Accord Mortgages Limited

Registered Number: 02139881

Annual Report and Financial Statements

for the year ended 31 December 2020

Contents

Directors and Company Information

Company number	02139881	
Directors	C Canning	(resigned 31 December 2020)
	J Duncombe	
	P Howley	(resigned 31 December 2020)
	S Jackson	(appointed 1 January 2021)
	D Morris	(appointed 1 January 2021)
	R Purdy	
	R Wells	
	S White	
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 United Kingdom	

Strategic Report

Overview of the Business

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's strategy 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.

It is a wholly owned subsidiary of Yorkshire Building Society ("YBS") and is therefore consolidated into the YBS Group of controlled entities ("the Group").

The Company funds its mortgage lending via funding from YBS. In return, the Company uses tranches of its mortgage assets to back *residential mortgage-backed securities* ("RMBS") for additional Group funding. This is facilitated via special purpose securitisation vehicles, into which the Company sells its mortgages, and out of which RMBS are issued to wholesale investors.

Principal Risks and Uncertainties

Details of the principal risk and uncertainties facing the Company are provided in detail in the Risk Management Report.

Financial Performance

External environment

At the beginning of 2020, the outlook for mortgage trading across the UK market appeared relatively positive, with the return of healthier margins as price competition eased.

As the year progressed, the emergence of the COVID-19 pandemic affected the housing and mortgage markets significantly. For much of the initial UK-wide lockdown, the mortgage market came to an effective standstill as house viewings were limited, difficulties were experienced in safely conducting property valuations, and there were significant delays in receiving local authority search reports.

As part of the Government's response to the pandemic, the Bank of England reduced Bank Base Rate twice in quick succession, from 0.75% to 0.10%. To further mitigate the impact of lockdown, and to provide additional incentives for those moving home, various stimulus measures, including the temporary raising of the zero rate band for stamp duty to £500,000 in England and Northern Ireland, and £250,000 for land transaction tax in Scotland and Wales, were announced in July.

This, combined with other factors such as a rise in home working, drove an increase in demand in the house purchase market. Funding costs for lenders also remained low, aided by the Government's Term Funding Scheme (TFSME) intending to ensure lenders remained active through the pandemic.

Homebuyers, particularly first-time buyers and those looking for a high loan-to-value ("LTV") mortgage, were also hit with higher rates as many providers opted to retrench entirely from these segments to manage their increased risk and operational capacity constraints. Others launched time-bound offers at higher LTV at periodic intervals to manage their exposure and to limit the impact on their underwriting teams.

The re-mortgage market proved to be more stable, as lenders utilised technology, including online applications and automated valuations, to allow easier, socially distanced customer journeys.

Overall, the mortgage market recovered strongly towards the end of the year given the circumstances. The operational and capital constraints experienced by some lenders in 2020 have led to a greater proportion of the market being underserved. This has presented opportunities to well-positioned competitors to achieve higher market share. The extent to which these dynamics will continue largely depends on the speed of economic recovery and whether government lockdowns continue to impact lender service.

Strategic Report (continued)

Financial Performance (continued)

Mortgage performance

Despite the challenging environment during the year ended 31 December 2020, the Company achieved growth in mortgage balances and customers. The number of mortgage accounts held with the Company increased to 150,220 (2019: 138,081).

The buy-to-let mortgage book has grown 10.5% to £3,513m (2019: £3,178m), now representing 13.7% (2019: 13.5%) of the total book. The gross volume of mortgage lending in the year was £5,964m (2019: £6,353m). This resulted in net lending of £1,961m (2019: £2,405m) once repayments and redemptions are accounted for.

The proportion of the Company's new lending that is over 90% LTV is 4.7% as at 31 December 2020 (2019: 7.8%). The Company restricts the LTV on new lending to 95%, which remains unchanged from last year.

Operating profit

Operating profit for the year was £72.0m (2019: £51.0m[1]). This figure can be analysed into the following key areas:

	31 December 2020	31 December 2019
	£m	£m
Net interest income	125.6	104.1
Net fee and commission income	2.7	2.6
Total income	**128.3**	**106.7**
Administrative expenses	(56.3)	(55.7)
Operating profit[1]	**72.0**	**51.0**

1. In the prior period, the Company recorded interest rate swaps at fair value, with valuation movements in the period recognised in the income statement. In the current year, the Company changed the accounting policy for interest rate swaps to amortised cost. The 2019 figures have been restated to reflect the change, Operating profit as previously stated was £77.8 million. For further details please refer to note 1 of the financial statements.

Whilst the cost of funding increased in comparison to last year, due to growth in the balance sheet and volatility in the funding markets driven by the prevailing uncertainty over the ongoing COVID-19 pandemic and the UK's exit from the European Union, this was more than offset by the rates achieved on new business and the run off of the in-force mortgage book.

Administration expenses have increased to £56.3m (2019: £55.7m) due to costs associated with the ongoing project to upgrade the mortgage processing system to accommodate buy to let (“BTL”) products, an increase in recharge costs from YBS functions relating to cost of servicing an increased mortgage portfolio and the development of IT capabilities to support business growth.

Dividend

In 2020, an interim dividend of £50.0m to the shareholder was approved (2019: £50.0m).

Financial Position

Mortgage arrears

The position on our more serious arrears cases, being those with payments 12 months or more in arrears is shown below. As a result of the COVID-19 pandemic, a significant effort has been made to support customers through this period and the Company will continue to do so as the situation develops.

Since March 2020, there have been a number of guidance updates from the FCA aimed at supporting customers who are experiencing financial difficulties due to the COVID-19 pandemic. Initially these related to providing customers with mortgage payment deferrals, where we worked hard to support these customers whilst at the same time continuing to provide help to existing customers who are in arrears.

			% of mortgage accounts/balances	
	2020	**2019**	**2020**	**2019**
Number of accounts in arrears (>12months)	114	61	0.08%	0.04%
Balances outstanding on accounts	£17.0m	£10.1m	0.07%	0.04%
Amount of arrears included in balances	£2.0m	£1.1m	0.01%	0.00%

Expected credit losses on these accounts have been made in accordance with the impairment policy set out in Note 1. For more details on arrears performance, payment deferrals and forbearance please refer to note 14.

Strategic Report (continued)

Financial Position (continued)

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 Accord Board of Directors ("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.

Key Performance Indicators

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

Operating profit

The Company's financial performance is monitored by our Board who, in addition to looking at statutory profit before tax, look at operating profit. Operating profit is an alternative performance measure which excludes items such as fair value gains and losses on financial instruments and one-time charges that are either temporary or typically reverse over time, and so do not reflect the Company's day-to-day activities. Our Board considers operating profit to be a more appropriate measure of the underlying performance of the business.

	2020 £m	2019 £m	2018 £m	2017 £m
Operating profit	72.0	51.0	77.9	100.7
Other financial performance metrics				
Net interest income	125.6	104.1	131.1	142.3
Net fee and commission income	2.7	2.6	2.4	1.8
Administrative expenses	(56.3)	(55.7)	(55.6)	(43.4)
Profit before tax	66.6	48.3	81.2	106.5
Net interest margin	0.39%	0.36%	0.51%	0.63%

Net mortgage lending

The Board monitors mortgage lending performance in a number of ways. A key measure is net lending, this covers all portfolios and channels, and measures effectiveness in new lending and borrower retention.

The reduction in net lending in 2020 reflects challenges posed to the mortgage market arising from the COVID-19 pandemic which included: restrictions on the ability to perform property valuations during lockdowns; operational challenges in order to service the pent-up demand from customers and the impending deadline for the removal of the temporary stamp duty threshold.

	2020 £m	2019 £m	2018 £m	2017 £m
Net mortgage lending	1,961	2,405	2,562	2,214

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. The current percentage of borrowers whose loans are in arrears by three months or more is 0.33%, this is lower than the market average of 0.84%.

	2020 %	2019 %	2018 %	2017 %
Mortgage arrears (>=3months)	0.33	0.33	0.31	0.40

Net Promoter Score

The Company uses Net Promoter Score (NPS)[2] as a means of measuring how satisfied our customers and brokers 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 have been reflected in the results below.

Broker Residential		Broker Buy-to-Let	
2020	2019	2020	2019
84	85	80	78

2. KPMG Nunwood Customer Voice Programme, January - December 2020. Based on 26,529 completed interviews with customers and brokers. Net Promoter Score and NPS are trademarks of Satmetrix Systems, Inc., Bain & Company, Inc., and Fred Reich

Strategic Report (continued)

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

The Board of Directors of Accord Mortgages Limited consider, both individually and together, they have acted in the 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 (noting that all employees are Yorkshire Building Society (YBS) employees as set out below).
- 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 ways in which the Directors of Accord have fulfilled their duties during 2020, taking into account those matters which are considered at Group level.

Promoting the Success of the Company for the Benefit of Our Member
Accord is a wholly owned subsidiary of Yorkshire Building Society (YBS) which is its sole shareholder. As the Society's intermediary lending subsidiary, it supports and promotes the Group's wider strategy and purpose.

The key elements of Section 172(1) which have supported this during 2020 have been:

1. **Fostering Business Relationships with Stakeholders**
   Whilst Accord is a subsidiary of YBS, it is a separate regulated entity. YBS performs all processing activities on behalf of Accord and, as such, there is an Intragroup Outsourcing Framework in place which is reviewed on an annual basis to ensure that the relationship with YBS as a key stakeholder is managed appropriately.

   As an intermediary business Accord our brokers and our customers are key stakeholders. The Accord Board 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.

   Example - COVID-19 Pandemic
   The impact of the COVID-19 pandemic and the lockdown which began in March 2020 brought its own unique challenges but significant work was undertaken to minimise the impact on the Accord business and that of our brokers. As lockdown began and our Business Development Managers were unable to work in the field, the webchat facility was stepped up within 24 hours to enable a quick and effective response to broker queries. In addition, our Growth Series, which aims to provide help and support to our brokers in developing their business, has evolved to reflect the current crisis, providing bespoke support for brokers relevant to the challenges brought by the pandemic.

