Common sense lending for over 4 decades.

together.
SINCE 1974

Annual report & consolidated financial statements for the year ended 30 June 2019

“Turning challenges into opportunities that make our customers’ financial ambitions accessible”

Introduction

British Society is changing.

Booming self-employment. High-rise living. Complicated finances. Innovative start-ups. We're living in a new normal – and it means there's a larger market than ever for specialist lenders like us. Because while some lenders' criteria struggle to account for this brave new world, we've always moved with the times.

Established in 1974, our diverse range of products has grown to include personal and commercial mortgages, fixed-term commercial loans, buy-to-let mortgages, bridging loans, second charge loans and development finance. Lending through good times and not-so-good, we've grown into a team over 700-strong.

We are for downsizers, doer-uppers, homemakers, and business movers and shakers. For portfolio developers, property investors, and empty-nesters.

We are one of the finance industry's best-kept secrets.

We are Together.

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45 years of building long-term value

Together has applied a common sense approach to underwriting with affordability and conservative Loan-to-value (LTV) being central to our decision making from our founding 45 years ago.

This approach to lending has taken us through multiple economic cycles.

Business founded

1985 Advanced our first bridging loan

2004 FCA regulated

2006 Equistone/ Standard Life invest

2007 First securitisation vehicle established, Charles Street ABS

2009 Sunday Times Top Track 250

2013

- **Move to new headquarters**
- **£200m** bond issuance
- **£1bn** loan book
- **350** colleagues

2015

- **Rebranded**
- **£100m** further bond issuance
- Second securitisation vehicle **£255m** Lakeside ABS
- **400** colleagues
- **£0.7bn** annual lending

2016

Sunday Times Top Track 250

- **£375m** bond refinance
- **£1bn** AA rated Charles Street ABS
- **500** colleagues
- **£1bn** annual lending
- Exit of Equistone & Standard Life

2017

Sunday Times Top Track 250

- **£200m** bond issuance
- **£90m** Delta ABS – third securitisation vehicle
- **£275m** RMBS – first public securitisation vehicle
- **£2.3bn** loan book
- **600** colleagues
- **£1.2bn** annual lending

2018

- **Sunday Times 100 Best Companies to Work For (34th overall, 9th charity, 10th community)**
- **£150m** further bond issuance
- **£525m** Highfield ABS – another securitisation vehicle established
- **£3.1bn** loan book

2019

45th Anniversary

- **Sunday Times 100 Best Companies to Work For (52nd overall)**
- **£2.0bn** originations
- **£3.8bn** loan book
- **730+** colleagues

Highlights

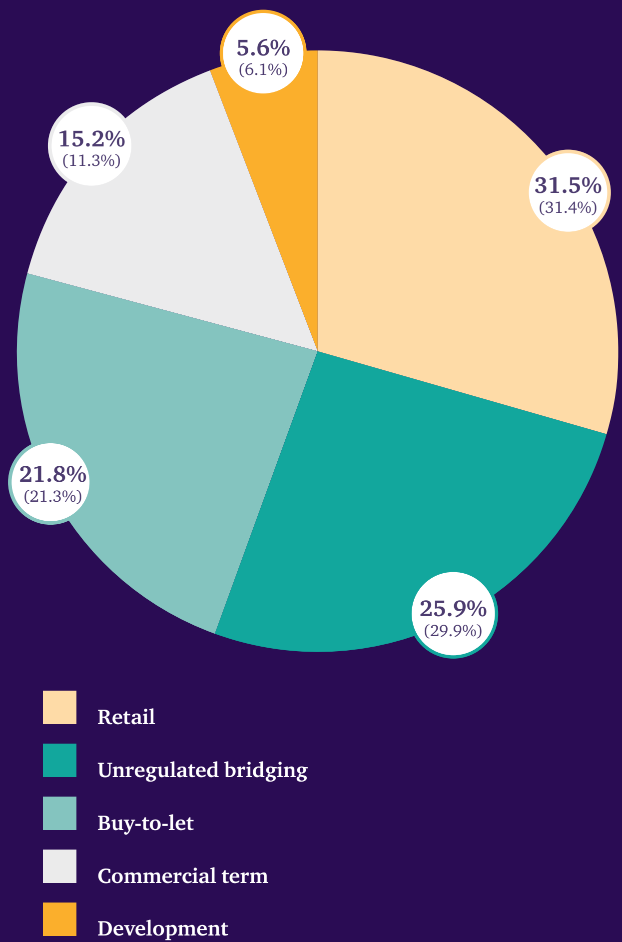
Business overview

1

We operate as a specialist lender in attractive growing markets…

Our gross loan book as at 30 June 2019 (2018 figures in brackets)

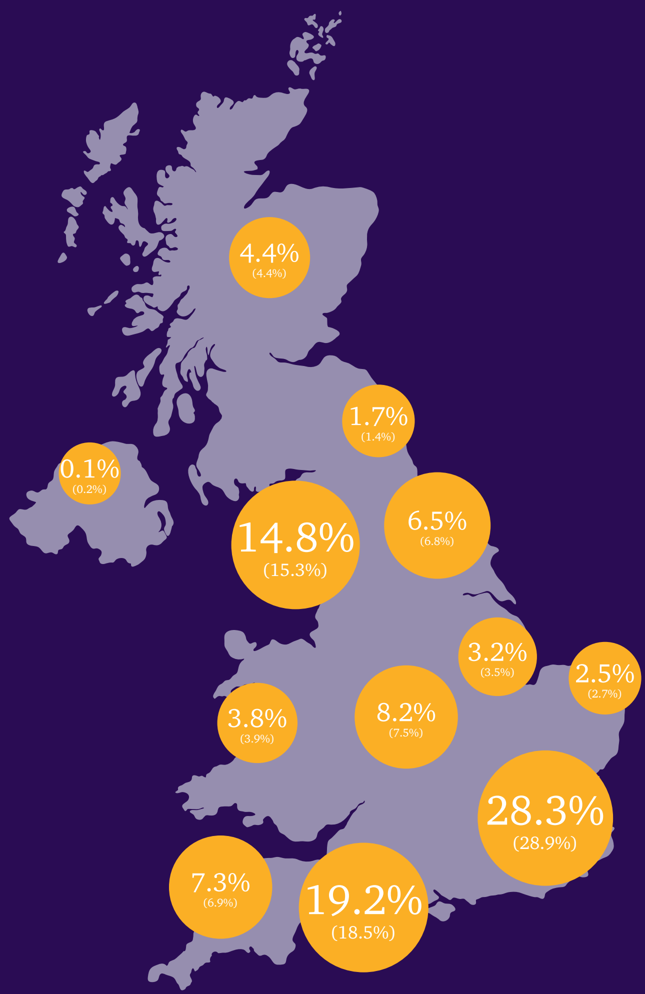
68.0% secured on residential property (74.8%)



2

…providing secured lending to underserved customers across the UK…

Percentage of our loan book by geographic region

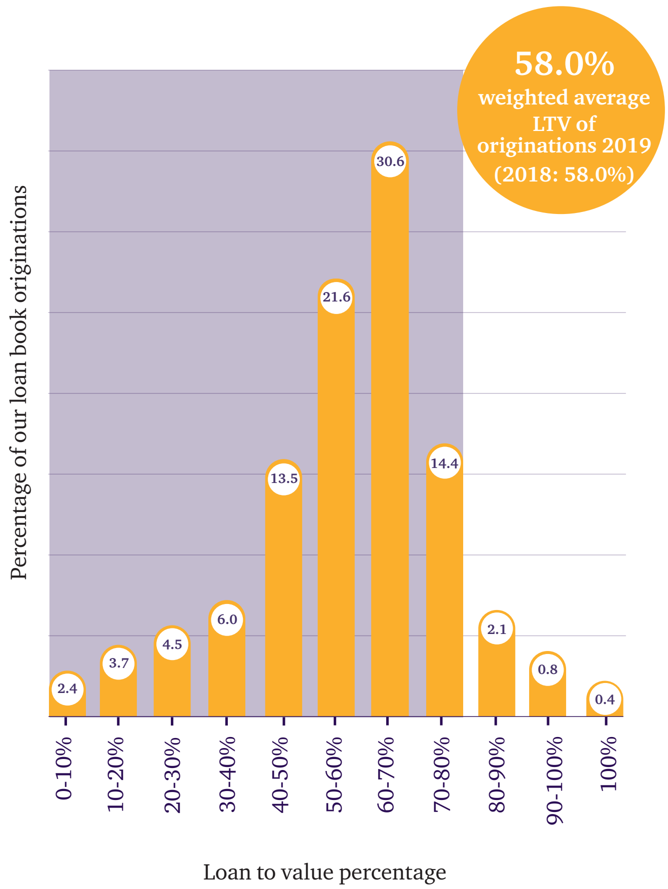


3

…whilst maintaining high asset quality based on low LTVs, affordability and security…

Conservative origination LTVs[1]

96.7% of originations <80% LTV (2018: 98.3%)

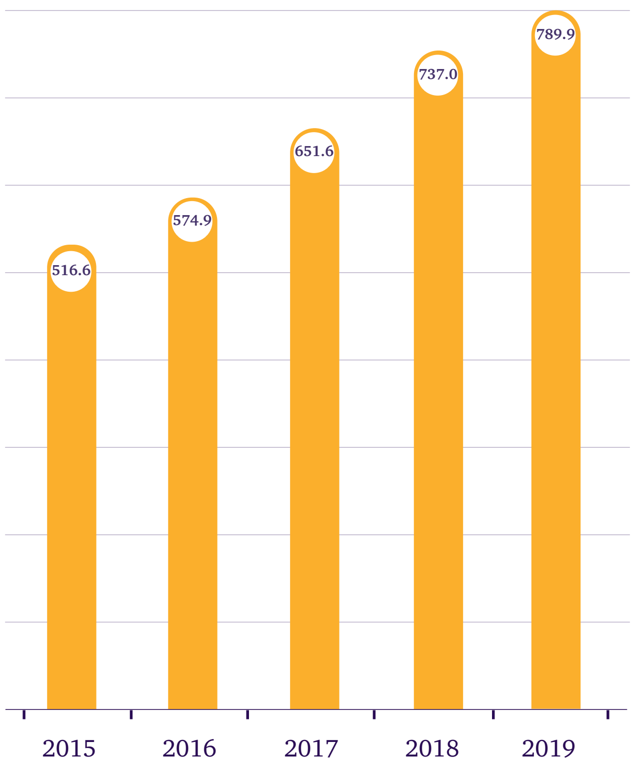


4

…building long-term value for our stakeholders.

Shareholder funds[1]

Total £m



[1] Refer to appendix for definitions and calculations

Highlights

Business overview

£130m PBT[1]
(2018: £122m)

£2.0bn originations
(2018: £1.7bn)

730+ colleagues
(2018: 700+)

36.2% cost/income[1]
(2018: 34.2%)

6.8% NIM[1]
(2018: 7.7%)

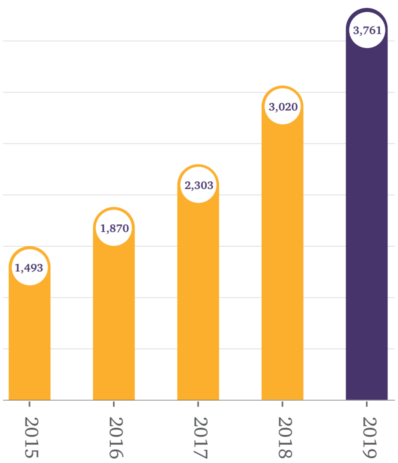
56.4% weighted average indexed LTV of portfolio
(2018: 57.8%)

24.6% growth in loan book to £3.8bn
(2018: £3.0bn)

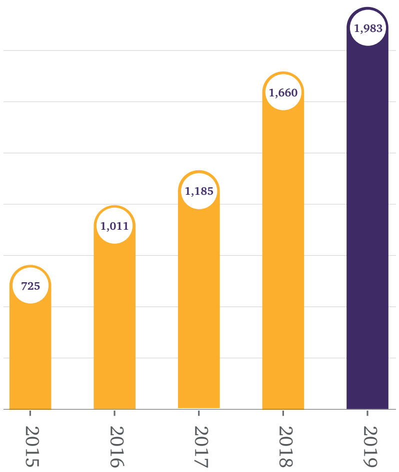
13.5% increase in available funding to £3.4bn
(2018: £3.0bn)

Read more information on our Financial performance in the **Financial review**

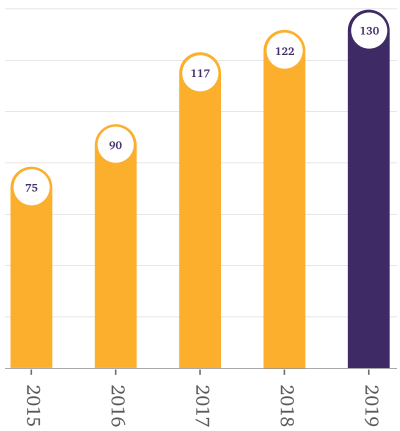
Loan book (£m)



Originations (£m)



Underlying PBT[1,2] (£m)



£m	2019	2018
Profit before taxation[2]	**130.3**	121.7
Impairment charge	**15.4**	11.4
Loan book[1]	**3,761.5**	3,020.0
Equity	**762.8**	711.9
Shareholder funds[1]	**789.9**	737.0

[1] Refer to appendix for definitions and calculations
[2] Underlying PBT and statutory PBT are identical for all years, except for 2017, where underlying profit excludes one-off refinancing costs of £23.0m. Note that 2019 PBT includes the impact of IFRS 9, and therefore is not directly comparable to previous years.

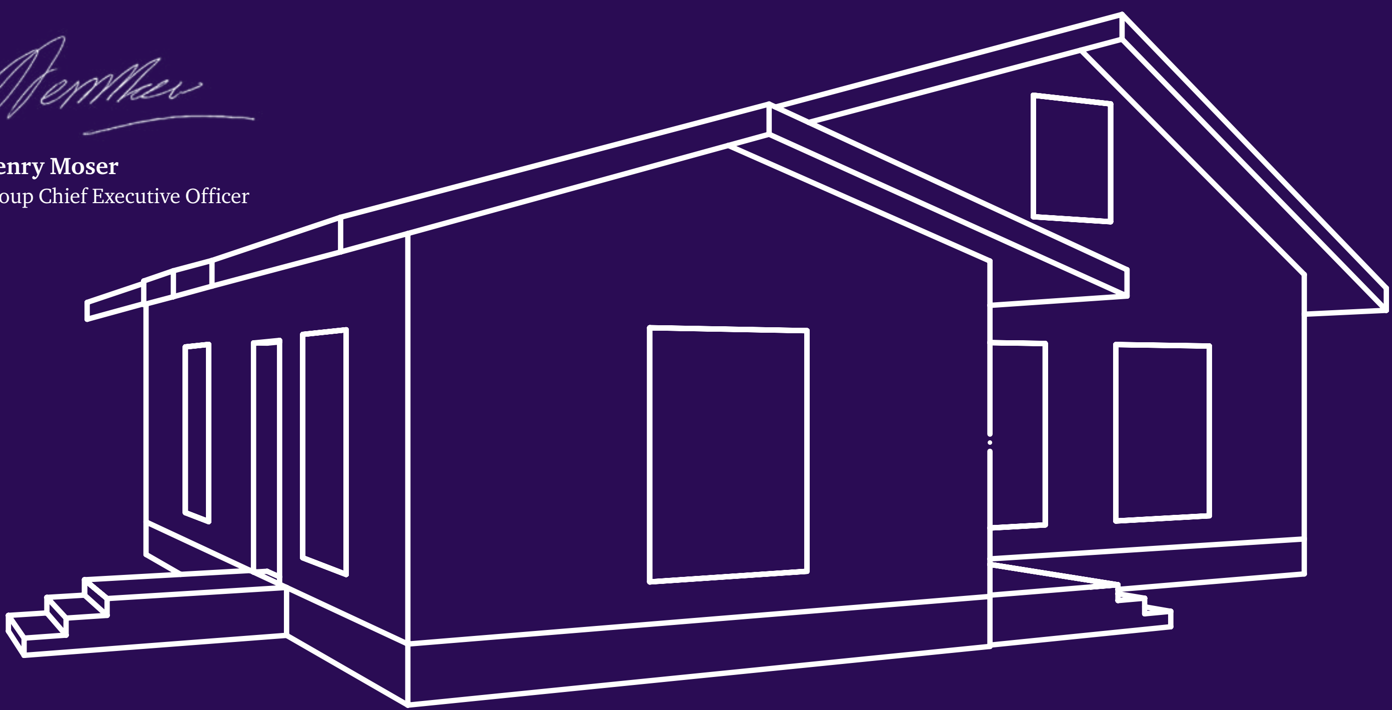
A message from our Chief Executive

I want to thank all of my colleagues for playing their part in helping Together to achieve another successful year, which would not have been possible without their continued commitment and hard work.

Together has a unique culture, which has been shaped by our long history and experience in finding solutions to our customers' needs. Our common sense approach to lending is as much about our culture as it is about our products. It has also helped us to recruit and retain the right people, which is critical to a business that has grown as rapidly as Together. I am therefore very proud that for the second year running we have been recognised as one of the Sunday Times 100 Best Companies to Work For.

With a 45-year track record, built over multiple economic cycles, I believe we have successfully combined our common sense approach to lending with the values of "good old fashioned banking," and that we do so in a way that will continue to build long-term value for all of our stakeholders.

Henry Moser
Group Chief Executive Officer



Strategic report

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For the superhero property investor.

“A landlord, a beginner, *an ambitious bread-winner.”*

Chairman's review

Mike McTighe
Chairman

I am pleased to report that Together has continued to deliver strong loan book growth with annual loan originations of £2.0bn (2018: £1.7bn), while enhancing operations and funding structures, and strengthening corporate governance.

Managed growth

The Group continued to pursue a strategy of profitably growing the lending portfolio at conservative loan-to-value (LTV) ratios. New lending of £2.0bn represented an increase of 19.4% on last year, bringing the total loan book to £3.76bn (2018: £3.02bn). The average LTV of the new originations remained conservative at 58.0% (2018: 58.0%), as did that for the portfolio as a whole, which finished the year at 56.4% (2018: 57.8%).

Following a period of sustained growth, the Group has now established positions in all its key market segments, and can continue to refine its focus towards those segments that offer the greatest opportunity.

It was pleasing that this success was recognised in a number of awards won during the year, including the Mortgage Introducer award for secured lender of the year, the National Association of Commercial Finance Brokers award for specialist lender of the year, and the Your Mortgage award for best bridging lender.

Best bridging lender (Your Mortgage Awards 2018/19)

Enhancing our operations

The strength of the Group's performance has allowed investment in operations in support of this lending growth, while continuing to increase profit before tax to £130.3m (2018: £121.7m), in line with management expectations.

For more information on our results, see the **Financial review**

Having prioritised the development of key systems to enable this growth, the Group has now instigated a number of initiatives to further improve the service it provides to customers, including learning from when things sometimes go wrong. These initiatives include systems developments in support of new products and channels, developing the Voice of the Customer programme and training for colleagues to improve customer service, and a business review to identify opportunities to streamline costs.

For more information on how we seek to help our customers, see the section **Engaging with our stakeholders** and for further detail on our approach to managing conduct and compliance risk see the **Risk management report**

Our knowledgeable and experienced colleagues have always been central to our lending decisions and we expect that this will continue, but we also recognise that there may be opportunities to adopt emerging technology.

£2.0bn originations (2018: £1.7bn)

Increasingly the Group is exploring ways to make its processes more scalable to maximise the value of future growth in lending, including robotic process automation and, in the longer term, artificial intelligence.

For more information on the development of our products and processes, see the **Operating review**

During the year, Together also launched a new marketing campaign, 'lending for the new normal'. Traditionally, mortgage lenders have considered many people's circumstances as 'non-standard', eg the self-employed, but many of the non-standard factors are becoming much more normal and lending criteria have struggled to keep up with the pace of change in society. The Group produced engaging new material for use across a range of media and also continued to streamline and improve the material on its website and make it even easier to navigate.

Successfully enhanced our funding structure

In support of the Board's drive to grow the business while further improving profitability, the Group continued to increase the diversity, scale and maturity of funding facilities, while also improving their pricing. This is particularly pleasing given the uncertain economic environment and demonstrates investors' confidence in the Group's business model.

"Together is strongly placed to service the emerging *new normal*"

Early in the year the Group increased its Charles Street ABS facility, which is a securitisation funding a wide range of assets, from £1.0bn to £1.25bn and extended its maturity to September 2023, while also improving its terms. Having launched its first residential mortgage-backed securitisation last year, in the autumn the Group launched its second, Together ABS 2 raising funding of £0.27bn. I was therefore delighted when the Group won Overall Best Securitisation Issuer of the Year at the Global Capital securitisation awards in March 2019.

In November 2018 the external funding for an indirect parent company of the Together Group, Bracken Midco1 PLC, which indirectly provides funding to the Group, was refinanced to reduce the interest rate payable while extending the term to 2023.

In April 2019 the Group refinanced the Delta ABS facility, which funds short-term commercial-purpose loans, increasing the size of this facility from £90m to £200m and extending its maturity from 2021 to 2023.

The Board believes the continued development of the scale and range of these facilities will progressively allow the Group to better match funding to particular loan products and so improve cost efficiency.

Strengthening our governance

The Corporate Governance section of this report sets out the main features of the Group's formal governance structure. It is increasingly recognised that the effectiveness of any governance framework is heavily influenced by culture and in this regard the Board sets the tone from the top in shaping our culture, as translated in our Play Your Part Beliefs, and this is embedded in how we take decisions, reward our colleagues and treat our customers. The Board regularly seeks feedback on culture from colleagues via quarterly surveys, and has commissioned a review of culture to be undertaken during the current year utilising an independent third party expert.

A key focus within the regulated division is preparation for the Senior Managers and Certification Regime (SM&CR), which the Financial Conduct Authority is extending to all regulated firms in December 2019. This regime is common sense, focusing on accountability, and therefore very much in keeping with our Beliefs.

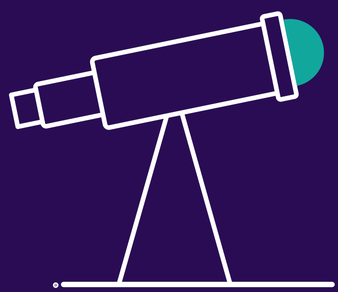
During the year David Bennett, the Chairman of the Together Personal Finance board, stepped down after almost nine years with the Group. David has the Board's thanks for his significant contribution over this time, and our best wishes for the future. I was delighted that we were able to appoint Richard Gregory OBE as David's replacement. Richard brings a wealth of senior experience in financial services, and is a keen promoter of customers, businesses and innovation across the north of England. The Personal Finance Board has been further strengthened by the appointment of a new non-executive director, Liz Blythe, who brings senior risk and audit expertise gained over 25 years in financial services.

Outlook

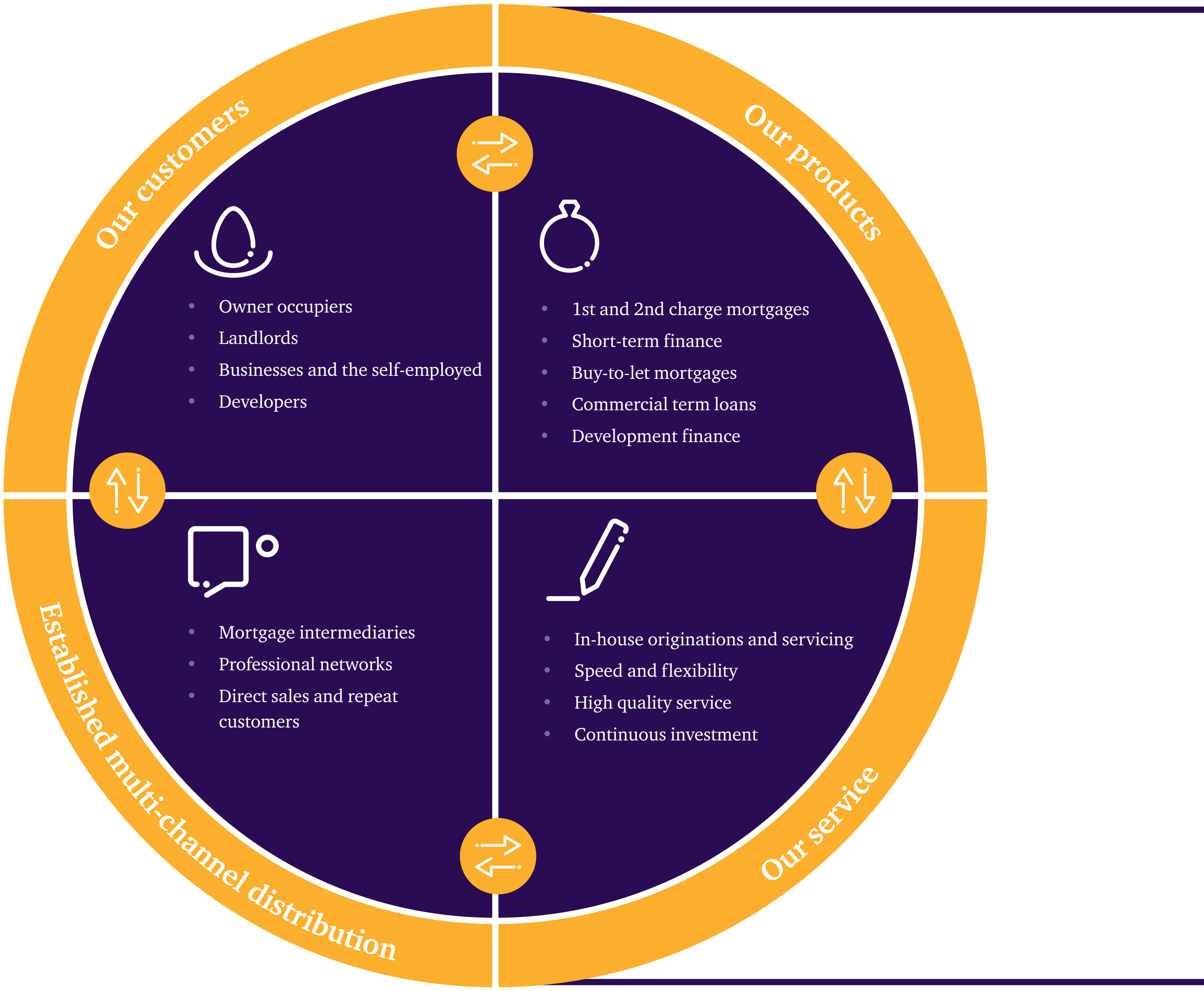
The UK's economic performance has been mixed for some years, and the outlook continues to be highly uncertain, primarily due to Brexit but also now because of increasing trade tensions. Economic growth has been lower than historical averages, which is common to other EU and developed economies. Increases in productivity remain low and growth in national average house prices has slowed. Despite all this, employment has reached historic highs and wages have started to grow in real terms.

