ACCORD MORTGAGES LIMITED

Registered Number: 02139881

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

ACCORD MORTGAGES LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2016

CONTENTS

DIRECTORS AND COMPANY INFORMATION
(Registered Number: 02139881)

Directors	C P Canning R A Purdy, BSc, ACA M C Regnier, MEng, MBA R S Wells, FCIB
Secretary	H Nellist
Registered office	Yorkshire House Yorkshire Drive Bradford BD5 8LJ
Bankers	National Westminster Bank Plc PO Box 90 1 Market Street Bradford BD1 1EG
Auditor	Deloitte LLP 1 City Square Leeds LS1 2AL

DIRECTORS' REPORT

The directors present their annual report and audited financial statements for Accord Mortgages Limited (the "Company") for the year ended 31 December 2016.

Business objectives and activities
Accord Mortgages Limited is a dedicated intermediary lender that aims to advance loans secured on residential and buy-to-let property.

The Company's approach is to recognise the intermediary's relationship with its customer and to work in partnership with the intermediary to meet the customer's needs through competitive products and service excellence; which in turn provides long term profitable growth to the Company.

The beneficial ownership in a proportion of the loans and advances to customers has been sold to subsidiaries of the Yorkshire Building Society (together the "Group") as part of RMBS securitisation structures to obtain wholesale funding for the Group. These loans fail the de-recognition criteria of IAS 39 and consequently, these loans remain on the balance sheet of Accord Mortgages Limited. IAS 39, therefore, requires the seller (Accord Mortgages Limited) to recognise a deemed loan financial liability on its balance sheet and the resulting deemed loan asset is held on the purchasing Company's balance sheet.

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

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

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

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

DIRECTORS' REPORT (continued)

Directors

The directors who served during the year are set out below:-

C P Canning
R A Purdy, BSc, ACA
M C Regnier, MEng, MBA
R S Wells, FCIB

Audit Information

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

- So far as the directors are 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.

Auditor

During the year Deloitte LLP was re-appointed as auditor. Deloitte LLP has expressed its willingness to continue in office as auditor and a resolution to appoint them will be proposed at the annual general meeting.

Supplier payment policy

The Company pays supplier invoices in accordance with the terms agreed at the start of trading.

Approved by order of the Board of Directors
and signed on behalf of the Board
R A Purdy
Director
27 February 2017

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU. Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

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

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

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

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and

DIRECTORS' RESPONSIBILITIES STATEMENT (continued)

- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

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

M C Regnier	Chairman
R A Purdy	Director

STRATEGIC REPORT

REVIEW OF THE BUSINESS

Financial Performance

Operating profit before provisions and taxation of the Company was £114.0 million (2015 – £62.8 million). This figure can be analysed into the following key areas:

	2016 £000	2015 £000
Net interest income	132,880	120,883
Net fee and commission income	1,695	1,622
Total income	134,575	122,505
Net gains/(losses) from fair value volatility on financial instruments	23,899	(17,829)
Administrative expenses	(44,501)	(41,838)
Operating profit before provisions	113,973	62,838

Total income has remained relatively stable at £134.6m (2015 - £122.5m). Interest margins have increased slightly as the book size has increased.

The £23.9m fair value volatility gain (2015 - £17.8m loss) in the Income Statement materially impacts upon the profit for 2016. The table below shows the fair value volatility on derivative financial instruments over the last 5 years and the securitisation vehicles the derivatives are transacted with.

Securitisation Vehicles	2016	2015	2014	2013	2012
	£000	£000	£000	£000	£000
Brass No.1	3,216	(2,992)	(1,115)	(22,596)	(6,700)
Brass No.2	(724)	356	645	(40,937)	39,024
Brass No.3	775	(1,926)	(1,113)	2,558	-
Brass No.4	(231)	(8,879)	16,101	-	-
Tombac No.2	11,820	(4,388)	-	-	-
Brass No.5	9,043	-	-	-	-
Other Volatility	-	-	31	38	-
	23,899	**(17,829)**	**14,549**	**(60,937)**	**32,324**

Fair value volatility is eliminated at a Group level and as such the risk is also monitored at a Group level.

Tombac No.1 does not have a swap attached and as such doesn't have any fair value volatility.

STRATEGIC REPORT (continued)

REVIEW OF THE BUSINESS (continued)

Financial Performance (continued)

For more details regarding fair value volatility on financial instruments, please refer to Note 5.

Administration expenses have increased largely due to an 8% increase in the size of the mortgage book and increasing lending volumes, particularly in the BTL lending book. There was also a rise in marketing costs this year to advertise the new website functionality in Q4.

In 2016, a dividend of £50m to the shareholder was approved (2015 - £100m)

Business volumes

The key area of focus for the Company is the volume of business achieved in the year and upon quality at a sustainable margin. The following are the key elements monitored by the Company in this area:

	2016	**2015**
	£m	**£m**
Gross mortgage lending i.e. new loans	4,654	4,216
Opening mortgage balance	15,161	13,657
Net mortgage lending i.e. after repayments of existing loans	1,269	1,504
Closing mortgage balance (Note 9)	16,430	15,161

The Buy-to-Let mortgage book has grown 35% to £2,153m (2015 - £1,591m), representing 13.1% (2015 – 10.5%) of the total book and this has been a significant factor in the 8% increase in the mortgage book this year.