   The Accord Board is committed to fostering and monitoring the effectiveness of the company's wider business relationships with its all its key stakeholders which also include:

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

   Whilst a number of these relationships are managed and maintained at Group level, the Accord Board receives updates where appropriate, including on the progress of initiatives and future proposals which will ensure that the relationships with our key stakeholders continue to be effective, such as future digital developments to improve the stakeholder experience for our brokers and our customers.

   Further information on the key stakeholders for the Group can be found in the YBS Annual Report and accounts 2020.

   The Board also monitors the ongoing effectiveness of broker relationships through the Net Promotor Scores (NPS), see the Key Performance Indicators section above.

Strategic Report (continued)

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

2. Long Term Consequences of Decision Making

The Accord Board recognises that the management of risk is important to understanding the potential long term consequences of decision making. Details on Accord's approach are set out in the Risk Management Report on pages 10 to 13.

Each year the Accord Board considers the Annual Lending Plan for the company, which is key to the long term sustainability of the company and forms a key component of the Group's overall lending within its Corporate Plan. The Accord Board recognises that the Lending Plan is a key contributor to the overall success of the Society, accounting for over 80% of the Group's residential lending. In 2020 the Annual Lending Plan was considered in the context of the impact of the COVID-19 pandemic on market trading conditions, the operational performance of Accord and future projections.

3. Maintaining a Reputation for High Standards of Business Conduct

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

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

The Accord Board also considers the Modern Slavery Statement. The Statement is prepared at Group level but independently approved and published by Accord in accordance with the legal requirements. It 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 which can reasonably be done to contribute toward helping eradicate modern slavery and human trafficking.

Example - COVID-19 Pandemic

As a result of the COVID-19 Pandemic and start of a national lockdown in March 2020 our Business Development Managers were unable to work in the field, so our webchat facility was stepped up within 24 hours to enable a quick and effective response to broker queries.

The move has enabled broker service to be maintained during the pandemic with broker satisfaction remaining strong over the eight months to the year end.

In addition, the Directors take account of the following other areas of their duties under s172(1) that are not directly applicable:

- **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 Accord 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 strategy. However, any paper to the Accord Board will include details of any impact a decision would have on these areas.
- **Act Fairly Between Members** - whilst Accord 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 is done through 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.

Strategic Report (continued)

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.

Considerable economic uncertainty remains. The short, medium and long term consequences of the COVID-19 pandemic are highly uncertain as is the economic impact of the UK leaving the EU. Although the UK government is progressing through the vaccine roll out, and a trading agreement has been reached between the UK and the EU, there is significant risk around how effective these remedies will be both in terms of immediate impact and longer-term structural challenges.

These two themes are expected to dominate the UK's economic landscape in the coming months. Should it be required, the Company has recourse to financial support from the Group – which remains well-capitalised, with a good amount of liquidity and a strong balance sheet, and therefore well-placed to withstand any expected economic shock as a result.

By order of the Board
R Purdy
Director
23 February 2021

Risk Management Report

Risk Management Framework

The Company is subject to a deed of undertaking with YBS, whereby the parent guarantees to discharge any liabilities of the Company should they fail to be met. This agreement is indefinite, contingent on the Company remaining a wholly-owned subsidiary of YBS, but is reaffirmed annually by the YBS Board.

As a result, whilst the risk management responsibilities of the Board cannot be fully delegated, it is in the interests of the Group to understand the risks facing the Company and manage these effectively to mitigate the need for the Company to call on this deed of undertaking.

YBS applies its risk management policies and techniques to the risks across the group of subsidiaries and controlled entities as whole using its Enterprise Risk Management Framework (ERMF), and therefore appropriate risk management activity is deployed wherever risks arise. For further information on the ERMF please refer to the Yorkshire Building Society Group's Annual Report and Accounts available on the website ybs.co.uk.

Any risks specific to the Company, or which require specific consideration by the Board, will be presented at the regular Board Meetings or directly communicated to the Board as they arise, if necessary.

Governance

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

Group Risk Committee (GRC) 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.

GRC 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.

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.

Stress testing

Stress testing is a proactive risk management tool used throughout the Group, including the Accord operations to better understand potential vulnerabilities in our business model and to derive effective management actions. All stress test scenarios are approved by the Group Asset and Liability Committee (ALCO) and GRC reviews the output of all key stress tests.

Any stress test outputs with direct relevance to the Company are presented to the Board for review.

Principal Risks and Uncertainties

The Company recognises that the environment within which it operates, and the nature of the threats that it faces, are continually evolving. This includes the ongoing end evolving situation relating to the COVID-19 pandemic which continues to dominate matters internationally, nationally, at Group level and for the Company. Additional risks relating to the new trading arrangements between the UK and the European Union also remain as the finer details of the agreement are worked through.

The principal risks and uncertainties that the Group faces, and the effect on the Company, are described below.

Risk Management Report (continued)

Principal Risks and Uncertainties (continued)

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.

Approach

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%, although the Group has carried out ad hoc analysis around potential negative interest rate scenarios and taken action where appropriate to mitigate the associated risks.

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. The Group’s LIBOR position is being managed down in line with regulatory expectation.

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.

Funding and liquidity risk

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

As noted above, the Company has recourse to a deed of undertaking with YBS should there be any shortfall on funding or any liquidity issues. Ultimately, the funding and liquidity risk to the Company represents the funding and liquidity risk of the Group

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 Internal Liquidity Adequacy Assessment Process (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).

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 which sets out how colleagues are expected to identify, assess, monitor, manage and report their risk exposures.

Risk Management Report (continued)

Principal Risks and Uncertainties (continued)

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

Compliance and Conduct risk, including financial crime risk, is constrained by a Board approved risk appetite, which is further governed through the ERMF. 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 established defined risk management and oversight accountability within the divisions. A comprehensive programme of independent oversight with reporting to GRC takes place.

Specific Current and Emerging Risks

Operational response to COVID-19
COVID-19 placed significant operational demands on all financial services organisations, requiring rapid changes to working arrangements and adapting existing processes to continue to meet customer needs under unprecedented and challenging circumstances. As noted above, the Company employs no staff so relies on YBS for operational support for its business.

The Group successfully implemented its operational response to the pandemic in line with Government guidelines and continues to monitor and implement changes resulting from updates to this guidance. The Group's approach has been to ensure the availability of critical services and protect the health and well-being of colleagues, including those directly supporting Accord and our customers. The Group has continued to be run effectively and within risk appetite during this time and all key service lines have remained stable throughout.

Economic impacts of COVID-19 on expected credit losses
COVID-19 has dominated the economic landscape since March 2020. The lockdown measures taken to manage the scale of the pandemic poses an ongoing risk to the economy with the potential of a prolonged (L shape) recession, the resulting rise in unemployment and the added uncertainty this brings to future retail and commercial property values.

The Company's approach to modelling expected credit losses on loans and advances to customers in response to these changing economic conditions is described in more detail in the note 14 to the financial statements.

Economic impacts of Brexit on credit losses
The uncertainty around whether the UK and the EU would agree a trade deal has weighed heavy on economic sentiment over the period.

Whilst it is now confirmed that the UK has left the EU with a trade deal in place, the ongoing economic impacts are still not fully clear and it is anticipated that the economic results of the UK will be lower than they would have been had we remained in the EU.

The Company's economic scenario modelling has considered the impacts of leaving the EU on the economy. The scenarios cover a range of impacts that reflect different levels of productivity and output of the UK and the subsequent impact on the broader economy. The Company's exposure is to UK based residential and BTL property the risk for the Company links to the risk of an economic downturn stemming due to the new trading relationship rather than any direct risks on any particular cohort of assets.

Negative interest rates
There is a risk that a continued contraction in the UK economy may force the Bank of England to reduce the base rate from the current level of 0.1% to zero or below. The Group has performed an initial assessment of the operational capability of the underlying systems to cope with negative interest rates and continues to prepare to face into these operational challenges.

The commercial impact of the resulting margin squeeze has been assessed, including as part of the reverse stress testing process, and potential strategies to respond are being modelled and implemented. The approach to any future movements will continue to focus on managing changes as sympathetically as possible for customers, whilst maintaining clear focus on the position relative to peers and safeguarding financial strength and sustainability.

Risk Management Report (continued)

Specific Current and Emerging Risks (continued)

Climate change risk
The Group continues to work towards fully embedding its strategic approach to managing the financial risks from climate change by the end of 2021 in line with regulation that was published during 2019, guidance published in June 2020 by the Climate Financial Risk Forum and the 'Dear CEO' letter published by the PRA in July 2020. As part of this process, Accord will work with the Group to embed an entity specific view on these risks for reporting in the Company's annual report in future periods.

By order of the Board

R Purdy
Director
23 February 2021

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 2020.

Directors

The directors who served during the year and up to the date of signing of this report were:

C Canning	(resigned 31 December 2020)
J Duncombe	
P Howley	(resigned 31 December 2020)
S Jackson	(appointed 1 January 2021)
D Morris	(appointed 1 January 2021)
R Purdy	
R Wells	
S White	

Business objectives and activities

The business objectives and activities are set out in the Strategic Report.

Principal risks and uncertainties

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

Results of Operations

Operating profit for the year was £72.0 million (2019: £51.0 million as restated – see below).

Dividends

During the year, a dividend to the Company's parent of £50.0 million (2019: £50.0 million) was approved by the Board.

Further details on the Company's financial performance are included in the Strategic Report.

Prior period adjustment

In the current year the Company changed the accounting basis for interest rate swaps from fair value through the income statement to amortised cost. The 2019 figures have been restated to reflect the change, operating profit as previously stated was £77.8 million. For further details please refer to note 1 to the Financial Statements.

