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Common sense lending

Spot Finance Limited

Annual Report and Financial Statements

For the year ended 30 June 2019

Company Registration No. 01998543

Spot Finance Limited
Annual report and financial statements for the year ended 30 June 2019

Contents

Page

Officers and professional advisers

Directors

PS Ball	
R Baxter*	
GD Beckett	
DJ Bennett*	(Resigned 31 January 2019)
W Bowser*	
MJJR Golby	(Resigned 31 January 2019)
RJ Gregory*	(Appointed 31 January 2019)
HN Moser	(Resigned 4 June 2019)
PA Wilson	

* Non-Executives

Secretary

SE Batt

Registered office

Lake View
Lakeside
Cheadle
Cheshire
SK8 3GW

Auditor

Deloitte LLP
Statutory Auditor
2 Hardman Street
Manchester
M3 3HF

Strategic report

The directors present their annual report and the audited financial statements for the year ended 30 June 2019.

Business review

Business model and strategy

The principal activity of Spot Finance Limited ('the Company') was formerly that of financiers but now comprises the servicing and collection of the residual loan book. The Company is a wholly-owned subsidiary of Blemain Finance Limited, which in turn is a wholly-owned subsidiary of Together Financial Services Limited which, with its subsidiaries, operates as the Together Group ('the Group') of businesses.

The Company undertook a motor finance pilot project, but all new lending ceased in the year ended 30 June 2017 and the pilot project has come to an end and no new lending is intended. The Company services all its loans in house and all operations are located at its head office.

Results

As shown in the Company's statement of comprehensive income on page 9, loss after tax is £47,700 (2018: £241,000), which is a reflection of the reduction in loans and advances to customers described below.

Position

As shown in the statement of financial position on page 10, loans and advances to customers have decreased by 79.8% to £151,000 (30 June 2018: £745,800) because no new loans are being originated within the Company, whilst existing loans are being collected or redeemed.

The Company has received a capital contribution of £300,000 from its parent company during the year resulting in total net assets of £76,900 at 30 June 2019 (30 June 2018: net liabilities of £50,600).

Liquidity and funding activity

The Company is financed by its parent company, Blemain Finance Limited, and indirectly financed by Together Financial Services Limited, the parent company of Blemain Finance Limited.

The Board of Blemain Finance Limited has confirmed that it will continue to provide funding to the Company for the foreseeable future.

Macroeconomic conditions

The Company is impacted by general business and economic conditions in the United Kingdom. The UK's economic performance has been mixed for some years, and the outlook continues to be highly uncertain, primarily due to Brexit but also now because of increasing trade tensions.

Unemployment has fallen year on year and average wages are showing real growth, but increases in productivity remain low. GDP growth has been lower than historical averages, though some commentators expect it to outperform some major economies such as Germany and Japan, and whilst austerity has played a part in this, public finances are considerably more robust.

The Company's approach to managing risks is explained in the Principal Risks and Uncertainties section below.

Business review (continued)

Regulatory and legal considerations

The Company's operations are affected by a number of laws and regulations. The Company is regulated by the Financial Conduct Authority (FCA). 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 EU Securitisation Regulations.

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

The Company is focused on readiness for the Senior Managers and Certification Regime (SM&CR), which the Financial Conduct Authority is extending to all regulated firms in December 2019. Preparations are well advanced and expected to be implemented prior to December 2019.

Corporate governance

The Company is a wholly owned subsidiary of Blemain Finance Limited. The Company is authorised and regulated by the Financial Conduct Authority ("FCA").

Together Personal Finance, comprises Together Personal Finance Limited, Blemain Finance Limited and Spot Finance Limited. The Board of Together Personal Finance ("the Board") meets a minimum of 6 times a year to provide leadership and oversight to the Company in line with its terms of reference, legal and regulatory provisions. The Board delegates certain responsibilities to its Board sub-committees and to senior management as appropriate.

Principal risks and uncertainties

Credit risk[1]

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 is managed and mitigated by

- Monitoring of customer performance throughout the life of the loan, with regard to arrears, and
- Proactive collections strategies and the application of forbearance measures

Note 16 to the financial statements provides detailed financial disclosures relating to credit risk.

