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Common sense lending

Redhill Famco Limited
Annual report and consolidated financial statements for the year ended 30 June 2020

Company Registration No. 10162640

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GD Beckett
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Strategic report

The directors present the annual report and audited consolidated financial statements for Redhill Famco Limited (the Company) and its subsidiaries (together referred to as the Group) for the year ended 30 June 2020.

Business review

Business model and strategy

The principal activity of the Group is the provision of mortgage finance secured on property and land in the United Kingdom. This lending is undertaken by the subsidiaries of Together Financial Services Limited, an indirect subsidiary of the Company. Together Financial Services Limited and its subsidiaries is referred to as the Together Group. The Company is wholly owned by HN Moser.

The Group's strategy is to deliver secured lending to underserved customers at prudent loan-to-value ratios (LTVs) with appropriate margins, resulting in a high quality, diversified asset base, robust profitability and strong cash generation. The Group is funded by external funds consisting of private and public securitisations, senior secured notes, senior PIK toggle notes, a revolving credit facility, and reinvestment of profits.

Covid-19 impact on operations

As an indirect owner of the Together Group, the Company is impacted by general business and economic conditions in the United Kingdom.

The emergence and spread of the Covid-19 pandemic has led to significant disruption to the world economy and there is little certainty in the economic outlook. The impact of the pandemic on the macroeconomic environment, and in particular on those aspects most relevant to the Group's activities, is set out in more detail in the section on the external environment.

The Group's response to the pandemic was to focus on: supporting its customers including those requesting a mortgage-payment deferral or other support; protecting its colleagues; and safeguarding the financial resilience of the business, rapidly adapting to new ways of working and taking early and decisive actions to preserve and improve capital and liquidity buffers.

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

The Group's strategy of prudent loan-to-value (LTV) lending provides significant mitigation from such uncertain economic times, further supporting its strong financial position. The approach of the Company and the Together Group to managing risks is explained in the risk-management section later in this report.

Results and dividends

Key performance indicators (KPIs)[1] showing the performance, position and liquidity of the Group are shown below.

	2020	2019
Interest receivable (£m)	388.9	343.3
Net interest margin (%)	5.4	5.6
Underlying net interest margin (%)	5.6	5.7
Interest-cover ratio	1.4:1	1.5:1
Underlying interest-cover ratio	1.5:1	1.7:1
Cost-to-asset ratio (%)	1.9	2.8
Underlying cost-to-asset ratio (%)	1.8	2.4
Cost-to-income ratio (%)	36.8	51.7
Underlying cost-to-income ratio (%)	34.5	42.9
Impairment charge (£m)	66.9	15.4
Cost of risk (%)	1.7	0.5
Profit before taxation (£m)	69.4	75.6
Underlying profit before taxation (£m)	78.9	95.0
Return on equity (%)	12.6	14.8
Underlying return on equity (%)	14.2	18.2
Loans and advances to customers (£m)	4,162.2	3,694.5
Weighted average loan-to-value (LTV) of originations[2] (%)	57.7	58.0
Weighted average indexed LTV of portfolio[3] (%)	54.9	54.3
Net debt gearing (%)	87.5	87.4
Equity (£m)	467.8	415.8

Interest receivable and similar income has increased by 13.3% to £388.9m for the year to 30 June 2020 (2019: £343.3m). This is consistent with the increase in the loan book and continued the trend of recent years as higher-yielding loans originated following the credit crisis continued to be replaced by loans at market rates that reflected the increasing competition before the coronavirus pandemic.

Interest payable and similar charges has increased by 12.0% to £176.1m (2019: £157.2m) due primarily to an increase in the size of the borrowing facility. Additionally, the Group elected to service the interest due in April 2020 on senior PIK toggle notes in the form of 'Payment In Kind' (PIK) as opposed to servicing in cash which resulted in an additional interest charge of £3.2m. Further detail is set out in notes 5 and 22. It also reflects call penalty of £5.9m and write-off deferred up-front fees of £0.8m due to the early refinancing of senior secured notes. The increase in interest payable is offset by further improvements in the cost of funding achieved through refinancing and the new securitisation completed during the year, and in the second half of the year by the lower interest-rate environment as a result of the Bank of England's response to the pandemic. As a result of the above, the net interest margin percentage of 5.4% (2019: 5.6%) and the underlying net interest margin of 5.6% (2019: 5.7%) excluding one-off interest charges of £6.7m (2019: £5.0m), remained highly attractive given the high levels of collateral underpinning the quality of the loan book.

[1] Refer to appendix for definitions and calculations
[2] The average LTV on originations is calculated on a weighted-average basis, by multiplying each LTV by the respective principal loan amount and then dividing the sum of the weighted LTVs by the total amount of principal loans.
[3] The average LTV of our loan portfolio is calculated on a weighted-average basis, by multiplying each LTV by the respective loan amount and then dividing the sum of the weighted LTVs by the total amount of loans. The weighted-average LTV of our loan portfolio is then presented on an indexed basis, pursuant to which the value of the properties securing our loans are reviewed quarterly and adjusted for movements in property prices since the latest appraised valuation in accordance with the relevant regional property indices.

Strategic report (continued)

Business review (continued)

Results and dividends (continued)

Administrative expenses were £79.5m (2019: £97.3m). The decrease of 18.3% was mainly due to a reduction in exceptional charges in respect of customer-remediation costs to £2.8m compared with £14.4m in 2019. The Group's keen focus on cost control through the year and actions to reduce expenditure for the final three months of the year in response to the pandemic also contributed to the decrease in administration expenses. These measures included the furloughing of staff and a reduction in certain discretionary expenditure, including the release of certain provisions for incentive payments to colleagues and senior personnel. As a result of the Group's actions to reduce costs, the ratio of costs to assets fell from 2.8% last year to 1.9% and costs to income ratio fell to 36.8% (34.5% excluding one-off costs relating to customer redress and refinancing) from 51.7% (42.9% excluding one-off costs relating to customer redress and refinancing) in the prior year.

Impairment charges for the year were £66.9m, an increase of £51.5m on the £15.4m reported for the year to 30 June 2019, with the cost of risk increasing to 1.7% from 0.5% last year. The significant increase was predominantly driven by Covid-19 and changes to forward looking assumptions, including macroeconomic outlook, as well as some modest deterioration on loan book performance towards the end of the financial year. Further detail on impairment charges is set out in note 14.

The directors of the Company do not recommend the payment of a dividend (2019: £nil).

Position

The Group's strategy has consistently been to increase the loan portfolio while maintaining conservative loan-to-value (LTV) ratios. The weighted average LTV of loans written in the year to 30 June 2020 remained prudently below 60%, falling to 57.7% (2019: 58.0%). The indexed weighted average LTV of the loan portfolio for the Group rose slightly to 54.9% at 30 June 2020 from 54.3% at the end of 2019. The Group's conservative approach to LTV provides considerable protection against falling property prices. The credit risk of the Group's loan portfolio, including analysis of collateral and concentration risk, is discussed in more detail in the section on principal risks and uncertainties.

As shown in the consolidated statement of financial position, loans and advances to customers have increased by 12.7% to £4,162.2m compared with £3,694.5m at 30 June 2019. This is due to continued strong originations before the onset of the coronavirus pandemic at which point the Group chose to temporarily pause accepting new loan applications. As a result loan originations for the year of £1.7bn finished below last year's £2.0bn, but prior to the pandemic originations had been approximately 13% higher than the previous year.

Equity has increased by 12.5% to £467.8m compared with £415.8m at 30 June 2019. As part of its strategy to utilise more-capital-efficient funding structures, the Group successfully increased borrowings by 16.7% to £3.9bn at 30 June 2020 (2019: £3.3bn). Net debt gearing has remained broadly consistent at 87.5% (2019: 87.4%). The subordinated shareholder funding is treated as equity for the purposes of calculating the Group's gearing ratio.

Future developments

The directors do not expect any change to the nature of the Company's activities in the next year. Economic developments are discussed later, in the section on the economic environment, and events after the reporting date are set out in note 33.

Business review (continued)

Liquidity and funding

The Group successfully continued its strategy of increasing, extending and diversifying its funding structure during the year as detailed below.

- On 10 October 2019, the Group completed its third residential-mortgage-backed securitisation, Together Asset Backed Securitisation 2019-1 PLC ('TABS 3'). The transaction successfully raised £315.4m of external funding against a loan portfolio of £332.0m that was 79.0% funded by notes rated as AAA.
- On 30 October 2019, the Group announced the successful refinancing of the Lakeside Asset Backed Securitisation (LABS) facility increasing its size from £255m to £500m extending the maturity date to 2023 and adding two new banks to the facility.
- On 10 February 2020, the Group refinanced its £375m senior secured notes due to mature in 2021, increasing the size of the issuance to £435m, extending the maturity to February 2026 and reducing the coupon.

The Group now has nine banks in the syndicate across the funding structure, with additional counterparties providing mezzanine funding, further mitigating the risk of counterparty concentration.

In light of the significant market uncertainty which emerged in March 2020 as a result of the Covid-19 pandemic, the directors of the Group have taken additional prudent measures to preserve the Group's liquidity and capital buffers. One such measure at the onset of the pandemic was, having satisfied the requirement to do so, for Bracken Midco1 PLC to service the interest due in April 2020 on its senior PIK toggle notes through the issuance of additional notes (PIK notes) rather than paying in cash.

In May 2020, the Together Group and each of the note purchasers to its four private securitisations entered into waivers and amendments of its facility documents in order to support the provision of mortgage-payment deferrals of up to three months in line with the, as at then, Government guidance in response to the Covid-19 outbreak.

In May 2020, the Group executed a new interest-rate swap and floor within the Charles Street Asset Backed Securitisation ('CABS') facility to support recently originated fixed-rate loans, thereby increasing portfolio covenant headroom to enable further loans to be funded by this facility.

Subsequent to the year end the Group further extended and diversified its funding structure as follows:

- On 16 July 2020, Together successfully priced its latest and largest issuance in its residential mortgage-backed securitisation programme, the Together Asset Backed Securitisation 2020 - 1 PLC ('TABS 4'). The issuance, which had an effective advance rate of 92%, received strong support from investors and resulted in £361m of additional funding being raised. TABS 4 is supported by a portfolio of first-charge and second-charge owner-occupied and buy-to-let residential mortgages, secured against properties in England, Wales and Scotland, and refinanced assets forming part of the Group's Charles Street facility.
- Given the government's announcement to extend mortgage-payment deferrals to support individuals and families and the uncertainty surrounding the economic outlook, the Group agreed further modifications to waivers for each of its private securitisations to support such extensions. Further disclosure relating to mortgage-payment deferrals is included in note 14 whilst the most up-to-date information is detailed in note 33.
- In September 2020, the maturity date on the undrawn £71.9m revolving credit facility ('RCF') was extended from June 2021 to June 2023.

In October 2020, the Group resumed the servicing of interest on the senior PIK toggle notes in cash form with a £16.3m semi-annual payment.

Further disclosure relating to liquidity and funding is contained in the assessment of the going-concern basis of accounting included in note 2.

Stakeholder engagement report

Our relationships and reputation with our stakeholders remain important to the overall sustainable success of our business. We recognise and acknowledge our responsibilities to the wider communities we are part of and continue to be proud to show that our business performance can make a difference.

This has been evidenced in our ability to support and maintain strong business relationships with our stakeholders during the Covid-19 pandemic.

Stakeholder engagement report (continued)

We identify key stakeholders as follows:

- Colleagues
- Customers
- Community
- Regulators
- Investors, banks and capital markets
- Suppliers
- Shareholder

In responding to the Covid-19 pandemic, the Group has prioritised the wellbeing of our colleagues, customer service to our borrowers, and the resilience of the operating businesses. This has sometimes resulted in changes to how we engage with stakeholders, but we have at all times sought to ensure that relationships have been managed professionally and appropriately.

The following section sets out what we do to engage with our stakeholders and where appropriate how this has changed during the Covid-19 pandemic.

In responding to the Covid-19 pandemic we have had to prioritise the wellbeing of our colleagues, customer service to our existing borrowers, and the resilience of the business. This has sometimes resulted in changes to arrangements with stakeholders, but we have at all times sought to ensure that changes have been managed professionally and appropriately.

Colleagues

Whilst the Company has no employees, it undertakes all its statutory, financial, legal, governance and oversight responsibilities via colleagues who are directly employed via Blemain Finance Limited, an indirect subsidiary of the Group.

We recognise that our colleagues are a key strength and our achievements could not be possible without them. Achievements derive from both their skills and knowledge but also their behaviours and attitudes and this year more than ever we are proud of our colleagues and the efforts they have made to support our customers and our business during these unprecedented times.

We discuss below how we develop our colleagues' knowledge, skills and careers, look after their interests and how we recognise and reward achievement.

Vision and mission

Our vision, mission and beliefs remain unchanged and are more meaningful than ever.

- Our vision is to put common-sense into lending, it is why we exist and why our work is important. It is this collective spirit which drives us forward.
- Our mission is to turn challenges into opportunities that make our customers financial ambitions accessible. It defines what we do, and how we help our customers and make a difference.