Key Performance Indicators

The Key Performance Indicators reviewed by Directors' are included in the Strategic Report.

Governance

Streamlined Energy and Carbon Reporting ("SECR")

Large companies operating in the UK are now required to report their carbon emissions and energy consumption on an annual basis.

As the Company relies on the Group to support all of its operational activities, it does not directly emit carbon. There is currently no mechanism in place for YBS to apply a 'carbon recharge' to subsidiary entities within the Group. The Directors are aware that the financial reporting and governance requirements in respect of environmental and ks are rapidly evolving and they continue to monitor the discussions to assess the impact this may have on the Company in future reporting periods

A full breakdown of the Group's emissions is included in the Yorkshire Building Society Group 2020 Annual Report & Accounts.

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 on page 15 describes how the Wates Principles have been applied during 2020:

Directors' Report (continued)
Governance (continued)
Wates Corporate Governance Principles (continued)

Principle	How it applies to Accord
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.	**Purpose** Accord Mortgages Ltd (Accord) is a wholly owned subsidiary of Yorkshire Building Society (YBS). 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. Accord is fully integrated into the YBS governance structure and as part of the wider YBS Group, Accord supports and promotes the Group's strategy, purpose, values and culture in the areas in which it operates. YBS launched its new Strategic Blueprint in 2020 which sets out the ambitions for the future direction of the business. Further information can be found in the YBS Annual Report and Accounts 2020. **Leadership** The Accord Board considers a Lending Plan each year which 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. 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 8.
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 complexity of the company.	**Composition** The Accord Board is made up of YBS Senior Managers, Chief Officers and an Executive Director, who is also the Chair. Each of the directors brings a variety of skills to the Board through their experience and their spans of control within the wider Group. As at 31 December 2020 there were six statutory directors of the Accord Board. The Accord Board met four times in 2020. The size of the Board is considered appropriate for a subsidiary board where the company's operations are integrated in the wider Group. 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 as an Accord Director ensures that there is direct feedback from the Accord Board to the Group Board. The remaining directors are either Chief Officers or members of the YBS Senior Leadership Team ensuring that there is direct feedback into the key Management Committee's for the Group. It is recognised that diversity is a challenge, however, this continues to be considered as part of reviews of the governance and composition of the Accord Board taking into account the commitment of the Group as a whole to achieving greater diversity and YBS is a signatory to the Women in Finance Charter. Further information can be found in the YBS Annual Report and Accounts 2020. **Effectiveness and Development** The effectiveness of the Accord Board is subject to oversight by YBS as the parent and to support this bi-annual updates are provided to the YBS Board covering key areas such as governance and performance. The Accord Board also undertook a review of its own effectiveness through an internal evaluation facilitated by the Company Secretary. There were no significant issues arising as a result of the 2020 review. Professional development of directors is identified through their roles as part of the wider Group together with regular performance evaluation.

Directors' Report (continued)

Governance (continued)

Wates Corporate Governance Principles (continued)

Principle	How it applies to Accord
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.	Accord and the wider YBS Group are committed to maintaining robust corporate governance practices. 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. 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. All activities required for the day to day running of Accord are carried out by YBS and the framework for these arrangements are set out in an Intragroup Outsourcing Agreement. Performance against key agreed outsourcing measures is monitored at each scheduled meeting of the Accord Board. Governance arrangements are periodically reviewed and refreshed to ensure they remain fit for purpose with a review having been completed in June 2020. The Board meets at least four times a year and receives information on all key aspects of the business to ensure it has oversight of Accord's operations, including financial and operational performance, including performance against key service levels agreed as part of the Intragroup Outsourcing Agreement.
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.	Strategic opportunities are identified and developed as part of the overall Group Strategy planning process. 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 are considered at Group level, including those arising as a result of relationships and transactions with other Group companies. The risk exposures are further understood through a comprehensive suite of stress tests under the wider group framework thereby ensuring that management has a clear perspective on the extent of its risks and the acceptability of those risks in all plausible circumstances. 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. Reviews by the Compliance and Internal Audit teams 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. Further detail in respect of Accord can be found in the Risk Management Report on pages 10 to 13. Further information on the Groups' approach to strategy and risk management can be found in the YBS Annual Report and Accounts 2020.
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.	Accord is not an employer, all services required for the conduct of its operations are provided by YBS employees or contractors. 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 2020.

Directors' Report (continued)

Governance (continued)

Wates Corporate Governance Principles (continued)

Principle	How it applies to Accord
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.	**Shareholder** As a wholly owned subsidiary, the Accord Board duly considers the views of its sole shareholder, YBS, and the interests of the Group as a whole as part of its decision making. 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. The Board is committed to taking into account the views of and understanding its impact on its key stakeholders. As well as YBS as its sole shareholder, these include 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. **Customers** 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. This engagement has continued during the COVID-19 pandemic, evolving to provide bespoke support for intermediaries relevant to the challenges brought by the unique circumstances, such as remove working, video conference and expert tips. 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. **Regulator** Accord is sole regulated by the Financial Conduct Authority (FCA). Compliance and regulatory activities are managed at Group level, however, 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. **YBS Colleagues** 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. **Suppliers** Accord has in place a Modern Slavery Act Transparency Statement which is published annually and can be found at www.accordmortgages.com/modern-slavery-act. Accord reports on its supplier payment practices on a bi-annual basis the details of which can be found on the Government website www.gov.uk/check-when-businesses-pay-invoices.

Directors' Report (continued)

Future developments

The future developments are considered in the Outlook section of the Strategic Report.

Going Concern

The Company has recourse to a deed of undertaking with YBS should there be any shortfall on funding or any liquidity issues. Ultimately, therefore, the going concern of the Company is linked to the going concern of the Group.

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 this ongoing support provided by its parent, YBS. The directors have received a deed of undertaking from YBS confirming that funding will not be repayable in the foreseeable future.

The YBS Board undertake regular assessments of whether the Group is a going concern, taking into account changing economic and market conditions, and using all available information about future risks and uncertainties. During the year to 31 December 2020, the impacts of COVID-19 resulted in a large contraction in the UK economy and increased uncertainty around the future direction of the macroeconomic environment. However, due to its strong capital position and high liquidity levels, the Group is well placed to cope with the economic downturn.

As a result, the directors confirm that, based on the latest formal review undertaken in January 2021, and stress tests performed throughout the period, they consider the Group has adequate resources to continue in existence for the foreseeable future. The directors of the Company have adopted the going concern basis in preparing these financial statements.

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 2020 PricewaterhouseCoopers LLP were re-appointed as auditor by order of the Board.

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

R Purdy
Director
23 February 2021

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 prepared the company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. 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.

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 23 February 2021 and is signed on its behalf by:

S White — Chairman

R Purdy — Director

Independent Auditors' Report to the Member 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 2020 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 2020; the income statement, statement of cash flows and 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

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- A risk assessment to identify factors that could impact the going concern basis of accounting, including the current and forecast financial performance, regulatory metrics and the sector in which the company operates;
- Consideration of the company's loan arrangement and the deed of undertaking with its parent, which together set out the terms of the funding arrangement and the ongoing nature of support provided by YBSG;
- Consideration of the business structure and trading relationships between the company and its parent;
- Evaluation of the reasonableness of the parent's ability to provide funding and support, including the mathematical accuracy of the parent's forecasts and key assumptions; and
- Assessing the appropriateness of the disclosures in the Annual Report.

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

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

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

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

Independent Auditors' Report to the Member of Accord Mortgages Limited (continued)

Report on the audit of the financial statements (continued)

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 our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

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 2020 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 for the financial statements and the audit

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.

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Financial Conduct Authority's regulations, the Prudential Regulation Authority's regulations, and the UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements.

Independent Auditors' Report to the Member of Accord Mortgages Limited (continued)

Report on the audit of the financial statements (continued)

Responsibilities for the financial statements and the audit (continued)

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

We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate manual journal entries to manipulate financial performance, management bias in significant accounting estimates and significant one-off or unusual transactions. Audit procedures performed included:

- Enquiries of management and those charged with governance throughout the year including consideration of known or suspected instances of noncompliance with laws and regulations
- Enquiries of internal legal counsel
- Review of internal audit reports throughout the year, in so far as they related to the financial statements
- Incorporation of an element of unpredictability in our testing through altering the nature, timing and/or extent of work performed
- Challenging estimates and judgements made by management in their significant accounting estimates
- Identifying and testing journal entries, in particular those posted by senior management, posted with descriptions indicating higher level of risk, posting to unusual account combinations based on our understanding of business operations and material late adjustments

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's member 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 obtained 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.

Heather Varley (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
23 February 2021

Income Statement
for the year ended 31 December 2020

	Notes	2020 £m	Restated[1] 2019 £m
Interest revenue calculated using the effective interest rate method	3	529.5	511.2
Other interest revenue	3	86.0	80.9
Interest revenue		**615.5**	**592.1**
Interest expense	4	(489.9)	(488.0)
Net interest income		**125.6**	**104.1**
Fees and commissions revenue		9.5	10.7
Fees and commissions expense		(6.8)	(8.1)
Net fee and commission income		**2.7**	**2.6**
Administrative expenses	5	(56.3)	(55.7)
Operating profit		**72.0**	**51.0**
Impairment of financial assets	7	(5.4)	(2.7)
Profit before tax		**66.6**	**48.3**
Tax expense	6	(12.4)	(12.1)
Profit for the period		**54.2**	**36.2**

1 In the current year the accounting policy for interest rate swaps was changed from fair value through the income statement to amortised cost. The 2019 figures have been restated to reflect the change. For further details please refer to note 1 and note 17 to the financial statements.

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 27 to 48 form part of these financial statements.

