ACCORD MORTGAGES

Accord Mortgages Limited

Registered Number: 02139881

Annual Report and Financial Statements

for the year ended 31 December 2023

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Directors and Company Information

Company number	02139881
Directors	P Connolly J Duncombe S Martin D Morris R Wells N Young
Secretary	D Colley
Registered office	Yorkshire House Yorkshire Drive Bradford BD5 8LJ
Bankers	National Westminster Bank PLC PO Box 90 1 Market Street Bradford BD1 1EG
Independent auditors	PricewaterhouseCoopers LLP Central Square 29 Wellington St Leeds LS1 4DL

Strategic report

Overview of the Business

Accord Mortgages Limited ("the Company" or "Accord") is a dedicated intermediary lender that originates loans secured on residential and buy-to-let property.

The Company's strategy is to work in partnership with intermediaries to meet customers' needs through competitive products and service excellence, which in turn provides long-term profitable growth to the Company. The Company offers various types of lending for first time buyers, home movers, re-mortgaging and buy-to-let ("BTL") property, on either a fixed, variable or tracker product.

Business structure

The Company is a private company, limited by shares, and is a wholly owned subsidiary of Yorkshire Building Society ("YBS" or "the Society") and is therefore consolidated into the YBS Group of controlled entities ("the Group").

The Company funds its mortgage lending via funding from YBS. In return, the Company uses tranches of its mortgage assets to back *residential mortgage-backed securities* ("RMBS") for additional Group funding. This is facilitated via special purpose securitisation vehicles, into which the Company sells its mortgages, and out of which RMBS are issued to wholesale investors. The sale of the loans by Accord does not meet the accounting standards criteria for derecognition for such transactions, hence, as a result, Accord continues to recognise these loans in its Statement of Financial Position.

The Company is a member of Yorkshire Building Society Covered Bonds LLP ("LLP"). This mortgage pool is used as collateral that sits behind the covered bonds issued by the LLP. At the year end, the Company had sold c.£2,786 million (2022: £3,100 million) of loans into the covered bond mortgage pool.

In this transaction, Accord is legally treated as having made a capital contribution to the LLP in an amount equal to the difference between the current balance of the mortgage loans sold at the date of transfer, and the cash payment made by the LLP for the mortgage loans and relevant security on that transfer date. Yorkshire Building Society administers the mortgage loans on behalf of the LLP. The LLP guarantees the obligations of YBS as the issuer under a covered bond programme ("the programme"). The assets available to meet the LLP's obligations under this guarantee are limited to the mortgage loans and their related security (the "cover pool") that the LLP has acquired from YBS and Accord.

The risks and rewards of ownership of the mortgage loans substantially remain with Accord, due to the fact that the sale of the mortgage loans includes an element of capital contribution from Accord for overcollateralisation and give Accord the entitlement to receive deferred consideration. As a result, the transfer of ownership of the beneficial interest in the mortgage loans fails the derecognition criteria of IFRS 9 *Financial Instruments* and the transfer is instead accounted for by Accord and the LLP as a financing transaction.

External environment

Factors beyond the Company's control have the potential to impact upon our operations and therefore our ability to deliver sustainable value to our membership over the long term. For this reason, the external environment in which we operate is monitored closely and continuously. Identifying and understanding risks and opportunities as they emerge is how we can best prepare for, and adapt to, the changing external context.

<u>Economic and political overview</u>

Many of the features of the UK economic and political landscape have continued along the themes established in 2022. The impact of increased energy costs and disruption to the global supply chain began to feed through to inflation in wages and the cost of services, with 12 month Consumer Prices Index (CPI) inflation standing at 10.1% in January. In response, the Monetary Policy Committee (MPC) elected to increase Bank rate five times in succession up to and including its August meeting, increasing from 3.50% as the year opened, to 5.25%. At the September and November meetings, the MPC chose to maintain Bank rate at its current level, pausing the cycle of increases which was previously unbroken since early 2022. This decision followed the release of inflation data which showed headline and services CPI inflation had fallen back to a level lower than had been expected.

Over the remainder of the year, CPI fell further to 4.2% by the end of the year, with an expectation from the UK Government that it will reduce to be in line with the 2% target in 2024. The impact of inflationary pressures on household incomes has been severe for many, with the increased cost of everyday goods and services, coupled with higher mortgage or rental payments, forcing many to use their savings or borrow to meet every day running costs. The rate of inflation outpaced wage growth for much of the year, and only in the second half was real wage growth observed.

Strategic report (continued)

External environment (continued)

Economic and political overview (continued)

The broad consensus view among economists is that the UK is set for a period of minimal economic growth due to the greater cost of investment in a high-rate environment, coupled with issues in the labour market around key skills and productivity. As a consequence, the market expectation now includes a possibility of rate cuts on the horizon, though how closely the policy decisions made resemble this expectation is subject to a high degree of uncertainty.

In November 2023, the Chancellor of the Exchequer delivered the Autumn Statement. This package set out a number of tax measures designed to strengthen economic growth through supporting British businesses and increasing the number of people in work. The statement also announced a range of administrative changes which make the tax system simpler and more modern, ensuring businesses can interact with it more easily.

The political landscape, both within the UK and globally, remains uncertain. The UK Government has experienced challenges in passing legislation, and a general election will take place during 2024. The ongoing military activities in Ukraine and Gaza continue to be a source of political tension globally, with the timing of a cessation in these conflicts highly uncertain.

The UK mortgage market

The degree of change the housing market has been subject to in recent years has been significant. A period of stable, historically low interest rates has been succeeded by one in which Bank rate changes are much more frequent and bring greater consequences. With the inflationary and cost of living pressures having led to Bank rate standing over 5.00 percentage points higher than that in December 2021, the impact on mortgage affordability and its consequences for the level of demand in the market has been considerable.

2023 opened in the wake of the impacts of the economic disruption experienced in late 2022, resulting from the Autumn budget announcements. Although there were some positive signs of the mortgage market recovering in the first half of the year – customer rates had begun to reduce, and lenders resumed their presence in higher-LTV segments from January – much of 2023 has remained characterised by volatility.

As markets and lenders reacted to the changing external environment, funding costs were subject to frequent, and sometimes material, changes. The market continually revised its expectations of the future rate path, factoring in the latest macroeconomic data and latest monetary policy action. These fluctuations have a direct bearing on the stability of mortgage pricing and, as such, repricing activity continued at great pace and regularity.

Mortgage customer rates continued trending upward in the first half of 2023, before to gradually declining over subsequent months. Even so, the cost of taking out new mortgages is significantly higher than in recent years, which remains a potential cause for concern for those with a mortgage approaching the end of its fixed term. Potential for higher repayment obligations, along with the increased cost of living, led the Government to announce the Mortgage Charter in June 2023. The charter set out to reassure and support borrowers who are facing difficulties, setting some universal standards for lenders to implement. Several lenders signed up to the Mortgage Charter, including Accord.

Compared to 2022, the size of the market for mortgages has reduced, illustrating the pressures that new borrowers are facing as they either exercise greater caution, find themselves unable to save, or have difficulty meeting lending criteria. A more acute impact has been seen in the market for buy-to-let mortgages, as affordability considerations can directly limit the amount landlords can borrow.

In turn, this lower level of demand has served to steadily reduce house price growth over the course of the year. According to the Office for National Statistics, average UK house price annual inflation has been generally slowing since July 2022 when the rate of growth was as high as 13.8%; the latest data available at the time of writing shows the rate for the 12 months to September 2023 as a 0.1% decrease. Other house price indices, which are based on mortgage approvals and therefore more timely, show steeper reductions in annual house prices in the region of 5-6%.

Within this context, the volume of applications Accord received has remained high (2023: £12,470 million, 2022: £11,483 million). This demonstrates the strength in Accord's product propositions, including the buy-to-let (BTL) arm of the Company, which has achieved a greater than typical share of the market. Accord continues to seek to add purpose aligned products to our range of mortgages, just as achieved last year with the Cascade Score and Boost LTI (loan to income) products, which continue to provide greater flexibility in our lending decisions.

Strategic report (continued)

Principal risks and uncertainties

Details of the principal risk and uncertainties facing the Company are provided in detail in the Risk management report on pages 13-17.

Financial performance

Mortgage performance

The Company achieved growth in mortgage balances and number of customers during 2023. The number of mortgage accounts held with the Company increased to 198,162 (2022: 186,195).

The buy-to-let mortgage book has grown 13.7% to £6,718 million (2022: £5,906 million), now representing 18.7% (2022: 17.4%) of the total book. The gross volume of mortgage lending in the year was £7,801 million (2022: £8,755 million). This resulted in net lending of £1,949 million (2022: £3,516 million) once repayments and redemptions are accounted for.

The proportion of the Company's new lending that is over 90% LTV is 4.8% as at 31 December 2023 (2022: 5.5%). The Company restricts the LTV on new lending to 95%, which remains unchanged from last year.

Operating profit

Operating profit for the year was £82.3 million (2022: £179.3 million). This figure can be analysed into the following key areas:

	2023 £m	2022 £m
Net interest income	166.7	256.1
Net fee and commission income	3.2	3.1
Total income	**169.9**	**259.2**
Administrative expenses	(87.6)	(79.9)
Operating profit	**82.3**	**179.3**

Operating profit has decreased in the year, mostly due to a drop in net interest income, where interest expenses continued to increase as a result of bank rate changes, and a slight increase in administrative expenses.

Administrative expenses have increased to £87.6 million (2022: £79.9 million) as inflation continued at higher rates than seen in recent years. Within YBS this can particularly be seen in increased staff and IT costs. As FTE have also increased this has resulted in a higher cost recharge.

Dividend

In 2023, an interim dividend of £50.0 million to the shareholder was approved and paid (2022: £100.0 million). No final dividend has been proposed for the year (2022: £nil).

Financial position

Capital management

Capital is managed centrally by the Group and for capital adequacy purposes the Company is consolidated within the Group. The Group's Executive Risk Committee and the Accord Board of directors ("the Board") believe that the current level of capital is appropriate for the Company's activities. The Company's parent Yorkshire Building Society provides all external funding to the Company.

Strategic report (continued)

Key performance indicators

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

Operating profit

The Company's financial performance is monitored by our Board who, in addition to looking at statutory profit before tax, look at operating profit. Operating profit is a performance measure which excludes any one-time charges that are either temporary or typically reverse over time. Our Board considers operating profit to be an appropriate measure of the underlying performance of the business.

	2023	2022	2021	2020
	£m	£m	£m	£m
Operating profit	82.3	179.3	201.6	72.0

Other financial performance metrics

	2023	2022	2021	2020
	£m	£m	£m	£m
Net interest income	166.7	256.1	259.2	125.6
Net fee and commission income	3.2	3.1	3.0	2.7
Administrative expenses	(87.6)	(79.9)	(60.6)	(56.3)
Impairment of financial assets	(4.0)	(6.7)	3.9	(5.4)
Provisions	(0.2)	-	-	-
Profit before tax	78.1	172.6	205.5	66.6
Net interest margin	0.36%	0.58%	0.68%	0.39%

Net interest income

Net interest income was £166.7 million in 2023 (2022: £256.1 million), the decrease in net interest income is mostly caused by an increase in the Company's interest expenses at £1,394.7 million (2022: £668.0 million). The impacts of a larger mortgage book and rising interest payments on the loans from the parent company and from other Group entities that are linked to various rates including SONIA have driven this movement. These factors, combined with the competitive nature of the current high rate interest environment have squeezed margin, due to rates being offered in the market beginning to reduce whilst the cost of funding has increased. Further information on the Company's interest expense can be found in note 4 of the financial statements.

Impairment of financial assets

A total net impairment charge of £4.0 million (2022: £6.7 million charge) was recorded in the period. The latest economic scenario assumptions reflect the continuing adverse economic conditions and have a higher weighting on the downside scenarios when compared to 2022, with post model adjustments (PMAs) and increased balances at higher stages also contributing to a higher expected credit loss (ECL) for the year. Further information can be found in note 14 of the financial statements.

Net mortgage lending

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

The reduction in net lending in 2023 reflects the challenges faced within the mortgage market. Compared to 2022, the size of the market for mortgages has reduced, illustrating the pressures that new borrowers are facing with the cost of living or have difficulty meeting lending criteria, which can be seen through net lending results.

	2023	2022	2021	2020
	£m	£m	£m	£m
Net mortgage lending	1,949	3,516	4,829	1,961

Strategic report (continued)

Key performance indicators (continued)

Asset quality - mortgage arrears

The Board monitors arrears performance using a range of measures including current arrears levels and underlying trends, to indicate how well borrowers are coping with current economic conditions, and therefore how exposed the Company may be to defaults and subsequent loan losses. The key measure used by the Board is the number of borrowers whose loans are in arrears by three monthly payments or more. The current percentage of borrowers whose loans are in arrears by three months or more is 0.39% (2022: 0.33%). This is lower than the market average of 0.94% (2022: 0.74%). The value of the current portfolio currently >= 3 months in arrears is 0.31% (2022: 0.24%). Although there has been an increase in the >=3 months arrears rate, it was expected due to the impacts of the cost of living crisis and increased interest rates which have continued to impact customers' ability to repay. This is something that's been seen across the industry over the past year, though the Company is still well below the market average.

	2023	2022	2021	2020
	%	%	%	%
Mortgage arrears by value (>=3months)	0.31	0.24	0.28	0.33

Net Promoter Score

The Company uses Net Promoter Score (NPS)* as a means of measuring how satisfied our customers and brokers are with the service the Company provides. NPS measures how willing our customers are to recommend us to friends and family. The score can range from -100 if all customers are 'detractors' to +100 if all customers are 'promoters'.

NPS results have increased during the year, due to improvements to broker servicing. Feedback continues to be positive in relation to customer communication, response times and application processes. Accord continue to monitor and improve our broker servicing offering.

