Tombac No.2 PLC

REGISTERED NUMBER: 09844730

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 December 2019

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Tombac No.2 PLC

CONTENTS

Tombac No.2 PLC

REGISTERED NUMBER: 09844730

DIRECTORS AND COMPANY INFORMATION

Directors	Wilmington Trust SP Services (London) Limited Mr D J Wynne
Company Secretary	Wilmington Trust SP Services (London) Limited
Registered Office	c/o Wilmington Trust SP Services (London) Limited Third Floor 1 King's Arms Yard London EC2R 7AF
Bankers	Barclays Bank PLC London Corporate Banking Broadgate 1 Churchill Place London
Independent Auditors	PricewaterhouseCoopers LLP Central Square, 29 Wellington Street Leeds LS1 4DL

STRATEGIC REPORT

REVIEW OF THE BUSINESS

Tombac No.2 PLC ("the Company") was incorporated on 27 October 2015 and commenced trading on 22 December 2015. On that date the Company purchased the beneficial ownership of mortgage loans from Accord Mortgages Limited. The mortgage loans were acquired using funds obtained by the issue of floating rate notes.

Since the initial transaction, the deemed loan assets have decreased in line with the mortgage portfolio they reflect, the decrease being due to the mortgage repayments received.

The Company made a profit for the year before tax of £0.5m (2018 - £2.9m). The Company is structured such that any realised profits or losses are transferred to the owner of the underlying assets, being Accord Mortgages Limited. The Company is therefore not expected to generate distributable profits or accumulated losses from the point of incorporation through to the repayment of all issued debt securities. The profit recorded in the current and previous year relates primarily to the movement on fair value of the derivative positions and as such is a timing difference that will be recovered in subsequent periods. The derivative position provides an economic hedge to the interest rate risk inherent in the deemed loan.

The directors therefore expect the operating profit of £4,500 (2018 - £4,500) to be consistent year on year. The directors do not propose the payment of a dividend (2018 - £nil).

RISK MANAGEMENT

Financial instruments used for risk management purposes are set up at inception of the securitisation and include derivatives, such as interest rate swaps. This reflects the low overall risk appetite of the Company. After inception no significant decisions regarding the risk management of the Company are required.

The financial risks faced by the Company are liquidity risk, interest rate risk and credit risk. A summary of these risks is included below and more detail regarding the management of these risks is included in note 12 to the financial statements. Credit risk on the Company's deemed loans asset is, considered to be minimal because management does not expect the amount of incurred credit losses on the originators' securitised loans and advances to customers to exceed the amount of credit enhancement supplied by Accord Mortgages Limited by their holding of the subordinate Class Z Variable Funding Notes.

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 Yorkshire Building Society ("YBS"). The suitability of and compliance with the operating limits set for the activities of the YBS's Treasury function are subject to regular review and scrutiny through the YBS's risk governance committees.

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, YBS 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.

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due, or can only do so at excessive cost. Liquidity risk arises on the Company's debt securities in issue. The Company is only obliged to make repayments of interest and principal in respect of the notes to the extent that repayments are received from the mortgage servicer in respect of the securitised mortgage loans.

Daniel Wynne for and on behalf of
Wilmington Trust SP Services (London) Limited

4 March 2020

DIRECTORS' REPORT

The directors present their Annual report and audited financial statements of Tombac No.2 PLC ("the Company") (Registered No 09844730) for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES AND THEIR RISKS

The Company is incorporated in the UK and subject to the laws of England and Wales. The principal activity is that of a securitisation vehicle, issuing securities backed by the beneficial ownership of mortgage loans secured by first charges over residential properties within the UK.

All the Notes issued are held by Yorkshire Building Society ("YBS") for use as collateral in central bank operations. There are no other external investors.

The beneficial ownership of the loans and advances to customers sold to the Company by the originator, Accord Mortgages Limited ("Accord"), a wholly owned subsidiary of the Yorkshire Building Society ("YBS"), fail the derecognition criteria of IFRS9 and consequently, these loans remain on the Statement of Financial Position of the Accord as a deemed loan financial liability. The resulting deemed loan asset is held on the purchasing company's Statement of Financial Position.

The proposed dividend payment and information on principal risks can be found in the strategic report on page 2.

DIRECTORS AND THEIR INTERESTS

The directors who held office during the year and to the date of this report are given below.