Culture and purpose

Our Play your Part initiative puts our vision, mission and beliefs into words and encapsulates our culture in a framework for the entire business. Our beliefs set the tone for how we work successfully together and are cascaded from the Board to all our colleagues within the business, this is a strength that we have drawn on as a business during the Covid-19 pandemic.

Stakeholder engagement report (continued)

Colleagues (continued)

Beliefs

Our seven beliefs describe the approach we take to our work:

- Respect for People - We listen, we understand, we stand in our customer' shoes. We are attentive to our customers' needs
- Delivering Positive Outcomes - We work hard to solve problems and see things through to a quality result.
- Engagement - Relationships are important to us. We create an environment where people want to work with us and recommend us.
- Creating Opportunity - We have a can-do attitude. We find a way to make things happen and get the right outcome.
- Straightforward Solutions - We keep things as straightforward as they can be. We focus on getting the big and little things right.
- Balanced Commerciality - We apply sound judgement. We make balanced decisions that meet the needs of our customers and wider stakeholders.
- Accountability - We take the initiative and responsibility for our actions. We care about the quality of our work.

We must always seek to put this statement of beliefs into action. This is why, following the implementation of the Senior Managers and Certification Regime within our regulated Personal Finance division, we chose to roll our out 'Our Accountability Charter' across the Group and, in performance conversations with their managers, colleagues are asked to describe how they have put these beliefs into action.

Colleagues are also given the opportunity to play their part in our local community under our Let's Make it Count programme.

Using the Job Retention Scheme

At Together we have long recognised that our colleagues are a key strength and that our achievements would not be possible without the knowledge and skills, and behaviours and attitudes they bring to their roles. The Covid-19 pandemic has transformed how we must work together and our first priority has been to safeguard colleagues' wellbeing. The severity of the pandemic and its impact on our growth plans has also forced us to make some difficult decisions regarding furloughing and restructuring our business. These matters, and also continuing considerations such as career development and judging how we are doing as an employer, are discussed below.

Like so many businesses at this time we recognised it was necessary to furlough approximately 300 colleagues. More information on this can be found in the TFSL annual report and accounts.

Moving into the next phase of our response to the crisis

Whilst the actions we are taking will reduce our cost base we need to ensure it remains appropriate in scale and type to align to our expected activity levels during 2020 and 2021 and also taking into consideration efficiencies to be gained from our investment in technology and automation of processes. This means we still need to make important changes in the way we operate moving forwards.

In July, we consulted colleagues on a range of changes we were proposing to make to the business. These proposals resulted in restructuring activity which put a number of roles at risk of redundancy. More information on this can be found in the TFSL annual report and accounts.

Colleagues' Wellbeing

Wellbeing has always been an important focus for the business, and we are building on this foundation by developing a three-year colleague wellbeing strategy including the introduction of a network of trained wellbeing champions across the business. The wellbeing strategy is now even more important as we support colleagues through these uncertain times.

We have a range of initiatives in place to promote our colleagues' health and wellbeing, including fitness and running clubs, free gym membership, and a cycle-to-work scheme. Our colleague assistance programme also provides access to a confidential helpline which offers 24-hours-a-day help and support, including counselling from qualified professionals.

At the outset of the Covid-19 pandemic, we utilised our existing network of MindMatters champions to support colleagues through challenging times. This included creating a dedicated wellbeing area on our intranet with resources to support mental, physical and financial wellbeing, offering 1:1 support, and a series of colleague blogs.

Stakeholder engagement report (continued)

Colleagues (continued)

As the government moved towards easing lockdown measures following the initial lockdown, the leadership team also looked at different options to allow colleagues to transition back to office working in line with the, as at then, government guidance, including social distancing and enhanced cleaning procedures to support a safe return to the office environment. All such measures implemented to facilitate a safe return to office have were subject to a risk assessment against Government guidance and external validation.

Colleagues' Learning and Development

Together believes in creating opportunities and has an extensive, interactive learning and development programme in place to help our colleagues grow and develop. Our graduate and apprentice schemes have seen many colleagues progressing into more senior roles within the Group. Together also supports external training and qualifications for its colleagues where appropriate to their role.

Colleagues are empowered to engage in improving themselves and the organisation by sharing their learning and insights with their peers, within their teams and throughout the wider business. Colleagues have the opportunity to do this through a variety of forums including departmental roadshows, huddles and blogs.

In the face of the Covid-19 pandemic, a dedicated suite of tools and resources has been made available to support colleagues' continued learning, training and development during their time working from home. This has included e-learning modules focussed on mind management and resilience, and leadership and people manager toolkits. The learning and development also provided specific training on supporting our customers through difficult times as a result of Covid-19.

Fostering Diversity

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

- Women@Together: activities have included a speaker series, lunch club and mentoring programme aimed to develop and inspire colleagues irrespective of gender.
- Kaleidescope@Together: aims to promote diversity and inclusion across Together.
- YoungProfessionals@Together: a network for colleagues new in role or new to the Together helping them to network, grow and develop their careers.
- MindMatters@Together: aims to raise mental health awareness and promote wellbeing amongst colleagues.

Recognition and Reward

We think it is important that colleagues can celebrate and share in the Group's success, and our benefits package includes 'Shared Reward', a long-term scheme for colleagues to benefit when the group achieves certain milestones. We also have a calendar of events, from family fun days to long-service awards, all to thank colleagues for playing their part.

Due to Covid-19 we had to pause some events, but our focus on recognition did not stop. A key part of our communications strategy during the pandemic lockdown was focussed on celebrating the outstanding contributions from individuals in all areas of the business for their determination to maintain high standards of service whilst dealing with the new challenges of social distancing and supporting our customers impacted by the pandemic.

Listening to our colleagues

We hugely value feedback from our colleagues. We encourage and gather insight through:

- 'Voice of the Colleague' forums, chaired by the HR Director and attended by colleagues from across the Group to understand the day-to-day issues
- Colleague engagement surveys, including our annual 'Big Listen', and quarterly 'Quick Listen' to check and benchmark engagement levels

We continue to place high importance on colleague engagement, particularly as we progress through and emerge out of the Covid-19 pandemic. During this period to date, rather than our usual surveys, we have focussed on monitoring colleague health, carrying out monthly wellbeing pulse surveys to support this.

Stakeholder engagement report (continued)

Customers

Our mission to help customers make their financial ambitions accessible is at the heart of everything we do. To achieve this we have implemented touch points to gain customer feedback throughout the customer journey.

Listening to our customers

We lend to a wide variety of customers including owner-occupiers, landlords, businesses, the self-employed and developers. For us, however, all of our customers' journeys begins the moment they realise their need for finance and continues all the way through the loan relationship to eventual redemption and beyond. We remain committed to delivering excellent service, and at key touch points throughout this cycle we monitor feedback from customers to understand both what we do well and what we can improve.

Customer support during Covid-19

We take time to understand our customer's individual circumstances to ensure that we are able to recognise their requirements and this has never been more important for customers who may have been or who are currently impacted by the pandemic. To support customers, we have offered a variety of solutions including part and full mortgage-payment deferrals in line with government guidance, along with using other forbearance measures where more appropriate to do so such as converting to interest only mortgages for a period of time.

We continue to support customers as their mortgage-payment holidays come to an end and are proactively contacting and working with customers to ensure that they receive support appropriate to their individual financial circumstances during this challenging period.

Customer Feedback

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

We take customer complaints very seriously. Our divisional assurance teams complete root cause analysis on samples of customer complaints on a monthly basis; along with responses from customer satisfaction surveys, the data is used to inform process changes and colleague training. We continue to take proactive action based on customer feedback and embed changes into our overall 'Customer Journey' processes including the streamlining of processes for faster decision making, and the improvement of communication with our customers.

Customer and Broker feedback is collated via net promoter scores and voice of customer scores and regularly reported to the Board by the Commercial and Personal Finance CEOs with trend data and accompanying commentary. This year, in our Personal Finance division we saw a reduction in complaints of over 25%.

Despite the challenges of the Covid-19 pandemic, we were able to react quickly to the requirements of our customers and this was shown in the feedback we received during the period.

Over the past few months, we've completely redeveloped the existing customers' area of the company's website to include refreshed content, a new layout and improved navigation to improve customer experience and their ability to access support if they have been affected by Covid-19. While our recent priorities have been focussed on changes needed to support customers impacted by coronavirus, we are also committed to a programme of investment to improve our processes and experiences for our customers.

Customer Redress

It is important when listening to our customers that we learn from their experience especially when we fall short of the standards we set for ourselves or that are set by the Financial Conduct Authority (FCA) regulatory framework. In such circumstances it is vital that we firstly understand root causes and put things right for our customers along with implementing sustainable changes to make the necessary improvements for the future.

In April 2019, following the completion of internal reviews, instances were identified where, for certain customers in arrears, the outcome may have been improved if different forbearance tools had been applied. In addition, some past written communications with customers should have been clearer and more complete, including in instances where balances are not expected to be repaid by the customer by the contractual maturity date, using their current repayment schedule. Disclosures in respect of this, can be found in note 23 to the financial statements.

Stakeholder engagement report (continued)

Regulators

The companies within our Personal Finance division undertake lending which is authorised and regulated by the Financial Conduct Authority (FCA).

Our approach to regulatory engagement is one of openness and transparency, treating any enquiries with priority, and we follow established processes for communicating proactively with the regulator.

During the year, we have continued to monitor the regulatory landscape and have attended a number of FCA roundtables, and forums led by trade associations such as the Finance & Leasing Association and UK Finance on topics such as vulnerability and mortgage prisoners. We also participated in a number of forums held by trade associations set up to help members translate the regulatory guidance issued to firms in response to coronavirus and to facilitate a consistent approach to good customer outcomes throughout the industry. Attending such forums enables us to participate in industry discussions on regulatory matters and that we contribute to industry feedback on current issues.

Further detail on regulatory changes during the year and detail on the way that conduct and compliance risk is managed and mitigated is contained in the principal risks and uncertainties section.

Community

We launched our award winning Let's Make it Count programme in 2016 which provided colleagues with a framework to make a difference in the local community. The programme is embedded throughout the Together Group within six pillars and, although our activities have been constrained by the onset of the pandemic, we look forward to resuming our activities that have such a significant impact within the communities.

Further detail on the Group's activities under our Let's Make It Count programme are reported in the TFSL annual report and accounts.

Intermediaries

The Intermediaries we work with, which include mortgage packagers, broker networks and mortgage clubs, are crucial to ensuring our products are available to a wide number of potential customers.

Our Together + networks, comprising over 40 of our top mortgage packaging intermediaries, continue to have access to bespoke rates, unique products and exclusive events tailored to their businesses. They are also provided with enhanced underwriting and roving support, monthly management information and quality feedback.

In June 2020, we wrote to our brokers to let them know about some changes we were making as a business due to the Covid-19 pandemic which impacted on the progression of pipeline applications. These changes related to enhanced underwriting criteria on affordability, valuation and exit strategy plausibility we felt it appropriate to make due to increased risks that the pandemic has created for borrowers and lenders.

Nurturing long-standing, trusted relationships is vital and something we pride ourselves on. We continue to communicate openly and transparently with our broker network to ensure that the strength of our relationships is maintained during this period and into the future.

Stakeholder engagement report (continued)

Investors, banks and capital markets

Our funding is provided by UK and international banks and other institutions who invest in our high-yield bonds, revolving credit facility and our private and public securitisations. We have established long standing banking relationships and have also built strong relationships with our institutional investors, many of whom invest across a number of our funding facilities. These relationships are vital to supporting the success of our business.

We aim to make our investor communications clear, transparent and informative to give existing and potential investors the level of insight into our operations, strategy, and financial performance that they need in order to make informed investment decisions. We achieve this via ongoing quarterly reporting to investors in our bonds including live investor conference calls with Q&A, monthly reporting to investors in our public securitisations, regular attendance at investor conferences; hosting investors for site visits during the year, providing opportunities to meet management and see the operations; regular due diligence activities with banking facility providers and an ongoing dialogue with our rating agencies, including annual rating agency visits..

This clarity and openness of communication has been even more important in the light of the Covid-19 pandemic and the significant macroeconomic uncertainty that has resulted. Our investor relations team has worked closely with our treasury team to maintain regular, proactive communication with our investors and banks throughout the crisis. During May, we concluded discussions with each of the parties invested in our four private securitisation facilities to agree the necessary waivers to support the provision of mortgage payment deferrals to customers impacted by Covid-19, in line with government guidance. The waivers enabled, subject to certain maximum limits, for the impact of such mortgage-payment deferrals to be ignored for the purpose of eligibility and in respect of certain covenants. Waivers were reviewed and extended following the first extension by the government of the window for payment holiday applications to the end of January 2021.

We always seek to be open and transparent with our banks and investors, to find areas where we can improve and have welcomed the feedback received from our banks, investors and from debt and equity analysts to help us to further improve our communications.

Suppliers

Suppliers also play an important part in supporting our business, in particular our professional advisers and externally sourced IT developers. We consider not only price and quality when deciding which suppliers to engage, but also the potential long-term nature of the relationships and how these can be mutually beneficial.