The proportion of the Company's new lending that is over 90% loan-to-value (LTV) is 5% as at 31 December 2016 (2015 – 3%). The Company restricts the loan-to-value on new lending to 95% LTV, which hasn't changed since last year.

STRATEGIC REPORT (continued)

REVIEW OF THE BUSINESS (continued)

Asset quality – mortgage arrears

The position on our more serious arrears cases, being those with payments 12 months or more in arrears, has seen an improvement during the year with 25 fewer accounts, a £4.5m reduction in balances outstanding and arrears being a smaller proportion of the overall book.

	2016	2015	2016	2015
			% of mortgage accounts/balances	
Number of accounts	113	138	0.11%	0.16%
Balances outstanding on accounts	£16.3m	£20.8m	0.10%	0.14%
Amount of arrears included in balances	£2.1m	£2.6m	0.01%	0.02%

Provisions have been made for potential losses on mortgages in accordance with the impairment policy set out in Note 1 on page 22. For more details on arrears performance, please refer to Note 19.

The Company exercises a certain amount of 'forbearance' to borrowers who face difficulties in making their mortgage payments. For more details, please refer to Note 19.

Customers

The number of mortgage accounts held with the Company increased to 98,454 (2015 – 88,969).

STRATEGIC REPORT (continued)

RISK MANAGEMENT

The principal risks and uncertainties faced by the Company and our approach for managing them are set out in our Risk Management Report on page 12.

KEY PERFORMANCE INDICATORS

Financial Performance

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Net Interest Income	132.9	120.9	120.9	122.3	83.8
Net Fee & Commission Income	1.7	1.6	1.7	2.1	2.7
Fair Value Volatility	23.9	(17.8)	14.5	(60.9)	32.3
Admin Expenses	(44.5)	(41.9)	(32.5)	(29.1)	(22.1)
Operating Profit before Tax	114.0	62.8	104.6	34.4	96.7
Core Operating Profit	90.1	80.6	90.1	95.3	64.4
Net Interest Margin	0.79%	0.78%	0.91%	1.14%	0.94%

Core operating profit measures underlying performance by excluding fair value volatility.

Statutory Profit before Tax

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

2016 £000	2015 £000	2014 £000	2013 £000	2012 £000
112,522	49,663	86,431	14,368	71,291

Business volumes

Net Mortgage Lending

The Company Board monitors mortgage lending performance in a number of ways. However the key measure is net lending. This is used because it covers all portfolios and channels, and measures our effectiveness in both new mortgage lending and in retaining borrowers. Net lending gives a good guide to how well we are performing both in terms of offering the type of competitive mortgage products that our customers want, and meeting our growth aspirations.

2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
1,269	1,504	2,218	2,067	1,395

STRATEGIC REPORT (continued)

KEY PERFORMANCE INDICATORS (continued)

Asset quality – mortgage arrears

Borrowers whose loans are in arrears by three monthly payments or more

The Company Board monitors arrears performance using a range of measures because current arrears and the underlying trend indicate how well borrowers are coping with current economic conditions and therefore how exposed the Company may be to defaults and hence loan losses. A range of arrears measures are used because they may each provide a slightly different perspective on current and prospective conditions. However the key measure used by the Board is the number of borrowers whose loans are in arrears by three monthly payments or more, the percentage of which has fallen year-on-year due to the continuing low interest rate environment.

2016	2015	2014	2013	2012
%	%	%	%	%
0.70	0.92	1.31	1.89	2.31

Customers

The Company has made further improvements to the customer experience during the year. Key changes made include the continued reduction of mortgage offer times, decreasing from 16 days to just over 11, simplifications to lending policy and website experience as well as upgrades to product functionality, particularly the ability for customers to manage their offset savings accounts online.

There are much greater levels of customer and broker satisfaction with products and service levels as a result of these changes

STRATEGIC REPORT (continued)

Outlook

The retail financial services environment remains fast-paced and challenging, with customers' needs and expectations changing in line with other retail sectors.

Political and economic uncertainty will continue to be a factor in the UK, with the potential to affect our markets adversely although the level of impact is not clear at present and is subject to a number of factors covered earlier in this report.

A significant amount of new regulation will impact the financial services industry over the next few years. We have already referred to work ongoing on some of these as they will also impact the Group. Whilst these requirements are intended to increase competition in the financial services market, reduce customer risk or mitigate organisational failure the changes will incur cost to meet requirements and may also influence the way the market operates. This adds both a requirement for change and further uncertainty beyond that driven by the economic and political landscape.

By order of the Board
R A Purdy
Director
27 February 2017

RISK MANAGEMENT REPORT

Introduction

The Company is a wholly owned subsidiary of Yorkshire Building Society. The Group applies its risk management policies and techniques to the risks of the Group as a whole and therefore appropriate risk management activity is deployed wherever risks arise. Any risks arising within the individual subsidiaries as a result of its relationships and transactions with other Group companies are not actively managed within the individual entities but considered at the Group level.

