Accord Mortgages Limited

Registered Number: 02139881

Annual Report and Financial Statements

for the year ended 31 December 2021

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Directors and Company Information

Company number	02139881
Directors	J Duncombe S Jackson D Morris R Purdy 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
Auditor	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 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 purchase of the loans from Accord does not meet the accounting standards criteria for recognition/derecognition for such transactions, and, as a result, Accord continues to recognise these loans on its Balance Sheet.

The Company also became a member of Yorkshire Building Society Covered Bonds LLP ("LLP") on 6 September 2021. 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 around £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 received 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.

External environment

For much of 2021, the UK economy showed strong signs of recovery. Among other factors, favourable developments were driven by significant Government support packages supporting businesses and the markets for labour and housing, alongside the success of the UK vaccination programme and the phased loosening of COVID-19 restrictions.

However, since late summer some of this momentum has slowed due in part to the emergence of new variants of COVID-19. The Delta variant resulted in almost a million workers self-isolating and shortages in the products and labour markets. The later emergence of the Omicron variant has also had negative impacts and has been particularly hard on the hospitality and retail sectors as consumers exercise caution. The risk remains that the COVID-19 pandemic will require further restrictions to be introduced to manage the impact of existing or new variants.

The mortgage market remains relatively buoyant, although activity has declined from the highs experienced earlier in the year demand remains ahead of the supply of housing stock. The drivers of the high levels of demand observed over first half of the year in particular included:

- The introduction of Government stimulus packages, originally initiated in 2020, namely Stamp Duty Land Tax relief, provided an incentive to those buying a new home, and later the Mortgage Guarantee Scheme which supported lending to customers with lower deposits.
- In the opening months of the year some lenders remained retrenched from certain lending segments, with the reduced availability of products serving to elevate pricing.
- Many homeowners have spent more time in their properties than before due to lockdowns and remote working and so may have reassessed their needs in the context of a different style of living and working.

As the financial incentives for home movers and first-time buyers were withdrawn, and lenders returned to the market, competition intensified, and customer rates began to fall. Additionally, the proportion of lending generated by remortgages increased markedly in the latter half of the year.

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 9-13.

Financial Performance

Mortgage performance

The Company achieved growth in mortgage balances and customers during 2021. The number of mortgage accounts held with the Company increased to 170,859 (2020: 150,220).

The buy-to-let mortgage book has grown 17% to £4,092m (2020: £3,513m), now representing 13.5% (2020: 13.7%) of the total book. The gross volume of mortgage lending in the year was £8,976m (2020: £5,964m). This resulted in net lending of £4,826m (2020: £1,961m) once repayments and redemptions are accounted for.

The proportion of the Company's new lending that is over 90% LTV is 4.7% as at 31 December 2021 (2020: 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 £201.6m (2020: £72.0m). This figure can be analysed into the following key areas:

	31 December 2021 £m	31 December 2020 £m
Net interest income	259.2	125.6
Net fee and commission income	3.0	2.7
Total income	**262.2**	**128.3**
Administrative expenses	(60.6)	(56.3)
Operating profit	**201.6**	**72.0**

The increase in operating profit in the year has been driven by net interest income, which increased by £133.6m in the year. This has been driven by strong new lending margins during the first half of the year and growth in our mortgage book.

Administrative expenses have increased to £60.6m (2020: £56.3m) due to costs associated with the ongoing project to upgrade the mortgage processing system to accommodate buy to let (“BTL”) products, 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.

Dividend

In 2021, an interim dividend of £75.0m to the shareholder was approved (2020: £50.0m). No final dividend has been approved for the year (2020: £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 an performance measure which excludes items such as 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.

	2021	2020	2019	2018
	£m	£m	£m	£m
Operating profit	201.6	72.0	51.0	77.9

Other financial performance metrics

	2021	2020	2019	2018
	£m	£m	£m	£m
Net interest income	259.2	125.6	104.1	131.1
Net fee and commission income	3.0	2.7	2.6	2.4
Administrative expenses	(60.6)	(56.3)	(55.7)	(55.6)
Profit before tax	205.5	66.6	48.3	81.2
Net interest margin	0.68%	0.39%	0.36%	0.51%

Net mortgage lending

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

The increase in net lending in 2021, as a result of a strong performance in the mortgage market, was driven by external environmental conditions and investment made in our operational and resourcing capabilities. This was especially prominent in the first half of the year, after which the market dynamics began to resemble those seen before the pandemic, as strong liquidity and capital positions contributed to intensifying competition and renewed margin pressures.

	2021	2020	2019	2018
	£m	£m	£m	£m
Net mortgage lending	4,826	1,961	2,405	2,562

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 0.40% (2020: 0.47%). This is lower than the market average of 0.85% (2020:0.84%). The value of the current portfolio currently >= 3 months in arrears is 0.28% (2020: 0.33%).

	2021	2020	2019	2018
	%	%	%	%
Mortgage arrears by value (>=3months)	0.28	0.33	0.33	0.31

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'. Continuing improvements made to our broker servicing have been reflected in the results below.

Broker Residential		Broker Buy-to-Let	
2021	2020	2021	2020
84	84	77	80

** 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 2021, taking into account those matters which are considered at Group level and / or led by the parent, 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 2021.

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

YBS	Whilst Accord is a subsidiary of YBS, it is a separate 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. The Board monitors the ongoing effectiveness of broker relationships through the Management Information provided at each meeting, including the Net Promotor Scores (NPS), ending the year at 84 for broker residential and 77 for broker buy to let (2020: 84 and 80) For further detail on customer experience is provided in Directors Report on page 14. ***Example – Supporting our Brokers*** *Our focus, both before the COVID-19 pandemic and during, has been to support our brokers to the best of our abilities. During 2021 the use of technology improved processes and the ability to use the webchat facility enabled quick and effective responses to broker queries when face to face interactions were not possible due to Government restrictions.* *The Accord Growth Series was established to provide help and support to our brokers in developing their business and has evolved to reflect the current crisis, providing bespoke support for brokers relevant to the challenges they face. In 2021 the series reached over 7,000 subscribers and evolved to reflect the impact of the COVID-19 pandemic. Bespoke content has been provided to support brokers that has been relevant to the challenges brought on by the pandemic, such as remote working, video conferencing and expert tips. A new live masterclass was also introduced in February 2021, helping brokers with website development and use of social media.*
Customers	Customers are key stakeholders for Accord and our work with our brokers is important in supporting them to strengthen their relationship with their clients who are ultimately the customers of Accord. ***Example – COVID-19*** *We constantly review our criteria and product range to ensure we offer brokers a range of options for our customers. During the challenging times created by the COVID-19 pandemic through 2021 we stood by our commitment to common sense lending, with a flexible approach to ensure that we could support customers in the best way possible. This included maintaining our approach to self-employed applicants and providing offer extensions for those who experienced delays as a result of the impact of a lockdown.*

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 matters from within the YBS Group, ensure that the relationship with Accord suppliers is managed in accordance with an agreed Supplier Relationship Management Framework.
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 - 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 2021.

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 9 to 13.

Each year the Accord Board reviews the Accord Lending Plan for the next five years, taking into account market conditions such as the impact of the COVID-19 pandemic and current performance. The Accord Board recognises that the plan is key for its long-term sustainability and forms a key component of the Group's overall lending within its Corporate Plan and aligns with the Society's long-term strategic ambitions and purpose. Accord is a key contributor to the overall success of the Society, accounting for 90% of the Group's residential lending in 2021.

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:

- Compliance and Legal Updates in relation to those issues which may have an impact on the Accord business.
- Modern Slavery Statement which is 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.
- Money Laundering Reporting Officer's Annual Report with any specific risks relating to Accord highlighted (based on the YBS Group enterprise wide report which includes Accord).
- Data Protection Officer's Annual Report which includes Accord as part of the YBS Group assessments.

Interests of Employees

Whilst Accord does not have any employees, it is recognised that decisions could impact colleagues within the YBS Group, and 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 successful delivery of the Accord Conference in January 2021 (held virtually due to the COVID-19 pandemic).

