ACCORD MORTGAGES LIMITED

Registered Number: 2139881

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2013

ACCORD MORTGAGES LIMITED

31 DECEMBER 2013

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ACCORD MORTGAGES LIMITED

DIRECTORS AND COMPANY INFORMATION
(Registered Number: 2139881)

Directors	C C Bull I J Bullock, BSc, FIA C P Canning C A Hillis R C Graham, ACMA R S Wells
Secretary	A L FitzPatrick, LLB
Registered office	1 Filey Street Bradford BD1 5AT
Bankers	National Westminster Bank Plc PO Box 90 1 Market Street Bradford BD1 1EG
Auditors	Deloitte LLP 1 City Square Leeds LS1 2AL

DIRECTORS' REPORT

The directors present their report and audited financial statements for the year ended 31 December 2013.

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 their 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.

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 an expression of intent from its 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

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

C C Bull
I J Bullock, BSc, FIA
C P Canning
R C Graham, ACMA
C A Hillis
R S Wells

ACCORD MORTGAGES LIMITED

Audit Information

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

- So far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- The director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditors

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.

Ian Bullock

By order of the Board
I J Bullock,
Chairman
21 February 2014

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 have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, 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.

ACCORD MORTGAGES LIMITED

STRATEGIC REPORT

REVIEW OF THE BUSINESS

Financial Performance

Operating profit before provisions and taxation of the Company was £34.4 million (2012 – £96.7 million). This figure can be analysed into the following key areas:

	2013 £000	2012 £000
Net interest income	122,309	83,829
Net fee and commission income	2,121	2,653
Total income	124,430	86,482

	2013 £000	2012 £000
Net (losses)/gains from fair value volatility on financial instruments	(60,937)	32,324
Administrative expenses	(29,077)	(22,119)
Operating profit before provisions	34,416	96,687

Total income has increased to £124.4m (2012 - £86.5m) due to an increase in the interest margin between mortgage and funding balances.

The £(60.9)m fair value volatility loss in the Income Statement materially impacts upon the profit for 2013 (2012 - £32.3m gain). Included within this figure is a loss of £(43.2)m due to a change in the methodology for counterparty swap valuations. The change in methodology is in accordance with IFRS 13 'Fair Value Measurement'. The details of the (losses)/gains from fair value volatility on financial instruments are as follows:

2013	MTM Movement	Revaluation of Previous Issuance	Total
	£000	£000	£000
Brass No.1	(7,057)	(15,539)	(22,596)
Brass No.2	(13,236)	(27,701)	(40,937)
Brass No.3	2,558	n/a	2,558
Other Adjustments			38
	(17,735)	**(43,240)**	**(60,937)**

2012	MTM Movement	Revaluation of Previous Issuance	Total
	£000	£000	£000
Brass No.1	(6,709)	n/a	(6,709)
Brass No.2	39,066	n/a	39,066
Brass No.3	n/a	n/a	n/a
Other Adjustments			(33)
	32,357	**n/a**	**32,324**

STRATEGIC REPORT (continued)

REVIEW OF THE BUSINESS (continued)

As this is a change in accounting estimate, this does not require the restatement of prior years in accordance with IAS 8 'Accounting Polices, Changes in Accounting Estimates and Errors'. For more details regarding fair value volatility on financial instruments, please refer to Note 5.

Administration expenses have increased in part due to an increase in the management expenses of the Group functions that support the Company combined with a £4.8m allocation of project costs to support the Group's strategic initiatives. These included the Mortgage Market review and the project to implement the Internal Ratings Based (IRB) approach to capital requirements for retail credit risk. As the associated costs have not met the recognition criteria of IAS 38 'Intangible Assets', these costs have been expensed in full during the year. Nevertheless the expenditure on these projects should enable the Company to maintain sustainable growth by facilitating the Company to meet market demand whilst controlling the cost base in future years.

Additionally, the 22% increase in the size of the mortgage book also contributed towards the rise in administration expenses.

The directors do not propose the payment of a dividend (2012 - £Nil).