The Group financial statements explain the Group's obligation and commitment to discharge the liabilities of those subsidiaries unable to do so and also explains the Group's approach to risk management.

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

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

The Group maintains an independent risk management function (Group Risk) that is responsible for ensuring that appropriate risk management techniques and measures are deployed, and that they reflect leading practice, whilst remaining commensurate with the Group's strategic aims, its appetite for risk and the actual risks it faces at any time. The Group Risk function provides periodic independent reports on risk positions and risk management activities for consideration by the Chief Officers of the business, the Group Risk Committee, its sub-committees and the board. The Chief Risk Officer provides a formal update to each board meeting covering all areas of risk management, including both routine reporting and ad hoc issues.

Interest rate risk

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

RISK MANAGEMENT REPORT (continued)

Market risk

Market risk is the risk to earnings and capital arising from changes in interest rates, foreign currency exchange rates, structural mismatches within the Statement of Financial Position (basis risk), and the price of financial instruments. The Group has a formal structure for managing its market risks including established risk limits, reporting lines, mandates and other control procedures. The market risk position is monitored daily and reviewed by ALCO at least monthly. The Board receives monthly summaries of risk positions.

Market risk arises primarily from the activities within the Group's retail business units and the Group's Treasury function. The Group's Asset and Liability Management (ALM) process will ensure that risks connected with these areas of activity are identified and that suitable measures and risk management practices are applied. Mitigating this risk through a hedging strategy and within the agreed risk appetite is the responsibility of Group Treasury. Group ALM also monitors the suitability of and compliance with the operating limits set for the activities of the Group's Treasury function by the Board, and it reports and recommends accordingly.

Credit risk

Credit risk is the potential risk of financial loss arising from the failure of a customer or other counterparty to settle their financial and contractual obligations as they fall due.

The Group has in place a comprehensive set of controls and limits to monitor and govern the amount of such risk accepted. Credit risk is monitored on an ongoing basis within Group Risk and the Group Credit Committee meets monthly to oversee risk management in this area.

Operational and regulatory risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, and systems, and from external events. To minimise operational risk, the Group maintains a system of internal controls commensurate with the characteristics of the business, the markets in which it operates, leading practice principles and regulatory considerations.

Regulatory risk (including prudential and conduct) is the risk of non-compliance with the rules, regulations and expectations of the regulatory authorities. Operational Risk Committee oversees the functioning of the operational risk framework and Compliance and Conduct Committee oversees compliance with regulatory requirements.

RAPurdy

By order of the Board
R A Purdy
Director
27 February 2017

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

We have audited the financial statements of Accord Mortgages Limited for the year ended 31 December 2016 which comprise the Income Statement, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows, and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

Opinion on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

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

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

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

27 February 2017

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

Opinion on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

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

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

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

27 February 2017

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £000	2015 £000
Interest receivable and similar income	3	538,092	554,532
Interest payable and similar charges	4	(405,212)	(433,649)
Net interest income		132,880	120,883
Fees and commissions receivable		8,862	7,770
Fees and commissions payable		(7,167)	(6,148)
Net fee and commission income		1,695	1,622
Net (losses)/gains from fair value volatility on financial instruments	5	23,899	(17,829)
Administrative expenses	6	(44,501)	(41,838)
Operating profit before provisions		113,973	62,838
Impairment of loans and advances	8	(1,452)	(13,270)
Provisions	13	-	95
Profit before tax		112,521	49,663
Tax expense	7	(22,060)	(10,057)
Profit for the year from continuing operations		90,461	39,606

The company has no income or expenditure in either the current or prior year, other than the profit stated above and consequently no statement of other comprehensive income has been presented. All the profit has originated from continuing operations.

All the profit is attributable to the equity holders of the Company.

The notes on pages 20 to 40 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Notes	2016 £000	2015 £'000
ASSETS			
Loans and advances to customers			
Loans secured on residential property	9	16,391,162	15,118,430
Debt securities	10	1,150,986	1,142,095
Derivative Financial Instruments	5	19,069	4,928
Other assets	11	1,940	1,775
Total assets		17,563,157	16,267,228
LIABILITIES			
Amounts due to parent undertaking	21	16,924,938	15,676,173
Current tax liability	7	22,060	10,189
Other liabilities	12	305,067	310,235
Total liabilities		17,252,065	15,996,597
EQUITY			
Called up equity share capital	15	100,000	100,000
Retained earnings	16	211,092	170,631
Total equity		311,092	270,631
Total equity and liabilities		17,563,157	16,267,228

These financial statements for Accord Mortgages Limited (Registered number: 02139881) were approved by the board of directors on 27 February 2017 and were signed on its behalf by:

M C Regnier — Chairman

R A Purdy — Director

The notes on pages 20 to 40 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Share Capital	Retained Earnings	Total
	£000	£000	£000
Balance at 1 January 2016	100,000	170,631	270,631
Profit for the financial year	-	90,461	90,461
Dividend Paid	-	(50,000)	(50,000)
Balance at 31 December 2016	100,000	211,092	311,092
Balance at 1 January 2015	100,000	100,000	331,025
Profit for the financial year	-	39,606	39,606
Dividend Paid	-	(100,000)	(100,000)
Balance at 31 December 2015	100,000	170,631	270,631

