risk appetite. The arrears are also lower for the buy-to-let portfolio within retail with an arrears ratio of 0.03% (2018: 0.12%).

The Company's mortgage exposure can be broken down by customer type and geographical region as follows:

	Book		New Lending	
	2019	2018	2019	2018
	%	%	%	%
First time buyer	20.7	20.9	19.9	17.7
Other buyers e.g. movers	33.3	34.0	30.9	29.6
Remortgage	32.6	32.0	36.4	41.4
Buy-to-let	13.4	13.1	12.8	11.3
	100.0	100.0	100.0	100.0

Company	Book		New Lending	
	2019	2018	2019	2018
	%	%	%	%
Scotland	6.8	6.8	6.5	5.9
North East	3.1	3.0	3.2	2.4
Yorkshire & Humberside	6.8	6.7	7.2	6.4
North West	9.4	8.8	10.8	9.0
Midlands	13.7	13.4	14.5	13.5
East	11.3	11.6	11.1	12.4
South West	7.4	7.2	7.7	7.8
Greater London	19.7	20.7	17.0	20.1
South East	17.8	18.0	17.6	19.2
Wales & Northern Ireland	4.0	3.8	4.4	3.3
Total gross carrying amount	100.0	100.0	100.0	100.0

The Company's retail mortgages are secured on property. The value of these properties is updated on a quarterly basis using the ONS regional property price indices which comprise relative house price movements across the UK. These indexed valuations provide senior management with a view of the value and risk of the properties on which retail mortgages are secured. In 2019, the company has updated the regional definitions to align with ONS.

Loan-to-value distribution of retail mortgages Company	Book		New Lending	
	2019	2018	2019	2018
	%	%	%	%
100% or greater	0.1	0.1	-	-
95% to 100%	0.2	0.2	-	-
90% to 95%	3.1	2.4	7.8	6.0
85% to 90%	7.4	6.5	17.3	17.3
80% to 85%	11.3	10.3	20	18.5
75% to 80%	10.7	11	11.2	14.2
70% to 75%	12.9	11.4	15	13
60% to 70%	19.5	20.6	12.5	14.5
Less than 60%	34.8	37.5	16.2	16.5
	100.0	100.0	100.0	100.0
Average indexed LTV	61.4	60.7	73.8	73.9

ACCORD MORTGAGES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Credit Risk on loans and advances to customers (continued)

Impairment

The following table shows credit exposures on loans, impairment provisions, as well as a prudent assessment of collateral held against total loans and advances. The collateral is calculated as the lower of the value of the property and the outstanding loan amount. It is not the overall value of properties secured against the loans.

£m	Gross exposures	
	31 Dec 19	31 Dec 18
Balances as at		
Stage 1	22,565.1	19,674.5
Stage 2	844.1	1,305.7
Less than 30 days past due	768.9	1,241.9
More than 30 days past due	75.2	63.8
Stage 3	170.4	193.6
Less than 30 days past due	50.3	70.3
Between 30-90 days past due	41.4	52.4
More than 90 days past due	78.7	70.9
Total	23,579.6	21,173.8

£m	Collateral Held	
	31 Dec 19	31 Dec 18
Balances as at		
Stage 1	22,564.1	19,673.0
Stage 2	843.3	1,304.2
Less than 30 days past due	768.2	1,240.4
More than 30 days past due	75.1	63.8
Stage 3	169.7	192.8
Less than 30 days past due	50.3	70.2
Between 30-90 days past due	41.3	52.4
More than 90 days past due	78.1	70.2
Total	23,577.1	21,170.0

£m	Impairment Provision	
	31 Dec 19	31 Dec 18
Balances as at		
Stage 1	1.8	0.9
Stage 2	6.4	7.1
Less than 30 days past due	5.1	6.3
More than 30 days past due	1.3	0.8
Stage 3	8.3	6.0
Less than 30 days past due	0.9	0.7
Between 30-90 days past due	1.3	0.7
More than 90 days past due	6.1	4.6
Total	16.5	14.0

All accounts in stage 1 are less than 30 days past due. Stage 2 balances have reduced as a result of a post model adjustment (PMA); details of the PMA can be found in Note 2. This recalibration ensured that accounts were only classified in Stage 2 where there had been a change in the underlying credit quality of the loan rather than a change in PD caused solely by the model change.

