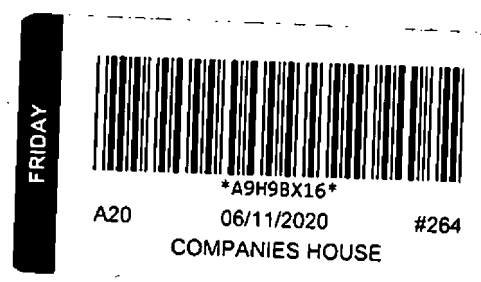




Harpmanor Limited
Annual Report and Financial Statements
For the year ended 30 June 2020



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Officers and professional advisers

Directors

GD Beckett
W Bowser*
MR Goldberg
RM McTighe*
HN Moser
GM Grimes

(Appointed 20 May 2020)

* Non-Executives

Secretary

SE Batt

Registered office

Lake View
Lakeside
Cheadle
Cheshire
SK8 3GW

Auditor

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

Strategic report

The directors present their annual report and the audited financial statements for the year ended 30 June 2020.

Business review

Business model and strategy

The principal activity of Harpmanor Limited ('the Company') continues to be that of mortgage lender. The Company is a wholly-owned subsidiary of Together Financial Services Limited which, with its subsidiaries, operates as the Together Group of businesses ('the Group').

The Together Group conducts its new lending business through other subsidiaries. Accordingly, the Company has ceased to originate new loans but continues to service a closed loan portfolio.

The Company services all its loans in house and all operations are based at its head office in Cheadle, Manchester.

Covid-19 and the macroeconomic environment

The emergence of Covid-19 as a global pandemic has led to significant disruption to the world economy and there is little certainty in the economic outlook. The UK, in common with other countries around the world, has fallen into a severe recession, GDP at the end of June 2020 having fallen 22% from its pre-pandemic level, although the easing of lockdown restrictions has already resulted in signs of recovery. Amongst other impacts, macroeconomic uncertainty may affect the availability and pricing of wholesale funding, reduce customer confidence, reduce customers' ability to service and repay their loans which may in-turn affect our ability to comply with the covenants in our funding structures, increase operating costs and impact property values.

The Company's response to the pandemic has been to focus on: supporting our customers including those in need of a mortgage-payment deferral or other support; protecting our colleagues; and safeguarding the financial resilience of the business. We rapidly adapted to new ways of working and took early and decisive actions to preserve and improve our capital and liquidity buffers.

In February 2020, business continuity plans were invoked to immediately safeguard colleagues and to quickly develop the operational and IT infrastructure to enable the vast majority of colleagues to work from home. Measures required to support a safe and phased return to the office for a number of our colleagues, including social distancing, personal temperature testing and enhanced cleaning procedures have been put in place.

In March 2020 the government announced that mortgage lenders should grant mortgage-payment deferrals to certain residential borrowers facing short-term financial stress and requesting assistance. The mortgage-payment deferrals were originally for up to three months, and the scheme was also available to buy-to-let borrowers as a means of extending relief to tenants. The government subsequently allowed borrowers to extend the deferral period by up to a further three months where necessary, while encouraging those able to resume payments to do so. The Company has offered payment deferrals not only to borrowers covered by the government's criteria but also to certain other customers.

The enduring nature of the pandemic has meant that, despite our actions to date, for the long-term good of the business in September 2020 it has been necessary to announce redundancies for colleagues, whose roles could no longer be supported under the Group's revised plans.

The Company was in a strong position entering the Covid-19 pandemic and, with the actions taken during the crisis and the Group's ongoing programme to modernise the business, we will be well positioned for the future. As we emerge from the crisis and shape our business for the future, we believe a significant market opportunity will exist for specialist lenders like Together to play our part in helping our customers, wider society and by doing so supporting the UK's economic recovery.

The way people live and work is evolving rapidly and this process is expected to escalate as a result of the Covid-19 pandemic. As increasing numbers of people may find their situations have changed as a result of Covid-19, our focus on delivering common sense lending is more relevant than ever.

The Company's long-term strategy of prudent loan-to-value (LTV) lending provides significant mitigation from such uncertain economic times further supported by high levels of profitability. The Company's approach to managing risks is explained in the Principal risks and uncertainties section below.

Strategic report (continued)

Business review (continued)

Results

As shown in the Company's statement of comprehensive income on page 13, profit before tax has decreased to £2.8m (2019: £4.3m), which is a reflection of the reduction in loans and advances to customers described below. Net interest margin¹ decreased from 9.0% to 7.9% for the year ended 30 June 2020 primarily driven by the redemption of higher-yielding loans originated in previous years, leaving a mix of lower customer rate loans that were made in a more competitive market.