In line with the rest of the market we have seen increased competition in some segments, while at the same time a number of participants have left the market driven by continued uncertainties and funding constraints. Against this backdrop, Together benefits from its specialist expertise built up over 45 years, established positions in attractive growing markets and a strong, diversified funding base which provide the Group with the resilience to continue to thrive and grow in more uncertain markets.

Mike McTighe
Chairman



Business model



Read more about our customers and distribution in **Engaging with our stakeholders**.

A unique and successful model

Together is one of the UK's leading specialist lenders, with a profitable 45-year track record spanning a number of economic cycles. We have never been interested in a one-size-fits-all approach; instead, we use our wealth of expertise and industry know-how to consider individual circumstances to find a way to help. With people not computers at the heart of our decision-making process, we consider applications on their individual circumstances and merits.

We offer flexible mortgages via an established distribution network of mortgage intermediaries, repeat customers and direct marketing. With products just as varied, whether it is mortgages, secured loans or bridging finance; secured on residential, semi-commercial, buy-to-let, commercial properties or land throughout the mainland UK, we have everything covered.

By focusing on lending secured against UK property at sensible loan-to-values and appropriate risk adjusted margins, we have built a diversified loan book and are able to achieve efficient and sustainable returns.

As a private company we are not constrained by short-term targets and are able to focus on delivering long-term value for all of our stakeholders.

The success of our model is underpinned by a diversified and flexible funding structure, an experienced Board and senior management team and over 700 dedicated colleagues.

Compelling investment case

- 45 year through-the-cycle track record
- Privately owned with emphasis on long-term value creation
- Focus on low LTVs and affordable, sustainable lending
- Diversified loan book
- Creating value for our customers
- Experienced senior management and high quality Board
- Strong growth and industry leading returns

Deep and diverse funding platform

- Senior secured notes
- Private securitisations
- Public securitisations (RMBS)
- Revolving credit facility
- PIK notes (Bracken Midco1 PLC)
- Shareholder funds

Read more about our products, service and funding in the **Operating review.**

Strategy

Objective: Build long-term value by helping individuals, families and businesses to achieve their financial ambitions

Strategy	Focus
Increase secured lending to underserved customers in attractive growing markets	As one of the UK's leading specialist lenders, we offer a wide range of products to owner occupiers, landlords, businesses, the self-employed and developers, secured against UK property and land. Together has been helping underserved customers for 45 years and, while we have achieved significant growth in our lending in recent years, we are constantly seeking to extend awareness of our products where we feel we can help underserved customers and build successful market positions. We distribute our products to customers via a broad and established network which includes mortgage packagers, broker networks and mortgage clubs. We also market products directly to customers, and the strength of our offering is such that we successfully attract repeat customers. The way people live and work is evolving rapidly and, as lifestyles change, so do customers' financial needs. Our own research[1] indicates that over half (54%) of people turned down for a mortgage had an application rejected for reasons that we would consider normal – such as career choices or property types. Our focus on delivering common sense lending is therefore more relevant than ever, as mainstream lending criteria have struggled to keep up with the pace of change in society. In the same way that customers' needs are changing, so is the way they wish to access funding. While we will remain committed to growing our existing relationships, we are also evolving our distribution to include emerging channels, such as online mortgage brokers, aggregators and digital distribution, to further extend our reach. We recently launched a Corporate Team to work with high net worth individuals, property investors, entrepreneurs, SMEs and developers who typically have a minimum borrowing requirement of £1m. These customers often require shorter-term funding solutions with rapid turnaround to secure opportunities, and typically want a longer-term relationship with a lender that they trust to understand their requirements and can respond to their timescales.
Deliver positive customer outcomes by putting the customer at the heart of our business and offering: • flexible products; • experienced underwriters; and • high levels of service.	We always aim to deliver positive outcomes to our customers through our common sense approach to lending. Key to this is our culture which is focused on long-term value rather than short-term gain, and providing colleagues with the support, training and innovation to deliver the best journey and outcomes for our customers. We are very proud of this unique culture and will continue to do the things that have made us successful in the past, including understanding individual customer circumstances and delivering personalised lending solutions. We offer a wide range of secured lending products and regularly review this offering against the market and feedback from our customers, to ensure that it continues to meet their changing needs. As new technologies emerge which can help to further improve the customer journey, we are committed to investing in the right tools to help evolve and enhance our business, while retaining a focus on the things that have made us successful. Consequently, we will look to integrate new technology through incremental change, testing and learning in order to build and refine our approach. We intend to focus on where we can enhance the customer and introducer journey and experience, and where we can develop our IT architecture and utilisation of data to improve processes and deliver increased operational efficiency. Throughout this process we will continue to learn from our customers, taking monthly 'Voice of Customer' feedback at key touchpoints throughout the loan lifecycle, carefully monitoring our Net Promoter Scores and responding to and, where appropriate, remedying and learning from any complaints. In addition, the Group has established governance and oversight processes including conducting proactive internal reviews in order to provide assurance that products and services meet customers' expectations and in our regulated division, that they are in line with regulatory requirements. Where instances are identified of activities that may have fallen short of the standards expected, a detailed assessment is carried out to understand the cause, impact and appropriate resolution which may, in some cases, include remediation.

[1] YouGov survey for Together in 2018. 2,003 people were surveyed who had enquired about a mortgage but not received an offer

Strategy	Focus
Maintaining high asset quality with prudent underwriting based on: • security; • low LTVs; • affordability; and • appropriate risk adjusted margins.	Maintaining the high asset quality of our loan book remains a key focus for the Group. We are firmly committed to our principles of providing secured loans, at sensible loan-to-values, with appropriate affordability assessment and risk adjusted margins, thereby enabling us to achieve efficient and sustainable returns. Our business model is based on creating long-term sustainable value. Over the last few years we have delivered significant growth, building and consolidating strong positions in key market segments and diversifying the mix of our loan book. While we do not expect this rate of growth to be maintained we do expect growth to continue as we increasingly focus on product areas where we can offer a differentiated proposition in attractive markets. We will continue to offer a diverse range of products and will also ensure that we maintain our focus on the quality of our lending in a more challenging market environment.
Increase scale and diversity of funding and reinvest profits to support future growth ambitions	Together's business model is underpinned by an established and flexible funding structure, comprising senior secured notes, a revolving credit facility, private securitisations, public residential mortgage-backed securitisations ('RMBS') and shareholder funds. Building on our past success we continue to extend and refinance our existing funding channels, while also exploring alternative sources of funding to ensure that our structure is robust and supports sustainable growth in our lending products. We continually seek to extend both the diversity and the depth of maturity within our funding, something which is particularly important in more uncertain market environments. We also recognise the importance of the banks and investors that support these structures and place great emphasis on developing and maintaining these strategic relationships. Following several years of significant investment in our governance, distribution capability and operations, we are now focusing on delivering the benefits of this investment to support sustainable future growth. This will be achieved through incrementally evolving our business to further improve the customer journey and make our processes more efficient, through disciplined cost management and continuing to reinvest profits to build our platform for the future and enhance long term value.

Operating review

The previous sections set out our strategy and business model. This section reviews the markets in which we operate and the wider economic environment. The Group operates in two divisions, Commercial Finance and Personal Finance, and this section discusses how each has responded to market developments and describes their proposition. We also chart the progress in our funding activity and explain some changes we are making to our systems and processes to support our continued growth.

Commercial Finance

Unregulated bridging

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

BTL+

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

Commercial term

First and second charge commercial property loans. We can provide mortgages and loans for businesses for a variety of purposes secured against a wide range of property or land types.

Development

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

I am very proud that Commercial Finance increased lending volumes a further 13% in the year to 30 June 2019 to £1.42bn (2018: £1.26bn). The commercial book now stands at £2.5bn (2018: £2.0bn), an increase of 26% that continues our record of strong year-on-year growth.

The Commercial Finance team achieved this growth across all product categories. We have been particularly successful in increasing the proportion of our lending in the commercial term market, while maintaining our position in bridging finance. We have a long track record in these markets, and our underwriting expertise allows us to achieve higher margins while meeting our risk appetite for sound, low loan-to-value security.

Our success comes not only from the relationships we have established with the intermediary market, but also the expansion of our direct-sales capability. And of course it also comes from the commitment of all colleagues in the Commercial Finance team, who deserve special thanks for always being so focused on positive customer outcomes.

The investments that we have made, and are continuing to make, in our products, people and systems mean there has never been a more exciting time for the Commercial Finance business.

Marc Goldberg
CEO of Commercial Finance

Personal Finance

Retail first charge

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

Retail second charge

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

Regulated consumer buy-to-let

First and second charge buy-to-let mortgages to help the 'accidental' landlord.

Regulated bridging

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.

2019 has been a great year in the development of Together's Personal Finance business. The business is building rapidly to provide solutions for customers not served by mainstream lenders. We have expanded our distribution and product range to make more people aware of common sense lending, how we can help more people turn their challenges into opportunities, and make their financial ambitions accessible. We are now seeing the reward for this in our results: this year we delivered new lending of £0.56bn, an increase of 40% over last year's total of £0.40bn. The mortgage portfolio now stands at over £1.25bn, an increase of 21% over the £1.03bn balance at the end of last year.

The big success stories in this growth have been our first charge residential and regulated bridging lending. Our first charge lending has grown rapidly thanks to our new Prime Plus range, while our regulated bridging products, previously only available through our direct-sales team and broker networks, have been extended to mortgage clubs and packagers.

We are also well progressed in our readiness for the Senior Manager regime, which is due for implementation on 9 December and, moving forward, we continue to make operational improvements focused on customer outcomes. As a result it's pleasing to see our measures of customer satisfaction are at their best levels ever. This performance reflects the commitment to our customers of Personal Finance colleagues who have my heartfelt thanks.

Pete Ball
CEO of Personal Finance

Operating review (continued)

The economic environment

Once again the UK's economic performance has been mixed. Average house prices have continued to rise, but with some falls in London and the south-east. Unemployment has fallen year on year and average wages are showing real growth. GDP growth has been lower than historical averages, though some commentators expect it to outperform some major economies such as Germany and Japan and, whilst austerity has played a part in this, public finances are more robust. Sterling has fallen further, reflecting uncertainty around Brexit. Inflation has been at or close to the government's target of 2.0%, having exceeded it for the previous two years. Economic expectations within the UK are adapting to the increasingly likely prospect of a no-deal Brexit and globally to reflect the escalation of trade wars between the United States and China.

The Group's credit risk is particularly affected by economic activity (as measured by GDP), unemployment, Bank of England Bank Rate and movements in house prices. The Group sets assumptions about the future projected values of these economic variables for the purposes of estimating our expected credit losses (ECLs).

Further details on our ECL assumptions are in Notes 2, 3 and 14 to the **Financial statements.**

The Group's long-term strategy of low-LTV lending provides significant mitigation from uncertain economic times further supported by our strong financial position.

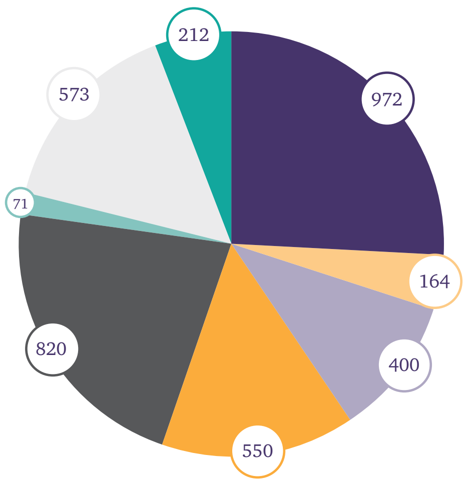
Further detail on our approach to managing risks is in the **Risk management report**

The next section discusses in more detail the specific markets for our products, and how we are developing our business in each area.

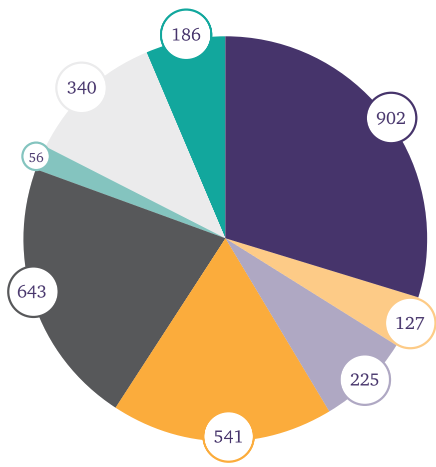
A wide range of flexible products suited to a specialist market that continues to evolve

Of the £2.0bn of new lending in the year (2018: £1.7bn), the greatest increase compared with last year was in Commercial lending. This resulted in the loan portfolio as follows:

2019 (£m)



2018 (£m)



Unregulated bridging
Retail second charge
Commercial term
Regulated bridging
Unregulated buy-to-let
Development
Retail first charge
Consumer buy-to-let

Bridging finance

We offer a range of quick and flexible solutions for bridging finance, including short-term residential, commercial and auction funding. We can help with chain breaks or raising short-term funds, with criteria that can include multiple exit strategies and make use of additional security, and we can also help investors to acquire properties and land at auction.

Speed and reliability are key differentiators in this market and lenders must have funding and distribution capability. Whilst a number of new lenders have entered the market, some have left having failed to deliver effective propositions.

We believe our flexibility, many years of experience in underwriting such risks, and a strong, established funding base mean that this growing market is a key opportunity for the business. Our approach in the commercial market is to design products to specifically target small and medium-sized enterprises, individuals of high net worth, and property investors, to offer products to support customer retention, and to streamline the application process. We have also established a Corporate Team to focus on building long-term relationships with customers who typically seek to borrow over £1m, often with a need for shorter-term funding.

Spotlight on short-term financing

Short-term financing is used to bridge a gap in funding, when a customer needs to move quickly to secure a property but knows they will be able to pay the loan back in the short term, typically within 12-24 months. It is commonly used by individuals and property investors to help with chain breaks, for example to assist in raising funds to acquire a home, investment property or land, to refurbish a property with the aim of re- selling it, or to purchase a property at auction.

The bridging market is estimated to be approximately £7.5bn[1]. While it only makes up around 3% of the total UK mortgage market the bridging market is forecast to grow at 7-14% over the period to 2023[1]. This is due to increasing demand for the speedier and more flexible solution that short-term financing offers, particularly in the professional property-investment market.

Together is a leading player in the UK short-term financing market, having made our first bridging loan in 1985. We take a prudent approach to bridging loans, combining personalised underwriting and careful assessment of exit strategies with low LTV ratios. We are fairly unusual in the market in that the majority of our unregulated bridging loans are serviced, ie the customer pays interest on a monthly basis rather than when the loan is redeemed. This reduces the credit risk compared with non-serviced loans and can provide earlier identification of any issues.

In the personal finance market we are extending our suite of products, including tiered pricing to hone our competitiveness for lending at a lower ratio of loan to value (LTV), as well as expanding our distribution capability.

Retail mortgages

We help people who are buying their first home, moving or remortgaging with a range of capital repayment and interest-only loans secured as first charge and second charge mortgages. We are able to cater for customers with more complicated income sources, non-standard property types, thin or imperfect credit histories and those entering or in retirement.

Annual first charge lending within the UK grew by 5.7% in 2019 to £263bn[2], a year-on-year reduction reflecting a more subdued housing market and a slower rate of increase in average house prices. Specialist lending has grown in response to increasingly diverse demands such as later-life borrowing, changing working habits and property conversions. From a relatively low base the first charge market is a source of high growth for Together where we believe we can achieve attractive returns at low LTV ratios. We have launched further variable-rate and fixed-rate products and also extended our offering, such as for older and self-employed borrowers. We are growing our distribution, helped by exclusive products for mortgage packagers, broker networks and mortgage clubs, and testing ‘adjacent’ segments of the market.

The second charge mortgage market has long been an area of strong performance for the Group. The market reduced following the implementation of the Mortgage Credit Directive in 2016, but has grown back to c£1.1bn[3] thanks in part to greater customer awareness and an increasing preference for house extensions over moving home.

New competitors have entered this relatively small second charge market, leading to some compression of interest rates. We seek to maintain our market share, launching fixed-rate products in response to customers' concerns around rates, developing retention products for existing customers, and exploring opportunities with broker networks and mortgage clubs.

Buy-to-let

We offer a range of buy-to-let mortgages to help customers, for example for professional landlords to create, build or remortgage residential-property portfolios, and regulated mortgages for those who find themselves ‘accidental landlords’ as a result of unforeseen circumstances.

The buy-to-let market is now relatively stable with the remortgage market growing at c5% per annum[4], having undergone some adjustment following tax changes for landlords progressively introduced since April 2017, and regulatory changes that led to retrenchment by mainstream banks. There appears to be a structural shift in the specialist market towards more complex situations such as portfolio landlords, limited-company ownership and houses in multiple occupation. There is also some transition in investment from London to the regions.

Our flexibility means we can find opportunities for significant growth in this specialist buy-to-let market by refreshing our product range and launching exclusive products for distribution partners. In the smaller, regulated, consumer buy-to-let market where the opportunity for growth is less, we are extending our product range with discounted, tracker and fixed-rate products and extending our distribution beyond mortgage packagers to broker networks and mortgage clubs.

Commercial loans

We offer flexible first charge and second charge commercial term loans for any purpose and can provide mortgages and loans for a variety of property or land types.

The overall market for longer-term commercial loans has increased from c£45bn to c£50bn[5]. Non-bank lenders, excluding insurance companies, have increased their market share to 16%[1], though the effect of the government ending its Funding for Lending scheme is as yet uncertain, and could provide opportunities for non-bank lenders like Together.

Together is focusing on this market as an opportunity for prudent growth, aided by the funding provided through the Highfield securitisation facility. We are refreshing the product range with an increase in loan sizes and low rates for low LTV lending. Additionally we are looking to launch new, fixed-rate and medium-term products and seek opportunities with new distribution channels.

Development finance

We are able to offer tailored finance packages for many types and sizes of project, from new-build developments to residential conversions and commercial construction projects.

This sector experienced significant difficulties during the credit crisis, but a number of lenders are now increasing their focus on it. Rather than promote our products widely, we will continue to offer loans on an opportunistic and selective basis.

[1] Mintel: Bridging Loans - UK, July 2018
[2] UK Finance, August 2019
[3] Finance & Leasing Association Annual Review 2019
[4] UK Finance, July 2019
[5] Mintel: Commercial Mortgages - UK, July 2019

Operating review (continued)

Our funding is increasingly diverse to support our lending activities

The Group's business model, as set out in the previous section of this report, is based on 45 years' experience of building long-term value by providing a broad range of flexible secured lending products to underserved customers at low loan-to-values, resulting in a high quality, diversified asset base, robust profitability and strong cash generation. The capital generated has been consistently reinvested to support the Group's continued growth. Together's long-term, through-the-cycle track record of success is attractive to providers of funding and has helped the Group to develop a mature funding platform which can be drawn in support of future growth plans.

We now have a flexible and increasingly diversified funding structure, consisting of private and public securitisations, senior secured notes (bonds) and a revolving credit facility. These facilities are underpinned by £790m of shareholder funds and strong cash flows to support the Group's continued growth.

The diagram on the following page illustrates our current funding structure.

Initially we fund all our new lending through the publicly listed senior secured notes and a revolving credit facility, which together form the Senior Borrower Group. We currently have £725m of these notes in issue held by international institutional bond investors. After origination, most of our loans are then allocated to one of four private securitisations:

- Charles Street ABS, a £1,255m AA-rated facility which supports mainly residential first charge and second charge mortgages, consumer buy-to-let loans, regulated bridging loans and unregulated bridging loans on residential property;
- Lakeside ABS, a £255m facility which supports mainly short-term commercial-purpose loans and loans secured on residential and commercial property;
- Delta ABS 2, a £200m facility which supports mainly larger short-term commercial-purpose loans and larger loans secured on residential and commercial property; and
- Highfield ABS, a £525m facility which supports small-balance loans backed by commercial real estate.

Under the name Together ABS we also issue securities to the public markets by means of residential mortgage-backed securitisations (RMBSs), which fund pools of residential loans drawn from our CABS facility. This creates headroom in Charles Street ABS to support further lending activity.

"Over the last year we have raised or refinanced over £2bn of facilities, improving the terms, adding further depth and maturity, and more closely aligning our funding lines with our products. It was especially pleasing to receive the award for 'Overall Best Securitisation Issuer of the Year' at the Global Capital European Securitisation Awards in March and I would like to thank all my colleagues in the Treasury team for their continued hard work and dedication in achieving a fantastic performance over the last 12 months."

Gary Beckett
Group Managing Director and Chief Treasury Officer

Our funding structure

Senior Borrower Group

Mortgage loans are initially funded by senior secured notes (bonds) and a revolving credit facility (RCF) and the portfolio is subject to gearing restrictions.

Private securitisations

Once originated, mortgage loans can be allocated into one of the revolving private securitisations, subject to eligibility and covenant considerations.

Public securitisations

Fixed pools of residential mortgage loans can also be funded by amortising public residential mortgage-backed securitisations (RMBS). Notes in public securitisations can be traded between investors, giving investors liquidity in their investment.

2021 Senior Secured Notes

£375m

5yr

S&P: BB- ; Fitch: BB

2024 Senior Secured Notes

£350m

7yr

S&P: BB- ; Fitch: BB

2021 RCF

£71.9m

Charles Street ABS 2023

£1,255m commitment

Moody's: Aa2; DBRS: AA

Loan and security types: 1st and 2nd charge mortgages, buy-to-let and bridging loans. All secured on residential property.

Lakeside ABS 2021

£255m commitment

Loan and security types: 1st and 2nd charge bridging loans secured on residential and commercial property and 1st charge mortgages secured on commercial property.

Delta ABS 2 2023

£200m commitment

Loan types: 1st and 2nd charge bridging loans secured on residential and commercial property.

Highfield ABS 2022

£525m commitment

Loan types: 1st and 2nd charge mortgages secured on commercial property.

Together ABS 1

£155.1m rated notes

currently in issue, with 81%

rated Aaa/AAA on issuance

Loan types: 1st and 2nd charge mortgages and buy-to-let loans. All secured on residential property.

Together ABS 2

£230.0m rated notes

currently in issue, with 78.5%

rated AAA on issuance

Loan types: 1st and 2nd charge mortgages and buy-to-let loans. All secured on residential property.

Shareholder funds (£790m at 30 June 2019) are used to support the senior borrower group, private securitisations and public securitisations.

Activity during the year

During the year we successfully raised or refinanced more than £2.0bn of facilities to support the Group's lending activities:

- In September 2018 we increased our Charles Street ABS facility from £1.0bn to £1.25bn on improved terms, and added mezzanine funding to the structure to improve its capital efficiency. Additionally we added another bank and introduced new institutional investors.
- We issued our second RMBS in November 2018, Together ABS 2 of £272.6m with 78.5% of the notes rated AAA on issuance.
- In March 2019, we redeemed our Delta ABS facility, replacing it with Delta ABS 2. Delta ABS 2 has a larger facility size of £200m (Delta ABS: £90m), and matures in 2023 (Delta ABS: 2021).

In addition, in September 2018 Bracken Midco1 PLC, an indirect parent of Together Financial Services Limited, issued £350m 8.875% Senior PIK Toggle Notes due in 2023. The proceeds were primarily used to refinance the existing £220m 10.5% notes due in 2021 and the existing £100m loan notes issued by Bracken Topco Limited, the parent company of Bracken Midco1 PLC. This transaction reduced external funding costs and extended the maturity of our holding companies' debt.

We now have nine banks in our syndicate across the funding structure, with additional counterparties providing mezzanine funding, further mitigating the risk of counterparty concentration.

Operating review (continued)

Continuing programme of investment to improve processes and support future growth

The development of our product portfolio, the extension of our distribution channels and enhancement of systems and processes are key to our future success.

Read more about our work with intermediaries in the section **Engaging with our stakeholders**

We are investing in our systems to ensure they are stable, secure, strategic and scalable.

Stable

The Group's strong profitability sustained over a number of years has allowed us to consistently invest in renewing and refreshing our IT infrastructure. We have been redesigning and renewing the IT network at our headquarters in Cheadle, and implemented a new disaster-recovery capability to return core IT services to operation within four hours, or much less for smaller incidents.

Secure

We employ robust anti-virus and patch-management software for our IT estate. We also ensure remote working is highly secure and reliable by means of suitable encryption and lockdown protocols. We have implemented a market-leading information security system which proactively alerts us to suspicious activity. This complements our continued use of leading network-monitoring and assessment software, in detecting as well as preventing cyber attacks.

Strategic

We have extensively refreshed or replaced our core business systems over the last three years. Our focus is now also on introducing improvements in how we make such changes where our aim is to deliver benefits more quickly. We have a dedicated portal for integration with the larger intermediaries and also with key sources of data such as Equifax, Hometrack and the Land Registry. We employ a cloud-based customer relationship management system to support our marketing, sales and servicing teams, and a single enterprise data warehouse to support functions such as risk, finance and treasury.