Strategic Report (continued)

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

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 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

We expect that a high level of competition will continue to characterise the market for mortgages and much uncertainty looks set to remain in the economic environment, relating to both the ongoing COVID-19 pandemic, the consequences of the UK's exit from the EU and the wider economic uncertainty around inflation. As a business we stay alert to the possibility for further disruptions and ensure that our risk management capabilities remain robust.

The short to medium-term economic outlook remains uncertain. The Omicron variant, and the rise in case numbers in the later months of 2021, pose downside risks to activity in 2022, and the interplay of this and the global supply and demand issues is unclear. The potential emergence of new variants remains a significant risk, with concerns around their potential ease of transmission and the effectiveness of current vaccines possibly requiring restrictive measures.

We expect upward pressure on house prices to persist, at least in the short term, which may pose a barrier to first-time buyers in getting onto the property ladder. Average UK house prices increased by 10.2% over the year to October 2021, according to the Office of National Statistics (ONS).

By order of the Board
R Purdy
Director
1 March 2022

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.

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.

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.

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 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. This includes the ongoing and evolving situation relating to the COVID-19 pandemic which continues to be relevant to matters internationally, nationally, at Group level and for the Company. Additional risks relating to the new trading arrangements between the UK and the European Union also remain.

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

Risk Management Report (continued)

Principal Risks and Uncertainties (continued)

Market risk

Interest rate mismatch risk

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

Basis risk

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

Approach

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

The Group operates a wide range of measures and scenarios that review this risk in respect of both earnings and value. Earnings are stressed over a 12 month period for +/- 250 bps changes in rates. Rates are assumed to be floored at 0%, although the Group has carried out ad hoc analysis around potential negative interest rate scenarios and taken action where appropriate to mitigate the associated risks.

Retail credit risk

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

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

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

Funding and liquidity risk

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

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

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

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

Operational risk

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

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

Risk Management Report (continued)

Principal Risks and Uncertainties (continued)

Conduct risk

The risk of direct or indirect loss as a result of a failure to comply with customer conduct regulation or to ensure fair customer outcomes.

Compliance and Conduct risk, including financial crime risk, is constrained by a Board approved risk appetite, which is further governed through the ERMF. Key conduct risk metrics are in place to protect customer outcomes in all key areas including sales, service, complaints and collections.

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

Model Risk

We continue to monitor and address the risks associated with the use of models and specifically, with regard to the impact of the COVID-19 pandemic and the risks associated with a potential inflationary environment, 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

Operational response to COVID-19 (Operational Risk)

The COVID-19 pandemic placed significant operational demands on all financial services organisations, requiring rapid changes to working arrangements initially, and significant ongoing changes, as well as the adaptation of existing processes to continue to meet customer needs under circumstances which were both unprecedented and challenging.

We successfully implemented our operational response in line with Government guidelines and continue to monitor its effectiveness and implement changes resulting from updates to this guidance. Our approach centred around ensuring the availability of critical services for our customers alongside protecting the health and wellbeing of our customers and colleagues. Our key customer-facing processes and services continued to be managed effectively during 2021, in order to minimise service issues.

In particular we have a number of strategies in place to support our colleagues through this period of uncertainty, recognising the length of time that colleague work patterns and environments have been subject to disruption. These have included: refining our people policies and practices; ensuring that our workplaces remain in line with the Government's guidance; and we have commenced the development of a longer-term future ways of working strategy.

Economic impacts (including COVID-19) on credit losses (Retail Credit Risk)

The impacts of the COVID-19 pandemic have dominated the economic landscape since March 2020. The lockdown measures taken to manage the scale of the pandemic, and the longer-term repercussions of these following their removal, have posed risk to the economy. Whilst lockdown restrictions and Government support have since ended, there remains a degree of latent risk relating to the potential emergence of arrears as the impacts of changes in unemployment and affordability may take time to crystallise.

Our approach to modelling expected credit losses on loans and advances to customers in response to these changing economic conditions is described in more detail in note 14 to the financial statements.

We considered our lending criteria carefully throughout the period with an approach which was intended to balance our purpose of providing Real Help with Real Life against the level of risk we take. At all times we have focused on our lending being responsible to protect customers and to minimise arrears.

Risk Management Report (continued)

Specific Current and Emerging Risks (continued)

Economic impacts of Brexit on credit losses (Retail Credit Risk)

Whilst the UK has now officially left the EU with a trade deal in place, the ongoing economic impacts remain uncertain. These aspects of uncertainty are incorporated into our economic scenario modelling.

These scenarios cover a range of impacts that reflect different levels of productivity and output of the UK and the subsequent effects on the broader economy.

Accord's exposure relates to UK-based residential and commercial property values, and so our risk arises from any potential economic downturn stemming from the new trading relationship rather than any specific risks to any particular business sector.

Regulation and Fair Outcome (Compliance & Conduct Risk)

Compliance and conduct are central to our values and behaviours, with an internal control framework which operates in line with the Board risk appetite and monitors adherence. Ongoing focus and robust challenge will be required to keep pace with the rapidly changing legal and regulatory environment. This will also be vitally important as we move forward with our ambitious programme of transformation, exploring new initiatives and new ways of working.

Against the backdrop of the pandemic, regulatory expectations have evolved rapidly and we have enhanced focus on our risk management activities on matters of greatest importance to our regulators, in particular the treating customers fairly impacts of mortgage payment deferrals and forbearance (FCA) and the ongoing effectiveness of our operations through Operational and Prudential Resilience (PRA).

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 2021 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 Risk Management Report within 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.

Developing IT capabilities in line with customer expectations (Operational Risk)

The ageing and diverse IT infrastructure, software, applications, satellite IT and use of third-party packages present within institutions across the UK financial services sector, expose these firms to increasing operational risks. As IT components age, their fit and value often deteriorate whilst cost and risk often conversely grow. Moreover, future digitalisation and modernisation initiatives may force firms to use old technology in ways for which they were not designed.

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. We continue to invest in operational resilience and legacy IT risk mitigation as part of a Group-wide Security Improvement Programme.

Risk Management Report (continued)

Specific Current and Emerging Risks (continued)

Increased competition and new technology (Operational Risk)
Our digitalisation programme continues to address increasing customer expectations of being able to access products and services through expanded digital channels. The digital transformation of direct competitors, as well as challenger banks and FinTech firms, continues to emphasise the need to remain competitive in these areas. This acceleration could provide additional challenges in the increased competition for appropriately qualified and experienced Information Technology resource.

There is, however, a residual risk that the cost of delivering the level of change necessary for some customer groups, aimed at keeping pace with rapidly changing technology, may also prove unsustainable. This will require investment choices which may not fully meet customer expectations.

Financial crime threats (Compliance & Conduct Risk and Operational Risk)
We operate in a hostile and constantly evolving financial crime environment. The COVID-19 pandemic has elevated the level of threats faced, and the wider financial services industry continues to see increased cyber-crime, including phishing and spam attempts that seek to take advantage of customers during this time of uncertainty.

The Group has not seen a meaningful increase in financial crime incidents during this period, however the business remains on high alert. The Group’s focus on its financial crime capability remains paramount in order to keep these evolving financial crime exposures within risk appetite. Investment continues to be made in this area, with particular focus on anti-money laundering controls, customer due diligence and Open Banking compliance. We constantly assess and appropriately upgrade our business standards, due diligence processes, IT and people capability.

New and evolving cyber security threats (Operational Risk)
The pace of technological change exposes the UK financial services sector to increasingly sophisticated cyber security threats – including ransomware, data breaches and weaknesses in the supply chain. Resilience to such threats, and an ability to effectively respond in the event of an attack, remains essential in order to protect the Group, maintain the trust of customers and the confidence of regulators. Investment continues to be made in this area to ensure that key controls are appropriately maintained.

Continued risk management effectiveness
Good progress has been made through 2021; 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

R Purdy
Director
1 March 2022

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 2021.

