Supporting our customers and shaping our business for the future

Common sense lending
for over four decades

together.
SINCE 1974

Annual report & consolidated
financial statements for the
year ended 30 June 2020

Introduction

Established in 1974, Together is one of the UK's leading specialist lenders with a gross £4.3bn loan book spread across a diverse range of products supporting home ownership, property investors, small to medium enterprises and commercial customers.

Having traded for more than 45 years means we have proven through-the-cycle experience, including managing the business successfully through multiple recessionary periods.

Our business is built on strong foundations of long-term underwriting expertise, with lending secured at prudent Loan-to-values (LTV), operating in profitable market segments and delivering strong cash flows.

The Covid-19 pandemic has affected economies across the globe, including the UK. As we emerge from the crisis and shape our business for the future, we believe a significant market opportunity will exist for specialist lenders like Together to play our part in helping our customers, wider society and by doing so supporting the UK's economic recovery.

We are Together.

1974 — **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

46 years of building long-term value

2020

- **£1.7bn** originations
- **£4.3bn** loan book
- £435m bond refinance
- £361m RMBS - fourth public securitisation
- Supported c.16% of customers by value with Covid-19 mortgage payment deferrals
- Adopted the Wates Corporate Governance Principles for Large Private Companies

2019

- 45th Anniversary
- **Sunday Times 100 Best Companies to Work For**
- **£2.0bn** originations
- **£3.8bn** loan book

2018

- **Sunday Times 100 Best Companies to Work For**
- **£150m** further bond issuance
- **£525m** Highfield ABS – another securitisation vehicle established
- **£3.1bn** loan book

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
- **£1.2bn** annual lending

2016

Sunday Times Top Track 250

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

2015

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

Contents

Overview

Introduction	IFC
Highlights	02

Strategic report

Chairman's review	06
A message from our Chief Executive	10
Interview with Group CEO Designate, Gerald Grimes	12
Business model	14
Strategy	16
Operating review	18
Financial review	26
Stakeholder engagement report	31
Section 172 statement	38

Corporate governance

Corporate governance and committee structure	40
Directors' report	48
Statement of directors' responsibilities	50

Risk management

Overview of risk management within the Group	51
External environment	52
Principal risks and uncertainties	55

Financials

Independent auditor's report	64
Consolidated statement of comprehensive income	66
Consolidated statement of financial position	67
Company statement of financial position	68
Consolidated statement of changes in equity	69
Company statement of changes in equity	70
Consolidated statement of cash flows	71
Company statement of cash flows	72
Notes to the financial statements	73

Appendix

Glossary	108
Alternative performance measures	110

Further information 114

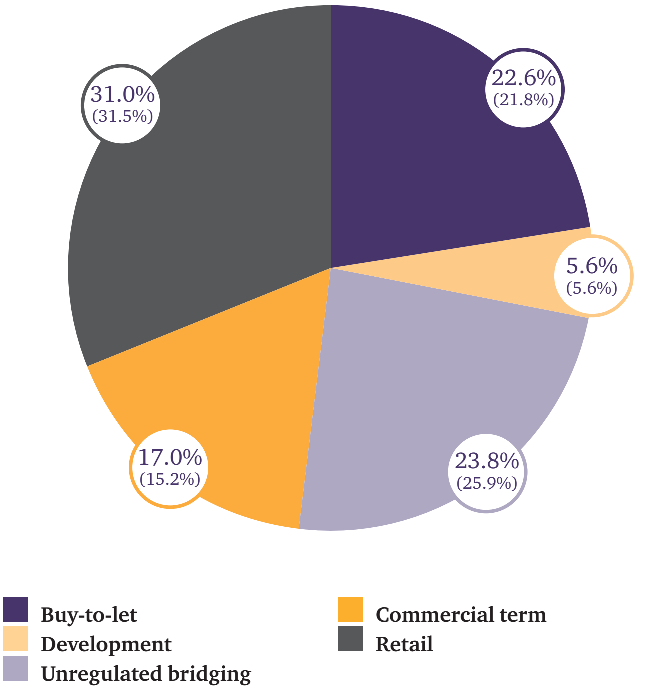
Highlights

01

We operate as a specialist lender in attractive growing markets…

Our net loan book £4.2bn (2019: £3.7bn) as at 30 June 2020

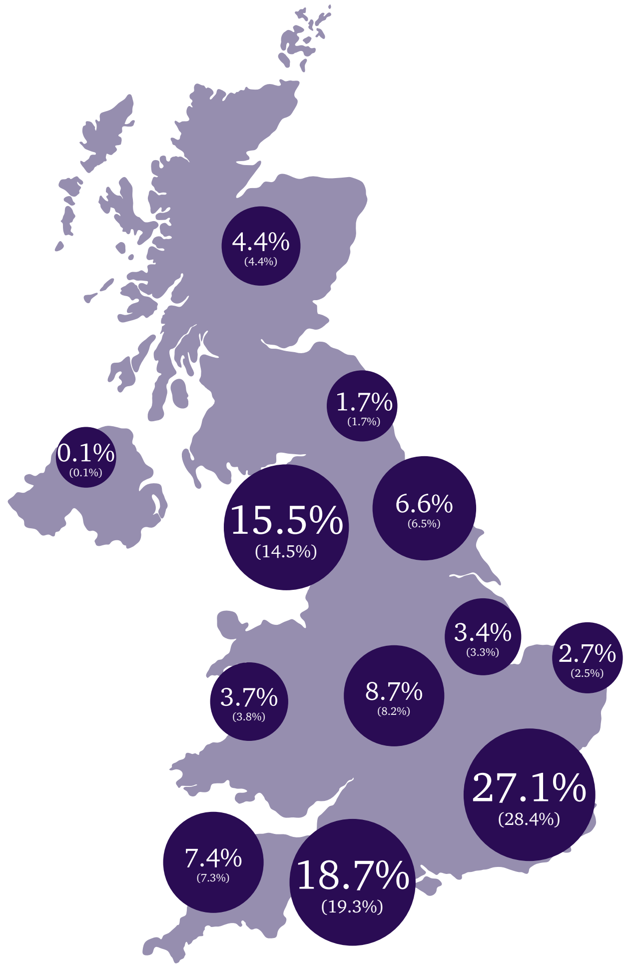
64.9% secured on residential property (2019: 65.9%)



02

…providing secured lending to underserved customers across the UK…

Percentage of our loan book by geographic region[1]



01

02

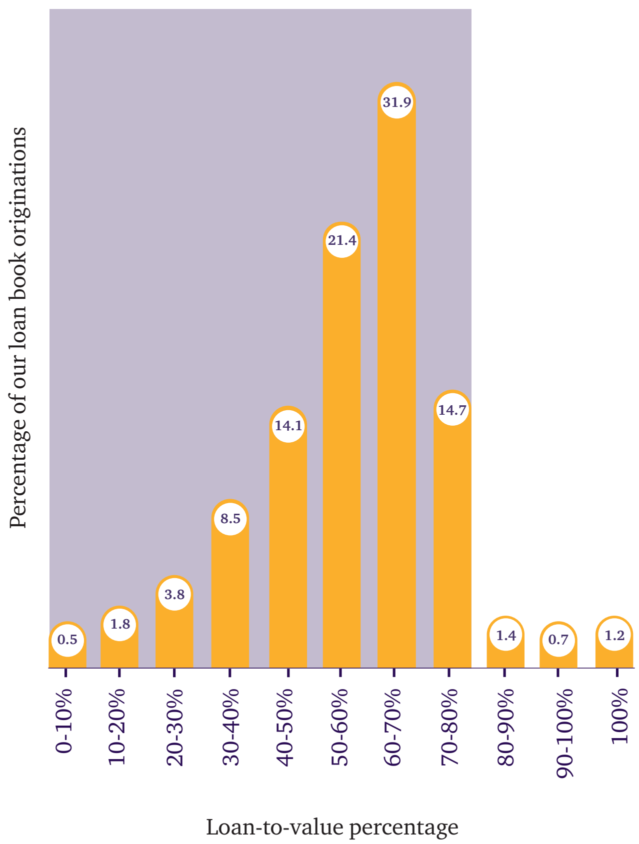
[1] Based on net loan book by value

03

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

Conservative origination LTVs[1]

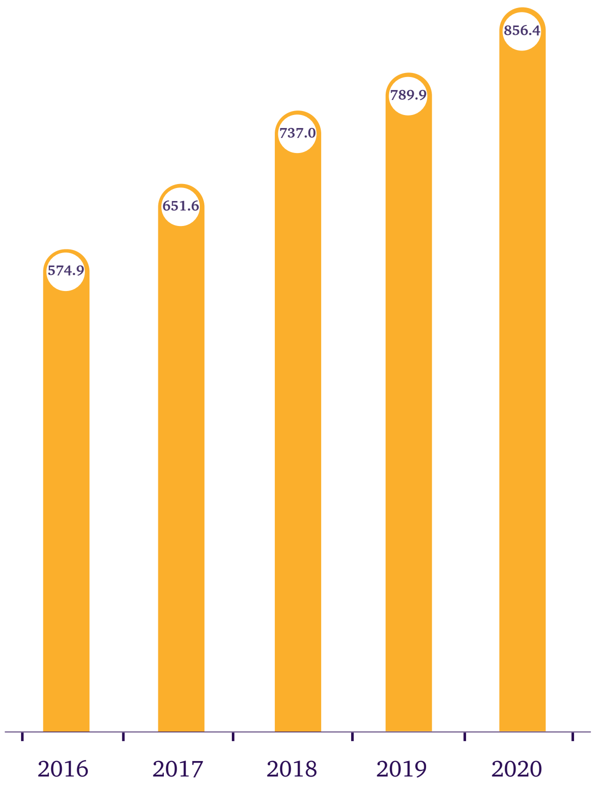
96.7% of originations in the year <80% LTV (2019: 96.7%)



04

…building long-term value for our stakeholders.

Shareholder funds[1]
Total £m



03

04

[1] Refer to appendix for definitions and calculations

Highlights (continued)

Read more information on our financial performance in the Financial review

Key performance indicators

£119m
Underlying PBT [1]
(2019: £130m)

£95m
PBT[1]
(2019: £130m)

1.70%
Cost of risk[1]
(2019: 0.46%)

36.5%
cost/income[1]
(2019: 36.2%)

29.0%
Underlying cost/income[1]
(2019: 36.2%)

[1] Refer to appendix for definitions and calculations

6.4%

NIM[1]

(2019: 6.8%)

6.6%

Underlying NIM[1]

(2019: 6.8%)

£388.4m

Interest receivable and similar income

(2019: £343.1m)

54.9%

weighted average indexed LTV of portfolio[1]

(2019: 54.3%)

77%

of customer reviews were rated 5 star[2]

(2019: 74%)

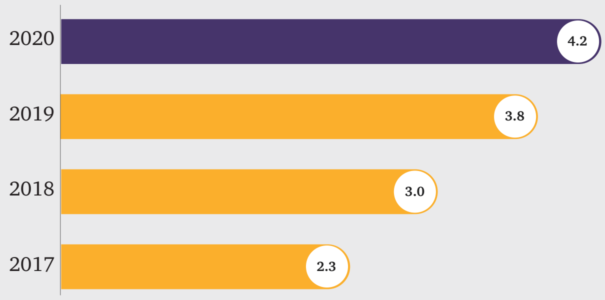
£170,000

Charitable donations

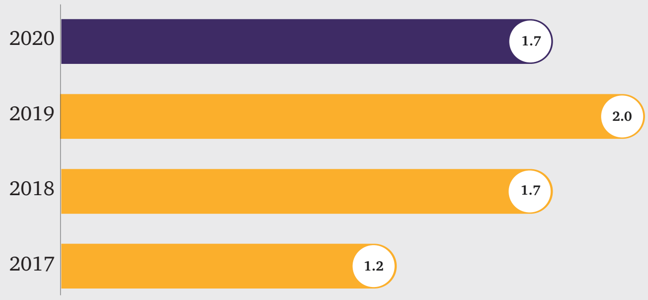
(2019: £80,000)

Loan book (£bn)

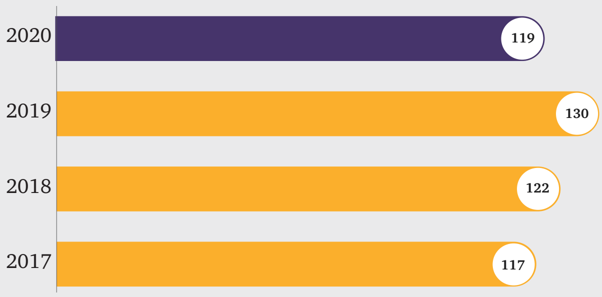
12.7% growth in loan book to £4.2bn



Originations (£bn)



Underlying PBT[1] (£m)



[1] Refer to appendix for definitions and calculations

[2] Based on 720 customer reviews collated by Feefo since Jan 2019

Chairman’s review

Mike McTighe
Chairman

The last year has been like no other. I would normally expect to report on the strong progress made by the Group during the period, and while there is much to say about this, my comments must first focus on the overarching impact of the coronavirus pandemic on the Group, the economy and our lives.

The coronavirus pandemic and Together

Protecting our colleagues

I am proud to say that Together’s management team responded quickly and proactively to the emerging reports of the coronavirus. In February we activated our business-continuity planning and introduced changes around the office such as the installation of hand sanitisers and signage, while behind the scenes our IT and business-change teams mobilised to extend our capability for homeworking. As a result, by the time the government announced the lockdown, we were immediately able to have 93% of colleagues working from home, reaching 98% by the end of March. We adapted our management processes to support colleagues at what could be a very unsettling and solitary time, ensuring frequent communication, and providing guidance on matters such as mental health and personal wellbeing.

More recently we have focused on safely facilitating the return to the office environment, in a phased approach, for a number of colleagues. This entails safeguards such as the curtailment and spacing of desks available, internal two-way systems, protective hygiene supplies, and temperature checks for all entering our buildings. As national and local measures continue to be updated to control the outbreak, we are flexing these arrangements to maintain the appropriate degree of social distancing for the wider gradual return to work.

Colleagues received some great feedback from customers for their personable and understanding approach

Supporting our customers

Enabled by this capacity for homeworking, we rapidly redeployed the necessary people from across the business to support our customers. This allowed us to provide the greater levels of contact needed, not only making available the mortgage-payment deferrals set out by the government but also giving the personal reassurance customers required. Despite the difficulty of implementing such changes so quickly, colleagues received some great feedback from customers for their personable and understanding approach, and at the same time we have been able to maintain quality assurance and continually improve the operational efficiency of the new ways of working. While the government support for mortgage-payment deferrals relates to residential and buy-to-let borrowers, we also extended it to commercial borrowers where appropriate, and overall approximately 16% of our customers by value taken payment deferrals or other agreed forbearance measures.

The original payment-deferral measures and the moratorium on repossessions were extended to October, and the government and regulator have issued guidance on how the industry should exit from these arrangements. The Group has supported customers in resuming payments where they are able to do so, or with further forbearance measures if necessary.

Maintaining our resilience

With a wealth of experience from the numerous economic downturns in our 46-year history, and most recently the credit crisis, we adopted a cautious approach to protecting the business, and in particular through maintaining liquidity and capital buffers. We were therefore among the first specialist lenders to pause lending other than for existing commitments to our customers. In May, the Group and its funding providers agreed temporary waivers to certain facility covenants in support of the provision of customers' payment deferrals in line with government guidance.

The suspension of new lending meant it was appropriate to furlough approximately 300 colleagues. We also took the decision to continue to support our furloughed colleagues during these challenging times, topping up salaries to 100% for lower-paid employees and to 80% for all other employees. In addition, and to show our support and appreciation, all the executive and non-executive directors from the Group and divisional boards donated 20% of their May monthly salary to the NHS.

We also introduced other measures to reduce costs. These included forgoing annual salary increases for the coming year, revisions to long-term incentive plans, and the curtailment of discretionary expenditure that would not add value in the near term, principally on marketing and sales.

It is clear we are facing a deep and sustained global recession and this will undoubtedly have an impact on property activity, unemployment and growth within the UK. Many businesses are facing grave challenges and we expect more to do so in the months that lie ahead. As a business with such longevity, we have experience of navigating our way through difficult times and we have done this successfully by remaining agile, prudently managing costs and where necessary taking difficult decisions to protect our long-term interest. The enduring nature of the pandemic has meant that, despite our actions to date, for the long-term good of the business in September it has been necessary to announce redundancies for colleagues whose roles could no longer be supported under the Group's revised plans. We know this news will be unsettling, and it comes during what has been an extraordinarily challenging period for everyone. We have sought to mitigate this position by redeploying colleagues within the business where appropriate. We value our colleagues immensely, so the changes are difficult, but ultimately we feel the right ones for the business in the long term. We offer our sincere thanks and best wishes to all of our affected colleagues.

For more information on our response to the coronavirus pandemic, see the **Operating review** and the **Stakeholder engagement report**.

A clear sense of purpose

Our vision is to put common sense into lending and our mission is to turn challenges into opportunities that make our customers' financial ambitions accessible, including for customers who may not fit into mainstream lending criteria. Together's clear sense of purpose has never seemed more relevant.

In the section on our culture in the **Stakeholder engagement report** we set out our vision, mission and beliefs and how this creates value for all of our stakeholders.

Managed growth

The Group's consistent strategy over past periods of profitably growing its lending portfolio at conservative loan-to-value (LTV) ratios has served us well in the face of the current economic environment. Loan originations for the year of £1.7bn finished below last year's £2.0bn because of the pause in new lending, but prior to the pandemic had been running at approximately 13% higher than the previous year. During the year we have continued to invest in modernising and improving the way we operate as part of our plan to position the business for the future.

The transformation of the economic environment has required all lenders to make allowance for greatly increased loan losses that will inevitably crystallise in the future. Despite this, Together's conservative approach to lending, with an average indexed LTV for its loan portfolio of only 54.9% (2019: 54.3%), means that we have still been able to report profit before tax for the year of £94.6m. While a fall from last year's peak of £130.3m, this profitability demonstrates the robustness of our business model.

Diversity, scale and maturity of our funding structure

Enabling recent years' growth has been a programme of continual enhancement to the Group's funding facilities while also improving pricing and other terms, and this continued during the year.

In October 2019 the Group announced the issuance of our third residential mortgage-backed securitisation (RMBS), 'Together ABS 3' of £315m, and the successful refinancing of the Lakeside Asset Backed Securitisation facility, increasing its size from £255m to £500m and extending the maturity date to 2023. In February 2020 the Group refinanced its £375m senior secured notes, increasing the size of the issuance to £435m and extending the maturity to February 2026. The Group also extended the maturity of £25m of its subordinated shareholder loans to September 2026. The **Operating review** provides more details of the year's funding activity.

The resilience of our business model, and the strength of our funding structure and relationships with our banks and investors meant we were able to agree suitable covenant waivers with them to support payment deferrals for customers necessitated by the pandemic that I referred to earlier. These strengths proved particularly valuable when, in July, we were able to launch our fourth RMBS, Together ABS 4, raising funding of £361m despite the markets still being at an early stage of reopening. In September, the maturity date on the undrawn £71.9m RCF facility was also extended to June 2023.

Chairman's review (continued)

Continued improvement in our governance

In previous years I have reported on the development of our governance arrangements to ensure they are in keeping with our business as it grows in size and complexity. For this year's annual report we have chosen to adopt the 'Wates' corporate governance principles for large private companies. The Board's activities in this context are set out in detail in the **Corporate governance** section. The strategic report includes a new report on how the directors have had regard to their statutory s172 duty to promote the success of the company.

There are also new directors' report requirements on employee engagement and business relationships, the substantive detail of which is contained in the **Stakeholder engagement report**. The latter sets out how seriously we take our responsibilities to stakeholders, describing for example how we support our colleagues and our community. It also describes how we have prioritised customer remediation when our processes have fallen short. While such instances are deeply regrettable, they do provide insight in improving customer service in the future, and we believe our Voice of the Customer programme provides an excellent means of embedding a learning culture in the organisation.

In December 2019 the Personal Finance division successfully implemented the Senior Managers & Certification Regime of its regulator, the FCA, and continues to embed it in its processes and culture. Recognising the importance of high standards of governance, the Board of Together Personal Finance Limited has voluntarily adopted the Wates principles. In January 2020 the Personal Finance Board was strengthened with the appointment of John Hooper as a non-executive director. As the former chief operating officer of Clydesdale Bank, John brings over 35 years of banking, finance and risk experience and will be a valuable addition to the divisional board.

After two and a half years with the Group, our Group Finance Director John Lowe is leaving the business to seek new opportunities closer to his home. We are sorry to see him leave and wish him every success for the future. However, I am delighted to welcome Gerald Grimes as our new Group CEO Designate. Gerald has a wealth of expertise in financial services spanning four decades, and held senior roles in a number of major financial institutions and regulatory bodies. Gerald will work closely with our CEO Henry Moser and executive team in moving the business forward through the next phase of its development.

Outlook

For the last several years I have had to recognise the relatively uncertain economic outlook facing the country, and what this means for Together. However, those uncertainties pale into insignificance compared with the macroeconomic environment in which we now find ourselves. While we now have some data on how deep the UK's recession is, we are all still facing the unknown in gauging how long the recovery will take and what this will mean for the country, our markets and Together.

What I am confident of is that Together's business model and strategy, of consistently applying our expertise in underwriting secured loans at prudent LTVs in specialist markets, provides resilience and gives us a competitive advantage, and this will not only see us safely through the recession but place us in a strong position to support our customers during the eventual recovery.

Mike McTighe
Chairman

"Together is a very special place with a unique character, culture and great people."

A message from our Chief Executive

The year to 30 June 2020 has been truly extraordinary. For most of the first three quarters of the year, Together continued to perform strongly, with record levels of originations and robust profitability, while the third quarter was impacted by the rapid global spread of the coronavirus and the resulting national lockdown in the UK resulting in higher impairment charges having taken into consideration the negative changes in economic outlook. However, in the final quarter of the year we saw profits improve as we delivered a very robust profit before tax of £94.6m for the year.

We reacted quickly to the evolving situation to support our customers, protect our colleagues and enhance the future resilience of our business

Together has a unique culture, which has been shaped by our long history, and a successful track record built over multiple economic cycles. Drawing on this experience, we reacted quickly to the evolving situation to support our customers, protect our colleagues and enhance the future resilience of our business. We rapidly adapted to new ways of working, supported our customers with mortgage payment deferrals and took early and decisive actions to preserve and improve our capital and liquidity buffers. We recognise the importance of the banks and investors that participate in our funding structures and I would like to take this opportunity to thank them for their ongoing support, particularly those who have been with us over the longer term.

As we start to emerge from the crisis, many people may find their situations have changed and there will likely be a significant increase in the number of borrowers who will look to specialist lenders, like ourselves, for support. We are taking the necessary actions to modernise and shape our business for the future and Gerald Grimes, who joined the business as Group CEO Designate in April, will play a key role in helping to sustain our success in the future.

We are taking the necessary actions to modernise and shape our business for the future

Henry Moser
Founder and Group Chief Executive Officer

"I am immensely proud of the way all of my colleagues have risen to the challenges of the Covid-19 pandemic."

Interview with Group CEO Designate, Gerald Grimes

Gerald Grimes
Group CEO Designate

Q What attracted you to join Together?

A Together has been a successful secured lender for more than four decades and today it is one of the largest and leading specialist lenders in the UK. I have known the business for a number of years, and recognise that is a very special place with a unique character and culture, and great people. I was delighted when Henry invited me to join the team to help shape the business for the future and to have the chance to play my part in building on the Group's impressive legacy.

Q What are your initial impressions?

A Obviously it has been an interesting and challenging time to join in the middle of the Covid-19 pandemic, but as Einstein said 'in the midst of every crisis, lies great opportunity'. I have been really impressed with how the team has responded to the evolving situation, from having almost everyone working from home by the start of the lockdown, quickly adapting to new ways of working to support our customers and taking early prudent actions to preserve our capital and liquidity buffers, manage our funding lines and assess the financial impacts of the crisis. It has been a great all round team effort, which has only served to reinforce the positive impressions I already had about Together.

Q Obviously Covid-19 has had a major impact on businesses across the globe. What are the main things that Together can take away from the pandemic?

A One of the benefits of a 46-year track record is that Together has traded through a number of economic cycles, including several recessions. This experience has given management a valuable perspective on how to adapt to challenging situations, like the financial crisis and Covid-19, by taking early, prudent, and sometimes difficult decisions. The Group has also built and maintained strong long-term relationships with its key stakeholders, whose ongoing support has been evident during the crisis, and has continued to enhance its operations, funding structure and governance to consistently improve the business. Together was in a strong position entering the Covid-19 pandemic and, with the actions taken during the crisis and our ongoing programme to modernise the business, we will be well positioned for the future.

> It has been a great all round team effort.

"We are continuing to enhance our processes through better use of technology and embracing more flexible way of working."

Q What will the business look like coming out of the crisis?

A Prior to the pandemic, Together was lending on average over £180m a month. As the UK went into lockdown, we announced we were temporarily pausing new loan applications to focus on supporting our existing customers and completing transactions that were already in process. As the national lockdown eased, we commenced a gradual and cautious return to lending, initially reassessing our existing pipeline and then progressing to new applications, albeit with stricter lending criteria.

With many economists predicting a deep and sustained global recession, which will undoubtedly have an impact on property activity, unemployment and growth in the UK, it is unlikely we will resume our pre-coronavirus activity levels for some time. We have therefore taken a number of steps to ensure our cost base is appropriate to our expected levels and types of lending. At the same time we are continuing to enhance our processes through better use of technology and embracing more flexible ways of working. This will all help us to improve our specialist lending platform in a way that delivers attractive solutions to our customers and intermediaries, combined with market leading service.

Q What is the outlook for the next few years?

A It is too early to reliably estimate the full economic impact of Covid-19, but we expect conditions to remain challenging in the short-term. The massive scale of government stimulus during the crisis is likely to leave the UK with significant levels of ongoing national debt, as will also be the case with many other nations. Unemployment has already started to rise and experts are predicting this trend will steepen throughout 2020 and 2021, and inflation has declined in response to falling oil prices and economic inactivity driven by the pandemic.

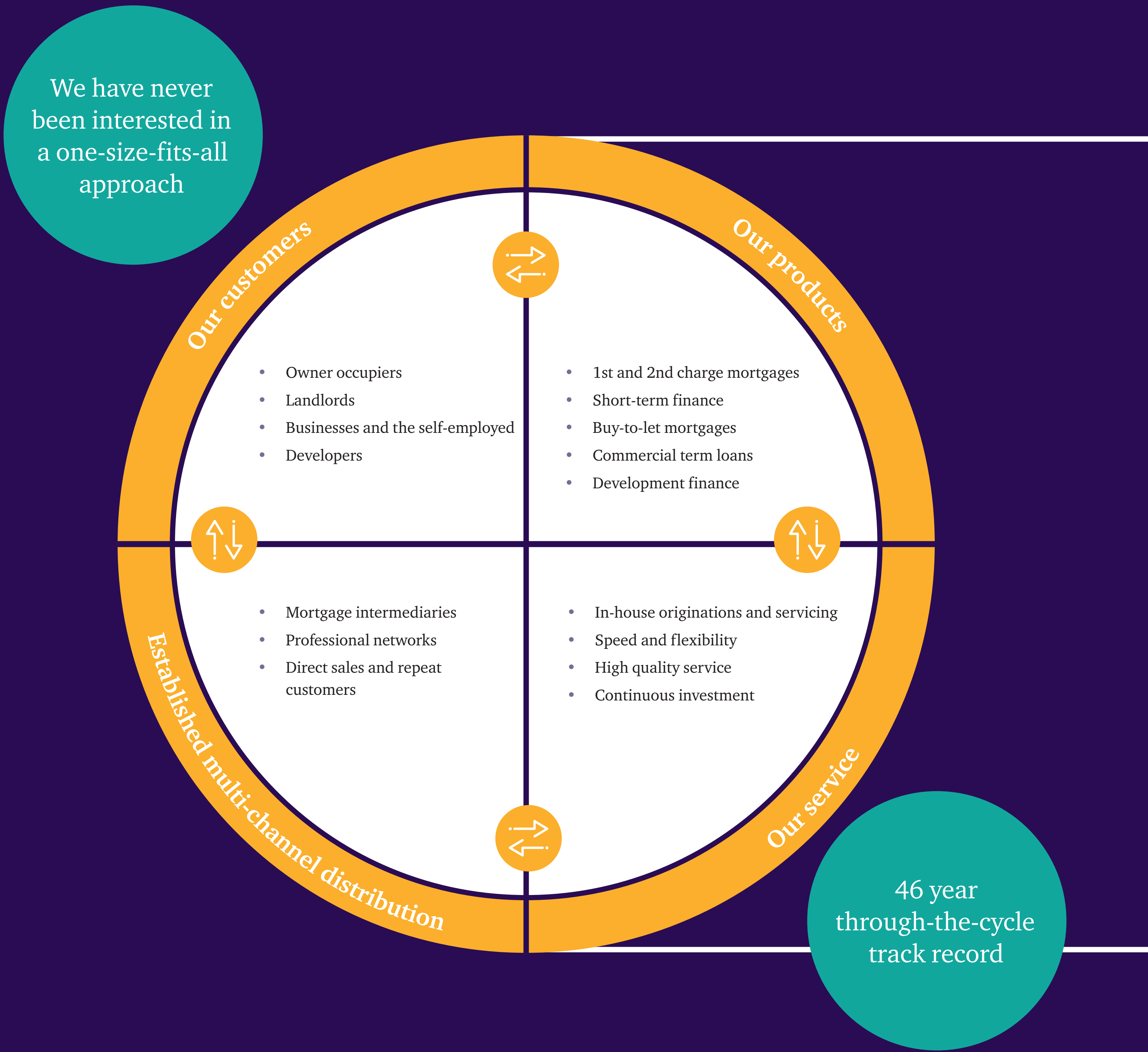
As national and local measures continue to be updated to control the outbreak we are entering the early stages of a move towards the 'next normal' of the post-coronavirus era. Many people will exit the crisis in a very different position to how they entered it and this is likely to drive an increase in demand from borrowers for the support of specialist lenders like Together. We are shaping our business to ensure that Together will be well placed to support both our current and future customers, and to play our part in supporting the UK's economic recovery.

