Accord Mortgages Limited

Registered Number: 02139881

Annual Report and Financial Statements

for the year ended 31 December 2022

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Directors and Company Information

Company number	02139881
Directors	P Connolly J Duncombe S Martin D Morris R Purdy (ceased to be a director, passed away 21.01.2023) R Wells
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. The Company restricts the loan to value on new lending to 95%, which remains unchanged from the previous year.

A key focus has been on improving our buy to let mortgage offering, 2022 proved to be a successful year with the total BTL lending growing 44% over the 12 months, due to high applications in the early part of the year with significant growth in completions, the BTL mortgage book now makes up 17% of the overall Accord mortgage book. More information about the Company's financial performance can be found in the financial performance section of this report.

Business Structure

The Company is a wholly owned subsidiary of Yorkshire Building Society ("YBS") 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 on its Balance Sheet.

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. £3,100m (2021: £900m) 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 IFRS9 *Financial Instruments* and the transfer is instead accounted for by Accord and the LLP as a financing transaction.

Strategic Report (continued)

External environment

The external environment in 2022 has been subject to much change and volatility. At the beginning of the year the trade consequences of the COVID-19 pandemic and the UK's exit from the European Union created an imbalance in the supply and demand for certain goods, services, and skill sets. The remainder of the year saw further volatility in the political and economic environment, including:

- Russia's continued activity in Ukraine has had a wide-ranging impact on the UK economy that was already starting to suffer from rising energy prices and global supply chain issues.
- Rising prices across goods and services in the UK, including private rental costs, food, transport, gas and electricity, and therefore the cost of everyday living increased markedly for many. Worsening cost of living pressures precipitated interventions from the Government and the Bank of England, including the Energy Price Guarantee.
- Historically high level of inflation, which rose by 10.5% over the 12 months to December, exceeding the Bank of England's target of 2%.
- The Monetary Policy Committee saw an increase in Bank Rate multiple times throughout 2022, from 0.10% in December 2021 to 3.50% in December 2022, aiming to control the rising rate of inflation.
- Financial markets experienced more volatility than in recent years, following a budgetary announcement in September, which led to a historic low in the British Pound. To restore stability, the Bank of England stepped in with a bond-buying package to protect pension funds from falling asset values, and political policy and party changes were made, culminating in the appointment of a new Prime Minister.

Given the degree of uncertainty present, with the potential for further political instability, both domestic and international, undermining the predictability of the markets, clear downside risks exist. Overall, the short to medium term outlook is relatively pessimistic, and a wide range of outcomes are possible.

<u>The UK mortgage market</u>

Demand for housing remained strong in the first half of the year, fuelling growth in already elevated house price indices. As the year progressed, demand in the market for housing began to fall away, due to lower disposable income, interest rate increases and increasing mortgage rates.

Disposable incomes depleted by the rising cost of goods and relative salary erosion has made raising a housing deposit more challenging for prospective homeowners.

Changes in the interest rate environment also began to have a bearing; as the Bank Rate increased consistently over the year as well as the cost of borrowing. The price at which mortgages could be taken out increased markedly, posing challenges for some in clearing affordability criteria as they seek a place on the property ladder. Existing mortgage holders were also impacted, with variable rate borrowers facing more immediate increases to their monthly repayments, and those coming to the end of fixed-term deals weighing their options.

Mortgage rates have steadily increased, though more sharply in September, coinciding with the Government's budgetary announcement. This period of elevated uncertainty caused the pricing of financial instruments to spike, as well as great uncertainty and risk in pricing decisions. Mortgage providers reacted swiftly, and a large number of lenders temporarily withdrew from the market, although the majority have since resumed lending.

The current outlook and the projections for the size of the UK mortgages market are subject to a higher than usual degree of uncertainty. Lower consumer and market confidence has served to steadily lower housing demand as the year has progressed and much depends on the extent to which the cost of living pressures constrain the market.

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 12-16.

Financial Performance

Mortgage performance

The Company achieved growth in mortgage balances and customers during 2022. The number of mortgage accounts held with the Company increased to 206,161 (2021: 170,859).

The buy-to-let mortgage book has grown 44% to £5,906m (2021: £4,092m), now representing 17.4% (2021: 13.5%) of the total book. The gross volume of mortgage lending in the year was £8,755m (2021: £8,976m). This resulted in net lending of £3,516m (2021: £4,826m) once repayments and redemptions are accounted for.

The proportion of the Company's new lending that is over 90% LTV is 5.5% as at 31 December 2022 (2021: 4.7%). The Company restricts the LTV on new lending to 95%, which remains unchanged from last year.

Operating profit

Operating profit for the year was £179.3m (2021: £201.6m). This figure can be analysed into the following key areas:

	2022	**2021**
	£m	**£m**
Net interest income	256.1	259.2
Net fee and commission income	3.1	3.0
Total income	**259.2**	**262.2**
Administrative expenses	(79.9)	(60.6)
Operating profit	**179.3**	**201.6**

The decrease in operating profit in the year has been mostly driven by administrative expenses, which increased by £19.3m in the year and a slight decrease to net interest income.

Administrative expenses have increased to £79.9m (2021: £60.6m) due to costs associated with the ongoing projects to upgrade the mortgage processing system and to digitise the business, an increase in recharge costs from YBS functions relating to cost of servicing an increased mortgage portfolio and the development of IT capabilities to support business growth. During the year, the rate of inflation had increased to historical highs, which has had an impact on costs associated with the Company.

Dividend

In 2022, an interim dividend of £100.0m to the shareholder was approved and paid (2021: £75.0m). No final dividend has been proposed for the year (2021: £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 items such as gains and losses on financial instruments as well as 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.

	2022	2021	2020	2019
	£m	£m	£m	£m
Operating profit	179.3	201.6	72.0	51.0

Other financial performance metrics

	2022	2021	2020	2019
	£m	£m	£m	£m
Net interest income	256.1	259.2	125.6	104.1
Net fee and commission income	3.1	3.0	2.7	2.6
Administrative expenses	(79.9)	(60.6)	(56.3)	(55.7)
Impairment of financial assets	(6.7)	3.9	(5.4)	(2.7)
Profit before tax	172.6	205.5	66.6	48.3
Net interest margin	0.58%	0.68%	0.39%	0.36%

Net interest income

Net interest income was £256.1m in 2022 (2021: £259.2m), the slight decrease in net interest income is mostly caused by an increase in the Company's interest expenses at £668.0m (2021: £449.3m). The impacts of a larger mortgage book, rising interest payments from the loans from the parent company and from other Group entities that are linked to various rates including SONIA and swap interest have driven this movement. 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 £6.7m (2021: £3.9m release) was recorded in the period. The latest economic scenario assumptions reflect a more pessimistic outlook than in 2021, significant gains in house price indices were observed throughout 2022 which resulted in a decrease in expected credit losses (ECL), this has been offset after incorporating post-model adjustments (PMAs) relating to risks associated with affordability. 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.

Net lending remains strong due to increasing our mortgage portfolio and the development of IT capabilities to support business growth.

The reduction in net lending in 2022 reflects the challenges faced within the mortgage market because of interest rates and the rate of inflation rising sharply, which led to pressures on the cost of living. Following the budgetary announcement in September, the market became very volatile that led to a historic low in the Great British Pound, which resulted in the Bank of England stepping in and subsequently the appointment of a new Prime Minister. Within this period, many lenders temporarily withdrew from the market, including Accord, to ensure product pricing was accurately reflected to the risks in the market outlook. Accord took a phased approach to return to the market in early November and by year end we had returned to the majority of the market segments. This pause in lending led to reduced levels of applications in the final months of the year.

