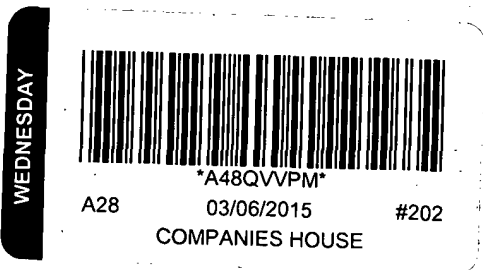


**ACCORD MORTGAGES LIMITED**

**Registered Number: 2139881**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**31 DECEMBER 2014**



# **ACCORD MORTGAGES LIMITED**

**31 DECEMBER 2014**

## **CONTENTS**

	<b>Page</b>
Directors and Company information	1
Directors' report	2
Directors' responsibilities statement	4
Strategic Report	5
Risk Management Report	11
Independent auditor's report	14
Income statement	16
Statement of financial position	17
Statement of changes in equity	17
Statement of cash flows	18
Notes to the financial statements	19

# **ACCORD MORTGAGES LIMITED**

## **DIRECTORS AND COMPANY INFORMATION** **(Registered Number: 2139881)**

### **Directors**

I J Bullock, BSc, FIA  
G C Evans  
C A Hillis  
R C Graham, ACMA  
R S Wells, FCIB

### **Secretary**

A L FitzPatrick, LLB

### **Registered office**

Yorkshire House  
Yorkshire Drive  
Bradford  
BD5 8LJ

### **Bankers**

National Westminster Bank Plc  
PO Box 90  
1 Market Street  
Bradford  
BD1 1EG

### **Auditors**

Deloitte LLP  
1 City Square  
Leeds  
LS1 2AL

## **ACCORD MORTGAGES LIMITED**

### **DIRECTORS' REPORT**

The directors present their report and audited financial statements for the year ended 31 December 2014.

#### **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 material securitisation transactions 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 (Resigned – 13 March 2014)

I J Bullock, BSc, FIA

C P Canning (Resigned – 31 December 2013)

G C Evans (Appointed – 12 March 2014)

R C Graham, ACMA

C A Hillis

R S Wells, FCIB

## ACCORD MORTGAGES LIMITED

### DIRECTORS' REPORT (continued)

#### 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.



By order of the Board  
I J Bullock,  
Chairman  
23 February 2015

## **ACCORD MORTGAGES LIMITED**

### **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 £104.6 million (2013 – £34.4 million). This figure can be analysed into the following key areas:

	2014 £000	2013 £000
Net interest income	120,864	122,309
Net fee and commission income	1,744	2,121
<b>Total income</b>	<b>122,608</b>	<b>124,430</b>
Net gains/(losses) from fair value volatility on financial instruments	14,549	(60,937)
Administrative expenses	(32,508)	(29,077)
<b>Operating profit before provisions</b>	<b>104,649</b>	<b>34,416</b>

Total income has decreased to £122.6m (2013 - £124.4m) due to an increase in mortgage volumes being more than counter balanced by a reduced interest margin caused by increasing competition as market conditions recover.

The £14.5m fair value volatility gain in the Income Statement materially impacts upon the profit for 2014 (2013 - £(60.9)m loss). The introduction of the Brass No.4 securitisation vehicle has contributed significantly to this gain during the year in contrast to the amortisation of the remaining Brass securitisations.

The table below shows the fair value volatility on financial instruments over the last 4 years.

	2014 £000	2013 £000	2012 £000	2011 £000
Brass No.1	(1,115)	(22,596)	(6,700)	30,185
Brass No.2	645	(40,937)	39,024	-
Brass No.3	(1,113)	2,558	-	-
Brass No.4	16,101	-	-	-
Other Volatility	31	38	-	-
	<b>14,549</b>	<b>(60,937)</b>	<b>32,324</b>	<b>30,185</b>

## ACCORD MORTGAGES LIMITED

### STRATEGIC REPORT (continued)

### REVIEW OF THE BUSINESS (continued)

#### Financial Performance (continued)

During 2013 the Company made a change in accounting estimate of the fair value of derivative financial instruments. The impact of the change in accounting estimate was estimated as £(43.2)m in 2013. This change was considered appropriate in accordance with IFRS 13 'Fair Value Measurement'.

