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Common sense lending

Together Personal Finance Limited
Annual Report and Financial Statements

For the year ended 30 June 2019

Company Registration No. 02613335

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

Contents **Page**

Officers and professional advisers	1
Strategic report	2
Directors' report	6
Statement of directors' responsibilities	7
Independent auditor's report	8
Statement of comprehensive income	10
Statement of financial position	11
Statement of changes in equity	12
Notes to the financial statements	13

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)
RM McTighe*	(Resigned 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 Together Personal Finance Limited ('the Company') continues to be that of a regulated specialist mortgage lender, providing secured loans including first-charge, consumer buy-to-let and short-term mortgages. Customer applications are considered on their individual circumstances and merits and according to the customer's need. The Company 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 strategy is to be a full-service specialist lender, by focusing on exploring opportunities across products, channels and price points to optimize the mix of volume and margin, lending responsibly to profitable segments of our markets, some of which are underserved by mainstream lenders. The Company underwrites and services all its loans in house and all operations are located at its head office.

Results

As shown in the statement of comprehensive income on page 10, profit before tax[1] has increased to £10.2m (2018: £9.6m). Interest receivable by the Company increased by 44.1% to £58.2m (2018: £40.4m) primarily as a result of increases in loans and advances to customers. Net interest margin[2] decreased from 5.7% to 4.9% for the year ended 30 June 2019 due to competitive market conditions, an increase in reference rates and also higher levels of gearing as a greater proportion of loan assets are funded through more capital efficient securitisations. This is combined with a reduction in customer rates, which continues the trend of recent years as higher-yielding loans originated in previous years have been replaced by loans at current market rates that reflect increasing competition. Administration costs have increased to £24.6m (2018: £17.2m), as a result of the growth of the Company's loans and advances to customers.

Position

As shown in the statement of financial position on page 11, loans and advances to customers have increased by 48.2% to £920.8m (2018: £621.5m). The impairment allowance has increased to £3.7m (2018: £1.2m), of which £1.3m relates to Stage 1 loans and advances which represents 0.2% of their gross carrying value. This increase reflects the growth in the loan book, as well as the adoption of IFRS 9 from 1 July 2018 as described in Note 2. The impairment allowance represents 0.4% of the loan book at 30 June 2019 (2018: 0.2%). At the same time equity has increased by 17.3% to £48.2m (2018: £41.1m) reflecting the net impact of retained profit after tax for the year of £10.2m (2018: £7.7m) and the reduction in equity due to the initial application of IFRS 9 of £3.1m.

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 being subject to a fixed and floating charge in respect of these facilities. In addition the activities of the Company are also financed by securitisation facilities including public residential mortage-backed securitisations Together Asset Backed Securitisation 1 PLC ('Together ABS 1') issued on 29 September 2017, Together Asset Backed Securitisation 2018-1 PLC ('Together ABS 2') issued on 8 November 2018, and a private revolving securitisation facility Charles Street Conduit Asset Backed Securitisation 1 Limited ('Charles Street ABS') originated in November 2007, which are secured on specific loan assets of the Company ('securitised assets').

In September 2018 the Group increased the Charles Street ABS facility from £1,000m to £1,255m on improved terms, and added mezzanine funding to the structure to improve its capital efficiency.

The Board of Together Financial Services Limited has confirmed that it will continue to provide funding to the Company for the foreseeable future.

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[1] Note that 2019 profit before tax includes impact of IFRS 9, and therefore is not directly comparable to previous year.

[2] Net interest margin is calculated by dividing net interest income by the average opening and closing net loans and advances to customers.

Strategic report (continued)

Business review (continued)

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.

Average house prices have continued to rise, but with some falls in London and the south east. Unemployment has fallen year on year and average wages are showing real growth, 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.

Whilst uncertain and adverse economic conditions may present challenges, they may also reduce competition and present opportunities for the Company. The Company's long-term strategy of low-LTV lending provides significant mitigation from uncertain economic times further supported by our strong financial position. The Company's approach to managing risks is explained in the Principal Risks and Uncertainties section below.