Broker Residential		Broker Buy-to-Let	
2023	2022	2023	2022
85	83	77	73

** Net Promoter Score and NPS are trademarks of Bain & Company, Inc., Fred Reichheld and Satmetrix Systems, Inc.*

Strategic Report (continued)

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

The Board of directors of Accord Mortgages Limited consider, both individually and together, they have acted in the way that, in good faith, would be most likely to promote the success of the company for the benefit of its members (shareholders) as a whole having regard (amongst other matters) to those matters set out in Section 172 of Companies Act 2006.

The following provides a summary of ways in which the directors of Accord have fulfilled their duties during 2023, taking into account those matters which are considered at Group level and / or led by the parent, Yorkshire Building Society (YBS). Where relevant, further details on the YBS Group's approach in relation to these areas can be found in the YBS Annual Report and Accounts 2023.

Promoting the success of the Company for the benefit of members
Accord is a wholly owned subsidiary of YBS and as the Society's intermediary lending subsidiary, it supports and promotes the Group's wider strategy and purpose.

Fostering business relationships with stakeholders

Yorkshire Building Society	Whilst Accord is a subsidiary of YBS, it is a separate solo regulated entity. YBS performs all processing activities on behalf of Accord and, as such, there is an Intragroup Outsourcing Agreement in place which is reviewed on at least an annual basis to ensure that the relationship with YBS as a key stakeholder is managed appropriately. The Intragroup Outsourcing Agreement outlines details of the services provided and agreed level of service expected by Accord from its supplier relationship with YBS and any associated suppliers. The Accord Board retains oversight of the performance measures set out in the Agreement. The Intragroup Outsourcing Agreement was reviewed in 2023 to ensure it aligned with measures agreed in relation to Consumer Duty reporting.
Brokers	As an intermediary business our brokers are key stakeholders for Accord and the Board recognises the importance of ensuring that effective business relationships are maintained with Accord's brokers. Accord is committed to supporting brokers to build the best possible relationships with customers and to get the best results. This includes always looking for innovative ways to support intermediaries and reviewing our products and offerings to ensure Accord is providing the best possible service. ***Example – Growth Series Live*** *In February 2023, Accord launched its first Growth Series * Live event in Birmingham. The aim of the event was to provide an opportunity for members of the network to meet with lenders, discuss current topics and share hints and tips with member firms.* *The event included a 'website clinic' providing support for brokers in reviewing their website and advice on how to maximise its potential to help generate more business.* The Board monitors the ongoing effectiveness of broker relationships through the Management Information provided at each meeting, including the Net Promotor Scores (NPS), ending the year at 85 for broker residential and 77 for broker buy to let. Further detail on customer experience is provided in the Directors' Report on page 18 to 23. ** The Accord Growth Series is a free tool mortgage brokers can sign-up to which gives them access to a regularly refreshed library of useful blogs, videos, podcasts and guides all designed to support mortgage brokers in growing their business efficiently and effectively.*
Customers	Customers are key stakeholders for Accord and the support we provide for our brokers is important in helping them to strengthen their relationship with their clients who are ultimately the customers of Accord. Improved and expanded propositions continue to mean that Accord can continue to help more customers and provide additional support for underserved markets. Through 2023, the customer experience offered by Accord has remained positive within the context of a volatile marketplace and has continued to be monitored through the NPS as set out above.

Strategic Report (continued)

Section 172(1) *Companies Act 2006* Directors statement (continued)

Fostering business relationships with stakeholders (continued)

Suppliers	Accord does not have its own employees, therefore, the YBS Procurement Team, together with subject matter experts from within the YBS Group, ensure that the relationship with Accord suppliers is managed in accordance with an agreed Supplier Relationship Management Framework. Where Accord has services provided by an external third party in addition to those provided by YBS, appropriate Service Level Agreements are included in the Intra Group Outsourcing Agreement.
Other Key Stakeholders	The Accord Board is committed to fostering and monitoring the effectiveness of the company's wider business relationships with its all its key stakeholders which also include: - Policy makers - Investors in the Group's securitisation transactions - Media - Regulators - Sector groups Whilst a number of the relationships are managed and maintained at Group level, the Accord Board receives updates where appropriate, including on the progress of initiatives and future proposals which will ensure that the relationships with our key stakeholders continue to be effective, such as future digital developments to improve the stakeholder experience for our brokers and our customers. Further information on the key stakeholders for the Group can be found in the YBS Annual Report and Accounts 2023.

Long term consequences of decision making

The Accord Board recognises that the management of risk is important to understanding the potential long term consequences of decision making. Details on Accord's approach are set out in the Risk management report on pages 13 to 17.

The Accord Lending Plan is key to its long term success and sustainability and is reviewed by the Accord Board on an annual basis. The Board recognises that the plan forms a key component of the Group's overall lending in its Corporate Plan and aligns with the Society's long term strategic ambitions and purpose.

In reviewing the Plan the Accord Board considered the external market conditions, the performance for the year to date as well as the detail as to how the Plan would be achieved from acquisition, retention and proposition perspectives.

Maintaining a reputation for high standards of business conduct

As part of the wider YBS Group, Accord acts in accordance with the policies set by YBS in relation to conduct, including whistleblowing, ethics and conflicts of interest.

In order to support ongoing high standards of business conduct, the Accord Board also considers:

- **Data Protection Officer annual report** - which includes Accord as part of the YBS Group assessments.
- **Money Laundering Reporting Officers' annual report** - any specific risks relating to Accord highlighted (based on the YBS Group enterprise wide report which includes Accord).
- **Compliance and Legal annual update** – setting out those issues which may have an impact on the Accord business.
- **Modern slavery statement** - prepared at Group level but independently approved and published by Accord in accordance with the legal requirements. It explains our position in relation to modern slavery risks and the anti-slavery controls in place. The statement demonstrates Accord's commitment as part of the YBS Group to doing everything which can reasonably be done to contribute toward helping eradicate modern slavery and human trafficking.

Strategic report (continued)

Section 172(1) *Companies Act 2006* Directors statement (continued)

Interests of employees

Whilst Accord does not have any employees, it is recognised that decisions could impact colleagues within the YBS Group, therefore, details of any such impacts are set out in papers submitted to and considered by the Accord Board.

In particular, the importance of considering the interests of those YBS Group employees who work as part of the teams servicing Accord is recognised. As such, the Accord Board receives regular updates in relation to the ongoing engagement with those teams.

Strong support and engagement is provided by the leadership team for those colleagues who support Accord, which includes regular communication, team calls, updates on plans and support for wellbeing. Colleague engagement remains strong within the Accord based teams.

Impact on community and environment

As part of the YBS Group, Accord's approach to the environment and wider communities is encompassed within the YBS strategy. However, Accord contributes through key aspects of its role such as risk management.

Any paper presented to the Accord Board will set out the details of any impact a decision would have in relation to community and the environment where appropriate. The Accord Board ensures that it accurately reflects the position of the wider Group in relation to these matters where relevant in decision making.

Further details on the YBS Group's approach to community and environment can be found in the YBS Annual Report and Accounts 2023.

Act fairly between members

Whilst Accord only has one member, as it is a wholly owned subsidiary of YBS, the directors recognise the importance of ensuring YBS is kept informed of the company's governance and performance which includes providing a bi-annual report to the YBS Board to assist in its oversight of the company.

Strategic report (continued)

Outlook

The economic and political environments continue to exhibit heightened levels of uncertainty. A key uncertainty looking forward is for how long inflationary pressures will persist, and what this will mean for the cost of living and the normal functioning of markets.

Having faced stubborn inflationary pressures, the Bank of England has increased the benchmark interest rate five times since December 2022, with Bank rate standing at 5.25% in December 2023. Much depends on the speed and efficacy of the monetary policy tightening in returning the rate of inflation back toward the Bank of England's target of 2.0%. Broader downside risks also exist in the geopolitical environment, including any developments in ongoing military conflicts.

The UK housing market is likely to be constrained as long as the cost of living pressures remain elevated as economic tightening reduces demand, and the high interest rates increase the size of the affordability hurdles that borrowers will be required to clear. We anticipate demand to fall on the BTL book as a result of continuing interest rate pressures and a competitive trading environment, though the existing book continues to perform well despite these external pressures. Existing mortgage holders are also likely to be negatively impacted; adverse movements in house prices will increase the risk of negative equity, and some may face difficulties in meeting their monthly payments – especially for those on variable rates. The credit performance of our mortgage book forms a key measure as part of our established risk management processes and will continue to be monitored closely. We will continue, where possible, to work with borrowers who are facing difficulties and support them as they navigate their individual circumstances.

The challenges posed by this environment may not exactly resemble those seen before, but the Company operates a robust business model and we have demonstrated our ability to deliver for our customers across a variety of external contexts.

On behalf of the Board

D Morris
Chair
28 February 2024

Risk management report

Risk Management Framework

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

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

YBS applies its risk management policies and techniques to the risks across the group of subsidiaries and controlled entities as a whole using its Enterprise Risk Management Framework (ERMF), and therefore appropriate risk management activity is deployed wherever risks arise. For further information on the ERMF please refer to the YBS Annual Report and Accounts 2023, available on the website: ybs.co.uk.

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

Governance

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

The Group Risk Committee (GRC) is a Board committee that reviews, on behalf of the Board, the key risks inherent in the business and the system of control necessary to manage such risks, presenting its findings to the Board.

The GRC oversees the Group’s risk management framework and assists the Board by providing an enterprise-wide perspective on all risk matters. It normally meets four times a year but will meet more frequently when the need arises.

The Executive Risk Committee is responsible for the oversight of day-to-day risk management activity including, but not limited to, review of the effectiveness of the Group's risk management framework and system of internal controls. It has authority to direct the business in relation to mitigating actions and to approve or endorse risk acceptance within defined levels.

Below the Group’s Board and senior management committee structure is a set of Divisional Risk Committees. These committees oversee risk management activity across the Group’s core divisions, acting as the point of escalation for matters of Group-level significance. Again, the Committees have authority to direct mitigating actions and to approve or endorse risk acceptance for risks within the Division, in accordance with defined levels.

Stress testing

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

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

Principal risks and uncertainties

The Company recognises that the environment within which it operates, and the nature of the threats that it faces, are continually evolving.

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

Risk management report (continued)

Principal risks and uncertainties (continued)

Market risk
Interest rate mismatch risk
The risk that the value of, or income derived from, the Company's assets and liabilities changes unfavourably due to movements in interest rates. Interest rate mismatch risk arises from the different re-pricing characteristics of the Company's assets and liabilities.

Basis risk
Basis risk arises from possible changes in spreads where assets and liabilities re-price at the same time but move in differing amounts causing unfavourable impacts to earnings.

Approach

Market risk is constrained by a Group Board-approved risk appetite, which is further governed through the market risk policy. The Group adopts a risk-averse approach to interest rate mismatch although some scope for exposure is allowed in line with an agreed in-house rate view, subject to the agreed risk appetite.

The Group operates a wide range of measures and scenarios that review this risk in respect of both earnings and value. Earnings are stressed over a 12-month period for +/- 250 bps changes in rates.

Retail credit risk
The risk to the Company of credit losses as a result of failure to design, implement and monitor an appropriate credit risk appetite.

Retail credit risk is constrained by a Group Board-approved risk appetite, which is further governed through the retail lending policy. A robust credit risk framework helps to ensure that lending remains within risk appetite limits and appropriate remedial action is taken if a breach occurs. Adherence is monitored regularly through governance committees. Stress testing confirms portfolio resilience.

A model governance framework ensures that credit risk models are operating as intended.

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

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

Liquidity and funding risk is constrained by a Group Board approved risk appetite, which is further governed through the liquidity and funding policy. The key assumptions, risks and controls for the management of liquidity risk are outlined in the Group Internal Liquidity Adequacy Assessment Process (ILAAP) document which is approved annually by the Group Board.

The Group operates a range of internal stress tests to ensure that sufficient liquidity is available at all times to address stress and business as usual requirements. The Group also manages liquidity to the external regulatory measure, the Liquidity Coverage Ratio (LCR).

Operational risk
The risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Operational risk is constrained by a Group Board approved risk appetite, which is further governed through the ERMF which sets out how colleagues are expected to identify, assess, monitor, manage and report their risk exposures.

Risk management report (continued)

Principal risks and uncertainties (continued)

Conduct risk

The risk of direct or indirect loss as a result of a failure to comply with customer conduct regulation or to ensure fair customer outcomes. Compliance and conduct risk, including financial crime risk, is constrained by a Board approved risk appetite, which is further governed through the ERMF. Key conduct risk metrics are in place to protect customer outcomes in all key areas including sales, service, complaints and collections.

Clear responsibilities have been determined in a governance model that established defined risk management and oversight accountability within the divisions. A comprehensive programme of independent oversight with reporting to GRC takes place.

Model risk

We continue to monitor and address the risks associated with the use of models and, specifically, the use of models that rely on historical data being applied to less predictable future scenarios. We continue to adapt and develop our approach to model risk management and the underlying models themselves in line with industry good practice and regulatory guidance.

Specific current and emerging risks

Economic, social and political uncertainties (retail and commercial credit and market risks)

At a UK level, persistently high inflation, higher interest rates and an uncertain economic outlook continue to add pressure to household incomes. This has reduced affordability for both mortgage borrowers and tenants of buy-to-let landlords, contributing to a slowdown in the UK residential market.

The Group assesses affordability for new lending using a sophisticated model which uses a stressed interest rate and is reviewed at least every six months. Its lending criteria aims to balance the level of purposeful risk we take with lending responsibly to deliver good customer outcomes, minimise arrears and comply with the Consumer Duty regulations.