Liquidity and funding risk[1]

Liquidity risk is the risk that the Group is unable to access sufficiently liquid financial resources to meet the Company'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.

Liquidity and funding risk is managed and mitigated at a Group level by: monitoring the liquidity position against limits and triggers, utilising a range of funding sources, forecasting the liquidity and funding position under normal and stressed conditions and reporting against risk appetite. Surplus cash balances are placed on overnight deposit with institutions with sufficiently high long-term and short-term ratings.

[1] This section forms part of the IFRS 7 disclosures in respect of the financial statements on pages 9 to 24.

Strategic report (continued)

Principal risks and uncertainties (continued)

Market risk[2]

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 Group is interest rate risk, the risk of loss through mismatched asset and liability positions sensitive to changes in interest rates.

Interest rate risk is managed and mitigated at a Group level by: monitoring interest rate risk exposures, including a forward-looking view under normal and stressed conditions, and reporting against risk appetite.

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 includes conduct and compliance risk and the associated reputational damage that can arise, but given their significance, these risks are classified as separate principal risks.

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.
- Utilising a Risk and Control Self-Assessment approach to identify, manage and monitor key operational risks, including cyber risk prevention systems.

Conduct and compliance risk

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

Conduct and compliance risk is managed and mitigated by:

- The communication of the Group's 'Beliefs' set by the Board, which define our organisational culture and focuses on colleague conduct, respect, accountability and customer experience.
- Quality assurance reviews in operational areas supported by experienced risk and compliance departments.
- Annual training and awareness sessions for colleagues, for example, training to identify factors which may indicate that a customer is vulnerable.
- Adherence to a system of processes and controls which mitigate conduct risk.
- Root cause analysis focusing on continuous improvement aiming to identify where we could improve the outcome for customers and determine an appropriate resolution, which may include remediation.
- 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 a 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:

Paul Wh

PA Wilson
Finance Director
5 September 2019

[2] This section forms part of the IFRS 7 disclosures in respect of the financial statements on pages 9 to 24.

Directors' report

Directors

The directors of the Company are set out on page 1.

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 (2018: £nil). The directors of the Company do not recommend the payment of a dividend.

Employees

The Company has no employees (2018: nil). Directors' emoluments, wages and salaries are borne by the parent company, 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, Blemain Finance Limited, for financial support. The Board of Blemain Finance Limited and also the Board of Together Financial Services Limited (the parent Company of Blemain Finance Limited) have 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.

On the basis the Company has adequate funding and support as detailed above, the directors have a reasonable expectation that the Company will have sufficient funding and liquidity to ensure that it will 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.

Principal risks and uncertainties

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

Audit information

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 s418(2) of the Companies Act 2006.

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

Paul Wh

PA Wilson
Finance Director
5 September 2019

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 Spot Finance Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Spot Finance Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 30 June 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 *Reduced Disclosure Framework* and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the disclosures in the "Principal Risks and Uncertainties" section of the strategic report on pages 3 to 4 of the Annual Report and Financial Statements that are denoted as forming part of the financial statements; and
- the related Notes 1 to 18.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in respect of these matters.

Independent auditor's report (continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, 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.

We have nothing to report in respect of these matters.

Use of our report

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

David Heaton (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Manchester, United Kingdom
5 September 2019

Statement of comprehensive income

Year ended 30 June 2019

Unless otherwise indicated, all amounts are stated in £000.

Income statement	Note	2019	2018
Interest receivable and similar income	4	27.1	221.4
Interest payable and similar charges	5	(31.1)	(68.2)
Net interest (expense)/income		**(4.0)**	**153.2**
Fee and commission income	6	0.8	2.5
Fee and commission expense	7	-	(0.2)
Operating (expense)/income		**(3.2)**	**155.5**
Administrative expenses	8	(15.3)	(137.3)
Operating (loss)/profit		**(18.5)**	**18.2**
Impairment losses	10	(27.4)	(260.2)
Loss before taxation		**(45.9)**	**(242.0)**
Income tax (expense)/credit	9	(1.8)	1.0
Loss after taxation		**(47.7)**	**(241.0)**

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

Statement of financial position

As at 30 June 2019

Unless otherwise indicated, all amounts are stated in £000.