We carefully consider our supplier contracts to ensure contractual commitments are clear and that obligations around sensitive information such as customer data comply with relevant regulations. The Group's Modern Slavery Statement is available on our website.

Our shareholder

Redhill Famco Limited is the ultimate parent entity of the Group which is wholly controlled by HN Moser. Mr Moser sits on the Board which facilitates alignment between Board decisions and the interests of the shareholder. The Group's private ownership structure allows it to reinvest profits into the business. More information can be found in the business review.

Strategic report (continued)

Section 172 statement

Section 172 of the Companies Act 2006 describes and defines the legal requirement for a director to promote the success of the company. A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. Section 172 requires that directors, in doing so, have regard (amongst other matters) to:

a) the likely consequences of any decision in the long term
b) the interests of the company's employees
c) the need to foster the company's business relationships with suppliers, customers and others
d) the impact of the company's operations on the community and the environment
e) the desirability of the company maintaining a reputation for high standards of business conduct
f) the need to act fairly between members of the company

The table below sets out how the Board has complied with section 172. Many of the requirements are integral to the way that the Company operates within the Together Group and therefore references have been provided where appropriate to the TFSL annual report and accounts where more information can be found.

S172 requirement to have regard to:	**How the Board has fulfilled its s172 duties**
(a) the likely consequences of any decision in the long term	• The Board meets to consider operational and financial performance and key internal developments in the context of the short and medium-term objectives in place to protect the long-term value of the business. Further information on the Company's activity can be found in the strategic report. • The overall governance and risk management frameworks are structured to enable the directors of all entities within the Group to have the necessary tools to make the key principal decisions crucial for creating long-term value. • The Board has approved the going-concern basis of accounting for the year ending 30 June 2020. This statement of going concern can be found in the directors report
(b) the interests of the company's employees	• The company has no employees, but undertakes all its statutory, financial, legal, governance and oversight responsibilities through colleagues of the Together Group. Further details can be found in the stakeholder engagement report and the TFSL annual report and accounts.
(c) the need to foster the company's business relationships with suppliers, customers and others	• Maintaining positive stakeholder relationships is crucial to the Group's long-term sustainability. Further information on stakeholder engagement can be found in the TFSL annual report and accounts. • Doing the right thing for our customers is a key focus for the Group and we encourage customers to provide feedback. Information on how we engage with our customers can be found in our stakeholder engagement report. • The Group recognises the importance of fostering relationships with investors and banking facility providers. More information can be found in the TFSL annual report and accounts.
(d) the impact of the company's operations on the community and the environment	• Support for charities and community projects continues via our colleague led initiative "Let's Make It Count". More information on this work can be found in the stakeholder engagement report and the TFSL annual report and accounts.
(e) the desirability of the company maintaining a reputation for high standards of business conduct, and	• The Board adopts the vision, mission and beliefs which are embedded across the Group to reinforce good business conduct. • Information on the Group's culture can be found in the stakeholder engagement report.
(f) the need to act fairly between members of the company	• The Group's overarching governance arrangements are regularly reviewed to ensure they continue to meet the requirements of all the Group entities and their respective stakeholders. Information on how we engage with our shareholder can be found in the stakeholder engagement report.

Risk management

External environment

Covid-19 and macroeconomic environment

The emergence and rapid spread of the coronavirus in 2020 led to unprecedented upheaval in public health and the global economy. Governments around the world implemented major monetary and fiscal intervention in mitigation. In the UK Bank Base Rate has been cut to 0.1%. Inflation has fallen to around 1% partly reflecting lower oil prices as a result of the fall in demand. House-price inflation underwent a surge as the lockdown eased and following reductions in stamp duty, which appears to be continuing, being 6.5% for the year to November 2020 according to the Nationwide, and 7.6% according to the Halifax. The UK, in common with other countries around the world, has fallen into a severe recession. GDP at the end of June 2020 had fallen 22% from its pre-pandemic level. While GDP has subsequently increased, at the end of October 2020 was estimated still to be c8.0% below pre-pandemic levels. Unemployment, which had been at historically-low levels of under 4% has started to rise, reaching 4.8% in the quarter to September 2020, and is expected to rise significantly into 2021.

Authoritative up-to-date information on the performance of the UK economy is always limited at any point in time. Given the lack of similar events upon which to base predictions about the future, and the changing incidence of infection, there has been a relative lack of consensus among economists as to the duration or eventual scale of the economic consequences. For the UK this is further compounded by the remaining uncertainty over its relationship with the EU, with the final form of the UK's exit from the European Union still not yet known. Whilst the economic outlook has continued to be uncertain, the recent progress with Covid-19 vaccine development could bring a more positive economic outlook in the near future.

The Group's credit risk is particularly affected by economic activity (as measured by GDP), unemployment, Bank of England Bank Rate and movements in house prices. The Group sets assumptions about the future projected values of these economic variables for the purposes of estimating expected credit losses (ECLs). Further details on our ECL assumptions are in notes 2 and 14 to the financial statements.

Amongst other impacts, macroeconomic uncertainty may affect the availability and pricing of wholesale funding, reduce customer confidence, reduce customers' ability to service and repay their loans which may in-turn affect our ability to comply with the covenants in our funding structures, increase operating costs and impact property values. Against such a backdrop, the Group benefits from all its lending being secured on property and/or land within the UK at prudent average LTVs. It also benefits from its specialist through-the-cycle expertise and strong, diversified funding base. Management believes these factors provide the Group with the resilience needed in such uncertain times.

In response to the Covid-19 pandemic, the Group:

- Successfully invoked its business-continuity plans to immediately address the safety of colleagues and quickly develop the operational and IT infrastructure to enable the majority of colleagues to work from home and continue to support customers, including those in need of a mortgage-payment deferral.
- Increased the frequency of Together's Board and Risk Committee meetings to address the rapidly evolving risk environment.
- Reprioritised the focus of second-line teams on monitoring new and changing risks, while internal audit has provided targeted assurance.
- Redesigned and reviewed the effectiveness of key controls to adapt to a home-working environment.
- Closely monitored financial resources and increased the frequency of financial projections, stress-testing and monitoring of key risk indicators under a range of scenarios.
- Temporarily paused new lending applications.
- Entered into waivers and amendments of facility documents for privative securitisations in order to support the provision of mortgage-payment deferrals to customers in line with government guidance.
- Took action to reduce costs, including reductions is discretionary spending and also reviewed the operating model in light of updated financial projections.

The Group took additional prudent measures to preserve liquidity by electing to PIK the payment due in April 2020 on its senior PIK toggle notes through the issuance of additional notes rather than paying in cash.

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

It is too early to estimate reliably the full economic impact of Covid-19 and the national and local measures, which continue to be updated to control the outbreak. However, with a resilient and proven business model along with the recent encouraging news on results from vaccine trials, we aim to emerge from this crisis well-placed to help our customers during the UK's economic recovery.

External environment (continued)

Exposure to real estate

The Group has a substantial lending exposure to the residential and commercial property sectors. Any property value falls or adverse changes in the economy may lead to a rising number of defaults or a reduction in the amount recovered in the event of default.

The Group lends at prudent LTVs at origination to provide protection from falls in property prices. Average origination LTV was 57.7% for the year to 30 June, 2020 (2019: 58.0%).

During the year the Group temporarily paused accepting new mortgage applications, following the onset of the Covid-19 pandemic, during a period when the impact of the outbreak on the economy, affordability assessments for new lending applications, feasibility of conducting property valuations, and the property market in general, was unclear. The Group tightened lending criteria in mitigation of these uncertainties.

The risks to the property market are expected to increase in the forthcoming year in light of adverse economic conditions, and the Group expects to continue to lend using revised lending criteria and to continue its longstanding approach of lending at prudent LTVs. The impact of the coronavirus on future property values is highly uncertain. The macroeconomic scenarios used in modelling expected credit losses are set out in note 14 to the financial statements.

Interest-rate environment

Interest rates fell during the year, with Bank Rate[4] cut to a record low of 0.1%. Reductions in interest rates make borrowing more affordable and therefore can increase asset prices. However, if interest rates are subsequently increased faster than expected, loan servicing costs are likely to increase, which could cause an increase in credit losses.

To mitigate these risks the Group conducts regular stress testing for the impact of changes in interest rates arising from any mismatches in fixed and floating rates on the balance sheet. The Group also raises funding using a mix of fixed and variable rate funding which provides some natural offset in movements in interest rates on assets and liabilities. Another mitigating action taken by the Group during the year included the launch of a new RMBS, TABS 3, which uses SONIA as a reference rate which has historically tracked Bank Rate more closely than Libor. The Group also refinanced certain senior secured notes, securing fixed-rate funding to 2026, and also entered into interest-rate derivatives where appropriate to mitigate interest-rate risk.

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

Cybercrime

Cybercrime is a significant threat in our increasingly interconnected world that all businesses, and in particular financial services companies, are exposed to.

The Group continues to perform penetration testing on our systems and to strengthen its defences against cybercrime, with investment in market-leading tools and in the cybersecurity team during the year.

[4] Bank of England Bank Rate, also known as base rate.

Risk management (continued)

External environment (continued)

Regulatory changes

Changes in regulation may impact the way in which the Group conducts its business. Failure to comply with changes in regulation could result in fines, reputational damage and potential revocation of regulatory permissions. Furthermore, the FCA has been looking closely at the non-standard lending sector. Companies within the Together Group's Personal Finance division undertake lending which is authorised and regulated by the Financial Conduct Authority (FCA).

The Group has responded to new guidance issued by the FCA in response to the coronavirus pandemic, including offering mortgage-payment deferrals to customers and the treatment of vulnerable customers.

The Together Group's Personal Finance division has implemented the FCA's Senior Managers and Certification Regime (SM&CR) during the year. The Group has also reviewed data-handling processes to ensure the Group continues to comply with General Data Protection Regulations.

The FCA has issued a business plan that highlights that the impacts and lessons-learned during and beyond Covid-19 may further refine its areas of focus. The plan states that the current regulatory framework is too focused on a rules-based approach, and not enough on principles and outcomes. The plan also sets out a view that resources are devoted to redress and remediation, but not enough focus is on empowering customers to make good decisions, on regulatory action to prevent harm, and on safeguarding customers' financial wellbeing.

The FCA has also consulted on extending SM&CR implementation deadlines, for certain requirements, including: the date the conduct rules come into force; the deadline for submission of information about directory persons to the register; extending the deadline for assessing Certified Persons as fit and proper from December 2020 to March 2021.

The Together Group's Personal Finance division's compliance function will continue to monitor proposed changes to the FCA regulatory landscape for emerging changes in regulation, to assess the potential impact of any changes, and to allow for procedures and processes to be adapted accordingly.

Further information in respect of regulatory matters can be found in conduct and compliance risk within the principal risks and uncertainties section of this report and within note 23 to the financial statements.

Claims management companies (CMCs) and legal claims

CMCs and claimant law firms' activity can lead to a significant increase in the level of legal claims being received, whether or not these are ultimately settled or rejected.

During the year, the Group has seen a reduction in legal claims received from CMCs and claimant law firms compared with the prior year. CMCs became regulated during 2019 with the aim of raising standards and practices in the industry, which may impact on claim volumes. The Group evaluates the merits of each claim individually and determines an appropriate course of action.

Risk management (continued)

Principal risks and uncertainties

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

The coronavirus outbreak represents a major development in the risks and uncertainties facing the Group, and impacts a number of principal risk categories. The Group benefits from a prudent LTV loan portfolio and new origination criteria have been further tightened in response to the challenges of robustly assessing affordability and property valuations in current conditions. The Group's results have been adversely impacted by increased expected credit losses in line with IFRS 9 forward-looking requirements and the extent of any further impact will be influenced by the duration and severity of the disruption on the UK economy. Given the level of uncertainty, including the current and potential further disruption in wholesale funding markets, the Group continues to proactively model possible scenarios to support the continued resilience of the business model. Growth plans have been revised to lower levels, thereby conserving both capital and liquidity until the level of uncertainty reduces.

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

- Strategic risk
- Credit risk[5]
- Liquidity and funding risk[5]
- Market risk[5]
- Capital risk[5]
- Operational risk
- Conduct risk
- Compliance risk

These are typical of the categories of risk traditionally identified by organisations operating in the financial services sector and are impacted by the matters detailed in the previous section. Each risk listed below is discussed in further detail throughout the remainder of this report. All risks are monitored and managed by the Together Group and references to Board involvement refer to the Board of Together Financial Services Limited. The directors of the Company are represented on the Together Group Board which provides them with oversight over the performance and risk management of the Together Group.

Strategic risk

Strategic risk is the risk of failure to achieve objectives that impact the long-term interest of stakeholders, or from an inability to adapt to the external environment.

