Realising people's ambitions by making finance work.

Annual Report and Accounts
for year ended 30 June 2021

together. SINCE 1974

together. SINCE 1974

Our Purpose
is realising people's ambitions by making finance work.

Our Vision
is to be the most valued lending company in the UK.

Established in 1974 and one of the UK's leading specialist lenders, Together helps our customers realise their ambitions by making finance work.

We have a unique culture, with real people making real decisions who understand that every customer is unique. With expert underwriters who use their experience and common sense to provide a loan that suits the customer and their timeframes and good old fashioned service and support, we go the extra mile to deliver great customer outcomes and results.

A strong, diverse and financially inclusive lender, we support a wide range of underserved customers including the self-employed, those with more complex incomes, in later life or with thin or impaired credit, and SME and business customers who need a lender that understands and responds quickly to their needs.

With many more customers likely to fall outside the one-size-fits-all automated models of other lenders as we emerge from Covid-19, demand for support from specialist lenders is expected to rise substantially. As one of the UK's largest and most experienced specialist lenders, Together is very well placed to help increasing numbers of customers to realise their ambitions and to play our part in supporting society and the UK economy.

Together – common sense lending.

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

2015

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

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

2018

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

2019

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

2020

- **£1.7bn** originations
- **£4.3bn** loan book
- **£435m** bond refinance
- **£361m** RMBS – fourth public securitisation
- Supported c16% of customers by value with Covid-19 mortgage-payment deferrals
- Adopted the Wates Corporate Governance Principles for Large Private Companies

2021

- **£1.2bn** originations
- **£4.0bn** loan book
- Supported c7,900 customers with Covid-19 related forbearance
- **£500m** bond refinance
- **£200m** CRE MBS issuance
- **£249m** CRE2 MBS issuance
- **£366m** TABS 4 RMBS issuance

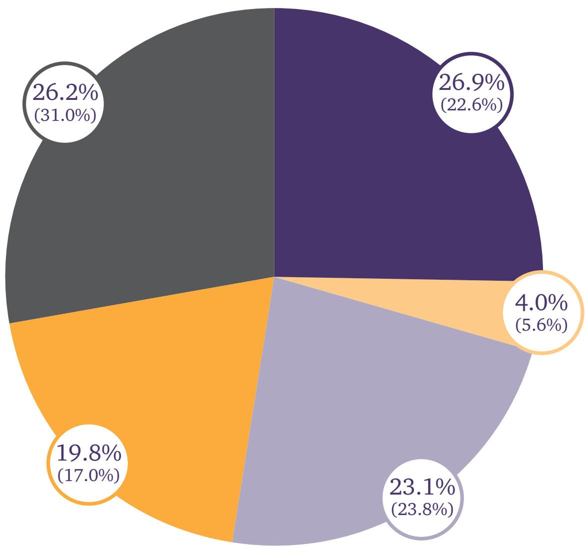
Highlights

We have resumed lending in a controlled way following the Covid-19 pandemic...

Our net loan book £4.0bn (2020: £4.2bn) as at 30 June 2021

63.6% secured on residential property (2020: 64.9%)

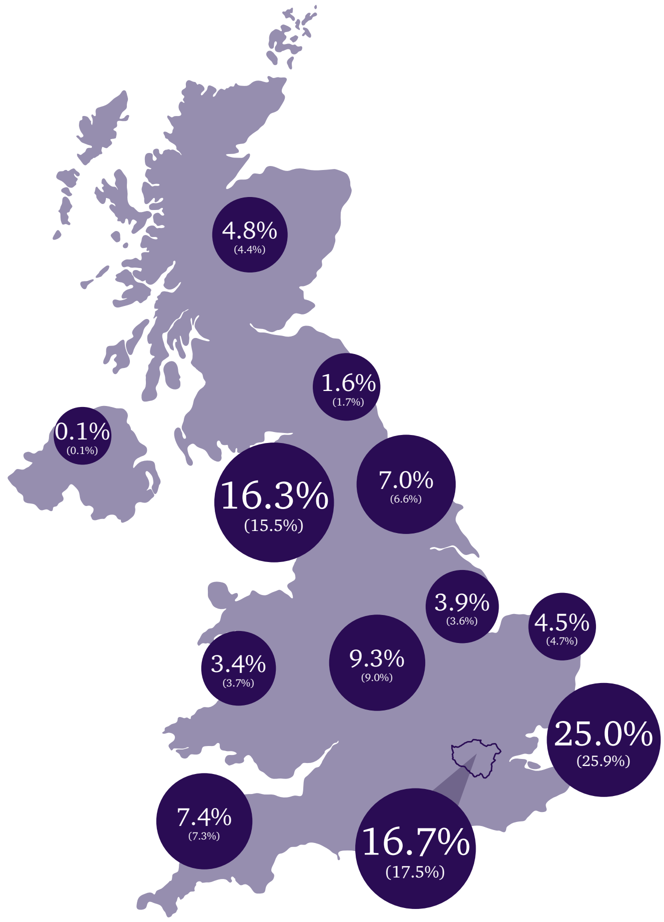
36.4% secured on commercial/semi-commercial property (2020: 35.1%)



- Buy-to-let
- Development
- Unregulated bridging
- Commercial term
- Retail

...providing secured lending to underserved customers across the UK...

Percentage of our loan book by geographic region[1]

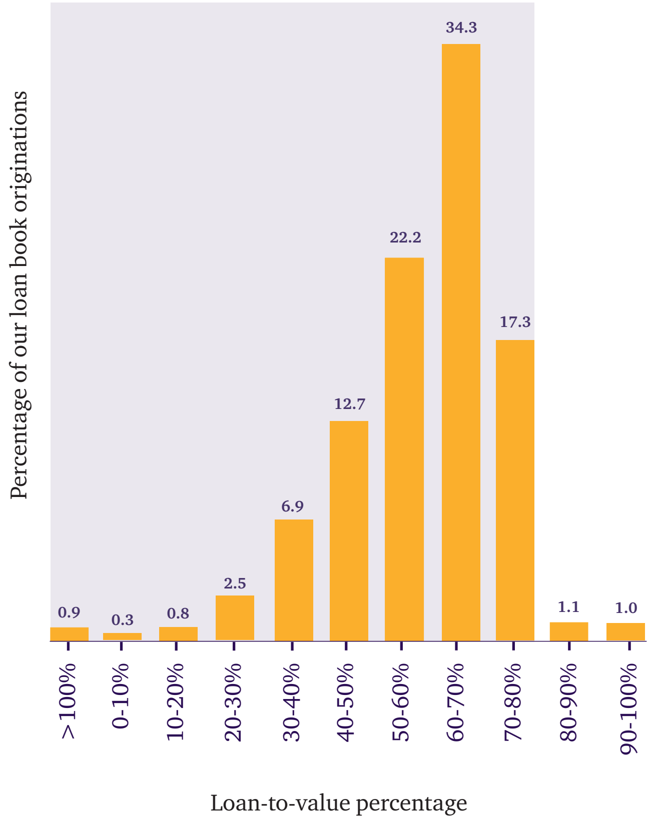


During the year, we revised our regional segmentation, to redistribute properties previously categorised within the South Central Region. The comparative percentages have been restated accordingly.

[1] Based on net loan book by value

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

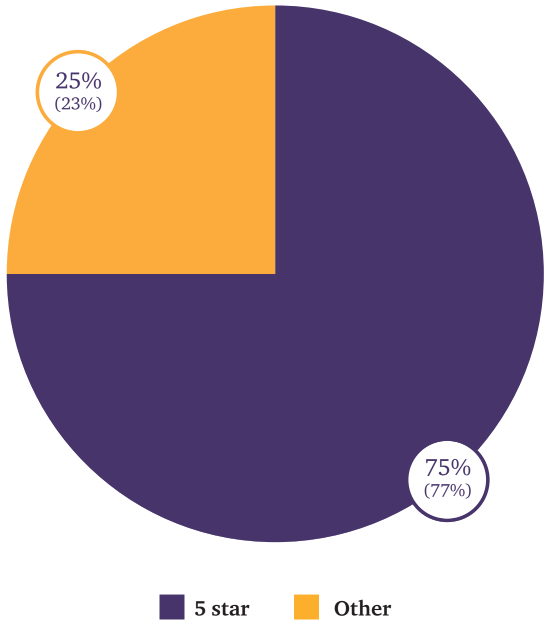
Conservative origination LTVs[1]
97.9% of originations in the year <80% LTV (2020: 96.7%)



[1] Refer to appendix for definitions and calculations

…delivering positive outcomes with our common sense lending.

% of customer reviews rated 5 star (Feefo, Trustpilot and Google)



Highlights

Key performance indicators

£150.3m
Statutory PBT[1]
(2020: £94.6m)

£149.7m
Underlying PBT[1]
(2020: £118.5m)

0.4%
Cost of risk[1]
(2020: 1.7%)

34.1%
Cost/income[1]
(2020: 36.5%)

35.9%
Underlying cost/income[1]
(2020: 29.0%)

[1] Refer to appendix for definitions and calculations

[2] Based on 489 customer reviews collated by Feefo, Trustpilot and Google reviews during FY21

6.1%
NIM[1]
(2020: 6.4%)

6.2%
Underlying NIM[1]
(2020: 6.6%)

£370.9m
Interest receivable and similar income
(2020: £388.4m)

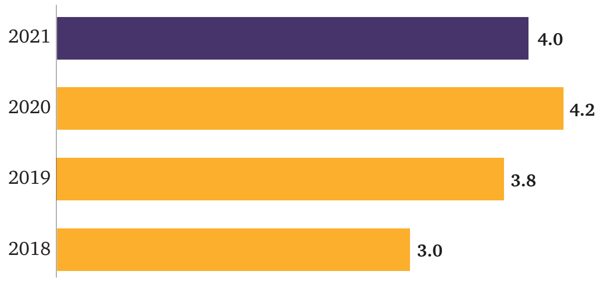
52.1%
Weighted average indexed LTV of portfolio[1]
(2020: 54.9%)

75%
of customer reviews were rated 5 star[2]
(2020: 77%)

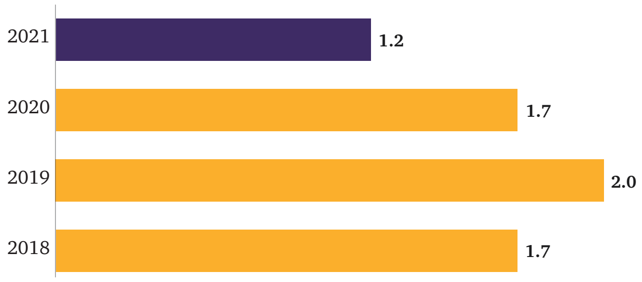
£136,000
Charitable donations
(2020: £170,000)

Read more information on our financial performance in the Financial review

Loan book (£bn)



Originations (£bn)



Underlying PBT[1] (£m)

[1] Refer to appendix for definitions and calculations

Strategic report

Contents

Chairman's review

I closed my report last year by expressing my confidence in Together's business model and its resilience to see us through the coronavirus pandemic and the related recession. I am pleased to report that the Group's performance over the last year has justified that confidence and produced excellent results.

Our actions are guided by our purpose and vision which we think create sustainable value for all our stakeholders. I would also like to recognise the significant contribution of our colleagues who have continued to embody our culture and respond to our customers' needs.

Mike McTighe
Chairman

During the year we have been able to increase our lending in a controlled manner, managing risk and initially focusing on our products where we have particular strengths and market expertise, having paused new lending at the height of the pandemic in the prior year. Our momentum has been increasing, and monthly lending in the final month of the year returned to pre-pandemic levels. As a result, the size of our loan portfolio fell only slightly over the year, from £4.2bn last year to £4.0bn at 30 June 2021.

This increase in lending is supported by strong levels of liquidity and the Group's funding 'headroom' has never been higher at £1.4bn. We have continued to raise new funds from the debt-capital markets across our financing structure. This included a further issuance on our successful TABS securitisation programme and refinancing and upsizing our largest tranche of senior secured notes. Later in the year we launched our first two commercial-mortgage-backed securitisations (effectively reopening this market, which had been closed for many years) and, shortly after the year end, a further private securitisation facility. These transactions deliver further diversity, improving capital and cost efficiency and demonstrating the continued investor confidence in Together.

The Group's profitability not only exceeded last year's but reached its highest ever level.

Thanks to such measures, and a raft of process and product improvements described in more detail in the Operating Review, the Group's profitability not only exceeded last year's but reached its highest ever level. Profit before tax for the year to 30 June 2021 was £150.3m, an increase of 59% on the £94.6m reported in the previous year. This level of performance delivered in such unprecedented times is a testimony both to the Group's agility and to the strength of its business model of specialist lending underpinned by prudent underwriting expertise and excellent levels of security.

For more information on our funding activities, see the Operating Review.

For more information on our financial performance, see the Financial Review.

Responding to the pandemic

The Group's response at the onset of the pandemic was to prioritise three things: the protection of our colleagues, the support for our customers and the resilience of the business.

In addition to mobilising the changes in our infrastructure to accommodate an environment where all our colleagues can work from home during periods of lockdown we also further developed our programme of support for the wellbeing of our colleagues, including the introduction of wellbeing champions and the provision of information and a third-party helpline. More information on this is contained in our Environment and Society Report.

In last year's annual report I described how we supported customers by means of customer helplines, mortgage-payment deferrals and our honouring of mortgage commitments, and these have continued throughout the year within both the Commercial Finance and Personal Finance divisions. Our Personal Finance Division in particular engaged with specialists and used new technology and data to find further ways to identify and support vulnerable customers through these difficult times. As the economy has recovered we have increased new lending in a controlled manner and now, as the government's guidance for payment deferrals draws to a close, the proportion of our customers taking advantage of such arrangements has fallen to just 0.2% by value at the June year end.

I also described last year how we were cautious to ensure the resilience of the business in the face of the pandemic. We preserved liquidity and capital buffers by temporarily pausing new lending and agreeing short term waivers to certain facility covenants in support of customers' payment deferrals. We also took measures to reduce costs, for example forgoing annual salary increases for the coming year and curtailing discretionary expenditure that would not add value in the near term. With the pause in new lending we initially furloughed approximately 300 colleagues, and ultimately in the context of re-focusing our lending activity and accelerating our programme of increased automation it was deemed necessary to take the very difficult decision to make some 180 of our colleagues redundant as we looked to streamline the business.

For more information on our response to the coronavirus pandemic, see the Operating Review and the Stakeholder Engagement Report.

Looking to the future

Over the course of the year, as the pandemic crisis in the UK improved and the Group's performance gathered momentum, increasingly it became possible for management to move on from securing the business's resilience to shaping it for the future.

The Board has devoted considerable thought towards further evolving and articulating the purpose of the Group, and from this its vision, mission, beliefs and strategy. This activity reflects both the interests of our stakeholders and our wider responsibilities to society and the environment. While this work is still in progress, it is evident that the Group's success stems from how we make finance work and help our customers to realise their ambitions. Indeed, this is the Group's very purpose, and this approach underpinned our support to customers during the pandemic described earlier. Over the coming months the Board will look to finalise this important piece of work and we look forward to sharing the output with all our stakeholders in due course.

The Group has also taken the opportunity to refocus on our core markets, improving product terms and pricing of our bridging, buy-to-let and first-charge and second-charge residential products and on distribution through our core brokers and loan packaging introducers. We have chosen to accelerate our modernisation and transformation work-streams to reduce time taken to underwrite and service loans providing the customer with a more efficient journey and reducing processing costs. In parallel we have also commenced investment to upgrade our core IT platforms providing for future resilience, flexibility and scalability of our systems to support sustainable growth. Accordingly, we have started to hire new colleagues again with the necessary skills and experience to support our change agenda.

For more information on our investment in the future, see the Operating Review.

Our Corporate Governance Report sets out the good progress we have made in how we manage the business. This year we have also introduced a new Environment and Society Report which highlights the importance we attach to such matters. While we have a long tradition of supporting our local communities and charities, we accept our corporate responsibility as a large company and intend to increase further our environmental and societal contribution. We have therefore commenced a process to establish a formal environment, society and governance strategy in line with our purpose and vision. We welcome the development of UK reporting requirements and believe this will help drive further the evolution of good corporate responsibility in future years.

In last year's report I had to acknowledge the extreme uncertainty in the economic outlook. Twelve months on, the coronavirus has not gone away. The reduction in social restrictions will likely result in further economic benefits; however, the anticipated withdrawal of government support measures, particularly the furlough scheme and stamp-duty 'holiday', must inevitably have some moderating effect on economic recovery. Whilst some caution therefore remains, also acknowledging the UK's evolving trading relationship with the EU, this year there is much greater consensus that, overall, we can look forward to a continuing improvement in the economy.

The pandemic has led to changes such that credit and income profiles for those affected become more complex. What for mainstream lenders may therefore be an issue, for specialist lenders like Together is an opportunity to help such customers thereby continuing to promote financial inclusion.

The Group's resilient business model, management's response to the pandemic, and the performance of colleagues over the last year have more than validated the confidence I expressed in the 2020 annual report. I believe the changes that are now being made mean that we can look forward with excitement to the Group's continuing success.

Mike McTighe
Chairman

A message from our Chief Executive

As the UK economy began to recover from Covid-19 we continued to increase new lending with monthly originations returning to pre-pandemic levels, reaching £190.3m in June, and achieved profit before tax of £150.3m at the end of the financial year.

At the same time we have maintained our investment in shaping our business for an exciting future, progressing a number of key modernisation and transformation projects during the year. We also built up considerable funding headroom to support our expected growth opportunities, and I would like to thank our banks and investors for their ongoing support.

Our business benefits from a family-like culture, combined with an entrepreneurial spirit and a dedication to supporting our customers. This unique culture, which has been shaped over our successful 47 year history, is at the core of our model and underpins our purpose of realising ambitions by making finance work. It has been demonstrated throughout the year by colleagues across our business, and I would like to take this opportunity to personally thank all colleagues for their dedication and support throughout the pandemic, and the various challenges it has posed to our ways of working.

This family-like culture is also embodied in our long-standing commitment to supporting our local communities, charities and the environment through our award-winning 'Let's Make it Count' programme.

With the rapid rollout of the Covid-19 vaccine programme and rising consumer confidence in the UK, many commentators are forecasting a return to pre-Covid growth levels. As we continue to emerge from the crisis and government support schemes are withdrawn, many customers are expected to find themselves underserved by the mainstream lenders and many more will seek a different path in life or look to capitalise on opportunities. With strong levels of funding and the ongoing benefits of our investment programme, Together is well placed to support increasing numbers of such customers and to play our part in the UK's economic recovery.

Henry Moser
Founder and Group Chief Executive Officer

Interview with Group CEO Designate, Gerald Grimes

Gerald Grimes
Group CEO Designate

We make finance work when others can't and by doing so we help people to realise their ambitions.

Q You must be pleased with the Group's strong financial results. Are you surprised how well Together has performed over the last 12 months?

A At the start of the financial year the UK was still in its first lockdown, the property market was only just reopening, millions were furloughed, millions more deferring their mortgage payments and development activity had all but ceased. UK GDP was down by 20% for the quarter and some commentators were forecasting a significant fall in house prices and unemployment running into double digits. No one had ever had to deal with this situation before and none of us quite knew how our businesses or our customers would perform. We were all in completely new territory.

It took common sense, logic, a calm approach and decisive actions to navigate through this unprecedented time as we focused on supporting our existing customers, protecting the safety and wellbeing of our colleagues and ensuring that our business remained strong and resilient. At the same time, we took the decision not just to continue with our modernisation and transformation projects, but to actually accelerate them as we shape our business for the future.

We are extremely pleased with this year's results. With originations increasing to pre-Covid levels, strong levels of profitability and significant funding headroom to support further growth, the results are a testament to the extraordinary efforts of all of our colleagues over the last 12 months.

Q What lessons have you learned during the pandemic and how will this help you to shape the business for the future?

A One of the biggest lessons we learned was how nimble our business is and how quickly we can adapt in extraordinary circumstances. Together has a family-like culture, an entrepreneurial spirit and a unique 'making it happen' mentality. These qualities have helped us to come through the crisis in a really strong position.

Another big lesson was just how resilient the business, our colleagues and our customers are. I have been incredibly impressed by the professionalism and loyalty the business has shown, with so many colleagues really stepping up to support our customers and each other. While we are in no way complacent about the challenges that may lie ahead, it has also been very reassuring to see how well our customers have performed throughout the crisis.

As we shape our business for the future, we are focusing on using technology in automating 'non value-add' manual processes and obtaining better data more efficiently, ensuring every customer has a consistent journey, providing our colleagues with even more time to make finance work and helping our customers realise their ambitions. We will be using technology to do what technology does best and our people to do what they do best. We have already made significant progress and we are really excited about the benefits it will bring to our customers, partners and to our colleagues going forwards.

Interview with Group CEO Designate, Gerald Grimes continued

Q Are there any emerging trends that you see having a significant impact on Together?

A Lifestyles are evolving, consumer behaviour has changed, the growth in tech and digitisation is here to stay and people are making decisions about how and where they want to live. Disruption also creates space and opportunities for entrepreneurs and a shift towards greater self-employment in the UK is forecast. Many of these new business creators may find themselves underserved and seek the services of specialist lenders.

At the same time, the 'Amazon effect' is accelerating changes in how people want to interact with their world. They expect to be able to find what they want, when they want it, simply and with quick, efficient delivery. Our customers' expectations are also changing. Retail customers want easy to understand, fairly priced and simple to use products. Commercial customers want relationship-based lending with tailored solutions and quick, common-sense decisions to help them realise opportunities or deal with problems. All customers expect and deserve great service. This creates opportunities for lenders that are able to evolve their models to meet these expectations.

While the economy is performing much better than expected and is forecast to grow strongly, it is very likely that as government Covid-19 support schemes unwind, increasing numbers of customers may find themselves underserved by lenders with highly automated, inflexible, 'one-size-fits-all' propositions. This is likely to see them look to specialist lenders for support and we believe we will be well placed to help them and to play our part in supporting the UK's economic recovery.

Q ESG is becoming an increasingly important factor for businesses. How does Together consider ESG within its business model?

A The pandemic has caused many people to look closely at their lives and to reassess what is really important to them. Like many businesses, we have been thinking about our purpose and how we can play our part to benefit society, the environment and the economy.

We have realigned our purpose to be 'realising people's ambitions by making finance work' for customers, partners, colleagues, communities and for our wider society. This really encapsulates what we do, we make finance work when others can't and by doing so we help people to realise their ambitions, whether that is buying a home, growing a business, financing a property portfolio or building homes for people to live in. It also reflects our desire to deliver value for our communities, society and the economy.

Together has a long tradition for supporting our local communities and charities through our colleague-led 'Let's Make it Count' programme and we believe we have a comprehensive governance structure for a private company. While we accept we still have some work to do around our

environmental and societal contribution we have started the journey and include an environmental and Society Report in this Annual Report for the first time and we are currently formalising our ESG strategy in line with our purpose and vision for the future.

Q Where do you see Together five years from now?

A Together is a great brand with a unique culture and a strong track record of delivering. Our vision is to be the most valued lending company in the UK – the most valued by our colleagues, our customers and our intermediaries, and also the most valued for the impact we have on our communities, society and the economy. As the market continues to open up there is so much opportunity for the business to grow by making finance work for underserved customers and to deliver increasing value for all our stakeholders. You can't help but be enthused about the future.

Gerald Grimes
Group CEO Designate

Together is a great brand with a unique culture and a strong track record of delivering.

Business model

A unique and successful model

Together is one of the UK's leading specialist lenders, with a successful 47-year track record spanning several economic cycles.

We help a wide range of underserved customers including employed, self-employed and retired owner occupiers, landlords, businesses, property investors and developers. Rather than following a 'one-size-fits-all' approach, we use our wealth of expertise and industry know-how to make finance work for our customers, whoever they are, whatever their circumstances.

We offer customers a range of flexible lending products via an established distribution network of mortgage intermediaries, repeat customers and direct marketing. Our products include residential and buy-to-let mortgages, commercial term loans, bridging and development finance; all 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 high-quality diversified loan book and are able to achieve very respectable and sustainable returns.

The success of our model is underpinned by our unique family-like culture and entrepreneurial spirit, and a diversified funding structure with significant depth of maturity and strong, established relationships.

Our purpose

Realising people's ambitions by making finance work

We deploy our resources ...

People and culture
Purpose-driven culture with real people making real decisions to help real people

Successful track record
47 years of making finance work for our customers

Established relationships
with customers, brokers and intermediaries

Full service model
quick and efficient in-house originations, servicing and collections

Deep diverse funding
combining listed bonds, private and public securitisations, revolving credit facility (RCF) and shareholder funds

Strategic focus

- Delivering secured lending to underserved customers in attractive growing markets
- Achieving positive outcomes by putting the customer at the heart of our business and offering
- Maintaining high asset quality with prudent underwriting based on secured lending at low LTVs, affordability and appropriate risk adjusted margins
- Increasing diversity and depth of funding and reinvesting profits to support future ambitions
- Supporting our colleagues to grow, develop and play their part

to make finance work ...

Retail mortgages

lst and 2nd charge mortgages for owner occupiers

Bridging loans

regulated and unregulated loans for residential or commercial property acquisitions

Buy-to-let mortgages

for single property accidental landlords to professional portfolio landlords

Commercial term loans

lst and 2nd charge loans secured on a variety of property types to support business growth

Development finance

tailored finance for residential new build and conversions to commercial constructions

to help our customers ...

- buy their dream home
- get the next generations on the property ladder
- start new businesses
- grow existing businesses and create jobs
- secure business opportunities quickly and efficiently
- build property portfolios
- develop properties for people to live or work in

and deliver value for our stakeholders

1. For our colleagues: empower to play their part, realise ambitions and give back to society
2. For our customers: help underserved owner occupiers, landlords, self-employed, SMEs, businesses and developers
3. For our communities: build homes, help businesses grow, promote youth and diversity, support skills and enterprise and improve environments
4. For our charities: with our time, energy, drive, commitment and funds
5. For our shareholder and our funders: generate long-term sustainable returns

Our strategy

Vision:

To be the most valued lending company in the UK.

Strategic focus areas	Focus
Deliver secured lending to underserved customers in attractive growing markets	As one of the UK's leading specialist lenders, we help a wide range of underserved customers realise their ambitions. We are able to help customers with more complex incomes, entrepreneurs, those who are in later life or have thin or impaired credit, and SME and business customers who need a lender that understands and responds quickly to their needs. We offer residential and buy-to-let mortgages, commercial term and shorter-term (or bridging) finance and development finance, which we distribute direct to customers and via an established network of partners. All our lending is secured against residential, semi-commercial and commercial properties and land in the UK 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. Customers' expectations are also changing. Retail customers want products that are easy to understand, fairly priced and simple to use and commercial customers want a trusted relationship with a lender that can make quick decisions to help them realise opportunities. 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 ability to make finance work when other lenders cannot is more relevant than ever.
Achieve positive outcomes by putting the customer at the heart of our business and offering	We always aim to deliver positive outcomes to our customers. Key to this is our unique family-like culture, our focus 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 experiences. We are very proud of our culture and while we modernise and transform our business we will continue to do what we do best, including understanding individual customer circumstances and needs, and making finance work to help them to achieve their ambitions. 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 and experience, 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. As we shape our business for the future we will continue to learn from our customers, taking '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 in order to provide assurance that our products and services meet our customers' expectations and, in our regulated division, that they are in line with regulatory requirements.

Strategic focus areas	Focus
Maintain high asset quality with prudent underwriting based on secured lending at low LTVs	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 lending at sensible loan-to-values, with appropriate affordability/repayment assessments, and with a focus on risk adjusted margins. This enables us to achieve respectable and sustainable levels of returns. Our model is based on creating long-term sustainable value for all of our stakeholders. As we increase new lending we will continue to focus on offering 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.
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 and commercial mortgage-backed securitisations 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 and we recognise the importance of the banks and investors that support these structures and place great emphasis on developing and maintaining these strategic relationships.
Support our colleagues to grow, develop and play their part	Together has a unique culture and entrepreneurial spirit and we recognise that our colleagues are at the heart of our success. We aim to create a diverse, inclusive and collaborative environment where they can grow, develop and realise their ambitions. Our ongoing investment in technology and innovation makes processes simpler and leaves colleagues with more time to focus on what we do best - making finance work to help our customers realise their ambitions. An environment where our colleagues feel empowered to play their part and also to give something back to our communities and to society. We believe in creating opportunities and have an extensive, interactive learning and development programme in place to help our colleagues grow and develop. We have a strong focus on colleague development, and focus on that from the recruitment stage. We plan for the long term by acquiring and developing skills for the future. We develop, engage and retain our colleagues through provision of a range of 'open learning' opportunities, mandatory training activity and support to achieve and maintain competence in role. We provide a partnering model through both our recruitment and learning activity to understand the business needs and design and deliver solutions. These include careers support, succession planning and targeted learning and personal development plan coaching. Wellbeing has always been an important focus for the business and we have also set up a number of networking groups to promote diversity and inclusion across the business. Feedback from our colleagues helps us to improve and we have established annual and quarterly colleague surveys. We also have a long-established commitment to our communities and charities through our colleague-led 'Let's Make it Count' programme.

Operating review

The previous sections set out our business model and strategy. This Operating Review outlines the wider economic environment and then discusses our operations within that context. That discussion first focuses on our main customer-facing divisions and the markets in which they operate, before going on to give more detail about how we have supported customers during the pandemic. The final two sections of this Operating Review explain how, in respect of our funding and our systems, we ensured the Group's resilience and are now shaping the business for the future.

The economic environment

The last year saw a series of changes and reversals of lockdown restrictions in response to the changing infection rate for the coronavirus, with the UK government only finally able to allow successive relaxations from the spring of 2021 onwards. Economic activity as measured by GDP reflected this, with a second fall in the first quarter of the 2021 calendar year before improving in line with the subsequent easing of lockdown restrictions. Subject to possible disruption from new variants of the virus, current expectations are for UK economic growth to continue, buoyed by an improving global position fuelled particularly by the US fiscal stimulus.

After the first lockdown, house-price inflation surged until summer 2021, and most expectations are that this may now stabilise or fall slightly with the final withdrawal of the temporary stamp duty, universal credit and furlough reliefs at the end of September 2021. The termination of the latter relief may lead to a rise in unemployment, which at 4.7% has held up better than many predicted. Inflation generally as measured by CPI has risen to stand at 2.5% at the end of June 2021, partly due to the recovery in oil prices. The Bank of England has held Base Rate at 0.1% since the first lockdown, and is expected to continue to do so for some time as the current inflationary pressures are mostly seen as temporary.