ACCORD MORTGAGES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Credit Risk on loans and advances to customers (continued)

Impairment – Risk Assessment

The following tables are included to give an overview of the Company's credit risk. This includes analysis of exposures by 12 month probability of default ranges, origination year and loan to value.

The risk models cover the majority of loans underwritten by the Company, with exceptions for portfolios subject to bespoke modelling requirements including Accord BTL. The Accord BTL population currently has very strict underwriting criteria and limited behavioural history, with only a single possession to date.

PD Band	Balances			2019 Total	2018 Total	Impairment Provision
	Stage 1	Stage 2	Stage 3			
	£m	£m	£m	£m	£m	£m
0.00% - <0.15%	18,179.1	349.2	-	18,528.3	16,542.2	0.8
0.15% - <0.25%	599.6	59.8	-	659.4	590.4	0.2
0.25% - <0.50%	75.3	20.5	-	95.8	89.2	0.2
0.50% - <0.75%	196.2	77.9	-	274.1	291.1	0.2
0.75% - <1.00%	128.8	61.9	-	190.7	200.1	0.3
1.00% - <2.50%	160.7	107.0	-	267.7	293.5	1.8
2.50% - <10.0%	73.8	84.8	-	158.6	168.4	2.2
10.0% - <100%	9.8	55.0	-	64.8	70.2	2.1
Default	-	-	170.4	170.4	194.1	8.3
Other	3,141.8	28.0	-	3,169.8	2,771.9	0.4
Total	22,565.1	844.1	170.4	23,579.6	21,211.1	16.5

The table below shows balances and expected credit losses, captured within both impairment provisions and fair value credit adjustments, by origination year for retail loans. The table shows that the credit quality of newly written business is of significantly higher quality than that written before 2009.

Origination year	Stage 1	Stage 2	Stage 3	Balance	ECL
	%	%	%		
				£m	£m
2019	99.9	0.1	-	6,138.4	0.6
2018	99.7	0.2	0.1	5,996.3	0.7
2017	98.9	0.9	0.2	3,984.5	1.0
2016	97.7	2.0	0.3	2,227.9	0.5
2013 - 2015	94.0	5.7	0.3	3,130.7	0.3
2009 - 2012	86.3	13.0	0.7	804.5	0.1
Pre-2009	55.8	34.1	10.1	1,297.3	13.3
Total gross carrying amount	95.7	3.6	0.7	23,579.6	16.5

Impairment – Economic Scenarios

As outlined in notes 1 & 2, the economic scenarios are a key input into the calculation of expected credit losses under IFRS 9. The Company uses 4 economic scenarios including a stressed scenario. The scenarios are generated internally using external data, statistical methodologies, and senior management judgement, to span a wide range of plausible economic conditions. The core scenario represents the most likely economic forecast and is aligned with the central scenario used in the Company's financial planning processes.

In the determination of upside and downturn scenarios, the Company has considered a range of scenarios of varying degrees of severity or optimism. Of these options, the Company has elected to use scenarios at the upper and lower bounds of the range deemed reasonable. This decision was taken in order to better capture the significant non-linearities associated with the model; more adverse scenarios effect staging, LGD and PD and generate substantially larger provisions. The stress scenario is aligned to the PRA stress used as part of stress testing. Scenarios are projected over a five year window, reverting to long term averages past that point. The Company allows all macroeconomic to impact staging. Furthermore, no economic post model adjustments have been applied for low probability scenarios. These have been fully incorporated into the model.