Strategic risk is managed and mitigated by:

- Regular Board oversight of the Group's strategy, including monitoring of financial and non-financial performance indicators.
- Regular engagement with the Group's shareholder to allow for alignment of objectives.
- Identification of areas of the market where customers value our common sense lending and a relationship-based approach.
- Listening to customers to learn how we can improve their experience and increase customer advocacy.
- Evaluation of opportunities to further incorporate technology into business processes to make the customer experience better and/or improve operational efficiency.
- Assessment and consideration of broader global and UK macroeconomic environment and key industry drivers.
- Periodic benchmarking to our peer group.
- Regular review and dissemination of market and competitor developments including product evolution, merger and acquisition activity and wider corporate developments.
- Maintaining strong relationships with intermediaries.
- Ongoing monitoring of the funding markets in which we are active, including securitisation and high yield bond markets.
- Ongoing Board review of the Group's risk appetite, risk exposure and mitigation.

[5] This section forms part of the IFRS 7 disclosures in respect of the financial statements on pages 34 to 82.

Principal risks and uncertainties (continued)

Strategic risk (continued)

- Sensitivity and stress testing analysis are carried out against the loan book and business plans.
- Maintenance of a prudent statement of financial position with diversity of mix and tenor of funding structures, and closely monitored gearing levels.
- Annual budget process, with a 12–18 month outlook, which aligns with the Group's objectives.
- Delivery of significant change programmes and projects by a dedicated change delivery department in accordance with the Group's 'Change Delivery Framework'.

The Together Group's Executive Risk Committee provides oversight and monitoring of strategic risk and Board oversight is performed by its Risk Committee and Board.

Credit risk

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

The Group is exposed to changes in the economic position of its customers, which may adversely impact their ability to make loan repayments. The level of this risk is driven by macroeconomic factors as well as by factors relating to specific customers, such as a change in the borrowers' circumstances.

Credit risk also arises if the value of assets used as security for loans falls in value, given this is the primary source of recourse should a borrower fail to repay amounts due.

Credit risk is managed and mitigated by:

- The Group's comprehensive underwriting procedures, which, where appropriate, have regard to creditworthiness, affordability levels, repayment strategies and property LTV ratios.
- Conservative LTVs are targeted across all products, providing mitigation to the risk of credit losses arising in the event of default and protection from the risk of falling collateral values.
- Customer affordability models are utilised by the Group where appropriate, and are tailored to the customer and loan type.
- Responding to changing market conditions, such as the worsening economic conditions since March 2020 by temporarily pausing new applications and tightened lending criteria, including lower LTVs and increased thresholds for affordability assessments.
- In the Together Group's Personal Finance division, the new lending criteria have been applied to the existing pipeline to evaluate whether valuations and affordability assessments undertaken prior to coronavirus are still appropriate.
- In the Together Group's Commercial Finance[6] division, new originations are primarily through mortgage intermediaries where we have a long-standing relationship or via direct channels and are subject to tighter lending criteria.
- Continuing to focus lending on areas of the market where the Group has specific expertise, which only includes secured lending, within the UK, at prudent LTVs.
- Monitoring of customer performance throughout the life of the loan, with regard to arrears, proactive collections strategies, application of mortgage-payment deferrals in response to Covid-19, or other forbearance measures.
- Capturing additional data and establishing enhanced monitoring of the specific risks posed to the portfolio by Covid-19 and the impact of customers in receipt of mortgage-payment deferrals. This has included accessing additional data, where appropriate, from open banking and credit reference agencies.
- Updated arrears management standards and processes to reflect the latest FCA guidance on mortgage-payment deferrals.
- Monitoring of the characteristics of the loan portfolio, including geographical concentration and LTV.
- Monitoring of credit risk exposures through credit risk management information to enable an assessment of position versus risk appetite. This has been enhanced to provide further analysis and focus on particular risk factors emerging as a result of coronavirus.

[6] The Commercial Finance division comprises Together Commercial Finance Limited, Auction Finance Limited, Bridging Finance Limited and Harpmanor Limited.

Risk management (continued)

Principal risks and uncertainties (continued)

Credit risk (continued)

- Macroeconomic sensitivity analysis of the loan book, including an increase in the number of scenarios modelled for the purpose of calculating the impairment loss allowance.
- Measuring and monitoring credit quality for impairment purposes using a suite of IFRS 9 models. Our detailed disclosures in respect of IFRS 9 credit modelling are included within notes 3 and 14 to the financial statements.

The Together Group's Executive Risk Committee provides oversight and monitoring of credit risk, including receiving reports and recommendations from the Together Group's credit risk meeting. Board oversight is performed by its Risk Committee.

Maximum exposure to credit risk

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

Audited	**Note**	**2020 £m**	**2019 £m**
Included within the statement of financial position:			
Gross customer balances		4,300.3	3,774.8
Unsecured loans		0.2	0.3
Accounting adjustments		(19.5)	(13.6)
Less: allowance for impairment	14	(118.8)	(67.0)
Loans and advances to customers	14	4,162.2	3,694.5
Cash and cash equivalents	13	253.1	121.0
Derivative assets held for risk management	15	-	0.1
Amounts owed by related parties	17	10.6	9.8
Other debtors	17	1.4	0.8
		4,427.3	**3,826.2**
Not included within the statement of financial position:			
Commitments to lend (net of ECL)	32	88.4	153.7
Maximum exposure to credit risk		**4,515.7**	**3,979.9**

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

An impairment allowance is held against the gross exposures on loans and advances to customer, measured on an expected credit loss basis under IFRS 9. Credit-risk ratings are not used by the group to monitor credit risk and therefore are not disclosed. Further details on the Group's expected credit-loss methodology, and the movement in impairment losses through the year are shown in notes 2 and 14 to the financial statements.

The analysis that follows in this section is presented based upon gross customer balances. The table above shows that this differs from the total loan book balance recognised in the statement of financial position as a result of various accounting adjustments required under IFRS, such as accounting using the effective interest-rate methodology. The Group's accounting policies are set out in note 2 to the financial statements.

Risk management (continued)

Principal risks and uncertainties (continued)

Credit risk (continued)

Collateral held

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

A key measure the Group uses in assessing credit risk is the ratio of the loan amount to the value of the underlying security. Valuations obtained on origination are updated by indexing using established regional house price indices to estimate the current security value and in some cases they are updated to reflect a more recent valuation of the security. The table below shows gross customer balances by indexed LTV banding.

	2020 £m	2020 % of gross customer balances	2019 £m	2019 % of gross customer balances
60% or less	2,374.7	55.2%	2,191.4	58.0%
61 – 85%	1,750.4	40.7%	1,453.1	38.5%
86 – 100%	119.7	2.8%	89.8	2.4%
Greater than 100%	55.5	1.3%	40.5	1.1%
Gross customer balances	**4,300.3**	**100.0%**	**3,774.8**	**100.0%**

Of the gross customer balances at 30 June 2020, 95.9% (30 June 2019: 96.5%) of loans had an indexed LTV of less than or equal to 85%.

Concentration of credit risk

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

	2020 %	2019 %
East Anglia	2.7	2.5
East Midlands	3.4	3.2
Ireland	0.1	0.1
London	26.7	28.3
North East	1.7	1.7
North West	15.8	14.8
Scotland	4.5	4.4
South East	18.6	19.2
South West	7.5	7.3
Wales	3.7	3.8
West Midlands	8.7	8.2
Yorks & Humber	6.6	6.5
Gross customer balances	**100.0**	**100.0**

Risk management (continued)

Principal risks and uncertainties (continued)

Credit risk (continued)

Concentration of credit risk (continued)

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

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

	2020 %	2019 %
Up to £50,000	10.5	11.8
£50,000 - £100,000	15.5	15.8
£100,000 - £250,000	22.7	22.0
£250,000 - £500,000	15.7	14.8
£500,000 - £1,000,000	10.3	9.8
£1,000,000 - £2,500,000	12.0	11.8
More than £2,500,000	13.3	14.0
Gross customer balances	**100.0**	**100.0**

Whilst the Group's volume of loans in excess of £2.5m has increased since the prior year, 87.3% (30 June 2019: 88.3%) of these loans have an LTV of under 85% at 30 June 2020.

Forbearance and mortgage-payment deferrals

In March 2020 the government announced very substantial and wide ranging support measures in anticipation of the effect of the pandemic on the wider economy and subsequently extended such measures. These measures included the availability of mortgage-payment deferrals, for up to six months for borrowers who have been impacted by Covid-19. The government subsequently provided guidance that borrowers should have the ability to extend mortgage-payment deferrals.

As at 30 June 2020, 5,691 customer loan accounts, representing 16% of the loan portfolio by value, were in receipt of a Covid-19 mortgage-payment deferral arrangement. As at 9 November 2020, this reduced to 2% of loan portfolio by value and this is detailed out in note 33. Further detail on the impact on the Group's loss allowance is set out in note 14.

The Group also offers forbearance to assist customers who are experiencing financial distress and assistance is provided based on individual customer circumstances. In the Together Group's Personal Finance division this is offered in accordance with regulatory guidance. For those customers requiring additional assistance the Group works with a number of external not-for-profit agencies. Further detail on the impact on the Group's loss allowance is set out in note 14.

Liquidity and funding risk

Liquidity risk is the risk that the Group is unable to access sufficiently liquid financial resources to meet the Group's financial obligations as they fall due.

Funding risk is the risk of being unable to access funding markets or to only be able to do so at excessive cost. This includes the risk of reduced funding options due to adverse conditions in the wholesale funding market, potentially caused by political and economic uncertainty, leading to the inability to secure additional funding for new business, or refinance existing facilities.

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

Risk management (continued)

Principal risks and uncertainties (continued)

Liquidity and funding risk (continued)

A key driver of liquidity risk within the Group arises from a number of private securitisation facilities being subject to portfolio covenants and eligibility restrictions including concentration limits and performance measures. Amongst other requirements, such covenants limit the proportion of loans in arrears and on an individual loan basis the level of arrears determine eligibility for such facilities. In certain circumstances assets can be exchanged, repurchased or additional capital can be injected into the facilities to support compliance with facility terms thereby maintaining access to liquidity provided by such facilities. Failure to comply with facility terms or breach of non-curable performance covenants will cause such facilities to go into early amortisation, with removal of undrawn facility headroom and deferral of cashflows to the Senior Borrower Group[7]. Increasing arrears, as a result of the wider economic consequences of the pandemic, increases the risk that insufficient eligible assets will be available to ensure facilities remain in compliance with covenants, and thus able to provide a source of liquidity and funding for the Group. The Group monitors such covenants and carries a level of cash and eligible assets to support the private securitisation facilities in a stress event in line with set risk appetites.

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

The liquidity and funding risks arising from reducing level of eligible assets and/or the risk of lower levels of cash inflows from redemptions can be mitigated by increasing the amount of liquidity resources held as cash. A key management action to generate net cash inflows is the ability to control levels of new lending, which in combination with other management actions such as electing to service the interest due in April 2020 on its senior PIK toggle notes through the issuance of additional notes (PIK notes) rather than paying in cash, has increased cash balances to £253.1m at 30 June 2020 (2019: £121.0m). Note 2 to the financial statements provides further detail on the assessment of the going concern basis of preparation. This includes an assessment of the risks presented to the Group by any potential breaches of lending covenants including potential mitigating actions.

Liquidity risk is managed and mitigated by:

- Close monitoring of liquidity risk against limits and triggers to ensure early identification of any liquidity stress.
- Regular stress testing, including on a forecast basis, to test the ability of the Together Group to meet its obligations under normal and stressed conditions which are modelled and monitored against a 150-day survival period.
- Development of additional forecast cash-flow scenarios and stress-testing in response to the economic and market disruptions following the outbreak of coronavirus.
- Regular monitoring and reporting of compliance with financial covenants and restrictions, and actively seeking waivers where appropriate.
- Reporting of management information which includes a range of additional quantitative measures of liquidity risk.
- Closely managing total liquidity resources, including cash, redemption cashflows, access to funding from securitisations and access to a revolving credit facility.
- Forecasting of expected cash inflows and outflows, including the outstanding pipeline of loan offers, and monitoring of actual cashflows.
- Only placing surplus cash balances on overnight deposit ensuring they remain immediately available.

[7] Together Financial Services Limited and its subsidiaries, not including Charles Street ABS, Delta ABS, Delta ABS 2, Highfield ABS, Lakeside ABS, Together ABS 1, Together ABS 2 or Together ABS 3.

Risk management (continued)

Principal risks and uncertainties (continued)

Liquidity and funding risk (continued)

Funding risk is managed and mitigated by:

- The utilisation of a range of medium to long-term funding sources.
- Diversification of funding sources.
- Maintenance of prudent headroom in facilities.
- Regular engagement with banks and investors.
- Maintenance of depth of maturity through regular new issuances and timely refinancing of existing sources of funding, when wholesale markets are available.
- Monitoring individual funding maturity dates and maturity concentrations.
- Undertaking funding stress tests of our ability to withstand the emergence of risks under normal and stressed

The Together Group's Asset and Liability Committee (ALCO) provides oversight and monitoring of liquidity and funding risk, with delegated authority from its Executive Risk Committee. Board oversight is performed by Together Group's Risk Committee. In response to the pandemic ALCO matters were reported directly to the Board on a weekly basis in order to provide timely information for consideration.

See the business review for an overview of the Group's sources of funding and funding activity undertaken during the year.

The following is an analysis of the gross undiscounted contractual cash flows payable on the Group's financial liabilities, including expected future interest payments.