Business volumes

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

	2013 £m	2012 £m
Gross mortgage lending i.e. new loans	3,892	2,581
Opening mortgage balance	9,372	7,977
Net mortgage lending i.e. after repayments of existing loans	2,067	1,395
Closing mortgage balance (Note 9)	11,439	9,372

The mortgage book has grown by 22% due to gross mortgage lending exceeding repayment levels during the year. The Buy-to-Let mortgage book has grown 491% to £417m (2012 - £71m), re-presenting 3.6% (2012 – 0.8%) of the total book.

The Company also re-entered into the 95% loan-to-value market to assist first time buyers with low deposits. The proportion of the Company's new lending at this loan-to-value during the year was less than 1%.

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 93 fewer accounts, a £13.8m reduction in balances outstanding and arrears now being a much smaller proportion of the overall book.

	2013	2012	2013 % of mortgage accounts/balances	2012
Number of accounts	237	330	0.33%	0.54%
Balances outstanding on accounts	£36.0m	£49.8m	0.32%	0.53%
Amount of arrears included in balances	£4.3m	£5.6m	0.04%	0.06%

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

A provision of £1.9m has been made to cover the costs connected with a decision the Group has taken to refund certain arrears administration fees. The Group decided to take this action following the review of a sample of mortgage customers who went into arrears after January 2009. The Group is taking this proactive step in agreement with the Financial Conduct Authority. For more details regarding provision movements, please refer to Note 13.

Accord 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 71,451 (2012 – 61,464).

The Company uses a broker survey as a means of measuring satisfaction with the service it provides.. In 2013 the satisfaction index recorded an average of 75.7% (2012 – 74.6%) illustrating the Company's continued commitment to providing excellent service.

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 10.

KEY PERFORMANCE INDICATORS

Financial Performance

Statutory Profit

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

2009	2010	2011	2012	2013
£000	£000	£000	£000	£000
33,737	50,893	71,530	71,291	14,368

Business volumes

Net Mortgage Lending

The Group 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.

2009	2010	2011	2012	2013
£m	£m	£m	£m	£m
(435)	429	1,364	1,395	2,067

STRATEGIC REPORT (continued)

Key Performance Indicators (continued)

Asset quality – mortgage arrears

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

The Group 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 Group 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.

2009	2010	2011	2012	2013
%	%	%	%	%
5.10	4.69	3.72	2.31	1.89

Customers

Broker Satisfaction Survey

The Company uses a broker survey as a means of measuring satisfaction with the service it provides. Brokers who have had cases that offered are asked to complete a survey giving marks out of 10 relating to 13 key service standards. The combined results are shown below.

2009	2010	2011	2012	2013
%	%	%	%	%
85.6	82.4	81.0	74.6	75.7

Ian Bullock

By order of the Board
I J Bullock,
Chairman
21 February 2014

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 their relationships and transactions with other Group companies are not actively managed within the individual entities but considered at the Group level.

The Group accounts (Risk Management Report) 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 General Managers of the business, the Group Risk Committee, its sub-committees and the board. The General Manager of Risk provides a formal update to each board meeting covering all areas of risk management, including both routine reporting and ad hoc issues.

The interest rate risk inherent in the company's mortgage portfolio has been hedged through the effective use of derivative financial instruments.

Market risk

Market risk is the risk to earnings and capital arising from changes in interest rates, foreign currency exchange rates 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. This structure is reviewed at least monthly by the Asset and Liability Committee (ALCO). The Group board receives monthly summaries of risk positions and ALCO activity.

RISK MANAGEMENT REPORT (continued)

The Group's policies for the management of risks arising from movements in interest or currency exchange rates and the composition of the statement of financial position, provide the framework for the Group's Asset and Liability Management (ALM) and Treasury Risk Management activities. The primary purpose of the Group's ALM process is to ensure the accurate and timely identification, measurement and control of risk faced by the Group on its entire statement of financial position. The primary purpose of the Treasury Risk Management process is to ensure that risks connected with all aspects of treasury activity are identified and that suitable measures and risk management practices are applied. Treasury Risk Management 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. ALM and Treasury Risk Management form part of the same team in the Group Risk function and both submit monthly reports to ALCO, Financial Management Committee and Board, with quarterly reporting to the Group Risk Committee.

