



Bridging Finance Limited
Annual Report and Financial Statements
For the year ended 30 June 2018

Company Registration No. 03166982



Bridging Finance Limited

Annual report and financial statements for the year ended 30 June 2018

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Officers and professional advisers

Directors

GD Beckett
W Bowser*
MR Goldberg
RM McTighe*
HN Moser
HC Taylor

* 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

Legal advisers

Allen & Overy LLP
Bishops Square
London
E1 6AD

Clifford Chance LLP
10 Upper Bank Street
Canary Wharf
London
E14 5JJ

Eversheds LLP
70 Great Bridgewater Street
Manchester
M1 5ES

Milbank, Tweed, Hadley & McCloy LLP
10 Gresham Street
London
EC2V 7JD

Strategic report

The directors present their annual report and the audited financial statements for the year ended 30 June 2018.

Business review

Business model and strategy

The principal activity of Bridging Finance Limited ('the Company') continues to be that of financiers. The Company is a wholly-owned subsidiary of Together Financial Services Limited which, with its subsidiaries, operates as the Together Group of businesses. The Together Group now conducts its new lending business through other subsidiaries. Accordingly the Company has ceased to originate new loans. The Company services all its loans in house and all operations are located at its head office.

Results and dividends

As shown in the Company's statement of comprehensive income on page 9, profit after tax has decreased to £4.5m (2017: £7.8m).

The directors of the Company do not recommend the payment of a dividend (2017: £44m).

Financial position

As shown the statement of financial position on page 10, loans and advances to customers have decreased by 35.6% to £38.8m (2017: £60.3m) as new mortgages are now originated through other subsidiaries in the Together Group. At the same time, shareholder's funds have increased by 293.4% to £6.0m (2017: £1.5m) primarily due to the retained profit for the year.

Liquidity

The Company is financed by its parent company, Together Financial Services Limited. The Company is indirectly financed by the other group companies which constitute the Together Group, and also via revolving facilities provided by Charles Street Conduit Asset Backed Securitisation 1 Limited ('Charles Street ABS'), Lakeside Asset Backed Securitisation 1 Limited ('Lakeside ABS') and Delta Asset Backed Securitisation 1 Limited ('Delta ABS'). The Company and a number of fellow subsidiaries participate in the revolving facilities and the borrowings are secured on specific loan assets of the Together Group. The Charles Street ABS facility was established in 2007 and at 30 June 2018 had a facility size of £1bn with a maturity date of January 2021 (this was recently refinanced, increasing the size, improving the terms and extending the maturity, see Note 21 for details). The Lakeside ABS facility which is for £255m was refinanced during the year on favourable commercial terms extending its maturity to 2021. Delta ABS, a facility for £90m for the Together Group, was executed on 26 January 2017 and will run until January 2021.

On 31 January 2018, a subsidiary of the Group, Jerrold Finco PLC, completed the issuance of an additional £150m of senior secured notes due 2024.

On 27 April 2018 the Together Group's revolving credit facility was increased from £57.5m to £71.9m. All other terms under the facility remain substantially unchanged.

On 27 June 2018, the Together Group announced the completion of a £525m commercial real estate warehouse facility via the special purpose vehicle Highfield Asset Backed Securitisation 1 Limited.

The Company monitors its liquidity position against its business plan on a regular basis taking into consideration the level of redemption activity, recurring income levels, planned expenditure and new business advance levels. Any material deviations are identified and appropriate action taken to ensure that sufficient liquidity headroom exists at all times.

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

Strategic report (continued)

Business review (continued)

Macroeconomic conditions

The Company is impacted by general business and economic conditions in the United Kingdom. During the twelve months to 30 June 2018 the UK's economic performance has continued to be mixed, influenced by the continuance of the government's austerity programme and uncertainty surrounding the ongoing Brexit negotiations.

Following the raising of its base rate from 0.25% to 0.5% in November 2017, the Bank of England announced a further increase to 0.75% in August 2018. This was driven by expectations of continued inflationary pressures from falling unemployment (now standing at its lowest level since 1971) fueling gradual wage growth in the first quarter of 2018. However, UK GDP growth has remained weak as growth in productivity remains muted and the boost to spending from high levels of consumer credit has cooled. The consumer price index having peaked at 3.1% in November 2017, fell back to 2.3% in June 2018 as the impact of weaker sterling following the Brexit referendum reduced.