Audited 30 June 2020	Carrying value £m	Repayable on demand and up to 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Bank facilities	10.0	10.3	-	-	-	10.3
Loan notes	2,729.8	137.7	620.3	2,128.5	-	2,886.5
Senior secured notes	786.1	41.2	42.6	456.5	456.2	996.5
Senior PIK toggle notes	368.2	32.7	32.7	417.2	-	482.6
Lease liability	11.5	1.4	1.2	3.3	5.6	11.5
Subordinated shareholder loans	20.3	-	-	-	105.2	105.2
	3,925.9	**223.3**	**696.8**	**3,005.5**	**567.0**	**4,492.6**
Debt issue costs	(17.7)	-	-	-	-	-
Borrowings	**3,908.2**	**223.3**	**696.8**	**3,005.5**	**567.0**	**4,492.6**
Trade creditors	1.1	1.1	-	-	-	1.1
Other creditors	1.5	1.5	-	-	-	1.5
Commitments to lend	-	88.4	-	-	-	88.4
	3,910.8	**314.3**	**696.8**	**3,005.5**	**567.0**	**4,583.6**

Risk management (continued)

Principal risks and uncertainties (continued)

Liquidity and funding risk (continued)

Audited 30 June 2019	**Carrying value £m**	**Repayable on demand and up to 1 year £m**	**1-2 years £m**	**2-5 years £m**	**More than 5 years £m**	**Total £m**
Bank facilities	55.0	2.2	57.3	-	-	59.5
Loan notes	2,221.5	153.7	339.7	2,186.5	-	2,679.9
Senior secured notes	726.8	44.9	44.9	801.0	-	890.8
Senior PIK toggle notes	350.0	31.0	31.0	427.7	-	489.7
Lease liability	0.8	0.5	0.3	-	-	0.8
Subordinated shareholder loans	17.2	-	-	-	105.2	105.2
	3,371.3	**232.3**	**473.2**	**3,415.2**	**105.2**	**4,225.9**
Debt issue costs	(18.9)	-	-	-	-	-
Borrowings	**3,352.4**	**232.3**	**473.2**	**3,415.2**	**105.2**	**4,225.9**
Trade creditors	1.9	1.9	-	-	-	1.9
Other creditors	2.7	2.7	-	-	-	2.7
Commitments to lend	-	153.8	-	-	-	153.8
	3,357.0	**390.7**	**473.2**	**3,415.2**	**105.2**	**4,384.3**

The Group has a strong track record of successful refinancing and raising new facilities. The outbreak of the coronavirus is causing market uncertainty, which may restrict the ability of the Group to complete further funding transactions, at least in the short-term, or may impact on the terms available. The depth of maturity in the Group's existing debt facilities provides significant mitigation in respect of refinancing risk. The earliest maturity of wholesale funding, being the Highfield Asset Backed Securitisation ('HABS') facility, not due until June 2022 (revolving period ending June 2021), with the amount drawn at the reporting date representing 10.6% of the Group's borrowings. The earliest call on the public securitisations is Together Asset Backed Securitisation 1 ('TABS 1') facility (representing 3.1% of the Group's borrowings) in September 2021. Further detail is set out in note 22 to the financial statements.

Market risk

Market risk is the risk arising from the Group's exposure to movements in market values, including movements in interest rates.

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

Interest-rate risk is managed and mitigated by:

- Monitoring against risk appetite. During the year the Together Group defined triggers and limits for the measurement of interest rate risk.
- Regular monitoring of interest-rate risk exposure, including a forward-looking view which incorporates new business assumptions and expected redemptions.
- Closely monitoring the impact of a range of possible interest rate changes on the Group's performance and strategy.
- Undertaking hedging transactions as appropriate.

The Together Group's ALCO provides oversight and monitoring of interest-rate risk, with delegated authority from its Executive Risk Committee. Board oversight is performed by Together Group's Risk Committee.

Risk management (continued)

Principal risks and uncertainties (continued)

Market risk (continued)

The table below sets out the impact on profit before tax of an immediate decrease of 0.1% and an increase of 0.1%, 0.5% and 1.0% in interest rates, based on the interest rates prevalent at the year-end dates.

	2020 £m	2019 £m
0.1% decrease	(1.5)	(1.4)
0.1% increase	1.5	1.4
0.5% increase	7.4	6.9
1.0% increase	14.8	13.8

The above interest-rate risk sensitivity represents the movement taking into account the Group's contractual assets, liabilities, and derivatives and their maturity and repricing arrangements.

Note 15 to the financial statements details the Group's use of derivatives to mitigate interest-rate risk.

Capital risk

Capital risk is the risk of failure to hold adequate capital buffers and to appropriately manage the Together Group's capital base to withstand the crystallisation of individual risks or a combined stress event. Given capital also comprises a material source of funding via subordination in bond and securitisation structures, insufficient capital also gives rise to funding and liquidity risk. Capital risk includes the risk of excessive gearing.

Regulatory capital requirements must also be met at all times within certain of the Group's subsidiaries.

Current and forecast levels of Together Group capital, including the gearing ratio, are monitored and reported to the Board on a regular basis. Total Group shareholder funds[8] increased by £55.1m over the year (2019: £31.7m).

Capital risk is managed and mitigated by:

- Regular monitoring of current and forecast levels of capital, including the gearing ratio.
- Continuous monitoring of the required regulatory capital requirements within relevant subsidiaries and the actual levels projected.
- Business planning and stress testing over a horizon of 12-18 months to identify forecast positions.
- Reviewing the level of gearing within securitisation facilities and within the Senior Borrower Group, and seeking to manage these when refinancing to maximise the Group's capital efficiency whilst ensuring sufficient capital is available to support the facilities and mitigate refinancing risk.

The Together Group's ALCO provides oversight and monitoring of capital risk, with delegated authority from its Executive Risk Committee. Board oversight is performed by Together Group's Risk Committee.

Note 2 to the financial statements provides further detail on the assessment of the going-concern basis of accounting. This includes an assessment of the risks presented to the Group by any potential breaches of lending covenants, including gearing tests, and potential mitigating actions.

[8] See appendix for definitions

Risk management (continued)

Principal risks and uncertainties (continued)

Operational risk

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

Operational risk is managed and mitigated by:

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

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

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

- The instigation of daily meetings by the leadership team to review and direct the Group's operational response to Covid-19 and an increase in the frequency of Board and Together Risk Committee meetings to facilitate rapid decision making.
- Rapid expansion of the IT and operational capability for colleagues to work from home.
- Adaption of systems of internal controls to support remote working.
- Changes to operational processes and IT systems to assist customers facing financial difficulty and offer mortgage-payment deferrals.
- Development of HR procedures and communications strategy to support colleagues and to support their ongoing wellbeing.
- Close monitoring of human resource levels to meet new and changing demands.
- Review of arrangements with suppliers and implementation of contingency procedures.

The Group has demonstrated an ability for the vast majority of its colleagues to work from home. It has also put in place detailed social distancing, personal temperature testing and enhanced cleaning procedures to support those colleagues whose roles necessitate they work in the office.

Risk management (continued)

Principal risks and uncertainties (continued)

Conduct risk

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

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

Conduct risk is managed and mitigated by:

- The communication of the Group's 'Beliefs' set by the Board, which define our organisational culture and focus on colleague conduct, respect, accountability and customer experience.
- Annual training and awareness sessions for colleagues, for example training to identify factors which may indicate that a customer is vulnerable.
- Adherence to a system of processes and controls which mitigate conduct risk including monitoring and reporting against risk appetite.
- 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 including monitoring and reporting against risk appetite.
- Identifying and supporting customers when things go wrong, for example, through forbearance and complaint handling.
- Root cause analysis of complaints or failings, focusing on continuous improvement aiming to identify where we could improve the outcome for customers.
- Quality assurance frameworks, which have recently been enhanced to include a focus on those customers impacted by Covid-19 and to focus on the potential impact on vulnerable customers or on customer who may become vulnerable.

The Together Group's Executive Risk Committee provides oversight and monitoring of conduct risk. Board oversight is performed by Together Group's Risk Committee. This is mirrored by the Together Group's Personal Finance division's own separate governance arrangements, while oversight for the Together Group's Commercial Finance division is provided by its Board.

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

As a result of undertaking internal reviews within the Together Group's Personal Finance division for the year-ended 30 June 2019, instances were identified where, for certain customers in arrears, the outcome may have been improved if different forbearance tools had been applied. In addition, some past written communications with customers should have been clearer and more complete, including in instances where balances are not expected to be repaid by the customer by the contractual maturity date, using their current repayment schedule. Further disclosures in respect of this can be found in note 23 to the financial statements.

Risk management (continued)

Principal risks and uncertainties (continued)

Compliance risk

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

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

Compliance risk is managed and mitigated by:

- Quality assurance reviews in operational areas with oversight provided by experienced risk and compliance departments.
- Independent monitoring reviews undertaken by second-line teams. Recently, these have focused on the impact of Covid-19 on customer outcomes, from their request for a mortgage-payment deferral through to their payment deferral exit.
- Continued investment in staff training and awareness.
- Delivery of significant regulatory initiatives with the support of a dedicated change delivery department and in accordance with the Group's 'Change Delivery Framework' which includes second-line compliance engagement wherever appropriate.
- Products are approved through a 'Product Governance framework' with a focus on customer needs.
- Controls to prevent financial crime, including fraud detection, anti-money laundering checks and established processes for whistleblowing. The Board receives an annual report from its dedicated Money Laundering Reporting Officer (MLRO) setting out a comprehensive review of controls and compliance with relevant regulation.
- Monitoring of compliance with legal obligations by an in-house legal department.
- Monitoring processes to assess compliance with the requirements of GDPR.
- Horizon scanning and impact assessments of potential regulatory and legal change. The compliance function monitors all regulatory developments, including the matters identified by the FCA in their business plan, to allow for new guidance to be considered and changes implemented where appropriate.

The Together Group's Executive Risk Committee provides oversight and monitoring of compliance risk. Board oversight is performed by Together Group's Risk Committee. This is mirrored by the Together Group's Personal Finance division's own separate governance arrangements, while oversight for the Together Group's Commercial Finance division is provided by its Board.

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

GD Beckett
Director
16 December 2020

Directors' report

The directors present their report for the year ended 30 June 2020.

The Group's principal activity continues to be the provision of mortgage finance secured on property and land in the UK. The directors do not expect any significant change to the activities of the Redhill Famco Limited group of companies. Details of the results and dividends and financial position of the Group are contained within the business review section of the strategic 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.

Employee consultation

The Group places considerable value on the involvement of its colleagues and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings and internal publications. Colleagues are consulted regularly on a wide range of matters affecting their current and future interests.

The Group launched an employee consultation process on proposals to reduce colleague numbers reflecting the anticipated future levels of lending activity and a revised operating structure. Further detail is provided in note 33 to the financial statements.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training or arrangements are made. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Environment

As the Group operates in the financial services sector, its actions do not have a significant environmental impact. However, the Group does recognise the importance of protecting the environment, and acts to reduce its impact, by recycling and reducing energy consumption.

Under The Companies (Directors' report) Regulations 2018, the Group is required to comply with the new Streamlined Energy and Carbon Report (SECR) reporting framework whereby it is now mandatory for large unquoted companies to disclose energy use and associated greenhouse gas (GHG) emissions in the Directors' report.

The reporting scope of the Group's first mandatory greenhouse gas report is as follows:

- The reporting period is 1 July 2019 to 30 June 2020 which aligns to the Group's financial year;
- As this is the first year of reporting, the Group has taken the exemption from presenting comparatives for last year's energy use and GHG emissions;
- The reporting covers the Group and its subsidiaries;
- Calculations have been made for the reporting of:
  - Building related energy- natural gas (scope 1) and electricity (scope 2) and
  - Transport related energy – company vehicles (scope 1) and employee owned vehicles (scope 3).
- The methodology has been based on the Greenhouse Gas (GHG) Protocol; and
- In order to calculate emissions from electricity and gas consumption, 2020 UK Government GHG Conversion Factors for Company Reporting have been used.

Directors' report (continued)

Environment (continued)

Energy performance results

Energy use by source	Units	2020
Gas	kWh	735,186
Electricity	kWh	1,730,429
Transportation	kWh	411,178
Total		**2,876,793**

GHG emission results

Emissions by category	2020
Scope 1 - Combustion of gas and fuel for transport	187
Scope 2 - Purchased electricity	403.4
Scope 3 - Transport	52.5
Total	**642.9**

Intensity ratio

	2020
Total emissions tCO2e[9]/employee	**0.9**

In the reporting period, the Group has undertaken a number of energy efficiency initiatives which have led to a reduction in the total energy used and GHG emissions. The Group installed LED lighting at both Lakeview and Lakeside offices with both buildings forming part of the building-related energy disclosed. The Group also introduced a more efficient heating unit at No 1 Lakeside. These actions are expected to result in a reduction in property-based annual energy consumption for the Group.

Statement of going concern

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

The directors have assessed, in the light of current and anticipated economic conditions, the Group's ability to continue as a going concern for a period of 12 months from the date of approval of the accounts. Further detail on this assessment is set out in note 2 to the financial statements.