Statement of Financial Position

as at 31 December 2020

	Notes	2020 £m	Restated[1] 2019 £m
Assets			
Loans and advances to customers	8	25,583.1	23,627.4
Amounts owed from parent undertaking	16	7,313.9	6,383.0
Other assets		1.1	1.3
Total assets		**32,898.1**	**30,011.7**
Liabilities			
Amounts due to parent undertaking	16	25,616.5	23,663.9
Amounts due to other group entities	16	6,581.6	5,667.4
Current tax liability		-	11.5
Deferred tax liabilities	9	1.8	1.8
Other liabilities	10	374.8	347.9
Total liabilities		**32,574.7**	**29,692.5**
Equity			
Called up equity share capital	11	100.0	100.0
Retained earnings		223.4	219.2
Total equity		**323.4**	**319.2**
Total equity and liabilities		**32,898.1**	**30,011.7**

1 In the current year the accounting policy for interest rate swaps was changed from fair value through the income statement to amortised cost. The 2019 figures have been restated to reflect the change. For further details please refer to note 1 and note 17 to the financial statements.

The notes on pages 27 to 48 form part of these financial statements.

These financial statements were approved by the board of directors on 23 February 2021 and were signed on its behalf by:

R Purdy
Director

Statement of Changes in Equity
for the year ended 31 December 2020

	Share capital	Retained earnings	Total
	£m	£m	£m
Balance reported at 31 December 2019	100.0	209.7	309.7
Prior period restatement[1]	-	23.3	23.3
Restated balance at 1 January 2019[1]	**100.0**	**233.0**	**333.0**
Restated profit for the financial year[1]	-	36.2	36.2
Dividend paid	-	(50.0)	(50.0)
Balance at 31 December 2019	**100.00**	**219.2**	**319.2**
Balance at 1 January 2020	100.0	219.2	319.2
Profit for the financial year	-	54.2	54.2
Dividend paid	-	(50.0)	(50.0)
Balance at 31 December 2020	**100.0**	**223.4**	**323.4**

1 In the current year the accounting policy for interest rate swaps was changed from fair value through the income statement to amortised cost. The 2019 figures have been restated to reflect the change. For further details please refer to note 1 and note 17 to the financial statements.

The notes on pages 27 to 48 form part of these financial statements.

Statement of Cash Flows
for the year ended 31 December 2020

	Note	2020 £m	Restated 2019 £m
Cash flows from operating activities:			
Profit before tax		66.6	48.3
Non-cash items included in profit before tax		5.4	2.7
Net change in operating assets		(1,960.9)	(2,418.6)
Net change in operating liabilities		28.8	28.7
Tax paid		(23.9)	(9.5)
Net cash flow from operating activities	15	**(1,884.0)**	**(2,348.4)**
Cash flows used in financing activities:			
Net amounts owed to parent undertaking		1,021.6	2,278.5
Amounts owed to other group entities		914.2	117.9
Dividend paid		(50.0)	(50.0)
Net increase/(decrease) in cash and cash equivalents		**1.8**	**(2.0)**
Cash and cash equivalents comprise:			
Bank overdraft			
1 January		(3.6)	(1.6)
31 December		(1.8)	(3.6)
Cash flow		**1.8**	**(2.0)**

The notes on pages 27 to 48 form part of these financial statements.

Notes to the Financial Statements

1. Statement of Accounting Policies

Accord Mortgages Limited ("Accord" or "the Company") is a dedicated intermediary lending company domiciled and registered in England. The financial statements for the year ended 31 December 2020 were authorised for issue by the directors on 23 February 2021.

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 2020 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 at the end of each reporting period.

Pounds sterling is both the functional currency of the Company and the presentation currency applied to these financial statements. Except where otherwise stated, all figures in the financial statements are presented in round hundreds of thousands of pounds sterling (£0.0m).

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

Going concern

The Company's Directors undertake regular assessments of whether the Company is a going concern, taking into account changing economic and market conditions, and using all available information about future risks and uncertainties.

During the year to 31 December 2020 the impacts of COVID-19 pandemic resulted in a large contraction in the UK economy and increased uncertainty around the future direction of the macroeconomic environment. The impacts on the Company's modelling of impairment losses on loans and advances to customers are discussed in more detail in note 2.

As a result, the directors confirm that, based on the latest formal review undertaken in January 2021, and stress tests performed throughout the period, they consider the Company has adequate resources to continue in existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

Accounting developments

Brexit

As stated in the basis of preparation above, the Company applies international accounting standards as endorsed by the EU. As a result of the UK's exit from the EU, the Company will need to apply 'UK adopted IAS' instead of 'EU adopted IAS' from 1 January 2021. Both sets of standards will be the same on 1 January 2021 but the two bases may diverge over time if the UK adopts or amends standards and the EU does not.

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts is the comprehensive standard establishing recognition and measurement requirements for insurance contracts. It is expected that this standard will be effective for periods beginning on or after 1 January 2023. The Company does not currently have any products that meet the definition of an insurance contract so this is not expected to impact the financial statements upon adoption.

Changes to Accounting Standards Effective in the Period

The Company has applied a number of amendments to international accounting standards that were mandatorily effective from 1 January 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Notes to the Financial Statements (continued)

1. Statement of Accounting Policies (continued)

Accounting developments (continued)

Interest rate benchmark reform - Amendments to IAS 39, IFRS 9 and IFRS 7
Adoption of the amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Disclosures issued by the IASB in September 2019 were mandatory from 1 January 2020.

The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by inter-bank offered rate (IBOR) reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness continues to be recorded in the income statement. The reliefs will cease to apply when the uncertainty arising from interest rate benchmark reform is no longer present.

Amendments to IFRS 3 Business Combinations
IFRS 3 Business Combinations prescribes the accounting when an entity assumes control of another business. As such, the amendments to this standard are not currently expected to have an impact on the Company, but this will be re-assessed if any acquisition activity were to occur.

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

IFRS 9 and Hedge Accounting
IFRS 9 Financial Instruments was issued in 2014 as a replacement of IAS 39 Financial Instruments: Recognition and Measurement and was mandatorily effective for periods beginning on or after 1 January 2018.

However, IFRS 9 did not replace the requirements for portfolio fair value hedge accounting for interest rate risk since this phase of the project was separated out due to its longer term nature. This is currently at the discussion paper phase and the IASB plans to review the core model feedback in late 2021.

As a result, IFRS 9 included a transitional relief allowing the continued use of the hedge accounting requirements of IAS 39.The development of the discussion paper will be closely monitored and the Company will continue to assess the impacts of full adoption of IFRS 9 for hedge accounting.

Prior period restatement
In the prior period, the Company recorded interest rate swaps at fair value, with valuation movements in the period recognised in the Statement of Comprehensive income. In the current year, the Company changed the accounting policy for interest rate swaps to amortised cost. This change in accounting policy has eliminated fair value volatility, arising on intra-Group Swaps in the Income Statement of the Company.

A transitional adjustment has been recognised through the Company’s reserves of £1.9m. This represents the fair value loss accumulated within reserves to 1 January 2020. The change in accounting policy has given rise to a £0.3m transitional tax adjustment. The transitional tax adjustment has been brought into the charge to tax on a straight line basis over a ten year period.

For further details, please refer to Note 17.

Notes to the Financial Statements (continued)

1. Statement of Accounting Policies (continued)

Significant Accounting Policies

Interest revenue and expense calculated using the effective interest rate method

The effective interest rate method is used to calculate the revenue and expense for financial instruments held at amortised cost. The effective interest rate is the rate that exactly discounts estimated future cash flows (excluding credit losses) over the expected life of the instrument back to the fair value on initial recognition.

For mortgage loans and advances to customers this includes an estimate of any early repayment income. Directly attributable acquisition costs, such as application and arrangement fees, are also 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. 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 and commissions are earned on referral of customers to third party service providers of financial products. Fee and commission revenue is accounted for on an effective interest rate basis, similar to interest revenue and expense above. 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.

Classification and measurement of financial assets and financial liabilities

The Company initially recognises financial assets and liabilities at their fair value (less any directly attributable transaction costs for those subsequently classified at amortised cost) on the date that the Company becomes a party to the contractual provisions of the instrument. Subsequent measurement of financial assets and financial liabilities depends on the contractual cash flow characteristics of the instrument.

Amortised cost: this measurement approach is applied to instruments that are held to collect interest and principal payments over the life of the contract. Subsequent measurement is via the effective interest rate method (see *Interest revenue and expense calculated using the effective interest rate method* above) and subject to impairment (see *Impairment* below).

Fair value through profit and loss: this method is applied to those instruments that are not classed as amortised cost or fair value through other comprehensive income. Subsequent measurement is at fair value with any movements recognised in the income statement in the period in which they arise.

The table below summarises the Company's financial instruments and the treatment adopted in these financial statements:

Financial Instrument	Description	Subsequent measurement
Loans and advances to customers	Primarily mortgage products offering a variety of fixed and variable interest rates	Amortised cost
Amounts owed from/to parent undertaking and other group entities	Intercompany loans	Amortised cost
Derivative financial instruments	Swaps to manage interest rate and foreign exchange risk exposures	Amortised cost (accounting policy change effective 1 January 2020 – see note 17 for details]
Cash and cash equivalents	Bank overdraft	Amortised cost

Notes to the Financial Statements (continued)

1. Statement of Accounting Policies (continued)

Significant accounting policies (continued) ***Derecognition of financial instruments***
Financial assets are only derecognised when the contractual rights to receive cash flows from the financial assets have expired, or when the Company has transferred substantially all the risks and rewards of ownership. Financial liabilities are only derecognised when the obligation is discharged, cancelled, or has expired.

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.

Impairment of financial assets
At each reporting date the Company assesses financial assets held at amortised cost for impairment. For *loans and advances to customers* the Company uses the expected credit loss (ECL) staging model to assess any impairment in the carrying value of the mortgage assets. This model uses forward looking assessments of overall expected credit losses and recognises impairment based on a three-staged approach as follows.

Stage 1: financial assets are categorised into 'stage 1' on initial recognition. Impairment is based on expected credit losses resulting from default events projected within the next 12 months (12 month ECL).