The continued period of recovery since spring 2021 has led to a somewhat greater degree of consensus among economists as to the eventual economic impact of the pandemic than was the case last year. Additionally, the terms of the UK's trading and co-operation with the EU have now been agreed, though they appear subject to some review and of course to continuing development for those aspects not covered by the agreement.

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). Further details of our ECL assumptions are set out in Notes 2 and 11 to the Financial Statements.

The Group benefits from all its lending being secured on property and/or land within the UK with prudent average loan-to-value ratios. Management believes these factors provide the Group with resilience in difficult times, and so is cautiously optimistic about the future.

→ Further detail on our approach to managing risks is in the Risk Management Report.

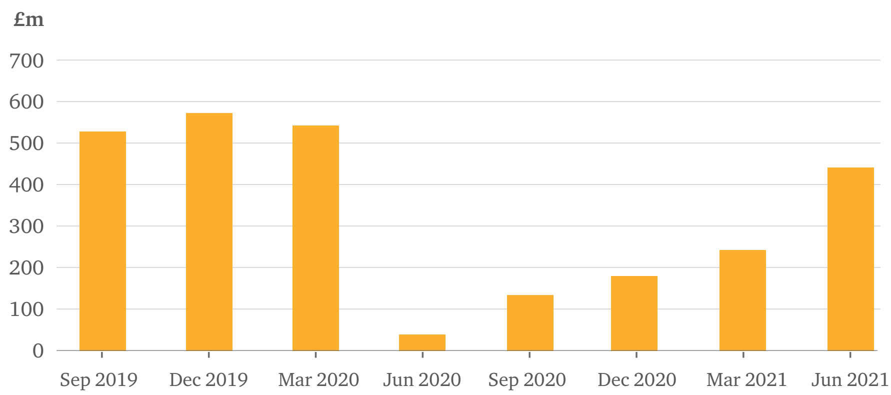
→ Further detail on considerations supporting the going-concern basis used for the preparation of the financial statements is in Note 2 to the Financial Statements.

Lending to customers

In March last year we paused new originations other than pipeline commitments in order to ensure that we could fully assess credit risk and to ensure that we could maintain the Group's resilience during a period of severe downside stress given the level of uncertainty that existed. This was guided by our long-standing focus on creating long-term value rather than prioritising short-term performance. However, during the year to 30 June 2021, and in response to a better economic environment than many had predicted, the Group increased its lending such that for the final month of the year volumes had returned to pre-pandemic levels. Lending for the full year totalled £1.2bn and, while this represents a reduction from the most recent years, our trajectory (which for the last quarter is equivalent to c£1.8bn in a full year) is of increasing lending in markets that we know well.

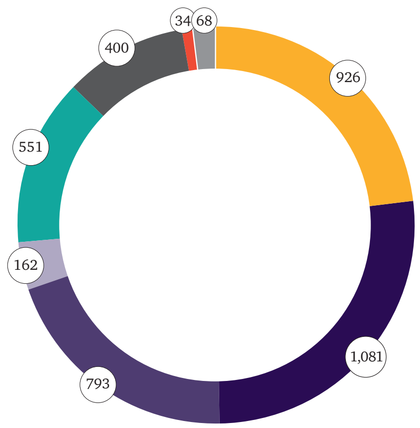
The pandemic has led to job losses and job changes for many people so credit profiles for those affected become more complex, thereby creating an opportunity for lenders in the specialist market to help borrowers who no longer fit the mainstream and the intermediaries who serve them. Moreover the property market itself seems set to remain active: many people have been affected financially or circumstantially by the pandemic leading to changes in lifestyle and working ambitions and a trend for people looking for larger properties and more outdoor space. This is in the context of government actions that have shown it will go to great lengths to protect the property market.

New lending necessarily fell sharply because of the pandemic, but subsequent acceleration means that quarterly lending is now approaching pre-pandemic levels:

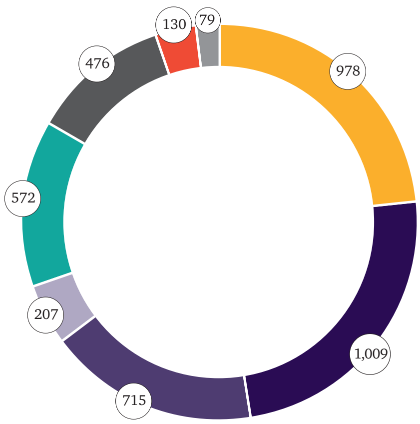


Despite the pandemic, the total balance of loans and advances to customers fell only £0.2bn to £4.0bn:

2021 (£m)



2020 (£m)



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

With loan originations having been temporarily reduced in the early stages of the pandemic, continued strong cash flows from redemptions resulted in the total of the Group's loans and advances, net of impairment allowances, decreasing slightly from £4.2bn to £4.0bn.

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

Operating review continued

Commercial Finance

In the year to June 2021 the Commercial Finance Division originated £1.1bn of new loans, down only slightly from £1.2bn last year. Its loan book finished the year substantially in line with last year at £3.0bn.

Lending summary

The early stages of the pandemic saw lenders reducing their risk appetites with loan-to-value ratios and loan sizes becoming more conservative, uniform and consistent across the market, with service the remaining key differentiator. Together returned to market with products designed to reflect a cautious lending appetite against criteria appropriate to the changed conditions, but offering the opportunity for controlled growth as the market evolved. In support of this the Group has initially focused its distribution on a smaller number of select packagers and master brokers. This enabled the business to follow an approach of launch, test and learn, resulting in the continued evolution of its product set as economic conditions became clearer and lending appetite increased. The division has grown volumes in a controlled manner month on month throughout the year with the initial focus particularly on bridging and buy-to-let lending. The Group's new commercial real-estate securitisations, discussed later in the section on funding structure and activity, will provide further support to the division's product portfolio.

The division's products and markets are discussed in more detail below.

Bridging

We offer quick unregulated bridging-finance solutions, secured on residential and commercial properties using 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 grew much faster than the mainstream mortgage market in the years prior to the pandemic, with annual growth averaging c15%. While a number of new lenders entered the market, some left, even before the pandemic, having failed to deliver effective propositions. Prior to the pandemic annual lending in the market was estimated at £4.5bn[1]. While subdued during 2020 and early 2021, confidence has returned to the market and we believe investment activity could mean that the market achieves c£4bn for the year to December 2021. The auction market in particular has thrived; it was quick to go online, attracting new borrowers who previously may have been reluctant to bid in auction rooms. Service, in the form of speed and reliability, and reputation for reliable lending and distribution capability are key differentiators in the bridging market. The pandemic has led to an increase in demand for UK holiday accommodation and also the conversion of commercial property to residential use, and the latter is likely to be a longer-term opportunity for lenders.

The Commercial Finance division's products are designed for small and medium-sized enterprises, individuals of high net worth, and property investors. Together's strategy since returning to the market has been, firstly, to design products that are competitive and fairly priced and, secondly, to focus our operation on providing customers with outstanding service and confidence on delivery through all of our distribution channels. Together Commercial Finance has seen lending volumes progressively increase such that they are already at levels similar to those prior to the pandemic, while redemptions have remained strong. The division's flexibility, years of experience in underwriting such risks, and strong, established funding base mean that this market is expected to remain a key area of growth for the business in the longer term.

Buy-to-let

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

Prior to the coronavirus pandemic the total buy-to-let market had been worth over £40bn of new lending per annum, though growth was relatively slow with only a small number of new entrants to market. While the market inevitably suffered in the early stages of the pandemic, pent-up demand fuelled by the stamp-duty holiday meant the overall decline in 2020 was only 12% and volumes are now close to previous levels, though expected to soften next year. Previous trends of a structural shift towards more complex situations such as portfolio landlords, limited-company ownership and houses in multiple occupation, and some transition in investment from London to the regions, all appear to have resumed.

During the year Together offered rates on its core product range that reflected the changing market conditions, including the launch of its lowest ever rate through a limited number of partners. We expect to continue to find opportunities for significant growth in this specialist buy-to-let market, supported by process efficiencies, a greater focus on customer retention and further enhancements to our funding structure discussed later.

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. Our depth of experience means we can help customers with solutions in a wide range of circumstances, whether they are investors looking for returns or owner-occupiers looking to raise funds to grow their business.

The UK commercial-property market is extremely diverse with loan sizes ranging from less than £100,000 to well in excess of £50m. Historically it has proven riskier during economic downturns, and during the pandemic the overall market for new commercial-property lending was more subdued than that for residential lending. New lending volumes were c23% below previous levels of c£50bn per annum and, despite some lenders reducing their appetite to some degree, the high-street banks rather than non-bank lenders continued to dominate the market. It is possible that the increased appetite for working from home may lead to reduced demand for larger commercial properties such as office blocks and shopping centres in city centres, with some shift to high-street premises in smaller towns.

[1] Mintel UK bridging loan market report 2020

Together's focus has always been on the smaller-ticket commercial-real-estate market where we have applied a prudent approach to such lending, focusing on sensible loan-to-value ratios and affordability and having lent across a diverse range of commercial property types. During the year, Together has originated smaller volumes of such lending, instead favouring the bridging and buy-to-let markets secured mainly on residential properties. While the markets for office and leisure properties remain relatively subdued, there are opportunities in certain areas such as smaller-scale infrastructure to support online deliveries and, overall, the market appears to be recovering towards normal levels. It is expected that as the economy recovers the Commercial Finance Division will grow its lending activity in what remains an important market to the business in the longer term.

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. By supporting developers we help to increase and improve the country's housing stock, provide premises for businesses and aid investment.

Prior to the pandemic 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. During the economic upheaval of the last year this market has witnessed some reduced activity by lenders. However, Together has been active in this area for many years and, encouraged by the performance and strong redemptions of its portfolio, its long experience has allowed the division to continue to offer such loans on a selective basis.

Marc Goldberg
CEO- Commercial Finance

Operating review continued

Personal Finance

The Personal Finance Division's originations for the year totalled £0.1bn, down from £0.5bn in 2020 because of the decision to constrain lending due to the Covid-19 pandemic. Its closing loan book stood at £1.2bn at 30 June 2020 compared with £1.4bn at 30 June 2020.

Lending summary

As for the Commercial Finance Division, the Personal Finance Division initially prioritised support to its customers at the outbreak of the pandemic and reduced lending activity in response to the level of uncertainty around credit risk. Subsequently it has cautiously resumed lending using criteria appropriate to the evolving economic and market conditions, focusing particularly on first-charge lending. While continuing to nurture its relationships with networks and mortgage clubs, the division has focused its indirect distribution through a smaller group of established intermediaries. It has also simplified its product range to focus on growing its key markets, and is investing in technology and process improvements to improve its efficiency and provide excellent customer service. The Personal Finance Division has already completed a full review of its application documentation and streamlined the process. More detail about the Group's programme of investment is provided later in this Operating Review.

The division's main products and markets are in term loans, discussed in more detail below. In addition, it can provide regulated bridging loans to help with chain breaks, and consumer buy-to-let mortgages to help those who find themselves 'accidental' landlords as a result of unforeseen circumstances or where family members reside in the property.

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.

First-charge loans

Annual first-charge new lending to owner-occupiers within the UK declined by c10% to £198bn in the year to December 2020. This was despite lending in Q4 that set a post-financial-crisis record reflecting pent-up demand and the stamp-duty holiday, and lending volumes subsequently have continued to rise. Service has been under severe pressure across the industry with delivery constrained by new processes to accommodate lenders' staff working from home during the pandemic and the administration around payment deferrals. Besides responding to increasingly diverse borrower demands such as later-life borrowing, changing working habits and property conversions, historically specialist lending has actually benefited from challenging macroeconomic conditions. Home purchases are being heavily influenced by lockdown experience and new working behaviours, with some potential buyers accelerating their plans to move. Larger and more rural property is in demand to accommodate remote working, with less demand for city-centre living.

The first-charge mortgage market has been a source of growth for Together where we sought respectable returns at prudent loan-to-value ratios, aided by our programme of public securitisation activity. Together has made a carefully controlled, incremental return to the market with lower loan-to-value (LTV) ratios and loan sizes, following a test-and-learn approach. As the market continues to recover it remains an area in which the division has ambitions for growth, fuelled by process transformation to deliver excellent levels of service and an ability to retain customers.

Second-charge loans

Prior to the coronavirus pandemic the second-charge market had seen annual growth of 10-15% and represented an area of strong performance for the Group. Market growth 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. The pandemic meant that 2020 saw the market fall by around two fifths, from c£1.25bn to just over £0.7bn, though the market is now recovering with some lenders returning to the market and recent lending volumes near to pre-pandemic levels. The increasing levels of automation previously seen among market leaders, resulting in greater competition and greater focus on service as a key differentiator, has continued. This is placing more importance than ever on simplifying processes and improving customer experience.

Having paused such lending to a minimum in response to the pandemic, the Personal Finance Division has taken the opportunity to progress the transformation of its operational procedures to improve its competitive service propositions. The division is now steadily increasing its lending and plans to resume its activity in what it sees as a market with growth potential.

Supporting customers during the pandemic

The government has made successive extensions to its guidance to lenders in granting mortgage-payment deferrals to borrowers facing short-term liquidity issues as a result of the pandemic, and the scheme is now expected to close at the end of September 2021. Together 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. The uptake by the Group's borrowers peaked in May 2020 at just over 15%, and subsequently has fallen; at 30 June 2021, just 0.2% by value of the Group's loans remained on a payment deferral.

Of course, support to customers consisted not only of offering payment deferrals. The Group redeployed staff to its helplines to guide and support customers through the early stages of the crisis. The Personal Finance Division also engaged with the charity the Money Advice Trust to ensure it follows best practice in helping vulnerable customers, and has asked the trust to review the division's procedures. The division worked with major credit bureaux to help it proactively identify and engage with customers in, or who were at risk of, financial difficulty. And because some customers, particularly those in financial difficulty, are hesitant to discuss their income and expenditure, the division has also developed access to a third-party online portal which some people find easier to use.

The Group always continued to honour its pipeline of retail-lending commitments so that such customers were not let down or forced into financial difficulty. As the economy and financial markets have subsequently improved, albeit with occasional setbacks, we have gradually been able to increase our new lending to meet the needs of our customers.

The following two sections of this Operating Review include more details on how the business ensured its resilience during the pandemic in respect of its funding and its systems and processes. The Environment and Society Report gives more information about how we supported colleagues.

Pete Ball
CEO- Personal Finance

Operating review continued

Funding structure and activity

The earlier section of this report on the Group's business model sets out how Together has succeeded in delivering long-term value by providing a broad range of flexible, secured, lending products to underserved customers at prudent loan-to-value ratios. This has resulted in a high-quality, diversified asset base, robust profitability and strong cash generation, with the majority of the capital generated being consistently reinvested to support the Group's growth.

Underpinned by the shareholder funds retained in the business, and which totalled £937m by 30 June 2021, Together's long-term track record of success and high-quality loan-asset base has proven attractive to providers of funding. The Group has developed a mature and diversified funding platform consisting of private and public securitisations, senior secured notes (bonds) and a revolving credit facility. Ensuring that the business refinances its facilities significantly ahead of any maturities creates a resilience to any temporary closure within the debt-capital markets, thereby ensuring liquidity is maintained within pre-set risk appetite levels. The Group has also been active in raising new forms of funding to support future growth as discussed later in this section.

Our funding structure

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. At 30 June 2021 senior secured notes in issue, held by international institutional bond investors, totalled £935m, with the £71.9m revolving credit facility, supported by our banking syndicate, remaining undrawn. After origination, dependent on product type and eligibility criteria, certain loans may be sold into one of four private warehouse 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 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.

On the sale of loans to one of our securitisations cash is transferred to the Senior Borrower Group as consideration which, together with cash generated from operations, supports the Group's continuing loan-origination activity.

In addition to the above, the Group also has a further private securitisation launched in July 2021, Brooks ABS, a facility funding a £96m fixed pool of non-performing loans mainly secured on residential properties. This is a new type of securitisation for Together, discussed further below.

Under the name Together ABS we also issue securities to the public markets by means of residential mortgage-backed securitisations (RMBSs). These fund pools of residential loans primarily drawn from our Charles Street ABS facility, thereby creating headroom to support further residential lending activity. And in the last year the Group has for the first time launched two public securitisations which fund pools of smaller-value commercial, residential and mixed-use real-estate loans referred to as our CRE MBS programme. These are drawn mainly from our Lakeside and Highfield ABS facilities, thereby creating headroom within the warehouse facilities.

Senior Borrower Group

Mortgage loans are initially funded within the Senior Borrower Group including the senior secured notes (bonds) and a revolving credit facility (RCF), and the portfolio is subject to covenant restrictions.

2026 senior secured notes

£435m

6yr

S&P: BB-; Fitch: BB-

2027 senior secured notes

£500m

6yr

S&P: BB-; Fitch: BB-

2023 RCF

£71.9m commitment

Private securitisations

Once originated, mortgage loans can be allocated into one of the private securitisations. Other than Brooks ABS, all are revolving facilities where access to the headroom is subject to eligibility and covenant restrictions.

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 2025*

£525m commitment

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

Brooks ABS 1**

£96.2m unrated notes on issuance

Loan types: Non-performing and reperforming 1st and 2nd charge term loans.

Secured on residential and commercial properties

Public securitisations

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

Together ABS 1***

£99.3m 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

£139.4m 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

£223.2m 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

£295.5m rated notes currently in issue with 81% rated AAA on issuance

Loan types: 1st and 2nd charge mortgages and buy-to-let loans.

All secured on residential property

CRE ABS 1

£191.6m rated notes currently in issue with 80% rated AAA on issuance

Loan types: 1st and 2nd charge commercial term loans.

Secured on commercial, residential & mixed-use properties

CRE ABS 2

£255.4m rated notes currently in issue with 80% rated AAA on issuance

Loan types: 1st and 2nd charge commercial term loans.

Secured on commercial, residential & mixed-use properties

Shareholder funds £937.0m at 30 June 2021 are used to support the senior borrower group, private securitisations and public securitisations

* Highfield ABS was refinanced in September 2021 and its maturity date extended to 2025.

** The securitisation of Brooks ABS 1 was completed on 5 July 2021.

*** The Group exercised its option to redeem all the notes in issue for the Together ABS 1 securitisation on 13 September 2021.

Operating review continued

Funding structure and activity continued

Funding activity during the year

During the year we successfully raised or refinanced £1.5bn of facilities to support the Group's lending activities, including the Group's first commercial-real-estate mortgage-backed securitisations and its first dedicated facility for non-performing loans:

- We issued our fourth and largest residential-mortgage backed securitisation (RMBS) in July 2020, Together ABS 4, raising external funding of £360.5m with 81% of the notes rated AAA on issuance.
- In September 2020 the maturity date on the undrawn £71.9m revolving credit facility was extended from June 2021 to June 2023.
- In January 2021 the Group announced the issuance of £500m senior secured notes at 5.25% and due in 2027, and repaid the existing £350m of 6.125% notes due to mature in 2024.
- At the same time, the Group extended the term of its subordinated shareholder loans of £25.1m, previously due to mature in September 2026, to mature in September 2027. The loans continue to be interest free, and the extension of the maturity resulted in an accounting increase in equity of £1.0m. More details are provided in Note 18 to the Financial statements.
- In March 2021 the Group successfully completed its first commercial real-estate mortgage-backed securitisation, Together CRE 1, raising external funding of £194.3m and with 80% of the notes AAA rated. CRE1 is supported by a portfolio of first-charge and second-charge mortgages secured against small-value commercial, residential and mixed-use properties. It was the first transaction of its type in the UK since the global credit crisis, effectively reopening this particular market even at a time of economic uncertainty created by the coronavirus pandemic.
- As a result of demand arising from CRE 1, the Group completed a second such transaction, Together CRE 2, in June 2021. This raised external funding of £241.6m with 80% of the notes AAA rated.

Shortly after the year end the Group launched a wholly new type of facility, Brooks ABS, secured on loans with some degree of arrears or imperfect credit histories. The external funding raised was £71m representing an advance rate of 74%. This will release further capacity for the Group's funding, not otherwise available from securitisations of performing loans.

At the beginning of September 2021 the Group refinanced its £525m Highfield ABS facility, extending its maturity date from June 2022 to September 2025 and improving commercial terms. In early September the Group also announced the pricing of its inaugural 1st charge only RMBS, the £318m Together Asset Backed Securitisation 2021 – 1ST1 PLC RMBS ('TABS 5'). The £318m facility is expected to have 89% of its notes rated AAA. On 13 September 2021 the Group exercised its option to redeem the loan notes in its first RMBS, Together ABS 1, taking back beneficial title to the mortgage assets that had previously been securitised.

We have nine banks in our RCF and warehouse facilities, with additional counterparties providing mezzanine funding to the Charles Street ABS facility, thereby mitigating the risk of counterparty concentration.

As a result of the extremely high economic uncertainty in the initial stages of the coronavirus pandemic and payment deferrals granted to customers, the Group took measures to preserve the Group's liquidity and capital buffers to protect itself against severe stress scenarios. As the economic position has evolved and become somewhat more positive, and the Group's profitability has proven robust, it has subsequently been possible to resume dividends, which had been temporarily suspended in April 2020.

It is the Group's policy to refinance its revolving facilities well ahead of their maturity dates and it has been able to continue this policy during the pandemic, refinancing a number of its facilities. The earliest maturity of wholesale funding, the Delta ABS facility, is not due until March 2023 and the earliest call date on the public securitisations is Together ABS 2 in November 2022.

Sterling Libor is expected to be discontinued on 31 December 2021 due to interest-rate benchmark reform, to be replaced by the reformed sterling overnight index average (Sonia). For its older funding facilities that reference Libor the Group has been engaged with counterparties to manage the transition to Sonia, either as part of planned refinancings or by amendment to contracts in good time for December 2021. Further detail of the Group's facilities is set out in Note 18 and of interest-rate benchmark reform in Note 29.

Our programme of investment

While it was initially necessary to reprioritise our work streams to address the consequences of the coronavirus pandemic, the Group has remained committed to and now accelerated the programme of investment.

We reported last year on how the coronavirus pandemic necessitated that we adapted our operating model during the first lockdown, temporarily pausing some of our change activity to support colleagues working from home and to implement operational process changes to facilitate and control mortgage-payment deferrals taken by customers, thereby supporting our customers and looking after the welfare of our colleagues. In addition, management actions to reduce the Group's cost base and to further strengthen its liquidity and capital ensured the business remained highly profitable during the successive economic downturns of the last year.

As the economy has gradually stabilised and started to recover, the Group has increasingly focused on its longer term strategy of shaping the business for the future. This has included embedding process automation that has reduced operating costs and risk, removing friction and time from our processes and improving the experience both for customers and intermediaries. The earlier section on the Personal Finance Division mentioned the streamlining of its application process. Other Group improvements over the last year include:

- The implementation of an electronic underwriting file (e-file), superseding the need for paper files to be created, distributed and sequentially updated. This has led to operational efficiencies and more robust data and operational controls, and enhanced dashboards to monitor service levels.
- A messaging and data-sharing app that direct customers can use through the whole application process until receipt of funds. It offers customers text conversations with our colleagues, the ability to submit images of documents and to sign documents electronically, all via their smartphone.
- Automated income verification introduced a simple integrated verification tool on our online portal My Broker Venue. This links to credit agencies to validate the income information provided by customers on application, allowing greater automation of the process and thus an improved application journey for our customers.
- An 'affordability unlock' tool, so that underwriters can easily identify and track changes to affordability information provided by brokers or customers, providing process efficiencies for the business.
- The first phase of e-disbursements was successfully delivered, enhancing our data entry and validation capabilities and introducing enhanced functionality for colleagues. Subsequent phases to the way we approve and send money to customers will contribute to the wider transformation of the customer experience.
- The first releases of a new core product-pricing engine with associated simplifications of our BTL, first-charge and bridging product portfolios. This introduced a new architecture for product management that further supports risk-based pricing and simplified the process to make certain product changes.

In parallel with these significant process improvements the Group is also undertaking strategic projects to update some of our core systems. This combined programme of change will shape the business for the future, delivering the efficiency and cost benefits of automation to complement the inherent agility of our colleagues and their expertise and common-sense approach to lending which has been fostered over the Company's long history.

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

Stable

We have consistently invested in renewing and refreshing our IT infrastructure. Our technology infrastructure is provided by tier 1 hardware and software suppliers. A market-leading telephony system supports our contact centre to operate anywhere. We use extensive monitoring and reporting of service management to drive continual improvement, and achieved 99.97% availability for our core systems.

Secure

We employ robust anti-virus and patch-management software for our IT estate. Suitable encryption and lockdown protocols mean our remote-working conditions are highly secure and reliable, and 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 helping to detect and prevent cyberattacks.

Strategic

We have a continuing programme of refreshing or replacing our core business systems. We have a dedicated portal for integration with the larger intermediaries and with key sources of data such as Equifax, Hometrack and the Land Registry as well as with our 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. We are extending across the business the use of robotic process automation of previously manual processes.

Scalable

We seek to use cloud-based software solutions to provide scalability, and employ a highly 'virtualised' environment to rapidly deploy new services, proven highly effective in redeploying colleagues to a home-working environment at the start of the pandemic. 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 industry-leading suppliers.

Financial review

In spite of the protracted nature of the pandemic and the fluctuations in the UK economy resulting from changes in lockdown requirements, the Group was able to increase its profit before tax for the year by 59% to £150.3m (2020: £94.6m), £149.7m on an underlying basis excluding one-off customer redress and refinancing costs (2020: £118.5m). This is a strong performance for the business and reflects the proactive response of management to ensuring the Group's resilience during the crisis, the quality of the Group's loan book, reflected in a lower impairment charge of £16.1m (2020: £66.9m), and a highly sustainable business model.

During the year the Group has resumed controlled growth in originations, having reduced new lending last year in immediate response to the pandemic. The nature of our portfolio means that cash-generative redemptions have continued at high levels. The gross loan book therefore finished the year 4% lower at £4.1bn (2020: £4.3bn).

Results for the year

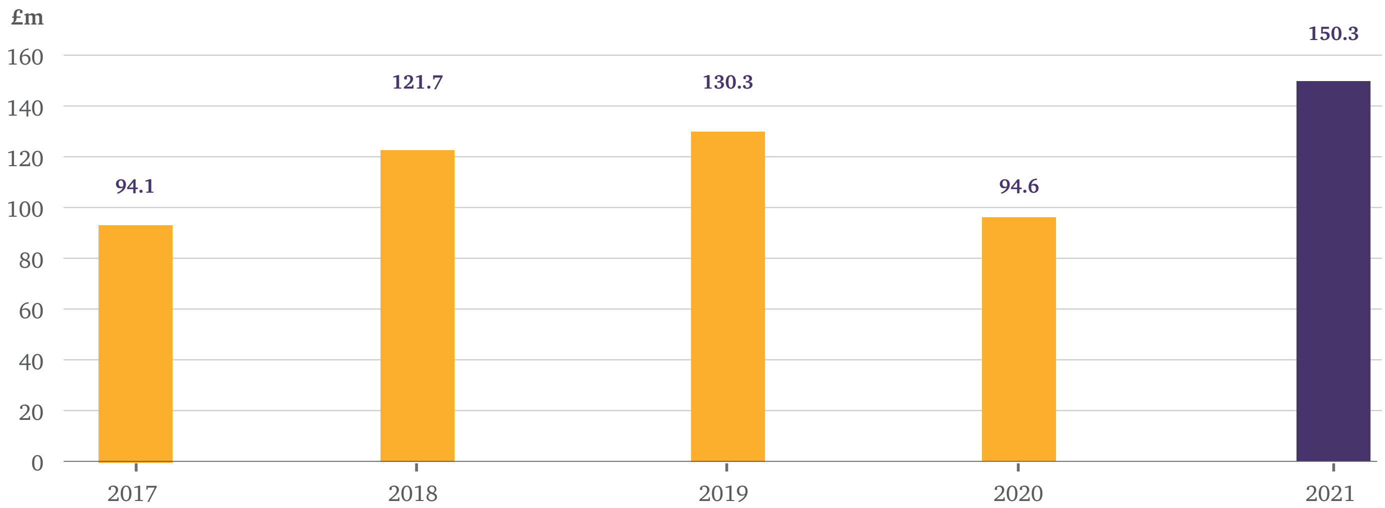
The results for the year to 30 June 2021 are summarised below:

	2021 £m	2020 £m
Net interest income	**247.4**	251.3
Net fee and other income	**5.2**	3.0
Operating income	**252.6**	254.3
Administrative expenses	**(86.2)**	(92.8)
Impairment losses	**(16.1)**	(66.9)
Profit before taxation	**150.3**	94.6

Key profit-related performance indicators[1]	2021	2020
Net interest margin (%)	**6.1**	6.4
Underlying net interest margin (%)	**6.2**	6.6
Cost-to-income ratio (%)	**34.1**	36.5
Underlying cost-to-income ratio (%)	**35.9**	29.0
Return on equity (%)	**14.7**	10.4
Underlying return on equity (%)	**14.5**	12.8
Interest-cover ratio	**2.3:1**	1.7:1
Underlying interest-cover ratio	**2.3:1**	2.0:1
Cost-to-asset ratio (%)	**1.97**	2.24
Underlying cost-to-asset ratio (%)	**2.12**	1.82
Cost of risk (%)	**0.4**	1.7

[1] Refer to appendix for definitions and calculations.