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 risk

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

Ian Bullock

By order of the Board
I J Bullock,
Chairman
21 February 2014

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

We have audited the financial statements of Accord Mortgages Limited for the year ended 31 December 2013 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 20. 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 2013 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.

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

Opinion on other matter prescribed by the Companies Act 2006
In our opinion 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.

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.

Stephen Williams (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Leeds, United Kingdom

21 February 2014

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 £000	2012 £000
Interest receivable and similar income	3	443,670	403,340
Interest payable and similar charges	4	(321,361)	(319,511)
Net interest income		122,309	83,829
Fees and commissions receivable		2,850	3,193
Fees and commissions payable		(729)	(540)
Net fee and commission income		2,121	2,653
Net (losses)/gains from fair value volatility on financial instruments	5	(60,937)	32,324
Administrative expenses	6	(29,077)	(22,119)
Operating profit before provisions		34,416	96,687
Impairment of loans and advances	8	(18,116)	(25,396)
Provisions	13	(1,932)	-
Profit before tax		14,368	71,291
Tax expense	7	(3,302)	(17,422)
Net profit		11,066	53,869

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

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

The notes on pages 17 to 33 form part of these financial statements.

ACCORD MORTGAGES LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	Notes	2013 £000	2012 £'000
ASSETS			
Loans and advances to customers			
Loans secured on residential property	9	11,402,473	9,326,277
Debt security	10	428,079	289,984
Deferred tax asset	14	76	132
Derivative Financial Instruments	5	7,125	68,896
Other assets	11	6,039	6,761
Total assets		11,843,792	9,692,050
LIABILITIES			
Amounts owed to parent undertaking	20	11,346,674	9,245,676
Current tax liability		2,331	17,625
Deferred tax liability	14	340	587
Other liabilities	12	231,266	176,047
Total liabilities		11,580,611	9,439,935
EQUITY			
Called up equity share capital	15	100,000	100,000
Retained gains	16	163,181	152,115
Total equity		263,181	252,115
Total equity and liabilities		11,843,792	9,692,050

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	2013 £000	2012 £000
Opening equity	252,115	198,246
Profit for the financial year	11,066	53,869
Closing equity	263,181	252,115

These financial statements for Accord Mortgages Limited (Registered number: 2139881) were approved by the board of directors on 21 February 2014 and were signed on its behalf by:

I J Bullock Ian Bullock Chairman

R C Graham Director

The notes on pages 17 to 33 form part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

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.

	2013 £000	2012 £000
Cash flows from operating activities		
Profit after taxation	11,066	53,869
Adjustments to profit:		
Tax expense	3,302	17,422
Decrease in impairment provision in the year	(9,538)	(11,178)
Net adjustments to net profit before movements in working capital	4,830	60,113
Decrease / (increase) in operating assets:		
Loans and advances to customers	(2,066,658)	(1,395,352)
Deferred tax asset	56	59
Other assets	62,493	(39,778)
Prepayments and accrued income	-	230
Increase / (decrease) in operating liabilities:		
Amounts owed to parent undertaking	2,100,998	1,486,333
Accruals	136	(268)
Other creditors	(6)	2
Amounts due to customers	52,821	61,753
Current tax liability	(18,596)	(18,922)
Deferred tax liability	(247)	(262)
Provision for liabilities and charges	1,930	-
Net cash flow from operating activities	137,757	153,908
Cash flows used in investment activities:		
Debt securities	(138,095)	(154,525)
Net decrease in cash	(338)	(617)
Cash and cash equivalents comprise:		
Bank Overdraft		
1 January	(623)	(6)
31 December	(961)	(623)
Cash flow	(338)	(617)

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 2013 were authorised for issue by the directors on 21 February 2014.

Basis of preparation
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) in issue that have been endorsed by the EU and are effective at 31 December 2013.

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. This is discussed in the Directors' Report on page 2, under the heading, 'Risks, uncertainties and going concern'.

As set out in the Directors' Responsibilities Statement on page 4, the directors are required to prepare these financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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 have been applied in the year.