	2022	2021	2020	2019
	£m	£m	£m	£m
Net mortgage lending	3,514	4,829	1,961	2,419

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 0.33% (2021: 0.40%). This is lower than the market average of 0.74% (2021: 0.85%). The value of the current portfolio currently >= 3 months in arrears is 0.24% (2021: 0.28%).

	2022	2021	2020	2019
	%	%	%	%
Mortgage arrears by value (>=3months)	0.24	0.28	0.33	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 fallen in the year, because of a low number of responders therefore this influences fluctuation in the metrics below. We intend to continue to make improvements to our broker servicing.

Broker Residential		Broker Buy-to-Let	
2022	2021	2022	2021
83	84	73	77

** 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 2022, 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 for 2022.

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 Framework 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.
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 panel of brokers. Accord is committed to supporting brokers to build the best relationships and get the best results. This includes always looking for innovative ways to support intermediaries and reviewing our products and offerings to ensure we are providing the best possible service. **Example – Broker Support** *The Accord Growth Series * continued to grow during 2022 with over eight thousand subscribers. The podcast content provided for our brokers has covered a wide range of topics, such as Inclusion and Diversity and the future of Buy to Let.* *Our Growth Series webinars have covered key topics reflecting the economic situation in the second half of 2022, including 'How the Economy Affects the Mortgage Market' considering the affects of economic headwinds and 'The State of Play in the Mortgage Market' discussing the turmoil experienced in the mortgage market and what would happen next.* *The Webchat service provided for our brokers remains strong and, together with the telephony service and our chatbot, which was introduced in 2021, provides brokers with a range of options to interact with Accord.* *The Accord Growth Series was established to provide help and support to our brokers in developing their business. It gives free access to blogs, podcasts and practical guides to help brokers get information on topics such as recruitment and marketing as well as providing valuable insight from key players in the industry.* The Board monitors the ongoing effectiveness of broker relationships through the Management Information provided at each meeting, including the Net Promotor Scores (NPS), performance ending the year as at 31 December 2022 for broker residential was 83 and for broker buy to let was 73. For further detail on customer experience is provided in Directors Report on page 17 to 22.
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.

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 operations or employees and 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 have been added to 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 these 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 2022.

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 12 to 16.

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 including the delivery of a face to face colleague conference which enabled teams to build and deepen relationships and improve levels of collaboration.

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 and any paper to the Accord Board will include details of any impact a decision would have on these areas. The Accord Board ensures that it accurately reflects the position of the wider Group in relation to these matters.

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.

Outlook
The deterioration in the outlook across a broad range of macroeconomic indicators signals that 2023 may bring with it many challenges. A key uncertainty looking forward is for how long these inflationary pressures will persist, and what this will mean for the cost of living and the normal functioning of markets.

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. 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. Where possible we will seek 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 members across a variety of external contexts.

By order of the Board

D Morris
Director
1 March 2023

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 Yorkshire Building Society Group's Annual Report and Accounts 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 a number of 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. An inflationary macro-economic environment, geo-political instability, the consequent cost of living crisis, and residual economic and operational impacts from the COVID-19 pandemic and Brexit, continue to be a significant source of uncertainty both nationally and internationally.

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.

- Market Risk is constrained by a Society Board approved risk appetite, which is further governed through the Market Risk Policy.
- The Society 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 Society 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. Rates are assumed to be floored at 0%, however an additional limit has been added to the Society's 2023 Risk Appetite to measure the earnings impact of a 250bp down parallel shock in rates floored at -50bps.This has been incorporated to capture the potential impacts of a plausible negative rates scenario.
- The Society limits for basis risk include limits for sensitivities around isolated movements in underlying rates (SONIA), for overall mismatch ratios and for ensuring the Society has sufficient levels of margin management capability. The Society does not have any outstanding LIBOR position as at December 2023.

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, via the Group's Model Risk Committee, 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 geo-political uncertainties (retail and commercial credit and market risks)
Pressure on mortgage affordability remains prevalent, with a range of contributing economic, social, and geo-political factors. Inflation has risen significantly over the past year, and in response, interest rates are rising. Together, these will place affordability stresses on mortgage borrowers, as well as tenants of buy-to-let and commercial landlords.

The ramifications of both the Russian military action in Ukraine and the response from the international community have had implications for the global economy and, in turn, have compounded economic uncertainties in the UK. It is a contributing factor to inflationary pressures and is leading to wider economic impacts. We have a responsibility to consider the specific risk exposures that these implications create and will continue to closely monitor these.

Market volatility also increased during the year because of political uncertainty in the UK, with interest rates rising considerably. This has required disciplined hedging and ensuring our products are carefully priced so that our risk appetites are not exceeded.

Additionally, while the UK has now officially left the EU with a trade deal in place, the ongoing economic impacts remain unclear. Our economic scenarios cover a range of impacts that reflect different levels of productivity and output of the UK and the subsequent impact on the broader economy. Most of our exposure relates to UK-based residential and commercial property values, and so risk arises from any potential economic downturn stemming from the new trading relationship rather than any specific risks to any particular business sector.

Affordability for our new lending is assessed using a sophisticated model, which currently incorporates a stressed interest rate, and is reviewed every six months (as a minimum) to ensure it remains an appropriate level of stress. Recent changes have been made to this model to ensure that various cost of living factors are accounted for, including the temporary National Insurance rise and the impact of inflation on monthly expenditure. Equally, comprehensive activity has taken place to understand the impact of, and mitigate where appropriate, cost of living on our new and existing portfolio.

We continue to consider lending criteria carefully using an approach that is intended to balance the level of risk we take against our purpose of providing Real Help with Real Life. At all times we focus on our lending being responsible to protect customers and to minimise arrears.

Risk Management Report (continued)

Specific Current and Emerging Risks (continued)

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

We are increasingly recognising that social changes brought about by the COVID-19 pandemic, such as removal of geographical barriers, have accelerated changes in employee expectations. These are resulting in increased competition in the recruitment and retention of colleagues across all areas of the business, but particularly those areas with high demand skills such as change, digital, technology and data functions.

We continue to review our value proposition in relation to talent acquisition and retention and undertake continual monitoring of the recruitment market. We do not expect the recruitment market to return to pre-pandemic levels and, as such, continually review how and where we source talent. Effective resource planning and forecasting is a priority, and our resourcing practices are regularly reviewed to ensure we proactively manage associated risks to deliver the Group's Strategic Blueprint.

Climate change risk

We recognise that climate change is one of the most critical issues facing the UK and global economy. The main climate change risks impacting the Group are how physical risks such as flooding, subsidence, and coastal erosion affect our customers' homes together with the risks posed by the transition to a low-carbon economy such as energy efficiency regulation and any exposure to sectors most affected by this change.

The risks posed by climate change have been reviewed through 2022 and have been incorporated into the risk taxonomy as a cross-cutting risk, with implications relating to several principal risk types. Key principal risks where we have considered climate change risk include:

- Credit risk,
- Funding risk,
- Model risk,
- Operational risk,
- Compliance and Conduct risk.

The YBS Annual Report and Accounts provides more detail on how climate change risk is incorporated into our risk management framework. Climate change risks have been incorporated into our risk appetite process, and we have completed scenario analysis on the mortgage book. We have developed a strategy to manage the ongoing risks as they present themselves, but we consider the risks immaterial to expected credit losses at the year end.