Gerald Grimes
Group CEO Designate

Business model

A unique and successful model

Together is one of the UK's leading specialist lenders, with a profitable 46-year track record spanning several economic cycles. We have never followed a 'one-size-fits-all' approach; instead, we use our wealth of expertise and industry know-how to consider applications on their individual circumstances and merits.



We offer customers a simple range of lending products via an established distribution network of mortgage intermediaries, repeat customers and direct marketing. Our products include residential and buy-to-let mortgages, secured loans and bridging finance; secured on residential, semi-commercial, commercial properties and land throughout the mainland UK.

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 attractive and sustainable returns.

As a private company, we are not constrained by short-term external expectations 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 funding structure with depth of maturity, an experienced Board and senior management team, and dedicated colleagues.

Read more about customers and distribution in the **Stakeholder engagement report**.

Compelling investment case

- 46 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

Underpinned by a diversified funding structure with depth of maturity, an experienced Board and senior management team and dedicated colleagues

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

Strategy

Objective: **Build long-term value by supporting individuals, families and businesses in achieving their ambitions.**

Strategy	Focus
Deliver secured lending to underserved customers in attractive growing markets	As one of the UK's leading specialist lenders, we offer a simple range of mortgage products to employed, self-employed and retired owner occupiers, landlords, businesses and developers, all secured against UK property and land. Since 1974, Together has been seeking to help underserved customers and to build successful franchises in attractive market segments. We distribute our products to customers via an 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 this process is expected to escalate as a result of the Covid-19 pandemic. As lifestyles change and customers' needs are evolving, so is the way they wish to access funding. Customers increasingly want simple, easy to understand products that meet their needs, delivered quickly and efficiently, with access to a real person when they have questions or need help and advice, combined with great ongoing service. While we will remain committed to this model 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 also support high net worth individuals, property investors, entrepreneurs, SMEs and developers who 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 and who can respond to their timescales. Mainstream lending criteria have struggled to keep up with the pace of change in society and, as increasing numbers of people may find their situations have changed as a result of Covid-19, so our focus on delivering common sense lending is more relevant than ever.
Achieve positive customer outcomes by putting the customer at the heart of our business and offering: • **simple range of products;** • **experienced underwriters; and** • **high levels of service.**	We always aim to deliver positive outcomes to our customers. 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 customer journeys and outcomes. We are very proud of our culture and will continue to do the things that have made us successful in the past, including understanding customer circumstances and delivering appropriate lending solutions. We offer a simple 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 are modernising and transforming the way we work where we can enhance the customer and broker journey and experience – like our recent introduction of e files - and are looking where we can utilise 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.

Strategy	Focus
Maintain high asset quality with prudent underwriting based on: • **secured lending;** • **at 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 attractive and sustainable returns. Our model is based on creating long-term sustainable value for all of our stakeholders. 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 to return to pre Covid-19 levels of new lending for some time, we will continue to focus on product areas where we can offer a differentiated and sustainable proposition in attractive markets, by offering a range of products that meet customers' needs and ensuring that we maintain our focus on the quality of our lending in a more challenging market environment.
Increase diversity and depth of funding and reinvest profits to support future ambitions	Together's business model is underpinned by an established, mature and stable funding structure, comprising senior secured notes, a revolving credit facility, private securitisations, public residential mortgage-backed securitisations ('RMBS') and shareholder funds. We continue to extend and refinance our existing facilities well ahead of their maturity timelines while also exploring alternative sources of funding to maintain a funding structure that is robust, efficient and supports our lending. 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. Throughout the Covid-19 pandemic we have focused on enhancing the future resilience of our business, including our funding. We recognise the importance of the banks and investors that support these structures and place great emphasis on developing and maintaining these strategic relationships.

Operating review

The previous sections set out our strategy and business model. This section reviews the wider economic environment and developments in response to the coronavirus pandemic, and then reviews the lending activities of our two divisions Commercial Finance and Personal Finance. We also describe our funding activity and development of our systems and processes, and how we have responded to the pandemic.

Other aspects of our response to the pandemic are set out in the **Stakeholder engagement report**

The economic environment

The emergence and rapid spread of the coronavirus in 2020 has led to unprecedented upheaval in public health and the global economy. Governments around the world have implemented major monetary and fiscal intervention in mitigation. In the UK, Bank of England Bank Base Rate has been cut to 0.1%. Inflation has fallen to around 1% partly reflecting lower oil prices as a result of the fall in demand. House price inflation appears to have undergone a surge as the lockdown has eased, being 3.7% for the year to August 2020 according to the Nationwide and 5.2% according to Halifax. The UK, in common with other countries around the world, has fallen into a severe recession. GDP at the end of June 2020 has fallen 22% from its pre-pandemic level, although the easing of lockdown restrictions has already resulted in signs of recovery. Unemployment, which had been at historically-low levels of under 4%, is expected to rise sharply over the remainder of the calendar year.

Authoritative up-to-date information on the performance of the UK economy is always limited at any point in time. Given the lack of similar events upon which to base predictions about the future, there is a lack of consensus among economists as to the duration or eventual scale of the economic consequences, with little certainty as to the duration and shape of the recovery period, or the impact of the upcoming end to government support for furloughed workers. For the UK this is further compounded by the remaining uncertainty over its relationship with the EU, with the government currently indicating its future relationship will be less close than many expected.

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 expected credit losses (ECLs).

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

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

"Despite the onset of the severest economic downturn in modern times, the Group remains highly profitable."

An economic downturn adversely impacts the Group, including reducing growth in the lending markets in which we operate and can reduce the value of property used as security against loans extended. Against this uncertain and negative backdrop, the Group benefits from all lending being secured on property and/or land within the UK with prudent average LTVs, specialist through-the-cycle expertise built up over 46 years, and a strong, diversified funding base. Management believes these factors provide the Group with the resilience needed in such uncertain times.

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

Further detail on considerations supporting the going-concern basis used for the preparation of the financial statements is in Note 2 to the **Financial statements**

The impact of the coronavirus pandemic on customers and the lending and property markets

The onset of the pandemic led lenders to make major changes in their support to customers and in their new lending activities.

Supporting customers

In March 2020 the government announced that mortgage lenders should grant mortgage-payment deferrals to certain residential borrowers facing short-term liquidity issues and requesting assistance. The deferrals were originally for three months, and the scheme was also available to buy-to-let borrowers as a means of extending relief to tenants. In June 2020 the government subsequently allowed borrowers to extend the deferral period by a further three months where necessary, while encouraging those able to resume payments to do so. The window for requesting deferral applications is open until the end of October 2020 in parallel with the government's Coronavirus Job Retention Scheme for companies to furlough their staff. In addition to mortgage-payment deferrals, the government also instituted a moratorium on mortgage lenders initiating court action to repossess the properties of borrowers in default, also to 31 October 2020.

Together has offered mortgage-payment deferrals not only to borrowers covered by the government's criteria but also to certain other customers, including some commercial-purpose borrowers, where appropriate. As at 30 June 2020, 26% of the Group's retail customers requested a payment deferral and 11% of commercial customers, 16% overall. Following the easing of lockdown restrictions and the increasing resumption of economic activity, by the end of August, the number of customers on a payment deferral had fallen to 13% for retail customers and 6% for commercial customers, 8% overall. In the **Stakeholder engagement report** we give further details of how we have supported customers during the pandemic.

Operating review (continued)

New lending

Many lenders, including Together, responded quickly to the coronavirus outbreak by reducing their maximum LTVs and loan sizes, with some lenders also increasing interest rates. As the impact of the lockdown became evident, the lending criteria of many became more restrictive as certain employment sectors such as retail, travel, hospitality and tourism became less reliable sources of income, and flexible incomes such as overtime, bonuses, and commission were excluded from affordability assessments. The suspension of physical valuations led to most lenders withdrawing their products for non-standard property and construction types.

Some lenders who had diversified into new markets quickly retreated to their core business and continued lending under restricted criteria. Banks and building societies were able to access funding through the Bank of England's relaunched Term Funding Scheme, designed to incentivise participants to provide credit to businesses and households during the period of economic disruption. This was not available to non-bank lenders, many of which utilise the securitisation market which was disrupted by the economic uncertainty during the period of the lockdown.

Several lenders, including Together, took the decision to temporarily pause new lending applications. The Group's focus was on managing existing pipelines, supporting existing customers, maintaining the health of the current mortgage books, and retaining liquidity and capital buffers, during a time when risks for new lending were also difficult to evaluate. A number of lenders have subsequently been promoting a return to lending, albeit often on modified criteria.

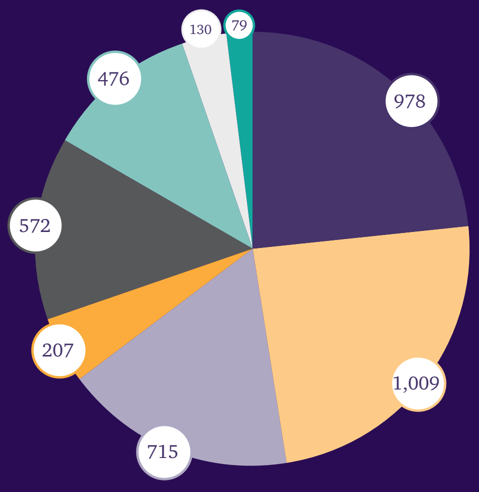
It remains difficult to judge the effect of the pandemic on the property market. The introduction of the lockdown meant that buyers were unable to view properties and surveyors were unable to provide valuations based on site visits. House sales fell by c60% in April but the easing of restrictions led to a surge in market activity from June onwards. House prices, based on relatively low volumes of transactions, appear to be rising for the UK as a whole and this trend may continue to be reinforced, in the short-term, by the temporary stamp duty holiday on all properties worth less than £500k. Given rising unemployment as a result of the recession, a fall in house prices still appears likely but the UK continues to see a shortage of supply for housing which may mitigate any longer-term price falls.

During the period from lockdown to the end of August 2020 we have funded a total of around £0.1bn of lending from our pipeline and new business, and we are now looking to increase lending volumes cautiously, albeit in line with tighter criteria and reassessment of customer circumstances.

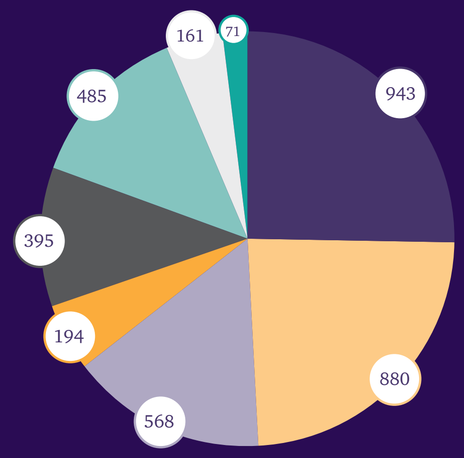
A wide range of flexible products suited to a specialist market that can be tailored to a changing economic environment

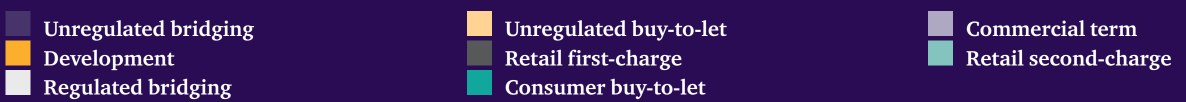
Loan originations, having been 13% higher than last year for the first nine months, totalled £1.7bn for the year (2019: £2.0bn) following the curtailment of lending due to the coronavirus pandemic. The Group loan portfolio increased from £3.7bn to £4.2bn, analysed by product group, as follows:

2020 (£m)



2019 (£m)





In the following two sections we discuss the lending activities of our two divisions, Commercial Finance and Personal Finance, their products and their markets prior to the pandemic.

Commercial Finance

Lending summary

To the end of March 2020 the Commercial Finance division originated £1.2bn of new loans, compared with £1.0bn for the same period last year, and succeeded in growing its loan book to £3.0bn from £2.5bn at June 2019 despite the slowdown in the final quarter.

The outbreak of the coronavirus meant that the division's growth was curtailed, and instead focus rapidly changed to one of supporting customers through an unprecedented crisis. The division also engaged with brokers to explain the decision temporarily to pause new lending other than to honour certain existing commitments.

We have continued to see demand for our products and have recently been able to cautiously resume accepting new mortgage applications assessed against criteria appropriate to the changed market. This means volumes will be lower initially but we expect to revise these levels over time as we gain greater clarity on the prevailing market and economic conditions.

The division's products and markets prior to the pandemic are discussed in more detail below.

Unregulated bridging

We offer quick bridging-finance solutions, including residential and commercial properties and first-charge 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. We are also able to help investors acquire properties and land at auction.

The bridging market, including regulated bridging discussed later, grew much faster than the mainstream mortgage market in recent years, with annual growth estimated to average c15% in recent years, prior to the pandemic. Speed and reliability are key differentiators in this market and lenders require funding and distribution capability. Whilst a number of new lenders entered the market, some left, even before the pandemic, having failed to deliver effective propositions. We believe our flexibility, many years of experience in underwriting such risks, distribution channels and a strong, established funding base mean that this market remains a key opportunity for the business in the longer term.

Our approach in the Commercial Finance division has been 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. Prior to the coronavirus outbreak, we focused on simplifying our product range by consolidating our residential investment and remortgage product ranges, and removing pricing differentials to consistently offer our best rates across both categories. This alignment extended to our semi-commercial and commercial products, as part of our delivery of product exclusives into our Together+ broker panel.

More information on Together+ is provided in the **Stakeholder Engagement Report**

BTL

Our residential buy-to-let mortgages help our customers to create, build or remortgage residential property portfolios as well as funding individual properties.

The total buy-to-let market, including regulated BTL lending, exceeded £40bn of new lending per annum prior to the pandemic, but growth was relatively slow and with only a small number of new entrants to the market. Despite the broader pace of the market, specialist lenders have witnessed increased demand from a structural shift towards more complex situations such as portfolio landlords, limited-company ownership and houses in multiple occupation. In addition some transition in investment from London to the regions has been witnessed as investors have sought improving yields.

Our flexibility means we can find opportunities for significant growth in this specialist buy-to-let market, for example by refreshing our product range and launching exclusive products for distribution partners. This year saw Together reinforce its BTL range through the addition of two-year and three-year fixed-rate products, initially as exclusives to our Together+ panel and later to the wider market.

Commercial term

We offer flexible first-charge and second-charge term loans for any purpose across a diverse range of commercial property types and on land. This includes lending to owner-occupiers of commercial property units as well as commercial property landlords.

Whilst the UK commercial property market is extremely diverse and with loan sizes ranging from less than £100,000 to well in excess of £50m, Together's focus has remained towards the smaller-ticket commercial real-estate market. Consistent with our broader model we apply a prudent approach to such lending focusing on sensible loan-to-value ratios and affordability.

The overall market for new commercial property lending was stable at c£50bn per annum. This was dominated by high street banks with non-bank lenders' market share at around 14%.

During the year, Together has been able to grow its portfolio in this market by 26% aided by the additional funding provided through its commercial-term securitisation facilities.

Development

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

Over recent years we saw an increasing number of lenders enter this area of the market, attracted by its higher potential returns and growth primarily driven by the shortage of residential housing stock. Together has been active in this area for many years offering loans on an opportunistic and selective basis, drawing on our experience through previous economic cycles.

Operating review (continued)

Personal Finance

Lending summary

Prior to the suspension of new lending other than for existing commitments, the Personal Finance division's originations for the year had reached £0.47bn, (March 2019: £0.40bn) and its loan book stood at £1.4bn compared with £1.25bn at June 2019.

As for the Commercial Finance division, we have recently been able to cautiously resume personal lending using criteria appropriate to the evolving economic and market conditions.

The division's main products and markets prior to the pandemic are discussed in more detail below. In addition, we can provide regulated first-charge and second-charge buy-to-let mortgages to help those who find themselves 'accidental' landlords as a result of unforeseen circumstances.

Retail mortgages

We help people 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 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 new lending within the UK, excluding buy-to-let, had been relatively stable at c£225bn to June 2019. Specialist lending within this market has grown in response to increasingly diverse demands such as later-life borrowing, changing working habits and property conversions. Packagers have been the key channel for more complex and specialist lending in this market.

The first-charge market has been a source of growth for Together where we sought attractive returns at prudent LTV ratios and aided by our programme of public securitisation activity. Prior to the outbreak we launched additional variable-rate and fixed-rate products aimed at a wider range of customers, while also simplifying the range around our 'Prime Plus' mortgage. We grew our distribution, with the launch of retention products and exclusive products for mortgage packagers, broker networks and mortgage clubs, and testing 'adjacent' segments of the market for suitable product opportunities.

The second-charge mortgage market has long been an area of strong performance for the Group. Annual growth in the market had reached 10–15%, to c£1.2bn of annualised lending prior to the pandemic. This reflected a number of factors including greater customer awareness, an increasing preference for house extensions over moving home, and people using second-charge lending as an alternative to remortgaging.

2019 saw increasing levels of automation among leaders in the second-charge market resulting in greater competition and renewed focus on service. Indeed there were anecdotal signs that service was becoming a key differentiator such that underwriting criteria and simplified processes were becoming more important than ever. New competitors had entered this relatively small market, leading to some compression of interest rates, though there has also been consolidation. We sought to maintain market share, delivering a major renovation of the Prime Plus range to support our strong mid-market proposition. This included introducing new LTV bands to align with the market, increasing loan sizes and making some downward pricing changes.

Regulated bridging finance

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

In the Personal Finance division we simplified our LTV tiering to reduce complexity for our customers, and added a new value tier for loans under £200,000 to both protect our larger-value lending and to provide a competitive product for smaller loans.

Funding structure and activity

The Group's business model, as set out in an earlier section of this report, is based on over 45 years' experience of building long-term value. We have done this by providing a broad range of flexible, secured, lending products to underserved customers at prudent loan-to-value ratios, 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 growth.

Together's long-term, through-the-cycle track record of success has been attractive to providers of funding and has helped the Group to develop a mature funding platform which has depth of maturity supportive to contending with the changes to the economy resulting from the coronavirus pandemic.

We have a funding structure consisting of private and public securitisations, senior secured notes (bonds) and a revolving credit facility. These facilities are underpinned by £856.4m of shareholder funds retained in the business.

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, a revolving credit facility and a proportion of our shareholder funds, which together form the Senior Borrower Group. We currently have £785m of senior secured 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, buy-to-let loans, regulated bridging loans and unregulated bridging loans on residential property;
- Lakeside ABS, a £500m facility which supports mainly short-term commercial-purpose bridging loans and loans secured on residential and commercial property;
- Delta ABS 2, a £200m facility which supports mainly larger short-term commercial-purpose bridging loans secured on residential and commercial property; and
- Highfield ABS, a £525m facility which supports small-balance loans secured on 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.

Our funding structure

01

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.

2026 Senior Secured Notes

£435m

6yr

S&P: BB-; Fitch: BB

2024 Senior Secured Notes

£350m

7yr

S&P: BB-; Fitch: BB

2021 RCF

£71.9m commitment

02

Private securitisations

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

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 2023

£500m 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.

03

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.

Together ABS 1

£122.9m 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

£179.8m 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.

Together ABS 3

£291.7m rated notes currently in issue with 79% rated AAA on issuance

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

Together ABS 4 – completed July 2020

£361m rated notes with 79.5% rated AAA on issuance

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

Shareholder funds (£856m at 30 June 2020) are used to support the senior borrower group, private securitisations and public securitisations.

01 02 03

Operating review (continued)

Funding activity during the year

During the year we successfully raised or refinanced £1.25bn of facilities to support the Group's lending activities:

- We issued our third RMBS in October 2019, Together ABS 3 of £315.4m with 79.0% of the notes rated AAA on issuance.
- Also in October 2019, the Group announced the successful refinancing of the Lakeside Asset Backed Securitisation facility increasing its size from £255m to £500m, extending the maturity date to 2023 and adding two new banks to the facility.
- In February 2020, the Group refinanced its £375m senior secured notes due to mature in 2021, increasing the size of the issuance to £435m, extending the maturity to February 2026 and reducing the coupon.
- In addition, the Group extended the maturity of its subordinated shareholder loans of £25.1m, previously due to mature in September 2024, to mature in September 2026. The loans continue to be interest free, and the extension of the maturity resulted in a further injection of equity of £0.8m.

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

In light of the significant market uncertainty resulting from the Covid-19 pandemic, the directors of the Group's parent companies took additional measures to preserve the Group's liquidity and capital buffers. One such measure at the onset of the pandemic was, having satisfied the requirement to do so, for Bracken Midco1 PLC to 'pay in kind' the interest due in April 2020 on its loan notes through the issuance of additional notes rather than paying in cash. It was therefore not necessary for the Group to pay a dividend to its parent company to fund the interest payment.

The profound consequences caused by the coronavirus and the government's response of promoting the offering of mortgage-payment deferrals required us to agree temporary waivers to certain covenants with the funders of our private securitisations, in order to support our customers through these unprecedented times. Such waivers have since been extended to align to the extension in government guidance.

The Group's policy of refinancing revolving facilities well ahead of their contractual maturity dates ensures that we have depth of maturity in the Group's existing funding. The earliest maturity of wholesale funding, being the Highfield ABS facility, is not due until June 2022 and the earliest call date on public securitisation is Together ABS1 in September 2021. Further detail is set out in Note 22. The Group has also been proactive in its response to the uncertain funding market, and in July was able to take advantage of improving market confidence to complete its fourth RMBS, Together ABS 4. This succeeded in raising additional finance of £361m with 79.5% of the notes rated AAA on issuance. In September, the maturity date on the undrawn £71.9m RCF facility has also been extended to June 2023.

Our programme of investment to improve processes continues, but recognises changes to priorities resulting from the coronavirus pandemic

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

Read more about our work with intermediaries in the **Stakeholder engagement report**

The diagram on the following page sets out our development activity under the four criteria against which we have continually invested in our systems. In the last year this has been in the context of a wider programme to transform how we lend and streamline our processes. This programme was launched last year with the objective of ensuring the business is always ready to react in a timely manner to take advantage of market opportunities.

In keeping with that inherent flexibility of Together's approach, the economic effects of the coronavirus pandemic have meant that we have had to reprioritise some of the changes we had initially planned. Essential change and customer redress activity has continued, but longer-term and strategic change to core systems, for example, were temporarily paused but very much remain part of our future plans. At the point of lockdown the Group rapidly mobilised its teams to accelerate the capability for colleagues to work from home, and to implement operational process and systems changes to facilitate and control mortgage-payment deferrals taken by customers in line with government guidance. Additionally, our IT and change teams improved their tools and underlying ways of working together to respond as rapidly as possible – which is expected to benefit the way we undertake our future development programmes.

In response to the pandemic, the Group rapidly implemented an array of measures to adjust its cost base to the new conditions. These included furloughing staff and curtailing discretionary expenditure, and the financial impact of these is discussed in the **Financial review**. We expect the remainder of 2020 and into 2021 to remain challenging in terms of public health and macroeconomic conditions, and the national and local measures, which continue to be updated to control the outbreak, will not signal a full return to our previous operating model. In such a context we also have to remain cautious in our expectations of the availability and pricing of funding in the wholesale markets. We will therefore pursue a new target operating model in the short term and we will look to size the business in line with our cautious approach to lending activity while continuing to invest in our processes and platform to be ready to support customers in the recovery. It is in this context that it has been unfortunate but necessary to announce major headcount reductions.

The transformation programme continues to be a major part of this new operating model. The programme remains essential to ensuring we keep up with technological developments and have efficient, effective and robust processes enabling the use of automation in areas such as income validation, valuation, and customer ID and verification. As part of this journey the Group has recently delivered successfully an E-file solution that significantly reduces the need for paper files and enables a more efficient and effective underwriting process, thereby not only saving costs but also improving customer outcomes in terms of time to completion. The current situation creates an opportunity to focus and deliver the projects and outcomes which will further improve the lending journey, automate processes and remove paper.

Operating review (continued)

We continually invest in our systems so that they meet four key criteria – stable, secure, strategic and scalable:

Stable

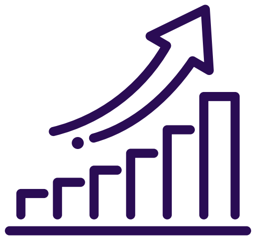
The Group's strong profitability sustained over a number of years has allowed us to consistently invest in renewing and refreshing our IT infrastructure. Our technology is provided by tier 1 hardware and software suppliers. We have introduced extensive monitoring and reporting of service management to drive continual improvement, and achieved 99.97% availability for our core systems.

Secure

We employ robust antivirus and patch management software for our IT estate. We provide remote-working conditions which are highly secure and reliable by means of suitable encryption and lockdown protocols; these have proved robust and scalable during lockdown. We have 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 some of our core business systems in previous years, and this continues to be a priority. Our long-term aim is to develop an increasingly data-enabled business to assist in making informed decisions across our business operations. 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 as well as with our modernised loan-origination system. 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, which has recently proven very effective for redeploying colleagues to a home-working environment. Our storage platform enables flexible allocation in line with the needs of the business, while blade server technology allows for rapid increases in capacity. The capacity of our IT estate is continually monitored by enterprise-class tools from top suppliers.

Financial review

Despite the economic shock of the pandemic the gross loan book finished the year 13.8% larger at £4.3bn. Profit before tax for the year was £94.6m, £118.5m excluding one-off customer redress and refinancing costs (2019: £130.3m). The Group therefore remained highly profitable despite an increase of £51.5m in allowances for impairment primarily due to the deterioration in the economic outlook. The reported cost-to-income ratio was 36.5%, but 29.0% on an underlying basis excluding one-off items.

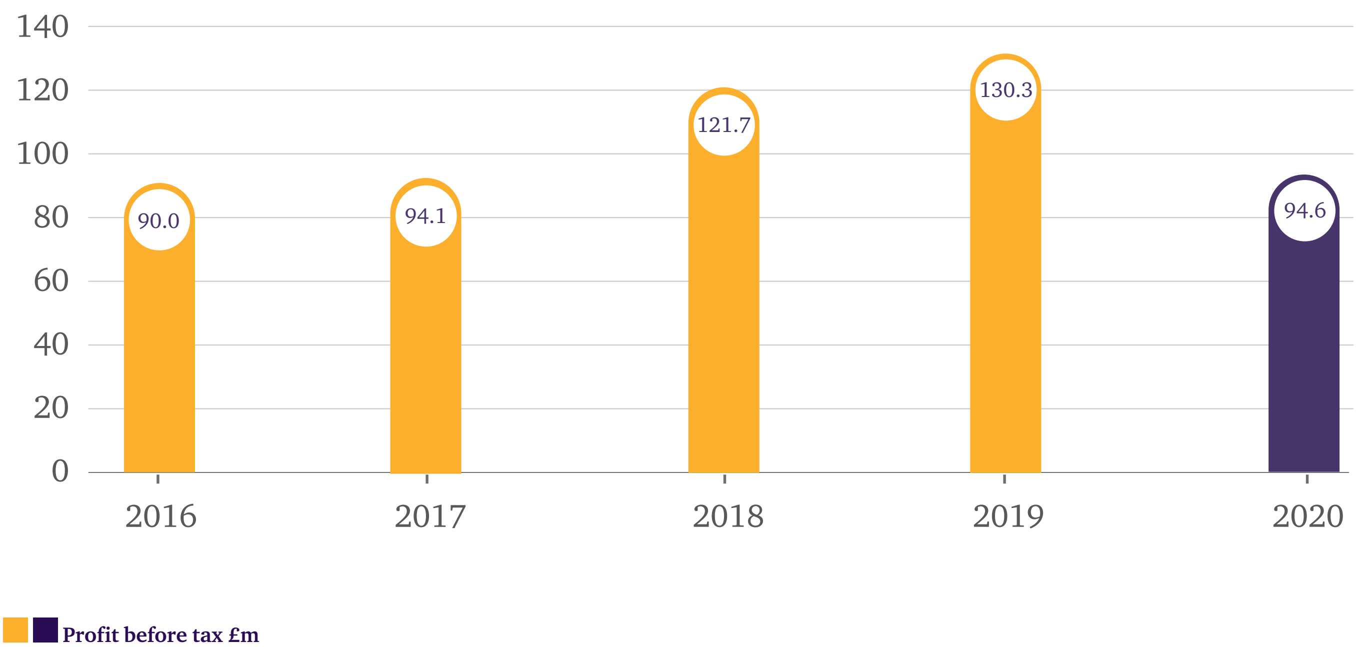
The results for the year to 30 June 2020 are summarised below:

	2020 £m	2019 £m
Net interest income	**251.3**	226.3
Net fee and other income	**3.0**	2.2
Operating income	**254.3**	228.5
Administrative expenses	**(92.8)**	(82.8)
Impairment losses	**(66.9)**	(15.4)
Profit before taxation	**94.6**	130.3

Key profit-related performance indicators[1]	**2020**	2019
Net interest margin (%)	**6.4**	6.8
Underlying net interest margin (%)	**6.6**	6.8
Cost-to-income ratio (%)	**36.5**	36.2
Underlying cost-to-income ratio (%)	**29.0**	36.2
Return on equity (%)	**10.4**	14.8
Underlying return on equity (%)	**12.8**	14.8
Interest cover ratio	**1.7:1**	2.2:1
Underlying interest cover ratio	**2.0:1**	2.2:1
Cost-to-asset ratio (%)	**2.24**	2.40
Underlying cost-to-asset ratio (%)	**1.82**	2.40
Cost of risk (%)	**1.70**	0.46

[1] Refer to appendix for definitions and calculations

Despite the onset of the severest economic downturn in modern times, the Group remains highly profitable



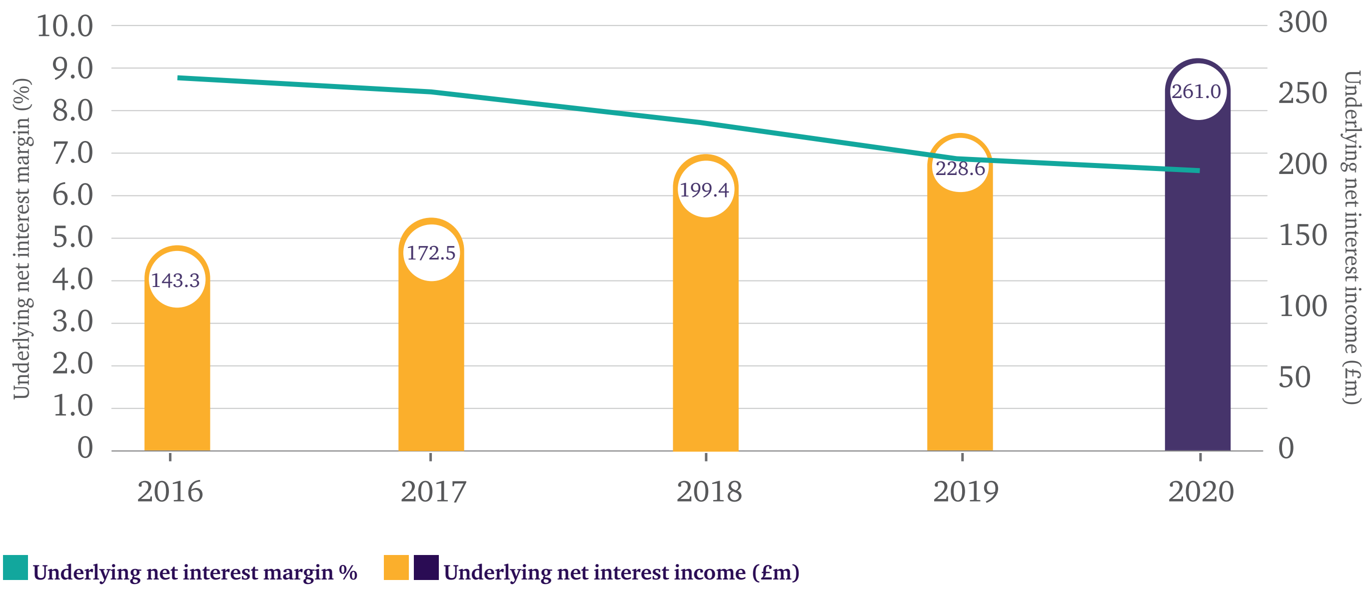
Income and expenditure

Interest receivable and similar income have increased by 13.2% to £388.4m for the year to 30 June 2020 (2019: £343.1m). This is consistent with the increase in the loan book and continued the trend of recent years as higher-yielding loans originated following the credit crisis continued to be replaced by loans at market rates that reflected the increasing competition before the coronavirus pandemic.