2014	MTM Movement	Revaluation of Previous Issuance	Total
	£000	£000	£000
Brass No.1	(1,115)	-	(1,115)
Brass No.2	645	-	645
Brass No.3	(1,113)	-	(1,113)
Brass No.4	16,101	-	16,101
Other Volatility	31	-	31
	<b>14,549</b>	<b>-</b>	<b>14,549</b>

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
Brass No.4	n/a	n/a	n/a
Other Volatility	38	-	38
	<b>(17,697)</b>	<b>(43,240)</b>	<b>(60,937)</b>

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

Administration expenses have increased largely due to a 19% increase in the size of the mortgage book and increasing lending volumes, both of which are key cost drivers.

The directors do not propose the payment of a dividend (2013 - £Nil).



# **ACCORD MORTGAGES LIMITED**

## **STRATEGIC REPORT (continued)**

### **REVIEW OF THE BUSINESS (continued)**

#### **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:

	<b>2014 £m</b>	<b>2013 £m</b>
Gross mortgage lending i.e. new loans	4,400	3,892
Opening mortgage balance	11,439	9,372
Net mortgage lending i.e. after repayments of existing loans	2,218	2,067
Closing mortgage balance (Note 9)	13,657	11,439

The mortgage book has grown by 19% due to gross mortgage lending exceeding repayment levels during the year. The Buy-to-Let mortgage book has grown 114% to £891m (2013 - £417m), representing 6.5% (2013 – 3.6%) of the total book.

The Company re-entered into the 95% loan-to-value market in 2013 to assist first time buyers with low deposits. The proportion of the Company's new lending in 2014 at this loan-to-value, during the year was less than 3% (2013 – <1%).

#### **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 19 fewer accounts, a £1.5m reduction in balances outstanding and arrears being a smaller proportion of the overall book.

	<b>2014</b>	<b>2013</b>	<b>2014 % of mortgage accounts/balances</b>	<b>2013</b>
Number of accounts	218	237	0.27%	0.33%
Balances outstanding on accounts	£34.5m	£36.0m	0.25%	0.32%
Amount of arrears included in balances	£4.2m	£4.3m	0.03%	0.04%

Provisions have been made for potential losses on mortgages in accordance with the impairment policy set out in Note 1 on page 21. For more details on arrears performance, please refer to Note 19.

## **ACCORD MORTGAGES LIMITED**

### **STRATEGIC REPORT (continued)**

#### **REVIEW OF THE BUSINESS (continued)**

##### **Asset quality – mortgage arrears (continued)**

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 81,254 (2013 – 71,451).

The Company uses a broker survey as a means of measuring satisfaction with the service it provides. In 2014 the satisfaction index recorded an average of 78.1% (2013 – 75.7%) illustrating the Company's continued commitment to providing excellent service.

#### **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 11.

# **ACCORD MORTGAGES LIMITED**

## **STRATEGIC REPORT (continued)**

### **KEY PERFORMANCE INDICATORS**

#### ***Financial Performance***

##### *Statutory Profit before Tax*

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

<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
£000	£000	£000	£000	£000
50,893	71,530	71,291	14,368	86,431

#### ***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.

<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
£m	£m	£m	£m	£m
429	1,364	1,395	2,067	2,218

#### ***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.

<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
%	%	%	%	%
4.69	3.72	2.31	1.89	1.31

## ACCORD MORTGAGES LIMITED

### STRATEGIC REPORT (continued)

### KEY PERFORMANCE INDICATORS (continued)

#### Customers

##### *Broker Satisfaction Survey*

The Company uses a broker survey as a means of measuring satisfaction with the service it provides. Brokers who are offered cases are asked to complete a survey giving marks out of 10 for key service standards. The format of the survey changed in 2014 and now has a total of 30 questions which cover a range factors for each standard. The combined results are shown below.

