Together Financial Services Limited

Annual Report and Consolidated Financial Statements

For the year ended 30 June 2018

together.
SINCE 1974

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2018 Awards

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(34th) Best Company To Work For
Sunday Times Best Companies To Work For 2018

Welcome to Together

Founded in 1974, Together has been bringing common sense to the mortgage market for more than 40 years. Today, we are one of the UK's leading specialist lenders, offering flexible first and second charge personal mortgages for owner occupiers, buy-to-let mortgages, bridging, commercial and development loans to individuals and small and medium sized businesses across the UK.

We look beyond mainstream lending criteria to find the best solutions for our customers, including those with complex or multiple incomes, diverse types of property, specialist purchase situations, or thin or imperfect credit histories. With over 700 colleagues dedicated to delivering positive customer outcomes, we have the experience, people and resources to help our customers achieve their financial ambitions.

2018 highlights

£122m
underlying PBT
(2017: £117m)

34.2%
underlying cost/income[3]
(2017: 28.7%)

7.7%
NIM[2]
(2017: 8.5%)

700+
colleagues
(2017: 600+)

44 year
track record

32%
growth in net loan book to £3.0bn
(2017: £2.2bn)

55.3%
weighted indexed LTV[1]
(2017: 53.4%)

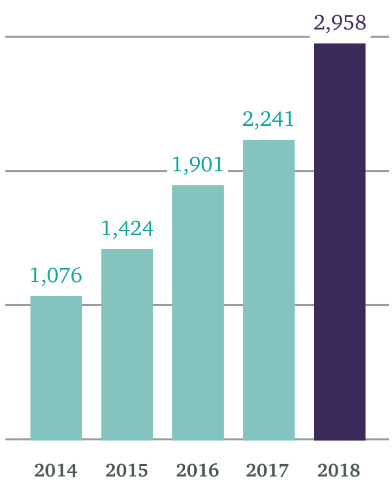
34th
in the Sunday Times 100 Best Companies to Work For 2018

£122m
statutory PBT
(2017: £94m)

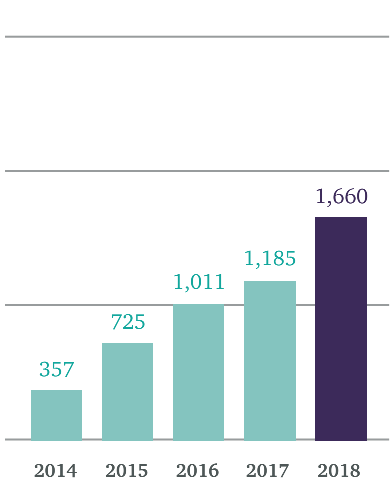
£1.7bn
originations
(2017: £1.2bn)

44%
increase in funding facilities to £3.0bn

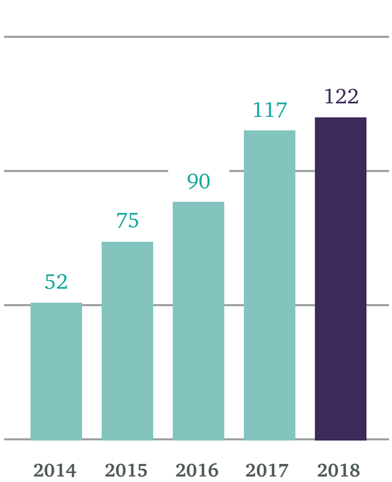
Net loan book £m



Originations £m

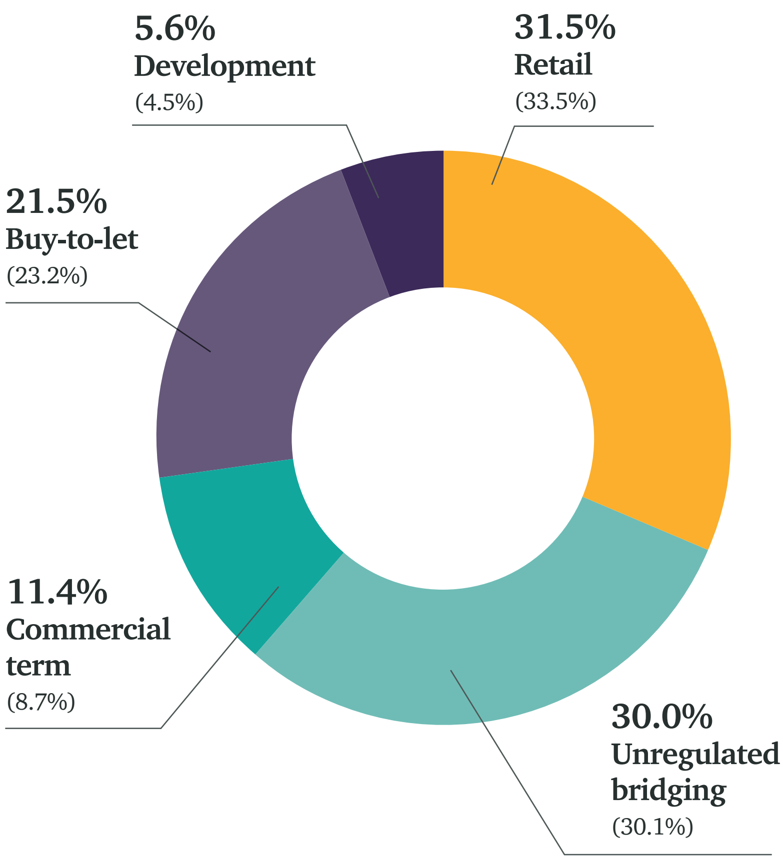


Underlying PBT £m

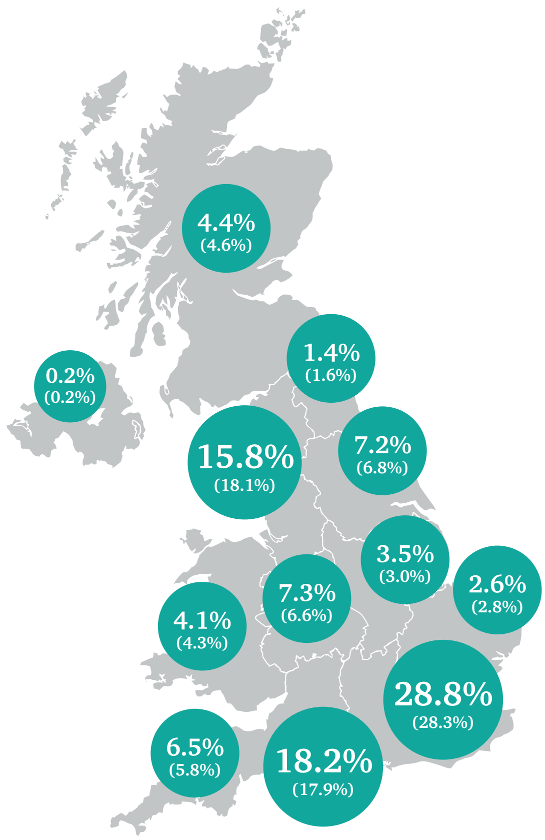


Our loan book as of June 2018 (2017 figures in brackets)

68.0% secured on residential property (74.8%)



We are geographically diversified



	2018	2017
Profit before taxation (£m)	121.7	94.1
Underlying profit before taxation[4] (£m)	121.7	117.1
Impairment charge (£m)	11.4	7.4
Loans and advances to customers (£m)	2,958.2	2,240.9
Shareholder funds (£m)[5]	737.0	651.6

[1] Loan to value.
[2] Net Interest Margin 2018: 7.7% on statutory basis and on an underlying basis (2017: 7.8% statutory basis; 8.5% underlying).
[3] On a statutory basis cost/income ratio 2018 is 34.2% (2017: 36.5%).
[4] Underlying profit before tax excludes one-off refinancing and transaction costs of £nil in 2018 (2017: £23.0).
[5] Includes shareholder loans and notes of £25.1m (2017: £23.2m).

Strategic report

Delivering
ambitious
growth

Chairman's review

Mike McTighe

The Together Group ('Together' or 'the Group') achieved another strong performance in the year to 30 June 2018. With record lending of £1.7bn driving a 32% increase in our loan book to £3.0bn.

Continued strong growth

Loan originations were up 40.0% to £1.7bn, while we maintained a highly conservative loan-to-value ratio for originations of 58.0%. The Group remained highly profitable and despite the increase in costs as the loan book increased, along with significant investment in the year, we delivered underlying profit before tax of £121.7m (2017: £117.1m). Statutory profit before tax was £121.7m (2017: £94.1m).

Over the year, we continued to deliver on our strategy of increasing lending volumes and growing our loan book by focusing on lending responsibly to profitable segments of our markets which are underserved by the high street banks, while enhancing our platform to support our future growth ambitions.

Enhancing our platform to support our growth ambitions

Together has a unique and very positive culture created by our founder and embodied by all our colleagues. We were all delighted to be recognised as one of the UK's best companies to work for by the Sunday Times in February 2018, and the Board would like to thank all our colleagues for making Together such a special place to work.

During the year, we further enhanced our operating platform in line with our future growth ambitions, investing significantly in our systems and technology. We also expanded our distribution by launching into the extensive UK retail broker networks and mortgage clubs and made a number of key senior appointments within our finance, sales, marketing, risk and compliance teams to support our continued growth.

Further diversifying our funding structure

We continued to underpin our strong growth with a corresponding increase in the scale, diversity and maturity of our funding structure. In September 2017, we issued our first public residential-mortgage-backed securitisation, Together Asset Backed Securitisation 1 ('Together ABS') for £275m. As well as providing a highly efficient and low-cost form of funding, the success of this transaction also helped us to negotiate more favourable terms on the refinancing of our Lakeside Asset Backed Securitisation 1 ('Lakeside ABS') facility in January 2018, when we also successfully increased our 2024 senior secured notes programme by a further £150m.

We also successfully launched our inaugural £525m warehouse facility for small balance commercial real estate, Highfield Asset Backed Securitisation 1 ('Highfield ABS').

The Group's continued progress was reflected in rating upgrades by S&P and Fitch, to BB- and BB respectively.

Together achieved ***another solid performance***

Continued progress reflected in ratings upgrades from S&P and Fitch

Recognised as one of the *UK's best companies* to work for

Further strengthening our corporate governance

The Board of Directors is responsible for providing leadership, setting long-term objectives and ensuring that our governance and risk management structures remain robust, and that there is sufficient resource to support our growth plans and respond to changes in the regulatory environment. In the 12 months to June 2018, for example, we have increased our risk and compliance teams from 36 to 47 colleagues. In 2019, the Financial Conduct Authority (FCA) is expected to complete the implementation across the financial services industry of the Senior Managers Regime and we are well advanced in our preparations.

In February, we further enhanced our senior management team and the Group Board when John Lowe joined Together as Group Finance Director. John was previously Finance Director at the Coventry Building Society and brings with him over 15 years' experience in financial services. His arrival has enabled Gary Beckett to take on the new role of Group Managing Director and Chief Treasury Officer.

Outlook

The UK's economic performance continues to be mixed following the Brexit referendum. Initial signs of increased productivity and wage inflation led to the first increase in UK Bank Rate for 10 years, rising from 0.25% to 0.5% in November 2017. While many areas of the country continue to see growth in house prices, the overall rate of growth in the UK has been constrained by lower property values in London. In contrast, employment is at its highest level since the early seventies.

Following the year end, in August, the UK Bank Rate was further increased to 0.75%, its highest rate since March 2009, with further gradual and limited rate rises expected.

Despite these mixed conditions, we continue to see increasing demand from customers for our broad range of tailored products and our personalised approach to underwriting. With an established track record, a unique and successful business model based on over 40 years' of experience, and the investment we are making in our operating and distribution platform, we believe we are well placed to seize the opportunities and to deliver on our ambitious growth plans.

Mike McTighe
Chairman
6 September 2018

Together remains well placed to deliver on **our ambitious growth plans**

CEO'S statement

Henry Moser

I am delighted to report that Together had another successful year, achieving some significant milestones, including placing 34th overall in the Sunday Times 100 Best Companies to Work For 2018. We were honoured to receive this prestigious award in our first ever entry, which is a testament to all of our colleagues.

During another year of strong growth, we achieved record originations and profits. Overall, we lent £1.7bn to personal and business customers across the UK, and made an underlying profit before tax of £121.7m.

Common sense lending based on over 40 years of experience

Since we completed our first mortgage loan more than four decades ago, we continue to apply a common sense approach to underwriting with affordability and conservative LTV being central to our decision making. This approach to lending has been proven through multiple economic cycles and ensures that we consistently have low levels of credit losses across our loan book.

As many people continue to fall outside the restrictive criteria of the mainstream lenders, we have introduced a number of enhancements to our wide range of flexible products to meet the needs of personal and small business customers. All our loans are managed in house by our dedicated colleagues who strive to provide our customers with the best possible service. We are proud of our reputation for efficient and timely lending decisions that allow us to move quickly to meet our customers' timescales.

Record
£1.7bn
originations
(2017: £1.2bn)

I would like to *thank all my colleagues for their hard work and commitment* over the last 12 months

A unique culture behind our continued success
Together has a unique culture that runs throughout the business and is at the heart of our success. We have over 700 dedicated colleagues who are focussed on helping our customers to achieve their financial ambitions.

We recognise the need to continually invest in supporting our colleagues to cultivate new skills, and to help develop the next leaders of our business.

We have launched the Together Academy, which includes our Aspiring Leaders and our Professional Apprenticeship Programmes. We are delighted to attract and develop young people, giving them the support to realise their potential and play their part in the success of our exciting business.

Many of our colleagues have been with the business for over a decade, and some for longer. This is unusual for a financial services company and it is something we celebrate with regular awards ceremonies.

Our longstanding commitment to our local communities and charities was also recognised at the Sunday Times 100 Best Companies to Work For 2018, when we received the 'Giving Something Back' award, ranking ninth for Charity and tenth for Community efforts in the UK.

Our story so far

1974 – Business founded

2004 – FCA regulated

2006 – Equistone/ Standard Life invest

2007 – 1st securitisation Charles Street ('CABS')

2009 – **Sunday Times Top Track 250**

2013 – Move to new Headquarters; **£200m** bond; **£1bn** loan book

Continuing to invest for future growth

While we delivered another strong performance during the year, we also continued to invest to build a bigger and better business to capitalise on the increasing opportunities we see emerging in our markets. In the last 12 months our total number of colleagues increased by over 100, as we invested in our people, products, distribution, systems and governance to support our ambitious future growth plans.

We have delivered a wide range of product initiatives over the last year, including the launch of our new regulated bridging product to the whole market. We have also made a range of changes to existing products and criteria, such as increasing maximum loan sizes across most product ranges to meet customer demand. In addition to strengthening our established relationships with the master and packaging brokers, we launched into the UK mortgage networks and clubs. By the end of the year we had established relationships with 10 partners including Legal & General Mortgage Club.

During the year we also extended our online-distribution capability, introducing new functionalities to our award-winning broker portal, and launching our digital platform for auction finance customers.

Our vision

We are all very proud of the business that we have built together over the past 44 years, the culture we have created and our many achievements. As the world continues to evolve we see challenges to tradition, where one size no longer fits all. Our 'human touch' approach to underwriting and our ability to make decisions based on the merits of each application, means that we are only at the beginning of our journey of helping make many more of our customers' ambitions a reality, and in doing so building long term value for all our stakeholders.

I would like to thank my colleagues for their hard work and commitment over the last 12 months.

Henry Moser
Chief Executive
6 September 2018

THE SUNDAY TIMES 100 BEST COMPANIES TO WORK FOR 2018

£122m
underlying PBT
(2017: £117m)

2015
Rebranded
together. SINCE 1974
400 colleagues
£100m further bond issuance
£255m Lakeside securitisation ('LABS')

2016
Sunday Times Top Track 250
£375m bond refinance
£1bn AA rated CABS
£1bn annual lending
Equistone/Standard Life stake repurchased
500 colleagues

2017
Sunday Times Top Track 250
600 colleagues
£200m bond
£2bn loan book
£90m Delta securitisation ('DABS')
£275m public RMBS

2018
Sunday Times 100 Best Companies to Work For
(34th overall, 9th charity, 10th community)
£150m further bond issuance
£3bn loan book
£169m record monthly lending
HABS **£525m**
Record originations

Business model and strategy

Our strategy remains to grow our loan book by focusing on lending responsibly to profitable segments of our markets which are underserved by the high street banks, while enhancing our platform to support our future growth objectives.

Our customers and *why they come to us*

Including those with...

Complex/multiple incomes sources
Including employed, self-employed, pensions, partnerships, rental income and benefits.

Diverse types of property
Including non-standard construction, high rise, conversions and self-build.

Specialist mortgage situations
Including right to buy, HMO, auction purchases and unencumbered property.

Imperfect credit
Including thin or impaired credit files.

Together's business model focuses on delivering positive customer outcomes and is built on long term stability ahead of short term financial gain. We offer a wide range of tailored, flexible products via our broad distribution networks, reviewed by experienced underwriters, with over 700 colleagues dedicated to delivering excellent customer service, underpinned by an established governance framework. This is supported by a diversified and flexible funding structure, ongoing investment for sustained growth, and a unique and positive culture, all overseen by a senior management team with through-the-cycle experience.

Our experienced underwriters can treat every application on its own merits and understand each customer's individual circumstances and needs. This means that we are able to assess complex or multiple incomes, traditional and non-standard construction properties, more complicated buying situations and thin or imperfect credit histories. Our in-house platform combined with efficient decision-making also allows us to move quickly to meet customers' time scales.

Market review

During the twelve months to 30 June 2018, the UK's economic performance has continued to be mixed, influenced by the slowdown in economic growth, and slow progress of the ongoing Brexit negotiations.

Macroeconomic overview

UK GDP growth has remained weak as growth in productivity remains muted and the boost to spending from high levels of consumer credit has cooled.

In November 2017, the consumer price index ('CPI') reached 3.1%[6] (well above the Monetary Policy Committee of the Bank of England's 2% target), driven mainly by a fall in the value of sterling increasing the cost of imports following the Brexit referendum vote. This rise, combined with expectations of continued inflationary pressures from falling unemployment (now standing at its lowest level since 1971) fuelling gradual wage growth, led to the Bank of England raising its Bank Rate (often referred to as base rate) from 0.25% to 0.50% in November 2017 for the first time since the financial crisis. Following the rate rise, the CPI fell back to 2.3%[6] in June 2018 as the impact of weaker sterling on the price of imports eased. In August, the CPI reached 2.4%[6] and the Bank of England raised the Bank Rate to 0.75%, driven by expectations that the UK economy was regaining strength which could lead to inflationary pressure. Current market expectations are for the CPI to fall to around 2%, and for further gradual increases in the bank rate over the next few years.

What this means for Together

Together operates solely in the UK, and is therefore primarily affected by domestic business and economic conditions, albeit given the Group's lending is secured against UK property, it has no direct exposure to the consumer credit market. Furthermore, our focus on lending at conservative loan-to-value ratios provides strong security in the event of any downturn.

Notwithstanding the strength of this security, the Group only seeks to advance loans where it is felt that repayments are affordable and sustainable. Recognising that situations can arise which may have an impact on a customers' ability to make repayments, including illness, bereavement or other unexpected life circumstances, established procedures exist to work with, and implement appropriate forbearance if it is considered to be in the customer's best interest.

Uncertain economic conditions may cause financial markets to become more volatile, which in turn may affect the availability and cost of external funding. To mitigate this risk, we seek to extend our existing facilities on a regular basis, well ahead of maturity

£1.4 trillion

The mortgage market is estimated to be around £1.4 trillion

80%

Around 80% of all UK mortgages being arranged by brokers and other intermediaries

3.0%

While average house prices for the year have risen by 3.0%, the underlying picture shows significant regional variations dates and ensure sufficient facility headroom exists to support our growth. While uncertain and volatile economic conditions may present challenges, they may also reduce competition and thus present opportunities for specialist lenders like ourselves.

Our markets

The UK has a large and well established mortgage market estimated to be around £1.4 trillion[7], with around 80% of all UK mortgages being advised and arranged by brokers and other intermediaries[8].

While UK average house prices for the year have risen by 3.0%[9], the underlying picture shows significant regional variations. Average prices in London reduced by 0.4%[9] during the year, while areas outside of the capital have continued to rise quite strongly, in some cases by more than 6%[9].

Overall increases in UK house prices have been driven by excess demand for the supply of housing stock, and have significantly outstripped growth in earnings, particularly among first-time buyers. This has been compounded by many young people building up substantial student debt, and by regulatory changes that have required more stringent affordability criteria for new lending. Combined with regulatory changes affecting the wider buy-to-let ('BTL') market, these pressures may have a dampening effect on the growth in total UK mortgage lending for the medium term.

In contrast, although housebuilding has continued to increase, we believe the underlying excess of demand over supply in the UK will continue to limit the likelihood of any major fall in house prices.

What this means for Together

Together operates in a number of specialist segments of the UK mortgage market, helping customers who are typically underserved by mainstream banks. The high-street challenges of large and expensive branch networks highlights the inherent strength of our low-cost model of distributing through brokers, mortgage networks and clubs, and via direct sales.

Together is a national lender and has a loan portfolio which is diversified across the UK, with less than 30%[10] concentrated in the London region. Our London portfolio is not focused on 'high end' central London properties and, with loan-to-value ratios lower than the average for the rest of the country, it is well protected against moderate house price falls.

We continue to see a strong appetite among landlords for expanding their portfolios, and anticipate that the recent regulatory and tax changes will lead to an increasing professionalisation of the BTL market.

Our personalised approach to underwriting, underpinned by an effective in-house operating platform, combined with our through-the-cycle experience, positions us well to succeed in times of uncertainty. In addition, we believe our lending expertise with complex or multiple incomes, diverse types of property, specialist purchase situations, or thin or imperfect credit histories, means we have significant growth potential as customers' requirements continue to change.