Position

As shown in the statement of financial position on page 14, loans and advances to customers have decreased by 17.3% to £42.5m (2019: £51.4m) as new mortgages are now originated through other subsidiaries in the Together Group and the Company's existing mortgage portfolio is reducing as customers repay their loans. At the same time, equity has increased by 28.4% to £10.4m (2019: £8.1m) due to the retained profit for the year.

Liquidity and funding activity

The Company is partly financed by its parent company, Together Financial Services Limited, which itself is party to a revolving credit facility and through another Group company has issued senior secured notes. The non-securitised assets of the Company are subject to a fixed and floating charge in respect of these facilities. In addition the activities of the Company are also financed by Group securitisation facilities including various public residential mortgage-backed securitisations and private revolving securitisation facilities; Charles Street Conduit Asset Backed Securitisation 1 Limited ('Charles Street ABS') originated in November 2007 and a commercial real-estate warehouse facility Highfield Asset Backed Securitisation 1 Limited ('Highfield ABS') originated in June 2018. These facilities are secured on specific loan assets of the Company ('securitised assets').

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

The Board of Together Financial Services Limited has confirmed that it will continue to provide funding to the Company for 12 months from the date of this report.

Detail on the management of liquidity and funding risk is discussed in Principal risks and uncertainties section on Page 6 and further detail on the going concern assessment is set out in Note 2 to the financial statements.

Regulatory and legal considerations

The Company's operations are affected by a number of laws and regulations. The Company also has to comply with the relevant UK and EU regulations including anti-money laundering regulations, the EU General Data Protection Regulation, and the EU Securitisation Regulations.

¹ Net interest margin is calculated by dividing net interest income by the average of the opening and closing net loans and advances to customers.

Strategic report (continued)

Corporate governance

The Company is a wholly owned subsidiary of Together Financial Services Limited. The Company's Board provides leadership and oversight in line with legal and regulatory provisions. The Board has the responsibility for oversight of the risks set out in the principal risks and uncertainties section below.

Principal risks and uncertainties

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 Company is exposed to changes in the financial position of its customers, which may adversely impact their ability to make loan repayments. The level of this risk is driven both by macroeconomic factors and by factors relating to specific customers such as a change in the borrower's circumstances. Credit risk also arises if the value of assets used as security for loans falls in value, given this is the primary source of recourse should a borrower fail to repay amounts due.

Credit risk is managed and mitigated by:

- 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, where appropriate, and are tailored to the customer and loan type.
- Responding to changing market conditions, such as the worsening economic conditions since March 2020 by pausing new applications and tightened lending criteria, including lower maximum LTVs and increased thresholds for affordability assessments.
- Monitoring of customer performance throughout the life of the loan, with regard to arrears, proactive collections strategies, application of mortgage-payment deferrals in response to Covid-19.
- Capturing additional data and establishing enhanced monitoring of the specific risks posed to the portfolio by Covid-19 and the impact of customers in receipt of mortgage payment deferrals. This has included accessing additional data, where appropriate, from open banking and credit reference agencies.
- Updated arrears management standards and processes to reflect the latest government guidance on mortgage-payment deferrals.
- Monitoring of credit risk exposures through credit risk management information to enable an assessment of position versus risk appetite. This has been enhanced to provide further analysis and focus on particular risk factors emerging as a result of coronavirus.
- Macroeconomic sensitivity analysis of the loan book, including an increase in the number of scenarios modelled for the purpose of calculating the impairment loss allowance.
- Measuring and monitoring credit quality for impairment purposes using a suite of IFRS 9 models. Our detailed disclosures in respect of IFRS 9 credit modelling are included within Notes 2, 3 and 8 to the financial statements.

Liquidity and funding risk

Liquidity risk is the risk that the Company 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.

An overview of the Group's sources of funding and activities during the year, which are applicable to this Company, are included within the Business Review, which sets out that the Company is partly financed by its parent company and therefore liquidity and funding risk is managed and mitigated at a Group level by:

- Close monitoring of liquidity risk against limits and triggers to provide early identification of any liquidity stress.
- Regular stress testing, including on a forecast basis, to test the ability of the Group to meet its obligations under normal and stressed conditions which are modelled and monitored against a 150-day survival period.
- Development of additional forecast cash-flow scenarios and stress-testing in response to the economic and market disruptions following the outbreak of coronavirus.