2010	2011	2012	2013	2014
%	%	%	%	%
82.4	81.0	74.6	75.7	78.1

By order of the Board  
I J Bullock,  
Chairman  
23 February 2015



## **ACCORD MORTGAGES LIMITED**

### **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 Chief Officers of the business, the Group Risk Committee, its sub-committees and the board. The Chief of Risk 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.

## **ACCORD MORTGAGES LIMITED**

### **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 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.

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 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 the Asset and Liability Committee (ALCO), Financial Management Committee (FMC) 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 and regulatory 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.

## ACCORD MORTGAGES LIMITED

### RISK MANAGEMENT REPORT (continued)

#### Operational and regulatory risk (continued)

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

By order of the Board  
I J Bullock,  
Chairman  
23 February 2015



## **ACCORD MORTGAGES LIMITED**

### **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 2014 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 2014 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.



## ACCORD MORTGAGES LIMITED

### 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.



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

23 February 2015

# **ACCORD MORTGAGES LIMITED**

## **INCOME STATEMENT** **FOR THE YEAR ENDED 31 DECEMBER 2014**

	<b>Notes</b>	<b>2014 £000</b>	<b>2013 £000</b>
Interest receivable and similar income	3	502,620	443,670
Interest payable and similar charges	4	(381,756)	(321,361)
<b>Net interest income</b>		<u>120,864</u>	<u>122,309</u>
Fees and commissions receivable		2,801	2,850
Fees and commissions payable		(1,057)	(729)
<b>Net fee and commission income</b>		<u>1,744</u>	<u>2,121</u>
Net gains/(losses) from fair value volatility on financial instruments	5	14,549	(60,937)
Administrative expenses	6	(32,508)	(29,077)
<b>Operating profit before provisions</b>		<u>104,649</u>	<u>34,416</u>
Impairment of loans and advances	8	(18,078)	(18,116)
Provisions	13	(140)	(1,932)
<b>Profit before tax</b>		<u>86,431</u>	<u>14,368</u>
Tax expense	7	(18,587)	(3,302)
<b>Net profit</b>		<u>67,844</u>	<u>11,066</u>

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 19 to 38 form part of these financial statements.

# **ACCORD MORTGAGES LIMITED**

## **STATEMENT OF FINANCIAL POSITION** **AS AT 31 DECEMBER 2014**

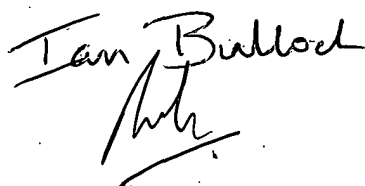
	Notes	2014 £000	2013 £'000
<b>ASSETS</b>			
Loans and advances to customers			
Loans secured on residential property	9	13,617,879	11,402,473
Debt securities	10	957,558	428,079
Deferred tax asset	14	38	76
Derivative Financial Instruments	5	24,073	7,125
Other assets	11	1,044	6,039
<b>Total assets</b>		<b>14,600,592</b>	<b>11,843,792</b>
<b>LIABILITIES</b>			
Amounts due to parent undertaking	20	13,962,747	11,346,674
Current tax liability		18,718	2,331
Deferred tax liability	14	170	340
Other liabilities	12	287,932	231,266
<b>Total liabilities</b>		<b>14,269,567</b>	<b>11,580,611</b>
<b>EQUITY</b>			
Called up equity share capital	15	100,000	100,000
Retained gains	16	231,025	163,181
<b>Total equity</b>		<b>331,025</b>	<b>263,181</b>
<b>Total equity and liabilities</b>		<b>14,600,592</b>	<b>11,843,792</b>

## **STATEMENT OF CHANGES IN EQUITY** **FOR THE YEAR ENDED 31 DECEMBER 2014**

	2014 £000	2013 £000
Opening equity	263,181	252,115
Profit for the financial year	67,844	11,066
Closing equity	<b>331,025</b>	<b>263,181</b>

These financial statements for Accord Mortgages Limited (Registered number: 2139881) were approved by the board of directors on 23 February 2015 and were signed on its behalf by:

I J Bullock



Chairman

R S Wells

Director

The notes on pages 19 to 38 form part of these financial statements.