Scalable

We seek to use cloud-based software solutions to provide scalability, and employ a highly 'virtualised' environment to rapidly deploy new services. Our storage platform enables flexible allocation in line with the needs of the business, while blade server technology allows for rapid increases in capacity.

Of course, product and systems development cannot succeed in isolation. This is why we have launched a wider programme to transform how we lend and streamline our processes. We have already started to make small incremental changes that reduce the time taken for us to make lending decisions and loan offers. We have improved the instruction process for solicitors, enhanced our automated valuation model and created digital how-to guides. We are looking at how we can reduce or even eliminate paper from our underwriting process, and have commissioned bespoke machine-learning software that will automatically recognise, label and file documents uploaded by intermediaries. Over the next 12 months we plan to reduce our turnaround times even further, improving the experience for customers and intermediaries.

These changes are the first steps in what will become a much wider transformation of the business. While continually improving our efficiency is at the heart of this, the business has always been ready to react to opportunity and we pursue change in such a way as to keep our options open. Ultimately this will involve everyone in the business and so we are now building a core programme team to ensure there is the focus needed to deliver change on this scale.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Financial review

The Group's financial strategy continues to be focused on growth subject to remaining within prudent appetite limits approved by the Board for levels of gearing and availability of stable funding. The loan book increased by 25% in the year to 30 June 2019, and profit before tax increased by 7% to £130.3m for the year.

The results for the year to 30 June 2019 are summarised below[1]:

	2019 £m	2018 £m
Interest receivable and similar income	**343.1**	292.2
Interest payable and similar charges	**(116.8)**	(92.8)
Net interest income	**226.3**	199.4
Net fee and other income	**2.2**	3.0
Operating income	**228.5**	202.4
Administrative expenses	**(82.8)**	(69.3)
Impairment losses	**(15.4)**	(11.4)
Profit before taxation	**130.3**	121.7

Key profit-related performance indicators[2]	2019	2018
Net interest margin (%)	**6.8**	7.7
Cost-to-income ratio (%)	**36.2**	34.2
Return on equity (%)	**14.9**	15.6
Interest cover ratio	**2.2:1**	2.4:1
Cost of risk (%)	**0.45**	0.43

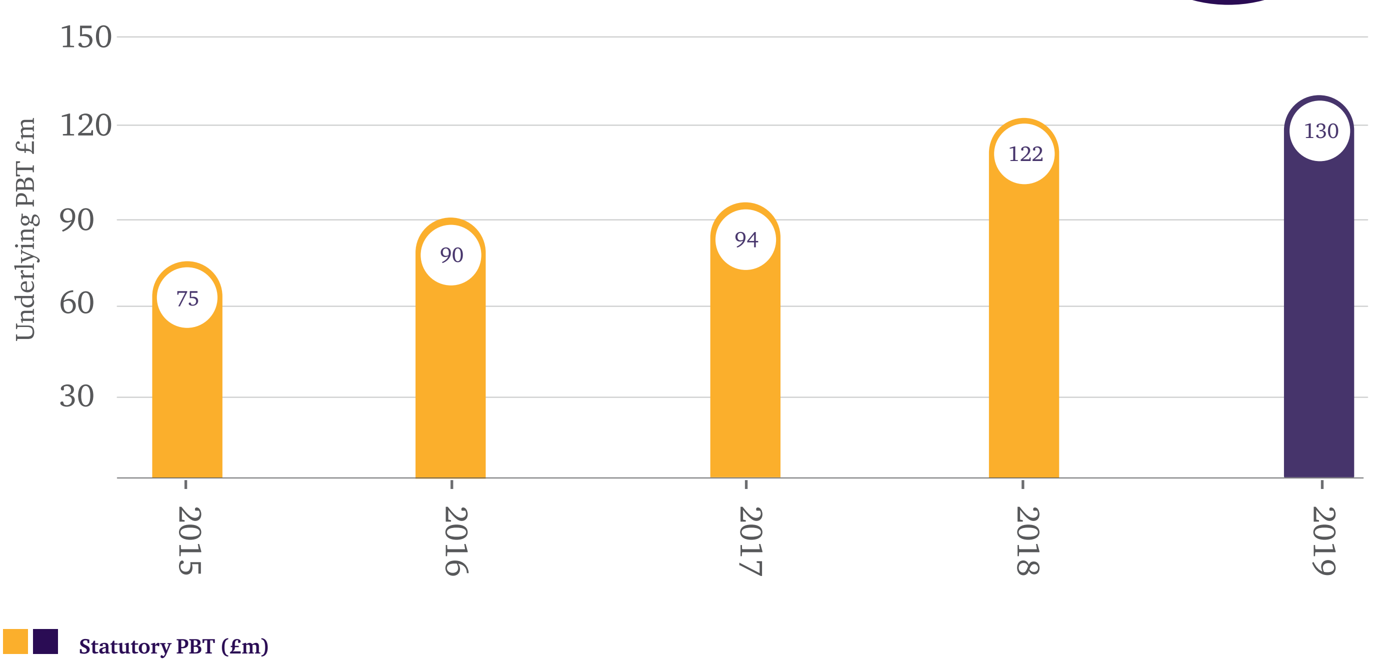
[1] Amounts for 2019 are stated on an IFRS 9 basis and those for 2018 on an IAS 39 basis

[2] Refer to appendix for definitions and calculations

Profit before tax increased to £130.3m for the year

Profit before tax for the year of £130.3m (2018: £121.7m) is in line with management expectations: the Group is successfully pursuing profitable growth of the loan portfolio commensurate with the Board's risk appetite, while transforming operations to support future scalable growth.

Strong profitability continues



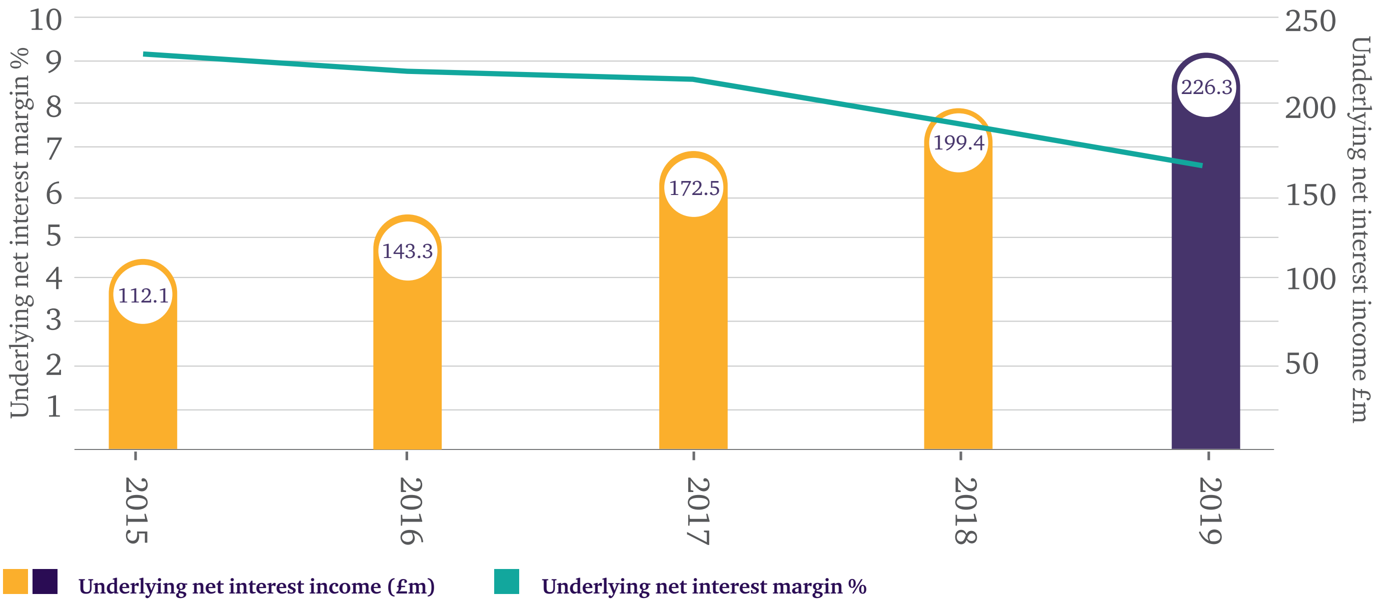
Income and expenditure

Interest receivable and similar income have increased by 17.4% to £343.1m for the year to 30 June 2019 (2018: £292.2m). This continues the trend of recent years, the annual increase in income being lower than that in the loan book of 24.6% as higher-yielding loans originated following the credit crisis are inevitably replaced by loans at current market rates that reflect increasing competition.

Interest payable and similar charges have increased by 25.9% to £116.8m (2018: £92.8m). The rate of increase is higher than that for the loan book due to increases in floating rates and also higher levels of gearing as the quality of assets has improved and enabled the Group to issue more capital-efficient securitisations such as the two public RMBS transactions discussed in the funding section of the Operating review. The level of gearing is carefully managed on a facility-by-facility basis in order to reflect the features of each securitisation. The increase in interest payable is offset by further improvements in the cost of funding achieved through refinancing and new securitisations completed during the year.

This has led to a further increase in net interest income to £226.3m (2018: £199.4m). The resultant net interest margin percentage, while down from 7.7% in 2018, remained highly attractive at 6.8% given the high levels of collateral underpinning the quality of the loan book.

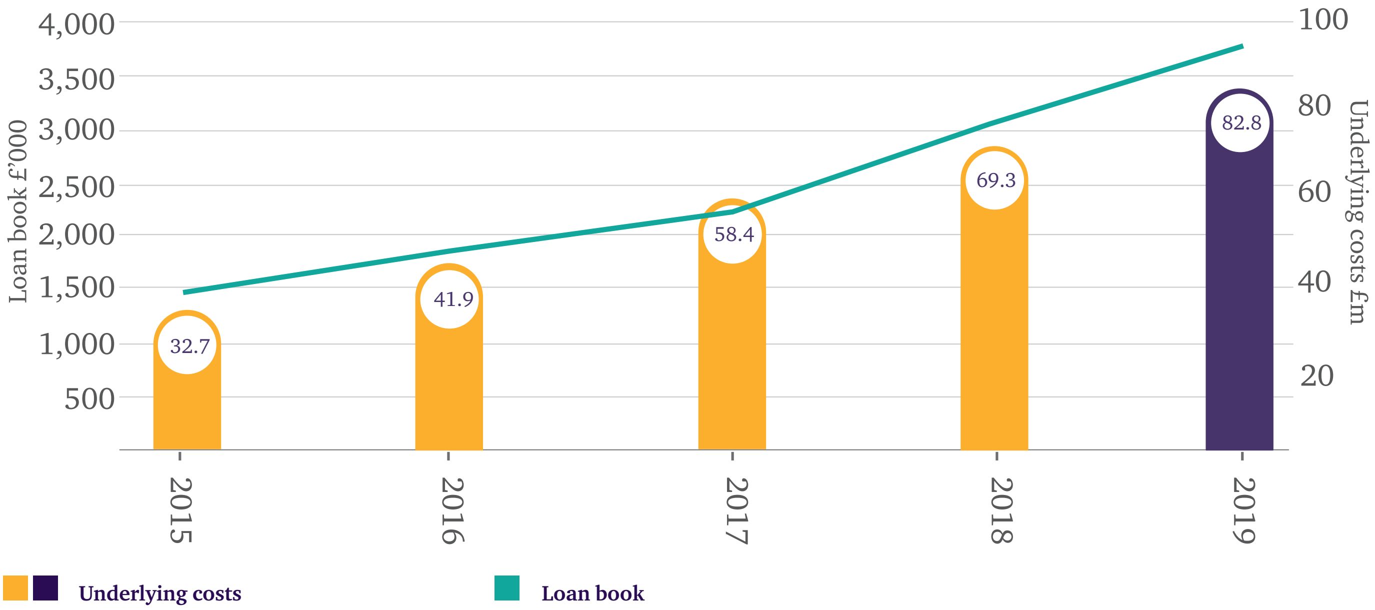
Continuation of trend for growing loan portfolio to generate increasing net interest income despite reduction in net interest margin %



Financial review (continued)

Administrative expenses were £82.8m (2018: £69.3m). The increase of 19.5% continues to reflect growth in the net loan portfolio, as well as the Group investing in people and systems to facilitate its strategic growth plans.

Administration costs rise in support of loan-book growth



The ratio of costs to income[1] has also increased for the last two years as the Group has expanded its loan portfolio at lower margins, reaching 36.2% in 2019 (2018: 34.2%). While this level still compares favourably with the majority of similar-sized financial institutions, it is the Group's ambition to return the cost-to-income ratio to lower levels as a result of investment in systems as the Group seeks to make its operating platform increasingly efficient and scalable. The Group's key activities in support of this is discussed in more detail in the Operating review.

As a result of the adoption of the new IFRS 9, Financial instruments, impairment losses were reported in 2019 for the first time on the basis of expected losses rather than incurred losses. The total charge increased by £4.0m to £15.4m (2018: £11.4m on an incurred-loss basis). Besides the impact of a growing mortgage portfolio, the charge for the year also reflects changes in macroeconomic forecasts and changes in house-price indices resulting from the uncertain economic conditions, the latter discussed in the Operating review. The credit-risk section of the Risk management report sets out how the Group manages its credit risk. Notes 2 and 14 to the financial statements set out how the Group measures expected credit losses, including the assumptions used. The Notes to the financial statements also provide details of the movements in the Group's loss allowances over the year.

The Group's private-ownership structure allows it to reinvest profits in the business each year. Combined with a strategy of funding an increasing proportion of the loan-book growth through borrowings, the resultant return on equity of 14.9% for 2019 remained strong (2018: 15.6%).

Earnings before interest, tax, depreciation and amortisation (EBITDA)[1] for 2019 have increased to £251.5m (2018: £219.2m). The interest cover ratio[1] was 2.2:1 for the year to 30 June 2019, down from 2.4:1 for the prior year. The decrease was due to the Group's continuing strategy of increased lending being funded by more capital-efficient securitisation structures.

[1]Refer to appendix for definitions and calculations

Financial position

The Group's closing financial position is summarised:

	2019 £m	2018 £m
Loans and advances to customers	3,694.5	2,958.2
Fixed assets	14.2	14.6
Other assets	133.3	80.7
Total assets	3,842.0	3,053.5
Borrowings	3,015.7	2,291.1
Other liabilities	63.5	50.5
Total liabilities	3,079.2	2,341.6
Total equity	762.8	711.9
Total equity and liabilities	3,842.0	3,053.5

Key performance indicators relating to the financial position[1]	2019	2018
Gross loan book (£m)	3,761.5	3,020.0
Lending volume (£m)	1,982.9	1,660.1
Weighted average LTV of originations (%)	58.0	58.0
Weighted average indexed LTV of portfolio (%)	56.4	57.8
Net debt gearing (%)	78.0	74.6
Shareholder funds (£m)	789.9	737.0

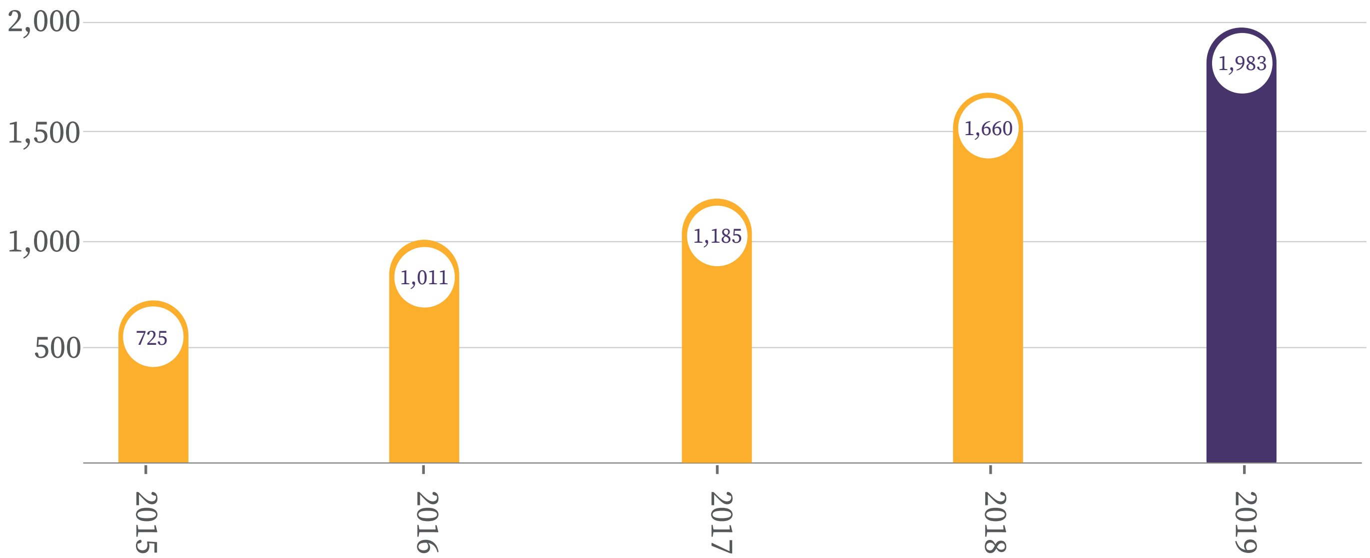
[1] Refer to appendix for definitions and calculations

The Group's record of strong growth in loan originations continued in 2019, at £2.0bn for the first time (2018: £1.7bn). Consequently total loans outstanding increased to £3.8bn (2018: £3.0bn).

"Record originations of £2.0bn demonstrate the strength of our offering."

Financial review (continued)

Loan originations in the year reached £2bn



The Group has sought to increase the loan portfolio while maintaining conservative loan-to-value (LTV) ratios. The weighted average LTV of loans written in the year to 30 June 2019 remained prudently below 60% at 58.0% (2018: 58.0%). The indexed weighted average LTV of the loan portfolio for the Group of 56.4% at 30 June 2019 decreased from 57.8% at the end of 2018. The Group's conservative approach continues to provide considerable protection in the event of any significant downturn in the housing market. The credit risk of the Group's loan portfolio, including analysis of collateral and concentration risk, is discussed in more detail in the section on principal risks and uncertainties in the Risk management report.

Loans and advances now total £3.7bn
(2018: £3.0bn)

The 24.9% increase in the Group's loans and advances was funded by a mix of borrowings and equity. Equity increased to £762.8m at 30 June 2019 (2018: £711.9m) and total shareholder funds rose 7.2% to £789.9m (2018: £737.0m). The increase in equity reflects the retained profit after tax for the year of £111.7m offset by dividends to the parent company of £29.9m and the £30.7m reduction in opening reserves on adoption of IFRS 9. As part of its strategy to utilise more capital-efficient funding structures, the Group successfully increased borrowings by 31.6% to £3.0bn at 30 June 2019 (2018: £2.3bn); net debt gearing therefore increased to 78.0% at 30 June 2019 (2018: 74.6%).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Engaging with our stakeholders

Our relationships and reputation with our stakeholders are important to the overall sustainable success of our business. We recognise our responsibility to the wider communities we are a part of, and are proud to show that strong business performance can go hand in hand with making a positive difference.

Colleagues

At Together we recognise that our colleagues are a key strength and that our achievements would not be possible without them. These achievements derive not only from their knowledge and skills but also from their behaviours and attitudes. The box below describes Together's culture and how this is shaped by colleagues' behaviours and below we discuss what we do to develop their knowledge, skills, and careers, look after their interests, how we recognise and reward their achievements and, finally, how we judge how well we are doing as an employer.

Colleagues' knowledge and skills, and their careers

We believe in creating opportunities, and have an extensive, interactive learning and development programme in place to help our colleagues grow and progress within our business. We offer a range of internal and external training opportunities, including professional qualifications to support

Culture

Our Play Your Part initiative defines what makes us who we are. This puts our vision, mission and beliefs into words, and encapsulates our culture as a framework for the entire business. Our company beliefs set the tone for how we work successfully together, and cascade from our Board to all colleagues in our business.

Our vision, our mission

Our vision is to **put common sense into lending**. It is why we exist and why our work is important. It is the collective spirit that drives us forward.

Our mission is **to turn challenges into opportunities that make our customers' financial ambitions accessible**. It defines what we do, and how we help our customers and make a difference.

Our beliefs

Our beliefs describe **how** we do our work, and are about our character and personality. Each belief describes our attitude, and for each we have defined our **approach**, what we do:

Respect for people

We listen, we understand, we stand in our customers' 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.

Balance

We apply sound judgement. We make balanced decisions that meet the needs of our customers and wider stakeholders.

Accountability

We take the initiative and responsibility for our actions. We care about the quality of our work.

A statement of beliefs is meaningless unless it is put into action. This is why, for example, we have named our adoption of the Senior Managers and Certification Regime 'Our Accountability Charter' and, in performance conversations with their managers, colleagues describe how they have put these attitudes and approaches into action. Colleagues can also play their part in our local community under our framework Let's Make it Count.

For more information about Let's Make it Count, see the later section on how we engage with our **Community**

colleagues in their roles. Our graduate and apprentice schemes have seen many colleagues progressing into more senior roles within the Group. 'Aspiring Leaders' is a talent-management programme that provides not only training but also opportunities to take on real business challenges as part of personal development.

We believe we can create better outcomes for our customers and partners by working together and understanding each other's roles and responsibilities. So we encourage cross-department learning and co-operation across business functions. Teams from around the business host 'town hall' meetings and drop-in sessions through the year to foster innovation, learning and development by sharing insights, and we have recently launched an internal young-professionals network.

Our colleagues' wellbeing

The wellbeing of our colleagues is very important to us. Our new office space was refurbished last year with our colleagues' wellbeing central to its design including open work spaces, discussion hubs and a prayer room. Our Mind Matters group is improving how we support colleagues with a focus on mental health, and for example this year ran a mental-health awareness week filled with programmes and workshops for all colleagues. Our colleague assistance programme provides 24-hours-a-day help and advice, including access to counselling by qualified professionals. We also run a range of initiatives to keep our colleagues healthy and happy, including fitness and running clubs, free gym membership, and support for a cycle-to-work scheme.

Fostering diversity

Creating a great place to work for our colleagues is important to us, reflected in our commitment to fairness, equality and inclusion. As a responsible employer we promote and celebrate diversity among our colleagues. Our colleague-run 'Togetherness' network facilitates a range of activities and initiatives to promote diversity of all kinds throughout the business. As part of this our Kaleidoscope Network, which aims to celebrate our diverse and inclusive community, once again took to the streets for Manchester Pride this year.

Last year we launched our Women@Together network, and this year it has led a programme of speakers and organised events showcasing female role models at Together. As required for all large companies, we publish a report on our gender-pay gap each year. This provides an opportunity for all organisations, including ourselves, to benchmark where they are, better understand their position, and effect change where it is appropriate. While our gender-pay gap is in line with the financial services sector, we remain committed to helping all of our colleagues achieve their ambitions.

Recognition and reward for our colleagues

We think it is important that colleagues can celebrate and share in the Group's success, and our benefits package includes 'Shared Reward', a long-term scheme for colleagues to benefit when the group achieves certain milestones. Of course, reward does not always have to be financial; we host events over the course of the year such as a Christmas pantomime, a family fun-day in the spring and a themed garden party with food, drink and music in the summer.

Our success is down to outstanding contributions from individuals in all areas of the business, sometimes over many years, and every quarter we host our long-service awards. These awards celebrate colleagues who have achieved continuous service milestones, with some celebrating more than 30 years of service. However we also see the importance of celebrating even the small wins, and have monthly internal 'A-team' awards which celebrate great achievements and colleagues who have been role models for our beliefs.

Engaging with our stakeholders (continued)

Listening to our colleagues

We were proud to be recognised in the "Sunday Times 100 Best Companies to Work For" for the second year in a row. Taking part in the Best Companies survey is just one part of our commitment to giving colleagues a voice – through our listening strategy we strive to make sure every colleague feels a part of Together.

Every six months we undertake a colleague-engagement survey, the Big Listen, updated with a shorter 'Quick Listen' after three months. Our response rates are high and give us a strong base to understand how our colleagues feel. We have learned that we can communicate better, and that we can do more to manage all the change the business is going through, and so have made this central to our plans for the coming year. Our overall engagement score, which measures aspects such as colleagues' pride in, and commitment to the business, at 80% compares very favourably with the financial services sector.

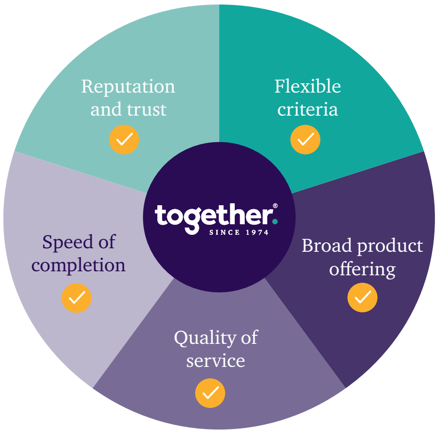
We place great value on feedback, and we listen to colleagues to find out what we are getting right and what we can improve, or maybe to discover a bright idea we should consider as a business. Each month we run focus groups with colleagues from across the business to understand the day-to-day issues concerning them and, where possible, act quickly to make improvements.

Customers

At the heart of everything we do is our mission to help our customers make their financial ambitions accessible. Sensibly considering customers' individual circumstances on a case-by-case basis and offering a wide range of flexible products is **what** we do to achieve this.

The **Operating review** describes the principal types of product we offer

Why our customers come to us



To give us insight into what customers want, particularly in the personal finance market, we commissioned research that informed our brand campaign 'Lending for the new normal'.

The box opposite sets out the main findings.