The company operates solely in the UK and is therefore primarily affected by domestic business and economic conditions. All the Company's lending is secured against UK property and therefore it has no direct exposure to the consumer credit market. We have seen no real impact from the changes in the macroeconomic environment on our loan book, with arrears and credit losses remaining at very low levels. The Company manages and mitigates any exposure to credit risk by utilising comprehensive underwriting procedures which consider customer affordability, creditworthiness, repayment strategies and property loan to value (LTV) ratios. Customer loan performance is monitored throughout the loan, with regard to arrears, proactive collection strategies, application of forbearance measures and macro-economic sensitivity analysis. However, we do have exposure to credit risk in situations where customers experience unemployment, illness, bereavement or other unexpected life circumstances which may have an impact on their ability to make repayments. In these situations, we have forbearance procedures in place to work with customers through this time.

Regulatory and legal considerations

The Company's operations are affected by a number of laws and regulations. The Company also has to comply with the relevant UK and EU regulations including anti-money laundering regulations and the Data Protection Act 1998, the latter being replaced by the EU General Data Protection Regulation from May 2018.

Principal risks and uncertainties

Credit risk

Credit risk is the risk arising as result of default by customers or counterparties due to failure to honour obligations when they fall due.

The Company is exposed to changes in the economic 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.

Note 18 to the accounts provides detailed financial disclosures relating to credit risk.

Liquidity and funding risk

Liquidity risk is the risk that the Company is unable to meet its current and future financial obligations as they fall due, or can do so only at excessive cost.

To manage its liquidity position, the Company along with the Together Group uses a number of medium to long-term funding sources, combined with a small shorter-term revolving credit facility. Headroom held in such facilities, in combination with cash flows from redemptions, is used to provide a liquidity buffer. The liquidity buffer is monitored on a daily basis to ensure there are sufficient liquid assets at all times to cover cashflow movements and to enable the Company and the Together Group to meet all financial obligations and commitments when they fall due.

Surplus cash balances are placed on overnight deposit with institutions with sufficiently high long-term and short-term ratings.

Strategic report (continued)

Principal risks and uncertainties (continued)

Market risk

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

The Company does not carry out proprietary trading or hold positions in assets or equity which are actively traded, nor does it engage in any treasury trading operations. It also has no foreign currency exposure. Therefore the main market risk potentially faced by the Company is interest-rate risk, the risk of loss through mismatched asset and liability positions sensitive to changes in interest rates. This would primarily arise from debt securities issued by the Together Group securitisation vehicles. Interest-rate risk is monitored on a monthly basis, and the Company's profit before taxation and equity are not at material risk from changes in interest rates that are reasonably expected for the next 12 months. In addition, the Company has the ability to undertake hedging transactions in order to mitigate potential interest rate risk.

Conduct risk

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

The Company has no appetite for activities that may cause detriment to customers and requires all colleagues to behave and conduct business activities in accordance with the Company's values. Key conduct risks are captured through the risk control self-assessment (RCSA) process with a specific assessment made of the risk impact to customers and third parties. Individual departments monitor conduct risk in their areas through quantitative and qualitative measures and the Conduct Risk and Culture Committee monitors the effectiveness of this. The Company and the Together Group also considers risks arising in relation to other key stakeholders such as our shareholders, funders (bondholders and banks), brokers, others who introduce business to us and suppliers. 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.

Compliance (regulatory and legal) risk

Compliance risk is the risk arising from the failure to comply with existing or new legislation or regulations in the markets within which the Company operates.

The Company mitigates compliance risk through robust control frameworks and quality assurance reviews in operational areas supported by experienced risk and compliance departments.

Operational risk

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

The Company aims to have in place a robust framework to manage operational risks, including systems, controls, policies and procedures. The Company has taken steps to ensure that the IT infrastructure is robust so as to meet operational performance needs and is sufficiently resilient. There is a documented and tested business continuity plan in place to support the Company to recover operations in the event of an incident. As for many institutions, the Company's principal external risk it faces is the increased cyber risk prevalent across the industry. The Company as part of the Together Group has invested heavily in this area over many years and its systems have proven robust against all the recently publicised attacks.