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

	Notes	2016 £000	2015 £000
Cash flows from operating activities			
Profit for the year from continuing operations		90,461	39,606
Working capital adjustments	20	18,401	12,866
Increase in operating assets	20	(1,283,369)	(1,485,340)
(Decrease) / increase in operating liabilities	20	(18,608)	3,868
Net cash flow from operating activities		(1,193,115)	(1,429,000)
Cash flows used in investment activities:			
Debt securities		(8,891)	(184,537)
Cash flows used in financing activities:			
Amounts owed to parent undertaking		1,248,765	1,713,426
Dividend paid		(50,000)	(100,000)
Net decrease in cash and cash equivalents		(3,241)	(111)
Cash and cash equivalents comprise:			
Bank Overdraft			
1 January		(1,700)	(1,589)
31 December		(4,941)	(1,700)
Cash flow		(3,241)	(111)

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Introduction
Accord Mortgages Limited is a dedicated intermediary lending company domiciled and registered in the United Kingdom. The financial statements for the year ended 31 December 2016 were authorised for issue by the directors on 27 February 2017.

Basis of preparation
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations (IFRICs) in issue that have been endorsed by the European Union (EU) and are effective at 31 December 2016.

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

The financial statements have been prepared on the going concern basis as discussed in the Directors' Report on page 2, under the heading, 'Risks, uncertainties and going concern'.

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

Accounting Developments
The following Accounting Standard amendments became effective for periods commencing on or after 1 January 2016 have been adopted in the current year:

- Amendments to IAS 1 'Disclosure Initiative' which provide guidance on the application of the concept of materiality. The application of this amendment did not have a material impact on the financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

-**Classification and measurement**

Financial assets will be classified as amortised cost, fair value through other comprehensive income, or fair value through profit or loss, depending on the entity's business model and the contractual cash flow characteristics of the instruments. The application of the classification and measurement requirements is not expected to materially impact the financial statements.

-**Impairment of financial assets**

Impairment will be based on a more forward looking expected credit loss (ECL) approach for financial assets classified as amortised cost and fair value through other comprehensive income, rather than the incurred loss approach applied under IAS 39. This will result in a larger population of financial assets to which a lifetime credit loss is calculated as it will apply to all assets where there has been a significant increase in credit risk since initial recognition rather than just for those assets where there is objective evidence of impairment under IAS 39.

The key drivers of the IFRS 9 models will be probability of default, loss given default, exposure at default, the discount rate used to give a net present value and the relative increase in probability of default considered to constitute a significant increase in credit risk. The probability of default will be calculated based on forward looking economic assumptions, including HPI, interest rates, GDP and unemployment rates.

Until the impairment models are more fully developed and tested, it is not possible to disclose a potential impact on the financial statements.

- IFRS 15 'Revenue from Contracts with Customers' is effective for periods beginning on or after 1 January 2018, with early adoption permitted. IFRS 15 introduces a framework for determining whether, how much and when revenue is recognised and it replaces the existing guidance in IAS 18 'Revenue'. The Company is assessing the potential impact of adopting IFRS 15; however it is not expected to have a material impact on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Financial assets

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

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

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

Held to maturity
These comprise assets which the Company has both the intention and ability to hold to maturity. This category contains certain assets that have been specifically designated at inception where we have the intention and ability to hold to maturity. They are initially recorded at fair value plus any attributable costs and less any attributable fees and are subsequently held at amortised cost less any impairment losses.

Financial liabilities
The Company initially records all of its financial liabilities at fair value less directly attributable transaction costs, and subsequently measures them at amortised cost, other than derivative financial instruments. Interest expense is recognised on an effective interest rate basis.

Derivative financial instruments
Derivative financial instruments are held at fair value with movements in fair value being recognised in the Income Statement. Fair values of derivatives are valued using valuation techniques including discounted cash flow models. In-line with industry best practice, expected future cash flows for derivative financial instruments have been discounted using the Overnight Indexed Swap (OIS) curve.

Impairment of loans and advances
At each reporting date the Company assesses whether or not there is objective evidence that individual financial assets (or groups of financial assets with similar credit characteristics) are impaired. In determining whether an impairment loss should be recognised, the Company makes judgements as to whether there is any evidence indicating a measurable decrease in the present value of cash flows expected from a financial asset or group of financial assets, resulting from an event (or events) that have occurred after initial recognition of the asset, but before the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of loans and advances (continued)
Individual assessments are made of all loans and advances on properties which are in possession or in arrears by three months (2015: two months) or more. The change during 2016 from individually assessing loans and advances after being in arrears by two months to three months to align with others in the industry did not have a material impact on the impairment provision. All other loans and advances are grouped according to their credit characteristics and a collective review is undertaken of any evidence of impairment. In all cases, future cash flows are estimated on grouped credit characteristics. The collective impairment provision includes an allowance against the risk of customer indebtedness arising from circumstances in existence at the reporting date, as these customers may be able to maintain their repayments only whilst interest rates remain low.