The directors are satisfied that the Company and the Group have adequate resources to continue in operation for the going-concern assessment period. Accordingly, the directors have adopted the going-concern basis in preparing these accounts.

Charitable donations

During the year the Group made donations of £170,000 (2019: £80,000) to charities.

Future developments

Future developments are discussed in the strategic report.

Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Group is contained in the strategic report.

Dividend

The directors do not recommend the payment of a dividend (2019: £nil).

[9] tCO2e stands for tonnes (t) of carbon dioxide (CO2) equivalent (e)

Directors' report (continued)

Audit information

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

In the case of each of the persons who 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 of the Companies Act 2006.

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

GD Beckett
Director
16 December 2020

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 Group and Company for that period.

In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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 to the members of Redhill Famco Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Redhill Famco Limited ('the parent company') and its subsidiaries (the 'group') for the year ended 30 June 2020 which comprise the Consolidated statement of comprehensive income, the Consolidated and Company statement of financial position, the Consolidated and Company statement of changes in equity and the Consolidated and Company statement of cashflows and the related notes 1 to 34, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 30 June 2020 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been prepared in accordance with IFRSs as adopted by European Union and as applied with the provisions of the Companies Act 2006;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

Other information

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

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

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

We have nothing to report in this regard.

Independent auditor's report to the members of Redhill Famco Limited (continued)

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 31, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Ernst & Young LLP

Stephen Littler (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester
16 December 2020

Consolidated statement of comprehensive income

Year ended 30 June 2020

All amounts are stated in £m

Income statement	Note	2020	2019
Interest receivable and similar income	4	388.9	343.3
Interest payable and similar charges	5	(176.1)	(157.2)
Net interest income		**212.8**	**186.1**
Fee and commission income	6	4.5	4.4
Fee and commission expense	7	(2.9)	(2.3)
Net fair value losses on derivatives held for risk-management purposes measured at fair value through income statement	15	(0.5)	-
Other income	8	1.9	0.1
Operating income		**215.8**	**188.3**
Administrative expenses	9	(79.5)	(97.3)
Operating profit		**136.3**	**91.0**
Impairment losses	14	(66.9)	(15.4)
Profit before taxation		**69.4**	**75.6**
Income tax	12	(13.3)	(16.0)
Profit after taxation		**56.1**	**59.6**
Other comprehensive expense			
Items that may be reclassified to the income statement			
Movement in the cashflow-hedging reserve:			
Effective portion of changes in fair value of derivatives		(2.8)	-
Amount reclassified to income statement		0.1	-
		(2.7)	**-**
Movement in the cost-of-hedging reserve:			
Effective portion of changes in fair value of derivatives		-	(0.2)
Amount reclassified to income statement		0.1	-
		0.1	**(0.2)**
Other comprehensive expense for the year, net of tax		**(2.6)**	**(0.2)**
Total comprehensive income for the year		**53.5**	**59.4**

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

Consolidated statement of financial position

As of 30 June 2020

All amounts are stated in £m

	Note	2020	2019
Assets			
Cash and cash equivalents	13	253.1	121.0
Loans and advances to customers	14	4,162.2	3,694.5
Derivative assets held for risk management	15	-	0.1
Inventories	16	0.6	0.6
Other assets	17	15.9	13.8
Investments		0.1	0.1
Property, plant and equipment	19	13.9	5.4
Intangible assets	20	8.1	8.8
Current tax asset		3.1	-
Deferred tax asset	21	7.6	7.5
Total assets		**4,464.6**	**3,851.8**
Liabilities			
Derivative liabilities held for risk management	15	2.9	-
Current tax liabilities		-	6.1
Borrowings	22	3,908.2	3,352.4
Provisions for liabilities and charges	23	23.6	18.5
Other liabilities	24	62.1	59.0
Total liabilities		**3,996.8**	**3,436.0**
Equity			
Share capital	25	-	-
Subordinated shareholder-funding reserve	22	31.4	32.0
Cashflow-hedging reserve		(2.7)	-
Cost-of-hedging reserve		(0.1)	(0.2)
Other reserves		2.7	2.9
Retained earnings		436.5	381.1
Total equity		**467.8**	**415.8**
Total equity and liabilities		**4,464.6**	**3,851.8**

These financial statements were approved and authorised for issue by the Board of Directors on 16 December 2020.

Company Registration No. 10162640.

Signed on behalf of the Board of Directors

HN Moser
Director

GD Beckett
Director

Company statement of financial position

As of 30 June 2020

All amounts are stated in £m

	Note	2020	2019
Assets			
Other assets	17	16.1	14.8
Investments in subsidiaries	18	38.9	38.9
Total assets		**55.0**	**53.7**
Liabilities			
Borrowings	22	20.3	17.2
Current tax liabilities		-	0.1
Other liabilities		0.1	-
Total liabilities		**20.4**	**17.3**
Equity			
Share capital	25	-	-
Share premium account		-	-
Subordinated shareholder-funding reserve	22	31.4	32.0
Retained earnings		3.2	4.4
Total equity		**34.6**	**36.4**
Total equity and liabilities		**55.0**	**53.7**

Redhill Famco Limited (the Company) reported a loss after tax for the year ended 30 June 2020 of £1.8m (2019: £6.8m profit). As permitted by section 408 of the Companies Act 2006, no separate statement of comprehensive income is presented in respect of the Company.

These financial statements were approved and authorised for issue by the Board of Directors on 16 December 2020.

Company Registration No. 10162640.

Signed on behalf of the Board of Directors

HN Moser
Director

GD Beckett
Director

Consolidated statement of changes in equity

All amounts are stated in £m

Year ended 30 June 2020	Called-up share capital	Subordinated shareholder-funding reserve	Cashflow hedging reserve	Cost-of -hedging reserve	Other reserves	Retained earnings	Total
At beginning of year	-	32.0	-	(0.2)	2.9	381.1	415.8
Changes on initial application of IFRS 16	-	-	-	-	-	(1.3)	(1.3)
Restated balances at beginning of year	-	**32.0**	-	**(0.2)**	**2.9**	**379.8**	**414.5**
Total comprehensive income	-	-	(2.7)	0.1	-	56.1	53.5
Purchase of shares*	-	-	-	-	(0.2)	-	(0.2)
Transfer between reserves	-	(0.6)	-	-	-	0.6	-
At end of year	-	**31.4**	**(2.7)**	**(0.1)**	**2.7**	**436.5**	**467.8**

Adjustments on transition to IFRS 16 are set out in note 2 to the financial statements.

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

Year ended 30 June 2019	Called-up share capital	Subordinated shareholder-funding reserve	Cost-of -hedging reserve	Other reserves	Retained earnings	Total
At beginning of year	-	32.5	-	2.9	351.7	387.1
Changes on initial application of IFRS 9	-	-	-	-	(30.7)	(30.7)
Restated balances at beginning of year	-	**32.5**	-	**2.9**	**321.0**	**356.4**
Other comprehensive income	-	-	(0.2)	-	59.6	59.4
Transfer between reserves	-	(0.5)	-	-	0.5	-
At end of year	-	**32.0**	**(0.2)**	**2.9**	**381.1**	**415.8**

Other reserves consist of the following:

	Share premium account	Capital redemption reserve	Share-based payment reserve	Total
As at 30 June 2020	-	**1.1**	**1.6**	**2.7**
As at 30 June 2019	-	**1.3**	**1.6**	**2.9**

Company statement of changes in equity

All amounts are stated in £m

Year ended 30 June 2020	Called-up share capital	Share premium account	Subordinated shareholder-funding reserve	Retained earnings	Total
At beginning of year	-	-	32.0	4.4	36.4
Loss for the financial year	-	-	-	(1.8)	(1.8)
Transfer between reserves	-	-	(0.6)	0.6	-
At end of year	**-**	**-**	**31.4**	**3.2**	**34.6**

Year ended 30 June 2019	Called-up share capital	Share premium account	Subordinated shareholder-funding reserve	Retained earnings	Total
At beginning of year	-	-	32.5	(2.9)	29.6
Retained profit for the financial year	-	-	-	6.8	6.8
Transfer between reserves	-	-	(0.5)	0.5	-
At end of year	**-**	**-**	**32.0**	**4.4**	**36.4**

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

Consolidated statement of cashflows

For the year ended 30 June 2020
All amounts are stated in £m

	Note	2020	2019
Cash flows from operating activities			
Profit after tax		56.1	59.6
Adjustment for non-cash items included in profit after tax	27	(117.6)	(136.0)
Changes in operating assets and liabilities	27	(541.0)	(788.3)
Interest income		388.9	343.3
Income tax paid		(22.3)	(15.9)
Net cash outflow from operating activities		**(235.9)**	**(537.3)**
Cash flows from investing activities			
Cash paid to acquire property, plant and equipment		(0.4)	(1.0)
Investment in intangible assets		(3.5)	(3.2)
Proceeds from disposal of property, plant and equipment		0.2	0.1
Net cash outflow from investing activities		**(3.7)**	**(4.1)**
Cash flows from financing activities			
Drawdown of loan notes		765.3	506.6
Repayment of loan notes		(572.4)	(90.0)
Proceeds from issuance of loan notes		315.4	272.6
Repayment of senior secured notes		(375.0)	-
Proceeds from issuance of senior secured notes		435.0	-
Repayment of PIK toggle notes		-	(220.0)
Repayment of vendor notes		-	(110.5)
Proceeds from issuance of senior PIK toggle notes		-	350.0
Net cash (outflows)/inflows from bank facilities		(45.0)	24.3
Interest paid		(149.6)	(144.3)
Purchase of shares by employee-benefit trust		(0.2)	-
Purchase and cancellation of derivatives		(0.3)	(0.3)
Payment of lease liabilities		(1.6)	(0.3)
Net cash inflow from financing activities		**371.7**	**588.1**
Net increase in cash and cash equivalents		132.1	46.7
Cash and cash equivalents at beginning of year		121.0	74.3
Cash and cash equivalents at end of year	13	**253.1**	**121.0**

At 30 June 2020 cash and cash equivalents include £139.6m (2019: £97.6m) of restricted cash (see note 13).

Movements in balances are stated after adjustments on transition to IFRS 16, as set out in note 2 to the financial statements.

Note 2 sets out changes to the classification of certain cash flows.

Company statement of cashflows

For the year ended 30 June 2020
All amounts are stated in £m

	Note	2020	2019
Cash outflow from operating activities			
(Loss)/profit after tax		(1.8)	6.8
Adjustment for non-cash items included in profit after tax	27	1.9	2.3
Changes in operating assets and liabilities	27	(1.3)	(9.9)
Interest income		1.2	0.8
Net cash outflow from operating activities		-	-
Net increase/(decrease) in cash and cash equivalents		-	-
Cash and cash equivalents at beginning of year		-	-
Cash and cash equivalents at end of year		-	-

Notes to the financial statements

Unless otherwise stated, all amounts are stated in £m

1. Reporting entity and general information

Redhill Famco Limited (the Company) is incorporated and domiciled in the UK. The Company is a private company, limited by shares, and is registered in England (company number: 10162640). These consolidated financial statements comprise Redhill Famco Limited and its subsidiaries, and are prepared under the Companies Act 2006. The registered address of the Company is Lake View, Lakeside, Cheadle, Cheshire, SK8 3GW.

2. Significant accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

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

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

These financial statements have been prepared on the historical cost basis, except for derivative financial instruments and other long-term employee benefits which are stated at fair value, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Presentation of risk disclosures

Disclosures under IFRS 7 *Financial Instruments: Disclosures* concerning the nature and extent of risks relating to financial instruments have been presented within the sections denoted as forming part of these financial statements in the 'Principal risks and uncertainties' section of the risk management report.

Adoption of new accounting standards, amendments and interpretations

On 1 July 2019, the Group adopted the requirements of IFRS 16 *Leases*, the new standard that replaces IAS 17 *Leases*. The standard applies to all leasing arrangements and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessor and lessee accounting.

Transition to IFRS 16

The Group has adopted IFRS 16 using a modified retrospective approach and, as such, comparative information for 2019 is not restated. Leases which were already classified as finance leases were not re-evaluated on adoption of IFRS 16. The Group's accounting policy applicable from 1 July 2019 is detailed later in this note.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease agreement as of 1 July 2019.

The effects of adopting IFRS 16 as at 1 July 2019 were as follows:

- Right-of-use assets of £8.6m were recognised and are presented in a new right-of-use leasehold-property category within property, plant and equipment in the statement of financial position.
- Lease liabilities of £10.2m were recognised and are presented within borrowings in the statement of financial position.
- A deferred tax asset of £0.3m was recognised and is included in the deferred tax asset in the statement of financial position.
- The net effect of these adjustments had a £1.3m impact on opening retained earnings.