# **ACCORD MORTGAGES LIMITED**

## **STATEMENT OF CASH FLOWS** **FOR THE YEAR ENDED 31 DECEMBER 2014**

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.

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
<b>Cash flows from operating activities</b>		
<b>Profit after taxation</b>	67,844	11,066
<b>Adjustments to profit:</b>		
Tax expense	18,587	3,302
Increase/(decrease) in impairment and provisions in the year	2,770	(9,538)
<b>Net adjustments to net profit before movements in working capital</b>	89,201	4,830
<b>Decrease / (increase) in operating assets:</b>		
Loans and advances to customers	(2,218,176)	(2,066,658)
Deferred tax asset	38	56
Derivative financial instruments	(16,948)	61,771
Other assets	4,996	722
<b>Increase / (decrease) in operating liabilities:</b>		
Amounts owed to parent undertaking	2,616,073	2,100,998
Accruals	3,242	130
Amounts due to customers	54,347	52,821
Current tax liability	(2,200)	(18,596)
Deferred tax liability	(170)	(247)
Provision for liabilities and charges	(1,552)	1,930
<b>Net cash flow from operating activities</b>	528,851	137,757
<b>Cash flows used in investment activities:</b>		
Debt securities	(529,479)	(138,095)
<b>Net decrease in cash</b>	<b>(628)</b>	<b>(338)</b>
<b>Cash and cash equivalents comprise:</b>		
<b>Bank Overdraft</b>		
1 January	(961)	(623)
31 December	(1,589)	(961)
<b>Cash flow</b>	<b>(628)</b>	<b>(338)</b>

## ACCORD MORTGAGES LIMITED

### 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 2014 were authorised for issue by the directors on 23 February 2015.

##### 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 European Union (EU) and are effective at 31 December 2014 and with those parts of the Building Societies Act 1986 and the Building Societies (Accounts and Related Provisions) Regulations applicable to societies reporting under IFRS.

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'.

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 2014 have been adopted in the current year:

- Amendments to IAS 36 'Recoverable Amount Disclosures for Non-Financial Assets' reduces the circumstances in which the recoverable amount is required to be disclosed and introduces new disclosure requirements for impaired assets held at fair value less costs of disposal. The application of these amendments did not have a material impact on the financial statements.
- Amendments to IFRS 10, IFRS 12, and IAS 27 'Investment Entities' specify the treatment of subsidiaries for a parent investment entity and the respective disclosure requirements. These amendments did not have any impact on the financial statements.
- Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities' provide clarification to the requirements for offsetting financial assets and financial liabilities. These amendments did not have any impact on the financial statements.
- Amendments to IAS 39 'Novation of Derivatives and Continuation of Hedge Accounting' allow an entity to continue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. These amendments did not have any impact on the financial statements.

## **ACCORD MORTGAGES LIMITED**

### **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 2014 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 the classification and measurement of financial instruments and new general hedge accounting requirements. The Company is in the process of assessing the impact of adopting IFRS 9 but the calculation of impairment of financial assets on an expected credit loss basis is expected to result in an overall increase in loan loss provisioning.
- IFRS 15 'Revenue from Contracts with Customers' is effective for periods beginning on or after 1 January 2017, 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.
- Amendments to IFRS 11 'Accounting for Acquisitions of Interests in Joint Operations' are effective for periods beginning on or after 1 January 2016 and provide clarification on how to account for the acquisition of an interest in a joint operation in which the activities constitute a business.
- Amendments to IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortisation' are effective for periods beginning on or after 1 January 2016 and prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment except in limited circumstances.
- Amendments to IAS 19 'Defined Benefit Plans: Employee Contributions' are effective for periods beginning on or after 1 July 2014 which clarify the treatment of the contributions made by employees or third parties that are linked to series to defined benefit plans.
- Annual Improvements to IFRSs 2011-2013 Cycle are effective for periods beginning on or after 1 July 2014 and include amendments to IFRS 3 'Business Combinations', IFRS 13 'Fair Value Measurement' and IAS 40 'Investment Property'.