Where there is objective evidence of impairment or that trigger events exist at the reporting date, the impairment loss is calculated as the difference between the assets' carrying value and the present value of the estimated cash flows from those assets. In assessing these cash flows a number of factors are taken into account, including the Company's historic default experience, historic and current loss emergence periods, the effect of changes in house prices, credit bureau data and adjustments to allow for ultimate forced sale discounts.

Any increases or decreases in projected impairment losses are recognised through the Income Statement. If a loan is ultimately uncollectable, then any loss incurred by the Company on extinguishing the debt is written off against the provision for loan impairment. Any subsequent recoveries of amounts previously written off are recognised through the Income Statement as an adjustment to the loan impairment provision.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fees and commissions
Fees payable and receivable in relation to the provision of loans are accounted for on an effective interest rate basis. Other fees and commissions are recognised on an accruals basis when the relevant service is provided.

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

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

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

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

The carrying amount of the deferred tax assets are 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.

Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Effective interest rate
IAS 39 requires that all of the cash flows directly associated with financial instruments held at amortised cost must be recognised in the Income Statement through the interest margin using the effective interest rate method. When this approach is applied to a mortgage portfolio, judgements must be made to estimate the average life of that portfolio.

These judgements are applied to segments of the mortgage portfolio, taking into account factors including the terms of the particular products, historic repayment data and economic conditions. These estimates are updated in each reporting period to reflect the portfolio's actual performance.

The most critical estimate is the estimated proportion of the number of customer balances that will remain with the Company for one year following the end of the initial product deal period. A 1% increase in the estimate would not have a material impact on the balance sheet value of the loans.

Impairment of mortgage assets
The creation of impairment provisions for a portfolio of mortgage loans is inherently uncertain and requires the exercise of a significant degree of judgement. Provisions are calculated using historic default and loss experience, but require judgement to be exercised in predicting future economic conditions (e.g. interest rates and house prices), customer behaviour (e.g. default rates) and the length of time before impairments are identified (emergence period).

The most critical estimate is the future level of house prices where a fall of 5% (from -10% to -15% in 2017) equates to an increase in the provision of £4.7 million.

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	2016 £000	2015 £000
On loans secured on residential property	494,858	515,146
On debt securities	4,845	5,154
On other loans	38,389	34,232
Total interest receivable	538,092	554,532

Included within interest receivable and similar income is interest earned on impaired loans of £2.5 million (2015 - £5.3 million). These loans are included in loans and advances to customers and considered within the impairment calculation.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2016 £000	2015 £000
On deposits from parent Company	344,836	351,120
On deemed loans from other Group entities	60,376	82,529
Total interest payable	405,212	433,649

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

	2016 £000	2015 £000
Fair value movement on derivatives	23,899	(17,829)
Net (losses)/gains from fair value volatility on financial instruments	23,899	(17,829)

Analysis of Derivative financial instruments in Statement of Financial Position

	2016 £000	2015 £000
Derivative Financial Instruments	22,166	(1,733)
Accrued interest on swaps	(3,097)	6,661
	19,069	4,928

6. ADMINISTRATIVE EXPENSES

	2016 £000	2015 £000
Management charge	44,384	41,588
Other expenses	117	250
Total administrative expenses	44,501	41,838

Fees payable to the Company's auditor for the audit of the Company's annual financial statements of £11,408 (2015 - £11,184) have been borne by the parent. There were no other fees paid to the auditors.

No staff were employed by the Company during the 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 notes on Accord director's remuneration are in Note 21 and further disclosures are available in the Group's consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. TAX EXPENSE

	2016 £000	2015 £000
Current tax:		
UK Corporation tax at 20% (2015 - 20.25%)	22,060	10,189
Total current tax	22,060	10,189
Deferred tax (Note 14)		
Current year	-	(134)
Change in tax rate	-	2
Total tax expense in income statement	22,060	10,057

The main rate of corporation tax will reduce to 19% from 1 April 2017 and to 17% from 1 April 2020.

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

	2016 £000	2015 £000
Profit before tax	112,521	49,663
Tax calculated at a tax rate of 20% (2015 – 20.25%)	22,504	10,055
Effects of:		
Change in tax rate	-	2
Other permanent difference	(444)	-
Tax expense in income statement	22,060	10,057

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. IMPAIRMENT OF LOANS AND ADVANCES

	2016 £000	2015 £000
At 1 January		
Collective	27,634	17,246
Individual	14,859	22,044
	42,493	39,290
Amounts written off during the year	(5,990)	(12,131)
Impairment charge for the year:		
Collective	998	10,388
Individual	1,323	4,946
	2,321	15,334
At 31 December		
Collective	28,632	27,634
Individual	10,192	14,859
	38,824	42,493
The charge for the year comprises:		
Impairment charge for the year	2,321	15,334
Net recoveries during the year	(869)	(2,064)
Net provision charge for the year	1,452	13,270

The interest arising from the unwind of the discount of expected future recoveries is not material.

9. LOANS AND ADVANCES TO CUSTOMERS

	2016 £000	2015 £000
Loans and advances to customers comprise:		
Loans secured on residential property	16,429,986	15,160,923
Impairment provisions (Note 8)	(38,824)	(42,493)
	16,391,162	15,118,430

Of the £16.4 billion loans and advances to customers (2015 - £15.2 billion), £98.7m are contractually due in less than one year (2015 - £41.2m).