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



GD Beckett
Director
30 November 2018

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.

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, in preparing the financial statements 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 a significant proportion of its funding. The Board of Together Financial Services Limited has confirmed that it is a going concern and that it will provide funding to the Company for the foreseeable future.

The directors of the Group have considered the Company's forecast funding and liquidity positions and applied reasonable sensitivities thereon in order to confirm that the preparation of the Company's financial statements on a going concern basis is appropriate.

On the basis that the Company has adequate funding 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 facilities 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 financial statements.

Dividend

The directors of the Company do not recommend the payment of a dividend (2017: £44.0m).

Audit information

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

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

This statement is given and should be interpreted in accordance with the provisions of S418(2) of the Companies Act 2006.

Auditor

Deloitte LLP has expressed its willingness to continue in office as auditor and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

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



GD Beckett
Director
30 November 2018

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 period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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 Bridging Finance Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Bridging Finance Limited (the 'company'):

- give a true and fair view of the state of the Company's affairs as at 30 June 2018 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; and
- the related Notes 1 to 21.

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 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 statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: 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 or 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
30 November 2018

Statement of comprehensive income

Year ended 30 June 2018

Unless otherwise indicated, all amounts are stated in £000

Income statement	Note	2018	2017
Interest receivable and similar income	4	9,176	18,569
Interest payable and similar charges	5	(2,181)	(4,012)
Net interest income		6,995	14,557
Fee and commission income	6	80	120
Fee and commission expense	7	-	(2)
Operating income		7,075	14,675
Administrative expenses	8	(1,516)	(4,412)
Operating profit		5,559	10,263
Impairment losses	10	(108)	(566)
Profit before taxation		5,451	9,697
Income tax	9	(956)	(1,897)
Profit after taxation		4,495	7,800

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

Statement of financial position

As at 30 June 2018

Unless otherwise indicated, all amounts are stated in £000

	Note	2018	2017
Assets			
Cash and cash equivalents		1,469	1,210
Loans and advances to customers	10	38,827	60,296
Other assets	11	67	17,691
Property, plant and equipment	12	5	7
Deferred tax asset	13	139	159
Total assets		40,507	79,363
Liabilities			
Borrowings	14	6,741	25,785
Other liabilities	15	27,261	51,097
Current tax liabilities		478	949
Total liabilities		34,480	77,831
Equity			
Share capital	16	-	-
Retained earnings		6,027	1,532
Total equity		6,027	1,532
Total equity and liabilities		40,507	79,363

These financial statements were approved and authorised for issue by the Board of Directors on 30 November 2018.

Company Registration No. 03166982

Signed on behalf of the Board of Directors



HN Moser
Director



GD Beckett
Director

Statement of changes in equity

Year ended 30 June 2018

Unless otherwise indicated, all amounts are stated in £000

2018	Called-up share capital	Retained earnings	Total
At beginning of the year	-	1,532	1,532
Retained profit for the financial year	-	4,495	4,495
At end of the year	-	6,027	6,027

2017	Called-up share capital	Retained earnings	Total
At beginning of the year	-	37,732	37,732
Retained profit for the financial year	-	7,800	7,800
Dividend paid	-	(44,000)	(44,000)
At end of the year	-	1,532	1,532

Notes to the financial statements

1. Reporting entity and general information

Bridging Finance Limited is incorporated and domiciled in the UK under the Companies Act 2006. The Company is a private company, limited by shares, and registered in England (Company number: 03166982). 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.

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 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 cash flow statement, standards not yet effective and related party transactions. Consolidated financial statements are prepared by the Company's parent, Together Financial Services.

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

These financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Going concern

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

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.

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

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 net profit 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.

Financial assets & liabilities

Financial assets

The majority of the Company's financial assets are categorised as loans and receivables. Loans and receivables are predominantly mortgage loans and advances to customers with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell in the near term. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method, less impairment losses.

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.