Unless otherwise stated, all amounts are stated in £m

2. Significant accounting policies (continued)

Transition to IFRS 16 (continued)

	IAS 17 30 June 2019	Right-of-use asset	Lease Liability	Deferred Tax	IFRS 16 1 July 2019
Property, plant and equipment	5.4	8.6	-	-	14.0
Lease liability	(0.8)	-	(10.2)	-	(11.0)
Deferred tax asset	7.5	-	-	0.3	7.8
Retained earnings impact		8.6	(10.2)	0.3	

Operating lease commitments at 30 June 2019 as disclosed under IAS 17 were £14.0m. Once discounted using the interest rate implicit in the agreement, this was £10.2m at 1 July 2019.

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as at 30 June 2019 as follows:

	1 July 2019
Operating lease commitments as at 30 June 2019	14.0
Effect of discounting using the interest rate implicit in the lease	(3.8)
	10.2
Finance lease liabilities already recognised as at 30 June 2019	0.8
Lease liabilities recognised at 1 July 2019	**11.0**

Going concern

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

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

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

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

The risk of lower levels of cash inflows from redemptions can be mitigated by increasing the amount of liquidity resources held as cash. A key management action to improve cashflow is the ability to control levels of new lending which, in combination with other management actions, has increased total cash balances to £253.1m at 30 June 2020 (2019: £121.0m), of which £113.5m is unrestricted cash (2019: £23.4m) as shown in note 13.

2. Significant accounting policies (continued)

Going concern (continued)

Alongside the shareholder funding and retained profit which has primarily been reinvested back into the business, the Group is reliant on the wholesale funding markets, including a combination of public securitisations, private revolving securitisations, senior secured notes, a revolving credit facility and senior PIK toggle notes. Further detail on the Group's sources of funding is set out in the business review section within the strategic report.

A key risk associated with wholesale funding is refinancing risk, where the Group has a proven track-record of successfully refinancing borrowings. The coronavirus outbreak has had an impact on the capital markets and the availability and/or pricing of wholesale funding. The depth of maturity in the Group's existing debt facilities provides significant mitigation in respect of refinancing risk. The earliest maturity of wholesale funding is the HABS facility, not due until June 2022 (revolving period ending in June 2021) with the amount drawn at the reporting date representing 10.6% of the Group's borrowings. The earliest call on the public securitisations is the TABS 1 facility (representing 3.1% of the Group's borrowings) in September 2021. Further detail is set out in note 22.

In addition the Group has demonstrated an ability to access the wholesale markets in current market conditions. In July 2020, the Group successfully issued the latest and largest issuance in its residential mortgage-backed securitisation (RMBS) programme, TABS 4 raising £361m. On completion of the TABS 4 transaction the Group's facility headroom increased to £770m. In September 2020, the maturity date on the undrawn £71.9m RCF facility was extended from June 2021 to June 2023.

In May 2020, the Group and each of the note purchasers to its four private securitisations entered into waivers and amendments of its facility documents in order to support the provision of mortgage-payment deferrals of up to three months in line with the then government guidance in response to the Covid-19 outbreak. The government subsequently provided guidance that borrowers should have the ability to extend mortgage-payment deferrals, the Group has agreed further modifications to such waivers for each of its private securitisations, as set out in note 33 to the financial statements.

Additionally, the PIK toggle note indenture permits the Group to PIK the interest if certain conditions are met which provides the Group with further flexibility to preserve capital and liquidity in the event of extreme downside scenarios.

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

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

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

2. Significant accounting policies (continued)

Going concern (continued)

The directors are satisfied that the Company and the Group have adequate resources to continue in operation for the going-concern assessment period, which is 12 months from the date of signing this report. Accordingly, the directors have adopted the going-concern basis in preparing these accounts.

Additional disclosures have also been included within the business review and the principal risks and uncertainties section of the strategic report, which are cross-referenced to this note, which give further detail on the Group's cash position, sources of funding and funding activities during the year.

Basis of consolidation

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

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

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

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

Business combinations

Other than for business combinations of entities under common control, acquisitions of subsidiaries and businesses are accounted for using the acquisition method. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date the Company gains control until the date when the Company ceases to control the subsidiary. The consideration transferred in a business combination is measured at fair value. Acquisition-related costs are recognised in the Income Statement as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

The Company accounts for business combinations of entities under common control using merger accounting principles because management considers this approach best reflects the continuing nature and performance of the underlying business. The transactions constituting the combination and the results of the combining entities are brought into the consolidated financial statements as part of the opening balances for the financial period in which the combination occurred. Transaction costs of a revenue nature are charged to the consolidated income statement for the period. The carrying values of the assets and liabilities of the parties to the combination are not adjusted to fair value on consolidation. The difference between the nominal value of the Company's shares issued and the nominal value of the subsidiary shares received in exchange is shown as a movement in the share premium account.

Operating segments

The Group's listed financial instruments are issued by Bracken Midco1 PLC and Jerrold Finco PLC, subsidiaries of the Group, and the securitisations which are consolidated in the Group results, rather than the parent Company, Redhill Famco Limited. The Group is therefore outside the scope of IFRS 8 Operating Segments, and accordingly does not disclose segmental information in these financial statements.

2. Significant accounting policies (continued)

Goodwill

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

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

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

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

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

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

Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income for all financial instruments measured at amortised cost using the effective interest method. The effective interest method calculates the amortised cost of a financial asset or a financial liability and allocates the interest income or interest expense over the expected life of the instrument. The effective interest rate is the rate that, at inception of the instrument, discounts its estimated future cash payments or receipts to the net carrying amount of the financial instrument. When calculating the effective interest rate, the Group takes into account all contractual terms of the financial instrument but does not consider future credit losses except for assets which are credit-impaired on origination. For credit-impaired assets a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses. The calculation includes all fees, transaction costs and other premiums or discounts that relate to the origination of the instrument.

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

Fee and commission income and expense

Fees and commissions which are an integral part of the effective interest rate of a financial instrument eg procuration fees paid to introducers are recognised as an adjustment to the contractual interest rate and recorded in interest income.

Fees and commissions which are not considered integral to the effective interest rate are generally recognised on an accruals basis when the service has been provided. These items primarily consist of legal and valuation fees, and credit-search fees.

2. Significant accounting policies (continued)

Leases

Policy applicable from 1 July 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16. This policy is applied to contracts entered into on or after 1 July 2019.

The Group as a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone costs.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses the interest rate implicit in the lease.

The lease liability is measured at amortised cost using the incremental borrowing rate. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option, or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

2. Significant accounting policies (continued)

Leases (continued)

Policy applicable before 1 July 2019

The Group as lessee

Assets held under finance leases which confer rights and obligations similar to those attached to owned assets are capitalised as tangible fixed assets and depreciated over the shorter of the lease terms and their useful lives. The capital element of future lease obligations is recorded within liabilities, while the interest element is charged to the income statement over the period of the leases to produce a constant rate of interest on the balance of capital repayments outstanding.

Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Rentals under operating leases are charged on a straight-line basis over the lease term and the related assets are not recognised in the statement of financial position.

The Group as lessor

Rentals received under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Pension benefits

During the period the Group operated a defined contribution scheme and made contributions to employees' personal pension plans.

The amount charged to the income statement in respect of pension costs and other post-retirement benefits is the contributions payable in the year to Group pension plans and personal pension schemes. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the statement of financial position.

Share-based payments

The Group has granted options to senior management under an equity-settled scheme.

The cost of providing the options is charged to the income statement over the vesting period of the related options. The corresponding credit is made to a share-based payment reserve within equity.

In the Company's financial statements the grant by the parent of options over its equity instruments to the employees of subsidiary undertakings is treated as an investment in subsidiaries. The fair value of services received, measured by reference to the fair value at the date of grant, is recognised over the vesting period as an increase in investments in subsidiary undertakings, with a corresponding credit to the share-based payment reserve within equity.

The cost of options is based on their fair value, determined using a Black-Scholes pricing model. The value of the charge is adjusted at each reporting date to reflect lapses and expected or actual levels of vesting, with a corresponding adjustment to the share-based payment reserve.

2. Significant accounting policies (continued)

Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of the assets and liabilities in the financial statements and the corresponding amounts used for taxation purposes, and is accounted for using the balance sheet liability method. Deferred tax assets and liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and the Group intends to settle its current tax assets and liabilities on a net basis.

Cash and cash equivalents

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

Where cash is not freely available for the Group to use for its general purposes, it is disclosed as restricted cash; this includes cash collected in the securitisation vehicles prior to paying down loan notes.

The Group has refined the analysis and classification of certain elements in its statement of cash flows, including comparative information, to better reflect the Group's operating model. The principal changes are in provisions and impairment allowances which are now shown as non-cash adjustments to profit rather than included in changes in operating assets and liabilities, outflows relating to interest paid and derivatives are treated as financing rather than operating cash flows, and net interest income is now deducted from profit as a non-cash adjustment with interest income shown separately as an operating cash flow.

2. Significant accounting policies (continued)

Financial assets and liabilities

Financial assets

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

All of the Group's financial assets are classified as measured at amortised cost, being the gross carrying amount less expected impairment allowance, using the effective interest rate method, as they meet both of the following conditions:

- The assets are held within a business model whose objective is to hold the assets to collect contractual cash flows, and
- The contractual terms of the financial assets give rise to cash flows at specified dates that are solely payments of principal and interest on the principal amounts outstanding.

The Group's business model for its financial assets is to hold them to collect contractual cash flows, with sales of mortgage loans and advances to customers only made internally to consolidated special purpose 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 Group's financial assets as measured at amortised cost.

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

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. The Group then assesses whether the new terms are substantially different from the original ones. If the terms of an asset are substantially different, it is derecognised and a new asset recognised at its fair value using its new effective interest rate. If the terms are not substantially different, the Group recalculates the gross carrying amount using the original effective interest rate and recognises a modification gain or loss in the income statement. Such modifications typically arise from forbearance because of financial difficulties of the borrower, and any gain or loss is included in impairment losses. A modified loan's credit risk is assessed to see if it remains higher than on initial recognition for the purposes of calculating expected credit losses.

Financial liabilities

The Group's financial liabilities, which largely consist of borrowings, are all classified as measured at amortised cost. All of the Group's financial liabilities are recognised initially at fair value, less any directly attributable transaction costs.

Financial liabilities are derecognised when their contractual obligations are discharged, cancelled or have expired. An exchange of financial liabilities with substantially different terms or a substantial modification to the terms of an existing financial liability is treated as an extinguishment of the original liability and the recognition of a new one. It is assumed that terms are substantially different if the discounted present value of the cash flows under the new terms is at least 10% different from the discounted present value of the remaining cash flows of the original liability. All gains or losses on non-substantial modifications, calculated as a change in the net present value of future cash flows using the original effective interest rate, are recognised immediately in the income statement. The Group may also consider qualitative factors in determining whether a modification is substantial.

2. Significant accounting policies (continued)

Impairment of financial instruments

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

The Group considers whether financial assets are credit impaired at each reporting date. A financial asset is credit impaired when one or more events that have a detrimental impact on its estimated future cash flows have occurred. Evidence of credit impairment includes:

- Significant financial difficulty of the borrower
- Breach of contract such as default, or becoming past due
- The granting of concessions to the borrower that the Group would not otherwise consider
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

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

Besides instruments that become credit impaired on entering default, lifetime ECLs are also used for any that are credit impaired on origination. In the ordinary course of business the Group 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 evaluated to determine whether it is considered to be credit impaired or to have experienced a significant increase in credit risk. If this is the case a loss allowance will be recognised equivalent to the full lifetime ECL. If there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. The loss allowance on the new asset will generally be based on a 12-month ECL.

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

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

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

2. Significant accounting policies (continued)

Derivatives held for risk-management purposes and hedge accounting

The Group has accounted for derivative instruments in accordance with IFRS 9.

The Group does not hold derivative financial instruments for trading but may enter into contracts for derivatives to manage exposure to interest-rate risk.

Derivatives are initially recognised at fair value at the date the contract is entered into and subsequently measured at fair value. The timing of recognition of any resulting gain or loss on the derivative depends on the nature of the hedging relationship. The Group will designate such derivatives as hedging instruments of the fair value of recognised assets or liabilities or of future cash flows.

At inception, the Group documents the relationship between the hedging instrument and the hedged item along with its risk-management objectives and strategy. At inception and afterwards on a continuing basis, the Group assesses whether the hedging instrument is effective in offsetting changes in the fair value or cash flows of the hedged item attributable to the hedged risk. Any ineffective portion of changes in fair value of the derivative is recognised immediately in the income statement.

If a hedging relationship ceases to meet the hedge-effectiveness requirements but the risk-management objective remains the same, the Group adjusts the hedge, ie it rebalances the relationship, so that it again meets the qualifying criteria. Hedge accounting is discontinued only for that part of the hedged item or hedging instrument that is no longer part of the relationship.

In hedge relationships involving options, the Group designates only the option's intrinsic value. In such cases the time-value component of the option's fair value is deferred in other comprehensive income, as a cost of hedging, over the term of the hedge to the extent that it relates to the hedged item. The hedged items so designated by the Group are related to time periods, and the amount of the original time value of the option that relates to the hedged item is amortised from equity to the income statement, within other net income, on a straight-line basis over the term of the hedging relationship.