## **ACCORD MORTGAGES LIMITED**

### **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 Statements of Cash Flows have 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. 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. 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.

###### **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.

## **ACCORD MORTGAGES LIMITED**

### **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 two months or more. 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 unaffordability arising from circumstances in existence at the balance sheet 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 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 emergence periods, the effect of changes in house prices, unemployment rates 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.

The effective interest rate method is used to calculate the amortised cost of financial instruments and to recognise interest receivable or payable over the relevant period. The effective interest rate is the rate that exactly discounts estimated cash flows (excluding credit losses) to zero through the expected life of the instrument. 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.



## **ACCORD MORTGAGES LIMITED**

### **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 date at which they are expected to reverse.

The following temporary differences are not provided for:

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

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

# **ACCORD MORTGAGES LIMITED**

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

### **2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)**

#### **Effective interest rate (continued)**

During the year, there was change in the estimate for calculating the interest margin using the effective interest rate method. This change relates to the de-recognition of the interest discount on products which have been priced at market competitive rates. The impact is a reduction in interest receivable on loans secured on residential property of £7 million in the period.

#### **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 -5% to -10% in 2015) equates to an increase in the provision of £4.2 million. Other sensitivities include the emergence period, where an increase in the emergence period by three months equates to £1.1 million additional provision and the loss given possession rate where a 10% increase equates to £3.9million additional provision.

### **3. INTEREST RECEIVABLE AND SIMILAR INCOME**

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
On loans secured on residential property	475,137	442,011
On debt securities	3,840	1,659
On other loans	23,643	-
<b>Total interest receivable</b>	<u>502,620</u>	<u>443,670</u>

Included within interest receivable and similar income is interest earned on impaired loans of £4.8 million (2013 - £10.3 million). These loans are included in loans and advances to customers and considered within the impairment calculation.

### **4. INTEREST PAYABLE AND SIMILAR CHARGES**

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
On deposits from parent Company	309,877	278,072
On deemed loans from other group entities	71,879	43,289
<b>Total interest payable</b>	<u>381,756</u>	<u>321,361</u>

# **ACCORD MORTGAGES LIMITED**

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

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

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Fair value movement on derivatives	14,519	(60,975)
Other adjustments	30	38
<b>Net gains/(losses) from fair value volatility on financial instruments</b>	<b>14,549</b>	<b>(60,937)</b>

### **Analysis of Derivative financial instruments in Statement of Financial Position**

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Derivative Financial Instruments	16,096	1,577
Accrued interest on swaps	7,977	5,548
	<b>24,073</b>	<b>7,125</b>

### **6. ADMINISTRATIVE EXPENSES**

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Management charge	32,435	29,056
Other expenses	73	21
<b>Total administrative expenses</b>	<b>32,508</b>	<b>29,077</b>

Fees payable to the company's auditors for the audit of the company's annual accounts of £11,184 (2013 - £10,858) 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 disclosures are available in the Group's consolidated accounts.

# **ACCORD MORTGAGES LIMITED**

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

### **7. TAX EXPENSE**

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Current tax:		
UK Corporation tax at 21.5% (2013- 23.25%)	18,719	3,493
Total current tax	18,719	3,493
Deferred tax (Note 14)		
Current year	(142)	(153)
Change in tax rate	10	(38)
<b>Total tax expense in income statement</b>	<b>18,587</b>	<b>3,302</b>

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

As a result of the changes in UK corporation tax, deferred tax balances are held at 20%.