Wilmington Trust SP Services (London) Limited
Mr D J Wynne

No director had a beneficial interest in the share capital of the Company or any other company in the Yorkshire Building Society Group at any time during the year under review.

GOING CONCERN

The earliest contractual maturity of the debt securities in issue is 23 January 2021, when the balance outstanding on the notes may be repaid, dependent on the optional early redemption of notes clause being exercised. Prior to this option date, repayment of debt securities is required only to the extent that mortgage repayments are received and transferred to the Company.

An assessment of the potential impacts of the UK's withdrawal from the European Union (EU) has been conducted at a Group level and the directors have a reasonable expectation that the Company will be able to continue in operation and meet its obligations as they fall due over the next twelve months. Therefore it is appropriate to adopt the going concern basis in preparing the financial statements.

FUTURE DEVELOPMENTS

The Company will continue to receive benefits from the ownership of the mortgages loans from Accord.

Due to repayments reducing the capital value of the mortgages in each period, both the Company's equity and interest income will decrease in future periods. The rate of decrease is dependent on future redemptions and future advances.

KEY PERFORMANCE INDICATORS (KPIs)

KPIs include an analysis of the securitised mortgages characteristics, the rate of repayment, the losses which have occurred and the level of arrears and possession on the mortgages, the yield on these mortgages and the excess spread available as the first line of credit enhancement to the notes.

The company's notes in issue are assigned a credit rating by Fitch and Moody's. These credit ratings can be used as an indication for the performance of the Company and reflect the likelihood of full and timely repayments of principal and interest to the noteholders when they fall due. The notes are assigned a rating when they are first issued and these ratings continue to be monitored and reviewed by the Credit Rating Agencies. The Company's notes are rated AAA (Fitch)/Aaa (Moody's). No downgrade has been applied neither in the year nor subsequently up to the date of approval of these financial statements.

AUDIT INFORMATION

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

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

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

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP were approved and appointed as auditors by order of the Board of Directors.

Daniel Wynne for and on behalf of
Wilmington Trust SP Services (London) Limited

4 March 2020

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 accounting policies and then apply them consistently;
- 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.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the board of directors on 4 March 2020 and is signed on its behalf by:

Daniel Wynne
Wilmington Trust SP Services (London) Limited

INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF TOMBAC NO.2 PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion, Tombac No.2 Plc's financial statements:

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

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2019; the income statement, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the directors.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

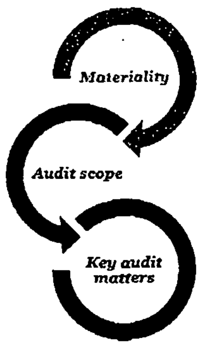
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We have provided no non-audit services to the company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview



- Overall materiality: £3.3m based on 1% of total assets.

- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment and other qualitative factors.
- We tailored the scope of our audit to ensure that we performed sufficient work to enable us to opine on the financial statements.
- We identified all material financial statement line items and disclosures, including those that were considered qualitatively material, and conducted our work over these accordingly.

- Accounting for the deemed loan between Tombac No.2 Plc and Accord Mortgages Limited
- Audit of the priority of payments in the waterfall

The scope of our audit
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud
Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to non-adherence to the transaction documents, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to accounting for the deemed loan. Audit procedures performed by the engagement team included:

- Making inquiries those charged with governance in relation to known or suspected instances of non-compliance with laws and regulation and fraud;
- Testing that the priority of payments has been applied in accordance with the transaction documents;
- Agreement of the financial statement disclosures to underlying supporting documentation;
- Testing journals and evaluating whether there was evidence of bias;
- Audit procedures performed over the accounting for the deemed loan can be found in the Key Audit Matter below.