- Amendment to 'IFRS 7 Financial Instruments Disclosures' (December 2011) 'Disclosures – Offsetting Financial Assets and Financial Liabilities' extends the scope of IFRS 7 disclosures but does not change the recognition or measurement of transactions in the financial statements.

- 'IFRS 13 'Fair Value Measurement' was effective for periods commencing on or after 1st January 2013. The new standard established a single source of guidance for fair value measurement under IFRSs.

- 'IFRS 11 Joint Arrangements' was effective for periods commencing on or after 1st January 2013. The new standard did not have a significant impact on the financial statements.

- 'IFRS 12 Disclosure of Interests in Other Entities' was effective for periods commencing on or after 1st January 2013. The new standard did not have a significant impact on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

- IAS 1 (amendment) 'Presentation of Items of Other Comprehensive Income' is effective on or after 1st July 2012. The amendment did not have a significant impact on the financial statements.

- Annual improvements to IFRSs 2009-2011 were effective on or after 1 January 2013. These improvements did not have a material impact on the financial statements.

The following Standards which have not been applied in these financial statements were in issue but not yet effective for the 2013 year end:

- IAS 39 'Financial Instruments: Recognition and Measurement' (Amended Jun 2013) is effective on or after 1st January 2014. This amendment relates to Novation of Derivatives and Continuation of Hedge Accounting.

- IAS 32 (Amended) 'Offsetting Financial Assets and Financial Liabilities' is effective on or after 1st January 2014. This amendment is intended to address the differences in their respective accounting standards regarding offsetting of financial instruments not expected to have any impact on the financial statements.

- IAS 27 (revised) 'Separate Financial Statements' is effective on or after 1st January 2014. The application of this revised Standard does not have a material impact on the financial statements.

- IAS 28 (revised) 'Investments in Associates and Joint Ventures' is effective on or after 1st January 2014. The application of this revised Standard does not have a material impact on the financial statements.

- IFRS 9 'Financial Instruments' was issued in December 2011 and is effective for periods commencing on or after 1st January 2015. The Standard is yet to be issued in its final form so the impact on the accounts of the company cannot be determined

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 purpose 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. 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 other than where an adjustment is made as part of a fair value hedging arrangement. Income is recognised on an effective interest rate basis.

Financial liabilities

The Company 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 where an adjustment is made as part of a fair value hedging arrangement. 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 exchange traded derivatives are valued using closing prices from the appropriate exchanges. Other derivatives are calculated using valuation techniques including discounted cash flow models.

Hedging

All derivatives entered into by the Group are for the purposes of providing an economic hedge. Hedge accounting is an optional treatment but the specific rules and conditions in IAS 39 have to be complied with before it can be applied.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity and recycled to the Income Statement over the life of the forecast transaction. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the Income Statement immediately. If the forecast transaction is no longer expected to occur, the cumulative unrealised gain or loss recognised in equity is then recognised immediately in the Income Statement.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of loans and advances

At each statement of financial position 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 statement of financial position date.

Individual assessments are made of all loans and advances on properties which are in possession or in arrears by two months or more. All other loans and advances are grouped and a collective review undertaken of any evidence of impairment. Future cash flows are estimated on grouped credit characteristics in all cases.

Where there is objective evidence of impairment or that trigger events exist at the statement of financial position date, then 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 experience periods, the effect of changes in house prices 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. If, in a subsequent period, the extent of impairment loss decreases, and that decrease can objectively be related to an event occurring after the initial impairment was recognised, then the impairment provision is adjusted accordingly and the reversal recognised through the income statement.