0.4%

Average prices in London reduced by 0.4% during the year

+6.0%

Outside London house prices have continued to rise quite strongly, in some cases by more than 6%

[6] Office for National Statistics
[7] Bank of England, Money and Credit, June 2018
[8] FCA, Mortgage Market Study, May 2018
[9] Land Registry House Price Index, May 2018
[10] 2018: 28.8% (2017: 28.3%)

Commercial Finance

Our commercial lending operations cater for a wide range of business owners and individuals from new ventures through to established businesses. We have an inclusive approach to lending and will consider a variety of commercial or residential investment properties.

43.8%
Unregulated bridging

(2017: 45.7%)

Quick bridging finance solutions, including commercial funding and first or second-charge loans. We can help with chain breaks and we are able to include multiple exit strategies and make use of additional security.

31.5%
BTL+

(2017: 34.6%)

Residential buy-to-let mortgages to help our customers to create, build or re-mortgage residential property portfolios.

16.6%
Commercial term loans

(2017: 13.0%)

First and second charge commercial property loans. We can provide mortgages and loans for a variety of property or land types.

8.1%
Development

(2017: 6.7%)

Funding for a wide range of property development projects, from new builds to conversions and refurbishments.

Marc Goldberg, Chief Executive of Commercial Finance, in a meeting with colleagues from the Commercial Finance team

Commercial Finance delivers continued growth

Our Commercial Finance business has grown strongly during the year, with loan originations up 38.3% to a new record high of £1.3bn and our loan book to just under £2bn, also a record. This continued success is a testament to the dedication, commitment and passion of all of our colleagues.

During the year, we introduced a range of new processes to support our growth and make the business more scalable for the future, as well as refining our existing procedures. Continuous enhancements to our loan origination system throughout the year aimed to provide our business with the right tools to support our continued growth. We also launched a new customer-relationship platform in March. The platform was introduced to further enhance the customer experience by automating the workflow across our team.
We increased our headcount from 125 to 148 colleagues, and have maintained our strong commitment and focus on training for colleagues during the year. This all helps to ensure we are in a strong position to meet market demand, and comply with current and new regulation.
We focus on communicating effectively across our team and were proud to achieve a colleague engagement score of 79% in our most recent survey.

As a mark of our team's success, we are proud that we have been recognised for our dedication and commitment to the sector by receiving several awards over the year. This recognition spans our wide range of products, from 'Best Buy-to-Let Mortgage Provider' at Property Wire Awards 2018 to 'Commercial Lender of the Year' at the Bridging and Commercial Awards 2018, to individual accolades, including 'Best Business Leader in Commercial Finance' and 'Best Bridging Lender' at the Mortgage Solutions Lending Awards 2017.

[11] Based on transactional Voice of Customer research conducted by Together. Surveys from 30 June 2017 – 30 June 2018

79% *employee engagement* score

The customer journey continues to evolve

After 44 years of lending, our focus remains on offering the products and solutions that make the lending process as straightforward as possible for our customers and intermediaries.

Our customers are at the heart of everything we do and we place great focus on ensuring that their journey with us is as efficient as possible. At each and every touch point our customers can expect attentive service from our friendly and knowledgeable colleagues.

As part of this commitment, we have also been piloting projects to roll out as part of our strategy to further interact and engage with customers in the way that best suits their requirements and lifestyle.

We are very proud of what we have achieved and where our business is headed and it is great to see our customers also recognise our efforts. Our most recent Net Promoter Score of +36[12] for Commercial Finance is a great achievement and shows our ongoing commitment to customers.

Always offering a flexible approach to products

We recognise that the lending market is constantly changing, and always seek to evolve and innovate. As part of this commitment, we listen to our customers, brokers and partners to ensure we are developing our proposition to accommodate their requirements. During the year, we made numerous enhancements to our product portfolio and criteria, including the launch of a refurbishment bridging product.

During the year, we also streamlined our bridging application process, allowing intermediaries to generate quotes in just 60 seconds.

Our focus on speed and simplicity and our ability to offer a wide range of lending solutions has given us a strong advantage in a competitive environment, driving our successful growth in originations without compromising on quality. For example, using our bridging products and our wealth of expertise we have been able to help customers find solutions to chain breaks or provide them with funds they need quickly to take advantage of a business or investment opportunity.

Our auction business successfully extended its market share this year, as we launched the next phase of our digital proposition to provide pre-approved funding ahead of an auction as well as a decision in principle for speculative bids on the day.

Commercial Lender of the Year

Bridging and Commercial Awards 2018

90%

of customers are satisfied with the service they receive[11]

Jo Breeden
Managing Director of Crystal Specialist Finance

"We work closely with Together to achieve positive customer outcomes and they strive to provide certainty in times of uncertainty. They are full of common sense, everything you are looking for in the current lending environment. They understand what a transaction should look and feel like and they deliver, especially when time is of the essence. Together are a partner for the long term and are very unique in their offering."

A commitment to reacting quickly in a changing world

Last year's BTL regulatory and tax changes undoubtedly had an impact on the mortgage and specialist lender sector overall. According to recent figures, UK BTL house purchase mortgage lending in May 2018 was down 9.8%[13] from the previous year. At a headline level this creates an impression that BTL is on the decline and will become a less attractive market. However, in line with other lenders, we are seeing a professionalisation of the marketplace, where landlords and investors are adapting their portfolios and business models to take the new rules into account. For example, there has been a reported increase in the numbers of landlords buying through limited companies in response to the stamp duty changes, as well as growth in regional investment as buyers seek out up-and-coming rental hotspots. This provides an opportunity for specialist lenders, like Together, who are much more adaptable to changes in underwriting requirements.

The tightened regulations should increase the quality of the private market, benefitting letting tenants and, while fewer landlords may enter the market, we expect that those who already have portfolios are unlikely to exit. We also anticipate the regulations will impact the geographical spread of BTL, as landlords sell up in London and look instead to areas in other cities, or smaller UK towns, where property prices are lower, resulting in the potential for higher yields.

As a business, we are constantly reviewing, refining and adapting our products in a proactive way. Our personal underwriting approach allows us to always adapt and ensure that the quality of our lending is maintained, especially during complex changes in the market. We work closely with our marketplace and recognise our responsibility to use our position and share our experience to support the evolution of the sector. During the recent buy-to-let changes, our team contributed to industry panels, and worked with brokers to better understand how the changes would impact processes and underwriting.

Outlook

While we operate in changing markets in an uncertain climate, our strong market position, established long-term relationships with brokers and customers, and our reputation for delivering solutions quickly and efficiently, we believe Together is well placed to continue to benefit as our markets continue to evolve.

Marc Goldberg
Chief Executive of Commercial Finance
6 September 2018

38.3%
increase in lending originations in the year

[12] Based on transactional Voice of Customer research conducted by Together. Surveys from 30 June 2017 – 30 June 2018
[13] UK Finance, Mortgage Lending Trends May 2018

Personal Finance

Our personal lending business is regulated by the FCA and caters for a broad range of customers who typically come to us because they are underserved by the highly automated processes of high street banks.

24.1%
Retail first charge

(2017: 21.8%)

Capital repayment and interest only residential mortgages to help people who are entering retirement, moving home, buying their first home or re-mortgaging, including right-to-buy and shared ownership situations.

56.4%
Retail second charge

(2017: 68.1%)

Residential second charge mortgages on many residential property types, including right-to-buy and shared ownership, to help with home improvements and debt consolidation.

6.0%
Regulated consumer buy-to-let

(2017: 4.7%)

First and second charge buy-to-let mortgages on a wide range of property types to help the 'accidental' landlord.

13.5%
Regulated bridging

(2017: 5.4%)

Quick bridging-finance solutions, including first or second charge loans or a combination of both, to help with chain breaks and assist in raising short-term funds.

Pete Ball, Chief Executive Officer of Personal Finance, in a meeting with colleagues from the Personal Finance team

A strong year for Personal Finance

Our Personal Finance business maintained its strong growth momentum as we successfully extended our reach in our marketplace. Our ongoing growth would not have been possible without the hard work and dedication of all our colleagues, as we went from strength to strength, reaching a series of key financial and non-financial milestones during the year.

Loan originations increased by 45.9% to £404.1m, with record monthly originations in April when we lent over £40m for the first time. We saw significant growth across our product range as our loan book ended the year at over £1bn, our highest ever level.

As we continued to grow, we welcomed over 40 new colleagues to the Personal Finance team, bringing our total to over 220, from both internal and external recruitment. We place great emphasis on colleague feedback and achieved an employee engagement score of 83% in our most recent survey conducted in June 2018. The team was also recognised externally for their strong efforts over the course of the year, including being awarded 'Regulated Lender of the Year' at the 2018 Bridging and Commercial Awards.

A large and growing market

Our Personal Finance business is regulated across all of its product lines. Our second charge mortgage offering, where we are one of the market leaders, is the current bedrock of our business, while we have been seeing growth across our first charge residential, consumer buy-to-let and regulated bridging products.

[14] Based on transactional Voice of Customer research conducted by Together. Surveys from 30 June 2017 – 30 June 2018

83%
employee engagement score

We focus on *delivering positive outcomes* throughout the lifetime of a loan

As workforce dynamics continue to change with higher levels of self-employment and individual circumstances varying from person to person, many customers fall outside the focus of the mainstream lenders. Research indicates that 29% of people who plan to buy a property do not feel confident that they can find appropriate mortgage advice[15]. In addition, according to a study from IMLA, 66% of customers who do enquire about a mortgage fall out of the process without receiving an offer[16]. These findings reflect a need for us to continue to target a large underserved group of the market, so we can help more customers realise their financial ambitions. We have recently commissioned our own research into customers that fall out of the mortgage process and we hope to publish the results later in the year.

Extending our distribution reach

Within our diverse loan book in Personal Finance, over 70% of our customers are made up of older working families, people on the road to retirement, high-income professionals, home-owning families and retired asset-rich customers[17]. These customer groups are located across the UK and typically have higher incomes, significant equity in their property and higher levels of disposable income.

During the year, we extended our distribution channels by launching with the influential mortgage networks and clubs to allow us to reach and help even more customers. Having launched initially with our residential first charge mortgage product, we have now established relationships with 10 of the leading UK networks and clubs, including Legal & General Mortgage Club, and our market reach is now nearly 60%. Whilst always valuing and protecting our established packager relationships, our distribution strategy continues to focus on acquiring customers via cost effective digital channels in areas where we can provide real customer solutions.

Continuing to innovate to meet our customers' needs

We understand that the mortgage market is always changing, and we work closely with our intermediaries and customers to constantly develop our product offering. We also invest heavily in innovation to utilise technology to streamline our processes where possible, including investigating the use of Fintech solutions. Paired with our flexible underwriting we are able to deliver positive customer outcomes.

In the last 12 months, we have delivered 18 changes to existing products and criteria, including increasing the maximum loan sizes on most of our products to meet customer demand. We also launched two new loan products, the five year fixed rate Consumer Buy-to-let mortgage and a two year fixed rate residential mortgage launched exclusively to our networks and clubs. These changes were supported by a new user experience that allows brokers to go from quote to offer in less than five minutes and we are currently working to reduce this time even further.

During the year, we delivered innovative technological solutions to support our trademark personal underwriting and enhance the journey for our customers, brokers and intermediaries. These include providing our network and club members with access to a linear application process via our market-leading online platform, 'My Broker Venue', as well as going live to the whole market with document upload and case tracking for our broker portal and launching our first decision-in-principle functionality.

45.9%
increase in lending originations in the year

[15] Mintel: 2018
[16] Intermediary Mortgage Lenders Association: Q4 '16
[17] CACI December 2017

92%
of customers say we're easy to business with[18]

Danny Belton
Head of Lender Relationships at Legal & General Mortgage Club

"As a leading distributor in the mortgage market, it is important for the Legal & General Mortgage Club to have lenders such as Together as part of our panel. Together always demonstrates a desire to work with us, and engage on joint marketing activity, product and proposition development that provides a better outcome for brokers and their customers."

Focused on improving customer outcomes

We understand what it means for a customer to secure a loan to acquire their dream property, but also the impact that borrowing can have on an individual's wellbeing, and we focus on delivering positive outcomes throughout the lifetime of a loan. This is why we have established a structured programme of ongoing training and development to help our colleagues deliver the best possible service to our customers, and to ensure we are always understanding of their changing requirements and needs. During the year, we reduced the number of our customers who are in arrears by 10% by innovating our contact strategies in line with customer preferences.

Our dedication to our customers has been recognised with the achievement of a Net Promoter Score of +41[18] for the Personal Finance business in our most recent survey and we strive to continually improve our service to these customers.

We take all customer complaints very seriously and, in line with FCA requirements, we publish our complaints data every six months. We have seen a higher proportion of complaints within our older loan book, as the number of loans within this segment continues to reduce as loans redeem. The proportion of complaints within our newer loan book is significantly lower as the number of loans within this segment increases in line with our ongoing growth.

We do a lot of work, including continuous feedback analysis at various touch points throughout the customer journey to identify vulnerable customers so that they can be safeguarded. As an example, we recently completed a mortgage for a right-to-buy council house for a family, who had experienced a serious health issue which had adversely affected their credit profile. After being turned down by another lender, our underwriters were able to fully understand the situation, enabling the family to acquire their new home. We undertake ongoing research and continue to obtain feedback of how we can best adapt our process for our customers whenever it is possible. As part of this process, we led a roundtable in the House of Commons last summer looking at how vulnerable customers are exposed in the market, and what lenders can do to support them.

Outlook

While the UK's economic performance remains mixed, and regulatory and tax changes will have an impact in our marketplace, we believe that continued changes in working patterns and lifestyles will create increasing opportunities for specialist lenders, like Together. Our common sense approach to lending, combining flexible, tailored products with intelligent human underwriting and the ability to meet our customers' timescales, positions Together well to benefit from these evolving dynamics.

Pete Ball
Chief Executive of Personal Finance
6 September 2018

[18] Based on transactional Voice of Customer research conducted by Together. Surveys from 30 June 2017 – 30 June 2018

Working with our customers

At the heart of everything we do is our mission to help our customers achieve their financial ambitions. Customers typically come to us because they have a specific circumstance that, unlike mainstream lenders, Together is able to meet.

These circumstances may include diverse property types, a complex income source, thin or imperfect credit or the need for a specialist mortgage solution. Our ability to accommodate more than one scenario and to deliver with certainty and speed is where we thrive. Rather than relying on an automated tick-box approach, our team works with each customer to understand their individual circumstances and we personally underwrite all loans to find a tailored solution.

Continued enhancement of customer communication

A key focus for Together is making sure we communicate effectively with our customers throughout the entire lifecycle of their loan. During the year, we successfully piloted new communication tools across our Personal Finance business to ensure we are always doing the right thing when it comes to meeting the needs of our customers and communicating in the most effective way. We are now using insights from this first trial to extend these tools to our Commercial Finance customers, to find the best possible way to engage with each customer. For example, we have learnt that our personal customers prefer to interact via two-way text or online chat, whereas our commercial customers prefer to interact via phone or email.

Committed to listening to our customers

We are committed to learning what we do well, what our customers would like to see more of, and if there's anything we can do to improve. We gather feedback from our customers at various points in their journey and then use the insights to understand their experience with us, how we can improve it and to explore opportunities for new products and solutions. We take complaints very seriously and ensure we are always learning from this feedback, constantly adapting and enhancing our processes to improve what we do.

All of the feedback we receive is evaluated by specialists in each department who review, discuss, and when necessary react accordingly. Positive remarks are used internally to drive enhanced customer outcomes; negative comments are reviewed to see which stage of the journey didn't meet expectations. On a monthly basis a team of key individuals review our 'Voice of Customer' output against our complaints data, as well as our internal quality assessments to identify common trends, share best practice and pioneer new ideas.

Always striving to improve through innovation

We are always looking at how we can integrate technology to enhance our customers' experience. Our trademark human underwriting is being supported by increased investment in, and testing of, innovative Fintech solutions to fast-track and support our common sense lending decisions.

Over the year, we introduced a new customer relationship management ('CRM') platform to different departments in our business to automate processes, improve workflows for our customer care teams and deliver a more efficient and enhanced customer contact strategy to improve the experience for our customers. We also worked closely with the data science teams at Manchester University to launch new customer-segmentation models in order to help us to contact our customers in the most effective way.

How we have delivered

We are committed to delivering excellent service to our customers and seek feedback and monitor performance to apply best practices across our business.

We are very proud that these efforts are resonating with our customers and we are consistently achieving high customer satisfaction scores across the business. In our latest survey, throughout the customer journey over 90%[19] of customers were satisfied with the service they received from us, while over 90%[19] of customers stated that we are an easy company to do business with.

Andrew Rutherford,
Managing Director of Bondwell Homes

"Since we started working with Together, they have rapidly become the first port of call for any of our lending needs. They are a strong, large scale, credible business with ambitious, professional and responsive people who really listen to us. It is always great to work with a team who you can pick up the phone to and they will always be on your side and deliver to a high standard and to your timescales."

[19] Based on transactional Voice of Customer research conducted by Together. Surveys from 30 June 2017 – 30 June 2018


Maltesers
Dairy Milk
OREO
Milkybar
Smarties
buttons
Mars


together.
2XU
speedo

Playing our part

As a business, we recognise our duty to act responsibly and in a sustainable manner, for our local community, marketplace, colleagues and the environment. We pride ourselves on giving something back, and have long been committed to supporting a range of charitable causes.

In 2016, we established our award-winning 'Let's make it count' programme which provided colleagues with a framework to make a difference to our local community. The programme comprises six pillars with defined goals spanning charity, community, environment, enterprise, mentoring and creativity, which are embedded throughout the business, and is led by colleagues, for colleagues, with support from the business.

Our programme continues to grow each year, and with such passionate colleagues we are proud to show that strong business performance and hard work can go hand in hand with making a positive difference.

Over the past year our colleagues have made a difference by…

Let's get GIVING

Helping charities make a difference

This year, colleagues voted to support two key charities: Manchester Mind and the NPSCC. We raised over £70,000 through a range of activities, including participating in the Great Manchester Run, in which 47 of our colleagues took part, as well as organising raffles and hosting a family fun day that raised nearly £5,000. We also supported local charities close to the hearts of our colleagues with weekly dress-down days, bake sales and fun runs.

Let's get GREEN

Caring for the environment

By the nature of our business, our environmental impact is relatively low. However, we remain committed to making a positive impact. We have a comprehensive recycling programme in place at our head office in Cheadle, where we recycle everything we can – even old carpets. Our current initiatives include implementing advanced technology to increase energy efficiency, and a "print only what is necessary" policy. Additionally, we work with a range of charitable organisations, offering colleagues opportunities to attend conservation volunteering days at local sites. As an example, our Facilities team regularly worked with local community and voluntary organisations to transform spaces, from creating gardens for children with disabilities to volunteering for the National Trust.

Clockwise from top:
- Together Easter egg collection 2018
- Colleagues taking part in local Triathlon
- National Trust charity day 2018

Let's get SHARING

Mentoring and training the talent of tomorrow

Our team of trained volunteers mentored students in deprived areas across Greater Manchester to help them fulfil their potential. We also continued our support for the Factory Youth Zone for the fifth year in a row. In addition to an annual donation of £25,000 to the Youth Zone, we extended our support to mentoring. Our graduates also dedicated 250 hours to completing a research project for the youth centre, and the findings and presentation are now used in the organisation's funding pitches.

Let's get CARING

Giving back to our community

From donating over £5,000 items of collected food through our Together Foodbank, to donating 390 chocolate eggs via our charity Easter egg collection, we provided practical support to locals who needed it. One of our highlights was hosting a Christmas lunch for 150 local pensioners, enthusiastically served by our Executive team.

Let's get GOING

Promoting enterprise in schools and colleges

During the year, our volunteers encouraged young entrepreneurs to develop essential skills for business with a regional enterprise competition aimed at 15–18 year olds. Teams from ten local schools took part and presented a business case and financial plan to develop a local landmark; two winners were then invited back into the business for work experience.

Let's get CREATIVE

Encouraging young imaginations

In 2018, we inspired local school children to harness their creativity with our 'Snap Together' competition in local primary schools. We asked pupils to use their photography skills and send us picture of what 'Together' means to them to compete for a £750 prize for their school or club.

External recognition

The positive impact of our 'Let's make it count' initiative has generated national attention and we were recognised at the 2018 Sunday Times Top 100 Companies awards, where we received the special 'Giving Something Back' award for our commitment to corporate social responsibility, ranking 9th in the UK for charity and 10th for community efforts.

In October 2017, we also received the 'Excellence in CSR' award at the Stockport Business Awards.

Our commitment to our colleagues

Together is one of few financial services companies headquartered in the Manchester area. We are proud to represent the region on the national stage and to provide a genuine platform in the North West where colleagues can build a rounded career in financial services. We have continued to invest in our people and business, creating over 100 new jobs in the region in the last 12 months alone.

Our colleagues are our key strength, and neither what we have achieved so far, nor will in the future, would be possible without them. We have evolved our set of company values to a set of beliefs and, captured through 'Play our Part', these are brought to life through the entire company, from our apprentices through to our CEO:

- **Respect for people:** We listen, we understand, we stand in our customer' shoes. We are attentive to our customers' needs.
- **Delivering positive outcomes:** We work hard to solve problems and see things through to a quality result.
- **Engagement:** Relationships are important to us. We create an environment where people want to work with us and recommend us.
- **Creating opportunities:** We have a can-do attitude. We find a way to make things happen and get the right outcome.
- **Straightforward solutions:** We keep things as straightforward as they can be. We focus on getting the big and little things right.
- **Balanced commerciality:** We apply sound judgement. We make balanced decisions that meet the needs of our customers and Together.
- **Accountability:** We take the initiative and responsibility for our actions. We care about the quality of our work.

Respect for people is embedded in our organisation. In early 2018 we demonstrated our commitment to fairness, equality and inclusion with the launch of our 'Togetherness' network, designed to ensure we understand any potential barriers to colleagues not feeling part of our Together team.

Building a great place to work is very important to us. One way to ensure strong engagement is to communicate well. We actively work in partnership with our colleagues through a number of channels including quarterly town hall meetings, a monthly colleague communication forum, as well as our newly launched annual 'Big Listen' initiative. These initiatives help us give our colleagues a voice, and create the best working environment we can.