Stage 2: financial assets move into 'stage 2' when they are deemed to have experienced a significant increase in credit risk (SICR). Impairment is then based on expected losses over the full lifetime of the contract (lifetime ECL).

The Company assesses a SICR to have occurred 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 that at initial recognition.

For retail accounts, PD is based on the customer's credit quality, including analysis of their behaviour scores and other account characteristics.

Stage 3: financial assets are moved into 'stage 3' when there is objective evidence that the loan is credit impaired, with expected credit losses still calculated on a lifetime basis.

A loan is considered credit impaired when it is 90 days past due, has been renegotiated for credit risk reasons, or otherwise considered to be in default (including possession, insolvency and assets beyond term expiry).

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 Company'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.

The Company's use of forbearance tools, including arrears arrangements, payment deferrals, term extension, transfers to interest only and interest capitalisation, are factored into the criteria for identifying stage 3 accounts. The impairment provision is determined using the same calculation as stage 2 accounts, but with the PD set to 100%.

ECL calculations: these are assessed at individual loan level using three main components.

- PD, being the probability, at the point of assessment, that the customer will default in the future.
- Exposure at default (EAD), being the outstanding value of the loan, taking into account the repayment of principal and interest between the date of assessment and expected default date.
- Loss given default (LGD), is the net impact of the EAD after taking into account the mitigating effect of collateral and the time value of money.

PD is a point in time calculation based on current conditions and adjusted to take into account estimates of future conditions that will impact PD. EAD is modelled based on expected payments over the term and is not floored at the current balance.

Notes to the Financial Statements (continued)

1. Statement of Accounting Policies (continued)

Significant accounting policies (continued)

Impairment of financial assets (continued)

LGD takes into account the expected impact of future economic conditions, such as changes in value of collateral, and does not include any floors. Only costs directly associated with obtaining/selling collateral are included. Discounting of the expected cash flows is performed using the effective interest rate of the loan.

The ECL is calculated using models that build up separate estimates for PD, EAD and LGD for every month that a loan is due to be outstanding.

PD and LGD estimates are then flexed under different scenarios to capture the effects of changes to the forward looking macroeconomic variables (including interest rates, unemployment, house prices and inflation). The final ECL figure takes a probability weighted average of these different scenarios.

Loans are written off against this ECL balance 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.

Hedging

As discussed above, IFRS 9 *Financial Instruments* included a transitional relief allowing the continued use of the hedge accounting requirements of IAS 39 *Financial Instruments: Recognition and Measurement*, and the Company continue to adopt this approach.

The Company applies hedge accounting when the specific rules and conditions in IAS39 are fulfilled. The majority of the Company's Derivatives are intra-Group interest rate swaps. As discussed above a change in accounting policy has been changed in the prior period and as a result these derivatives are initially recognised at fair value and subsequently measured at amortised cost.

Taxation including deferred 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 for 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 effective on the date at which they are expected to reverse.

The following temporary differences are not provided for:

- The initial recognition of assets or liabilities that affect neither accounting nor taxable profit.
- Differences relating to investments in subsidiaries, to the extent that the parent is able to control the reversal of temporary differences, and it is probable they will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available, against which a temporary difference can be utilised. The carrying amount of the deferred tax asset 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.

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.

Notes to the Financial Statements (continued)

2. Critical accounting judgement and key sources of estimation uncertainty

In applying its accounting policies the Company makes judgements that have a significant impact on the amounts recognised in the financial statements.

In addition estimates and assumptions are used that could affect the reported amounts of assets and liabilities. The estimates and underlying assumptions are reviewed on an ongoing basis.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, are discussed below.

Key source of estimation uncertainty

Impairment of loans and advances to customers

The impairment calculation of expected credit losses (ECL) for a portfolio of mortgage loans is inherently uncertain. ECL 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 as follows.

A Group level forum, 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 forum is charged with ensuring that ECL allowance meets the requirement for unbiased and probability weighted amounts derived by evaluating a range of possible outcomes and assumptions.

Economic scenarios and weightings

The Company has assessed the uncertainty associated with the ongoing COVID-19 pandemic and determined that applying a combined 50% weighting to downside and stress scenarios as at the balance sheet date reflects a reasonable view of the outturn for the UK economy. The Company has applied a 5% weighting to upside, 45% to core, 35% to downside and 15% to stress. The choice of alternative scenarios and scenario weights is performed to ensure the full range of possible outcomes and material non-linearity of losses are captured.

The Company 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 £0.2m (2019: £1.0m) increase in provisions, the least severe applied a 5% movement from stress to upside, which would give rise to a £1.6m (2019: £1.6m) decrease in provisions. Further comments on the rationale of chosen weightings can be found in note 14.

Payment deferrals

Where customers that have applied for a payment deferral in response to the COVID-19 pandemic, the Company has developed a post model adjustment (PMA) to recognise the increased risk in this population. The widespread use of payment deferrals has reduced the predictive value of the behaviour score for these customers, the critical driver of our probability of default calculation. Further details on the impact of COVID-19 can be found in note 14.

SICR

The threshold applied to assess whether a significant relative increase in credit risk has occurred. If 10% of the accounts in stage 1, on a proportional basis, 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 (2019: £2.7m) increase in the provision. Adjustment of SICR criteria for payment holidays is described in Note 14.

Probability of default and possession

The calculation of the probability of default (PD) for accounts in stage 2 and the probability of possession for accounts in stage 3. A 10% relative increase or decrease in these probabilities would give rise to a £2.0m (2019: £1.7m) increase or decrease in the provision, respectively.

Staging

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 on a relative basis to breach the transfer criteria to 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 £6.3m (2019: 6.2m) increase in provisions.

Notes to the Financial Statements (continued)

3. Interest revenue

	2020 £m	2019 £m
Calculated using the effective interest rate method:		
On loans secured on residential property	529.5	511.2
Interest income calculated using the effective interest rate method	**529.5**	**511.2**
Other:		
On loans to parent company	66.1	79.4
On derivatives	19.9	1.5
Other interest income	**86.0**	**80.9**
Total interest income	**615.5**	**592.1**

4. Interest expense

	2020 £m	2019 £m
On deposits from parent company (note 16)	403.7	401.8
On deemed loans from other Group entities (note 16)	84.4	77.8
On derivatives	1.8	8.4
Total interest payable	**489.9**	**488.0**

5. Administrative expenses

	2020 £m	2019 £m
Management charge	56.0	55.6
Other expenses	0.3	0.1
Total administrative expenses	**56.3**	**55.7**

Included within other expenses are the fees payable to the Company's auditor for the audit of the Company's annual financial statements of £190,000, in 2019 audit fees of £154,500 were 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 16 and further disclosures are available in the Group's consolidated financial statements.

Notes to the Financial Statements (continued)

6. Tax expense

	2020 £m	Restated 2019 £m
Current tax:		
UK corporation tax at 19.00% (2019: 19.00%)	12.4	14.0
Corporation tax - adjustment in respect of prior periods	-	3.4
Total current tax	12.4	17.4
Deferred tax:		
Current year credit	(0.2)	(5.3)
Change in tax rate	0.2	-
Total tax expense in income statement	**12.4**	**12.1**

The main rate of UK corporation tax remains at 19%, rather than the previously enacted reduction to 17% from 1 April 2020.

The actual tax expense differs from that calculated using the standard rate of corporation tax in the UK. The differences are explained below:

	2020 £m	Restated 2019 £m
Profit before tax	66.6	48.3
Tax calculated at a tax rate of 19.00% (2019: 19.00%)	12.6	9.1
Effects of:		
Expenses not deductible for tax purposes	0.1	0.1
Adjustments to tax charge in respect or prior periods	-	3.4
Change in tax rate	0.2	-
Other permanent difference	(0.5)	(0.5)
Tax expense in income statement	**12.4**	**12.1**

The other permanent difference represents a UK transfer pricing adjustment between the Company and its parent. A transitional adjustment for tax purposes has arisen due to the change in accounting treatment of Intra Group Interest rate swaps (see Note 17)

7. Impairment of loan and advances

	2020 £m	2019 £m
Expected credit losses at 1st January	**16.5**	**14.0**
Amounts written off in the year	(1.0)	(1.4)
Reduction in discounting	0.4	0.3
Impairment adjustment for the year	5.9	3.6
Expected credit losses at 31st December	**21.8**	**16.5**
The charge for the year comprises:		
Impairment adjustment	5.9	3.5
Recoveries relating to amounts previously written off	(0.5)	(0.8)
Impairment of financial assets	**5.4**	**2.7**

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 2020 & 2019 this was immaterial.

Notes to the Financial Statements (continued)

8. Loans and advances to customers

	2020 £m	2019 £m
Loans and advances to customers comprise:		
Loans secured on residential property	25,604.9	23,643.9
Expected credit losses - Impairment (note 7)	(21.8)	(16.5)
	25,583.1	**23,627.4**

£34.3m of the loans and advances are contractually due in less than one year (2019: £23.3m).

9. Deferred tax liabilities

The movements on the deferred tax liability are as follows:

	2020 £m	Restated 2019 £m
At 1 January	1.8	1.7
Impact of change in accounting policy	-	5.4
Income statement credit	-	(5.3)
At 31 December	**1.8**	**1.8**

10. Other liabilities

	2020 £m	2019 £m
Creditors (amounts falling due within one year)		
Bank overdraft	1.8	3.6
Amounts due to customers	371.1	342.6
Accruals	1.9	1.7
	374.8	**347.9**

11. Called up equity share capital

	2020 £m	2019 £m
Authorised, allotted, called up and fully paid:		
100,000,000 Ordinary shares of £1 each	100.0	100.0

12. 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).