Directors

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

J Duncombe
S Jackson (Appointed 1 January 2021)
D Morris (Appointed 1 January 2021)
R Purdy
R Wells
S White (Resigned 14 January 2022)

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

Operating profit for the year was £201.6 million (2020: £72.0 million).

Dividends

During the year, an interim dividend to the Company's parent of £75.0 million (2020: £50.0 million) was approved by the Board.

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 the 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 2021 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 2021:

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 is a wholly owned subsidiary of 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. During 2021 a key strategic focus continued to be the response to the COVID-19 pandemic and ensuring that the requirements of customers, brokers and other key stakeholders continued to be met. Further information on YBS's strategy, purpose, values and culture can be found in the YBS Annual Report and Accounts 2021. 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 page 6.
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. 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 2021 there were six statutory directors of the Accord Board. The Accord Board met four times in 2021. 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 customer service, operational resilience, finance and risk. 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 Committees for the Group. Following the retirement of two Accord directors at the end of 2020, two new directors joined the Board with effect from 1 January 2021. The new appointments were made following a review of the Board's composition taking into account the required mix of skills, backgrounds and diversity. 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, this continues to 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. This includes the appointment of directors in January 2021. Further information can be found in the YBS Annual Report and Accounts 2021

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

<table>
<tr><td></td><td>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 2021 evaluation review.
Professional development of directors is identified through their roles as part of the wider Group together with regular performance evaluations.</td></tr>
<tr><td>Principle Three - Directors Responsibilities
The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge.</td><td>Accord and the wider YBS Group are committed to maintaining robust corporate governance practices.
The governance framework for the Company is clearly set out in its Articles of Association and the roles and responsibilities of the Board are set out in its Terms of Reference. The Terms of Reference are reviewed on at least an annual basis.
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.</td></tr>
<tr><td>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.</td><td>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.</td></tr>
</table>

Directors' Report (continued)

Governance (continued)

Wates Corporate Governance Principles (continued)

	Further detail in respect of Accord can be found in the Risk Management Report on pages 9 to 13. Further information on the Groups' approach to strategy and risk management can be found in the YBS Annual Report and Accounts 2021.
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 2021.
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** Engagement with our brokers has continued during 2021 despite the challenges of the COVID-19 pandemic. The Board recognises that 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 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 page 6.

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 2021, the continuing effects of COVID-19, the lasting impacts of Brexit and changes in 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 2022, and stress tests performed throughout the period, 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 auditor is 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 auditor is aware of that information.

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

Independent Auditor

The reappointment of PricewaterhouseCoopers LLP as auditor 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

R Purdy
Director
1 March 2022

Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare individual accounts for each financial year. Under that law the directors have prepared the company financial statements in accordance with UK-adopted International Financial Reporting Standards (IFRS), in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, IAS 1 *Presentation of Financial Statements* requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts and financial statements comply with the *Companies Act 2006*. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of Accord Mortgages Limited ("the Company");
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for the shareholder to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 1 March 2022 and is signed on its behalf by:

D Morris　　Chairman

R Purdy　　Director

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 2021 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 2021; 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 loan 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)

Report on the audit of the financial statements (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 2021 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)

Report on the audit of the financial statements (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 regulations and the Prudential Regulation Authority's 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 Companies 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 the posting of inappropriate manual journal entries to manipulate financial performance, management bias in significant accounting estimates and any significant one-off or unusual transactions. Audit procedures performed by the engagement team included:

- Enquiries of management and those charged with governance throughout the year including consideration of known or suspected instances of noncompliance with laws and regulations
- Enquiries of internal legal counsel
- 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 their significant accounting estimates
- Identifying and testing journal entries, in particular those posted by senior management, posted with descriptions indicating higher level of risk, posting 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 2022

Income Statement
for the year ended 31 December 2021

	Notes	2021 £m	2020 £m
Interest revenue calculated using the effective interest rate method	3	632.0	529.5
Other interest revenue	3	76.5	86.0
Interest revenue		**708.5**	**615.5**
Interest expense	4	(449.3)	(489.9)
Net interest income		**259.2**	**125.6**
Fees and commissions revenue		12.2	9.5
Fees and commissions expense		(9.2)	(6.8)
Net fee and commission income		**3.0**	**2.7**
Administrative expenses	5	(60.6)	(56.3)
Operating profit		**201.6**	**72.0**
Impairment of financial assets	7	3.9	(5.4)
Profit before tax		**205.5**	**66.6**
Tax expense	6	(39.0)	(12.4)
Profit for the year		**166.5**	**54.2**

Accord Mortgages Limited had no income or expenditure 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 27 to 50 form part of these financial statements.

Statement of Financial Position
as at 31 December 2021

	Notes	2021 £m	2020 £m
Assets			
Loans and advances to customers	8	30,416.0	25,583.1
Amounts owed from parent undertaking	16	11,745.3	7,313.9
Other assets		3.4	1.1
Total assets		**42,164.7**	**32,898.1**
Liabilities			
Amounts due to parent undertaking	16	29,677.7	25,616.5
Amounts due to other group entities	16	11,678.5	6,581.6
Current tax liability		-	-
Deferred tax liabilities	9	1.9	1.8
Other liabilities	10	391.7	374.8
Total liabilities		**41,749.8**	**32,574.7**
Equity			
Called up equity share capital	11	100.0	100.0
Retained earnings		314.9	223.4
Total equity		**414.9**	**323.4**
Total equity and liabilities		**42,164.7**	**32,898.1**

The notes on pages 27 to 50 form part of these financial statements.

These financial statements were approved by the board of directors on 1 March 2022 and were signed on its behalf by:

R Purdy
Director

Statement of Changes in Equity

for the year ended 31 December 2021

	Share capital	Retained earnings	Total
	£m	£m	£m
Balance 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 at 31 December 2021	**100.0**	**314.9**	**414.9**

	Share capital	Retained earnings	Total
	£m	£m	£m
Balance at 1 January 2020	**100.0**	**219.2**	**319.2**
Profit for the financial year	-	54.2	54.2
Dividend paid	-	(50.0)	(50.0)
Balance at 31 December 2020	**100.0**	**223.4**	**323.4**

The notes on pages 27 to 50 form part of these financial statements.

Statement of Cash Flows

for the year ended 31 December 2021

	Note	2021 £m	2020 £m
Cash flows from operating activities:			
Profit before tax		205.5	66.6
Non-cash items included in profit before tax	15	(3.9)	5.4
Net change in operating assets	15	(4,831.3)	(1,960.9)
Net change in operating liabilities	15	15.0	28.8
Tax paid		(38.9)	(23.9)
Net cash flow from operating activities	**15**	**(4,653.6)**	**(1,884.0)**
Cash flows used in financing activities:			
Net amounts owed to parent undertaking		(370.2)	1,021.6
Amounts owed to other group entities		5,096.9	914.2
Dividend paid		(75.0)	(50.0)
Net cash flows from financing activities		**4,651.7**	**1,885.8**
Net (decrease)/increase in cash and cash equivalents		**(1.9)**	**1.8**
Cash and cash equivalents comprise:			
Bank overdraft			
1 January		(1.8)	(3.6)
31 December		(3.7)	(1.8)
Cash flow		**(1.9)**	**1.8**

The notes on pages 27 to 50 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 2021 were authorised for issue by the directors on 1 March 2022.

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 Company previously applied EU-adopted international accounting standards but, as at 31 December 2021, the two bases are equivalent to each other.

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 2022, 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

Brexit
As stated in the basis of preparation above, the Company now applies international accounting standards as endorsed by the UK as a result of the UK's exit from the EU. 'UK adopted IFRS' and the previously applied 'EU adopted IFRS' are the same at 31 December 2021, and have been throughout the year, so there has been no change in any accounting policies or treatments as a result. The two bases may diverge over time if the UK adopts or amends standards and the EU does not.