	Note	2019	2018
Assets			
Cash and cash equivalents		321.1	345.6
Loans and advances to customers	10	151.0	745.8
Other assets	11	0.4	5.7
Deferred tax asset	12	18.0	-
Total assets		**490.5**	**1,097.1**
Liabilities			
Other liabilities	13	413.6	1,141.3
Deferred tax liabilities	12	-	6.4
Total liabilities		**413.6**	**1,147.7**
Equity			
Share capital	14	0.1	0.1
Retained earnings/(losses)		76.8	(50.7)
Total equity		**76.9**	**(50.6)**
Total equity and liabilities		**490.5**	**1,097.1**

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

Company Registration No. 01998543

Signed on behalf of the Board of Directors

PS Ball
Director

PA Wilson
Director

Statement of changes in equity

Year ended 30 June 2019

Unless otherwise indicated, all amounts are stated in £000.

2019	Share capital	Retained earnings	Total
At beginning of the year	0.1	(50.7)	(50.6)
Changes on initial application of IFRS 9	-	(124.8)	(124.8)
Restated balances at the beginning of the year	**0.1**	**(175.5)**	**(175.4)**
Capital contribution	-	300.0	300.0
Retained loss for the year	-	(47.7)	(47.7)
At end of the year	**0.1**	**76.8**	**76.9**

2018	Share capital	Retained earnings	Total
At beginning of the year	0.1	190.3	190.4
Retained loss for the year	-	(241.0)	(241.0)
At end of the year	**0.1**	**(50.7)**	**(50.6)**

Notes to the financial statements

Unless otherwise indicated, all amounts are stated in £000

1. Reporting entity and general information

Spot Finance Limited is incorporated and domiciled in the UK. The Company is a private company, limited by shares, and registered in England (Company number: 01998543). The registered address of the Company is Lake View, Lakeside, Cheadle, Cheshire, SK8 3GW. The Company is primarily involved in financial services.

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 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.

The Company's indirect parent undertaking, Together Financial Services Limited, includes the Company in its consolidated financial statements. The consolidated financial statements of Together Financial Services Limited 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 presentation of comparative information in respect of certain assets, presentation of a cashflow statement, 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 Group 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.

Presentation of risk disclosures

Disclosures under IFRS 7 *Financial Instruments: Disclosures* concerning the nature and extent of principal risks have been presented within the Strategic Report.

Adoption of new accounting standards, amendments and interpretations

IFRS 9 Financial Instruments

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

Classification of financial instruments

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

2. Significant accounting policies (continued)

IFRS 9 Financial Instruments (continued)

Measurement of financial instruments and impairment of financial assets

IFRS 9 introduced a significant change in measurement of financial instruments, relating to non-substantial modifications of liabilities. Under IAS 39, the Company's policy for such modifications was to defer any related transaction costs as adjustments to carrying value that were charged to income over the liability's remaining life. Under IFRS 9 however, gains or losses on non-substantial modifications are recognised immediately in the income statement and the Company also considers qualitative factors in determining whether a modification is substantial. IFRS 9 replaces the 'incurred loss' model of IAS 39 with an 'expected loss' model that also applies to loan commitments. IFRS 9 therefore recognises credit losses earlier than IAS 39.

Transition to IFRS 9

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

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

The only financial instruments affected by transition from IAS 39 to IFRS 9 are loans and advances to customers. The following table reconciles the remeasurement changes in their carrying amounts together with the impact on deferred tax and retained earnings on 1 July 2018 (all amounts measured in £000):

	IAS 39 30 June 2018	**Expected credit losses**	**Total impact of adoption of IFRS 9**	**IFRS 9 1 July 2018**
Loans and advances to customers	745.8	(151.0)	(151.0)	594.8
Deferred tax asset	-	26.2	26.2	26.2
Total equity impact		**(124.8)**	**(124.8)**	
Total equity	**(50.6)**	**(124.8)**	**(124.8)**	**(175.4)**

The accounting policies for the recognition, classification and measurement of financial instruments are detailed later in this note.

IFRS 15

IFRS 15 was issued in May 2014 and is effective for annual periods beginning on or after 1 January 2018. The effects of IFRS 15 are deemed to be immaterial for the Company, as the majority of income will be recognised in accordance with IFRS 9.