Notes to the Financial Statements (continued)

12. Fair values

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

	Carrying value	Fair value			Total fair value
		Level 1	Level 2	Level 3	
2020	£m	£m	£m	£m	£m
Assets					
Loans and advances to customers	25,583	-	-	25,657	**25,657**
Amounts owed from parent undertaking	7,314	-	-	7,314	**7,314**
Liabilities					
Amounts owed to parent undertaking and other group entities	32,198	-	32,272	-	**32,272**
2019					
Assets					
Loans and advances to customers	23,627	-	-	23,833	**23,833**
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**

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 £74m 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.

Maturity analysis	Repayable on demand and up to one year	In more than one year but not more than five years	In more than five years	Total
2020	£m	£m	£m	£m
Financial liabilities:				
Borrowings from parent and other group entities	(2)	-	(32,196)	(32,198)
Customer offset mortgage funds	(371)	-	-	(371)
	(373)	**-**	**(32,196)**	**(32,569)**
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)**

The Company's *borrowings from parent* is subject to a deed of undertaking with YBS, whereby YBS guarantees to discharge any liabilities of the Company should they fail to be met. This agreement is indefinite but is reaffirmed annually by the YBS Board. The YBS board have confirmed that this funding will not be repayable in the foreseeable future.

Notes to the Financial Statements (continued)

13. 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.

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.

14. Credit risk on loans and advances to customers

Gross Exposure
The table below splits the loans and advances to customers balance per the statement of financial position into its constituent parts and reconciles to the gross exposures used in the expected credit loss (ECL) model. Effective Interest Rate (EIR) and hedging adjustments have been excluded from the ECL model as these do not form part of the contractual cash flows from the assets.

EIR is the recognition and measurement method used for financial assets held at amortised cost, and this includes all our loans and advances to customers. The EIR method spreads items such as income and fees over the life of the asset to give a fairer representation of product profitability.

	2020	**2019**
	£m	**£m**
Gross contractual exposures at the period end	25,541.2	23,582.2
EIR	63.7	61.7
ECL	(21.8)	(16.5)
Loans and advances to customers	**25,583.1**	**23,627.4**

Notes to the Financial Statements (continued)

14. Credit risk on loans and advances to customers (continued)

Expected Credit Losses (ECL)

ECL are calculated using models that take historical default and loss experience and apply predictions of future economic conditions (e.g. interest rates and house prices) and customer behaviour (e.g. default rates). In certain circumstances, the core models may not accurately reflect factors that have resulted in an increased credit risk. When this happens, post model adjustments (PMA) are overlaid to reflect the impact on ECL. The economic scenarios and the PMAs applied at 31 December 2020 are described below.

Economic Scenarios

Four economic scenarios are generated internally using external data, statistical methodologies, and senior management judgement, to span a wide range of plausible economic conditions. Scenarios are projected over a five-year window, reverting to long term averages past that point. The Company allows all macroeconomic scenarios to impact staging.

Over the course of 2020, the Company's focus switched from the economic risks posed by Brexit to those from the COVID-19 pandemic. The Company continue to use four scenarios: an upside scenario that assumes minimal disruption; our core or central scenario; a more negative downturn scenario; and a stress scenario.

Core

The core scenario is the Company's best estimate of how the COVID-19 pandemic will evolve and is aligned with the central scenario used in the Group's financial planning processes. It assumes lockdowns across the UK nations last until the end of March 2021, with the economic consequences of this smaller than the initial 2020 lockdown because the manufacturing and construction sectors will largely stay open and many more employees in the services sector are able to work from home.

It further assumes that the vaccines continue to be rolled out successfully through the year with the majority of the population vaccinated by the end of 2021. Whilst restrictions for some tier 3 and 4 areas remain in place into Q2, the decline in the infection rate and hospital numbers allows the gradual reopening of previously closed sectors.

In this scenario gross domestic product (GDP) recovers rapidly in 2021 and 2022, with annual growth rates significantly above those seen since the financial crisis. The UK economy returns to near its pre-pandemic level in Q3 2022 but is structurally marginally smaller due to lost investment, business closure and labour market scarring (i.e. the longer a person is unemployed the more difficult they find it to re-enter the jobs market.) In 2022 to 2025 GDP growth then slows to similar rates seen in the past decade. The impact of Brexit is to leave GDP around 4% lower than pre-virus level in 2025 due to lower inward investment and productivity.

Unemployment is expected to rise when the UK Government's job retention scheme (JRS) ends in April 2021, reaching a peak of 7.9% in Q4 2021. But as uncertainty fades and demand continues to grow, we anticipate a recovery in business investment and therefore job creation. We still expect unemployment to remain high compared to recent years, in line with previous recessions.

The house price index (HPI) is predicted to decline from April 2021 due to the withdrawal of the JRS, the end of the Help-to-Buy scheme and the end of the temporary stamp duty/land tax threshold increases. Core assumes HPI falls by 4% over 2021, stays largely flat in 2022 and then start rising in line with inflation (2.0% per annum) from 2023.

Downturn

The downturn scenario assumes a reduced efficacy of the current vaccines against the new COVID-19 variants resulting in a series of extended lockdowns and tiered restrictions through 2021. This continues to have an impact on trading for sectors deemed non-essential and, over time, this pushes up unemployment.

This scenario assumes a GDP contraction of 5.5% in 2021, just over the half the reduction recorded in 2020, and a continued contraction of 2.0% over 2022 as the economy starts to gradually reopen. However, with weakness in the labour markets, declining real earnings and low demand/business investment, downturn forecasts flat GDP for 2023 and growth rates of 1.5% and 2.0% for 2024 and 2025.

Notes to the Financial Statements (continued)

14. Credit risk on loans and advances to customers (continued)

ECL (continued)

Economic Scenarios (continued)

Downturn (continued)

In terms of unemployment, there is a rapid increase from 6.3% in Q1 2021 to 8.8% in Q4 2021, peaking at 9.5% in Q1 2022. As recovery sets in, unemployment gradually starts to fall, although it is still high by recent standards.

HPI declines from April 2021 due to the withdrawal of the JRS, the end of the Help-to-Buy scheme and the end of the temporary stamp duty/land tax threshold increases. Falling real earnings due to unemployment and lenders restricting high LTV mortgages all drive housing demand and prices down sharply by 17% in 2021. Low confidence and weak labour markets continue to add pressure on prices in 2022, with a gradual improvement thereafter in line with GDP and employment.

Stress

In the stress scenario there are further challenges with current vaccine's ability to cope with new strains of COVID-19. This leads to increasing challenges for the economy, with high unemployment, low inflation and low rates. A contracting economy and a large public sector deficit put pressure on sterling, giving rise to inflation and a decline in real wage growth.

Extended consumer uncertainty results in depressed consumption, whilst extended business uncertainty holds back investment, hiring and growth. Unemployment stays high for longer as the long-term unemployed find it difficult to re-enter the jobs market. We also assume that overall Brexit impact leaves GDP at least 4% smaller by 2025 due to the decline of inward investment, fall in labour supply and fall in productivity.

Unemployment assumptions are based on the experience of the early 1980s with unemployment continuing to rise even after the recession had finished and not peaking until 1984. The stress scenario has unemployment peaking in Q4 2022 and then slowly falling but remaining high compared to pre-virus levels due to a high degree of labour market scarring.

For HPI, unemployment, the contraction in real earnings, lack of high LTV mortgages and lack of available houses for sale are key drivers of low demand over the 5 year forecast horizon with property falling less sharply than downturn but over a longer period.

Upside

This assumes mass vaccination is available from Q1 2021, there is a highly effective suppression of the virus, and the removal of social distancing allows households and businesses back to normality over Q2 2021. GDP growth starts off strong as the economy bounces back over 2021 and 2022 and reverts to pre-pandemic levels from 2023. Unemployment falls back to multi-decade lows and house prices grow at over 3% per annum.

Summary of Key Economic Variables

The following tables show the key economic variables used by each economic scenario for the period until December 2025 and includes the three key parameters used to predict probability of default (PD) – unemployment, HPI and UK Bank of England base 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 average values in the table are calculated as either a simple average of the rate across the five-year forecasting window (unemployment and bank rate) or as the compound annual growth rate from start to finish (HPI and GDP).

Notes to the Financial Statements (continued)

14. Credit risk on loans and advances to customers (continued)

ECL (continued)

Economic Scenarios (continued)

Summary of Key Economic Variables (continued)

%	2019 Scenario					2020 Scenario				
	2020	2021	2022	2023	2024	2021	2022	2023	2024	2025
HPI										
Upside	2.9	6.8	8.9	7.3	6.3	3.2	3.4	3.4	3.6	3.5
Core	1.1	3.3	3.0	3.4	3.5	(4.0)	-	2.0	2.0	2.0
Downturn	(4.9)	(10.4)	(6.5)	(2.0)	2.3	(17.0)	(4.0)	-	1.5	2.0
Stress	(10.8)	(16.4)	(8.9)	5.5	5.7	(12.0)	(10.0)	(5.0)	(2.0)	-
GDP										
Upside	3.2	2.6	2.0	2.0	2.0	6.5	2.5	2.0	2.0	2.0
Core	1.4	1.8	1.9	2.0	2.0	5.7	2.5	1.8	1.6	1.6
Downturn	(2.0)	2.0	2.0	2.0	2.0	(5.5)	1.3	1.5	1.7	1.8
Stress	(2.6)	(1.6)	1.2	1.0	1.0	(5.5)	(2.0)	(0.8)	(0.5)	-
Unemployment										
Upside	3.2	2.4	2.2	2.3	2.3	5.0	4.0	3.9	3.8	3.8
Core	4.0	4.0	3.8	3.8	3.8	7.9	7.5	6.5	5.5	4.5
Downturn	5.4	7.0	7.0	6.7	6.3	9.5	8.5	7.5	7.0	6.0
Stress	6.4	9.2	8.8	8.2	7.5	8.8	11.9	10.8	9.0	8.0

	Upside		Core		Downturn		Stress	
%	2019	2020	2019	2020	2019	2020	2019	2020
5y Average								
GDP	2.4	2.3	1.8	2.0	1.2	(0.5)	(0.2)	(2.4)
HPI	6.4	3.4	2.9	0.4	(4.4)	(3.8)	(5.4)	(5.9)
Unemployment	2.4	4.4	3.9	6.5	6.6	7.8	8.2	9.5
Bank Rate	4.4	0.7	0.3	0.2	-	0.1	3.7	-
Peak								
GDP	-	-	-	(8.8)	(3.2)	(7.8)	(5.0)	(4.9)
HPI	-	-	-	(5.8)	(22.0)	(16.8)	(32.8)	(24.0)
Unemployment	3.3	7.0	4.0	7.9	7.1	9.5	9.2	11.9

Scenario Weightings

The following table shows the expected credit loss under each of our four economic scenarios along with the weightings that have been applied to arrive at the weighted average ECL.