Despite the effect of the pandemic on the economy, the Group delivered strong profit before tax:



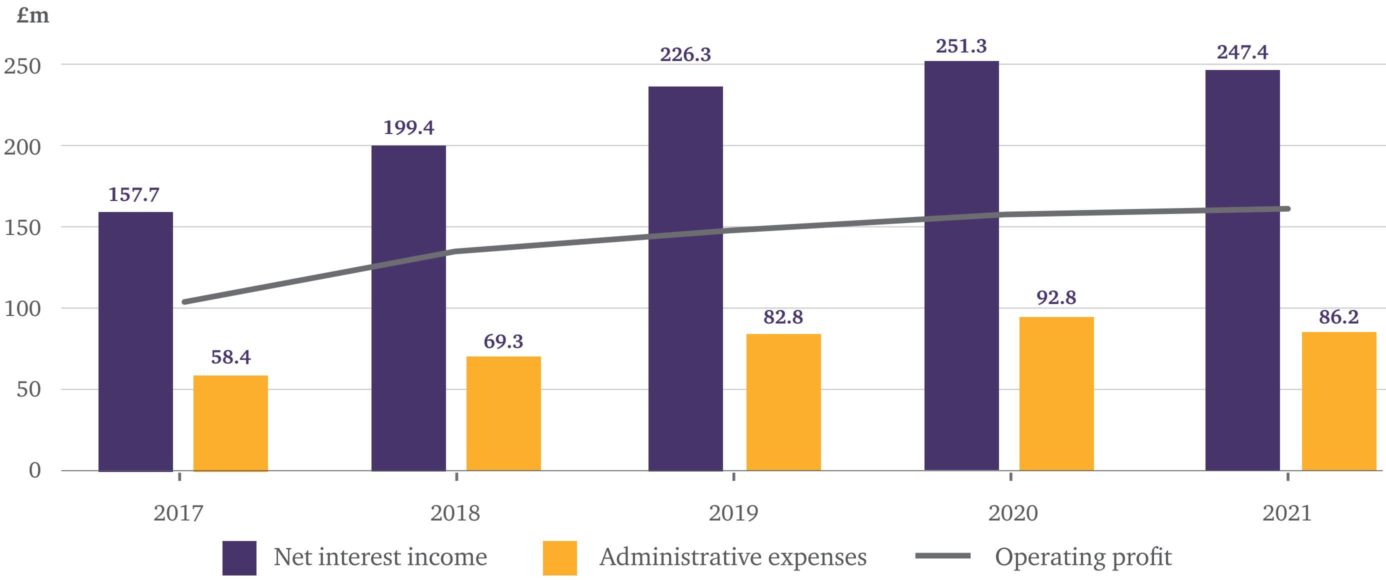
Income

Interest receivable and similar income fell by 4.5% to £370.9m for the year to 30 June 2021 (2020: £388.4m). This primarily reflects the 4% decrease in the loan book resulting from the management action to curtail new lending in response to the pandemic.

Interest payable and similar charges have decreased by 9.9% to £123.5m (2020: £137.1m), a greater percentage fall than that for the loan book. This is partly due to decreased charges as the level of borrowings has fallen, consistent with a smaller loan portfolio. In addition, it reflects improvements in the cost of funding achieved through recent financing activities, and also lower market interest rates. Interest payable includes £5.9m (2020: £6.7m) of one-off interest charges due to the early refinancing of some of the Group's facilities, offset by a one-off accounting gain of £1.0m on extension to the maturity of £25.1m of the Group's subordinated debt. The Group's financing activities are discussed in the funding section of the Operating Review.

After many years of rising net interest income from a growing loan portfolio, the temporary reduction of the portfolio during the year resulted in net interest income falling 1.6% to £247.4m (2020: £251.3m). The net interest margin percentage was 6.1%, (2020: 6.4%), or 6.2% excluding the one-off interest charges (2020: 6.6%).

Thanks to the reduction in administrative costs, operating profit before impairment charges actually increased despite the fall in net interest income:



Expenditure

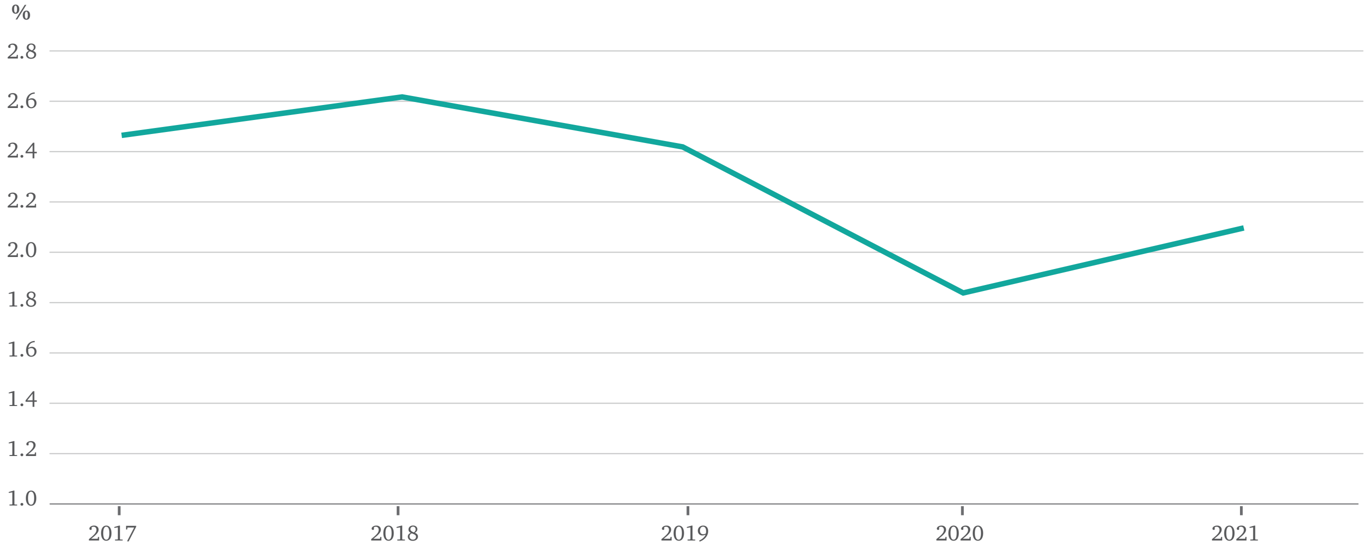
Administrative expenses fell 7.1% to £86.2m (2020: £92.8m), primarily because of a reduction in customer-remediation costs. Underlying costs excluding exceptional provisions for customer-remediation and reorganisation costs rose to £92.1m (2020: £75.6m). This increase reflected the reinstatement of bonus awards to colleagues resulting from the greatly improved profit performance, and also the initial costs relating to the Group's transformation programme to modernise its platform. The Operating Review sets out the process improvements implemented to improve the Group's cost base and customer service; it also sets out the direction and progress made in the Group's transformation programme to modernise its platform, including the further automation and streamlining of processes to deliver an even better customer journey.

As a result of the above, the ratio of the Group's costs to assets fell further in the year to 1.97% (2020: 2.24%), 2.12% on an underlying basis (2020: 1.82%).

Financial review continued

Expenditure continued

The Group's underlying cost-asset ratio remained significantly below its pre-pandemic levels:



The reduction in administration costs also resulted in a further fall in the ratio of the Group's costs to income, from 36.5% last year to 34.1%. On an underlying basis the ratio increased from 29.0% last year to 35.9% reflecting the increase in underlying costs and reduction in income as a result of the lower loan book mentioned earlier.

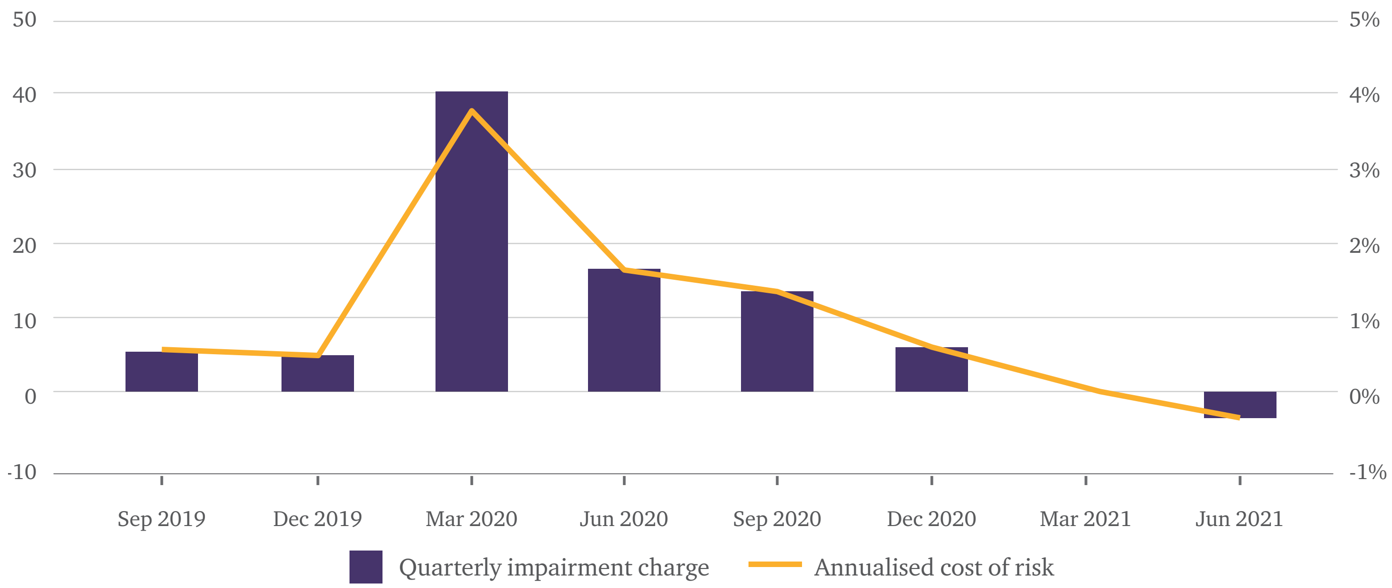
Impairment charge

The impairment charge for the year of £16.1m, represents a decrease of 75.9% on the £66.9m reported for the year to 30 June 2020, with the cost of risk falling to 0.4% from 1.7% last year. The majority of the impairment charge for the period was recognised in the first half of the year, when uncertainty was still heightened, but which has given way to a net release in the second half of the year.

This reflects the application of the forward-looking expected loss approach required under IFRS 9, which has resulted in the balance sheet impairment provision of £104.4m (2020: £118.8m) meaning that a certain level of protection has already been incorporated into the carrying value of our loan book for any future realised losses.

During the course of the pandemic, realisation of losses has been modest to date, as the Group has continued to support its customers, and government interventions have continued to provide support to those affected by the coronavirus pandemic. Whilst we look forward to the financial year to June 2022 with renewed optimism, some uncertainty remains, as interventions such as the furlough scheme are unwound and economic forecasts remain subject to higher degrees of variability than in the pre-pandemic environment. The modest release of loss provisions in the second half of the year has been primarily driven by the continued strong loan book performance and cash inflows, combined with better economic data than initially expected and an improving outlook. Nevertheless, cumulative provision coverage levels on the balance sheet still remain significantly ahead of pre-pandemic levels.

Impairment losses peaked in the previous period, and have subsequently dropped to negligible levels in the second half of the year:



The most significant factors driving the annual charge of £16.1m are:

- Underlying loan book performance, with the normal progression of some accounts through the three-stage impairment model and other factors impacting upon the measurement of ECLs, including judgemental overlays applied to specific accounts to reflect information or factors not captured within the model, updates to valuations of collateral, and changes in probabilities of default (£49.1m charge, FY20: £52.1m charge);
- The application of forward looking modelling assumptions and inputs, including the application of multiple forward looking economic scenarios (£8.9m release, FY20: £15.1m charge); and
- Releases arising from redemptions, with movement from the prior period reflecting both increased levels of market activity, and higher ECLs held against accounts which have redeemed (£39.0m release, FY20: £20.3m release).

Financial review continued

Impairment charge continued

At 30 June 2021	Gross carrying amount £m	Allowance for ECLs £m	Impairment coverage ratio
Stage 1	**2,541.3**	**4.0**	**0.2%**
Stage 2	**1,089.9**	**28.7**	**2.6%**
Stage 3 and purchased or originated credit impaired	**485.1**	**71.7**	**14.8%**
	4,116.3	**104.4**	**2.5%**

At 30 June 2020			
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%

Balance sheet coverage has fallen, which is discussed further within the Financial Position section below, and underlying arrears performance has remained stable during the course of the financial year to June 2021. Whilst the proportion of our loan book in stage 2 has increased, as shown in the table above, this is due to the application of judgemental overlays to our staging criteria, reflecting an increased level of qualitative considerations and caution, rather than customer performance.

For estimating potential future losses, last year it was necessary to move to using a wider range of forward looking macroeconomic scenarios than in previous years to reflect the higher level of uncertainty due to the unprecedented nature of the economic instability and the difficulty in foreseeing the timing and scale of future recovery. We have continued this approach in the financial year to June 2021.

During the year, the application of multiple forward looking macroeconomic scenarios in the calculation of potential future losses reduced the impairment charge by £2.6m (2020: £10.0m increase), as the macroeconomic forecasts applied became generally more optimistic than those applied in calculating ECLs in the financial year to June 2020. For further information on the position at the end of the period, refer to Financial Position later in this report.

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 before the pandemic. Notes 2 and 11 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.

Profit before tax

Profit before tax increased to £150.3m for the year to 30 June 2021 (2020: £94.6m) due to the lower impairment charges and administration costs. As a result, return on equity rose to 14.7% (2020: 10.4%).

The increase in profit before tax also led to a rise in earnings before interest, tax, depreciation and amortisation (EBITDA)[1] for 2021 to £279.1m (2020: £238.4m). The interest-cover ratio[1], which measures the business's ability to pay the interest on its borrowings, was 2.3:1 for the year to 30 June 2021, significantly increased from 1.7:1 for the prior year also due to the higher profitability.

Financial position

The Group's closing financial position is summarised:

	2021 £m	2020 £m
Loans and advances to customers	**4,011.9**	4,162.2
Cash	**228.6**	252.5
Fixed and other assets	**56.5**	39.8
Total assets	**4,297.0**	4,454.5
Borrowings	**3,304.0**	3,550.1
Other liabilities	**85.3**	76.4
Total liabilities	**3,389.3**	3,626.5
Total equity	**907.7**	828.0
Total equity and liabilities	**4,297.0**	4,454.5

Key performance indicators relating to the financial position[1] are:

	2021	2020
Gross loan book (£m)	**4,116.3**	4,281.0
Lending volume (£m)	**1,170.8**	1,688.3
Weighted-average LTV of originations (%)	**59.8**	57.7
Weighted-average indexed LTV of portfolio (%)	**52.1**	54.9
Net debt gearing (%)	**75.6**	78.6
Shareholder funds (£m)	**937.0**	856.4

[1] Refer to appendix for definitions and calculations.

Loan originations during the year of £1.2bn were approximately 30% lower than last year (2020: £1.7bn). This reflected the Group's reduced lending activity during the early stages of the pandemic as we remained cautious both regarding credit risk and to preserve liquidity and capital buffers against potential severe stress scenarios. In contrast, the first nine months to March 2020 had seen record originations for the Group. The Group's highly cash generative business model proved robust, with cash receipts of principal and interest remaining strong at £1.7bn for the year (2020: £1.6bn). Accordingly, gross loans outstanding fell back to £4.1bn from their peak of £4.3bn in the final quarter of the 2020 financial year.

The impairment coverage ratio for loans and advances has decreased to 2.5% (2020: 2.8%). This owes primarily to the impact of a one-off write-off of a population of stage 3 loans, totalling £11.6m, which were already fully impaired and so had no impact on the impairment charge. Substantially all of these accounts had entered a shortfall position prior to the current period, and largely relate to older accounts which had been repossessed a number of years previously. If this one-off write-off had not been made, impairment coverage would be equal to the level observed at June 2020.

The weighted-average LTV of loans written in the year remained prudently below 60%, at 59.8% (2020: 57.7%). Primarily due to the increase in house prices, the weighted-average indexed LTV of the loan portfolio fell to just 52.1% at 30 June 2021 (2020: 54.9%). Our 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.

In the face of market uncertainties accompanying the pandemic, the Group actively increased its liquidity to ensure its resilience against economic downside scenarios, aided by successful financing initiatives that have further strengthened its available funding. Cash balances at the year end were £228.6m (2020: £252.5m), of which £79.9m was unrestricted (2020: £112.9m). While a fall from the previous year end because of the resumption in lending activity, these balances still represented a substantial increase on pre-pandemic levels. Cash holdings are one component of liquidity available to the Group and levels of 'total accessible liquidity' are also monitored closely, which is discussed further in the Risk Management report.

Cash balances, in particular unrestricted amounts not ring fenced in securitisations, have been maintained at much higher levels over the course of the pandemic than was historically the case:

Equity increased to £907.7m at 30 June 2021 (2020: £828.0m) and total shareholder funds rose 9.4% to £937.0m (2020: £856.4m). The increase in equity primarily reflects the retained profit after tax for the year of £131.1m offset by dividends to the ultimate parent company of £52.7m (the latter including £32.8m to cash-service interest expense in an intermediate parent company). Given the equity increase and the reduction in loans and advances outstanding, the Group was able to reduce its drawn borrowings by £246.1m, to £3,304.0m at 30 June 2021 (2020: £3,550.1m). Net debt gearing therefore decreased to 75.6% at 30 June 2021 (2020: 78.6%). Nevertheless, the Group continued its programmes of raising new funding and refinancing its existing borrowings, including the new issuances of private and public securitisations, resulting in funding 'headroom' of undrawn facilities increasing over the year from £0.4bn at 30 June 2020 to £1.4bn at 30 June 2021. Details of the Group's funding are set out in the Operating Review.

Environment & Society report

Progress in environmental and social performance

Our Purpose is realising people's ambitions by making finance work.

Our Vision is to be the most valued lending company in the UK.

As a large local employer, we recognise our duty to society, our local community and the environment and, while we have a long tradition for supporting our local communities and charities, we accept that this is the beginning of a journey and we still have some work to do to further our environmental and societal contribution. Therefore, the Group has created a working group, led by the Group CEO Designate, and appointed an ESG consultancy to support the development of a formal ESG strategy in line with our purpose and vision for the future.

Environment

Highlights:

- Together is proud to have formed an association with an external company helping people to install energy efficient measures to their homes.
- We achieved a limited reduction in overall CO_2e emissions in 20/21, despite having to run our building ventilators at full capacity during the pandemic, by implementing a series of measures to reduce carbon emissions.

Performance:

For the 20/21 Streamlined Energy and Carbon Report (SECR) period, energy usage totalled 2,885,366 kWh compared with 2,876,793 kWh in 19/20. Overall emissions in 20/21 were 628.3 tonnes of CO_2e, compared with 642.9 tonnes of CO_2e in 19/20, a reduction of 2.27%.

The Energy Hub was commissioned to calculate greenhouse gas (GHG) emissions as required under the SECR regulations. Under this audit, calculations were made for the following scopes

- Building-related energy - natural gas (scope 1) and electricity (scope 2)
- Transport-related energy - company vehicles (scope 1)
- Transport-related energy - employee vehicles (scope 3)

In the period covered by the report, The Energy Hub concluded that we had reduced our overall emission by 14.6 tonnes of CO_2e. Due to the pandemic, full ventilation was required at our handling units which in turn increased emissions. This was offset by a number of our initiatives such as the use of LED lighting and replacement boilers.

In line with our mission to reduce carbon emissions, our Grass Roots sustainability programme seeks to raise awareness, measure the success of changes we've made and support future changes which will further reduce our carbon footprint, focusing on:

- Waste – we have a 'Zero to landfill' status and all waste is either reused, recycled, composted or burned to produce energy.
- Energy – new boilers at Lakeview have halved our gas consumption and we also installed more efficient lighting and controls, as well as four electric car charging points.
- Colleague engagement – 'keep cups' continue to be used, coffee and sugar sachets have been removed, milk cartons have been changed to milk Pergals and the cycle-to-work scheme is continuously promoted.

These actions have reduced property based annual energy consumption and therefore emissions.

Whenever we are investing in new office plant and equipment we always look to choose the most energy efficient models on the market, at a minimum A-rated equipment. We are also at the initial stages of looking at introducing cleaner sources of energy to the building.

For the year to June 2022 we are looking at a number of initiatives across our office buildings including:

- Replacement chillers;
- Replacement boilers in one of our office buildings, which are predicted to give us at least 12% carbon reduction;
- Solar panels;
- Water reduction;
- Car park lighting- LED lamps;
- Additional LED lamps in office environment;
- Improve EPC rating from C/D to B ratings.

GHG performance:

We support the UK's ambition to reduce greenhouse gas (GHG) emissions to net zero by 2050. We are committed to having net zero carbon operations by 2030 or earlier and to being a net carbon zero business by 2050 or earlier.

Energy performance results

Energy use by source	Units	20/21	19/20
Gas	kWh	993,294	735,186
Electricity	kWh	1,664,074	1,730,429
Transportation	kWh	227,998	411,178
Total		2,885,366	2,876,793

GHG emission results

Emissions by category	Units	20/21	19/20
Scope 1 – Combustion of gas and fuel for transport	tCO_2e	198	187
Scope 2 – Purchased electricity	tCO_2e	388	403.4
Scope 3 – Transport	tCO_2e	42.3	52.5
Total		628.3	642.9

Intensity ratio

	20/21	19/20
Total emissions T/CO_2e employee	1.1	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.

Ambitions

While the Group operates in the financial services sector, which is generally considered to have relatively limited environmental impact, we recognise the importance of protecting the environment, and act to reduce its impact, by recycling and reducing energy consumption.

Social housing

We are committed to supporting our customers in their ambitions to reduce their impact on our environment and to achieve the UK's legally binding targets on carbon emissions.

This year, we formed an association with an external company helping people to install energy efficient measures to their homes. This association will allow us to refer our existing and new customers who are looking to reduce their carbon emission and energy bills to a specialist company who will complete property surveys, provide advice, educate the customer on available grant funding to support their ambitions and install the agreed measures.

Commitments

- At Together, we are committed to achieving net zero carbon emissions for our own operations by 2030 or earlier, with a business target (including lending impact) of net zero by 2050 or earlier;
- We aim to reduce our total energy consumption by 50% by 2030;
- We also commit to switching all energy suppliers to green tariffs or sustainable energy sources by 2025;
- All cars in the Together fleet will be electric or hybrid by 2025.

Our role in society

Highlights

- We have established a new Diversity & Inclusion advisory committee, championed by Liz Blythe, non-executive director of the Personal Finance Division;
- To support our colleagues during the pandemic, we put in place a number of initiatives to ensure their health and wellbeing and provided a dedicated suite of tools and resources to support colleagues' continued learning, development and wellbeing during their time working from home and returning to the office;
- During the pandemic, we have supported over 7,900 customers with Covid-related payment deferrals and other forbearance, including extending support to our non-regulated customers;
- Supporting our local community continues to be important to the business and together we have raised over £130,000 for charity during the year;
- We provided funding of approximately £24m into the social housing sector either directly through registered providers or indirectly through leases into Charities & Community Interest Companies, enabling them to deliver 120 Affordable Rentals, Shared Ownership and Social Rent properties across the UK;
- We have committed to signing the Women in Finance Charter and we are developing targets to measure our progress in this area.

Supporting our colleagues

At Together, we recognise that our colleagues are a key strength of our business and our achievements derive from their skills and knowledge as well as from their behaviours and attitudes. This year more than ever we are proud of our colleagues and their continued extraordinary efforts to support our customers and our business during these unprecedented times.

Colleagues' wellbeing

Wellbeing is a continuing focus for the business, and the Group's Wellbeing Roadmap sets out monthly initiatives to focus on colleague wellbeing throughout the year including mental health awareness activities and events. In March, colleagues were appointed as Wellbeing Champions following a series of internal interviews. The Wellbeing Champions underwent a programme of learning and development with accredited Mental Health First Aid training, to ensure that they had the appropriate skills and experience to act as a point of contact for colleagues experiencing mental health issues or emotional distress.

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, our people team supported colleagues through these challenging times. This included creating a dedicated wellbeing area on our intranet with resources to support mental, physical and financial wellbeing, and a regular series of colleague blogs.

Environment & Society report continued

Colleagues' wellbeing continued

We have a range of initiatives in place to promote the health and wellbeing of our colleagues 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.

Learning and Development

We actively drive a learning culture across the business with the purpose of helping our colleagues develop and grow and to create a climate for high performance, to lay the foundations for creating better outcomes for customers, and to support future growth.

Together believes in creating opportunities and has an extensive, interactive learning and development programme in place offered to permanent and temporary colleagues encompassing e-learning, in-house and external training (including accredited courses) and ad-hoc training days, courses and seminars. 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. In addition, 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. They have the opportunity to do this through a variety of forums including departmental roadshows, huddles and blogs.

During the 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.

Diversity and Inclusion

We recognise the well-established benefits to all stakeholders of having a diverse workforce and sustaining an inclusive working environment. We are committed to promoting the business so as to attract a diverse range of talented individuals who can join our team and achieve their potential. We also committed to increasing the representation of women and of Black, Asian or Minority Ethnic colleagues in senior management positions to better reflect our workforce, customer population and community we work within. As part of development of a formal ESG strategy we intend to set clear targets in order to measure these commitments and publish our progress towards them.

Diversity & Inclusion ('D&I') committee

This year, we set up a new Diversity and Inclusion Advisory Committee, championed by Liz Blythe, non-executive director of the Personal Finance Division. The Committee was established as an advisory body to provide views and advice on issues of diversity and inclusion to the Board and Executive management on behalf of all colleagues. Its membership is made up of colleagues from across the business who represent diversity of race, ethnicity, gender, age, ability and sexual orientation.

To help celebrate differences, remove barriers and fulfil colleagues' potential, we also have a number of networking groups under the 'Togetherness' umbrella:

- *Women@Together* – our network to support and develop female talent within Together, raising awareness of career progression barriers for female colleagues and working with the Executive to overcome these;
- *Kaleidescope@Together* – our network to promote diversity and inclusion across Together;
- *YoungProfessionals@Together* – 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* – our network to raise mental health awareness and promote wellbeing.

We always fully consider applications for employment by disabled persons, 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 appropriate training or arrangements is provided to help them to continue their employment with the Group. 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.

We are introducing some additional measures to improve D&I, including, in parts of our business, trialling anonymising CV's to prevent unconscious bias as well as enrolling hiring

manager on unconscious bias training. We are monitoring and utilising data to assess the overall impact of these initiatives on D&I and will be adapting measures as necessary. We are also reviewing the current forums starting with the Personal Finance Division, including the Executive Committee and the diversity within the current attendee group to ensure that we have diversity of thought in our team

As disclosed in our Gender Pay Gap Report (which is published on our Corporate website), the current percentage of women at Together is 48% of the workforce, with 30% in senior leadership positions (Source: Gender Pay Gap Report 2020: Together). Whilst this is similar to the figures that are reported in the financial services sector we recognise that this is not an acceptable position and we are committed to reducing this gap through actions such as:

- Developing and implementing a gender pay gap action plan;
- Addressing the balance with paternity leave as generous as our maternity leave to encourage new parents sharing childcare responsibilities;
- Adopting a flexible working approach, incuding part-time, and opportunities to remove the barriers to balancing work and home commitments.

Together is committed to growing and developing talent to ensure that everyone, regardless of gender, has the opportunity to thrive. In line with our commitment to improve gender balance at all levels across the business, as highlighted above, we've recently signed up to the Women in Finance Charter.

Recognition and reward

We believe that 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 which enables 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 lockdown was focussed on celebrating the outstanding contributions of 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. In March, we introduced a 'Fortnight for Thanks' which focused on peer-to-peer recognition, with a new eCard system 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. During 2020, we revised our usual engagement surveys to run short monthly wellbeing surveys to ensure that the wellbeing of colleagues was being monitored on a regular basis. These wellbeing surveys have continued on a quarterly basis and our response rate is consistently high; responses are internally benchmarked and tracked and used to inform discussions by the Board and Executive management alongside plans to address any actions arising from colleague feedback.

In 2020, a Colleague Representative Forum was formed with elected colleague representatives from across the business to support the colleague consultation approach. This Forum was maintained after the completion of the consultation as it provided a valuable communication tool for colleagues to discuss and ask questions about a wide range of topics with Executive management and the People team and as a valuable consultation group on matters affecting colleagues.

We have a formal Whistleblowing policy and more details can be found in the Corporate governance and committee structure section of this report.

Protecting our colleagues during Covid-19

Since the start of the pandemic, we have focused on protecting our colleagues, with almost all colleagues enabled to work from home within a very short period of the first UK lockdown commencing. Extensive efforts were also invested into making the office a safe environment for colleagues when they were able to return to the office, including the repurposing of space to ensure that social distancing could be maintained, enhanced cleaning activity, and the introduction of an automatic temperature scanner on entry. These changes were supported by ongoing monitoring and management, with the introduction of a dedicated email address for colleagues to raise concerns related to the office environment. These measures have enabled us to easily flex working arrangements during subsequent lockdowns, including supporting those colleagues who wished to return to the office for wellbeing purposes.

In 2021, as colleagues began to return to the office as lockdown restrictions were eased, colleagues were actively engaged through engagement surveys and one to one conversations with managers in order to understand their individual circumstances and prior to the wider availability of Covid-19 testing, weekly testing was available to colleagues.

The safety of colleagues continues to be a priority for the business and the office environment continues to be adapted to ensure colleagues are safe and feel confident to work onsite.

Supporting our customers

As one of the UK's leading specialist lenders, Together provides finance to a wide range of underserved customers who may struggle to obtain financing to realise their ambitions from high street lenders. As a financially inclusive lender, we help a wide range of customers including those with complex or multiple incomes, self-employed, later life borrowers, those with thin or impaired credit and those seeking to purchase a property that may be non-standard or who are in a complex purchasing situation.

Environment & Society report continued

Supporting our customers continued

Our experienced underwriters are also able to help customers that need funds quickly to realise opportunities or solve problems, including underserved SMEs and businesses across the UK.

We take the time to understand our customer's individual circumstances to ensure that we are able to recognise their requirements. 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 to around 7,900 customers (c23% of our customers by value) as well as other Covid-related forbearance, such as converting to interest only mortgages for a period of time.
While the Government and FCA guidance applied specifically to residential owner occupier and BTL mortgages, we also extended this support to customers that were not covered by the government guidance as we felt it was the right thing to do. In addition to Covid-related mortgage-payment deferrals, where customers are experiencing financial difficulties, we offer a range of forbearance options, including:

- Informal payment plan setting;
- Reduced payment plans;
- Interest rate amendments/deferrals/freezes;
- Term extensions;
- Variation of contracts;
- Capitalisation of payment shortfalls;
- Assisted sales; and
- Balance adjustments and reduction in redemption figures.

Supporting vulnerable customers

Vulnerable customers can be identified pre funding or once funded. Policies and training, including role specific and whole organisation, are in place, to identify signs of vulnerability, including regular and refresher training. All our customer facing colleagues can offer the customer the option to deal with them directly. We also have a dedicated specialist team who are trained to deal with more complex situations and with vulnerable customers who may be facing physical, mental or emotional challenges.

Where appropriate we may refer the customer to external parties to seek additional help such as a solicitor at the underwriting stage or non-profit debt help charities, where the customer is in a period of financial or other distress, such as mental wellbeing. Following recent enhancements to the FCA Vulnerability Guidance we have worked with industry experts to review our vulnerable customer policies and procedures.