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

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Accounting for the deemed loan between Tombac No.2 Plc and Accord Mortgages Limited See Note 1 of the financial statements for the disclosure of the related accounting policies and Note 9 for the disclosures related to the deemed loan. Accord Mortgages Limited (the "Originator") has retained substantially all of the risks and rewards in respect of the pool of mortgages as they hold the Class Z Notes and have provided the Company with a deemed loan. As a result, the Company does not recognise the mortgages on its Balance Sheet, and instead recognises a deemed loan with the Originator. The accounting treatment is subject to management's judgement and interpretation of IFRS 9, therefore the recognition of a deemed loan is inherently subjective. The deemed loan asset was measured at fair value on initial recognition and then subsequently accounted for at amortised cost using the effective interest rate method. We therefore focused our testing on the recognition and measurement of the deemed loan, including its component parts; principal balance of the mortgage loans attributable to the Company, basis rate swap with the Originator, and subordination loan from the Originator.	We assessed the appropriateness of the recognition and measurement of the deemed loan asset. We reviewed the accounting policies in respect of the deemed loan for appropriateness and consistency. We undertook the following procedures to test the measurement of the deemed loan asset: • Confirmed that the cash flows relating to the sale of the assets are consistent between the bank statements, the transaction documentation and the balances incorporated into the deemed loan; • Tested a sample of mortgages serviced by Accord Mortgages Limited as being appropriately flagged on the loan system as owned by the Company; • Agreed a sample of daily cash sweeps between Accord Mortgages Limited and the Company, in respect of amounts received from the mortgages, to accounting records and bank statements; Based on the evidence obtained, we have determined that the accounting treatment and measurement of the deemed loan asset is appropriate.

Key audit matter	How our audit addressed the key audit matter
Audit of the priority of payments in the waterfall See Note 1 and Note 9 of the financial statement for the related disclosures. As a special purpose entity, the Company is required on each interest payment date to make payments in accordance with the revenue and principal priority of payments, which are set out in the underlying transaction documents and referred to as the waterfall. The priority of payments in the waterfall is key to ensuring that expenses, principal repayments and interest repayments are being paid in the correct order of seniority. We therefore focused our testing on the revenue and principal priority of payments, agreeing the order of payment back to the order outlined in the transaction documents.	We reviewed the transaction documents to understand the revenue and principal priority of payments for the Company. We undertook the following procedures to test the priority of payments: • Agreed the priority of payments per the investor reports to the transaction documents; • For each interest payment date occurring during the period, we compared the available amounts for distribution to the amounts received in respect of the mortgages, and verified the split of interest and principal received by recalculating the monthly interest for a sample of mortgages; • Confirmed the contractual amounts of the Notes outstanding as at the year-end as being the opening balance, plus Notes issued during the period, less principal repayments during the period, and agreed these balances to the investor reports and bank statements; • Recalculated the interest expense for the period and the interest expense accrual for the period end using independently obtained interest rates. Based on the evidence obtained, we determined that the priority of payments has been appropriately adhered to.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£3.3m
How we determined it	1% of total assets.
Rationale for benchmark applied	As an SPE is established as a not for profit entity, funded almost entirely by debt, it would follow that users may focus their attention on the SPE's total assets as suggested by ISA (UK) 320 paragraph A3. It is therefore considered appropriate that overall materiality could, in the context of an SPE audit, be calculated as 1% of total assets.

We agreed with the directors that we would report to them misstatements identified during our audit above £0.17m as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

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

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

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

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

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements
As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of this report
This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting
Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Appointment
Following the recommendation of the audit committee, we were appointed by the directors on 7 January 2020 to audit the financial statements for the year ended 31 December 2019 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

Martin Cross (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

4 March 2020

Tombac No.2 PLC

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £000	2018 £000
Interest receivable and similar income	3	5,778	8,753
Interest payable and similar charges	4	(5,340)	(8,186)
Net interest income		**438**	**567**
Administrative expenses	5	(433)	(562)
Operating profit		**5**	**5**
Net gains on fair value volatility on financial instruments	6	517	2,874
Profit before tax		**522**	**2,879**
Tax	7	(1)	(1)
Profit for the year		**521**	**2,878**

The profit shown above is derived from continuing operations.

TOMBAC No.2 PLC ("the Company") has no income or expense in the year other than the profit stated above. Consequently no Statement of Comprehensive Income has been presented.

The notes on pages 18 to 31 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Note	2019 £000	2018 £000
Assets			
Cash and cash equivalents	8	32,056	35,882
Deemed loans to group undertakings	9	288,940	480,729
Derivative financial instruments		2,328	1,559
Other receivables		13,284	13,284
Total assets		**336,608**	**531,454**
Liabilities			
Debt securities in issue	10	333,653	528,726
Other payables		669	963
Total liabilities		**334,322**	**529,689**
Equity			
Called up equity share capital	11	12	12
Retained earnings	13	2,274	1,753
Total equity		**2,286**	**1,765**
Total liabilities and equity		**336,608**	**531,454**

The notes on pages 18 to 31 form part of these financial statements.