Interest payable and similar charges have increased by 17.4% to £137.1m (2019: £116.8m). The rate of increase is slightly higher than that for the loan book. This is partly due to higher levels of gearing as the improving quality of assets enabled the Group to increase the advance rates of existing borrowing facilities and complete a further more-capital-efficient residential mortgage-backed securitisation. It also reflects £6.7m of one-off interest charges due to the early refinancing of senior secured notes. The increase in interest payable is offset by further improvements in the cost of funding achieved through refinancings and the new securitisation completed during the year, and in the second half of the year by the lower interest-rate environment as a result of the Bank of England's response to the pandemic. The Group's financing activities are discussed in the funding section of the **Operating review**.

As a result of the above, net interest income increased to £251.3m (2019: £226.3m). The resultant net interest margin percentage of 6.4%, 6.6% excluding the one-off interest charges (2019: 6.8%), remained highly attractive 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 %

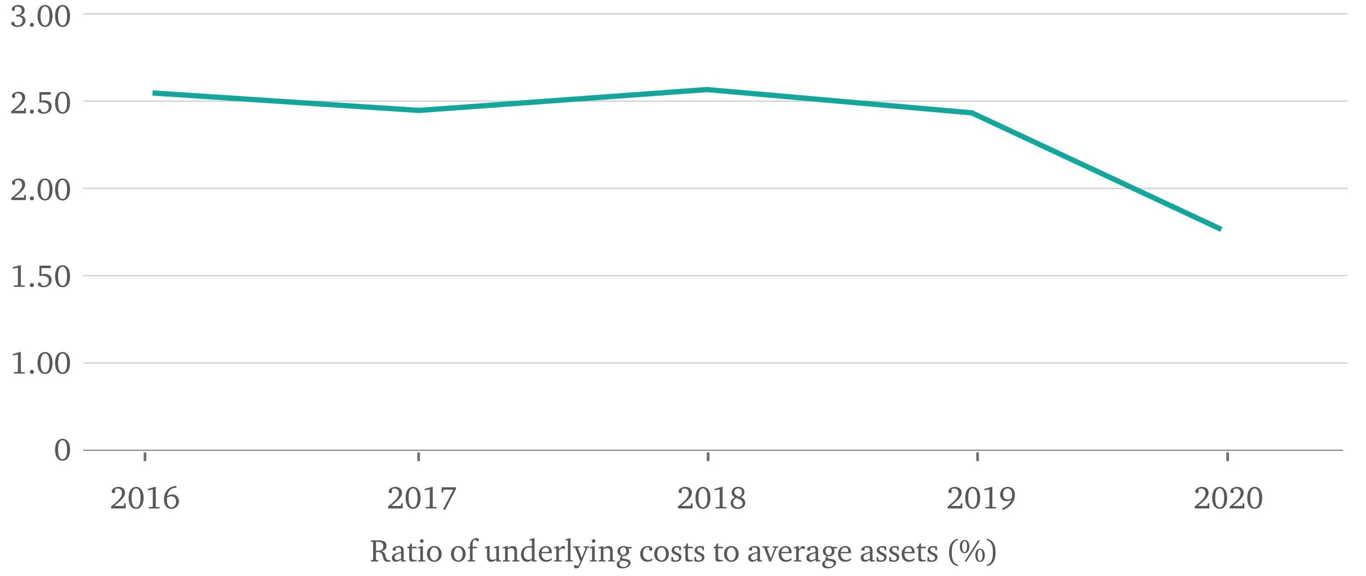


Administrative expenses were £92.8m (2019: £82.8m). The increase of 12.1%, which was less than the growth in the net loan portfolio, was due to exceptional provisions made for customer-remediation costs of £17.2m. Underlying costs were £75.6m and reflected the Group's keen focus on cost control through the year and actions to reduce expenditure for the final three months of the year in response to the pandemic. These measures included the furloughing of staff and a reduction in certain discretionary expenditure, including the release of certain provisions for incentive payments to colleagues and senior personnel.

As a result of the Group's actions to reduce costs, the ratio of costs to assets fell from 2.40% last year to 2.24%, 1.82% on an underlying basis.

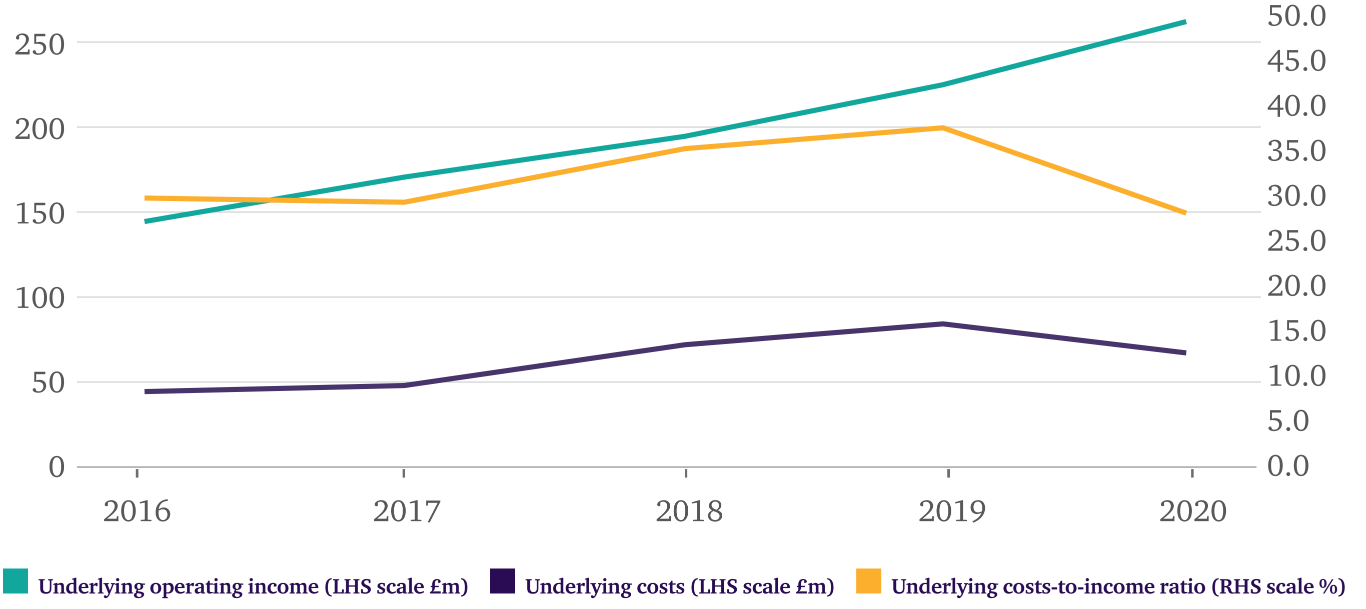
Financial review (continued)

Prudent cost management led to a fall in the underlying cost-asset ratio



The careful management of costs in the year alongside prudent reductions made in response to the coronavirus pandemic resulted in a fall in the ratio of the Group's underlying costs to income, from 36.2% last year to 29.0% excluding the earlier one-off costs relating to refinancing and customer redress (36.5% including one-off items). As noted in the **Operating review** the Group remains committed to investing in the business, in particular in its transformation programme to automate and streamline a number of currently manual processes to deliver a smoother and more efficient customer journey.

Prudent cost management combined with increasing income from growth in loan book has led to a sharp fall in the underlying cost-to-income ratio



Impairment losses

Impairment losses for the year were £66.9m, an increase of £51.5m on the £15.4m reported for the year to 30 June 2019, with the cost of risk increasing to 1.7% from 0.5% last year.

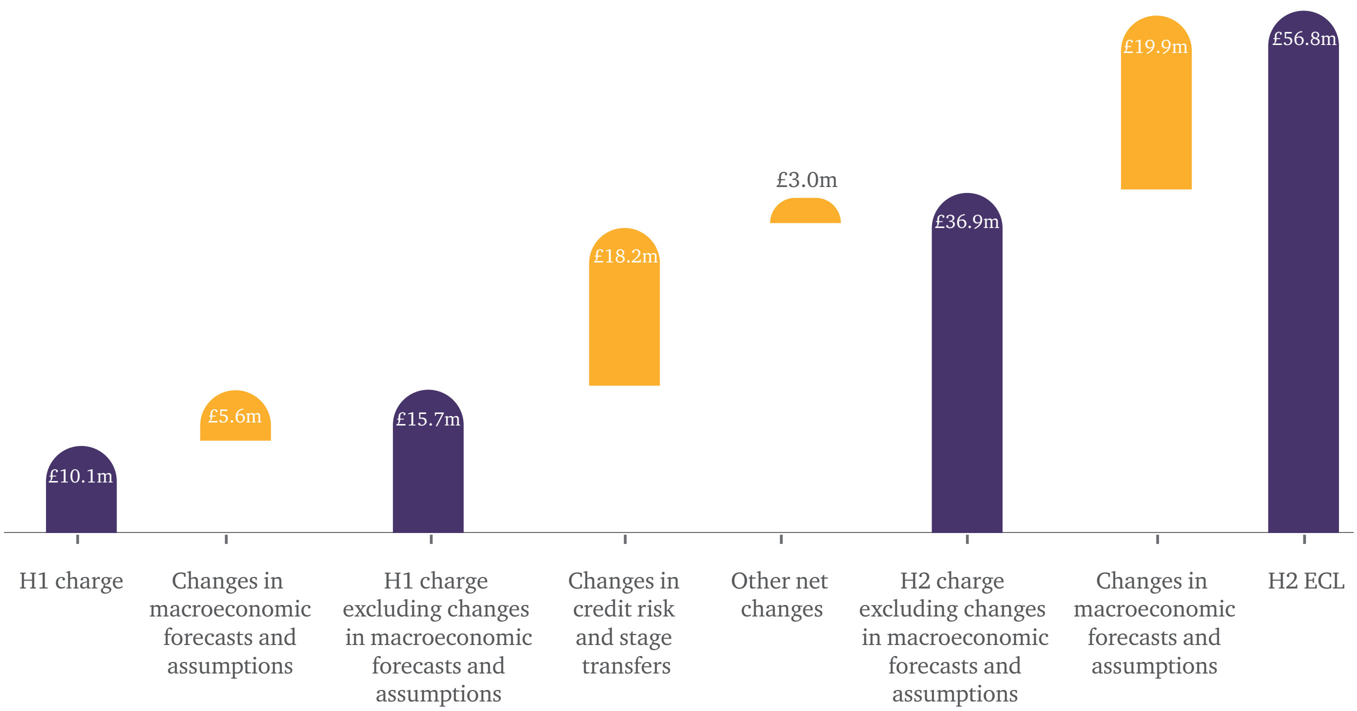
The significant increase in the charge for the year reflects the deterioration in the macroeconomic outlook as a result of the pandemic and the resulting impact on loan book performance towards the end of the financial year.

Although the mortgage portfolio has grown by 13.8% during the year, the impairment coverage ratio has increased by 56% to 2.8% from 1.8% in the prior year, providing increased cover for potential future losses, principally in respect of stage 2 and 3 loans:

At 30 June 2020	Gross carrying amount £m	Allowance for ECLs £m	Impairment coverage ratio
Stage 1	3,061.3	12.4	0.4%
Stage 2	721.2	21.0	2.9%
Stage 3	498.5	85.4	17.1%
	4,281.0	**118.8**	**2.8%**
At 30 June 2019			
Stage 1	3,025.3	11.2	0.4%
Stage 2	419.5	9.6	2.3%
Stage 3	316.7	46.2	14.6%
	3,761.5	**67.0**	**1.8%**

For estimating losses we use a range of forecasts which carry a very high level of uncertainty due to the unprecedented nature of the recession and the difficulty in foreseeing the timing and scale of future recovery. The impact of the change in the macroeconomic environment and outlook can most readily be seen in the chart below of the increase in the loss charge from the first half to the second half of the year, where changes in forward-looking assumptions have resulted in an increase in the charge of £19.9m. This includes adjustments to allow for the potential delay in arrears emergence due to government support schemes that are currently in place to support borrowers and the economy.

Increase in impairment allowance largely reflects the deterioration in economic conditions and the resulting impact on loan-book performance



In addition to changes in the macroeconomic outlook and other forward-looking assumptions, impairment losses have also increased due to loan book performance. This includes changes in payment performance on loans, the reassessment of likely amounts which will be recovered and also changes in quantitative and qualitative indicators of credit risk which determine the stage allocated to each loan.

Financial review (continued)

More detail on how the Group manages its credit risk is contained in the Risk management section. Estimating future credit losses in an unpredictable and changing environment contains a high level of judgement and is subject to greater uncertainty than in previous reporting periods, and Notes 2 and 14 to the financial statements set out how the Group measures expected credit losses, including the macroeconomic assumptions used and the sensitivity of loss allowances to those assumptions. The notes to the financial statements also provide details of the movements in the Group's loss allowances over the year.

The Group continues to reinvest the majority of its profits in the business each year. Return on equity fell to 10.4% (2019: 14.8%) primarily reflecting the fall in profit before tax to £94.6m as a result of the impact of the coronavirus pandemic.

The fall in profit before tax also led to a reduction in earnings before interest, tax, depreciation and amortisation (EBITDA)[1] for 2020 to £238.4m (2019: £251.4m). The interest cover ratio was 1.7:1 for the year to 30 June 2020, down from 2.2:1 for the prior year primarily due to the lower profitability resulting from increased allowance for impairment losses.

Financial position

The Group's closing financial position is summarised:

	2020 £m	2019 £m
Loans and advances to customers	4,162.2	3,694.5
Fixed assets	22.0	14.2
Other assets	270.3	133.3
Total assets	4,454.5	3,842.0
Borrowings	3,550.1	3,015.7
Other liabilities	76.4	63.5
Total liabilities	3,626.5	3,079.2
Total equity	828.0	762.8
Total equity and liabilities	4,454.5	3,842.0

Key performance indicators relating to the financial position[1]	2020	2019
Gross loan book (£m)	4,281.0	3,761.5
Lending volume (£m)	1,688.3	1,982.9
Weighted average LTV of originations (%)	57.7	58.0
Weighted average indexed LTV of portfolio (%)	54.9	54.3
Net debt gearing (%)	78.6	78.0
Shareholder funds (£m)	856.4	789.9

Loan originations during the first nine months were 13% higher than last year but were curtailed with the onset of the coronavirus pandemic, finishing at £1.7bn for the year (2019: £2.0bn). Despite the reduced origination volumes in the latter quarter, total loans outstanding reached a new record for the Group of £4.3bn (2019: £3.8bn). This was partly supported by a slowdown in redemptions also seen in the final quarter. Cash receipts of principal and interest nevertheless remained substantial, totalling £300m for the final quarter of the year, 28% of the total loan book on an annualised basis, and comparing with £415m received for the corresponding period last year.

The Group's strategy has consistently been 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 2020 remained prudently below 60%, falling to 57.7% (2019: 58.0%). The indexed weighted-average LTV of the loan portfolio for the Group rose to 54.9% at 30 June 2020 from 54.3% at the end of 2019. The Group's conservative approach to LTV provides considerable protection against falling property prices. 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.

The 12.7% increase in the Group's loans and advances was funded by a mix of borrowings and equity. Equity increased to £828.0m at 30 June 2020 (2019: £762.8m) and total shareholder funds rose 8.4% to £856.4m (2019: £789.9m). The increase in equity reflects the retained profit after tax for the year of £84.1m offset by dividends to the parent company of £15.6m. As part of its strategy to utilise more-capital-efficient funding structures, the Group successfully increased borrowings by 17.7% to £3.6bn at 30 June 2020 (2019: £3.0bn); net debt gearing therefore increased to 78.6% at 30 June 2020 (2019: 78.0%).

[1] Refer to appendix for definitions and calculations

Stakeholder engagement report

Our relationships and reputation with our stakeholders remain important to the overall sustainable success of our business. We recognise and acknowledge our responsibilities to the wider communities we are part of, and continue to be proud to show that our business performance can make a difference.

This has been evidenced in our ability to support our customers, together with our colleagues and maintain the strong business relationships with other stakeholders during the Covid-19 pandemic of 2020.

We identify our key stakeholders as:

The following section sets out what we do to engage with stakeholders and, where relevant, how this has changed to support our stakeholders through the Covid-19 pandemic.

In responding to the Covid-19 pandemic we have had to prioritise the wellbeing of our colleagues, customer service to our existing borrowers, and the resilience of the business. This has sometimes resulted in changes to arrangements with stakeholders, but we have at all times sought to ensure that changes have been managed professionally and appropriately.

Colleagues

We recognise that our colleagues are a key strength and our achievements could not be possible without them. Achievements derive from both their skills and knowledge but also their behaviours and attitudes and this year more than ever we are proud of our colleagues and the efforts they have made to support our customers and our business during these unprecedented times.

We discuss below how we develop our colleagues' knowledge, skills and careers, look after their interests and how we recognise and reward achievement.

Stakeholder engagement report (continued)

Vision and mission

Our vision, mission and beliefs remain unchanged and are more meaningful than ever.

- Our vision is **to put common sense into lending**, it is why we exist and why our work is important. It is this collective spirit which 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.

Culture and purpose

Our 'Play your Part initiative' puts our vision, mission and beliefs into words and encapsulates our culture in a framework for the entire business. Our beliefs set the tone for how we work successfully together and are cascaded from the Board to all our colleagues within the business, this is a strength that we have drawn on as a business during the Covid-19 pandemic.

Beliefs

Our seven beliefs describe the approach we take to our work:

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

We must always seek to put this statement of beliefs into action. This is why, following the implementation of the Senior Managers and Certification Regime within our regulated Personal Finance division, we chose to roll our out 'Our Accountability Charter' across the Group and, in performance conversations with their managers, colleagues are asked to describe how they have put these beliefs into action.

Colleagues are also given the opportunity to play their part in our local community under our 'Let's Make it Count' programme.

Using the Job Retention Scheme

At Together we have long recognised that our colleagues are a key strength and that our achievements would not be possible without the knowledge and skills, and behaviours and attitudes they bring to their roles. The Covid-19 pandemic has transformed how we must work together and our first priority has been to safeguard colleagues' wellbeing. The severity of the pandemic and its impact on our growth plans has also forced us to make some difficult decisions regarding furloughing and restructuring our business.

These matters, and also continuing considerations such as career development and judging how we are doing as an employer, are discussed below.

Like so many businesses at this time we recognised it was necessary to furlough approximately 300 colleagues. We sought to mitigate the financial hardship to colleagues by committing to top up wages from the government scheme to 100% for lower paid employees and to 80% for all other employees. For the month of April, our Chief Executive Henry Moser also relinquished his salary from the business to play his part. The Board, the executive team and some other senior colleagues, took a 20% reduction in pay in May as a mark of solidarity, donating this to the NHS Together charities to support the national fight against coronavirus. There were also other arrangements in place where some colleagues agreed to reduce to a four day week, until work began to increase again.

Moving into the next phase of our response to the crisis

Whilst the actions we are taking will reduce our cost base we need to ensure it remains appropriate in scale and type to align to our expected activity levels during 2020 and 2021 and also taking into consideration efficiencies to be gained from our investment in technology and automation of processes. This means we still need to make important changes in the way we operate moving forwards.

In July, we consulted colleagues on a range of changes we were proposing to make to the business. These proposals resulted in restructuring activity which put a number of roles at risk of redundancy. During this unsettling time for colleagues, we continued to offer support through regular communication, briefings, and enhanced wellbeing resources including career advice. Further information on the outcome of the restructuring can be found in Note 34 to the financial statements.

Colleagues' wellbeing

Wellbeing has always been an important focus for the business, and we are building on this foundation by developing a three-year colleague wellbeing strategy including the introduction of a network of trained wellbeing champions across the business. The wellbeing strategy is now even more important as we support colleagues through these uncertain times.

We have a range of initiatives in place to promote our colleagues' health and wellbeing including fitness and running clubs, free gym membership, and a cycle-to-work scheme. In addition, all colleagues are eligible to join a health cash plan which allows them to claim money back towards eye and dental care, consultations and therapy treatments.

Our colleague assistance programme also provides access to a confidential helpline which offers 24-hours-a-day help and support, including counselling from qualified professionals.

The wellbeing of our colleagues has been paramount to us during the Covid-19 pandemic. At the outset, we utilised our existing network of MindMatters champions to support colleagues through challenging times. This included creating a dedicated wellbeing area on our intranet with resources to support mental, physical and financial wellbeing, offering 1:1 support, and a series of colleague blogs.

We also invoked business-continuity planning measures from February 2020, and at an early stage introduced measures such as hand sanitisers throughout our offices while developing the IT infrastructure for colleagues to work from home. We were therefore able to encourage home working in advance of the government announcement of the lockdown, having developed HR procedures for the management of colleagues affected.

As the government moved towards easing the lockdown, the leadership team also looked at different options to allow colleagues to transition back to office working, including social distancing and enhanced cleaning procedures to support a safe return to the office environment. All measures implemented to facilitate this safe return have been subject to a risk assessment against Government guidance and external validation.

Colleagues' Learning and Development

We actively drive a learning culture across the business with the purpose of growing capability and to create a climate for high performance, foundations for creating better outcomes for customers, and for future growth.

Together believes in creating opportunities and has an extensive, interactive learning and development programme in place to help our colleagues grow and develop. Our graduate and apprentice schemes have seen many colleagues progressing into more senior roles within the Group. Together also supports external training and qualifications for its colleagues where appropriate to their role.

Colleagues are empowered to engage in improving themselves and the organisation by sharing their learning and insights with their peers, within their teams and throughout the wider business. Colleagues have the opportunity to do this through a variety of forums including departmental roadshows, huddles and blogs.

In the face of the Covid-19 pandemic, a dedicated suite of tools and resources has been made available to support colleagues' continued learning, training and development during their time working from home. This has included e-learning modules focussed on mind management and resilience, and leadership and people manager toolkits. The learning and development also provided specific training on supporting our customers through difficult times as a result of Covid-19.

Fostering Diversity

To help celebrate differences, remove barriers and fulfil colleagues' potential, we have set up a number of networking groups under the "Togetherness" umbrella.

Women@Together

Activities have included a speaker series welcoming inspirational women to talk about topics which inform, develop and inspire colleagues irrespective of gender, a lunch club bringing colleagues together to discuss key issues such as confidence and work life balance, and a mentoring programme to provide career and personal development opportunities.

Kaleidescope@Together

Our Kaleidoscope network promotes diversity and inclusion across Together.

Stakeholder engagement report (continued)

YoungProfessionals@Together

In 2019, our graduates launched a Young Professionals Network for colleagues who are new in role or new to Together, helping them to network, grow and develop their career.

MindMatters@Together

Launched by colleagues in 2019, MindMatters aims to raise mental health awareness and promote wellbeing.

Recognition and Reward

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. We also have a calendar of events, from family fun days to long-service awards, all to thank colleagues for playing their part.

Due to Covid-19 we had to pause some events, but our focus on recognition did not stop. A key part of our communications strategy during the pandemic lockdown was focussed on celebrating the outstanding contributions from individuals in all areas of the business for their determination to maintain high standards of service whilst dealing with the new challenges of social distancing and supporting our customers impacted by the pandemic.

Our internal 'A-team' awards, which celebrate colleagues who have been role models for our beliefs, was adapted during the pandemic. A new eCard system was also introduced to give colleagues a way of officially thanking each other for going above and beyond whilst working remotely.

Listening to our colleagues

We place great value on feedback, and we listen to our colleagues to find out what we are getting right and what we can improve. Each month we host a Voice of the Colleague Forum, chaired by the HR Director and attended by colleagues from across the Group to understand the day-to-day issues concerning them and where possible, act quickly to make improvements.

Every year we undertake a colleague engagement survey, the 'Big Listen', and in the quarters thereafter we do a 'Quick Listen' to check engagement levels and adapt our approach to engagement accordingly. Our response rates are consistently high and gives us a strong understanding of how our colleagues feel.

In our latest 'Quick Listen', we achieved a response rate of 88% and an engagement score of 85%, a high score when benchmarked against the financial services sector. This is testament to the importance we place on engagement as a whole and was an increase on our previous scores throughout 2019. It also demonstrates that our Big Listen Action Plan activities – focussed around improving communication, collaboration and change – are being recognised and are making a positive difference.

Whilst we have very strong engagement with our colleagues we always strive to do better and will continue to place a very high importance on this, particularly as we come through the lockdown and adapt to life after the Covid-19 pandemic.

During this period, rather than our usual surveys, we focussed on colleague health and we carried out monthly wellbeing pulse surveys to ensure that wellbeing of colleagues was being monitored on a regular basis.

Customers

Our mission to help customers make their financial ambitions accessible is at the heart of everything we do. To achieve this we have implemented touch points to gain customer feedback throughout the customer journey.

Listening to our customers

We lend to a wide variety of customers including owner occupiers, landlords, businesses, the self-employed and developers. For us, however, all of our customers' journeys begins the moment they realise their need for finance and continues all the way through the loan relationship to eventual redemption and beyond. We remain committed to delivering excellent service, and at key touch points throughout this cycle we monitor feedback from customers to understand both what we do well and what we can improve.

Customer support during Covid-19

We take time to understand our customer's individual circumstances to ensure that we are able to recognise their requirements and this has never been more important for customers who may have been or who are currently impacted by the pandemic. To support customers, we have offered a variety of solutions including part and full mortgage-payment deferrals in line with government guidance, along with using other forbearance measures where more appropriate to do so such as converting to interest only mortgages for a period of time.

We continue to support customers as their mortgage-payment deferral come to an end and are proactively contacting and working with customers to ensure that they receive support appropriate to their individual financial circumstances during this challenging period. More information around the processes implemented to support customers through the Covid-19 pandemic can be found within the **Operating review**.

Customer feedback

We seek to give customer-facing colleagues the tools, knowledge and support they need to deliver positive outcomes. This includes extensive training that colleagues are required to complete annually that focuses on conduct, understanding our customers and improving awareness including the identification of customers in vulnerable situations.

We take customer complaints very seriously. Our divisional assurance teams complete root cause analysis on samples of customer complaints on a monthly basis; along with responses from customer satisfaction surveys, the data is used to inform process changes and colleague training. We continue to take proactive action based on customer feedback and embed changes into our overall 'Customer Journey' processes including the streamlining of processes for faster decision making, and the improvement of communication with our customers.

Customer and Broker feedback is collated via net promoter scores and voice of customer scores and regularly reported to the Board by the Commercial and Personal Finance CEOs with trend data and accompanying commentary. This year, in our Personal Finance division we saw a reduction in complaints of over 25%.

Despite the challenges of the Covid-19 pandemic, we were able to react quickly to the requirements of our customers and this was shown in the feedback we received during the period.

Over the past few months, we've completely redeveloped the existing customers' area of the company's website to include refreshed content, a new layout and improved navigation to improve customer experience and their ability to access support if they have been affected by Covid-19. While our recent priorities have been focussed on changes needed to support customers impacted by coronavirus, we are also committed to a programme of investment to improve our processes and experiences for our customers. Further detail on this can be found in the **Operating review**.