We continued to support customers as their mortgage-payment deferrals ended and proactively contacted customers to ensure that they received appropriate support.

More information around the processes implemented to support customers through the Covid-19 pandemic can be found within the Operating Review.

Product suitability

Product suitability is considered in any product release using our existing product reference points and performance experience or external reference points. In addition for new and existing products, suitability is monitored and established using a combination of product performance against expectations (including arrears, redemption rates and loan term indicators) and external market data, level of complaints and other customer feedback such as net promotor scores and or customer reviews. All product changes are subject to divisional Board review as per our Product Governance Framework. Significant service changes are also presented to Boards for approval.

Communicating with our customers

We offer multiple communication methods for our customers to interact with us using their preferred method. Our diverse team take the time to engage on a personal level without prejudice and in a sensitive and professional manner. We have a number of colleagues who can interact with customers in multiple languages and our team are all trained to handle complex customer situations and vulnerabilities fairly and with empathy.

Listening to our customers

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

We invite our customers to leave reviews for us on Feefo, TrustPilot and Google Reviews. At the end of June, our average ranking was over 4 stars on Feefo and TrustPilot and 3.9 on Google.

Within the specialist lending sector, we are the only lender to actively invite customers to leave reviews on whichever review platform they choose. In February we won the Feefo Platinum Trusted Service 2021 award, which recognises businesses for consistently delivering exceptional experiences as rated by our customers. These achievements show our hard work and dedication to customer service, which has been particularly important during a year which has been a difficult time for many of our customers.

Alongside this, customer and broker feedback is collated via net promoter scores and voice of customer scores are regularly reported to the Board by the Commercial and Personal Finance CEOs with trend data and accompanying commentary.

We take time to understand our customer's individual circumstances to ensure that we are able to recognise their requirements, this was even more important during the changing landscape of the pandemic. To support customers, we offered part and full mortgage-payment deferrals in line with government guidance, along with other forbearance measures where appropriate to do so.

We take customer complaints very seriously and our 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 improvements 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. This year, in our Personal Finance division we saw a significant reduction in complaints which has been particularly pleasing as we significantly increased customer engagement in the same period due to providing support during the pandemic.

Supporting our communities

We launched our 'Let's Make it Count' programme in 2016 which provided our colleagues with a framework to make a difference in the local community, and have since been awarded for 'Winner Excellence in CSR' at the 2017 Stockport Business Awards, as well as the 2018 Sunday Times 100 Best Companies to work for special award for 'Giving Something Back'. The programme is embedded throughout the business within six pillars and each pillar is sponsored by a member of our Executive Management Committee:

- *Let's Get Giving* is our charity fundraising pillar. Over £130,000 was raised for charity during the year through Let's Get Giving. Due to practicalities around group fundraising due to Covid-19, we have extended our support to our two charities of choice into 2021 including inviting colleagues to nominate themselves to complete the Great Manchester Run in September 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 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. In addition, the team have taken part in a number of virtual charity activities including a virtual bake off and design a superhero for Red Nose Day raising over £1,000 as well as an Easter Hamper Raffle. Together was also a key sponsor to a charity walk from London to Manchester in favour of The Christie hospital and Cancer Research UK.
- *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. While our usual face-to-face initiatives with local colleges and schools have not been possible during the Covid-19 pandemic, colleagues have 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. Due to the pandemic, there has been limited activity this year, however our colleagues look forward to hosting future competitions with local schools.
- *Let's Get Green* is our environmental sustainability programe. We are committed to having a positive impact where we can and continue our focus on reducing waste and unnecessary printing. Other Let's Get Green initiatives include our plans to give away 100 trees to local schools, charities, nursing homes and hospices to help create the Together Forest across the region.We're also currently in the planning stages of planting a wild flower garden to support an apiary on the grounds of the offices.
- *Let's Get Creative* is our pillar focused on inspiring artistic expression in young imaginations. In celebration of World Art Day on the 15th April, we held a competition looking for young artists to design a picture to add to our digital colouring book. Young artists across our local schools, Manchester Youth Zone and including colleagues' children took part with all the designs added to a digital colouring book for all entrants, just in time for the summer holidays. The individual winner received an artist's set and Manchester Youth Zone received £250 of art equipment for their entries.
- *Let's Get Caring* is our local community outreach programme. This year, in lieu of our annual pensioners Christmas lunch, we delivered 60 hampers to local pensioners with Christmas treats to treat those who may be lonely during the festive period.

Commitments

- We are committed to increasing our lending commitments to the Social Housing sector, and aim to enable affordable housing providers to deliver a minimum of 1000 affordable properties by 2025;
- We are committed to signing up to the Sustainability Reporting Standard for Social Housing, and using that Standard to develop further products and policies to support our ambition to increase our commitment to this sector, by 2025; and
- We are committed to creating a working environment where colleagues use their allocated 2 days paid leave a year for charitable and community purposes.

Tax Strategy

We are aware that the taxes we pay are part of our contribution to society and, therefore, take our tax compliance obligations seriously. In the year ended 30 June 2021, we paid £17.4m of corporation tax. We aim for our tax affairs to be transparent and to adhere to all relevant tax laws and regulations and do not pursue aggressive interpretations of tax laws. The Group are committed to having an open and transparent relationship with HMRC and we respond to their queries in a timely and appropriate manner.

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 demonstrate how our business performance can make a difference.

Our Stakeholder engagement report sets out how we engage with our stakeholders and, where relevant, how we changed our approach to supporting our stakeholders during the Covid-19 pandemic and beyond, with further information provided in our Environment & Society Report.

Colleagues

The Strategic report introduces our revised Group Purpose as well as our supporting Vision and Beliefs. We recognise the importance of our colleagues to our ongoing success and in delivering positive customer outcomes, which is why we held colleague workshops on the Purpose and Vision in order to gather colleague views on early proposals. These workshops focussed on parts of the Purpose which related to customer impact, how the Purpose would be received by our local community, and finally, how colleagues would identify with the Purpose from their own perspective and that of their peer group. The views of colleagues provided valuable input and helped to shape our final Purpose and Vision statements.

Throughout the pandemic we have focused on protecting our colleagues and on supporting their wellbeing. We have also continued to listen to feedback from our colleagues, with regular surveys and communications. More details of our support for colleagues can be found in our Environment & Society Report.

Our Accountability Charter continues to bring together the principles of the Senior Managers & Certification Regime and our Play your Part Beliefs.

To further embed the principles of good conduct, this year we amended our performance management process for all colleagues to enhance the focus on the 'how' as well as the 'what'. This strengthened focus on behaviours and accountability. To support this, people managers received training on how to ensure that colleagues display the appropriate behaviours in the achievement of their objectives. Colleagues continue to receive training on both the Regime and the Accountability Charter on an annual basis via an online learning module.

Our Diversity

This year we established a Diversity and Inclusion Advisory Committee.

The Committee aims to support senior leadership in ensuring alignment between the Group's operations and strategic aims, and its diversity and inclusion goals. More information on our diversity and inclusion strategy can be found in the Environment & Society Report.

Customers

Our mission is to use our experience, skills, entrepreneurialism and culture to make finance work to help people realise their ambitions and it is at the heart of everything we do. We remain committed to delivering excellent service to our customers and we monitor customer feedback to understand both what we do well and how we can improve.

Modernisation and automation

We continue to execute a process of modernisation and automation to take advantage of technology to help further improve our customers and broker journey in terms of consistency, efficiency and speed. As part of this process, we are integrating new technologies through incremental change, allowing us to introduce additional IT solutions as technology advances and our customers' needs evolve. Throughout this process, we are continually learning from our customers and take regular customer feedback at key touchpoints throughout the loan lifecycle. More information on how we're transforming and modernising our platform can be found in the Operating Review.

Customer Feedback

Our customer-facing colleagues are focused on delivering positive outcomes. To support this, we actively seek feedback both from our customers and intermediaries and we take complaints very seriously. For more information see our Environment & Society Report.

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. Our Board and management team are committed to ensuring that this is effective through the right culture, clear and aligned goals, and people with the right skills and experience.

We have provided the FCA with information relating to a range of matters and we will continue to work closely with the FCA sharing knowledge and insight of the specialist lending sector.

During the year, we have continued to monitor the regulatory landscape and have attended a number of conferences and forums led by the FCA, and trade associations such as the Finance & Leasing Association and UK Finance. These events have covered a wide range of topics such as Covid-19 mortgage-payment deferrals, FCA vulnerability guidance, mortgage prisoners, Breathing Space, the HMT scheme for support for borrowers with problem debt and those in mental health crisis treatment. We also participated in a number of forums held by trade associations set up to help members translate the regulatory requirements issued to firms in response to coronavirus and to facilitate a consistent approach to good customer outcomes throughout the industry. Actively engaging in such forums enables us to participate in industry discussions on regulatory matters and to contribute to industry feedback on current issues.

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 in line with the 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 2019, we identified instances where some of our past written communications to customers should have been clearer and more complete regarding customer balances not expected to be repaid by their contractual maturity date, and instances where we had found that we may have improved the outcomes for certain customers in arrears if different forbearance tools had been applied. We have taken proactive steps to resolve these matters which have included the payment of remediation to customers where detriment has been identified.

In respect of such findings, we have now completed the remediation for all live customer accounts and have processed remediation for redeemed customers where we have validated contact and payment details. We'll continue to contact the remaining customers and will process these payments at the earliest opportunity. The improvements we've made have also been embedded into our customer operations processes. Disclosures in respect of this, can be found in Note 19 to the Financial statements.

Community

This year, we have published an Environment & Society report for the first time. This report includes information on the charity work we undertake and how we support our local community.

Intermediaries

Maintaining good relationships with our partners provides us with confidence that we will be able to satisfy our lending appetite going forward. The intermediaries we work with, which include mortgage packagers and brokers, are central to ensuring our products are available to a wide range of potential customers.

The Operating Review explains how we resumed lending following the outbreak of the pandemic. Throughout this time, we fostered strong engagement by working closely with our intermediary partners and packagers to ensure that they were kept informed of our progress.

We continue to develop and streamline our application processes to improve the customer journey for both direct and intermediary customers. This has included the removal of hard copy documents within the application process and the introduction of electronic filing, which has ensured a smoother customer journey and a reduced time to fund through increasing the amount of information captured digitally both internally and by our intermediaries. More information on the automation achieved within our investment programme can be found in the Operating Review.

We will continue to seek to identify evolving market trends and emerging market segments where we believe we are well placed to help underserved customers and build successful market positions. By listening to the feedback that our customers and mortgage intermediaries provide, we will continue to enhance our propositions, differentiate our loan offerings and seek to provide excellent service to our customers.

Investors and banks

Our funding is provided by UK and international banks and other financial institutions who invest in our senior secured notes (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. We consider these relationships to be central to the continued success of our business.

Our investor communications are designed to be 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 our bond investors, live investor conference calls with Q&A, monthly reporting to investors in our public securitisations, and regular attendance at investor conferences. We hosted virtual site visits for investors during the year which provided opportunities to meet management and we carry out regular due diligence activities with banking facility providers and maintain ongoing dialogue with our rating agencies, including annual rating agency visits.

Stakeholder engagement report continued

Investors and banks continued

During the year, we concluded the refinancing of our revolving credit facility alongside further issuances under both the senior secured notes programme and public securitisation programme. These activities involved close collaboration with banking partners and investors around the financing needs of the business.

We welcome feedback received from our banks, investors and from debt and equity analysts to help us to further improve our communications.

Suppliers

Suppliers 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.

We carefully consider our material supplier contracts to ensure contractual commitments are clear and that obligations around sensitive information such as customer data comply with relevant regulations. In addition, we ensure that any new supplier's appointment is consistent with our Modern Slavery Statement which 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 provides a long term stable form of capital which supports making decisions to create long term value. More information can be found in the Financial Review.

Section 172 statement

Section 172 of the Companies Act 2006 defines the legal requirement for a director to act both individually and collectively, in a way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole with regards to all of its stakeholders. The table below provides some examples of how the Board has complied with section 172 during the year.

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 recognises the importance of understanding the effect that decision making can have on our stakeholders. During the year, the Board approved a new Purpose and Vision for the Group; the Purpose not only captures the ambitions of Together, but also how Together can support its key stakeholders in achieving their ambitions. The successful achievement of our future ambitions relies on continued consideration of our stakeholders' needs and reporting against our objectives will regularly be provided to the Board to track progress. Information on our Purpose and Vision can be found in the Strategic Report. • During the year, the Board considered and approved the mobilisation of projects to update IT infrastructure which included, the introduction of new software to ensure that core systems will provide a sound foundation for growth of the business over the long term. In March, the Board approved the entering into of Together's debut offering of Commercial Term Loans into the public securitisation market. The offering provided additional diversification of the Group's funding platform, further strengthening of liquidity and crystallising capital efficiencies. Whilst acknowledging the execution risks associated with the offering, which was the first small balance commercial real estate transaction in the UK since 2008, the Board recognised its benefits which included enhancing the efficiency and pricing of our funding supporting our Commercial Term Product, whilst moving the assets into a covenant-lite non –recourse structure. • Since the introduction of the Senior PIK Toggle Notes at Bracken Midco1 plc, an intermediate holding company of TFSL, the Company has regularly declared dividends to support the servicing of these notes. This year, the Board approved a Dividend Policy which reflects the anticipated ongoing payments in respect of the PIK Toggle Notes alongside providing additional payment of dividends to its shareholder within set parameters. The Policy includes a cap as to the amount of this dividend in any given period and sets out the various considerations which must be made in declaring such a dividend, including legal and regulatory requirements where appropriate, the terms of our funding arrangements, our internal risk metrics, and our projected liquidity and capital requirements. The Board decision reflected that the parameters included within the Policy do not adversely impact the long-term financial success of the Group. Authority for the payment of dividends has been delegated to a Dividend Committee, comprising the Board's three Non-Executive Directors. Information on dividends paid during the year can be found in Note 24 to the Financial Statements. • As a demonstration of the Board's commitment to foster a diverse and inclusive workplace, the Board has endorsed the Group's application to sign up to the Women in Finance Charter. More information on this can be found in the Environment & Society Report.

Section 172 statement continued

Section 172 requirement to have regard to:	How the Board has fulfilled its s.172 duties
b. the interests of the company's employees	• The Board recognises the benefits of colleagues being able to interact and collaborate, which has been a key part of the Group's success for many years. Following the lifting of the initial government lockdown restrictions, the Board approved a programme of work to enable colleagues to begin returning to the office safely. The Board delegated the implementation of the programme to the Executive Committee and an agenda item was added to the Board meetings to specifically update the Board on this activity and feedback from colleagues. The Board also supported the recommendation from senior management that provided the office remained Covid-19 secure, it should remain available to those colleagues whose wellbeing benefitted from being in the office for any potential future lockdowns. Oversight of colleague health and safety has been delegated to the Risk Committee and regular incident reporting is provided alongside Covid-19 specific reporting. • At the beginning of the year the vast majority of colleagues were employed by Blemain Finance Limited, a subsidiary of Together Financial Services Limited, and therefore the legal responsibility for colleague welfare lay with the subsidiary Board. To simplify the structure, in March the Boards of both Together Financial Services Limited and Blemain Finance Limited provided joint approval for the TUPE transfer of colleagues to Together Financial Services Limited. The Boards approved the recommendation from senior management that the timing of the transfer coincided with the commencement of the tax year, to mitigate the risk of any adverse tax implications for colleagues. The Boards were provided with assurance that colleagues would not be adversely affected by the transfer and also balanced the administrative and operational cost of the exercise against the clarity and consistency that having TFSL as the employer for all colleagues would provide.
c. the need to foster the company's business relationships with suppliers, customers and others	• Maintaining positive business relationships is crucial to the Group's long-term sustainability and is regularly reported to the Board to inform decision making. • This year, we launched a new Third Party Management Policy for the Group. The Policy sets out the standards all colleagues must follow when contracting with, or outsourcing services to a third party to encourage consistent treatment of suppliers across the business. The development of the Policy was one of the actions arising from an internal audit of third party supplier management, the actions from which were tracked to completion by the Audit Committee. To accompany the policy, those colleagues who manage a third party relationship were required to complete a mandatory e-learning module to ensure full understanding of the policy and its requirements and maintain a register and risk assessment for each supplier; which built upon good practice that already existed in some areas of the business. • Doing the right thing for our customers is a key focus for the business and we encourage customers to provide feedback to inform our processes. Information on how we engage with our customers, can be found in our Stakeholder engagement report. The Board receives regular updates from the divisional CEOs on customer activity and customer engagement strategies. During the Covid-19 pandemic, updates focussed on mortgage-payment deferral activity, this included reporting on the deployment of targeted contact strategies, specific to customer circumstances, to ensure customers were receiving appropriate support as their deferral came to an end. • This year, both the Personal and Commercial Finance divisions have appointed new Chief Operating Officers who bring a wealth of experience of customer operations to the business; both COOs are working closely with the Group's transformation and modernisation programme to understand how the use of technologies can enhance the customer experience and ensure that we meet increasing customer expectations for a more automated experience. Oversight on progress is provided by the respective Boards who ensure that the operations functions have sufficient resource and skills to continue to provide the best support to our customers whilst utilising efficiencies gained from automation of processes where appropriate. • 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.
d. the impact of the company's operations on the community and the environment	• This year, for the first time, the Board approved the inclusion of an Environment & Society report in the Annual Report and Accounts. The report recognises the Group's activities during the year to positively impact our communities and the environment. Together colleagues continue to proactively support charitable causes and consideration of how best we can continue to undertake this activity has been central to the development of the Group's new Purpose.

Section 172 requirement to have regard to:	How the Board has fulfilled its s.172 duties
e. the desirability of the company maintaining a reputation for high standards of business conduct	• The Board has approved the voluntary adoption of the Wates Principles for Large Private Companies as a demonstration of its commitment to high standards of corporate governance. Information on how the Group has applied the Wates Principles can be found in our Corporate governance statement. • During the year, Group Internal Audit undertook an audit of Group Corporate Governance. The findings of the audit were reviewed by the Company Secretary and the Chair and reported to the Board. Management actions arising from the recommendations in the report included enhancements of the internal control environment for board processes, a review of the board and committee management information and a formal review of the committee structure to identify any efficiency improvements. The completion of recommended actions will enhance the standard of the Group's corporate governance and ensure continued alignment with external stakeholder expectations of appropriate governance arrangements for a large private company. • The Board and its committees approve policies and procedures that facilitate high standards of governance and compliance in line with stakeholder 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 consistently 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. This year, the Company Secretary undertook a review of the Group's corporate governance arrangements. More information on this review can be found in the Corporate Governance Statement.

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

G Grimes
Director

14 September 2021

Corporate governance

Contents

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.

The Board provides strong leadership within a framework of prudent and effective controls. The Board is responsible for setting risk appetite, and for overseeing the delivery of the Group's objectives within that risk appetite.

The Board meets a minimum of six times during the year. Board meetings are an important forum for directors to discharge their duties under s.172 of the Companies Act 2006. The following section provides an overview of the activities of the Board and committees during the year.

The Board continues to voluntarily adopt the Wates Principles for Large Private Companies.

Information on how the Wates Principles have been applied 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 Chair*	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

Mike McTighe
Non-Executive Director and Chair

Mike was appointed Chair 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 more than 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 also 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 over 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 has overseen the success of the Company for more than 47 years.

He has taken the lead in the recruitment of an experienced Executive team to support him with the operational management of the business, including the appointment of Gerald Grimes as CEO Designate, to work with him on the strategic direction of the business.

As Together's founder, 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 2020.

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.

As Chief Executive Officer of the Personal Finance division, Pete oversees the Group's regulated lending activity and is accountable for the application of the Senior Managers and Certification Regime for the Group's regulated entities.

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 since March 2016, Marc oversees all aspects of the commercial business model and lending activity 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 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 20 years' experience in the financial services sector with companies such as HSBC, first direct and M&S Bank.

Corporate governance and committee structure continued

The Board

The Board approves the Group's Vision and Purpose and promotes the cultural tone from the top. The Board is collectively responsible for the success of the Group and demonstrates strong and entrepreneurial leadership through an effective Board and committee structure.

The Board discharges some of its responsibilities directly and delegates other matters to its committees and to senior management as appropriate. The powers delegated to each committee are set out in their terms of reference and are reviewed on an annual basis.

Board agendas are agreed in advance by the relevant Chair, CEO and the Company Secretary and are structured around the Group's objectives to enable the Board to discuss and challenge the Group's performance against its strategic aims. The Group CRO is a standing attendee at Board meetings to provide second line oversight.

The chairs of the committees formally report to the Board after each meeting on key issues and topics raised at those meetings, as well as any recommendations for the Board's approval, ensuring that the Board as a whole is updated on the matters for which it delegates authority. 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 Commercial Finance division is comprised of companies which conduct unregulated lending. This year, following a review of the division's governance arrangements an operational management board was established to oversee the operations of the Commercial Finance division. The Board is supported by the CF Executive Committee and the Commercial CEO formally reports on its activities to the Group Board after each meeting. Oversight of the division's strategy, risk profile and financial position is provided by the Group Board.

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 corporate governance arrangements in place with a Board committee structure which operates independently from the Group and provides oversight of regulatory compliance, including the oversight of compliance with the Senior Managers and Certification Regime (SM&CR).

The Personal Finance Board is comprised of three independent non-executive directors, one shareholder nominated non-executive director, and two executive directors; the PF CEO and PF Finance Director. The PF CEO and shareholder nominated director both sit on the Group Board and the PF CEO reports to the Board on the activities of the division at each meeting. More information on the independent governance of the PF division can be found in the Together Personal Finance Limited Annual Report and Accounts.

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;
- Approval of the Group's Purpose and Vision and discussion of the Group's ESG credentials and future requirements;
- 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 Group's strategic aims;
- Oversight of colleague wellbeing and health and safety;
- 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;
- Ongoing review of the appropriateness of the organisational and governance structures to support the Group's activities;
- Regular updates from the Executive Directors on performance against objectives and review of financial performance against targets;
- Changes in the legal and regulatory landscape;
- The programme of change activity and prioritisation of key strategic and regulatory projects including oversight of the Group's modernisation and transformation programme;
- Approval of the Group's risk appetite and risk management framework;
- Approval of the Group annual budgets and review of interim reforecasts;
- 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; and
- Approval of the Group Annual Report and Accounts.

Further details on the activities of the Board and committees during the year can be found in the Corporate Governance Statement.

Corporate governance and committee structure continued

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 proper control systems are 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 Operational, Conduct, and Compliance Risk Committee.

During the year, the Committee reviewed the Group's enterprise risk management framework and approved a revised review cycle for each of the Group's ERMF policies to improve the efficiency of the end-to-end review process. The Committee also approved the implementation of an annual policy attestation process requiring policy owners to provide assurance that policies remained up to date.

The Committee continued to monitor how the Covid-19 pandemic has impacted upon the macro environment and assess the impact of external factors upon the Group's exposure to certain risk types. In July 2020, the Committee approved a number of temporary changes to the Group's internal risk metrics to ensure they reflected the impact of Covid-19 upon the Group's risk profile in the short-term and that appropriate action to mitigate risk was taken where necessary. These have continued to be monitored by the Committee throughout the course of the year. Additional Covid-19 reporting has also been developed, allowing the Committee to monitor the Group's management of people risk in response to the Covid-19 pandemic.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee operates under delegated authority from the Board on matters of remuneration, recruitment of directors and senior management and succession planning. It is also responsible for assessing the balance of skills, experience and knowledge of the Board to ensure that it remains appropriate. The Committee has responsibility for deciding the Pay and Reward Policy for the Executive Directors and the senior management and for setting their individual remuneration it is also responsible for approving remuneration budgets and all colleague incentive schemes.

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

During the year, the Committee discussed the importance of diversity and inclusion and approved the approach to developing a new diversity and inclusion strategy for the Group. More information on our diversity and inclusion strategy can be found in the Environment & Society Report. The Committee recognises the importance of having sound succession plans in place and during the year, had oversight of activities in respect of succession planning for senior positions, business critical roles, and subject matter experts.

In March, the Committee approved changes to the approach to pay and reward to ensure it remained appropriate for the Group. More information on this can be found in the Corporate Governance Statement.

Disclosure Committee

The Disclosure Committee operates under delegated authority from the Board 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. 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.

During the year, the Committee approved a number of external announcements including in relation to funding transactions, changes to Board membership, and financial results.

Dividend Committee

During the year, the Board established and delegated authority to a Dividend Committee to consider, and if thought fit, approve the payment of dividends and recommend to the Board the payment of final dividends taking into account the financial position of the Company and the Group as well as other relevant matters.

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.

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.

In February, the Committee discussed the outcome of an Auditor effectiveness assessment which had been undertaken following Ernst & Young LLP's first full year as external auditor. The exercise took into consideration feedback from individual committee members and key management on what had gone well during the first audit, and where improvements and efficiencies could be identified. The output of the exercise was a set of actions agreed with Ernst & Young LLP to be implemented for the 2021 year end audit. During the year, the 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.

During the year, the Committee has also continued to consider the impact of the Covid-19 pandemic and the associated effect upon the Group's financial reporting. This has included continued specific consideration of the impact on the economic outlook and the Group's judgements, assumptions and disclosures relating to expected credit losses, and the impact of mortgage-payment holiday deferrals; the Group's going concern assessment and the quality and detail of the associated disclosures; and describing the actions taken by the Group to adapt to new ways of working and to control costs.

Corporate governance statement

For the year ended 30 June 2021, Together Financial Services Limited ("the Company") voluntarily adopted 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.

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.

Corporate governance and committee structure continued

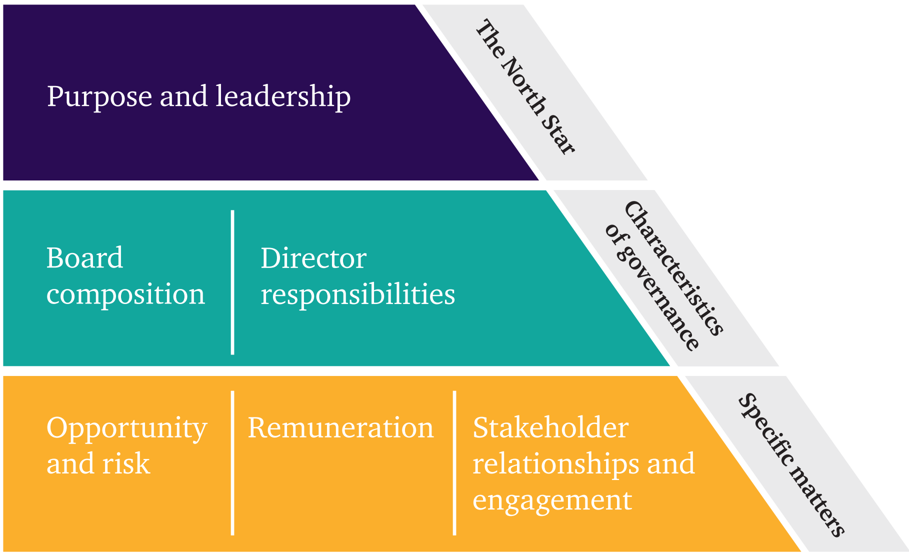
Principle	How the principle has been applied during the year
Principle 1 – purpose and leadership An effective board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.	• The Board sets the Group's objectives, taking into account key stakeholders and ensures that the necessary experience, skills and resources are in place to help our customers, partners, colleagues, community, and our wider society realise their ambitions by making finance work. More information on the Group's strategy can be found in the Strategic Review. • In June, the Board approved the revised Purpose and Vision for the Group. The work builds on the Group's existing success and will support the achievement of the Group's future ambitions both for Together and for its stakeholders. More information on the revised Purpose can be found in the Strategic Review. • This year, the performance management process was enhanced to include a requirement for colleague objectives to be linked to the Group's objectives to create a clear golden thread of alignment between colleague performance and individual contribution to the achievement of the Group's strategic aims. • The Board recognises the importance of having a diverse and inclusive culture at Together and the part it plays in helping the Group to achieve its future ambitions. During the year, the Remuneration & Nomination Committee endorsed the revised approach to developing a new diversity and inclusion strategy for the Group. More information on this can be found in the Environment & Society Report.
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 not exercised by the same individual. • 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. In January, the Remuneration and Nomination Committee discussed the Board's composition and independence and agreed that it remained appropriate for the Group. The Committee committed to formally reviewing the Board's composition on an annual basis to ensure that it continues to have the appropriate skills and experience to support the Group in achieving its future strategic objectives. • The approval of directors taking external appointments is a matter reserved for the Remuneration and 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. • In August, the Remuneration and Nomination Committee approved the appointment of Chris Adams as Interim Group Finance Director to replace John Lowe who stepped down from the Board in September. Chris was previously Group Financial Controller and Group Head of Financial Reporting and brings to the role strong accounting and financial services experience and understanding of the Group's financial function, financial risk management and the Group's governance arrangements. Chris is a standing attendee at all Board meetings. • In accordance with Directors' duties under s.177 and s.182 of the Companies Act 2006, directors are asked at each meeting to declare any interests which may give rise a conflict. Interests are logged by the Company Secretary and directors absent themselves from discussions for which they are conflicted as appropriate. During the year, the Group Conflicts of Interest Policy was reviewed and updated with the output of an external benchmarking exercise to ensure that processes continued to reflect the Group's ethical and regulatory responsibilities in regards to colleague interests including those of the Board.
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.	• The Company Secretary works with the chairs to ensure that agendas are structured to facilitate appropriate discussion and challenge. Board and committee agendas are structured in line with objectives to focus discussions on the key business deliverables required to support the achievement of longer term goals alongside operational updates. • 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. • Reporting of management information on key governance activity is provided to each Board meeting by the Company Secretary via a governance dashboard. The dashboard provides a clear view of how the circulation of packs and minutes are tracking against agreed SLAs. The Company Secretary and Chairs use this information to monitor activities and ensure that governance processes continue to facilitate effective decision making and adhere to best practice. • During the year, the Company Secretary undertook a review of the Group's governance framework. The review was requested by the Group and divisional Chairs and CEOs to understand whether the governance structure continued to be the most appropriate and effective for the size, structure and complexity of the Group. The review concluded that whilst the structure remained appropriate and effective, a further review was recommended to identify improvements to enhance the efficiency of the existing framework.