IFRS 17 Insurance Contracts
IFRS 17 Insurance Contracts is the comprehensive standard establishing recognition and measurement requirements for insurance contracts. It is expected that this standard will be effective for periods beginning on or after 1 January 2023. The Company does not currently have any products that meet the definition of an insurance contract so this is not expected to impact the financial statements upon adoption.

Changes to Accounting Standards Effective in the Period
The Company has applied a number of amendments to international accounting standards that were mandatorily effective from 1 January 2021. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Notes to the Financial Statements (continued)

1. Statement of Accounting Policies (continued)

Accounting developments (continued)

Interest rate benchmark reform - Amendments to IAS 39, IFRS 9 and IFRS 7
Adoption of the Phase 2 amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Disclosures* was mandatory from 1 January 2021.

Phase 2 addresses issues that arise once an existing interest rate is replaced with an alternative interest rate.

The Company has transitioned all the relevant instruments to alternative bases. Transitioning of the LIBOR based swaps has not resulted in any of the hedge relationships failing the effectiveness testing and any gains or losses from the change of benchmarks and discount curves has been recognised in profit and loss.

Amendments to IFRS 3 Business Combinations
IFRS 3 Business Combinations prescribes the accounting when an entity assumes control of another business. As such, the amendments to this standard are not currently expected to have an impact on the Company, but this will be re-assessed if any acquisition activity were to occur.

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.

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 (less 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).

Notes to the Financial Statements (continued)

1. Statement of Accounting Policies (continued)

Significant Accounting Policies (continued)

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

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 lease receivables. The Company's Statement of financial position is therefore prepared on the basis that its sale of the beneficial interest in the mortgage loans is recognised as a collateralised non-recourse loan to the special purpose securitisation vehicles (a "deemed loan"), based on the amount the Company received from the special purpose securitisation vehicles to legally purchase the beneficial interest in the mortgage loans. The deemed loan is carried at amortised cost using the effective interest method.

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

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

Notes to the Financial Statements (continued)

1. Statement of Accounting Policies (continued)

Significant accounting policies (continued)
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.

Stage 1: 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).

Stage 2: financial assets move into 'stage 2' when they are deemed to have experienced a significant increase in credit risk (SICR). 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.

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

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

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

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

ECL calculations: 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.

Notes to the Financial Statements (continued)

1. Statement of Accounting Policies (continued)

Significant accounting policies (continued)

Hedging

As discussed above, IFRS 9 *Financial Instruments* included a transitional relief allowing the continued use of the hedge accounting requirements of IAS 39 *Financial Instruments: Recognition and Measurement*, and the Company continue to adopt this approach.

The Company applies hedge accounting when the specific rules and conditions in IAS39 are fulfilled. The majority of the Company's Derivatives are intra-Group interest rate swaps. These derivatives are initially recognised at fair value and subsequently measured at amortised cost. Cash flows arising from these derivative transactions are accounted for on an accruals basis as part of the Deemed loan.

Taxation including deferred tax

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

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

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

The following temporary differences are not provided for:

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

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

Other assets

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

Other liabilities

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

Notes to the Financial Statements (continued)

2. Critical accounting judgement and key sources of estimation uncertainty

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

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

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

Key source of estimation uncertainty

Impairment of loans and advances to customers

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

A Group level forum, supported by Finance, Credit Risk, Balance Sheet Management and economic experts has been established to consider and approve the forward-looking macroeconomic assumptions with the objective of developing internally coherent economic scenarios. This forum is charged with ensuring that ECL allowance meets the requirement for unbiased and probability weighted amounts derived by evaluating a range of possible outcomes and assumptions.

Economic scenarios and weightings

The Company assessed the uncertainty associated with the ongoing COVID 19 pandemic and the economic assumptions applied to the ECL model, and determined that applying a combined 45% weighting to downside and stress scenarios as at the balance sheet date reflects a reasonable view of the outturn for the UK economy. The Company has applied a 5% weighting to upside, 50% to core, 30% to downside and 15% to stress scenarios. This reflects a move of 5 percentage points from Downside to Core compared to 31 December 2020. The choice of alternative scenarios and scenario weights is performed to ensure the full range of possible outcomes and material non-linearity of losses are captured.

The Company considered alternative sets of weightings in reaching these results. The most severe applied the same weightings as at 31 December 2020 i.e. 45% Core and 35% Downside – this would result in a £0.9m increase in ECL. The least severe applied weightings of 55% Core and 10% Stress - this would result in a £1.5m decrease in ECL. These changes in weightings have been fully modelled and been allowed to impact staging. Further comments on the rationale of chosen weightings can be found in note 14.

SICR

The threshold applied to assess whether a significant relative increase in credit risk has occurred. If 10% of the accounts in stage 1, on a proportional basis, were to be transferred to stage 2 and subject to a calculation of full lifetime expected credit losses, this would result in a £1.9m (2020: £2.7m) increase in the provision. Adjustment of SICR criteria for payment holidays is described in note 14.

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 (2020: £2.0m) increase or decrease in the provision, respectively.

Staging

The assessment of staging for customers who are currently in arrears on their unsecured lending with other lenders but 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 £2.0m (2020: £6.3m) increase in provisions.

Notes to the Financial Statements (continued)

3. Interest revenue

	2021 £m	2020 £m
Calculated using the effective interest rate method:		
On loans secured on residential property	632.0	529.5
Interest income calculated using the effective interest rate method	**632.0**	**529.5**
Other:		
On loans to parent company (note 16)	53.3	66.1
On derivatives	23.2	19.9
Other interest revenue	**76.5**	**86.0**
Total interest income	**708.5**	**615.5**

4. Interest expense

	2021 £m	2020 £m
On deposits from parent company (note 16)	365.2	403.7
On deemed loans from other Group entities (note 16)	80.5	84.4
On derivatives	3.6	1.8
Total interest payable	**449.3**	**489.9**

5. Administrative expenses

	2021 £m	2020 £m
Management charge	59.1	56.0
Other expenses	1.5	0.3
Total administrative expenses	**60.6**	**56.3**

Included within other expenses are the fees payable to the Company's auditor for the audit of the Company's annual financial statements of £nil (2020: £190k) This year, the fee was borne entirely by the Society and not recharged.

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

Directors' fees are paid by the Yorkshire Building Society to its directors or other key management personnel in relation to their services to the Company. Further information on the Accord directors' remuneration is in note 16 and further disclosures are available in the Group's consolidated financial statements.

Notes to the Financial Statements (continued)

6.Tax expense

	2021 £m	2020 £m
Current tax:		
UK corporation tax at 19.00% (2020: 19.00%)	38.9	12.4
Total current tax	38.9	12.4
Deferred tax:		
Current year credit	(0.2)	(0.2)
Change in tax rate	0.3	0.2
Total tax expense in income statement	**39.0**	**12.4**

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. This will increase the Company's future current tax charge accordingly.

The deferred tax liabilities for the year ended 31 December 2021 will be calculated at 25% (2020: 19%) 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. The differences are explained below:

	2021 £m	2020 £m
Profit before tax	205.5	66.6
Tax calculated at a tax rate of 19.00% (2020: 19.00%)	39.0	12.6
Effects of:		
Expenses not deductible for tax purposes	0.1	0.1
Change in tax rate	0.4	0.2
Other permanent difference	(0.5)	(0.5)
Tax expense in income statement	**39.0**	**12.4**

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

7. Impairment of loan and advances

	2021 £m	2020 £m
Expected credit losses at 1 January	**21.8**	**16.5**
Amounts written off in the year	(0.2)	(1.0)
Reduction in discounting	0.3	0.4
Impairment adjustment for the year	(3.5)	5.9
Expected credit losses at 31 December	**18.4**	**21.8**
The charge for the year comprises:		
Impairment adjustment	(3.5)	5.9
Recoveries relating to amounts previously written off	(0.4)	(0.5)
Impairment of financial assets	**(3.9)**	**5.4**

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. This gives rise to a reduction in the interest income recorded on impaired assets, but also an offsetting reduction in the impairment charge for the year due to the reduction in discounting on the future credit losses (as shown in the table above). In 2021 & 2020 this was immaterial.