The Group ensures its products are carefully priced and are disciplined in our hedging to ensure it does not exceed the Board-approved risk appetite. It stress-tests its liquidity position regularly and its liquidity ratios continue to remain significantly within the Board-approved risk appetite.

The international political and economic environment affects the Group too; it has seen nervousness in some wholesale markets arising from the failures of banks in the US and Europe.

Attracting and retaining skills and talent in high demand areas (operational risk)

Employer competition continues for in-demand skills, such as for change, cyber, digital and data. Coupled with low levels of unemployment and higher wage inflation, attracting and retaining the right people to deliver the Group’s strategy is vital but challenging.

Effective resource planning, forecasting and succession planning remains a priority. The Group has also strengthened its risk management capabilities for people risk and have improved its people policies, particularly for working families.

Climate change risk

The main risks from climate change for the Group arise in the physical risks to its customers’ properties, such as from flooding, subsidence and coastal erosion, and those posed by the transition to a lower-carbon economy, such as changes in energy efficiency regulation.

The Group continues to develop its environmental and climate change risk management capabilities, to ensure that it aligns with industry good practice and meets reporting and disclosure requirements.

Risk management report (continued)

Specific current and emerging risks (continued)

IT resilience (operational risk)
As IT components age, their health and value can deteriorate. This poses a risk to the Group's customers who increasingly rely on its digital channels, and the Group's colleagues who use its systems to deliver services to its customers.

The Group is continually modernising and simplifying its IT estate to improve resilience so it can deliver the services its customers expect.

Financial crime threats (compliance and conduct risk)
Financial crime threats arise from both customers falling victim to fraud attempts, particularly through digital channels, or individuals attempting to use the Society for unlawful reasons such as to launder money or evade sanctions. These threats are heightened in the uncertain economic and geo-political environment.

The Group's continued focus on its financial crime capability remains paramount, and it continues to invest to deliver and implement proportionate and effective monitoring and prevention controls.

New and evolving cyber security threats (operational risk)
The increasing use of technology and digital services means the UK financial services sector is exposed to increasing cyber security risks. These are heightened further because of geo-political tensions, such as from the war in Ukraine.

Resilience to such threats and an ability to respond effectively in the event of an attack remains essential to protect the Group, its customers and maintain the confidence of regulators.

The Group has significantly enhanced its cyber threat monitoring and response capability and will continue to do so further.

Third party risk (operational risk)
The Company relies on a small number of material outsourcers to deliver its services to its customers. It uses these third parties for when it does not have the capacity or capability to deliver the service it needs, or when others can deliver the service more efficiently and effectively than it can.

It closely manages the performance of its suppliers according to the Group's third-party risk framework, which includes reporting their performance against key measures on a regular basis. The Group has also, during the year, conducted a series of reviews of its material outsourcers to meet the PRA's supervisory statement 2/21 on outsourcing and third-party risk, and the results of which were reported to the Group Risk Committee.

The regulatory environment (compliance and conduct risk)
The regulatory environment for the UK financial services sector continues to evolve, with the FCA's Consumer Duty rules and the Government's Mortgage Charter both starting in 2023. The Group continues to have open and constructive dialogue with its regulators and works with them and industry bodies to contribute to the regulatory agenda. Monitoring and maintaining its actual regulatory compliance positions is of the highest priority across management.

Risk management report (continued)

Specific current and emerging risks (continued)

Continued risk management effectiveness
Good progress has been made through 2023; the Group has continued to embed its risk management framework across the business to enable it to adapt and respond to rapid change in its operating environment. This includes development of its approach to managing climate risk, continuing to embed accountability for risk management into the first line of defence and providing an increased level of second-line oversight of key risk management activities including those relating to the Group's transformation agenda.

The Group always wishes to proactively ensure that risk management capability is equal to or ahead of that which is necessary so following an external review, the Group plans to strengthen its governance, risk and control capabilities further in anticipation of future growth and the possibility of being designated a category one firm by the PRA. These plans include ensuring the right level of subject matter expertise in key areas; leveraging the latest technology and data to deliver automation and efficiencies; and further encouraging challenge and learning.

On behalf of the Board

D Morris
Chair

Directors' report

The directors present their annual report and audited financial statements for Accord Mortgages Limited ("the Company" or "Accord") for the year ended 31 December 2023.

Directors

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

P Connolly
J Duncombe
S Martin
D Morris
R Purdy*
R Wells
N Young (Appointed 10 February 2023)

*Rob Purdy sadly passed away and ceased to be a director on 21 January 2023.

Business objectives and activities

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

Principal risks and uncertainties

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

Results of operations

Profit before tax for the year was £78.1 million (2022: £172.6 million).

Dividends

During the year, an interim dividend to the Company's parent of £50.0 million (2022: £100.0 million) was approved by the Board. No final dividend has been proposed for the year (2022: £nil).

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

Key performance indicators

The Key performance indicators reviewed by Directors are included in the Strategic report.

Governance

Streamlined Energy and Carbon Reporting ("SECR")

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

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

A full breakdown of the YBS Group's emissions is included in the YBS Annual Report and Accounts 2023.

Directors' report (continued)

Governance (continued)

Wates Corporate Governance Principles

The Board has considered the best practice principles set out in the Wates Corporate Governance Principles for Private Business (Wates Principles) and sought to apply them wherever applicable. The table below sets out how the Wates Principles have been applied during 2023:

Principle	How it applies to Accord
Principle One - Purpose and Leadership An effective board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.	Accord Mortgages Limited (Accord) is a wholly owned subsidiary of Yorkshire Building Society (YBS). Accord is a dedicated intermediary lender that originates loans secured on residential and buy to let property through a trusted broker network, supporting the long term growth and profitability of the wider YBS Group. YBS's purpose is to provide 'Real Help with Real Life', the Society is there to help people have a place to call home, help people towards a greater financial wellbeing and to deliver long term sustainable value. Accord is fully integrated into the YBS governance structure and as part of the wider YBS Group, Accord supports and promotes the Group's strategy, purpose, behaviours and culture in the areas in which it operates. Accord has a clear Board Terms of Reference, constitution, activities and effectiveness, risk management, change agenda and operational effectiveness to support the delivery of the purpose and remain effective. Further information on YBS's strategy, purpose, behaviours and culture can be found in the YBS Annual Report and Accounts 2023. All directors understand their duties, including promoting the success of the company. Further detail on how the directors S172 duties have been fulfilled can be found in the S172 Statement in the Strategic Report on pages 9 to 11.
Principle Two - Board Composition Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company.	The Accord Board is made up of YBS senior managers, chief officers and an executive director, who is also the Chair. Each of the directors brings a variety of skills to the Board through their experience and their spans of control within the wider Group. As at 31 December 2023 there were six statutory directors of the Accord Board. The Accord Board met four times in 2023. The appointment of a YBS Board executive director as an Accord director ensures that there is direct feedback from the Accord Board to the YBS Board. The remaining directors are either chief officers or members of the YBS senior leadership team ensuring that there is direct feedback into the key Management Committee's for the Group. Members of the Board are appointed by YBS as the sole shareholder based on the areas of experience each director brings to the company, including but not limited to customer, change and operational resilience, finance, risk, including conduct and credit risk, mortgage distribution. The size of the Board is kept under review and is currently considered appropriate for a subsidiary board where the company's operations are integrated in the wider Group. In 2023 the Accord Board completed a skills matrix questionnaire based on the approach used by the YBS Board but taking into account the key skill areas required for the Accord Board. The outcomes from the skills matrix will be used to inform any future appointments to the Accord Board together with any training requirements in 2024. **Board Changes** The following changes took place on the Accord Board during 2023: • Rob Purdy ceased to be a director (passed away January 2023) • Nikki Young appointed as a director (February 2023) Appointments to the Accord Board were made following a review of the Board's composition, any skills gaps, and taking into account the experience and skills the new directors would bring to the Board. An induction process was completed to support the appointment of the new director.

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

<table>
<tr><th>Principle</th><th>How it applies to Accord</th></tr>
<tr><td>Principle Two - Board Composition (continued)</td><td>Board diversity
The Accord Board recognises the ongoing challenge of ensuring it has a diverse composition. This will be considered as part of reviews of the governance and composition of the Accord Board, together with any future recruitment, taking into account the commitment of the Group as a whole to achieving greater diversity and developing the diversity of the talent pipeline.
Further information can be found in the YBS Annual Report and Accounts 2023.
Effectiveness and development
The effectiveness of the Accord Board is subject to oversight by YBS as the parent company and to support this bi-annual updates are provided to the YBS Board covering key areas in relation to governance, operations and performance.
The Accord Board undertakes an annual review of its own effectiveness through an internal evaluation facilitated by the Company Secretary. The Accord Board considered the outcomes of the effectiveness review for 2023 at its meeting in December 2023 and there were no significant issues arising.
Professional development of directors is identified through their roles as part of the wider Group together with regular performance evaluations.</td></tr>
<tr><td>Principle Three - Directors Responsibilities
The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge.</td><td>Accord and the wider YBS Group are committed to maintaining robust corporate governance practices.
The governance framework for the company is clearly set out in its Articles of Association and the roles and responsibilities of the Board are set out in its Terms of Reference. The Terms of Reference are reviewed on at least an annual basis, with an additional review completed in 2023 to ensure they reflected the requirements of the Consumer Duty.
The Accord directors are accountable for the governance and management of the company, including collective responsibility for its long term success, and act in accordance with all the relevant and applicable regulatory and statutory requirements. The Board is also responsible for ensuring YBS, as the parent, is aware of any exceptional matters relating to its operations and governance, particularly where there would be an impact on the overall Group.
All activities required for the day to day running of Accord are carried out by YBS and the framework for these arrangements are set out in an Intragroup Outsourcing Agreement. Performance against key agreed outsourcing measures is monitored at each scheduled meeting of the Accord Board.
The Board meets at least four times a year and receives information on all key aspects of the business to ensure it has oversight of Accord's operations, including financial and operational performance (which incorporates performance against key service levels agreed as part of the Intragroup Outsourcing Agreement). In addition to the Management Information suite of information provided at each meeting, key areas of decision and / or discussion during the year have included:
• Intermediary distribution segmentation
• Data protection annual report
• Risk updates
• Change updates
• Annual Report and Accounts
• Annual Controls Opinion
• Going concern assessment
• Review of Intragroup Outsourcing Agreement
• Senior managers and certification regime update
• Governance updates, including the outcomes of the Government consultation on restoring trust in audit and corporate governance</td></tr>
</table>

Directors' report (continued)

Governance (continued)

Wates Corporate Governance Principles (continued)

Principle	How it applies to Accord
Principle Three - Directors Responsibilities (continued)	The directors of the Accord Board are subject to the requirements of the YBS Group's directors and chief officers Conflicts of Interest Policy. At each Board meeting, all directors are asked to declare any potential conflicts of interest. Any declarations are added to the register of interests as appropriate and if a potential conflict was identified appropriate mitigating actions would be agreed. In addition, directors are expected to declare any conflicts or new roles arising outside of Accord Board meetings. The entries in the register of interests are reviewed with the Accord directors on a bi-annual basis as part of year end and half year processes.
Principle Four - Opportunity and Risk A board should promote the long term sustainable success of the company by identifying opportunities to create and preserve value, and establishing oversight for identification and mitigation of risks.	Strategic opportunities are identified and developed as part of the overall Group Strategy planning process. The company is part of the wider YBS Group which applies its risk management policies to the risks of the Group as a whole. As such any risks within Accord as an individual entity are considered at Group level, including those arising as a result of relationships and transactions with other Group companies. The risk exposures are further understood through a comprehensive suite of stress tests under the wider group framework thereby ensuring that management has a clear perspective on the extent of its risks and the acceptability of those risks in all plausible circumstances. A risk update is provided at each meeting of the Accord Board. Each paper presented to the Accord Board includes a section setting out the risk implications of any proposals within the framework of the Group's approach to risk management. Reviews by the Compliance and Internal Audit teams include coverage of Accord both directly and indirectly with relevant outcomes reported to the Group Risk Committee and the Accord Board which then monitors the resolution of any actions arising. A separate Controls Statement for Accord was considered by the Group Audit Committee and Accord Board in 2023. Further detail in respect of Accord can be found in the risk management report on pages 13 to 17. Further information on the Groups' approach to strategy and Risk management can be found in the section Risk management report section of the YBS Annual Report and Accounts 2023.
Principle Five - Remuneration A board should promote executive remuneration structures aligned to the long term sustainable success of a company, taking into account pay and conditions elsewhere in the company.	Accord is not an employer, all services required for the conduct of its operations are provided by YBS employees or contractors or through outsourcing arrangements. Updates are provided to the Accord Board on engagement with those employees who provide operational services to Accord. The directors of the Accord Board are not separately remunerated for their role on the subsidiary. YBS values its employees and is committed to ongoing engagement. Further detail on the YBS approach to employee engagement and remuneration, including its Remuneration policy, can be found in the YBS Annual Report and Accounts 2023.