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. Such financial instruments are held at fair value with movements in fair value being recognised in the Income Statement. The Group has classified the majority of the derivative financial instruments as fair value and cash flow hedges in order to reduce volatility in the Income Statement. 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)

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 also recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised providing for temporary differences 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 statement of financial position date, depending on the rate at which they are expected to reverse. The following temporary difference is not provided for:

- the initial recognition of assets or liabilities that affect neither accounting not taxable profit.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available, against which temporary differences can be utilised.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Company's financial statements are prepared in accordance with IFRS and with its accounting policies, the most significant of which are set out in Note 1 to the accounts. The results are inevitably sensitive to certain estimates and judgements exercised by the Company, the most critical of which 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 is the estimated number of customers who will remain with the Society after the end of the initial product deal period. A 1% increase in the number of customers remaining with the Society after the end of the initial period 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

NOTES TO THE FINANCIAL STATEMENTS (continued)

prices), customer behaviour (e.g. default rates) and the length of time before impairments are identified (emergence period). Sensitivities include the future level of house prices where a variance of 10% equates to £6.2 million of provision; the emergence period, where a variance of three months equates to £2.5 million, and the loss given default rate where a 10% variance equates to £3.6 million of provision.

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	2013 £000	2012 £000
On loans secured on residential property	442,011	401,878
On debt securities	1,659	1,462
Total interest receivable	443,670	403,340

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2013 £000	2012 £000
On deposits from parent Company	278,072	286,055
On debt securities	43,289	33,456
Total interest payable	321,361	319,511

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

	2013 £000	2012 £000
Fair value movement on Derivatives	(60,975)	32,357
Other adjustments	38	(33)
Net (losses)/gains on fair value volatility on financial instruments	(60,937)	32,324

During the year the Company has made in a change in accounting estimate of the fair value of derivative financial instruments. In the current year the fair value of the derivatives are based on counterparty valuations, which is the best estimate of the exit value of the derivatives. In the previous year the derivatives were valued using a measurement approach that was entity-specific and based on expected future cash-flows. The impact of the change in accounting estimate has been estimated as £(43.2)m in 2013. This change is considered appropriate in accordance with IFRS 13 'Fair Value Measurement'. The impact of this change on future periods has not been disclosed as it is not measurable.

Analysis of Derivative financial instruments in Statement of Financial Position

	2013 £000	2012 £000
Derivative Financial Instruments	1,577	62,552
Accrued interest on swaps	5,548	6,344
	7,125	68,896

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. ADMINISTRATIVE EXPENSES

	2013 £000	2012 £000
Management charge	29,056	22,085
Other expenses	21	34
Total administrative expenses	29,077	22,119

Fees payable to the company's auditors for the audit of the company's annual accounts of £10,858 (2012 - £10,542) have been borne by the parent. There were no other fees paid to the auditors.

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 disclosures are available in the Group's consolidated accounts.

7. TAX EXPENSE

	2013 £000	2012 £000
Current tax:		
UK corporation tax at 23.25% (2012 – 24.5%)	3,493	17,625
Total current tax	3,493	17,625
Deferred tax (Note 14)		
Current year	(153)	(161)
Change in tax rate	(38)	(42)
Total tax expense in income statement	3,302	17,422

The main rate of corporation tax was reduced to 23% from 1 April 2013 and will reduce further to 21% from 1 April 2014 and to 20% from 1 April 2015.

As a result of the changes in the UK corporation tax, deferred tax balances have been re-measured at 20% at the end of the period.

The actual tax credit for the year may differ from that calculated using the standard rate of corporation tax in the UK. The differences are explained below:

	2013 £000	2012 £000
Profit before tax	14,368	71,291
Tax calculated at a rate of 23.25% (2012 – 24.5%)	3,340	17,464
Effects of:		
Change in tax rate	(38)	(42)
Tax expense in income statement	3,302	17,422

8. IMPAIRMENT OF LOANS AND ADVANCES

	2013 £000	2012 £000
At 1 January		
Collective	5,996	7,444
Individual	40,062	49,792
	46,058	57,236
Amounts written off during the year	(28,590)	(36,955)
Impairment charge for the year:		
Collective	(1,505)	(1,448)
Individual	20,557	27,225
	19,052	25,777
At 31 December		
Collective	4,491	5,996
Individual	32,029	40,062
	36,520	46,058
The charge for the year comprises:		
Impairment charge for the year	19,052	25,777
Net recoveries during the year	(936)	(381)
Net provision charge for the year	18,116	25,396

Included within the charge to the income statement is the impact of the change in impairment charge due to the time value of money, which is not material.