Strategic report (continued)

Principal risks and uncertainties (continued)

Liquidity and funding risk (continued)

- Regular monitoring and reporting of compliance with financial covenants and representations, and proactively seeking waivers in respect of mortgage payment deferrals to align with government guidance.
- Reporting of management information which includes a range of additional quantitative measures of liquidity risk.
- Closely managing total liquidity resources, including cash, redemption cashflows, access to funding from securitisations and access to a revolving credit facility.
- Forecasting of expected cash inflows and outflows, including the outstanding pipeline of loan offers, and monitoring of actual cashflows.
- Only placing surplus cash balances on overnight deposit ensuring they remain immediately available.
- The utilisation of a range of medium to long-term funding sources.
- Diversification of funding sources.
- Maintenance of prudent headroom in facilities.
- Regular engagement with banks and investors.
- Maintenance of depth of maturity through regular new issuances and timely refinancing of existing sources of funding, when wholesale markets are available.
- Monitoring individual funding maturity dates and maturity concentrations.
- Undertaking liquidity and funding stress tests of our ability to withstand the emergence of risks under normal and stressed conditions.

Based on the Group's business model of funding primarily via securitisation programmes and bond markets, the Group has set risk appetites for both liquidity and funding risks. This provides a level of assurance that the Group is able to meet its liabilities and commitments when they fall due, and holds sufficient headroom, with acceptable depth of maturity, to support anticipated loan book growth and to survive a stress event in line with the appetite set by the Group. Liquidity, funding, and capital risk (see Capital Risk below) are closely related given capital provides the necessary subordination to each of the facilities, which in turn provide liquidity.

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

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

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

An overview of the Group's sources of funding and activities during the year, which are applicable to this Company, are included within the Business Review.

Strategic report (continued)

Principal risks and uncertainties (continued)

Market risk

Market risk is the risk arising from adverse movements in market values, including movements in interest rates.

The Company does not carry out proprietary trading or hold positions in assets or equities which are actively traded, and the key market risk faced by the Company is interest rate risk, the risk of loss through mismatched asset and liability positions sensitive to changes in interest rates.

Interest rate risk is managed and mitigated at a Group level by:

- Regular monitoring of interest rate risk exposure, including a forward-looking view which incorporates new business assumptions and expected redemptions.
- Closely monitoring the impact of a range of possible interest rate changes on the Group's performance and strategy and comparing to agreed Board appetite limits.
- Undertaking hedging transactions as appropriate.

The Company's performance is not considered at material risk from changes in interest rates that are reasonably expected for the next twelve months.

Operational risk

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

Operational risk is managed and mitigated for the Group and Company by:

- A framework of systems, controls, policies and procedures.
- Frameworks to recruit, train and retain sufficient skilled personnel. This includes succession planning and identification and mitigation of reliance on key individuals.
- Utilising a Risk and Control Self-Assessment approach to identify, manage and monitor key operational risks.
- A documented and business continuity plan that is periodically tested.
- A specialist business change team dedicated to managing the change projects the business is undertaking.
- Maintaining IT infrastructure, which is sufficiently resilient.
- Investment in cyber risk prevention systems, resulting in a mature cyber security capability which includes:
- A dedicated cyber security team focused on prevention and detection.
- Top tier industry standard tools for both anti-virus and firewalls, using multiple vendors to maximise protection.
- Market leading detection tools, continually monitoring the IT network and data.
- Full penetration testing for externally facing networks.
- Encryption of all mobile devices.

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

- The instigation of daily meetings by the leadership team to review and direct the Group's operational response to Covid-19 and an increase in the frequency of Group Board and Risk Committee meetings to facilitate rapid decision-making.
- Rapid expansion of the IT and operational capability for colleagues to work from home.
- Adaption of systems of internal controls to support remote working.
- Changes to operational processes and IT systems to assist customers facing financial difficulty and offer mortgage-payment deferrals.
- Development of HR procedures and communications strategy to support colleagues and to support their ongoing wellbeing.
- Close monitoring of human resource levels to meet new and changing demands.
- Review of arrangements with suppliers and implementation of contingency procedures.
- The Group has demonstrated an ability for the vast majority of our colleagues to work from home, and have also now put in place detailed social distancing, personal temperature testing and enhanced cleaning procedures to support a safe and phased return to the office for a number of our colleagues.

Strategic report (continued)

Principal risks and uncertainties (continued)

Conduct risk

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

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

Conduct risk, also discussed within the Corporate Governance report, is managed and mitigated for the Group and Company by:

- The communication of the Groups Beliefs, set by the Group and adopted by the Company, focus on colleague conduct, respect, accountability and customer experience.
- Annual training and awareness sessions for colleagues.
- Products are approved through a 'Product Governance framework' with a focus on customer needs.
- Adherence to a system of processes and controls which mitigate conduct risk.
- Identifying and supporting customers when things go wrong, for example, through listening to customers and complaint handling.
- Root cause analysis of complaints or failings, focusing on continuous improvement aiming to identify where we could improve the outcome for customers.
- Quality assurance frameworks have recently been updated to include a focus on those customers impacted by Covid-19.