ACCORD MORTGAGES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Credit Risk on loans and advances to customers (continued)

The following table shows the average values of the key economic variables used by economic scenario for the period until December 2024. The table includes the three key parameters used to predict PD – Unemployment, HPI, Bank Rate. GDP is also presented as it is the key input for determining the economic parameters used and provides context to the nature of the overall scenario. The values in the table are calculated as either a simple average of the rate across the 5 year forecasting window (Unemployment and Bank Rate) or as the compound annual growth rate from start to finish (HPI and GDP). For downturn and stress scenarios, a peak to trough¹ or peak forecast rate² has been provided where this would aid understanding. The downturn scenario is assumed to have sufficient headroom to provide monetary stimulus so no peak parameters are provided for Bank Rate as these are assumed to fall to zero to stimulate growth. The Company monitors the impact of CPI on provisioning, but this continues to be immaterial so no CPI scenarios have been provided.

2019		GDP ¹	HPI ¹	Unemployment ²	Bank Rate ²
		%	%	%	%
Upturn		2.4	6.4	2.5	4.1
Core		1.8	3.1	3.9	0.3
Downturn	-average	1.2	-4.4	6.4	0.0
	-peak	-2.0	-21.9	7.1	n/a
Stress	-average	-0.2	-5.4	7.8	3.4
	-peak	-5.0	-32.8	9.2	4.0
Long term	average	2.0	3.0	5.5	2.0
Weighted	average	1.5	0.6	4.8	1.5

2018		GDP ¹	HPI ¹	Unemployment ²	Bank Rate ²
		%	%	%	%
Upturn		2.4	6.2	3.0	4.0
Core		2.0	3.2	4.0	1.4
Downturn	-average	0.9	-4.4	6.8	0.0
	-peak	-2.9	-22.2	7.8	n/a
Stress	-average	-0.2	-9.2	8.3	3.8
	-peak	-1.7	-38.4	11.5	4.0
Long term	average	n/a	n/a	n/a	n/a
Weighted	average	1.5	0.0	5.2	1.9

The Company have made a number of changes to scenarios over the course of the year. Critically, the stress scenario has been fully aligned to the stress testing process. The 2018 stress scenario was intended to model a sustained contraction arising from a disorderly Brexit. The 2019 stress scenario instead considers the impact of a sudden contraction in GDP of 5% with recovery afterwards and is provided to the Company by the Bank of England. The upside, core and downside scenarios were determined using fundamentally similar GDP assumptions in each year, with the only substantial difference in the core bank rate, which reflects current market sentiment about the likelihood of future rate cuts.

The Company's 2018 scenarios did not include any long term average assumptions. Over the course of 2019, as this has emerged as part of industry best practice, these have been incorporated into the model. These long term averages were determined on historic performance overlaid with senior management judgement where the long term average was deemed inconsistent with current economic conditions. Of these metrics, unemployment varies furthest from both current experience and long term averages as current unemployment is at historic lows, whilst long term averages vary from 6 - 7.4% depending on the period taken.

The following table shows the expected credit loss by economic scenario, with the impact of applying multiple economic scenarios giving rise to a 234.5% increase in provision over that calculated using the core scenario. The total expected credit losses of £16.5m. The ECL under each scenario assumes a 100% probability of that scenario occurring allowing the scenario to fully impact staging.

ACCORD MORTGAGES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Credit Risk on loans and advances to customers (continued)

£m	2019		2018	
	Weighting (%)	ECL	Weighting (%)	ECL
Upside scenario	20	4.7	20	5.7
Core scenario	40	4.9	40	6.4
Downturn scenario	25	29.8	25	23.2
Stress scenario	15	40.9	15	54.6
Probability weighted scenario	100	16.5	100	14.0

Impairment – Movement Analysis

The following tables analyse the movements in IFRS 9 gross balances and impairment provision during the year by stage. The changes to carrying value include both contractual and early repayments.