Increased competition and new technology (operational risk)

The Group's digitalisation programme continues to develop wider access to our products and services through expanded digital channels. Challenger banks, FinTech firms and the digital transformation of direct competitors continue to heighten the need to remain competitive in these areas.

We continue to successfully deliver the first phase of our programme and have maintained strong governance and extensive oversight of the management of associated risks. There is, however, a residual risk that the cost of delivering the level of change necessary for some customer groups to keep pace with rapidly changing technology may also prove unsustainable and require investment choices which may not fully meet customer expectations.

We are also modernising our IT infrastructure to improve resilience and reduce risk. As IT components age, their fit and value often deteriorate, while cost and risk often conversely grow. We have embedded an approach to managing and mitigating our legacy IT risks, including those relating to third parties, and progress is reported to the Board at least annually.

Further phases of our digitalisation and technology modernisation programmes will create additional risks, and we will continue to identify, assess and manage these as appropriate.

Risk Management Report (continued)

Specific Current and Emerging Risks (continued)

Financial crime threats (compliance and conduct risk)

We already operate in a hostile and constantly evolving financial crime environment, including phishing and spam attempts that seek to take advantage of customers during this time of uncertainty.

Whilst we have not seen a meaningful increase in financial crime incidents directly attributable to these threats, the business remains on high alert. Our continued focus on our financial crime capability remains paramount to keep these evolving financial crime exposures within our risk appetite. The Group continues to deliver and implement proportionate and effective monitoring, enhance our ability to identify threats and invest in financial crime controls.

New and evolving cyber security threats (operational risk)

The increasing use of technology, and the pace of technological change, exposes the UK financial services sector to ever-increasing and evolving cyber security risks. Geo-political threats have elevated the threat landscape, with ransomware a continued threat. Resilience to such threats and an ability to effectively respond in the event of an attack remains essential to protect the Group, maintain the trust of customers and the confidence of regulators.

Continued risk management effectiveness

Good progress has been made through 2022; we have continued to embed our risk management framework across the business to enable us to adapt and respond to rapid change in our operating environment. This includes development of our 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.

By order of the Board

D Morris
Director
1 March 2023

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 2022.

Directors

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

P Connolly (Appointed 28 July 2022)
J Duncombe
S Jackson (Resigned 1 July 2022)
S Martin (Appointed 1 April 2022)
D Morris
R Purdy*
R Wells
S White (Resigned 17 July 2022)
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 £172.6 million (2021: £205.5 million).

Dividends

During the year, an interim dividend to the Company's parent of £100.0 million (2021: £75.0 million) was approved by the Board. No final dividend has been proposed for the year (2021: £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 Yorkshire Building Society Group 2022 Annual Report and Accounts.

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 2022:

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 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, values and culture in the areas in which it operates. The Accord Board reviews the Lending Plan each year which sets out its strategy over the next five years and is built on the foundations of the Group's purpose and strategy. The Plan is aligned to the Group's value strategy with the aim to deliver sustainably funded growth. The Accord Lending Plan in turn forms a key component of the Group's overall lending strategy within its Corporate Plan. Further information on YBS's strategy, purpose, values and culture can be found in the YBS Annual Report and Accounts 2022. 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 2022 there were six statutory directors of the Accord Board. The Accord Board met four times in 2022. The size of the Board is considered appropriate for a subsidiary board where the company's operations are integrated in the wider 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 operations including operational resilience, finance, conduct and credit risk and mortgage distribution. The appointment of a YBS Board Executive Director as an Accord Director ensures that there is direct feedback from the Accord Board to the Group 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. The following changes took place on the Accord Board during 2022: ▪ Stephen White stepped down from the Board in July 2022. ▪ Simon Martin joined the Board in April 2022. ▪ Sarah Jackson stepped down from the Board in July 2022. ▪ Patrick Connolly joined the Board in July 2022. The new appointments to the Board were made following a review of the Board's composition taking into account the experience and skills the new directors would bring to the Board. A full handover process was completed to support the appointment of the new directors and, where appropriate, Accord specific training was provided, for example in relation to Accord's role in securitisation transactions. It is recognised that diversity is an ongoing challenge, however, will be considered as part of reviews of the governance and composition of the Accord Board 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 2022.

Directors' Report (continued)

Governance (continued)

Wates Corporate Governance Principles (continued)

Principle	How it Applies to Accord
Principle Two - Board Composition (continued)	**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. There were no significant issues arising as a result of the 2022 evaluation review. Professional development of directors is identified through their roles as part of the wider Group together with regular performance evaluations.
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.	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. 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). 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.

Directors' Report (continued)

Governance (continued)

Wates Corporate Governance Principles (continued)

Principle	How it Applies to Accord
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. The YBS Chief Risk Officer is a member of the Accord Board ensuring there is a direct link with the Group Risk function. 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 2022. Further detail in respect of Accord can be found in the Risk Management Report on pages 12 to 16. Further information on the Groups' approach to strategy and risk management can be found in the YBS Annual Report and Accounts 2022 on pages 91 to 101.
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 2022.

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. **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. **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.

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 2022, 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 2023, and stress tests performed throughout the year, they consider the Group has adequate resources to continue in existence for the foreseeable future. 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
Director
1 March 2023

Statement of Directors' Responsibilities in respect of the Financial Statements

Responsibilities Statement

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 Member 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 2022 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 2022; the 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 Member 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 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors’ responsibilities for the audit of the financial statements

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

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 Member 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 the 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 the Company's Act 2006 and the 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; and
- 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.

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
1 March 2023

Income Statement

for the year ended 31 December 2022

	Note	2022 £m	2021 £m
Interest revenue calculated using the effective interest rate method	3	753.9	632.0
Other interest revenue	3	170.2	76.5
Interest revenue	3	**924.1**	**708.5**
Interest expense	4	(668.0)	(449.3)
Net interest income		**256.1**	**259.2**
Fees and commissions revenue		12.9	12.2
Fees and commissions expense		(9.8)	(9.2)
Net fee and commission income		**3.1**	**3.0**
Administrative expenses	5	(79.9)	(60.6)
Operating profit		**179.3**	**201.6**
Impairment of financial assets	7	(6.7)	3.9
Profit before tax		**172.6**	**205.5**
Tax expense	6	(31.9)	(39.0)
Profit for the year		**140.7**	**166.5**

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 31 to 56 form part of these financial statements.

Statement of Financial Position

as at 31 December 2022

	Note	2022 £m	2021 £m
Assets			
Loans and advances to customers	8	33,923.4	30,416.0
Amounts owed from parent undertaking	16	12,785.3	11,745.3
Prepayments and accrued income		1.1	-
Other assets		1.7	3.4
Total assets		**46,711.5**	**42,164.7**
Liabilities			
Amounts due to parent undertaking	16	30,925.1	29,677.7
Amounts due to other group entities	16	14,883.9	11,678.5
Current tax liability		-	-
Deferred tax liabilities	9	1.7	1.9
Other liabilities	10	445.7	391.7
Total liabilities		**46,256.4**	**41,749.8**
Equity			
Called up equity share capital	11	100.0	100.0
Retained earnings		355.1	314.9
Total equity		**455.1**	**414.9**
Total equity and liabilities		**46,711.5**	**42,164.7**

The notes on pages 31 to 56 form part of these financial statements.