But just as important is **how** we do it. That is why we have invested so much in our systems in recent years, as discussed in the Operating review. Systems are only part of how we help our customers: we must also continually improve our service to customers, by listening and learning, and the following sections take a look at some of our initiatives to help us do this.

Listening to our customers

We lend to a wide variety of customers including owner-occupiers, landlords, businesses, the self-employed and developers. For us, the customer's journey begins the moment they realise they have a need for finance, and continues all the way through the loan relationship to eventual redemption and beyond. We are committed to delivering excellent service, and at key touchpoints throughout the loan cycle we monitor feedback and listen to our customers to understand what we do well, and what we can improve.

Our Voice of Customer programme is our primary customer-feedback process at Together and in our latest surveys throughout the customer journey 90% of customers were satisfied with the service they received from us, while over 90% stated we were an easy company to do business with. To translate detailed insights into actions, we review the feedback along with complaints data and other insights within the business and present the findings to our Customer Experience forums. Recommendations are then made and actions logged to help improve customer experience.

To engage and motivate our colleagues to deliver positive customer outcomes and an excellent customer experience we have launched our Up Close initiative. This programme will hold regular sessions with colleagues sharing insight, provide a hub to display up-to-date customer feedback and reward colleagues receiving positive customer feedback.

Customer testimonials

"My experience with Together, despite the anxiety of the ticking clock, has been a very positive one. It is so refreshing to experience really excellent customer service – and I will always be grateful for the loan that meant I was able to complete on my purchase. I won't hesitate to recommend you to anyone in a similar situation."

Learning from our customers

Having listened to our customers, it is important that we learn from their experience, especially when things have gone wrong and we have fallen short of the standards that we set for ourselves or are set by others. In such cases, it is vital that we take timely action to understand the root causes, take actions to put things right for customers and implement sustainable changes to our business to improve for the future.

Within our regulated division our complaint volumes, as reported externally, are 1,974 for the year (2018: 1,976). Whilst these numbers are higher than we would like, they also provide an opportunity for us to address customer concerns and it is pleasing to note that of those complaints that are subsequently referred to the Financial Ombudsman Service the proportion that is overturned in favour of the customer has fallen during the year to 9.2% (2018: 14.9%). This is significantly lower than the industry average.

We seek to give customer-facing colleagues the tools, knowledge and support they need to deliver positive outcomes. This involves extensive training for colleagues throughout the year that focuses on conduct, understanding our customers and improving awareness, including the identification of customers in vulnerable situations. Output from this is wide ranging, and has included for example automated survey sending, implementation of text-message surveys, and amendments to our colleague-training programmes.

Intermediaries

Through mortgage packagers, broker networks and mortgage clubs, the intermediaries we work with are crucial to ensuring large numbers of customers have access to our products. Nurturing longstanding, trusted relationships is vital, and something we pride ourselves on. Intermediaries know they can count on us for flexibility, speed and the ability to deliver.

To demonstrate our commitment to these relationships we were excited to launch Together+ in January 2019 to over 40 of our top mortgage packaging intermediaries. Members have access to bespoke rates, unique products and exclusive events tailored to their businesses. We are committed to delivering enhanced underwriting services and roving support, monthly management information and quality feedback, and marketing support including dual-branded material available via a bespoke website portal. As an example of this support, our underwriters will go to our intermediaries' offices to explain how we underwrite, and to help them understand our processes or the impact of new regulations or market developments. We believe Together+ will result in better packaged mortgage applications and increased brand awareness and product promotion, resulting ultimately in increasing volumes.

It is also important to us that colleagues in all parts of our business understand what intermediaries are looking for when they work with us, and to educate colleagues about this our distribution team host 'town hall' briefings to help our colleagues understand how we can make interactions with us as friction-free as possible.

The new normal

As one of the UK's leading specialist mortgage and loan providers, we pride ourselves on bringing common sense to lending by helping individuals, families and businesses to achieve their ambitions in a world that has changed when lending has not. Many mainstream lenders have failed to adapt to the changing lifestyle choices of the UK population: a survey revealed that of those applicants being turned down by a mortgage lender, over half were for reasons that should be considered the new normal, including self-employment, multiple income streams or choosing a non-standard property[1]. Our expertise in lending means we can look beyond mainstream lending criteria and treat each application on its own merits. We don't rely on a one-size-fits-all approach. Instead we take a holistic approach to a customer profile, taking personal circumstances into account, even in the most complicated situations.

1 YouGov research commissioned by Together looking into reasons why customers fall out of mortgage process between enquiry and offer (June 2018, 2,003 participants)

Engaging with our stakeholders (continued)

Regulators

The companies within our Personal Finance division undertake lending which is authorised and regulated by the Financial Conduct Authority (FCA).

Our approach to engaging with the regulator is one of openness and transparency, treating any enquiries with urgency, and we follow an established process for communicating proactively where appropriate. The Personal Finance division has a Board and management team which is committed to ensuring that this is effective through the right culture, clear and aligned goals, and people with the right skills and experience.

Our corporate governance arrangements are described in more detail in the **Corporate governance report**.

Compliance and conduct risks are both identified as principal risks for the Group and we closely monitor regulatory changes.

Further details of compliance and conduct risk are contained in the **Risk management report**.

Community

We pride ourselves on giving something back to our local community, one of the key factors leading to us featuring in the Sunday Times 100 Best Companies to Work For. From the beginning we have been committed to supporting a range of charitable causes, and in 2016 we formalised our work with our colleague-run Let's Make It Count programme. Providing colleagues with a framework to make a difference to our local community, the programme is embedded throughout the business and comprises six pillars with defined goals spanning charity, community, environment, enterprise, mentoring and creativity.

Our weekly donations for Dress Down Friday, supporting various colleague-nominated charities, have seen the average weekly donation rise to around £500

Our charitable work

Each year colleagues nominate and vote to choose our sponsored charities of the year, and in 2019 the Alzheimer's Society and Cystic Fibrosis were chosen. This year we raised over £80,000 for our chosen charities through a range of fundraising activities including our Family Fun Day, bake sales and raffles, and participating in the Great Manchester Run. We use our partnerships to promote awareness, so every year the newly chosen charities host introduction briefings so that our colleagues can learn more about who they are and what they do. This year, the Alzheimer's Society ran a series of Dementia Friends sessions, telling colleagues about how they can support their friends, family, each other and customers affected by dementia.

800 winter coats collected for the British Heart Foundation

Nurturing and supporting talent in our local area

Together is one of the largest financial services companies headquartered in Greater Manchester. We are proud to represent the region, and to be a longstanding local employer that provides a platform in the north-west where people can build a career in financial services.

In addition to the training and development schemes we offer colleagues, we are also passionate about promoting and encouraging young talent in the local area. For example, we worked with teenagers from Manchester Youth Zone who were taking part in TechOver, an interactive careers fair that aims to inspire children in the world of IT and coding. They were invited to our offices to talk about their projects and how digital technology is shaping the future workplace. Our graduates also work with Manchester Youth Zone on a continuing basis, providing mentoring and fundraising support.

Furthermore, our 'Dragon's Den' competition challenged teenagers in local schools to produce a business plan for how they could develop a piece of land into a profitable project.

The judging panel, made up of members of our management team, were impressed by the teenagers' talent, and the winners took home the prize of an iPad Mini each, as well as £2,500 for their school.

Our marketplace

Our business is focused on bringing common sense to lending and so we recognise our responsibility towards, and are proud to play our part in the evolution of the important and fast-growing specialist lending sector. We strive to be increasingly active in our marketplace by participating on panels and in industry events in the sector, and in financial services more widely. We continue to work closely on research projects with local universities, such as the University of Salford and the University of Manchester, to foster future talent and research in the north-west region. Furthermore, we have long been strong supporters of our local business community, including 13 years working closely with Pro-Manchester, the largest business development organisation in the north-west.

Our responsibility towards the environment

By the nature of our business, our environmental impact is relatively low. However, there is no reason we should not play our part to help save the planet and we are committed to having a positive impact where we can.

We have a focus on reducing waste and unnecessary printing, and have operated with a 'print only what is necessary' policy for a long time. This year we started measuring our print costs in trees. Following an awareness campaign for colleagues this resulted in a paper saving equivalent to one tree just from February to April. This is a good sign, but we know we can do better, and will continue to seek to reduce our paper use.

Additionally, we have a programme in place which encourages colleagues to reduce their use of disposable cups by using our Together travel mugs and water bottles. Further initiatives include efforts to reduce greenhouse-gas emissions and waste.

We also have a lot of green-minded colleagues, and work with a range of charitable conservation organisations offering opportunities to attend volunteering days at local sites: this year colleagues have continued this work, and arranged several beach clean-ups in the UK.

Investors and banks

Our funding is provided by UK and international banks and other institutions invested in our high-yield bonds, revolving credit facility and our private and public securitisations. These relationships are key to supporting our successful growth in lending.

We have established longstanding banking relationships that support our securitisations, many of which have continued through the financial crisis. In addition, we have continued to extend our banking relationships with a number of new banks entering our facilities in recent years. Some of our banking partners are also active in supporting our funding initiatives in other ways, including acting for us on public capital market transactions.

We aim to make our investor communications transparent to give existing and potential investors the level of insight into our operations, strategy and financial performance they need, in order to make informed investment decisions. Each quarter we issue reports accompanied by a live results presentation to investors to give an overview of our financial performance and operational developments. Since 2017, we have published an enhanced annual report and accounts, to provide investors and other stakeholders with additional detail and a more holistic view of our business.

Our investor-relations team works closely with our treasury team to maintain continual communication with our investors and banks. This includes attending and participating in investor conferences, regular one-to-one meetings with existing and potential investors, undertaking fund-raising roadshows and hosting regular due-diligence days at our offices. We are always keen to benchmark our communications against our peers and to find areas where we can improve, and welcome feedback from our banks, investors and from debt and equity analysts.

“Our relationship with our funding providers is key to supporting our successful growth.”

Corporate governance

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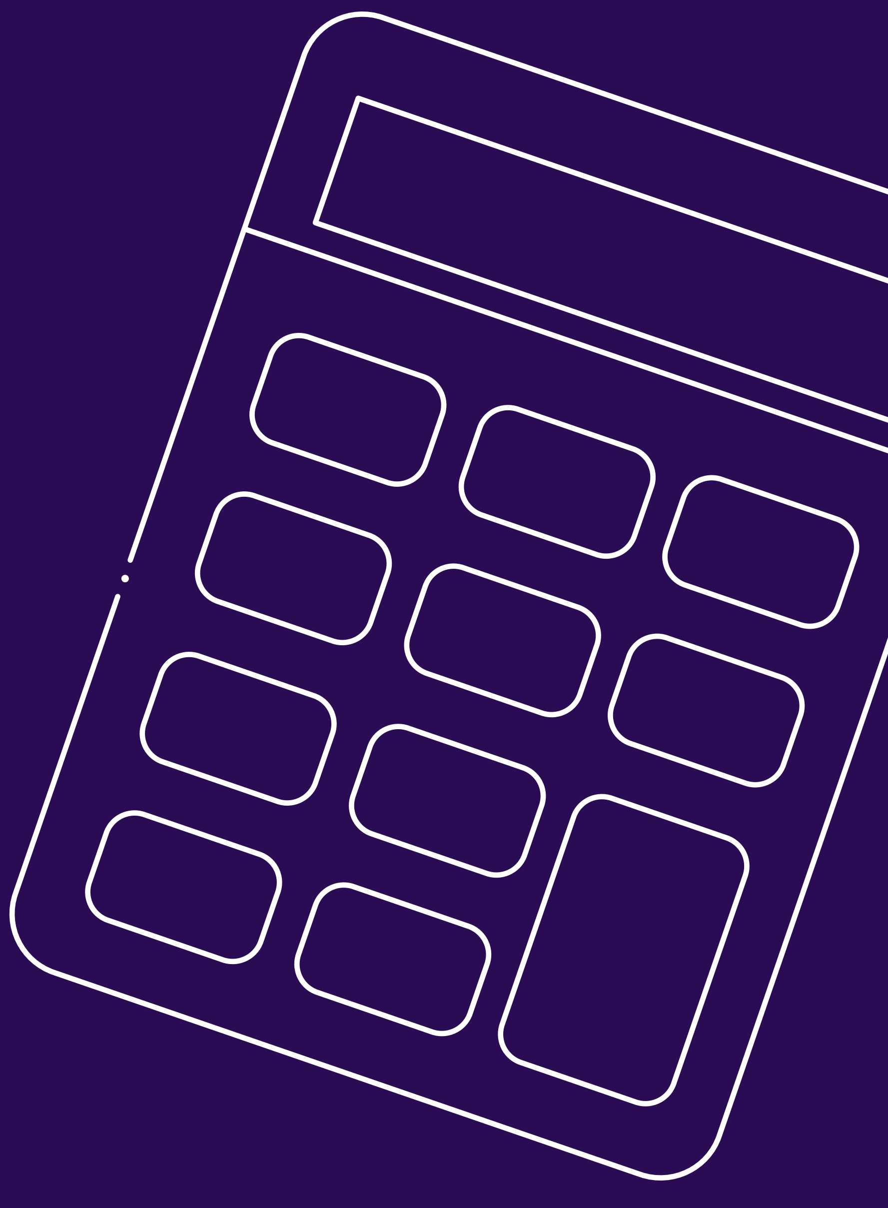
2

For the passionate portfolio developer.

“A sure thing, a leader, *a dynamic succeeder.*”



Corporate governance and committee structure

Strong corporate governance provides confidence that the affairs of the Group are effectively managed in the interests of shareholders and other key stakeholders.

Board of directors

The Board of directors provides leadership to the Group within a framework of prudent and effective controls. The Board is responsible for setting risk appetite, and for setting and overseeing the delivery of Group strategy within that risk appetite. The Board takes into account considerations from all stakeholders, and ensures that the Group has sufficient experience and resources to meet its objectives and to comply with all legal, regulatory and contractual obligations. The Board also ensures that the appropriate culture, values 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 Chairman*	November 2010
Henry Moser	*Group CEO*	September 1974
Pete Ball	*CEO of Personal Finance*	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	*CEO of Commercial Finance*	April 1989
John Lowe	*Group Finance Director*	February 2018
Joe Shaoul	*Non-executive director*	April 1997

Non-executive directors

Mike McTighe – Chairman

Mike was appointed as Chairman 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 Chairman of Openreach Ltd, the regulated arm of BT Group PLC. Mike is the Chair of the Remuneration and Nomination Committees and is also a member of the Audit and Risk 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.

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 Chairman 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 Group Board Committees.

Executive directors

Henry Moser – Chief Executive Officer

Henry founded Together in 1974 and remains responsible for 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, with particular emphasis on the strategic direction of the Group and oversight of commercial loan underwriting functions.

Pete Ball – Personal Finance CEO

Pete joined Together in 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.

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 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 25 years' experience managing finance and treasury functions and, prior to joining Together, he worked at a national accountancy practice.

Marcus Golby – Group Chief Operating Officer

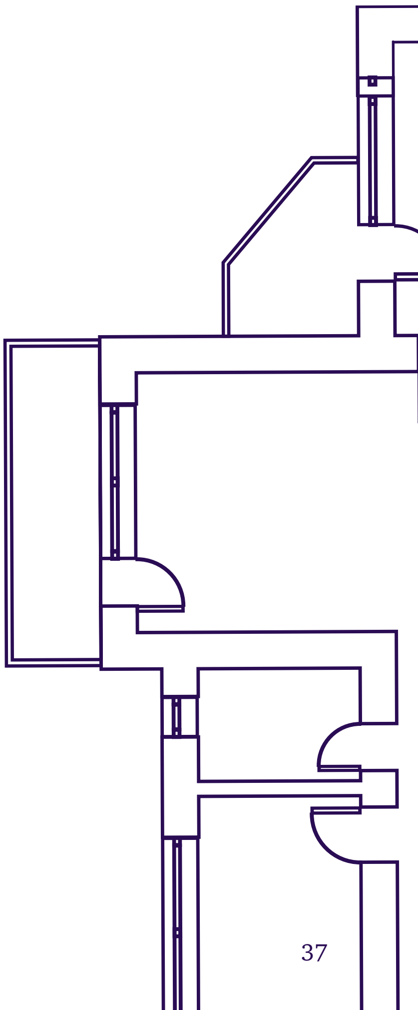
Marcus initially joined Together on a consultancy basis working closely with the Chief Financial Officer before assuming the role of Group Services Director and subsequently Group Chief Operating Officer. Marcus has over 15 years' experience in the financial services sector and has held senior roles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

Marc Goldberg – CEO of Commercial Finance

Marc contributes more than 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.

John Lowe – Group Finance Director

John joined Together in 2018, and was appointed to the Board as Group Finance Director. John has over 20 years' experience in financial services and held a number of senior roles at Coventry Building Society over a ten year period, including as Finance Director.



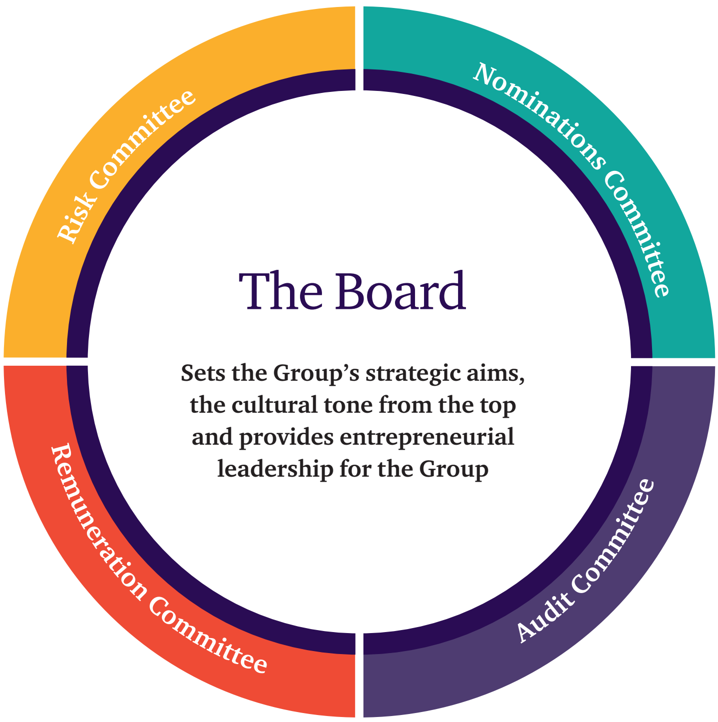

together.
Lake View
Visitor parking
Colleagues
Deliveries

Corporate governance and committee structure (continued)

Group committee structure

The Board is collectively responsible for the success of the Group and demonstrates strong leadership through a Board and committee structure. The Board delegates certain responsibilities to its various committees and to senior management; the powers delegated to each committee are set out in their terms of reference and the Board ensures that sufficient resources are made available to them to undertake their duties.

The committees formally report to the Board after each meeting on their activities, and make recommendations to the Board on any area within their remit where action is required. Details of the Board's committees are presented below.



- Oversight of the risk management and internal controls frameworks
- Recommend risk appetite triggers and limits to the Board
- Monitor delivery of remediation action plans for risks outside of appetite

- Approve annual salary changes and bonus awards
- Consider and approve long-term incentive schemes for colleagues
- Consider and approve performance management targets

- Recommend Board appointments
- Consider succession planning, talent management and diversity
- Review the structure and composition of the Board

- Oversight of financial reporting and internal governance, risk management and systems of control
- Monitor the internal audit function
- Monitor the external audit process
- Monitor the independence of the external auditor

The Operating review introduces the Group's two divisions, Personal Finance and Commercial Finance. The Personal Finance division, comprises Together Personal Finance Limited, Blemain Finance Limited and Spot Finance Limited. Together Personal Finance has a Board and Board Committees which mirror the structure of the Group's Board and provide oversight of the Personal Finance division. The Commercial Finance division, comprised of companies which conduct unregulated lending, is led by its Board and Executive Committee.

The companies which comprise the Personal Finance division are authorised and regulated by the Financial Conduct Authority (FCA) and this division is responsible for all of the FCA regulated activities of the Group. The FCA is extending the Senior Managers and Certification Regime (SM&CR) to all regulated firms in December 2019, which will replace the current Approved Persons Regime. The Together Personal Finance Board has sole responsibility for the implementation and oversight of this regime, and wider regulated activity, through governance arrangements that are independent from the Group. The divisional corporate governance framework, together with the Group's culture embedded through our Play Your Part Beliefs, means that the Personal Finance division is well-placed for this new regime.

Corporate governance and committee structure (continued)

Risk Committee

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

The Board sets the Group's overall risk appetite, and divisional Boards have the flexibility to set their own risk appetites, which in the case of the Personal Finance division may be informed by regulatory requirements, but must also operate within Group limits.

During the year, the committee considered risk management reports from across the Group, as well as specialist risk reports on information security, financial crime and business continuity, and regular reports on regulatory compliance matters.

The committee also received regular updates on the regulated division's preparations for SM&CR compliance, in line with the extension of the regime to solo-regulated firms.

Reporting directly into the committee, with its own delegated powers and responsibilities, is the Executive Risk Committee, which is supported by other committees, including the Asset and Liability Committee and the Financial Crime Committee.

Remuneration Committee

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 and the senior leadership team. The remuneration of the non-executive directors is a matter for the Chief Executive Officer and the Chairman. The remuneration of the Chairman 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 approved proposals for long-term reward and incentive schemes for all colleagues.

Nominations Committee

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 with due regard to diversity. 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 skills, experience and leadership in place to support growth plans and ensure appropriate oversight.

Audit Committee

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 audit findings. The committee meets a minimum of four times yearly.

During the year the Committee approved the annual internal audit plan and charter, and reviewed reports from the internal and external auditors. The external auditor was invited to each meeting and the Chair of the Committee also met with the lead audit partner outside the formal meeting process throughout the year. The Committee also considered the independence of the external auditor and established a non-audit services policy for the Group.

During the year, the Committee undertook a competitive tender process for the appointment of a new statutory auditor. The Committee delegated the management of the tender to a sub-committee led by the Chair of the Audit Committee and regularly reported to the Board on its progress. The Chair of the Personal Finance Audit Committee represented the Personal Finance Audit Committee in reaching a decision.

On completion of the tender, it was agreed that Ernst & Young LLP be recommended for appointment as auditor for the Group for the year ended 30 June 2020.

Corporate governance and committee structure (continued)

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 detailed below:

- Regular updates from the executives on performance against objectives
- The programme of change activity and prioritisation of key strategic and regulatory projects
- Strategic direction and the infrastructure required to support the ambitions of the Group
- Setting Group risk appetite, and monitoring the effectiveness of risk and control processes
- Reviewing the composition of the Board
- Updates on marketing, brand and digital activity
- Oversight of legal and regulatory changes
- Approval of new product launches and reviews of product performance within the market
- Approval of the Group Annual Report & Accounts, and of public issuance offering memorandums
- Approval of key funding activities, capital market transactions, and dividend payments
- Preparations for the implementation of the new corporate governance reporting requirements for large private companies
- Assessing levels of employee engagement, including monitoring the culture and performance against the beliefs of the business, and the 2019 Best Companies results
- Key contracts and expenditure outside of the executive directors' delegated authority
- Receive regular reports on the proceedings of the Board committees
- Approval of a new external auditor for the financial year 2019 – 20 for recommendation to the shareholder
- Updates on colleague training and development, including the investment in development for the leadership team and people managers

Directors' report

The directors present their report for the year ended 30 June 2019

The Group's principal activity continues to be the provision of mortgage finance secured on property and land within the United Kingdom. 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 consolidated statement of comprehensive income on page 66. The profit before taxation for the year ended 30 June 2019 was £130.3m (2018: £121.7m). A full review of the financial performance of the Group is included within the Financial review. Commentary on the Group's future outlook is given in the Chairman's report. No further dividends are proposed.

Financial position

The adoption of IFRS 9 on 1 July 2018 led to the restatement of both the carrying values of financial instruments and retained earnings to reflect the changes in accounting policy. A reconciliation of these restatements is shown in Note 2 to the financial statements.

As shown in the consolidated statement of financial position on page 67, loans and advances to customers have increased by 24.9% to £3,694.5m (2018: £2,958.2m). At the same time, shareholders' funds have increased by 7.2% to £789.9m (2018: £737.0m), including shareholder loans and notes of £27.1m (2018: £25.1m). This includes a reduction in retained earnings of £30.7m to reflect the adoption of IFRS 9, as well as dividends of £29.9m during the year.

Read more about the principal risks and uncertainties facing the Group in the **Risk management report**.

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 protecting the environment, and acts to reduce its impact, 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 the financial statements.

Directors' report (continued)

Directors

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

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

* Non-executives

The Company Secretary throughout the year was SE Batt.

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 £80,000 (2018: £88,000) to 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.

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

J Lowe
Director
5 September 2019

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 Group and 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.