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.	• During the year, the Group's strategic priorities have been reconsidered in light of the post Covid-19 pandemic macroeconomic climate. More information on the Group's strategy can be found in the Strategic Review. • 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. • The Group enterprise risk management framework 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. 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 continues to focus on the transformation and modernisation of key business processes and the benefits of efficiencies achieved through automation are regularly reported to the Board through a suite of operational KPIs. More information on this work can be found in the Operating Review. In April, a deep dive session was held for the Board to provide technical information on proposals for material IT infrastructure changes, the aim of the session was to ensure that the Board had opportunity to understand the risks as well as the benefits associated with proposals prior to approval being sought at a special Board meeting. During this session, the Board sought assurance that the customer experience would not be disrupted by the proposed infrastructure works and that the appropriate second and third line assurance would be undertaken throughout the project. The Board will provide ongoing oversight of the infrastructure changes through the provision of updates from Group COO at scheduled Board meetings until project completion. • Treasury and financial risk updates are standing items on the Board agenda to ensure that the Board remains informed on the funding and liquidity position of the Group. Updates are comprehensive and agendas are structured to allow time for detailed discussion. In June 2020, the Board approved a Short-Term Liability Strategy for the Group outlining the key deliverables to protect the Group's financial position and mitigate liquidity and funding risk for 2020/21. Individual transaction proposals are brought back to the Board to consider their risks and benefits with appropriate input from both internal SMEs and external advisors prior to approval. • In response to reduced origination levels as a result of Covid-19, in July the Board provided support to the Blemain Finance Limited (BFL) Board, as employing entity for the Group, for the difficult decision to approve the launch of a colleague consultation process on proposals to reduce colleague numbers across the Group. The proposed revised operating structure reflected the anticipated future levels of lending activity at that time and took into consideration expected efficiencies due to the introduction of new technologies. As part of the approval, the BFL Board sought confirmation that responsibilities to customers would be maintained, that the right resource would be in place to achieve the Group's transformation and modernisation ambitions, and that SM&CR obligations within the regulated division had been taken into consideration. More information on how colleagues were engaged during this process can be found in the Stakeholder Engagement Report.

Corporate governance and committee structure continued

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 and Nomination Committee. More information on the activities of the Committee can be found in the Corporate Governance and Committee Structure Section. • In March, the Remuneration and Nomination Committee approved a new approach to pay and reward following feedback from the Executive team, people managers and colleagues from across the Group. The changes included more discretion for managers to decide the appropriate level of performance related bonus payments within an agreed range and a flat salary increase for eligible colleagues in line with economic conditions and Company performance. During the year, the Group also commenced an external benchmarking exercise to ensure all colleague salaries continued to be in line with market expectations.
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.	• 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 year, Board and committee reporting was enhanced with the introduction of a revised executive summary. The new format clearly and concisely highlights the key elements of a report, including which stakeholders the reader should consider in their decision making. More information on how the Board has taken stakeholder requirements into consideration when making key decisions can be found within the Section 172 Statement. • In May, the Board approved a revised Purpose and Vision for the Group. As part of the development of the Future Vision, workshops were held with colleagues from around the business in order that colleague feedback could be fed into proposals; the output of the workshops were presented to the Board. The Board recognises the importance of ensuring that the Group's strategy has colleague support and provides a future for Together that colleagues want to play their part in. More information on the Future Vision can be found in the Strategic Review. • This year, the Board appointed Liz Blythe, Non-Executive Director of our Personal Finance Board, as Group Diversity Champion. Liz was involved in discussions about the Group's new diversity and inclusion strategy from inception, and will continue to engage with colleagues, senior leadership, and the Boards about ways in which diversity and inclusion can be encouraged and fostered at Together.

The Wates Principles



Directors' report

The directors present their report for the year ended 30 June 2021. 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 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. The profit before taxation for the year ended 30 June 2021 was £150.3m (2020: £94.6m). 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 Strategic Report. No further dividends are proposed.

Financial position

As shown in the Consolidated statement of financial position, loans and advances to customers net of impairment provisions have decreased by 3.6% to £4,011.9m (2020: £4,162.2m). At the same time, shareholders' funds have increased by 9.4% to £937.0m (2020: £856.4m), including shareholder loans and notes of £29.3m (2020: £28.4m). This includes dividends of £52.7m (2020: £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.

For details of events occurring after the reporting date, see Note 31 to the Financial statements.

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.

During the year, the employees of the Group were transferred pursuant to TUPE regulations, and are now employed by the company having been previously employed by a subsidiary of the Group. Further detail is provided in the Stakeholder Engagement Report and Note 2 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

While the Group operates in the financial services sector, which is generally considered to have relatively limited environmental impact. The Group recognises 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; this is set out in detail in the Environment & Society Report.

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 at least 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*
PS Ball
GD Beckett
W Bowser*
MJJR Golby
MR Goldberg
J Lowe (Resigned on 30 September 2020)
JM Shaoul*

* Non-Executives

The Company Secretary throughout the year was SE Batt.

Directors' report continued

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 £136,000 (2020: £170,000) to charities.

Political Donations
During the year neither the Group nor the Company made any political donations.

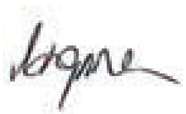
Auditors
Pursuant to Section 487 of the Companies Act 2006, the Auditor will be deemed to be reappointed and Ernst and Young LLP will therefore continue in office.

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 they ought to have taken as a Director to make themself 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.



G Grimes
Director
14 September 2021

Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable United Kingdom 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 Group and Parent Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit of the Group and the Company for that year.

In preparing these financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- 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 international accounting standards in conformity with the Companies Act 2006 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company and Group financial position and financial performance;
- state whether international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the Company and the Group will not continue in business.

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

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.


together.
together. Family Stand
together.
together.

Risk management

Contents

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 and 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.

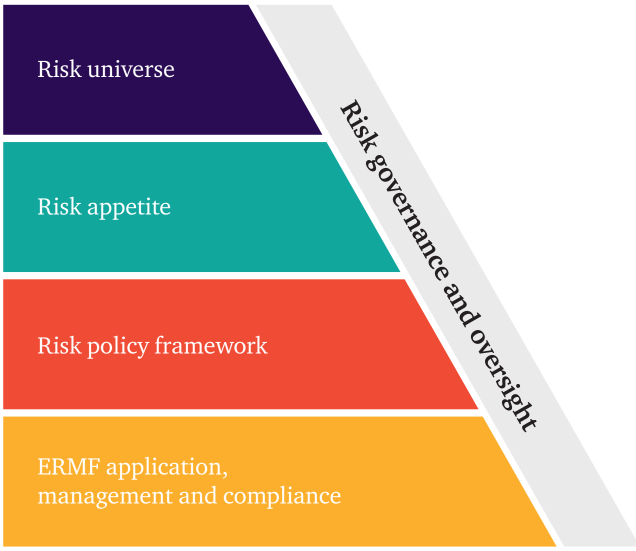
Further details on the Group's governance arrangements can be found in the Corporate Governance Report.

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 shown in the adjacent diagram, 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 overall risk appetite for the Group and the Commercial Finance Division. In the Personal Finance Division, the divisional board has the flexibility to set their own risk appetite, which may be informed by regulatory requirements.

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 Covid-19 pandemic continued to disrupt the world economy over the course of 2020/2021, although consensus macroeconomic forecasts have improved compared with those issued during the height of the pandemic as the UK's vaccination programme has progressed, and restrictions have been lifted. However, the risk of further impacts which are yet to emerge remains, as support measures are unwound.

The UK is now trading under the new terms of its agreement with the EU, although those terms are subject to continuing review and potential future development for the aspects not covered by the agreement.

Amongst other impacts, macroeconomic uncertainty may 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.

What we did in FY21

In response to the Covid-19 pandemic and other macroeconomic factors, the Group:

- Continued to support colleagues in working from home, and implemented measures to ensure a 'Covid secure' workspace within the office environment for those colleagues unable to work from home or where there was a necessity to work from the office, including the provision of on-site rapid testing facilities;
- Engaged with colleagues in order to begin the transition from full time working from home back to more consistent office working;
- Increased the frequency of our surveying of colleagues to ensure regular checks on wellbeing and engagement. The Group has offered a broad range of collaborative activities whilst colleagues have been working from home, such as online yoga, and has established a team of 'wellbeing champions' who have been providing specialist training to support colleagues;
- Increased the frequency of Board and Board Risk Committee meetings to address the rapidly evolving risk environment, when required;
- Implemented revised payment deferral guidance to continue to support customers through the Covid-19 pandemic;
- Continued to closely monitor financial resources and conducted frequent refreshes of financial projections, stress testing and monitoring of key risk indicators under a range of scenarios. This included taking actions which have substantially increased the levels of accessible liquidity within the Group;
- Resumed new lending to customers in a controlled manner, utilising refined underwriting criteria to reflect the changing macroeconomic environment and risks within the market;
- Successfully concluded several refinancing activities and issuances of new funding lines, to further diversify the Group's funding resources and protect against the risks of disruption in wholesale funding; and
- Between June and September 2020, extended temporary covenant waivers agreed with banks in all four private securitisations, in respect of the provision of mortgage-payment holidays. The Group is not currently reliant on waivers, and following the closure of the Government mortgage-payment deferral scheme to new entrants on 31 March 2021 there remains only a small number of customers who remain on such an arrangement.

Further detail on the management and mitigation of risks arising from Covid-19 is provided within the Principal risks and uncertainties section below.

The Group continues to focus on specialist lending, secured at prudent LTVs and has no operations outside of the UK.

Group expectations for FY22 and direction

It is too early to reliably estimate any long term economic impacts of Covid-19 however our return to more normal levels of loan originations signals that the appetite in the market for the Group's product suite remains strong. With a resilient, sustainable and proven business model, and experience of operating through multiple economic cycles, the Group is well placed to support increasing numbers of customers and to play our part in 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 FY21

The Group undertakes comprehensive underwriting processes, including conducting affordability and repayment assessments, and lends at prudent LTVs at origination to provide protection from falls in property prices. Average origination LTV was 59.8% for the year to 30 June 2021 (2020: 57.7%).

During the year, the Group has resumed the processing and funding of new lending applications, and has taken a cautious approach to new lending by maintaining additional controls and tighter lending criteria, where appropriate. These additional controls and criteria have been subject to ongoing review and monitoring throughout the period.

The Group has implemented several refinements to enhance our ability to proactively manage the risks of exposure within its portfolio, including:

- Establishment of a specific team to focus on management of the bespoke and specialist nature of some of the markets in which we operate within the Commercial Finance Division;
- Development of contact strategies for those customers who have experienced repayment challenges during the course of the Covid-19 pandemic;
- Reviewing our collection strategies to protect the Group against the risk of loss; and
- Detailed monitoring of payment deferrals and subsequent performance of those accounts, including intra month and daily monitoring of payment trends. As part of our proactive support for customers, we proactively contacted customers reaching the end of a payment deferral period to assess their ability to resume payments, and utilised credit bureau data to identify potentially vulnerable customers for pre-emptive contact.

External environment continued

Group expectations for FY22 and direction
The response of the property market to the conclusion of the stamp duty holiday and potential economic instability are uncertain, however the level of risk may increase in the forthcoming year as certain support schemes conclude. The Group expects to continue its longstanding approach of lending at prudent LTVs.

Interest rate environment
Interest rates have remained depressed during the year, with Bank Rate stable at a record low of 0.1%. The low interest rate environment makes 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 FY21
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 Together ABS 4, Together CRE1 and CRE2, which use 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 2027 and entered into interest rate derivatives where appropriate to mitigate interest rate risk.

The Group has also undertaken stress testing to assess the possible impacts of fluctuations in market interest rates upon its lending and funding positions.

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

Group expectations for FY22 and direction
Market expectations for interest rates project that they will remain at current levels in the short term. The Group utilises consensus forecasts in a number of areas, with the base case consensus forecast not predicting an increase in interest rates until March 2023. The Group will continue to monitor the external environment and respond to any interest rate changes as appropriate.

The Group has a number of facilities which utilise Sterling Libor as a reference rate, which is expected to be discontinued on 31 December 2021. The Group is well progressed with the project to transition these instruments to Sonia, and expects that this will be concluded prior to the cessation date. For further information, please see Note 29.

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 FY21
The risk of competition has been incorporated into the Group's forward planning process and developments in the external market are regularly monitored.

The Group resumed lending in July 2020, following the temporary pause placed upon the processing of new applications and originations at the end of the previous year as a response to the onset of the Coronavirus pandemic. The volume of new originations has been managed on a phased basis, and gradually increased during the course of the year as the Group has been able to observe the response of the market to the resumption of activity.

The Group continues to offer a broad product range to underserved segments of the market, and we have continued to develop our offering to reflect the needs of our customers and assist them in achieving their ambitions. The Group continues to be a visible presence in the specialist lending market, which is enhanced by initiatives such as the sponsorship of the Channel 4 programme The Great House Giveaway, which brought the Together brand to an average of 816,000 viewers per day during its first series.

The Group has an experienced management team with 'through the cycle' experience and benefits from a rich pool of expertise and skills.

The Group has also placed significant focus upon its modernisation and transformation programmes, which continue to progress well. The operational efficiencies gained and streamlining of customer journeys will allow the Group to maintain its position as a leading provider of specialist lending.

Group expectations for FY22 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 mean that we have the ability to attract customers who are not serviced by other lenders, together protecting our competitive position. The Group expects to continue building and maintaining these strong relationships during FY22 as we deliver upon our purpose and vision.

The Group will continue to monitor the external environment and is confident, given this experience which has been 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.

The Group expects to continue investing in its modernisation and transformation agenda, with delivery of several projects planned during FY21/22.

Cybercrime

Cybercrime 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 FY21

The Group continues to perform penetration testing on our systems and to strengthen its defences against cybercrime. The Group operates a suite of controls designed to protect against the risk of cyberattacks, including:

- Data centre access monitoring and restriction;
- Continued utilisation of anti-malware & anti-virus software and network monitoring; and
- Providing training materials on phishing attacks and information security awareness to colleagues.

Group expectations for FY22 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 and controls in mitigating the risk of cyberattacks.

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 continues to look closely at the non-standard lending sector.

What we did in FY21

The Group has responded to updates to the guidance issued by the FCA in response to the coronavirus pandemic, in respect of the application of mortgage-payment deferrals and treatment of vulnerable customers. We also continued to actively engage with the regulator's requests for information as part of their thematic reviews into the specialist lending sector and responded to any firm-specific enquiries.

The Group has delivered a number of rate changes during the period, including to long-standing customers in order to offer support during the difficult economic times caused by the pandemic. In addition the Group has progressed remediation projects, primarily relating to forbearance and customer communications. On these projects, we have completed remediation for all live customer accounts and have processed remediation for redeemed customers where we have validated contact and payment details. We will continue to contact the remaining customers and will process these payments at the earliest opportunity.

Further information on provisions held is provided in Note 19.

Group expectations for FY22 and direction

The Group expects that evolution of the regulatory environment will continue to be a key focus area, as focus continues to be placed upon the specialist lending market. We will continue to respond to industry and firm-specific enquiries in an open and transparent manner and will continue to monitor our own performance against regulatory standards and best practice. Where we believe we fall short of such standards we will ensure we correct the position with immediate effect and remediate customers for any loss incurred.

The FCA has issued the 2021/2022 Business Plan, setting out its future role and priorities. In consumer markets, the FCA is progressing proposals for a new Consumer Duty to raise standards in firms' treatment of consumers. The FCA's cross-cutting priorities include driving down the incidence and impact of fraud, improving diversity and inclusion, and supporting environmental goals.

The Group'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.

What we did in FY21

During the year, the Group has continued to receive legal claims from CMCs and claimant law firms. The Group evaluates the facts and circumstances of each claim individually and will defend claims without merit.

The Group regularly reviews provisions held, in order to determine whether these appropriately reflect the observed data and trends. The calculation of provisions is reliant on certain assumptions and inputs. Movements in these assumptions during the year has increased the amount of provisions held, and further information is provided in Note 19.

Group expectations for FY22 and direction

Current volumes have increased and the Group expects that legal claims and complaints and claims from CMCs and claimant law firms will 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 Coronavirus pandemic has impacted across the variety of risks and uncertainties facing the Group, and has influenced the actions taken to mitigate risk across a number of principal risk categories.

The Group continues to benefit from a prudent LTV loan portfolio, and new origination volumes have been closely controlled in response to the challenges of robustly assessing affordability and property valuations, particularly in respect of commercial securities, in current conditions.

The Group's results have continued to be impacted by increased expected credit losses measured in accordance with IFRS9, although the impact is significantly lower than in the previous year. The forward looking requirements of the accounting standard mean that possible economic adversity is already incorporated into the expected credit losses provided for. As the economy moves into a post-pandemic phase the shape of the recovery may result in movements in the amounts provided. The Group will continue to benchmark economic forecasts used where possible providing for a consensus view of economic outlook.

Whilst Covid-19 has dominated the year, this has not been the only factor impacting upon the Group's assessment of the key risks. During the year, the Group has refreshed its monitoring of risks to align these to our strategy, including the modernisation and transformation agenda, and the future direction of the business.

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

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

- Strategic risk;
- Credit risk;
- Liquidity and funding risk;
- Market risk;
- Capital risk;
- Operational risk;
- Conduct risk; and
- Compliance risk.

This section includes disclosures required by IFRS 7 and IFRS 9, in respect of the Financial Statements.

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 in the Strategic Review.

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 ensure alignment of objectives;
- Redefining the purpose and vision of the Group, in order to ensure the alignment of our strategic objectives to our core objectives of helping to realise ambitions by making finance work;
- Developing succession planning, and continuing to focus on our colleagues, in order to mitigate the risks of key person dependencies at all levels of the Group;
- Enhancing the suite of management information and analysis used to monitor the lending pipeline, to give greater control over lending volumes and operational planning;
- 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;
- Delivering upon the Group's modernisation and transformation agenda, to improve the customer journey and increase the operational efficiency of our business;
- Delivery of significant change programmes and projects by a dedicated change delivery department in accordance with the Group's 'Change Delivery Framework';
- Assessment and consideration of the 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; and
- 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, in order to monitor the Group's ability to deliver on its strategic objectives. As part of this, the Group:

- Maintains a prudent statement of financial position with diversity of mix and tenor of funding structures, and closely monitored gearing levels; and
- Performs the annual budget process, with a 12–18 month outlook, which aligns with the Group's objectives.

For further detail of stress testing, see Liquidity and Funding Risk

Overall responsibility for governance and monitoring of the Group's direction and strategy lies with the Group Board of Directors.

For further detail of the role and structure of the Board, and the committee structure which supports the Board's activities, see Corporate Governance and Committee Structure

The Group also understands the importance of its environmental and social contribution and is further developing its strategic objectives in these areas.

For further information, see Environment and Society Report

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.

The level of risk has been heightened by the impact of the coronavirus pandemic; however, the Group has observed some improvements in credit risk indicators, when compared to the height of the pandemic. The Group remains cautious as the impact of the government support measures ending remains unknown, and maintains appropriate levels of provisions against possible future credit losses which recognise this uncertainty.

Our credit risk management cycle includes the undertaking of the following activities:

- The Group's comprehensive underwriting procedures, which, as appropriate, have regard to creditworthiness, affordability levels, repayment strategies and 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, and are tailored to the customer and loan type;
- Undertaking stress testing to model the impact of increased numbers of customers requiring support and other interventions, to allow appropriate resource and operational planning;
- In the Personal Finance Division, there has been a cautious resumption of lending following the pause placed on new originations upon the onset of the Covid-19 pandemic, reflecting the requirements of the market and our customers. Our criteria have been carefully adjusted where appropriate, however these remain tighter than before the Covid-19 pandemic in certain areas;
- In the Commercial Finance Division, the Group has implemented additional controls over originations, including the creation of a specific team to reflect some of the bespoke markets in which the Group operates. Lending has gradually increased with revised criteria, such as increased thresholds on affordability assessments, which were implemented in response to the Covid-19 pandemic remaining in place. Our close relationships with our partners has been maintained and the majority of new business repayments profiles are fully serviced;
- 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, or the application of forbearance measures;
- Capturing additional data and establishing enhanced monitoring of the specific risks posed to the portfolio by the impacts of Covid-19. This has included accessing additional data, where appropriate, for example from credit reference agencies;
- During its implementation, assessing the performance of customers availing themselves of mortgage-payment deferral arrangements, both during and subsequent to their utilisation of these measures;
- Updated arrears management standards and processes to reflect FCA guidance on mortgage-payment deferrals and the repossession moratorium;
- Monitoring of the characteristics of the loan portfolio, including geographical concentration and LTV;
- Implementing a programme of work to increase automation, including extension of the use of automated valuation models;
- 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 Covid-19;
- Performance of regular assessments of the sensitivity of the loan book to movements in macroeconomic factors; and
- 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 11 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.

Principal risks and uncertainties continued

Maximum exposure to credit risk

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

Audited	Note	2021 £m	2020 £m
Included within the statement of financial position:			
Gross customer balances		**4,132.4**	4,300.3
Unsecured loans		**0.2**	0.2
Accounting adjustments		**(16.3)**	(19.5)
Gross loans and advances to customers	11	**4,116.3**	4,281.0
Less: allowance for impairment	11	**(104.4)**	(118.8)
Loans and advances to customers	11	**4,011.9**	4,162.2
Cash and cash equivalents	10	**228.6**	252.5
Derivative assets held for risk management	12	**0.6**	–
Amounts owed by related parties	13	**0.4**	1.0
Other debtors	13	**0.7**	1.4
		4,242.2	4,417.1
Not included within the statement of financial position:			
Commitments to lend (net of ECL)	28	**106.0**	88.4
Maximum exposure to credit risk		**4,348.2**	4,505.5

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

An impairment allowance is held against the gross exposures on loans and advances to customer, measured on an expected credit loss (ECL) basis under IFRS 9. Internal credit risk ratings are not used by the Group to monitor credit risk and therefore are not disclosed. Further details on the Group's ECL methodology, and the movement in impairment losses through the year, are shown in Notes 2 and 11 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 (LTV). 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 where this has been obtained. The table below shows gross customer balances by indexed LTV banding.

Audited	2021 £m	2021 % of gross customer balances	2020 £m	2020 % of gross customer balances
60% or less	**2,676.4**	**64.8**	2,374.7	55.2
61–85%	**1,328.3**	**32.1**	1,750.4	40.7
86–100%	**78.3**	**1.9**	119.7	2.8
Greater than 100%	**49.4**	**1.2**	55.5	1.3
Gross customer balances	**4,132.4**	**100.0**	4,300.3	100.0

Of the gross customer balances at 30 June 2021, 96.9% (30 June 2020: 95.9%) 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:

	2021 %	2020* %
East Anglia	**4.5**	4.7
East Midlands	**3.9**	3.6
Ireland	**0.1**	0.1
London	**16.7**	17.5
North East	**1.6**	1.7
North West	**16.3**	15.5
Scotland	**4.8**	4.4
South East	**25.0**	25.9
South West	**7.4**	7.3
Wales	**3.4**	3.7
West Midlands	**9.3**	9.0
Yorks & Humber	**7.0**	6.6
Gross customer balances	**100.0**	100.0

* During the year, the Group revised its regional segmentation, to redistribute properties previously categorised within the South Central Region. The comparative percentages have been restated accordingly.

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:

Audited	2021 %	2020 %
Up to £50,000	**9.5**	10.5
£50,000–£100,000	**15.5**	15.5
£100,000–£250,000	**23.4**	22.7
£250,000–£500,000	**16.3**	15.7
£500,000–£1,000,000	**10.5**	10.3
£1,000,000–£2,500,000	**11.5**	12.0
More than £2,500,000	**13.3**	13.3
Gross customer balances	**100.0**	100.0

Whilst the proportion of the Group's gross customer balances in excess of £2.5m has remained in line year-on-year, the size of the loan book has declined and the Group's exposure to loans in excess of £2.5m has decreased. Of these loans, 89.0% (30 June 2020: 87.3%) have an LTV of under 85% at 30 June 2021.

Forbearance

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.

During the year, the Group continued to offer mortgage-payment deferral arrangements to customers through the government intervention schemes implemented following the onset of the pandemic. This scheme closed to new entrants on 31 March 2021.

Further detail on the impact on the Group's loss allowance is set out in Note 11.

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 at an acceptable cost.

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 planned 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 provides liquidity.

Principal risks and uncertainties continued

Liquidity and funding risk continued

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 Group cash flows which will be prioritised to repay the facilities.

Increasing arrears, as a result of the wider economic consequences of the Covid-19 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.

During the year, the Group has continued to implement its tried and tested strategy of proactively refinancing facilities well in advance of their contractual maturity dates, and continued to diversify its funding sources. Several financing transactions have been successfully completed, which includes the issuance of Senior Secured Notes due 2027, the UK's first small ticket commercial real estate mortgage backed securitisation (CRE MBS) since the global financial crisis (Together CRE 1), a second CRE MBS issuance (Together CRE 2), and a further public securitisation (Together ABS 4). These actions together have increased the headroom on our funding facilities to £1,434.5m (2020: £406.0m).

For further detail of the Group's funding activities, see Strategic Report – Funding Activity throughout the year and Note 18

The Group also benefits from a highly cash-generative business model, with a high level of redemptions, which is a key source of liquidity. The Group took a number of actions during the coronavirus pandemic to increase the levels of liquidity, including a temporary pause on lending. This increased liquidity, which left the Group well positioned in the event of further macroeconomic instability which could result in slowing of redemption activity and therefore lower levels of cash inflows for the Group.

The Group monitors liquidity by reference to its total accessible liquidity (TAL), which comprises cash plus immediately accessible headroom in its funding facilities (subject to draw down notice periods), which includes the revolving credit facility and each of the private securitisations. As a result of the measures taken, TAL has increased to £453.3m at 30 June 2021 (2020: £148.2m), and, whilst cash balances have decreased to £228.6m at 30 June 2021 (2020: £252.5m), they remain above pre-pandemic levels. Not all cash is accessible at any one time due to securitisation requirements and covenant restrictions, and so accessible cash, which is just one component of TAL, is lower than the total cash balance.

Note 2 to the Financial Statements provides further detail of the considerations made in applying 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.

Our liquidity and funding risk management cycle includes the undertaking of the following activities:

- 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 cashflow scenarios, stress-testing and reverse 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;
- Reporting of management information which includes a range of 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; and
- 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;
- Monitoring individual funding maturity dates and maturity concentrations.

The Group's Asset and Liability Committee (ALCO) provides oversight and monitoring of liquidity and funding risk, and Board oversight is performed by the Risk Committee. During the year, the Board received more frequent updates in respect of ALCO metrics, compared to pre-pandemic reporting.

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, based upon current forecast market rates for floating rate instruments.

Audited 30 June 2021	**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**
Loan notes	2,327.7	290.2	499.6	1,681.8	–	2,471.6
Senior secured notes	935.0	45.5	47.5	577.4	526.4	1,196.8
Obligations under finance leases	29.9	0.9	0.8	2.1	26.1	29.9
Subordinated shareholder loans	29.3	–	–	–	68.0	68.0
	3,321.9	336.6	547.9	2,261.3	620.5	3,766.3
Debt issue costs	(17.9)	–	–	–	–	–
Borrowings	3,304.0	336.6	547.9	2,261.3	620.5	3,766.3
Trade creditors	1.1	1.1	–	–	–	1.1
Other creditors	1.9	1.9	–	–	–	1.9
Commitments to lend	–	106.2	–	–	–	106.2
	3,307.0	445.8	547.9	2,261.3	620.5	3,875.5

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

The weighted average maturity of the Group’s borrowings is 2.6 years at 30 June 2021 (30 June 2020: 3.3 years) and the Group has a strong track record of successful refinancing and raising new facilities.

The depth of maturity in the Group’s existing debt facilities provides significant mitigation in respect of refinancing risk. Following the refinancing of the Highfield Asset Backed (ABS) facility in September 2021, the earliest maturity of wholesale funding is the Delta ABS 2 facility (the drawn amount at 30 June 2021 of £125.0m representing 2.8% of the Group’s available borrowing facilities), and is not due until March 2023. Following the redemption of the notes issued by Together ABS 1 in September 2021, the earliest call date on any of the Group’s public securitisations is Together ABS2 in November 2022. Further detail is set out in Note 18 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.

Our interest rate risk management cycle includes the undertaking of the following activities:

- Monitoring against risk appetite. During the year the Group continued to monitor exposure compared to defined triggers and limits for 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, including the possibility of negative interest rates, on the Group's performance and strategy; and
- Undertaking hedging transactions as appropriate.

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

The table below sets out the increase/(decrease) in 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 and before any mitigation or management actions.

	2021 £m	2020 £m
0.1% decrease	**(1.8)**	(1.5)
0.1% increase	**1.8**	1.5
0.5% increase	**9.0**	7.6
1.0% increase	**18.1**	15.2

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 12 to the Financial Statements details the Group's use of derivatives to mitigate interest rate risk.

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 £80.6m over the year (2020: £66.5m), which is net of dividends paid in the year of £52.7m. The net debt gearing ratio[1] has decreased to 75.6% at 30 June 2021 (30 June 2020: 78.6%) as a result of reductions in debt.

During the period, the Group has established a dividend policy, which takes into account the funding and capital requirements of the Group.

Capital risk is managed and mitigated by:

- Regular monitoring of current and forecast levels of capital, including the gearing ratio at group and at facility level. We also regularly assess profitability and business performance, in order to consider the Group's ability to generate capital.
- Continuous monitoring of the required regulatory capital requirements within relevant subsidiaries and the actual levels projected.
- Business planning and stress testing over a forecast horizon of 12-18 months.
- Reviewing the level of gearing within securitisation facilities and within the senior borrower group, and seeking to manage these when refinancing to ensure the Group's capital efficiency, whilst ensuring sufficient capital is available to support the facilities and mitigate refinancing risk.

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

[1] Refer to appendix for definitions and calculations

Principal risks and uncertainties continued

Operational risk

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

Operational risk includes execution risk in relation to the performance of the Group's modernisation and transformation agenda, and risks relating to the transition from the ways of working implemented following the onset of the Covid-19 pandemic back to a sustainable, business as usual, approach.

Our operational risk management cycle includes the undertaking of the following activities:

- A framework of systems, controls, policies and procedures;
- Continual monitoring of a variety of operational metrics, and evaluation of these against defined operational risk appetites.
- Regularly reviewing the top identified risks and the development of focused action plans to mitigate them.
- Maintaining an incident management process in order to mitigate the impact of any operational incidents, and conducting root cause analysis to understand any incidents which do occur and implement appropriate responses.
- Frameworks to recruit, train and retain sufficient skilled personnel. This includes succession planning and identification and mitigation of reliance on key individuals;
- Implementing initiatives to enhance colleague engagement and maintain wellbeing, such as implementing a network of wellbeing champions comprised of colleagues across different areas of the business;
- Utilising a Risk and Control Self-Assessment (RCSA) approach to identify, manage and monitor key operational risks, and the development of action plans to address these risks;
- A documented and tested business continuity plan;
- A specialist business change team dedicated to managing the change projects the business is undertaking;
- Specialist risk advice to and independent assurance over the delivery of change projects by the Group Risk department;
- Maintaining IT infrastructure, which is sufficiently resilient; and
- 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; and
  - Encryption of all mobile devices.