These financial statements were approved by the board of directors on 1 March 2023 and were signed on its behalf by:

D Morris
Director

Statement of Changes in Equity

for the year ended 31 December 2022

	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**

	Share capital	Retained earnings	Total
	£m	£m	£m
Balance as at 1 January 2021	**100.0**	**223.4**	**323.4**
Profit for the financial year	-	166.5	166.5
Dividend paid	-	(75.0)	(75.0)
Balance as at 31 December 2021	**100.0**	**314.9**	**414.9**

The notes on pages 31 to 56 form part of these financial statements.

Statement of Cash Flows

for the year ended 31 December 2022

	Note	2022 £m	2021 £m *Restated*[1]
Cash flows from operating activities:			
Profit before tax		172.6	205.5
Non-cash items included in profit before tax	15	516.8	368.9
Net change in operating assets	15	(3,513.5)	(4,831.3)
Net change in operating liabilities	15	55.3	15.0
Net cash flow from operating activities	**15**	**(2,768.8)**	**(4,241.9)**
Cash flows from financing activities:			
Net amounts received from parent and other group entities		2,770.1	4,240.0
Net cash flows from financing activities		**2,770.1**	**4,240.0**
Net increase/(decrease) in cash and cash equivalents		**1.3**	**(1.9)**
Cash and cash equivalents comprise:			
Bank overdraft			
1 January		(3.7)	(1.8)
31 December		(2.4)	(3.7)
Cash flow		**1.3**	**(1.9)**

[1]Please see Note 1 for details of the 2021 restatement of Cash Flows

The notes on pages 31 to 56 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 2022 were authorised for issue by the directors on 1 March 2023.

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 presented in round millions of pounds sterling (£0.0m).

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 2023, and stress tests performed throughout the period, they consider the Company has adequate resources to continue in existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

Accounting developments

Changes to Accounting Standards Effective in the Period
There are no new accounting standards 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 this Company.

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.

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.

Notes to the Financial Statements (continued)

1. Statement of Accounting Policies (continued)

Standards issued but not yet effective (continued)

IFRS 17 Insurance Contracts
Insurance is not within the scope of the Company's activities. Therefore, IFRS 17 Insurance contracts is not applicable.

Significant 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.

Amortised cost: 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).

Fair value through profit and loss: 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.

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/to parent undertaking and other group entities	Intercompany loans	Amortised cost
Derivative financial instruments	Swaps to manage interest rate and foreign exchange risk exposures	Amortised cost
Cash and cash equivalents	Bank overdraft	Amortised cost

Notes to the Financial Statements (continued)

1. Statement of Accounting Policies (continued)

Significant Accounting Policies (continued)

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'.

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).

Notes to the Financial Statements (continued)

1. Statement of Accounting Policies (continued)

Significant accounting policies (continued)
Impairment of financial assets (continued)
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.

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.

Notes to the Financial Statements (continued)

1. Statement of Accounting Policies (continued)

Significant accounting policies (continued)

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 statement of Cash Flows and Note 15
The 2021 Statement of Cash Flows and associated footnote (Note 15) have been restated to correct the presentation of certain intra-Group transactions. Refer to Note 15 for details.

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.

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 grew at the beginning of 2022 as activity rebounded from the Omicron-related dip at the end of 2021, but the post-COVID recovery in social consumption has now made way for the cost of living squeeze on consumer demand. Furthermore, Russia's invasion of Ukraine has had a wide-ranging impact on a UK economy that was already starting to suffer from rising energy prices. The Company has assessed these uncertainties, with the economic assumptions applied to the ECL model adjusted to reflect the most recent view of the macro-economic environment. In addition, a post model adjustment has been raised 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).

Judgement is also applied in determining the relative weighting of each economic scenario in the ECL estimate. The Company determined that the continued application of the combined 45% weighting to downside and stress scenarios as at the balance sheet date still reflected a reasonable view of the outturn for the UK economy. Consistent with 31 December 2021, the Company continues to apply a 5% weighting to upside, 50% to core, 30% to downside and 15% to stress scenarios.

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)

The Company considered alternative sets of weightings. The most severe applied weightings of 45% Core and 35% Stagflation Downturn – this would result in a £0.8 million increase in ECL. The least severe applied weightings of 55% Core and 10% Severe Downturn - this would result in a £0.8 million decrease in ECL. These changes in weightings have been fully modelled and been allowed to impact staging.

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. When the HPI forecast was replaced with the respective forecasts from the Stagflation Downturn and Severe Downturn scenarios, ECL increased by £5.2m and £7.3m. Below is the % change in HPI forecast for both downturn scenarios for the next 5 years in relation to the Core scenario.

	2022 Scenario (% Change)				
HPI	**2023**	**2024**	**2025**	**2026**	**2027**
Stagflation	(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 £6.5 million of impairment release over 2022 (2021: £6.2 million release).

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 £1.6m (2021: £1.9m) 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 £1.4m (2021: £1.4m) 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 £2.2m (2021: £2.0m) increase in provisions.

Notes to the Financial Statements (continued)

3. Interest revenue

	2022 £m	2021 £m
Calculated using the effective interest rate method:		
On loans secured on residential property	753.9	632.0
Interest income calculated using the effective interest rate method	**753.9**	**632.0**
Other:		
On loans to parent company (note 16)	157.4	53.3
On derivatives	-	23.2
On debt securities	12.8	-
Other interest revenue	**170.2**	**76.5**
Total interest income	**924.1**	**708.5**

4. Interest expense

	2022 £m	2021 £m
On deposits from parent company (note 16)	419.9	365.2
On deemed loans from other Group entities (note 16)	169.1	80.5
On derivatives	79.0	3.6
Total interest payable	**668.0**	**449.3**

5. Administrative expenses

	2022 £m	2021 £m
Management charge	78.2	59.1
Other expenses	1.7	1.5
Total administrative expenses	**79.9**	**60.6**

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.

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 (2021: 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

	2022 £m	2021 £m
Current tax:		
UK corporation tax at 19.00% (2021: 19.00%)	32.3	38.9
Corporation tax - adjustment in respect of prior periods	(0.2)	-
Total current tax	32.1	38.9
Deferred tax:		
Current year credit	(0.2)	(0.2)
Change in tax rate	-	0.3
Total tax expense in income statement	**31.9**	**39.0**

The main rate of UK corporation tax remains at 19%. An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021 and is reflected in this note.

The deferred tax liabilities for the year ended 31 December 2022 are calculated at 25% (2021: 25%) due to the increase in the UK corporation tax rate, reflecting the expected timing of reversal of the related timing differences.

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

	2022 £m	2021 £m
Profit before tax	172.6	205.5
Tax calculated at a tax rate of 19.00% (2021: 19.00%)	32.8	39.0
Effects of:		
Expenses not deductible for tax purposes	0.1	0.1
Adjustments to tax charge in respect of prior periods	(0.2)	-
Change in tax rate	-	0.4
Other permanent difference	(0.8)	(0.5)
Tax expense in income statement	**31.9**	**39.0**

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

7. Impairment of loan and advances

	2022 £m	2021 £m
Expected credit losses as at 1 January	**18.4**	**21.8**
Amounts written off in the year	(0.7)	(0.2)
Reduction in discounting	0.3	0.3
Impairment charge/(credit) for the year	7.1	(3.5)
Expected credit losses as at 31 December	**25.1**	**18.4**
The charge for the year comprises:		
Impairment adjustment for the year	7.1	(3.5)
Recoveries relating to amounts previously written off	(0.4)	(0.4)
Impairment of financial assets	**6.7**	**(3.9)**

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.