Regulatory and legal considerations

The Company's operations are affected by a number of laws and regulations. The Company is authorised and 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 an independently governed wholly owned subsidiary of Together Financial Services 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 Together Personal Finance Board ("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[3]

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:

- Conservative loan-to-value (LTV) lending, providing mitigation to the risk of credit losses arising in the event of default and protection from the risk of falling collateral values.
- Monitoring of customer performance throughout the life of the loan, with regard to arrears, proactive collections strategies, application of forbearance measures, and macro-economic sensitivity analysis.
- Monitoring of the characteristics of the loan portfolio, including, geographical concentration, and LTV.

Note 17 to the financial statements provides detailed financial disclosures relating to credit risk.

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3 This section forms part of the IFRS 7 disclosures in respect of the financial statements on pages 10 to 30.

Principal risks and uncertainties (continued)

Liquidity and funding risk[4]

Liquidity risk is the risk that the Company 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.

Within commitments we include liquidity to cover for the outstanding pipeline of loan offers. Although certain pipeline offers may not be legally binding, the failure to honour an expression of intent to finance a loan contract could otherwise cause customer detriment and result in reputational damage.

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.

Market risk[4]

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: 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.
- Investment in IT infrastructure and cyber risk prevention systems.

[4] This section forms part of the IFRS 7 disclosures in respect of the financial statements on pages 10 to 30.

Strategic report (continued)

Principal risks and uncertainties (continued)

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 Group 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.
- Simple and transparent product design. Products are approved through a 'Product Governance framework' with a focus on customer needs.
- Adherence to a system of processes and controls which mitigate conduct risk.
- Root cause analysis of complaints or failings 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.

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

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

Disclosures in respect of this can be found in Note 18 to the financial statements.

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 Wilson

PA Wilson
Finance Director
5 September 2019

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 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.

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 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 its 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 Together Personal Finance Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Together Personal 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 profit 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 5 of Annual Report and Financial Statements that are denoted as forming part of the financial statements; and
- the related Notes 1 to 20.

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 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 £m

Income statement	Note	2019	2018
Interest receivable and similar income	4	58.2	40.4
Interest payable and similar charges	5	(20.8)	(12.3)
Net interest income		37.4	28.1
Fee and commission income	6	0.1	0.1
Fee and commission expense	7	(1.2)	(1.1)
Operating income		36.3	27.1
Administrative expenses	8	(24.6)	(17.2)
Operating profit		**11.7**	**9.9**
Impairment losses	10	(1.5)	(0.3)
Profit before taxation		10.2	9.6
Income tax	9	-	(1.9)
Profit after taxation		10.2	7.7

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 £m

	Note	2019	2018
Assets			
Loans and advances to customers	10	920.8	621.5
Other assets	11	0.8	0.2
Deferred tax asset	12	0.6	-
Total assets		**922.2**	**621.7**
Liabilities			
Borrowings	13	571.3	408.4
Other liabilities	14	302.7	171.2
Current tax liabilities		-	1.0
Total liabilities		**874.0**	**580.6**
Equity			
Share capital	15	-	-
Retained earnings		48.2	41.1
Total equity		**48.2**	**41.1**
Total equity and liabilities		**922.2**	**621.7**

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

Company Registration No. 02613335

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 £m

2019	Share capital	Retained earnings	Total
At beginning of the year	-	41.1	41.1
Changes on initial application of IFRS 9	-	(3.1)	(3.1)
Restated balances at beginning of year	**-**	**38.0**	**38.0**
Retained profit for the financial year	-	10.2	10.2
At end of the year	**-**	**48.2**	**48.2**

2018	Share capital	Retained earnings	Total
At beginning of the year	-	33.4	33.4
Retained profit for the financial year	-	7.7	7.7
At end of the year	**-**	**41.1**	**41.1**

Notes to the financial statements

Unless otherwise indicated, all amounts are stated in £m

1. Reporting entity and general information

Together Personal Finance Limited is incorporated and domiciled in the UK. The Company is a private company, limited by shares and registered in England (Company number: 02613335). 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 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, presentation of a cash flow 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 Company operates.

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 of financial instruments and the impairment of financial assets. It also significantly amends the disclosures relating to financial instruments.