9. LOANS AND ADVANCES TO CUSTOMERS

	2013 £000	2012 £000
Loans and advances to customers comprise:		
Loans secured on residential property	11,438,993	9,372,335
Impairment provisions (Note 8)	(36,520)	(46,058)
	11,402,473	9,326,277

Loans and advances to customers of £11.4 billion (2012 - £9.2 billion) are contractually due in over one year.

10. DEBT SECURITIES

	2013 £000	2012 £000
Variable funding notes	427,715	289,715
Interest accrued	364	269
	428,079	289,984

Variable funding notes are investments in the Brass No. 1, Brass No. 2 and Brass No. 3 securitisation vehicles.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. OTHER ASSETS

	2013 £000	2012 £000
Debtors	6,039	6,761
	6,039	6,761

12. OTHER LIABILITIES

	2013 £000	2012 £000
Creditors (amounts falling due within one year)		
Bank overdraft	961	623
Amounts due to customers	228,084	175,263
Accruals	290	160
Provision for liabilities and charges	1,931	1
	231,226	176,047

13. PROVISIONS

	2013 £000	2012 £000
The movements in provisions are as follows:		
At 1 January	1	1
Amounts utilised during the year	(2)	-
Provision charge during the year	1,932	-
At 31 December	1,931	1

The provision relates to the Group's approach to Mortgage Collection administration fee charging and has been calculated using management's estimates of complaint volumes, redress payments and other costs. The provision, all of which is expected to be utilised in 2014, represents management's best estimate of likely costs.

14. DEFERRED TAX ASSETS AND LIABILITIES

	2013 £000	2012 £000
The movements on the deferred tax account are as follows:		
At 1 January	455	658
Income statement credit	(191)	(203)
At 31 December	264	455

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

	2013 £000	2012 £000
Deferred tax assets		
Implementation of IAS 39	76	132
Deferred tax liabilities		
Implementation of IAS 39	340	587

15. CALLED UP EQUITY SHARE CAPITAL

	2013 £000	2012 £000
Authorised, allotted, called up and fully paid:		
£100,000,000 Ordinary shares of £1 each	100,000	100,000

16. CAPITAL MANAGEMENT

	2013 £000	2012 £000
Ordinary shares of £1 each	100,000	100,000
Retained gain	163,181	152,115
Net Capital	263,181	252,115

Capital is managed centrally in the Yorkshire Building Society Group by the Group Capital Committee, 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.

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 up to 25 years. • A variety of mortgage products offering fixed and variable interest rates.	Amortised cost.
Amounts owed to parent undertaking	• Fixed and variable interest rates. • No fixed maturities.	
Debt securities	• Variable funding notes that are investments in the Brass No. 1, Brass No. 2 and Brass No. 3 securitisation vehicles.	Held to maturity at amortised cost.
Derivative financial instruments	• Primarily medium-term. • Value derived from underlying price, rate or index.	Fair value through profit and loss.
Customer deposits	• Deposits made by individuals. • Varying withdrawal notice periods. • Fixed and variable interest rates.	Amortised cost

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. FINANCIAL INSTRUMENTS (continued)

The fair value of loans and advances to customers has been calculated on an individual loan basis taking into account factors such as impairment and interest rates. It is not considered appropriate to value them collectively as a portfolio sale.

Fair Values

The following is a comparison of book and fair values of the Company's financial instruments by category as at the balance sheet 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.

	2013		2012	
At 31 December	Book value £m	Fair Value £m	Book value £m	Fair Value £m
Assets				
Loans and advances to customers	11,402	11,569	9,326	9,492
Debt security	428	428	290	290
Derivative financial instrument	7	7	69	69
Liabilities				
Amounts owed to parent undertaking	11,347	11,514	9,246	9,412

Maturity Analysis

2013

	Repayable on demand and up to one year £000	In more than one year but not more than five years £000	In more than five years £000	Total £000
Financial assets:				
Loans and advances to customers	54,489	116,738	11,231,246	11,402,473
Debt securities	-	-	428,079	428,079
Derivative financial instruments	-	-	7,125	7,125
Financial liabilities:				
Borrowings from Yorkshire Building Society	-	-	(11,346,674)	(11,346,674)
Customer deposits	(228,084)	-	-	(228,084)
	(173,595)	116,738	319,776	262,919