£m	2020 Weighting (%)	2020 ECL £m	2019 Weighting (%)	2019 ECL £m
Upside scenario	5	4.7	20	4.7
Core scenario	45	5.9	40	4.9
Downturn scenario	35	31.5	25	29.8
Stress scenario	15	36.2	15	40.9
Probability weighted scenario	100	19.6	100	16.5
PMA		2.2		-
ECL		**21.8**		**16.5**

The relative weighting of the scenarios was assessed in conjunction with the review of underlying assumptions in each scenario in response to the COVID-19 pandemic. The main impact of this is a reduction in our weighting towards upside, which has moved from 20% in 2019 to 5% for 2020. It is clear that there is a reduced likelihood of there being a smooth and seamless return to pre-pandemic normality and economic growth.

Notes to the Financial Statements (continued)

14. Credit risk on loans and advances to customers (continued)

ECL (continued)

Scenarios Weightings (continued)

At the other end of the spectrum, the stress scenario is used to test the rigour of the Group's balance sheet under extreme circumstances and, whilst risk has increased, the likelihood of the worst case scenario occurring is not considered to have materially changed.

The overall impact is a move of 15 percentage points from upside, allocated 5 to core and 10 to downside. If the 2019 weightings had been applied to the 2020 balances the ECL would be £3.0 million lower.

Post Model Adjustments

Post model adjustments (PMA) are applied when an increase in credit risk is identified that is not effectively captured in the core expected credit loss models.

Payment Deferrals

In response to the COVID-19 outbreak UK mortgage lenders were encouraged to offer financial support to customers in the form of deferrals of their mortgage payments. During the year we granted payment deferrals to 16.6% of our mortgage customers and at the reporting date, 1.9% of our customers are still deferring payments.

Consistent with Prudential Regulation Authority (PRA) guidance, payment deferrals are not being treated as a forbearance measure and have not impacted the credit reports of customers. In addition, payment deferrals, in and of themselves, are not being treated as a significant increase in credit risk for assessing the ECL at 31 December 2020.

To ensure that the levels of increased risk in the book potentially masked by payment deferrals are adequately reflected, a post model adjustment was developed to reflect the risk and uncertainty surrounding customer behaviour when coming out of the deferral period.

The PMA has been calculated using internal assessments of credit risk. We have considered the customer's employment status at the point of applying for a payment deferral and how close they were to naturally triggering stage transfer rules. Where we consider the risk of default to be elevated, the customer's probability of default (PD) has been stressed and calculated on a lifetime basis with the severity of the PD stress proportional to the risk of the industry.

Staging

Stage	Balances £m	%	PMA £m	Total ECL £m	Coverage %	Average LTV %	2019 % Balance %	2019 Coverage %
Stage 1	24,497.8	95.9	-	2.5	0.01	61.4	95.7	0.01
Stage 2	869.5	3.4	2.2	10.0	1.15	55.7	3.6	0.76
Stage 3	173.9	0.7	-	9.3	5.35	54.4	0.7	4.87
Total	**25,541.2**	**100.0**	**2.2**	**21.8**	**0.09**	**60.0**	**100.0**	**0.07**

The following tables show as at the year end, all expected credit exposures on loans, impairment, 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.

Gross Exposures	2020 £m	2019 £m
Stage 1	**24,497.8**	**22,567.7**
Stage 2	**869.5**	**844.1**
Less than 30 days past due	799.0	768.9
More than 30 days past due	70.5	75.2
Stage 3	**173.9**	**170.4**
Less than 30 days past due	58.3	50.3
Between 30-90 days past due	38.1	41.4
More than 90 days past due	77.5	78.7
Total	**25,541.2**	**23,582.2**

Notes to the Financial Statements (continued)

14. Credit risk on loans and advances to customers (continued)

ECL (continued)

Staging (continued)

Collateral Held	2020 £m	2019 £m
Stage 1	**24,495.0**	**22,564.1**
Stage 2	**868.8**	**843.3**
Less than 30 days past due	798.4	768.2
More than 30 days past due	70.4	75.1
Stage 3	**173.5**	**169.7**
Less than 30 days past due	58.3	50.3
Between 30-90 days past due	38.0	41.3
More than 90 days past due	77.2	78.1
Total	**25,537.3**	**23,577.1**

ECL	2020 £m	2019 £m
Stage 1	**2.5**	**1.8**
Stage 2	**10.0**	**6.4**
Less than 30 days past due	7.7	5.1
More than 30 days past due	2.3	1.3
Stage 3	**9.3**	**8.3**
Less than 30 days past due	1.1	0.9
Between 30-90 days past due	1.1	1.3
More than 90 days past due	7.1	6.1
Total	**21.8**	**16.5**

All accounts in stage 1 are less than 30 days past due.

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 Group'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).

Arrears Status	2020 %	2019 %
No arrears	98.0	98.0
Less than three months	1.6	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	0.1	-
Total	**100.0**	**100.0**
Number of properties in possession at the year end	**24**	**11**

The percentage of Accord mortgages with arrears of three months or more (as a % of outstanding balances, including possessions) has marginally increased from 0.3% to 0.4%. 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 0.59% (2019: 0.56%) is below the comparable UK Finance ratio 0.84% for Q3 2020.

Notes to the Financial Statements (continued)

14. Credit risk on loans and advances to customers (continued)

Credit risk management (continued)

Arrears on more recent lending are minimal, reflecting the Company's credit risk appetite. The arrears on the buy-to-let portfolio within retail remains the same with an arrears ratio of 0.03% (2019: 0.03%). The Company's mortgage exposure can be broken down by customer type and geographical region as follows:

	Book		New Lending	
	2020	**2019**	**2020**	**2019**
	%	%	%	%
First time buyer	23.3	20.7	32.6	19.9
Other buyers e.g. movers	33.2	33.3	32.3	30.9
Remortgage	29.8	32.6	24.0	36.4
Buy-to-let	13.7	13.4	11.1	12.8
	100.0	**100.0**	**100.0**	**100.0**

Note: The customer type distribution for new lending is based on year end balances.

	Book		New Lending	
	2020	**2019**	**2020**	**2019**
	%	**%**	**%**	**%**
Scotland	6.7	6.8	5.8	6.5
North East	3.3	3.1	3.9	3.2
Yorkshire & Humberside	7.2	6.8	8.0	7.2
North West	10.0	9.4	11.3	10.8
Midlands	13.8	13.7	13.9	14.5
East	11.0	11.3	10.9	11.1
South West	7.4	7.4	7.5	7.7
Greater London	18.7	19.7	15.9	17.0
South East	17.8	17.8	18.6	17.6
Wales & Northern Ireland	4.1	4.0	4.2	4.4
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 Office of National Statistics 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.

	Book		New Lending	
	2020	**2019**	**2020**	**2019**
Loan-to-value distribution of retail mortgages	**%**	**%**	**%**	**%**
100% or greater	0.1	0.1	-	-
95% to 100%	0.0	0.2	-	-
90% to 95%	1.8	3.1	4.7	7.8
85% to 90%	7.6	7.4	20.3	17.3
80% to 85%	12.0	11.3	28.4	20
75% to 80%	11.6	10.7	10.9	11.2
70% to 75%	12.8	12.9	13.2	15
60% to 70%	19.9	19.5	10.2	12.5
Less than 60%	34.2	34.8	12.3	16.2
	100.0	**100.0**	**100.0**	**100.0**
Average indexed LTV	60.0	61.4	72.2	73.8

Notes to the Financial Statements (continued)

14. Credit risk on loans and advances to customers (continued)

Credit risk management (continued)

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 ECL 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 which has since been sold.