Going concern

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

Notes to the financial statements (continued)

Unless otherwise indicated, all amounts are stated in £000

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 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 Company takes into account all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees, transaction costs and other premiums or discounts that relate to the origination of the instrument.

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

Fee and commission income and expense

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

Fees and commissions expenses primarily consist of legal and valuation fees and credit search fees.

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.

2. Significant accounting policies (continued)

Financial assets & liabilities

Financial assets

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

From 1 July 2018, all of 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. 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.

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

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

The 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. From 1 July 2018, a modified loan's credit risk is assessed to see if it remains higher than on initial recognition for the purposes of calculating expected credit losses.

Financial liabilities

The Company's financial liabilities, which largely consist of borrowings, are all classified as measured at amortised cost for both the current and prior period. All of the 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. From 1 July 2018, all gains or losses on non-substantial modifications, calculated as a change in the net present value of future cash flows, are recognised immediately in the income statement. The Company may also consider qualitative factors in determining whether a modification is substantial. Prior to 1 July 2018, the Company's policy for such modifications was to defer related transaction costs as adjustments to the carrying value of the instrument, amortised over its remaining expected life.

2. Significant accounting policies (continued)

Impairment of financial assets

Policy applicable from 1 July 2018

From 1 July 2018, the Company recognises loss allowances for expected credit losses (ECL) on loans and advances to customers. 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 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.

2. Significant accounting policies (continued)

Impairment of financial assets (continued)

Policy applicable before 1 July 2018

Financial assets were impaired and impairment losses incurred if, and only if, there was objective evidence of impairment as a result of one of more loss events that occurred after the initial recognition of the assets and prior to the reporting date and that had an impact on the estimated future cash flows of the financial asset that could be reliably estimated.

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

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

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

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

3. Critical accounting estimates and judgements

In applying the accounting policies set out above, the Company makes significant estimates and assumptions that affect the reported amounts of assets and liabilities. The critical judgements which have a significant impact on the financial statements are described in the relevant Note to the financial statements. These include:

- the determination of whether credit risk has increased significantly (described in Note 10);
- establishing if a substantial modification has occurred when refinancing our borrowing facilities (described in Note 2).

Our critical estimates are:

a) Loan impairment allowances

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

Loss Given Default (LGD)

The Company has an LGD model, and this applies an LGD of 100% to all loans in arrears of six months or more, with an LGD of 50% applied to all other loans. A 10% relative reduction in the LGD would result in a reduction in the impairment allowance of £16,200 at 30 June 2019.

Multiple economic scenarios

IFRS 9 contains a requirement that multiple economic scenarios are incorporated into the expected loss calculation. In practice, incorporating the effect of multiple economic scenarios is achieved by modelling an ECL for each scenario and taking a probability-weighted total. The Company has used two probability weighted scenarios. A weighting of 70% has been applied to the base case and 30% to the downside scenario. If at 30 June 2019 a 100% weighting was applied to the downturn scenario, an incremental increase of £4,800 to the impairment allowance would be required.

Probability of default (PD)

PD is an estimate of the likelihood of default over a given time horizon, estimated at a point in time for both the base case and downside scenarios. Lifetime PDs range from 7% to 100% in the base case and from 14% to 100% in the downside scenario. A 10% relative worsening of Stage 1 and Stage 2 PDs would increase total impairment allowance by £900 at 30 June 2019. A 10% relative improvement in Stage 1 and Stage 2 PDs would result in a decrease to the impairment allowance of £900 at 30 June 2019.

b) Revenue

Interest income

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

Unless otherwise indicated, all amounts are stated in £000

4. Interest receivable and similar income

	2019	2018
Interest on loans and advances to customers	**27.1**	**221.4**

5. Interest payable and similar charges

	2019	2018
On amounts due to group undertakings	**31.1**	**68.2**

6. Fee and commission income

	2019	2018
Fee income on loans and advances to customers	**0.8**	**2.5**

7. Fee and commission expense

	2019	2018
Legal, valuations and other fees	**-**	**0.2**

8. Administrative expenses

	2019	2018
Administrative costs	**15.3**	**137.3**

Company overheads, including directors' emoluments, wages and salaries, office administration costs, and auditor remuneration are borne by Blemain Finance Limited for the Group and are recharged to companies within the Group based on operational and financial drivers.