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

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 Company operates. This includes the risk that the Company misinterprets regulation or legislation. This could include the risk of developing business practices and processes that do not adhere to, or are not in line with the spirit of the law or regulation, leading to customer dissatisfaction or detriment, legal action against the Group and/or potentially fines from the regulator.

Compliance risk is managed and mitigated by:

- Quality assurance reviews in operational areas with oversight provided by experienced risk and quality assurance departments.
- Independent monitoring reviews undertaken by second-line teams.
- Continued investment in staff training and awareness.
- Delivery of significant regulatory initiatives with the support of a dedicated change delivery department and in accordance with the Group's 'Change Delivery Framework' 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.
- Monitoring of compliance with legal obligations by an in-house legal department.
- Monitoring processes to assess compliance with the requirements of GDPR.
- Horizon scanning and impact assessments of potential regulatory and legal change.

The Company and the Group also consider risks arising in relation to other key stakeholders such as our shareholders, investors and banks, intermediaries, colleagues, and our community. This includes both the impact to our operations from their actions, or the failure of a key stakeholder, and also the impact of our actions on our relationship with stakeholders.

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



MR Goldberg
Director
23 October 2020

Directors' report

Directors' report

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

- The Company's strategy, business model and likely future developments can be found within the Strategic report.
- The Company's principal risks and risk management processes are set out in the Strategic report.
- The Group's governance arrangements can be found within the Strategic report.
- Events taking place after the balance sheet are disclosed in Note 16 to the accounts.

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.

Results and dividends

The results for the year are set out in the Business Review within the Strategic Report. There was no dividend paid during the year (2019: £nil). The directors of the company do not recommend the payment of a dividend.

Employees

The Company has no employees (2019: nil). Directors' emoluments and wages and salaries relating to employees of the Group are borne by a fellow subsidiary company of Together Financial Services Limited, Blemain Finance Limited, and recharged to the Company, in line with approved methodologies.

Environment

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

Statement of going concern

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

The Company is reliant on its parent company, Together Financial Services Limited, for financial support. The Board of Together Financial Services Limited has confirmed that it is a going concern and that it will provide financial support to the Company for the 12 months from the date of signing the Company's accounts. Further detail on the going concern assessment is set out in Note 2 to the financial statements.

On the basis that the Company has adequate funding and support as detailed above, together with its current performance and financial position, the directors have a reasonable expectation that the Company will have sufficient funding and liquidity to continue in operational existence for the foreseeable future. Accordingly, the directors of the Company have adopted the going concern basis in preparing the financial statements. Further detail on the going concern assessment is set out in Note 2 to the financial statements.

Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Company is contained in the Strategic Report.

Directors' report (continued)

Directors' report (continued)

Audit information

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

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

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

This statement is given and should be interpreted in accordance with the provisions of s.418 (2) of the Companies Act 2006.

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



MR Goldberg
Director
23 October 2020

Statement of directors' responsibilities

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 '*Reduced Disclosure Framework*'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards 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 inappropriate to presume that the Company will continue in business.

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

Independent auditor's report

Independent auditor's report to the members of Harpmanor Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Harpmanor Limited for the year ended 30 June 2020 which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity and the related notes 1 to 16, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 June 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

Other information

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Independent auditor's report (continued)

Report on the audit of the financial statements (continued)

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 10, 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 company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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

DocuSigned by:
Blake Adlem
459B8AD1892A4DC...

Blake Adlem (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester
26 October 2020

Statement of comprehensive income
Year ended 30 June 2020
Unless otherwise indicated, all amounts are stated in £m

Income statement	Note	2020	2019
Interest receivable and similar income	4	5.2	7.3
Interest payable and similar charges	5	(1.5)	(1.8)
Net interest income		3.7	5.5
Fee and commission income		0.1	0.1
Operating income		3.8	5.6
Administrative expenses	6	(0.7)	(1.3)
Operating profit		3.1	4.3
Impairment losses	8	(0.3)	-
Profit before taxation		2.8	4.3
Income tax	7	(0.5)	(0.8)
Profit after taxation		2.3	3.5

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

Statement of financial position

As at 30 June 2020

Unless otherwise indicated, all amounts are stated in £m

	Note	2020	2019
Assets			
Cash and cash equivalents		0.7	1.2
Loans and advances to customers	8	42.5	51.4
Other assets	9	0.1	0.2
Deferred tax asset	10	0.2	0.3
Total assets		43.5	53.1
Liabilities			
Borrowings	11	25.8	31.6
Other liabilities	12	7.3	13.0
Current tax liabilities		-	0.4
Total liabilities		33.1	45.0
Equity			
Share capital	13	-	-
Retained earnings		10.4	8.1
Total equity		10.4	8.1
Total equity and liabilities		43.5	53.1


These financial statements were approved and authorised for issue by the Board of Directors on 23 October 2020.