The Group's Executive Risk Committee provides oversight and monitoring of operational risk, with authority delegated to the Financial Committee for the management of certain elements of this risk. Board oversight is performed by the Risk Committee.

The Group has demonstrated an ability for the vast majority of our colleagues to work from home. The Group implemented social distancing measures, personal temperature testing and enhanced cleaning procedures to provide a 'Covid-secure' workspace for those colleagues who were unable to work from home or where there was a necessity to work from the office, in accordance with government restrictions as they have prevailed from time to time earlier in the year.

As restrictions have been lifted, the Group has implemented plans which have supported a safe and phased return to the office for a number of our colleagues.

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 define and embed an appropriate culture, colleague behaviours that are inconsistent with defined Group values, and from our business activities if they fail to deliver fair and appropriate outcomes to our customers. Failure to manage this risk sufficiently could result in reputational damage, regulatory sanction, remediation programmes, and impact the Group's operating model.

Our conduct risk management cycle includes the following activities:

- The communication of the Group's vision and purpose set by the Board, which define our organisational culture and focus on colleague conduct, respect, accountability and customer experience;
- Remuneration, recruitment, performance management and promotion practices reviewed by the Remuneration and Nomination Committee to ensure they are reinforcing the right values and embedding good colleague behaviour;
- Annual training and awareness sessions for colleagues, for example training to identify factors which may indicate that a customer is vulnerable and action that can be taken to reflect their situation and treat them fairly.
- Adherence to a system of processes and controls which mitigate conduct risk, including monitoring and reporting against risk appetite;
- Regular review of the effectiveness of our business activities and processes for their ability to deliver consistent fair customer outcomes. Recently, reviews have focused on vulnerable customers, those with increasing balances, products at higher interest rates and our processes for supporting customers who have had a payment deferral as a result of Covid-19;
- Mobilising projects to enhance the approach to account management within the Personal Finance Division, in order to improve the consistency of approaches to the management of both new and existing customers;

[1] Refer to appendix for definitions and calculations

- Performance of gap analyses against industry body and regulator guidance and good practice to identify continual improvements to business processes;
- Products are approved through a 'Product Governance framework' with a focus on customer needs;
- The communication to all colleagues of the Group's gifts and hospitality policy;
- Identifying and supporting customers when things go wrong, for example, through application of forbearance tools and complaint handling;
- Root cause analysis of complaints, claims or failings, focusing on continuous improvement aiming to identify where we could improve the outcome for customers; and
- 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 the Group's Board of Directors.

Where the Group identifies potential instances 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.

The Group is committed to delivering positive customer experiences and outcomes, and has progressed with remediation programmes where customers have been adversely affected by legacy issues. In addition, the Personal Finance Division continues to assess its policies and procedures, and has developed a framework aimed at ensuring consistency of customer outcomes, which seeks to build upon and enhance existing practices, policies and procedures. A provision has been recognised to reflect that the Group may make payments to customer populations in scope upon finalisation of the framework.

Further disclosures in respect of this can be found in Note 19 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.

Our compliance risk management cycle includes the following activities:

- 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 focused on the impact of Covid-19 on customer outcomes, from customer requests for a mortgage-payment deferral through to their payment deferral exit;
- Proactively engaging with the Group's regulators to provide transparency with regard to actions taken to ensure compliant outcomes for legacy customers;
- 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. We are also investing in technology to manage financial crime risks;
- Monitoring of compliance with legal obligations by an in-house legal department. Regular meetings are held with operations personnel, the legal department and the compliance team to identify trends in potential legal claims and proactively make process improvements to improve customer outcomes;
- Monitoring processes to assess ongoing compliance with the requirements of GDPR; and
- 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 its 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 the Group's Board of Directors.

The Group is committed to delivering positive customer experience and outcomes, and has progressed with remediation programmes where customers have been adversely affected primarily as a result of legacy issues.

Further disclosures in respect of this can be found in Note 19 to the Financial Statements.

Financials

Contents

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 "Parent Company") and its subsidiaries (the "Group") for the year ended 30 June 2021 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 31, including a summary of significant accounting policies, and information in the Risk Management section of the annual report, marked as "audited". The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards the Parent Company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the Group's and of the Parent Company's affairs as at 30 June 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 as applied in accordance with section 408 of the Companies Act 2006; and
- 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. We are independent of the Group 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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Parent Company's ability to continue as a going concern for a period of twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

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 contained within the annual report.

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.

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

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 59, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are the Companies Act 2006, Financial Conduct Authority rules and regulations, and UK Tax Legislation.
- We understood how the Group is complying with those frameworks by making enquiries of management, internal audit, legal counsel, those charged with governance, and reviewing relevant committee minutes and board reports. We enquired as to any known instances of non-compliance or suspected non-compliance with laws and regulations.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur, by considering the controls that the Group has established to address risks identified by the Group, or that otherwise seek to prevent, deter or detect fraud.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquires of management and internal audit for their awareness of any known instances of non-compliance or suspected non-compliance with laws and regulations, reviewing key policies and correspondence exchanged with regulators. We performed journal entry testing, with a focus on post-closing adjustments and journals indicating unusual transactions based on our understanding of the business, incorporated unpredictability into the nature, timing, and extent of our testing, and challenged assumptions and judgements used by management in key areas of estimation.
- The Group operates in the financial services industry, which is a highly regulated environment. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

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.

Ernst & Young LLP

Stephen Littler (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester

14 September 2021

Consolidated statement of comprehensive income

Year ended 30 June 2021

All amounts are stated in £m

Income statement	Note	**2021**	2020
Interest receivable and similar income	4	**370.9**	388.4
Interest payable and similar charges	5	**(123.5)**	(137.1)
Net interest income		**247.4**	251.3
Fee and commission income		**4.2**	4.5
Fee and commission expense		**(1.8)**	(2.9)
Net fair-value gains/(losses) on derivatives	12	**1.1**	(0.5)
Other income		**1.7**	1.9
Operating income		**252.6**	254.3
Administrative expenses	6	**(86.2)**	(92.8)
Operating profit		**166.4**	161.5
Impairment losses	11	**(16.1)**	(66.9)
Profit before taxation		**150.3**	94.6
Income tax	9	**(19.2)**	(10.5)
Profit after taxation		**131.1**	84.1
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	12	**1.3**	(2.8)
Amounts reclassified to income statement		**0.3**	0.1
		1.6	(2.7)
Movement in the cost-of-hedging reserve:			
Effective portion of changes in fair value of derivatives	12	**(0.5)**	–
Amounts reclassified to income statement		**0.2**	0.1
		(0.3)	0.1
Other comprehensive expense for the year, net of tax		**1.3**	(2.6)
Total comprehensive income for the year		**132.4**	81.5

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

Consolidated statement of financial position

As of 30 June 2021

All amounts are stated in £m

	Note	2021	2020
Assets			
Cash and cash equivalents	10	**228.6**	252.5
Loans and advances to customers	11	**4,011.9**	4,162.2
Derivative assets held for risk management	12	**0.6**	–
Other assets	13	**6.3**	7.0
Property, plant and equipment	15	**31.6**	13.9
Intangible assets	16	**7.0**	8.1
Current tax asset		**–**	3.2
Deferred tax asset	17	**11.0**	7.6
Total assets		**4,297.0**	4,454.5
Liabilities			
Derivative liabilities held for risk management	12	**1.2**	2.9
Current tax liabilities		**1.9**	–
Borrowings	18	**3,304.0**	3,550.1
Provisions for liabilities and charges	19	**25.1**	22.3
Other liabilities	20	**57.1**	51.2
Total liabilities		**3,389.3**	3,626.5
Equity			
Share capital	21	**9.8**	9.8
Subordinated shareholder funding reserve	18	**38.7**	39.7
Cashflow-hedging reserve		**(1.1)**	(2.7)
Cost-of-hedging reserve		**(0.4)**	(0.1)
Other reserves		**10.6**	10.6
Retained earnings		**850.1**	770.7
Total equity		**907.7**	828.0
Total equity and liabilities		**4,297.0**	4,454.5

These financial statements were approved and authorised for issue by the Board of Directors on 14 September 2021.

Company Registration No. 02939389.

Signed on behalf of the Board of Directors

HN Moser
Director

G Grimes
Director

Company statement of financial position

As of 30 June 2021

All amounts are stated in £m

	Note	2021	2020
Assets			
Cash and cash equivalents		**37.3**	112.1
Amounts owed by related parties	13	**1,393.8**	1,218.9
Other assets	13	**4.5**	0.8
Investments in subsidiaries	14	**25.3**	25.3
Property, plant and equipment	15	**31.6**	9.2
Intangibles	16	**7.0**	–
Deferred tax asset	17	**1.3**	0.3
Total assets		**1,500.8**	1,366.6
Liabilities			
Borrowings	18	**59.0**	48.8
Amounts owed to related parties	20	**955.6**	802.9
Other liabilities	20	**28.0**	2.2
Total liabilities		**1,042.6**	853.9
Equity			
Share capital	21	**9.8**	9.8
Subordinated shareholder funding reserve	18	**38.7**	39.7
Other reserve		**20.2**	20.2
Retained earnings		**389.5**	443.0
Total equity		**458.2**	512.7
Total equity and liabilities		**1,500.8**	1,366.6

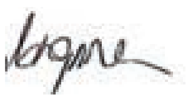
Together Financial Services Limited (the Company) reported a loss after tax for the year ended 30 June 2021 of £1.8m (2020: £2.0m loss). As permitted by section 408 of the Companies Act 2006, no separate statement of comprehensive income is presented in respect of the Company.

These financial statements were approved and authorised for issue by the Board of Directors on 14 September 2021.

Company Registration No. 02939389.

Signed on behalf of the Board of Directors

HN Moser
Director



G Grimes
Director

Consolidated statement of changes in equity

Year ended 30 June 2021
All amounts are stated in £m

2021	**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**	**39.7**	**(2.7)**	**(0.1)**	**10.6**	**770.7**	**828.0**
Total comprehensive income	**–**	**–**	**1.6**	**(0.3)**	**–**	**131.1**	**132.4**
Dividend paid	**–**	**–**	**–**	**–**	**–**	**(52.7)**	**(52.7)**
Modification of subordinated debt	**–**	**1.0**	**–**	**–**	**–**	**(1.0)**	**–**
Transfer between reserves	**–**	**(2.0)**	**–**	**–**	**–**	**2.0**	**–**
At end of year	**9.8**	**38.7**	**(1.1)**	**(0.4)**	**10.6**	**850.1**	**907.7**

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
Adjustment on adoption 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

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

Other reserves consist of the following:

	Share premium	**Merger reserve**	**Capital redemption reserve**	**Share-based payment reserve**	**Total**
As at 30 June 2021	**17.5**	**(9.6)**	**1.1**	**1.6**	**10.6**
As at 30 June 2020	17.5	(9.6)	1.1	1.6	10.6

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

Company statement of changes in equity

Year ended 30 June 2021

All amounts are stated in £m

2021	**Called-up share capital**	**Subordinated shareholder funding reserve**	**Other Reserves**	**Retained earnings**	**Total**
At beginning of year	**9.8**	**39.7**	**20.2**	**443.0**	**512.7**
Loss for the financial year	**–**	**–**	**–**	**(1.8)**	**(1.8)**
Modification of subordinated debt	**–**	**1.0**	**–**	**(1.0)**	**–**
Transfer between reserves	**–**	**(2.0)**	**–**	**2.0**	**–**
Dividend	**–**	**–**	**–**	**(52.7)**	**(52.7)**
At end of year	**9.8**	**38.7**	**20.2**	**389.5**	**458.2**

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

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

Other reserves consist of the following:

	Share premium	**Capital redemption reserve**	**Share-based payment reserve**	**Total**
As at 30 June 2021	**17.5**	**1.1**	**1.6**	**20.2**
As at 30 June 2020	17.5	1.1	1.6	20.2

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

Consolidated statement of cash flows

Year ended 30 June 2021
All amounts are stated in £m

	Note	2021	2020
Cash flows from operating activities			
Profit after tax		**131.1**	84.1
Adjustment for non-cash items included in profit after tax	23	**(193.9)**	(145.6)
Changes in operating assets and liabilities	23	**126.4**	(540.3)
Interest income		**370.9**	388.4
Income tax paid		**(17.4)**	(22.2)
Net cash inflow/(outflow) from operating activities		**417.1**	(235.6)
Cash flows from investing activities			
Cash paid on purchase of property, plant and equipment		**(0.6)**	(0.4)
Investment in intangible assets		**(2.0)**	(3.5)
Proceeds from disposal of property, plant and equipment		**0.2**	0.2
Net cash outflow from investing activities		**(2.4)**	(3.7)
Cash flows from financing activities			
Drawdown of loan notes		**35.0**	765.3
Repayment of loan notes		**(1,233.1)**	(572.4)
Proceeds from issuance of loan notes		**795.9**	315.4
Repayment of senior secured notes		**(350.0)**	(375.0)
Proceeds from issuance of senior secured notes		**500.0**	435.0
Net cash outflows from bank facilities		**(10.0)**	(45.0)
Interest paid		**(120.9)**	(134.0)
Dividends paid		**(52.7)**	(15.6)
Purchase of shares by employee-benefit trust		**–**	(0.2)
Purchase and cancellation of derivatives		**(0.6)**	(0.3)
Principal elements of lease liability payments		**(1.6)**	(1.1)
Interest paid on lease liabilities		**(0.6)**	(0.5)
Net cash (outflow)/inflow from financing activities		**(438.6)**	371.6
Net (decrease)/increase in cash and cash equivalents		**(23.9)**	132.3
Cash and cash equivalents at beginning of year		**252.5**	120.2
Cash and cash equivalents at end of year	10	**228.6**	252.5

At 30 June 2021 cash and cash equivalents include £148.7m (2020: £139.6m) of restricted cash (see Note 10).

Company statement of cash flows

Year ended 30 June 2021
All amounts are stated in £m

	Note	2021	2020
Cash flows from operating activities			
Loss after tax		**(1.8)**	(2.0)
Adjustment for non-cash items included in profit after tax	23	**59.9**	59.6
Changes in operating assets and liabilities	23	**(9.5)**	138.2
Interest received		**–**	0.1
Net cash inflow from operating activities		**48.6**	195.9
Cash flows from investing activities			
Cash paid to acquire property, plant and equipment		**(0.4)**	–
Investment in intangible assets		**(0.4)**	–
Net cash outflow from investing activities		**(0.8)**	–
Cash flows from financing activities			
Net cash outflows from bank facilities		**(10.0)**	(45.0)
Interest paid		**(59.9)**	(57.4)
Dividends paid		**(52.7)**	(15.6)
Net cash outflow from financing activities		**(122.6)**	(118.0)
Net (decrease)/increase in cash and cash equivalents		**(74.8)**	77.9
Cash and cash equivalents at beginning of year		**112.1**	34.2
Cash and cash equivalents at end of year		**37.3**	112.1

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 accounting standards in conformity with the requirements of the Companies Act 2006.

The preparation of financial statements in accordance with international standards in accordance with the requirements of the Companies Act 2006 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 and 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.

Going concern

The directors have assessed the Group's ability to continue as a going concern, including specific consideration of the continuing impacts of the coronavirus pandemic upon the Group through the effects on our customers, the property market, and the wholesale funding market.

Although consensus economic forecasts are now more optimistic than those earlier in the pandemic during 2020. The Group has continued to regularly reassess and reforecast its liquidity and funding positions, and compliance with financial covenants, in order to proactively manage the risks which may arise with respect to the going-concern assumption.

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.

As part of the Group's monitoring and reforecasting for the impacts of the pandemic, specific consideration has been given to the following during the period:

- the impact of offering mortgage-payment deferrals in line with government guidance;
- exit strategies for customers post the mortgage-payments deferrals;
- the impact of advancing other forbearance measures to our customers;
- changes in customer-repayment behaviour;
- increases in credit risk;
- the potential for declining or stagnating property values;
- possible reduced access to wholesale-funding markets;
- changes in market rates of interest;
- reductions in new mortgage-origination volumes; and
- changes to operating costs.

Many of the potential challenges included above have either not emerged during the period or not emerged to a significant extent. The Group has, for example, retained access to wholesale-funding markets which has allowed the continuation of the existing strategy of refinancing facilities in advance of their contractual maturities. This is just one example of risk factors which have been considered as part of scenario planning, but have not so far crystallised into significant adverse effects on the Group's business.

Stress testing has been performed in order to assess the extent to which these factors would have to detrimentally impact cash flows in order for the Group to be unable to meet its liabilities as they fall due, and the extent of any increase in credit losses which could result in covenant breaches on the Group's borrowings. The results of this stress testing are detailed further below.

In response to the pandemic, the directors and Group management have undertaken a number of actions in order to mitigate potential risks.

The risk of lower levels of cash inflows from redemptions can be mitigated by increasing the amount of liquid resources held as cash. In order to increase cash held, the directors controlled levels of new lending following the pandemic, which, in combination with other management actions, increased total cash balances. Cash remains at elevated levels at £228.6m at 30 June 2021 (2020: £252.5m). Of this, £79.9m is unrestricted cash (2020: £112.9m) as shown in Note 10. This is lower than the prior year as the rate of lending has gradually been increased, however such balances remain significantly above pre-pandemic levels.

Alongside shareholder funding and profits which have been retained in the business, to fund its lending 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).

Notes to the financial statements continued

All amounts are stated in £m

2. Significant accounting policies continued

Going concern continued

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 some impacts on the capital markets and the availability and/or pricing of wholesale funding at certain points earlier in the pandemic. The depth of maturity in the Group's existing debt facilities provides significant mitigation in respect of refinancing risk. Following the refinancing of the Highfield Asset Backed Securitisaiton (ABS) facility, the earliest maturity of wholesale funding is the Delta ABS 2 facility (the amount drawn at 30 June 2021 of £125.0m representing 2.8% of the Group's available borrowing facilities), and is not due until March 2023. Following the redemption of the notes issued by Together ABS 1, the earliest call date on any of the Group's public securitisations is Together ABS2 in November 2022. Further detail is set out in Note 18 to the Financial statements.

In addition the Group has demonstrated an ability to access the wholesale funding markets during the year:

- 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 raising £361m.
- In September 2020, the maturity date on the undrawn £71.9m RCF facility was extended from June 2021 to June 2023.
- In January 2021 the Group issued £500m of senior secured notes due 2027, at a coupon of 5.25%.
- In March 2021, Together completed its first public market securitisation backed by commercial real-estate mortgages, Together CRE1. The issuance resulted in £193.8m of additional funding.
- As a result of the demand arising from CRE1, the Group completed a second such transaction, Together CRE2, in June 2021. This raised external funding of £241.6m.
- Shortly after the year end the Group launched a new type of facility, Brooks ABS, secured on loans with some degree of arrears or imperfect credit histories. The issuance raised external funding of £71m.
- In September 2021, the Group refinanced its £525m Highfield ABS facility, extending its maturity date from June 2022 to September 2025 and reducing the coupon.
- In September 2021, the Group redeemed the loans notes in its first residential-mortgage-backed securitisation, TABS 1.

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, although this risk is considered to have reduced compared with the prior year. This could include, but is not limited to, impact on covenants as a result of: a reintroduction 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. This would delay cash inflows ordinarily flowing to the Senior Borrower Group as excess spread from each of the securitisations.

Whilst the Group was required to agree temporary waivers between June and September 2020, as a result of the pandemic and the offering of mortgage-payment deferrals, the Group is not currently reliant on any such waivers as at the year end.

Stress Testing

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 debt incurrence tests on gearing and minimum levels of interest cover in respect of the former and maintenance tests on gearing in respect of the latter.

To evaluate the Group's resilience in 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 cash flows 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 could not 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 to meet its liabilities as they fall due, within the going-concern assessment period. Even in the event that actual experience approached the level of reductions judged unrealistic, further management actions could be taken to mitigate the impact. The Group has periodically repeated the reverse-stress testing and headroom to meet the test has increased over the period from 30 June 2020 to 30 June 2021.

In addition, the potential impact of reductions in the level of profitability were assessed, using increases in expected credit losses as the primary driver, in order to determine the reduction which would result in the Group's gearing breaching the RCF covenant. The testing showed that ECLs would have to increase by a substantial amount with the probability of such a severe outcome considered remote. The deployment of additional management actions could also mitigate the possible impact, including but not limited to: renegotiation of the terms of existing borrowings, raising alternative 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, which is 12 months from the date of signing this report.

Basis of consolidation

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

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

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

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

Goodwill

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

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

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

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

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

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

Operating segments

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

Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income for all financial instruments measured at amortised cost using the effective interest method. The effective interest method calculates the amortised cost of a financial asset or a financial liability and allocates the interest income or interest expense over the expected life of the instrument. The effective interest rate is the rate that, at inception of the instrument, discounts its estimated future cash payments or receipts to the net carrying amount of the financial instrument. When calculating the effective interest rate, the Group takes into account all contractual terms of the financial instrument but does not consider future credit losses except for 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.

Fee and commission income and expense

Fees and commissions which are an integral part of the effective interest rate of a financial instrument eg 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

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.

Notes to the financial statements continued

All amounts are stated in £m

2. Significant accounting policies continued

Leases continued

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 interest rate implicit in the lease or 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.

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.

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, and include 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.

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 entities for the purpose of collateralising the issuance of loans. 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.

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. 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.

Notes to the financial statements continued

All amounts are stated in £m

2. Significant accounting policies continued

Impairment of financial instruments continued

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 certain of the Group's subsidiaries which engage in regulated lending, these criteria are aligned to the regulatory definition of credit impaired.

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.

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, ie 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. For accounts which are in a shortfall position, this is judged to occur when an account is fully provided against, and no payments have been received for six consecutive months. The Group may continue to apply enforcement activities for 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.

Intragroup transactions

Transfers of assets and liabilities between the Company and its subsidiaries occur at book value.

In order to simplify the Group's arrangements, a decision was made during the year to transfer staff and certain specific assets and liabilities from one of the Group's subsidiaries to the Company. The assets and liabilities transferred include prepayments, fixed assets, and certain accruals and was settled through an intercompany loan. For further details, see Notes 7, 15 and 16.

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 reporting 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 the item, 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 is amortised on a straight-line basis over the expected useful life of the asset.

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

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

The International Accounting Standards Board has issued amendments to IFRS 9 *Financial instruments* and IFRS 7 *Financial instruments disclosures* relating to market reforms of benchmark interest rates. The reforms will result in transitioning from interbank offered rates (IBORs) such as Libor to alternative benchmark interest rates (also referred to as near-risk-free or RFRs). In the UK, the Bank of England has determined that the reformed sterling overnight index average (Sonia) is the RFR that will replace sterling Libor.

Phase 1 ('Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7') of the IASB's amendments, which are mandatory for annual reporting periods beginning on or after 1 January 2020, modify certain hedge-accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the reforms are completed.

The application of the amendments impacts the Group's accounting as follows:

- The Group has floating-rate loan notes, linked to sterling Libor, which it cashflow hedges using interest-rate caps, swaps or floors. The amendments permit continuation of hedge accounting even though the reforms mean there is uncertainty about the timing and amount of the hedged cash flows.
- The Group will retain the cumulative gain or loss in its cashflow-hedging and cost-of-hedging reserves for designated cash flow hedges that are subject to the reforms, despite this uncertainty. Should the Group consider the hedged future cash flows are no longer expected to occur due to reasons other than the reforms, the cumulative gain or loss will be immediately reclassified to the income statement.

Notes to the financial statements continued

All amounts are stated in £m

2. Significant accounting policies continued

New and revised standards, amendments and interpretations not yet effective continued

The amendments also require additional disclosures in relation to those hedging relationships to which the reliefs are applied.
The Group will continue to apply the Phase 1 amendments to IFRS 9 until the end of any uncertainty with respect to the timing and amount of the underlying cash flows arising from the reforms. The Group expects this uncertainty will continue until its contracts that reference sterling Libor are amended to specify the date on which it will be replaced and the bases for the replacement Sonia cash flows, including any fixed spread, are determined.

Phase 2 ('Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39, IFRS 4 and IFRS 16') of the amendments, effective for reporting periods beginning on or after 1 January 2021 with earlier adoption permitted, enables entities to reflect the effects of transitioning to RFRs without giving rise to accounting impacts that would not provide useful information to users of financial statements. The Group has not early adopted these amendments.

The application of the Phase 2 amendments will impact the Group's accounting as follows:

- Changes to the basis for determining contractual cash flows as a result of the reforms are required, as a practical expedient, to be treated prospectively as changes to a floating interest rate, rather than as a contractual modification. This applies only provided that, for the financial instrument, the transition from the IBOR benchmark rate to the new RFR takes place on an economically equivalent basis.
- Phase 2 provides temporary reliefs that allow the Group's hedging relationships to continue upon the replacement of an existing interest-rate benchmark with a new RFR. The reliefs require the Group to amend hedge designations and hedge documentation to reference the new rate and amend the method for assessing hedge effectiveness. Updates to hedge documentation must be made by the end of the reporting period in which a replacement takes place.
- If the hedged item is modified due to the reforms, the cumulative gain or loss in the cashflow-hedging and cost-of-hedging reserves for designated cashflow hedges and for discontinued hedging relationships is deemed to be based on the new RFR.

The amendments also require further new disclosures of the nature and extent of the risks arising from the reforms, how the entity is managing the risks and transition, and progress made.

Note 29 sets out the financial disclosures.

A number of other new or 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 judgements:

- 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 11 to the Financial Statements.

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 19 to the Financial Statements.

Key sources of estimation uncertainty

a) Loan impairment allowance

As a result of the Covid-19 pandemic the Group utilises macroeconomic forecasts which are significantly changed from those applied pre-pandemic, when the external environment was more benign. These forecasts, and the other assumptions and estimates necessary for the calculation of ECL, contain a greater level of uncertainty than in previous periods due to the increased level of uncertainty in the economic outlook. Further detail on these estimates and assumptions and sensitivities thereon is set out in Note 11 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 19 to the Financial Statements.

c) Interest income recognition

Interest income is recognised using the effective interest rate ('EIR') method. The EIR of a financial instrument is the rate which exactly discounts the estimated future cash flows of the instrument to its carrying amount. In calculating the EIR, all contractual terms of the financial instrument are taken account of, including transaction costs and other premiums or discounts, but not expected credit losses.

The estimation of future cash flows requires the Group to estimate the expected behavioural lives of groups of assets. The Group utilises models which draw upon the Group's actual historical experience, however there is estimation uncertainty to the extent that future performance may not mirror that of the past.

4. Interest receivable and similar income

	2021	2020
Interest on loans and advances to customers	**370.9**	388.4

Included within interest on loans and advances to customers is £12.1m (2020: £13.6m) relating to credit impaired loans.

5. Interest payable and similar charges

	2021	2020
On borrowings	**121.5**	136.2
On lease liabilities	**0.6**	0.5
On derivatives in qualifying and discontinued hedging relationships	**1.4**	0.4
	123.5	137.1

Interest payable on borrowings includes a call penalty of £5.4m, the release of the issue premium of £0.7m and the write-off of deferred up-front fees of £1.2m as a result of early refinancing of the 2024 senior secured notes (2020: £5.9m, £nil and £0.8m respectively). It is also net of a modification gain of £1.0m arising on the extension in January 2021 of the maturity date of £25.1m of interest-free subordinated shareholder loans (2020: £nil).

6. Administrative expenses

	Note	2021	2020
Staff costs	7	**53.8**	44.9
Auditor's remuneration	8	**0.6**	0.4
Depreciation of property, plant and equipment	15	**2.2**	2.5
Amortisation of intangible assets	16	**3.1**	4.2
Provisions for liabilities and charges	19	**11.9**	21.4
Other administrative costs		**14.6**	19.4
		86.2	92.8

There were no material gains or losses on the disposal of property, plant and equipment (2020: £0.1m gain).

7. Staff costs

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

Management and administration	2021 No.	2020 No.
Full time	**557**	688
Part time	**52**	62
	609	750

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

Staff remuneration	Note	2021	2020
Wages and salaries		**36.3**	35.0
Social security costs		**3.8**	3.5
Pension	26	**1.3**	1.4
		41.4	39.9
Directors' remuneration			
Emoluments		**12.4**	5.0
Company contribution to personal pension schemes	26	**–**	–
		12.4	5.0
Total staff costs		**53.8**	44.9

The emoluments of the highest paid director were £3.9m (2020: £1.4m) including £nil (2020: £nil) of Company contributions to a defined contribution pension scheme for any directors. Details of the pension arrangements operated by the Group are given in Note 26.

During the year, the employees of the Group were transferred from a subsidiary to the Company pursuant to the Transfer of Undertakings (Protection of Employment) ('TUPE') regulations. Directors' emoluments and wages and salaries are now borne by the Company and are recharged to subsidiaries in line with approved methodologies.

Notes to the financial statements continued

All amounts are stated in £m

8. Auditor's remuneration

	2021	2020
Fees payable for the audit of the Company's accounts	**0.1**	0.1
Fees payable for the audit of the Company's subsidiaries	**0.3**	0.2
Audit-related assurance services	**0.1**	0.1
Other assurance services	**0.1**	0.0
	0.6	0.4

9. Income tax

	2021	2020
Current tax		
Corporation tax	**22.1**	10.6
Adjustment in respect of prior years	**0.5**	(0.3)
	22.6	10.3
Deferred tax		
Origination and reversal of temporary differences	**(0.4)**	1.1
Adjustment in respect of prior years	**(1.3)**	–
Effect of tax rates	**(1.7)**	(0.9)
	(3.4)	0.2
Total tax on profit	**19.2**	10.5

Corporation tax is calculated at 19.0% (2020: 19.0%) 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:

	2021	2020
Profit before tax	**150.3**	94.6
Tax on profit at standard UK corporation tax rate of 19.0% (2020: 19.0%)	**28.6**	18.0
Effects of:		
Expenses not deductible for tax purposes	**0.1**	0.6
Income not taxable	**(0.2)**	–
Group relief*	**(6.8)**	(6.9)
Adjustment in respect of prior years	**(0.8)**	(0.3)
Changes in tax rate	**(1.7)**	(0.9)
Group tax charge for year	**19.2**	10.5

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

In March 2021, the Government announced that the main rate of corporation tax will increase to 25% from April 2023. This change was substantively enacted on 24 May 2021. This will increase the Group's future tax rate accordingly.