Notes to the Financial Statements (continued)

8. Loans and advances to customers

	2021 £m	2020 £m
Loans and advances to customers comprise:		
Loans secured on residential property	30,434.4	25,604.9
Expected credit losses - Impairment (note 7)	(18.4)	(21.8)
	30,416.0	**25,583.1**

£29.6m of the loans and advances are contractually due in less than one year (2020: £34.3m).

9. Deferred tax liabilities

The movements on the deferred tax liability are as follows:

	2021 £m	2020 £m
At 1 January	1.8	1.8
Income statement credit	0.1	-
At 31 December	**1.9**	**1.8**

10. Other liabilities

	2021 £m	2020 £m
Creditors (amounts falling due within one year)		
Bank overdraft	3.7	1.8
Amounts due to customers	388.2	371.1
Accruals	(0.2)	1.9
	391.7	**374.8**

11. Called up equity share capital

	2021 £m	2020 £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
2021	£m	Level 1 £m	Level 2 £m	Level 3 £m	£m
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**
2020					
Assets					
Loans and advances to customers	25,583.1	-	-	25,657.1	**25,657.1**
Amounts owed from parent undertaking	7,313.9	-	-	7,313.9	**7,313.9**
Liabilities					
Amounts owed to parent undertaking and other group entities	32,198.1	-	32,272.1	-	**32,272.1**

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 £205.3m which arises primarily due to the product rates being above prevailing market 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.

Maturity analysis **2021**	**Repayable on demand and up to one year £m**	**In more than one year but not more than five years £m**	**In more than five years £m**	**Total £m**
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)**
2020				
Financial liabilities:				
Borrowings from parent and other group entities	(1.8)	-	(32,196.3)	(32,198.1)
Customer offset mortgage funds	(371.1)	-	-	(371.1)
	(372.9)	**-**	**(32,196.3)**	**(32,569.2)**

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

Notes to the Financial Statements (continued)

13. Market risk

The Group's principal source of market risk is interest rate risk which focuses on these 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. Certain loans and advances to customers have been pledged to the Group's asset backed funding programmes. The programmes have enabled the Group to obtain secured funding. Refer to the liquidity risk disclosure in the YBS Annual Report and Accounts for 2021 for further detail of the Group's pledged assets.

Re-pricing gap analysis
Re-pricing dates are analysed, primarily to avoid re-pricing risk concentrations - the situation where too great a proportion of the Group's assets and liabilities see the interest rates earned or charged on them resetting within a given time period.

As all market risk is managed by the Group on behalf of Accord Mortgages Limited, further details of how the Group 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.

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 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.

	2021	**2020**
	£m	**£m**
Gross contractual exposures at the period end	30,368.2	25,541.2
EIR	66.2	63.7
ECL	(18.4)	(21.8)
Loans and advances to customers	**30,416.0**	**25,583.1**

Expected Credit Losses (ECL)

ECL are 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 increased credit risk. When this happens, post model adjustments (PMA) are overlaid to reflect the impact on ECL. The economic scenarios and the PMAs applied at 31 December 2021 are described below.

Notes to the Financial Statements (continued)

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

Expected Credit Losses (ECL) (continued)

Economic Scenarios

The Company continues to use four scenarios: an upside scenario that assumes minimal disruption; our core or central scenario; a more negative downturn scenario; and a worst-case stress scenario. These four scenario's are generated internally using external data, statistical methodologies, and senior management judgement to span a wide range of plausible economic conditions. Scenarios are projected over a five-year window, reverting to long term averages past that point.

The phased reopening of the economy from mid-April 2021 resulted in a strong rebound in activity, aided by a combination of government support measures and the progress of the UK vaccination programme. However, over the second half of the year this momentum slowed due to the emergence of the delta and omicron COVID-19 variants. At the height of the 'pingdemic' almost a million workers were self-isolating, leading to shortages in the labour markets. This, coupled with greater consumer caution going into December in light of the unknown impact of omicron at that time, meant the year ended with the economy on a downward trend, particularly for the hospitality and retail sectors.

Whilst the surge in omicron cases did not lead to a spike in hospitalisation and fatalities as many feared, and more severe lockdown measures in early 2022 were avoided, the pace of a return to any semblance of 'normality' is still not clear. The risk of further COVID-19 surges remains, especially if new variants of the virus continue to develop and supplies of boosters are not available or as effective.

The spectre of inflation has also emerged over the last few months with the UK experiencing rapidly rising fuel and energy prices and global supply issues for the first time since the 1970s. Unemployment continues to fall and job vacancies continue to rise, resulting in wage growth pressures. Potential conflict in Ukraine is also adding to volatility in energy prices and global markets.

The Bank of England has responded with back to back rate rises for the first time since 2004, the 15 basis point rise in December 2021 being quickly followed by the 25 basis point rise to 0.5% in February 2022.

As such, the economic assumptions applied within our scenarios are showing improvement since December 2020, but our outlook continues to reflect significant downside risks.

Upside

This assumes the continued availability of effective boosters and new vaccines successfully negate the impact of new COVID-19 variants. The removal of all social distancing restrictions allows businesses to return to full normality by mid-2022. After the strong performance in 2021, GDP continues to grow in 2022 and reverts to pre-pandemic levels from 2023. Unemployment falls back to multi-decade lows and house prices grow at 3% per annum over 2023 and 2024.

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 a steady return to post-pandemic normality over 2022 with no further restrictions or lockdowns.

The economic environment is more favourable than the 2020 lockdown easing as the level of uncertainty has greatly reduced, and households and businesses more quickly resume spending and investment plans. Having paid down bank debt and accumulated 'excess' cash holdings during the pandemic, large companies report robust investment intentions in response to strengthening demand. The 'super deduction' tax incentive further encourages firms to make use of this cash and bring forward capital spending.

Successive base rate rises successfully bring the rising inflation seen in early 2022 back to the Bank of England's 2% target.

House Price Index (HPI)

The core scenario expects both the supply of, and demand for housing stock to normalise in 2022 and for some of the 2021 gains to unwind. HPI increases by 1.2% in 2022 and rises to 2.0% per annum from 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)

Core (continued)

Gross Domestic Product

In this scenario gross domestic product (GDP) growth for 2022 is expected to be 5.9%. This reflects increased capital spending of stockpiled cash of large companies, albeit partially offset with growing labour costs and component shortages. The UK economy returns to near its pre-pandemic level in Q3 2022 but is structurally marginally smaller due to lost investment, business closures and labour market scarring (i.e. the longer a person is unemployed the more difficult they find it to re-enter the jobs market even with rising job vacancies). In 2022 to 2025 GDP growth then slows to similar rates seen in the past decade. Brexit is assumed to leave GDP around 4% lower than the pre-virus level by 2025 due to lower inward investment and productivity.

Unemployment

As uncertainty fades and demand continues to grow, we anticipate a recovery in business investment and therefore job creation, as a result we expect unemployment to fall.

Downturn

The downturn scenario assumes the emergence of new COVID-19 variants that current vaccines are ineffective against, resulting in spikes in but with hospitalisations and fatalities following suit. In the absence of effective boosters and new vaccines taking longer to roll out due to longer clinical trial periods and production constraints, the UK Government imposes a further national lockdown to combat the pressure on the healthcare system. Non-essential sectors are restricted from trading, with the economy continuing to take a hit as there is no further government support for jobs and businesses. Although bank base rate is reduced to zero, unemployment accelerates and earnings growth falls behind inflation, reducing spending power.

HPI

A combination of a rapid rise in unemployment, falling real earnings and a collapse in consumer confidence drives house prices down sharply in 2022 by 12.7% and a further 5% in 2023, with no recovery in values until 2025. A rise in repossessions further drives down valuations.