Notes to the Financial Statements (continued)

8. Loans and advances to customers

	2022 £m	2021 £m
Loans and advances to customers comprise:		
Loans secured on residential property	33,948.5	30,434.4
Expected credit losses - Impairment (note 7)	(25.1)	(18.4)
	33,923.4	**30,416.0**

£31.7m of the loans and advances are contractually due in less than one year (2021: £29.6m).

9. Deferred tax liabilities

The movements on the deferred tax liability are as follows:

	2022 £m	2021 £m
At 1 January	1.9	1.8
Income statement credit	(0.2)	0.1
At 31 December	**1.7**	**1.9**

10. Other liabilities

	2022 £m	2021 £m
Creditors (amounts falling due within one year)		
Bank overdraft	2.4	3.7
Amounts due to customers	442.9	388.2
Accruals	0.4	(0.2)
	445.7	**391.7**

Amounts due to customers represents the Company's offset mortgage products, which has been recognised within other liabilities of £442.9m (2021: £388.2m).

At 31 December 2022 a contingent liability exists related to the control framework associated with certain account status'. A programme has been established to review the Control Framework and establish individual customer impact.

11. Called up equity share capital

	2022 £m	2021 £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).

Notes to the Financial Statements (continued)

12. Fair values (continued)

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
		Level 1	Level 2	Level 3	
2022	**£m**	**£m**	**£m**	**£m**	**£m**
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**
2021					
Assets					
Loans and advances to customers	30,416.0	-	-	30,210.7	**30,210.7**
Amounts owed from parent undertaking	11,745.3	-	-	11,745.3	**11,745.3**
Liabilities					
Amounts owed to parent undertaking and other group entities *	41,356.2	-	-	41,150.9	**41,150.9**

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 £1,640.7m 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.

** Prior year fair value figures have been restated following review of the hierarchy levels. Amounts owed to parent undertaking and other group entities were moved from Level 2 to Level 3, due to the underlying Assets being classified as Level 3.*

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**
2022	**£m**	**£m**	**£m**	**£m**
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)**
2021				
Financial liabilities:				
Borrowings from parent and other group entities	(3.7)	-	(41,352.5)	(41,356.2)
Customer offset mortgage funds	(388.4)	-	-	(388.4)
	(392.1)	**-**	**(41,352.5)**	**(41,744.6)**

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 Society'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) and *hedging* 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 2022 are described below.

	2022 £m	2021 £m
Gross contractual exposures at the year end	33,882.1	30,368.2
EIR and other adjustments	66.4	66.2
ECL	(25.1)	(18.4)
Loans and advances to customers	**33,923.4**	**30,416.0**

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 Stagflation downturn scenario; and a Severe Downturn scenario. Stagflation downturn and Severe downturn scenarios replaced downturn and stress scenarios from the 2021 Scenario's.

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.

Current Macroeconomic Conditions

The UK economy grew at the beginning of 2022 as activity rebounded from the Omicron-related dip at the end of 2021, but the post-COVID recovery in social consumption has now made way for the cost of living squeeze on consumer demand.

Russia's invasion of Ukraine has had a wide-ranging impact on a UK economy that was already starting to suffer from rising energy prices. Extensive economic sanctions have added to the mix of supply chain bottlenecks, exacerbating inflationary measures for consumers and businesses.

The Bank of England responded to rising inflation with a succession of rate rises, with the last one in December taking the interest rate to 4.0%. Further increases are anticipated in 2023 with the ultimate path of the rates uncertain due to the recent economic policy changes.

Upside

This assumes continued sanctions lead to a softening in Russia's stance on Ukraine and the conflict is deescalated; measures to reduce inflation are highly effective; and vaccines continue to successfully negate the impact of all new COVID-19 variants. After a strong performance in the second half of 2022, GDP reverts to pre-pandemic levels from 2023. Unemployment falls back to multi-decade lows and house prices grow at 3.2% per annum by 2026.

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

The core scenario is the Company's best estimate of how the UK economy will evolve and is aligned with the central scenario used in the Company's financial planning processes. It assumes the economic shocks arising from Russia's invasion of Ukraine delay the return to post-pandemic normality as sanctions remain in place and western economies seek to adjust to the loss of output from both countries. The latter is driving volatility in the wholesale energy markets which in turn has created the cost of living repercussions whereby inflation is rising and cost to households and businesses is surpassing the real earnings growth.

Successive Bank Rate rises at the end of 2022 and throughout 2023 successfully bring inflation back under control with the rate expected to peak at 4.8 by the end of 2023 and then start moving down to 3.5% by the end of 2027. The UK Government's cost of living support packages help mitigate the impact of energy price rises on the most vulnerable consumers.

<u>House Price Index (HPI)</u>

The Core scenario expects both the supply of, and demand for, housing stock to normalise in 2023 with expectations of further interest rate rises during the year to dramatically slow recent growth in house prices. The steep rises in HPI growth seen in the year are forecasted to ease in 2023 with a retraction of 6.0% and a further 2.0% in 2024 but this downturn is short lived as lower borrowing costs bring back activity with price growth returning to 2.4% in 2027.

<u>Inflation</u>

Due to the sustained rise in Consumer Price Inflation to over 10.0% in 2022, a further rise is expected in 2023 with this increase predominantly driven by volatility in the wholesale energy markets due to the war in the Ukraine. This scenario has inflation capping at 10.0% after the sixth price cap rise comes into effect in January 2023 but after the spring, inflation is assumed to decline to 6.0% by the end of 2023 and 2.5% in 2024. This decline is driven by a fall in consumer spending allowing bottlenecks to ease and supply to catch up with demand.

<u>Gross Domestic Product (GDP)</u>

In this scenario GDP retracts by 1.0% in 2023 with this slowdown being driven by the fall in real household disposable income and rising interest rates exacerbated by the sustained rise in Consumer Price inflation. However, GDP is not expected to fall any further as it is assumed that households use excess savings to finance spending and trade is boosted from the fall in the value of the pound.

Increased capital spending of cash stockpiled by large companies continues to be reflected, albeit partially offset with growing labour costs and component shortages. The UK economy returns to near its pre-pandemic level in 2024 but is structurally marginally smaller due to lost investment, business closures and labour market scarring.

<u>Unemployment</u>

The cost of living crisis is affecting non-discretionary spending in sectors that are not seen as a necessity and so these will be hit by a fall in spending while also suffering the large increase in energy bills. Although unemployment continued to fall over 2022, higher job losses and business closures are expected. With inflation still high in 2023 it is expected that real earnings growth will weaken further and unemployment will rise from 3.8% early 2023 to a peak of 5.8% in 2024 before gradually falling back to 4.5% in 2027 as uncertainty fades and demand grows with recovery in business investment.

Stagflation Downturn

The downturn scenario assumes that the war in Ukraine continues, with a longer lasting impact on energy and food supplies. These geo-political tensions keep inflation high with the Bank of England responding with further increases in base rate to 4.0% at the start of 2023 to a peak of 6.3% by the end. Higher borrowing costs and falling real earnings growth tilt the economy into a deep recession, with GDP falling by 5.9% in 2023 and unemployment accelerates to a peak of 7.0% in 2024. Given already stretched valuations, the sharp increase in borrowing costs and economic downturn sees house prices fall by 12.7% in 2023.