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

Principle	How it applies to Accord
Principle Six - Stakeholder Relationships and Engagement Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.	**Shareholder** As a wholly owned subsidiary, the Accord Board duly considers the views of its sole shareholder, YBS, and the interests of the Group as a whole as part of its decision making. Accord recognises the role of YBS as its sole shareholder and parent company and provides updates to the YBS Board on its performance and governance arrangements. The Accord Board regularly receives updates from key YBS stakeholders including Finance, Risk and Compliance. **Brokers** The Board recognises that the relationship with our brokers and the quality of service provided is key to the success of the company and continues to monitor feedback together with the Net Promoter Score (NPS) to measure satisfaction and identify any improvements required. The metrics in the Intragroup Outsourcing Agreement are kept under review to ensure they remain relevant to Accord's activities and to ensure that the service provided to brokers is maintained and reflected through NPS scores. **Customers** As a dedicated intermediary lender, Accord recognises the importance of working in partnership with intermediaries to meet the needs of customers and maintain service excellence. Engagement and support is provided to brokers through a variety of means, including a dedicated team of Business development managers, and updates on service and engagement initiatives are provided to the Accord Board where appropriate. Work has been completed during 2023 in relation to any requirements from the Consumer Duty which are relevant to Accord. **Regulator** Accord is solo regulated by the Financial Conduct Authority (FCA). Compliance and regulatory activities are managed at Group level, however, and the Board receives at least an annual update on the Group's regulatory engagement highlighting areas which may be of significance to Accord, including the outcomes of any site visits specifically conducted by the FCA. **YBS Colleagues** Whilst Accord does not have any employees, it is recognised that decisions could impact on colleagues within the YBS Group, therefore, details of any such impacts are set out in papers submitted to and considered by the Accord Board. **Other Stakeholders** The Board is committed to taking into account the views of and understanding its impact on its key stakeholders. Papers considered by the Accord Board set out the implications of any decision on the company's key stakeholders, including customers, YBS members where relevant as a group wide impact, YBS colleagues and so on. For further detail see the Section 172 statement on pages 9 to 11. For further detail on how stakeholder matters are considered at group level, see the YBS Annual Report and Accounts 2023.

Directors' report (continued)

Future developments

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

Going Concern

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

In ensuring that the Company has sufficient financial resources, including liquid funds, to meet its liabilities as they fall due, the Board have taken account of this ongoing support provided by its parent, YBS. The directors have received a deed of undertaking from YBS confirming that funding will not be repayable in the foreseeable future.

The YBS Board undertake regular assessments of whether the Group is a going concern, taking into account changing economic and market conditions, and using all available information about future risks and uncertainties. During the year to 31 December 2023, the cost of living crisis, increased interest rates and the uncertainty around the future direction of the macroeconomic environment have all impacted on the Group's assessment. However, due to its strong capital position and high liquidity levels, the Group is well placed to cope with the economic downturn.

As a result, the directors confirm that, based on the latest formal review undertaken in February 2024, and stress tests performed throughout the year, they consider the Group has adequate resources to continue in existence for the foreseeable future. The aforementioned stress tests are for the Group as a whole as any assessment of the going concern of the Company is intrinsically linked to the going concern of YBS. The directors of the Company have adopted the going concern basis in preparing these financial statements.

Audit information

Each of the directors at the approval of this Directors' report confirm that:

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

Independent auditors

The reappointment of PricewaterhouseCoopers LLP as auditors will be considered by the Board at the coming AGM.

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

D Morris
Chair
28 February 2024

Statement of Directors' responsibilities in respect of the Financial Statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with UK-adopted international accounting standards.

Under company law, 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also 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.

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

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

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

N Young Director

D Morris Chair

Independent auditors' report to the members of Accord Mortgages Limited

Report on the audit of the financial statements

Opinion

In our opinion, Accord Mortgages Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2023 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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 2023; income statement, statement of cash flows and statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

We have provided no non-audit services to the company in the period under audit.

Conclusions relating to going concern

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

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

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

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

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

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

Independent auditors' report to the members of Accord Mortgages Limited (continued)

Reporting on other information

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

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

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

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

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2023 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 Statement of Directors' Responsibilities in respect of the Financial Statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Independent auditors’ report to the members of Accord Mortgages Limited (continued)

Responsibilities for the financial statements and the audit (continued)

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to Financial Conduct Authority’s (‘FCA’) and Prudential Regulation Authority’s (‘PRA’) regulations, 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 financial statements such as Company's Act 2006 and UK tax legislation. 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 posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and accounting for any significant one-off or unusual transactions. Audit procedures performed by the engagement team included:

- Enquiries of management, those charged with governance and the Group’s in-house legal team throughout the year, including consideration of known or suspected instances of non-compliance with laws and regulations
- Review of internal audit reports throughout the year, in so far as they related to the financial statements
- Incorporation of an element of unpredictability in our testing through altering the nature, timing and/or extent of work performed
- Challenging estimates and judgements made by management in forming significant accounting estimates
- Identifying and testing higher risk journal entries, in particular any journals posted by senior management, postings to unusual account combinations based on our understanding of business operations and material late adjustments.

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the company’s 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.

Independent auditors' report to the members of Accord Mortgages Limited (continued)

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Heather Varley (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
28 February 2024

Income statement
for the year ended 31 December 2023

	Note	2023 £m	2022 £m *Restated*[1]
Interest revenue calculated using the effective interest rate method	3	1,561.4	924.1
Interest expense	4	(1,394.7)	(668.0)
Net interest income		**166.7**	**256.1**
Fees and commissions revenue		12.4	12.9
Fees and commissions expense		(9.2)	(9.8)
Net fee and commission income		**3.2**	**3.1**
Administrative expenses	5	(87.6)	(79.9)
Operating profit		**82.3**	**179.3**
Impairment of financial assets	7	(4.0)	(6.7)
Provisions		(0.2)	-
Profit before tax		**78.1**	**172.6**
Tax expense	6	(17.4)	(31.9)
Profit for the year		**60.7**	**140.7**

[1] Please see Note 1 for details of the 2022 restatement of the Income statement.

Accord Mortgages Limited had no income or expenditure (or other gains and losses) in either the current or prior year, other than the profits stated above, and consequently no statement of comprehensive income has been presented.

All the profit has originated from continuing operations and is attributable to the equity holder of the Company.

The notes on pages 33 to 60 form part of these financial statements.

Statement of financial position
as at 31 December 2023

	Note	2023 £m	2022 £m
Assets			
Loans and advances to customers	8	35,860.7	33,923.4
Amounts owed from parent undertaking	16	11,272.2	12,785.3
Prepayments and accrued income		-	1.1
Other assets		2.0	1.7
Total assets		**47,134.9**	**46,711.5**
Liabilities			
Amounts due to parent undertaking	16	33,133.9	30,925.1
Amounts due to other group entities	16	12,948.5	14,883.9
Deferred tax liabilities	9	1.4	1.7
Other liabilities	10	585.3	445.7
Total liabilities		**46,669.1**	**46,256.4**
Equity			
Called up equity share capital	11	100.0	100.0
Retained earnings		365.8	355.1
Total equity		**465.8**	**455.1**
Total equity and liabilities		**47,134.9**	**46,711.5**

The notes on pages 33 to 60 form part of these financial statements.

These financial statements were approved by the board of directors on 28 February 2024 and were signed on its behalf by:

D Morris
Chair

Statement of changes in equity
for the year ended 31 December 2023

	Share capital	Retained earnings	Total
	£m	£m	£m
Balance as at 1 January 2023	**100.0**	**355.1**	**455.1**
Profit for the financial year	-	60.7	60.7
Dividend paid	-	(50.0)	(50.0)
Balance as at 31 December 2023	**100.0**	**365.8**	**465.8**

	Share capital	Retained earnings	Total
	£m	£m	£m
Balance as at 1 January 2022	**100.0**	**314.9**	**414.9**
Profit for the financial year	-	140.7	140.7
Transitional adjustments	-	(0.5)	(0.5)
Dividend paid	-	(100.0)	(100.0)
Balance as at 31 December 2022	**100.0**	**355.1**	**455.1**

The notes on pages 33 to 60 form part of these financial statements.

Statement of cash flows
for the year ended 31 December 2023

	Note	2023 £m	2022 £m
Cash flows from operating activities:			
Profit before tax		78.1	172.6
Non-cash items included in profit before tax	15	879.3	516.8
Net change in operating assets	15	(1,940.5)	(3,513.5)
Net change in operating liabilities	15	139.3	55.3
Net cash flow from operating activities	**15**	**(843.8)**	**(2,768.8)**
Cash flows from financing activities:			
Net amounts received from parent and other group entities		843.7	2,770.1
Net cash flows from financing activities		**843.7**	**2,770.1**
Net (decrease)/increase in cash and cash equivalents		**(0.1)**	**1.3**
Cash and cash equivalents comprise:			
Bank overdraft			
1 January		(2.4)	(3.7)
31 December		(2.5)	(2.4)
Net (decrease)/increase in cash and cash equivalents		**(0.1)**	**1.3**

The notes on pages 33 to 60 form part of these financial statements.

Notes to the financial statements

1. Statement of accounting policies

General information
Accord Mortgages Limited ("Accord" or "the Company") is a dedicated intermediary lending company domiciled and registered in England. The financial statements for the year ended 31 December 2023 were authorised for issue by the directors on 28 February 2024.

Basis of preparation
The financial statements have been prepared in accordance with 'UK-adopted international accounting standards' as endorsed by the UK Endorsement Board ("UKED") as prescribed by the *Companies Act 2006*.

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain financial instruments measured at fair value at the end of each reporting period.

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

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

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

The Company has recourse to a deed of undertaking with YBS should there be any shortfall on funding or any liquidity issues. Ultimately, therefore, the going concern of the Company is linked to the going concern of the Group. In ensuring that the Company has sufficient financial resources, including liquid funds, to meet its liabilities as they fall due, the Board have taken account of this ongoing support provided by its parent, YBS. The directors have received a deed of undertaking from YBS confirming that funding will not be repayable in the foreseeable future.

The directors confirm that, based on the latest formal review undertaken in February 2024, and stress tests performed throughout the period, they consider the Company has adequate resources to continue in existence for the foreseeable future. The aforementioned stress tests are for the Group as a whole as any assessment of the going concern of the Company is intrinsically linked to the going concern of YBS. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

Accounting developments

Changes to Accounting Standards effective in the period
IFRS 17 Insurance Contracts
Insurance arrangements are not within the scope of the Company's activities. Therefore, IFRS 17 Insurance contracts is not applicable.

IAS 1 Presentation of financial statements
The IASB issued amendments to IAS 1 *Presentation of Financial Statements*. IAS 1 now mandates disclosure of *material accounting policies* rather than *significant accounting policies*. The accounting policies of the Company have been reviewed in respect of IAS 1 amendments with no significant changes deemed necessary.

There are no other new accounting standards applicable for this set of financial statements expected in the near future, and only a small number of narrow amendments or some annual improvements to existing standards, none of which have an impact on these financial statements.

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

Notes to the financial statements (continued)

1. Statement of accounting policies (continued)

Accounting developments (continued)
Standards issued but not yet effective (continued)

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

However, IFRS 9 did not replace the requirements for portfolio fair value hedge accounting for interest rate risk since this phase of the project was separated out due to its longer term nature.

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

Material accounting policies

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

For mortgage loans and advances to customers this includes an estimate of any early repayment income. Directly attributable acquisition costs, such as application and arrangement fees, are also incorporated in the calculation.

This has the effect of spreading these fees and costs over the expected life of the mortgage. Expected lives are estimated using historical data and management judgement. The calculation is adjusted when actual experience differs from estimates, with changes in deferred amounts being recognised immediately in the income statement.

Fees and commissions
Fees and commissions are earned on referral of customers to third party service providers of financial products. Fee and commission revenue is accounted for on an effective interest rate basis, similar to interest revenue and expense above. Other fees and commissions are recognised on an accruals basis as the relevant service is provided or at a point in time if the service or product provided relates to a one-off action.

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

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

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

Notes to the financial statements (continued)

1. Statement of accounting policies (continued)

Material accounting policies (continued)
Classification and measurement of financial assets and financial liabilities (continued)

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

Financial Instrument	Description	Subsequent measurement
Loans and advances to customers	Primarily mortgage products offering a variety of fixed and variable interest rates	Amortised cost
Amounts owed from parent undertaking	Intercompany loans	Amortised cost
Amounts due to parent undertaking and other group entities	Intercompany loans	Amortised cost
Cash and cash equivalents	Bank overdraft	Amortised cost

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

Deemed loan from special purpose securitisation vehicles
Where the transfer of a financial asset does not qualify for de-recognition, the transferor accounts for the transaction as a funding transaction and therefore recognises the cash or other consideration received as a payable to the transferee. In relation to the mortgage loans transferred by the Company to special purpose securitisation vehicles, de-recognition is considered to be inappropriate by the Company, as the Company has retained significant risks - in the form of credit enhancement paid in - and rewards - in the form of deferred purchase consideration to be paid out – in relation to the loan receivables. The Company's Statement of Financial Position is therefore prepared on the basis that its sale of the beneficial interest in the mortgage loans is recognised as a collateralised non-recourse loan to the special purpose securitisation vehicles (a "deemed loan"), based on the amount the Company received from the special purpose securitisation vehicles to legally purchase the beneficial interest in the mortgage loans. The deemed loan is carried at amortised cost using the effective interest method.

Under the terms of the securitisation transaction, the special purpose securitisation vehicles retain the right to receive a set amount of available revenue receipts at each interest payment date from their beneficial interest in the mortgage loans. Available revenue receipts are defined by the relevant transaction documentation and include interest on the mortgage loans. Interest receipts on the mortgage loans in excess of those required by the special purpose securitisation vehicles to meet their obligations under the transaction documents are paid to the Company as deferred consideration. The payments of deferred consideration are strictly governed by the priority of payments for the relevant transaction, which sets out how cash can be utilised.

For the covered bond programme, the parent undertaking, Yorkshire Building Society, itself and not the structured entity issues the covered bonds and then lends the proceeds to the structured entity on back to back terms. The structured entity then uses these proceeds as consideration for the mortgage loans transferred from the Company. The structured entity provides security for issued notes secured against these specific mortgage loans of the Company. In the accounts of the Company, the proceeds received from the transfer are accounted for as a deemed loan repayable to the structured entities presented within 'Amounts due to other group entities'.