These financial statements were approved by the directors and authorised for issuance on 4 March 2020.

Daniel Wynne for and on behalf of
Wilmington Trust SP Services (London) Limited

Tombac No.2 PLC

STATEMENT OF CHANGES IN EQUITY

AS AT 31 DECEMBER 2019

	Share Capital	Retained earnings	Total Equity
	£000	£000	£000
01 January 2019	12	1,753	1,765
Profit for the year and total comprehensive income	-	521	521
31 December 2019	**12**	**2,274**	**2,286**

	Share Capital	Retained surplus	Total Equity
	£000	£000	£000
01 January 2018	12	(1,125)	(1,113)
Profit for the year and total comprehensive income	-	2,878	2,878
31 December 2018	**12**	**1,753**	**1,765**

The notes on pages 18 to 31 form part of these financial statements.

Tombac No.2 PLC

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £000	2018 £000
Cash flows from operating activities			
Profit before tax		522	2,879
Adjustment for tax		(1)	(1)
Operating assets:			
Net decrease in deemed loans from group undertakings		191,789	144,775
Net increase in derivative financial instruments		(769)	(1,559)
Operating liabilities:			
Net (decrease)/increase in debt securities in issue	8	(48)	47
Net decrease in derivative financial instruments		-	(1,321)
Net decrease in other payables		(294)	(447)
Net cash flows from operating activities		**191,199**	**144,373**
Cash flows from financing activities			
Proceeds from debt securities in issue	8	(195,024)	(146,282)
Net cash flows used in financing activities		**(195,024)**	**(146,282)**
Net decrease in cash and cash equivalents		**(3,826)**	**(1,909)**
Opening balance		35,882	37,791
Total closing cash and cash equivalents	8	**32,056**	**35,882**

The notes on pages 18 to 31 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Introduction

Tombac No.2 PLC ("the Company") is a special purpose vehicle whose business is the acquisition and management of mortgage loans and their related security. The Company is domiciled and registered in the United Kingdom.

Basis of preparation

The financial statements have been prepared in accordance with international accounting standards, being International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standards Board (IASB) that are effective as at 31 December 2019 and have been endorsed by the European Union (EU).

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

Pounds sterling is both the functional currency of the Company and the presentation currency applied to these financial statements.

Except where otherwise stated, all figures in the financial statements are presented in thousands of pounds sterling (£000).

The financial statements have been prepared on the going concern basis as discussed in the Directors' Report on page 4, under the heading, '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 international accounting standards became mandatorily effective for periods commencing on or after 1 January 2019 and have been adopted in the current year. Their adoption, unless otherwise stated, has not had any impact on the disclosures or on the amounts reported in these financial statements:

- IFRS 16 'Leases' sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 eliminates the distinction between operating and finance leases that exists under IAS 17, with virtually all leases recognised on Balance Sheet.
- IFRIC 23 'Uncertainty over Income Tax Treatments', provides guidance on how to determine taxable profit when there is uncertainty over the income tax treatment under IAS 12 'Income Taxes'.
- Amendments to IAS 19 for defined benefit pension schemes. This amendment applies to where settlements, curtailments or amendments occur for the pension plan. This amendment clarifies the treatment of past service cost, current service cost and net interest.

- Amendments to IFRS 9 for prepayment features with negative compensation. This amendment clarifies whether instruments with certain prepayment features meet the 'solely payments of principal and interest' condition within IFRS 9.
- Amendments to IAS 28 for long-term interests in associates and joint ventures. This amendment clarifies that the IFRS 9 impairment requirements apply to financial interests in an associate or joint venture to which the equity method is not applied.
- Minor amendments to IAS 12 'Income Taxes', IAS 23 'Borrowing costs', IFRS 3 'Business Combinations' and IFRS 11 ' Joint Arrangements under the Annual Improvements to IFRSs 2015-2017 Cycle.

The following international accounting standards were in issue but not yet effective for the 2019 year end and not been adopted in these financial statements. Except otherwise stated, the adoption of these new or amended standards are not expected to have material impact on the financial statements.