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

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Profit before tax	86,431	14,368
Tax calculated at a tax rate of 21.5% (2013 - 23.25%)	18,577	3,340
Effects of:		
Change in tax rate	10	(38)
<b>Tax expense in income statement</b>	<b>18,587</b>	<b>3,302</b>

# **ACCORD MORTGAGES LIMITED**

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

### **8. IMPAIRMENT OF LOANS AND ADVANCES**

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
At 1 January		
Collective	4,491	5,996
Individual	32,029	40,062
	<u>36,520</u>	<u>46,058</u>
Amounts written off during the year	<u>(16,888)</u>	<u>(28,590)</u>
Impairment charge for the year:		
Collective	12,755	(1,505)
Individual	6,903	20,557
	<u>19,658</u>	<u>19,052</u>
At 31 December		
Collective	17,246	4,491
Individual	22,044	32,029
	<u>39,290</u>	<u>36,520</u>
The charge for the year comprises:		
Impairment charge for the year	19,658	19,052
Net recoveries during the year	(1,580)	(936)
Net provision charge for the year	<u>18,078</u>	<u>18,116</u>

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**

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Loans and advances to customers comprise:		
Loans secured on residential property	13,657,169	11,438,993
Impairment provisions (Note 8)	<u>(39,290)</u>	<u>(36,520)</u>
	<u>13,617,879</u>	<u>11,402,473</u>

Loans and advances to customers of £13.7 billion (2013 - £11.4 billion) are contractually due in over one year.

# **ACCORD MORTGAGES LIMITED**

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

### **10. DEBT SECURITIES**

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Variable funding notes		
- Brass 1 (call date 16 June 2016)	135,400	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	-
- Tombac (call date 23 April 2019)	394,500	-
Interest accrued	443	364
	<u>957,558</u>	<u>428,079</u>

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**

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Debtors	1,044	6,039
	<u>1,044</u>	<u>6,039</u>

### **12. OTHER LIABILITIES**

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Creditors (amounts falling due within one year)		
Bank overdraft	1,589	961
Amounts due to customers	282,431	228,084
Accruals	3,533	290
Provision for liabilities and charges (note 13)	379	1,931
	<u>287,932</u>	<u>231,266</u>

### **13. PROVISIONS**

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
The movements in provisions are as follows:		
At 1 January	1,931	1
Amounts utilised during the year	(1,692)	(2)
Provision charge during the year	140	1,932
At 31 December	<u>379</u>	<u>1,931</u>

The provision relates to the Company's approach to administration fee charging in relation to mortgage collection and failed direct debits, 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 2015, represents management's best estimate of likely costs.

# **ACCORD MORTGAGES LIMITED**

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

### **14. DEFERRED TAX ASSETS AND LIABILITIES**

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
The movements on the deferred tax account are as follows:		
At 1 January	264	455
Income statement credit	(132)	(191)
At 31 December	<u>132</u>	<u>264</u>

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

Deferred tax assets		
Implementation of IAS 39	<u>38</u>	<u>76</u>
Deferred tax liabilities		
Implementation of IAS 39	<u>170</u>	<u>340</u>

### **15. CALLED UP EQUITY SHARE CAPITAL**

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Authorised, allotted, called up and fully paid: £100,000,000 Ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>

### **16. CAPITAL MANAGEMENT**

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Ordinary shares of £1 each	100,000	100,000
Retained gain	231,025	163,181
Net Capital	<u>331,025</u>	<u>263,181</u>

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.

## ACCORD MORTGAGES LIMITED

### 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	<ul style="list-style-type: none"> <li>Loan period is typically up to 25 years.</li> <li>A variety of mortgage products offering fixed and variable interest rates.</li> </ul>	Amortised cost.
Amounts due to parent undertaking	<ul style="list-style-type: none"> <li>Fixed and variable interest rates.</li> <li>No fixed maturities.</li> </ul>	
Debt securities	<ul style="list-style-type: none"> <li>Variable funding notes that are investments in the Brass and Tombac securitisation vehicles.</li> </ul>	Held to maturity or loans and receivables at amortised cost.
Derivative financial instruments	<ul style="list-style-type: none"> <li>Primarily medium-term.</li> <li>Value derived from underlying price, rate or index.</li> </ul>	Fair value through profit and loss.
Amounts due to customers	<ul style="list-style-type: none"> <li>Deposits made by individuals.</li> <li>Varying withdrawal notice periods.</li> <li>Fixed and variable interest rates.</li> </ul>	Amortised cost

##### Fair Values

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.