A key element of our engagement strategy is to celebrate loyalty, and some of the most memorable evenings of the past year have been when we came together to recognise 48 colleagues achieving 5, 10, 15 and 20 years or more of service.

Furthermore we believe in creating opportunities, and this year we have been investing in our innovative and interactive Learning and Development programme to help our colleagues grow, develop and progress in our business.

We have supported all our senior managers and people managers with a structured leadership training programme. We have well-established graduate and apprentice schemes, with many colleagues progressing into key roles within the Group upon completion, such as our Company Secretary, who joined on the graduate programme, over 10 years ago. We place great emphasis on learning and development, and to provide further opportunities we have also recently launched our Aspiring Leaders Programme to support exceptional colleagues to become the next leaders of our business.

We have also created opportunities in our local community by offering 14 apprenticeships, extending our graduate programme and for the first time launching a returnship programme for older workers.

In recognition of our strong culture, we have achieved some great things including, on our first ever application, being awarded the accolade of 34th place nationally in the Sunday Times 100 Best Companies to Work For 2018.

Our marketplace

We recognise our responsibility, and are proud to play our part, in the evolution of the important and fast-growing specialist lending sector. Our business is focused on delivering the best outcomes for customers, and we work hard to promote best practice within the industry. For example, during the recent changes in buy-to-let regulations, our Commercial Finance team participated in industry panels, organised training courses for brokers, and sent the company's underwriters to brokers' offices to help further their understanding of the impact of the change. We also led an industry roundtable in the House of Commons on the subject of dealing with vulnerable customers.

We work closely with local universities, such as the University of Salford and the University of Manchester on research projects in relation to technology and innovation in finance, to foster future talent in the North West region. We have also won awards for our educational work within the Fintech space. Furthermore, we have long been strong supporters of our local business community, including working closely with Pro-Manchester, the largest business development organisation in the North West, for 12 years. Our work with them has included supporting the Manchester Business conference and the Made in Manchester awards, and our Commercial Director has previously been represented on their Board and stood as Chairman in 2011.

Financial review

In the year to 30 June 2018 the Group increased its loan book by 32%, and its profit before tax on a statutory basis grew 29% to £121.7m compared with £94.1m for the year to 30 June 2017. Underlying profit before tax for the year to 30 June 2017, excluding one-off refinancing and transaction costs, was £117.1m.

The results for the year are summarised:

	2018 £m	2017 £m
Interest receivable and similar income	292.2	246.5
Interest payable and similar charges	(92.8)	(88.8)
Net interest income	**199.4**	**157.7**
Net fee and other income	3.0	2.2
Operating income	**202.4**	**159.9**
Administrative expenses	(69.3)	(58.4)
Impairment losses	(11.4)	(7.4)
Profit before taxation	**121.7**	**94.1**
One-off refinancing and restructuring costs[1]	-	23.0
Profit before taxation excluding one-off costs	**121.7**	**117.1**

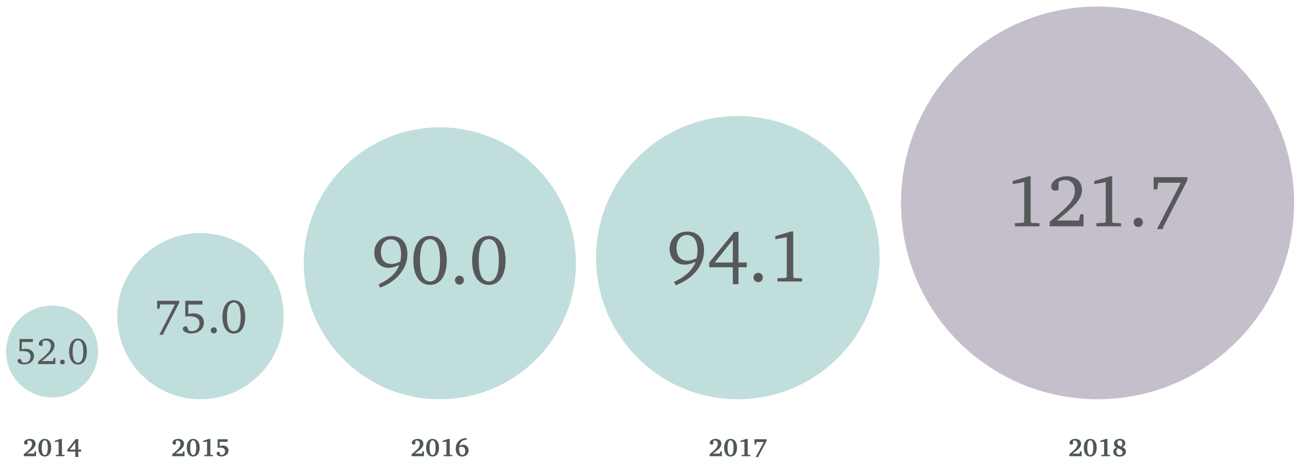
Key performance indicators	**2018**	**2017**
Net loan book (£m)	2,958.2	2,240.9
Lending volume (£m)	1,660.1	1,185.4
Weighted average LTV of originations (%)	58.0	57.1
Weighted average indexed LTV of portfolio (%)	55.3	53.4
Underlying net interest margin (%)[2,3]	7.7	8.5
Underlying cost-to-income ratio (%)[3]	34.2	28.7
Shareholder funds (£m)[4]	737.0	651.6
Net debt gearing ratio[5]	3.0:1	2.4:1
Return on equity (%)[6]	15.3	12.8
Underlying return on equity (%)[3,6]	15.3	15.8
Interest cover ratio[3]	2.4:1	2.5:1

[1] Costs of £14.8m incurred in relation to early refinancing senior secured notes and £8.2m relating to the capital buy-back in November 2016
[2] Calculated as net interest income as a percentage of average loans and advances to customers
[3] Calculated on an underlying basis after excluding one-off costs
[4] Includes subordinated shareholder loans and notes of £25.1m (2017: £23.2m)
[5] Net debt expressed as ratio to shareholder funds. Net debt excludes shareholder loans of £25.1m (£23.2m), which are included in shareholder funds
[6] Return on equity is adjusted to include shareholder loans within equity

Net loan book grew
32%

The Group record of annual increases in profit before tax can be seen in the chart below:

Statutory profit before tax continues to grow



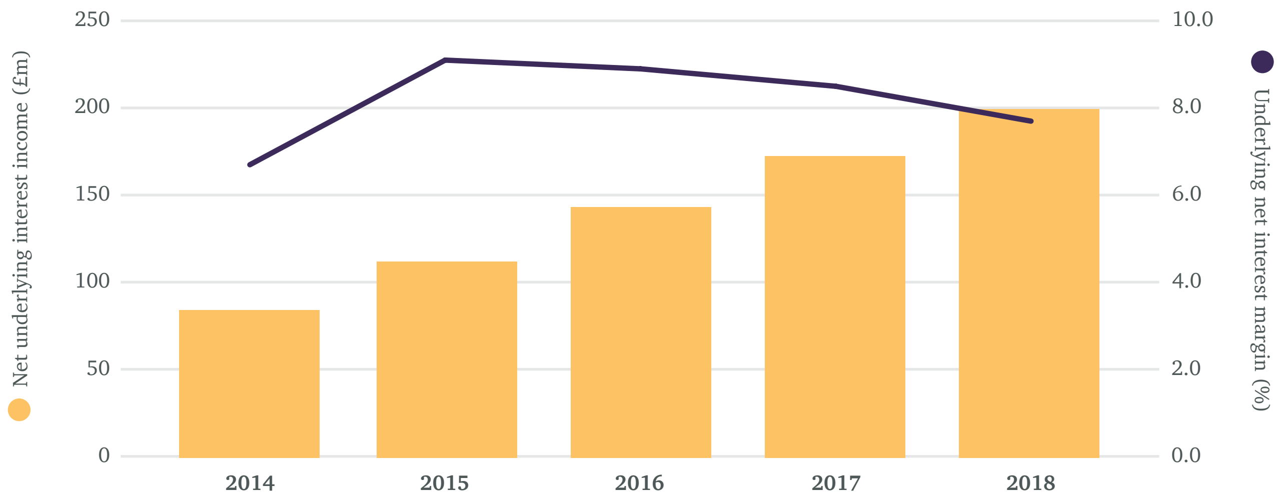
Income and expenditure

Interest receivable and similar income increased by 18.6% to £292.2m for the year to 30 June 2018 (30 June 2017: £246.5m). This increase is lower than the growth in the loan book reflecting the run-off of the higher yielding loans originated following the credit crisis and the replacement with loans at current market rates.

Interest payable and similar charges have increased by 4.5% to £92.8m for the year (2017: £88.8m). On an underlying basis (£14.8m of costs stripped out of prior year that related to the refinancing of senior secured notes) interest payable increased by 25.4% resulting from the growth in the loan book, funded by our increasingly diversified borrowings. This diversification and the perception of the Group's financial strength is reflected in the fact that the margin on facilities has fallen during the year.

Reported operating income has increased 26.6% to £202.4m for the year to 30 June 2018 (30 June 2017: £159.9m). On an underlying basis this increase is 15.9%. Net interest margin decreased to 7.7% from 7.8% last year (8.5% on an underlying basis). This reflects the redemption of older loans earning higher yields originated prior to and during the credit crisis, and a degree of margin compression on new lending as we grow our loan portfolio. These effects are partially offset by the lower margin on facilities we continue to achieve on refinancing of our borrowings. The following chart shows how our growing, loan portfolio is fuelling strong growth in net interest income despite the gradual decrease in percentage margin earned:

Growing loan portfolio generates strongly increasing net interest income despite gradual reduction in net margin (%)



Administrative expenses increased to £69.3m for the year (2017: £58.4m, £50.2m on an underlying basis). The increase is due to the continuance of our growth strategy, and particularly reflects the growth in the loan book where the majority of our costs are incurred at origination, combined with significant investments in our people, IT platforms, and governance discussed in more detail in the Chairman's and Chief Executive's reports. As a result of the fall in net interest margin and the continuing investment in the business, the underlying cost-to-income ratio has increased to 34.2% from 28.7%.

The net impairment charge for the year of £11.4m (2017: £7.4m) represented 0.43% of the loan book value[20], (2017: 0.36%). Whilst the charge has increased slightly on the prior year (relative to loan book size) this is from a very low level and the proportion of loans that are classified as impaired has fallen from 5.9% of the book to 4.9% as at 30 June 2018.

The expected future impact on impairment of the new International Financial Reporting Standard 9, *Financial instruments,* is discussed in more detail in the accounting policies note to the financial statements.

Despite the substantial investment in our infrastructure to support future growth, return on equity has remained strong at 15.6% (2017: 12.8%, 15.8% on an underlying basis). This reflects our strategy of growing our loan book while funding it with an increasing but still prudent proportion of debt.

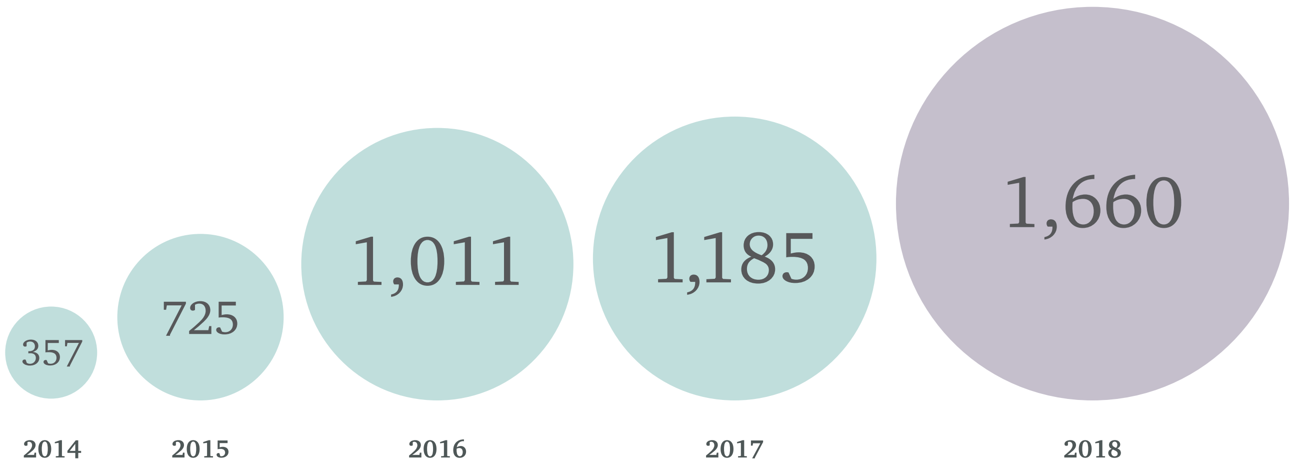
The underlying interest cover ratio, being the ratio of earnings before interest, tax, depreciation and amortisation (EBITDA) to interest expense and similar charges, was 2.4:1 for the year to 30 June 2018, down from 2.5:1 for the prior year (2.6:1 on an underlying basis). The decrease was due to increased lending being funded by increased levels of external borrowing, but cover remains improved on earlier years. Underlying EBITDA for the year to 30 June 2018 is up 13.3% to £219.2m (2017: £193.4m).

[20] Loan book value calculated as a simple average of opening and closing gross loans and advances to customers

Financial position

Lending volumes accelerated, the increase of 40.0% to £1.7bn exceeding last year's growth of 17.2% (2017 volumes: £1.2bn). As a result, the net loan book grew to £3.0bn at 30 June 2018 (2017: £2.2bn).

Originations of £1.7bn exceeded the £1.5bn mark for the first time



This growth was achieved while maintaining the Group's approach of high quality lending, focused on low LTV loans. The weighted average LTV of loans written in the year to 30 June 2018 remained prudently below 60% at 58.0% (2017: 57.1%). The indexed weighted average LTV of the loan portfolio for the Group of 55.3% at 30 June 2018 (2017: 53.4%) continues to be conservative, providing considerable downside protection in the event of any downturn in the housing market. The percentage of non-performing customers in arrears of three months or more remained low at 2.7% (2017: 4.0%). The credit risk of the Group's loan portfolio is discussed in detail in the risk management section of this report.

Equity increased to £711.9m at 30 June 2018 (2017: £628.4 m) and total shareholder funds including subordinated loans rose 13.1% to £737.0m (2017: £651.6m). The increase in equity reflects the retained profit after tax for the year of £106.4m offset by dividends to the parent company of £22.9m. Net debt gearing increased to 3.0:1 at 30 June 2018 (2017: 2.4:1) and reflects the increased diversity of our funding, with our inaugural RMBS in September 2017, and is in line with our risk appetite.

32% growth

The loan book grew to £3bn

Funding and liquidity

The Group's highly cash-generative business model, with around half of loans redeeming within two years, resulted in cash receipts in the year to 30 June 2018 of £1.2bn (2017: £1.0bn). Debt service payments (excluding issuance costs and other cash payments) were £78.0m (2017: £78.6m[21]) and other payments (mainly overheads and taxation) were £93.5m (2017: £88.8m). Excess receipts, along with additional funding, are available for new lending.

Liquidity is monitored daily to ensure that the Group can meet all its financial obligations, including the outstanding pipeline of loan offers, as and when they fall due.

The Group successfully continued its strategy of increasing, extending and diversifying its funding structure during the year as detailed below:

26 September 2017

The Group completed its first residential-mortgage-backed securitisation (RMBS) of £275m, Together ABS. Its contractual final maturity date is 2049 and the Group has an option to call the facility in September 2021. Together ABS introduces a new type of funding to the Group that is both more efficient and has a lower margin.

10 January 2018

The Group announced the refinancing of it's Lakeside ABS facility, extending its maturity by three years to January 2021 at a more favourable margin.

31 January 2018

A Group subsidiary Jerrold Finco PLC completed the issuance, at a premium to par, of an additional £150m of its senior secured notes due in 2024.

27 April 2018

The Group's revolving credit facility was increased from £57.5m to £71.9m. All other terms under the facility remain substantially unchanged.

27 June 2018

The Group announced the completion of a £525m commercial real estate warehouse facility via the special purpose vehicle Highfield ABS, providing a dedicated funding facility for small value commercial property loans.

[21] Includes one-off refinancing costs

John Lowe, Group Finance Director, with Gary Beckett, Managing Director and Chief Treasury Officer

As a result of this activity the Group's total facilities increased by 44.3% over the course of the year, with current maturities as follows:

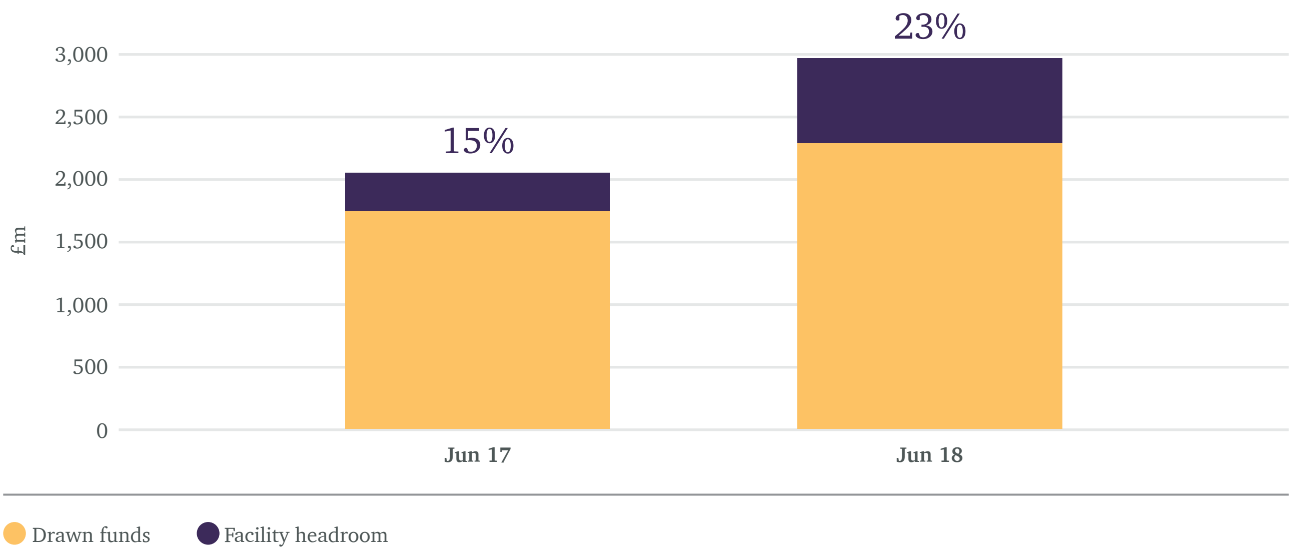
	2018 £m	2017 £m
Securitisation loan notes		
Charles Street *(matures 2021)*	1,000.0	1,000.0
Lakeside *(matures 2021)*	255.0	255.0
Delta *(matures 2021)*	90.0	90.0
Highfield *(matures 2022)*	525.0	-
Senior secured notes *(mature 2021 & 2024)*	725.0	575.0
Subordinated shareholder funds (mature 2024 & 2036)	68.1	68.1
Revolving credit facility (matures 2021)	71.9	57.5
Non-amortising facilities	**2,735.0**	**2,045.6**
Together RMBS, after amortisation *(call date 2021)*	216.5	-
Total of all facilities	**2,951.5**	**2,045.6**

The strong profit and growth performance of the Group, underpinned by enhanced governance and further diversification of our funding, led to further upgrades to the Group's credit ratings by external agencies during the year. In November 2017 S&P increased its rating from B+ to BB- and in January 2018 Fitch increased its rating from BB- to BB.

The Group's strong track record of successful refinancing and raising new funding mean that the earliest maturities on existing facilities are now in 2021. The Group has had relationships with RBS and Lloyds lasting decades, and to these have been added Natixis, HSBC, Barclays, Goldman Sachs, Credit Suisse and Citi Group in the period from 2014. As well as demonstrating the attractiveness of the Group to investors, this diversification also serves to mitigate the concentration risk to funding counterparties.

The increase in the Group's funding and headroom from the June restructuring can be seen in the chart:

Continued diversification in funding provides capacity for growth (£m)



The Group's funding mix of cost-efficient asset-backed securitisations with flexible senior secured notes is the strongest in scale, cost and maturity the Group has ever achieved, and leaves it well placed to support its future growth strategy.

44.3%

The Group's total facilities increased by 44.3% over the course of the year.

Effective governance
is key to success

Corporate governance

Corporate governance and committee structure

Effective governance is key to the continued success and growth of the Group

Members of the Board of directors

Board of directors

The Board of directors is responsible for setting risk appetite, and for setting and overseeing the delivery of Group strategy within that risk appetite. In order to implement a strong corporate governance framework, the Board takes into account considerations from all stakeholders, and ensures that the Group has sufficient resources to meet its objectives and to comply with all legal, regulatory and contractual considerations. It also ensures that the appropriate culture and conduct are embedded within the organisation. The Board meets a minimum of six times during the year.

Company Secretary

The Company Secretary is responsible for advising the Board on all governance related matters.
All directors have access to the advice and services of the Company Secretary.

The current Board members are as follows:

	Joined Together
Mike McTighe *Non-executive director and Chair*	November 2010
Henry Moser *Group CEO*	September 1974
Pete Ball *Personal Finance CEO*	August 2016
Gary Beckett *Group MD and Chief Treasury Officer*	May 1994
Wayne Bowser *Non-executive director*	December 2015
Marcus Golby *Group Chief Operating Officer*	January 2016
Marc Goldberg *Commercial Finance CEO*	April 1989
John Lowe *Group Finance Director*	February 2018
Joe Shaoul *Non-executive director*	April 1997

Non-executive directors

Mike McTighe – Chair

Mike was appointed as Chair in 2010 and has worked on implementing a new corporate governance structure to support the growth of the business. Mike brings significant experience to the board with a number of prior executive management positions at General Electric, Motorola and Philips. Mike was also on the board of Ofcom for over eight years until December 2015. Mike is currently a non-executive director and Chair for iGas Energy plc and Arran Isle Limited and also Chair of Openreach Ltd, the regulated arm of BT Group PLC. Mike is also a member of all the Board committees.