2012

	Repayable on demand and up to one year £000	In more than one year but not more than five years £000	In more than five years £000	Total £000
Financial assets:				
Loans and advances to customers	113,980	93,543	9,118,754	9,326,277
Debt securities	-	-	289,984	289,984
Derivative financial instruments	-	-	68,896	68,896
Financial liabilities:				
Borrowings from Yorkshire Building Society	-	-	(9,245,676)	(9,245,676)
Customer deposits	(175,263)	-	-	(175,263)
	(61,283)	93,543	231,958	264,218

18. 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 and LIBOR.

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 accounts of the Company's parent Yorkshire Building Society.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. CREDIT RISK

Retail credit risk management information is reported monthly to Retail Credit Committee, FMC, and the Board with quarterly reports to Group Risk Committee.

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	
	2013	2012	2013	2012
	%	%	%	%
Scotland	9	9	7	7
North East	4	4	3	3
Yorkshire & Humberside	7	8	5	5
North West	8	9	6	7
Midlands	13	13	11	12
East Anglia	3	3	4	3
South West	6	6	6	6
Greater London	25	23	32	30
South East	21	20	24	24
Wales & Northern Ireland	4	5	3	3
	100	100	100	100

The loan portfolio is widely spread across the whole of the UK with no particular concentration in any area, although the proportion of new lending in London and the South East has increased slightly to 56% (2012 – 54%).

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. CREDIT RISK (continued)

Credit risk - loan to value distribution

	Book		New Lending	
LTV	**2013**	**2012**	**2013**	**2012**
	%	%	%	%
>100	5	10	-	-
90-100	5	9	-	-
75-90	37	33	57	41
50-75	45	40	40	53
<50	8	8	3	6
	100	100	100	100

The Company's average indexed loan to value is 71.68% (2012 – 75.12%). The proportion of the Company's loan book that is over 90% loan-to-value (LTV) is 10% as at 31 December 2013 (2012 – 19%). The company restricts the loan-to-value on new lending to 95% LTV.

Credit risk - customer type

	Book		New Lending	
	2013	**2012**	**2013**	**2012**
	%	%	%	%
First time buyer	25	25	25	23
Other buyers i.e. movers	42	42	44	44
Remortgage	29	32	22	30
Buy to let	4	1	9	3
	100	100	100	100

Mortgage arrears

	2013	**2012**
Arrears outstanding as a percentage of debt	%	%
No arrears	93.12	91.96
<3 months	4.81	5.36
3 to 6 months	1.14	1.32
6 to 12 months	0.56	0.70
Over 12 months	0.19	0.29
Property in possession	0.18	0.37
	100.00	100.00
Number of properties in possession at the year end	132	231

The Company's overall arrears position has improved during 2013 with decreases in the proportion of outstanding debt that is over three months in arrears or in possession.

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. CREDIT RISK (continued)

	Loans and advances 2013 £m	Loans and advances 2012 £m	Collateral 2013 £m	Collateral 2012 £m
Not impaired:				
Neither past due nor impaired	10,628	8,593	10,577	8,536
Past due but not impaired	432	390	427	382
Impaired	379	389	360	365
Total loans and advances	11,439	9,372	11,364	9,283

Impairment is assessed based on the arrears of each mortgage. Where mortgages are more than two months in arrears they are individually assessed for impairment. All mortgages that are past due but not impaired are less than two months in arrears.

Where mortgages are less than two months in arrears they are assessed for collective impairment.

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 19.

Forbearance

The Group 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 Group may offer include arrears arrangements, capitalisation, payment holidays, interest only concessions, and term extensions. The use of account management tools are either fully recognised within provisioning or are low in materiality. The Arrears Transformation Programme has provided greater data granularity around the use of forbearance across the Group and its impact on provisions, enabling more comprehensive reporting.