10. Cash and cash equivalents

	2021	2020
Unrestricted cash	**79.9**	112.9
Restricted cash	**148.7**	139.6
Total cash and cash equivalents	**228.6**	252.5

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 £39.7m (2020: £62.0m) represents amounts that could 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.

11. Loans and advances to customers

	30 June 2021			
	Stage 1	**Stage 2**	**Stage 3 and POCI**	**Total**
Gross loans and advances	**2,541.3**	**1,089.9**	**485.1**	**4,116.3**
Loss allowance	**(4.0)**	**(28.7)**	**(71.7)**	**(104.4)**
	2,537.3	**1,061.2**	**413.4**	**4,011.9**
ECL coverage (%)	**0.2**	**2.6**	**14.8**	**2.5**

	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
ECL coverage (%)	0.4	2.9	17.1	2.8

Loans and advances to customers include total gross amounts of £5.0m (2020: £9.7m), equivalent to £1.0m net of allowances (2020: £5.5m) 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 24.

Group gross balances of credit impaired loans include £3.2m (2020: £nil) of purchased or originated credit impaired (POCI) loans, which are presented net of lifetime ECL impairment provisions of £0.4m (2020: £nil).

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.

Notes to the financial statements continued

All amounts are stated in £m

11. Loans and advances to customers continued

Measurement of expected credit losses (ECL) continued

- 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, ie minimum losses, which are assigned based on the LTV of the loan and the type of security and have been developed from historical data.
- EAD is an estimate of the expected gross carrying amount at a future default date. EAD is based on the current loan amount adjusted for expected repayments of principal, contractual drawdowns of loan commitments, and the impact of missed payments which would be expected for an account in default.

ECL is calculated at an individual loan level as the product of PD, LGD and EAD, discounted 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 a probationary period in line with the below:

- Into stage 2: 6 months of performing at stage 2 or better; and
- Into stage 1: 9 months of performing at stage 1.

The Group undertakes back-testing and validation procedures in order to assess the reasonableness of assumptions and judgements applied in calculating ECLs. The results of these procedures are considered in determining the ongoing appropriateness of key judgements and inputs, which are subject to oversight from the Audit Committee.

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. The unprecedented nature of the current economic conditions leads to high levels of uncertainty in forecasting the timing and speed of an eventual recovery.

Previously, the Group calculated ECL using a base case, an upside and a downside scenario, weighted 40%, 30% and 30% respectively. The unprecedented societal and economic impact caused by the coronavirus outbreak meant that the available economic forecasts were subject to significant uncertainty and showed a wide range of views on the depth, shape and duration of the impact of the pandemic.

As a result of this uncertainty, the Group's approach to developing economic scenarios for the purposes of measuring ECLs was to increase the number of scenarios from three to six. The base case is weighted at 50% and each of the other five scenarios is weighted at 10%. The Group continues to apply this methodology as uncertainty remains significantly elevated compared with pre pandemic levels, despite the continued period of recovery since spring 2021 and the increasingly optimistic macroeconomic forecasts.

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.

The economic scenarios utilised also take into account the unprecedented levels of support the government and Bank of England are providing to borrowers and the general economy.

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 2021, by economic indicator, until June 2025 are as follows:

Annual GDP change (annual %)*	Weighting	Sep 2021	Dec 2021	Mar 2022	Jun 2022	Jun 2023	Jun 2024	Jun 2025
Upside	10%	5.1	9.9	15.3	12.4	5.1	2.3	1.6
Mild Upside	10%	4.8	9.3	14.2	10.8	4.4	2.0	1.6
Base	50%	4.5	8.5	12.9	8.7	3.1	1.6	1.5
Stagnation	10%	3.8	6.7	10.1	5.2	3.2	1.3	1.5
Downside	10%	3.6	6.2	9.0	3.4	3.3	1.2	1.4
Severe downside	10%	3.2	5.4	7.7	1.4	2.4	1.1	1.4
Weighted average		**4.3**	**8.0**	**12.1**	**7.7**	**3.4**	**1.6**	**1.5**

Annual quarterly GDP change (%)**	Future quarter when GDP returns to Dec-19 levels	Weighting	Sep 2021	Dec 2021	Mar 2022	Jun 2022	Jun 2023	Jun 2024	Jun 2025
Upside	Sep-21	10%	10.7	12.0	15.5	11.5	3.2	2.0	1.4
Mild Upside	Sep-21	10%	9.5	10.6	13.8	9.5	2.9	1.8	1.5
Base	Dec-21	50%	8.2	8.7	11.5	6.5	2.2	1.5	1.5
Stagnation	Sep-22	10%	5.6	4.3	7.5	3.3	1.9	1.2	1.6
Downside	Sep-23	10%	4.6	3.3	4.9	0.9	2.7	1.1	1.7
Severe downside	Dec-25	10%	3.0	1.7	3.2	(2.2)	3.0	0.9	1.7
Weighted average			**7.4**	**7.6**	**10.2**	**5.5**	**2.5**	**1.4**	**1.6**

Bank rate	Future quarter which anticipates the first rate rise	Weighting	Sep 2021	Dec 2021	Mar 2022	Jun 2022	Jun 2023	Jun 2024	Jun 2025
Upside	Sep-21	10%	0.2	0.4	0.6	0.9	1.8	2.0	2.1
Mild Upside	Sep-21	10%	0.2	0.3	0.4	0.5	1.3	1.5	1.5
Base	Mar-23	50%	0.1	0.1	0.1	0.1	0.3	0.5	0.8
Stagnation	Mar-25	10%	0.1	0.1	0.1	0.1	0.1	0.1	0.3
Downside	Mar-26	10%	0.1	(0.1)	(0.3)	(0.3)	(0.3)	(0.3)	0.0
Severe downside	Jun-29	10%	(0.1)	(0.3)	(0.4)	(0.5)	(0.5)	(0.5)	(0.3)
Weighted average			**0.1**	**0.1**	**0.1**	**0.1**	**0.4**	**0.5**	**0.7**

Unemployment rate	% peak	Weighting	Sep 2021	Dec 2021	Mar 2022	Jun 2022	Jun 2023	Jun 2024	Jun 2025
Upside	4.4%	10%	4.4	4.2	4.0	4.0	4.0	4.0	4.0
Mild Upside	4.5%	10%	4.5	4.4	4.3	4.3	4.3	4.3	4.3
Base	5.5%	50%	5.1	5.5	5.1	4.8	4.5	4.5	4.5
Stagnation	6.4%	10%	5.7	6.0	6.0	6.1	6.4	6.3	6.0
Downside	6.6%	10%	5.9	6.3	6.3	6.4	6.6	6.5	6.2
Severe downside	6.9%	10%	6.4	6.8	6.8	6.8	6.9	6.8	6.5
Weighted average			**5.2**	**5.5**	**5.3**	**5.1**	**5.1**	**5.0**	**4.9**

Annual change in house-price index (%)	Start to trough % change	Weighting	Sep 2021	Dec 2021	Mar 2022	Jun 2022	Jun 2023	Jun 2024	Jun 2025
Upside	n/a***	10%	11.6	8.2	5.7	6.2	5.0	11.2	3.1
Mild Upside	n/a***	10%	10.0	6.1	2.9	2.8	2.5	8.4	3.2
Base	(2.3%)	50%	7.4	3.0	(0.8)	(1.6)	(0.5)	3.0	3.4
Stagnation	(15.3%)	10%	5.0	(0.6)	(5.7)	(8.1)	(6.6)	(1.3)	3.8
Downside	(22.4%)	10%	3.8	(2.2)	(7.8)	(10.8)	(9.3)	(4.1)	4.1
Severe downside	(34.3%)	10%	1.9	(4.8)	(11.4)	(15.3)	(14.3)	(9.5)	4.5
Weighted average			**6.9**	**2.2**	**(2.0)**	**(3.3)**	**(2.5)**	**2.0**	**3.6**

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

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

*** House price index (HPI) is forecast to increase in all future periods in this scenario.

Notes to the financial statements continued

All amounts are stated in £m

11. Loans and advances to customers continued

The most significant assumptions used for the ECL estimate as at 30 June 2020 by scenario until June 2024 were 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)	(20.0)	(10.1)	(7.6)	5.0
Weighted average			**(2.6)**	**(4.8)**	**(7.8)**	**(9.3)**	**2.2**	**4.2**	**4.1**

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 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.

Mortgage-payment deferrals have not been considered to represent a contractual modification as interest continues to accrue at the effective rate which does not generally give rise to material modification gains or losses. In addition, the request for a mortgage-payment deferral has not been considered to represent a significant increase in credit risk. Instead, a request was considered along with a number of other indicators of credit risk.

As at 30 June 2021, just 0.2% of Group's customers by value had outstanding deferred payments as a result of Covid-19 (2020: 16%).

Notes to the financial statements continued

All amounts are stated in £m

11. Loans and advances to customers continued

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 years ended 30 June 2021 and 30 June 2020.

	2021			
Loss allowance	**Stage 1**	**Stage 2**	**Stage 3 and POCI**	**Total**
Balance at beginning of year	**(12.4)**	**(21.0)**	**(85.4)**	**(118.8)**
Transfer to a 12-month ECL	**(1.9)**	**5.2**	**–**	**3.3**
Transfer to a lifetime ECL not credit impaired	**8.2**	**(24.6)**	**15.9**	**(0.5)**
Transfer to a lifetime ECL credit impaired	**0.9**	**24.2**	**(42.7)**	**(17.6)**
Other changes in credit risk during the year	**(3.9)**	**(15.4)**	**(4.0)**	**(23.3)**
Impairment of interest income on stage 3 loans	**–**	**–**	**(12.1)**	**(12.1)**
New financial assets originated	**(1.7)**	**(3.0)**	**–**	**(4.7)**
Financial assets derecognised	**3.0**	**9.6**	**26.4**	**39.0**
Changes in models and risk parameters	**3.8**	**(3.6)**	**(2.3)**	**(2.1)**
Impairment losses for the year charged to income	**8.4**	**(7.6)**	**(18.8)**	**(18.0)**
Unwind of discount	**–**	**–**	**12.1**	**12.1**
Write-offs net of recoveries	**–**	**(0.1)**	**16.6**	**16.5**
Changes on refinancing of impaired loans	**–**	**–**	**3.8**	**3.8**
Balance at end of year	**(4.0)**	**(28.7)**	**(71.7)**	**(104.4)**

	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	(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)

Other changes in credit risk include the development or cure of loan arrears and other changes in status. The loss allowance on new financial assets originated represents the ECL on initial recognition. Subsequent changes in ECL are reflected in other movements in the above table.

The loss allowance has decreased by £14.4m to £104.4m (2020: £118.8m). The key changes in the estimate for ECL are set out below.

Changes in models and risk parameters resulted in a charge of £2.1m (2020: £14.2m charge). The main drivers of this change are as follows:

- A £6.4m release from updating the probabilities of default with the latest performance data (2020: £6.7m release);
- A £3.3m release resulting from updates to HPI forecasts (2020:£13.7m charge);
- A £5.7m charge arising from an increased provision for commercial secured loans (2020: £nil);
- A £4.9m charge resulting from an update to forced sale discount methodology (2020: £nil); and
- A net £1.2m charge resulting from a number of miscellaneous changes (2020: £7.4m charge).

The impact of loans transferring between stages has increased ECL by £14.8m during the year (2020: £21.4m) and other changes in credit risk have increased ECL by £23.3m (2020: £31.6m). There are a number of drivers of the combined increase of £38.1m observed in these line items, the principal ones being:

- £11.8m 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;
- £14.4m due to changes in the assessment of 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;
- £4.8m due to changes in qualitative criteria used to assess whether a loan has experienced a significant increase in credit risk. The criteria have been expanded to include: customers who are not in arrears, but may have suffered a certain level of income shock based on credit bureau data, and; loans which are not in arrears or otherwise exhibiting signs of an increase in credit risk but are secured on certain property types which have been most affected by social restrictions such as certain hospitality and retail-purpose properties; and
- £7.7m 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 £12.1m (2020: £13.6m) was offset by the unwinding of discounting on expected cash flows of the same amount. New originations increased ECL by £4.7m (2020: £6.2m), 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 £39.0m (2020: £20.3m) on loans which have redeemed during the period. ECL has reduced by £3.8m (2020: £nil) due to refinancing of credit impaired assets where the new loans have been classified as POCI. The gross balances of the new POCI assets included £1.4m of ECLs on initial recognition, resulting in a net release of £2.4m.

Write-offs net of recoveries includes £4.9m (2020: £1.3m) that has arisen during the normal performance of the loan book. The other £11.6m (2020: £nil) relates to accounts that have been written off following a refinement to the write off criteria applied by the Group. Substantially all the accounts subject to write-off had entered a shortfall position prior to the current period, and largely relate to legacy accounts which had been repossessed a number of years previously. Accounts are classified as shortfall where the property has been repossessed and sold but an outstanding balance remains.

Impairment losses for the period

	30 June 2021	30 June 2020
Movements in impairment allowance, charged to income	**(18.0)**	(66.7)
Amounts released from deferred income	**(0.5)**	0.5
Write-offs net of recoveries	**–**	(0.7)
Gains/(losses) on derecognition of assets held at amortised cost as a result of refinancing impaired loans	**2.4**	–
Charged to the income statement	**(16.1)**	(66.9)

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:

	2021			
Movements in gross carrying amounts	**Stage 1**	**Stage 2**	**Stage 3 and POCI**	**Total**
Balance at beginning of year	**3,061.3**	**721.2**	**498.5**	**4,281.0**
Transfer to a 12-month ECL	**526.7**	**(524.8)**	**(1.9)**	**–**
Transfer to a lifetime ECL not credit impaired	**(1,239.7)**	**1,452.4**	**(212.7)**	**–**
Transfer to a lifetime ECL credit impaired	**(32.1)**	**(446.3)**	**478.4**	**–**
New financial assets originated	**967.0**	**102.9**	**2.7**	**1,072.6**
Changes on refinancing of impaired loans	**–**	**–**	**(0.7)**	**(0.7)**
Financial assets derecognised including write-offs	**(741.9)**	**(215.5)**	**(279.2)**	**(1,236.6)**
Balance at end of year	**2,541.3**	**1,089.9**	**485.1**	**4,116.3**

	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

Notes to the financial statements continued

All amounts are stated in £m

11. Loans and advances to customers continued

Stage 2 disaggregation

Days past due	30 June 2021 Gross Exposure	30 June 2021 Impairment Allowance	30 June 2020 Gross Exposure	30 June 2020 Impairment Allowance
> 30 days past due	76.6	2.2	164.9	7.7
< 30 days past due	1,013.3	26.5	556.3	13.3
Total	**1,089.9**	**28.7**	721.2	21.0

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 unweighted ECL when 100% probability was applied to each scenario as at 30 June 2021 and 30 June 2020.

Scenarios	2021 Probability of the scenario	2021 Unweighted ECL	2020 Probability of the scenario	2020 Unweighted ECL
Upside	10%	49.8	10%	57.2
Mild upside	10%	56.0	10%	66.3
Base case	50%	75.4	50%	88.0
Stagnation	10%	137.5	10%	150.2
Downside	10%	174.9	10%	192.7
Severe downside	10%	248.9	10%	281.5
Weighted average		**104.4**		118.8

Utilising multiple economic scenarios reflects the non-linearity of the forward-looking expected credit loss approach.

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 applied in each scenario (ie a 10% cut applied to the index in each forecast future period), would result in an increase in the impairment allowance of £20.3m at 30 June 2021 (30 June 2020: £23.7m); conversely, a 10% increase would result in a decrease in the impairment allowance of £15.7m at 30 June 2021 (30 June 2020: £17.9m).

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 £7.3m at 30 June 2021 (30 June 2020: £7.2m). 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 2021 (30 June 2020: £7.0m).

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 sensitivity below was performed by recalculating the impairment allowance by changing only the item stated, and with all other variables unchanged.

Sensitivities	Increase in allowance 2021	Increase in allowance 2020
Measure all loans in Stage 1 using a lifetime ECL	16.6	14.5

12. Derivatives 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 and floors. The notional amounts of these derivatives are 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.
- Differences in the expected maturity of the hedged item and the hedging instrument.

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

	30 June 2021		30 June 2020	
	Assets	**Liabilities**	Assets	Liabilities
Interest-rate swaps and floors	**0.6**	**(1.2)**	–	(2.9)
Interest-rate caps	**–**	**–**	–	–
Derivatives designated in cashflow hedges	**0.6**	**(1.2)**	–	(2.9)

All derivatives mature in under five years. The average fixed interest rate on swaps is 0.38%. The average strike rate on caps is 2.5%.

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

	30 June 2021		
	Carrying amount of liabilities	**Changes in fair value for calculating hedge ineffectiveness**	**Cashflow-hedging reserve**
Hedged by interest-rate swaps and floors			
Borrowings	**298.6**	**0.8**	**1.0**
Discontinued hedges	**–**	**–**	**(2.1)**
	298.6	**0.8**	**(1.1)**
Hedged by interest-rate caps			
Borrowings	**128.6**	**–**	**–**

	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	–	–

Notes to the financial statements continued

All amounts are stated in £m

12. Derivatives held for risk management continued

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

		Carrying amounts		Changes in fair value				
Year ended 30 June 2021	**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 gains/(losses) on derivatives**	**Hedge ineffective-ness recognised in fair value gains/(losses) on derivatives**	**Reclassified from cashflow-hedging reserve to interest payable**
Interest-rate swaps and floors								
Borrowings	**298.6**	**0.6**	**(1.2)**	**0.9**	**0.8**	**1.0**	**0.1**	**–**
Discontinued hedges	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**0.3**
	298.6	**0.6**	**(1.2)**	**0.9**	**0.8**	**1.0**	**0.1**	**0.3**
Interest-rate caps								
Borrowings	**128.6**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Year ended 30 June 2020								
Interest-rate swaps								
Borrowings	244.9	–	(2.9)	(0.2)	(0.2)	0.1	–	0.1
Discounted hedges	–	–	–	–	(2.5)	(0.6)	–	–
	244.9	–	(2.9)	(0.2)	(2.7)	(0.5)	–	0.1
Interest-rate caps								
Borrowings	229.5	–	–	–	–	–	–	–

13. Other assets

Group	**2021**	2020
Amounts owed by related parties	**0.4**	1.0
Inventories	**0.6**	0.6
Investments	**0.1**	0.1
Other debtors	**0.7**	1.4
Prepayments and accrued income	**4.5**	3.9
	6.3	7.0

Company	**2021**	2020
Amounts owed by related parties	**1,393.8**	1,218.9
Prepayments and accrued income	**4.5**	0.8
	1,398.3	1,219.7

Amounts owed by related parties of the Group are in respect of companies in which HN Moser is a director and shareholder. Also included within amounts owed by the related parties is £0.3m (2020: £0.2m) in relation to a director's loan. The loan is interest free and repayable on demand.

For Company, amounts owed by related parties are primarily balances with subsidiary companies and include £0.2m (2020: £nil) in respect of companies in which HN Moser is a director and shareholder.

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.

14. Investments in subsidiaries

The Company held the following investments in subsidiary undertakings:

	2021	2020
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
FactFocus Limited	100%	Property investment
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
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 employee benefit 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

Together Asset Backed Securitisation 2020 – 1 PLC

Together Asset Backed Securitisation 2020 – 1 Holdings Limited

Together Asset Backed Securitisation 2021 – CRE1 PLC

Together Asset Backed Securitisation 2021 – CRE1 Holdings Limited

Together Asset Backed Securitisation 2021 – CRE2 PLC

Together Asset Backed Securitisation 2021 – CRE2 Holdings Limited

Notes to the financial statements continued

All amounts are stated in £m

15. Property plant and equipment

2021 Group	Fixtures, fittings and equipment	Motor vehicles	Right -of-use assets	Total
Cost				
At beginning of year	**8.3**	**1.9**	**16.0**	**26.2**
Additions	**0.5**	**0.1**	**5.3**	**5.9**
Lease modifications	**–**	**–**	**14.4**	**14.4**
Disposals	**(0.7)**	**(0.4)**	**–**	**(1.1)**
Impairment	**–**	**–**	**(0.2)**	**(0.2)**
At end of year	**8.1**	**1.6**	**35.5**	**45.2**
Depreciation				
At beginning of year	**4.7**	**0.8**	**6.8**	**12.3**
Charge for the year	**1.0**	**0.2**	**1.0**	**2.2**
Disposals	**(0.7)**	**(0.2)**	**–**	**(0.9)**
At end of year	**5.0**	**0.8**	**7.8**	**13.6**
Net book value				
At 30 June 2021	**3.1**	**0.8**	**27.7**	**31.6**
At 30 June 2020	3.6	1.1	9.2	13.9

The Group occupies two head-office buildings. During the year, revisions were made to the terms of both leases resulting in a remeasurement of the Group's lease liability and a modification adjustment to the corresponding right-of-use asset.

2020 Group	Fixtures, fittings and equipment	Motor vehicles	Right -of-use assets	Total
Cost				
At beginning of year	7.9	1.8	–	9.7
Adjustment on adoption of 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
Adjustment on adoption of 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

2021 Company	Fixtures, fittings and equipment	Motor vehicles	Right -of-use assets	Total
Cost				
At beginning of year	–	–	16.0	16.0
Transfer of assets	7.9	1.4	1.0	10.3
Additions	0.2	0.2	4.3	4.7
Lease modifications	–	–	14.4	14.4
Impairment	–	–	(0.2)	(0.2)
At end of year	**8.1**	**1.6**	**35.5**	**45.2**
Depreciation				
At beginning of year	–	–	6.8	6.8
Transfer of assets	4.8	0.6	–	5.4
Charge for the year	0.2	0.2	1.0	1.4
At end of year	**5.0**	**0.8**	**7.8**	**13.6**
Net book value				
At 30 June 2021	**3.1**	**0.8**	**27.7**	**31.6**
At 30 June 2020	–	–	9.2	9.2

The transfer of assets relates to an intragroup transaction during the year. For further details on the transactions, see Note 2.

2020 Company	Right-of-use assets
Cost	
At beginning of year	–
Adjustment on adoption of IFRS 16	13.7
At the beginning of the year (adjusted)	13.7
Additions	0.9
Reclassification of lease liabilities	1.4
At end of year	16.0
Amortisation	
At beginning of year	–
Adjustment on adoption of IFRS 16	5.1
At the beginning of the year (adjusted)	5.1
Charge for the year	1.0
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	–

Notes to the financial statements continued

All amounts are stated in £m

16. Intangible assets

Group	Computer software 2021	Computer software 2020
Cost		
At beginning of year	**18.0**	14.5
Additions	**2.0**	3.5
At end of year	**20.0**	18.0
Amortisation		
At beginning of year	**9.9**	5.7
Charge for the year	**3.1**	4.2
At end of year	**13.0**	9.9
Net book value		
At end of year	**7.0**	8.1
At beginning of year	**8.1**	8.8

Company	Computer software 2021	Computer software 2020
Cost		
At beginning of year	**–**	–
Transfer of assets	**19.9**	–
Additions	**0.4**	–
At end of year	**20.3**	–
Amortisation		
At beginning of year	**–**	–
Transfer of assets	**12.8**	–
Charge for the year	**0.5**	–
At end of year	**13.3**	–
Net book value		
At end of year	**7.0**	–
At beginning of year	**–**	–

The transfer of assets relates to an intragroup transaction during the year. For further details on the transaction, see Note 2.

17. Deferred tax asset

2021 Group	Accelerated capital allowances	Short-term timing differences	Total
At beginning of year	(0.8)	8.4	7.6
Charge to income statement	0.2	0.2	0.4
Adjustment in respect of prior years	0.2	1.1	1.3
Effect of changes in tax rates	–	1.7	1.7
At end of year	(0.4)	11.4	11.0

2020 Group	Accelerated capital allowances	Short-term timing differences	Total
At beginning of year	(0.9)	8.4	7.5
Adjustment on adoption of IFRS 16	–	0.3	0.3
Charge to income statement	0.1	(1.2)	(1.1)
Adjustment in respect of prior years	–	0.9	0.9
At end of year	(0.8)	8.4	7.6

2021 Company	Accelerated capital allowances	Short-term timing differences	Total
At beginning of year	–	0.3	0.3
Charge to income statement	(0.5)	1.3	0.8
Effect of changes in tax rates	–	0.2	0.2
At end of year	(0.5)	1.8	1.3

2020 Company	Short-term timing differences	Total
At beginning of year	–	–
Adjustment on adoption of IFRS 16	0.3	0.3
At end of year	0.3	0.3

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the Group's future tax charge accordingly. The deferred tax asset at 30 June 2021 has been calculated based on these rates, reflecting the expected timing of reversal of the related temporary differences, which led to a £1.7m increase in the value of the deferred tax asset at a Group level and an increase of £0.2m at a Company level.

18. Borrowings

Group	2021	2020
Bank facilities	–	10.0
Loan notes	2,327.7	2,729.8
Senior secured notes	935.0	786.1
Subordinated shareholder loans	29.3	28.4
Lease liabilities	29.9	11.5
	3,321.9	3,565.8
Debt issue costs	(17.9)	(15.7)
Total borrowings	3,304.0	3,550.1
Of which:		
Due for settlement within 12 months	345.8	93.6
Due for settlement after 12 months	2,958.2	3,456.5
	3,304.0	3,550.1

Notes to the financial statements continued

All amounts are stated in £m

18. Borrowings continued

Company	2021	2020
Bank facilities	–	10.0
Subordinated shareholder loans	29.3	28.4
Lease liabilities	29.9	10.5
	59.2	48.9
Debt issue costs	(0.2)	(0.1)
Total borrowings	59.0	48.8
Of which:		
Due for settlement within 12 months	0.7	10.8
Due for settlement after 12 months	58.3	38.0
	59.0	48.8

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	96.4	Sept 2021
Together ABS 2	2018	Amortising	144.7	Nov 2022
Together ABS 3	2019	Amortising	234.3	Sep 2023
Together ABS 4	2020	Amortising	303.4	Jun 2024
Together CRE1	2021	Amortising	190.4	Feb 2025
Together CRE2	2021	Amortising	241.6	Feb 2026

* The HABS facility was revolving up until June 2021 at which point it became an amortising facility. For further details, see Note 31.

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 dates for revolving facilities include an amortisation period of one year except for Lakeside ABS.

Refer to notes 2 and 31 for more details in relation to loan notes.

In 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 had an initial 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 first and second charge owner-occupied and buy-to-let residential mortgages, secured against properties in England, Wales and Scotland, and refinanced assets forming part of the Group's AA rated £1.25bn Charles Street facility.

In September 2020, the maturity date on the undrawn £71.9m revolving credit facility was extended from June 2021 to June 2023.

Subordinated shareholder loans were originally issued on 2 November 2016. They are interest-free loans totalling £68.1m, which comprised £25.1m due in 2026, after maturity extensions, and £43.0m due in 2036. In January 2021, the 2026 loans were extended to 2027. The difference between the nominal value and the initial fair value represents a capital contribution, and the extension of the 2026 notes resulted in a net decrease in the carrying value of the loans of £1.0m, and a corresponding modification gain through income which was then transferred to non-distributable reserves. The difference between the total nominal value of £68.1m and the initial fair values on origination or extension of £22.2m represents a cumulative non-distributable capital contribution of £47.9m, £9.2m of which has amortised by 30 June 2021 (30 June 2020: £7.2m). The remainder of the reserve will be released over the life of the instruments.

In January 2021, the Group announced the issuance of £500m of senior secured notes at a coupon of 5.25%. The proceeds from the issuance have been used to repay £350m of senior secured notes which were due to mature in 2024 and paid a coupon of 6.125%, and to buy back loan assets held in private securitisations and for general corporate purposes. The early redemption of the notes due in 2024 has resulted in the payment of a call penalty of £5.4m, the write-off of deferred up-front fees of £1.2m and a release of £0.7m relating to the associated issue premium. The Group also has a second tranche of senior secured notes in issue of £435m, due to mature by 2026. Further details can be found within Note 5.

In March 2021, Together successfully completed its first public securitisation backed by commercial-real-estate mortgages, the Together Asset Backed Securitisation CRE 2021-1 PLC (CRE1). The issuance resulted in £193.8m of additional funding being raised. CRE1 is supported by a portfolio of largely first-charge mortgages secured on commercial, residential and mixed-use properties in England, Wales and Scotland, and refinanced assets forming part of the Group's Highfield and Lakeside facilities.

As a result of the demand arising from the launch of CRE1, the Group completed a second such transaction in June 2021, successfully completing the Together Asset Backed Securitisation CRE 2021-2 PLC. The issuance raised external funding of £241.6m with 80% of the notes AAA rated.

Refer to Note 25 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 2021:

Group	<1 year	1-2 years	2-5 years	>5 years	Total
Loan notes	346.1	349.9	1,631.7	–	2,327.7
Senior secured notes	–	–	435.0	500.0	935.0
Subordinated shareholder loans	–	–	–	29.3	29.3
Lease liabilities	0.9	0.8	2.1	26.1	29.9
	347.0	350.7	2,068.8	555.4	3,321.9
Debt-issue costs	(1.2)	(2.1)	(8.2)	(6.4)	(17.9)
	345.8	348.6	2,060.6	549.0	3,304.0

Company	<1 year	1-2 years	2-5 years	>5 years	Total
Subordinated shareholder loans	–	–	–	29.3	29.3
Lease liabilities	0.9	0.8	2.1	26.1	29.9
	0.9	0.8	2.1	55.4	59.2
Debt-issue costs	(0.2)	–	–	–	(0.2)
	0.7	0.8	2.1	55.4	59.0

Notes to the financial statements continued

All amounts are stated in £m

18. Borrowings continued

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
Subordinated shareholder loans	–	–	–	28.4	28.4
Lease liabilities	1.4	1.2	3.3	5.6	11.5
	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
Subordinated shareholder loans	–	–	–	28.4	28.4
Lease liabilities	0.9	0.9	3.1	5.6	10.5
	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

19. Provisions and contingent liabilities

Provisions

	Customer provisions	**Other provisions**	**Total**
Balance at beginning of year	20.9	1.4	22.3
Charge for the year	0.2	11.7	11.9
Provisions utilised	(7.8)	(1.3)	(9.1)
Balance at end of year	**13.3**	**11.8**	**25.1**

As at 30 June 2021, the Group has recognised provisions of £25.1m (30 June 2020: £22.3m). Estimating the amount of provisions requires the exercising of significant levels of judgement, with the amounts representing the best estimate of the amount required to settle or transfer the obligation at the reporting date. It is possible that the ultimate outcome could differ from amounts currently provided.