Joe Shaoul – Non-executive director

Joe has been a non-executive director on the Board since 1997. Besides bringing continuity to the Board membership, Joe also brings significant experience having previously held a number of directorships and consultancy positions. His roles have included Chair of Atlantic House Fund Management, acting as a consultant to CB Richard Ellis and for Svenska Handelsbanken, and as a partner at a large Manchester based law firm for many years. Joe was also a non-executive director of Bridge Insurance Brokers Limited and UK Land & Property Limited. Joe is also a member of all the Board committees.

Wayne Bowser – Non-executive director and Chair of the Audit and Risk Committees

Wayne joined Together in 2015 as a non-executive director and Chair of the Audit and Risk Committees. Wayne was previously the Deputy Head of commercial banking at HSBC and has held non-executive directorships at various leading firms in sectors including house building, motor dealership and investments. Wayne is also a member of the Remuneration and Nominations Committees.

Executive directors

Henry Moser – Chief Executive Officer

Henry founded Together in 1974 and remains responsible for all aspects of its strategic and operational development. Henry has also taken the lead in the recruitment of an experienced executive team to support him in managing the business and continues to input into all areas of the business, with particular emphasis on the strategic direction of the Group and oversight of commercial loan underwriting functions.

Gary Beckett – Group Managing Director and Chief Treasury Officer

Gary was appointed Group Chief Financial Officer in 2001 and assumed a new role of Managing Director and Chief Treasury Officer in March 2018 to assist the Chief Executive Officer in helping to drive the strategy for the business and promote effective collaboration across the Group whilst continuing to play a leading role in the Treasury function. Gary has over 23 years' experience managing finance and treasury functions and prior to joining Together worked at a national accountancy practice.

Marc Goldberg – Commercial Finance CEO

Marc contributes almost 30 years of experience to the business, having joined Together in 1989. He was appointed to the Board in 2001 and, as Chief Executive Officer of Commercial Finance, oversees all aspects of commercial lending, as well as managing sales and underwriting.

Pete Ball – Personal Finance CEO

Pete joined Together in August 2016 as the Chief Executive Officer of the Personal Finance division. Pete has over 25 years' experience working within the financial services sector having previously served as CEO of Harrods Bank and as Commercial Director of Virgin Money Group.

Marcus Golby – Group Chief Operating Officer

Marcus initially joined Together on a consultancy basis working closely with the Chief Financial Officer before assuming the role of Group Services Director and subsequently Group Chief Operating Officer. Marcus has over 15 years' experience in the financial services sector and has held senior roles at HSBC and M&S Bank.

John Lowe – Group Finance Director

John joined Together in February 2018, and was appointed to the Board as Group Finance Director. John has over 15 years' experience in financial services and held a number of senior roles at Coventry Building Society over a 10 year period, including as the Finance Director.

Group committee structure

The Board delegates specific powers for certain matters to committees. All committees operate within defined terms of reference and sufficient resources are made available to them to undertake their duties. Each committee formally reports to the Board after each meeting on matters within its duties and responsibilities, making recommendations to the Board on any area within its remit where action is required. Details of the principal committees are presented below.

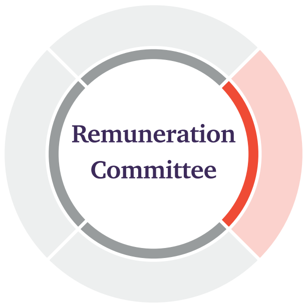
Duties of the Audit Committee include monitoring the integrity of the Group's financial statements and the effectiveness of the external audit process, ensuring compliance with accounting policies, reviewing and assessing the annual internal audit work plan and receiving reports on the results of their findings. The committee meets a minimum of four times yearly.

During the year, the committee assessed the work undertaken to implement International Financial Reporting Standard 9 (IFRS 9: Financial Instruments), discussed the provisions and judgements for the end-of-year financial statements and changes to the annual report and accounts. The committee approved the annual internal audit plan, charter and methodology and considered the oversight received from the external auditors.

Duties of the Risk Committee include reviewing the Group's internal control and risk management systems, ensuring compliance with legal and regulatory requirements, and providing independent oversight and challenge of the risk management framework and risk appetite. The committee meets a minimum of four times yearly.

During the year the committee approved enhancements to the enterprise risk management framework (ERMF) and considered risk management reports from across the Group as well as specialist risk reports on information security, financial crime and business continuity. The committee also approved updates to risk management policies and discussed results of business continuity exercises and disaster recovery plans.

Reporting directly into the committee with its own delegated powers and responsibilities, is the Executive Risk Committee. The Financial Crime Committee is a sub-committee of the Executive Risk Committee that monitors the controls in place to mitigate the risk of financial crime activity.



Duties of the Remuneration Committee include assisting the Board in relation to the Group's remuneration framework. This includes setting the principles and parameters of the Group's remuneration policy and determining the individual remuneration and benefits package for executive directors. The remuneration of the non-executive directors is a matter for the Chief Executive Officer and the Chair. The remuneration of the Chair is a matter for the Chief Executive Officer with advice from the independent non-executive directors. The committee meets a minimum of twice yearly.

During the year, the committee met to discuss the annual salary and bonus review for colleagues and also reviewed proposals for long-term reward and incentive schemes for all colleagues. Any future incentive schemes implemented for executive directors and senior management will be subject to malus and clawback provisions.

Duties of the Nomination Committee include making recommendations to the Board in respect of appointments to the Board and its committees. It is responsible for keeping the structure and composition of the Board under review, and also for considering succession planning, taking into account the skills and expertise required by the Board. The committee meets a minimum of twice yearly.

During the year the committee met to discuss appointments to the Group and divisional boards to ensure the Group has appropriate resources in place to support growth plans. The committee recommended for approval, during the year, the following appointments:

- John Lowe, formerly Finance Director of Coventry Building Society, as Group Finance Director.
- Gary Beckett, formerly Group CFO at Together, as Group Managing Director and Chief Treasury Officer.
- Paul Wilson, formerly Finance Director of Leek United Building Society, as the Finance Director for Personal Finance.

Board activity

In addition to the ongoing oversight activities performed by the board, the key topics the board discussed and assessed during the year are shown below.

Approval of the Group Annual Report & Accounts, and of public issuance offering memorandums

Updates from the Board sub-committees

Monthly updates from the executives of business areas on performance against objectives

Key contracts and expenditure outside of the executive directors' delegated authority

Strategic direction and the infrastructure required to support the ambitions of the Group

Capital structure, liquidity, fundraising activities, and dividends

Changes to the Board and other senior appointments

Monitoring the culture and values of the business

Marketing, brand and digital strategy

Enhancements to the ERMF and risk monitoring activity

Cyber resilience, information security and data management

Updates on colleague engagement, the investment in development for the leadership team and people managers, and the 2018 Best Companies results

The programme of change activity and prioritisation of key strategic and regulatory projects

Regulatory changes, including the implementation of the General Data Protection Regulation, IFRS 9 and readiness for the Financial Conduct Authority's Senior Management and Certification Regime

Directors' report

The directors present their report for the year ended 30 June 2018.

The Group's principal activity continues to be that of financiers. The directors do not expect any significant change to the activities of the Together Financial Services Limited group of companies, trading as Together ('the Group').

Results and dividends

The results for the year are set out in the income statement on page 65. The profit before taxation for the year ended 30 June 2018 was £121.7m (2017: £94.1m). A full review of the financial performance of the Group is included within the Financial Review commencing on page 29. This sets out the key performance indicators monitored in order to review and control performance, position and liquidity and to develop future strategy. Commentary on the Group's future outlook is given in the Chairman's report.

Dividends of £22.9m were paid during the year (2017: £12.5m). The directors do not recommend a final dividend.

Financial position

Loans and advances to customers have increased by 32.0% to £2,958m (2017: £2,241m). At the same time, shareholders' funds have increased by 13.1% to £737.0m (2017: £651.6m), including shareholder loans and notes of £25.1m (2017: £23.2m). The gearing ratio (being the ratio of debt to equity) has increased to 3.0:1 as at 30 June 2018 (2017: 2.4:1) reflecting the fact that the Group continues to fund its loan book through reserves, shareholder notes and increased levels of external borrowings, including the more highly geared RMBS. The shareholder loans and notes are treated as equity for the purposes of calculating the Group's net debt gearing ratio.

A description of the principal risks and uncertainties facing the Group is contained in the risk-management section.

Employee consultation

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings and internal publications. Employees are consulted regularly on a wide range of matters affecting their current and future interests.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training or arrangements are made. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Environment

As the Group operates in the financial services sector, its actions do not have a significant environmental impact. However, the Group does recognise the importance of the environment, and acts to minimise its impact wherever it can, including recycling and reducing energy consumption.

Statement of going concern

As set out in the statement of directors' responsibilities, the directors are required to prepare the financial statements on the going-concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors of the Group have considered the Group's forecast including the Group's funding and liquidity positions and applied reasonable sensitivities thereon in order to confirm that the preparation of the Group's financial statements on a going-concern basis is appropriate.

On the basis that the Group has adequate funding and resources and has considered the market, operational and regulatory risks applicable to it, together with its current performance and financial position, the directors have a reasonable expectation that the Group will have sufficient funding and liquidity facilities to ensure that it will continue in operational existence for the foreseeable future. Accordingly the directors of the Group have adopted the going-concern basis in preparing financial statements.

Directors

All directors listed below have served throughout the year and to the date of this report except as stated below:

RM McTighe* *Chairman*
HN Moser *Chief Executive Officer*
PS Ball
GD Beckett
W Bowser*
MJJR Golby
MR Goldberg
J Lowe *appointed 5 February 2018*
JM Shaoul*

*Non-executives

The Company Secretary, NA Dale served throughout the year until 23 May 2018, when SE Batt was appointed.

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Charitable donations

During the year the Company made donations of £88,000 (2017: £85,000) to local charities.

Audit information

In the case of each of the persons who are directors of the Company at the date when this report is approved:

- as far as each of the directors is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each of the directors has taken all the steps that he ought to have taken as a director to make himself aware of any audit information and to establish that the Company's auditor is aware of that information.

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

Auditor

A resolution for the reappointment of Deloitte LLP as auditor of the Company is to be proposed at the forthcoming annual general meeting.

Approved by the Board of Directors and signed on behalf of the Board

GD Beckett
Director
6 September 2018

Statement of directors' responsibilities

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 financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

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

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

Members of the Board of Directors

Risk management report

Looking out **to the future**

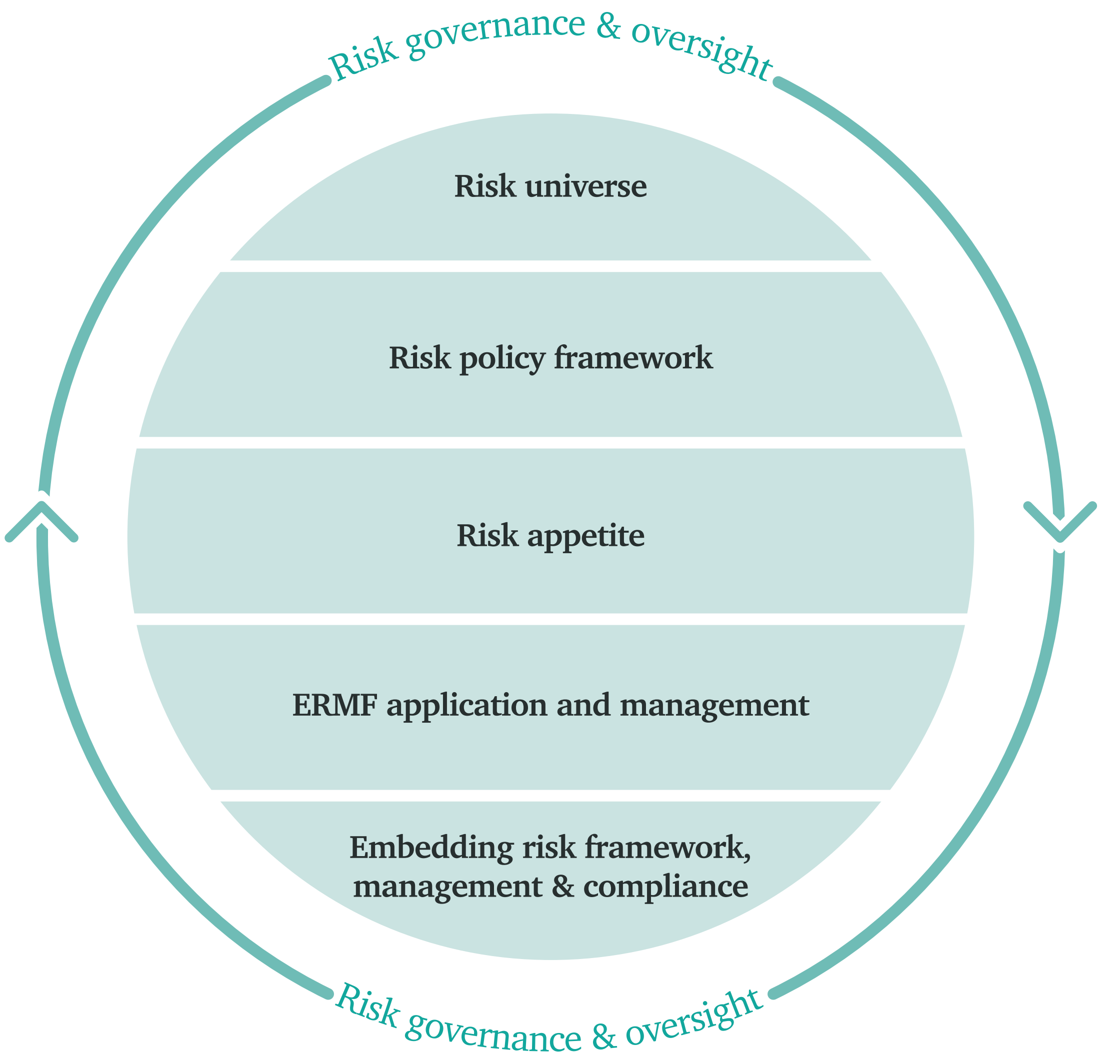
Overview of risk management within the Group

Our vision for risk management is to continue to foster a risk-aware culture across the Group, where all decision-makers are informed of risks, and risks are managed to help achieve our strategic objectives. During the year, the Group continued its growth whilst identifying and managing risks.

There are a number of potential risks and uncertainties which could have an impact on the Group's performance. To identify and control these risks the Group utilises an enterprise risk-management framework (ERMF). The ERMF, summarised in the diagram below, is overseen by the independent Risk Committee which is a sub-committee of the Board.

Enterprise Risk Management Framework

The ERMF provides the requisite organisational arrangements and foundation for managing risks in a consistent and structured manner. It explains how the Group ensures that risk is effectively managed, embedded in strategic decisions, translated into operational objectives and integrated into the day-to-day business processes.



The key components of the ERMF, as portrayed by the diagram on the previous page are described below.

Risk governance and oversight

The Group Board has overall responsibility for determining the strategic direction of the Group and for creating the environment and structures for risk management to operate effectively.

At the operational level, the Group's system of internal controls and risk management uses the three-lines-of-defence model. At the first line of defence, business managers identify, manage and own the risks in their respective areas of the business.

The second line of defence ensures the first line of defence is properly designed, implemented and is operating as intended by providing oversight and challenge. This consists of risk and compliance functions which are organisationally separate and independent of the first line of defence.

The third line of defence is provided by the internal audit function. This provides an independent internal review and assurance on the first and second lines of defence, and the governance, risk-management and internal control framework operated by the Group.

Risk universe

In pursuing its strategic objectives, the Group is exposed to a variety of risks. The risk categories in our risk universe are defined as principal risks, each with a risk appetite and definitions for each risk category.

Risk appetite

The Group's risk appetite is the amount of risk that the Group is willing to accept in pursuit of its strategic objectives.

Risk appetite is assessed at a Group level and by risk category. The Group's risk appetite is defined by the Board and translated into key risk indicators that can be assessed against tolerances for each category of risk.

Risk policy framework

Principal risks are underpinned by appropriate risk policies for monitoring and controlling risks.

Embedding risk framework, management & compliance

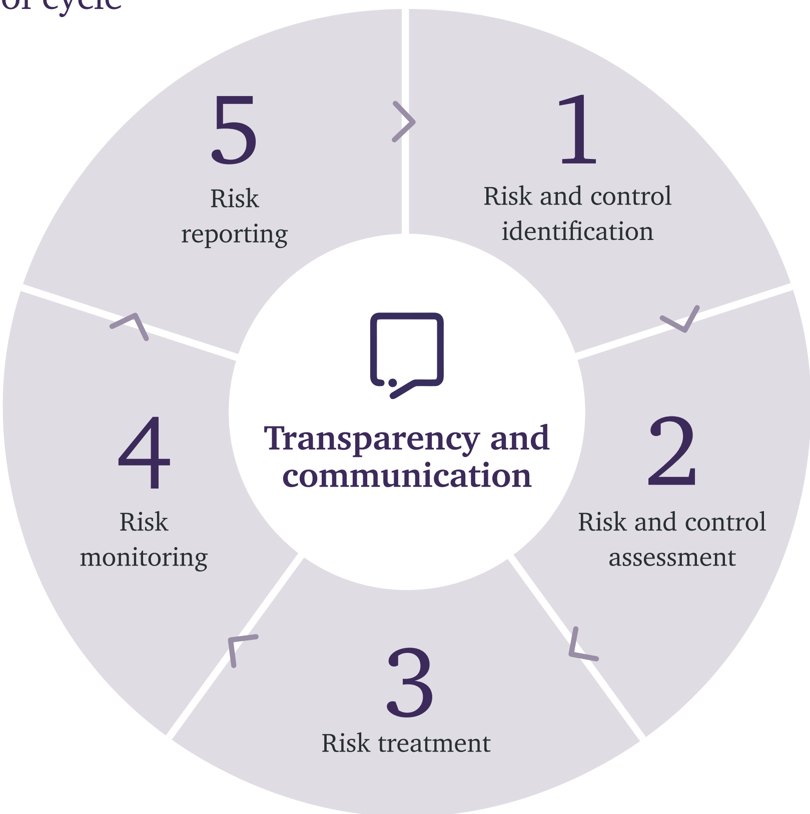
ERMF is an integral part of the Group's organisational processes and activities. Embedding the ERMF is dependent on the commitment of the:

- Group Board and senior management, who set the 'tone at the top';
- Governance committees, that provide oversight and ensure appropriate assignment of risk management responsibilities and resources within the Group; and
- Colleagues, who are required to adhere to the principles of the ERMF and have a clear understanding of their responsibilities.

ERMF application and management

The ERMF provides a structured approach to managing the risks the Group faces. Each area of the business is responsible for embedding and applying the ERMF, which includes identifying and assessing the risk and control environment. In sequence, the process begins with risk and control identification establishing the context for risk management as outlined in the risk and control cycle opposite.

Risk and control cycle



Transparency and communication
Transparency and communication is an essential part of risk management. The Group operates a culture of openness, and continuously strives to ensure the control environment is proportionate with risk appetite.

1) Risk and control identification
The process of risk and control identification occurs within the first line of defence. Risk identification includes all principal risks across the core business processes in all business units.

2) Risk and control assessment
Risks and controls are assessed using a Risk and Control Self-Assessment ('RCSA') process to facilitate the risk and control assessment within each business area.

Risks are assessed by considering: the extent of operational disruption; the effect on customers, stakeholders and the group's overall reputation; the potential financial impact; and, the likelihood of the risk occurring.

3) Risk treatment
This step enables the formulation of an action plan for mitigating risks. Risk treatment and control strategies may include risk acceptance, risk reduction, and risk avoidance.

4) Risk monitoring
Risk management is a dynamic process and to be effective, requires ongoing monitoring and review to ensure that risk treatment plans are constantly updated to reflect changes in the environment in which the Group operates.

5) Risk reporting
The Group operates a formal governance framework, through which the risk and control environment is reviewed and challenged to determine the appropriateness of risk mitigation to manage the risk exposure within risk appetite levels.

Emerging risks

Emerging risks are those threats that are outside of our control but may have an impact on the future performance, compromise the delivery of our existing strategy or threaten the Group's business model.

These are risks that are common to a number of businesses that operate in a similar business environment to us, or have similar operations. Key emerging risks faced by the business are:

The UK's exit from the European Union (Brexit)

The UK remains on course to exit the European Union in March 2019. We note market concerns about the future post-Brexit. Amongst other impacts, Brexit may affect the availability of wholesale funding, reduce customer confidence, increase operating costs, affect property value and impact interest rates (see below).

What we did in 2017/18

The Group undertook stress testing activity to understand how the Group might perform over a variety of macroeconomic stress scenarios and has in place a suite of early warning indicators which are closely monitored to identify changes in the economic environment.

We have extended the maturity dates of a number of our funding facilities to ensure we are well placed to face any contraction in the wholesale funding market.

We have no operations outside of the UK.

Group expectations for 2018/19 and direction

We continue to manage these risks by maintaining a low LTV, diversified product base, by remaining firmly focused on the UK and continuing to monitor changes in the economic environment.

Exposure to real estate

We have a substantial lending exposure to the residential, buy-to-let, and commercial property sectors. Any property value falls, or increase in unemployment may lead to a rising number of defaults.

What we did in 2017/18

We lend at prudent LTVs at origination to protect the Group from falls in house prices. Average origination LTV was 58.0% in 2017/18. We also ensure we carry out affordability assessments where appropriate with customers before lending.

Group expectations for 2018/19 and direction

These risks are expected to remain unchanged in the forthcoming year.

Interest rate environment

The low interest environment, introduced to stimulate growth following the financial crisis, persisted for longer than first expected but we have now had two increases in Bank Rate within 12 months. If interest rates are increased faster than expected, loan servicing costs may increase, which could cause an increase in credit losses.

What we did in 2017/18

The Group conducted specific stress testing on our loan portfolio and maintains strict underwriting criteria, which includes stressing affordability rates as interest rates rise.