- IFRS 17 'Insurance Contracts' is due to be effective for periods beginning on or after 1 January 2021 although it may be deferred until 2022. IFRS 17 is the comprehensive IFRS establishing specific accounting requirements for insurance contracts. This replaces IFRS 4 for which entities were permitted to account for insurance contracts differently across jurisdictions.
- Amendments to IFRS 3 providing clarification to the definition of a business which is effective for periods beginning on or after 1 January 2020.
- Amendments to IAS 1 and IAS 8 providing clarification to the definition of material which is effective for periods beginning on or after 1 January 2020.
- Amendments to a number of standards and interpretation guidance to amend references to the revised Conceptual Framework that was published in March 2018. These amendments are effective for annual periods beginning on or after 1 January 2020.

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

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

The effective interest rate is a method of calculating the amortised cost of financial instruments and of allocating interest income and expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated cash flows (excluding credit losses) through the expected life of the instrument to the net carrying amount at initial recognition

Tax

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

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

Financial Instruments

The Company's financial instruments comprise principally of deemed loans due from group undertakings, derivative financial instruments, debt securities in issue and cash and cash equivalents. These financial instruments are classified in accordance with the principles of IFRS as described below.

(i) Cash and cash equivalents

The Company holds deposits and a transaction bank account. These accounts are held in the Company's name and meet the definition of cash and cash equivalents but their use is restricted by a detailed priority of payments set out in the Secured Funding Programme Documentation (the "Programme Documentation").

As the cash can only be used to meet certain specific liabilities and is not available to be used with discretion, it is viewed as restricted cash.

The Statement of Cash Flows has been prepared in compliance with IAS7: Statement of Cash flows and is presented under the indirect method.

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.

(ii) Deemed loan

In accordance with IFRS 9, where a transfer of a financial asset does not qualify for derecognition in the financial statements of the transferor, the transferee does not recognise the transferred asset as its asset. The transferee derecognises the cash or other consideration paid and recognises a receivable from the transferor. In relation to the mortgage portfolios transferred to the Company, derecognition is considered to be inappropriate for the originator's (Accord Mortgages Limited) own financial statements as the originator has retained significant risks and rewards of ownership of that financial asset. The Company's financial statements are therefore prepared on the basis that those acquisitions of beneficial interests in mortgage portfolios are recognised as a collateralised loan to the originator.

(iii) Other payables - deferred consideration

Under the terms of the mortgage sale agreement, the Originator retains the right to receive excess income arising on those loans, after certain higher priority payments have been met by the Company. As per the programme requirements, any surplus receipts from the receivables after servicing the notes and all other obligations of the Company are payable to the originator. These amounts are presented as a deduction of interest income in the income statement with amounts outstanding at year end being recorded as 'Other payables' in the statement of financial position.

(iv) Derivative financial instruments

The Company uses derivative financial instruments to hedge its exposure to interest rate risk arising from investment activities. The Company does not hold or issue derivative financial instruments for trading purposes.

IFRS 9 requires all derivative financial instruments to be recognised initially at fair value in the statement of financial position. Subsequent to initial recognition, derivatives are re-measured to fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement. The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swap or transfer to another party at the reporting date taking into account current interest rates and the current creditworthiness of the swap counterparty.

Interest income and expense on the swaps is accounted for under the effective interest rate method within interest receivable and payable in the income statement.

(v) Debt securities in issue

Interest-bearing debt securities in issue are recognised initially at fair value. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings under the effective interest rate method. Directly attributable issue costs, including premiums and discounts, commissions and other costs incurred in the issuing of fixed and floating rate notes are amortised using the effective interest rate method.

2. CRITICAL ACCOUNTING JUDGEMETS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Company makes no key judgements in applying its accounting policies that have a significant impact on the amounts recognised in the financial statements. Estimates and assumptions are used which could affect the reported amounts of assets and liabilities in the next financial year.

The most critical key source of estimation uncertainty relates to fair value.

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale and are measured at fair value with the resultant profits or losses included in the income statement.

The fair values of the derivatives are based on counterparty valuations, which is the best estimate of the exit value of the derivatives. This is analysed further in Note 12.

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	2019 £000	2018 £000
On deemed loan	5,413	8,650
Other liquid assets	184	103
On derivative financial instruments not in a hedging relationship	181	-
	5,778	**8,753**

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2019 £000	2018 £000
On debt securities in issue	5,340	6,778
On derivative financial instruments not in a hedging relationship	-	1,408
	5,340	**8,186**

5. ADMINISTRATIVE EXPENSES

	2019 £000	2018 £000
Profit for the year has been arrived at after charging		
Servicer fees	433	562
	433	**562**

Fees payable of £16,000 (Previous auditor Deloitte 2018: £5,000) to the Company auditor, PricewaterhouseCoopers LLP, for the audit of the Company's annual financial statements have been borne by Yorkshire Building Society ("YBS"). There were no other fees paid to the auditors.