Notes to the Financial Statements (continued)

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

Expected Credit Losses (ECL) (continued)

Economic Scenarios (continued)

Severe Downturn

There is a severe increase in global geo-political tensions due to the escalation of the war in Ukraine and worsening relations between China and Taiwan. This places considerable pressure on already stretched global supply chains. In addition, there is increased tensions between the EU and the UK over the 2020 trade agreement. A new strain of COVID-19 requires the UK Government to reimpose a lockdown until an updated vaccine emerges. Without government support measures unemployment accelerates to a peak of 8.8% in 2024 which in turn drives house prices down by 30% (peak to trough). This scenario also incorporates a risk that UK supply chains are impacted by climate catastrophes on a global scale over the 5-year scenario horizon, further undermining recovery.

The following table shows the values of the key economic variables used by each economic scenario for the period until December 2027. 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.

Household disposable income is forecast to decrease in our economic scenarios as a result of sharply rising inflation and increases in the cost of living, combined with higher interest rates and the downward movement in house prices. This is assumed to led to affordability pressures which are expected to impact on customers' ability to meet mortgage repayments. This risk is not directly captured in our models. See the Affordability post model adjustment below for details on how this risk has been assessed and incorporated into the ECL.

	2021 Scenario					**2022 Scenario**				
%	**2022**	**2023**	**2024**	**2025**	**2026**	**2023**	**2024**	**2025**	**2026**	**2027**
HPI										
Upside	4.0	3.0	3.0	2.0	2.0	-	1.5	2.2	3.2	3.2
Core	1.2	2.0	2.0	2.0	2.0	(6.0)	(2.0)	1.3	2.0	2.0
Stagflation Downturn	(12.7)	(5.0)	-	1.5	2.0	(12.7)	(5.0)	-	1.5	1.7
Severe Downturn	(13.0)	(10.5)	(5.0)	-	1.0	(13.5)	(11.8)	(6.8)	-	0.5
GDP										
Upside	6.3	2.1	2.0	2.0	2.0	1.5	2.0	2.1	2.0	2.0
Core	5.9	1.8	1.6	1.6	1.6	(1.5)	0.8	1.6	1.8	1.8
Stagflation Downturn	(5.6)	(5.0)	1.3	1.5	1.5	(6.3)	(5.3)	0.4	0.6	1.0
Severe Downturn	(5.1)	(2.0)	(0.7)	-	-	(7.4)	(5.3)	(1.2)	-	0.2
Unemployment										
Upside	4.3	4.3	4.2	4.1	4.1	3.5	3.6	3.6	3.8	3.8
Core	4.7	4.7	4.5	4.4	4.4	4.9	5.5	5.2	4.8	4.5
Stagflation Downturn	7.0	8.8	7.8	7.5	7.0	6.5	7.0	6.7	6.5	6.0
Severe Downturn	10.0	11.9	9.0	8.0	7.0	7.1	8.8	8.4	8.0	7.5
Bank Rate										
Upside	0.5	0.8	0.8	0.8	0.8	2.0	2.0	1.5	1.5	1.5
Core	0.5	0.8	0.8	0.8	0.8	4.8	4.3	4.0	3.8	3.5
Stagflation Downturn	-	-	-	-	-	6.3	5.5	5.0	4.8	4.5
Severe Downturn	-	-	-	-	-	2.0	-	-	-	-

Notes to the Financial Statements (continued)

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

Expected Credit Losses (ECL) (continued)

Economic Scenarios (continued)

Summary of Key Economic Variables (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		Stagflation Downturn		Severe Downturn	
%	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**
5y Average								
GDP	2.1	2.1	1.8	1.2	(1.6)	(1.6)	(2.2)	(2.4)
HPI	2.8	2.0	1.8	(0.6)	(3.0)	(3.1)	(5.7)	(6.5)
Unemployment	4.2	3.6	4.6	4.9	7.5	6.4	9.1	7.8
Bank Rate	0.7	1.8	0.6	4.1	0.0	5.3	-	0.7
Peak to trough								
GDP	-	-	(7.8)	(6.7)	(8.8)	(6.6)	(4.3)	(7.5)
HPI	-	-	(8.3)	(6.5)	(14.3)	(14.3)	(23.5)	(26.4)
Unemployment	4.5	3.8	4.9	5.5	8.8	7.0	11.9	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.

	2022		2021	
£m	**Weighting (%)**	**ECL £m**	**Weighting (%)**	**ECL £m**
Upside scenario	5	16.6	5	8.2
Core scenario	50	17.4	50	8.5
Stagflation Downturn scenario	30	32.4	30	27.4
Severe Downturn scenario	15	41.3	15	37.1
Weighted scenario	**100**	**25.1**	**100**	**18.4**

A revised modelling approach using quantitative analysis was established in 2022 to assess the weightings which used 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 both by an assessment of the econometric model results and by the quantitative analysis. The difference in outcome is immaterial for 2022. The judgment was that the weights assigned should be unchanged from 2021 but this will continue to be monitored during 2023.

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 2021 year end PMAs has been performed to determine whether the identified risks are still applicable. Changes in credit risk not deemed to be captured in the underlying models resulting from the spike in inflation have also been assessed and an *affordability* PMA included to reflect this.

The PMAs applied at 31 December 2022 are as follows:

	2022	2021
	£m	£m
Affordability	7.8	-
Methodology changes	2.9	2.8
Model recalibration	0.5	0.8
Uncertainty	3.5	1.3
Extended time to sale	-	1.3
Cladding	-	0.5
Total PMA	**14.7**	**6.7**

Affordability

Inflation is not a direct input into the underlying ECL models and, as such, does not have a direct influence on the output. Secondary impacts on other measures such as house prices will eventually feed into the model but there is an element of short-term insensitivity, particularly in a period of high inflation.

As a result, a new post model adjustment has been applied 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.

Although the lending undertaken by YBS Group 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.

The PMA has been established by considering:

- affordability levels of the mortgage book by applying a stress to the monthly expenditure amounts in their affordability calculation. With affordability only measured at application stage, additional considerations were applied to earnings indexed using UK wage growth since completion.
- applying further stress to the book to reflect external pressures such as increase in outgoings, interest rate changes, cost of living challenges and income decreases. To estimate this impact, external credit data was sourced for a sample of the book using a series of affordability scenarios and this was then extrapolated to the rest of the book.

Further consideration has been given to the BTL book where the Company has assessed whether the coverage 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 by applying an appropriate uplift factor based on the behaviour of a similar cohort of mortgages.

This PMA will be monitored as we progress through the year and as inflation reduces and cost of living pressures start to ease, this PMA can be reviewed.

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)

Methodology Changes

The Company has updated the definition of default ('DoD') and the probability of default ('PD') 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. However, given the time and governance required to manage the introduction of amendments into the core underlying models, they will not be updated to reflect these changes until later in the year. Although all the models have been finalised, not all have gone through formal governance. As such, the previous method was used to recalculate the methodology changes PMA.

A PMA was established at 30 June 2021 to provide a high-level overlay to reflect the impacts of moving to Gen 4 version of the models, primarily covering:

- additional accounts that would be classified as being Stage 3 due to meeting the additional default criteria;
- accounts that would more likely be classified as Stage 2 due to an increase in risk, either by their transition to a higher rating grade, or to a higher risk PD model.
- reflected changes to the eligibility of accounts meeting the definition of a significant increase in credit risk ('SICR'). The changes use initial recognition PD as a comparison point for SICR rather than lifetime PD.

Model Recalibration

Regular model performance monitoring has highlighted that the observed default rates (ODRs) of certain risk grades have moved above their upper tolerance thresholds and are expected to remain that way for an extended period. This PMA represents the recalibration of the behavioural and application score to grade mappings to correct the tolerance breaches.