Group expectations for 2018/19 and direction

We will continue to monitor the external environment and respond to any interest rate rise as appropriate.

New entrants and competition

The competitive landscape contains risks from new entrants, increased competition from incumbent lenders and disruptive products/software solutions potentially affecting lending activities. The effect of this could result in lower lending volumes, higher customer attrition and/or, interest margins.

What we did in 2017/18

The risk of competition has been incorporated into the Group's forward planning process and the external market is monitored on a constant basis.

Furthermore, we have a well-established distribution network, a broad product range and a rich pool of experience and skills. We also continue to invest in technology and product innovation.

Group expectations for 2018/19 and direction

We will continue to monitor the external environment and adapt accordingly.

Cyber-crime

Cyber-crime is a significant threat in our increasingly interconnected world and exposes all businesses and in particular financial services companies to financial as well as reputational damage.

What we did in 2017/18

We continued to strengthen the Group's defences against cyber-crime, with investment in market-leading tools and investment in our cyber security team during the year.

Group expectations for 2018/19 and direction

This remains a key risk area and the Group will continue to invest in ongoing security arrangements.

Regulatory changes

Changes in regulation may impact the way in which we conduct our business. Failure to comply with changes in regulation could result in fines, reputational damage and potential revocation of our regulatory permissions.

What we did in 2017/18

Regulatory change is closely monitored by our Compliance team, including:

- Assessing developments as they arise from the FCA's on-going Mortgages Market Study (MMS) during the year.
- Reviewing our approach to data handling to ensure we were prepared for GDPR when it came into force in May 2018.

Group expectations for 2018/19 and direction

We will continue to horizon scan for emerging changes to regulation, to assess the potential impact of any changes, and adapt our procedures and processes accordingly.

This includes the FCA's published near final rules on the extension of the Senior Managers and Certification Regime (SM&CR) which will apply from 9 December 2019.

Principal risks and uncertainties

The directors have identified the following as the principal risks and uncertainties facing the business. These are typical of the categories of risk traditionally identified by organisations operating in the financial services sector and are impacted by the emerging risks detailed in the previous section.

Each risk listed below is discussed in further detail throughout the remainder of this report:

- Strategic risk
- Credit risk[22]
- Liquidity and funding risk[22]
- Market risk[22]
- Capital risk[22]
- Conduct risk
- Compliance risk
- Operational risk

Strategic risk

Strategic risk is the risk of failure to achieve objectives that impact the long term interest of stakeholders, or from an inability to adapt to the external environment.

Management and mitigation of strategic risk

Key activities undertaken to manage and mitigate strategic risk include:

- Regular Board oversight of performance including financial and non-financial indicators.
- Ongoing Board review of the Group's risk appetite, risk exposure and mitigation.
- Sensitivity and stress testing analysis are carried out against the loan book.
- Maintenance of a prudent balance sheet with a mix of funding structures and closely monitored gearing levels.
- Annual budget process, with 5 year outlook, which aligns with the Group's risk appetite.
- Dedicated Change delivery department that executes and oversees the implementation of Group wide major change programmes.
- A Group 'Change Delivery Framework' for all business change programmes and projects.

We continue to monitor a broad range of management information, and key performance and risk appetite metrics in relation to our budgets and profit figures. We have enhanced our monitoring of key performance metrics in relation to major change projects, and reputational risk during 2017/18.

Credit risk

Credit risk is the risk arising as result of default by customers or counterparties due to failure to honour obligations when they fall due.

The Group is exposed to changes in the economic position of its customers, which may adversely impact their ability to make loan repayments. The level of this risk is driven by macro-economic factors as well as by factors relating to specific customers, such as a change in the borrowers circumstances.

Credit risk also arises if the value of assets used as security for loans falls in value, given this is the primary source of recourse should a borrower fail to repay amounts due.

Management and mitigation of credit risk

- Our comprehensive underwriting procedures, which have regard to customer affordability levels, creditworthiness, repayment strategies and property loan-to-value (LTV) ratios.
- Customer affordability models are utilised by the Group and are tailored to the customer and loan type.
- Monitoring of customer loan performance throughout the loan, with regard to arrears, proactive collections strategies, application of forbearance measures and macro-economic sensitivity analysis.
- Macroeconomic sensitivity analysis of the loan book.

[22] This section forms part of the IFRS 7 disclosures in respect of the financial statements on pages 65 to 100.

- Continuing to focus our lending on areas of the market where we have specific expertise.
- Monitoring of the characteristics of our loan portfolio, including, geographical concentration, and LTV.
- Oversight by the Executive Risk Committee.

The Group impairment ratio[23] remains low at 43bps (2017: 36bps) reflecting the rigorous underwriting process and current levels of arrears. The heightened uncertainty for the UK economy, with the impending departure from the EU has increased the possibility of a downturn, however; our low average LTV provides the Group with mitigation against loss.

Maximum exposure to credit risk

The Group's maximum exposure to credit risk and allowance for impairment is as follows:

Audited	Note	2018 £m	2017 £m
Gross loans and advances to customers	13	3,020.0	2,303.1
Allowance for impairment	13	(61.8)	(62.2)
Loans and advances to customers	**–**	**2,958.2**	**2,240.9**
Amounts owed by related parties	15	0.5	0.8
Other debtors	15	0.9	0.6
Cash and balances at bank	–	–	17.3
Maximum exposure to credit risk		**2,959.6**	**2,259.6**

Cash and cash equivalents are primarily surplus cash placed overnight with institutions with sufficiently high credit ratings. The Group's material credit risk therefore relates to its loans and advances to customers.

The above table represents the maximum credit risk exposure to the Group at 30 June 2018 and 2017 without taking account of any underlying security.

Impaired and past-due loans

The analysis in this section is presented based upon gross customer balances. This differs to the total loan book balance recognised in the statement of financial position as a result of various accounting adjustments required under IFRS. A reconciliation is presented below:

	Note	2018 £m	2017 £m
Gross loans and advances to customers	13	3,020.0	2,303.1
Unsecured loans		(0.8)	(1.7)
Accounting adjustments		12.2	8.0
Maximum exposure to credit risk on customer balances		**3,031.4**	**2,309.4**

Loans and advances to customers are reviewed regularly to determine whether there is any objective evidence of impairment. Specific provisions are made for assets individually assessed, and collective provisions are made for assets assessed individually but for which no specific impairment is identified.

Loan assets are categorised as:

Performing
Loans which are not in arrears and which do not meet the definition for specific impairment, in accordance with our accounting policies.

Non-performing but no impairment provision
Loans which meet the definition for specific impairment because the loan is in arrears or there is other objective evidence of impairment in accordance with our accounting policies. However, no impairment provision is recognised against the loan when the expected cash flows, discounted at the original effective interest rate, exceed the carrying amount of the loan.

Impaired
Loans which meet the definition for specific impairment because the loan is in arrears or there is other objective evidence of impairment in accordance with our accounting policies and where the carrying amount of the loan exceeds the expected cash flows, discounted at the original effective interest rate.

[23] Annual impairment losses expressed as a percentage of average opening and closing gross loans and advances to customers.

Customer balances are analysed as follows:

Audited	2018 £m	2018 % of gross customer balances	2017 £m	2017 % of gross customer balances
Not past due	2,715.5	89.6%	1,851.2	80.2%
Past due less than 2 months	56.9	1.9%	224.6	9.7%
Performing	**2,772.4**	**91.5%**	**2,075.8**	**89.9%**
Past due 2-3 months	30.7	1.0%	22.9	1.0%
Past due over 3 months	77.3	2.6%	74.0	3.2%
Non performing but no impairment provision	**108.0**	**3.6%**	**96.9**	**4.2%**
Impaired	**151.0**	**4.9%**	**136.7**	**5.9%**
Gross customer balances	**3,031.4**	**100.0%**	**2,309.4**	**100.0%**

Reported arrears are in relation to contractual amounts due, and have not been amended to reflect changes in customers' preferred payment dates or to reflect agreed payment arrangements as part of our collection and forbearance policies.

In applying IAS 39, observable data is considered to identify potential loss events. Management considers that contractual arrears of two months or more constitutes one such trigger for a potential loss event. On identification of a loss event a provision for impairment is considered based on the probability of default of the loan (based on historical evidence) and the expected loss given default amount (arrived at by calculating the present value of expected future cash flows compared to the carrying value of the loan).

Collateral held

The Group enters into agreements with customers taking security for loan receivables over immovable property.

A key measure the business uses in assessing credit risk is the ratio of the loan amount to the value of the underlying security (LTV). Prior valuations are indexed using established regional house price indices to estimate the current security value. The table below shows gross customer balances by indexed LTV banding:

Audited	2018 £m	2018 % of gross customer balances	2017 £m	2017 % of gross customer balances
60% or less	1,712.7	56.5%	1,443.6	62.5%
60–85%	1,176.1	38.8%	738.9	32.0%
85–100%	97.8	3.2%	92.1	4.0%
More than 100%	44.8	1.5%	34.8	1.5%
Gross customer balances	**3,031.4**	**100.0%**	**2,309.4**	**100.0%**

Of the gross customer balances at 30 June 2018, 95.3% of loans had an indexed LTV of less than or equal to 85% (2017: 94.5%).

Concentration of credit risk

The Group's lending portfolio is geographically diversified across the UK as shown below:

	2018 %	2017 %
East Anglia	2.6	2.8
East Midlands	3.5	3.0
Ireland	0.2	0.2
London Regions	28.8	28.3
North East	1.4	1.6
North West	15.8	18.1
Scotland	4.4	4.6
South East	18.2	17.9
South West	6.5	5.8
Wales	4.1	4.3
West Midlands	7.3	6.6
Yorks & Humber	7.2	6.8
Gross customer balances	**100.0**	**100.0**

The Group's lending portfolio falls into the following concentrations by loan size:

	2018 %	2017 %
Up to £50,000	14.7	19.3
£50,000–£100,000	16.4	17.5
£100,000–£250,000	21.1	20.9
£250,000–£500,000	13.9	12.6
£500,000–£1,000,000	9.8	8.9
£1,000,000–£2,500,000	10.8	12.2
More than £2,500,000	13.3	8.6
Gross customer balances	**100.0**	**100.0**

Whilst the Group's exposure to loans in excess of £2.5m has increased since the prior year, 91.3% of these loans have an LTV of under 85% (2017: 89.3%).

Forbearance

The Group offers a range of approaches to assist customers who are experiencing financial distress. Assistance is provided through trained colleagues in dedicated teams. For those customers requiring more assistance the Group works with a number of external not-for-profit agencies.

The Group considers an account as forborne at the time a customer in financial difficulty is granted a concession. The Group actively operates timely collections and arrears management processes to ensure early identification of issues to support our customers and minimise credit losses. The Group's offer of forbearance is considered separately for each customer dependent on their individual circumstances. Forbearance can be temporary or permanent in nature depending on the circumstances of the customer and the concession agreed. Examples of concessions agreed include reduced payment arrangements, or a change in the repayment profile.

Liquidity and funding risk

Liquidity risk is the risk that the Group is unable to maintain sufficient accessible liquid financial resources to meet the Group's financial obligations as they fall due.

This includes the risk of reduced funding options due to a tightening in the wholesale funding market, potentially caused by political and economic uncertainty leading to the inability to secure additional funding for new business, or refinance existing securities.

Based on the business model of funding primarily via securitisation programmes and bond markets, the Board has set a liquidity risk appetite which it considers to be appropriate, to provide it with the assurance that the Group is able to meet its liabilities and commitments when they fall due, and provide sufficient facility headroom to support anticipated loan book growth. Liquidity and funding, and capital risk (see page 59) are closely related given capital provides the necessary subordination to our bond funding and secured facilities.

Management and mitigation of liquidity risk
Liquidity risk is managed and mitigated by:

- Forecasting of expected cash inflow and outflows.
- The utilisation of a range of medium to long-term funding sources.
- Diversification of funding sources.
- Having access to a revolving credit facility.
- Maintenance of prudent headroom in facilities, along with cash flows from redemptions are used to provide liquidity resources, which are monitored daily.
- We undertake liquidity stress tests to test our ability to withstand the emergence of risks under normal and stressed conditions.
- Surplus cash balances are only placed on overnight deposit ensuring they remain immediately available.

The Group's liquidity position was strengthened during the year with a number of treasury transactions, including the increase in the RCF facility in April 2018 from £57.5m to £71.9m, and funding facilities.

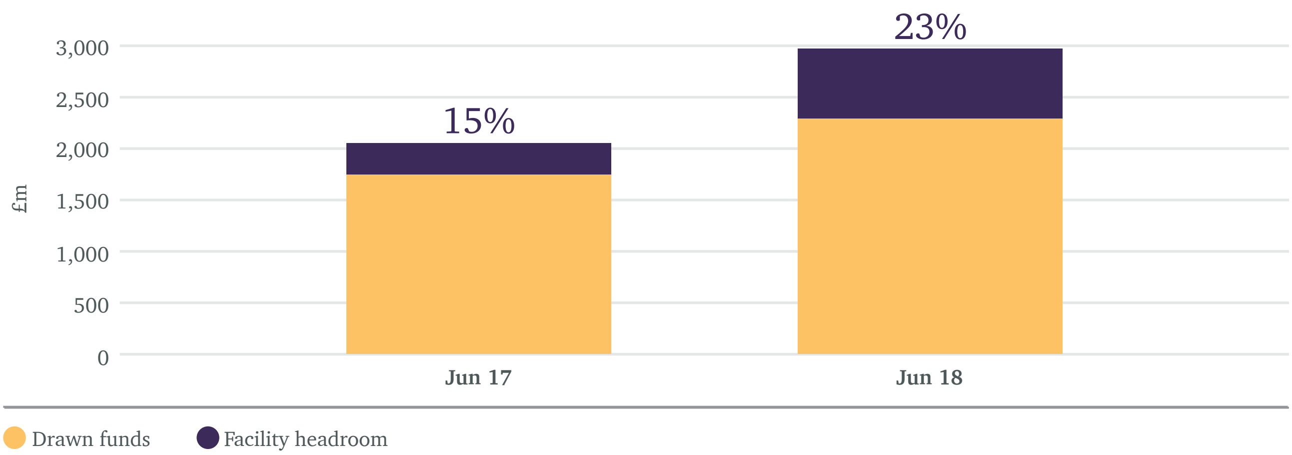
The Group has increased its wholesale funding in successive years in order to fund the growth in its loan portfolio. Key sources of funding are:

- Charles Street ABS[24] – this securitisation is for a total facility of £1bn and is available to fund the majority of asset types, subject to eligibility criteria and loan portfolio concentration limits.
- Lakeside ABS – this securitisation which is for a total facility of £255m and is available primarily to fund new short-term commercial-purpose loans, and is also subject to eligibility criteria and loan portfolio concentration limits.
- Delta ABS[25] – this is for a total of £90m and is available primarily to fund new short-term commercial-purpose loans and loans secured on commercial property, again subject to eligibility criteria and loan portfolio concentration limits.
- Together ABS – this facility is an amortising facility for £275m and is for residential-purpose loans only.
- Highfield ABS – this facility is for a total of £525m and is available for smaller balance commercial purpose loans.
- Senior secured notes, which total £725m and mature in 2021 and 2024.
- Revolving credit facility of £79.1m.

At 30 June 2018 facility headroom was £567m (2017: £308m). The Group aims to keep a minimum of six months of facility headroom available and manages this by arranging new facilities, extending existing facilities or by adjusting new origination levels. The Group successfully continued its strategy of increasing, extending and diversifying its funding structure during the year:

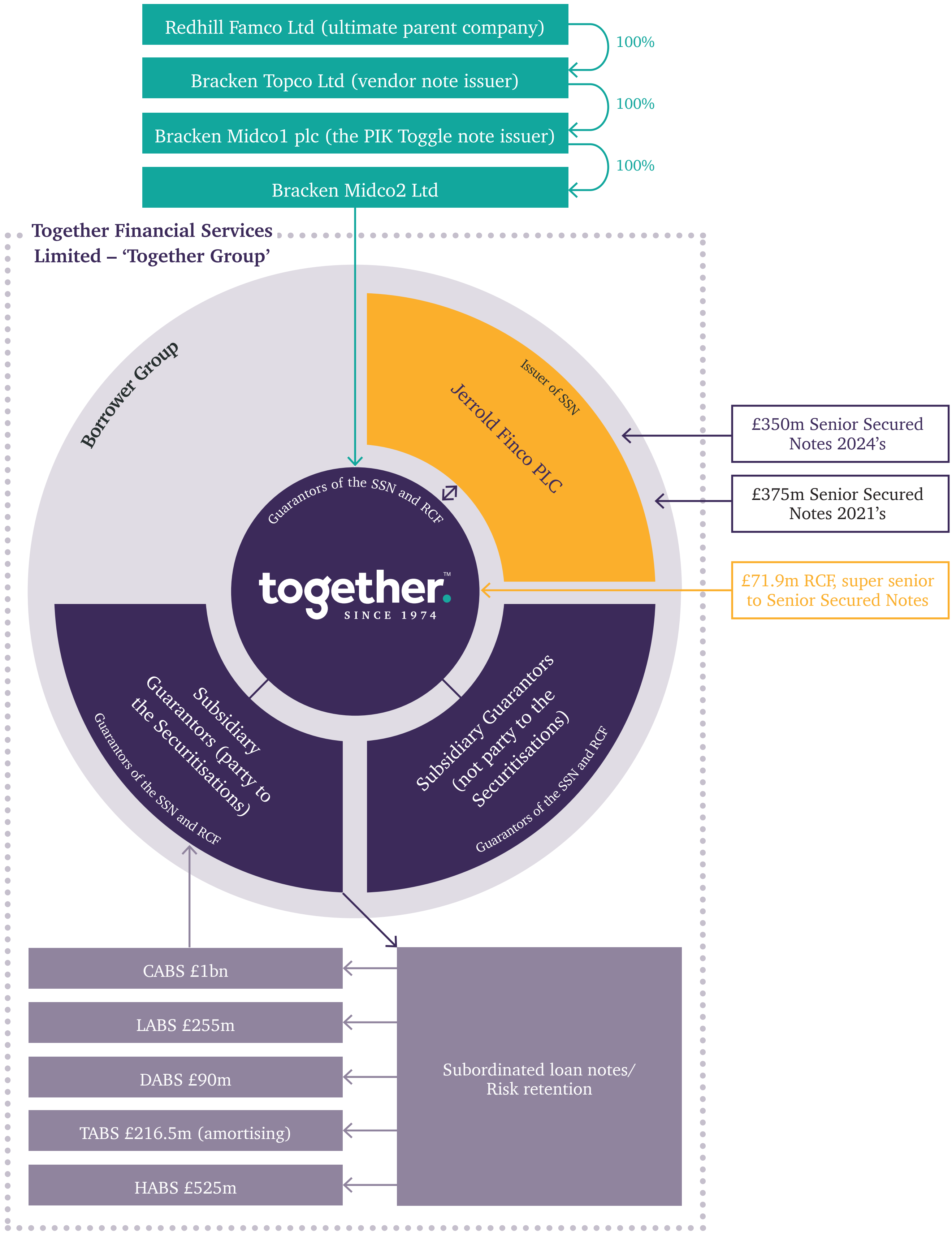
The diversity of funding sources is evidenced by the following chart (opposite):

Continued diversification in funding provides capacity for growth (£m)



[24] Charles Street Conduit Asset Backed Securitisation 1 Limited
[25] Delta Asset Backed Securitisation 1 Limited

Group legal & finance structure as 30 June 2018



The following is an analysis of the gross undiscounted contractual cash flows payable on our financial liabilities, including expected future interest payments.

Audited At 30 June 2018	Carrying value £m	Gross nominal cash flow £m	Up to 1 year £m	1–2 years £m	2–5 years £m	More than 5 years £m
Bank facilities	30.7	33.8	6.7	1.0	26.1	-
Loan notes	1,452.4	1,795.3	95.3	92.0	1,608.0	-
Subordinated shareholder loans	25.1	68.1	-	-	-	68.1
Senior secured notes	727.4	938.9	45.0	45.0	474.9	374.0
Obligations under finance leases	1.1	1.1	0.4	0.5	0.2	-
	2,236.7	**2,837.2**	**147.4**	**138.5**	**2,109.2**	**442.1**
Debt issue costs	(19.9)	-	-	-	-	-
Borrowings	**2,216.8**	**2,837.2**	**147.4**	**138.5**	**2,109.2**	**442.1**
Trade creditors	1.2	1.2	1.2	-	-	-
Other creditors	2.5	2.5	2.5	-	-	-
Gross customer balances	**2,220.5**	**2,840.9**	**151.1**	**138.5**	**2,019.2**	**442.1**

Audited At 30 June 2017	Carrying value £m	Gross nominal cash flow £m	Up to 1 year £m	1–2 years £m	2–5 years £m	More than 5 years £m
Loan notes	1,022.9	1,196.1	26.0	199.6	970.5	-
Subordinated shareholder loans	23.2	68.1	-	-	-	68.1
Senior secured notes	575.0	779.6	35.9	35.9	482.8	225.0
Obligations under finance leases	0.6	0.7	0.3	0.2	0.2	-
	1,621.7	**2,044.5**	**62.2**	**235.7**	**1,453.5**	**293.1**
Debt issue costs	(18.8)	-	-	-	-	-
Borrowings	**1,602.9**	**2,044.5**	**62.2**	**235.7**	**1,453.5**	**293.1**
Trade creditors	2.3	2.3	2.3	-	-	-
Other creditors	2.9	2.9	2.9	-	-	-
Gross customer balances	**1,608.1**	**2,049.7**	**67.4**	**235.7**	**1,453.5**	**293.1**

The weighted average maturity of the Group’s borrowings is 3.5 years at 30 June 2018 (30 June 2017: 4.1 years).

Market risk

Market risk is the risk arising from the Group's exposure to movements in market values, including movements in interest rates.

The main market risk faced by the Group is interest-rate risk, the risk of loss through mismatched asset and liability positions sensitive to changes in interest rates.