6. NET GAINS ON FAIR VALUE VOLATILITY ON FINANCIAL INSTRUMENTS

	2019 £000	2018 £000
Derivative financial instruments	517	2,874
	517	**2,874**

The above figure is the fair value gain on derivative financial instruments transacted to hedge the exposure to interest rate risk.

7. TAX

	2019	2018
	£000	£000
Current tax:		
UK Corporation tax at 19.00%	1	1
Total tax charge in Income Statement	**1**	**1**

The main rate of corporation tax was reduced to 19% from 1 April 2017 and will reduce further to 17% from 1 April 2020. The actual tax expense differs from that calculated using the standard rate of corporation tax in the UK. The differences are explained below:

	2019	2018
	£000	£000
Profit before tax	522	2,879
UK Corporation tax at 19.00%	99	547
Effects of:		
Differences due to permanent regime	(98)	(546)
Total tax charge in Income Statement	**1**	**1**

Secondary tax legislation, enacted on November 2006 under powers conferred by the Finance Act 2005, ensures that for the companies who first meet the definition of a 'securitisation company' for an accounting period commencing on or after 1 January 2007, corporation tax will be calculated by reference to the retained profit of the securitisation company required to be retained under the agreement that governs the company.

The directors are satisfied that this Company meets the definition of a 'securitisation company' as defined by both the Finance Act 2005 and relevant subsequent secondary legislation and that no incremental unfunded tax liabilities arise.

8. NOTES TO THE STATEMENT OF CASH FLOWS

	2019	2018
	£000	£000
Cash and cash equivalents	32,056	35,882
	32,056	35,882

The Company has placed its deposit account with a provider of a Guaranteed Investment Contract. Withdrawals are restricted by the detailed priority of payments set out in the programme documentation. The Company is contractually entitled to a variable rate of interest of 35bps below 1 month LIBOR.

Reconciliation of liabilities arising from financing activities	2018	Cash flows		Non cash changes caused by			2019
		Redemption	Issue	Foreign exchange	Accrued interest	Fair value adjustment	
	£000	£000	£000	£000	£000	£000	£000
Debt securities in issue	528,726	(195,024)	-	-	(49)	-	333,653

Reconciliation of liabilities arising from financing activities	2017	Cash flows		Non cash changes caused by			2018
		Redemption	Issue	Foreign exchange	Accrued interest	Fair value adjustment	
	£000	£000	£000	£000	£000	£000	£000
Debt securities in issue	674,961	(146,282)	-	-	47	-	528,726

9. DEEMED LOANS TO GROUP UNDERTAKINGS

	2019	2018
	£000	£000
Deemed loans recoverable	290,006	481,295
Unpaid fees and advances	(1,066)	(566)
As at 31 December 2019	288,940	480,729

The deemed loans recoverable earn interest on a blended rate dependent on the mix of fixed and floating rates on the loans in the pool. The loans are repaid as and when the cash is received by the originator, Accord Mortgages Limited ("Accord"), from the customers as principal repayments of the loans and advances. Consequently, a proportion of the deemed loans recoverable will be repaid within 12 months although the amount cannot be quantified.

As stated on Note 14, both Accord and the Company are deemed controlled entities of YBS and therefore form part of the YBS Group.

10. DEBT SECURITIES IN ISSUE

	2019 £000	2018 £000
Class A floating rate notes (1mth LIBOR + 78bps)	149,076	344,100
Class Z variable funding notes (1mth LIBOR)	184,500	184,500
Interest accrued	77	126
	333,653	**528,726**

The earliest contractual maturity of the debt securities in issue is 23 January 2021, when the balance outstanding on the notes may be repaid. This date represents the earliest contractual date that Tombac No.2 PLC could repay the noteholders.

The Company has not had any defaults on principal, interest or any other breaches with respect to its liabilities during the period.

The Financial Conduct Authority have informed all market participants that they must remove any dependency on the London Interbank Offered Rate (LIBOR) by end 2021, when the formal publication of LIBOR data will cease. The Company will amend the loan agreements to reflect new alternative measures as appropriate if the notes remain unpaid at this time.