Financial liabilities

The Company's financial liabilities are designated as financial liabilities held at amortised cost and largely consist of borrowings and amounts owed to Together Group undertakings. A financial liability is measured initially at fair value less the transaction costs that are directly attributable to its issue. Interest and fees payable on the borrowings are recognised in the statement of comprehensive income over the term of the instruments using the effective interest rate method.

Financial liabilities are derecognised when their contractual obligations are discharged, cancelled or have expired.

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

Impairment of financial assets

The Company regularly assesses whether there is evidence that financial assets are impaired. Financial assets are impaired and impairment losses incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the assets and prior to the reporting date and that have had an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

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

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are 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 is adjusted on the basis of current observable data to reflect the effects of current conditions. In addition, the Company uses its experienced judgement to correct model deficiencies and systemic risks where appropriate and supported by historical loss experience data. The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and improves reliability.

Where a loan is uncollectable, it is written off against the related allowance. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are taken through the income statement.

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.

SPEs used to raise funds through securitisation transactions are consolidated into the Group's operations in accordance with IFRS 10 *Consolidated Financial Statements* as if they are wholly-owned subsidiaries. Financial assets transferred to SPEs under securitisation agreements are not derecognised by the Company because it retains the risks and rewards of ownership, and all financial assets and liabilities related to the SPE continue to be held on the Group consolidated statement of financial position. 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.

Notes to the financial statements (continued)

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

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 as follows:

a) Loan impairment allowances

Allowances for loan impairment represent management's best estimate of the losses incurred in the loan portfolios at the reporting date. Charges to the allowances for loan impairment are reported in the income statement as impairment losses on loans and advances. Impairment allowances are made on all loans if there is objective evidence of impairment as a result of one or more subsequent events and its impact can be reliably estimated.

Individual impairment losses are determined as the difference between the carrying value and the present value of estimated future cash flows, discounted at the loan's original effective interest rate. Impairment losses determined on a portfolio basis are calculated using a formulaic approach which allocates a loss rate dependent on the arrears status of the loan. Loss rates are based on the discounted expected future cash flows, from historical experience and are regularly benchmarked against actual outcomes to ensure they remain appropriate.

Estimating the amount and timing of future recoveries involves significant judgement, and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of collateral. All impairment losses are reviewed at least annually.

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 lives of groups of assets based upon actual repayment profiles.

Fees and commission

Fee and commission income is recognised depending on the nature of service provided:

- income which forms an integral part of the effective interest rate is recognised as an adjustment to the contractual interest rate and recorded in interest income;
- income earned from provision of services is recognised as the services are provided; and
- income earned on the execution of a significant act is recognised when the act is completed.

4. Interest receivable and similar income

	2018	2017
Interest on loans and advances to customers	9,176	18,569

Included within interest on loans and advances to customers is £267,000 (2017: £310,000) relating to impaired loans.

5. Interest payable and similar charges

	2018	2017
On borrowings	2,181	4,012

Included within interest payable on borrowings is interest payable on amounts owed to group undertakings.

6. Fee and commission income

	2018	2017
Fee income on loans and advances to customers	68	103
Other fees receivable	12	17
	80	120

Notes to the financial statements (continued)

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

7. Fee and commission expense

	2018	2017
Legal, valuation and other fees	-	2

8. Administrative expenses

	2018	2017
Administrative costs	1,516	4,412

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 in respect of the Company is £4,000 (2017: £500).

9. Income tax

	2018	2017
Current tax		
Corporation tax	956	1,898
Adjustment in respect of previous years	(21)	(242)
	935	1,656
Deferred tax		
Origination and reversal of temporary differences	20	21
Adjustment in respect of prior years	1	197
Effect of tax rates	-	23
Total deferred tax	21	241
Total tax on profit	956	1,897

Corporation tax is calculated at 19.00% (2017: 19.75%) of the estimated profit for the year.