GDP

Lockdowns and restrictions result in a GDP contraction of 5.6% in 2022 and a contraction of 5.0% in 2023 but it starts to grow slowly in Q3 2023 as the economy is gradually reopened. However, with weakness in the labour markets, declining real earnings and low demand/business investment, downturn forecasts growth rates of 1.3% for 2024 and 1.5% for 2025 and 2026.

Unemployment

With no government backed job retention or income support schemes, unemployment starts to accelerate to a peak of 8.8%. As recovery sets in, unemployment gradually starts to fall, although it is still high by recent standards.

Stress

In the stress scenario there are further challenges with the current vaccines' ability to cope with new strains of COVID-19, requiring the UK government to reimpose strict public health measures with a national lockdown in mid-2022 and wider local restrictions for the remainder of the year.

An updated vaccine emerges in late 2022 but supply chain and production issues mean it is not widely available until late 2023. In addition, the supply chain shortages cause further disruption as economies attempt to reopen and demand outstrips supply. The extended stress incorporates a risk that UK supply chains are also impacted by climate catastrophes on a global scale over the 5-year scenario horizon, further undermining recovery. Increased tensions between the EU and the UK put into doubt the workability of the 2020 trade agreement, increasing uncertainty in the business sector, reducing investment, hiring and growth.

There is no financial support for workers in non-essential sectors and affected businesses as the UK government cannot continue the level of support given during the 2020 first wave. Although the Bank Rate is reduced to zero, unemployment accelerates and earnings growth falls behind inflation, reducing spending power. A contracting economy and a large public sector deficit put pressure on sterling, giving rise to inflation and a decline in real wage growth.

Notes to the Financial Statements (continued)

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

Expected Credit Losses (ECL) (continued)

Economic Scenarios (continued)

Stress (continued)

This adds further stress to household finances and consumer spending in addition to the high level of unemployment. Furthermore, by the end of 2025 the UK government begins to implement debt reduction strategies that take demand out of the economy through higher taxes and spending cuts. This results in a less pronounced GDP fall in 2023 than the downturn scenario but leads to a more prolonged recession.

Summary of Key Economic Variables

The following table shows the average values of the key economic variables used by each economic scenario for the period until December 2026. 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. The values in the table are calculated as either a simple average of the rate across the five-year forecasting window (unemployment and bank rate) or as peak to trough (HPI and GDP).

	2021 Scenario					2020 Scenario				
%	2022	2023	2024	2025	2026	2021	2022	2023	2024	2025
HPI										
Upside	4.0	3.0	3.0	2.0	2.0	3.2	3.4	3.4	3.6	3.5
Core	1.2	2.0	2.0	2.0	2.0	(4.0)	-	2.0	2.0	2.0
Downturn	(12.7)	(5.0)	-	1.5	2.0	(17.0)	(4.0)	-	1.5	2.0
Stress	(13.0)	(10.5)	(5.0)	-	1.0	(12.0)	(10.0)	(5.0)	(2.0)	-
GDP										
Upside	6.3	2.1	2.0	2.0	2.0	6.5	2.5	2.0	2.0	2.0
Core	5.9	1.8	1.6	1.6	1.6	5.7	2.5	1.8	1.6	1.6
Downturn	(5.6)	(5.0)	1.3	1.5	1.5	(5.5)	1.3	1.5	1.7	1.8
Stress	(5.1)	(2.0)	(0.7)	-	-	(5.5)	(2.0)	(0.8)	(0.5)	-
Unemployment										
Upside	4.3	4.3	4.2	4.1	4.1	5.0	4.0	3.9	3.8	3.8
Core	4.7	4.7	4.5	4.4	4.4	7.9	7.5	6.5	5.5	4.5
Downturn	7.0	8.8	7.8	7.5	7.0	9.5	8.5	7.5	7.0	6.0
Stress	10.0	11.9	9.0	8.0	7.0	8.8	11.9	10.8	9.0	8.0
Bank Rate										
Upside	0.50	0.75	0.75	0.75	0.75	0.50	0.75	0.75	0.75	0.75
Core	0.50	0.75	0.75	0.75	0.75	0.10	0.25	0.25	0.25	0.25
Downturn	-	-	-	-	-	0.10	0.10	0.10	0.10	0.10
Stress	-	-	-	-	-	-	-	-	-	-

	Upside		Core		Downturn		Stress	
%	2021	2020	2021	2020	2021	2020	2021	2020
5y Average								
GDP	2.1	2.3	1.8	2.0	(1.6)	(0.5)	(2.2)	(2.4)
HPI	2.8	3.4	1.8	0.4	(3.0)	(3.8)	(5.7)	(5.9)
Unemployment	4.2	4.4	4.6	6.5	7.5	7.8	9.1	9.5
Bank Rate	0.7	0.7	0.6	0.2	-	0.1	-	-
Peak to trough								
GDP	-	-	(7.8)	(8.8)	(8.8)	(7.8)	(4.3)	(4.9)
HPI	-	-	(8.3)	(5.8)	(14.3)	(16.8)	(23.5)	(24.0)
Unemployment	4.5	7.0	4.9	7.9	8.8	9.5	11.9	11.9

Notes to the Financial Statements (continued)

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

Expected Credit Losses (ECL) (continued)

Alternative Scenarios Considered

Given the current economic climate, we have given consideration to the increasing risk of inflation and rising interest rates. Given the potential for an adverse impact on affordability, the possibility of introducing a fifth economic scenario as an alternative base case was considered. However, in that scenario interest rates and unemployment would be expected to remain low by historical standards. After review, including consideration of the sensitivity of our mortgage books and associated impairment models to increasing interest rates, we concluded that the existing four scenario approach provides sufficient coverage across the range of potential credit loss outcomes.

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.

	2021		2020	
£m	**Weighting (%)**	**ECL £m**	**Weighting (%)**	**ECL £m**
Upside scenario	5	8.2	5	7.1
Core scenario	50	8.5	45	8.4
Downturn scenario	30	27.4	35	34.0
Stress scenario	15	37.1	15	38.6
Weighted scenario	100	**18.4**	**100**	**21.8**

The relative weighting of the scenarios has been re-assessed as a result of a number of positive economic indicators and developments over the year. Whilst downside and upside risks remain, the strength of the recovery, particularly in the housing market and the efficacy of the vaccine rollout even in the face of the omicron variant, are considered to signify a return to a more ‘normal’ set of economic conditions, albeit a post-pandemic ‘new normal’. As a result, it was deemed appropriate to reweight the core scenario to 50%, moving a 5% weighting from downturn.

As in prior periods, the stress scenario is an operational measure used to stress test the rigour of the Company’s balance sheet and applying a 15% weight to this scenario is still considered appropriate. The upside of 5% is also still deemed appropriate.

If the December 2020 weightings had been applied to the December 2021 balances the ECL would be £0.9 million higher.

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. 2021 has seen a rapidly changing macro-economic environment and there has therefore been an increased focus on identifying and quantifying the resulting risks and exposures.

The PMAs applied at 31 December are as follows:

	2021	**2020**
	£m	**£m**
Methodology changes	2.8	-
Model recalibration	0.8	-
Extended time to sale	1.3	-
Cladding	0.5	-
Uncertainty	1.3	-
Payment deferrals	-	2.2
Total	**6.7**	**2.2**

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 2022. A PMA was established to provide a high-level overlay to the models to reflect the impacts, primarily:

- the additional accounts that would be classified as being Stage 3 due to meeting the additional default criteria;
- the accounts that would be more likely to be classified as Stage 2 due to an increase in risk, either by their transition to a higher rating grade, and potentially to a higher risk PD model.
- Reflect changes to the eligibility of accounts meeting the definition of a significant increase in credit risk ('SICR'). The changes reflect using 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.

Extended Time to Sale

In response to the COVID-19 pandemic, the FCA put in place a moratorium on the enforcement of lender repossession and this remained in place until 1 April 2021. This has led to an industry-wide backlog of repossessions and impacted some of the model parameters, specifically those related to time to sale.