11. CALLED UP EQUITY SHARE CAPITAL

	2019 £000	2018 £000
Authorised:		
50,000 Ordinary shares of £1 each	50	50
Allotted, called up and fully paid:		
2 Ordinary shares of £1 each	-	-
Allotted, partly called up and unpaid:		
49,998 Ordinary shares (0 partly paid)	12	12
	12	**12**

12. FINANCIAL INSTRUMENTS

A financial instrument is a contract that gives rise to a financial asset of one entity and financial liability of another entity. The Company's financial instruments consist principally of deemed loans, amounts due from group undertakings, derivative financial instruments, debt securities in issue and cash and cash equivalents.

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
Deemed loans to group undertakings	Long Term Fixed and variable interest rate	Amortised cost
Cash and cash equivalents	Short Term cash balance Restricted use per transaction documentation	Amortised cost
Debt securities in issue	Long Term Fixed interest rate	Amortised cost
Derivative financial instruments	Medium Term Value derived from underlying price or rate	Fair value through profit or loss

Fair values

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

	Book Value	Fair Value			
	Book Value £000	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
31 December 2019					
Assets					
Cash and cash equivalents	32,056	-	32,056	-	**32,056**
Deemed loans to group undertakings	288,940	-	290,553	-	**290,553**
Liabilities					
Debt securities in issue	333,653	149,075	-	184,529	**333,604**

	Book Value	Fair Value			
	Book Value £000	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
31 December 2018					
Assets					
Cash and cash equivalents	35,882	-	35,882	-	**35,882**
Deemed loans to group undertakings	480,729	-	484,903	-	**484,903**
Liabilities					
Debt securities in issue	528,726	344,100	-	184,526	**528,626**

The fair value of the deemed loan has been calculated using a discounted cash flow analysis. Cash and cash equivalents are recognised on an amortised cost basis that is considered to be a close approximation to fair value. Debt securities in issue have been calculated using external quoted prices.

For debt securities in issue, the fair value of the Class A notes has been calculated using external quoted prices and reported under level 1. Z notes are quoted at book value as in the absence of an external market for these notes it is considered to be a reasonable estimate of the fair value.

In accordance with IFRS 13 Fair Value Measurement, the fair values of the derivatives are based on counterparty valuations, which is the best estimate of the exit value of the derivatives.
The table below classifies all financial instruments held at fair value according to the method used to establish the fair value.

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

	Fair Value			
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
As at 31 December 2019				
Derivative financial instruments - asset	-	-	2,328	**2,328**

	Fair Value			
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
As at 31 December 2018				
Derivative financial instruments - asset	-	-	1,559	**1,559**

The Company classifies its derivative financial instruments as level 3 due to the significance of the prepayment rate on the underlying mortgages being hedged and for which the notional of the derivative is linked to.

The sensitivity of the level 3 fair value to a reasonable alternative estimate of prepayment rates on the underlying mortgages being hedged is < £0.2m.

Liquidity risk

Liquidity risk is managed at a Group level by Yorkshire Building Society and is monitored on a daily basis by the independent group Risk function. All liquidity risk in controlled entities, including the Company, is eliminated by the use of appropriate inter-company loans and deposits. The table below illustrates the gross contractual cash flows on the Company's financial liabilities.

	Repayable on demand and up to three months £000	Repayable in more than three months but not more than one year £000	In more than one year but not more than five years £000	More than five years £000	Total £000
As at 31 December 2019					
Debt securities in issue	895	2,685	333,874	-	**337,454**
Total	**895**	**2,685**	**333,874**	**-**	**337,454**
As at 31 December 2018					
Debt securities in issue	1,614	4,842	535,594		**542,050**
Derivative financial instruments	568	1,702	2,460		**4,730**
Total	**2,182**	**6,544**	**538,054**	**-**	**546,780**

Interest rate risk

Interest rate risk is managed on a daily basis at a group level by Yorkshire Building Society. The Company is protected from interest rate risk by the provision of interest rate swaps. The swaps, which are not deemed to be in formal hedge relationships, are fair valued and hence are "naturally hedged" since the movements net to nil.

Credit risk

Key concentrations of credit risk to the Company are in respect of the deemed loan and, more generally, to Accord in its role as the mortgage administrator and cash manager.
The financial statements are prepared on the basis that its acquisitions of beneficial interests in mortgage portfolios are recognised as a deemed loan.