Customer redress

It is important when listening to our customers that we learn from their experience especially when we fall short of the standards we set for ourselves or that are set by the Financial Conduct Authority (FCA) regulatory framework. In such circumstances it is vital that we firstly understand root causes and put things right for our customers along with implementing sustainable changes to make the necessary improvements for the future.

In April 2019, following the completion of internal reviews, instances were identified where, for certain customers in arrears, the outcome may have been improved if different forbearance tools had been applied. In addition, some past written communications with customers should have been clearer and more complete, including in instances where balances are not expected to be repaid by the customer by the contractual maturity date, using their current repayment schedule. Disclosures in respect of this, can be found in Note 23 to the financial statements.

Regulator

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

Our approach to regulatory engagement is one of openness and transparency, treating any enquiries with priority, and we follow established processes for communicating proactively with the regulator.

During the year, we have continued to monitor the regulatory landscape and have attended a number of FCA roundtables, and forums led by trade associations such as the Finance & Leasing Association and UK Finance on topics such as vulnerability and mortgage prisoners. We also participated in a number of forums held by trade associations set up to help members translate the regulatory guidance issued to firms in response to coronavirus and to facilitate a consistent approach to good customer outcomes throughout the industry. Attending such forums enables us to participate in industry discussions on regulatory matters and that we contribute to industry feedback on current issues.

Further detail on regulatory changes during the year and detail on the way that conduct and compliance risk is managed and mitigated is contained in the **Risk management** report.

Stakeholder engagement report (continued)

Community

We launched our award winning Let's Make it Count programme in 2016 which provided our colleagues with a framework to make a difference in the local community. The programme is embedded throughout the business within six pillars and, although our activities have been constrained by the onset of the pandemic, we look forward to resuming our activities that have had such a significant impact within the communities.

Let's Get Giving is our charity fundraising pillar. Over £170,000 was raised for charity during the year through Let's Get Giving, which included a donation to the NHS and donations to our colleague chosen charities of the year British Heart Foundation and St. Ann's Hospice, a local charity in Cheadle to which we have close ties. Due to limitations around group fundraising, we will also be extending our support to our two charities of choice into 2021. Colleagues across the business donate to take part in our weekly Dress-down Friday initiative, which generates around £500 per week for colleague-nominated charities.

Since the pandemic, the Let's Get Giving team has mobilised to support charities in new ways, including organising a month-long home-based fundraiser for the NHS Together Charities. Dress-down funds have also been directed to charities providing key support services for people impacted by the pandemic.

Let's Get Sharing supports and mentors the talent of tomorrow. We are passionate about promoting young talent in the northwest and providing a platform on which people can build a career in financial services. Over the last year, we delivered six budgeting workshops to students from Manchester College and Loreto High School, supported mock interview sessions at three different schools, welcomed students at our offices for two workplace-employer visits and organised the 'TechOver Crew' giving students an opportunity to pitch their coding projects to our directors,. During the Covid-19 pandemic, colleagues also signed up to support local youth charity Manchester Youth Zone's digital outreach initiative, Virtual MYZ.

Let's Get Going is our pillar supporting young entrepreneurs. In February, we ran our annual competition in conjunction with local schools, to inspire a new generation of business leaders. All entries were reviewed and the strongest project teams pitched their business ideas to members of our Executive Management Team.

Let's Get Green is our environmental sustainability programme. By the nature of our business our environmental impact is low. However we are committed to having a positive impact where we can. We continue our focus on reducing waste and unnecessary printing, as well as further initiatives to remove the use of single use plastic such as the distribution of non-disposable travel mugs and water bottles for colleagues. In October 2019, we held our first ever 'Let's Get Green' week, engaging colleagues from across the business to promote environmentally-friendly initiatives.

Let's Get Creative is our pillar focussed on inspiring artistic expression in young imaginations. We recently donated £500 to Broadhurst Local Community Centre to help build a sensory room, and collected creative gifts from colleagues to donate to Wood Street Mission, a charity that supports low-income families in Manchester.

Let's Get Caring is our local community outreach programme. This year, we hosted our annual Christmas lunch for over 150 pensioners, partnering with local charities and community groups to treat those who may be lonely during the festive period.

We also donated over 1,500 items to Stockport Foodbank through two collection drives, and collected over 70 bags of goods for the British Heart Foundation to sell in their Cheadle store as a thank you for training over 100 colleagues in life-saving CPR.

During the pandemic, the team endorsed and promoted the Postcards of Kindness initiative, to reach out to care home residents during the lockdown, helping to combat loneliness.

Intermediaries

The Intermediaries we work with, which include mortgage packagers, broker networks and mortgage clubs, are crucial to ensuring our products are available to a wide number of potential customers.

Our Together+ networks, comprising over 40 of our top mortgage packaging intermediaries, continue to have access to bespoke rates, unique products and exclusive events tailored to their businesses. They are also provided with enhanced underwriting and roving support, monthly management information and quality feedback.

In June 2020, we wrote to our brokers to let them know about some changes we were making as a business due to the Covid-19 pandemic which impacted on the progression of pipeline applications. These changes related to enhanced underwriting criteria on affordability, valuation and exit strategy plausibility we felt it appropriate to make due to increased risks that the pandemic has created for borrowers and lenders.

Nurturing long-standing, trusted relationships is vital and something we pride ourselves on. We continue to communicate openly and transparently with our broker network to ensure that the strength of our relationships is maintained during this period and into the future.

Investors, banks, and capital markets

Our funding is provided by UK and international banks and other institutions who invest in our high-yield bonds, revolving credit facility and our private and public securitisations. We have established long-standing banking relationships and have also built strong relationships with our institutional investors, many of whom invest across a number of our funding facilities. These relationships are vital to supporting the success of our business.

We aim to make our investor communications clear, transparent and informative to give existing and potential investors the level of insight into our operations, strategy, and financial performance that they need in order to make informed investment decisions. We achieve this via ongoing quarterly reporting to investors in our bonds including live investor conference calls with Q&A, monthly reporting to investors in our public securitisations, regular attendance at investor conferences; hosting investors for site visits during the year, providing opportunities to meet management and see the operations; regular due diligence activities with banking facility providers and an ongoing dialogue with our rating agencies, including annual rating agency visits.

This clarity and openness of communication has been even more important in the light of the Covid-19 pandemic and the significant macroeconomic uncertainty that has resulted. Our investor relations team has worked closely with our treasury team to maintain regular, proactive communication with our investors and banks throughout the crisis. During May, we concluded discussions with each of the parties invested in our four private securitisation facilities to agree the necessary waivers to support the provision of mortgage-payment deferrals to customers impacted by Covid-19, in line with government guidance. The waivers enabled, subject to certain maximum limits, for the impact of such mortgage-payment deferrals to be ignored for the purpose of eligibility and in respect of certain covenants. Waivers were reviewed and extended following the extension by the government of the window for payment holiday applications to the end of October.

We always seek to be open and transparent with our banks and investors, to find areas where we can improve and have welcomed the feedback received from our banks, investors and from debt and equity analysts to help us to further improve our communications.

Suppliers

Suppliers also play an important part in supporting our business, in particular our professional advisers and externally sourced IT developers. We consider not only price and quality when deciding which suppliers to engage, but also the potential long-term nature of the relationships and how these can be mutually beneficial.

As the coronavirus pandemic unfolded we considered the potential impact on our supplier relationships, as described in the risk management report.

We carefully consider our supplier contracts to ensure contractual commitments are clear and that obligations around sensitive information such as customer data comply with relevant regulations. Our Modern Slavery Statement is available on our website.

Our shareholder

The Company is a wholly owned subsidiary of Bracken Midco2 Limited, a company whose ultimate parent entity is Redhill Famco Limited which is wholly controlled by Henry Moser. Mr Moser sits on the Board and meets regularly with Non-Executive Directors outside the Boardroom. This facilitates alignment between Board decisions and the interests of the shareholder.

Our private ownership structure allows us to re-invest profits into the business. More information can be found in the **Financial review**.

Section 172 statement

Section 172 of the Companies Act 2006 describes and defines the legal requirement for a director to promote the success of the company. A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. Section 172 requires that directors, in doing so, have regard (amongst other matters) to:

a) the likely consequences of any decision in the long-term

b) the interests of the company's employees

c) the need to foster the company's business relationships with suppliers, customers and others

d) the impact of the company's operations on the community and the environment

e) the desirability of the company maintaining a reputation for high standards of business conduct

f) the need to act fairly between members of the company

The table below sets out how the Board has complied with section 172. Many of the requirements are integral to the way that the Group operates and therefore references have been provided where appropriate to other sections of the annual report where more information can be found.

Section 172 requirement to have regard to:	How the Board has fulfilled its s.172 duties
a) the likely consequences of any decision in the long-term	• The Board meets regularly to consider operational and financial performance and key internal developments in the context of the short and medium-term objectives in place to protect the long-term value of the business. • The overall flexibility of the governance framework has been evidenced in the ability of the business to promptly enhance its governance arrangements to appropriately respond to the significant changes to the economic environment, market conditions, and the needs of our customers and colleagues as a result of the Covid-19 pandemic. Enhancements allowed for quick decision making in response to immediate circumstances to safeguard the long-term value of the Group which included decisions to support the continued financial resilience of the Group. • On an annual basis, the Board approves the trading plan and budget for the Group. The plan focuses on the activities of the business to ensure readiness to take advantage of opportunities in the market. Information on the strategy of the business can be found in the **Strategic report**. • Information on the governance framework and how it facilitates efficient decision making, can be found in the **Corporate governance statement**. • Further information on principal decisions that the Board has made during the year can be found in the **Corporate governance** and **Committee structure** section. • The Board has approved the going concern basis of accounting for the year ending 30 June 2020. The Statement of **Going concern** can be found in the **Directors' report**.
b) the interests of the company's employees	• Colleague feedback is taken via quarterly employee engagement surveys with colleague engagement scores regularly reported to the Board. During the Covid-19 pandemic, wellbeing surveys were circulated to gather ongoing feedback from colleagues on a range of topics, including how changes had affected their mental health. The output of the surveys was reported to the Board to inform discussions on ways of working. • Following the lifting of government lockdown restrictions, work was carried out to ensure that, where appropriate, colleagues could begin returning to the office in line with government guidelines, this activity was reported to the Board to provide assurance that the working environment was safe for colleagues. • Information on the furloughing of colleagues under the government's job retention scheme and can be found in the **Stakeholder engagement report**. • Our colleague reward schemes recognise achievement and performance, this includes a Group Shared Reward Scheme which encourages colleague retention through the provision of a longer-term incentive horizon. The Remuneration and Nomination Committee has delegated authority by the Board to oversee pay and reward. Further information can be found in the **Corporate governance statement**.

Section 172 requirement to have regard to:	How the Board has fulfilled its s.172 duties
c) the need to foster the company's business relationships with suppliers, customers and others	• Maintaining positive stakeholder relationships is crucial to the Group's long-term sustainability and is regularly reported to the Board to inform decision making. • Doing the right thing for our customers is a key focus for the Group and we encourage customers to provide feedback. Information on how we engage with our customers, including how we met customer requirements during the Covid-19 pandemic can be found in our **Stakeholder engagement report**. • Investor feedback is considered on an ongoing basis and particularly when relevant to decisions relating to funding transactions. Information on how we foster relationships with our investors and banking facility providers can be found in our **Stakeholder engagement report** along with information on how we proactively engaged with bond investors and ratings agencies during the Covid-19 pandemic. • During the year, work was undertaken to formalise a policy on third party supplier management, the aim being to document responsibilities for the sourcing, selection and management of third party relationships. Updates on the ongoing activity were reported to the Audit Committee.
d) the impact of the company's operations on the community and the environment	• Support for charities and community projects continues via our colleague led initiative 'Let's Make It Count'. The Board receives annual reporting on initiatives undertaken to reduce the impact of the business's operations on the environment. More information on "Let's Make It Count" can be found in our **Stakeholder engagement report**. • Information on environmental matters can be found in the Environment section within **Directors' report**.
e) the desirability of the company maintaining a reputation for high standards of business conduct	• This year, the Board approved the voluntary adoption of the Wates Principles for Large Private Companies as a demonstration of its commitment to best practice governance. Information on how the Group has applied the Wates Principles can be found in our **Corporate governance statement**. • The Board sets the vision, mission and beliefs which are embedded across the Group to reinforce good business conduct. • Information on the Group's culture can be found in the **Stakeholder engagement report**. • The Board and its committees approve policies and procedures that facilitate high standards of governance and compliance in line and regulatory expectations. Where relevant, divisional Boards and committees consider and adopt their own policies which are set within the overall parameters of the Group to ensure standards are maintained across all business operations.
f) the need to act fairly between members of the company	• The Group's overarching governance arrangements are regularly reviewed to ensure they continue to meet the requirements of all the Group entities and their respective stakeholders. • Information on how we engage with our Group shareholder can be found in the **Stakeholder engagement report**.

Strategic report approved by the Board of Directors and signed on behalf of the Board.

J Lowe
Director
21 September 2020

Corporate governance and committee structure

Effective corporate governance provides assurance that the operations of the Group are successfully managed in the interests of the shareholder and other key stakeholders.

Board of directors

The Board of directors provides strong 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. In order to implement an effective corporate governance framework, 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 considerations. The Board also ensures that the appropriate culture, values and conduct are embedded within the organisation and fully endorses the Company's beliefs.

The Board meets a minimum of six times during the year. During 2020, additional meetings have been held to enhance governance of the Group's operations and financial resources in response to the Covid-19 pandemic.

During the year the Board voluntarily adopted the Wates Principles for Large Private Companies. Information on how the Wates Principles have been applied during the year can be found in the **Corporate governance statement**.

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.

Board of directors

The current Board members are as follows:

		Joined Together
Mike McTighe	*Non-executive director and Chairman*	November 2010
Wayne Bowser	*Non-executive director*	December 2015
Joe Shaoul	*Non-executive director*	April 1997
Henry Moser	*Group CEO*	September 1974
Gerald Grimes	*Group CEO designate*	April 2020
Pete Ball	*Personal Finance CEO*	August 2016
Marc Goldberg	*Commercial Finance CEO*	April 1989
Gary Beckett	*Group MD and Chief Treasury Officer*	May 1994
Marcus Golby	*Group Chief Operating Officer*	January 2016
John Lowe	*Group Finance Director*	February 2018

Mike McTighe

Non-executive director and Chairman

Mike was appointed Chairman in 2010. Mike brings significant experience to the Board having held a number of senior executive positions at globally recognised companies such as General Electric, Motorola and Philips.

Over the past 20+ years Mike has been a non-executive director and in many cases chairman of over 20 public and private companies around the world. Additionally, he was on the board of the UK Communications Sector Regulator, Ofcom, for eight years and was awarded the Grant Thornton UK Chairman of the Year award in 2010. Mike is currently the non-executive Chairman of IG Group Holdings plc, Arran Isle Ltd, and Openreach Ltd, the heavily regulated, structurally separate arm of BT Group plc to which he was appointed as inaugural Chairman in January 2017.

Mike is the Chair of the Remuneration and Nomination committee and is also a member of the Audit and Risk committees.

Wayne Bowser

Non-executive director and Chair of Audit and Risk Committees

Wayne joined Together in 2015 as a non-executive director and Chair of the Audit and Risk committees.

Wayne has 20 years of executive management experience including 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 private equity investments.

Wayne is also a member of the Remuneration and Nomination committee.

Joe Shaoul

Non-executive director

Joe has been a non-executive director on our Board since 1997, besides bringing continuity to the Board membership, he also brings significant experience having held a number of directorships and consultancy positions. These roles have included Chairman of Atlantic House Fund Management, acting as a consultant to CB Richards 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.

Henry Moser

Chief Executive Officer

Henry founded Together in 1974 and, having overseen the success of the company for more than 45 years, remains responsible for the strategic direction of the business.

Henry has also taken the lead in the recruitment of an experienced executive team to support him with the operational management of the business. As Together's figurehead, he has helped foster the people-first approach that defines the business ethos.

Gerald Grimes

Group CEO Designate

Gerald joined Together in April 2020 as Group CEO designate, and was appointed to the Board in May.

Gerald has over 30 years of financial services experience having held senior executive and consultancy roles in a number of organisations including Barclays, GE Capital, The Funding Corporation, Hitachi Credit and most recently PCF Bank. In addition, he has, until recently, served as a board director of the Financial Leasing Association (previously Chairman), as a member of the Bank of England Advisory Board, and has an advisory role with the FCA Small Business Practitioner Board.

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.

Marc Goldberg

CEO of Commercial Finance

Marc has been with the company for more than 30 years and was appointed to the Board in 2001.

As Chief Executive Officer of the Commercial Finance division, Marc oversees all aspects of commercial lending and is renowned for his commercial acumen and his commitment to the industry.

Gary Beckett

Group Managing Director and Chief Treasury Officer

Gary, a chartered accountant, joined the company in 1994 and was appointed to the Board in 2000, he was appointed Group Chief Financial Officer in 2001.

Gary assumed the 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 27 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 joined Together in 2015 and oversees a number of group functions with responsibilities including innovation, change delivery including modernisation and transformation, IT and data management.

Having qualified with PwC as a chartered accountant, Marcus has over 15 years' experience in the financial services sector with companies such as HSBC, first direct and M&S Bank.

John Lowe

Group Finance Director

John, joined Together in February 2018 and was appointed to the Board as Group Finance Director overseeing Group financial control, statutory reporting and taxation.

John qualified as a chartered accountant with Deloitte, and has more than 20 years' experience in financial services, across a broad range of businesses. He is also vice chairman of the Coventry Independent Advice Service, a charity which offers free advice on subjects such as debt and housing to people living in the midlands city.

On 1 July 2020 John announced his intention to leave the Together Group at the end of September 2020

Corporate governance and committee structure (continued)

The Board sets the Group's strategic aims, the cultural tone from the top, and provides entrepreneurial leadership for the Group. The Board is collectively responsible for the success of the Group and demonstrates strong leadership through an effective Board and committee structure.

The Board has certain matters reserved for its consideration and delegates other matters to its 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 its remit where action is required. Details of the principal committees are presented below. Further details on the activities of the Board and committees during the year can be found in the **Corporate governance statement**.

The Operating Review section 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 operate independently from the Group's arrangements 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 FCA regulated activities across the Group. The Personal Finance division has enhanced governance arrangements in place which are independent from the Group including the oversight of compliance with the Senior Managers and Certification Regime (SM&CR) which was extended to all regulated firms in December 2019.

Audit Committee

The Audit Committee operates under delegated authority from the Board on matters of financial reporting, financial controls, the Internal Audit function and the external auditors. It is responsible for the oversight of the reporting of the Group's financial information and the effectiveness of its internal controls and risk management. It is also responsible for the Group's Internal Audit function and the relationship with the External Auditor.

The committee meets a minimum of four times a year.

Following a tender process carried out during 2019, Ernst & Young LLP were appointed as auditor for the Group for the year ended 30 June 2020.

The external auditor was invited to each meeting; the Chair of the Committee also met with the lead audit partner outside the formal meeting process throughout the year.

During the year, the Committee has had oversight of the impact of the Covid-19 pandemic on financial reporting. This has included specific consideration of the impact that changes in the macroeconomic outlook has had on impairment allowance accounting judgements and estimates, and in addition has considered the impact of the pandemic on the Group's going concern assessment and associated disclosures.

Risk Committee

The Risk Committee operates under delegated authority from the Board on matters of risk management and internal controls. It has responsibility for oversight and advice to the Board on the current risk exposures to and future risk strategy of the Group; for ensuring that that there are proper systems in place; for allowing the appropriate consideration and assessment of current and future risk; and for ensuring that management develop appropriate policies and strategies to secure the long-term sustainability of the business. It is responsible for embedding and maintaining a supportive culture in relation to risk management. It is also responsible for providing assurance to the Board that the processes for risk management and internal control are adequate and effective.

The Risk Committee meets a minimum of four times a year.

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.

In April, a Risk Assurance Sub-Committee was set up with combined delegation of authority from both the Group and TPF Board Risk Committees. The Sub-Committee was constituted for the purpose of assessing the impact of the Covid-19 pandemic in order to mitigate risk and protect and safeguard the long-term value of the business. Between April and 30 June 2020, the Committee reported to the Board on a weekly basis on any areas of risk to be highlighted for Board consideration.

Remuneration and Nomination Committee

The Remuneration & Nomination Committee operates under delegated authority from the Board on matters of remuneration, recruitment of senior individuals and succession planning. It has responsibility for deciding the Pay and Reward Policy for the Executive Directors and the senior management and setting their individual remuneration packages. It is responsible for approving remuneration budgets and all colleague incentive schemes. It is also responsible for recruiting potential new members for the Board, assessing the balance of skills, experience and knowledge of the Board and reviewing succession plans for the Executive Directors and senior management.

The Remuneration & Nomination Committee meets a minimum of three times a year.

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.

During the year, the committee met to discuss the performance management process in light of the Covid-19 pandemic. Further information on this can be found in the **Corporate governance statement**.

Disclosure Committee

During the year, the Committee operated under delegated authority from the Board on matters of public disclosure. It is the Group's policy that all public disclosures made by the Group should be accurate and complete, fairly represent the Group's financial position and be made on a timely basis as required by applicable laws and securities exchange requirements. The primary purpose of the Committee is to review and approve public disclosures concerning the Group and to consider matters brought to its attention which would likely give rise to an obligation to make a market announcement in accordance with applicable market abuse regulations.

Board activity

In addition to the ongoing oversight activities performed by the Board, the following key topics and principal decisions were discussed and assessed by the Board during the year:

- Setting the strategic direction of the Group and considering the infrastructure and governance required to support the requirements of the Group and the changes to those requirements during the Covid-19 pandemic including additional support to colleagues and customers.
- Oversight of the Group's culture, including consideration of colleague engagement, the investment in training and development for colleagues and monitoring the culture and performance against the beliefs of the business.
- Capital structure, liquidity, fundraising activities and dividends, including actions required to meet the changing market conditions as a result of the Covid-19 pandemic.
- Approval of entry into, amendment or extension of certain debt funding agreements.
- Approval of an employee consultation process on proposals to reduce colleague numbers by around 200, reflecting the anticipated changes to business activity in the post Covid-19 pandemic market.
- Ongoing review of the appropriateness of the organisational structure to support the Group's activities.
- Regular updates from the executive directors on performance against objectives.
- Approval of the appointment of Gerald Grimes as CEO Designate and executive director.
- Legal and Regulatory changes including implementation of the new Corporate Governance reporting requirements in line with new legislation.
- The programme of change activity and prioritisation of key strategic and regulatory projects.
- Approval of the Group's risk appetite and risk management framework.
- Review and approval of Group Policies and seeking assurance over the internal control framework which has been implemented to monitor compliance.
- Cyber resilience, information security and data management including compliance with the General Data Protection Regulation.
- Key contracts and expenditure outside of the executive directors' delegated authority.
- Review of financial performance against targets.
- Approval of the Group Annual Report & Accounts.

Further details on the activities of the Board and committees during the year can be found in the **Corporate Governance Statement** including those in relation to the Covid-19 pandemic.

Corporate governance and committee structure (continued)

For the year ended 30 June 2020, Together Financial Services Limited ("the Company") voluntarily applied the Wates Corporate Governance Principles for Large Private Companies as a measure of good practice for the governance of large private companies. The Wates Principles are to be adopted on an 'apply and explain' basis, and provide suggested guidance as to how companies might achieve each of the respective principles.

As part of the Group's preparation for the new requirements, a review was undertaken during the year on behalf of the Board to understand to what extent the Group's existing governance has already met the standards of the Wates Principles. Following this review, actions were identified where it was felt that governance could be further strengthened.

The Board sets the overall governance framework for the Group. The framework is structured to enable the directors of all entities within the Group to have the necessary tools to make the key principal decisions crucial for creating long-term value, whilst meeting stakeholder expectations, and legal and regulatory requirements.

Principle	How the principle has been applied during the year
Principle 1 – purpose and leadership An effective board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.	• The Board sets the vision, mission and beliefs which have been adopted across the Group. Colleagues are asked to show how they've evidenced the beliefs as part of the performance review process and the Remuneration and Nomination Committee take the culture and beliefs into consideration when approving reward schemes for all colleagues including executive directors. • The Board sets the Group's strategic aims, taking into account the requirements of key stakeholders and ensures that the necessary experience, people and resources are in place to help colleagues and customers achieve their financial ambitions. More information on the Group's strategy can be found in the **Strategic review**. • Colleague engagement surveys frequently include questions about the culture of the Group. During the year, an externally co-facilitated review of Group culture was undertaken by the Group's internal audit department, the output of this was reported to the Board.
Principle 2 – board composition Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company.	• The Chair leads the Board and facilitates open debate and constructive discussion whilst ensuring that the Executive Directors receive appropriate challenge. The role of the Chair and CEO is separate. • The Board has a wealth of knowledge relevant to the specialist lending sector and the Board benefits from three non-executive directors who provide challenge and bring a range of knowledge and expertise from both the financial services sector and elsewhere. More information on the directors can be found in their biographies in the **Corporate governance and committee structure** section. • The approval of directors taking external appointments is a matter reserved for the Remuneration & Nomination Committee. This ensures that directors continue to have sufficient capacity to make a valuable contribution to the Group and that there are no material conflicts. • During the year, the Remuneration & Nomination Committee discussed diversity and succession planning to ensure that the composition of the Board continues to be suitable for the size and complexity of the business. • In January 2020 it was announced that Gerald Grimes would be appointed to the TFSL Board as an executive director, taking the position of CEO Designate. Since joining the business in early April, his key focus has been supporting the Executive team in addressing the challenges resulting from Covid-19. Information on Gerald's experience can be found in his biography in the **Corporate governance and committee structure** section. • The Board had planned to undertake a Board evaluation during Q4, however this was deferred due to the Covid-19 pandemic.

Principle	How the principle has been applied during the year
Principle 3 – directors' responsibilities The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision making and independent challenge.	• Company Secretary works with the chairs to ensure that agendas are appropriately structured to facilitate appropriate discussion and challenge. • The Board and committees receive information in a timely manner via a secure Board portal to maintain confidentiality. • All Board and committee actions are monitored and tracked to completion to ensure that, alongside comprehensive and accurate minutes, a complete record of decision making is maintained. • During the year the Board refreshed their matters reserved and committee terms of reference to ensure that delegation of authority remained appropriate. Matters reserved and terms of reference are reviewed on an annual basis. • In March, the Board constituted a Disclosure Committee its primary purpose being to review and approve public disclosures concerning TFSL and its subsidiaries. More information on the activities of the committee can be found in the **Corporate governance and committee structure** section. • During the Covid-19 pandemic, a weekly meeting of the TFSL Board and the Boards of its operating subsidiaries was held; the meeting was chaired by the TFSL Board Chair. The purpose of the meeting was to keep the boards informed of the business response to the pandemic and to provide a forum for constructive challenge and oversight during a time of significant uncertainty. Additional Board meetings were called when required for decision making to support the business in responding to the rapidly changing economic environment. • The agenda for the weekly update included standing items for HR, risk, treasury and finance to ensure that the boards remained fully informed, and could provide oversight of, the key issues facing the business and the ongoing impact on colleagues, including those furloughed. Regular assurance was provided by the Chief Risk Officer, HR Director and Head of Internal Audit.

Corporate governance and committee structure (continued)

Principle	How the principle has been applied during the year
Principle 4 – opportunity and risk A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks	• Following the outbreak of the Covid-19 pandemic, the strategic plan and priorities were reconsidered in light of a new economic climate. More information on the Group's strategy can be found in the **Strategic review**. • In March 2020, the decision was made to suspend loan applications, at which point all new lending ceased with the exception of applications already under offer. The decision was made to protect the liquidity and credit risk position of the business whilst ensuring that customers could continue to receive high levels of support through the Covid-19 pandemic period. Following the government's easing of lockdown restrictions in May, which reduced constraints on the housing market, we recommended accepting new applications with customers required to meet new product criteria as well as enhanced underwriting checks on affordability and new property valuation procedures and criteria. The business continued to work with select packagers during this period to ensure that key relationships were maintained. • One of the key areas of focus during the year was the transformation and automation of key business processes. More information on this work can be found in the **Operating review**. The Group Chief Operating Officer provides regular updates to the Board on the progress of the projects at each meeting with appropriate Board approval being sought where needed. • The Risk Committee operates under delegated authority from the Board on matters of risk management and internal controls. More information on the Committee's activities can be found in the **Corporate governance and committee structure** section. More information on the principal risks and uncertainties facing the business and risk management framework can be found in the **Risk management** section. • The Group enterprise risk management framework (ERMF) provides a formalised structure for the risk management of the Group. The Board reviews and approves the risk appetite statements and associated limits and early warning triggers on an annual basis or more frequently if required. • The Risk Committee delegates authority to an Executive Risk Committee (ERC) for overseeing management activity to ensure that there are proper systems in place for the appropriate consideration and assessment of risk; the ERC is chaired by the CRO. • Treasury and financial updates are standing items on the Board agenda to ensure that the Board remains fully informed on the funding and liquidity position of the Group. Updates are comprehensive and agendas are structured to allow time for detailed discussion. • In April, a Risk Assurance Sub-Committee was set up with combined delegation of authority from the both Group and TPF board Risk Committees to further strengthen the governance and risk-management frameworks throughout the pandemic. Information on the activities of the sub-committee can be found in the **Corporate governance and committee structure** section. • Following guidance issued from relevant professional bodies in response to the Covid-19 pandemic, in April, the Board approved changes to the Group's annual internal audit plan. The amendments allowed the Group's internal audit team to focus on assurance of changes in business processes in response to the pandemic, including a risk management review, to assess whether all current and emerging risks had been identified in relation to how the pandemic was affecting the Group. In addition, audits on pandemic planning, home working, the furlough process and an ongoing monitoring of customer operations were carried out, the outputs of which were reported in the first instance to the Risk Assurance Sub-Committee.