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.

At 31 December	2014		2013	
	Book value £m	Fair Value £m	Book value £m	Fair Value £m
<b>Assets</b>				
Loans and advances to customers	13,618	14,003	11,402	11,569
Debt securities	958	958	428	428
Derivative financial instrument	24	24	7	7
<b>Liabilities</b>				
Amounts owed to parent undertaking	13,963	13,578	11,347	11,514



# **ACCORD MORTGAGES LIMITED**

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

### **17. FINANCIAL INSTRUMENTS (continued)**

#### **Maturity Analysis**

##### **2014**

	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 liabilities:				
Borrowings from Yorkshire Building Society	-	-	(13,962,747)	(13,962,747)
Customer deposits	(282,431)	-	-	(282,431)
	<u>(282,431)</u>	<u>-</u>	<u>(13,962,747)</u>	<u>(14,245,178)</u>

##### **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 liabilities:				
Borrowings from Yorkshire Building Society	-	-	(11,346,674)	(11,346,674)
Customer deposits	(228,084)	-	-	(228,084)
	<u>(228,084)</u>	<u>-</u>	<u>(11,346,674)</u>	<u>(11,574,758)</u>

## ACCORD MORTGAGES LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 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 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.

## ACCORD MORTGAGES LIMITED

### 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	
	2014	2013	2014	2013
	%	%	%	%
Scotland	8	9	6	7
North East	3	4	2	3
Yorkshire & Humberside	6	7	5	5
North West	8	8	6	6
Midlands	12	13	12	11
East Anglia	4	3	4	4
South West	6	6	6	6
Greater London	27	25	32	31
South East	22	21	25	24
Wales & Northern Ireland	4	4	2	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 57% (2013 – 56%).

# **ACCORD MORTGAGES LIMITED**

## **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**

LTV	Book		New Lending	
	2014	2013	2014	2013
	%	%	%	%
>100	2	5	-	-
90-100	3	5	3	-
75-90	24	37	54	57
50-75	60	45	40	40
<50	11	8	3	3
	100	100	100	100

The Company's average indexed loan to value is 66.44% (2013 – 71.68%). The proportion of the Company's loan book that is over 90% loan-to-value (LTV) is 5% as at 31 December 2014 (2013 – 10%). The company restricts the loan-to-value on new lending to 95% LTV.

#### **Credit risk - customer type**

	Book		New Lending	
	2014	2013	2014	2013
	%	%	%	%
First time buyer	25	25	27	25
Other buyers i.e. movers	43	42	44	44
Remortgage	25	29	17	22
Buy to let	7	4	12	9
	100	100	100	100

#### **Mortgage arrears**

	2014	2013
Arrears outstanding as a percentage of debt	%	%
No arrears	95.26	93.12
<3 months	3.31	4.81
3 to 6 months	0.76	1.14
6 to 12 months	0.39	0.56
Over 12 months	0.16	0.19
Property in possession	0.12	0.18
	100.00	100.00

Number of properties in possession at the year end	126	132
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# **ACCORD MORTGAGES LIMITED**

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

### **19. CREDIT RISK (continued)**

The Company's overall arrears position has improved during 2014 with decreases in the proportion of outstanding debt that is over three months in arrears or in possession.

All loans are reviewed at each reporting date for indications of impairment. The following table shows as at the year end, impairment on the overall loan balances 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.