To the extent that the mortgage loans in the portfolio do not provide sufficient funds to recover the investment in the mortgage portfolio, the Company has no preferential claim on the assets of Accord. To provide protection for the structure, the originator, Accord, holds subordinate notes at a level governed by the rating agencies, having considered the quality of the underlying pool of mortgages, to absorb the first losses on the deemed loans.

The table below represents a worst-case scenario of credit risk exposure to the Company without taking into account any collateral held or other credit enhancements attached. The exposures are based on gross carrying amounts as reported in the Statement of Financial Position. Further details on the underlying collateral can be found in the published Investor Reports.

		2019	2018
		£000	£000
Category	**Class**		
Loans and receivables	Deemed loans	288,940	480,729
Cash and cash equivalents	Cash and cash equivalents	32,056	35,882
Total		**320,996**	**516,611**

Deemed loans

The maximum exposure to credit risk on deemed loans is not different from the amount disclosed on the Statement of Financial Position. As a result of there being subordinate notes issued to absorb losses, it has been deemed that the impairment provision would therefore be immaterial and as a consequence no further impairment has been recorded.

The risk on the deemed loans is mitigated by the size and quality of the securitised loans and advances to customers.

No further analysis has been provided on the credit quality of deemed loans as the balance is within the stage 1 expected credit loss category, is less than 30 days past due and is deemed to be low risk.

13. RETAINED EARNINGS

	2019	2018
	£000	£000
Balance at 1 January	1,753	(1,125)
Profit for the year	521	2,878
Balance at 31 December	**2,274**	**1,753**

Any deficit is primarily due to fair value adjustments on derivatives which do not affect the liquidity of the partnership and are likely to reverse in future periods, the directors therefore believe that the current level of capital is appropriate for the Company's activities.

14. ULTIMATE PARENT UNDERTAKING AND CONTROLLING ENTITY

The Company's immediate parent undertaking and controlling entity is Tombac No.2 Mortgage Holdings Limited, a company registered in England.

Wilmington Trust SP Services (London) Limited holds 100% of the issued share capital of Tombac No.2 Mortgage Holdings Limited, subject to terms of declaration of trust for general charitable purposes.

The Company meets the definition of a special purpose entity under international accounting standards. In accordance with the requirements of IFRS10: Consolidated Financial Statements, the Company's financial statements are consolidated within the group financial statements of Yorkshire Building Society. Yorkshire Building Society is a mutual organisation owned by its members and consequently has no controlling body. It is incorporated in England and registered under the Building Societies Act 1986. The financial statements of Yorkshire Building Society are available from Yorkshire House, Yorkshire Drive, Bradford, BD5 8LJ.

15. RELATED PARTY TRANSACTIONS

Total remuneration paid by the Yorkshire Building Society to its directors or other key management personnel in relation to their services to the Company amounted to £nil (2018 - £nil). No employees were employed by the Company during the year.

As stated in the note above, the Company's financial statements are consolidated within the group financial statements of Yorkshire Building Society. Consequently the directors of the Company consider Yorkshire Building Society and its subsidiaries to be related parties of the company. The Company pays cash management and mortgage loan servicing fees to Yorkshire Building Society in connection with its provision of services defined under the Programme Documentation. In 2019 these fees amounted to £361,713 (2018 - £500,130). Transactions with Yorkshire Building Society and its subsidiaries are disclosed below.

As at 31 December 2019	Cash and cash equivalents £000	Deemed loans from undertakings £000	Debt securities in issue £000
Yorkshire Building Society	7,612	-	149,124
Accord Mortgages Limited	-	288,940	184,529
	7,612	**288,940**	**333,653**

As at 31 December 2018	Cash and cash equivalents £000	Deemed loans from undertakings £000	Debt securities in issue £000
Yorkshire Building Society	11,439	-	344,200
Accord Mortgages Limited	-	480,729	184,526
	11,439	**480,729**	**528,726**

As at 31 December 2019	Interest receivable and other income £000	Interest payable and other charges £000
Yorkshire Building Society	274	4,008
Accord Mortgages Limited	5,413	1,332
	5,687	**5,340**

As at 31 December 2018	Interest receivable and other income £000	Interest payable and other charges £000
Yorkshire Building Society	44	5,679
Accord Mortgages Limited	8,650	1,093
	8,694	**6,772**

All related party transactions were made on terms equivalent to those that prevail in arm's length transactions.