Principle	How the principle has been applied during the year
Principle 5 – remuneration A board should promote executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the company.	• The Board delegates authority to its Remuneration & Nomination Committee. The Committee has the responsibility for agreeing the Pay and Reward Policy for colleagues, and for setting the individual remuneration packages of the executive directors. More information on the activities of the Committee can be found in the **Corporate governance and committee structure** section. • Colleague pay is benchmarked externally and pay increases and bonus payments are linked to performance. Executive remuneration is based around a balanced scorecard of objectives and behaviours. • Following the government's announcement regarding their job retention scheme, the Group Board recommended the furlough of a proportion of colleagues. The recommendation was based on ongoing assessment of required resource levels by the HR department and the Group Executive Committee. Information on the use of the job retention scheme can be found in the **Stakeholder engagement report**. • In May, the TFSL and TPF Remuneration & Nomination Committees met to discuss the approach to pay and reward for the forthcoming period in light of the Covid-19 pandemic. The Committee agreed that due to a large proportion of colleagues being on furlough, and the attention of those colleagues remaining in the business being focussed primarily on pandemic related activities, colleague end of year performance reviews would be postponed until later in the calendar year. Consequentially, the decision regarding the payment of the Group's performance related bonus to colleagues was also postponed. Performance related payments will remain under review and discussed further by the committees during Q1 2020/21.
Principle 6 – stakeholder relationships and engagement Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.	• During the year, Board reporting was enhanced to require authors to identify which stakeholder groups were considered when making decisions. Furthermore, the Board directors received training on stakeholder considerations and their duties under s.172 in the context of increasing understanding of new corporate reporting requirements applicable to the Group. More information on the Board's consideration of stakeholders in fulfilling its duties under the Companies Act 2006 can be found within the s.172 Statement. • More information on stakeholder engagement and employee engagement, including engagement during the Covid-19 pandemic can be found in the **Stakeholder engagement report**. • During the period, the Audit Committee undertook its annual review of the Group whistleblowing policy to ensure that the process in place for colleagues to raise concerns about misconduct and unethical practices remained effective. The Chair of the Audit Committee continues to be the Group Whistleblowing Champion.

Directors' report

The directors present their report for the year ended 30 June 2020. Certain information required to be included in a directors' report can be found in the other sections of the annual report, as referenced below and in each of the sections that follow. All of the information presented in these sections is incorporated by reference into this **Directors' report** and is deemed to form part of this report.

- The Group's strategy, business model and likely future developments can be found within the **Strategic report** on page 06.
- The Group's Principal risks and risk management processes are set out in **Risk management** on page 51.
- The Group's Governance arrangements can be found within the **Corporate governance** section on page 40.
- Events taking place after the balance sheet are disclosed in Note 34 to the **Financial statements**.

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 2020 was £94.6m (2019: £130.3m). A full review of the financial performance of the Group is included within the **Financial review** and 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 16 on 1 July 2019 led to the restatement of both the carrying values of leased assets 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 12.7% to £4,162.2m (2019: £3,694.5m). At the same time, shareholders' funds have increased by 8.4% to £856.4m (2019: £789.9m), including shareholder loans and notes of £28.4m (2019: £27.1m). This includes a reduction in retained earnings of £1.3m to reflect the adoption of IFRS 16, as well as dividends of £15.6m during the year. Full reviews of the Group's financial position and funding and cash position are included within the **Financial review** and the **Operating review**.

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. Further detail on the engagement of employees are set out in the **Stakeholder engagement report** on page 31. The Group recently announced that it has launched an employee consultation process on proposals to reduce colleague numbers reflecting the anticipated future levels of lending activity and a revised operating structure. Further detail is provided in the **Operating review** on page 18 and Note 34 to the **Financial statements**.

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, by recycling and reducing energy consumption.

Under The Companies (Directors' report) Regulations 2018, the Group is required to comply with the new Streamlined Energy and Carbon Report (SECR) reporting framework whereby it is now mandatory for large unquoted companies to disclose energy use and associated greenhouse gas (GHG) emissions in the Directors' report.

The reporting scope of the Group's first mandatory greenhouse gas report is as follows:

- The reporting period is 1st July 2019 to 30th June 2020 which aligns to the Group's financial year;
- As this is the first year of reporting, the Group has taken the exemption from presenting comparatives for last year's energy use and GHG emissions;
- The reporting covers the Group and its subsidiaries;
- Calculations have been made for the reporting of:
  - Building related energy- natural gas (scope 1) and electricity (scope 2) and
  - Transport related energy – company vehicles (scope 1) and employee owned vehicles (scope 3).
- The methodology has been based on the Greenhouse Gas (GHG) Protocol;
- In order to calculate emissions from electricity and gas consumption, 2020 UK Government GHG Conversion Factors for Company Reporting have been used.

Energy performance results

Energy use by source	Units	2020
Gas	kWh	735,186
Electricity	kWh	1,730,429
Transportation	kWh	411,178
Total		**2,876,793**

GHG emission results

Emissions by category	2020
Scope 1 – Combustion of gas and fuel for transport	187
Scope 2 – Purchased electricity	403.4
Scope 3 – Transport	52.5
Total	**642.9**

Intensity ratio

	2020
Total emissions T/CO_2e employee	**0.9**

In the reporting period, the Group has undertaken a number of energy efficiency initiatives which have led to a reduction in the total energy used and GHG emissions. The Group installed LED lighting at both Lakeview and Lakeside offices with both buildings forming part of the Building related energy disclosed. The Group also introduced more efficient heating unit at No 1 Lakeside. These actions are expected to result in a reduction in property based annual energy consumption for the Group.

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 have assessed, in the light of current and anticipated economic conditions, the Group's ability to continue as a going concern for a period of 12 months from the date of approval of the accounts. Further detail on this assessment is set out in Note 2 to the **Financial statements**.

The directors are satisfied that the Company and the Group has adequate resources to continue in operation for the going concern assessment period. Accordingly, the directors have adopted the going-concern basis in preparing these accounts.

Directors

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

RM McTighe*
Chairman

HN Moser
Chief Executive Officer

G Grimes
Chief Executive Officer Designate
(Appointed on 17 May 2020)

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 £170,000 (2019: £80,000) to charities.

Auditors

The directors, having considered the requirements for rotation of auditors voluntarily tendered the audit. After a competitive tender, Ernst & Young LLP has been appointed as the Group's auditors for the year ended 30 June 2020.

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
21 September 2020

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.

Overview of risk management within the Group

Enterprise risk management framework

The Group is exposed to a variety of risks in pursuing its strategic objectives. To identify and manage these risks the Group utilises an enterprise risk-management framework (ERMF).

The ERMF is designed and implemented in a way which is considered appropriate for the nature, scale and complexity of the Group and to be responsive to changes in the external environment. It provides the necessary organisational arrangements for managing risks in a consistent and structured manner and sets out how this is governed.

Risk governance & oversight

The Group's Board is committed to creating the right culture for risk management, which is aligned to the achievement of the Group's strategy and is implemented through the ERMF.

The Board delegates certain responsibilities to committees and the Risk Committee is responsible for oversight of risk management for the Group. There is additional focus in the Personal Finance division on specific risks such as compliance risk.

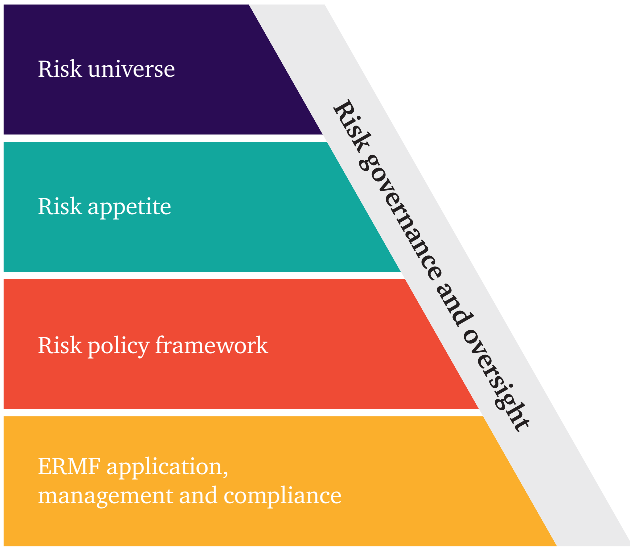
Further details on the Group's governance arrangements can be found in the **Corporate Governance** report.

The Group's system of internal controls and risk management uses a "three lines of defence" model.

The first line of defence is responsible for the identification, management and ownership of 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 Group has a co-ordinated approach to assurance, which maps the key risks faced by the Group to the assurance activities in place across the three lines of defence, to allow effective oversight and to increase focus on specific risks, as required.

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



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.

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.

Risk policy framework

There is a risk policy framework which sets out the policy requirements for monitoring and managing the principal risks. Policies are established to communicate the approach to managing each risk and set the standard for monitoring and reporting.

ERMF application, management and compliance

Each area of the business is responsible for embedding and applying the ERMF, which includes identifying, assessing and reporting on risks, assessing the effectiveness of the control environment and tracking actions against risks.

In order for the ERMF to be effective, it should be underpinned by:

- A culture which is led by the Board and senior management;
- Organisational structures and processes, such as committees and management meetings, which have a clear role in risk management; and
- Communication and training to all colleagues on risk management, which is clear and tailored to their responsibilities and performance management processes that reward the right behaviour.

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:

Covid-19 and the macroeconomic environment

The emergence of Covid-19 as a global pandemic has led to significant disruption to the world economy and there is little certainty in the economic outlook. In addition, the final form of the UK's exit from the European Union is not yet known. Amongst other impacts, macroeconomic uncertainty may affect the availability and pricing of wholesale funding, reduce customer confidence, reduce customers' ability to service and repay their loans which may in-turn affect our ability to comply with the covenants in our funding structures, increase operating costs and impact property values.

The Bank of England has acted to maintain a credit supply to the economy, including the provision of liquidity to banks to support lending, however this support is not available to the same extent to non-bank lenders which includes the Group.

What we did in 2019/20

In response to the Covid-19 pandemic, the Group:

- Successfully invoked its business continuity plans to immediately address the safety of colleagues and quickly develop the operational and IT infrastructure to enable the majority of colleagues to work from home and continue to support customers, including those in need of a mortgage payment deferral.
- Increased the frequency of Board and Board Risk Committee meetings to address the rapidly evolving risk environment.
- Reprioritised the focus of second-line teams on monitoring new and changing risks, while internal audit has provided targeted assurance.
- Redesigned and reviewed the effectiveness of key controls to adapt to a home-working environment.
- Closely monitored financial resources and increased the frequency of financial projections, stress-testing and monitoring of key risk indicators under a range of scenarios.
- Temporarily paused new lending applications.
- Entered into waivers and amendments of facility documents for privative securitisations in order to support the provision of mortgage-payment deferrals to customers in line with government guidance.
- Took action to reduce costs, including reductions is discretionary spending and also reviewed the operating model in light of updated financial projections.
- Further detail on the management and mitigation of risks arising from Covid-19 is provided within the **Principal risks and uncertainties** section below.

Prior to the coronavirus outbreak, the Group refinanced and extended the maturity dates on certain existing funding structures and raised new funding which mitigates the impact of disruption to the wholesale funding market. The Group continues to focus on specialist lending, secured at prudent LTVs and has no operations outside of the UK.

Further detail is provided in the **Operating review**

Group expectations for 2020/21 and direction

It is too early to reliably estimate the full economic impact of Covid-19 and the national and local measures, which continue to be updated to control the outbreak, will not signal a return to the 'old normal' but rather the first stage of moving towards a 'new normal'. However, with a resilient and proven business model, we aim to emerge from this crisis well-placed to help our customers during the UK's economic recovery.

Exposure to real estate

The Group has a substantial lending exposure to the residential and commercial property sectors. Any property value falls or adverse changes in the economy may lead to a rising number of defaults or a reduction in the amount recovered in the event of default.

What we did in 2019/20

The Group lends at prudent LTVs at origination to provide protection from falls in property prices. Average origination LTV was 57.7% for the year to 30 June 2020 (2019: 58.0%).

During the year the Group temporarily paused new lending applications, following the onset of the Covid-19 pandemic, during a period when the impact of the outbreak on: the economy, affordability assessments for new lending applications, feasibility of conducting property valuations, and the property market in general was unclear. The Group has since tightened lending criteria in mitigation of these uncertainties.

Group expectations for 2020/21 and direction

The risks to the property market are expected to increase in the forthcoming year in light of adverse economic conditions and the Group expects to continue to lend using revised lending criteria and to continue its longstanding approach of lending at prudent LTVs.

Interest rate environment

Interest rates have fallen during the year, with Bank Rate cut to a record low of 0.1%. Reductions in interest rates make borrowing more affordable and therefore can increase asset prices. However, if interest rates are subsequently increased faster than expected, loan servicing costs are likely to increase, which could cause an increase in credit losses.

What we did in 2019/20

The Group conducts regular stress testing on the balance sheet for the impact of changes in interest rates arising from any mismatches in fixed and floating rates on the balance sheet. The Group raises funding using a mix of fixed and variable funding which provides some natural offset in movements in interest rates on assets and liabilities. During the year, the Group issued TABS 3, which uses SONIA as a reference rate which has historically tracked Bank Rate more closely than Libor. The Group also refinanced certain senior secured notes, securing fixed rate funding to 2026 and entered into interest rate derivatives where appropriate to mitigate interest rate risk.

Read more on the Group's funding activity in the **Operating review**

The Group maintains strict underwriting criteria which include, where appropriate, stressing affordability under a higher interest rate environment

Group expectations for 2020/21 and direction

Future interest rate expectations, measured by swap rates, have fallen significantly. The Group will continue to monitor the external environment and respond to any interest rate changes 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 2019/20

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

In common with a number of lenders and at the height of uncertainty as the country went into lockdown, the Group took a prudent decision to temporarily pause accepting new mortgage applications. Our focus was on managing the existing pipeline of loans, including underwriting against more prudent criteria, along with supporting our existing customers by offering mortgage payment deferrals. Supporting our existing customers at a time of great uncertainty was our priority, with the potential reputational impact with intermediaries mitigated by the temporary nature of the pause and that origination levels were significantly reduced across the industry. The Group has since recommenced accepting new applications on a phased basis initially using a selected panel of intermediaries from its well-established distribution network, as set out in Note 34 to the **Financial statements**. The Group continues to offer a broad product range to underserved segments of the market and benefits from a rich pool of experience and skills. The Group also continues to invest in technology and product innovation.

Group expectations for 2020/21 and direction

The longevity of the Group's trading has resulted in the development of long term relationships with both intermediaries and individuals providing access to both new and repeat customers. In addition our diverse range of products, approach to underwriting and experience means that we have the ability to attract customers who are not serviced by other lenders, together protecting our competitive position. The Group will continue to monitor the external environment and is confident, given this experience, gained over many economic cycles, that it can adapt accordingly.

Uncertain economic times can reduce the number of new entrants into our chosen markets and may also reduce competition from existing lenders. Lenders who operate in mainstream and specialist segments have generally sought to focus on their core markets and restrict their lending criteria in a recessionary environment, which may provide increased lending opportunities for Together.

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 2019/20

The Group continues to perform penetration testing on our systems and 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 2020/21 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.

External environment (continued)

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 sector.

What we did in 2019/20

The Group has responded to new guidance issued by the FCA in response to the coronavirus pandemic, including offering mortgage-payment deferrals to customers and the treatment of vulnerable customers.

The Personal Finance division has implemented the FCA's Senior Managers and Certification Regime (SM&CR) during the year.

The Group has also reviewed data handling processes to ensure the Group continues to comply with General Data Protection Regulation (GDPR).

Group expectations for 2020/21 and direction

The Group expects that this will continue to be a key focus area.

The FCA has already issued regulatory guidance in response to the pandemic, in particular concerning vulnerable customers and the FCA business plan highlights that the impacts and lessons-learned during and beyond Covid-19 may further refine their areas of focus. The FCA business plan states that the current regulatory framework is too focused on rules-based approach, and not enough on principles and outcomes. The plan also sets out a view that resources are devoted to redress and remediation, but not enough focus is on empowering customers to make good decisions, on regulatory action to prevent harm, and on safeguarding customers' financial wellbeing.

The FCA has also consulted on extending SM&CR implementation deadlines, for certain requirements, including: the date the conduct rules come into force; the deadline for submission of information about directory persons to the register; extending the deadline for assessing Certified Persons as fit and proper from December 2020 to March 2021.

The Personal Finance division's compliance function will continue to monitor proposed changes to the FCA regulatory landscape for emerging changes in regulation, to assess the potential impact of any changes, and to allow for procedures and processes to be adapted accordingly.

Claims management companies (CMCs) and legal claims

CMCs and claimant law firms' activity can lead to a significant increase in the level of legal claims being received, whether these end up being settled or rejected.

What we did in 2019/20

During the year, the Group has seen a reduction in legal claims received from CMCs and claimant law firms compared with the prior year. CMCs became regulated during 2019 with the aim of raising standards and practices in the industry, which may impact on claim volumes. The Group evaluates the merits of each claim individually and determines an appropriate course of action.

Group expectations for 2020/21 and direction

While current volumes have reduced, the Group expects that legal claims and complaints and claims from CMCs and claimant law firms to continue in the coming year. The Group will continue its approach of evaluating claims on their merits and acting accordingly.

Principal risks and uncertainties

The directors have identified the following as the principal risks and uncertainties facing the business.

The coronavirus outbreak represents a major development in the risks and uncertainties facing the Group, and impacts a number of principal risk categories. The Group benefits from a prudent LTV loan portfolio and new origination criteria have been further tightened in response to the challenges of robustly assessing affordability and property valuations in current conditions. The Group's results have been adversely impacted by increased expected credit losses in line with IFRS9 forward looking requirements and the extent of any further impact will be influenced by the duration and severity of the disruption on the UK economy. Given the level of uncertainty, including the current and potential further disruption in wholesale funding markets, the Group is proactively modelling possible scenarios to support the continued resilience of the business model. Growth plans have been revised to lower levels, thereby conserving both capital and liquidity until the level of uncertainty reduces.

Each principal 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[1]
- Conduct risk[1]
- Compliance risk[1]

[1] This section forms part of the IFRS 7 disclosures in respect of the **Financial statements** on pages 66 to 107.

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 16 and 17.

Strategic risk is managed and mitigated by:

- Regular Board oversight of the Group's strategy, including monitoring of financial and non-financial performance indicators.
- Regular engagement with the Group's shareholder to allow for alignment of objectives.
- 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.
- Maintaining strong relationships with intermediaries.
- 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'.

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

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, where appropriate, have regard to creditworthiness, 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.
- Responding to changing market conditions, such as the worsening economic conditions since March 2020 by temporarily pausing new applications and tightened lending criteria, including lower LTVs and increased thresholds for affordability assessments.
- In the Personal Finance division, the new lending criteria have been applied to the existing pipeline to evaluate whether valuations and affordability assessments undertaken prior to coronavirus are still appropriate.

Principal risks and uncertainties (continued)

- In the Commercial Finance division, new originations are primarily through mortgage intermediaries where we have a long-standing relationship or via direct channels and are subject to tighter lending criteria.
- Continuing to focus lending on areas of the market where the Group has specific expertise, which only includes secured lending, within the UK, at prudent LTVs.
- Monitoring of customer performance throughout the life of the loan, with regard to arrears, proactive collections strategies, application of mortgage-payment deferrals in response to Covid-19, or other forbearance measures.
- Capturing additional data and establishing enhanced monitoring of the specific risks posed to the portfolio by Covid-19 and the impact of customers in receipt of mortgage-payment deferrals. This has included accessing additional data, where appropriate, from open banking and credit reference agencies.
- Updated arrears management standards and processes to reflect the latest FCA guidance on mortgage-payment deferrals.
- Monitoring of the characteristics of the loan portfolio, including geographical concentration and LTV.
- Monitoring of credit risk exposures through credit risk management information to enable an assessment of position versus risk appetite. This has been enhanced to provide further analysis and focus on particular risk factors emerging as a result of coronavirus.

Macroeconomic sensitivity analysis of the loan book, including an increase in the number of scenarios modelled for the purpose of calculating the impairment loss allowance.

- Measuring and monitoring credit quality for impairment purposes 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, including receiving reports and recommendations from the Group Credit Risk Meeting. Board oversight is performed by the Risk Committee.

Maximum exposure to credit risk

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

Audited	Note	2020 £m	2019 £m
Included within the statement of financial position:			
Gross customer balances		4,300.3	3,774.8
Unsecured loans		0.2	0.3
Accounting adjustments		(19.5)	(13.6)
Less: allowance for impairment	14	(118.8)	(67.0)
Loans and advances to customers	14	4,162.2	3,694.5
Cash and cash equivalents	13	252.5	120.2
Derivative assets held for risk management	15	–	0.1
Amounts owed by related parties	17	1.0	0.7
Other debtors	17	1.4	0.9
		4,417.1	3,816.4
Not included within the statement of financial position:			
Commitments to lend (net of ECL)	32	88.4	153.7
Maximum exposure to credit risk		4,505.5	3,970.1

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 customer, measured on an expected credit loss basis under IFRS 9. The credit risk ratings are not used by the group to monitor credit risk and therefore are not disclosed. Further details on the Group's expected credit loss methodology, and the movement in impairment losses through the year are shown in Notes 2 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**.

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.

	2020 £m	**2020 % of gross customer balances**	2019 £m	2019 % of gross customer balances
60% or less	**2,374.7**	**55.2%**	2,191.4	58.0%
61–85%	**1,750.4**	**40.7%**	1,453.1	38.5%
86–100%	**119.7**	**2.8%**	89.8	2.4%
Greater than 100%	**55.5**	**1.3%**	40.5	1.1%
Gross customer balances	**4,300.3**	**100.0%**	3,774.8	100.0%

Of the gross customer balances at 30 June 2020, 95.9% (30 June 2019: 96.5%) 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:

	2020 %	2019 %
East Anglia	**2.7**	2.5
East Midlands	**3.4**	3.2
Ireland	**0.1**	0.1
London	**26.7**	28.3
North East	**1.7**	1.7
North West	**15.8**	14.8
Scotland	**4.5**	4.4
South East	**18.6**	19.2
South West	**7.5**	7.3
Wales	**3.7**	3.8
West Midlands	**8.7**	8.2
Yorks & Humber	**6.6**	6.5
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:

	2020 %	2019 %
Up to £50,000	**10.5**	11.8
£50,000–£100,000	**15.5**	15.8
£100,000–£250,000	**22.7**	22.0
£250,000–£500,000	**15.7**	14.8
£500,000–£1,000,000	**10.3**	9.8
£1,000,000–£2,500,000	**12.0**	11.8
More than £2,500,000	**13.3**	14.0
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, 87.3% (30 June 2019: 88.3%) of these loans have an LTV of under 85% at 30 June 2020.

Principal risks and uncertainties (continued)

Forbearance and mortgage-payment deferrals

In March 2020 the government announced very substantial and wide-ranging support measures in anticipation of the effect of the pandemic on the wider economy and subsequently extended such measures in May 2020. These measures included the availability of mortgage-payment deferrals, for up to six months, for borrowers who have been impacted by Covid-19.

As at 30 June 2020, 5,691 customer loan accounts, representing 16% of the loan portfolio by value, were in receipt of a Covid-19 mortgage-payment deferral arrangement. As at 31 August 2020, this reduced to 8% of loan portfolio by value and this is detailed out in Note 34. Further detail on the impact on the Group's loss allowance is set out in Note 14.

The Group also offers forbearance to assist customers who are experiencing financial distress and assistance is provided based on individual customer circumstances. In the Personal Finance division this is offered in accordance with regulatory guidance. For those customers requiring additional assistance the Group works with a number of external not for-profit agencies.

Further detail on the impact on the Group's loss allowance is set out in Note 14.

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 risk appetites for both liquidity and funding risks. This provides the Board with a level of 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 and to survive a stress event in line with the appetite set by the Board. Liquidity, funding, and capital risk (see Capital Risk below) are closely related given capital provides the necessary subordination to each of the facilities, which in turn provide liquidity.

A key driver of liquidity risk within the Group arises from a number of private securitisation facilities being subject to portfolio covenants and eligibility restrictions including concentration limits and performance measures. Amongst other requirements, such covenants limit the proportion of loans in arrears and on an individual loan basis the level of arrears determine eligibility for such facilities. In certain circumstances assets can be exchanged, repurchased or additional capital can be injected into the facilities to support compliance with facility terms thereby maintaining access to liquidity provided by such facilities. Failure to comply with facility terms or breach of non-curable performance covenants will cause such facilities to go into early amortisation, with removal of undrawn facility headroom and deferral of cashflows to the senior borrower group. Increasing arrears, as a result of the wider economic consequences of the pandemic, increases the risk that insufficient eligible assets will be available to ensure facilities remain in compliance with covenants, and thus able to provide a source of liquidity and funding for the Group. The Group monitors such covenants and carries a level of cash and eligible assets to support the private securitisation facilities in a stress event in line with set risk appetites.

The Group also benefits from an ordinarily highly cash-generative business model, with a high level of redemptions which is a key source of liquidity. Expectations are for continued economic uncertainty which may lead to a reduction in the level of cash inflows and stress testing undertaken includes the impact of severe haircuts to expected redemption inflows.

The liquidity and funding risks arising from reducing level of eligible assets and/or the risk of lower levels of cash inflows from redemptions can be mitigated by increasing the amount of liquidity resources held as cash. A key management action to generate net cash inflows is the ability to control levels of new lending, which in combination with other management actions, has increased cash balances to £252.5m at 30 June 2020 (2019: £120.2m).

Note 2 to the **Financial statements** provides further detail on the assessment of the going concern basis of preparation. This includes an assessment of the risks presented to the Group by any potential breaches of lending covenants including potential mitigating actions.

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 which are modelled and monitored against a 150-day survival period.
- Development of additional forecast cash-flow scenarios and stress-testing in response to the economic and market disruptions following the outbreak of coronavirus.
- Regular monitoring and reporting of compliance with financial covenants and restrictions, and actively seeking waivers where appropriate.
- 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, including the outstanding pipeline of loan offers, 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.
- Regular engagement with banks and investors.
- Maintenance of depth of maturity through regular new issuances and timely refinancing of existing sources of funding, when wholesale markets are available.
- Monitoring individual funding maturity dates and maturity concentrations.
- 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, with delegated authority from the Group Executive Risk Committee, and Board oversight is performed by the Risk Committee. In response to the pandemic ALCO matters were reported directly to the Board on a weekly basis in order to provide timely information for consideration.

See the **Operating review** for an overview of the Group's sources of funding and funding activity undertaken during the year.

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 2020	**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	**10.0**	**10.3**	**–**	**–**	**–**	**10.3**
Loan notes	**2,729.8**	**137.7**	**620.3**	**2,128.5**	**–**	**2,886.5**
Senior secured notes	**786.1**	**41.2**	**42.6**	**456.5**	**456.2**	**996.5**
Obligations under finance leases	**11.5**	**1.4**	**1.2**	**3.3**	**5.6**	**11.5**
Subordinated shareholder loans	**28.4**	**–**	**–**	**–**	**68.0**	**68.0**
	3,565.8	**190.6**	**664.1**	**2,588.3**	**529.8**	**3,972.8**
Debt issue costs	**(15.7)**	**–**	**–**	**–**	**–**	**–**
Borrowings	**3,550.1**	**190.6**	**664.1**	**2,588.3**	**529.8**	**3,972.8**
Trade creditors	**1.1**	**1.1**	**–**	**–**	**–**	**1.1**
Other creditors	**1.5**	**1.5**	**–**	**–**	**–**	**1.5**
Commitments to lend	**–**	**88.4**	**–**	**–**	**–**	**88.4**
	3,552.7	**281.6**	**664.1**	**2,588.3**	**529.8**	**4,063.8**

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

The weighted average maturity of the Group's borrowings is 3.3 years at 30 June 2020 (30 June 2019: 3.6 years) and the Group has a strong track record of successful refinancing and raising new facilities. The outbreak of the coronavirus is causing market uncertainty, which may restrict the ability of the Group to complete further funding transactions, at least in the short-term, or may impact on the terms available. The depth of maturity in the Group's existing debt facilities provides significant mitigation in respect of refinancing risk. The earliest maturity of wholesale funding, being the Highfield ABS facility, is not due until June 2021 and the earliest call on public securitisation is Together ABS1 in September 2021. Further detail is set out in Note 22 to the **Financial statements**.

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, with delegated authority from the Group Executive Risk Committee, and Board oversight is performed by the Risk Committee.

The table below sets out the impact on profit before tax of an immediate decrease of 0.1% and an increase of 0.1%, 0.5% and 1.0% in interest rates, based on the interest rates prevalent at the year-end dates.

	2020 £m	2019 £m
0.1% decrease	(1.5)	(1.4)
0.1% increase	1.5	1.4
0.5% increase	7.6	7.1
1.0% increase	15.2	14.2

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.

Note 15 to the **Financial statements** details the Group's use of derivatives to mitigate interest rate risk.

[1] Refer to appendix for definitions and calculations

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.

Current and forecast levels of Group capital, including the gearing ratio, are monitored and reported to the Board on a regular basis. Total shareholder funds increased by £66.5m over the year (2019: £52.9m). The net debt gearing ratio[1] has increased to 78.6% at 30 June 2020 (30 June 2019: 78.0%) as a result of introducing more capital efficient funding facilities.

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 and stress testing over a horizon of 12-18 months to identify forecast positions.
- Reviewing the level of gearing within securitisation facilities and within the senior borrower group, 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, with delegated authority from the Group Executive Risk Committee, and Board oversight is performed by the Risk Committee.

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 is managed and mitigated by:

- A framework of systems, controls, policies and procedures.
- Frameworks to recruit, train and retain sufficient skilled personnel. This includes succession planning and identification and mitigation of reliance on key individuals.
- 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.
- Maintaining 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 antivirus and firewalls, using multiple vendors 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 provides oversight and monitoring of operational risk, with authority delegated to the Financial Crime Committee for the management of this risk. Board oversight is performed by the Risk Committee.