The audit fee borne by Blemain Finance Limited in respect of the Company in 2019 is £2,000 (2018: £2,000).

Unless otherwise indicated, all amounts are stated in £000

9. Income tax

	2019	2018
Current tax		
Deferred tax		
Origination and reversal of temporary differences	1.8	(1.0)
Total deferred tax	**1.8**	**(1.0)**
Total tax charge/(credit) on loss	**1.8**	**(1.0)**

Corporation tax is calculated at 19.00% (2018: 19.00%) of the estimated taxable loss for the year.

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

	2019	2018
Loss before tax	(45.8)	(242.0)
Tax on loss at standard UK corporation tax rate of 19.00%	(8.7)	(46.0)
Effects of:		
Expenses not deductible for tax purposes	-	0.7
Group relief surrendered*	10.5	44.3
Tax charge/(credit) for year	**1.8**	**(1.0)**

* *This is in respect of the corporation tax group headed by Redhill Famco Limited, the ultimate parent company of the Company.*

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

10. Loans and advances to customers

	2019				30 June
	Stage 1 IFRS 9	**Stage 2 IFRS 9**	**Stage 3 IFRS 9**	**Total IFRS 9**	**2018 IAS 39**
Gross loans and advances	148.0	7.4	158.0	313.4	768.2
Loss allowance	(6.9)	(1.9)	(153.6)	(162.4)	(22.4)
	141.1	**5.5**	**4.4**	**151.0**	**745.8**

Gross loans and advances are contractually repayable:	**2019**	**2018**
Due within one year	203.5	161.8
Due within 2-5 years	109.9	606.4
Greater than 5 years	-	-
	313.4	**768.2**

Comparative amounts for 2018 reflect the measurement basis under IAS 39.

10. Loans and advances to customers (continued)

Measurement of expected credit losses (ECLs)

ECL model

The Company 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
- Breach of contract such as default, or becoming past due
- There is evidence of fraud

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. Further information on the PD estimates used are shown in Note 3.
- LGD is an estimate of the likely loss percentage in the event of a default. Further information on the LGD estimates used are shown in Note 3.
- Exposure at default (EAD) is an estimate of the expected gross carrying amount at a future default date. EAD is based on the current loan amount.

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

- Stage 1: Less than or equal to one month in arrears
- Stage 2: Greater than one month and less than or equal to three months in arrears, or where there has been a significant increase in credit risk indicated by qualitative factors.
- Stage 3: Greater than three months in arrears or is past contractual term

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.

Incorporation of forward-looking information

Two macroeconomic scenarios are applied to the loan portfolio: base case with a 70% weighting and downturn with a 30% weighting. Rising unemployment and slowing economic activity are likely to lead to a loss or reduction in borrowers' income available for servicing their loans and therefore increase the likelihood of defaulting on their loans. As described in Note 3, PDs have been adjusted to reflect forward-looking macroeconomic scenarios where PDs are expected to increase in a downside scenario.

Significant increase in credit risk

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.

To determine whether credit risk has increased significantly the Company uses quantitative criteria, such as increases in lifetime PD and LTV, and qualitative criteria such as a borrower's status or credit quality. A 'backstop' criterion is also applied such that all loans more than 30 days past due are considered to have undergone a significant increase in credit risk.

Unless otherwise indicated, all amounts are stated in £000

10. Loans and advances to customers (continued)

Loss allowance

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

	For year ended 30 June 2019 (IFRS 9 basis)			
Allowance for impairment losses	**Stage 1: 12-month ECL**	**Stage 2: Lifetime ECL not credit impaired**	**Stage 3: Lifetime ECL credit impaired**	**Total**
At the beginning of period	**(26.5)**	**(5.7)**	**(141.2)**	**(173.4)**
Transfer to lifetime ECL not credit impaired	0.4	(0.4)	-	-
Transfer to lifetime ECL credit impaired	2.5	5.0	(7.5)	-
Change in credit risk during the period	11.1	(1.4)	(19.5)	(9.8)
Financial assets derecognised	5.5	0.6	0.4	6.5
Impairment losses for the period charged to income statement	**19.5**	**3.8**	**(26.6)**	**(3.3)**
Write-offs	0.1	-	14.2	14.3
At the end of period	**(6.9)**	**(1.9)**	**(153.6)**	**(162.4)**

Transfers between stages are presented to show the change in ECL, including any remeasurement, on the transition of loans between stages. Changes in credit risk include the development or cure of loan arrears and other changes in status and the table also shows reductions in ECL for loans which have been derecognised.