This post model adjustment adjusts for this by increasing each of the time from default to possession (TFDP) parameters by 12 months to reflect the under-estimation present in the core model. This PMA will continue to be monitored and is expected to be released as the repossession activity reverts back to historic levels as backlogs are 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. In January 2020 the Ministry for Housing, Communities & Local Government (MHCLG) also published guidelines that introduced a duty on freeholders to obtain a detailed assessment, and undertake remedial works, on any potentially combustible elements of any cladding, of any height, on all blocks of flats.

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 main area of risk therefore is residential leaseholders that have these costs passed on to them and this impacts their ability to meet mortgage payments. In addition, whilst the Company does not have exposure to individual residential freehold flats, there are a number of block freeholds within the Commercial lending portfolio. In the cases affected, the freeholder is able to recover the costs of any necessary works from the leaseholders but there is a risk of non-recovery if the leaseholder has neither the means nor the desire to pay.

However, at this point in time, there is insufficient data to determine which accounts may be subject to cladding, or other fire safety issues, and therefore require remedial work. As such, quantification of the Company's exposure has been calculated at this stage via a series of assumptions applied to the portfolio. As more data becomes available, this exposure will be assessed and monitored at a more granular, account-by-account level.

Note: in January 2022 the UK Government's announced proposals for ensuring leaseholders do not pay the remediation costs associated with cladding on properties greater than 11 metres in height. This has been reviewed and the PMA has not been adjusted as a result as they remain proposals at this stage.

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)

Whilst these recommendations are welcome, they do not resolve a number of fire safety issues that would still require leaseholder funded remediation like fire stopping, internal fire doors, balconies and service voids. The impact on our PMA will be considered once there is a final agreed position from government and industry.

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 raised in response to extraordinary growth in house prices since the easing of the first Covid-19 lockdown and, in particular, the limitations of the underlying models to cope with the HPI being applied at regional level in our models. In a rapidly rising market, we expect there to be significant local variances in house price inflation between areas within a region. The uncertainty being modelled in this PMA is that the HPI increases at a regional level are not evenly distributed and the ECL impact of changes in collateral values is non-linear.

This PMA seeks to correct for the standard deviation from the regional type mean and not an attempt to correct for any perceived current market wide over-valuation. 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.

<u>Climate risk</u>

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 has yet to be incorporated into the core ECL models so a PMA is therefore required 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 £1 million PMA 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.

Payment Deferrals

A £2.2 million PMA was applied at 31 December 2020 to ensure that the levels of increased risk in the book potentially masked by payment deferrals granted to our mortgage customers was adequately reflected. A post model adjustment was developed to reflect the risk and uncertainty surrounding customer behaviour when coming out of the deferral period. Throughout 2021, the PMA was fully released in line with reducing balance of mortgage customers granted deferrals.

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

Staging

Stage	Balances £m	%	PMA £m	Total ECL £m	Coverage %	Average LTV %	2020 % Balance %	2020 Coverage %
Stage 1	28,180.7	92.8	0.6	3.0	0.0	59.5	95.9	0.01
Stage 2	1,963.0	6.5	3.3	5.9	0.3	49.4	3.4	1.15
Stage 3	224.5	0.7	2.8	9.5	4.2	50.7	0.7	5.35
Total	**30,368.2**	**100.0**	**6.7**	**18.4**	**0.1**	**58.6**	**100.0**	**0.09**

The following table shows expected credit losses, split by impairment and fair value credit adjustments, and a best estimate of the collateral held 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.

Gross Exposures	2021 £m	2020 £m
Stage 1	**28,180.7**	**24,497.8**
Stage 2	**1,963.0**	**869.5**
Less than 30 days past due	1,906.9	799.0
More than 30 days past due	56.1	70.5
Stage 3	**224.5**	**173.9**
Less than 30 days past due	104.5	58.3
Between 30-90 days past due	35.4	38.1
More than 90 days past due	84.6	77.5
Total	**30,368.2**	**25,541.2**

Collateral Held	2021 £m	2020 £m
Stage 1	**28,180.4**	**24,495.0**
Stage 2	**1,962.8**	**868.8**
Less than 30 days past due	1,906.7	798.4
More than 30 days past due	56.1	70.4
Stage 3	**224.1**	**173.5**
Less than 30 days past due	104.5	58.3
Between 30-90 days past due	35.3	38.0
More than 90 days past due	84.3	77.2
Total	**30,367.3**	**25,537.3**

ECL	2021 £m	2020 £m
Stage 1	**3.0**	**2.5**
Stage 2	**5.9**	**10.0**
Less than 30 days past due	5.3	7.7
More than 30 days past due	0.6	2.3
Stage 3	**9.5**	**9.3**
Less than 30 days past due	2.8	1.1
Between 30-90 days past due	1.0	1.1
More than 90 days past due	5.7	7.1
Total	**18.4**	**21.8**

All accounts in stage 1 are less than 30 days past due. All accounts in stage 2 are less than 90 days past due.

Notes to the Financial Statements (continued)

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

Credit risk management

The Retail 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 closely by the Customer Risk team. Reporting on risk exposures is provided regularly to the Group's risk committees and includes analysis of mortgages in arrears as well as monitoring of the characteristics of the loan portfolios (e.g. geographic location and loan-to-value).

	2021	2020
Arrears Status	**%**	**%**
No arrears	98.4	98.0
Less than three months	1.3	1.6
Equal to or more than three months, less than six months	0.1	0.2
Equal to or more than six months, less than 12 months	0.1	0.1
12 months or more	0.1	0.1
Total	**100.0**	**100.0**
Number of properties in possession at the year end	**7**	**2**

The percentage of Accord mortgages with arrears of three months or more (as a % of outstanding balances, including possessions) has marginally decreased from 0.4% to 0.3%. 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 0.50% (2020: 0.59%) is below the comparable UK Finance ratio 0.79% (Q3 2021, Q4 2020: 0.84%).

Arrears on more recent lending are minimal, reflecting the Company's credit risk appetite. The arrears on the buy-to-let portfolio within retail remains the same with an arrears ratio of 0.02% (2020: 0.03%). The Company's mortgage exposure can be broken down by customer type and geographical region as follows:

	Book		New Lending	
	2021	**2020**	**2021**	**2020**
	%	%	%	%
First time buyer	28.0	23.3	38.5	32.6
Other buyers e.g. movers	34.7	33.2	38.1	32.3
Remortgage	23.8	29.8	12.3	24.0
Buy-to-let	13.5	13.7	11.1	11.1
	100.0	**100.0**	**100.0**	**100.0**

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

	Book		New Lending	
	2021	**2020**	**2021**	**2020**
	%	**%**	**%**	**%**
Scotland	6.4	6.7	5.5	5.8
North East	3.3	3.3	3.2	3.9
Yorkshire & Humberside	7.2	7.2	7.4	8.0
North West	10.0	10.0	10.0	11.3
Midlands	13.4	13.8	12.6	13.9
East	11.1	11.0	11.7	10.9
South West	7.4	7.4	7.3	7.5
Greater London	18.9	18.7	19.0	15.9
South East	18.1	17.8	19.0	18.6
Wales & Northern Ireland	4.2	4.1	4.3	4.2
Total gross carrying amount	**100.0**	**100.0**	**100.0**	**100.0**

Notes to the Financial Statements (continued)

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

Credit risk management (continued)

The Company's retail mortgages are secured on property. The value of these properties is updated on a quarterly basis using the Office of National Statistics 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	
	2021	2020	2021	2020
Loan-to-value distribution of retail mortgages	%	%	%	%
100% or greater	-	0.1	-	-
95% to 100%	-	0.0	-	-
90% to 95%	1.2	1.8	4.7	4.7
85% to 90%	4.0	7.6	23.4	20.3
80% to 85%	8.9	12.0	26.3	28.4
75% to 80%	12.5	11.6	16.8	10.9
70% to 75%	13.9	12.8	12.8	13.2
60% to 70%	22.7	19.9	7.8	10.2
Less than 60%	36.8	34.2	8.2	12.3
	100.0	**100.0**	**100.0**	**100.0**
Average indexed LTV	53.4	60.0	73.8	72.2

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 ranges, origination year and loan to value.