With the Covid-19 pandemic, the Group invoked its business-continuity process in proactively responding to the coronavirus outbreak. The immediate steps taken in the Group's response included:

- The instigation of daily meetings by the leadership team to review and direct the Group's operational response to Covid-19 and an increase in the frequency of Board and Risk Committee meetings to facilitate rapid decision making.
- Rapid expansion of the IT and operational capability for colleagues to work from home.
- Adaption of systems of internal controls to support remote working.
- Changes to operational processes and IT systems to assist customers facing financial difficulty and offer mortgage-payment deferrals.
- Development of HR procedures and communications strategy to support colleagues and to support their ongoing wellbeing.
- Close monitoring of human resource levels to meet new and changing demands.
- Review of arrangements with suppliers and implementation of contingency procedures.

The Group has demonstrated an ability for the vast majority of our colleagues to work from home, and have also now put in place detailed social distancing, personal temperature testing and enhanced cleaning procedures to support a safe and phased return to the office for a number of our colleagues.

Principal risks and uncertainties (continued)

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 the failure to embed an appropriate culture, 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.
- Adherence to a system of processes and controls which mitigate conduct risk including monitoring and reporting against risk appetite.
- 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, which have recently been enhanced to include a focus on those customers impacted by Covid-19 and to focus on the potential impact on vulnerable customers or on customer who may become vulnerable.

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 own separate 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 Personal Finance division for the year-ended 30 June 2019, instances were identified where, for certain customers in arrears, the outcome may have been improved if different forbearance tools had been applied. In addition, some past written communications with customers should have been clearer and more complete, including in instances where balances are not expected to be repaid by the customer by the contractual maturity date, using their current repayment schedule. Further disclosures in respect of this can be found in Note 23 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, legal action against the Group and/or 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. Recently, these have focussed on the impact of Covid-19 on customer outcomes, from their request for a mortgage-payment deferral through to their payment deferral exit.
- 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' which includes second-line compliance engagement wherever appropriate.
- Products are approved through a 'Product Governance framework' with a focus on customer needs.
- Controls to prevent financial crime, including fraud detection, anti-money laundering checks and established processes for whistleblowing. The Board receives an annual report from its dedicated Money Laundering Reporting Officer (MLRO) setting out a comprehensive review of controls and compliance with relevant regulation.
- Monitoring of compliance with legal obligations by an in-house legal department.
- Monitoring processes to assess compliance with the requirements of GDPR.
- Horizon scanning and impact assessments of potential regulatory and legal change. The compliance function monitors all regulatory developments, including the matters identified by the FCA in their business plan, to allow for new guidance to be considered and changes implemented where appropriate.

The Group's Executive Risk Committee 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 own separate 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."

Independent auditor's report

to the members of Together Financial Services Limited

Opinion

We have audited the financial statements of Together Financial Services Limited (the "Company') and its subsidiaries (together "the Group") for the year ended 30 June 2020 which comprise the Consolidated statement of comprehensive income, the Consolidated and Company statement of financial position, the Consolidated and Company statement of changes in equity and the Consolidated and Company statement of cashflows and the related notes 1 to 34, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the Group's and of the Company's affairs as at 30 June 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company financial statements have been prepared in accordance with IFRSs as adopted by European Union and as applied with the provisions of the Companies Act 2006;
- the financial statements have been prepared in accordance with the requirements 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 below. We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including 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 have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the 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 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.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

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 directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 50, 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 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 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 Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

Stephen Littler

Stephen Littler (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester
21 September 2020

Consolidated statement of comprehensive income

Year ended 30 June 2020

All amounts are stated in £m

Income statement	Note	2020	2019
Interest receivable and similar income	4	388.4	343.1
Interest payable and similar charges	5	(137.1)	(116.8)
Net interest income		251.3	226.3
Fee and commission income	6	4.5	4.4
Fee and commission expense	7	(2.9)	(2.3)
Net fair value losses on derivatives held for risk-management purposes measured at fair value through income statement	15	(0.5)	–
Other income	8	1.9	0.1
Operating income		254.3	228.5
Administrative expenses	9	(92.8)	(82.8)
Operating profit		161.5	145.7
Impairment losses	14	(66.9)	(15.4)
Profit before taxation		94.6	130.3
Income tax	12	(10.5)	(18.6)
Profit after taxation		84.1	111.7
Other comprehensive income and expense			
Items that may be reclassified to the income statement			
Movement in the cashflow-hedging reserve:			
Effective portion of changes in fair value of derivatives		(2.8)	–
Amounts reclassified to income statement		0.1	–
		(2.7)	–
Movement in the cost-of-hedging reserve:			
Effective portion of changes in fair value of derivatives		–	(0.2)
Amounts reclassified to income statement		0.1	–
		0.1	(0.2)
Other comprehensive expense for the year, net of tax		(2.6)	(0.2)
Total comprehensive income for the year		81.5	111.5

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

Consolidated statement of financial position

As of 30 June 2020

All amounts are stated in £m

	Note	**2020**	2019
Assets			
Cash and cash equivalents	13	**252.5**	120.2
Loans and advances to customers	14	**4,162.2**	3,694.5
Derivative assets held for risk management	15	**–**	0.1
Inventories	16	**0.6**	0.6
Other assets	17	**6.3**	4.8
Investments		**0.1**	0.1
Property, plant and equipment	19	**13.9**	5.4
Intangible assets	20	**8.1**	8.8
Current tax asset		**3.2**	–
Deferred tax asset	21	**7.6**	7.5
Total assets		**4,454.5**	3,842.0
Liabilities			
Derivative liabilities held for risk management	15	**2.9**	–
Current tax liabilities		**–**	8.7
Borrowings	22	**3,550.1**	3,015.7
Provisions for liabilities and charges	23	**22.3**	4.2
Other liabilities	24	**51.2**	50.6
Total liabilities		**3,626.5**	3,079.2
Equity			
Share capital	25	**9.8**	9.8
Subordinated shareholder funding reserve	22	**39.7**	41.0
Cashflow-hedging reserve		**(2.7)**	–
Cost of hedging reserve		**(0.1)**	(0.2)
Other reserves		**10.6**	10.8
Retained earnings		**770.7**	701.4
Total equity		**828.0**	762.8
Total equity and liabilities		**4,454.5**	3,842.0

These financial statements were approved and authorised for issue by the Board of Directors on 21 September 2020.

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 2020

All amounts are stated in £m

	Note	2020	2019
Assets			
Cash and cash equivalents		**112.1**	34.2
Amounts owed by subsidiaries	17	**1,218.9**	1,291.9
Other assets	17	**0.8**	0.1
Investments in subsidiaries	18	**25.3**	25.3
Property, plant and equipment	19	**9.2**	–
Deferred tax asset	21	**0.3**	–
Total assets		**1,366.6**	1,351.5
Liabilities			
Borrowings	22	**48.8**	81.8
Amounts owed to subsidiaries	24	**802.9**	738.3
Other liabilities	24	**2.2**	0.4
Total liabilities		**853.9**	820.5
Equity			
Share capital	25	**9.8**	9.8
Subordinated shareholder funding reserve	22	**39.7**	41.0
Other reserve		**20.2**	20.4
Retained earnings		**443.0**	459.8
Total equity		**512.7**	531.0
Total equity and liabilities		**1,366.6**	1,351.5

Together Financial Services Limited (the Company) reported a loss after tax for the year ended 30 June 2020 of £2.0m (2019: £2.2m). 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 18 September 2020.

Company Registration No. 02939389.

Signed on behalf of the Board of Directors

HN Moser
Director

J Lowe
Director

Consolidated statement of changes in equity

All amounts are stated in £m

Year ended 30 June 2020	**Called-up share capital**	**Subordinated shareholder funding reserve**	**Cashflow-hedging reserve**	**Cost of hedging reserve**	**Other reserves**	**Retained earnings**	**Total**
At beginning of year	9.8	41.0	–	(0.2)	10.8	701.4	762.8
Changes on initial application of IFRS 16	–	–	–	–	–	(1.3)	(1.3)
Restated balances at beginning of year	9.8	41.0	–	(0.2)	10.8	700.1	761.5
Total comprehensive income	–	–	(2.7)	0.1	–	84.1	81.5
Dividend paid	–	–	–	–	–	(15.6)	(15.6)
Purchase of shares*	–	–	–	–	(0.2)	–	(0.2)
Modification of subordinated debt	–	0.8	–	–	–	–	0.8
Transfer between reserves	–	(2.1)	–	–	–	2.1	–
At end of year	9.8	39.7	(2.7)	(0.1)	10.6	770.7	828.0

Adjustments on transaction to IFRS 16 are set out in Note 2 to the **Financial statements**.

*Relates to a purchase of shares by the employee-benefit trust and charged to the capital redemption reserve.

Year ended 30 June 2019	Called-up share capital	Subordinated shareholder funding reserve	Cost of hedging reserve	Other reserves	Retained earnings	Total
At beginning of year	9.8	43.0	–	10.8	648.3	711.9
Changes on initial application of IFRS 9	–	–	–	–	(30.7)	(30.7)
Restated balances at beginning of year	9.8	43.0	–	10.8	617.6	681.2
Total comprehensive income	–	–	(0.2)	–	111.7	111.5
Dividend paid	–	–	–	–	(29.9)	(29.9)
Transfer between reserves	–	(2.0)	–	–	2.0	–
At end of year	9.8	41.0	(0.2)	10.8	701.4	762.8

Other reserves consist of the following:

	Share premium account	Merger reserve	Capital redemption reserve	Share-based payment reserve	Total
As at 30 June 2020	17.5	(9.6)	1.1	1.6	10.6
As at 30 June 2019	17.5	(9.6)	1.3	1.6	10.8

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

Company statement of changes in equity

All amounts are stated in £m

Year ended 30 June 2020	**Called-up share capital**	**Subordinated shareholder funding reserve**	**Other reserves**	**Retained earnings**	**Total**
At beginning of year	**9.8**	**41.0**	**20.4**	**459.8**	**531.0**
Changes on initial application of IFRS 16	**–**	**–**	**–**	**(1.3)**	**(1.3)**
Restated balances at beginning of year	**9.8**	**41.0**	**20.4**	**458.5**	**529.7**
Loss for the financial year	**–**	**–**	**–**	**(2.0)**	**(2.0)**
Purchase of shares*	**–**	**–**	**(0.2)**	**–**	**(0.2)**
Modification of subordinated debt	**–**	**0.8**	**–**	**–**	**0.8**
Transfer between reserves	**–**	**(2.1)**	**–**	**2.1**	**–**
Dividend	**–**	**–**	**–**	**(15.6)**	**(15.6)**
At end of year	**9.8**	**39.7**	**20.2**	**443.0**	**512.7**

Adjustments on transition to IFRS 16 are set out in Note 2 to the **Financial statements**.

*Relates to a purchase of shares by the employee-benefit trust and charged to the capital redemption reserve.

Year ended 30 June 2019	Called-up share capital	Subordinated shareholder funding reserve	Other reserves	Retained earnings	Total
At beginning of year	9.8	43.0	20.4	489.9	563.1
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	41.0	20.4	459.8	531.0

Other reserves consist of the following:

	Share premium account	Capital redemption reserve	Share-based payment reserve	Total
As at 30 June 2020	**17.5**	**1.1**	**1.6**	**20.2**
As at 30 June 2019	17.5	1.3	1.6	20.4

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

Consolidated statement of cash flows

Year ended 30 June 2020

All amounts are stated in £m

	Note	2020	2019
Cash flows from operating activities			
Profit after tax		**84.1**	111.7
Adjustment for non-cash items included in profit after tax	27	**(145.6)**	(187.9)
Changes in operating assets and liabilities	27	**(540.3)**	(771.9)
Interest income		**388.4**	343.1
Income tax paid		**(22.2)**	(15.9)
Net cash outflow from operating activities		**(235.6)**	(520.9)
Cash flows from investing activities			
Cash paid to acquire property, plant and equipment		**(0.4)**	(1.0)
Investment in intangible assets		**(3.5)**	(3.2)
Proceeds from disposal of property, plant and equipment		**0.2**	0.1
Net cash outflow from investing activities		**(3.7)**	(4.1)
Cash flows from financing activities			
Drawdown of loan notes		**765.3**	506.6
Repayment of loan notes		**(572.4)**	(90.0)
Proceeds from issuance of loan notes		**315.4**	272.6
Repayment of senior secured notes		**(375.0)**	–
Proceeds from issuance of senior secured notes		**435.0**	–
Net cash (outflows)/inflows from bank facilities		**(45.0)**	24.3
Interest paid		**(134.0)**	(112.1)
Dividends paid		**(15.6)**	(29.9)
Purchase of shares by employee-benefit trust		**(0.2)**	–
Purchase and cancellation of derivatives		**(0.3)**	(0.3)
Payment of lease liabilities		**(1.6)**	(0.3)
Net cash inflow from financing activities		**371.6**	570.9
Net increase in cash and cash equivalents		**132.3**	45.9
Cash and cash equivalents at beginning of year		**120.2**	74.3
Cash and cash equivalents at end of year	13	**252.5**	120.2

At 30 June 2020 cash and cash equivalents include £139.6m (2019: £97.6m) of restricted cash (see Note 13).

Movements in balances are stated after adjustments on transition to IFRS 16, as set out in Note 2 to the **Financial statements**.

Note 2 sets out changes to the classification of certain cash flows.

Company statement of cash flows

Year ended 30 June 2020

All amounts are stated in £m

	Note	2020	2019
Cash flows from operating activities			
Loss after tax		**(2.0)**	(2.2)
Adjustment for non-cash items included in profit after tax	27	**59.6**	60.5
Changes in operating assets and liabilities	27	**138.2**	34.0
Interest income		**0.1**	0.1
Net cash inflow from operating activities		**195.9**	92.4
Cash flows from financing activities			
Net cash (outflows)/inflows from bank facilities		**(45.0)**	30.0
Interest paid		**(57.4)**	(58.4)
Dividends paid		**(15.6)**	(29.9)
Net cash outflow from financing activities		**(118.0)**	(58.3)
Net increase in cash and cash equivalents		**77.9**	34.1
Cash and cash equivalents at beginning of year		**34.2**	0.1
Cash and cash equivalents at end of year		**112.1**	34.2

Movements in balances are stated after adjustments on transition to IFRS16, as set out in Note 2 to the **Financial statements**.

Note 2 sets out changes to the classification of certain cash flows.

Notes to the financial statements

All amounts are stated in £m

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

On 1 July 2019, the Group adopted the requirements of IFRS 16 *Leases*, the new standard that replaces IAS 17 Leases. The standard applies to all leasing arrangements and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessor and lessee accounting.

Transition to IFRS 16

The Group has adopted IFRS 16 using a modified retrospective approach and, as such, comparative information for 2018 is not restated. Leases which were already classified as finance leases were not re-evaluated on adoption of IFRS 16. The Group's accounting policy applicable from 1 July 2019 is detailed later in this note.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease agreement as of 1 July 2019.

The effects of adopting IFRS 16 as at 1 July 2019 were as follows:

- Right-of-use assets of £8.6m were recognised and are presented in a new right-of-use leasehold-property category within property, plant and equipment in the statement of financial position.
- Lease liabilities of £10.2m were recognised and are presented within borrowings in the statement of financial position.
- A deferred tax asset of £0.3m was recognised and is included in the deferred tax asset in the statement of financial position.
- The net effect of these adjustments had a £1.3m impact on opening retained earnings.

	IAS 17 30 June 2019	Right-of-use asset	Lease liability	Deferred tax	IFRS 16 1 July 2019
Property, plant and equipment	5.4	8.6	–	–	14.0
Lease liability	(0.8)	–	(10.2)	–	(11.0)
Deferred tax asset	7.5	–	–	0.3	7.8
Retained earnings impact		**8.6**	**(10.2)**	**0.3**	

Operating lease commitments at 30 June 2019 as disclosed under IAS 17 were £14.0m. Once discounted using the interest rate implicit in the agreement, this was £10.2m at 1 July 2019.

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as at 30 June 2019 as follows:

	1 July 2019
Operating lease commitments as at 30 June 2019	14.0
Effect of discounting using the interest rate implicit in the lease	(3.8)
	10.2
Finance lease liabilities already recognised as at 30 June 2019	0.8
Lease liabilities recognised at 1 July 2019	**11.0**

Notes to the financial statements (continued)

All amounts are stated in £m

2. Significant accounting policies (continued)

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 Group closely monitors and manages its liquidity, funding and capital position and compliance with financial covenants and produces regular forecasts and scenarios.

These projections have been updated in light of the changing outlook due to the coronavirus outbreak to assess the impact of a range of factors which might arise as a result and in particular the impact that this has on our customers, the property market and on the wholesale-funding market. Specific consideration was given to the impact of: offering mortgage-payment deferrals in line with government guidance, the slowing of customer repayment behaviour, increases in credit risk, declining property values, reduced access to wholesale-funding markets, changes in market rates of interest, reductions to new mortgage-origination volumes and changes to operating costs.

The Group's decision early in the pandemic, to temporarily pause accepting new loan applications retained additional cash within the Group. The Group's business model, being one which is ordinarily highly cash generative, operating in profitable market segments and lending at low average loan-to-value (LTV) ratios, provides mitigation to many downside risks. Expectations are for continued economic uncertainty which may lead to a reduction in the level of cash inflows, and stress testing undertaken includes the impact of severe haircuts to expected redemption inflows.

The risk of lower levels of cash inflows from redemptions can be mitigated by increasing the amount of liquidity resources held as cash. A key management action to improve cashflow is the ability to control levels of new lending which, in combination with other management actions, has increased total cash balances to £252.5m at 30 June 2020 (2019: £120.2m), of which £112.9m is unrestricted cash (2019: £22.6m) as shown in Note 13.

Alongside the shareholder funding and retained equity which has consistently been reinvested back into the business, the Group is reliant on the wholesale funding markets, including a combination of public securitisations, private revolving securitisations, senior secured notes and a revolving credit facility (RCF). Further detail on the Group's sources of funding is set out in the **Operating review** within the **Strategic report**.

A key risk associated with wholesale funding is refinancing risk, where the Group has a proven track-record of successfully refinancing borrowings. The coronavirus outbreak has had an impact on the capital markets and the availability and/or pricing of wholesale funding. The depth of maturity in the Group's existing debt facilities provides significant mitigation in respect of refinancing risk with the earliest maturity of wholesale funding, being the HABS facility in June 2022 and the earliest call date on public securitisation is TABS1 in September 2021. Further detail is set out in Note 22.

In addition the Group has demonstrated an ability to access the wholesale markets in current market conditions. In July 2020, the Group successfully issued the latest and largest issuance in its residential mortgage-backed securitisation (RMBS) programme Together Asset Backed Securitisation 2020 - 1 PLC (TABS 4) raising £361m. On completion of the TABS 4 transaction, the Group's facility headroom increased to £770m.

In September 2020, the maturity date on the undrawn £71.9m RCF facility has been extended from June 2021 to June 2023.

In May 2020, the Group and each of the note purchasers to its four private securitisations entered into waivers and amendments of its facility documents in order to support the provision of mortgage-payment deferrals of up to three months in line with the then government guidance in response to the Covid-19 outbreak. Given the government's announcement on 22 May 2020 to extend mortgage-payment deferrals, the Group has agreed further modifications to such waivers for each of its private securitisations, as set out in Note 34 to the **Financial statements**.

In respect of the private securitisations, the Group may, in certain circumstances, need to seek further waivers and amendments within the going-concern assessment period. This includes, but is not limited to, impacts on covenants as a result of: increases in the number or concentration of customers who elect to take a mortgage-payment deferrals due to Covid-19; a further extension in the duration of the mortgage-payment deferrals scheme; deterioration in loan-book performance due to adverse economic conditions; or reductions in property values. In the event that waivers or amendments are required but not agreed, and existing headroom in covenants is utilised causing a breach, and the breach is not rectified by using headroom in other facilities within a defined cure period, then the noteholders of the private securitisation facilities have the option to call a default of the facility. If a facility defaults, then the cash inflows from the securitised asset pool for each facility are used to repay the interest and principal of the most senior loan notes with the deferred consideration and any interest payment of the subordinated notes due to the originators deferred until such time as all the liabilities ranking more senior are repaid in full, which would defer cash inflows receivable to the Senior Borrower Group.

Aside from the private securitisations, the facilities within the Senior Borrower Group, being the Senior Secured Notes and the RCF, also include certain financial covenants including tests on gearing and minimum levels of interest cover tested on a debt-incurrence basis and a maintenance basis respectively for each of the facilities. To evaluate the Group's resilience to meeting these tests, a reverse-stress scenario has been developed and was considered as part of the going-concern assessment. The scenario is one which assumes no cashflows are received from the securitisations, there is no access to drawdown funding from the private securitisations, and no access to the wholesale funding markets is possible, and therefore loan-origination volumes are limited to meeting pipeline commitments. This is considered by the directors to be an extreme outcome. However due to the bankruptcy-remote nature of securitisations, the default of one or more private securitisation facilities would not mean that the Group cannot continue to operate as a going concern. The Group could continue in such a scenario by servicing the loans funded by the Senior Borrower Group. Stresses were applied to cash inflows to assess the ability to continue to service and repay borrowings as they fall due, and stresses on profitability were separately considered to assess the ability to comply with gearing covenants.

The results of the reverse-stress test showed that unrealistic reductions in expected cash inflows within the Senior Borrower Group would be required for the Senior Borrower Group not to be able meets its liabilities as they fall due within the going-concern assessment period, after available management actions were considered. In addition, the risk to gearing was separately assessed and it was found that very substantial reductions in profitability would be required to result in breaches of the RCF-gearing covenant. The probability of such outcomes is considered remote and could be further reduced by the deployment of additional management actions. A number of management actions would also be possible to preserve or increase available financial resources, including but not limited to: renegotiation of the terms of existing borrowings, raising additional funding and measures to further reduce costs.

The directors are satisfied that the Company and the Group have adequate resources to continue in operation for the going concern assessment period. Accordingly, the directors have adopted the going-concern basis in preparing these accounts.

Additional disclosures have also been included within the **Operating review**, and the 'principal risks' section of the **Risk management report**, which are cross-referenced to this note, which give further detail on the Group's cash position, sources of funding and funding activities during the year.

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

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

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

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

Operating segments

The Group's only listed financial instruments are issued by a subsidiary, Jerrold Finco PLC and the securitisations companies which are consolidated in the Group results, and therefore no listed financial instruments are issued by 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 assets which are credit-impaired on origination. 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.

Notes to the financial statements (continued)

All amounts are stated in £m

2. Significant accounting policies (continued)

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

Policy applicable from 1 July 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16. This policy is applied to contracts entered into on or after 1 July 2019.

The Group as a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone costs.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses the interest rate implicit in the lease.

The lease liability is measured at amortised cost using the incremental borrowing rate. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option, or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group as lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

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

Policy applicable before 1 July 2019

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.

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.

The Group has refined the analysis and classification of certain elements in its statement of cash flows, including comparative information, to better reflect the Group's operating model. The principal changes are in provisions and impairment allowances which are now shown as non-cash adjustments to profit rather than included in changes in operating assets and liabilities, outflows relating to interest paid and derivatives are treated as financing rather than operating cashflows, and net interest income is now deducted from profit as a non-cash adjustment with interest income shown separately as an operating cash flow.

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.

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.

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.

Notes to the financial statements (continued)

All amounts are stated in £m

2. Significant accounting policies (continued)

Financial assets and liabilities (continued)

Financial assets (continued)

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. 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.

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. All gains or losses on non-substantial modifications, calculated as a change in the net present value of future cash flows using the original effective interest rate, are recognised immediately in the income statement. The Group may also consider qualitative factors in determining whether a modification is substantial.

Impairment of financial instruments

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 discounted 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, ie 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, ie 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 evaluated to determine whether it is considered to be credit impaired or to have experienced a significant increase in credit risk. If this is the case a loss allowance will be recognised equivalent to the full lifetime ECL. If there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. 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.

Derivatives held for risk-management purposes and hedge accounting

The Group has accounted for derivative instruments in accordance with IFRS 9.

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, ie 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 cashflow hedges is recognised through other comprehensive income in the cashflow-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*

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 more 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.

Notes to the financial statements (continued)

All amounts are stated in £m

2. Significant accounting policies (continued)

Intangible assets (continued)

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 more 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 best estimate of the amount 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 and revised standards, amendments and interpretations not yet effective

A number of new and revised standards issued by the International Accounting Standards Board have not yet come into effect. None of these are expected to have a material impact on the Group's financial statements.

3. Critical accounting judgements and key sources of estimation uncertainty

In preparing these financial statements, the Group's management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the amounts reported for the Group's performance and financial position. Where possible, estimates and associated assumptions are based on historical experience, objective information, or other relevant factors and are reviewed at each reporting date. Actual results may differ from these estimates, and revisions to estimates are recognised prospectively.

Critical judgements in applying the Group's accounting policies

a) Loan impairment allowance

The calculation of the Group's allowance for losses on its loans and advances to customers under IFRS 9 relies on the following key matters:

- The incorporation of forward-looking information in the measurement of ECL, in particular the economic variables driving credit risk and the number and relative weightings of the scenarios used.
- Determining the criteria for a significant increase in credit risk and indicators of credit impairment.

Further detail on the judgements in respect of the measurement of ECL and sensitivities thereon is set out in Note 14 to the accounts.

b) Provisions and contingent liabilities

There is considerable judgement required to estimate provisions and to provide useful information concerning the nature of the uncertainty contained within these estimates, including the disclosure of a range of possible impacts. There is also judgement required in determining whether contingent liability disclosures are required. Further disclosures in respect of this can be found in Note 23 to the **Financial statements**.

c) Going concern

Critical judgements, estimates and assumptions have been necessary in evaluating the Group's ability to continue as a going concern and concluding that no material uncertainties have been identified during the going-concern assessment period. Further detail is set out in Note 2.

Key sources of estimation uncertainty

a) Loan impairment allowance

As a result of the Covid-19 pandemic the Group has used significantly-changed macroeconomic forecasts, and these forecasts and the other assumptions and estimates necessary for the calculation of ECL contain a greater level of judgement than in previous reporting periods due to the increased level of uncertainty. Further detail on these estimates and assumptions and the sensitivities thereon is set out in Note 14 to the accounts.

b) Provisions and contingent liabilities

The calculation of the Group's provisions contain significant estimation uncertainty. Further disclosures in respect of this can be found in Note 23 to the **Financial statements**.

c) Interest income recognition

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 used to assess expected behavioural lives of groups of assets based upon actual repayment profiles.

4. Interest receivable and similar income

	2020	2019
Interest on loans and advances to customers	**388.4**	343.1

Included within interest on loans and advances to customers is £13.6m (2019: £12.1m) relating to credit impaired loans.

5. Interest payable and similar charges

	2020	2019
On borrowings	**136.2**	116.8
On lease liabilities	**0.5**	–
On derivatives in qualifying and discontinued hedging relationships	**0.4**	–
	137.1	116.8

Interest payable on borrowings includes a call penalty of £5.9m and the write-off of deferred up-front fees of £0.8m as a result of early refinancing of the 2021 senior secured notes during the year.

6. Fee and commission income

	2020	2019
Fee income on loans and advances to customers	**4.1**	4.2
Other fees receivable	**0.4**	0.2
	4.5	4.4

7. Fee and commission expense

	2020	2019
Legal, valuations and other fees	**1.1**	1.3
Insurance commissions and charges	**1.8**	1.0
	2.9	2.3

8. Other income

	2020	2019
Rental income	**–**	0.1
Other income	**1.9**	–
	1.9	0.1

Other income includes grant income received from the government in respect of employees who were furloughed under the Job Retention Scheme and income relating to research and development expenditure credit.

9. Administrative expenses

	Note	2020	2019
Staff costs	10	**44.9**	52.7
Auditor's remuneration	11	**0.3**	0.4
Depreciation of property, plant and equipment	19	**2.5**	1.7
Amortisation of intangible assets	20	**4.2**	2.7
Operating lease rentals		**–**	1.5
Provisions for liabilities and charges	23	**21.4**	1.9
Other administrative costs		**19.5**	21.9
		92.8	82.8

There were gains on the disposal of property, plant and equipment of £0.1m (2019: £0.1m loss).

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	2020 No.	2019 No.
Full time	**688**	695
Part time	**62**	45
	750	740

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

Staff remuneration	Note	2020	2019
Wages and salaries		**35.0**	39.7
Social security costs		**3.5**	4.4
Pension	30	**1.4**	1.1
		39.9	45.2
Directors' remuneration			
Emoluments		**5.0**	7.5
Company contribution to personal pension schemes	30	**–**	–
		5.0	7.5
Total staff costs		**44.9**	52.7

The emoluments of the highest paid director were £1.4m (2019: £2.6m) including £nil (2019: £nil) of Company contributions to a a defined contribution pension scheme for any directors. Details of the pension arrangements operated by the Group are given in Note 30. Staff are employed by a Group subsidiary, and no staff are employed by the Company.

11. Auditor's remuneration

	2020	2019
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
Other services	**0.0**	0.1
	0.3	0.4

12. Income tax

	2020	2019
Current tax		
Corporation tax	**10.6**	17.7
Adjustment in respect of prior years	**(0.3)**	0.5
	10.3	18.2
Deferred tax		
Origination and reversal of temporary differences	**1.1**	0.2
Adjustment in respect of prior years	**–**	0.2
Effect of tax rates	**(0.9)**	–
	0.2	0.4
Total tax on profit	**10.5**	18.6

Corporation tax is calculated at 19.00% (2019: 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:

	2020	2019
Profit before tax	**94.6**	130.3
Tax on profit at standard UK corporation tax rate of 19.00% (2019: 19.00%)	**18.0**	24.8
Effects of:		
Expenses not deductible for tax purposes	**0.6**	2.8
Income not taxable	**–**	(2.4)
Group relief*	**(6.9)**	(7.1)
Adjustment in respect of prior years	**(0.3)**	0.5
Changes in tax rate	**(0.9)**	–
Group tax charge for year	**10.5**	18.6

*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. In March 2020, the government announced that the main rate of corporation tax will remain at 19%, rather than reducing to 17% from 1 April 2020. The deferred tax asset at 30 June 2020 has been calculated based on these rates which led to a £0.9m increase in the value of the deferred tax asset.