Risk management

Overview of risk management within the Group 48

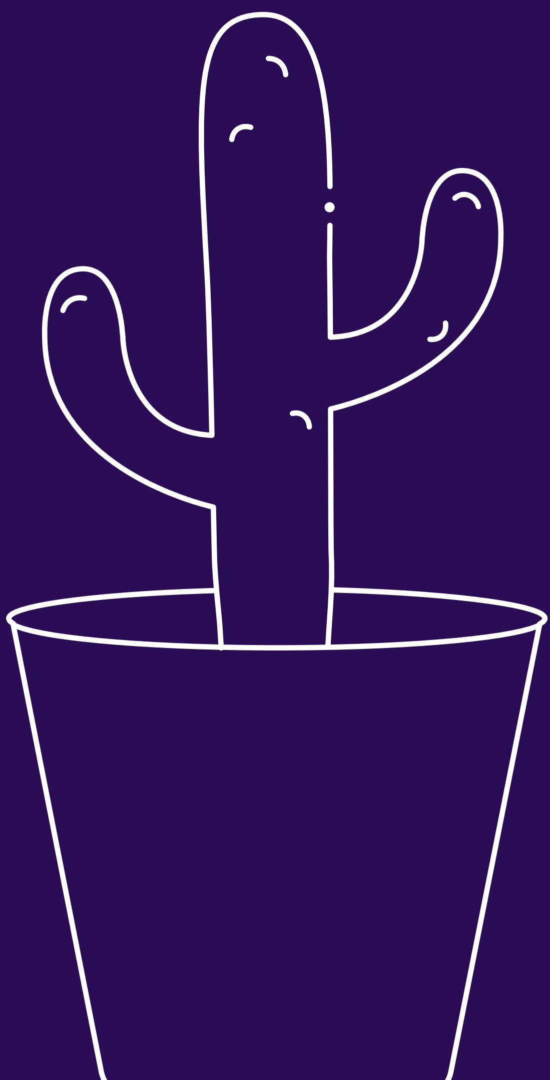
External environment 50

Principal risks and uncertainties 52

3

For the diligent
homemaker.

“An opportunist, a sure-fire, *an intuitive, first-time buyer.”*



Overview of risk management within the Group

The Group's risk framework continues to mature and further progress was made during the year.

There are a number of risks and uncertainties which could have an impact on the Group. To identify and mitigate 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. There is additional focus in the Personal Finance division on specific risks such as compliance risk.

Enterprise risk management framework

The ERMF provides the organisational arrangements and foundation for managing risks in a consistent and structured manner. It sets out the different elements of risk management across the Group and how this is governed.

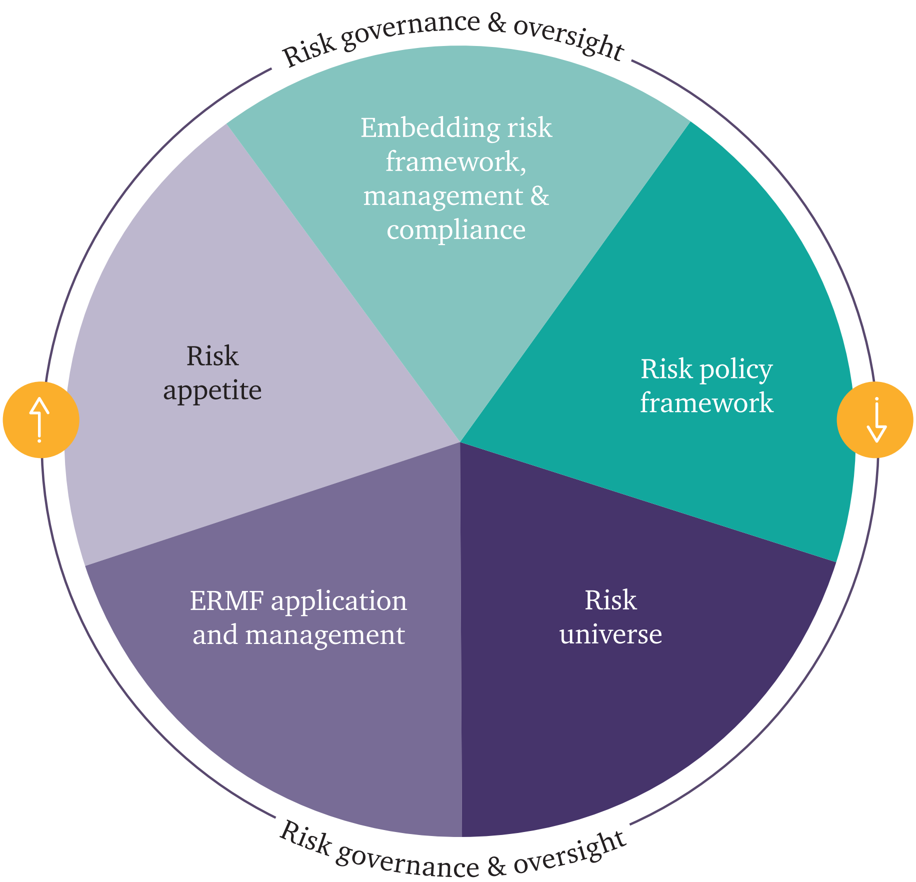
Risk governance & oversight

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. The Board delegates certain responsibilities to committees and the Risk Committee is responsible for oversight of risk management for the Group.

At the operational level, the Group's system of internal controls and risk management uses the "three lines of defence" model. As 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.

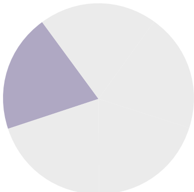
The third line of defence is provided by the internal audit function. This provides independent assurance reviews covering the internal control framework, risk management framework and governance arrangements operated by the first and second lines of defence.



The key components of the ERMF, as portrayed by the diagram opposite, are described below.

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.



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 set at a Group level and by risk category. The Board sets the Group's overall risk appetite, and divisional Boards have the flexibility to set their own risk appetites, which in the case of the Personal Finance division may be informed by regulatory requirements, but must also operate within Group limits.

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 to have a clear understanding of their responsibilities.

Risk policy framework

There is a risk policy framework which sets out the policy requirements for monitoring and managing the principal risks.

Risk universe

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

External environment

Some events are outside of our control but present risks to future performance, delivery of our existing strategy, or to the Group's business model. These are common to a number of businesses that operate in a similar business environment to us, or have similar operations. Key external risks faced by the business are:

Macroeconomic and political uncertainty

The ongoing uncertainty and lack of clarity as to how and when the UK will exit the European Union is generating adverse economic consequences. Amongst other impacts, Brexit may affect the availability of wholesale funding, reduce customer confidence, increase operating costs, affect property values and impact interest rates (see below).

What we did in 2018/19

The Group undertook stress testing activity to understand how the loan book 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.

The Group has extended the maturity dates of a number of funding facilities to ensure the Group is well placed to face any contraction in the wholesale funding market.

The Group has no operations outside of the UK and continues to focus on low LTV lending.

Read more on this in the Operating review.

Group expectations for 2019/20 and direction

The Group expects that there will continue to be uncertainty in the market which will be monitored on a regular basis. The Group continues to manage these risks by maintaining a low LTV, diversified product base, by remaining firmly focused in the UK, and continuing to monitor changes in the economic environment.

Exposure to real estate

The Group has 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 or a reduction in the amount recovered in the event of default.

What we did in 2018/19

The Group lends at prudent LTVs at origination to provide protection from falls in house prices. Average origination LTV was 58.0% in 2018/19 (2017/18: 58.0%). Affordability assessments are carried out where appropriate with customers before extending a mortgage offer which reduces the likelihood of the Group needing to exercise its right with regard to the underlying real estate security.

Group expectations for 2019/20 and direction

These risks are expected to remain unchanged in the forthcoming year with the potential for increased downside risk should any exit from the EU take place under a "No Deal" scenario.

Interest rate environment

The low interest rate environment, introduced to stimulate growth following the financial crisis, has persisted for longer than first expected. If interest rates are increased faster than expected, loan servicing costs are likely to increase, which could cause an increase in credit losses.

What we did in 2018/19

The Group conducted specific stress testing on the loan portfolio. The Group maintains strict underwriting criteria which include, where appropriate, stressing affordability under a higher interest rate environment.

Group expectations for 2019/20 and direction

The Group expects that the interest rate outlook will continue to be uncertain in the coming year.

The Group 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, lower net interest margins.

What we did in 2018/19

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

Furthermore, the Group has a well-established distribution network, a broad product range and a rich pool of experience and skills. The Group also continues to invest in technology and product innovation.

Group expectations for 2019/20 and direction

The Group will continue to monitor the external environment and is confident it can adapt accordingly given experience over many economic cycles and quality of offering, in particular an ability to service quickly customers who fall outside of mainstream lending criteria.

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 2018/19** The Group continues to strengthen its defences against cyber-crime, with investment in market-leading tools and investment in the cyber security team during the year. **Group expectations for 2019/20 and direction** The Group expects that this will remain a key risk area in the coming year and the Group will continue to monitor the effectiveness of its defences in mitigating the risk of cyber attacks.
Regulatory changes Changes in regulation may impact the way in which the Group conducts its business. Failure to comply with changes in regulation could result in fines, reputational damage and potential revocation of regulatory permissions. Furthermore, the FCA has been looking closely at the non-standard lending sectors.	**What we did in 2018/19** Change in FCA regulation is monitored by the Personal Finance Compliance team. This monitoring process has included an assessment of developments as they arise from the FCA's Mortgage Market Study. The Personal Finance division has progressed with the implementation of the FCA's Senior Managers and Certification Regime (SM&CR) which will apply from 9 December 2019. The Group has also reviewed data handling processes to ensure the Group continues to comply with General Data Protection Regulation (GDPR) introduced in 2018. **Group expectations for 2019/20 and direction** The Group expects that this will continue to be a key focus area. The compliance function will continue to monitor proposed changes to the regulatory landscape for emerging changes in regulation, to assess the potential impact of any changes, and adapt procedures and processes accordingly. In addition, the Personal Finance division will finalise the implementation of SM&CR during the coming year.
Claims management companies (CMCs) As evidenced in recent well-publicised cases, concerted efforts by CMCs can lead to a significant increase in the level of legal claims or complaints being received, whether these end up being settled or rejected.	**What we did in 2018/19** During the year, the Group has seen an increase in the level of claims and complaints received from CMCs. The Group evaluates the merits of each claim individually and determines an appropriate course of action. **Group expectations for 2019/20 and direction** The Group expects activity from CMCs to continue in the coming year. FCA regulation of CMCs may reduce the number of CMCs along with raising the standards and practices.

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 matters detailed in the previous section. Each risk listed below is discussed in further detail throughout the remainder of this report:

- Strategic risk
- Credit risk[1]
- Liquidity and funding risk[1]
- Market risk[1]
- Capital risk[1]
- Operational risk
- Conduct risk
- Compliance risk

[1] This section forms part of the IFRS 7 disclosures in respect of the financial statements on pages 66 to 99.

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.

The Group's strategy is detailed on pages 12 and 13.

Strategic risk is managed and mitigated by:

- Regular Board oversight of the Group's strategy, including monitoring of financial and non-financial performance indicators.
- Identification of areas of the market where customers value our common-sense lending and a relationship-based approach.
- Listening to customers to learn how we can improve their experience and increase customer advocacy.
- Evaluation of opportunities to further incorporate technology into business processes to make the customer experience better and/or improve operational efficiency.
- Assessment and consideration of broader global and UK macroeconomic environment and key industry drivers.
- Periodic benchmarking to our peer group.
- Regular review and dissemination of market and competitor developments including product evolution, merger and acquisition activity and wider corporate developments.
- Ongoing monitoring of the funding markets in which we are active, including securitisation and high yield bond markets.
- 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 and business plans.
- Maintenance of a prudent statement of financial position with diversity of mix and tenor of funding structures, and closely monitored gearing levels.
- Annual budget process, with a 12-18 month outlook, which aligns with the Group's objectives.
- Delivery of significant change programmes and projects by a dedicated change delivery department in accordance with the Group's 'Change Delivery Framework'.

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 macroeconomic 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.

Credit risk is managed and mitigated by:

- The Group's comprehensive underwriting procedures, which have regard to creditworthiness, specifically affordability levels, repayment strategies and property LTV ratios.
- Conservative LTVs are targeted across all products, providing mitigation to the risk of credit losses arising in the event of default and protection from the risk of falling collateral values.
- Customer affordability models are utilised by the Group where appropriate, and are tailored to the customer and loan type.
- Monitoring of customer performance throughout the life of the loan, with regard to arrears, proactive collections strategies, application of forbearance measures, and macroeconomic sensitivity analysis.
- Macroeconomic sensitivity analysis of the loan book.
- Continuing to focus lending on areas of the market where the Group has specific expertise.
- Monitoring of the characteristics of the loan portfolio, including geographical concentration and LTV.
- Oversight by the Executive Risk Committee of comprehensive credit risk data to enable an assessment of position versus risk appetite, which has been developed further during the year.
- Measuring and monitoring credit quality for impairment purposes from 1 July 2018 using a suite of IFRS 9 models. Our detailed disclosures in respect of IFRS 9 credit modelling are included within Notes 2, 3 and 14 to the financial statements.

The Group's Executive Risk Committee provides oversight and monitoring of credit risk and Board oversight is performed by the Risk Committee.

The Group cost of risk[2] remains low at 45bps (2018: 43bps) 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, low average LTV provides the Group with significant mitigation against credit loss.

[2] Refer to appendix for definitions and calculations

Maximum exposure to credit risk

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

Audited	Note	2019 £m IFRS 9	2018 £m IAS 39
Included within the statement of financial position:			
Gross customer balances		**3,774.8**	3,031.4
Unsecured loans		**0.3**	0.8
Accounting adjustments		**(13.6)**	(12.2)
Less: allowance for impairment	14	**(67.0)**	(61.8)
Loans and advances to customers	14	**3,694.5**	2,958.2
Cash and cash equivalents	13	**120.2**	74.3
Derivative assets held for risk management	15	**0.1**	–
Amounts owed by related parties	17	**0.7**	0.5
Other debtors	17	**0.9**	0.9
		3,816.4	3,033.9
Not included within the statement of financial position:			
Commitments to lend (net of ECL)	31	**153.7**	107.6
Maximum exposure to credit risk		**3,970.1**	3,141.5

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 loans and advances to customers.

An impairment allowance is held against the gross exposures on loans and advances to customers. Prior to 1 July 2018, this was measured on an incurred loss basis under IAS 39. Since 1 July 2018, this has been measured on an expected credit loss basis under IFRS 9. Further details on the Group's expected credit loss methodology, and the movement in impairment losses through the year are shown in Notes 2, 3 and 14 to the financial statements.

The analysis that follows in this section is presented based upon gross customer balances. The table above shows that this differs from the total loan book balance recognised in the statement of financial position as a result of various accounting adjustments required under IFRS, such as accounting using the effective interest rate methodology. The Group's accounting policies are set out in Note 2 to the financial statements.

Principal risks and uncertainties (continued)

Collateral held

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

A key measure the Group uses in assessing credit risk is the ratio of the loan amount to the value of the underlying security. Valuations obtained on origination are updated by indexing using established regional house price indices to estimate the current security value and in some cases they are updated to reflect a more recent valuation of the security. The table below shows gross customer balances by indexed LTV banding.

	2019 £m	**2019 % of gross customer balances**	2018 £m	2018 % of gross customer balances
60% or less	**2,191.4**	**58.0%**	1,712.7	56.5%
61 – 85%	**1,453.1**	**38.5%**	1,176.1	38.8%
86 – 100%	**89.8**	**2.4%**	97.8	3.2%
Greater than 100%	**40.5**	**1.1%**	44.8	1.5%
Gross customer balances	**3,774.8**	**100.0%**	**3,031.4**	**100.0%**

Of the gross customer balances at 30 June 2019, 96.5% (30 June 2018: 95.3%) of loans had an indexed LTV of less than or equal to 85%.

Concentration of credit risk

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

	2019 %	2018 %
East Anglia	**2.5**	2.7
East Midlands	**3.2**	3.5
Ireland	**0.1**	0.1
London	**28.3**	28.9
North East	**1.7**	1.4
North West	**14.8**	15.3
Scotland	**4.4**	4.5
South East	**19.2**	18.5
South West	**7.3**	6.9
Wales	**3.8**	3.9
West Midlands	**8.2**	7.5
Yorks & Humber	**6.5**	6.8
Gross customer balances	**100.0**	**100.0**

The Group credit risk appetite framework includes specific concentration metrics and the loan portfolio is regularly monitored against this.

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

	2019 %	2018 %
Up to £50,000	**11.8**	14.7
£50,000 – £100,000	**15.8**	16.4
£100,000 – £250,000	**22.0**	21.1
£250,000 – £500,000	**14.8**	13.9
£500,000 – £1,000,000	**9.8**	9.8
£1,000,000 – £2,500,000	**11.8**	10.8
More than £2,500,000	**14.0**	13.3
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, 88.3% (30 June 2018: 91.3%) of these loans have an LTV of under 85% at 30 June 2019.

Forbearance

The Group offers forbearance to assist customers who are experiencing financial distress. Assistance is provided through trained colleagues in dedicated teams. As a result of undertaking internal reviews, within the regulated division, instances have been identified where, for certain customers in arrears the outcome may have been improved if different forbearance tools had been applied. Further details in respect of this matter can be found in the Conduct risk section of this report and in Note 28 to the financial statements. For those customers requiring additional assistance the Group works with a number of external not for-profit agencies.

Liquidity and funding risk

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

Funding risk is the risk of being unable to access funding markets or to only be able to do so at excessive cost. This includes the risk of reduced funding options due to adverse conditions 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 facilities.

Based on the business model of funding primarily via securitisation programmes and bond markets, the Board has set a liquidity risk appetite and closely monitors exposure to funding risk. This provides the Board with the assurance that the Group is able to meet its liabilities and commitments when they fall due, and holds sufficient headroom, with acceptable depth of maturity, to support anticipated loan book growth. Liquidity and funding, and capital risk (see page 58) are closely related given capital provides the necessary subordination to each of the facilities, which in turn provide liquidity.

Liquidity risk is managed and mitigated by:

- Close monitoring of liquidity risk against limits and triggers to ensure early identification of any liquidity stress.
- Regular stress testing, including on a forecast basis to test the ability of the Group to meet its obligations under normal and stressed conditions. During the year the Group agreed a set of stress scenarios which are modelled and monitored against a 150-day survival period.
- Reporting of management information which includes a range of additional quantitative measures of liquidity risk.
- Closely managing total liquidity resources, including cash, redemption cashflows, access to funding from securitisations and access to a revolving credit facility.
- Forecasting of expected cash inflows and outflows and monitoring of actual cashflows.
- Only placing surplus cash balances on overnight deposit ensuring they remain immediately available.

Funding risk is managed and mitigated by:

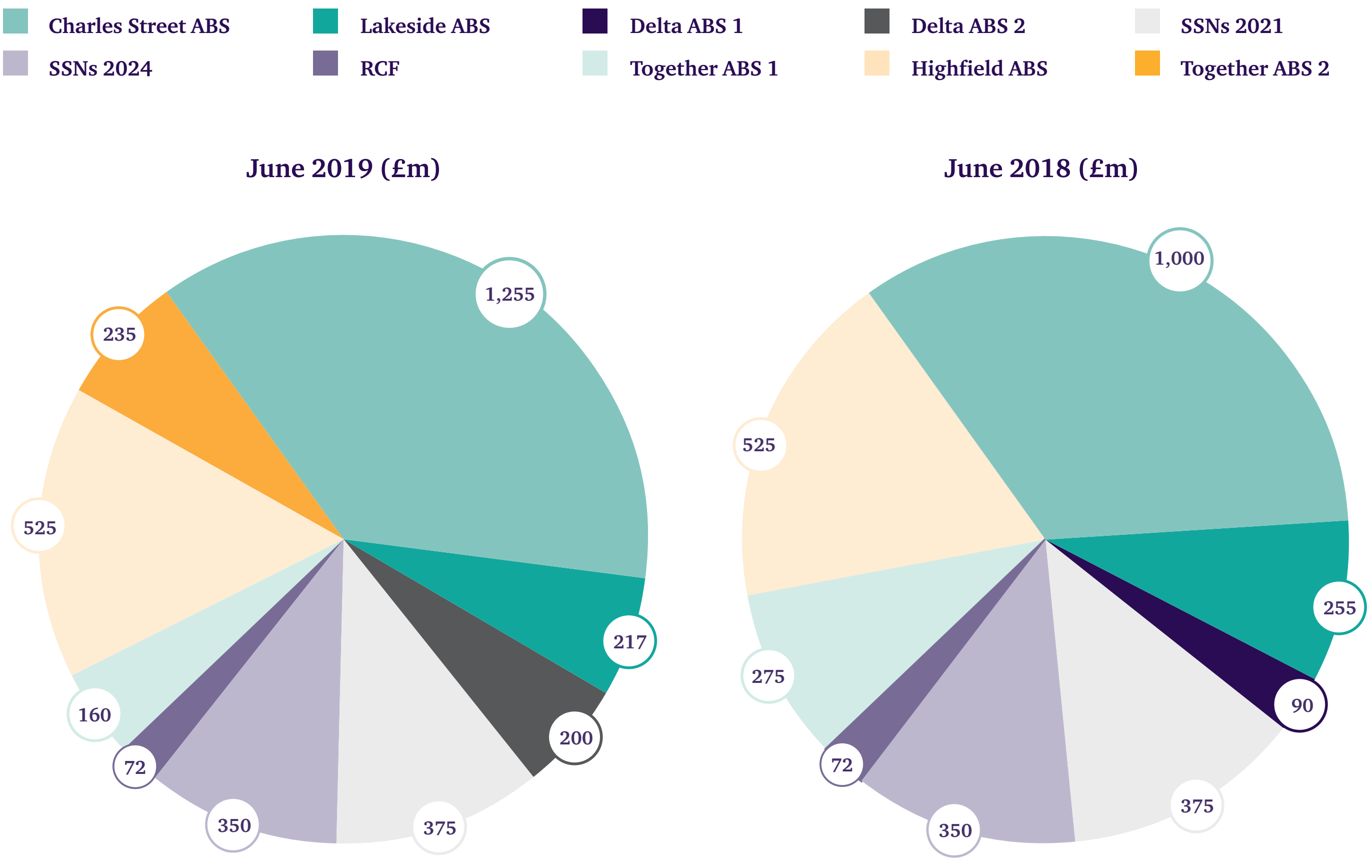
- The utilisation of a range of medium to long-term funding sources.
- Diversification of funding sources.
- Maintenance of prudent headroom in facilities.
- Maintenance of depth of maturity through regular new issuances and timely refinancing of existing sources of funding.
- Undertaking funding stress tests of our ability to withstand the emergence of risks under normal and stressed conditions.

The Group's Asset and Liability Committee (ALCO) provides oversight and monitoring of liquidity and funding risk and Board oversight is performed by the Risk Committee.

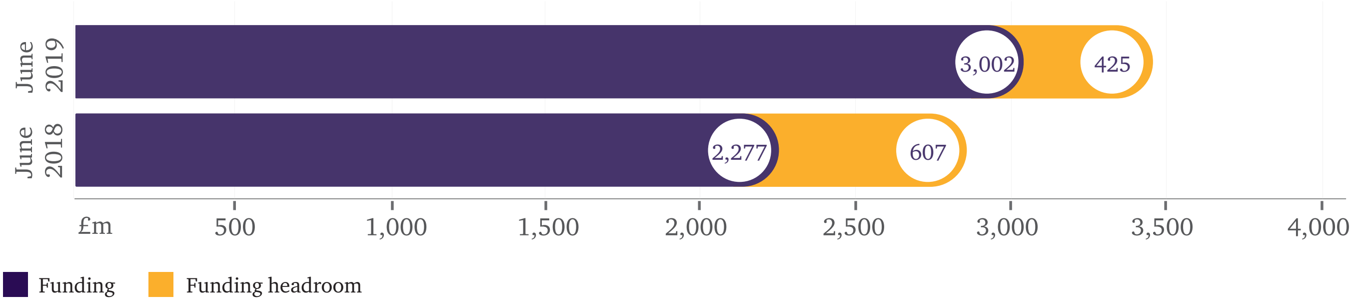
The Group's funding position was strengthened during the year with a number of treasury transactions, including a second RMBS for the Group – Together ABS 2, raising £272.6m on a loan portfolio of £286.9m. The Group repaid the Delta ABS 1 facility of £90m, replacing it with a £200m revolving facility, Delta ABS 2. The Group refinanced Charles Street ABS during the year, increasing the facility from £1bn to £1.25bn, and added mezzanine funding to the structure to improve its capital efficiency. An overview of the Group's sources of funding can be seen on pages 18 and 19.

Principal risks and uncertainties (continued)

Continued investments in diversifying the Group's funding structure:



Funding vs Headroom



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

Audited 30 June 2019	Carrying value £m	Repayable on demand and up to 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Bank facilities	55.0	2.2	57.3	–	–	59.5
Loan notes	2,221.5	153.7	339.7	2,186.5	–	2,679.9
Senior secured notes	726.8	44.9	44.9	801.0	–	890.8
Obligations under finance leases	0.8	0.5	0.3	–	–	0.8
Subordinated shareholder loans	27.1	–	–	–	68.1	68.1
	3,031.2	**201.3**	**442.2**	**2,987.5**	**68.1**	**3,699.1**
Debt issue costs	(15.5)	–	–	–	–	–
Borrowings	**3,015.7**	**201.3**	**442.2**	**2,987.5**	**68.1**	**3,699.1**
Trade creditors	1.9	1.9	–	–	–	1.9
Other creditors	2.7	2.7	–	–	–	2.7
Commitments to lend	–	153.8	–	–	–	153.8
	3,020.3	**359.7**	**442.2**	**2,987.5**	**68.1**	**3,857.5**

Audited 30 June 2018	Carrying value £m	Repayable on demand and up to 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Bank facilities	30.7	6.7	1.0	26.1	–	33.8
Loan notes	1,526.7	95.3	92.0	1,608.0	–	1,795.3
Senior secured notes	727.4	45.0	45.0	474.9	374.0	938.9
Obligations under finance leases	1.1	0.4	0.5	0.2	–	1.1
Subordinated shareholder loans	25.1	–	–	–	68.1	68.1
	2,311.0	**147.4**	**138.5**	**2,109.2**	**442.1**	**2,837.2**
Debt issue costs	(19.9)	–	–	–	–	–
Borrowings	**2,291.1**	**147.4**	**138.5**	**2,109.2**	**442.1**	**2,837.2**
Trade creditors	1.2	1.2	–	–	–	1.2
Other creditors	2.5	2.5	–	–	–	2.5
Commitments to lend	–	107.6	–	–	–	107.6
	2,294.8	**258.7**	**138.5**	**2,109.2**	**442.1**	**2,948.5**

The weighted average maturity of the Group's borrowings is 3.6 years at 30 June 2019 (30 June 2018: 3.5 years).