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

	2018	2017
Profit before tax	5,451	9,697
Tax on profit at standard UK corporation tax rate of 19.00%/19.75%	1,036	1,915
Effects of:		
Expenses not deductible for tax purposes	10	4
Income not taxable	(69)	-
Adjustment in respect of prior years	(21)	(45)
Effect of changes in tax rate	-	23
Tax charge for year	956	1,897

Notes to the financial statements (continued)

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

10. Loans and advances to customers

	2018	2017
Gross loans and advances	41,244	62,863
Less: allowances for impairment on loans and advances	(2,417)	(2,567)
	38,827	60,296

Gross loans and advances are repayable:

Due within one year	40,026	57,523
Due within 2-5 years	1,218	5,210
Due after 5 years	-	130
	41,244	62,863

Allowance for impairment losses

At beginning of year	(2,567)	(2,602)
Charges to the income statement	(138)	(273)
Unwind of discount	267	310
Write-offs net of recoveries	21	(2)
At end of year	(2,417)	(2,567)

Impairment losses for year

Charges to the income statement	(138)	(273)
Amounts written off	(318)	(619)
Amounts released from deferred income	79	177
Recoveries of amounts previously written off	269	149
	(108)	(566)

11. Other assets

	2018	2017
Amounts owed by group undertakings	49	17,620
Prepayments and accrued income	18	71
	67	17,691

12. Property, plant and equipment

	2018	2017
Cost		
At beginning of year	78	139
Disposals	-	(61)
At end of the year	78	78
Depreciation		
At beginning of year	71	100
Charge for the year	2	8
Disposals	-	(37)
At end of year	73	71
Net book value		
At end of year	5	7
At beginning of year	7	39

All property, plant and equipment is in respect of motor vehicles.

Notes to the financial statements (continued)

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

13. Deferred tax asset

	2018	2017
At beginning of the year	159	400
Charge to the income statement	(20)	(21)
Adjustment in respect of prior years	-	(197)
Effect of tax rates	-	(23)
	139	159

The deferred tax asset consisted of the following:

Accelerated capital allowances	8	8
Short term timing differences	131	151
	139	159

14. Borrowings

	2018	2017
Loan notes	6,792	25,785
Debt issue costs	(51)	-
	6,741	25,785

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

15. Other liabilities

	2018	2017
Amounts owed to group undertakings	26,947	50,514
Accruals and deferred income	251	407
Other creditors	63	176
	27,261	51,097

16. Share capital

All amounts are stated in pounds.

	2018	2017
Authorised, called-up, allotted and fully paid		
100 ordinary shares of £1 each	100	100

Notes to the financial statements (continued)

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

17. 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 following table summarises the carrying and fair values of loans and advances and of borrowings as at the year end, analysing the fair values 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
2018					
Financial assets					
Loans and advances to customers	-	-	42,655	42,655	38,827
Financial liabilities					
Borrowings	-	6,805	-	6,805	6,741
2017					
Financial assets					
Loans and advances to customers	-	-	63,042	63,042	60,296
Financial liabilities					
Borrowings	-	25,656	-	25,656	25,785

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.

The borrowings are made up principally of the loan notes, which are provided through a securitisation vehicle and are secured on specific loan assets of the Company.

Notes to the financial statements (continued)

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

18. Credit risk

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

	2018	2017
Gross loans and advances	41,244	62,863
Allowance for impairment	(2,417)	(2,567)
Loans and advances to customers	38,827	60,296
Other assets:		
Amounts owed by group undertakings	49	17,620
Other debtors	18	71
Cash and balances at bank	1,469	1,210
	40,363	79,197

Cash and balances at bank are primarily surplus cash placed overnight with institutions with sufficiently high credit ratings. The Company's most material credit risk relates to its loans and advances to customers. Amounts owed by group undertakings are considered to be recoverable. The above table represents the maximum credit risk exposure of the Company at the year end without taking account of any underlying security.

Impaired and past-due loans

The Company manages credit risk based on gross customer balances. The gross customer balances reconcile to gross loans and advances to customers as follows:

	2018	2017
Gross loans and advances	41,244	62,863
Accounting adjustments	6	883
Gross customer balances	41,250	63,746

Reported loans and advances differ from customer balances mainly due to various accounting adjustments necessary to comply with accounting standards, as loans and advances must be accounted for using an effective interest rate.