Classification of financial instruments

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

Notes to the financial statements (continued)

Unless otherwise indicated, all amounts are stated in £m

2. Significant accounting policies (continued)

Adoption of new accounting standards, amendments and interpretations (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 and borrowings. The following table reconciles the remeasurement changes in their carrying amounts together with the impact on deferred tax and retained earnings on 1 July 2018 (all amounts measured in £m):

	IAS 39 30 June 2018	Expected credit losses (ECL)	Modification of financial liabilities	Total impact of adoption of IFRS 9	IFRS 9 1 July 2018
Loans and advances to customers	621.5	(2.0)	-	(2.0)	619.5
Borrowings	(408.4)	-	(1.8)	(1.8)	(410.2)
Deferred tax asset	-	0.4	0.3	0.7	0.7
Total equity impact		**(1.6)**	**(1.5)**	**(3.1)**	
Total equity	**41.1**	**(1.6)**	**(1.5)**	**(3.1)**	**38.0**

In addition on transition to IFRS 9, loans and advances to customers of £0.3m that were fully impaired were written off, with no net impact on amortised cost.

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

IFRS 15

IFRS 15 was issued in May 2014 and is effective for annual periods beginning on or after 1 January 2018. The effects of IFRS 15 are deemed to be immaterial for the 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.

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 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.

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 assets and liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and the 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.

From 1 July 2018, all the Company's financial assets are classified as measured at amortised cost. Amortised costs is 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.

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

The 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)

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.

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 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.

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);
- the determination of whether the Company has met the requirements to recognise a provision, or a contingent liability (described in the accounting policy in Note 2, and in Note 18);
- 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), probability of possession given default (PPGD) and forward looking macroeconomic scenarios. Sensitivities included in the section below were performed by recalculating the impairment allowance by changing only those assumptions stated, and with all other variables unchanged.

Loss given default

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

The LGD model uses current security values and forecast HPI assumptions to project property values for each of the economic scenarios. An immediate and sustained 10% relative reduction in forecast house prices, applied in each scenario, would result in an increase in the impairment allowance of £1.3m at 30 June 2019, conversely a 10% relative increase, would result in a decrease in the impairment allowance by £0.8m 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 a minimum of three probability weighted scenarios, including base, upside and downside scenarios. The most significant macroeconomic assumptions used for the ECL estimate are shown in Note 10. If, at 30 June 2019 a 100% weighting was applied to the downside scenario, an incremental £6.8m of impairment allowance would be required.

Unless otherwise indicated. all amounts are stated in £m

3. Critical accounting estimates and judgements (continued)

Probability of default and probability of possession given default

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

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

A 10% relative worsening of both PDs and PPGDs simultaneously would drive an increase in total impairment allowance by £0.4m at 30 June 2019. A 10% relative improvement of both PDs and PPGDs simultaneously would result in a decrease in to impairment allowance by £0.4m at 30 June 2019.

b) Revenue

Interest income

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

4. Interest receivable and similar income

	2019	2018
Interest on loans and advances to customers	**58.2**	**40.4**

Included within interest on loans and advances to customers is £0.3m (2018: £0.1m) relating to impaired loans.

5. Interest payable and similar charges

	2019	2018
On borrowings	**20.8**	**12.3**

Included within interest on borrowings is interest payable on amounts owed to the parent company, Together Financial Services Limited of £7.1m (2018 : £2.7m) .

6. Fee and commission income

	2019	2018
Fee income on loans and advances to customers	**0.1**	**0.1**

7. Fee and commission expense

	2019	2018
Legal, valuations and other fees	1.0	0.8
Insurance commissions and charges	0.2	0.3
	1.2	**1.1**

Notes to the financial statements (continued)

Unless otherwise indicated, all amounts are stated in £m

8. Administrative expenses

	2019	2018
Other administrative costs	**24.6**	**17.2**

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 2019 was £21,000 (2018: £42,000).

9. Income tax

	2019	2018
Current tax		
Corporation tax	-	1.9
Adjustment in respect of previous years	(0.1)	-
Total tax on profit	**(0.1)**	**1.9**
Deferred tax		
Origination and reversal of temporary differences	0.1	-
Adjustment in respect of prior years	-	-
Total deferred tax	**0.1**	**-**
Total tax on profit	**-**	**1.9**

Corporation tax is calculated at 19.00% (2018: 19.00%) of the estimated taxable profit 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 profit before tax are as follows:

	2019	2018
Profit before tax	**10.2**	**9.6**
Tax on profit at standard UK corporation tax rate of 19.00%	1.9	1.8
Effects of:		
Expenses not deductible for tax purposes	0.1	0.1
Group relief*	(2.0)	-
Tax charge for year	**-**	**1.9**

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.