Principal risks and uncertainties (continued)

Market risk

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

The fact that the Group does not carry out proprietary trading or hold positions in assets or equities which are actively traded, means the key 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.

Interest rate risk is managed and mitigated by:

- Monitoring against risk appetite. During the year the Group defined triggers and limits for the measurement of interest rate risk.
- Regular monitoring of interest rate risk exposure, including a forward-looking view which incorporates new business assumptions and expected redemptions.
- Closely monitoring the impact of a range of possible interest rate changes on the Group's performance and strategy.
- Undertaking hedging transactions as appropriate.

The Group's Asset and Liability Committee (ALCO) provides oversight and monitoring of interest rate risk and Board oversight is performed by the Risk Committee.

The table below sets out the annualised impact on profit before tax of a 0.5% immediate shift in interest rates, based on the interest rates prevalent at the year end.

	2019 £m	2018 £m
0.5% increase	**7.1**	6.6
0.5% decrease	**(7.1)**	(6.6)

The above interest rate risk sensitivity represents the movement taking into account the Group's contractual assets, liabilities, and derivatives and their maturity and repricing arrangements.

Capital risk

Capital risk is the risk of failure to hold adequate capital buffers and to appropriately manage the Group's capital base to withstand the crystallisation of individual risks or a combined stress event. 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. Capital risk includes the risk of excessive gearing.

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 assurance that the Group is able to maintain a prudent and sustainable capital position providing a long term foundation for the business.

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[1] increased by £52.9m over the year (2018: £85.4m). The net debt gearing ratio[1] has increased to 78.0% at 30 June 2019 (30 June 2018: 74.6%) as a result of introducing more capital efficient funding facilities. For example, the Group issued a second RMBS obtaining funding of £272.6m (Together ABS 2) during the year. This issuance increased the capital efficiency of the Group and also provided funding at a lower cost, when compared to how the same loans were funded prior to the issuance.

Capital risk is managed and mitigated by:

- Regular monitoring of current and forecast levels of capital, including the gearing ratio.
- Continuous monitoring of the required regulatory capital requirements within relevant subsidiaries and the actual levels projected.
- Business planning over a horizon of 12-18 months to ensure the business continues to trade profitably, to grow retained earnings and provide the capital to support future growth.
- Reviewing the level of gearing within securitisation facilities, and seeking to manage these when refinancing to maximise the Group's capital efficiency whilst ensuring sufficient capital is available to support the facilities and mitigate refinancing risk.

The Group's ALCO provides oversight and monitoring of capital risk and Board oversight is performed by the Risk Committee.

[1] Refer to appendix for definitions and calculations

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes conduct and compliance risk and the associated reputational damage that can arise, but given their significance, these risks are classified as principal risks in their own right.

Operational risk is managed and mitigated by:

- A framework of systems, controls, policies and procedures.
- Frameworks to recruit, train and retain sufficient skilled personnel.
- Utilising a Risk and Control Self-Assessment (RCSA) approach to identify, manage and monitor key operational risks.
- A documented and tested business continuity plan.
- A specialist business change team dedicated to managing the change projects the business is undertaking.
- IT infrastructure, which is sufficiently resilient.
- Investment in 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, using multiple vendors used to maximise protection.
  - Market leading detection tools, continually monitoring the IT network and data.
  - Full penetration testing for externally facing networks.
  - Encryption of all mobile devices.

The Group's Executive Risk Committee (ERC) provides oversight and monitoring of operational risk and Board oversight is performed by the Risk Committee.

Conduct risk

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

This risk can arise from inadequate systems, procedures and product design, inappropriate terms and conditions, failure to recognise the needs of all customers, particularly vulnerable customers, and the risk that complaints are not managed in a fair, transparent and timely way, leading to poor customer outcomes. Failure to manage this risk sufficiently could result in reputational damage, regulatory sanction, remediation programmes, and impact the Group's operating model.

Conduct risk is managed and mitigated by:

- The communication of the Group's 'Beliefs' set by the Board, which define our organisational culture and focus on colleague conduct, respect, accountability and customer experience.
- Annual training and awareness sessions for colleagues, for example training to identify factors which may indicate that a customer is vulnerable.
- Simple and transparent product design. Products are approved through a 'Product Governance framework' with a focus on customer needs.
- Adherence to a system of processes and controls which mitigate conduct risk including monitoring and reporting against risk appetite.
- Identifying and supporting customers when things go wrong, for example, through forbearance and complaint handling.
- Root cause analysis of complaints or failings, focusing on continuous improvement aiming to identify where we could improve the outcome for customers.
- Quality assurance frameworks.

Principal risks and uncertainties (continued)

Conduct risk (continued)

The Group's Executive Risk Committee provides oversight and monitoring of conduct risk and Board oversight is performed by the Risk Committee. This is mirrored by the Personal Finance division's governance arrangements, while oversight for the Commercial Finance division is provided by its Board.

Where potential instances are identified of activities that may have fallen short of the standards expected, a detailed assessment is carried out to understand the cause, impact and appropriate resolution, which may include remediation.

As a result of undertaking internal reviews within the regulated division, instances have been identified where some past written communications with customers should have been clearer and more complete, and other instances where, for certain customers in arrears the outcome may have been improved if different forbearance tools had been applied. The FCA has been notified of these matters, and a plan has been proactively developed by the Personal Finance division and communicated to the FCA as part of ongoing dialogue on this matter.

The Group is committed to delivering good customer outcomes and has already taken steps to improve these written customer communications. Quality assurance processes have been enhanced in relation to the selection of the most appropriate forbearance measures and additional training has been provided for some customer-facing colleagues to support them in selecting the most appropriate forbearance for our customers. Further evaluation of these findings is underway, and the Personal Finance division has appointed an experienced third-party to support this activity, with a view to identifying any instances where customers have been adversely affected. Upon completion of this assessment it will be possible to determine any appropriate action required.

Disclosures in respect of this can be found in Note 28 to the financial statements.

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 the Group misinterprets regulation or legislation. 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 potentially fines from the regulator.

Compliance risk is managed and mitigated by:

- Quality assurance reviews in operational areas with oversight provided by experienced risk and compliance departments.
- Independent monitoring reviews undertaken by second-line teams.
- Continued investment in staff training and awareness.
- Delivery of significant regulatory initiatives with the support of a dedicated change delivery department and in accordance with the Group's 'Change Delivery Framework'.
- Simple and transparent product design. Products are approved through a 'Product Governance framework' with a focus on customer needs.
- Monitoring of compliance with legal obligations by an in-house legal department.
- Continued activities to embed the requirements of GDPR within the business.
- Undertaking and evaluating the impact of the EU Securitisation Regulation which came into force during the year.
- Horizon scanning and impact assessments of potential regulatory and legal change.

The FCA is currently conducting a thematic review of long-term arrears in the second charge market. In addition, the FCA's Business Plan for 2019/20 also highlights a number of areas of focus, including SM&CR implementation for financial services businesses, and for the retail lending sector they have identified business models that drive unaffordable lending as a priority area. The compliance function monitors all regulatory developments, including the matters identified by the FCA in their business plan.

The Group's Executive Risk Committee (ERC) provides oversight and monitoring of compliance risk and Board oversight is performed by the Risk Committee.

This is mirrored by the Personal Finance division's governance arrangements, while oversight of compliance risk applicable to the Commercial Finance division is provided by its Board.

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For the self-made chef
turned restaurateur.

“A dreamer, a maker, *a mover and a shaker.*”

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 ‘company’) and its subsidiaries (the ‘group’) give a true and fair view of the state of the group’s and of the company’s affairs as at 30 June 2019 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 company statements of financial position;
- the consolidated and company statements of changes in equity;
- the consolidated and company statements of cash flows;
- the statement of accounting policies;
- the disclosures in the ‘Principal Risks and Uncertainties’ section of the Risk Management report on pages 52 to 60 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 32.

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.

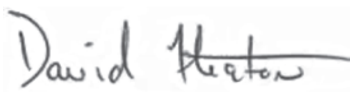
Matters on which we are required to report by exception

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.



David Heaton (Senior Statutory Auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
Manchester, United Kingdom
5 September 2019

Consolidated statement of comprehensive income

Year ended 30 June 2019

All amounts are stated in £m

Income statement	Note	**2019**	2018
Interest receivable and similar income	4	**343.1**	292.2
Interest payable and similar charges	5	**(116.8)**	(92.8)
Net interest income		**226.3**	199.4
Fee and commission income	6	**4.4**	4.7
Fee and commission expense	7	**(2.3)**	(2.1)
Other income	8	**0.1**	0.4
Operating income		**228.5**	202.4
Administrative expenses	9	**(82.8)**	(69.3)
Operating profit		**145.7**	133.1
Impairment losses	14	**(15.4)**	(11.4)
Profit before taxation		**130.3**	121.7
Income tax	12	**(18.6)**	(15.3)
Profit after taxation		**111.7**	106.4
Other comprehensive expense			
Items that may be reclassified to the income statement			
Net change in time value of cashflow hedges		**(0.2)**	–
Other comprehensive expense for the year, net of tax		**(0.2)**	–
Total comprehensive income for the year		**111.5**	106.4

The results for the current and preceding years relate entirely to continuing operations.

Consolidated statement of financial position

As of 30 June 2019

All amounts are stated in £m

	Note	2019	2018
Assets			
Cash and cash equivalents	13	**120.2**	74.3
Loans and advances to customers	14	**3,694.5**	2,958.2
Derivative assets held for risk management	15	**0.1**	–
Inventories	16	**0.6**	0.6
Other assets	17	**4.8**	4.3
Investments		**0.1**	0.1
Property, plant and equipment	19	**5.4**	6.3
Intangible assets	20	**8.8**	8.3
Deferred tax asset	21	**7.5**	1.4
Total assets		**3,842.0**	3,053.5
Liabilities			
Current tax liabilities		**8.7**	6.3
Borrowings	22	**3,015.7**	2,291.1
Other liabilities	23	**54.8**	44.2
Total liabilities		**3,079.2**	2,341.6
Equity			
Share capital	24	**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	22	**41.0**	43.0
Share-based payment reserve	30	**1.6**	1.6
Cost of hedging reserve		**(0.2)**	–
Retained earnings		**701.4**	648.3
Total equity		**762.8**	711.9
Total equity and liabilities		**3,842.0**	3,053.5

These financial statements were approved and authorised for issue by the Board of Directors on 5 September 2019.

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 2019

All amounts are stated in £m

	Note	2019	2018
Assets			
Cash and cash equivalents		**34.2**	0.1
Amounts owed by subsidiaries	17	**1,291.9**	1,326.0
Other assets	17	**0.1**	0.1
Investments in subsidiaries	18	**25.3**	25.3
Total assets		**1,351.5**	1,351.5
Liabilities			
Borrowings	22	**81.8**	49.6
Amounts owed to subsidiaries	23	**738.3**	737.9
Other liabilities	23	**0.4**	0.9
Total liabilities		**820.5**	788.4
Equity			
Share capital	24	**9.8**	9.8
Share premium account		**17.5**	17.5
Capital redemption reserve		**1.3**	1.3
Subordinated shareholder funding reserve	22	**41.0**	43.0
Share-based payment reserve	30	**1.6**	1.6
Retained earnings		**459.8**	489.9
Total equity		**531.0**	563.1
Total equity and liabilities		**1,351.5**	1,351.5

Together Financial Services Limited (the Company) reported a loss after tax for the year ended 30 June 2019 of £2.2m (2018: £2.1m loss). 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 5 September 2019.

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 2019

All amounts are stated in £m

2019	Called-up share capital	Share premium	Merger reserve	Capital redemption reserve	Subordinated shareholder funding reserve	Share-based payment reserve	Cost of hedging reserve	Retained earnings	Total
At beginning of year	9.8	17.5	(9.6)	1.3	43.0	1.6	–	648.3	711.9
Changes on initial application of IFRS 9	–	–	–	–	–	–	–	(30.7)	(30.7)
Restated balances at beginning of year	9.8	17.5	(9.6)	1.3	43.0	1.6	–	617.6	681.2
Retained profit for the financial year	–	–	–	–	–	–	–	111.7	111.7
Transfer between reserves	–	–	–	–	(2.0)	–	–	2.0	–
Change in time value of cash flow hedge	–	–	–	–	–	–	(0.2)	–	(0.2)
Dividend	–	–	–	–	–	–	–	(29.9)	(29.9)
At end of year	9.8	17.5	(9.6)	1.3	41.0	1.6	(0.2)	701.4	762.8

Adjustments on transition to IFRS 9 are set out in Note 2 to the financial statements.

2018	Called-up share capital	Share premium	Merger reserve	Capital redemption reserve	Subordinated shareholder funding reserve	Share-based payment reserve	Cost of hedging 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)
	9.8	17.5	(9.6)	1.3	43.0	1.6	–	648.3	711.9

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

Company statement of changes in equity

Year ended 30 June 2019

All amounts are stated in £m

2019	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**	**43.0**	**1.6**	**489.9**	**563.1**
Retained loss for the financial year	**–**	**–**	**–**	**–**	**–**	**(2.2)**	**(2.2)**
Transfer between reserves	**–**	**–**	**–**	**(2.0)**	**–**	**2.0**	**–**
Dividend	**–**	**–**	**–**	**–**	**–**	**(29.9)**	**(29.9)**
At end of year	**9.8**	**17.5**	**1.3**	**41.0**	**1.6**	**459.8**	**531.0**

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 profit 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

The called-up share capital, 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 2019

All amounts are stated in £m

	Note	2019	2018
Cash outflow from operating activities			
Cash outflow from operations	26	**(505.3)**	(495.5)
Income tax paid		**(15.9)**	(15.3)
Servicing of finance		**(112.1)**	(87.6)
Net cash outflow from operating activities		**(633.3)**	(598.4)
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(1.0)**	(3.3)
Proceeds from disposal of property, plant and equipment		**0.1**	0.1
Investment in intangible assets		**(3.2)**	(5.9)
Net cash outflow from investing activities		**(4.1)**	(9.1)
Cash flows from financing activities			
Drawdown of bank facilities		**30.0**	30.7
Repayment of bank facilities		**(5.7)**	–
Drawdown of loan notes		**506.6**	403.1
Proceeds from issuance of loan notes		**272.6**	426.3
Repayment of loan notes		**(90.0)**	(415.0)
Proceeds from issuance of senior secured notes		**–**	152.4
(Decrease)/increase in finance leases		**(0.3)**	0.5
Dividends paid		**(29.9)**	(22.9)
Net cash inflow from financing activities		**683.3**	575.1
Net increase/(decrease) in cash and cash equivalents		**45.9**	(32.4)
Cash and cash equivalents at beginning of year		**74.3**	106.7
Cash and cash equivalents at end of year	13	**120.2**	74.3

At 30 June 2019 cash and cash equivalents include £97.6m (2018: £74.3m; 2017: £72.1m) of restricted cash (see Note 13).

Movements in balances are stated after adjustments on transition to IFRS 9, as set out in Note 2 to the financial statements.

Company statement of cash flows

Year ended 30 June 2019

All amounts are stated in £m

	Note	2019	2018
Cash inflow/(outflow) from operating activities			
Cash inflow from operations	26	**92.4**	24.6
Servicing of finance		**(58.4)**	(48.8)
Net cash inflow/(outflow) from operating activities		**34.0**	(24.2)
Cash flows from financing activities			
Drawdown of bank facilities		**30.0**	25.0
Dividends paid		**(29.9)**	(22.9)
Net cash inflow from financing activities		**0.1**	2.1
Net increase/(decrease) in cash and cash equivalents		**34.1**	(22.1)
Cash and cash equivalents at beginning of year		**0.1**	22.2
Cash and cash equivalents at end of year		**34.2**	0.1

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). These financial statements are prepared for Together Financial Services Limited and its subsidiaries under the Companies Act 2006. 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 unless otherwise stated.

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 accordance 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 derivative financial instruments and other long-term employee benefits which are stated at fair value, 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.

Adoption of new accounting standards, amendments and interpretations

IFRS 9 Financial Instruments

The Group has adopted IFRS 9 *Financial Instruments* issued by the IASB in July 2014 with a date of application of 1 July 2018. The adoption of IFRS 9 represents a significant change from the requirements of IAS 39 *Financial instruments: recognition and measurement*, and has resulted in changes in our accounting policies for recognition, classification and measurement of financial instruments and the impairment of financial assets. It also significantly amends the disclosures relating to financial instruments.

Classification of financial instruments

IFRS 9 has replaced the classification categories of IAS 39, determining the appropriate classification of financial instruments based on the business model in which the assets are managed and the nature of the contractual cash flows, specifically whether they represent solely payments of principal and interest (SPPI). In practice this change has no effect for the Group as all of its financial instruments continue to be held at amortised cost.

Measurement of financial instruments and impairment of financial assets

IFRS 9 introduced a significant change in measurement of financial instruments, relating to non-substantial modifications of liabilities. Under IAS 39, the Group's policy for such modifications was to defer any related transaction costs as adjustments to carrying value that were charged to income over the liability's remaining life. Under IFRS 9 however, gains or losses on non-substantial modifications are recognised immediately in the income statement and the Group also considers qualitative factors in determining whether a modification is substantial.

The most significant impact of IFRS 9 for the Group relates to the impairment of financial instruments. IFRS 9 replaces the 'incurred loss' model of IAS 39 with an 'expected loss' model that also applies to loan commitments. IFRS 9 therefore recognises credit losses earlier than IAS 39.

Transition to IFRS 9

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively. The Group has taken advantage of the exemptions allowing it not to restate comparative years. Differences in the carrying amounts of financial instruments resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 July 2018. Accordingly, the information presented for the previous financial year does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for the current year under IFRS 9.

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

Reconciliation of statement of financial position from IAS 39 to IFRS 9

The only financial instruments affected by transition from IAS 39 to IFRS 9 are loans and advances to customers and borrowings. The following table reconciles the remeasurement changes in their carrying amounts together with the impact on deferred tax and retained earnings on 1 July 2018 (all amounts measured in £m):

	IAS 39 30 June 2018	Expected credit losses	Modification of financial liabilities	Total impact of adoption of IFRS 9	IFRS 9 1 July 2018
Loans and advances to customers	2,958.2	(31.5)	–	(31.5)	2,926.7
Borrowings	(2,291.1)	–	(5.6)	(5.6)	(2,296.7)
Deferred tax asset	1.4	5.4	1.0	6.4	7.8
Total equity impact		**(26.1)**	**(4.6)**	**(30.7)**	
Total equity	**711.9**	**(26.1)**	**(4.6)**	**(30.7)**	**681.2**

In addition, on transition to IFRS 9, loans and advances to customers of £19.3m that were fully impaired were written off, with no net impact on amortised cost.

The accounting policies for the recognition, classification and measurement of financial instruments under IFRS 9 are detailed later in this Note.

IFRS 15

IFRS 15 was issued in May 2014 and is effective for annual periods beginning on or after 1 January 2018. 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.

2. Significant accounting policies (continued)

Operating segments

The Group's only listed financial instruments are issued by a subsidiary, Jerrold Finco PLC, and the securitisations which are consolidated in the Group results, 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. 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 except for credit-impaired assets. For credit-impaired assets a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected 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 plans.

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 plans 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 senior management under an equity-settled scheme.

The cost of providing the options 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 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.

Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

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 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 and 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.

Where cash is not freely available for the Group to use for its general purposes, it is disclosed as restricted cash; this includes cash collected in the securitisation vehicles prior to paying down loan notes.

Changes in accounting policy

During the year, cash which is restricted within securitisation vehicles has been reclassified from borrowings to cash and cash equivalents. As such, prior year comparatives have been reclassified throughout these financial statements. For further details please see Note 13 to the financial statements.

Financial assets and liabilities

Financial assets

All of the Group's financial assets are initially recognised at fair value plus any directly attributable transactions costs.

From 1 July 2018, all of the Group's financial assets are classified as measured at amortised cost, being the gross carrying amount less expected impairment allowance, using the effective interest rate method, as they meet both of the following conditions:

- The assets are held within a business model whose objective is to hold the assets to collect contractual cash flows, and
- The contractual terms of the financial assets give rise to cash flows at specified dates that are solely payments of principal and interest on the principal amounts outstanding.

The Group's business model for its financial assets is to hold them to collect contractual cash flows, with sales of mortgage loans and advances to customers only made internally to consolidated special purpose vehicles for the purpose of collateralising the issuance of loan notes. The loans' cash flows are consistent with a basic lending arrangement, the related interest only including consideration for the time value of money, credit and other basic lending risks, and a profit margin consistent with such an arrangement. Cash and cash equivalents also meet these conditions and accordingly management has classified all of the Group's financial assets as measured at amortised cost.

Prior to 1 July 2018, all of the Group's financial assets were categorised as loans and receivables, and subsequent to initial recognition were measured at amortised cost using the effective interest rate method. The definition of amortised cost prior to 1 July 2018 excluded impairment allowances (which were subsequently deducted), in contrast to the definition of amortised cost applied after 1 July 2018 where impairment allowances are included.

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.

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. The Group then assesses whether the new terms are substantially different from the original ones. If the terms of an asset are substantially different, it is derecognised and a new asset recognised at its fair value using its new effective interest rate. If the terms are not substantially different, the Group recalculates the gross carrying amount using the original effective interest rate and recognises a modification gain or loss in the income statement. Such modifications typically arise from forbearance because of financial difficulties of the borrower, and any gain or loss is included in impairment losses. From 1 July 2018, a modified loan's credit risk is assessed to see if it remains higher than on initial recognition for the purposes of calculating expected credit losses.

2. Significant accounting policies (continued)

Financial liabilities

The Group's financial liabilities, which largely consist of borrowings, are all classified as measured at amortised cost for both the current and prior period. All of the Group's financial liabilities are recognised initially at fair value, less any directly attributable transaction costs.

Financial liabilities are derecognised when their contractual obligations are discharged, cancelled or have expired. An exchange of financial liabilities with substantially different terms or a substantial modification to the terms of an existing financial liability is treated as an extinguishment of the original liability and the recognition of a new one. It is assumed that terms are substantially different if the discounted present value of the cash flows under the new terms is at least 10% different from the discounted present value of the remaining cash flows of the original liability. From 1 July 2018, all gains or losses on non-substantial modifications, calculated as a change in the net present value of future cash flows, are recognised immediately in the income statement. The Group may also consider qualitative factors in determining whether a modification is substantial. Prior to 1 July 2018, the Group's policy for such modifications was to defer related transaction costs as adjustments to the carrying value of the instrument, amortised over its remaining expected life.

Impairment of financial instruments

Policy applicable from 1 July 2018

From 1 July 2018, the Group recognises loss allowances for expected credit losses (ECLs) on loans and advances to customers and any exposures arising from loan commitments. ECLs are a probability-weighted estimate of the present value of credit losses discounted over the expected life of an instrument at its original effective interest rate (EIR). Credit losses for financial assets are the difference between the contractual cash flows, including the amount of committed pipeline lending which is expected to be drawn down, and the cash flows expected to be received.

The Group considers whether financial assets are credit impaired at each reporting date. A financial asset is credit impaired when one or more events that have a detrimental impact on its estimated future cash flows have occurred. Evidence of credit impairment includes:

- Significant financial difficulty of the borrower
- Breach of contract such as default, or becoming past due
- The granting of concessions to the borrower that the Group would not otherwise consider
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

For financial instruments on which credit risk has not increased significantly since initial recognition, the Group measures loss allowances at an amount equal to the 12-month ECL, i.e. the portion of lifetime ECL of those default events expected to arise within 12 months of the reporting date, weighted by probability of that event occurring.

For all other financial instruments loss allowances are measured at an amount equal to the full lifetime ECL, i.e. the lifetime ECL arising from all default events that may occur over the life of the instrument, probability weighted. The latter category of instruments includes those that have objective evidence of impairment at the reporting date.

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.

If, due to the financial difficulties of the borrower, the terms of a financial asset are renegotiated or modified, or the asset is replaced with a new one, then an assessment is made of whether the asset should be derecognised. A loan to a borrower granted such concessions due to forbearance is considered to be credit impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In the latter case, the measurement of the loss allowance on the new asset will generally be based on a 12-month ECL.

Interest income is recognised at the effective rate on the gross carrying amount of a financial asset, i.e. before allowance for impairment, except for those assets which are credit impaired, for which interest income is recognised on the carrying amount net of the allowance for impairment.

Loans are written off when the Group expects no further recovery and the amount of the loss has been determined. The Group may continue to apply enforcement activities to loans written off and any subsequent recoveries are recognised as impairment gains in the income statement.

Loss allowances for ECL are presented in the statement of financial position as a deduction from the gross carrying amount of financial assets measured at amortised cost and as a provision in the case of loan commitments.

Policy applicable before 1 July 2018

Financial assets were impaired and impairment losses incurred if, and only if, there was 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 had an impact on the estimated future cash flows of the financial asset that could be reliably estimated.

For loans and receivables, the amount of the loss was measured as the difference between the loan's carrying amount and the present value of estimated future cash flows, excluding future credit losses that had not been incurred, discounted at the original effective interest rate. All impairment losses were reviewed at least at each reporting date. If subsequently the amount of the loss decreased as a result of a new event, the relevant element of the outstanding impairment loss was reversed. Impairment losses and any subsequent reversals were recognised in the income statement.

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

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

Future cash flows in a group of financial assets that were collectively evaluated for impairment were 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 was adjusted on the basis of current observable data to reflect the effects of then-current conditions. In addition, the Group used its experienced judgement to correct model deficiencies and systemic risks where appropriate and supported by historic loss experience data. The use of such judgements and reasonable estimates was considered by management to be an essential part of the process and improved reliability.