Management and mitigation of market risk

Market risk is managed and mitigated by:

- The fact that the Group does not carry out proprietary trading or hold positions in assets or equities which are actively traded.
- The Group has no foreign currency exposure.
- The Risk Committee, which has responsibility for oversight of the monitoring of the Group's exposure to, and management of, interest rate risk.
- The ability to undertake hedging transactions.

The Group's approach remains prudent and underlying risks remain unchanged. The Group's performance is not at material risk from changes in interest rates that are reasonably expected for the next 12 months.

Capital risk

Capital risk is the risk of failure to hold adequate capital buffers and to appropriately manage the Group's capital base. Given capital also comprises a material source of funding via subordination in bond and securitisation structures, insufficient capital also gives rise to funding and liquidity risk.

The Group maintains adequate levels of capital to provide prudent headroom to gearing limits in order to support day to day operations and mitigate refinancing risk. Regulatory capital requirements must also be met at all times within certain of the Group's subsidiaries.

The Board has set a capital risk appetite which it considers to be appropriate to provide it with the assurance that the Group is able to maintain a prudent and sustainable capital position providing a long term foundation for the business.

Management and mitigation of capital risk

Capital risk is managed and mitigated by:

- Regular monitoring of current and forecast levels of capital, including the gearing ratio, which is reported to the Board.
- Undertaking internal capital stress tests to test our ability to withstand the emergence of risks under normal and stressed conditions.
- Continuous monitoring of the forecast facility headroom, and facility repricing profile.

Current and forecast levels of Group capital, including the gearing ratio, are monitored and reported to the Board on a regular basis. Total shareholder funds increased £85.4m over the year (2017: £76.6m). The net debt gearing ratio stood at 3.0:1 at 30 June 2018 (30 June 2017: 2.4:1). During the year, the Group issued its first RMBS for £275m (Together ABS). Such facility, being rated investment grade, provided greater capital efficiency at a lower margin. In addition, during the year the Group also raised an additional £150m via a bond issuance, an additional £525m on the introduction of Highfield ABS, and refinanced its Lakeside ABS on more favourable terms.

	Note	2018 £m	2017 £m
Net debt[26]		**2,211.6**	**1,581.1**
Equity		711.9	628.4
Subordinated shareholder loans	20	25.1	23.2
Total shareholder funds		**737.0**	**651.6**
Net debt gearing ratio[27]		**3.0:1**	**2.4:1**

Conduct risk

Conduct risk is the risk arising from business activities that fail to deliver appropriate and consistent outcomes to customers and stakeholders.

This risk can arise from inadequate product design, inappropriate terms and conditions, failure to recognise the needs of all of our customers, particularly vulnerable customers, and the risk that complaints are not managed in a fair, transparent and timely way, leading to poor customer outcomes.

Management and mitigation of conduct risk

Conduct risk is managed and mitigated by:

- The Group's aim to provide simple and transparent products.
- The Group's 'Beliefs' which define our organisational culture and focuses on colleague conduct, respect, accountability and customer experience.
- Annual conduct related training and awareness sessions for colleagues, including identifying customers in vulnerable situations.
- Products are designed and approved through a robust 'Product Governance framework' with a focus on customer needs.
- Key conduct risks are captured through the RCSA process, with a specific assessment made of the risk impact on customers and third parties.
- Our established Conduct risk and Vulnerable Customer policies.
- Identifying and supporting our customers when things go wrong through effective forbearance and complaint handling.
- Root cause analysis focusing on continuous improvement aiming to reduce the number of complaints.
- Our quality assurance frameworks.

[26] Net debt is calculated as borrowings, excluding debt issue costs and excluding subordinated shareholder loans of £25.1m (£23.2m), which are included in total shareholder funds.
[27] Net debt expressed as ratio to total shareholder funds.

Compliance risk

Compliance risk is the risk arising from the failure to comply with existing or new legislation or regulations in the markets within which the Group operates.

This includes the risk that we misinterpret regulation or legislation e.g. MCOB, DISP and GDPR. This could include the risk of developing business practices and processes that do not adhere to or are not in line with the spirit of the law or regulation, leading to customer dissatisfaction or detriment and fines from the regulator.

Furthermore, as a Group which undertakes some regulated activities, there is a risk that our activities do not meet the standards expected by the regulators when working with customers.

Management and mitigation of compliance risk

Key activities undertaken to manage and mitigate credit risk include:

- The Group seeks to provide simple and transparent products, and operates solely in the UK market.
- Continued investment in staff training and awareness.
- Quality assurance reviews in operational areas supported by experienced risk and compliance departments.
- Independent monitoring reviews undertaken by both the Compliance and Financial Crime team.
- Horizon scanning and impact assessments of potential regulatory change.
- All significant regulatory initiatives are managed by structured programmes overseen by the Group's Business Change team and are sponsored at an Executive level.
- Experienced legal department in place to ensure the Group meets all its legal obligations.

During the year, we reviewed our approach to data handling to ensure we were prepared for GDPR when it came into force in May 2018.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Management and mitigation of operational risk

Operational risk is managed and mitigated by:

- A robust framework of systems, controls, policies and procedures.
- Frameworks to recruit and retain sufficient skilled personnel.
- Monitoring of the risk of ineffective design or operation of business processes, utilising an RCSA approach to managing and monitoring these operational risks.
- A documented and tested business continuity plan.
- A business change team dedicated to managing the change projects the business is undertaking.
- Robust IT infrastructure, which is sufficiently resilient.
- Investment in robust cyber risk prevention systems, resulting in a mature cyber security capability which includes:
    - A dedicated cyber security team focused on prevention and detection.
    - Top tier industry standard tools for both Anti-Virus and firewalls, in use with multiple vendors used to maximise protection.
    - Market leading detection tools, continually monitoring our network and data.
    - Full penetration testing for externally facing networks.
    - Encryption of all mobile devices.

Financial statements

Taking a *closer look*

Independent auditor's report

Independent auditor's report to the members of Together Financial Services Limited.

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Together Financial Services Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company statements of cash flows;
- the statement of accounting policies; and
- the disclosures in the 'Principal Risks and Uncertainties' section of the Risk Management Report on pages 52 to 61 of the Annual Report and Consolidated Financial Statements that are denoted as forming part of the financial statements and cross-referenced to from within the statement of accounting policies; and
- the related Notes 1 to 29.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the FRC's) Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in respect of these matters.

Responsibilities of directors
As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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 group's and the parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

Use of our report
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

We have nothing to report in respect of these matters.

David Heaton

David Heaton (Senior Statutory Auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
Manchester, United Kingdom
6 September 2018

Consolidated statement of comprehensive income

Year ended 30 June 2018

All amounts are stated in £m

Income statement	Note	2018	2017
Interest receivable and similar income	4	292.2	246.5
Interest payable and similar charges	5	(92.8)	(88.8)
Net interest income		**199.4**	**157.7**
Fee and commission income	6	4.7	4.2
Fee and commission expense	7	(2.1)	(2.1)
Other income	8	0.4	0.1
Operating income		**202.4**	**159.9**
Administrative expenses	9	(69.3)	(58.4)
Operating profit		**133.1**	**101.5**
Impairment losses	13	(11.4)	(7.4)
Profit before taxation		**121.7**	**94.1**
Income tax	12	(15.3)	(15.9)
Profit after taxation		**106.4**	**78.2**

The results for the current and preceding years relate entirely to continuing operations. There is no other comprehensive income in either year.

Consolidated statement of financial position

As of 30 June 2018

All amounts are stated in £m

	Note	2018	2017
Assets			
Cash and balances at bank		-	17.3
Loans and advances to customers	13	2,958.2	2,240.9
Inventories	14	0.6	0.9
Other assets	15	4.3	4.4
Investments		0.1	0.1
Property, plant and equipment	17	6.3	4.4
Intangible assets	18	8.3	5.7
Deferred tax asset	19	1.4	2.4
Total assets		**2,979.2**	**2,276.1**
Liabilities			
Borrowings	20	2,216.8	1,602.9
Other liabilities	21	44.2	37.5
Current tax liabilities		6.3	7.3
Total liabilities		**2,267.3**	**1,647.7**
Equity			
Share capital	22	9.8	9.8
Share premium account		17.5	17.5
Merger reserve		(9.6)	(9.6)
Capital redemption reserve		1.3	1.3
Subordinated shareholder funding reserve	20	43.0	44.9
Share-based payment reserve	28	1.6	1.6
Retained earnings		648.3	562.9
Total equity		**711.9**	**628.4**
Total equity and liabilities		**2,979.2**	**2,276.1**

These financial statements were approved and authorised for issue by the Board of Directors on 6 September 2018.
Company Registration No. 02939389.

Signed on behalf of the Board of Directors

HN Moser
Director

J Lowe
Director

Company statement of financial position

As of 30 June 2018

All amounts are stated in £m

	Note	2018	2017
Assets			
Cash and balances at bank		0.1	22.2
Other assets	15	1,326.1	1,191.9
Investments in subsidiaries	16	25.3	25.3
Total assets		**1,351.5**	**1,239.4**
Liabilities			
Borrowings	20	49.6	22.5
Other liabilities	21	738.8	628.8
Total liabilities		**788.4**	**651.3**
Equity			
Share capital	22	9.8	9.8
Share premium account		17.5	17.5
Capital redemption reserve		1.3	1.3
Subordinated shareholder funding reserve	20	43.0	44.9
Share-based payment reserve	28	1.6	1.6
Retained earnings		489.9	513.0
Total equity		**563.1**	**588.1**
Total equity and liabilities		**1,351.5**	**1,239.4**

Together Financial Services Limited (the Company) reported a loss after tax for the year ended 30 June 2018 of £2.1m (2017: £461.9m profit). As permitted by section 408 of the Companies Act 2006, no separate statement of comprehensive income is presented in respect of the Company.

These financial statements were approved and authorised for issue by the Board of Directors on 6 September 2018. Company Registration No. 02939389.

Signed on behalf of the Board of Directors

HN Moser
Director

J Lowe
Director

Consolidated statement of changes in equity

Year ended 30 June 2018

All amounts are stated in £m

2018	Called-up share capital	Share premium	Merger reserve	Capital redemption reserve	Subordinated shareholder funding reserve	Share-based payment reserve	Retained earnings	Total
At beginning of year	9.8	17.5	(9.6)	1.3	44.9	1.6	562.9	628.4
Retained profit for the financial year	-	-	-	-	-	-	106.4	106.4
Transfer between reserves	-	-	-	-	(1.9)	-	1.9	-
Dividend	-	-	-	-	-	-	(22.9)	(22.9)
At end of year	**9.8**	**17.5**	**(9.6)**	**1.3**	**43.0**	**1.6**	**648.3**	**711.9**

2017	Called-up share capital	Share premium	Merger reserve	Capital redemption reserve	Subordinated shareholder funding reserve	Share-based payment reserve	Retained earnings	Total
At beginning of year	9.8	17.5	(9.6)	1.3	-	1.2	494.8	515.0
Retained profit for the financial year	-	-	-	-	-	-	78.2	78.2
Capital contribution	-	-	-	-	46.1	-	-	46.1
Share-based payments	-	-	-	-	-	0.4	1.2	1.6
Transfer between reserves	-	-	-	-	(1.2)	-	1.2	-
Dividend	-	-	-	-	-	-	(12.5)	(12.5)
At end of year	**9.8**	**17.5**	**(9.6)**	**1.3**	**44.9**	**1.6**	**562.9**	**628.4**

Company statement of changes in equity

Year ended 30 June 2018

All amounts are stated in £m

2018	Called-up share capital	Share premium	Capital redemption reserve	Subordinated shareholder funding reserve	Share-based payment reserve	Retained earnings	Total
At beginning of year	9.8	17.5	1.3	44.9	1.6	513.0	588.1
Retained loss for the financial year	-	-	-	-	-	(2.1)	(2.1)
Transfer between reserves	-	-	-	(1.9)	-	1.9	-
Dividend	-	-	-	-	-	(22.9)	(22.9)
At end of year	**9.8**	**17.5**	**1.3**	**43.0**	**1.6**	**489.9**	**563.1**

2017	Called-up share capital	Share premium	Capital redemption reserve	Subordinated shareholder funding reserve	Share-based payment reserve	Retained earnings	Total
At beginning of year	9.8	17.5	1.3	-	1.2	61.2	91.0
Retained profit for the financial year	-	-	-	-	-	461.9	461.9
Capital contribution	-	-	-	46.1	-	-	46.1
Share-based payments	-	-	-	-	0.4	1.2	1.6
Transfer between reserves	-	-	-	(1.2)	-	1.2	-
Dividend	-	-	-	-	-	(12.5)	(12.5)
At end of year	**9.8**	**17.5**	**1.3**	**44.9**	**1.6**	**513.0**	**588.1**

The share premium, capital redemption, subordinated shareholder funding and share-based payment reserves are all non-distributable.

Consolidated statement of cash flows

Year ended 30 June 2018

All amounts are stated in £m

	Note	2018	2017
Cash outflow from operating activities			
Cash outflow from operations	24	(495.5)	(253.1)
Income tax paid		(15.3)	(17.2)
Servicing of finance		(87.6)	(85.9)
Net cash outflow from operating activities		**(598.4)**	**(356.2)**
Cash flows from investing activities			
Proceeds from disposal of investments		-	0.1
Acquisition of property, plant and equipment		(3.3)	(1.2)
Proceeds from disposal of property, plant and equipment		0.1	0.1
Investment in intangible assets		(5.9)	(3.5)
Proceeds on sale of shares by employee-benefit trust		-	1.2
Net cash outflow from investing activities		**(9.1)**	**(3.3)**
Cash flows from financing activities			
Drawdown/(repayment) of bank facilities		30.7	(29.0)
Drawdown of loan facilities		418.2	138.9
Proceeds from issuance of residential mortgage-backed securitisation		261.3	-
Repayment of loan facilities		(415.0)	-
Proceeds from issuance of loan facility		165.0	-
Repayment of subordinated shareholder notes		-	(60.0)
Proceeds from issuance of subordinated shareholder funding		-	68.1
Repayment of senior secured notes		-	(304.4)
Proceeds from issuance of senior secured notes		152.4	575.0
Increase in finance leases		0.5	0.2
Dividends paid		(22.9)	(12.5)
Net cash inflow from financing activities		**590.2**	**376.3**
Net (decrease)/increase in cash and cash equivalents		**(17.3)**	**16.8**
Cash and cash equivalents at the beginning of the year		**17.3**	**0.5**
Cash and cash equivalents at end of year		**-**	**17.3**

Company statement of cash flows

Year ended 30 June 2018

All amounts are stated in £m

	Note	2018	2017
Cash outflow from operating activities			
Cash inflow/(outflow) from operations	24	24.6	(336.7)
Servicing of finance		(48.8)	(60.8)
Net cash outflow from operating activities		**(24.2)**	**(397.5)**
Cash flows from investing activities			
Investments in subsidiaries		-	(14.7)
Proceeds on sale of shares by employee-benefit trust		-	1.2
Dividends received		-	464.5
Net cash inflow from investing activities		**-**	**451.0**
Cash flows from financing activities			
Repayment of bank facilities		-	(29.0)
Drawdown of bank facilities		25.0	-
Repayment of subordinated shareholder notes		-	(60.0)
Proceeds from issuance of subordinated shareholder funding		-	68.1
Dividends paid		(22.9)	(12.5)
Net cash inflow/(outflow) from financing activities		**2.1**	**(33.4)**
Net (decrease)/increase in cash and cash equivalents		**(22.1)**	**20.1**
Cash and cash equivalents at the beginning of the year		**22.2**	**2.1**
Cash and cash equivalents at end of year		**0.1**	**22.2**

Notes to the financial statements

Further *reading...*

Notes to the financial statements

1. Reporting entity and general information

Together Financial Services Limited is incorporated and domiciled in the UK. The Company is a private company, limited by shares, and is registered in England (company number: 02939389). The registered address of the Company is Lake View, Lakeside, Cheadle, Cheshire, SK8 3GW. The consolidated financial statements comprise Together Financial Services Limited and its subsidiaries (the Group).

2. Significant accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the current year and the preceding year.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in the individual accounting policies or in Note 3 to the financial statements.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the group operates.

These financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Presentation of risk disclosures

Disclosures under IFRS 7 *Financial Instruments: Disclosures* concerning the nature and extent of risks relating to financial instruments have been presented within the sections denoted as forming part of these financial statements in the 'Principal risks and uncertainties" section of the Risk Management Report.

Amendments to IAS 7 Statement of Cash flows

The Group has applied the amendment in respect of IAS 7 disclosures for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statement to evaluate the changes in liabilities arising from financing activities, including both cash and non cash changes.

A reconciliation of changes in liabilities arising from financing activities is provided in Note 24. Apart from the additional disclosure in Note 24, the application of the amendments has had no impact on the Group or Company's consolidated financial statements.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 July 2017 and not early adopted:

There are a number of standards, amendments and interpretations which have been issued by the International Accounting Standards Board (IASB) but which are not yet effective and which the Group has not adopted early. The most significant of these are IFRS 9 *Financial Instruments*, the replacement for IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 16 *Leases*, the replacement for IAS 17 *Leases* and IFRS 15 *Revenue from Contracts with Customers*, the replacement for IAS 11.

IFRS 9

Implementation and governance

IFRS 9 was issued in July 2014 and is effective for annual periods beginning on or after 1 January 2018. The Group plans to apply IFRS 9 initially on 1 July 2018 and expects to report under IFRS 9 in its interim statements for the quarter to 30 September 2018.

Changes in accounting policies resulting from adoption of IFRS 9 will generally be applied retrospectively. The Group plans to take advantage of the exemption allowing it to not restate comparative information for prior periods with respect to classification and measurement. Differences in carrying amounts of financial assets and liabilities resulting from the adoption of IFRS 9 will be recognised in retained earnings at 1 July 2018. IFRS 9 will also require extensive new disclosures, in particular about credit risk and expected credit losses (ECLs).

Estimated financial impact on adoption

Adoption of IFRS 9 is expected to result in:

- a reduction in the carrying value of loans and advances to customers of £28m to £38m due to an increase in the allowance for impairment in particular the introduction of an expected credit loss for assets that currently show no sign of impairment,
- an increase in the carrying value of borrowings of £6m due to a change in measurement of financial liabilities; and
- the recognition of a deferred tax asset of £6m to £8m.

2. Significant accounting policies (continued)

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 July 2017 and not early adopted (continued).

The result is a net combined reduction in reserves of £28m to £36m. The changes are explained in more detail in the section below. All estimates are subject to finalisation.

Classification and measurement

IFRS 9 makes little change to the classification of financial liabilities but determines the appropriate classification of financial assets based on the business model, and the nature of the contractual cash flows. Under IFRS 9 a financial asset can be measured at amortised cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows, and if the contractual term of the assets give rise to cash flows that are solely payments of principal and interest (SPPI). Financial assets whose cash flows are SPPI, but which are held within a business model whose objective is both to hold to collect contractual cash flows and to sell the assets, are measured at fair value through other comprehensive income. Other financial assets are measured at fair value through profit and loss (FVTPL).

The Group has completed the assessment of its financial instruments and expects the IFRS 9 classification change to have no significant effect. All its financial instruments will continue to be held at amortised cost. The principal assessment relates to the Group's loans and advances to customers (which largely consist of mortgage assets):

- The business model is considered to be hold-to-collect because the Group manages the assets based on their interest margin and credit risk.
- A review of the Group's mortgage portfolios concluded that the related cash flows included no features other than those of a basic lending arrangement, and are therefore considered to be SPPI.

Like IAS 39, IFRS 9 requires the derecognition of a financial liability, and recognition of a new one for a modification that is substantially different from the original terms. The standard continues to deem that changes of 10% or more in the present value of a liability qualify as substantially different. The only significant change from IAS 39 relates to non-substantial modifications of liabilities. Under IAS 39, the Group's policy for such modifications is to defer any related transaction costs as adjustments to carrying value that are charged to income over the liability's remaining life. Under IFRS 9 however, all gains or losses on non-substantial modifications calculated as a change in the net present value of future cashflows will be recognised immediately in the income statement. The Group may also consider qualitative factors in determining whether a modification is substantial. It is expected that the impact of these changes will be an increase in the carrying value of the Group's borrowings of £6m on transition to IFRS 9 at 1 July 2018.

Impairment

The most significant impact of IFRS 9 is expected to result from new impairment requirements. IFRS 9 replaces IAS 39's incurred-loss approach to impairment with a forward-looking one based on ECLs of financial assets and loan commitments measured at amortised cost. ECLs are an unbiased, probability-weighted estimate of the present value of credit losses.

In accordance with IFRS 9, the Group will generally use a three-stage model for impairment based on changes in credit quality since initial recognition:

- A financial instrument not credit-impaired on initial recognition will be classified in stage 1. The loss allowance for such instruments is calculated as the portion of lifetime ECL of those default events that are possible within 12 months of the reporting date, weighted by the probability of that default occurring.
- An instrument will move to stage 2 if there is an increase in its credit risk that is significant but not such that the instrument is considered credit impaired. The loss allowance for stage 2 instruments will be calculated as the lifetime ECL.
- Stage 3 instruments are credit impaired and the loss allowance will be calculated as the lifetime ECL, similar to specific incurred losses under IAS 39.

Besides instruments that become credit impaired on entering default, lifetime ECLs are also used for any that are credit impaired on origination. In the ordinary course of business the Group does not purchase or originate credit impaired financial assets; management therefore considers any such balances to be immaterial.

2. Significant accounting policies (continued)

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 July 2017 and not early adopted (continued).

Interest income on loans measured at amortised cost is calculated at the effective interest rate (EIR) on the gross carrying value for instruments in stage 1 or 2, and at the EIR applied to the amortised cost, i.e. after deduction of the loss allowance, for instruments in stage 3.

In categorising assets as credit impaired, the Group will determine default on the basis of quantitative criteria, such as the number of renewals for certain types of bridging loans, and on qualitative criteria such as forbearance, loans past term, repossessions and fraud. Additionally a general 'backstop' assumption for arrears of 90 days past due is also used.

The Group will calculate its ECL using a statistical model based on probability of default (PD), loss given default (LGD) and exposure at default (EAD).