* The group referred to is the tax group headed by Redhill Famco Limited, the ultimate parent of the Company, as described in Note 20.

Unless otherwise indicated, all amounts are stated in £m

10. Loans and advances to customers

	2019				
	Stage 1 IFRS 9	**Stage 2 IFRS 9**	**Stage 3: IFRS 9**	**Total IFRS 9**	**2018 IAS 39**
Gross loans and advances	844.7	39.4	40.4	924.5	622.7
Loss allowance	(1.3)	(0.5)	(1.9)	(3.7)	(1.2)
	843.4	**38.9**	**38.5**	**920.8**	**621.5**

Comparative amounts for 2018 reflect the measurement basis under IAS 39. On transition to IFRS 9, loans and advances to customers of £0.4m that were fully impaired were written off, with no net impact on amortised cost due to a change in our accounting policy for write-offs from 1 July 2018.

Gross loans and advances are contractually repayable :

	2019	**2018**
Due within one year	235.4	178.1
Due within 1-5 years	291.5	154.0
Due after five years	397.6	290.6
	924.5	**622.7**

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

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.
- 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 possession given default, discounted at the original effective interest rate of the loan for the average period for recovery of sale proceeds. The LGD calculation includes floors, i.e. minimum losses, which are assigned based on the LTV of the loan and the type of security and have been developed from historical data.
- EAD is an estimate of the expected gross carrying amount at a future default date. EAD is based on the current loan amount adjusted for expected repayments of principal, contractual drawdowns of loan commitments, and the impact of missed payments which would be expected for an account in default.

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

Unless otherwise indicated, all amounts are stated in £m

10. Loans and advances to customers (continued)

Measurement of expected credit losses (ECL) (continued)

ECL model (continued)

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.

Incorporation of forward-looking information

The Company uses forward-looking information in its measurement of ECL and in identifying significant increases in credit risk, which is discussed in the next section. The Company's statistical analysis of historical data has confirmed that the key economic variables that drive credit risk, and the ECL for the Company's financial instruments, are unemployment, Bank Rate[5], economic activity as measured by Gross Domestic Product (GDP), and changes in house prices. The Company uses a range of forecast economic scenarios, drawing on external forecasts where appropriate, and calculates ECL using a base case, an upside and a downside scenario, weighted 40%, 30% and 30% respectively. The base case is aligned to the Company's internal planning assumptions.

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

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

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

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

Significant increase in credit risk

The 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.

[5] Bank Rate refers to Bank of England Bank Rate

Unless otherwise indicated, all amounts are stated in £m

10. Loans and advances to customers (continued)

Movement in loss allowance

Loss allowance

A loss allowance is derived from the application of the accounting policies for measurement of ECL as explained in Note 2. 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.

Loss allowance	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit impaired	Stage 3: Lifetime ECL credit impaired	2019
Loss allowance at beginning of year	**(1.6)**	**(0.1)**	**(1.1)**	**(2.8)**
Transfer to 12 month ECL	(0.1)	0.1	-	-
Transfer to lifetime ECL not credit impaired	0.7	(1.2)	0.3	(0.2)
Transfer to lifetime ECL credit impaired	0.4	0.9	(1.9)	(0.6)
Other changes in credit risk during the year	(1.1)	(0.3)	0.1	(1.3)
Impairment of interest income on stage 3 loans	-	-	(0.3)	(0.3)
New financial assets originated	(1.2)	-	-	(1.2)
Financial assets derecognised	1.4	0.1	0.7	2.2
Changes in models and risk parameters	0.2	-	-	0.2
Impairment losses for the year charged to income statement	**0.3**	**(0.4)**	**(1.1)**	**(1.2)**
Unwind of discount (recognised within interest receivable)	-	-	0.3	0.3
Write-offs	-	-	-	-
Loss allowance as at end of year	**(1.3)**	**(0.5)**	**(1.9)**	**(3.7)**

Transfers between stages are presented to show the change in ECL, including remeasurement, on the transition of loans between stages. Changes in credit risk include the development or cure of loan arrears and other changes in status. The loss allowance on new financial assets originated represents the ECL on initial recognition. Subsequent changes in ECL are reflected in other movements in the above table. Loan redemption receipts of £253.6m resulted in a release of ECLs totalling £2.2m.