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. DEBT SECURITIES

	2016 £000	2015 £000
Variable funding notes		
- Brass 1 (call date 16 June 2016)	-	135,400
- Brass 2 (call date 16 October 2017)	154,315	154,315
- Brass 3 (call date 16 October 2018)	138,000	138,000
- Brass 4 (call date 27 October 2019)	134,900	134,900
- Brass 5 (call date 16 November 2021)	251,510	-
- Tombac No.1 (call date 23 April 2019)	287,362	394,500
- Tombac No.2 (call date 23 January 2021)	184,500	184,500
Interest accrued	399	480
	1,150,986	1,142,095

At the call date, notes may be repaid dependent on the optional early redemption of notes clause being exercised. Interest on the notes is receivable at a floating market rate.

11. OTHER ASSETS

	2016 £000	2015 £000
Debtors	1,940	1,775

12. OTHER LIABILITIES

	2016 £000	2015 £000
Creditors (amounts falling due within one year)		
Bank overdraft	4,941	1,700
Amounts due to customers	269,824	289,103
Accruals	30,175	19,315
Provision for liabilities and charges (note 13)	127	117
	305,067	310,235

The accruals figure relates to deferred consideration from the securitisation vehicles.

13. PROVISIONS

	2016 £000	2015 £000
The movements in provisions are as follows:		
At 1 January	117	379
Amounts utilised during the year	(2)	(167)
Provision charge / (release) during the year	12	(95)
At 31 December	127	117

The provision relates to the Company's approach to administration fee charging in relation to mortgage collection, failed direct debits and letting remediation, and has been calculated using management's estimates of complaint volumes, redress payments and other costs.

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. DEFERRED TAX ASSETS AND LIABILITIES

	2016 £000	2015 £000
The movements on the deferred tax account are as follows:		
At 1 January	-	132
Income statement credit	-	(132)
At 31 December	-	-

Deferred tax assets and liabilities are attributable to the following items:

Deferred tax assets		
Implementation of IAS 39	-	-
Deferred tax liabilities		
Implementation of IAS 39	-	-

15. CALLED UP EQUITY SHARE CAPITAL

	2016 £000	2015 £000
Authorised, allotted, called up and fully paid:		
£100,000,000 Ordinary shares of £1 each	100,000	100,000

16. CAPITAL MANAGEMENT

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. FINANCIAL INSTRUMENTS

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

Financial instrument	Significant terms and conditions	Accounting treatment
Loans secured on residential property	• Loan period is typically 25 years. • A variety of mortgage products offering fixed and variable interest rates.	Amortised cost.
Amounts due to parent undertaking	• Fixed and variable interest rates. • No fixed maturities.	
Debt securities	• Variable funding notes that are investments in the Brass and Tombac securitisation vehicles.	Held to maturity
Derivative financial instruments	• Primarily medium-term. • Value derived from underlying price, rate or index.	Fair value through profit and loss.
Amounts due to customers	• Deposits made by individuals. • Varying withdrawal notice periods. • Fixed and variable interest rates.	Amortised cost

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 fair value of loans and advances to customers is assessed as the value of the expected future cash flows. Future cash flows are projected using contractual interest payments, contractual repayments, future lifetime expected losses and the expected prepayment behaviour of borrowers. Prudent assumptions are applied regarding expected levels of customer prepayments and the risk of defaults. The resulting expected future cash flows are discounted at current market rates to determine fair value. Overall the fair value is higher than the carrying value by £298m 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..

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. FINANCIAL INSTRUMENTS (continued)

	2016		2015	
At 31 December	Book value £m	Fair Value £m	Book value £m	Fair Value £m
Assets				
Loans and advances to customers	16,391	16,689	15,118	15,365
Debt securities	1,151	1,151	1,142	1,142
Derivative financial instrument	19	19	5	5
Liabilities				
Amounts owed to parent undertaking	16,925	17,223	15,676	15,429

All the non-derivative financial instruments are classified as level 2 based on the following fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The derivatives are classified as level 3 within the fair value hierarchy as they are hedging a pool of mortgage loans and the notional is dependent on the prepayment rate of the underlying mortgages. A 15% decrease in the prepayment rate would lead to a £3m increase in the valuation of derivative assets

Maturity Analysis

2016	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
	£m	£m	£m	£m
Financial liabilities:				
Borrowings from Yorkshire Building Society	(4)	-	(16,921)	(16,925)
Customer offset mortgage funds	(270)	-	-	(270)
	(5,211)	-	(11,984)	(17,195)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2015	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
	£m	£m	£m	£m
Financial liabilities:				
Borrowings from Yorkshire Building Society	(2)	-	(15,674)	(15,676)
Customer deposits	(289)	-	-	(289)
	(1,989)	-	(13,976)	(15,965)

18. MARKET RISK

The Company'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.

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 of behalf of Accord, further details of how the Group manages market risk can be found in the financial statements of the Company's parent Yorkshire Building Society.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Liquidity risk
Liquidity risk within the Company has been eliminated by the provision of undated funding from its 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 all its financial assets and liabilities are denominated in sterling.