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 which has since been sold.

					Balances	2021
PD Band	Stage 1	Stage 2	Stage 3	2021 Total	2020 Total	ECL
	£m	£m	£m	£m	£m	£m
0.00% - <0.15%	23,139.6	1,265.4	-	24,405.0	18,114.4	1.7
0.15% - <0.25%	444.6	79.4	-	524.0	2,264.6	0.3
0.25% - <0.50%	144.4	129.5	-	273.9	488.7	0.2
0.50% - <0.75%	134.0	127.2	-	261.2	205.9	0.2
0.75% - <1.00%	72.7	64.9	-	137.6	212.9	0.2
1.00% - <2.50%	162.7	140.4	-	303.1	295.8	1.1
2.50% - <10.0%	26.5	73.3	-	99.8	204.5	1.3
10.0% - <100%	1.8	46.6	-	48.4	100.5	3.1
Default	-	-	224.5	224.5	173.9	9.5
Other	4,054.4	36.3	-	4,090.7	3,480.0	0.8
Total	**28,180.7**	**1,963.0**	**224.5**	**30,368.2**	**25,541.2**	**18.4**

Notes to the Financial Statements (continued)

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

Credit risk management (continued)

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 £m	ECL £m
2021	28.1	0.8	-	8,785.4	3.0
2020	17.4	0.6	0.1	5,499.4	1.9
2019	14.1	0.8	0.1	4,549.7	2.0
2018	12.5	0.6	0.1	3,993.7	1.9
2017	8.1	0.4	-	2,578.3	0.9
2013 - 2016	9.6	1.6	0.1	3,411.7	1.0
2009 - 2012	1.3	0.5	-	566.8	0.2
Pre-2009	1.7	1.2	0.3	983.2	7.5
Total	92.8	6.5	0.7	30,368.2	18.4

Movement Analysis	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross balance at 31 December 2020	**24,497.8**	**869.5**	**173.9**	**25,541.2**
Transfers:				
Transfers from stage 1 to 2	(1,096.7)	1,096.7	-	-
Transfers from stage 1 to 3	(63.2)	-	63.2	-
Transfers from stage 2 to 1	93.4	(93.4)	-	-
Transfers from stage 2 to 3	-	(31.7)	31.7	-
Transfers from stage 3 to 1	6.7	-	(6.7)	-
Transfers from stage 3 to 2	-	21.5	(21.5)	-
Changes to carrying value	(1,267.2)	213.0	9.7	(1,044.5)
New financial assets originated or purchased	9,466.2	-	-	9,466.2
Financial assets derecognised during the period	(3,456.3)	(112.6)	(24.5)	(3,593.4)
Write-offs	-	-	(1.3)	(1.3)
Gross balance at 31 December 2021	**28,180.7**	**1,963.0**	**224.5**	**30,368.2**

Notes to the Financial Statements (continued)

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

Credit risk management (continued)

Movement Analysis	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
ECL at 31 December 2020	**2.5**	**10.0**	**9.3**	**21.8**
Transfers:				
Transfers from stage 1 to 2	-	1.7	-	1.7
Transfers from stage 1 to 3	-	-	1.7	1.7
Transfers from stage 2 to 1	-	-	-	-
Transfers from stage 2 to 3	-	-	0.8	0.8
Transfers from stage 3 to 1	-	-	-	-
Transfers from stage 3 to 2	-	0.3	-	0.3
Changes in PDs/LGDs/EADs	2.3	(3.7)	-	(1.4)
New financial assets originated or purchased	2.0	-	-	2.0
Changes to model assumptions and methodologies	(3.5)	(1.6)	(1.4)	(6.5)
Unwind of discount	-	-	0.3	0.3
Financial assets derecognised during the period	(0.3)	(0.8)	(0.9)	(2.0)
Write-offs	-	-	(0.3)	(0.3)
ECL at 31 December 2021	**3.0**	**5.9**	**9.5**	**18.4**

Forbearance

The Company uses forbearance tools where they are deemed appropriate for an individual customer's circumstances, in line with industry guidance. Forbearance tools, which the Company may offer, include capitalisation, interest only concessions, arrears arrangements and term extensions. The use of account management tools are either fully recognised within provisioning or are low in materiality.

The Company has tightened its forbearance classification to only include customers experiencing financial distress prior to the granting of forbearance measures as per guidance from the EBA. The definition now excludes customers with term extensions and also those with arrangements granted whilst the customer was not in arrears.

The table below shows the accounts that are forborne under the new definition (excluding commercial loans). These accounts have been further classified as non-performing forbearance, 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. Accounts are captured as probationary for 2 years after reclassification from non-performing. The Company has fully aligned its definition of non-performing and Stage 3 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 into stage 2 or 1. Prior year results have been included using the updated definition for comparison.

	Arrangements		Other Concessions		Term extension		Interest Only	
2021 (£m)	**Exposure**	**ECL**	**Exposure**	**ECL**	**Exposure**	**ECL**	**Exposure**	**ECL**
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**	**-**
2020 (£m)								
Probation	**47.7**	**0.8**	**1.4**	-	**1.6**	**-**	**-**	**-**
Stage 1	19.4	0.1	0.7	-	0.3	-	-	-
Stage 2	28.3	0.7	0.7	-	1.3	-	-	-
Non-performing	**86.4**	**5.0**	**3.6**	**0.2**	**1.4**	**-**	**-**	**-**
Stage 3	86.4	5.0	3.6	0.2	1.4	-	-	-
Total	**134.1**	**5.8**	**5.0**	**0.2**	**3.0**	**-**	**-**	**-**

Notes to the Financial Statements (continued)

15. Notes to the Cash flow statement

	2021 £m	2020 £m
Cash flows from operating activities		
Profit before Tax	**205.5**	**66.6**
Adjustments to profit:		
Tax expense	**(38.9)**	**(23.9)**
Non-cash items:		
(Decrease)/increase in impairment and provisions in the year	(3.9)	5.4
Total non-cash items	**(3.9)**	**5.4**
(Increase) in operating assets		
(Increase) in Loans and advances to customers (excluding impairment)	(4,829.0)	(1,961.1)
(Increase)/Decrease in Other assets	(2.3)	0.2
	(4,831.3)	**(1,960.9)**
Increase in operating liabilities		
Increase in Amounts due to customers	17.1	29.3
(Decrease) in Accruals	(2.1)	(0.5)
	15.0	**28.8**
Net cash flow from operating activities	**(4,653.6)**	**(1,884.0)**

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

Net Intercompany Position	2021 £m	2020 £m
At 1 January	**24,884.1**	**22,946.0**
Cash flows	4,482.8	1,352.4
Non-cash changes caused by:		
Accrued interest	449.3	489.9
Fair value	(205.3)	95.8
At 31 December	**29,610.9**	**24,884.1**

Notes to the Financial Statements (continued)

16. Related parties

The Company is a wholly owned subsidiary of Yorkshire Building Society which is domiciled and incorporated in the United Kingdom. Copies of the 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 (2020: 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 2021 the Company owed a loan to the parent of £29,677.7m (2020: £25,616.5m). The outstanding balance has no fixed repayment date. A market interest rate is charged on the outstanding loan balance. Interest of £365.2m (2020: £403.7m) was paid in the year.

The Parent owed the Company £11,745.3m (2020: £7,313.9m). The outstanding balance has no fixed repayment date. A market interest rate is charged on the outstanding loan balance. Interest of £53.3m (2020: £66.1m) was received in the year.

The Company has deemed loans to the Brass and Tombac securitisation vehicles of £11,678.5m (2020: £6,581.6m). 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 £80.5m (2020: £84.4m) was paid in the year.

The Company paid a management recharge fee to the parent for the 2021 financial year of £59.1m (2020: £56.0m). In 2021 a dividend payment of £75.0m was made to the parent (2020: £50.0m).