	<b>Loans and advances</b>		<b>Collateral</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Not individually impaired:				
Neither past due nor individually impaired	12,999	10,634	12,985	10,601
Past due but not individually impaired	374	455	373	450
Individually impaired	278	336	269	319
Total loans and advances	<u>13,651</u>	<u>11,425</u>	<u>13,627</u>	<u>11,370</u>

Impairment is assessed based on the arrears of each mortgage. Where mortgages are in arrears by two months or more, they are individually assessed for impairment. All such mortgages that are past due but not individually 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 21. The key model assumptions underpinning the current mortgage impairment provisions (shown in Note 8) are as follows:

<b>Factor</b>	<b>Value or range</b>	<b>Derivation</b>
Forecast house price inflation/(deflation)	2015 (5.0%) 2016 0.0% 2017 0.0% 2018 0.0% 2019 0.0%	Judgemental
Probability of possession	10% to 70% for impaired accounts depending on the degree of impairment	Judgemental and experience
Emergence period	3 to 6 months	Experience
Loss given possession	2.5% to 45% for impaired accounts	Current experience
Forced sale discount	25%	Current experience
Unemployment rate	4.8%	Judgemental and experience

# **ACCORD MORTGAGES LIMITED**

## **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 arrears arrangements, capitalisation, payment holidays, interest only concessions, direct debit suspension and term extensions. The use of account management tools are either fully recognised within provisioning or are low in materiality.

The analysis below sets out a total of £234.0m (2013 - £229.9m) mortgage balances which are subject to some form of forbearance in its widest sense. Balances totalling £149.8m (2013 - £149.9m) are more than 2 months in arrears, including possessions, and therefore fall within the Company's individual provision calculation. The remaining £84.2m (2013 - £80.0m) is covered by the company'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.

No payment holiday forbearance has been granted.

2014	Arrears arrangements		Capitalisation	Payment Holidays	Interest Only		Term extension	Direct Debit Suspension	Total
	Positive	Negative			Permanent	Temporary			
	£m	£m			£m	£m			
Not in arrears	6.0	0.2	0.1	-	1.2	2.2	2.1	5.3	17.1
Less than one month	28.8	1.9	-	-	-	0.7	0.2	0.3	31.9
One to two months	30.4	3.0	-	-	-	0.8	-	1.0	35.2
Two to three months	34.9	4.1	-	-	0.2	0.2	-	0.2	39.6
Three to six months	59.3	2.9	-	-	-	0.2	-	0.5	62.9
Six to 12 months	31.9	1.9	-	-	-	0.3	-	0.4	34.5
Over 12 months	9.8	0.1	-	-	-	-	-	-	9.9
Property in possession	2.9	-	-	-	-	-	-	-	2.9
	204.0	14.1	0.1	-	1.4	4.4	2.3	7.7	234.0

# **ACCORD MORTGAGES LIMITED**

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

### **19. CREDIT RISK (continued)**

#### **Forbearance (continued)**

2013	Arrears arrangements		Capitalisation	Payment Holidays	Interest Only		Term extension	Direct Debit Suspension	Total
	Positive	Negative			Permanent	Temporary			
	£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
	<b>184.4</b>	<b>26.9</b>	<b>-</b>	<b>-</b>	<b>5.4</b>	<b>3.3</b>	<b>3.7</b>	<b>6.2</b>	<b>229.9</b>

### **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.

## ACCORD MORTGAGES LIMITED

### 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 £205,192 (2013 - £232,950), of which the highest paid key management personnel amounted to £102,675 (2013 - £138,376). The accrued pension of the highest paid key management personnel (who is a member of a defined benefit scheme) increased by £4,424 (2013 - £2,363) as a result of their service as a key management personnel. No staff were employed by the Company.

Retirement benefits are accrued for the following number of key management personnel:

	2014	2013
	No. of key management	personnel
Defined benefit schemes	1	2

##### Other related party transactions

At 31 December the Company owed a loan to other group entities of £14.0 billion (2013 - £11.3 billion). The outstanding balance has no fixed repayment date. A range of commercial interest rates are charged on the outstanding loan balance. Interest of £310 million (2013 - £278 million) was paid in the year.

Of the £14.0 billion owed to other group entities, the company owed loans to the Brass and Tombac securitisation vehicles of £5.4 billion (2013 - £2.3 billion). The outstanding balances have no fixed repayment date. A range of mortgage rates are charged on the outstanding loan balances. Interest of £48 million (2013 - £43 million) was paid in the year.

The Company paid a management recharge fee to the parent for the 2014 financial year of £32.4 million (2013 - £29.1 million).