19. CREDIT RISK

Retail credit risk management information is reported monthly to Retail Credit and Commercial Committee, FMC, and the Board.

Retail credit exposures are managed in accordance with the Group Board-approved Statement of Lending Policy and through the use of credit scoring systems that factor in the profile of the borrower, the nature of the loan, environmental conditions and the collateral that may be provided as security for the loan. These scoring systems, and the way they are used in the initial lending process, are varied to suit the different risks and profiles of the Group's loan portfolios.

Actual and forecast retail exposures are monitored and managed against policy limits by the Group Credit Committee. In particular the committee monitors arrears, loan-to-value ratios, expected losses, scorecard performance, and affordability.

Credit risk – geographic distribution

	Book		New Lending	
	2016	**2015**	**2016**	**2015**
	%	%	%	%
Scotland	7.1	7.4	5.8	5.8
North East	3.6	3.4	3.6	2.8
Yorkshire & Humberside	6.5	6.3	6.9	5.5
North West	7.6	7.3	7.9	5.9
Midlands	11.3	10.1	12.9	9.5
East Anglia	3.9	3.6	4.8	3.8
South West	7.0	6.8	7.2	6.9
Greater London	22.5	24.4	20.5	27.5
South East	26.4	26.7	26.8	29.4
Wales & Northern Ireland	4.1	4.0	3.6	2.9
	100.0	100.0	100.0	100.0

The loan portfolio is widely spread across the whole of the UK with no particular concentration in any area. New lending in London and the South East has decreased slightly to 47.3% (2015 – 56.9%).

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. CREDIT RISK (continued)

Substantially, all loans and advances are secured on property. Collateral is measured as the lower of the balance outstanding and the estimated current value of the property. As part of the portfolio monitoring process, properties on book are subject to regular updates in respect of their Loan to Value by way of an indexation process. This is applied to provide some measure of relative house price movements across the UK and their impact on the relative values of properties held by the Group.

Credit risk - loan to value distribution

	Book		New Lending	
LTV	**2016**	**2015**	**2016**	**2015**
	%	**%**	**%**	**%**
>100	0.4	0.8	-	-
90-100	2.2	2.0	5.4	2.7
75-90	20.3	23.1	46.4	46.7
50-75	58.6	60.1	42.8	45.1
<50	18.5	14.0	5.4	5.5
	100.0	100.0	100.0	100.0

The Company's average indexed loan to value is 61.5% (2015 – 63.7%). The proportion of the Company's loan book that is over 90% loan-to-value (LTV) is 2.6% as at 31 December 2016 (2015 – 2.8%). The Company restricts the loan-to-value on new lending to 95% LTV.

Credit risk - customer type

	Book		New Lending	
	2016	**2015**	**2016**	**2015**
	%	**%**	**%**	**%**
First time buyer	24.0	25.0	23.0	23.9
Other buyers i.e. movers	37.9	40.8	31.1	35.4
Remortgage	25.0	23.7	28.2	21.2
Buy to let	13.1	10.5	17.7	19.5
	100.0	100.0	100.0	100.0

Mortgage arrears

	2016	**2015**
Arrears outstanding as a percentage of debt	**%**	**%**
No arrears	96.90	96.67
<3 months	2.37	2.36
3 to 6 months	0.43	0.54
6 to 12 months	0.20	0.27
Over 12 months	0.07	0.10
Property in possession	0.03	0.06
	100.00	100.00
Number of properties in possession at the year end	39	54

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. CREDIT RISK (continued)

All loans are reviewed at each reporting date for indications of impairment.

The following table shows as at the year end, the overall loan balances analysed by whether or not they are past due or individually impaired, 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.

	Loans and advances		Collateral	
	2016	2015	2016	2015
	£m	£m	£m	£m
Not individually impaired:				
Neither past due nor individually impaired	15,889	14,639	15,884	14,630
Past due but not individually impaired	388	296	387	295
Individually impaired	122	209	118	205
Total loans and advances	16,399	15,144	16,389	15,130

Impairment is assessed based on the arrears of each mortgage loan. Where loans are in arrears by three months (2015 - two months) or more, they are individually assessed for impairment. Where mortgages are less than three months in arrears (2015 – two months) they are assessed for collective impairment. The change during the year to consider loans as individually impaired after being in arrears by three months or more aligns with the general approach used by others in the industry. This change did not have a material impact on the Group's overall impairment provision.

Appropriate provisions have been made for potential losses on mortgages in accordance with the impairment policy set out in Note 1 to the accounts on page 22. The key model assumptions underpinning the current mortgage impairment provisions (shown in Note 8) are forecast house price inflation/deflation, probability of possession, emergence period, loss given possession and forced sale discount.

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. CREDIT RISK (continued)

Forbearance

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

The disclosure of balances subject to forbearance measures has been revised to align with the guidance provided by the European Banking Authority for FINREP reporting whereby mortgage balances are included until a probation period of two years has elapsed from the date the account was again considered to be performing. This is a change from the prior year where the disclosure included mortgage balances subject to some form of forbearance during the prior 12 months totalling £197.7m.