Where a loan was uncollectable, it was written off against the related provision. Such loans were written off after all the necessary procedures had been completed and the amount of the loss determined. Subsequent recoveries of amounts previously written off were taken through the income statement.

Derivatives held for risk-management purposes and hedge accounting

During the year the Group has accounted for derivative instruments in accordance with IFRS 9, having held none in the prior year.

The Group does not hold derivative financial instruments for trading but may enter into contracts for derivatives to manage exposure to interest-rate risk.

Derivatives are initially recognised at fair value at the date the contract is entered into and subsequently measured at fair value. The timing of recognition of any resulting gain or loss on the derivative depends on the nature of the hedging relationship. The Group will designate such derivatives as hedging instruments of the fair value of recognised assets or liabilities or of future cash flows.

At inception, the Group documents the relationship between the hedging instrument and the hedged item along with its risk-management objectives and strategy. At inception and afterwards on a continuing basis, the Group assesses whether the hedging instrument is effective in offsetting changes in the fair value or cash flows of the hedged item attributable to the hedged risk. Any ineffective portion of changes in fair value of the derivative is recognised immediately in the income statement.

If a hedging relationship ceases to meet the hedge-effectiveness requirements but the risk management objective remains the same, the Group adjusts the hedge, i.e. it rebalances the relationship, so that it again meets the qualifying criteria. Hedge accounting is discontinued only for that part of the hedged item or hedging instrument that is no longer part of the relationship.

In hedge relationships involving options, the Group designates only the option's intrinsic value. In such cases the time value component of the option's fair value is deferred in other comprehensive income, as a cost of hedging, over the term of the hedge to the extent that it relates to the hedged item. The hedged items so designated by the Group are related to time periods, and the amount of the original time value of the option that relates to the hedged item is amortised from equity to the income statement, within other net income, on a straight-line basis over the term of the hedging relationship.

The Group has no fair-value hedges. The effective portion of changes in the fair value of derivatives designated as cash flow hedges is recognised through other comprehensive income in the cash flow hedging reserve. Amounts so recognised are reclassified to the income statement in the periods when the cash flows of the hedged item affect the income statement and in the same line of the income statement as those cash flows.

The Group discontinues hedge accounting when the derivative is terminated or when the hedging relationship ceases to meet the qualifying criteria. Any cumulative amount existing in equity at that time remains until the hedged cash flows affect the income statement when it is reclassified to 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*

2. Significant accounting policies (continued)

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 three to 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:

- 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 and contingent liabilities

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.

Where matters are less certain, such as when it is possible an obligation exists, or where the outflow of economic resources is possible but not probable, then a contingent liability is disclosed.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 July 2018 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 16 *Leases*, the replacement for IAS 17 *Leases*.

IFRS 16

Implementation

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-statement of financial position model similar to the accounting for finance leases under IAS 17. The new standard requires lessees to recognise right-of-use assets and lease liabilities for most leases over 12 months long. Lessor accounting is mostly unchanged.

The Group plans to apply IFRS 16 initially on 1 July 2019. Changes in accounting policies resulting from adoption of IFRS 16 will generally be applied retrospectively. As such, the cumulative effect of initially applying IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings. The Group plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement.

Lessor accounting

Lessor accounting under IFRS 16 is largely unchanged from IAS 17 and lessors will continue to classify leases as either finance or operating leases. No significant impact is expected for leases in which the Group acts as a lessor.

Lessee accounting

IFRS 16 introduces a single lessee accounting model that requires a lessee to recognise all leases on-statement of financial position. A lessee will recognise a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items.

Estimated financial impact on adoption

On transition to IFRS 16, the Group will recognise a right of use asset of £9.0m, a corresponding lease liability of £10.1m and a deferred tax asset of £0.2m. The Group will apply the modified retrospective approach on transition, allowing the cumulative transition adjustment to be recognised in equity on 1 July 2019. The day one adjustment is expected to have an impact of £1.1m on retained earnings.

Notes to the financial statements (continued)

3. Critical accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires the Group to make judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities. The critical judgements which have a significant impact on the financial statements are described in the relevant Note to the financial statements. These include:

- the determination of whether credit risk has increased significantly (described in Note 14);
- the determination of whether the Group has met the requirements to recognise a provision, or a contingent liability (described in the accounting policy in Note 2, and in Note 28);
- establishing if a substantial modification has occurred when refinancing our borrowing facilities (described in Note 2).

Our critical estimates are:

a) Loan impairment allowances

The Group recognises loss allowances on loans and advances to customers using an ECL model approach. Key areas of estimation within the ECL models include those regarding the probability of default (PD), loss given default (LGD) and forward looking macroeconomic scenarios. Sensitivities included in the section below were performed by recalculating the impairment allowance by changing only those assumptions stated, and with all other variables unchanged.

Loss given default (LGD)

The Group has an LGD model, which includes a number of estimated inputs including probability of repossession given default, forced-sale discounts, discount periods and property valuations. The LGD is sensitive to property values which are updated at each reporting date, by indexing using established regional house price indices (HPI), to estimate the current security value and in some cases they are updated to reflect a more recent valuation of the security.

The LGD model uses current security values and forecast HPI assumptions to project property values for each of the economic scenarios. An immediate and sustained 10% relative reduction in forecast house prices, applied in each scenario, would result in an increase in the impairment allowance of £11.1m at 30 June 2019; conversely a 10% relative increase, would result in a decrease in the impairment allowance by £7.5m at 30 June 2019.

Multiple economic scenarios

IFRS 9 contains a requirement that multiple economic scenarios are incorporated into the expected loss calculation. In practice, incorporating the effect of multiple economic scenarios is achieved by modelling an ECL for each scenario and taking a probability-weighted total. The Group has used a minimum of three probability-weighted scenarios, including base, upside and downside scenarios. The most significant macroeconomic assumptions used for the ECL estimate are shown in Note 14. If, at 30 June 2019 a 100% weighting was applied to the downside scenario, an incremental £61.9m of impairment allowance would be required.

Probability of default (PD) and probability of repossession given default (PPGD)

In order to link the macroeconomic scenarios with the ECL calculation, it is necessary to determine which economic indicators are predictive of changes in credit performance and then develop a modelling approach which links these indicators to the calculations in our ECL. The Group's approach to modelling the probability of default is based on analysis of historical data, which is done in two stages: firstly to calculate raw PDs using a roll-rate approach, and secondly to apply scalars to the PDs to reflect the different macroeconomic scenarios.

The PPGD is the probability of the property being repossessed post default. Historical experience of repossessions are used to derive a probability, which is applied to the LGD within the calculation of the overall ECL. This probability reduces the expected losses for the proportion of accounts that we expect to cure or to redeem and will therefore not go into repossession.

A 10% relative worsening of both PDs and PPGDs simultaneously (eg a 1.0% PD increasing to 1.1%) would increase the total impairment allowance by £4.6m at 30 June 2019. A 10% relative improvement of both PDs and PPGDs simultaneously (eg a 1.0% PD decreasing to 0.9%) would result in a decrease in the impairment allowance by £4.3m at 30 June 2019.

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.

4. Interest receivable and similar income

	2019	2018
Interest on loans and advances to customers	**343.1**	292.2

Included within interest on loans and advances to customers is £12.2m (2018: £8.9m) relating to impaired loans.

5. Interest payable and similar charges

	2019	2018
On borrowings	**116.8**	92.8

6. Fee and commission income

	2019	2018
Fee income on loans and advances to customers	**4.2**	4.6
Other fees receivable	**0.2**	0.1
	4.4	4.7

7. Fee and commission expense

	2019	2018
Legal, valuations and other fees	**1.3**	1.0
Insurance commissions and charges	**1.0**	1.1
	2.3	2.1

8. Other income

	2019	2018
Rental income	**0.1**	0.1
Other income	**–**	0.3
	0.1	0.4

9. Administrative expenses

	Note	2019	2018
Staff costs	10	**52.7**	41.2
Auditor's remuneration	11	**0.4**	0.7
Depreciation of property, plant and equipment	19	**1.7**	1.4
Amortisation of intangible assets	20	**2.7**	3.3
Operating lease rentals		**1.5**	1.4
Other administrative costs		**23.8**	21.3
		82.8	69.3

There were no material gains or losses on the disposal of property, plant and equipment (2018: £nil).

Notes to the financial statements (continued)

All amounts are stated in £m

10. Staff costs

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

Management and administration	2019 No.	2018 No.
Full time	**695**	630
Part time	**45**	33
	740	663

The aggregate remuneration of staff and executive directors was as follows:

Staff remuneration	Note	2019	2018
Wages and salaries		**39.7**	28.5
Social security costs		**4.4**	3.8
Pension	29	**1.1**	0.8
		45.2	33.1
Directors' remuneration			
Emoluments		**7.5**	8.0
Company contribution to personal pension schemes	29	**–**	0.1
		7.5	8.1
Total staff costs		**52.7**	41.2

The emoluments of the highest paid director were £2.6m (2018: £3.0m) including £nil (2018: £nil) of Company contributions to a defined contribution pension scheme for any directors. Details of the pension arrangements operated by the Group are given in Note 29.

Staff are employed by a Group subsidiary, and no staff are employed by the Company.

11. Auditor's remuneration

	2019	2018
Fees payable for the audit of the Company's accounts	**0.1**	0.1
Fees payable for the audit of the Company's subsidiaries	**0.2**	0.2
Tax advisory and compliance services	**–**	0.1
Other services	**0.1**	0.3
	0.4	0.7

12. Income tax

	2019	2018
Current tax		
Corporation tax	**17.7**	16.1
Adjustment in respect of prior years	**0.5**	(1.8)
	18.2	14.3
Deferred tax		
Origination and reversal of temporary differences	**0.2**	1.2
Adjustment in respect of prior years	**0.2**	(0.2)
	0.4	1.0
Total tax on profit	**18.6**	15.3

Corporation tax is calculated at 19.00% (2018: 19.00%) 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:

	2019	2018
Profit before tax	**130.3**	121.7
Tax on profit at standard UK corporation tax rate of 19.00% (2018: 19.00%)	**24.8**	23.1
Effects of:		
Expenses not deductible for tax purposes	**2.8**	2.5
Income not taxable	**(2.4)**	(1.8)
Group relief*	**(7.1)**	(6.5)
Adjustment in respect of prior years	**0.5**	(2.0)
Group tax charge for year	**18.6**	15.3

*The group referred to is a tax group headed by Redhill Famco Limited, the ultimate parent company of Together Financial Services Limited.

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2018) was substantively enacted on 26 October 2015, and an additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2017. This will reduce the Group's current tax charge accordingly. The deferred tax asset at 30 June 2019 has been calculated based on these rates.

13. Cash and cash equivalents

	2019	2018
Unrestricted cash	**22.6**	**–**
Restricted cash	**97.6**	**74.3**
Total cash and cash equivalents	**120.2**	**74.3**

During the year, cash which is restricted within securitisation vehicles of £97.6m (2018: £74.3m, 2017: £72.1m) has been reclassified from borrowings to cash and cash equivalents. As such, prior year comparatives have been reclassified throughout these financial statements.

Restricted cash is ring-fenced and held in securitisation vehicles for use in managing the Group’s securitisation facilities under terms of the agreements. Within restricted cash £32.4m (2018: £ 26.6m, 2017: £44.7m) represents amounts which are not considered readily available, but can be accessed by the Group, for example by allocating additional eligible assets into the private securitisations.

All cash and cash equivalents held by the Group are denominated in pounds sterling.

Notes to the financial statements (continued)

All amounts are stated in £m

14. Loans and advances to customers

	2019 IFRS 9				
	Stage 1	Stage 2	Stage 3	Total	2018 IAS 39
Gross loans and advances	3,025.3	419.5	316.7	3,761.5	3,020.0
Loss allowance	(11.2)	(9.6)	(46.2)	(67.0)	(61.8)
	3,014.1	409.9	270.5	3,694.5	2,958.2

Financial assets which are credit-impaired on purchase or origination are not material. Comparative amounts for 2018 reflect the measurement basis under IAS 39.

Loans and advances to customers include total gross amounts of £10.9m (2018: £12.5m), equivalent to £8.0m (2018: £10.2m) net of allowances, 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.

Gross loans and advances are repayable:

	IFRS 9 2019	IAS 39 2018
Due within one year	1,453.1	1,288.9
Due within 1–5 years	1,104.7	901.8
Due after five years	1,203.7	829.3
	3,761.5	3,020.0

Measurement of expected credit losses (ECL)

ECL model

The Group considers whether financial assets are credit impaired at each reporting date. For these purposes, it considers default to occur, and such loans are considered to be credit impaired, in any of the following circumstances relating to a loan:

- It becomes 90 days or more past due
- Its security has been taken into possession
- The appointment of receivers
- There is evidence of fraud

The Group calculates 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 is 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 are assigned using a slotting approach which comprises a range of quantitative and qualitative criteria.
- LGD is an estimate of the likely loss in the event of a default. The expected loss amounts vary according to loan-to-value (LTV) ratios and future collateral prices. The estimates are based on the Group's history of recovery rates, calculated as forced-sale discounts, and the probability of repossession given default, discounted at the original effective interest rate of the loan for the average period for recovery of sale proceeds. The LGD calculation includes floors, ie minimum losses, which are assigned based on the LTV of the loan and the type of security and have been developed from historical data.
- EAD is an estimate of the expected gross carrying amount at a future default date. EAD is 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.

ECL is calculated at an individual loan level as the product of PD, LGD and EAD, discounted at the original effective rate to the reporting date. It is measured using the risk of default over the maximum contractual period adjusted for expected customer prepayment behaviour.

14. Loans and advances to customers (continued)

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

- A financial instrument not credit-impaired on initial recognition is classified in stage 1. The loss allowance for such instruments is calculated as the portion of lifetime ECL of those default events expected to occur within 12 months of the reporting date, weighted by the probability of that default occurring.
- An instrument moves 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 is calculated as the lifetime ECL. The determination of significant increases in credit risk is explained further, later in this section.
- Stage 3 instruments are credit impaired and the loss allowance calculated as the lifetime ECL.

Improvements in credit quality may result in instruments moving categorisation, from stage 3 to stage 2 where they are no longer considered credit impaired or to stage 1 where the credit risk is no longer significantly increased compared with initial recognition. Such transitions occur only after the completion of probationary periods.

Forbearance

The Group offers forbearance to assist customers who are experiencing financial distress and considers an account as forborne at the time a customer in financial difficulty is granted a concession. For accounting purposes under IFRS 9, any gains or losses arising upon granting forbearance are usually not material because losses are already included in ECLs. Subsequently, the Group may determine after a probationary period that a restructuring has significantly improved credit risk such that the asset is moved back to stage 1.

Incorporation of forward-looking information

The Group uses forward-looking information in its measurement of ECL and in identifying significant increases in credit risk, which is discussed in the next section. The Group's statistical analysis of historical data has confirmed that the key economic variables that drive credit risk, and the ECL for the Group's financial instruments, are unemployment, Bank Rate, economic activity as measured by Gross Domestic Product (GDP), and changes in house prices. The Group uses a range of forecast economic scenarios, drawing on external forecasts where appropriate, and calculates ECL using a base case, an upside and a downside scenario, weighted 40%, 30% and 30% respectively. The base case is aligned to the Group's internal planning assumptions.

The most significant assumptions used for the ECL estimate as at 1 July 2018 and 30 June 2019 are in the following ranges for the next ten years:

At 30 June 2019	Minimum	Average	Maximum
Annual GDP growth (%)	**(1.1)**	**1.6**	**3.6**
Bank Rate (%)	**0.00**	**1.50**	**2.75**
Unemployment rate (%)	**3.2**	**4.1**	**6.2**
Annual change in house-price index (%)	**(8.7)**	**2.6**	**10.4**

At 1 July 2018	Minimum	Average	Maximum
Annual GDP growth (%)	(0.6)	1.7	3.3
Bank Rate (%)	0.25	2.00	3.50
Unemployment rate (%)	3.0	4.3	6.0
Annual change in house-price index (%)	(6.2)	3.0	8.7

To project the economic variables for the remaining term of each instrument, it is assumed that the forecasts used in all scenarios revert to our long-term base case forecast beyond a ten-year horizon.

Significant increase in credit risk

The Group monitors all financial instruments that are subject to credit risk to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase then the Group measures the loss allowance based on a lifetime rather than a 12-month ECL.

To determine whether credit risk has increased significantly the Group uses 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 is also applied such that all loans more than 30 days past due are considered to have undergone a significant increase in credit risk.

Notes to the financial statements (continued)

All amounts are stated in £m

14. Loans and advances to customers (continued)

Movement in loss allowance

Loss allowance

A loss allowance is derived from the foregoing techniques. The following tables analyse the movement of the loss allowance. Comparative amounts for 2018 represent the allowance for credit losses and reflect the measurement basis under IAS 39.

	2019 (IFRS 9 basis)			
Loss allowance	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At beginning of year	**(10.4)**	**(9.4)**	**(54.3)**	**(74.1)**
Transfer to a 12-month ECL	(2.9)	4.4	–	1.5
Transfer to a lifetime ECL not credit impaired	5.3	(15.1)	4.1	(5.7)
Transfer to a lifetime ECL credit impaired	1.0	5.4	(13.3)	(6.9)
Other changes in credit risk during the year	(5.5)	0.1	1.6	(3.8)
Impairment of interest income on stage 3 loans	–	–	(12.1)	(12.1)
New financial assets originated	(6.7)	(0.4)	–	(7.1)
Financial assets derecognised	7.5	4.4	8.3	20.2
Changes in models and risk parameters	0.5	1.0	(1.0)	0.5
Impairment losses for the year charged to income statement	**(0.8)**	**(0.2)**	**(12.4)**	**(13.4)**
Unwind of discount (recognised within interest receivable)	–	–	12.1	12.1
Write-offs net of recoveries	–	–	8.4	8.4
At end of year	**(11.2)**	**(9.6)**	**(46.2)**	**(67.0)**

Transfers between stages are presented to show the change in ECL, including any remeasurement, on the transition of loans between stages. Changes in credit risk include the development or cure of loan arrears and other changes in status. The loss allowance on new financial assets originated represents the ECL on initial recognition. Subsequent changes in ECL are reflected in other movements in the above table.

Allowance for impairment losses on an IAS 39 basis	2018
At beginning of year	(62.2)
Charges to the income statement	(9.1)
Unwind of discount	8.9
Write-offs net of recoveries	0.6
At end of year	(61.8)

Movements in gross carrying amounts

The following table sets out changes in the gross carrying amount of financial instruments that contributed to the changes in the loss allowance:

Loans and advances to customers at amortised cost on an IFRS 9 basis	Stage 1	Stage 2	Stage 3	2019
Gross loans and advances at beginning of year	2,305.5	358.5	356.0	3,020.0
Transfer to 12-month ECL	257.3	(254.7)	(2.6)	–
Transfer to lifetime ECL not credit impaired	(467.9)	552.2	(84.3)	–
Transfer to lifetime ECL credit impaired	(33.5)	(164.5)	198.0	–
New financial assets originated, net of fees and adjustments	1,907.0	24.9	(0.9)	1,931.0
Financial assets derecognised including write-offs	(943.1)	(96.9)	(149.5)	(1,189.5)
Gross loans and advances at end of year	**3,025.3**	**419.5**	**316.7**	**3,761.5**

New mortgage loans originated during the year resulted in an increase of £7.1m in the loss allowance. The Group's highly cash-generative business model, with around half of all loans redeeming within two years, resulted in a release of ECLs totalling £20.2m. The ECL charge was adversely impacted by £0.9m due to a changing macroeconomic outlook during the year, primarily due to a reduction in forecast house price growth, when compared to the forecast at 1 July 2018.

The contractual amount outstanding on financial assets that were written off during the year and are still subject to enforcement activity at the year-end is £nil (2018: £nil). The gross loss on modifications resulting from forbearance was already materially reflected in the ECL allowance and therefore there was no additional impact recognised in the income statement for such loans.

14. Loans and advances to customers (continued)

Impairment losses for the year

	IFRS 9 2019	IAS 39 2018
Movements in impairment allowance, charged to income	(13.4)	(9.1)
Amounts released from deferred income	1.7	2.3
Write-offs net of recoveries	(3.7)	(4.6)
Charged to the income statement	(15.4)	(11.4)

15. Derivative assets held for risk management

	Notional amount 2019	Fair value 2019	Notional amount 2018	Fair value 2018
Interest-rate options	98.9	0.1	–	–

In order to cap any exposure to changes in cash flows from interest-rate movements in its Together ABS 2 securitisation, in November 2018 the Group purchased an option under which it will receive interest to the extent that libor exceeds a strike rate. The initial notional amount of the cap was for £100.6m, reducing to nil within five years. The fair value of the instrument at origination was £0.3m. The Group held no derivative instruments in previous years.

16. Inventories

	2019	2018
Properties held for resale	0.6	0.6

17. Other assets

Group	2019	2018
Amounts owed by related parties	0.7	0.5
Other debtors	0.9	0.9
Prepayments and accrued income	3.2	2.9
	4.8	4.3

Company	2019	2018
Amounts owed by subsidiaries	1,291.9	1,326.0
Prepayments and accrued income	0.1	0.1
	1,292.0	1,326.1

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 £0.3m (2018: £0.2m) in relation to a director's loan. The loan is interest free and repayable on demand.

The Company regularly assesses whether there is evidence that financial assets are impaired. The Group has continued to report substantial, increasing profits and the directors do not consider that there has been a significant increase in credit risk; accordingly an ECL for the amounts owed by subsidiaries is considered to be immaterial.

Notes to the financial statements (continued)

All amounts are stated in £m

18. Investments in subsidiaries

The Company held the following investments in subsidiary undertakings:

	2019	2018
Investments in subsidiaries	**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:

	Shares and voting rights	Principal activities
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
FactFocus Limited	100%	Property investment
General Allied Properties Limited	100%	Non–trading
Heywood Finance Limited	100%	Non–trading
Heywood Leasing Limited	100%	Non–trading
Jerrold Mortgage Corporation Limited	100%	Non–trading
Phone-a-Loan Limited	100%	Non–trading
Supashow Limited	100%	Non–trading
BridgingFinance.co.uk Limited (Company registration number 04159852)	100%	Dormant
Classic Car Finance Limited (Company registration number 03237779)	100%	Dormant
Jerrold Holdings Limited (Company registration number 04950229)	100%	Dormant
Together123 Limited (Company registration number 10758537)	100%	Dormant

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
Delta Asset Backed Securitisation 2 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
Together Asset Backed Securitisation 2018 – 1 Holdings Limited
Together Asset Backed Securitisation 2018 – 1 PLC

19. Property plant and equipment

2019 Group	Fixtures, fittings and equipment	Motor vehicles	Total
Cost			
At beginning of year	**8.5**	**1.8**	**10.3**
Additions	**0.8**	**0.2**	**1.0**
Disposals	**(1.4)**	**(0.2)**	**(1.6)**
At end of year	**7.9**	**1.8**	**9.7**
Depreciation			
At beginning of year	**3.5**	**0.5**	**4.0**
Charge for the year	**1.4**	**0.3**	**1.7**
Disposals	**(1.4)**	**–**	**(1.4)**
At end of year	**3.5**	**0.8**	**4.3**
Net book value			
At 30 June 2019	**4.4**	**1.0**	**5.4**
At 30 June 2018	**5.0**	**1.3**	**6.3**

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

Notes to the financial statements (continued)

All amounts are stated in £m

20. Intangible assets

Group	Computer software 2019	Computer software 2018
Cost		
At beginning of year	**11.4**	7.2
Additions	**3.2**	5.9
Disposals	**(0.1)**	(1.7)
At end of year	**14.5**	11.4
Amortisation		
At beginning of year	**3.1**	1.5
Charge for the year	**2.7**	3.3
Disposals	**(0.1)**	(1.7)
At end of year	**5.7**	3.1
Net book value		
At end of year	**8.8**	8.3
At beginning of year	**8.3**	5.7

21. Deferred tax asset

2019	Accelerated capital allowances	Short-term timing differences	Total
At beginning of year	**(0.7)**	**2.1**	**1.4**
IFRS 9 adjustment	**–**	**6.4**	**6.4**
Charge to income statement	**(0.1)**	**(0.1)**	**(0.2)**
Adjustment in respect of prior years	**(0.1)**	**–**	**(0.1)**
At end of year	**(0.9)**	**8.4**	**7.5**

2018	Accelerated capital allowances	Short-term timing differences	Total
At beginning of year	(0.1)	2.5	2.4
Charge to income statement	(0.1)	(1.1)	(1.2)
Adjustment in respect of prior years	(0.6)	0.8	0.2
At end of year	**(0.8)**	**2.2**	**1.4**

22. Borrowings

Group	2019	2018
Bank facilities	**55.0**	30.7
Loan notes	**2,221.5**	1,526.7
Senior secured notes	**726.8**	727.4
Obligations under finance leases	**0.8**	1.1
Subordinated shareholder loans	**27.1**	25.1
	3,031.2	2,311.0
Debt issue costs	**(15.5)**	(19.9)
Total borrowings	**3,015.7**	2,291.1
Of which:		
Due for settlement within 12 months	**74.5**	48.2
Due for settlement after 12 months	**2,941.2**	2,242.9
	3,015.7	2,291.1

22. Borrowings (continued)

Company	2019	2018
Bank facilities	55.0	25.0
Subordinated shareholder loans	27.1	25.1
	82.1	50.1
Debt issue costs	(0.3)	(0.5)
Total borrowings	81.8	49.6
Of which:		
Due for settlement within 12 months	–	–
Due for settlement after 12 months	81.8	49.6
	81.8	49.6

Loan notes have the following features:

Loan facility	Established	Facility type	Facility size (£m)	Expiry
Charles Street ABS	2007	Revolving	1,255.0	Sept 2023
Delta ABS 2	2019	Revolving	200.0	Mar 2023
Highfield ABS	2018	Revolving	525.0	Jun 2022
Lakeside ABS	2015	Revolving	255.0	Jan 2021
Together ABS 1	2017	Amortising	275.0	Sept 2021
Together ABS 2	2018	Amortising	273.0	Nov 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 £5.1m had amortised by 30 June 2019 (2018: £3.1m), representing the subordinated shareholder funding reserve of £41.0m (2018: £43.0m). 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.