Allowance for impairment losses on an IAS 39 basis	2018
At beginning of year	**(1.1)**
Charges to the income statement	(0.2)
Unwind of discount	0.1
Write-offs net of recoveries	-
At end of year	**(1.2)**

Unless otherwise indicated, all amounts are stated in £m

10. Loans and advances to customers (continued)

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

Impairment losses for the year

	2019	2018
Movements in impairment allowance, charged to income	(1.2)	(0.2)
Write-offs net of recoveries	(0.3)	(0.1)
Charge to income statement	**(1.5)**	**(0.3)**

11. Other assets

	2019	2018
Amounts owed by Group undertakings	0.6	-
Prepayments and accrued income	0.2	0.2
	0.8	**0.2**

Amounts owed by Group undertakings are repayable on demand.

12. Deferred tax asset

	2019	2018
At beginning of the year	-	-
IFRS 9 transition adjustment	0.7	-
Charge to income statement	(0.1)	-
	0.6	-

Unless otherwise indicated, all amounts are stated in £m

13. Borrowings

	2019	2018
Bank facilities	2.9	5.4
Amounts owed to Charles Street ABS	336.3	331.5
Amounts owed to Together ABS 1	49.6	74.5
Amounts owed to Together ABS 2	185.9	-
Debt issue costs	(3.4)	(3.0)
Total borrowings	**571.3**	**408.4**

The amounts owed to Charles Street ABS, Together ABS 1 and Together ABS 2 comprise deemed loans equivalent to the current balance of the mortgage loans transferred to these entities. Under the facilities, the Company sells beneficial title to certain mortgage assets to the three securitisation vehicles and the Company recognises a corresponding deemed loan liability against which it offsets its investment in Charles Street ABS, Together ABS and Together ABS 2 subordinated notes. Charles Street ABS has a maturity date of January 2023 and Together ABS and Together ABS 2 have call dates of September 2021 and November 2022 respectively. Bank facilities are repayable on demand.

14. Other liabilities

	2019	2018
Amounts owed to Group undertakings	302.1	170.7
Accruals and deferred income	0.6	0.5
	302.7	**171.2**

Amounts owed to Group undertakings are repayable on demand.

15. Share capital

All amounts are stated in pounds.

Authorised	**2019**	**2018**
100,000 ordinary shares of £1 each	**100,000**	**100,000**

Called up, allotted and fully paid	**2019**	**2018**
2 ordinary shares of £1 each	**2**	**2**

Unless otherwise indicated, all amounts are stated in £m

16. 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 other than for loans and advances to customers and for borrowings. For loans and advances to customers and for borrowings, fair value is calculated based upon the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. The fair value of financial assets is adjusted for incurred loss provisions.

The loan notes are provided through a securitisation vehicle and are secured on specific loan assets of the Company.

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

Level 1: Quoted prices in active markets for identical assets or liabilities;
Level 2: Measurements derived from observable data, such as market prices or rates;
Level 3: Measurements rely on significant inputs not based on observable market data.

	Level 1	Level 2	Level 3	Fair value	Carrying value
2019					
Financial assets					
Loans and advances to customers	-	-	935.4	**935.4**	**920.8**
Financial liabilities					
Borrowings	-	571.8	2.9	**574.7**	**571.3**
2018					
Financial assets					
Loans and advances to customers	-	-	627.1	**627.1**	**621.5**
Financial liabilities					
Borrowings	-	406.0	5.4	**411.4**	**408.4**

The fair value of loans and advances to customers is based on future interest cash flows (at funding rates) and principal cash flows discounted using the rate for new originations of mortgages with similar characteristics. This rate is assumed to encompass the time value of money, plus a risk premium to account for the inherent uncertainty in the timing and amount of future cash flows arising from mortgage assets.

Forecast principal repayments are based on redemption at maturity with overlay for historical behavioural experience to take account of expected prepayment. The eventual timing of future cash flows may be different from the forecast due to unpredictable customer behaviour.