Notes to the financial statements (continued)

1. Statement of accounting policies (continued)

Material accounting policies (continued)

Provisions

Provisions are recognised when: the Company has a present obligation (legal or constructive) as a result of a past event; it is probable that the Company will be required to settle that obligation; and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the net present value of the consideration required to settle the obligation, taking into account the risks and uncertainties surrounding the obligation.

Impairment of financial assets

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

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

<u>Stage 2:</u> financial assets move into 'stage 2' when they are deemed to have experienced a significant increase in credit risk (SICR), based on quantitative and/or qualitative risk grade thresholds. Impairment is then based on expected losses over the full lifetime of the contract (lifetime ECL).

The Company assesses a SICR to have occurred when the accounts are more than 30 days past due or there has been a significant relative increase in the lifetime probability of default (PD) compared to that at initial recognition.

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

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

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

The Accord Buy-to-Let (BTL) portfolio is not yet subject to behaviour scoring, there has only been one possession to date and limited default history. The IFRS 9 model requires behaviour score to generate a probability of default, so for these loans an alternative modelling solution is in place, proxying losses based on a sample of residential mortgages run through the Company's BTL model adjusting for any other known differences between Residential and BTL lending. A fully modelled solution for these accounts is expected in the next two years.

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

<u>ECL calculations</u>: these are assessed at individual loan level using three main components.

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

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

LGD takes into account the expected impact of future economic conditions, such as changes in value of collateral, and does not include any floors. Only costs directly associated with obtaining/selling collateral are included. Discounting of the expected cash flows is performed using the effective interest rate of the loan. The ECL is calculated using models that build up separate estimates for PD, EAD and LGD for every month that a loan is due to be outstanding.

Notes to the financial statements (continued)

1. Statement of accounting policies (continued)

Material accounting policies (continued)

Impairment of financial assets (continued)

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

Loans are written off against this ECL balance when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security.

Taxation including deferred tax

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

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

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

The following temporary differences are not provided for:

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

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available, against which a temporary difference can be utilised. The carrying amount of the deferred tax asset is reviewed at the reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Other assets

Other assets represent mortgage repayments received from customers' awaiting allocation to mortgage accounts.

Other liabilities

The Company recognises amounts due to customers on offset mortgage products within other liabilities. Accruals for operating activities and any amounts in respect of bank overdrafts are also recognised in other liabilities.

Restatement of interest revenue

The *Income statement* for the year ended 31 December 2022 and *Note 3 interest revenue* have been restated in these financial statements to correct the presentation of *interest revenue on items calculated using effective interest rate method*. Line items, *Interest on debt securities* and *Interest on loans to parent company*, previously presented within *Other interest revenue* are now presented within Interest calculated using the effective interest rate method.

Interest on loans to parent company of £157.4 million *and interest on debt securities* of £12.8 million for the year ended 31 December 2022 are now presented under the *Interest revenue calculated using the effective interest rate method* classification.

The comparative financial statements for the year to 31 December 2022 have been restated to reflect the correction within Interest revenue. The impact of the restatements on the Income statement and note 3 are set out below:

Notes to the financial statements (continued)

1. Statement of accounting policies (continued)

Restatement of interest revenue (continued)

Income statement

	2022 as previously reported	Adjustments	Restated 2022
	£m	£m	£m
Interest revenue calculated using the effective interest rate method	753.9	170.2	924.1
Other interest revenue	170.2	(170.2)	-
Interest revenue	**924.1**	**-**	**924.1**
Interest expense	(668.0)	-	(668.0)
Net interest income	**256.1**	**-**	**256.1**

Note 3 - Interest revenue

	2022 as previously reported	Adjustments	Restated 2022
	£m	£m	£m
Calculated using the effective interest rate method:			
On loans secured on residential property	753.9	-	753.9
On loans to parent company (note 16)	-	157.4	157.4
On debt securities	-	12.8	12.8
Interest income calculated using the effective interest rate method	**753.9**	**170.2**	**924.1**
Other:			
On loans to parent company (note 16)	157.4	(157.4)	-
On debt securities	12.8	(12.8)	-
Other interest revenue	**170.2**	**(170.2)**	**-**
Total interest revenue	**924.1**	**-**	**924.1**

Notes to the financial statements (continued)

2. Critical accounting judgement and key sources of estimation uncertainty

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

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

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

Key source of estimation uncertainty
Impairment of loans and advances to customers
The impairment calculation of expected credit losses (ECL) for a portfolio of mortgage loans is inherently uncertain. ECL are calculated using historical default and loss experience but require judgement to be applied in predicting future economic conditions (e.g. interest rates and house prices) and customer behaviour (e.g. default rates). The most critical judgements that lead to estimation uncertainty are as follows:

Economic scenarios and weightings
A forum, supported by Finance, Credit Risk, Balance Sheet Management and economic experts considers the forward-looking macroeconomic assumptions with the objective of developing internally coherent economic scenarios to propose to the Group Asset and Liability Committee (ALCO) for challenge and approval. ALCO ensures that the ECL meets the requirement for unbiased and weighted amounts derived by evaluating a range of possible outcomes and assumptions, or economic scenarios.

Judgements are made in arriving at the level of each economic variable, such as house price index (HPI) and unemployment, applied in each economic scenario to support the estimate of ECL. ALCO applies judgements to arrive at these assumptions while the consensus view on these economic variables is being reached.

The UK Economy technically entered recession at the end of 2023, attributed to the ongoing cost of living crisis and higher interest rate environment. Growth will likely remain weak by historical standards in the medium term and there remains more downside risk than upside. Headline inflation continues to fall, although there are re-emerging risks around the price of energy following the recent geopolitical tensions. Core inflation, services inflation and wage inflation continue to provide headwind to the inflation target being met consistently throughout 2024.

Management evaluated these uncertainties, with the economic assumptions applied to the ECL model adjusted to reflect any material changes in view of the macro-economic environment. A post model adjustment was raised in 2022 and has been updated to reflect the risks relating to affordability and the impact of cost of living increases on our mortgage customers (see note 14 for more details).

The provision is calculated by applying a range of economic scenarios that are weighted.

The Company continue to apply four economic scenarios, with a higher weighting attributed to the downturn and severe downturn scenarios than in 2022, reflecting the ongoing uncertainty around health of the UK economy. SME judgement is applied in determining the relative weighting of each economic scenario in the ECL estimate, informed both by an assessment of external data and statistical model results.

The Company considered alternative sets of weightings. The most severe shifted a further 5% from core and downside to severe downturn resulting in a £2.1 million increase in ECL. The least severe shifted 10% from downside and severe downturn to core resulting in a £4.1 million decrease in ECL. These changes in weightings have been fully modelled and been allowed to impact staging but impact on PMAs has been excluded.

Notes to the financial statements (continued)

2. Critical accounting judgement and key sources of estimation uncertainty (continued)

Key source of estimation uncertainty (continued)

Impairment of loans and advances to customers (continued)

In terms of sensitivity to changes in key economic variables within the model, the ECL model was run with a 100% weighting applied to the core scenario, in both core and non-core models. When the HPI forecast was replaced with the respective forecasts from the downturn and severe downturn scenarios ECL, excluding PMAs, increased by £2.0 million and £17.0 million (2022: £5.2 million and £7.3 million). Below is the percentage change in HPI forecast for both downturn scenarios for the next 5 years in relation to the core scenario. The downturn scenario in 2023 replaced the stagflation downturn scenario applied in 2022.

	2023 Scenario (% Change)				
HPI	**2024**	**2025**	**2026**	**2027**	**2028**
Downturn	(3.5)	(6.0)	(0.5)	(3.0)	(2.8)
Severe downturn	(8.0)	(14.5)	(9.0)	(4.5)	(3.5)
	2022 Scenario (% Change)				
HPI	**2023**	**2024**	**2025**	**2026**	**2027**
Stagflation downturn	(6.7)	(3.0)	(1.3)	(0.5)	(0.3)
Severe downturn	(7.5)	(9.8)	(8.1)	(2.0)	(1.5)

The key in-year impact of changes to economic variables came from applying quarterly Office of National Statistics (ONS) HPI updates, which accounted for £0.1 million of impairment charge over 2023 (2022: £6.5 million release).

Post model adjustments

The determination, application and calculation of PMAs also requires judgement to be applied. Further detail on economic assumptions, weightings and PMAs can be found in note 14.

SICR

The threshold applied to assess whether a significant relative increase in credit risk has occurred. If 10% of the accounts in stage 1, on a proportional basis, were to be transferred to stage 2 and subject to a calculation of full lifetime expected credit losses, this would result in a £1.9 million (2022: £1.6 million) increase in the provision. The sensitivities do not include the adjustments made for PMAs.

Probability of default and possession

The calculation of the probability of default (PD) for accounts in stage 2 and the probability of possession for accounts in stage 3. A 10% relative increase or decrease in these probabilities would give rise to a £1.6 million (2022: £1.4 million) increase or decrease in the provision, respectively. The sensitivities do not include the adjustments made for PMAs.

Staging

On the assessment of staging for customers who are currently in arrears on their unsecured lending with other lenders, these customers are allocated to stage 1. The majority of these accounts were originated at high credit risk, so whilst there has been an increase in credit risk this has not been sufficiently high on a relative basis to breach the transfer criteria to stage 2. For these accounts, if this was treated as a hard indicator of increased credit risk and these loans were transferred to stage 2, there would be a £3.3 million (2022: £2.2 million) increase in provisions.

Notes to the financial statements (continued)

3. Interest revenue

	2023	2022
	£m	£m
		*Restated**
Calculated using the effective interest rate method:		
On loans secured on residential property	1,017.4	753.9
On loans to parent company (note 16)	519.6	157.4
On debt securities	24.4	12.8
Interest income calculated using the effective interest rate method	**1,561.4**	924.1
Total interest revenue	**1,561.4**	924.1

* Please refer to *restatement of interest revenue* in Note 1 for details for details of this restatement.

4. Interest expense

	2023	2022
	£m	£m
On deposits from parent company (note 16)	793.5	419.9
On deemed loans from other Group entities (note 16)	208.7	169.1
On intercompany transactions	392.5	79.0
Total interest expense	**1,394.7**	**668.0**

5. Administrative expenses

	2023	2022
	£m	£m
Management charge	85.8	78.2
Other expenses	1.8	1.7
Total administrative expenses	**87.6**	**79.9**

The fees payable to the Company's auditors for the audit of the Company's annual financial statements was borne entirely by the Society and not recharged. The audit fee of £285,500 (2022: £242,000) excluding VAT is borne by Society on behalf of the Company. There were no non-audit services provided to the Company by the Company's auditors (2022: nil).

No staff were employed by the Company during the current or prior year.

The Company's directors are paid by Yorkshire Building Society. None of the directors or other key management personnel received any emoluments in the year in relation to their services to the Company (2022: none) as their emoluments are deemed to be substantially attributable to their services to Yorkshire Building Society.

Notes to the financial statements (continued)

6. Tax expense

	2023 £m	2022 £m
Current tax:		
UK corporation tax at 23.50% (2022: 19.00%)	17.7	32.3
Corporation tax – adjustment in respect of prior periods	-	(0.2)
Total current tax	17.7	32.1
Deferred tax:		
Current year credit	(0.3)	(0.2)
Change in tax rate	-	-
Total tax expense in income statement	**17.4**	**31.9**

On 1 April 2023 the UK corporation tax rate increased from 19% to 25%, giving an average corporation tax rate for the year of 23.5% (2022: 19.0%). This measure was substantively enacted on 24 May 2021 and deferred tax assets and liabilities at 31 December 2023 and at 31 December 2022 have been calculated based on the 25% rate.

On 11 July 2023, the government enacted legislation to implement the G20-OECD Inclusive Framework Pillar Two rules in the UK. The intention of the legislation is to ensure that UK-headquartered multinational enterprises pay a minimum tax rate of 15% on UK and overseas profits arising after 31 December 2023. The rules include a Qualified Domestic Minimum Top-Up Tax, which aims to ensure that large UK groups pay a minimum tax rate of 15% on their UK profits.

The Company's operations are entirely based in the UK and are subject to UK corporation tax. As the UK rate of corporation tax is 25%, the impact of these rules on the Company is not expected to be material. Full Pillar Two calculations will be carried out in respect of 2024, which is when the legislation becomes effective.

Pillar Two legislation applies to profits arising after 31 December 2023. The tax expense arising from Pillar Two is £nil for the years ended 31 December 2023 and 31 December 2022.

The IAS 12 exceptions from recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes have been applied.

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

	2023 £m	2022 £m
Profit before tax	78.1	172.6
Tax calculated at a tax rate of 23.50% (2022: 19.00%)	18.4	32.8
Effects of:		
Expenses not deductible for tax purposes	-	0.1
Adjustments to tax charge in respect of prior periods	-	(0.2)
Change in tax rate	-	-
Other permanent difference	(1.0)	(0.8)
Tax expense in income statement	**17.4**	**31.9**

The other permanent difference represents a UK transfer pricing adjustment between the Company and its Parent.

Notes to the financial statements (continued)

7. Impairment of financial assets

	2023 £m	2022 £m
Expected credit losses as at 1 January	**25.1**	**18.4**
Amounts written off in the year	(0.7)	(0.7)
Reduction in discounting	0.4	0.3
Impairment charge for the year	4.4	7.1
Expected credit losses as at 31 December	**29.2**	**25.1**
The charge for the year comprises:		
Impairment adjustment for the year	4.4	7.1
Recoveries relating to amounts previously written off	(0.4)	(0.4)
Impairment of financial assets	**4.0**	**6.7**

Income on impaired assets is calculated using the effective interest rate method based on the amortised cost of the asset after adjusting for expected credit losses, and not the gross carrying value.