13. Cash and cash equivalents

	2020	2019
Unrestricted cash	**112.9**	22.6
Restricted cash	**139.6**	97.6
Total cash and cash equivalents	**252.5**	120.2

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 £62.0m (2019: £32.4m) represents amounts that can be accessed by the Group, for example by allocating additional eligible assets into the private securitisations, but which are not considered readily available. The balance of restricted cash is not readily available and represents amounts which are held within the securitisations for other purposes and may be accessible in future, such as cash reserves or amounts paid over as deferred consideration.

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

14. Loans and advances to customers

	30 June 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross loans and advances	**3,061.3**	**721.2**	**498.5**	**4,281.0**
Loss allowance	**(12.4)**	**(21.0)**	**(85.4)**	**(118.8)**
	3,048.9	**700.2**	**413.1**	**4,162.2**

	30 June 2019			
	Stage 1	Stage 2	Stage 3	Total
Gross loans and advances	3,025.3	419.5	316.7	3,761.5
Loss allowance	(11.2)	(9.6)	(46.2)	(67.0)
	3,014.1	409.9	270.5	3,694.5

None of the Group's financial assets are credit impaired on purchase or origination.

Loans and advances to customers include total gross amounts of £9.7m (30 June 2019: £10.9m), equivalent to £5.5m net of allowances (30 June 2019: £8.0m) loaned to August Blake Developments Limited, Sunnywood Estates Limited and Edgworth Developments Limited, companies in which HN Moser is a director and shareholder. Further details of these loans are given in Note 28.

Notes to the financial statements (continued)

All amounts are stated in £m

14. Loans and advances to customers (continued)

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
- Loans which exhibit certain indicators of credit risk and are in receipt of a mortgage payment deferral

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 and estimates for customer prepayment behaviour. For development loans, 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 (PPGD), discounted at the original effective interest rate of the loan for the average period for recovery of sale proceeds. The LGD calculation includes floors, i.e. 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 to the reporting date.

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 generally occur only after the completion of probationary periods.

Incorporation of forward-looking information

The Group uses forward-looking information in its measurement of ECL and in identifying significant increases in credit risk (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 GDP, and changes in house prices. The Group has developed a range of future economic scenarios of these variables, drawing on external forecasts where appropriate.

Since the outbreak of the coronavirus, there have been significant changes in the forward-looking information used to measure ECL, and also in the options offered by the Group to borrowers seeking mortgage-payment deferrals.

In 2019, the Group calculated ECL using a base case, an upside and a downside scenario, weighted 40%, 30% and 30% respectively. The base case was broadly aligned to the Group's internal planning assumptions and the downside scenario represented a recession during which house prices fell by 16% from peak to trough.

The unprecedented societal and economic impact caused by the coronavirus outbreak and the responses of policymakers have transformed the macroeconomic environment and outlook, and up-to-date data on the impact so far are still relatively limited. Because of the lack of similar past events on which to base forward-looking assumptions, available economic forecasts are therefore subject to significant uncertainty and continue to show a wide range of views of the depth, shape and duration of the impact. In this context management has had to make judgements which it considers reasonable where observable inputs are not available.

In such a context, the Group's approach to developing economic scenarios for the purposes of measuring ECLs has been to increase the number of scenarios from three to six to reflect the wider range of economic outcomes that are now considered possible around any base case. The base case is weighted at 50% and each of the other five scenarios is weighted at 10%.

The most significant assumptions used for the ECL estimate as at 30 June 2020, by economic indicator, until June 2024 are as follows:

Annual GDP change (annual %)*	Weighting	Sep 2020	Dec 2020	Mar 2021	Jun 2021	Jun 2022	Jun 2023	Jun 2024
Upside	10%	(8.2)	(9.1)	(8.0)	5.5	7.1	3.0	2.1
Mild Upside	10%	(8.6)	(10.1)	(9.7)	3.1	7.4	2.9	2.1
Base	50%	(8.8)	(10.8)	(11.0)	1.0	7.3	2.4	1.8
Stagnation	10%	(10.3)	(14.0)	(15.7)	(5.4)	9.2	2.9	1.9
Downside	10%	(10.8)	(15.0)	(17.4)	(7.8)	9.8	3.0	1.9
Severe downside	10%	(11.6)	(16.9)	(20.2)	(11.7)	11.0	3.2	1.8
Weighted average		**(9.4)**	**(11.9)**	**(12.6)**	**(1.1)**	**8.1**	**2.7**	**1.9**

Annual quarterly GDP change (%)†	Future quarter when GDP returns to Dec-19 levels	Weighting	Sep 2020	Dec 2020	Mar 2021	Jun 2021	Jun 2022	Jun 2023	Jun 2024
Upside	Mar–21	10%	(10.1)	(2.4)	2.6	32.0	3.1	3.0	1.7
Mild Upside	Sep–21	10%	(11.9)	(4.9)	0.0	29.1	3.4	2.7	1.7
Base	Mar–22	50%	(12.6)	(7.1)	(2.4)	26.2	3.5	2.0	1.8
Stagnation	Mar–24	10%	(18.5)	(13.5)	(8.6)	19.0	4.8	2.2	1.9
Downside	May–25	10%	(20.5)	(15.9)	(11.0)	16.3	5.3	2.2	1.9
Severe downside	Jun–27	10%	(23.8)	(19.9)	(14.9)	11.7	6.1	2.1	2.0
Weighted average			**(14.8)**	**(9.2)**	**(4.4)**	**23.9**	**4.0**	**2.2**	**1.8**

Bank rate	Future quarter which anticipates the first rate rise	Weighting	Sep 2020	Dec 2020	Mar 2021	Jun 2021	Jun 2022	Jun 2023	Jun 2024
Upside	Sep–20	10%	0.2	0.4	0.6	0.9	1.8	2.0	2.0
Mild Upside	Dec–20	10%	0.1	0.2	0.4	0.6	1.3	1.4	1.5
Base	Jun–23	50%	0.1	0.1	0.1	0.1	0.1	0.2	0.4
Stagnation	Sep–23	10%	0.1	0.1	0.1	0.1	0.1	0.1	0.3
Downside	Sep–22	10%	0.1	0.0	(0.1)	(0.3)	(0.3)	0.0	0.1
Severe downside	Jun–23	10%	0.1	(0.1)	(0.4)	(0.5)	(0.5)	(0.4)	(0.3)
Weighted average			**0.1**	**0.1**	**0.1**	**0.1**	**0.3**	**0.4**	**0.6**

Unemployment rate	% peak	Weighting	Sep 2020	Dec 2020	Mar 2021	Jun 2021	Jun 2022	Jun 2023	Jun 2024
Upside	6.2%	10%	6.2	6.1	5.5	4.6	4.4	4.2	4.0
Mild Upside	6.4%	10%	6.3	6.4	5.9	5.2	4.9	4.6	4.3
Base	7.5%	50%	6.4	7.5	7.0	6.5	5.8	5.2	4.5
Stagnation	8.8%	10%	6.8	8.5	8.8	8.1	6.2	6.3	6.0
Downside	9.8%	10%	6.9	9.3	9.8	9.0	6.6	6.5	6.2
Severe downside	11.7%	10%	7.0	10.7	11.7	10.5	7.2	6.9	6.5
Weighted average			**6.5**	**7.8**	**7.7**	**7.0**	**5.9**	**5.4**	**4.1**

Annual change in house-price index (%)	Start to trough % change	Weighting	Sep 2020	Dec 2020	Mar 2021	Jun 2021	Jun 2022	Jun 2023	Jun 2024
Upside	(1.0%)	10%	0.4	1.0	(0.3)	(0.4)	10.1	13.5	3.6
Mild Upside	(3.6%)	10%	(0.7)	(1.1)	(3.0)	(3.6)	7.5	10.7	3.7
Base	(7.7%)	50%	(1.2)	(4.2)	(6.9)	(7.7)	4.4	5.2	3.9
Stagnation	(16.2%)	10%	(5.1)	(7.3)	(11.2)	(13.8)	(2.1)	0.8	4.3
Downside	(22.1%)	10%	(6.4)	(8.8)	(13.1)	(16.3)	(4.9)	(2.0)	4.5
Severe downside	(34.0%)	10%	(8.5)	(11.2)	(16.4)	(20.6)	(10.1)	(7.6)	5.0
Weighted average			**(2.6)**	**(4.8)**	**(7.8)**	**(9.3)**	**2.2**	**4.2**	**4.1**

* Annual GDP change represents the average annual change in GDP up to the date shown.

† Annual quarterly GDP change represents the change in quarterly GDP compared with the corresponding quarter in the previous year.

Notes to the financial statements (continued)

All amounts are stated in £m

14. Loans and advances to customers (continued)

Judgement is required to set the scenario weightings, informed by an external provider of economic forecasts, to consider the interaction between the severity of the scenarios and the weightings applied. Management has sought to assess the reasonableness of the probabilities by comparing the weighted average of each economic indicator with other available macroeconomic forecasts, in addition to benchmarking the base-case scenario.

In developing these scenarios the Group has taken into account the unprecedented levels of support the government and Bank of England are providing to borrowers and the general economy.

Each scenario has a forecast horizon of ten years, where the most relevant period of these scenarios is disclosed above. 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.

The section of this note on critical accounting estimates shows the unweighted ECL by scenarios and provides sensitivities of the ECL to changes in scenario weightings.

The most significant assumptions used for the ECL estimate as at 30 June 2019 were 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

Significant increases in credit risk, forbearance and contract modifications

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.

The Group uses qualitative and quantitative criteria, including:

- A loan becoming 30 days or more past due,
- Certain qualitative indicators, such as those used in the servicing of the loan which indicate increased credit risk,
- There is an increase in the lifetime PD of the loan since origination which is judged to be significant, and
- Loans which exhibit certain indicators of credit risk and are in receipt of a mortgage-payment deferral.

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, 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.

In March 2020 the government announced very substantial and wide-ranging support measures in anticipation of the effect of the Covid-19 pandemic on the wider economy. These measures included the availability of mortgage-payment deferrals, initially for up to three months for borrowers who have been impacted by Covid-19. In June 2020, the government allowed borrowers to extend the deferral period by a further three months where necessary, while encouraging those able to resume payments to do so.

The Group considers that its agreement to such a customer request for a mortgage-payment deferral represents a contractual modification. Because interest on such accounts will continue to accrue at the effective rate this does not generally give rise to any material modification gains or losses.

The Group does not automatically consider a request for a mortgage-payment deferral as representing a significant increase in credit risk requiring a change in classification of the loan to stage 2 or to stage 3. Instead the Group uses a number of indicators of credit risk to determine whether a loan which has received a mortgage-payment deferral should be reclassified to stage 2 or to stage 3. This assessment uses loan-level information where available, such as an indication from a borrower or a permanent change in their circumstances, but also uses a portfolio-level approach to determine populations of borrowers with higher credit-risk characteristics which have been reclassified to stage 2 or to stage 3 on a more judgemental basis.

As at 30 June 2020, 16%[1] of the Group's customers by value remained on mortgage-payment deferrals as a result of Covid-19. Details of these deferrals are as follows:

Stage allocation	No. accounts No.	Gross balance	ECL
Stage 1	4,075	441.8	1.6
Stage 2	1,180	181.4	4.0
Stage 3	436	54.8	2.8
Total	5,691	678.0	8.4

[1] This data covers customers who have contacted us to make amendments to their mortgage-payment deferrals between 1 July 2020 and 8 August 2020 and their account has been amended retrospectively.

The section of this note on critical accounting judgements provides a sensitivity of the impact on ECL of measuring all Stage 1 loans in mortgage-payment deferral using a lifetime ECL instead of a 12-month ECL.

As at 30 June 2020, 1,153 customers had exited the mortgage-payment deferral scheme. Out of those who capitalised interest, 98% did so over the original term, 1.9% either made a lump sum payment or extended their contractual monthly instalment (CMI+) to revert back to the original CMI, 0.2% agreed to pay over an extended term with the original CMI and 0.5% have selected other options.

The most up-to-date information relating to customers who have exited the mortgage-payment deferrals scheme is detailed in Note 34 of the **Financial statements**.

Loss allowance

A loss allowance is derived from the application of the foregoing techniques. The following tables analyse the movement of the loss allowance during the year ended 30 June 2020 and 30 June 2019.

	2020			
Loss allowance	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of year	**(11.2)**	**(9.6)**	**(46.2)**	**(67.0)**
Transfer to a 12-month ECL	**(0.3)**	**0.7**	**–**	**0.4**
Transfer to a lifetime ECL not credit impaired	**10.0**	**(20.5)**	**2.2**	**(8.3)**
Transfer to a lifetime ECL credit impaired	**1.2**	**13.1**	**(27.8)**	**(13.5)**
Other changes in credit risk during the year	**(11.5)**	**(5.0)**	**(15.1)**	**(31.6)**
Impairment of interest income on stage 3 loans	**–**	**–**	**(13.6)**	**(13.6)**
New financial assets originated	**(3.4)**	**(2.8)**	**–**	**(6.2)**
Financial assets derecognised	**7.4**	**3.1**	**9.8**	**20.3**
Changes in models and risk parameters	**(4.6)**	**–**	**(9.6)**	**(14.2)**
Impairment losses for the year charged to income statement	**(1.2)**	**(11.4)**	**(54.1)**	**(66.7)**
Unwind of discount	**–**	**–**	**13.6**	**13.6**
Write-offs net of recoveries	**–**	**–**	**1.3**	**1.3**
Balance at end of year	**(12.4)**	**(21.0)**	**(85.4)**	**(118.8)**

	2019			
Loss allowance	Stage 1	Stage 2	Stage 3	Total
Balance 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	–	–	12.1	12.1
Write-offs net of recoveries	–	–	8.4	8.4
Balance at end of year	(11.2)	(9.6)	(46.2)	(67.0)

Other changes in credit risk include other remeasurements in the loss allowance which have not resulted from a change in the allocated stage and this includes: the development or cure of loan arrears, changes in payment performance or the likelihood of recovery cashflows, the impact of changes in collateral valuations and other changes in the status of the loan. 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.

Notes to the financial statements (continued)

All amounts are stated in £m

14. Loans and advances to customers (continued)

Loss allowance (continued)

The loss allowance has increased by £51.8m to £118.8m (2019: £67.0m). The key changes in the estimate for ECL are set out below.

A key increase in the allowance for the year was the increased charge of £14.2m resulting from changes in models and risk parameters (2019: £0.5m release). The primary driver of this increase was a change to the macroeconomic scenarios and forward-looking assumptions as a result of the Covid-19 outbreak, including the number of scenarios used, discussed in detail above. This resulted in a net £19.9m increase during the second half of the year, offset by releases of £5.6m recognised in the first half of the year. Due to the nature of the current economic environment, there has been significant government intervention which may have the effect of temporarily suppressing changes in loan book performance which would otherwise occur. To address this risk judgemental changes to models were made to incorporate the possibility of additional future deterioration in the loan book due to the macroeconomic environment. The impact of this judgement was an increase of £6.0m in ECL and a further £2.0m due to the transition in stage allocation of a proportion of loans in receipt of a mortgage-payment deferral, using additional indicators of credit risk, and which are included within the £14.2m in respect of changes in models and risk parameters.

The impact of loans transferring between stages has increased ECL by £21.4m during the year (2019: £11.1m) and other changes in credit risk have increased ECL by £31.6m (2019: £3.8m). There are a number of drivers of the combined increase of £53.0m observed in these line items, the principal ones being:

- £21.6m due to increases in arrears levels. These and other qualitative and quantitative factors are used to assess the allocated stages of loans and can therefore result in the recognition of allowances based on lifetime losses on loans which were previously measured using a 12-month loss. Arrears levels also affect the probability of default assigned to loans.
- £18.8m due to changes in the assessment of the likely recovery outcome for loans, based either on the likelihood of repossession or on changes in estimated amounts to be recovered. This includes the effect of changes in the estimated collateral values for loans; and
- £8.2m due to accounts which have entered repossession or receivership, transferring to the measurement of a lifetime ECL credit impaired.

The impairment of interest income recognised on stage 3 loans of £13.6m (2019: £12.1m) was offset by the unwinding of discounting on expected cashflows of the same amount. New originations increased ECL by £6.2m (2019: £7.1m), driven by new lending undertaken during the year and the requirement to measure all loans using a forward-looking ECL. Increases in ECL were offset by releases of £20.3m (2019: £20.2m) on loans which have redeemed during the period.

The contractual amount outstanding on financial assets that were written off during the period is £nil (2019: £nil). These assets may still be subject to enforcement activity and therefore further recoveries are possible.

Impairment losses for the year

	30 June 2020	30 June 2019
Movements in impairment allowance, charged to income	**(66.7)**	(13.4)
Amounts released from deferred income	**0.5**	1.7
Write-offs net of recoveries	**(0.7)**	(3.7)
Charged to the income statement	**(66.9)**	(15.4)

The following tables set out changes in the gross carrying amount of loans and advances to customers that contributed to the changes in the loss allowance:

	2020			
Movements in gross carrying amounts	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of year	**3,025.3**	**419.5**	**316.7**	**3,761.5**
Transfer to a 12-month ECL	**69.9**	**(69.9)**	**–**	**–**
Transfer to a lifetime ECL not credit impaired	**(753.1)**	**807.1**	**(54.0)**	**–**
Transfer to a lifetime ECL credit impaired	**(30.4)**	**(325.8)**	**356.2**	**–**
New financial assets originated	**1,592.7**	**27.3**	**–**	**1,620.0**
Financial assets derecognised including write-offs	**(843.1)**	**(137.0)**	**(120.4)**	**(1,100.5)**
Balance at end of year	**3,061.3**	**721.2**	**498.5**	**4,281.0**

	2019			
Movements in gross carrying amounts	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	2,305.5	358.5	356.0	3,020.0
Transfer to a 12-month ECL	257.3	(254.7)	(2.6)	–
Transfer to a lifetime ECL not credit impaired	(467.9)	552.2	(84.3)	–
Transfer to a lifetime ECL credit impaired	(33.5)	(164.5)	198.0	–
New financial assets originated	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)
Balance at end of year	3,025.3	419.5	316.7	3,761.5

Critical accounting estimates

Key areas of estimation uncertainty in the ECL models are the macroeconomic scenarios used, and the calculations of loss given default and probability of default. The sensitivities below were performed by recalculating the impairment allowance by changing only those assumptions stated, and with all other variables unchanged:

Macroeconomic scenarios

The following table shows the unweighted ECL for each the scenarios modelled as at 30 June 2020 and 30 June 2019 and the probabilities that were applied in the calculation of ECL.

	2020		2019	
Scenarios	**Probability of the scenario**	**Unweighted ECL**	Probability of the scenario	Unweighted ECL
Upside	**10%**	**57.2**	-	-
Mild upside	**10%**	**66.3**	30%	38.3
Base case	**50%**	**88.0**	40%	42.0
Stagnation	**10%**	**150.2**	-	-
Downside	**10%**	**192.7**	30%	128.9
Severe downside	**10%**	**281.5**	-	-
Weighted average		**118.8**		67.0

Sensitivities can be derived from this table by applying different combinations of probabilities to the unweighted ECLs and comparing these to the weighted average which is the amount recorded within the statement of financial position.

Loss given default

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% reduction in forecast house prices (ie a 10% haircut applied to the index in each forecast future period), applied in each scenario, would result in an increase in the impairment allowance of £23.7m at 30 June 2020 (30 June 2019: £11.1m); conversely, a 10% increase would result in a decrease in the impairment allowance of £17.9m at 30 June 2020 (30 June 2019: £7.5m).

Probability of default and probability of repossession given default

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 £7.2m at 30 June 2020 (30 June 2019: £4.6m). 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 £7.0m at 30 June 2020 (30 June 2019: £4.3m).

Critical accounting judgements

Key areas of judgement in the ECL models include judgements about which loans have been subject to a significant increase in credit risk since initial recognition and therefore should be classified as Stage 2, with a resultant loss allowance based on a lifetime rather than a 12-month ECL.

The sensitivities below were performed by recalculating the impairment allowance by changing only those items stated, and with all other variables unchanged.

Sensitivities	Increase in allowance
Measure all loans in Stage 1 using a lifetime ECL	14.5

Sensitivities – mortgage-payment deferrals	Increase in allowance
Measure all loans which are in a Covid-19 mortgage-payment deferral, currently in Stage 1, using a lifetime ECL not credit impaired (Stage 2)	2.5
Measure all loans which are in a Covid-19 mortgage-payment deferral, currently in Stage 2, using a lifetime ECL credit impaired (Stage 3)	2.5

Notes to the financial statements (continued)

All amounts are stated in £m

15. Derivative assets held for risk management

The Group applies hedge accounting for its strategy of cashflow hedging the interest-rate risk on floating-rate liabilities in certain of its securitisation vehicles. These liabilities fund portfolios of mortgage assets, some of which receive fixed rates of interest, and to address the resultant risk the securitisation vehicles may purchase interest-rate caps or enter into interest-rate swaps. The notional amount of these derivatives is designated against a proportion of floating-rate notes funding fixed-rate mortgages, and decline over time in line with the expected repayment of the mortgages.

The effectiveness of this strategy is assessed by comparing the changes in fair value of the interest-rate derivatives with changes in the fair value of the hedged floating-rate notes and uses the hypothetical-derivative method.

The Group establishes the hedging ratio by matching the notional amount of the derivative with the corresponding floating-rate notes. In these hedging relationships, the main potential sources of ineffectiveness are:

- Repayment of the notes faster than the decline in the notional amount of the derivative.
- For interest-rate swaps, the inclusion of a transaction cost in the fixed rate leg.
- Changes in the credit risk of either party.

The following table analyses derivatives held for risk-management purposes by type of instrument:

	30 June 2020		30 June 2019	
	Assets	**Liabilities**	Assets	Liabilities
Interest-rate swaps	**–**	**(2.9)**	–	–
Interest-rate caps	**–**	**–**	0.1	–
Derivatives designated in cashflow hedges	**–**	**(2.9)**	0.1	–

All derivatives mature in under five years. The average fixed interest rate on swaps is 0.73%. The average strike rate on caps is 2.5%.

The following tables set out details of the exposures hedged by the Group:

	30 June 2020		
	Carrying amount of liabilities	**Changes in fair value for calculating hedge ineffectiveness**	**Cashflow-hedging reserve**
Hedged by interest-rate swaps			
Borrowings	**244.9**	**(0.2)**	**(0.2)**
Discontinued hedges	**–**	**–**	**(2.5)**
	244.9	**(0.2)**	**(2.7)**
Hedged by interest-rate caps			
Borrowings	**229.5**	**–**	**–**

	30 June 2019		
	Carrying amount of liabilities	Changes in fair value for calculating hedge ineffectiveness	Cashflow-hedging reserve
Hedged by interest-rate swaps			
Borrowings	–	–	–
Hedged by interest-rate caps			
Borrowings	98.9	(0.2)	–

The following table sets out details of the hedging instruments used by the Group and their effectiveness:

	Carrying amounts			Changes in fair value				
	Notional amount	Derivative assets	Derivative liabilities	For calculating hedge ineffective-ness	Recognised through other comprehensive income	Outside the hedging relationship recognised directly in net fair value losses on derivatives	Hedge ineffective-ness recognised in other net losses	Reclassified from cashflow-hedging reserve to interest payable
Year ended 30 June 2020								
Interest-rate swaps								
Borrowings	**244.9**	**–**	**(2.9)**	**(0.2)**	**(0.2)**	**0.1**	–	–
Discontinued hedges	**–**	**–**	**–**	**–**	**(2.5)**	**(0.6)**	–	**0.1**
	244.9	**–**	**(2.9)**	**(0.2)**	**(2.7)**	**(0.5)**	–	**0.1**
Interest-rate caps	229.5	–	–	–	–	–	–	–
Year ended 30 June 2019								
Interest-rate swaps	–	–	–	–	–	–	–	–
Interest-rate caps	98.9	0.1	–	(0.2)	(0.2)	–	–	–

16. Inventories

	2020	2019
Properties held for resale	**0.6**	0.6

17. Other assets

Group	**2020**	2019
Amounts owed by related parties	**1.0**	0.7
Other debtors	**1.4**	0.9
Prepayments and accrued income	**3.9**	3.2
	6.3	4.8

Company	**2020**	2019
Amounts owed by subsidiaries	**1,218.9**	1,291.9
Prepayments and accrued income	**0.8**	0.1
	1,219.7	1,292.0

Amounts owed by related parties of the Group are in respect of companies in which HN Moser is a director and shareholder. Also included within amounts owed by the related parties is £0.2m (2019: £0.3m) 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 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:

	2020	2019
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%	Raising Finance
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 owned via direct holdings of ordinary share capital, 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 trust 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

Together Asset Backed Securitisation 2019 – 1 Holdings Limited

Together Asset Backed Securitisation 2019 – 1 PLC

19. Property, plant and equipment

2020 Group	**Fixtures, fittings and equipment**	**Motor vehicles**	**Right of use assets**	**Total**
Cost				
At beginning of year	**7.9**	**1.8**	**–**	**9.7**
Impact of adopting IFRS 16	**–**	**–**	**13.7**	**13.7**
At beginning of year (adjusted)	**7.9**	**1.8**	**13.7**	**23.4**
Additions	**0.5**	**0.4**	**0.9**	**1.8**
Disposals	**(0.1)**	**(0.3)**	**–**	**(0.4)**
Reclassification of lease liabilities	**–**	**–**	**1.4**	**1.4**
At end of year	**8.3**	**1.9**	**16.0**	**26.2**
Depreciation				
At beginning of year	**3.5**	**0.8**	**–**	**4.3**
Impact of adopting IFRS 16	**–**	**–**	**5.1**	**5.1**
At beginning of year (adjusted)	**3.5**	**0.8**	**5.1**	**9.4**
Charge for the year	**1.3**	**0.2**	**1.0**	**2.5**
Disposals	**(0.1)**	**(0.2)**	**–**	**(0.3)**
Reclassification of lease liabilities	**–**	**–**	**0.7**	**0.7**
At end of year	**4.7**	**0.8**	**6.8**	**12.3**
Net book value				
At 30 June 2020	**3.6**	**1.1**	**9.2**	**13.9**
At 30 June 2019	4.4	1.0	–	5.4

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

Notes to the financial statements (continued)

All amounts are stated in £m

19. Property plant and equipment (continued)

2020 Company	**Right of use assets**
Cost	
At beginning of year	**–**
Impact of adopting IFRS 16	**13.7**
At beginning of year (adjusted)	**13.7**
Additions	**0.9**
Disposals	**–**
Reclassification of lease liabilities	**1.4**
At end of year	**16.0**
Depreciation	
At beginning of year	**–**
Impact of adopting IFRS 16	**5.1**
At beginning of year (adjusted)	**5.1**
Charge for the year	**1.0**
Disposals	**–**
Reclassification of lease liabilities	**0.7**
At end of year	**6.8**
Net book value	
At end of year	**9.2**
At beginning of year	**–**

20. Intangible assets

Group	**Computer software 2020**	Computer software 2019
Cost		
At beginning of year	**14.5**	11.4
Additions	**3.5**	3.2
Disposals	**–**	(0.1)
At end of year	**18.0**	14.5
Amortisation		
At beginning of year	**5.7**	3.1
Charge for the year	**4.2**	2.7
Disposals	**–**	(0.1)
At end of year	**9.9**	5.7
Net book value		
At end of year	**8.1**	8.8
At beginning of year	**8.8**	8.3

21. Deferred tax asset

Group – 2020	Accelerated capital allowances	Short-term timing differences	Total
At beginning of year	(0.9)	8.4	7.5
IFRS 16 adjustment	–	0.3	0.3
Charge to income statement	0.1	(1.2)	(1.1)
Effect of changes in tax rates	–	0.9	0.9
At end of year	(0.8)	8.4	7.6

Group – 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

Company	Short-term timing differences 2020	Short-term timing differences 2019
At beginning of year	–	–
IFRS 16 adjustment	0.3	–
Charge to income statement	0.0	–
Adjustment in respect of prior years	0.0	–
At end of year	0.3	–

22. Borrowings

Group	2020	2019
Bank facilities	10.0	55.0
Loan notes	2,729.8	2,221.5
Senior secured notes	786.1	726.8
Lease liabilities	11.5	0.8
Subordinated shareholder loans	28.4	27.1
	3,565.8	3,031.2
Debt issue costs	(15.7)	(15.5)
Total borrowings	3,550.1	3,015.7
Of which:		
Due for settlement within 12 months	93.6	74.5
Due for settlement after 12 months	3,456.5	2,941.2
	3,550.1	3,015.7

Notes to the financial statements (continued)

All amounts are stated in £m

22. Borrowings (continued)

Company	2020	2019
Bank facilities	10.0	55.0
Lease liabilities	10.5	–
Subordinated shareholder loans	28.4	27.1
	48.9	82.1
Debt issue costs	(0.1)	(0.3)
Total borrowings	48.8	81.8
Of which:		
Due for settlement within 12 months	10.8	–
Due for settlement after 12 months	38.0	81.8
	48.8	81.8

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	500.0	Nov 2023
Together ABS 1	2017	Amortising	122.9	Sept 2021
Together ABS 2	2018	Amortising	179.8	Nov 2022
Together ABS 3	2019	Amortising	291.7	Sep 2023

In the case of the amortising facilities, the expiry date shown is the date of the option to call the facility and the facility size is shown as the amortised position at the balance sheet date. The expiry date for revolving facilities include an amortisation period of one year except for Lakeside ABS.

Refer to Notes 2 and 34 for more details in relation to bank facilities.

On 10 October 2019, the Group completed its third residential-mortgage-backed securitisation, Together Asset Backed Securitisation 2019-1 PLC (TABS 3). The transaction successfully raised £315.4m of external funding against a loan portfolio of £332.0m that was 79.0% funded by notes rated as AAA.