Company Registration No. 01954109

Signed on behalf of the Board of Directors



HN Moser
Director



MR Goldberg
Director

Statement of changes in equity

Year ended 30 June 2020

Unless otherwise indicated, all amounts are stated in £m

2020	Share capital	Retained earnings	Total
At beginning of the year	-	8.1	8.1
Retained profit for the financial year	-	2.3	2.3
At end of the year	-	10.4	10.4

2019	Share capital	Retained earnings	Total
At beginning of the year	-	5.3	5.3
Changes on initial application of IFRS 9	-	(0.7)	(0.7)
Restated balances at beginning of year	-	4.6	4.6
Retained profit for the financial year	-	3.5	3.5
At end of the year	-	8.1	8.1

Notes to the financial statements

Unless otherwise indicated, all amounts are stated in £m

1. Reporting entity and general information

Harpmanor Limited is incorporated and domiciled in the UK under the Companies Act 2006. The Company is a private company, limited by shares, and registered in England (Company number: 01954109). The registered address of the Company is Lake View, Lakeside, Cheadle, Cheshire, SK8 3GW. The Company is a provider of unregulated mortgage finance.

2. Significant accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101). This applies the recognition and measurement requirements of International Financial Reporting Standards (IFRS) but provides certain exemptions from the disclosure requirements of IFRS.

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

The Company's parent undertaking, Together Financial Services Limited, includes the Company in its consolidated financial statements. The consolidated financial statements of Together Financial Services Limited are available to the public and may be obtained from Lake View, Lakeside, Cheadle, Cheshire, SK8 3GW. In these financial statements, the Company has taken advantage of the disclosure exemptions under FRS 101 in relation to the presentation of comparative information in respect of certain assets, the presentation of a cash flow statement, disclosures in respect of IFRS 7 and IFRS 13, standards not yet effective and related party transactions.

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

These financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Going concern

The directors have assessed, in the light of current and anticipated economic conditions, the Company's ability to continue as a going concern.

The Company is reliant on its parent company, Together Financial Services Limited (the 'Group'), for financial support. The Board of Together Financial Services Limited has confirmed that it is a going concern and that it will provide financial support to the Company for the 12 months from the date of signing the Company's accounts.

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

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

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

The risk of lower levels of cash inflows from redemptions can be mitigated by increasing the amount of liquidity resources held as cash. A key management action to improve cashflow is the ability to control levels of new lending.

Notes to the financial statements (continued)

Unless otherwise indicated, all amounts are stated in £m

2. Significant accounting policies (continued)

Going concern (continued)

Alongside the shareholder funding and retained equity which has consistently been reinvested back into the business, the Group is reliant on the wholesale funding markets, including a combination of public securitisations, private revolving securitisations, senior secured notes and a revolving credit facility (RCF).

A key risk associated with wholesale funding is refinancing risk, where the Group has a proven track-record of successfully refinancing borrowings. The coronavirus outbreak has had an impact on the capital markets and the availability and/or pricing of wholesale funding. The depth of maturity in the Group's existing debt facilities provides significant mitigation in respect of refinancing risk with the earliest maturity of wholesale funding, being the Highfield ABS facility in June 2022 and the earliest call date on public securitisation is Together ABS1 in September 2021.

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

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

In May 2020, the Group and each of the note purchasers to its four private securitisations entered into waivers and amendments of its facility documents in order to support the provision of mortgage-payment deferrals of up to three months in line with the then government guidance in response to the Covid-19 outbreak. The government subsequently provided guidance that borrowers should have the ability to extend mortgage-payment deferrals, the Group has agreed further modifications to such waivers for each of its private securitisations.

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

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

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

The directors are satisfied that the Group have adequate resources to continue in operation for the going concern assessment period. The directors have a reasonable expectation that the Company will have the ability to continue for the going concern assessment period, which is 12 months from the signing this report, on the basis that the Company has adequate funding and support as detailed above, upon review of its current performance and financial position, and based on a review of the going concern evaluation undertaken by the Group. Accordingly, the directors of the Company have adopted the going concern basis in preparing the financial statements.