The Company's gross customer balances are analysed in the following categories:

Neither past due nor impaired

Loans which are not in arrears and which do not meet the definition for specific impairment, in accordance with our accounting policies.

Past due but not impaired

Loans which meet the definition for specific impairment because the loan is in arrears or there is other objective evidence of impairment in accordance with our accounting policies. However, no impairment provision is recognised against the loan when the expected cash flows, discounted at the original effective interest rate, exceeds the carrying amount of the loan.

Impaired assets

Loans which meet the definition for specific impairment because the loan is in arrears or there is other objective evidence of impairment in accordance with our accounting policies and where the carrying amount of the loan exceeds the expected cash flows, discounted at the original effective interest rate.

Notes to the financial statements (continued)

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

18. Credit risk (continued)

Gross customer balances are analysed as follows:

	2018	2017
Performing		
Not past due	24,126	50,819
Past due less than 2 months	2,528	3,337
	26,654	54,156
Non performing but not impaired		
Past due 2 - 3 months	1,110	-
Past due over 3 months	8,285	4,902
	9,395	4,902
Impaired	5,201	4,688
Gross customer balances	41,250	63,746

Management considers that contractual arrears of two months or more constitute a trigger for a potential loss event. On identification of a loss event a provision for impairment is considered based on the probability of default of the loan and the expected loss given default. The above amounts are analysed in accordance with the basis used for internal management reporting. This basis does not make adjustment for forced-sale discounts on realisation of security, nor for the discounting of future cash flows. Additional allowance is made for both of these factors in stating impairment under accounting standards.

Collateral held

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:

	2018	2017
60% or less	25,624	40,765
60-85%	13,000	19,389
85-100%	1,920	2,658
More than 100%	706	934
Gross customer balances	41,250	63,746

Notes to the financial statements (continued)

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

18. Credit risk (continued)

Concentration of credit risk

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

	2018 %	2017 %
East Anglia	0.1	0.9
East Midlands	1.4	1.4
London regions	23.9	21.4
North East	-	0.6
North West	45.0	44.2
Scotland	3.4	2.4
South East	5.9	7.1
South West	1.2	4.4
Wales	5.0	4.6
West Midlands	7.0	5.8
Yorks & Humber	7.1	7.2
Gross customer balances	100.0	100.0

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

	2018 %	2017 %
Up to £50,000	2.5	2.7
£50,000 - 100,000	6.0	5.5
£100,000 - 250,000	15.4	15.7
£250,000 - 500,000	19.0	20.7
£500,000 - 1,000,000	26.8	17.3
£1,000,000 - 2,500,000	30.3	38.1
Gross customer balances	100.0	100.0

Forbearance

The Company offers a range of approaches to assist customers experiencing financial distress. The Company considers an account as forborene at the time a customer in financial difficulty is granted a concession. The offer of forbearance is considered separately for each customer dependent on their individual circumstances. Forbearance can be temporary or permanent in nature depending on the circumstances of the customer and the concession agreed. Examples of concessions agreed include reduced payment arrangements, extension of the mortgage term, or a change in the repayment profile. Impairment is recognised based upon the contractual arrears position rather than changes in customers' preferred payment dates or to reflect agreed payment arrangements.

Notes to the financial statements (continued)

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

19. Contingent liabilities

As at 30 June 2018, the Company's assets, along with those of the Together Group's assets were subject to a fixed and floating charge in respect of £725m senior secured notes (2017: £575m) and £25m in respect of bank borrowings (2017: £nil).

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 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.

21. Events after the reporting date

On 13 September 2018 the Group successfully refinanced its revolving Charles ABS programme by increasing the size of the facility, significantly improving the terms and extending its maturity from January 2021 to September 2023. The refinancing increases the AA rated senior facility commitments from £1bn to £1.15bn and adds a further £104.5m through two fully drawn tranches of mezzanine finance, both rated by Moody's and DBRS, bringing the total facility size to £1.25bn.

On 8 November 2018, the Group completed its second residential backed securitisation, raising £272.6m of rated notes on a loan portfolio of £286.9m, Together Asset Backed Securitisation 2018-1 PLC (Together ABS 2), providing additional funding to support the Group's growth strategy.