On 13 September 2018, the Group completed the refinancing of its revolving funding facility, Charles Street ABS on improved terms. The facility has also been increased from £1,000.0m to £1,255.0m, with the facility's maturity date extended to September 2023.

On 8 November 2018, the Group announced the completion of its second residential mortgage-backed securitisation, Together ABS 2, raising £272.6m of rated notes on a loan portfolio of £286.9m.

On 29 March 2019, the Group repaid its revolving £90.0m Delta ABS 1 programme, replacing it with a £200.0m revolving facility maturing in 2023, Delta ABS 2.

Borrowings have the following maturities:

As at 30 June 2019:

Group	<1 year	1-2 years	2-5 years	>5 years	Total
Bank facilities	–	55.0	–	–	55.0
Loan notes	74.7	259.9	1,886.9	–	2,221.5
Senior secured notes	–	–	726.8	–	726.8
Finance leases	0.5	0.3	–	–	0.8
Subordinated shareholder loans	–	–	–	27.1	27.1
	75.2	315.2	2,613.7	27.1	3,031.2
Debt issue costs	(0.7)	(0.8)	(14.0)	–	(15.5)
	74.5	314.4	2,599.7	27.1	3,015.7

Company	<1 year	1-2 years	2-5 years	>5 years	Total
Bank loans	–	55.0	–	–	55.0
Subordinated shareholder loans	–	–	–	27.1	27.1
	–	55.0	–	27.1	82.1
Debt issue costs	–	(0.3)	–	–	(0.3)
	–	54.7	–	27.1	81.8

Notes to the financial statements (continued)

All amounts are stated in £m

22. Borrowings (continued)

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	1,449.9	–	1,526.7
Senior secured notes	–	–	375.0	352.4	727.4
Finance leases	0.4	0.5	0.2	–	1.1
Subordinated shareholder loans	–	–	–	25.1	25.1
	48.7	34.7	1,850.1	377.5	2,311.0
Debt issue costs	(0.5)	(0.4)	(15.0)	(4.0)	(19.9)
	48.2	34.3	1,835.1	373.5	2,291.1

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

23. Other liabilities

Group	2019	2018
Trade creditors	**1.9**	1.2
Other creditors	**2.7**	2.5
Other taxation and social security	**1.0**	2.7
Accruals and deferred income	**49.2**	37.8
	54.8	**44.2**

Company	2019	2018
Amounts owed to subsidiaries	**738.3**	737.9
Accruals and deferred income	**0.4**	0.9
	738.7	**738.8**

24. Share capital

Authorised	2019	2018
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	2019	2018
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

A ordinary shares carry voting rights, rights to certain dividends and rights to participate in a distribution (including on winding up) as set out in the articles of association. The holders of B, C and D ordinary shares do not have voting rights, but do have rights to certain dividends and participation in a distribution (including on winding up) as set out in the articles of association. E ordinary shares have been issued, and the directors of Together Financial Services Limited are authorised to allot up to 10,000 E ordinary shares to holders of D ordinary shares.

25. Financial instruments and fair values

The Group measures fair values using the following hierarchy, which reflects the significance of the inputs used in making the measurements:

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.

Financial instruments measured at fair value

The following table summarises the fair values as at the year end of financial instruments measured at fair value, analysed into different levels according to the degree to which they are based on observable inputs:

Derivative assets held for risk management	Level 1	Level 2	Level 3	Total
2019				
Interest-rate risk	–	**0.1**	–	**0.1**
	–	**0.1**	–	**0.1**
2018				
Interest-rate risk	–	–	–	–
	–	–	–	–

The Group's only derivative is an interest-rate cap, used to hedge the cash flows on certain of the Group's floating-rate loan notes. The valuation is a level 2 measurement, being derived from generally accepted valuation models that use a forecast future interest-rate curve derived from market data.

Financial instruments not measured at fair value

All the Group's other 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 expected credit losses under IFRS 9 in the current year, and incurred losses under IAS 39 in prior years.

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 the three different valuation levels:

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.

2019 on an IFRS 9 basis	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets					
Loans and advances to customers	–	–	**3,723.5**	**3,723.5**	**3,694.5**
Financial liabilities					
Borrowings	**737.4**	**2,280.0**	**29.2**	**3,046.6**	**3,015.7**

2018 on an IAS 39 basis	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	1,554.4	33.9	2,325.5	2,291.1

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.

Notes to the financial statements (continued)

All amounts are stated in £m

25. Financial instruments and fair values (continued)

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 1% higher than the carrying value as at 30 June 2019 (2018: 2% 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 £208m (2018: £70m) and a 1% decrease would result in an increase of £137m (2018: £74m).

The borrowings stated at fair value in level 3 almost entirely represent subordinated shareholder loans and notes. Market prices are not available for these loans and so fair value has been estimated by discounting the related expected future cash flows. As market rates are not observable for these loans, management has derived discount rates by reference to other arm's length transactions with investors, making allowance for the tenor and seniority of the loans. The loans repayable in 2024 are discounted at 6.75% (2018: 7.25%) and those in 2036 at 7.50% (2018: 7.75%). A 1% reduction in the discount rate would result in an increase in the fair value of approximately £3.1m (2018: £3.0m) and a 1% increase in the rate would result in a decrease in the fair value of approximately £2.7m (2018: £2.6m).

26. Notes to the cash flow statement

Reconciliation of profit after tax to net cash outflow from operations

Group	2019	2018
Profit after tax	111.7	106.4
Adjustments for:		
Taxation	18.6	15.3
Depreciation and amortisation	4.4	4.7
Losses on disposal of fixed assets	0.1	–
Interest expense	116.8	92.8
Purchase of derivatives held for risk management	(0.3)	–
Increase in loans and advances to customers	(767.8)	(717.3)
(Increase)/decrease in other assets	(0.5)	0.1
Decrease in inventories	–	0.3
Increase in accruals and deferred income	12.5	1.7
(Decrease)/increase in trade and other liabilities	(0.8)	0.5
Cash outflow from operations	**(505.3)**	(495.5)

Company	2019	2018
Loss after tax	(2.2)	(2.1)
Adjustments for:		
Interest expense	60.6	50.9
Intergroup recharges and treasury transfers	34.5	(25.1)
(Decrease)/increase in accruals	(0.5)	0.9
Cash inflow from operations	**92.4**	24.6

26. Notes to the cash flow statement (continued)

Reconciliation of changes in liabilities arising from financing activities

As at 30 June 2019:

Group	At beginning of year	Net cash flows	Non-cash changes: IFRS 9 adjustment	Non-cash changes: Prepaid fees	Non-cash changes: Amortisation of premiums and discounts	At end of year
Bank facilities	**30.7**	**24.3**	**–**	**–**	**–**	**55.0**
Loan notes	**1,526.7**	**700.4**	**(5.6)**	**–**	**–**	**2,221.5**
Senior secured notes	**727.4**	**–**	**–**	**–**	**(0.6)**	**726.8**
Finance leases	**1.1**	**(0.3)**	**–**	**–**	**–**	**0.8**
Subordinated shareholder loans	**25.1**	**–**	**–**	**–**	**2.0**	**27.1**
	2,311.0	**724.4**	**(5.6)**	**–**	**1.4**	**3,031.2**
Net debt issue costs	**(19.9)**	**–**	**–**	**4.4**	**–**	**(15.5)**
Total borrowings	**2,291.1**	**724.4**	**(5.6)**	**4.4**	**1.4**	**3,015.7**

As at 30 June 2018:

Group	At beginning of year	Net cash flows	Non-cash changes: Prepaid fees	Non-cash changes: Amortisation of premiums and discounts	At end of year
Bank facilities	–	30.7	–	–	30.7
Loan notes	1,097.2	429.5	–	–	1,526.7
Senior secured notes	575.0	152.4	–	–	727.4
Finance leases	0.6	0.5	–	–	1.1
Subordinated shareholder loans	23.2	–	–	1.9	25.1
	1,696.0	613.1	–	1.9	2,311.0
Net debt issue costs	(18.8)	–	(1.1)	–	(19.9)
Total borrowings	1,677.2	613.1	(1.1)	1.9	2,291.1

As at 30 June 2019:

Company	At beginning of year	Net cash flows	Non-cash changes: Prepaid fees	Non-cash changes: Amortisation of premiums and discounts	At end of year
Bank facilities	**25.0**	**30.0**	**–**	**–**	**55.0**
Subordinated shareholder loans	**25.1**	**–**	**–**	**2.0**	**27.1**
	50.1	**30.0**	**–**	**2.0**	**82.1**
Net debt issue costs	**(0.5)**	**–**	**0.2**	**–**	**(0.3)**
Total borrowings	**49.6**	**30.0**	**0.2**	**2.0**	**81.8**

Notes to the financial statements (continued)

All amounts are stated in £m

26. Notes to the cash flow statement (continued)

As at 30 June 2018:

			Non-cash changes		
Company	At beginning of year	Net cash flows	Prepaid fees	Amortisation of premiums and discounts	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)
Total borrowings	22.5	25.0	0.2	1.9	49.6

27. 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 HN Moser, a director of Together Financial Services Limited, and the DL Moser 1995 Family Settlement No1 Trust (together the Moser Shareholders). The Moser Shareholders indirectly own 100% of the Company's voting share capital.

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. The Group performs underwriting, collection and arrears-management activities for these loans. The Group also manages accounts payable on behalf of the company and provides ancillary accounting and treasury services for which it is reimbursed.
Sterling Property Co. Limited	Sterling Property Co. Limited provides property management services for properties repossessed or placed into LPA receivership by the Group.
SP Assets LLP	The Group provides loans with interest charged on a commercial basis secured on certain assets of this entity.
August Blake Developments Limited, Edgworth Developments Limited, Sunnywood Estates Limited	The Group provides loans with interest charged on a commercial basis secured on certain assets of these companies. The Group also manages accounts payable on behalf of these entities.

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

27. Related party transactions (continued)

b) Parent companies

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

Entity	Nature of transactions
Bracken Midco2 Limited	In November 2016, the Company received subordinated funding from Bracken Midco2 Limited. The subordinated loans are interest-free and for fixed terms, as set out in Note 22. 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 18. 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 borrowings. 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 17 and remuneration in the ordinary course of business (Note 10).

Transactions

The amounts receivable from and payable to related parties by the Group and Company are disclosed in Notes 17 and 23 to the financial statements. The Group and Company had the following transactions with related parties during the year:

	2019		2018	
Group	**Charge/ (credit) to income or equity**	**Paid**	Charge/ (credit) to income or equity	Paid
Lease and insurance costs	**1.4**	**1.4**	1.3	1.0
Accounts payable transactions	**–**	**1.9**	–	1.4
Impairment of related party loans	**0.7**	**–**	1.0	–
Interest on related party loans	**(0.8)**	**–**	(0.7)	–
Related parties of the Moser Shareholders	**1.3**	**3.3**	1.6	2.4
Interest expense	**2.0**	**–**	1.9	–
Dividends paid	**29.9**	**29.9**	22.9	22.9
Parent companies	**31.9**	**29.9**	24.8	22.9
Total related parties	**33.2**	**33.2**	26.4	25.3

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:

	2019	2018
Within one year	**1.2**	1.1
Between one and five years	**4.9**	4.3
After five years	**7.9**	4.3
Total operating leases	**14.0**	9.7

Notes to the financial statements (continued)

All amounts are stated in £m

27. Related party transactions (continued)

Transactions (continued)

Company	2019 Charge/ (credit) to income or equity	2019 Paid/ (received)	2018 Charge/ (credit) to income or equity	2018 Paid
Interest expense	**2.0**	–	1.9	–
Dividends paid	**29.9**	**29.9**	22.9	22.9
Parent companies	**31.9**	**29.9**	24.8	22.9
Costs including management recharges	**0.7**	**–**	0.9	–
Interest recharges	**(10.2)**	**–**	(6.0)	–
Net provision of treasury funding	**–**	**(65.1)**	–	20.2
Subsidiary companies	**(9.5)**	**(65.1)**	(5.1)	20.2
Total related parties	**22.4**	**(35.2)**	19.7	43.1

28. Contingent liabilities

a) Regulatory and conduct matters

As described in the Principal risks and uncertainties section of the Risk Management report, as a result of undertaking internal reviews, within the regulated division, instances have been identified where some past written communications with customers should have been clearer and more complete, and other instances where, for certain customers in arrears the outcome may have been improved if different forbearance tools had been applied. The FCA has been notified of these matters, and a plan has been proactively developed by the Personal Finance division and communicated to the FCA as part of ongoing dialogue on this matter.

Further evaluation of these issues is underway, and the Personal Finance division has appointed an experienced third-party to support this activity, with a view to identifying any instances where customers have been adversely affected. Given the nature of individual circumstances that may have arisen, this assessment could result in individual case reviews being required. The range of circumstances and work required to assess individual factors means that, at this stage, it is not practicable to estimate the financial impact of any remediation activity, but it is expected that redress payments will be made to certain affected customers, and that this could be material for the entities involved.

The Group is committed to delivering good customer outcomes and has already taken steps to improve these written customer communications. Quality assurance processes have been enhanced in relation to the selection of the most appropriate forbearance measures and additional training has been provided for some customer-facing colleagues to support them in selecting the most appropriate forbearance for our customers.

b) Fixed and floating charges

As at 30 June 2019, the Group's assets were subject to a fixed and floating charge in respect of £725m senior secured notes (30 June 2018: £725m) and £55m in respect of bank borrowings (30 June 2018: £25m).

29. Pension arrangements

During the year the Group contributed to employees' personal pension plans. The total cost for the year amounted to £1.1m (2018: £0.9m). Additionally, the Group operated a defined contribution scheme for which the pension costs charge for the year amounted to £nil (2018: £nil).

30. Share-based payments

Senior management has previously been granted D shares and options over E shares of the Company. The ability to dispose of such shares and execute such options is conditional on sale of 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 of granting. Such awards are treated as equity settled by virtue of where the obligation rests on such awards being realised. The options over the E shares have not yet been exercised.

31. Commitments

The Group has commitments to extend credit which are not recorded on the balance sheet. This includes both undrawn elements of existing facilities, as well as new commitments to lend. The amounts do not represent the amounts at risk at the balance sheet date but the amounts that would be at risk should the facilities be fully drawn upon and should the customer default.

At 30 June 2019, the Group had undrawn commitments to lend of £153.8m (30 June 2018: £107.6m). These relate mostly to irrevocable lines of credit granted to customers. The ECL on the undrawn elements of existing facilities is included within the total ECL held within net loans and advances to customers. The ECL on new lending commitments is £0.1m (30 June 2018: £nil), and is classified within other liabilities.

The increase in undrawn commitments to lend is largely driven by an increase in the Personal Finance loan pipeline as at 30 June 2019 compared with 30 June 2018.

32. 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 immediate parent company of Together Financial Services Limited is Bracken Midco2 Limited.

The registered office of Redhill Famco Limited and Bracken Midco2 Limited is Lake View, Lakeside, Cheadle, Cheshire, SK8 3GW.

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Glossary

2021 Senior Secured Notes (SSNs 2021)	£375m senior secured notes issued by a subsidiary of the Group, Jerrold Finco PLC.
2024 Senior Secured Notes (SSNs 2024)	£350m senior secured notes issued by a subsidiary of the Group, Jerrold Finco PLC.
ALCO	Asset and Liabilities Committee. Responsible for managing the Group's exposure to capital, liquidity, interest rate risk and market risk.
Bank Rate	Bank of England Bank Rate, also known as base rate.
BTL	Buy-to-let.
Capital risk	The risk that the Group fails to hold adequate capital buffers and to appropriately manage the Group's capital base.
Charles Street ABS	Charles Street Conduit Asset Backed Securitisation 1 Limited - £1,255m facility with a maturity date of September 2023.
Company	Together Financial Services Limited is a private company, limited by shares, and is registered in England (company number: 02939389).
Compliance risk	The risk arising from the failure to comply with existing or new legislation or regulations in the markets within which the Group operates.
Conduct risk	The risk arising from business activities that fail to deliver appropriate and consistent outcomes to customers and stakeholders.
Credit risk	The risk arising as result of default by customers or counterparties due to failure to honour obligations when they fall due.
Delta ABS 1	Delta Asset Backed Securitisation 1 Limited - £90m facility with a maturity date of January 2021. This was fully repaid on 29 March 2019.
Delta ABS 2	Delta Asset Backed Securitisation 2 Limited - £200m facility with a maturity date of November 2023.
Development loans	Development loans are loans that we extend to finance the development of land or property primarily into residential units with repayments typically being made out of the sale of the units.
EBITDA	Earnings before interest, tax, depreciation and amortisation. The calculation of this is shown in the alternative performance measures.
Expected Credit Loss (ECL)	ECLs are a probability- weighted estimate of the present value of credit losses discounted over the expected life of an instrument at its original effective interest rate. Calculated using a statistical model based on probability of default, loss given default and exposure at default.
EIR	Effective interest rate, i.e. the rate that, at inception of the instrument, discounts its estimated future cash payments or receipts to the gross carrying amount, in the case of financial assets, or to the amortised cost in the case of financial liabilities.
Enterprise risk-management framework (ERMF)	This provides the requisite organisational arrangements and foundation for managing risks in a consistent and structured manner.
Fair value	The amount at which an asset could be exchanged, or a liability settled, between willing parties in an arm's length transaction.

Financial Conduct Authority (FCA)	The FCA is the conduct regulator for financial services firms and financial markets in the UK.
Forbearance	A concession that is made on the contractual terms of a loan or mortgage in response to a borrower's financial difficulties.
FRC	Financial Reporting Council, the independent regulator in the UK responsible for regulating auditors, accountants and actuaries, and setting the UK's Corporate Governance and Stewardship Codes.
Gross domestic product (GDP)	GDP measures the total value of all of the goods made and services provided in a country in a year.
Highfield ABS	Highfield Asset Backed Securitisation 1 Limited - £525m facility size with a maturity date of June 2022.
IFRS	International Financial Reporting Standards.
IFRS 9	International Financial Reporting Standard 9 - *Financial Instruments*. This standard replaces International Accounting Standard 39 - *Financial Instruments: recognition and measurement*. The Group adopted this standard from 1 July 2018, and further details regarding the impact of the transition are contained within Note 2 to the financial statements.
Lakeside ABS	Lakeside Asset Backed Securitisation 1 Limited - £255m facility with a maturity date of January 2021.
Liquidity and funding risk	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.
Loan book	This refers to the gross loans and advances to customers i.e. loans and advances to customers before impairment allowances.
Loan originations	The process of creating a loan(s) or mortgage(s).
Loss given default (LGD)	An estimate of the likely loss percentage in the event of a default.
LPA	Law of Property Act. The act provides a means by which a secured lender can gain control of a freehold property against a defaulting borrower.
Loan to value (LTV)	The ratio of the amount of a loan to the value of the property on which it is secured. A low LTV denotes a high level of security for our loan. For a first charge loan this is the ratio of the aggregate of (i) the principal amount of a mortgage loan and (ii) the accrued interest and fees, compared to the value of the property securing the loan. For a second charge loan the aggregate of (i) the principal amount of such mortgage, (ii) the accrued interest and fees, (iii) net of impairment and (iv) the prior charge mortgages also secured by the same property, compared to the appraised value.
Market risk	The risk arising from the Group's exposure to movements in market values.
Net loan book	This refers to the net loans and advances to customers i.e. loans and advances to customers after impairment allowances. Prior to 1 July 2018, this is presented on an IAS 39 basis, and from 1 July 2018, this is presented on an IFRS 9 basis. For more details on the impact of the transition to IFRS 9, see Note 2 to the financial statements.
Net promoter score (NPS)	The Net Promoter Score is an index ranging from -100 to 100 that measures the willingness of customers to recommend Together to others based on the service they receive. It is used as a proxy for gauging the overall satisfaction and measuring the customer experience Together provides. The NPS score is collated by Together based on feedback from customers, over a rolling six month period.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Glossary (continued)

PIK toggle notes	A toggle note is a payment-in-kind (PIK) bond in which the issuer has the option, subject to certain conditions being met, to defer an interest payment by agreeing to pay an increased coupon in the future.
Probability of default (PD)	An estimate of the likelihood of default over a given time horizon, estimated at a point in time.
Revolving credit facility (RCF)	Syndicated revolving credit loan facility of £71.9m with a maturity date of June 2021.
Repossession and LPA Receivership	Repossessed properties are properties in respect of which a court order has been actioned by a charge holder to the security or in respect of which the borrower has surrendered ownership of the property. LPA receivership is typically used to exercise security over property used for commercial-purpose loans to enable us subsequently to sell the property (“LPA Sales”).
RMBS	Residential mortgage-backed securitisation.
Senior borrower group	The Company and its subsidiaries, not including Charles Street ABS, Delta ABS, Delta ABS 2, Highfield ABS, Lakeside ABS, Together ABS 1 or Together ABS 2.
Shareholder funds	Equity and shareholder loans and notes. The calculation of this is shown in the section on alternative performance measures.
Strategic risk	The risk of failure to achieve objectives that impact the long term interest of stakeholders.
The Group	Together Financial Services Limited and its subsidiaries.
The tax group	This is the Redhill corporation tax group, which is Redhill Famco Limited, the ultimate parent company of Together Financial Services Limited, together with its subsidiaries, excluding the securitisation vehicles.
Together ABS 1	Together Asset Backed Securitisation 1 PLC – this is an amortising facility which raised £275.0m with a contractual maturity date of 2049 and an option to call the facility in September 2021.
Together ABS 2	Together Asset Backed Securitisation 2018 - 1 PLC – this is an amortising facility, which raised £272.6m against a loan portfolio of £286.9m with a contractual maturity of 2050 and an option to call the facility in November 2022.
Underlying profit before tax	Underlying profit before tax (PBT) is the Group’s statutory profit before tax adjusted for one-off exceptional items. There have been no such exceptional items in 2019 or 2018. However in 2017, underlying PBT excluded one-off refinancing and transaction costs of £23.0m.
Weighted average LTV of originations	For loans originated during the period, this is the percentage of the gross mortgage loan at origination, represented by the appraised value at the point of origination, of the property securing the loan. This is sometimes referred to as 'WA LTV of originations'.
Weighted average LTV of portfolio	This is the percentage of the gross mortgage loan at the statement of financial position date represented by, the current indexed value, using established regional house price indices to estimate the current security value of the property securing the loan, excluding shortfall accounts.

Alternative performance measures

In the reporting of financial information, we use certain measures that are not required under IFRS, the Generally Accepted Accounting Principles ('GAAP') under which we report. These measures are consistent with those used by management to assess underlying performance. In addition, a number of non-IFRS metrics are calculated which we consider to be helpful in understanding the performance of the Group.

These alternative performance measures have been defined below:

Cost of risk

Impairment charge expressed as a percentage of the average of the opening and closing gross loans and advances to customers.

	IFRS 9 2019 £m	IAS 39 2018 £m
Impairment charge	15.4	11.4
Average gross loans and advances to customers	3,390.7	2,661.6
	0.45%	0.43%

Cost/income ratio

Administrative expenses including depreciation and amortisation divided by operating income.

	2019 £m	2018 £m
Administrative expenses	82.8	69.3
Operating income	228.5	202.4
	36.2%	34.2%

Earnings before interest, tax, depreciation and amortisation (EBITDA)

Profit after taxation adding back interest payable and similar charges, tax on profit and depreciation and amortisation.

	2019 £m	2018 £m
Profit after tax	111.7	106.4
Add back:		
Interest payable and similar charges	116.8	92.8
Depreciation and amortisation	4.4	4.7
Tax on profit	18.6	15.3
	251.5	219.2

Interest cover ratio

The ratio of EBITDA to interest payable and similar charges.

	2019 £m	2018 £m
EBITDA	251.5	219.2
Interest payable and similar charges	116.8	92.8
	2.15:1	2.36:1

Alternative performance measures (continued)

Net debt gearing

Net debt expressed as a percentage of loans and advances to customers. The senior secured notes premium relates to an amortising issue premium on the 2024 senior secured notes.

	2019 £m	2018 £m
Total borrowings	**3,015.7**	2,291.1
Add back debt issue costs	**15.5**	19.9
Less shareholder loans	**(27.1)**	(25.1)
Less obligations under finance leases	**(0.8)**	(1.1)
Less senior secured notes premium	**(1.8)**	(2.4)
Less cash and cash equivalents	**(120.2)**	(74.3)
Net debt	**2,881.3**	2,208.1
Loans and advances to customers	**3,694.5**	2,958.2
	78.0%	74.6%

Net interest margin (NIM)

Net interest income, adding back shareholder loan interest as a percentage of the average of the opening and closing net loans and advances to customers.

	2019 £m	2018 £m
Net interest income	**226.3**	199.4
Average loans and advances to customers	**3,326.3**	2,599.5
	6.8%	7.7%

Return on equity (ROE)

Calculated as profit after tax adding back shareholder loan interest as a percentage of the average of the opening and closing shareholder funds (which include shareholder loans of £27.1m (2018: £25.1m)).

	2019 £m	2018 £m
Profit after tax	**111.7**	106.4
Add back shareholder loan interest	**2.0**	1.9
Total return to shareholder	**113.4**	108.3
Average shareholder funds	**763.4**	694.3
	14.9%	15.6%

Shareholder funds

This is equity plus subordinated shareholder loans of £27.1m (2018: £25.1m)

	2019 £m	2018 £m
Equity	**762.8**	711.9
Shareholder loans	**27.1**	25.1
	789.9	737.0

Further Information

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