On 30 October 2019, the Group refinanced Lakeside ABS increasing the facility size from £255m to £500m and extended its maturity to November 2023.

Subordinated shareholder loans were originally issued on 2 November 2016. The subordinated shareholder loans are interest-free loans totalling £68.1m, which at the start of the year comprised £25.1m due in 2024 and £43.0m due in 2036. In February 2020 the 2024 loans were extended to 2026. The difference between the nominal value and the initial fair value represents a capital contribution, and the extension of the 2024 notes resulted in a net decrease in the carrying value of the loan and a corresponding increase in the non-distributable reserves of £0.8m. The difference between the total nominal value of £68.1m and the initial fair values on origination of £21.2m resulted in a non-distributable capital contribution of £46.9m, £7.2m of which has amortised by 30 June 2020 (30 June 2019: £5.1m). The remainder of the reserve will be released over the life of the instruments.

On 10 February 2020, the Group refinanced its £375m senior secured notes due to mature in 2021, increasing the amount to £435m and extending the maturity to February 2026. The Group also has senior secured notes in issue of £350m, which are due to mature 2024.

Refer to Notes 2 and 29 for more details in relation to the lease liabilities.

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.

Borrowings have the following maturities:

As at 30 June 2020:

Group	**<1 year**	**1–2 years**	**2–5 years**	**>5 years**	**Total**
Bank facilities	**10.0**	**–**	**–**	**–**	**10.0**
Loan notes	**82.8**	**565.9**	**2,081.1**	**–**	**2,729.8**
Senior secured notes	**–**	**–**	**351.1**	**435.0**	**786.1**
Lease liabilities	**1.4**	**1.2**	**3.3**	**5.6**	**11.5**
Subordinated shareholder loans	**–**	**–**	**–**	**28.4**	**28.4**
	94.2	**567.1**	**2,435.5**	**469.0**	**3,565.8**
Debt issue costs	**(0.6)**	**(2.1)**	**(13.0)**	**–**	**(15.7)**
	93.6	**565.0**	**2,422.5**	**469.0**	**3,550.1**

Company	<1 year	1–2 years	2–5 years	>5 years	Total
Bank facilities	10.0	–	–	–	10.0
Lease liabilities	0.9	0.9	3.1	5.6	10.5
Subordinated shareholder loans	–	–	–	28.4	28.4
	10.9	0.9	3.1	34.0	48.9
Debt issue costs	(0.1)	–	–	–	(0.1)
	10.8	0.9	3.1	34.0	48.8

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
Lease liabilities	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

23. Provisions and contingent liabilities

	Customer provisions	Other provisions	Total
Balance at 1 July 2019	2.7	1.5	4.2
Charge for the year	21.3	0.1	21.4
Provisions utilised	(3.1)	(0.2)	(3.3)
Balance at 30 June 2020	**20.9**	**1.4**	**22.3**

In previous periods, provision amounts were included in accruals and deferred income within other liabilities as the amounts were not material. As a result of the increase in provisions in the year ended 30 June 2020, provision amounts are now disclosed separately in the statement of financial position and reclassified in prior period comparatives.

As a result of undertaking internal reviews within the regulated division during the year to 30 June 2019, instances were identified where, for certain customers in arrears, the outcome may have been improved if different forbearance tools had been applied. In addition, some past written communications with customers should have been clearer and more complete, including in instances where balances are not expected to be repaid by the customer by the contractual maturity date, using their current repayment schedule.

The Personal Finance division has continued to focus on the resolution of these matters, providing regular updates on progress to the FCA. Changes to operational processes for the application of forbearance and for communicating more clearly with customers have already been implemented. Experienced third parties have been appointed to support this activity, including providing additional resource and support in establishing an appropriate assurance framework.

In order to address these matters in a timely and appropriate manner for customers, work is being undertaken in a phased approach. In the initial phase, remediation is not intended to be based on individual customer-level reviews, but instead will be calculated using a defined set of parameters and criteria for the customer populations, which simplifies and expedites progress whilst also ensuring customer detriment, where experienced, is appropriately addressed.

A provision of £15.9m for forbearance and customer-communication remediation has been estimated at the reporting date. Depending on the outcome of further testing and the selection of certain judgements and assumptions, the total financial impact is estimated to be within the range of £9.0m to £17.0m. In addition, a further £0.9m provision has been estimated for administrative expenses relating to the remediation. The total charge to the income statement during the year in respect of these matters is £17.2m, of which £0.4m has been utilised during the year.

The forbearance provision and the customer communications provision represent the estimated financial impacts arising from both live and redeemed customers and comprise: (i) estimated customer settlement payments, (ii) expected accrued interest between the reporting date and the assumed remediation date, and (iii) estimated administration costs related to the remediation activities.

The calculation of the forbearance and customer communications provisions and the estimated ranges of impacts contains some limitations, and a number of significant judgements and estimates have been necessary, including: judgements about the circumstances where customers may have been disadvantaged, the estimated amounts for customer redress due, judgements about the extent of the customer population included, the extent of any overlap between remediation activities, and the assumed timing of remediation activities.

Estimates for provisions and associated ranges are based on management's best estimate using the information available. Further work will be undertaken during the remediation phase, planned for completion during the coming year which could lead to a revision of the provisions estimate, potentially outside the current estimated range.

The total provisions above also comprise of other provisions which are individually immaterial.

Contingent liabilities – Fixed and floating charges

As at 30 June 2020, the Group's assets were subject to a fixed and floating charge in respect of £785m senior secured notes (30 June 2019: £725m) and £10m in respect of bank borrowings (30 June 2019: £55m).

24. Other liabilities

Group	2020	2019
Trade creditors	**1.1**	1.9
Other creditors	**1.5**	2.7
Other taxation and social security	**0.7**	1.0
Accruals and deferred income	**47.9**	45.0
	51.2	50.6

As set out in Note 23, provision amounts previously included within accruals and deferred income have been disclosed separately for the year ended 30 June 2020 and comparative amounts have been reclassified accordingly.

Company	2020	2019
Amounts owed to subsidiaries	**802.9**	738.3
Accruals and deferred income	**2.2**	0.4
	805.1	738.7

25. Share capital

Authorised	2020	2019
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	2020	2019
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.

Notes to the financial statements (continued)

All amounts are stated in £m

26. 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 analysis the fair values of loans and advances and of borrowings into different levels according to the degree to which the fair values are based on observable inputs:

Derivative (liabilities)/assets held for risk management	Level 1	Level 2	Level 3	Fair value	Carrying value
2020					
Interest-rate risk	**–**	**(2.9)**	**–**	**(2.9)**	**(2.9)**
2019					
Interest-rate risk	–	0.1	–	0.1	0.1

The Group's derivative assets are interest-rate caps and its derivative liability is an interest-rate swap. The valuations of these instruments are level 2, being derived from generally accepted valuation models that use forecast future interest-rate curves derived from market data. At the end of the reporting year, the value of the interest-rate caps was not material and therefore is not presented in the table above due to rounding.

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 following table analysis the fair values of loans and advances and of borrowings into different levels according to the degree to which the fair values are based on observable inputs:

2020	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets					
Loans and advances to customers	**–**	**–**	**4,142.9**	**4,142.9**	**4,162.2**
Financial liabilities					
Borrowings	**732.5**	**604.4**	**2,174.0**	**3,510.9**	**3,550.1**

2019	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

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 at which we most recently advanced similar loans. This rate is assumed to encompass the time value of money, plus a risk premium to account for the inherent uncertainty in the timing and amount of future cash flows arising from mortgage assets. Forecast principal repayments are based on redemption at maturity with an 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. A further adjustment is made to reflect expected credit losses over the life of each loan.

Due to current market conditions, it is considered that the fair value of a loan portfolio is especially uncertain and that price discovery for loan portfolios may be challenging. In the comparative period, for 30 June 2019, fair values were estimated using only the methodology described above. However, for the 30 June 2020 reporting, fair-values have been estimated to be the lower of: the carrying value and the fair value for each product as calculated above. Consequently, the fair value of loans and advances to customers is lower than the carrying value overall for the year ended 30 June 2020.

The fair value of senior secured notes is considered to be level 1, although the number of transactions were low compared to pre-Covid-19 trading. The fair value is lower than carrying value primarily due to the price at which bonds were trading in the secondary market due to the economic impact of Covid-19 at 30 June 2020.

The fair value of loan notes issued by private securitisations is estimated to be the carrying value because the notes track a floating rate of interest but where the margins payable are only observable inputs when they are issued or refinanced. Due to current market conditions these notes have been reclassified from level 2 to level 3 reflecting the increased uncertainty over the margins for such loan notes. Public residential mortgage-backed securities continue to be classified as level 2.

Other borrowings stated at fair value in level 3 almost entirely represent subordinated shareholder loans and lease liabilities. 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.

27. Notes to the cash flow statement

Group	2020	2019
Adjustments for non-cash items in profit after tax:		
Net interest income	**(251.3)**	(226.3)
Changes in expected credit losses charged to income statement	**66.7**	13.4
Taxation	**10.5**	18.6
Provisions for liabilities and charges	**21.4**	1.9
Depreciation and amortisation	**6.7**	4.4
Net losses on financial instruments	**0.5**	–
(Gains)/losses on disposal of fixed assets	**(0.1)**	0.1
	(145.6)	(187.9)

	2020	2019
Changes in operating assets and liabilities		
Increase in loans and advances to customers	**(534.4)**	(781.2)
Increase in other assets	**(1.5)**	(0.5)
(Decrease)/increase in other liabilities	**(4.4)**	9.8
	(540.3)	(771.9)

Company	2020	2019
Adjustments for non-cash items in profit after tax:		
Net interest income	**59.6**	60.5
	59.6	60.5

	2020	2019
Changes in operating assets and liabilities		
Intergroup recharges and treasury transfers	**137.8**	34.5
Increase/(decrease) in accruals	**1.5**	(0.5)
Increase in other assets	**(1.1)**	–
	138.2	34.0

Notes to the financial statements (continued)

All amounts are stated in £m

27. Notes to the cash flow statement (continued)

Reconciliation of changes in liabilities arising from financing activities

As at 30 June 2020:

Group	At beginning of year	Net cash Flows	Non-cash changes: IFRS 9 adjustment	Non-cash changes: Prepaid fees	Non-cash changes: Modification of subordinated loan	Non-cash changes: HP additions	Non-cash changes: Reclass-ification of leases	Non-cash changes: Amortisation of premiums and discounts	At end of year
Bank facilities	55.0	(45.0)	–	–	–	–	–	–	10.0
Loan notes	2,221.5	508.3	–	–	–	–	–	–	2,729.8
Senior secured notes	726.8	60.0	–	–	–	–	–	(0.7)	786.1
Lease liabilities	0.8	(1.6)	10.2	–	–	1.4	0.7	–	11.5
Subordinated shareholder loans	27.1	–	–	–	(0.8)	–	–	2.1	28.4
	3,031.2	521.7	10.2	–	(0.8)	1.4	0.7	1.4	3,565.8
Net debt issue costs	(15.5)	–	–	(0.2)	–	–	–	–	(15.7)
Total borrowings	3,015.7	521.7	10.2	(0.2)	(0.8)	1.4	0.7	1.4	3,550.1

As at 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
Lease liabilities	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 2020:

Company	At beginning of year	Net cash flows	Non-cash changes: Prepaid fees	Non-cash changes: IFRS 16 Adjustment	Non-cash changes: Modification of subordinated loan	Non-cash changes: Amortisation of premiums and discounts	Non-cash changes: Net other movement	At end of year
Bank facilities	55.0	(45.0)	–	–	–	–	–	10.0
Lease liabilities	–	–	–	10.2	–	–	0.3	10.5
Subordinated shareholder loans	27.1	–	–	–	(0.8)	2.1	–	28.4
	82.1	(45.0)	–	10.2	(0.8)	2.1	0.3	48.9
Net debt issue costs	(0.3)	–	0.2	–	–	–	–	(0.1)
Total borrowings	81.8	(45.0)	0.2	10.2	(0.8)	2.1	0.3	48.8

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

28. 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. On 9 March 2020, all shares held by the DL Moser 1995 Family Settlement No1 Trust were transferred to HN Moser, making him the sole owner and controlling party of the Group.

Besides the companies owned by Redhill Famco Limited, other entities controlled by HN Moser 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.
August Blake Developments Limited, Edgworth Developments Limited, Sunnywood Estates Limited	The Group provides loans with interest charged at 5% per annum, 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.

b) Parent companies

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

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. The Company pays dividends to its parent company Bracken Midco2 Limited.

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).

Notes to the financial statements (continued)

All amounts are stated in £m

28. Related party transactions (continued)

Transactions

The amounts receivable from and payable to related parties by the Group and Company are disclosed in Notes 17 and 24 to the **Financial statements**. The Group and Company had the following transactions with related parties during the year:

	2020		2019	
Group	**Charge/ (credit) to income or equity**	**Paid**	Charge/ (credit) to income or equity	Paid
Lease and insurance costs	**1.4**	**1.8**	1.4	1.4
Accounts payable transactions	**–**	**1.2**		1.9
Impairment of related party loans	**1.9**	**–**	0.7	–
Interest on related party loans	**(0.6)**	**–**	(0.8)	–
Related parties of HN Moser[1]	**2.7**	**3.0**	1.3	3.3
Interest expense	**2.1**	**–**	2.0	–
Dividends paid	**15.6**	**15.6**	29.9	29.9
Parent companies	**17.7**	**15.6**	31.9	29.9
Total related parties	**20.4**	**18.6**	33.2	33.2

	2020		2019	
Company	**Charge/ (credit) to income or equity**	**Paid/ (received)**	Charge/ (credit) to income or equity	Paid/ (received)
Interest expense	**2.1**	**–**	2.0	–
Dividends paid	**15.6**	**15.6**	29.9	29.9
Parent companies	**17.7**	**15.6**	31.9	29.9
Depreciation expense of right-of-use assets	**1.0**	**–**	–	–
Interest expense on lease liabilities	**0.5**	**–**	–	–
Costs including management recharges	**–**	**–**	0.7	–
Interest recharges	**(5.5)**	**–**	(10.2)	–
Net provision of treasury funding	**–**	**(140.5)**	-	(65.1)
Subsidiary companies	**(4.0)**	**(140.5)**	(9.5)	(65.1)
Total related parties	**13.7**	**(124.9)**	22.4	(35.2)

[1] Transactions in the prior year were with HN Moser and DL Moser 1995 Family Settlement No1 Trust (together the Moser Shareholders).

29. Leases

The Group occupies two head-office buildings. One of the properties is subject to a lease for 15 years. Negotiations are currently ongoing with the landlord (Bracken House Limited LLP) with regard to lease arrangements for the second property which have been accounted for as a lease in accordance with the draft lease terms.

Previously leases were classified as operating leases under IAS 17.

The Group also leases certain IT equipment with contract terms of one to three years. These leases are short-term and/or of low-value items and the Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

The table below sets out the amounts recognised in the income statement in respect of the Group's and Company's right-of-use assets and lease liabilities during the year ended 30 June 2020:

Group and Company	**Administrative expenses £m**	**Interest expense £m**	**Total £m**
Depreciation expense of right-of-use assets	1.0	–	1.0
Interest expense on lease liabilities	–	0.5	0.5
Total recognised in the income statement	**1.0**	**0.5**	**1.5**

The below table sets out the carrying amounts of the Group's and Company's right-of-use assets and lease liabilities and the movements during the year ended 30 June 2020.

Group	**Right-of-use assets – leasehold property £m**	**Lease liabilities £m**
At beginning of year	8.6	(11.0)
Additions	0.9	(1.4)
Depreciation expense	(1.0)	–
Interest expense on lease liabilities	–	(0.5)
Payments	–	2.1
Reclassification	0.7	(0.7)
At end of year	**9.2**	**(11.5)**

Lease liabilities include hire-purchase obligations for motor vehicles. The Group had total cash outflows for leases of £2.1m during the year ended 30 June 2020.

Company	**Right-of-use assets – leasehold property £m**	**Lease liabilities £m**
At beginning of year	8.6	(10.2)
Additions	0.9	(0.6)
Depreciation expense	(1.0)	–
Interest expense on lease liabilities	–	(0.5)
Payments	–	1.5
Reclassification	0.7	(0.7)
At end of year	**9.2**	**(10.5)**

Notes to the financial statements (continued)

All amounts are stated in £m

30. Pension arrangements

During the year the Group contributed to employees' personal pension plans. The total cost for the year amounted to £1.4m (2019: £1.1m). Additionally, the Group operated a defined contribution scheme for which the pension costs charge for the year amounted to £nil (2019: £nil).

31. 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. Awards are treated as equity settled and are satisfied by the same entity where the obligation rests at the point awards are realised. The options over the E shares have not yet been exercised.

32. 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 2020, the Group had undrawn commitments to lend of £88.4m (30 June 2019: £153.8m) relating mostly to undrawn elements of lines of credit granted to existing customers for property development. The decrease in undrawn commitments is largely driven by a decrease in the Personal Finance loan pipeline as at 30 June 2020 compared with 30 June 2019.

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 £nil (30 June 2019: £0.1m), and is classified within other liabilities.

33. 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.

34. Events after the reporting date

a) Mortgage-payment deferrals

After the balance sheet date the continuing development of the Covid-19 pandemic has resulted in the Group maintaining its actions to serve its customers and protect colleagues, consistent with the supportive measures announced by the UK government. The Group has offered mortgage-payment deferrals to a number of customers as a result of Covid-19 as disclosed in Note 14. At 31 August 2020, 8% of the Group's loans, by value, still remained on mortgage-payment deferrals as a result of Covid-19.

Customers may take the option to extend their payment deferral, in line with government guidance, and of the 6,677 loans reaching the end of their initial deferral period up to 31 August 2020:

- 2,109 customers extended for a further deferral period, which are included in the aforementioned 8%;
- 107 customers have reached the end of their mortgage-payment deferral period and are yet to have a payment fall due; and
- 4,461 customers have reached the end of their mortgage-payment deferral period and have had a payment fall due. Details of the payment performance following the end of the respective mortgage-payment deferral period of the 4,461 customers are set out as follows:

Customers who have reached the end of their mortgage-payment deferral period and had a payment fall due up to 31 August 2020	Total number of customers	Monthly payments fully paid*	Monthly payments partially paid	Payments not made or is past term
Capitalised over the original term	4,371	3,966	276	129
Lump sum payment	44	43	1	-
Term extension	8	6	1	1
Increased monthly payments for a defined period	19	19	-	-
Other	19	18	-	1
	4,461	4,052	278	131

*include accounts which were fully redeemed since ending their mortgage-payment deferral period.

The impact of mortgage-payment deferrals on the Group, including on its liquidity and funding position, has been considered in the going-concern assessment disclosures set out in Note 2.

b) Restructuring

With the severity of the pandemic and its impact on business, the Group has had to make some difficult decisions regarding restructuring our business and the Group recently announced that it has launched an employee consultation process on proposals to reduce colleague numbers reflecting the anticipated future levels of lending activity and efficiencies in a revised operating structure. This employee consultation process ended on 7 September 2020 and as a result 191 colleagues were made redundant.

c) Funding activity

In September 2020, the maturity date on the undrawn £71.9m RCF facility has been extended from June 2021 to June 2023.

On 16 July 2020, Together successfully priced the latest and largest issuance in its residential mortgage backed securitisation programme, the Together Asset Backed Securitisation 2020 - 1 PLC ('TABS 4'). The issuance, which has an effective advance rate of 92%, received strong support from investors and resulted in £361m of additional funding being raised. TABS 4 is supported by a portfolio of 1st and 2nd charge owner-occupied and buy-to-let residential mortgages, secured against properties in England, Wales and Scotland, and refinances assets forming part of the Group's AA rated £1.25bn Charles Street facility ('CABS').

Given the government's announcement on 22 May 2020 to extend mortgage-payment deferrals to support individuals and families and the uncertainty surrounding the economic outlook, the Group has agreed further modifications to waivers for each of its private securitisations, including agreement of modifications to LABS in August 2020 and CABS in September 2020.

d) New originations

During the period from lockdown to the end of August 2020 we have continued to see demand for our products and since the easing of lockdown restrictions we have been able to cautiously resume accepting new applications on a phased basis using criteria appropriate to the changed market. As a result, average monthly mortgage originations in July and August 2020 have increased to £41m.

Glossary

All amounts are stated in £m

2024 Senior Secured Notes (SSNs 2024)	£350m senior secured notes issued by a subsidiary of the Group, Jerrold Finco PLC.
2026 Senior Secured Notes (SSNs 2026)	£435m 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.
CMI	CMI refers to contractual mortgage instalment.
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 following section on 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, ie 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 16	International Financial Reporting Standard 16 - Leases. This standard replaces International Accounting Standard 17 - Leases. The Group adopted this standard from 1 July 2019, 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 - £500m facility with a maturity date of November 2023.
Liquidity and funding risk	Liquidity risk is the risk that the Group is unable to maintain sufficient accessible liquid financial resources to meet the Group's financial obligations as they fall due. 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.
Loan book	This refers to the gross loans and advances to customers ie 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 from a defaulting borrower.
Loan to value (LTV)	In respect to our loan portfolio the loan to value (LTV) ratio is a ratio (reflected as a percentage) of the aggregate of (i) the principal amount of a mortgage loan, (ii) any higher-ranking-charge mortgage loans secured on the same property, (iii) the accrued interest and fees thereon, (iv) net of allowances for impairments and v) certain other accounting adjustments (including adjustments to recognise income at the effective interest rate), compared with the appraised value (typically the assessed value of real property in the opinion of a qualified appraiser or valuer or from an automated valuation model during the mortgage origination process or the revised valuation of the property if a later valuation has been undertaken) of the property securing the loan.
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 ie loans and advances to customers after impairment allowances.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
PIK toggle notes	A PIK toggle note is a bond in which the issuer has the option, subject to certain conditions being met, to pay interest in the form of payment-in-kind (PIK) as opposed to cash interest.
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 2023.
Repossession and LPA Receivership	Repossessed properties are properties in respect of which a court order has been actioned by a charge holder of 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, Together ABS 2 or Together ABS 3.
Shareholder funds	Equity and subordinated 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.
Together ABS 3	Together Asset Backed Securitisation 2019 - 1 PLC – this is an amortising facility, which raised £315.4m against a loan portfolio of £332.0m with a contractual maturity of 2061 and an option to call the facility in September 2023.
Together ABS 4	Together Asset Backed Securitisation 2020 - 1 PLC – this is an amortising facility, which raised £360.5m of funding secured against a loan portfolio of £366.0m with a contractual maturity of 2061 and an option to call the facility in June 2024.
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 £23.9m whilst in 2020, underlying PBT excluded one-off refinancing and transactions costs of £6.7m and customer related provision of £17.2m.
Underlying profit after tax	Underlying profit after tax (PAT) is the Group's statutory profit after tax adjusted for one-off exceptional items. There have been no such exceptional items in 2019 or 2018. However in 2017, underlying PAT excluded one-off refinancing and transaction costs of £23.9m whilst in 2020, underlying PAT excluded one-off refinancing and transactions costs of £6.7m and customer related provision of £17.2m both adjusted for tax.
Weighted average LTV of originations	The average LTV on originations is calculated on a weighted-average basis, by multiplying each LTV by the respective principal loan amount and then dividing the sum of the weighted LTVs by the total amount of principal loans.
Weighted average indexed LTV of portfolio	The average LTV of our loan portfolio is calculated on a weighted-average basis, by multiplying each LTV by the respective loan amount and then dividing the sum of the weighted LTVs by the total amount of loans. The weighted -average LTV of our loan portfolio is then presented on an indexed basis, pursuant to which the value of the properties securing our loans are reviewed quarterly and adjusted for movements in property prices since the latest appraised valuation in accordance with the relevant regional property indices.

Alternative performance measures

All amounts are stated in £m

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 loans and advances to customers.

	2020 £m	2019 £m
Impairment charge	**66.9**	15.4
Average loans and advances to customers	**3,928.3**	3,326.3
	1.70%	0.46%

Cost/income ratio

Administrative expenses including depreciation and amortisation divided by operating income.

	2020 £m	2019 £m
Administrative expenses	**92.8**	82.8
Operating income	**254.3**	228.5
	36.5%	36.2%

Underlying cost/income ratio

Administrative expenses including depreciation and amortisation divided by operating income but excluding the effects of additional provisions made in respect of forbearance and customer communications and refinancing costs relating to 2021 senior secured notes

	2020 £m	2019 £m
Administrative expenses	**92.8**	82.8
Less additional customer provisions	**(17.2)**	–
Administrative expenses excluding exceptional costs	**75.6**	82.8
Operating income	**254.3**	228.5
Add back refinance cost	**6.7**	–
Operating income excluding exceptional costs	**261.0**	228.5
Underlying cost/income ratio	**29.0%**	36.2%

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

Profit before taxation adding back interest payable and similar charges and depreciation and amortisation.

	2020 £m	2019 £m
Profit before tax	**94.6**	130.3
Add back:		
Interest payable and similar charges	**137.1**	116.8
Depreciation and amortisation	**6.7**	4.4
	238.4	251.5

Underlying earnings before interest, tax, depreciation and amortisation (Underlying EBITDA)

EBITDA adjusted for additional provisions made in respect of forbearance and customer communication.

	2020 £m	2019 £m
EBITDA	**238.4**	251.5
Add back:		
Additional customer provisions	**17.2**	–
Underlying EBITDA	**255.6**	251.5

Interest cover ratio

The ratio of EBITDA to interest payable and similar charges.

	2020 £m	2019 £m
EBITDA	**238.4**	251.5
Interest payable and similar charges	**137.1**	116.8
	1.74:1	2.15:1

Underlying interest cover ratio

The ratio of underlying EBITDA to interest payable and similar charges excluding one-off refinancing cost relating to 2021 senior secured notes.

	2020 £m	2019 £m
Underlying EBITDA	**255.6**	251.5
Interest payable and similar charges	**137.1**	116.8
Deduct:		
Refinancing cost	**(6.7)**	–
	130.4	116.8
Underlying interest cover ratio	**1.96:1**	2.15:1

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.

	2020 £m	2019 £m
Total borrowings	**3,550.1**	3,015.7
Add back debt issue costs	**15.7**	15.5
Less shareholder loans	**(28.4)**	(27.1)
Less lease liabilities	**(11.5)**	(0.8)
Less senior-secured-notes premium	**(1.1)**	(1.8)
Less cash and cash equivalents	**(252.5)**	(120.2)
Net debt	**3,272.3**	2,881.3
Loans and advances to customers	**4,162.2**	3,694.5
	78.6%	78.0%

Net interest margin (NIM)

Net interest income as a percentage of the average of the opening and closing net loans and advances to customers.

	2020 £m	2019 £m
Net interest income	**251.3**	226.3
Average loans and advances to customers	**3,928.3**	3,326.3
	6.4%	6.8%

Alternative performance measures (continued)

All amounts are stated in £m

Underlying net interest margin

Net interest income adjusted for one-off refinancing cost relating to 2021 senior secured notes as a percentage of the average of the opening and closing net loans and advances to customers.

	2020 £m	2019 £m
Net interest income	**251.3**	226.3
Add back:		
Refinancing cost	**6.7**	–
Adjusted net interest income	**258.0**	226.3
Average loans and advances to customers	**3,928.3**	3,326.3
	6.6%	6.8%

Return on equity (ROE)

Calculated as profit after tax adding back shareholder loan interest net of associated tax calculated using the effective tax rate, expressed as a percentage of the average of the opening and closing shareholder funds (which include shareholder loans of £28.4m (2019: £27.1m)).

	2020 £m	2019 £m
Profit after tax	**84.1**	111.7
Add back shareholder loan interest	**2.1**	2.0
Less tax on shareholder loan interest	**(0.2)**	(0.3)
Total return to shareholder funds	**86.0**	113.4
Average shareholder funds adjusted for net shareholder loan interest	**825.2**	765.5
	10.4%	14.8%

Underlying return on equity (Underlying ROE)

Calculated as total return to the shareholder adjusted for additional customer provisions and refinancing cost and associated tax on these exceptional items, expressed as a percentage of the average of the opening and closing shareholder funds (which include shareholder loans of £28.4m (2019: £27.1m) adjusted for exceptional items during the period).

	2020 £m	2019 £m
Total return to shareholder funds	**86.0**	113.4
Add back exceptional items:		
Additional customer provision	**17.2**	–
Refinancing cost	**6.7**	–
	23.9	–
Less tax on exceptional costs using effective tax rate	**(2.7)**	–
	21.2	–
Underlying return to shareholder funds	**107.2**	113.4
Underlying average shareholder funds	**835.8**	765.5
	12.8%	14.8%

Cost to asset ratio

Administrative expenses including depreciation and amortisation expressed as a percentage of the average of the opening and closing total assets.

	2020 £m	2019 £m
Administrative expenses	92.8	82.8
Average total assets	4,148.2	3,447.8
	2.24%	2.40%

Underlying cost/asset ratio

Administrative expenses including depreciation and amortisation but excluding the effects of additional provisions made in respect of forbearance and customer communications divided by the average of the opening and closing total assets.

	2020 £m	2019 £m
Administrative expenses	92.8	82.8
Less additional customer provisions	(17.2)	-
Adjusted Administrative expenses	75.6	82.8
Average total assets	4,148.2	3,447.8
	1.82%	2.40%

Shareholder funds

This is equity plus subordinated shareholder loans of £28.4m (2019: £27.1m).

	2020 £m	2019 £m
Equity	828.0	762.8
Shareholder loans	28.4	27.1
	856.4	789.9

Further information

Registered office

Lake View
Lakeside
Cheadle
Cheshire
SK8 3GW

External auditor

Ernst & Young LLP
2 St Peter's Square
Manchester
M2 3DF

For further information:

Mike Davies
Director of Corporate Affairs
+ 44 7753 138185
mike.davies@togethermoney.com

Lake View
Lakeside
Cheadle
Cheshire
SK8 3GW

togethermoney.com