8. Loans and advances to customers

	2023 £m	2022 £m
Loans and advances to customers comprise:		
Loans secured on residential property	35,889.9	33,948.5
Expected credit losses – Impairment (note 7)	(29.2)	(25.1)
	35,860.7	**33,923.4**

£37.3 million of the loans and advances are contractually due in less than one year (2022: £31.7 million).

9. Deferred tax liabilities

The movements on the deferred tax liability are as follows:

	2023 £m	2022 £m
At 1 January	1.7	1.9
Income statement credit	(0.3)	(0.2)
At 31 December	**1.4**	**1.7**

10. Other liabilities

	2023 £m	2022 £m
Creditors (amounts falling due within one year)		
Bank overdraft	2.5	2.4
Amounts due to customers	582.5	442.9
Accruals	0.3	0.4
	585.3	**445.7**

Amounts due to customers represents the Company’s offset mortgage products, which has been recognised within other liabilities of £582.5 million (2022: £442.9 million).

Notes to the financial statements (continued)

11. Called up equity share capital

	2023 £m	2022 £m
Authorised, allotted, called up and fully paid:		
100,000,000 Ordinary shares of £1 each	100.0	100.0

12. Fair values

Fair value is the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company measures fair value using the following fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

	Carrying value	Fair value			Total fair value
2023	**£m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**£m**
Assets					
Loans and advances to customers	35,860.7	-	-	34,761.5	**34,761.5**
Amounts owed from parent undertaking	11,272.2	-	-	11,272.2	**11,272.2**
Liabilities					
Amounts owed to parent undertaking and other group entities	46,082.4	-	-	44,983.2	**44,983.2**
2022					
Assets					
Loans and advances to customers	33,923.4	-	-	32,282.7	**32,282.7**
Amounts owed from parent undertaking	12,785.3	-	-	12,785.3	**12,785.3**
Liabilities					
Amounts owed to parent undertaking and other group entities	45,809.0	-	-	44,168.3	**44,168.3**

Fixed rate mortgages are discounted using current market product rates. The difference between book value and fair value results from market rate volatility relative to the fixed rate at inception of the loan deal period; in addition to assumptions applied in relation to redemption profiles, which are regularly reviewed and updated where necessary. As these redemption profiles are not considered to be observable by the market, the fair value of loans and advances to customers is considered to be derived by using Level 3 valuation techniques. Overall, the fair value is lower than the carrying value by £1,099.2 million which arises primarily due to market rates being above the product rates. A similar technique is used to assess the fair value of the financial liabilities based on the contractual terms and market rates of interest.

Notes to the financial statements (continued)

12. Fair values (continued)

Maturity analysis	**Repayable on demand and up to one year**	**In more than one year but not more than five years**	**In more than five years**	**Total**
2023	**£m**	**£m**	**£m**	**£m**
Financial liabilities:				
Borrowings from parent and other group entities	(2.5)	-	(46,079.9)	(46,082.4)
Customer offset mortgage funds	(582.5)	-	-	(582.5)
	(585.0)	**-**	**(46,079.9)**	**(46,664.9)**
2022				
Financial liabilities:				
Borrowings from parent and other group entities	(2.4)	-	(45,806.6)	(45,809.0)
Customer offset mortgage funds	(442.9)	-	-	(442.9)
	(445.3)	**-**	**(45,806.6)**	**(46,251.9)**

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

Notes to the financial statements (continued)

13. Market risk

The Group's principal source of market risk is interest rate risk which focuses on four main measures:

Value at Risk (VaR)

VaR is a risk management tool which evaluates the potential losses that may be incurred as a result of movements in market conditions over a specified holding period and to a given level of confidence. The model used is based on a 10 day holding period and a 99% confidence level.

Basis point value (BP) sensitivity

This measure calculates the change in value of the assets and liabilities resulting from a one basis point parallel shift in interest rates.

Structural risk analysis (Basis risk)

An analysis of interest bearing items by rate type is performed to illustrate key areas of structural mismatch. It identifies mismatches between administered rates, fixed rates and other rates including those linked to Bank Base Rate and SONIA.

Liquidity risk

Liquidity risk within the Company has been eliminated by the provision of undated funding from its parent Yorkshire Building Society.

Re-pricing gap analysis

Re-pricing dates are analysed, primarily to avoid re-pricing risk concentrations – the situation where too great a proportion of the Society'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 Society on behalf of Accord Mortgages Limited, further details of how the Society manages market risk can be found in the accounts of the Company's parent Yorkshire Building Society.

Interest rate risk

Interest rate risk within the Company has been eliminated by the provision of appropriate fixed and floating rate funding from its parent Yorkshire Building Society.

Currency risk

The Company has no currency risk as all its financial assets and liabilities are denominated in pounds sterling.

Notes to the financial statements (continued)

14. Credit risk on loans and advances to customers

Gross exposure

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

EIR is the measurement method used for financial assets held at amortised cost, including loans and advances to customers, which spreads income and fees over the life of the asset.

ECL is calculated using models that take historical default and loss experience and apply predictions of future economic conditions (e.g. unemployment and house prices) and customer behaviour (e.g. default rates). In certain circumstances, the core models may not accurately reflect factors that have resulted in an increase in credit risk. When this happens, post model adjustments (PMAs) are overlaid to reflect the impact on ECL. The economic scenarios and the PMAs applied at 31 December 2023 are described below.

	2023	2022
	£m	£m
Gross contractual exposures at the year end	35,831.5	33,882.1
EIR	58.4	66.4
ECL	(29.2)	(25.1)
Loans and advances to customers	**35,860.7**	**33,923.4**

Expected Credit Losses (ECL)

Economic scenarios

Accounting standards require ECL to be calculated by applying multiple economic scenarios. Each economic scenario is provided a weighting, and these are combined to arrive at the total ECL.

These scenarios are generated internally using external data, statistical methodologies, and senior management judgement, to span a range of plausible economic conditions. The Company continues to use four scenarios: an upside scenario that assumes more benign economic conditions; our core or central best estimate scenario; a more negative downturn scenario; and a severe downturn scenario. The downturn scenario replaced the stagflation downturn scenario applied in 2022.

Scenarios are projected over a five-year window, reverting to long-term averages past that point. The Company allows all macroeconomic scenarios to impact staging.

<u>Current macroeconomic conditions</u>

The UK economy technically entered recession at the end of 2023, attributed to the ongoing cost of living crisis and higher interest rate environment. Growth will likely remain weak by historical standards in the medium term and there remains more downside risk than upside. Headline inflation continues to fall, although there are re-emerging risks around the price of energy following the recent geopolitical tensions. Core inflation, services inflation and wage inflation continue to provide headwind to the inflation target being met consistently throughout 2024.

Upside

UK avoids a recession and grows modestly. Inflation returns to the 2% target by the end of 2025. Unemployment remains lows and house prices grow at a moderate rate.

Core

The core scenario is the Group's best estimate of how the UK economy will evolve and is aligned with the central scenario used in the Group's financial planning processes.

Notes to the financial statements (continued)

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

Expected Credit Losses (ECL) (continued)

Economic scenarios (continued)

Core (continued)

It assumes the economy will avoid a technical recession, but growth will be suppressed until 2025. The ongoing wage and inflation pressures result in the Bank of England keeping interest rates higher for longer. Unemployment rises slowly throughout 2024. House prices are impacted modestly by the higher interest rate environment but recover from 2025.

Downturn

The downturn scenario can be characterised as high inflation and low growth. The economy enters a technical recession in the first half of 2024 and growth remains low thereafter. Inflation is embedded in the economy and remains above the 2% target throughout the scenario. Interest rates continue to rise despite the recessionary conditions. Unemployment rises to 6.5% as a result, and house prices fall in both 2024 and 2025.

Severe downturn

Geopolitical tensions escalate, materially impacting energy prices and supply chains. Another wave of inflation ensues, forcing the Bank of England to raise interest rates. Consequently, the economy falls into a deep recession, resulting in significant unemployment and house price reductions.

Macroeconomic assumptions

The following table shows the values of the key economic variables used by each economic scenario for the period until December 2028. The table includes the three key parameters used to predict probability of default (PD) – unemployment, HPI and UK Bank of England base rate. GDP is also presented as it is the key input for determining the economic parameters used and provides context to the nature of the overall scenario.

Summary of Key Economic Variables

	2023 Scenario					2022 Scenario				
%	**2024**	**2025**	**2026**	**2027**	**2028**	**2023**	**2024**	**2025**	**2026**	**2027**
HPI										
Upside	2.0	3.0	3.5	4.0	4.5	-	1.5	2.2	3.2	3.2
Core	(4.0)	2.0	3.0	3.5	4.0	(6.0)	(2.0)	1.3	2.0	2.0
Downturn	(7.5)	(4.0)	2.5	0.5	1.2	(12.7)	(5.0)	-	1.5	1.7
Severe downturn	(12.0)	(12.5)	(6.0)	(1.0)	0.5	(13.5)	(11.8)	(6.8)	-	0.5
GDP										
Upside	1.5	1.8	2.0	1.9	1.9	1.5	2.0	2.1	2.0	2.0
Core	0.3	0.8	1.0	1.2	1.3	(1.5)	0.8	1.6	1.8	1.8
Downturn	(0.1)	0.1	0.2	0.2	0.4	(6.3)	(5.3)	0.4	0.6	1.0
Severe downturn	(4.5)	(1.5)	-	0.5	1.0	(7.4)	(5.3)	(1.2)	-	0.2
Unemployment										
Upside	4.0	4.0	4.0	4.0	4.0	3.5	3.6	3.6	3.8	3.8
Core	5.0	4.8	4.6	4.4	4.0	4.9	5.5	5.2	4.8	4.5
Downturn	6.5	6.0	5.8	5.5	5.0	6.5	7.0	6.7	6.5	6.0
Severe downturn	7.0	9.0	8.0	7.0	6.5	7.1	8.8	8.4	8.0	7.5
Bank Rate										
Upside	4.8	4.0	3.5	3.5	3.3	2.0	2.0	1.5	1.5	1.5
Core	5.0	4.5	4.3	4.3	4.0	4.8	4.3	4.0	3.8	3.5
Downturn	6.0	5.5	5.5	4.0	3.5	6.3	5.5	5.0	4.8	4.5
Severe downturn	7.0	6.0	5.5	5.0	5.0	2.0	-	-	-	-

Notes to the financial statements (continued)

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

Expected Credit Losses (ECL) (continued)

Macroeconomic assumptions (continued)

The values in the table below are calculated as either a simple average of the rate across the five-year forecasting period or as peak to trough.

	Upside		Core		Downturn		Severe downturn	
%	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
5y Average								
GDP	1.8	2.1	1.0	1.2	0.2	(1.6)	(0.8)	(2.4)
HPI	3.4	2.0	1.7	(0.6)	(1.5)	(3.1)	(6.4)	(6.5)
Unemployment	4.0	3.6	4.6	4.9	5.8	6.4	7.6	7.8
Bank rate	4.0	1.8	4.5	4.1	5.1	5.3	5.8	0.7
Peak to trough								
GDP	-	-	(4.7)	(6.7)	(0.9)	(6.6)	(1.8)	(7.5)
HPI	-	-	(14.1)	(6.5)	(9.7)	(14.3)	(26.1)	(26.4)
Unemployment	4.2	3.8	5.0	5.5	6.5	7.0	9.0	8.8

Weightings

The following table shows the expected credit loss under each of our four economic scenarios along with the weightings that have been applied to arrive at the weighted average ECL. PMAs are calculated using the weighted scenario results and so their sensitivity in each of the individual scenarios cannot be accurately determined. For completeness they have been included as a uniform adjustment across each scenario.

	2023		2022	
	Weighting (%)	**ECL £m**	**Weighting (%)**	**ECL £m**
Scenario				
Upside	5	16.5	5	16.6
Core	40	17.8	50	17.4
Downturn	35	30.1	30	32.4
Severe downturn	20	53.5	15	41.3
Weighted scenario	**100**	**29.2**	**100**	**25.1**

A modelling approach using quantitative analysis is applied to assess the weightings which uses industry-level write-off data to infer the Society's loss rates over the period, as internal loss data isn't available to establish a historical loss rate distribution which reflects the nature of our losses (i.e. relatively low losses in 'normal' times but the potential to make more substantial losses in recessionary conditions). An econometric model was developed which could be used to infer future loss rates based on a range of different economic scenarios.

The loss rates were mapped under each of the IFRS 9 economic scenarios to the historical loss rate distribution and using the distribution-defined probabilities of each loss rate being realised to derive relative likelihoods of each scenario occurring.

SME judgment is applied in the final assessment of weights, informed by assessment of the quantitative analysis/model. The core scenario weighting has decreased and the downturn and severe downturn scenario weightings have increased to reflect the revisions made to Bank of England forecasts as well as the ongoing economic consequences of the conflict in Ukraine and the Middle East.

Notes to the financial statements (continued)

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

Expected Credit Losses (ECL) (continued)

Post Model Adjustments

Post Model Adjustments ('PMA') are applied when an increase in credit risk is identified that is not effectively captured in the core expected credit loss models. A rigorous review of the PMAs has been performed to determine whether the identified risks are still applicable, and if any additional risks have been identified. Adjustments were made both to what PMAs were required and to the magnitude of those that were maintained.

A PMA working group has been established in 2023 encompassing colleagues from Finance, Balance Sheet Management and Credit Risk. This working group has been used to review the on-going suitability of existing PMAs and discuss whether additional PMAs are required in relation to emerging risks or issues.

The PMAs applied at 31 December 2023 are as follows:

	2023	2022
	£m	£m
Affordability	4.0	7.8
Model performance	7.3	3.4
Other	(0.7)	3.5
Total PMA	**10.6**	**14.7**

Affordability

Inflation is not a direct input into the underlying ECL models and, as such, does not have a direct influence on the output. Although the lending undertaken by the Society is risk-averse, with a significant amount of affordability assessment undertaken as part of the decision to advance mortgage loans, there are several segments of the mortgage book that are likely to be at greater risk of affordability stresses due to the cost of living pressures.