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross balance at 31 December 2018	19,674.5	1,305.7	193.6	21,173.8
Transfers:				
Transfers from stage 1 to 2	(172.4)	172.4	-	-
Transfers from stage 1 to 3	(24.6)	-	24.6	-
Transfers from stage 2 to 1	417.2	(417.2)	-	-
Transfers from stage 2 to 3	-	(23.6)	23.6	-
Transfers from stage 3 to 1	11.7	-	(11.7)	-
Transfers from stage 3 to 2	-	25.8	(25.8)	-
Changes to carrying value	(757.9)	(49.7)	(2.3)	(809.9)
New financial assets originated or purchased	6,617.0	-	-	6,617.0
Financial assets derecognised during the period	(3,200.4)	(169.3)	(26.8)	(3,396.5)
Write-offs	-	-	(4.8)	(4.8)
Gross balance at 31 December 2019	22,565.1	844.1	170.4	23,579.6

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Impairment provision at 31 December 2018	0.9	7.1	6.0	14.0
Transfers:				
Transfers from stage 1 to 2	(0.1)	0.8	-	0.7
Transfers from stage 1 to 3	(0.2)	-	1.2	1.0
Transfers from stage 2 to 1	-	(1.1)	-	(1.1)
Transfers from stage 2 to 3	-	(0.4)	0.9	0.5
Transfers from stage 3 to 1	-	-	(0.1)	(0.1)
Transfers from stage 3 to 2	-	0.3	(0.6)	(0.3)
Changes in PDs/LGDs/EADs	0.1	-	(0.3)	(0.2)
New financial assets originated or purchased	0.7	-	-	0.7
Changes to model assumptions and methodologies	0.5	(0.2)	2.6	2.9
Unwind of discount	-	0.3	0.3	0.6
Financial assets derecognised during the period	(0.1)	(0.4)	(0.5)	(1.0)
Write-offs	-	-	(1.2)	(1.2)
Impairment provision at 31 December 2019	1.8	6.4	8.3	16.5

Changes to methodologies and assumptions include a revised approach for loss given default modelling to better model behaviour in a downturn, PMA adjustments to high credit quality stage 2 balances and the incorporation of mean reversion assumptions into economic scenarios. Further information on the stage 2 PMA can be found in Note 2 on page 26.

ACCORD MORTGAGES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Credit Risk on loans and advances to customers (continued)

Forbearance

The Company uses forbearance tools where they are deemed appropriate for an individual customer's circumstances, in line with industry guidance. Forbearance tools, which the Company may offer, include capitalisation, interest only concessions, arrears arrangements and term extensions. The use of account management tools are either fully recognised within provisioning or are low in materiality.

During 2019, the Company has tightened its disclosures on forbearance to only include customers experiencing financial distress prior to the granting of forbearance measures. The definition now excludes customers with term extensions and also those with arrangements granted whilst the customer was not in arrears.

The table below shows the accounts that are forborne under the new definition (excluding commercial loans). These accounts have been further classified as non-performing forbearance, where an account meets the definition of default at the point it is granted a forbearance measure, and probationary, for accounts that have exited forbearance measures and been re-classified from non-performing. Accounts are captured as probationary for 2 years after reclassification from non-performing. The Company has fully aligned its definition of non-performing and Stage 3 such that no accounts in stage 2 are classed as non-performing. Any accounts that were previously in default have a cure period of 12 months, after which they are able to move into stage 2 or 1. Prior year results have been included using the updated definition for comparison.