Additional disclosures have also been included within the principal risks and uncertainties section of the Strategic report, which are cross-referenced to this note.

Notes to the financial statements (continued)

Unless otherwise indicated, all amounts are stated in £m

2. Significant accounting policies (continued)

Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income for all instruments measured at amortised cost using the effective interest rate method. The effective interest rate 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 Company takes into account all contractual terms of the financial instrument but does not consider future credit losses except for credit-impaired assets. For credit-impaired assets a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses. The calculation includes all fees, transaction costs and other premiums or discounts that relate to the origination of the instrument.

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

Fee and commission income and expense

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

Taxation

Tax on the profit or loss for the year 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 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 Company'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 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 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 Company intends to settle its current tax assets and liabilities on a net basis.

Cash and cash equivalents

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

Notes to the financial statements (continued)

Unless otherwise indicated, all amounts are stated in £m

2. Significant accounting policies (continued)

Financial assets & liabilities

Financial assets

All the Company's financial assets are initially recognised at fair value plus, for assets measured at amortised cost, any directly attributable transaction costs.

All the Company'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 Company's business model for its financial assets is to hold them to collect contractual cash flows, with sales of mortgage loans and advances to customers only made internally to consolidated special purpose vehicles for the purpose of collateralising the issuance of loan notes. The loans' cash flows are consistent with a basic lending arrangement, the related interest only including consideration for the time value of money, credit and other basic lending risks, and a profit margin consistent with such an arrangement. Cash and cash equivalents also meet these conditions and accordingly management has classified all of the Company'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 Company sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. The Company 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 Company 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, with allowance already made for impairment. Any modification gain or loss is included in interest income. 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 Company's financial liabilities, which largely consist of borrowings and amounts owed to Group undertakings, are all classified as measured at amortised cost for both the current and prior period. All of the Company'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, are recognised immediately in the income statement. The Company may also consider qualitative factors in determining whether a modification is substantial.

Notes to the financial statements (continued)

Unless otherwise indicated, all amounts are stated in £m

2. Significant accounting policies (continued)

Impairment of financial instruments

The Company 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 undrawn elements of existing facilities, which are expected to be drawn down, and the cash flows expected to be received.

The Company 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 Company would not otherwise consider
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

For financial instruments on which credit risk has not increased significantly since initial recognition, the Company measures loss allowances at an amount equal to the 12-month ECL, i.e. the portion of lifetime ECL of those default events expected to arise within 12 months of the reporting date, weighted by probability of that event occurring. For all other financial instruments loss allowances are measured at an amount equal to the full lifetime ECL, i.e. the lifetime ECL arising from all default events that may occur over the life of the instrument, probability weighted. The latter category of instruments includes those that have objective evidence of impairment at the reporting date.

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

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

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

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

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

Notes to the financial statements (continued)

Unless otherwise indicated, all amounts are stated in £m

2. Significant accounting policies (continued)

Securitisation

Where the Company 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.

Financial assets transferred to SPEs under securitisation agreements are not derecognised by the Company because it retains the risks and rewards of ownership. The Company recognises a deemed loan liability to the SPE against which it offsets the subordinated notes in the securitisation which it holds. The amount of the loan notes reported represents the Company's net liability.

Provisions and contingent liabilities

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

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

3. Critical accounting estimates and key sources of estimation uncertainty

In preparing these financial statements, the Company's management has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the amounts reported for the Company'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 Company's accounting policies

a) Loan impairment allowance

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

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

Further detail on the judgements in respect of the measurement of ECL and sensitivities thereon is set out in Note 8 to the accounts.

b) Going concern

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

Key sources of estimation uncertainty

a) Loan impairment allowance

As a result of the Covid-19 pandemic the Company has used significantly changed macroeconomic forecasts and these forecasts and the other assumptions and estimates necessary for the calculation of ECL contain a greater level of judgement than in previous reporting periods due to the increased level of uncertainty. Further detail on these estimates and assumptions and sensitivities thereon is set out in Note 7 to the accounts.

b) Interest income recognition

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

Notes to the financial statements (continued)

Unless otherwise indicated, all amounts are stated in £m.

4. Interest receivable and similar income

	2020	2019
Interest on loans and advances to customers	5.2	7.3

Included within interest on loans and advances to customers is £0.1m (2019: £0.2m) relating to impaired loans.