Uncertainty

Whilst we incorporate a range of economic assumptions in the scenarios and probability weightings used to calculate ECL, this approach still has certain limitations, particularly given the current volatility in market conditions. The resulting unusual and largely unforeseen impacts on the credit risks faced by the Company have given rise to several assumption uncertainties and a PMA has been established to aim to correct for these.

The key risks that this PMA provides an estimate for are provided below.

<u>House Price Volatility</u>

This PMA has been developed in response to extraordinary growth in house prices since the easing of the first COVID-19 lockdown and represents £2.6m of the total uncertainty PMA (2021: £0.8m). There are a couple of specific areas of uncertainty that have been considered in this PMA as a result.

The uncertainty being modelled in this PMA is that changes in HPI at a regional level are not evenly distributed and the ECL impact of changes in collateral values is non-linear. This part of the PMA aims to correct for the standard deviation from the regional type mean and is not an attempt to correct for any perceived current market wide over-valuation. A third party analysed the YBS portfolio using automated valuation models (AVM) for risk of over or under indexation, with a specific focus on geographical location, management have used this evaluation as support for this element of the PMA.

The latter part of the 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 2022. The latest indexation from ONS was for data collected in Q3 of 2022. 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 2022.

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)

Uncertainty (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 risk ('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.

We have, however, assessed the impact on our current loan book from properties subject to significant flood risk. The detailed assessment conducted for the purposes of Climate Biennial Exploratory Scenario ('CBES') reporting (see the Building a Greener Society section of the 2022 Annual Report and Accounts) have yet to be incorporated into the core ECL models so a PMA is used to assess the current level of risk.

This has been estimated by taking the proportion of properties at risk based on an external benchmark and applying a 10% additional loss against these properties. Factoring in the 12-month loss window for stage 1 balances, and assuming that the loss would be incurred as a result of a 1 in 25 flood event, a £0.5 million PMA (2021: £0.5 million) has been raised as an estimate of the impact. We will continue to evaluate the need for this PMA as our modelling evolves and the full exposure to physical risks, and transition risks as they emerge, are embedded into the ECL process.

Extended Time to Sale

In response to the COVID-19 pandemic, the FCA put in place a moratorium on the enforcement of lender repossessions, and this remained in place until April 2021. This led to an industry-wide backlog of repossessions and impacted some of the model parameters, specifically those related to time to ale.

The post model adjustment accounted for this by increasing the time from default to possession (TFDP) parameters by 12 months to reflect the under-estimation present in the core model.

Subsequent to 31 December 2021, a review of repossession activity was performed, and it was determined that the £1.3m PMA could now be released as activity has reverted back to historic levels as backlogs have cleared.

Cladding

Following the Grenfell Tower fire in June 2017, the UK Government mandated that aluminium composite material (ACM), the cladding type used on Grenfell Tower, be removed from all blocks of flats in excess of 18 metres or six storeys high.

Subsequently, the Fire Safety Act 2021 legislated that repair costs could be passed onto leaseholders in accordance with the standard lease terms and that the obligation to pay for remediation works would fall to the current leaseholder.

The Government's latest proposal ensures all costs for cladding remediation on blocks over 11 metres in height are now to be fully recovered by either Building Safety Fund, Mid Rise Scheme or Developer Self Remediation and buildings below 11 metres do not generally pose a fire safety risk and so may only require proportionate works but no fund will be available for this. This, combined with persuasive evidence that the Company only has limited numbers of affected properties has led to the release of this £0.5m PMA for 31 December 2022.

Notes to the Financial Statements (continued)

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

Expected Credit Losses (ECL) (continued)

Staging

31st December 2022	**Balance**		**PMA**	**ECL**	**Coverage**	**Average LTV**
Stages	**£m**	**%**	**£m**	**£m**	**%**	**%**
Stage 1	31,277.6	92.3%	1.1	3.2	0.0%	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**
31st December 2021	**Balance**		**PMA**	**ECL**	**Coverage**	**Average LTV**
Stages	**£m**	**%**	**£m**	**£m**	**%**	**%**
Stage 1	28,180.7	92.8%	0.6	3.0	0.0%	59.5
Stage 2	1,963.0	6.5%	3.3	5.9	0.3%	49.4
Stage 3	224.5	0.7%	2.8	9.5	4.2%	50.7
Total	**30,368.2**	**100.0%**	**6.7**	**18.4**	**0.1%**	**58.6**

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**	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Stage 1	**31,277.6**	**28,180.7**	**31,277.5**	**28,180.4**	**3.2**	**3.0**
Stage 2	**2,377.3**	**1,963.0**	**2,377.3**	**1,962.8**	**14.1**	**5.9**
Less than 30 days past due	2,299.4	1,906.9	2,299.4	1,906.6	13.1	5.3
More than 30 days past due	77.9	56.1	77.9	56.1	1.0	0.6
Stage 3	**227.2**	**224.5**	**226.9**	**224.1**	**7.8**	**9.5**
Less than 30 days past due	102.6	104.5	102.6	104.5	2.5	2.8
Between 30-90 days past due	42.1	35.4	42.0	35.3	0.9	1.0
More than 90 days past due	82.5	84.6	82.3	84.3	4.4	5.7
Total	**33,882.1**	**30,368.2**	**33,881.7**	**30,367.3**	**25.1**	**18.4**

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

Notes to the Financial Statements (continued)

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

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).

	2022	2021
Arrears Status	**%**	**%**
No arrears	98.5	98.4
Less than three months	1.3	1.3
Equal to or more than three months, less than six months	0.1	0.1
Equal to or more than six months, less than twelve months	0.1	0.1
Twelve months or more	-	0.1
Total	**100.0**	**100.0**
Number of properties in possession at the year end	10	7

The percentage of Accord mortgages with arrears of three months or more (as a % of outstanding balances, including possessions) has marginally decreased from 0.40% to 0.33%. 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 0.44% (2021: 0.50%) is below the comparable UK Finance ratio 0.74% (Q3 2022).

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 0.03% (2021: 0.02%).

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

	Book		New Lending	
	2022	**2021**	**2022**	**2021**
Retail Mortgage Customer Type	**%**	**%**	**%**	**%**
First time buyer	26.8	28.0	22.3	38.5
Other buyers e.g. movers	33.6	34.7	29.7	38.1
Remortgage	22.2	23.8	20.5	12.3
Buy-to-let	17.4	13.5	27.5	11.1
	100.0	**100.0**	**100.0**	**100.0**

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

Notes to the Financial Statements (continued)

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

Credit risk management (continued)

	Book		New Lending	
	2022	**2021**	**2022**	**2021**
Retail Mortgage Geographical Distribution	**%**	**%**	**%**	**%**
Scotland	6.2	6.4	5.5	5.5
North East	3.2	3.3	2.8	3.2
Yorkshire & Humberside	7.2	7.2	6.6	7.4
North West	9.9	10.0	9.6	10.0
Midlands	13.3	13.4	13.2	12.6
East	11.1	11.1	11.4	11.7
South West	7.5	7.4	7.8	7.3
Greater London	19.3	18.9	20.9	19.0
South East	18.1	18.1	18.3	19.0
Wales & Northern Ireland	4.2	4.2	3.9	4.3
	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	
	2022	**2021**	**2022**	**2021**
Loan-to-value distribution of retail mortgages	**%**	**%**	**%**	**%**
100% or greater	-	-	-	-
95% to 100%	-	-	-	-
90% to 95%	0.3	1.2	5.5	4.7
85% to 90%	1.9	4.0	19.0	23.4
80% to 85%	5.1	8.9	16.3	26.3
75% to 80%	8.1	12.5	11.0	16.8
70% to 75%	11.9	13.9	19.5	12.8
60% to 70%	26.4	22.7	11.7	7.8
Less than 60%	46.3	36.8	17.0	8.2
	100.0	**100.0**	**100.0**	**100.0**
Average indexed LTV	54.3	53.4	66.9	73.8