- PD is an estimate of the likelihood of default over a given time horizon, estimated at a point in time. The calculation will generally be based on statistical models that utilise both market and internal data, based on current conditions adjusted to take into account estimates of future conditions that will impact PD. For loans which have marked individual characteristics and are closely managed, PDs will be assigned using a slotting approach which comprises a range of quantitative and qualitative criteria.
- LGD is an estimate of the likely loss percentage in the event of a default. The expected value of collateral will be based on loan-to-value (LTV) ratios and projected changes in property prices. The estimates will be based on the Group's history of recovery rates, calculated as forced-sale discounts, and the probability of repossession given default, discounted for the average period for recovery of sale proceeds. The LGD calculation includes floors, i.e. minimum losses, which are based on the LTV of security and developed from historical data.
- EAD is an estimate of the expected gross carrying amount at a future default date. EAD will be based on the current loan amount adjusted for expected repayments of principal, contractual drawdowns of loan commitments, and the impact of missed payments which would be expected for an account in default.

ECLs are discounted to their present values from the date of expected default.

The Group will use forward-looking information in its measurement of ECL. The Group's statistical analysis of historical data confirms that the key economic variables that drive credit risk, and the ECL for its financial instruments, are unemployment, Bank Rate, economic activity as measured by GDP, and changes in house prices. The Group will develop a range of future economic scenarios of these variables, drawing on external forecasts where appropriate, and expects to calculate ECL using a base case, an upside and a downside scenario. The base case will be broadly aligned to the Group's internal planning assumptions.

If an instrument undergoes a significant increase in credit risk then the Group will measure the loss allowance based on a lifetime ECL. To determine whether credit risk has increased significantly, for term loans the Group will use quantitative criteria such as increases in lifetime PD and LTV, and qualitative criteria such as a borrower's status or credit quality. A backstop criterion, i.e. when a loan becomes more than 30 days' past due, is also applied.

Instruments whose credit performance has improved such that they meet the criteria for inclusion in a lower ECL stage must complete a 'probationary' period of performance before they will be moved back.

The estimation of the change in the Group's loss allowance on transition to IFRS 9 is nearing finalisation. Management expect the initial impact to be a reduction in the carrying value of loans and advances to customers of £28m to £38m.

IFRS 16

IFRS 16 was issued in January 2016 and is effective for annual periods beginning on or after 1 January 2019. The Group plans to apply IFRS 16 initially on 1 July 2019.

IFRS 16 provides a single lease accounting model, recognising most leases in the statement of financial position. This may also introduce a degree of volatility to assets and liabilities for lessees due to the requirements to reassess certain key estimates and judgements at each reporting date. The standard replaces the dual lease accounting model approach of IAS 17 which treats finance leases and operating leases differently. It has not yet been possible to estimate the financial impact of adoption of the standard but it is unlikely to be material to the Group's results.

2. Significant accounting policies (continued)

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 July 2017 and not early adopted (continued).

IFRS 16 (continued)
Changes in accounting policies resulting from adoption of IFRS 16 will generally be applied retrospectively. The Group plans to take advantage of the exemption allowing it to not restate comparative information for prior periods. Differences in carrying amounts of lease assets and liabilities resulting from the adoption of IFRS 16 will be recognised in retained earnings at 1 July 2019.

IFRS 15
IFRS 15 was issued in May 2014 and is effective for annual periods beginning on or after 1 January 2019. The effects of IFRS 15 are deemed to be immaterial for the Group, as the majority of income will be recognised in accordance with IFRS 9.

Going concern
The directors have assessed, in the light of current and anticipated economic conditions, the Group's ability to continue as a going concern. The directors confirm they are satisfied that the Company and the Group have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going-concern basis for preparing these accounts.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries).
Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Goodwill
Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Negative goodwill is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill arising on acquisitions in the year ended 30 June 1998 and earlier periods was written off to reserves in accordance with the accounting standard then in force. As permitted by IFRS the goodwill previously written off has not been reinstated in the statement of financial position.

Merger accounting has continued to be used on transition to IFRS for the consolidation of the following subsidiaries:

- Together Commercial Finance Limited
- Together Personal Finance Limited
- Blemain Finance Limited
- FactFocus Limited
- Harpmanor Limited
- Jerrold Mortgage Corporation Limited
- Supashow Limited

Under this method any goodwill arising on consolidation is treated as a reduction in reserves.

On disposal or closure of a previously acquired business, the attributable amount of goodwill, including that previously written off to reserves, is included in determining the profit or loss on disposal.

Operating segments
The Group's only listed financial instruments are issued by a subsidiary, Jerrold Finco PLC, rather than the parent Company, Together Financial Services Limited. The Group is therefore outside the scope of IFRS 8, *Operating Segments*, and accordingly does not disclose segmental information in these financial statements.

Interest income and expense
Interest income and expense are recognised in the statement of comprehensive income for all financial instruments measured at amortised cost using the effective interest method. The effective interest method calculates the amortised cost of a financial asset or a financial liability and allocates the interest income or interest expense over the expected life of the instrument.

2. Significant accounting policies (continued)

The effective interest rate is the rate that, at inception of the instrument, discounts its estimated future cash payments or receipts to the net carrying amount of the financial instrument. When calculating the effective interest rate, the Group takes into account all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees, transaction costs and other premiums or discounts that relate to the origination of the instrument.

Interest on impaired financial assets is recognised at the original effective interest rate applied to the carrying amount as reduced by an allowance for impairment.

Fee and commission income and expense

Fees and commissions which are an integral part of the effective interest rate of a financial instrument e.g. procuration fees paid to introducers are recognised as an adjustment to the contractual interest rate and recorded in interest income.

Fees and commissions which are not considered integral to the effective interest rate are generally recognised on an accruals basis when the service has been provided. These items primarily consist of legal and valuation fees, and credit-search fees.

Leases

The Group as lessee

Assets held under finance leases which confer rights and obligations similar to those attached to owned assets are capitalised as tangible fixed assets and depreciated over the shorter of the lease terms and their useful lives. The capital element of future lease obligations is recorded within liabilities, while the interest element is charged to the income statement over the period of the leases to produce a constant rate of interest on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Rentals under operating leases are charged on a straight-line basis over the lease term and the related assets are not recognised in the statement of financial position.

The Group as lessor

Rentals received under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Pension benefits

During the period the Group operated a defined contribution scheme and made contributions to employees' personal pension schemes.

The amount charged to the income statement in respect of pension costs and other post-retirement benefits is the contributions payable in the year to Group pension schemes and personal pension schemes. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the statement of financial position.

Share-based payments

The Group has granted options to key employees under an equity-settled scheme.

The cost of providing the options to group employees is charged to the income statement over the vesting period of the related options. The corresponding credit is made to a share-based payment reserve within equity.

In the company's financial statements the grant by the parent of options over its equity instruments to the employees of subsidiary undertakings is treated as an investment in subsidiaries. The fair value of employee services received, measured by reference to the fair value at the date of grant, is recognised over the vesting period as an increase in investments in subsidiary undertakings, with a corresponding credit to the share-based payment reserve within equity.

The cost of options is based on their fair value, determined using a Black-Scholes pricing model. The value of the charge is adjusted at each reporting date to reflect lapses and expected or actual levels of vesting, with a corresponding adjustment to the share-based payment reserve.

Taxation

Tax on the profit or loss for the period comprises current 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 it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated income statement

2. Significant accounting policies (continued)

because it excludes items of income and expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of the assets and liabilities in the financial statements and the corresponding amounts used for taxation purposes, and is accounted for using the balance sheet liability method. Deferred tax assets/liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and the Group intends to settle its current tax assets and liabilities on a net basis.

Cash and cash equivalents

Cash comprises cash in hand, demand deposits and bank overdrafts. Cash equivalents comprise highly liquid investments which are convertible into cash with an insignificant risk of changes in value with a maturity of three months or less at the date of acquisition, including short-term highly liquid debt securities.

Financial assets & liabilities

Financial assets

All the Group's financial assets are categorised as loans and receivables. Loans and receivables are predominantly mortgage loans and advances to customers with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell in the near term. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method, less impairment losses.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset have expired or where substantially all the risks and rewards of ownership have been transferred.

Financial liabilities

All the Group's financial liabilities are designated as financial liabilities at amortised cost and largely consist of borrowings. A financial liability is measured initially at fair value less the transaction costs that are directly attributable to its issue. Interest and fees payable on the borrowings are recognised in the income statement over the expected term of the instruments using the effective interest rate method.

Financial liabilities are derecognised when the contractual obligation is discharged, cancelled or has expired.

The Group accounts for a substantial modification of the terms of an existing financial liability as an extinguishment of the original liability and the recognition of a new one. It is assumed that the terms are substantially different if the present value of the cash flows under the new terms, discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

Impairment of financial assets (IAS 39)

The Group regularly assesses whether there is evidence that financial assets are impaired. Financial assets are impaired and impairment losses recognised if, and only if, there is objective evidence of impairment as a result of one of more loss events that occurred after the initial recognition of the assets and prior to the reporting date and that have had an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

For loans and receivables, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. All impairment losses are reviewed at least at each reporting date. If subsequently the amount of the loss decreases as a result of a new event, the relevant element of the outstanding impairment loss is reversed. Impairment losses and any subsequent reversals are recognised in the income statement.

2. Significant accounting policies (continued)

Impairment losses are assessed individually for financial assets that are individually significant and collectively for assets that are not individually significant. In making collective assessment of impairment, financial assets are grouped into portfolios on the basis of similar risk characteristics.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the asset group and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions. In addition, the Group uses its experienced judgement to correct model deficiencies and systemic risks where appropriate and supported by historical loss experience data. The use of such judgements and reasonable estimates is considered by management to be an essential part of the process, and improves reliability.

Where a loan is uncollectable, it is written off against the related allowance. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the income statement.

Securitisation

Where the Group securitises its own financial assets, this is achieved via the sale of these assets to a special purpose entity (SPE), which in turn issues securities to investors.

SPEs used to raise funds through securitisation transactions are consolidated into the Group's operations in accordance with IFRS 10 *Consolidated Financial Statements* as if they were wholly-owned subsidiaries. Financial assets transferred to SPEs under securitisation agreements are not derecognised by the Group because it retains the risks and rewards of ownership, and all financial assets and liabilities related to the SPE continue to be held on the Group's consolidated statement of financial position.

Inventories

Inventories consist of stock properties and are valued at the lower of cost and estimated net realisable value. Net realisable value is based on the estimated sales price after allowing for all further costs of completion and disposal.

Investments

Fixed asset investments are stated at cost less provision for impairment.

Property, plant and equipment

Property, plant and equipment are shown at cost, net of depreciation and any provision for impairment. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset over its expected useful life as follows:

Fixtures and fittings	***10–15 years straight-line on cost***
Motor vehicles	***25% reducing balance***
Computer equipment	***3–5 years straight-line on cost***

All items of property, plant and equipment are reviewed for indications of impairment on a regular basis and at each statement of financial position date. If impairment is indicated, the asset's recoverable amount (being the greater of fair value less cost to sell and value in use) is estimated. Value in use is calculated by discounting the future cash flows generated from the continuing use of the asset. If the carrying value of the asset is less than the recoverable amount, an impairment charge is recognised in the income statement.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within administrative expenses in the income statement.

Intangible assets

Intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment allowances. The estimated useful life of five years is reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets consist wholly of expenditure relating to computer software incurred in respect of individual projects and are capitalised only if all of the following conditions are met:

2. Significant accounting policies (continued)

- an intangible asset is created that can be separately identified;
- it is probable that the intangible asset created will generate future economic benefits; and
- the development cost of the intangible asset can be measured reliably.

This type of expenditure primarily relates to internally developed software and is amortised on a straight-line basis over the expected useful life of the asset.

Where the above conditions for capitalisation are not met, development expenditure is recognised as an expense in the period in which it is incurred.

All intangibles assets are reviewed for indications of impairment at least annually. If impairment is indicated, the asset's recoverable amount (being the greater of fair value less cost to sell and value in use) is estimated. Value in use is calculated by discounting the future cash flows generated from the continuing use of the asset. If the carrying value of the asset is less than the recoverable amount, an impairment charge is recognised in the income statement.

Provisions
Provisions are recognised when the Group has a present obligation as a result of a past event, which is reliably measurable and where it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

3. Critical accounting estimates and judgements

In applying the accounting policies set out above, the Group makes no critical accounting judgements but makes the following significant estimates and assumptions that affect the reported amounts of assets and liabilities:

a) Loan impairment allowances
Allowances for loan impairment represent management's best estimate of the losses incurred in the loan portfolios at the reporting date. Charges to the allowances for loan impairment are reported in the consolidated income statement as impairment losses. Impairment allowances are made if there is objective evidence of impairment as a result of one or more events regarding a significant loan or a portfolio of loans and where the impact can be reliably estimated.

Individual impairment losses are determined as the difference between the carrying value and the present value of estimated future cash flows, discounted at the loan's original effective interest rate. Impairment losses determined on a portfolio basis are calculated using a formulaic approach which allocates a loss rate dependent on the arrears status of the loan. Loss rates are based on the discounted expected future cash flows, from historical experience and are regularly benchmarked against actual outcomes to ensure they remain appropriate.

Estimating the amount and timing of future recoveries involves significant judgement, and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of collateral. All impairment losses are reviewed at least annually.

b) Revenue
Interest income
The effective interest rate method applies a rate that discounts estimated future cash payments or receipts relating to a financial instrument to its net carrying amount. The estimated future cash flows take into account all contractual terms of the financial instrument including transaction costs and all other premiums or discounts but not future credit losses. Models are reviewed at least annually to assess expected behavioural lives of groups of assets based upon actual repayment profiles.

Fees and commission
Fee and commission income is recognised depending on the nature of service provided:

- Income which forms an integral part of the effective interest rate is recognised and recorded in interest income;
- Income earned from provision of services is recognised as the services are provided; and
- Income earned on the execution of a significant act is recognised when the act is completed.

All amounts are stated in £m

4. Interest receivable and similar income

	2018	2017
Interest on loans and advances to customers	**292.2**	**246.5**

Included within interest on loans and advances to customers is £8.9m (2017: £9.6m) relating to impaired loans.

5. Interest payable and similar charges

	2018	2017
On borrowings	**92.8**	**88.8**

Interest payable and similar charges include £nil (2017: £14.8m) of costs relating to the refinancing of senior secured notes.

6. Fee and commission income

	2018	2017
Fee income on loans and advances to customers	4.6	3.9
Other fees receivable	0.1	0.3
	4.7	**4.2**

7. Fee and commission expense

	2018	2017
Legal, valuations and other fees	1.0	1.0
Insurance commissions and charges	1.1	1.1
	2.1	**2.1**

8. Other income

	2018	2017
Rental income	0.1	0.1
Other income	0.3	-
	0.4	**0.1**

All amounts are stated in £m

9. Administrative expenses

	Note	2018	2017
Staff costs	10	41.2	38.9
Auditor’s remuneration	11	0.7	0.5
Depreciation of property, plant and equipment	17	1.4	1.2
Amortisation of intangible assets	18	3.3	1.0
Operating lease rentals		1.4	1.1
Other administrative costs		21.3	15.7
		69.3	**58.4**

There were no material gains or losses on the disposal of property, plant and equipment (2017: £nil).

10. Staff costs

The average monthly number of employees, including executive directors, was:

Management and administration	**2018 No.**	**2017 No.**
Full time	630	495
Part time	33	27
	663	**522**

The aggregate remuneration of employees and directors was as follows:

Staff remuneration	**Note**	**2018**	**2017**
Wages and salaries		28.5	28.8
Social security costs		3.8	3.7
Pension	27	0.8	0.4
		33.1	**32.9**
Directors' remuneration			
Emoluments		8.0	5.9
Company contribution to personal pension schemes	27	0.1	0.1
		8.1	**6.0**
Total staff costs		**41.2**	**38.9**

The emoluments of the highest paid director were £3.0m (2017: £2.0m) including £nil (2017: £nil) of Company contributions to a defined contribution pension scheme for any directors (2017: nil). Details of the pension arrangements operated by the Group are given in Note 27.

Staff are employed by a Group subsidiary, and no staff are employed by the Company. Remuneration for employees and directors included £nil (2017: £8.2m) of one-off costs.

All amounts are stated in £m

11. Auditor's remuneration

	2018	2017
Fees payable for the audit of the Company's accounts	0.1	0.2
Fees payable for the audit of the Company's subsidiaries	0.2	0.0
Tax advisory and compliance services	0.1	0.1
Other services	0.3	0.2
	0.7	**0.5**

12. Income tax

	2018	2017
Current tax		
Corporation tax	16.1	15.1
Adjustment in respect of prior years	(1.8)	(2.9)
	14.3	**12.2**
Deferred tax		
Origination and reversal of temporary differences	1.2	0.1
Adjustment in respect of prior years	(0.2)	3.2
Effect of changes in tax rate	-	0.4
	1.0	**3.7**
Total tax on profit	**15.3**	**15.9**

Corporation tax is calculated at 19.00% (2017: 19.75%) of the estimated taxable profit for the year.

The differences between the Group tax charge for the year and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are as follows:

	2018	2017
Profit before tax	**121.7**	**94.1**
Tax on profit at standard UK corporation tax rate of 19.00% (2017: 19.75%)	23.1	18.6
Effects of:		
Expenses not deductible for tax purposes	2.5	1.0
Income not taxable	(1.8)	(0.1)
Group relief	(6.5)	(4.3)
Adjustment in respect of prior years	(2.0)	0.3
Changes in tax rate	-	0.4
Group tax charge for year	**15.3**	**15.9**

All amounts are stated in £m

13. Loans and advances to customers

	2018	2017
Gross loans and advances	3,020.0	2,303.1
Less: allowances for impairment on loans and advances	(61.8)	(62.2)
	2,958.2	**2,240.9**

Gross loans and advances are repayable:

	2018	2017
Due within one year	1,299.4	967.9
Due within 1–5 years	694.6	571.6
Due after five years	1,026.0	763.6
	3,020.0	**2,303.1**

Allowance for impairment losses	**2018**	**2017**
At beginning of year	(62.2)	(68.8)
Charges to the income statement	(9.1)	(8.8)
Unwind of discount	8.9	9.6
Write-offs net of recoveries	0.6	5.8
At end of year	**(61.8)**	**(62.2)**

Impairment losses for year	**2018**	**2017**
Charges to the income statement	(9.1)	(8.8)
Amounts written off	(6.2)	(0.1)
Amounts released from deferred income	2.3	1.3
Recoveries of amounts previously written off	1.6	0.2
	(11.4)	**(7.4)**

Loans and advances to customers include total gross amounts of £12.5m (2017: £11.1m), equivalent to £10.2m net of allowances (2017: £9.3m), loaned to August Blake Developments Limited, Sunnywood Estates Limited and Edgworth Developments Limited, companies of which HN Moser is a director and shareholder. These loans are on a commercial basis secured on certain assets of those companies.

All amounts are stated in £m

14. Inventories

	2018	2017
Properties held for resale	**0.6**	**0.9**

15. Other assets

Group	2018	2017
Amounts owed by related parties	0.5	0.8
Other debtors	0.9	0.6
Prepayments and accrued income	2.9	3.0
	4.3	**4.4**

Company	2018	2017
Amounts owed by subsidiaries	1,326.0	1,191.8
Prepayments and accrued income	0.1	0.1
	1,326.1	**1,191.9**

Amounts owed by related parties of the Group are in respect of companies in which HN Moser is a director and shareholder. Also included within amounts owed by the related parties is £0.2m (2017: £0.2m) in relation to a director’s loan. The loan is interest free and repayable on demand.

16. Investments in subsidiaries

The Company held the following investments in subsidiary undertakings:

	2018	2017
At beginning of year	25.3	11.5
Capital injections	-	13.5
Disposals	-	0.4
Debt forgiveness	-	1.2
Impairment of investments during the year	-	(1.3)
At end of year	**25.3**	**25.3**

The Company has the following subsidiaries, all of which are incorporated in Great Britain and are registered in England and Wales and operate throughout the United Kingdom:

The following dormant subsidiaries were dissolved via voluntary strike off during the year:

Briar Hill Court Limited
Monarch Recoveries Limited
Finance Your Property Limited
Proactive Bridging Limited
Proactive Lending Limited
Privileged Estates Limited
Provincial & Northern Properties Limited

All amounts are stated in £m

16. Investments in subsidiaries (continued)

	Shares and voting rights	Principal activities
Trading subsidiaries		
Auction Finance Limited	100%	Commercial lending
Blemain Finance Limited	100%	Retail lending
Bridging Finance Limited	100%	Commercial lending
Harpmanor Limited	100%	Commercial lending
Jerrold Finco PLC	100%	Financier
Spot Finance Limited	100%	Retail lending
Together Commercial Finance Limited	100%	Commercial lending
Together Personal Finance Limited	100%	Retail lending
Non-trading subsidiaries		
FactFocus Limited	100%	
General Allied Properties Limited	100%	
Heywood Finance Limited	100%	
Heywood Leasing Limited	100%	
Jerrold Mortgage Corporation Limited	100%	
Phone-a-Loan Limited	100%	
Supashow Limited	100%	
Dormant subsidiaries		**Company registration number**
BridgingFinance.co.uk Limited	100%	04159852
Classic Car Finance Limited	100%	03237779
Jerrold Holdings Limited	100%	04950229
Together123 Limited	100%	10758537

The above are all direct holdings of the ordinary share capital of the companies, with the exception of Spot Finance Limited which is held by Blemain Finance Limited. The dormant subsidiaries have taken advantage of the exemption from audit under section 479A of the Companies Act 2006. The registered address of all subsidiaries is Lake View, Lakeside, Cheadle, Cheshire, SK8 3GW.