The analysis below sets out a total of £631.1m (2015 - £197.7m) mortgage balances which are subject to some form of forbearance. Balances totalling £102.9m (2015 - £123.8m) are more than 3 months in arrears (2015 – two months), including possessions, and therefore fall within the Company's individual provision calculation. The remaining £529.0m (2015 - £73.9m) is covered by the Company's collective provision through the assumptions surrounding emergence period. Forbearance is included in mortgage provisions in the same way as any other debt, with that which is more than 3 months in arrears being recorded as impaired, and that which is less than or equal to three months being collectively assessed. If it were all to be incorporated as impaired the increase to the mortgage provision of £38.8m would be less than £0.6m (2015 - less than £0.1m).

2016	**Arrears arrangements** £m	**Other concessions** £m	**Term extension** £m	**Interest Only** £m	**Capitalisation** £m	**Total** £m
Gross carrying amount						
Neither past due nor individually impaired	147.8	59.5	166.5	5.8	0.8	**380.4**
Past due but not individually impaired						
Less than one month	46.3	0.6	1.6	0.3	0.5	**49.3**
One to three months	97.3	1.3	0.7	-	-	**99.3**
	291.4	**61.4**	**168.8**	**6.1**	**1.3**	**529.0**
Impaired						
Three to six months	60.1	0.1	-	-	-	**60.2**
Six to 12 months	27.6	-	0.3	-	-	**27.9**
12 months or over	10.2	-	-	-	-	**10.2**
Property in possession	3.7	0.1	-	-	-	**3.7**
	393.0	**61.5**	**169.1**	**6.1**	**1.3**	**631.0**

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. CREDIT RISK (continued)

Forbearance (continued)

2015	Arrears arrangements £m	Other concessions £m	Term extension £m	Interest Only £m	Capitalisation £m	Total £m
Gross carrying amount						
Neither past due nor individually impaired	5.1	4.1	2.9	0.8	-	**12.9**
Past due but not individually impaired						
Less than one month	26.7	0.4	-	0.1	-	**27.2**
One to three months	65.1	0.6	-	0.2	-	**65.9**
	96.9	**5.1**	**2.9**	**1.1**	-	**106.0**
Impaired						
Three to six months	51.0	-	-	-	-	**51.0**
Six to 12 months	29.0	0.1	-	-	-	**29.1**
12 months or over	11.3	-	-	**0.3**	-	**11.6**
Property in possession	-	-	-	-	-	-
	188.2	**5.2**	**2.9**	**1.4**	-	**197.7**

Arrears arrangements include positive and negative arrears arrangements.

A positive arrears arrangement is one where the customer's regular monthly repayment is in excess of their contractual repayment amount in order to reduce their arrears. A negative arrears arrangement is one where an agreement is in place, due to the borrower's circumstances, that allows the customer to repay less than their contractual repayment amount for a short period. In this circumstance interest will continue to accrue on the unpaid amounts. Other concessions include the suspension of direct debits

20. CASH FLOWS FROM OTHER OPERATING ACTIVITIES

	2016 £000	2015 £000
Cash flows from operating activities		
Profit for the year from continuing operations	90,461	39,606
Adjustments to profit:		
Tax expense	22,060	10,057
(Decrease) / increase in impairment and provisions in the year	(3,669)	3,203
Deferred tax liability	-	(170)
Provision for liabilities and charges	10	(262)
Deferred tax asset	-	38
Operating cash flows before movements in working capital	108,862	52,472

20.CASH FLOWS FROM OTHER OPERATING ACTIVITIES (continued)

(Increase)/decrease in operating assets:		
Loans and advances to customers	(1,269,063)	(1,503,754)
Derivative financial instruments	(14,141)	19,145
Other assets	(165)	(731)
Increase / (decrease) in operating liabilities:		
Other creditors	10,860	15,783
Amounts due to customers	(19,279)	6,672
Current tax liability	(10,189)	(18,587)
Net cash flow from operating activities	(1,193,115)	(1,429,000)

21.RELATED PARTIES

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

Copies of the Group accounts can be obtained from:

Yorkshire Building Society
Yorkshire House
Yorkshire Drive
Bradford
BD5 8LJ

The Company has a related party relationship 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 (2015 - £nil) as their emoluments are deemed to be substantially attributable to their services to Yorkshire Building Society. No staff were employed by the Company.

Other related party transactions
At 31 December the Company owed a loan to other Group entities of £16.9 billion (2015 - £15.7 billion). The outstanding balance has no fixed repayment date. A range of commercial interest rates are charged on the outstanding loan balance. Interest of £344.8 million (2015 - £351.1 million) was paid in the year.

Of the £16.9 billion owed to other Group entities, the Company owed loans to the Brass and Tombac securitisation vehicles of £6.1 billion (2015 - £5.3 billion). The outstanding balances have no fixed repayment date. A range of mortgage rates are charged on the outstanding loan balances. Interest of £60.4 million (2015 - £82.5 million) was paid in the year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. RELATED PARTIES (continued)

The Company paid a management recharge fee to the parent for the 2016 financial year of £44.4 million (2015 - £41.6 million).

In 2016, a dividend payment of £50m was made to the parent (2015 – £100m).