Allowance for impairment losses (IAS 39 basis)	**Year ended 30 June 2018**
At the beginning of the period	**(33.8)**
Charges to the income statement	(8.9)
Write-offs net of recoveries	20.3
At the end of the period	**(22.4)**

Impairment losses for the year (IFRS 9 basis)	**Year ended 30 June 2019**
Movements in impairment allowance, charged to income	(3.3)
Write-offs net of recoveries	(24.1)
Charge to income statement	**(27.4)**

Impairment losses for year (IAS 39 basis)	**Year ended 30 June 2018**
Movements impairment allowance charged to the income statement	(8.9)
Write-offs net of recoveries	(251.3)
Charge to income statement	**(260.2)**

Unless otherwise indicated, all amounts are stated in £000

11. Other assets

	2019	2018
Amounts owed by group undertakings	0.4	-
Other debtors	-	1.3
Prepayments and accrued income	-	4.4
	0.4	**5.7**

12. Deferred tax asset/(liability)

	2019	2018
At beginning of the year	(6.4)	(7.4)
IFRS 9 transition adjustment	26.2	-
Charge to the income statement	(1.8)	1.0
	18.0	**(6.4)**

The deferred tax liability consisted of short-term timing differences in both 2019 and 2018.

The deferred tax asset of £18,000 (2018: £nil) represents deferred tax arising on the opening balance sheet adjustments to restate the IAS 39 balance sheet on an IFRS basis. The adjustment is tax deductible over 10 years commencing in 2018 and deferred tax has been measured at the UK corporation tax rate at which the temporary differences on which the deferred tax has been recognised will reverse.

13. Other liabilities

	2019	2018
Amounts owed to group undertakings	394.6	1,081.8
Other creditors	19.0	42.0
Accruals and deferred income	-	17.5
	413.6	**1,141.3**

Amounts owed to Group undertakings are repayable on demand. Other creditors are payable within one year.

14. Share capital

All amounts are stated in pounds.

Authorised, called-up, allotted and fully paid	**2019**	**2018**
100 ordinary shares of £1 each	**100**	**100**

Unless otherwise indicated, all amounts are stated in £000

15. Financial instruments and fair values

All the Company's financial assets and liabilities are held at amortised cost. The carrying value is a reasonable approximation of fair value for all financial instruments.

16. Credit risk

The Company's maximum exposure to credit risk after allowance for impairment is as follows:

	2019	2018
Gross loans and advances	314.9	768.2
Allowance for impairment	(162.4)	(22.4)
Loans and advances to customers	**152.5**	**745.8**
Cash and balances at bank	321.1	345.6
Maximum exposure to credit risk	**473.6**	**1,091.4**

The above table represents the maximum credit risk exposure of the Company at the year-end without taking account of any underlying security. Cash and balances at bank are primarily surplus cash placed overnight with institutions with sufficiently high credit ratings. The Company's only material credit risk therefore relates to its loans and advances to customers.

Concentration of credit risk

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

	2019 %	2018 %
Up to £5,000	74.2	74.4
£5,000 to £7,500	12.5	18.5
£7,500 to £10,000	13.3	7.1
	100.0	**100.0**

Forbearance

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

17. Contingent liabilities

As at 30 June 2019, the Company's assets, along with those of the Together Group were subject to a fixed and floating charge in respect of £725.0m senior secured notes (30 June 2018: £725.0m) and £55.0m in respect of bank borrowings (30 June 2018: £25.0m).

18. Ultimate parent company

The Company is a subsidiary undertaking of Blemain Finance Limited, which is a subsidiary undertaking of Together Financial Services Limited, both of which are companies 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 principal place of business for Together Financial Services and Redhill Famco Limited, where copies of the financial statements can be obtained, is Lake View, Lakeside, Cheadle, Cheshire, United Kingdom, SK8 3GW. Together Financial Services Limited and Redhill Famco Limited are both privately owned and limited by shares.