Borrowings are made up principally of the deemed loans, which are provided through securitisation vehicles and are secured on specific loan assets of the Company and the fair value has been calculated with reference to the estimated fair value of the corresponding loan notes issued by the securitisation vehicles.

Unless otherwise indicated, all amounts are stated in £m

17. Credit risk

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

	2019	2018
Gross customer balances	924.5	622.7
Less: allowance for impairment	(3.7)	(1.2)
Loans and advances to customers	**920.8**	**621.5**
Amounts owed by Group undertakings	0.6	-
Maximum exposure to credit risk	**921.4**	**621.5**

An impairment allowance is held against the gross exposures on loans and advances to customers. Prior to 1 July 2018, this was measured on an incurred loss basis under IAS 39. Since 1 July 2018, this has been measured on an expected credit loss basis under IFRS 9. Further details on the Company's expected credit loss methodology, and the movement in impairment losses through the year, are shown in Notes 2, 3 and10 to the financial statements.

The analysis that follows in this section is presented based upon gross customer balances. This differs to the total loan book balance recognised in the statement of financial position, shown in the table above, as a result of various accounting adjustments required under IFRS, such as accounting using the effective interest rate methodology.

Collateral held

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

A key measure the business uses in assessing credit risk is the ratio of the loan amount to the value of the underlying security (LTV). Prior valuations are indexed using established regional house price indices to estimate the current security value. The table below shows gross customer balances by indexed LTV banding:

	2019	2018
60% or less	608.4	395.2
60–85%	313.4	225.3
85–100%	2.5	2.0
More than 100%	0.2	0.2
Gross customer balances	**924.5**	**622.7**

Notes to the financial statements (continued)

Unless otherwise indicated, all amounts are stated in £m

17. Credit risk (continued)

Concentration of credit risk

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

	2019 %	2018 %
East Anglia	2.8	2.6
East Midlands	3.4	3.1
Ireland	-	0.1
London regions	31.1	32.7
North East	1.7	1.8
North West	7.3	6.7
Scotland	4.4	5.4
South East	27.1	26.7
South West	7.6	6.8
Wales	3.2	3.2
West Midlands	5.9	5.5
Yorks & Humber	5.5	5.4
Gross customer balances	**100.0**	**100.0**

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

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

	2019 %	2018 %
Up to £50,000	15.5	17.9
£50,000-100,000	24.7	26.5
£100,000-250,000	30.4	29.2
£250,000-500,000	15.4	12.7
£500,000-1,000,000	6.3	6.4
£1,000,000-2,500,000	6.2	6.8
More than £2,500,000	1.5	0.5
Gross customer balances	**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. As a result of undertaking internal reviews during the year, instances have been identified where, for certain customers in arrears, the outcome may have been improved if different forbearance tools had been applied. Quality assurance processes have been enhanced in relation to the selection of the most appropriate forbearance measures and additional training and support has been provided for some customer-facing colleagues. Further details in respect of this can be found in Note 18 to the financial statements. For those customers requiring additional assistance the Company works with a number of external not-for-profit agencies.

18. Contingent liabilities

a) Regulatory and conduct matters

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

Further evaluation of these issues is underway, and the Board has appointed an experienced third-party to support this activity, with a view to identifying any instances where customers have been adversely affected. Upon completion of this assessment it will be possible to determine any appropriate action required.

At this stage an assessment of the impact of previous practice is being undertaken which, given the nature of individual circumstances that may have arisen, could result in individual case reviews being required. The range of circumstances and work required to assess individual factors means that, at this stage, it is not practicable to estimate the financial impact of any remediation activity, but it is expected that redress payments will be made to certain affected customers, and that this could be material for the Company.

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

b) Fixed and floating charges

As at 30 June 2019, the 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 £725.0m senior secured notes (30 June 2018: £725.0m) and £55.0m in respect of bank borrowings (30 June 2018: £25.0m).

19. Commitments

The Company has commitments to extend credit which are not recorded on the balance sheet, consisting of new commitments to lend.

At 30 June 2019, the Company had undrawn commitments to lend of £64.9m (30 June 2018 : £36.2m). These relate to irrevocable lines of credit granted to customers. The ECL on new lending commitments is £0.1m (30 June 2018 : £nil) and is classified within other liabilities.

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

20. 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.