2013	Arrears arrangements		Capitalisation	Payment Holidays	Interest Only		Term extension	Direct Debit Suspension	Total
	Positive	Negative			Permanent	Temporary			
	£m	£m	£m	£m	£m	£m	£m	£m	**£m**
Not in arrears	3.8	0.5	-	-	5.1	1.0	3.6	3.5	**17.5**
Less than one month	22.7	5.3	-	-	-	0.9	0.1	1.3	**30.3**
One to two months	25.4	5.8	-	-	0.1	0.1	-	0.8	**32.2**
Two to three months	25.2	6.9	-	-	0.2	0.4	-	0.2	**32.9**
Three to six months	60.2	7.5	-	-	-	0.8	-	0.4	**68.9**
Six to 12 months	33.3	0.9	-	-	-	0.1	-	-	**34.3**
Over 12 months	9.4	-	-	-	-	-	-	-	**9.4**
Property in possession	4.4	-	-	-	-	-	-	-	**4.4**
	184.4	**26.9**	**-**	**-**	**5.4**	**3.3**	**3.7**	**6.2**	**229.9**

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. CREDIT RISK (continued)

2012	Arrears arrangements		Capitalisation	Payment Holidays	Interest Only		Term-extension	Direct Debit Suspension	Total
	Positive	Negative			Permanent	Temporary			
	£m	£m	£m	£m	£m	£m	£m	£m	**£m**
Not in arrears	6.7	0.4	2.1	1.1	28.2	9.7	3.6	5.7	**57.5**
Less than one month	40.2	0.9	0.3	0.0	0.5	2.3	0.0	1.6	**45.8**
One to two months	33.6	0.7	0.1	0.3	0.5	1.9	0.1	2.5	**39.7**
Two to three months	31.1	0.3	-	-	-	0.9	-	0.6	**32.9**
Three to six months	63.5	0.1	-	-	0.3	1.0	-	0.4	**65.3**
Six to 12 months	38.4	-	-	-	0.2	0.8	-	0.2	**39.6**
Over 12 months	11.0	0.3	-	-	0.1	-	-	-	**11.4**
Property in possession	6.0	-	-	-	-	0.1	-	-	**6.1**
	230.5	**2.7**	**2.5**	**1.4**	**29.8**	**16.7**	**3.7**	**11.0**	**298.3**

The analysis above sets out a total of £230m (2012 - £298m) mortgage balances which are subject to some form of forbearance in its widest sense. Balances totalling £150m (2012 - £155m) are more than 2 months in arrears, including possessions, and therefore fall within the Group's individual provision calculation. The remaining £80m (2012 - £143m) is covered by the group's collective provision through the assumptions surrounding emergence period. There is nothing in the forbearance data to suggest that the impairment provisioning methodology or assumptions do not provide adequate cover in respect of lending which is subject to forbearance.

20. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. RELATED PARTIES (continued)

Transactions with key management personnel

Total remuneration paid by the parent to key management personnel in relation to their service as key management personnel of the Company amounted to £232,950 (2012 - £252,452), of which the highest paid key management personnel amounted to £138,376 (2012 - £138,132). The accrued pension of the highest paid key management personnel (who is a member of a defined benefit scheme) increased by £2,363 (2012 - £3,374) as a result of their service as a key management personnel. No staff were employed by the Company.

Retirement benefits are accruing to the following number of key management personnel:

	2013	2012
	No. of key management personnel	
Defined benefit schemes	2	2

Other related party transactions

At 31 December the Company owed a loan to other group entities of £11.3. billion (2012 - £9.2 billion). The outstanding balance has no fixed repayment date. A range of commercial interest rates are charged on the outstanding loan balance. Interest of £277 million (2012 - £286 million) was paid in the year.

Of the £11.3 billion owed to other group entities, the company owed loans to Brass No. 1 PLC, Brass No. 2 PLC and Brass No. 3 PLC of £2.3 billion (2012 - £1.8 billion). The outstanding balances have no fixed repayment date. A range of mortgage rates are charged on the outstanding loan balances. Interest of £43 million (2012 - £33 million) was paid in the year.

The Company paid a management recharge fee to the parent for the 2013 financial year of £29.1 million (2012 - £22.1 million).