A post model adjustment was established to reflect the risks of rising inflation, and its impact on customers' ability to meet repayments on their mortgage, not captured in the underlying ECL models.

The PMA has been established by considering affordability levels of the mortgage book by applying a stress to the monthly expenditure amounts to reflect external pressures such as increase in outgoings, interest rate changes, cost of living challenges and income decreases. Both elements are used to identify accounts that would be most vulnerable to stresses and find their mortgage unaffordable.

The PMA has been refined over 2023 as actual increases in credit risk in relation to affordability materialise and are being captured within the ECL models.

PD estimates of the accounts identified as vulnerable to affordability stresses are uplifted to the equivalent of what they would need to be for the model to assign them to Stage 2 as a result of meeting the SICR criteria.

The level of uplifted PD applied varies depending on whether the customer has a fixed term end date in the next 12 months, the current risk grade associated with the account and how close the account is to SICR thresholds with accounts that are relatively close to meeting the SICR criteria will be higher risk.

New criteria for identifying accounts to be treated within this PMA has been established.

Further consideration has been given to segments of the book that have been under-represented in this assessment and the Group has considered whether the coverage in these areas is sufficient to cover the increased risk to the book given the current macro-economic climate. Relative insensitivity to the stresses provided above was found and so an additional provision has been raised to cover this underestimation.

The decrease in this PMA is due to a combination of the increased credit risk as a result of the impact of the cost of living crisis on mortgage repayments starting to emerge as either increased modelled ECLs or writes offs leading to a more targeted methodology resulting in a lower PMA required, as well as easing inflation and mortgage rates across the industry beginning to reduce; this means the payment shock experienced by customers might reduce going forward. This PMA will be monitored as we progress through the year and will be held until a sufficient reduction in inflation and cost of living pressures is observed.

Notes to the financial statements (continued)

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

Expected Credit Losses (ECL) (continued)

Post Model Adjustments (continued)

Model performance

PD underprediction

The Society's fourth generation models were used as the basis of underpinning the Society's ECLs in 2023 for the first time. A level of underprediction, that was observed within the third generation models, is also present in the new fourth generation models. A PMA has been established to account for this which adjusts the PD estimates used to establish ECLs. Accounts are then re-staged if their revised PD estimate exceeds the SICR threshold for the risk grade.

Predictive accuracy monitoring on a perfect foresight basis has been developed by the Society to support an evaluation of the risk. This monitoring has been produced at a product level over a range of outcome periods. The results for each portfolio were evaluated and the need for an adjustment was established. The under-prediction factors for Prime and BTL have been incorporated into PD estimates by directly uplifting each month's PD estimate by the associated under-prediction factor and recalculating staging and ECLs using the adjusted PD value.

Sensitivity of models to economic stresses

The fourth generation IFRS 9 PD model has displayed limited sensitivity to the different economic scenarios as a result of the benign economic conditions in the data period used to develop the model. A narrow range in average PD estimates across the four economic scenarios of differing severity highlighted the model weakness. A PMA has been established to mitigate against the lack of sensitivity in IFRS 9 PDs to economic factors.

An internally developed Credit Cycle Index (CCI) model was used with its ability to perform well under a range of different economic conditions making it a useful tool in informing this PMA. The results of the CCI model across the different IFRS 9 scenarios were established and outcomes from the core scenario compared to the upside, downside and stress scenarios. Adjustments were then applied to these non-core scenarios to produce adjusted PD estimates for each individual scenario. As this PMA is driven by a weakness that will be inherent within both initial and current PDs, it was not considered appropriate to adjust stage allocation based on the adjusted results.

Methodology changes and model recalibration

Fourth generation IFRS 9 models and impacts were presented to the Society's Model Risk Committee in 2023 and approved for use. These have been used as the basis for generating core model ECLs for this reporting period. Both the methodology changes and model recalibration PMAs related to the third generation IFRS 9 models and have been fully released (2023: £0.0 million, 2022: £3.4 million) as they are no longer required. The reduction in ECL associated with the stage 2 movement noted has outweighed other aspects of the migration to the fourth generation models that would have increased ECLs, leading to an overall release in 2023 on initial implementation.

Other

Whilst we incorporate a range of economic assumptions in the scenarios and probability weightings used to calculate ECL, this approach still has certain limitations where several assumption cannot be considered within the model or is restricted by when external data is available. The PMAs detailed below aim to cover for these risks.

House price volatility

This PMA originally focused on House Price volatility developed in response to extraordinary growth in house prices since the easing of the first COVID-19 lockdown with two elements of uncertainty being assessed. The first element relates to changes in HPI at a regional level not being evenly distributed and the ECL impact of changes in collateral values is non-linear. Management have since evaluated the support for the £1.0 million PMA recognised and concluded that it is not significantly different to warrant a specific PMA, hence the release of this element of the PMA for 2023 year end.

The remaining element of this PMA relates to the risk that the ONS (Office for National Statistics) indexation data that is incorporated into the ECL model on a quarterly basis is not a true representative of the market conditions as at 31 December 2023. The latest indexation from ONS was for data collected in Q3 of 2023. This PMA aims to correct for the update in market conditions by using an average of Nationwide and Halifax more recent indexations for Q4 of 2023.

The HPI assumptions applied in the underlying economic scenarios estimate the impacts of future HPI trends at a macro level based on the current baseline.

Notes to the financial statements (continued)

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

Expected Credit Losses (ECL) (continued)

Post Model Adjustments (continued)

Other (continued)

Climate risk

We have assessed the risks associated with climate change, both physical and transitional, in the context of ECL and concluded that the majority of these risks do not meet the requirements for recognition as: There have been no observed climate related defaults and therefore no identifiable Significant Increase in Credit Risks ('SICR'); and the material transition risks identified are expected to occur over a timescale in excess of the current behavioural life of our portfolio (i.e. the average term before a customer either moves onto an alternative deal or transfers to another provider) and, as such, any potential impact would be against loans yet to be underwritten.

This PMA aims to identify properties which are or will in the near future be at most risk from a climate perspective and assess the additional ECLs that we could expect to incur if material costs/reductions to the value of security arise from those risks. The four main risks considered are Energy Performance Certificate (EPC) impacts, flood risk, subsidence risk and coastal erosion risk.

A similar approach has been taken within each of these areas where the properties with the very highest risks associated are identified, appropriate adjustments are applied to the valuation of the properties and the impacts of these changes then quantified and held as a PMA.

Staging

31 December 2023	**Balance**		**PMA**	**ECL**	**Coverage**	**Average LTV**
Stages	**£m**	**%**	**£m**	**£m**	**%**	**%**
Stage 1	32,333.6	90.2	2.9	5.7	-	56.5
Stage 2	3,223.3	9.0	8.1	15.1	0.5	46.5
Stage 3	274.6	0.8	(0.4)	8.4	3.1	48.2
Total	**35,831.5**	**100.0**	**10.6**	**29.2**	**0.1**	**55.8**
31 December 2022	**Balance**		**PMA**	**ECL**	**Coverage**	**Average LTV**
Stages	**£m**	**%**	**£m**	**£m**	**%**	**%**
Stage 1	31,277.6	92.3	1.1	3.2	-	55.2
Stage 2	2,377.3	7.0	11.5	14.1	0.6	45.9
Stage 3	227.2	0.7	2.1	7.8	3.4	45.8
Total	**33,882.1**	**100.0**	**14.7**	**25.1**	**0.1**	**54.3**

Details of the movements in staging are explained in the movement analysis section of this note.

Notes to the financial statements (continued)

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

Expected Credit Losses (ECL) (continued)

Staging (continued)

The following table shows expected credit losses, and a best estimate of the collateral against these mortgages. The collateral is calculated as the lower of the value of the property and the outstanding loan amount so does not represent the overall value of properties backing the loans.

	Exposures		Collateral		ECL	
	2023	2022	2023	2022	2023	2022
	£m	£m	£m	£m	£m	£m
Stage 1	**32,333.6**	**31,277.6**	**32,333.5**	**31,277.5**	**5.7**	**3.2**
Stage 2	**3,223.3**	**2,377.3**	**3,223.2**	**2,377.3**	**15.1**	**14.1**
Less than 30 days past due	3,090.9	2,299.4	3,090.8	2,299.4	13.4	13.1
More than 30 days past due	132.4	77.9	132.4	77.9	1.7	1.0
Stage 3	**274.6**	**227.2**	**274.4**	**226.9**	**8.4**	**7.8**
Less than 30 days past due	105.3	102.6	105.4	102.6	1.8	2.5
Between 30-90 days past due	59.1	42.1	59.1	42.0	0.9	0.9
More than 90 days past due	110.2	82.5	109.9	82.3	5.7	4.4
Total	**35,831.5**	**33,882.1**	**35,831.1**	**33,881.7**	**29.2**	**25.1**

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

Credit risk management

The *Retail and commercial credit risk* section of the *Risk management report* describes how the Company manages credit risk via a robust risk appetite, credit risk framework, governance framework and through stress testing.

The Company's exposure to mortgage related credit risk is monitored and reporting on risk exposures is provided regularly to the Group's risk committees, including analysis of mortgages in arrears and monitoring of the characteristics of the loan portfolios (e.g. geographic location and loan-to-value).

	2023	2022
Arrears status	**%**	**%**
No arrears	97.7	98.5
Less than three months	2.0	1.3
Equal to or more than three months, less than six months	0.2	0.1
Equal to or more than six months, less than twelve months	0.1	0.1
Twelve months or more	-	-
Total	**100.0**	**100.0**
Number of properties in possession at the year end	19	10

The percentage of Accord mortgages with arrears of three months or more (as a % of outstanding balances, including possessions) has marginally increased from 0.33% to 0.39%. The UK Finance industry average ratio for mortgage arrears is measured using the number of accounts (including possessions). On this basis, the Company's retail mortgage arrears ratio of 0.39% (2022: 0.33%) is below the total retail UK Finance ratio 0.94% (Q4 2023).

Arrears on more recent lending are minimal, reflecting the Company's credit risk appetite. The arrears on the buy-to-let portfolio within retail has an arrears ratio of 0.06% (2022: 0.03%).

Notes to the financial statements (continued)

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

Credit risk management (continued)

The Company’s retail mortgage exposure can be broken down by customer type and geographical region as follows:

	Book		New lending	
	2023	**2022**	**2023**	**2022**
Retail mortgage customer type	**%**	**%**	**%**	**%**
First time buyer	25.5	26.8	24.2	22.3
Other buyers e.g. movers	31.9	33.6	28.2	29.7
Remortgage	23.9	22.2	31.6	20.5
Buy-to-let	18.7	17.4	16.0	27.5
	100.0	**100.0**	**100.0**	**100.0**

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

	Book		New lending	
	2023	**2022**	**2023**	**2022**
Retail mortgage geographical distribution	**%**	**%**	**%**	**%**
Scotland	6.5	6.2	7.6	5.5
North East	3.2	3.2	3.1	2.8
Yorkshire & Humberside	7.2	7.2	6.8	6.6
North West	10.0	9.9	9.9	9.6
Midlands	13.4	13.3	13.0	13.2
East	11.1	11.1	11.2	11.4
South West	7.6	7.5	8.0	7.8
Greater London	18.7	19.3	17.9	20.9
South East	18.0	18.1	18.1	18.3
Wales & Northern Ireland	4.3	4.2	4.4	3.9
	100.0	**100.0**	**100.0**	**100.0**

The Company’s retail mortgages are secured on property. The value of these properties is updated on a quarterly basis using the Office for National Statistics (ONS) regional property price indices which comprise relative house price movements across the UK. These indexed valuations provide senior management with a view of the value and risk of the properties on which retail mortgages are secured.

	Book		New lending	
	2023	**2022**	**2023**	**2022**
Loan-to-value distribution of retail mortgages	**%**	**%**	**%**	**%**
100% or greater	-	-	-	-
95% to 100%	0.3	-	-	-
90% to 95%	1.9	0.3	4.8	5.5
85% to 90%	5.0	1.9	18.3	19.0
80% to 85%	6.8	5.1	16.7	16.3
75% to 80%	8.6	8.1	9.7	11.0
70% to 75%	10.9	11.9	12.4	19.5
60% to 70%	23.0	26.4	11.6	11.7
Less than 60%	43.5	46.3	26.5	17.0
	100.0	**100.0**	**100.0**	**100.0**
Average indexed LTV (All)	53.5	54.3	67.3	66.9
Average indexed LTV (BTL)	55.2	50.1	58.4	63.7

Notes to the financial statements (continued)

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

Credit risk management (continued)

The following tables are included to give an overview of the Company's credit risk. This includes analysis of exposures by 12 month probability of default (PD) bands and origination year.

The ECL models cover the majority of loans underwritten by the Company, with exceptions for portfolios subject to bespoke modelling requirements including Accord BTL. The Accord BTL population currently has very strict underwriting criteria and limited behavioural history, with only a single possession to date.