As a result of undertaking internal reviews within the regulated division, 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, and has now completed remediation for all live customer accounts and have processed remediation for redeemed customers where contact and payment details have been validated. A process is ongoing to continue to contact the remaining customers.

Amounts of £3.0m relating to forbearance and customer communication remediation remain within provisions at 30 June 2021. This substantially relates to amounts remaining to be paid to customers whose loans have redeemed where the Group continues to seek to establish contact and to the costs of finalising the programme.

The Group continually focuses on improving its customer processes and responding to changes in customer needs. During the year, the regulated division continued to identify ways to improve customer experience and outcomes, including the development of a framework aimed at ensuring consistency of customer outcomes, which seeks to build upon and enhance existing practices, policies and procedures. In addition, a number of customer rate reductions were implemented during the period, including to long-standing customers, in order to offer support to them. A process is underway to assess the way that customer rates are set and reviewed, and considering those that have historically been charged to certain customers, which includes continued engagement with the regulator following their thematic review in this area.

Upon the development of the framework, the Group may make payments to certain customer populations or process reductions to loan balances. The development of the scope and definition of the parameters of the framework remains in progress and therefore there is a high degree of uncertainty pertaining to any estimated financial impact upon the Group. Uncertainty remains in relation to: the scope of application and customer populations which could possibly be included; the period which may be covered by the framework; the timeline for implementation of the framework; any amounts which may be ultimately payable under the framework; and the timing of any such payments.

The current best estimate is that the Group may incur costs of £8.5m. This represents management's best estimate at the balance sheet date, derived by considering potential scenarios which could impact upon live and redeemed loans and also comprises £1.0m which relates to estimated operational expenditure associated with these activities. However, this estimate is subject to considerable judgement and it is possible that the ultimate outcome could be materially different for the Group due to the sensitivity of the selection of certain judgements and assumptions. One scenario which was considered in deriving the overall estimate includes a larger population of customers and higher assumed levels of payments and could result in an estimated financial impact of £12.0m, which is an increase of £3.5m from the estimated provision. However, in the event that the population of customers was smaller than under the current scenario, or levels of payments were lower, the financial impact could be below the current best estimate. It is also possible that the final outcome may fall outside this range contemplated by the scenarios.

As a financial services company, the Group is required to comply with relevant legislation, and has processes in place to meet these standards and to manage any legal claims against the Group. Where such claims are received, the Group will investigate the facts and circumstances and will defend claims without merit.

Other provisions substantially represents a provision for such legal claims, which includes both legal claims already received but not yet concluded, and an expectation for future claims which are yet to be received, but relate to events which have already occurred, and the anticipated costs of undertaking these processes for claims which are received by the Group. An increase in the time period we are forecasting to receive claims over of 50% would result in an increase in the provision of £3.4m (50% decrease: reduction of £3.4m).

Contingent liabilities – fixed and floating charges

As at 30 June 2021, the Group's assets were subject to a fixed and floating charge in respect of £935m senior secured notes (30 June 2020: £785m) and £nil in respect of bank borrowings (30 June 2020: £10m).

20. Other liabilities

Group	**2021**	2020
Amounts owed to related parties	**1.4**	–
Trade creditors	**1.1**	1.1
Other creditors	**1.9**	1.5
Other taxation and social security	**0.7**	0.7
Accruals and deferred income	**52.0**	47.9
	57.1	51.2

Company	**2021**	2020
Amounts owed to related parties	**955.6**	802.9
Trade creditors	**0.6**	–
Other creditors	**1.5**	–
Other taxation and social security	**0.7**	–
Accruals and deferred income	**25.2**	2.2
	983.6	805.1

Amounts owed to other related parties of the Group are in respect of companies in which HN Moser is a director and shareholder.

Amounts owed to other related parties of the Company are primarily balances with subsidiary companies.

Notes to the financial statements continued

All amounts are stated in £m

21. Share capital

Authorised	2021	2020
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	2021	2020
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 not been issued, and the Company's directors are authorised to allot up to 10,000 E ordinary shares to holders of D ordinary shares.

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

Derivative (liabilities)/assets held for risk management	Level 1	Level 2	Level 3	Fair value	Carrying value
2021					
Interest-rate risk					
Derivative assets	–	0.6	–	0.6	0.6
Derivative liabilities	–	(1.2)	–	(1.2)	(1.2)
2020					
Interest-rate risk					
Derivative liabilities	–	(2.9)	–	(2.9)	(2.9)

The Group's derivative assets are interest-rate swaps and caps and its derivative liability is an interest-rate swap and related floor. 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.

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 analyses 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:

2021	**Level 1**	**Level 2**	**Level 3**	**Fair value**	**Carrying value**
Financial assets					
Loans and advances to customers	**–**	**–**	**4,073.3**	**4,073.3**	**4,011.9**
Financial liabilities					
Borrowings	**963.9**	**1,210.7**	**1,180.7**	**3,355.3**	**3,304.0**

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

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 (a market rate). 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.

At the onset of the pandemic, the fair value of a loan portfolio was considered to be especially uncertain and estimating its market price was deemed to be challenging. As such, for 30 June 2020 reporting, fair values were taken to be the lower of the carrying value and the modelled fair value of each individual loan. This resulted in the overall fair value of loans and advances to customers being lower than the carrying value. Given the improving economic outlook, and the prevailing conditions, we have reverted to solely using the outputs of our fair-value models for 30 June 2021 reporting. This has resulted in a fair value greater than the carrying value, reflecting the volatility in the market experienced during the year, and the improved outlook at 30 June 2021 compared to the previous period.

For borrowings, the fair value of senior secured notes is considered to be level 1, reflecting quoted prices. The fair value is now higher than the carrying value following improvement in the economic outlook at 30 June 2021.

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 observable only inputs when they are issued or refinanced. These notes are classified as level 3 with public residential mortgage-backed securities 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.

Notes to the financial statements continued

All amounts are stated in £m

23. Notes to the cash flow statement

Group	2021	2020
Adjustments for non-cash items in profit after tax:		
Net interest income	**(247.4)**	(251.3)
Changes in expected credit losses charged to income statement	**18.0**	66.7
Taxation	**19.2**	10.5
Provisions for liabilities and charges	**11.9**	21.4
Depreciation and amortisation	**5.3**	6.7
Net (gains)/losses on financial instruments	**(1.1)**	0.5
Impairment of right-of-use asset	**0.2**	–
(Gains)/losses on disposal of fixed assets	**–**	(0.1)
	(193.9)	(145.6)

	2021	2020
Changes in operating assets and liabilities		
(Increase)/decrease in loans and advances to customers	**132.3**	(534.4)
(Increase)/decrease in other assets	**0.7**	(1.5)
(Decrease) in other liabilities	**(6.6)**	(4.4)
	126.4	(540.3)

Company	2021	2020
Adjustments for non-cash items in profit after tax:		
Net interest income	**60.7**	59.6
Taxation	**(1.0)**	–
Impairment of right-of-use asset	**0.2**	–
	59.9	59.6

	2021	2020
Changes in operating assets and liabilities		
Intergroup recharges and treasury transfers	**(22.2)**	137.8
Increase/(decrease) in accruals	**16.4**	1.5
Increase in other assets	**(3.7)**	(1.1)
	(9.5)	138.2

Reconciliation of changes in liabilities arising from financing activities

As at 30 June 2021:

					Non-cash changes			
Group	At beginning of year	Net cash Flows	Lease additions	Prepaid fees	Amortisation of premiums and discounts	Modification of subordinated debt	Net other movements	At end of year
Bank facilities	10.0	(10.0)	–	–	–	–	–	–
Loan notes	2,729.8	(402.1)	–	–	–	–	–	2,327.7
Senior secured notes	786.1	150.0	–	–	(1.1)	–	–	935.0
Subordinated shareholder loans	28.4	–	–	–	2.1	(1.0)	(0.2)	29.3
Lease liabilities	11.5	(2.2)	20.6	–	–	–	–	29.9
	3,565.8	(264.3)	20.6	–	1.0	(1.0)	(0.2)	3,321.9
			–					
Net debt issue costs	(15.7)	–	–	(2.2)	–	–	–	(17.9)
Total borrowings	3,550.1	(264.3)	20.6	(2.2)	1.0	(1.0)	(0.2)	3,304.0

As at June 2020:

Group	At beginning of year	Net cash flows	IFRS 16 adjustment	Non-cash changes: Lease additions	Prepaid fees	Amortisation of premiums and discounts	Modification of subordinated loan	Reclassification of leases	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
Subordinated shareholder loans	27.1	–	–	–	–	2.1	(0.8)	–	28.4
Lease liabilities	0.8	(1.6)	10.2	1.4	–	–	–	0.7	11.5
	3,031.2	521.7	10.2	1.4	–	1.4	(0.8)	0.7	3,565.8
Net debt issue costs	(15.5)	–	–	–	(0.2)	–	–	–	(15.7)
Total borrowings	3,015.7	521.7	10.2	1.4	(0.2)	1.4	(0.8)	0.7	3,550.1

As at 30 June 2021:

Company	**At beginning of year**	**Net cash flows**	**Non-cash changes: Lease additions**	**Prepaid fees**	**Amortisation of premiums and discounts**	**Modification of subordinated loan**	**Net other movements**	**At end of year**
Bank facilities	**10.0**	**(10.0)**	**–**	**–**	**–**	**–**	**–**	**–**
Subordinated shareholder loans	**28.4**	**–**	**–**	**–**	**2.1**	**(1.0)**	**(0.2)**	**29.3**
Lease liabilities	**10.5**	**–**	**19.7**	**–**	**–**	**–**	**(0.3)**	**29.9**
	48.9	**(10.0)**	**19.7**	**–**	**2.1**	**(1.0)**	**(0.5)**	**59.2**
Net debt issue costs	**(0.1)**	**–**	**–**	**(0.1)**	**–**	**–**	**–**	**(0.2)**
Total borrowings	**48.8**	**(10.0)**	**19.7**	**(0.1)**	**2.1**	**(1.0)**	**(0.5)**	**59.0**

As at 30 June 2020:

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

Notes to the financial statements continued

All amounts are stated in £m

24. 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.

Besides the companies owned by Redhill Famco Limited, other entities owned 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	During 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 18. 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 Group pays dividends to its parent company Bracken Midco2 Limited.

c) Subsidiaries

Details of the Company's interest in its subsidiaries are listed in Note 14. 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 and the risk of the assets funded. The cost of equity funding is not charged. All amounts are repayable on demand.

d) Key management personnel

Key management personnel comprise directors of the Group. There are no transactions with directors other than the director's loan disclosed in Note 13 and remuneration in the ordinary course of business disclosed in Note 7.

Transactions

The amounts receivable from and payable to related parties by the Group and Company are disclosed in Notes 13 and 20 to the Financial statements. The Group and Company had the following transactions with related parties during the year:

	2021		2020	
Group	**Charge/ (credit) to income or equity**	**Paid**	Charge/ (credit) to income or equity	Paid
Lease and insurance costs	**1.5**	**1.2**	1.4	1.8
Accounts payable transactions	**–**	**1.0**	–	1.2
Impairment of related party loans	**0.1**	**–**	1.9	–
Interest on related party loans	**(0.2)**	**–**	(0.6)	–
Net provision of treasury funding	**–**	**(2.7)**		
Related parties of HN Moser	**1.4**	**(0.5)**	2.7	3.0
Interest expense	**1.0**	**–**	2.1	–
Dividends paid	**52.7**	**52.7**	15.6	15.6
Parent companies	**53.7**	**52.7**	17.7	15.6
Total related parties	**55.1**	**52.2**	20.4	18.6

	2021		2020	
Company	**Charge/ (credit) to income or equity**	**Paid/ (received)**	Charge/ (credit) to income or equity	Paid
Interest expense	**1.0**	**–**	2.1	–
Dividends paid	**52.7**	**52.7**	15.6	15.6
Parent companies	**53.7**	**52.7**	17.7	15.6
Depreciation expense of right-of-use assets	**1.0**	**–**	1.0	–
Interest expense on lease liabilities	**0.6**	**–**	0.5	–
Interest recharges	**(6.0)**	**–**	(5.5)	–
Net provision of treasury funding	**–**	**10.7**	–	(140.5)
Subsidiary companies	**(4.4)**	**10.7**	(4.0)	(140.5)
Total related parties	**49.3**	**63.4**	13.7	(124.9)

Notes to the financial statements continued

All amounts are stated in £m

25. Leases

The Group occupies two head-office buildings. During the year, revisions were made to the terms of both leases resulting in a remeasurement of the Group's lease liability and a modification adjustment to the corresponding right-of-use asset.

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 2021 and year ended 30 June 2020:

2021	Administrative expenses £m	Interest expense £m	Total £m
Depreciation expense of right-of-use assets	1.0	–	1.0
Interest expense on lease liabilities	–	0.6	0.6
Total recognised in the income statement	1.0	0.6	1.6

2020	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 2021 and the year ended 30 June 2020.

	2021		2020	
Group	Right-of-use assets – leasehold property £m	Lease liabilities £m	Right-of-use assets – leasehold property £m	Lease liabilities £m
As at beginning of year	9.2	(11.5)	8.6	(11.0)
Additions	5.3	(5.6)	0.9	(1.4)
Modifications	14.4	(14.4)	–	–
Depreciation expense	(1.0)	–	(1.0)	–
Interest expense on lease liabilities	–	(0.6)	–	(0.5)
Payments	–	2.2	–	2.1
Reclassification	–	–	0.7	(0.7)
Impairment	(0.2)	–	–	–
As at end of year	27.7	(29.9)	9.2	(11.5)

The lease liabilities analysis includes hire purchase obligations for motor vehicles. The Group had total cash outflows for leases of £2.2m during the year ended 30 June 2021 (2020: £2.1m).

	2021		2020	
Company	Right-of-use assets – leasehold property £m	Lease liabilities £m	Right-of-use assets – leasehold property £m	Lease liabilities £m
As at beginning of year	9.2	(10.5)	8.6	(10.2)
Additions/transfers	5.3	(6.6)	0.9	(0.6)
Modifications	14.4	(14.4)	–	–
Depreciation expense	(1.0)	–	(1.0)	–
Interest expense on lease liabilities	–	(0.6)	–	(0.5)
Payments	–	2.2	–	1.5
Reclassification	–	–	0.7	(0.7)
Impairment	(0.2)	–	–	–
As at end of year	27.7	(29.9)	9.2	(10.5)

26. Pension arrangements

During the year the Group contributed to employees' personal pension plans. The total cost for the year amounted to £1.3m (2020: £1.4m).

27. 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.

28. Commitments

The Group has commitments to extend credit which are not recorded on the balance sheet. This includes both the undrawn element of existing facilities and new commitments to lend.

As 30 June 2021, the Group had undrawn commitments to lend of £106.2m (30 June 2020: £88.4m). These relate mostly to lines of credit granted to existing customers for property development. The amounts do not represent the amounts at risk at the reporting date but the amounts that would be at risk should the facilities be fully drawn upon and should the customer default.

The ECL on the undrawn elements of existing facilities is included within the total ECL held within net loans and advances to customers. The ECL on new lending commitments is £0.2m (2020: £nil), and is classified within other liabilities.

29. Reforms of benchmark interest rates

The Group is exposed to sterling Libor which, for the Group's instruments, is expected to be discontinued on 31 December 2021 due to interest-rate benchmark reform. The exposures arise on derivatives and non-derivative financial liabilities. It will be necessary to transition to an alternative benchmark rate, also referred to as near-risk-free rates or RFRs. The RFR for sterling Libor will be the reformed sterling overnight index average (Sonia).

Progress towards implementation of alternative benchmark interest rates

The Group's mortgage loans do not directly reference Libor, and its only significant use is as a reference rate for some of the Group's floating-rate borrowings and, in two cases, their related hedging arrangements. The Group's preparations for the discontinuance of sterling Libor are under close management by the treasury department to minimise the risk to the business's performance and activities. The Group has been progressing the transition to Sonia with its banks and advisors. Subsequent to the year end arrangements have been completed for two of its sterling-Libor facilities, as set out below. For the remaining facilities discussions are at an advanced stage and on track for resolution in good time for 31 December 2021.

Risks arising from the interest-rate benchmark reform

The key potential risks for the Group arising from the transition are:

- Interest-rate basis risk: this risk arises if negotiations with counterparties are not successfully concluded before the cessation of Libor, or if negotiations result in derivative and non-derivative instruments in a hedging relationship transitioning at different times, with different adjustment spreads or to different calculation methodologies. Group management is working with all counterparties to avoid this from occurring and, on the basis of the discussions so far, believes the likelihood of such a risk crystallising is very low.
- Accounting: if transition to Sonia is executed such that it does not permit the application of the reliefs in the Phase 2 amendments to IFRS 9, this could lead to volatility in the income statement as a result of the discontinuation of hedge-accounting relationships or if non-derivative financial instruments are modified or derecognised. However, the Group is aiming to agree changes to contracts that would allow IFRS 9 reliefs to apply, and any risk is considered very low.
- Operational risk: the implementation of alternative benchmark rates will require changes which potentially give rise to operational risks. The Group has plans in place to control the implementation of these changes to minimise the risk of such issues arising.

Interest-rate benchmark transition for non-derivative financial liabilities

The Group is already using Sonia as the reference rate for floating-rate notes and derivative contracts in its most recent securitisations. For its facilities referencing Libor, the Group is actively managing the transition to Sonia. All facilities to be transitioned by specific contract amendments will also require the agreement of spread adjustments to reduce or eliminate, to the extent reasonably practicable, any transfer of economic value from one party to another as a result of the transition to Sonia.

Notes to the financial statements continued

All amounts are stated in £m

29. Reforms of benchmark interest rates continued

The table below summarises the year-end position for the sterling-Libor financial liabilities that are in scope of the IFRS 9 amendments due to interest-rate benchmark reform. The amounts represent the total facility size and so include notes that pay interest at commercial-paper rates, as well as notes that reference Libor.

Non-derivative financial liability	Maturing in	Total facility	Hedge accounting	Transition progress
Revolving credit facility	June 2023	71.9	N/a	On track to finalise by December 2021
Private securitisation loan notes				
Charles Street ABS	September 2023	1,255.0	Partially designated in cashflow hedge	On track to finalise by December 2021
Lakeside ABS	November 2023	500.0	N/a	On track to finalise by December 2021
Highfield ABS	June 2022	525.0	N/a	Transitioned to Sonia subsequent to 30 June 2021
Delta ABS2	March 2023	200.0	N/a	On track to finalise by December 2021
Public securitisation loan notes *				
Together ABS1	September 2021	96.4	N/a	Facility extinguished subsequent to 30 June 2021
Together ABS2	November 2022	144.7	Partially designated in cashflow hedge	On track to finalise by December 2021

* The stated maturity dates for the public securitisations are aligned to the maturity/call dates disclosed in Note 18. The stated nominal amounts represent the amounts outstanding at the end of the period.

To ensure the timely transition to Sonia, the Group will refinance its facilities in line with its funding plans in accordance with its strategy of refinancing facilities ahead of their maturities; where such refinancing activities will occur after the December 2021 transition date the Group plans to agree contact amendments with counterparties.

Interest-rate benchmark transition for derivatives and hedge relationships

The Group uses sterling-Libor derivatives for hedging purposes in only two of its securitisations, Charles Street ABS (CABS) and Together ABS2 (TABS 2). CABS uses a combined interest-rate swap and floor and TABS 2 uses a cap. All derivatives are subject to reform and the notional amounts can be found within Note 12. The Group's discussions with its investors and banks are at an advanced stage and on track for finalisation in good time for December 2021.

30. 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.

31. Events after the reporting date

In July 2021, the Group announced the launch of the Brooks ABS facility. This is a new type of facility secured on loans with some degree of arrears or imperfect credit history. The Brooks ABS facility raised £71m of external funding.

In September 2021 the Group refinanced its £525m Highfield ABS facility, extending its maturity date from June 2022 to September 2025 and improving commercial terms.

In early September 2021 the Group announced the pricing of its inaugural 1st charge only RMBS, the £318m Together Asset Backed Securitisation 2021 – 1ST1 PLC RMBS ('TABS 5'). The £318m facility is expected to have 89% of its notes rated AAA.

Also in September 2021 the Group exercised its option to redeem the loan notes in its first residential-mortgage-backed securitisation, Together ABS 1, taking back beneficial title to the mortgage assets that had previously been securitised.

Glossary

2026 Senior Secured Notes (SSNs 2026)	£435m senior secured notes issued by a subsidiary of the Group, Jerrold Finco PLC.
2026 Senior Secured Notes (SSNs 2027)	£500m 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.
Brooks ABS 1	Brooks Asset Backed Securitisation 1 Limited – this is an amortising facility, which raised £71.0m against a loan portfolio of £96.2m with a contractual maturity of January 2026 and an option to call the facility in July 2025. The facility is secured on loans with some degree of arrears or imperfect credit histories.
BTL	Buy-to-let.
Capital risk	The risk that the Group fails to hold adequate capital buffers and to appropriately manage the Group's capital base.
Charles Street ABS	Charles Street Conduit Asset Backed Securitisation 1 Limited - £1,255m facility with a maturity date of September 2023.
Company	Together Financial Services Limited is a private company, limited by shares, and is registered in England (company number: 02939389).
Compliance risk	The risk arising from the failure to comply with existing or new legislation or regulations in the markets within which the Group operates.
Conduct risk	The risk arising from business activities that fail to deliver appropriate and consistent outcomes to customers and stakeholders.
Credit risk	The risk arising as result of default by customers or counterparties due to failure to honour obligations when they fall due.
Delta ABS 1	Delta Asset Backed Securitisation 1 Limited - £90m facility with a maturity date of January 2021. This was fully repaid on 29 March 2019.
Delta ABS 2	Delta Asset Backed Securitisation 2 Limited - £200m facility with a maturity date of November 2023.
Development loans	Development loans are loans that we extend to finance the development of land or property primarily into residential units with repayments typically being made out of the sale of the units.
EBITDA	Earnings before interest, tax, depreciation and amortisation. The calculation of this is shown in the 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.
ESG	Environment, Society and Governance.
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 as of 30 June 2021, subsequently refinanced with a maturity date of September 2025.
IFRS	International Financial Reporting Standards.
IFRS 16	International Financial Reporting Standard 16 - Leases. This standard replaced International Accounting Standard 17 - Leases. The Group adopted this standard from 1 July 2019.
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 at an acceptable cost.
Loan book	This refers to the gross loans and advances to customers before impairment allowances.
Loan originations	The process of creating a loan(s) or mortgage(s).
Loss given default (LGD)	An estimate of the likely loss percentage in the event of a default.
LPA	Law of Property Act. The act provides a means by which a secured lender can gain control of a freehold property against a defaulting borrower.

Glossary continued

Loan to value (LTV)	The ratio of the carrying amount of a mortgage loan to the appraised value of the property securing the loan. The carrying amount is calculated as 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. less allowances for impairments, and v. other accounting adjustments (including adjustments to recognise income at the effective interest rate). The appraised value is typically: i. the assessed value of real property in the opinion of a qualified appraiser or valuer, or ii. derived from an automated valuation model during the mortgage origination process, or iii. the revised valuation of the property if a later valuation has been undertaken.
Market risk	The risk arising from the Group's exposure to movements in market values, including movements in interest rates.
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 its securitisation vehicles listed in Note 14 to the Financial Statements.
Shareholder funds	Equity and subordinated shareholder loans. 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, or from an inability to adapt to the external environment.
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 against a loan portfolio of £366.0m with a contractual maturity of December 2061 and an option to call the facility in June 2024.
Together CRE1	Together Asset Backed Securitisation 2021 – CRE1 PLC – this is an amortising facility which raised £194.3m against a loan portfolio of £200.0m with a contractual maturity of January 2055 and an option to call the facility in February 2025.
Together CRE2	Together Asset Backed Securitisation 2021 – CRE2 PLC – this is an amortising facility which raised £241.6m against a loan portfolio of £249.0m with a contractual maturity of August 2052 and an option to call the facility in February 2026.
Underlying profit before tax	Underlying profit before tax (PBT) is the Group's statutory profit before tax adjusted for one-off exceptional items. In 2021, underlying PBT excluded one-off refinancing and transaction costs of £5.9m as well as a release of £6.5m relating to redundancy costs and certain customer provisions. In 2020 underlying PBT excluded one-off refinancing and transactions costs of £6.7m and customer-related provisions 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. In 2021, underlying PAT excluded one-off refinancing and transaction costs of £5.9m as well as a release of £6.5m relating to redundancy costs and certain customer provisions. In 2020 underlying PAT excluded one-off refinancing and transactions costs of £6.7m and customer-related provisions of £17.2m.
Weighted average LTV of originations	The average LTV on originations is calculated on a weighted-average basis, by multiplying the LTV of each origination by the respective principal loan amount and then dividing by the total of the originations' principal amounts.
Weighted average indexed LTV of portfolio	The average LTV of our loan portfolio is calculated on a weighted-average basis, by multiplying each loan's LTV by the respective loan amount and then dividing the sum 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 values 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

In the reporting of financial information, we use certain measures that are not required under IFRS, the generally accepted accounting principles under which we report. These measures are consistent with those used by management to assess underlying performance. In addition, a number of non-IFRS metrics are calculated which we consider to be helpful in understanding the performance of the Group.

These alternative performance measures have been defined below:

Cost of risk

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

	2021 £m	2020 £m
Impairment charge	16.1	66.9
Average net loans and advances to customers	4,087.0	3,928.3
	0.4%	1.7%

Cost/income ratio

Administrative expenses including depreciation and amortisation divided by operating income

	2021 £m	2020 £m
Administrative expenses	86.2	92.8
Operating income	252.6	254.3
	34.1%	36.5%

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 cost relating to 2021 senior secured notes.

	2021 £m	2020 £m
Administrative expenses	86.2	92.8
Less redundancy costs	(1.7)	–
Plus forbearance and customer communication provision releases	8.2	(17.2)
Administrative expenses excluding exceptional	92.7	75.6
Operating income	252.6	254.3
Add back refinance cost	5.9	6.7
Operating income excluding exceptional	258.5	261.0
Underlying cost/income ratio	35.9%	29.0%

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

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

	2021 £m	2020 £m
Profit before tax	150.3	94.6
Add back:		
Interest payable and similar charges	123.5	137.1
Depreciation and amortisation	5.3	6.7
	279.1	238.4

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

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

	2021 £m	2020 £m
EBITDA	279.1	238.4
Add back:		
Redundancy costs	1.7	–
(Less forbearance and customer communication provision releases)/plus additional forbearance and customer communication provisions	(8.2)	17.2
Underlying EBITDA	272.6	255.6

Alternative performance measures
continued

Interest cover ratio
The ratio of EBITDA to interest payable and similar charges.

	2021 £m	2020 £m
EBITDA	279.1	238.4
Interest payable and similar charges	123.5	137.1
	2.26:1	1.74:1

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.

	2021 £m	2020 £m
Underlying EBITDA	272.6	255.6
Interest payable and similar charges	123.5	137.1
Add back:		
Refinancing cost	(5.9)	(6.7)
	117.6	130.4
Underlying interest cover ratio	2.32:1	1.96:1

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.

	2021 £m	2020 £m
Loan notes	2,327.7	2,729.8
Senior secured notes	935.0	786.1
Bank facilities	–	10.0
Less senior secured notes premium	–	(1.1)
Less cash and cash equivalents	(228.6)	(252.5)
Net debt	3,034.1	3,272.3
Loans and advances to customers	4,011.9	4,162.2
	75.6%	78.6%

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

	2021 £m	2020 £m
Net interest income	247.4	251.3
Average loans and advances to customers	4,087.0	3,928.3
	6.1%	6.4%

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.

	2021 £m	2020 £m
Net interest income	247.4	251.3
Add back:		
Refinancing cost	5.9	6.7
Adjusted net interest income	253.3	258.0
Average loans and advances to customers	4,087.0	3,928.3
	6.2%	6.6%

Underlying profit before tax

Calculated as Group's statutory profit before tax adjusted for one-off exceptional items.

	2021 £m	2020 £m
Profit before tax	150.3	94.6
Add back:		
Refinancing cost	5.9	6.7
Redundancy costs	1.7	–
(Less forbearance and customer communication provision releases)/plus additional forbearance and customer communication provisions	(8.2)	17.2
	149.7	118.5

Return on equity (ROE)

Calculated as profit after tax adding back shareholder loan interest net of associated tax using the effective tax rate, expressed as a percentage of the average of the opening and closing shareholder funds (which include shareholder loans of £29.3m (2020: £28.4m)).

	2021 £m	2020 £m
Profit after tax	131.1	84.1
Add back shareholder loan interest	1.0	2.1
Less tax on shareholder loan interest	(0.1)	(0.2)
Total return to shareholder funds	132.0	86.0
Average shareholder funds	896.7	825.2
	14.7%	10.4%

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 £29.3m (2020: £28.4m) adjusted for exceptional items during the period).

	2021 £m	2020 £m
Total return to shareholder funds	132.0	86.0
Add back exceptional items:		
Redundancy costs	1.7	–
(Less forbearance and customer communication provision releases)/plus additional forbearance and customer communication provisions	(8.2)	17.2
Refinancing cost	5.9	6.7
	(0.6)	23.9
Less tax on exceptional costs using effective tax rate	0.1	(2.7)
	(0.5)	21.2
Underlying return to shareholder funds	131.5	107.2
Underlying average shareholder funds	908.5	835.8
	14.5%	12.8%

Cost/asset ratio

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

	2021 £m	2020 £m
Administrative expenses	86.2	92.8
Average total assets	4,375.8	4,148.2
	1.97%	2.24%

Alternative performance measures
continued

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.

	2021 £m	2020 £m
Administrative expenses	**86.2**	92.8
Less redundancy costs	**(1.7)**	–
Plus forbearance and customer communications provision releases/(less additional forbearance and customer communications provisions)	**8.2**	(17.2)
Adjusted administrative expenses	**92.7**	75.6
Average total assets	**4,375.8**	4,148.2
	2.12%	1.82%

Shareholder funds

Equity plus subordinated shareholder loans of £29.3m (2020: £28.4m).

	2021 £m	2020 £m
Equity	**907.7**	828.0
Shareholder loans	**29.3**	28.4
	937.0	856.4

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

Consultancy, design and production by:
jonesandpalmer.co.uk

Lake View
Lakeside
Cheadle
Cheshire
SK8 3GW

togethermoney.com