PD Band	Stage 1 £m	Stage 2 £m	Stage 3 £m	2020 Total £m	Balances 2019 Total £m	2020 ECL £m
0.00% - <0.15%	17,737.9	376.5	-	18,114.4	18,530.9	0.7
0.15% - <0.25%	2,201.6	63.0	-	2,264.6	659.4	0.5
0.25% - <0.50%	455.8	32.9	-	488.7	95.8	0.3
0.50% - <0.75%	147.3	58.6	-	205.9	274.1	0.1
0.75% - <1.00%	158.1	54.8	-	212.9	190.7	0.2
1.00% - <2.50%	192.2	103.6	-	295.8	267.7	1.5
2.50% - <10.0%	109.0	95.5	-	204.5	158.6	2.6
10.0% - <100%	16.8	83.7	-	100.5	64.8	6.2
Default	-	-	173.9	173.9	170.4	9.3
Other	3,479.1	0.9	-	3,480.0	3,169.8	0.4
Total	**24,497.8**	**869.5**	**173.9**	**25,541.2**	**23,582.2**	**21.8**

The table below shows balances and expected credit losses, captured within impairment provisions 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 £m	ECL £m
2020	20.3	-	-	5,426.9	0.9
2019	22.9	-	-	5,794.3	1.3
2018	19.1	-	-	4,844.5	1.4
2017	12.6	0.1	-	3,207.3	1.0
2013 - 2016	16.2	1.1	0.1	4,399.5	0.9
2009 - 2012	2.3	0.5	-	701.4	0.1
Pre-2009	2.5	1.7	0.6	1,167.3	16.2
Total	**95.9**	**3.4**	**0.7**	**25,541.2**	**21.8**

Movement Analysis	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross balance at 31 December 2019	**22,567.7**	**844.1**	**170.4**	**23,582.2**
Transfers:				
Transfers from stage 1 to 2	(277.4)	277.4	-	-
Transfers from stage 1 to 3	(28.2)	-	28.2	-
Transfers from stage 2 to 1	149.7	(149.7)	-	-
Transfers from stage 2 to 3	-	(21.9)	21.9	-
Transfers from stage 3 to 1	9.0	-	(9.0)	-
Transfers from stage 3 to 2	-	17.6	(17.6)	-
Changes to carrying value	(558.5)	(25.0)	0.8	(582.7)
New financial assets originated or purchased	5,668.8	-	-	5,668.8
Financial assets derecognised during the period	(3,033.3)	(73.0)	(16.8)	(3,123.1)
Write-offs	-	-	(4.0)	(4.0)
Gross balance at 31 December 2020	**24,497.8**	**869.5**	**173.9**	**25,541.2**

Notes to the Financial Statements (continued)

14. Credit risk on loans and advances to customers (continued)

Credit risk management (continued)

Movement Analysis	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
ECL at 31 December 2019	**1.8**	**6.4**	**8.3**	**16.5**
Transfers:				
Transfers from stage 1 to 2	-	1.7	-	1.7
Transfers from stage 1 to 3	-	-	1.4	1.4
Transfers from stage 2 to 1	0.1	-	-	0.1
Transfers from stage 2 to 3	-	-	0.8	0.8
Transfers from stage 3 to 1	-	-	-	-
Transfers from stage 3 to 2	-	0.5	-	0.5
Changes in PDs/LGDs/EADs	(1.7)	(2.4)	(0.9)	(5.0)
New financial assets originated or purchased	1.0	-	-	1.0
Changes to model assumptions and methodologies	1.5	4.3	0.9	6.7
Unwind of discount	-	-	0.4	0.4
Financial assets derecognised during the period	(0.2)	(0.5)	(0.6)	(1.3)
Write-offs	-	-	(1.0)	(1.0)
ECL at 31 December 2020	**2.5**	**10.0**	**9.3**	**21.8**

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.

Already in 2019, the Company has tightened its forbearance classification to only include customers experiencing financial distress prior to the granting of forbearance measures as per guidance from the EBA. 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-classed 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.

	Arrangements		Other Concessions		Term extension		Interest Only	
2020 (£m)	**Exposure**	**ECL**	**Exposure**	**ECL**	**Exposure**	**ECL**	**Exposure**	**ECL**
Probation	**47.7**	**0.8**	**1.4**	**-**	**1.6**	**-**	**-**	**-**
Stage 1	19.4	0.1	0.7	-	0.3	-	-	-
Stage 2	28.3	0.7	0.7	-	1.3	-	-	-
Non-performing	**86.4**	**5.0**	**3.6**	**0.2**	**1.4**	**-**	**-**	**-**
Stage 3	86.4	5.0	3.6	0.2	1.4	-	-	-
Total	**134.1**	**5.8**	**5.0**	**0.2**	**3.0**	**-**	**-**	**-**
2019 (£m)								
Probation	**59.0**	**0.9**	**0.7**	**-**	**2.1**	**-**	**0.1**	**-**
Stage 1	26.1	0.1	0.2	-	0.7	-	-	-
Stage 2	32.9	0.8	0.5	-	1.4	-	0.1	-
Non-performing	**102.9**	**5.2**	**2.6**	**0.1**	**1.7**	**-**	**-**	**-**
Stage 3	102.9	5.2	2.6	0.1	1.7	-	-	-
Total	**161.9**	**6.1**	**3.3**	**0.1**	**3.8**	**-**	**0.1**	**-**

Notes to the Financial Statements (continued)

15. Notes to the Cash flow statement

	2020 £m	Restated 2019 £m
Cash flows from operating activities		
Profit before Tax	**66.6**	**48.3**
Adjustments to profit:		
Tax expense	**(23.9)**	**(9.5)**
Non-cash items:		
Decrease in impairment and provisions in the year	5.4	2.4
Transitional tax adjustment arising on accounting policy change	-	0.3
Total non cash items	**5.4**	**2.7**
(Increase) in operating assets		
Loans and advances to customers	(1,961.1)	(2,418.7)
Derivative financial instruments	-	-
Other assets	0.2	0.1
	(1,960.9)	**(2,418.6)**
Increase/(decrease) in operating liabilities		
Other creditors	(0.5)	(1.1)
Amounts due to customers	29.3	30.3
Derivative financial instruments	-	(0.5)
	28.8	**28.7**
Net cash flow from operating activities	**(1,884.0)**	**(2,348.4)**

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

	2020	2019
Net Intercompany Position	**£m**	**£m**
At 1 January	**22,946.0**	**20,551.9**
Cash flows	1,352.4	1,700.8
Non-cash changes caused by:		
Accrued interest	489.9	488.0
Fair value	95.8	205.3
At 31 December	**24,884.1**	**22,946.0**

Notes to the Financial Statements (continued)

16. 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 Annual Report and Accounts are available at ybs.co.uk.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 (2019 - 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 2020 the Company owed a loan to the Parent of £25,616.5m (2019: £23,663.9m). The outstanding balance has no fixed repayment date. A market interest rate is charged on the outstanding loan balance. Interest of £403.7m (2019: £401.8m) was paid in the year.

The Parent owed the Company £7,313.9m (2019 restated: £6,385.3m). The outstanding balance has no fixed repayment date. A market interest rate is charged on the outstanding loan balance. Interest of £66.1m (2019: £79.4m) was received in the year.

The Company has deemed loans to the Brass and Tombac securitisation vehicles of £6,581.6m (2019: £5,667.4m). 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 £84.4m (2019: £77.8m) was paid in the year.

The Company paid a management recharge fee to the parent for the 2020 financial year of £56.0m (2019: £55.6m). In 2020 a dividend payment of £50.0m was made to the parent (2019: £50.0m).

17. Restatement of prior period information

As explained in note 1, the comparative financial statements for the year to 31 December 2020 have been restated to reflect the revision to the accounting treatment of interest rate swaps. The impact of the restatements on the Statement of Comprehensive Income, the Balance Sheet and Cash Flow Statement are set out below:

Statement of Comprehensive Income for the year ending 31 December 2019	**As previously stated £m**	**Interest rate swap £m**	**2019 Restated £m**
Interest revenue calculated using the effective interest rate method	511.2	-	511.2
Other interest revenue	80.9	-	80.9
Interest revenue	**592.1**	**-**	**592.1**
Interest expense	(488.0)	-	(488.0)
Net interest income	**104.1**	**-**	**104.1**
Fees and commissions revenue	10.7	-	10.7
Fees and commissions expense	(8.1)	-	(8.1)
Net fee and commission income	**2.6**	**-**	**2.6**
Net gains/(losses) from financial instruments held at fair value	26.8	(26.8)	-
Administrative expenses	(55.7)	-	(55.7)
Operating profit before provisions	**77.8**	**(26.8)**	**51.0**
Impairment of financial assets	(2.7)	-	(2.7)
Movement in provisions	0.0	-	-
Profit before tax	**75.1**	**(26.8)**	**48.3**
Tax expense	(17.2)	5.1	(12.1)
Profit for the period	**57.9**	**(21.7)**	**36.2**

Notes to the Financial Statements (continued)

17. Restatement of prior period information (continued)

Balance Sheet at 31 December 2019	**As previously stated £m**	**Interest rate swap £m**	**2019 Restated £m**
Assets			
Loans and advances to customers	23,627.4	-	23,627.4
Derivative financial instruments	10.9	(10.9)	-
Amounts owed from parent undertaking	6,385.3	(2.3)	6,383.0
Other assets	1.3	-	1.3
Total assets	**30,024.9**	**(13.2)**	**30,011.7**
Liabilities			
Amounts due to parent undertaking	23,663.9	-	23,663.9
Amounts due to other group entities	5,667.4	-	5,667.4
Derivative financial instruments	15.1	(15.1)	-
Current tax liability	11.5	-	11.5
Deferred tax liabilities	1.5	0.3	1.8
Other liabilities	347.9	-	347.9
Total liabilities	**29,707.3**	**(14.8)**	**29,692.5**
Equity			
Called up equity share capital	100.0	-	100.0
Retained earnings	217.6	1.6	219.2
Total equity	**317.6**	**1.6**	**319.2**
Total equity and liabilities	**30,024.9**	**(13.2)**	**30,011.7**

Statement of Cash Flows for the year ending 31 December 2019	**As previously stated £m**	**Interest rate swap £m**	**2019 Restated £m**
Cash flows from operating activities:			
Profit before tax	75.1	(26.8)	48.3
Non-cash items included in profit before tax	2.4	0.3	2.7
Net change in operating assets	(2,429.5)	10.9	(2,418.6)
Net change in operating liabilities	15.4	13.3	28.7
Tax paid	(9.5)	-	(9.5)
Net cash flow from operating activities	**(2,346.1)**	**(2.3)**	**(2,348.4)**
Cash flows used in financing activities:			
Net amounts owed to parent undertaking	2,276.2	2.3	2,278.5
Amounts owed to other group entities	117.9	-	117.9
Dividend paid	(50.0)	-	(50.0)
Net (decrease)/increase in cash and cash equivalents	**(2.0)**	**-**	**(2.0)**
Cash and cash equivalents comprise:			
Bank overdraft			
1 January	(1.6)	-	(1.6)
31 December	(3.6)	-	(3.6)
Cash flow	**(2.0)**	**-**	**(2.0)**