2019 (£m)	Arrangements		Other Concessions		Term extension		Interest Only	
	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL
Probation	59.0	0.9	0.7	0.0	2.1	0.0	0.1	0.0
Stage 1	26.1	0.1	0.2	0.0	0.7	0.0	-	-
Stage 2	32.9	0.8	0.5	0.0	1.4	0.0	0.1	0.0
Non-performing	102.9	5.2	2.6	0.1	1.7	0.0	-	-
Stage 3	102.9	5.2	2.6	0.1	1.7	0.0	-	-
Total	161.9	6.1	3.3	0.1	3.8	0.0	0.1	0.0

2018 (£m)	Arrangements		Other Concessions		Term extension		Interest Only	
	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL
Probation	66.8	0.7	0.9	0.0	2.5	0.0	0.1	0.0
Stage 1	30.5	0.1	0.3	0.0	0.7	0.0	-	-
Stage 2	36.3	0.6	0.6	0.0	1.8	0.0	0.1	0.0
Non-performing	129.8	4.4	2.2	0.1	1.1	0.0	-	-
Stage 3	129.8	4.4	2.2	0.1	1.1	0.0	-	-
Total	196.6	5.1	3.1	0.1	3.6	0.0	0.1	0.0

ACCORD MORTGAGES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. NOTES TO THE CASHFLOW STATEMENT

	2019	2018
	£m	£m
Cash flows from operating activities		
Profit before Tax	75.1	51.2
Adjustments to profit:		
Tax expense	(9.5)	(14.3)
Non-cash items:		
Decrease in impairment and provisions in the year	2.4	(15.3)
Provision for liabilities and charges	0.0	(0.1)
	<u>2.4</u>	<u>(15.4)</u>
(Increase) in operating assets		
Loans and advances to customers	(2,418.7)	(2,567.3)
Derivative financial instruments	(10.9)	3.9
Other assets	0.1	0.3
	<u>(2,429.5)</u>	<u>(2,563.1)</u>
Increase/(decrease) in operating liabilities		
Other creditors	(1.1)	(0.3)
Amounts due to customers	30.3	28.1
Derivative financial instruments	(13.8)	28.9
	<u>15.4</u>	<u>56.7</u>
Net cash flow from operating activities	(2,346.1)	(2,484.9)

The following table shows a reconciliation of liabilities arising from financing activities:

	2019	2018
	£m	£m
Net Intercompany Position		
At 1 January	20,551.9	17,977.4
Cashflows	1,700.8	2,026.0
Non-cash changes caused by:		
Accrued interest	488.0	404.5
Fair value	205.3	144.0
At 31 December	<u>22,946.0</u>	<u>20,551.9</u>

ACCORD MORTGAGES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. RELATED PARTIES

The Company is a wholly owned subsidiary of Yorkshire Building Society which is domiciled and incorporated in the United Kingdom.

Copies of the Group accounts can be obtained from:

Yorkshire Building Society
Yorkshire House
Yorkshire Drive
Bradford
BD5 8LJ

The Company has related party relationships with its parent, other Group companies and its key management personnel.

Transactions with key management personnel

The emoluments of the Company's directors are paid by Yorkshire Building Society. None of the directors or other key management personnel received any emoluments in the year in relation to their services to the Company (2018 - None) as their emoluments are deemed to be substantially attributable to their services to Yorkshire Building Society.

No staff were employed by the Company in the current or prior year.

Other related party transactions

At 31 December 2019 the Company owed a loan to the Parent of £23,663.9m (2018: 21,159.8). The outstanding balance has no fixed repayment date. A market interest rate is charged on the outstanding loan balance. Interest of £401.8m (2018: £335.9m) was paid in the year.

The Parent owed the Company £6,385.3m (2018: £6,157.4m). The outstanding balance has no fixed repayment date. A market interest rate is charged on the outstanding loan balance. Interest of £79.4m (2018: £56.3m) was received in the year.

The Company has deemed loans to the Brass and Tombac securitisation vehicles of £5,667.4m (2018: £5,549.5m). The outstanding balances may be repaid on call date, being dependent on the optional early redemption clause being exercised. A range of rates are charged on the outstanding loan balances. Interest of £77.8m (2018: £65.8m) was paid in the year.

The Company paid a management recharge fee to the parent for the 2019 financial year of £55.6m (2018: £55.5m).

In 2019 a dividend payment of £50.0m was made to the parent (2018: £75.0m).