Probability of default range	Stage 1	Stage 2	Stage 3	2023 Total balances	2022 Total balances	ECL 2023	ECL 2022
	£m	£m	£m	£m	£m	£m	£m
0.00% - <0.15%	20,726.3	1370.9	-	22,097.2	25,325.6	0.7	1.5
0.15% - <0.25%	2,904.9	238.4	-	3,143.3	1,161.0	0.4	0.5
0.25% - <0.50%	914.2	116.5	-	1,030.7	308.3	0.3	0.2
0.50% - <0.75%	547.2	140.3	-	687.5	316.5	0.2	0.3
0.75% - <1.00%	431.1	223.6	-	654.7	139.9	0.4	0.2
1.00% - <2.50%	193.1	706.5	-	899.6	333.7	2.3	0.9
2.50% - <10.0%	4.5	221.2	-	225.7	105.4	2.0	0.9
10.0% - <100%	5.5	104.8	-	110.3	63.0	1.5	1.0
Default	-	-	267.1	267.1	222.9	8.1	3.9
Accord BTL	6,606.8	101.1	7.5	6,715.4	5,905.6	3.6	6.3
Other	-	-	-	-	0.2	-	1.2
PMAs	-	-	-	-	-	9.7	8.2
Total	**32,333.6**	**3,223.3**	**274.6**	**35,831.5**	**33,882.1**	**29.2**	**25.1**

The table below shows balances and expected credit losses, captured within impairment provisions by origination year for retail loans. The table shows that the credit quality of newly written business is of significantly higher quality than that written before 2009.

Origination year	Stage 1	Stage 2	Stage 3	2023 Total balances	2022 Total balances	ECL 2023	ECL 2022
	£m	£m	£m	£m	£m	£m	£m
2023	7,174.1	451.6	16.8	7,642.5	-	4.5	-
2022	7,576.5	573.5	19.4	8,169.4	8,527.4	5.9	5.0
2021	5,480.7	531.1	40.7	6,052.5	8,191.4	5.0	4.7
2020	3,294.8	349.3	27.6	3,671.7	4,147.2	2.4	2.8
2013 - 2019	8,179.8	898.1	83.1	9,161.0	11,700.6	6.3	7.1
2009 - 2012	349.3	46.5	4.4	400.2	475.1	0.2	0.3
Pre - 2009	278.4	373.2	82.6	734.2	840.4	4.9	5.2
Total	**32,333.6**	**3,223.3**	**274.6**	**35,831.5**	**33,882.1**	**29.2**	**25.1**

The table on pages 56 and 57 details the movement in the gross exposures and ECL from the beginning to the end of the reporting period split by stage. The Society has updated the definition of default and the probability of default rating scale on the back of a comprehensive review as part of the transition to the fourth generation internal ratings based (Gen 4 IRB) method of calculating regulatory capital. These model updates were approved for use in the core underlying models in the first half of this year and all ECL outputs have been updated to reflect these changes.

There was a known misalignment between the initial recognition PDs and the current PDs compared within staging transfer criteria for accounts that originated prior to the implementation of the third generation model recalibration which took place in 2018. Enhancements have been made within the fourth generation developments to alleviate the impact of this, resulting in a large reduction of stage 2 volumes and associated ECLs. This can be seen on the Transfers from stage 2 to 1 line of the gross exposures movement table.

Notes to the financial statements (continued)

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

Credit risk management (continued)

The level of PD underprediction, that was observed within the third generation models, is still present to an extent in the new fourth generation models. A PMA has been established to account for this which adjusts the PD estimates used to establish ECLs. Accounts are then re-staged if their revised PD estimate exceeds the SICR threshold for the risk grade. This can be seen on the Transfers from stage 1 to 2 line of the gross exposures movement table.

Separate to the fourth generation model update, we have reassessed the affordability PMA throughout the year. At half year all balances in relation to the affordability PMA were recognised in stage 1 due to the accounts identified through the PMA not moving into arrears or meeting any of the quantitative (i.e. SICR thresholds) or qualitative criteria for being assigned to stage 2. The ECL related to the PMA had previously been recognised in stage 2, the movement from stage 2 to stage 1 to align with balances can be seen on the PMA line of the ECL movement table below.

Following ongoing monitoring of actuals and the Gen 4 model the affordability PMA was re-evaluated with a focus on the most vulnerable account. Those accounts identified by the criteria disclosed on page 50 had their PD estimates uplifted to the equivalent of what they would need to be for the model to assign them to Stage 2 as a result of meeting the SICR criteria allowing re-staging from stage 1 to stage 2 to occur. This can be seen on the Transfers from stage 1 to 2 line of the gross exposures movement table.
The following tables detail the movement in the gross exposures and ECL from the beginning to the end of the reporting period split by class of financial instrument.

Movement analysis	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross balance as at 1 January 2023	**31,277.6**	**2,377.3**	**227.2**	**33,882.1**
Transfers:				
Transfers from stage 1 to 2	(2,362.1)	2,362.1	-	-
Transfers from stage 1 to 3	(59.3)	-	59.3	-
Transfers from stage 2 to 1	1,319.0	(1,319.0)	-	-
Transfers from stage 2 to 3	-	(64.4)	64.4	-
Transfers from stage 3 to 1	17.5	-	(17.5)	-
Transfers from stage 3 to 2	-	44.1	(44.1)	-
Changes to carrying value	(900.9)	42.3	12.1	(846.5)
New financial assets originated or purchased	7,641.9	-	-	7,641.9
Financial assets derecognised during the year	(4,600.1)	(219.1)	(24.6)	(4,843.8)
Write-offs	-	-	(2.2)	(2.2)
Gross balance as at 31 December 2023	**32,333.6**	**3,223.3**	**274.6**	**35,831.5**

Notes to the financial statements (continued)

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

Movement analysis	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
ECL as at 1 January 2023	**3.2**	**14.1**	**7.8**	**25.1**
Transfers:				
Transfers from stage 1 to 2	(0.1)	3.4	-	3.3
Transfers from stage 1 to 3	-	-	1.9	1.9
Transfers from stage 2 to 1	0.6	(1.9)	-	(1.3)
Transfers from stage 2 to 3	-	(0.4)	1.6	1.2
Transfers from stage 3 to 1	-	-	(0.5)	(0.5)
Transfers from stage 3 to 2	-	0.2	(0.6)	(0.4)
Changes in PDs/LGDs/EADs	(1.1)	4.7	1.9	5.5
New financial assets originated or purchased	2.4	-	-	2.4
Changes to model assumptions and methodologies	(0.9)	(1.1)	(0.1)	(2.1)
Unwind of discount	-	-	0.3	0.3
Financial assets derecognised during the year	(0.2)	(0.4)	(0.8)	(1.4)
Write-offs	-	-	(0.7)	(0.7)
Post Model Adjustments (PMAs)	1.8	(3.5)	(2.4)	(4.1)
ECL as at 31 December 2023	**5.7**	**15.1**	**8.4**	**29.2**

Movement analysis	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross balance as at 31 December 2021	**28,180.7**	**1,963.0**	**224.5**	**30,368.2**
Transfers:				
Transfers from stage 1 to 2	(993.5)	993.5	-	-
Transfers from stage 1 to 3	(45.6)	-	45.6	-
Transfers from stage 2 to 1	620.1	(620.1)	-	-
Transfers from stage 2 to 3	-	(42.8)	42.8	-
Transfers from stage 3 to 1	15.9	-	(15.9)	-
Transfers from stage 3 to 2	-	42.5	(42.5)	-
Changes to carrying value	(1,367.9)	272.7	8.6	(1,086.7)
New financial assets originated or purchased	9,059.2	-	-	9,059.2
Financial assets derecognised during the year	(4,191.3)	(231.4)	(33.2)	(4,455.9)
Write-offs	-	-	(2.6)	(2.6)
Gross balance as at 31 December 2022	**31,277.6**	**2,377.3**	**227.2**	**33,882.1**

Notes to the financial statements (continued)

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

Movement analysis	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	£m	**£m**	**£m**	**£m**
ECL as at 31 December 2021	**3.0**	**5.9**	**9.5**	**18.4**
Transfers:				
Transfers from stage 1 to 2	-	1.5	-	1.5
Transfers from stage 1 to 3	-	-	1.2	1.2
Transfers from stage 2 to 1	-	-	-	-
Transfers from stage 2 to 3	-	-	0.9	0.9
Transfers from stage 3 to 1	-	-	-	-
Transfers from stage 3 to 2	-	0.4	-	0.4
Changes in PDs/LGDs/EADs	(4.1)	0.4	(0.6)	(4.3)
New financial assets originated or purchased	4.7	-	-	4.7
Changes to model assumptions and methodologies	(0.7)	(1.9)	(1.5)	(4.1)
Unwind of discount	-	-	0.3	0.3
Financial assets derecognised during the year	(0.2)	(0.4)	(1.0)	(1.6)
Write-offs	-	-	(0.3)	(0.3)
Post Model Adjustments (PMAs)	0.5	8.2	(0.7)	8.0
ECL as at 31 December 2022	**3.2**	**14.1**	**7.8**	**25.1**

Forbearance

Forbearance tools are used, in line with industry guidance, where they are deemed appropriate for an individual customer's circumstances. These include capitalisation, interest only concessions, arrears arrangements and term extensions. Forbearance measures are incorporated into the calculation of ECLs.

The table below shows the retail accounts that are forborne. These accounts have been further classified as follows:

- non-performing – where an account meets the definition of default at the point it is granted a forbearance measure; and
- probationary – for accounts that have exited forbearance measures and been re-classed from non-performing in the last 2 years.

The definition of non-performing and stage 3 are aligned such that no accounts in stage 2 are classed as non-performing. Any accounts that were previously in default have a cure period of 12 months, after which they are able to move back into stage 2 or 1.

	Arrangements		**Other concessions**		**Term extension**		**Interest only**	
2023 (£m)	**Exposure**	**ECL**	**Exposure**	**ECL**	**Exposure**	**ECL**	**Exposure**	**ECL**
Probation	**34.7**	**0.2**	**4.3**	**-**	**20.4**	**-**	**8.6**	**-**
Stage 1	5.1	-	1.7	-	12.9	-	3.4	-
Stage 2	29.6	0.2	2.6	-	7.5	-	5.2	-
Non-performing	**125.2**	**4.1**	**6.5**	**0.3**	**29.7**	**0.5**	**7.6**	**0.1**
Stage 3	125.2	4.1	6.5	0.3	29.7	0.5	7.6	0.1
Total	**159.9**	**4.3**	**10.8**	**0.3**	**50.1**	**0.5**	**16.2**	**0.1**
2022 (£m)								
Probation	**31.3**	**0.2**	**1.1**	**-**	**1.3**	**-**	**2.3**	**-**
Stage 1	10.0	-	-	-	0.3	-	0.1	-
Stage 2	21.3	0.2	1.1	-	1.0	-	2.2	-
Non-performing	**94.1**	**2.7**	**3.4**	**0.2**	**2.7**	**-**	**3.4**	**0.1**
Stage 3	94.1	2.7	3.4	0.2	2.7	-	3.4	0.1
Total	**125.4**	**2.9**	**4.5**	**0.2**	**4.0**	**-**	**5.7**	**0.1**

Notes to the financial statements (continued)

15. Notes to the Cash flow statement

	2023 £m	2022 £m
Cash flows from operating activities		
Profit before tax	**78.1**	**172.6**
Non-cash items:		
Impairment charge in the year	4.0	6.7
Provision charge for the year	0.2	-
Other	-	(0.5)
Accrued interest on intercompany borrowings	875.1	510.6
Total non-cash items	**879.3**	**516.8**
(Increase)/decrease in operating assets		
(Increase) in loans and advances to customers (excluding impairment)	(1,941.3)	(3,514.1)
Decrease/(increase) in prepayments and accrued Income	1.1	(1.1)
(Increase)/decrease in other assets	(0.3)	1.7
	(1,940.5)	**(3,513.5)**
Increase in operating liabilities		
Increase in amounts due to customers	139.5	54.7
(Decrease)/increase in accruals	(0.2)	0.6
	139.3	**55.3**
Net cash flow from operating activities	**(843.8)**	**(2,768.8)**

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

	2023 £m	2022 £m
Net intercompany position		
As at 1 January	**33,023.7**	**29,610.9**
Cash flows	843.7	2,770.1
Non-cash changes caused by:		
Dividend	50.0	100.0
Tax	17.7	32.1
Accrued interest	875.1	510.6
As at 31 December	**34,810.2**	**33,023.7**

Notes to the financial statements (continued)

16. Related parties

The Company is a wholly owned subsidiary of Yorkshire Building Society which is domiciled and incorporated in the United Kingdom. Copies of the YBS Annual Report and Accounts 2023 are available at www.ybs.co.uk. The Company has related party relationships with its parent, other Group companies and its key management personnel.

Transactions with key management personnel

The emoluments of the Company's directors are paid by Yorkshire Building Society. None of the directors or other key management personnel received any emoluments in the year in relation to their services to the Company (2022: none) as their emoluments are deemed to be substantially attributable to their services to Yorkshire Building Society. No transactions were entered into with key management personnel.

No staff were employed by the Company in the current or prior year.

Other related party transactions

At 31 December 2023 the Company owed a loan to the parent of £33,133.9 million (2022: £30,925.1 million). The outstanding balance has no fixed repayment date. A variable market interest rate is charged on the outstanding loan balance. Interest of £793.5 million (2022: £419.9 million) was paid in the year.

The Parent owed the Company £11,272.2 million (2022: £12,785.3 million). The outstanding balance has no fixed repayment date. A variable market interest rate is charged on the outstanding loan balance. Interest of £519.6 million (2022: £157.4 million) was received in the year.

The Company has deemed loans to the Yorkshire Building Society Covered Bonds LLP, Brass and Tombac securitisation vehicles of £12,948.5 million (2022: £14,883.9 million). The outstanding balances may be repaid on call date, being dependent on the optional early redemption clause being exercised. For Brass No.8 Plc, there is an optional early redemption date on 18 November 2024 but no decision has been taken, as yet, as to whether or not this will be exercised. A range of rates are charged on the outstanding loan balances. Interest of £208.7 million (2022: £169.1 million) was paid in the year.

The Company paid a management recharge fee to the parent for the 2023 financial year of £85.8 million (2022: £78.2 million). In 2023 a dividend payment of £50.0 million was made to the parent (2022: £100.0 million).