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	2022 Total Balances	2021 Total Balances	ECL 2022	ECL 2021*
	£m	£m	£m	£m	£m	£m	£m
0.00% - <0.15%	23,951.6	1,374.0	-	25,325.6	24,405.0	1.5	1.7
0.15% - <0.25%	920.5	240.5	-	1,161.0	524.0	0.5	0.3
0.25% - <0.50%	160.2	148.1	-	308.3	273.9	0.2	0.2
0.50% - <0.75%	130.8	185.7	-	316.5	261.2	0.3	0.2
0.75% - <1.00%	61.1	78.8	-	139.9	137.6	0.2	0.2
1.00% - <2.50%	172.3	161.4	-	333.7	303.1	0.9	1.1
2.50% - <10.0%	30.6	74.8	-	105.4	99.8	0.9	1.3
10.0% - <100%	6.7	56.3	-	63.0	48.4	1.0	0.9
Default	-	-	227.2	227.2	224.5	6.6	7.8
Other	5,843.8	57.7	-	5,901.5	4,090.7	13.0	4.6
Total	**31,277.6**	**2,377.3**	**227.2**	**33,882.1**	**30,368.2**	**25.1**	**18.4**

** Prior year ECL PDs (2021) have been restated following review of the allocation of Post model adjustments (PMAs), PMAs were moved from 10.0% -<100% and Default, and have been allocated to the 'Other' line of the PD Band table.*

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	Balance	ECL
	%	%	%	£m	£m
2022	24.3	0.7	-	8,527.4	5.0
2021	23.3	0.8	0.1	8,191.4	4.7
2020	11.4	0.8	0.1	4,147.2	2.8
2019	10.6	0.8	0.1	3,879.5	2.4
2013 - 2018	20.4	2.5	0.1	7,821.1	4.7
2009 - 2012	1.0	0.4	-	475.1	0.3
Pre - 2009	1.3	1.0	0.3	840.4	5.2
Total	**92.3**	**7.0**	**0.7**	**33,882.1**	**25.1**

Notes to the Financial Statements (continued)

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

Credit risk management (continued)

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 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**

Movement Analysis	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £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**

Notes to the Financial Statements (continued)

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

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**	
2022 (£m)	**Exposure**	**ECL**	**Exposure**	**ECL**	**Exposure**	**ECL**	**Exposure**	**ECL**
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**

2021 (£m)								
Probation	30.9	**0.2**	**0.4**	**-**	**1.6**	**-**	**-**	**-**
Stage 1	11.5	-	-	-	0.3	-	-	-
Stage 2	19.4	0.2	0.4	-	1.3	-	-	-
Non-performing	98.1	**3.9**	**4.4**	**0.3**	**1.6**	**-**	**5.2**	**-**
Stage 3	98.1	3.9	4.4	0.3	1.6	-	5.2	-
Total	**129.0**	**4.1**	**4.8**	**0.3**	**3.2**	**-**	**5.2**	**-**

Notes to the Financial Statements (continued)

15. Notes to the Cash flow statement

	2022 £m	2021 £m *Restated*
Cash flows from operating activities		
Profit before Tax	**172.6**	**205.5**
Non-cash items:		
Impairment charge in the year	6.7	(3.9)
Other	(0.5)	-
Accrued interest on intercompany borrowings	510.6	372.8
Total non-cash items	**516.8**	**386.9**
(Increase) in operating assets		
(Increase) in Loans and advances to customers (excluding impairment)	(3,514.1)	(4,829.0)
(Increase)/Decrease in Prepayments and Accrued Income	(1.1)	-
Decrease/(Increase) in Other assets	1.7	(2.3)
	(3,513.5)	**(4,831.3)**
Increase in operating liabilities		
Increase in Amounts due to customers	54.7	17.1
Increase/(Decrease) in Accruals	0.6	(2.1)
	55.3	**15.0**
Net cash flow from operating activities	**(2,768.8)**	**(4,241.9)**

The company is funded by its parent, Yorkshire Building society (YBS), and certain securitisation arrangements. These inter-company balances are also impacted by management re-charges, YBS settling the company's corporation tax liabilities with HMRC, the accrual of interest on inter-company balances and dividends declared by the company and payable to YBS. In 2022, the presentation of the Statement of Cash Flows and this note were corrected to reflect these arrangements. The 2021 balances have been restated in each case to correct their treatment, as follows:

Note 15

- Tax expense of £38.9m has been removed from Note 15 and the Statement of Cash Flows, as it is not a component of profit before tax, nor a cash movement.
- Interest accrued on inter-company positions of £372.8m has been included as a non-cash movement, in the reconciliations of non-cash items and financing activities. This was previously only included in the reconciliation financing activities, at an incorrect balance of £449.3m.
- The fair-value movement of £205.3m previously included in the reconciliation of financing activities has been removed, as it does not form part of the movement being reconciled.
- The reconciliation of financing activities now includes the dividend of £75.0m and tax expense of £38.9m, which were not settled in cash and form part of the inter-company financing.

Statement of Cash Flows

- Operating activities
    - Non-cash items included in profit before tax have been changed from (£3.9m) to £368.9m, reflecting the changes made in Note 15.
    - Tax paid of £38.9m has been removed, as it was not paid in cash
- Financing activities
    - Inter-company movements have been corrected (reflecting the changes made to the reconciliation of financing activities in Note 15) and presented as a single amount, reflecting the nature of the cashflows.
    - Dividends paid of £75.0m have been removed, as it was not paid in cash.

Notes to the Financial Statements (continued)

15. Notes to the Cash flow statement (continued)

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

	2022 £m	2021 £m *Restated*
Net Intercompany Position		
As at 1 January	**29,610.9**	**24,884.1**
Cash flows	2,770.1	4,240.1
Non-cash changes caused by:		
Dividend	100.0	75.0
Tax	32.1	38.9
Accrued interest	510.6	372.8
As at 31 December	**33,023.7**	**29,610.9**

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 Group Annual Report and Accounts 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 (2021: none) as their emoluments are deemed to be substantially attributable to their services to Yorkshire Building Society.

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

Other related party transactions

At 31 December 2022 the Company owed a loan to the parent of £30,925.1m (2021: £29,677.7m). The outstanding balance has no fixed repayment date. A market interest rate is charged on the outstanding loan balance. Interest of £419.9m (2021: £365.2m) was paid in the year.

The Parent owed the Company £12,785.3m (2021: £11,745.3m). The outstanding balance has no fixed repayment date. A market interest rate is charged on the outstanding loan balance. Interest of £157.4m (2021: £53.3m) was received in the year.

The Company has deemed loans to the Yorkshire Building Society Covered Bonds LLP, Brass and Tombac securitisation vehicles of £14,883.9m (2021: £11,678.5m). The outstanding balances may be repaid on call date, being dependent on the optional early redemption clause being exercised. A range of rates are charged on the outstanding loan balances. Interest of £169.1m (2021: £80.5m) was paid in the year.

The Company paid a management recharge fee to the parent for the 2022 financial year of £78.2m (2021: £59.1m). In 2022 a dividend payment of £100.0m was made to the parent (2021: £75.0m).