The results of the following securitisation vehicles and trusts are also consolidated in the Group accounts:

Charles Street Conduit Asset Backed Securitisation 1 Limited
Delta Asset Backed Securitisation 1 Limited
Highfield Asset Backed Securitisation 1 Limited
Jerrold Holdings Employee Benefit Trust
Lakeside Asset Backed Securitisation 1 Limited
Together Asset Backed Securitisation 1 Holdings Limited
Together Asset Backed Securitisation 1 PLC

All amounts are stated in £m

17. Property, plant and equipment

2018 Group	Fixtures, fittings and equipment	Motor vehicles	Total
Cost			
At beginning of year	6.5	1.6	8.1
Additions	2.8	0.5	3.3
Disposals	(0.8)	(0.3)	(1.1)
At end of year	**8.5**	**1.8**	**10.3**
Depreciation			
At beginning of year	3.2	0.5	3.7
Charge for the year	1.1	0.3	1.4
Disposals	(0.8)	(0.3)	(1.1)
At end of year	**3.5**	**0.5**	**4.0**
Net book value			
At 30 June 2018	**5.0**	**1.3**	**6.3**
At 30 June 2017	**3.3**	**1.1**	**4.4**

2017 Group	Fixtures, fittings and equipment	Motor vehicles	Total
Cost			
At beginning of year	5.9	1.3	7.2
Additions	0.6	0.6	1.2
Disposals	-	(0.3)	(0.3)
At end of year	**6.5**	**1.6**	**8.1**
Depreciation			
At beginning of year	2.2	0.5	2.7
Charge for the year	1.0	0.2	1.2
Disposals	-	(0.2)	(0.2)
At end of year	**3.2**	**0.5**	**3.7**
Net book value			
At 30 June 2017	**3.3**	**1.1**	**4.4**
At 30 June 2016	**3.7**	**0.8**	**4.5**

All amounts are stated in £m

18. Intangible assets

Group	Computer software 2018	Computer software 2017
Cost		
At beginning of year	7.2	3.7
Additions	5.9	3.5
Disposals	(1.7)	-
At end of year	**11.4**	**7.2**
Amortisation		
At beginning of year	1.5	0.5
Charge for the year	3.3	1.0
Disposals	(1.7)	-
At end of year	**3.1**	**1.5**
Net book value		
At end of year	**8.3**	**5.7**
At beginning of year	**5.7**	**3.2**

19. Deferred tax asset

	2018	2017
At beginning of year	2.4	6.1
Charge to income statement	(1.2)	(0.1)
Adjustment in respect of prior years	0.2	(3.2)
Effect of changes in tax rates	-	(0.4)
At end of year	**1.4**	**2.4**

The deferred tax asset consisted of the following:

	2018	2017
Accelerated capital allowances	(0.7)	(0.1)
Short-term timing differences	2.1	2.5
	1.4	**2.4**

All amounts are stated in £m

20. Borrowings

Group	2018	2017
Bank facilities	30.7	-
Loan notes	1,452.4	1,022.9
Subordinated shareholder loans	25.1	23.2
Senior secured notes	727.4	575.0
Obligations under finance leases	1.1	0.6
	2,236.7	**1,621.7**
Debt issue costs	(19.9)	(18.8)
Total borrowings	**2,216.8**	**1,602.9**
Of which:		
Due for settlement within 12 months	48.1	0.3
Due for settlement after 12 months	2,168.7	1,602.6
	2,216.8	**1,602.9**

Company	2018	2017
Bank facilities	25.0	-
Subordinated shareholder loans	25.1	23.2
	50.1	**23.2**
Debt issue costs	(0.5)	(0.7)
Total borrowings	**49.6**	**22.5**
Of which:		
Due for settlement within 12 months	-	-
Due for settlement after 12 months	49.6	22.5
	49.6	**22.5**

The loan notes are provided through revolving facilities provided by Charles Street ABS, Lakeside ABS, Delta ABS, Highfield ABS and an amortising facility provided by Together ABS. The Charles Street ABS was established in 2007 and is currently a £1bn facility that expires in January 2021. The Lakeside ABS is a £255m facility established in 2015, and has an expiry date in January 2021. Delta ABS is a £90m facility which was established in January 2017 and expires in January 2021. The Together ABS is a £275m facility which was established in September 2017 and expires in September 2021. The Highfield ABS is a £525m facility which was established in June 2018, expires in June 2022.

Subordinated shareholder loans were issued as part of the refinancing transaction undertaken on the 2 November 2016. The subordinated shareholder loans are interest-free loans totalling £68.1m, which comprise £25.1m due in 2024 and £43.0m due in 2036. The difference between the total nominal value of £68.1m and the initial fair value of £22.0m represented a non-distributable capital contribution, of which £3.1m had amortised by 30 June 2018 (2017: £1.2m). The remainder of the reserve will be amortised over the life of the instruments.

Debt issue costs, which consist of the prepaid fees in relation to the bank loan, loan notes and the senior secured notes, are deducted from the loan carrying amounts and charged to interest expense over the expected duration or term of the facility or notes as appropriate.

All amounts are stated in £m

20. Borrowings (continued)

On 26 September 2017, the Group announced the completion of a £275m residential mortgage-backed securitisation via the special purpose vehicle Together ABS.

On 10 January 2018, the Group announced the refinancing of the special purpose vehicle Lakeside ABS 1 Limited extending its maturity to 2021 on favourable commercial terms.

On 31 January 2018, a subsidiary of the Company, Jerrold Finco PLC, completed the issuance of an additional £150m of 6⅛% senior secured notes due 2024.

On 27 April 2018, the Group's revolving credit facility was increased from £57.5m to £71.9m. All other terms under the facility remain substantially unchanged.

On 27 June 2018, the Group announced the completion of a £525m commercial real estate warehouse facility via the special purpose vehicle Highfield ABS 1 Limited.

Borrowings have the following maturities.

As at 30 June 2018:

Group	<1 year	1–2 years	2–5 years	>5 years	Total
Bank facilities	5.7	-	25.0	-	30.7
Loan notes	42.6	34.2	1,375.6	-	1,452.4
Subordinated shareholder loans	-	-	-	25.1	25.1
Senior secured notes	-	-	375.0	352.4	727.4
Finance leases	0.4	0.5	0.2	-	1.1
	48.7	**34.7**	**1,775.8**	**377.5**	**2,236.7**
Debt issue costs	(0.5)	(0.4)	(15.0)	(4.0)	(19.9)
	48.2	**34.3**	**1,760.8**	**373.5**	**2,216.8**

Company	<1 year	1–2 years	2–5 years	>5 years	Total
Bank loans	-	-	25.0	-	25.0
Subordinated shareholder loans	-	-	-	25.1	25.1
	-	**-**	**25.0**	**25.1**	**50.1**
Debt issue costs	-	-	(0.5)	-	(0.5)
	-	**-**	**24.5**	**25.1**	**49.6**

All amounts are stated in £m

20. Borrowings (continued)

As at 30 June 2017:

Group	<1 year	1–2 years	2–5 years	>5 years	Total
Loan notes	-	151.0	871.9	-	1,022.9
Subordinated shareholder loans	-	-	-	23.2	23.2
Senior secured notes	-	-	375.0	200.0	575.0
Finance leases	0.3	0.3	-	-	0.6
	0.3	**151.3**	**1,246.9**	**223.2**	**1,621.7**
Debt issue costs	-	-	(16.3)	(2.5)	(18.8)
	0.3	**151.3**	**1,230.6**	**220.7**	**1,602.9**

Company	<1 year	1–2 years	2–5 years	>5 years	Total
Subordinated shareholder loans	-	-	-	23.2	23.2
Debt issue costs	-	-	-	(0.7)	(0.7)
	-	**-**	**-**	**22.5**	**22.5**

All amounts are stated in £m

21. Other liabilities

Group	2018	2017
Trade creditors	1.2	2.3
Other creditors	2.5	2.9
Other taxation and social security	2.7	0.7
Accruals and deferred income	37.8	31.6
	44.2	**37.5**

Company	2018	2017
Amounts owed to subsidiaries	737.9	628.8
Accruals and deferred income	0.9	-
	738.8	**628.8**

22. Share capital

Authorised	2018	2017
10,405,653 A ordinary shares of 50 pence each	5.2	5.2
9,149,912 B ordinary shares of 49.9 pence each	4.6	4.6
921,501 C ordinary shares of 1 penny each	-	-
70,000 D ordinary shares of 1 penny each	-	-
10,000 E ordinary shares of 1 penny each	-	-
	9.8	**9.8**

Issued, allotted and fully paid	2018	2017
10,405,653 A ordinary shares of 50 pence each	5.2	5.2
9,149,912 B ordinary shares of 49.9 pence each	4.6	4.6
921,501 C ordinary shares of 1 penny each	-	-
70,000 D ordinary shares of 1 penny each	-	-
	9.8	**9.8**

23. Financial instruments and fair values

All the Group's financial assets and liabilities are held at amortised cost. The carrying value is a reasonable approximation of fair value for all financial instruments other than for loans and advances to customers and for borrowings. For loans and advances to customers and for borrowings, fair value is calculated based upon the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.
The fair value of financial assets is adjusted for incurred loss provisions.

All amounts are stated in £m

23. Financial instruments and fair values (continued)

The following table summarises the carrying and fair values of loans and advances and of borrowings as at the year end, analysing the fair values into different levels according to the degree to which they are based on observable inputs:

Level 1: Quoted prices in active markets for identical assets or liabilities;
Level 2: Measurements derived from observable data, such as market prices or rates;
Level 3: Measurements rely on significant inputs not based on observable market data.

2018	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets					
Loans and advances to customers	-	-	3,011.7	**3,011.7**	**2,958.2**
Financial liabilities					
Borrowings	737.2	1,480.1	33.9	**2,251.2**	**2,216.8**

2017	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets					
Loans and advances to customers	-	-	2,349.8	**2,349.8**	**2,240.9**
Financial liabilities					
Borrowings	593.8	1,087.3	23.8	**1,704.9**	**1,602.9**

The fair value of loans and advances to customers is based on future interest cash flows (at funding rates) and principal cash flows discounted using the rate for new originations of mortgages with similar characteristics. This rate is assumed to encompass the time value of money, plus a risk premium to account for the inherent uncertainty in the timing and amount of future cash flows arising from mortgage assets.

Forecast principal repayments are based on redemption at maturity with overlay for historical behavioural experience to take account of expected prepayment. The eventual timing of future cash flows may be different from the forecast due to unpredictable customer behaviour.

The fair value of loans and advances to customers in total is 2% higher than the carrying value as at 30 June 2018 (2017: 5% higher). This is primarily due to the current origination rates used to discount future cash flows being below existing customer interest rates. A 1% increase in the discount rate would result in a reduction in the fair value of loans and advances to customers of £70m (2017: £116m) and a 1% decrease would result in an increase of £74m (2017: £131m).

The borrowings stated at fair value in level 3 almost entirely represent subordinated shareholder loans and notes. Market prices are not available for these instruments, and market prices for quoted subordinated instruments are not suitable as they do not reflect the relationship of the shareholders to the Group. The estimated fair value of these financial instruments has been based on expected future cash flows. Management has estimated the discount rate for the shareholder loans by reference to the rates payable on other instruments issued by the Group and for which market prices are available, and also those issued by its intermediate holding companies as part of the restructuring of the Group's ownership in November 2016. The effect of factors such as differing tenor, degree of subordination and the structure of interest payments are taken into account in these estimates.

All amounts are stated in £m

23. Financial instruments and fair values (continued)

The loans repayable in 2024 are discounted at 7.25% (2017: 8.0%) and those in 2036 at 7.75% (2017: 8.75%). A 1% reduction in the discount rate would result in an increase in the fair value of approximately £3.0m (2017: £2.7m) and a 1% increase in the rate would result in a decrease of approximately £2.6m (2017: £2.3m).

24. Notes to the cash flow statement

Reconciliation of profit after tax to net cash outflow from operations

Group	**2018**	**2017**
Profit after tax	106.4	78.2
Adjustments for:		
Taxation	15.3	15.9
Depreciation and amortisation	4.7	2.2
Share-based payments	-	0.4
Interest expense	92.8	88.8
	219.2	**185.5**
Increase in loans and advances to customers	(717.3)	(440.2)
Decrease/(increase) in other assets	0.1	(2.1)
Decrease in inventories	0.3	-
Increase in accruals and deferred income	1.7	1.9
Increase in trade and other liabilities	0.5	1.8
	(714.7)	**(438.6)**
Cash outflow from operations	**(495.5)**	**(253.1)**

Company	**2018**	**2017**
(Loss)/profit after tax	(2.1)	461.9
Adjustments for:		
Dividends received	-	(464.5)
Interest expense	50.9	53.1
Impairment of investment in subsidiaries	-	1.3
	48.8	**51.8**
Increase in prepayments	-	(0.1)
Intergroup recharges and treasury transfers	(25.1)	(388.4)
Increase in accruals	0.9	-
	(24.2)	**(388.5)**
Cash inflow/(outflow) from operations	**24.6**	**(336.7)**

All amounts are stated in £m

24. Notes to the cash flow statement (continued)

Reconciliation of changes in liabilities arising from financing activities

As at 30 June 2018:

Group	At beginning of year	Net cash flows	Non-cash changes: Prepaid fees	Non-cash changes: Amortisation of fair value adjustments	At end of year
Bank facilities	-	30.7	-	-	30.7
Loan notes	1,022.9	429.5	-	-	1,452.4
Subordinated shareholder loans	23.2	-	-	1.9	25.1
Senior secured notes	575.0	152.4	-	-	727.4
Finance leases	0.6	0.5	-	-	1.1
	1,621.7	**613.1**	**-**	**1.9**	**2,236.7**
Net debt issue costs	(18.8)	-	(1.1)	-	(19.9)
Total borrowings	**1,602.9**	**613.1**	**(1.1)**	**1.9**	**2,216.8**

As at 30 June 2017:

Group	At beginning of year	Net cash flows	Non-cash changes: Prepaid fees	Non-cash changes: Amortisation of fair value adjustments	At end of year
Bank facilities	29.0	(29.0)	-	-	-
Loan notes	884.0	138.9	-	-	1,022.9
Shareholder notes	60.0	(60.0)	-	-	-
Subordinated shareholder loans	-	68.1	-	(44.9)	23.2
Senior secured notes	304.4	270.6	-	-	575.0
Finance leases	0.4	0.2	-	-	0.6
	1,277.8	**388.8**	**-**	**(44.9)**	**1,621.7**
Net debt issue costs	(18.4)	-	(0.4)	-	(18.8)
Total borrowings	**1,259.4**	**388.8**	**(0.4)**	**(44.9)**	**1,602.9**

All amounts are stated in £m

24. Notes to the cash flow statement (continued)

As at 30 June 2018:

Company	At beginning of year	Net cash flows	Non-cash changes: Prepaid fees	Non-cash changes: Amortisation of fair value adjustments	At end of year
Bank facilities	-	25.0	-	-	25.0
Subordinated shareholder loans	23.2	-	-	1.9	25.1
	23.2	**25.0**	**-**	**1.9**	**50.1**
Net debt issue costs	(0.7)	-	0.2	-	(0.5)
Net debt	**22.5**	**25.0**	**0.2**	**1.9**	**49.6**

As at 30 June 2017:

Company	At beginning of year	Net cash flows	Non-cash changes: Prepaid fees	Non-cash changes: Amortisation of fair value adjustments	At end of year
Bank facilities	29.0	(29.0)	-	-	-
Subordinated shareholder loans	-	68.1	-	(44.9)	23.2
Shareholder notes	60.0	(60.0)	-	-	-
	89.0	**(20.9)**	**-**	**(44.9)**	**23.2**
Net debt issue costs	(0.3)	-	(0.4)	-	(0.7)
Net debt	**88.7**	**(20.9)**	**(0.4)**	**(44.9)**	**22.5**

25. Related party transactions

Relationships

The Company has the following related parties:

a) Controlling party

All the voting shares of Together Financial Services Limited are controlled by Bracken Midco2 Limited, a company whose ultimate parent is Redhill Famco Limited, which is wholly controlled by the Moser Shareholders. HN Moser, a director of Together Financial Services Limited, and the DL Moser 1995 Family Settlement No1 Trust (together the Moser Shareholders) indirectly own 100% of the Company's voting share capital.

25. Related party transactions (continued)

Besides the companies owned by Redhill Famco Limited, other entities owned by the Moser Shareholders are deemed to be related parties and during the year transacted with the Company's subsidiaries as follows:

Entity	Nature of transactions
Bracken House Properties LLP	The Group pays operating lease and insurance costs to Bracken House Properties LLP for its provision of the Group's head office property.
Centrestand Limited	The Group collects rents and pays service charges and costs on behalf of Centrestand Limited.
Charles Street Commercial Investments Limited	The Group refers borrowers outside its lending criteria to Charles Street Commercial Investments Limited in return for introduction fees. The Group performs underwriting, collection and arrears-management activities for these loans.
Sterling Property Co. Limited	Sterling Property Co. Limited provides property management services for properties repossessed or placed into LPA receivership by the Group.
August Blake Developments Limited, Edgworth Developments Limited, Sunnywood Estates Limited	The Group provides loans on a commercial basis secured on certain assets of these companies. These loans are assessed for impairment in keeping with loans and advances to third-party customers. The Group also manages accounts payable on behalf of these entities, for which it is reimbursed.

Balances due to or from the above entities are interest-free and repayable on demand, unless otherwise stated.

b) Parent companies

The Group transacted with the following parent companies owned by the Moser Shareholders:

Entity	Nature of transactions
Bracken Midco2 Limited	During November 2016, the Company received subordinated funding from Bracken Midco2 Limited as part of the Exit Transactions. The subordinated loans are interest-free and for fixed terms, as set out in Note 20. The difference between the loans' maturity amounts and their fair values represents a capital contribution to the Group which is being amortised through income over the life of the loan.

c) Subsidiaries

Details of the Company's interest in its subsidiaries are listed in Note 16. The Company utilises its bank and subordinated shareholder funding, and bonds raised by a subsidiary company, to provide treasury funding to its lending subsidiaries. Interest is recharged among Group companies based on the Group's external cost of borrowing and the risk of the assets funded. The cost of equity funding is not charged. All amounts are repayable on demand.

d) Key management personnel

Key management personnel comprise directors of the Group. There are no transactions with directors other than the director's loan disclosed in Note 15 and remuneration in the ordinary course of business (Note 10) and the disposal of D shares in the prior year, disclosed in Note 28.

All amounts are stated in £m

25. Related party transactions (continued)

Transactions

The amounts receivable from and payable to related parties by the Group and Company are disclosed in Notes 15 and 21 to the financial statements. The Group and Company had the following transactions with related parties during the year:

	2018		2017	
Group	**Charge/ (credit) to income or equity**	**Paid**	**Charge/ (credit) to income or equity**	**Paid**
Lease and insurance costs	1.3	1.0	1.1	1.3
Accounts payable transactions	-	1.4	-	0.5
Impairment of related party loans	1.0	-	-	-
Interest on related party loans	(0.7)	-	(0.8)	-
Related parties of the Moser Shareholders	**1.6**	**2.4**	**0.3**	**1.8**
Interest expense	1.9	-	1.2	-
Receipt of funding and capital	-	-	(46.1)	-
Dividends paid	22.9	22.9	12.5	12.5
Parent companies	**24.8**	**22.9**	**(32.4)**	**12.5**
Total related parties	**26.4**	**25.3**	**(32.1)**	**14.3**

Operating lease costs and insurance costs are paid to Bracken House Properties LLP on a prepaid basis.
The future amounts payable under operating leases are as follows:

	2018	2017
Within one year	1.1	1.1
Between one and five years	4.3	4.3
After five years	4.3	4.8
Total operating leases	**9.7**	**10.2**

All amounts are stated in £m

25. Related party transactions (continued)

	2018		2017	
Company	**Charge/ (credit) to income or equity**	**Paid**	**Charge/ (credit) to income or equity**	**Paid/ (received)**
Interest expense	0.9	-	1.2	-
Receipt of funding and capital	-	-	(46.1)	-
Dividends paid	22.9	22.9	12.5	12.5
Parent companies	**23.8**	**22.9**	**(32.4)**	**12.5**
Dividends receivable	-	-	(464.5)	(464.5)
Costs including management recharges	0.9	-	0.5	-
Interest recharges	(6.0)	-	(10.9)	-
Debts forgiven	-	-	1.2	-
Net provision of treasury funding	-	20.2	-	379.2
Subsidiary companies	**(5.1)**	**20.2**	**(473.7)**	**(85.3)**
Total related parties	**18.7**	**43.1**	**(506.1)**	**(72.8)**

26. Contingent liabilities

As at 30 June 2018 the Company's assets were subject to a fixed and floating charge in respect of £725m senior secured notes (2017: £575m) and £25m in respect of bank borrowings of the Group (2017: £nil).

27. Pension arrangements

During the year the Group contributed to employees' personal pension plans. The total cost for the year amounted to £0.9m (2017: £0.5m). Additionally, the Group operated a defined contribution scheme for which the pension costs charge for the year amounted to £nil (2017: £nil).

28. Share-based payments

Senior management has previously been granted D shares and options over E ordinary shares of the Company. The ability to dispose of such shares and execute such options is conditional on sale of ordinary shares held by other shareholders amounting to 25% or more of the Company's share capital on a cumulative basis. The value of these shares is dependent upon the value of the Company at the time. Such awards are treated as equity settled by virtue of where the obligation rests on such awards being realised.

The purchase of the share capital of Together Financial Services Limited by Bracken Midco2 Limited on 2 November 2016 triggered the ability to dispose of a proportion of the D ordinary shares and as such resulted in the vesting of a proportion of this share scheme and the sale of all the vested shares. As such the full fair value of £1.6m was recognised in 2017 in the statement of comprehensive income to the extent not previously recognised. The charge relating to the remainder of the D ordinary shares has not been recognised as the event, upon which the shares vesting is contingent, is not considered to be foreseeable by management at this time.

The options over the E ordinary shares have not yet been exercised.

29. Ultimate parent company

The largest (and only additional) group of which Together Financial Services Limited is a member, and for which group financial statements will be drawn up, is that headed by Redhill Famco Limited, the company's ultimate parent company.

The registered office of Redhill Famco Limited is Lake View, Lakeside, Cheadle, Cheshire, SK8 3GW.

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