5. Interest payable and similar charges

	2020	2019
Interest on borrowings	1.5	1.2
Interest payable to parent company	-	0.6
Interest payable and similar charges	1.5	1.8

6. Administrative expenses

	2020	2019
Administrative costs	0.7	1.3

Company overheads, including directors' emoluments, wages and salaries, office administration costs, and auditor remuneration are borne by a fellow subsidiary company of Together Financial Services Limited, Blemain Finance Limited and are recharged to companies within the Together Group based on operational and financial drivers.

The audit fee borne by Blemain Finance Limited (a separate group company) in respect of the Company in 2020 was £4,000 (2019: £3,000).

7. Income tax

	2020	2019
Current tax		
Corporation tax	0.5	0.8
Total tax on profit	0.5	0.8

Corporation tax is calculated at 19.00% (2019: 19.00%) of the estimated profit for the year.

There are no differences between the Company's tax charge for the year and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax.

8. Loans and advances to customers

30 June 2020				
	Stage 1	Stage 2	Stage 3	Total
Gross loans and advances	25.2	9.7	9.2	44.1
Loss allowance	-	(0.3)	(1.3)	(1.6)
	25.2	9.4	7.9	42.5

30 June 2019				
	Stage 1	Stage 2	Stage 3	Total
Gross loans and advances	33.8	13.1	6.0	52.9
Loss allowance	-	(0.2)	(1.3)	(1.5)
	33.8	12.9	4.7	51.4

The Company had no material financial assets that were credit impaired on purchase or origination.

Notes to the financial statements (continued)

Unless otherwise indicated, all amounts are stated in £m

8. Loans and advances to customers (continued)

Measurement of expected credit losses (ECL)

ECL model

The Company 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 Company calculates its ECL using a statistical model based on probability of default (PD), loss given default (LGD) and exposure at default (EAD):

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

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

- A financial instrument not credit-impaired on initial recognition is classified in stage 1. The loss allowance for such instruments is calculated as the portion of lifetime ECL of those default events expected to occur within 12 months of the reporting date, weighted by the probability of that default occurring.
- An instrument moves to stage 2 if there is an increase in its credit risk that is significant but not such that the instrument is considered credit impaired. The loss allowance for stage 2 instruments is calculated as the lifetime ECL. The determination of significant increases in credit risk is explained further, later in this section.
- Stage 3 instruments are credit impaired and the loss allowance calculated as the lifetime ECL.

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

Significant increases in credit risk, forbearance and contract modifications

The Company 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 Company measures the loss allowance based on a lifetime rather than a 12-month ECL.

The Company 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 Company 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 Company may determine after a probationary period that a restructuring has significantly improved credit risk such that the asset is moved back to stage 1.

Notes to the financial statements (continued)

Unless otherwise indicated, all amounts are stated in £m

8. Loans and advances to customers (continued)

Loss allowance and impairment losses for the year

A loss allowance is derived from the application of the accounting policies for measurement of ECL as explained in Note 2. The loss allowance has increased by £0.1m to £1.6m (2019: £1.5m).

Allowance for impairment losses	2020	2019
At beginning of the year	(1.5)	(1.8)
Charges to the income statement	(0.3)	-
Unwind of discount	0.1	0.2
Write-offs net of recoveries	0.1	0.1
At end of year	(1.6)	(1.5)

Impairment losses for the year	2020	2019
Movements in ECL, charged to income	(0.3)	-
Amounts released from deferred income	-	(0.1)
Write-offs net of recoveries	-	0.1
Charge to income statement	(0.3)	0.0

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.

Macroeconomic scenarios

The Group uses forward-looking information, contained in a range of economic scenarios, in its measurement of ECL and in identifying significant increases in credit risk. In practice, this is achieved by modelling an ECL for each scenario and calculating a probability-weighted total. These scenarios entail a high degree of uncertainty in their estimation.

The following table shows unweighted ECL when 100% probability was applied to all the scenarios as at 30 June 2020 and 30 June 2019.

Scenarios	2020		2019	
	Probability of the scenario	Unweighted ECL	Probability of the scenario	Unweighted ECL
Upside	10%	1.1	-	-
Mild upside	10%	1.2	30%	1.2
Base case	50%	1.3	40%	1.2
Stagnation	10%	1.8	-	-
Downside	10%	2.1	30%	2.2
Severe downside	10%	3.0	-	-
Weighted average		1.6		1.5

Loss given default

The LGD model uses current security values and forecast HPI assumptions to project property values for each of the economic scenarios. An immediate and sustained 10% reduction in forecast house prices (ie a 10% haircut applied to the index), applied in each scenario, would result in an increase in the impairment allowance of £0.1m at 30 June 2020 (30 June 2019: £0.1m); conversely, a 10% increase would result in a decrease in the impairment allowance of £0.1m at 30 June 2020 (30 June 2019: £0.1m).

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 £0.1m at 30 June 2020 (30 June 2019: £0.1m). A 10% relative improvement of both PDs and PPGDs simultaneously (e.g. a 1.0% PD decreasing to 0.9%) would result in a decrease in the impairment allowance by £0.1m at 30 June 2020 (30 June 2019: £0.1m).

Notes to the financial statements (continued)

Unless otherwise indicated, all amounts are stated in £m

8. Loans and advances to customers (continued)

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 Group does not automatically consider a request for a mortgage-payment deferral, as a result of the coronavirus pandemic, as representing a significant increase in credit risk requiring a change in classification of the loan to stage 2 or to stage 3. Instead the Group uses a number of indicators of credit risk to determine whether a loan which has received a mortgage-payment deferral should be reclassified to stage 2 or to stage 3.

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

Sensitivities	Increase in allowance
Measure all loans in Stage 1 using a lifetime ECL	0.1

By measuring loans which are in Covid-19 mortgage-payment deferral in stages 1 and 2 using a lifetime ECL credit impairment there is no increase in allowance.

9. Other assets

	2020	2019
Amounts owed by group undertakings	0.1	0.2
	0.1	0.2

Amounts owed by related parties are repayable on demand.

10. Deferred tax asset

	2020	2019
At beginning of the year	0.3	0.2
IFRS 9 transition adjustment	-	0.1
	0.3	0.3

All figures relate to short term timing differences.

11. Borrowings

	2020	2019
Amounts owed to Charles Street ABS	10.3	12.7
Amounts owed to Highfield ABS	15.5	18.8
Amounts owed to Lakeside ABS	-	0.2
Debt issue costs	-	(0.1)
	25.8	31.6

The loan notes are provided through revolving securitisation vehicles provided by Charles Street ABS and Highfield ABS, in which the Company and a number of fellow Group subsidiaries participate. Under the facilities, the participants sell beneficial title to certain mortgage assets to the securitisation vehicles. The Company recognises a corresponding deemed loan liability against which it offsets the subordinated notes it holds in the securitisation. The amount of the liability reported represents the Company's net liability.

Notes to the financial statements (continued)

Unless otherwise indicated, all amounts are stated in £m

12. Other liabilities

	2020	2019
Amounts owed to group undertakings	7.0	12.4
Other creditors	0.3	0.6
	7.3	13.0

Amounts owed to group undertakings are repayable on demand.

13. Share capital

All amounts are stated in pounds.

Authorised	2020	2019
100 ordinary shares of £1 each	100	100

Issued, allotted and fully paid	2020	2019
2 ordinary shares of £1 each	2	2

14. Contingent liabilities

As at 30 June 2020, the Company's non-securitised assets, along with those of the Together Group's non-securitised assets were subject to a fixed and floating charge in respect of £785.0m senior secured notes (30 June 2019: £725.0m) and £10.0m in respect of bank borrowings (30 June 2019: £55.0m).

15. Ultimate parent company

The Company is a subsidiary undertaking of Together Financial Services Limited, a company incorporated in Great Britain and registered in England and Wales. The smallest group of which the Company is a member, and for which group financial statements are drawn up, is that headed by Together Financial Services Limited. The largest group of which the Company 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 undertaking). The principal place of business and registered address for Together Financial Services and Redhill Famco Limited is Lake View, Lakeside, Cheadle, Cheshire, United Kingdom, SK8 3GW, and both are privately owned and limited by shares.

Notes to the financial statements (continued)

Unless otherwise indicated, all amounts are stated in £m

16. Events after reporting date

a) Mortgage-payment deferrals

After the balance sheet date the continuing development of the Covid-19 pandemic has resulted in the Company maintaining its actions to serve its customers and protect colleagues, consistent with the supportive measures announced by the UK government. The Company has offered mortgage-payment deferrals to a number of customers as a result of Covid-19. At 30 September 2020, 6% of the Company's loans by value still remained on mortgage-payment deferrals as a result of Covid-19.

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

b) Restructuring

With the severity of the pandemic and its impact on business, the Group has had to make some difficult decisions regarding restructuring the business and the Group launched an employee consultation process on proposals to reduce colleague numbers reflecting the anticipated future levels of lending activity and efficiencies in a revised operating structure. This employee consultation process ended on 7 September 2020 and as a result 191 colleagues were made redundant within the Group, although none were employees of the Company.

c) Funding activity

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

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

Also in September, the maturity date on the Group's undrawn £71.9m RCF facility has also been extended to June 2023.