The Group has no fair-value hedges. The effective portion of changes in the fair value of derivatives designated as cashflow hedges is recognised through other comprehensive income in the cashflow-hedging reserve. Amounts so recognised are reclassified to the income statement in the periods when the cash flows of the hedged item affect the income statement and in the same line of the income statement as those cash flows.

The Group discontinues hedge accounting when the derivative is terminated or when the hedging relationship ceases to meet the qualifying criteria. Any cumulative amount existing in equity at that time remains until the hedged cash flows affect the income statement when it is reclassified to the income statement.

Securitisation

Where the Group securitises its own financial assets, this is achieved via the sale of these assets to a special purpose entity (SPE), which in turn issues securities to investors.

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

Inventories

Inventories consist of stock properties and are valued at the lower of cost and estimated net realisable value. Net realisable value is based on the estimated sales price after allowing for all further costs of completion and disposal.

2. Significant accounting policies (continued)

Investments

Fixed asset investments are stated at cost less provision for impairment.

Property, plant and equipment

Property, plant and equipment are shown at cost, net of depreciation and any provision for impairment. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset over its expected useful life as follows:

Fixtures and fittings	*10-15 years straight-line on cost*
Motor vehicles	*25% reducing balance*
Computer equipment	*3-5 years straight-line on cost*

All items of property, plant and equipment are reviewed for indications of impairment on a regular basis and at each statement of financial position date. If impairment is indicated, the asset's recoverable amount (being the greater of fair value less cost to sell and value in use) is estimated. Value in use is calculated by discounting the future cash flows generated from the continuing use of the asset. If the carrying value of the asset is more than the recoverable amount, an impairment charge is recognised in the income statement.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within administrative expenses in the income statement.

Intangible assets

Intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment allowances. The estimated useful life of three to five years is reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets consist wholly of expenditure relating to computer software incurred in respect of individual projects and are capitalised only if all of the following conditions are met:

- an intangible asset is created that can be separately identified;
- it is probable that the intangible asset created will generate future economic benefits; and
- the development cost of the intangible asset can be measured reliably.

This type of expenditure primarily relates to internally developed software and is amortised on a straight-line basis over the expected useful life of the asset.

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

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

Provisions and contingent liabilities

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

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

New and revised standards, amendments and interpretations not yet effective

A number of new and revised standards issued by the International Accounting Standards Board have not yet come into effect. None of these are expected to have a material impact on the Group's financial statements.

3. Critical accounting judgements and key sources of estimation uncertainty

In preparing these financial statements, the Group's management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the amounts reported for the Group's performance and financial position. Where possible, estimates and associated assumptions are based on historical experience, objective information, or other relevant factors and are reviewed at each reporting date. Actual results may differ from these estimates, and revisions to estimates are recognised prospectively.

Critical judgements in applying the Group's accounting policies

a) Loan impairment allowance

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

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

Further detail on the judgements in respect of the measurement of ECL and sensitivities thereon is set out in note 14 to the accounts.

b) Provisions and contingent liabilities

There is considerable judgement required to estimate provisions and to provide useful information concerning the nature of the uncertainty contained within these estimates, including the disclosure of a range of possible impacts. There is also judgement required in determining whether contingent liability disclosures are required. Further disclosures in respect of this can be found in note 23 and 32 to the financial statements.

c) Going concern

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

Key sources of estimation uncertainty

a) Loan impairment allowance

As a result of the Covid-19 pandemic the Group has used significantly-changed macroeconomic forecasts, and these forecasts and the other assumptions and estimates necessary for the calculation of ECL contain a greater level of judgement than in previous reporting periods due to the increased level of uncertainty. Further detail on these estimates and assumptions and the sensitivities thereon is set out in note 14 to the financial statements.

b) Provisions and contingent liabilities

The calculation of the Group's provisions contain significant estimation uncertainty. Further disclosures in respect of this can be found in note 23 to the financial statements.

c) Interest income recognition

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

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

4. Interest receivable and similar income

	2020	2019
Interest on loans and advances to customers	**388.9**	**343.3**

Included within interest on loans and advances to customers is £13.6m (2019: £12.1m) relating to credit impaired loans.

5. Interest payable and similar charges

	2020	2019
On borrowings	175.2	157.2
On lease liabilities	0.5	-
On derivatives in qualifying and discontinued hedging relationships	0.4	-
	176.1	**157.2**

Interest payable on borrowings includes a call penalty of £5.9m and the write-off of deferred up-front fees of £0.8m as a result of early refinancing of the 2021 senior secured notes during the year.

As a result of electing service the interest due in April 2020 on senior toggle notes in the form of 'payment in kind' (PIK) as opposed to cash, an additional charge of £3.2m was recognised within interest payable on borrowings in the year.

6. Fee and commission income

	2020	2019
Fee income on loans and advances to customers	4.1	4.2
Other fees receivable	0.4	0.2
	4.5	**4.4**

7. Fee and commission expense

	2020	2019
Legal, valuations and other fees	1.1	1.3
Insurance commissions and charges	1.8	1.0
	2.9	**2.3**

8. Other income

	2020	2019
Rental income	-	0.1
Other income	1.9	-
	1.9	**0.1**

Other income includes grant income received from the government in respect of employees who were furloughed under the Job Retention Scheme and income relating to research and development expenditure credits.

Unless otherwise stated, all amounts are stated in £m

9. Administrative expenses

	Note	2020	2019
Staff costs	10	44.9	52.7
Auditor's remuneration	11	0.3	0.4
Depreciation of property, plant and equipment	19	2.5	1.7
Amortisation of intangible assets	20	4.2	2.7
Operating lease rentals		-	1.5
Provisions for liabilities and charges	23	8.1	16.2
Other administrative costs		19.5	22.1
		79.5	**97.3**

There were gains on the disposal of property, plant and equipment of £0.1m (2019: £0.1m loss).

10. Staff costs

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

Management and administration	**2020 No.**	**2019 No.**
Full time	688	695
Part time	62	45
	750	**740**

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

Staff remuneration	**Note**	**2020**	**2019**
Wages and salaries		35.0	39.7
Social security costs		3.5	4.4
Pension	30	1.4	1.1
		39.9	**45.2**
Directors' remuneration			
Emoluments		5.0	7.5
Company contribution to personal pension schemes	30	-	-
		5.0	**7.5**
Total staff costs		**44.9**	**52.7**

The Company's directors' emoluments were £2.6m (2019: £4.4m) and £nil (2019: £nil) contribution was made to the personal pension scheme. The emoluments of the highest paid director were £1.4m (2019: £2.6m). No pension contribution was made in the year (2019: £nil) for any of the directors. Details of the pension arrangements operated by the Group are given in note 30.

Staff are employed by a Group subsidiary, and no staff are employed by the Company.

11. Auditor's remuneration

	2020	2019
Fees payable for the audit of the Company's accounts	-	-
Fees payable for the audit of the Company's subsidiaries	0.3	0.3
Other services	-	0.1
	0.3	**0.4**

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

12. Income tax

	2020	2019
Current tax		
Corporation tax	13.1	15.2
Adjustment in respect of prior years	-	0.5
	13.1	**15.7**
Deferred tax		
Origination and reversal of temporary differences	1.1	0.2
Effect of changes in tax rates	(0.9)	-
Adjustment in respect of prior years	-	0.1
	0.2	**0.3**
Total tax on profit	**13.3**	**16.0**

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

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

	2020	2019
Profit before tax	69.4	75.6
Tax on profit at standard UK corporation tax rate of 19.00% (2019: 19.00%)	13.2	14.4
Effects of:		
Expenses not deductible for tax purposes	1.2	2.8
Income not taxable	(0.2)	(1.8)
Changes in tax rate	(0.9)	-
Adjustment in respect of prior years	-	0.6
Group tax charge for year	**13.3**	**16.0**

In March 2020, the government announced that the main rate of corporation tax will remain at 19%, rather than reducing to 17% from 1 April 2020. The deferred tax asset at 30 June 2020 has been calculated based on these rates which led to a £0.9m increase in the value of the deferred tax asset.

13. Cash and cash equivalents

	2020	2019
Unrestricted cash	113.5	23.4
Restricted cash	139.6	97.6
Total cash and cash equivalents	**253.1**	**121.0**

Restricted cash is ring fenced and held in securitisation vehicles for use in managing the Group's securitisation facilities under terms of the agreements. Within restricted cash £62.0m (2019: £32.4m) represents amounts that can be accessed by the Group, for example by allocating additional eligible assets into the private securitisations, but which are not considered readily available. The balance of restricted cash is not readily available and represents amounts which are held within the securitisations for other purposes and may be accessible in future, such as cash reserves or amounts paid over as deferred consideration.

All cash and cash equivalents held by the Group are denominated in pounds sterling.

Unless otherwise stated, all amounts are stated in £m

14. Loans and advances to customers

	2020			
	Stage 1	Stage 2	Stage 3	Total
Gross loans and advances	3,061.3	721.2	498.5	4,281.0
Loss allowance	(12.4)	(21.0)	(85.4)	(118.8)
	3,048.9	**700.2**	**413.1**	**4,162.2**

	2019			
	Stage 1	Stage 2	Stage 3	Total
Gross loans and advances	3,025.3	419.5	316.7	3,761.5
Loss allowance	(11.2)	(9.6)	(46.2)	(67.0)
	3,014.1	**409.9**	**270.5**	**3,694.5**

None of the Group's financial assets are credit impaired on purchase or origination.

Loans and advances to customers include total gross amounts of £9.7m (30 June 2019: £10.9m), equivalent to £5.5m net of allowances (30 June 2019: £8.0m) loaned to August Blake Developments Limited, Sunnywood Estates Limited and Edgworth Developments Limited, companies in which HN Moser is a director and shareholder. Further details of these loans are given in note 28.

Measurement of expected credit losses (ECL)

ECL model

The Group considers whether financial assets are credit impaired at each reporting date. For these purposes, it considers default to occur, and such loans are considered to be credit impaired, in any of the following circumstances relating to a loan:

- It becomes 90 days or more past due
- Its security has been taken into possession
- The appointment of receivers
- There is evidence of fraud
- Loans which exhibit certain indicators of credit risk and are in receipt of a mortgage-payment deferral

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

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

ECL is calculated at an individual loan level as the product of PD, LGD and EAD, discounted to the reporting date.

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

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

14. Loans and advances to customers (continued)

Measurement of expected credit losses (ECL) (continued)

ECL model (continued)

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

Incorporation of forward-looking information

The Group uses forward-looking information in its measurement of ECL and in identifying significant increases in credit risk (discussed in the next section). The Group's statistical analysis of historical data has confirmed that the key economic variables that drive credit risk, and the ECL for the Group's financial instruments, are unemployment, Bank Rate, economic activity as measured by GDP, and changes in house prices. The Group has developed a range of future economic scenarios of these variables, drawing on external forecasts where appropriate.

Since the outbreak of the coronavirus, there have been significant changes in the forward-looking information used to measure ECL, and also in the options offered by the Group to borrowers seeking mortgage-payment deferrals.

In 2019, the Group calculated ECL using a base case, an upside and a downside scenario, weighted 40%, 30% and 30% respectively. The base case was broadly aligned to the Group's internal planning assumptions and the downside scenario represented a recession during which house prices fell by 16% from peak to trough.

The unprecedented societal and economic impact caused by the coronavirus outbreak and the responses of policymakers have transformed the macroeconomic environment and outlook, and up-to-date data on the impact so far are still relatively limited. Because of the lack of similar past events on which to base forward-looking assumptions, available economic forecasts are therefore subject to significant uncertainty and continue to show a wide range of views of the depth, shape and duration of the impact. In this context management has had to make judgements which it considers reasonable where observable inputs are not available.

In such a context, the Group's approach to developing economic scenarios for the purposes of measuring ECLs has been to increase the number of scenarios from three to six to reflect the wider range of economic outcomes that are now considered possible around any base case. The base case is weighted at 50% and each of the other five scenarios is weighted at 10%.

Unless otherwise stated, all amounts are stated in £m

14. Loans and advances to customers (continued)

Measurement of expected credit losses (ECL) (continued)

Incorporation of forward-looking information (continued)

The most significant assumptions used for the ECL estimate as at 30 June 2020, by economic indicator, until June 2024 are as follows:

Annual GDP change (annual %)*		**Weighting**	**Sep 2020**	**Dec 2020**	**Mar 2021**	**Jun 2021**	**Jun 2022**	**Jun 2023**	**Jun 2024**
Upside		10%	(8.2)	(9.1)	(8.0)	5.5	7.1	3.0	2.1
Mild Upside		10%	(8.6)	(10.1)	(9.7)	3.1	7.4	2.9	2.1
Base		50%	(8.8)	(10.8)	(11.0)	1.0	7.3	2.4	1.8
Stagnation		10%	(10.3)	(14.0)	(15.7)	(5.4)	9.2	2.9	1.9
Downside		10%	(10.8)	(15.0)	(17.4)	(7.8)	9.8	3.0	1.9
Severe downside		10%	(11.6)	(16.9)	(20.2)	(11.7)	11.0	3.2	1.8
Weighted average			**(9.4)**	**(11.9)**	**(12.6)**	**(1.1)**	**8.1**	**2.7**	**1.9**
Annual quarterly GDP change (%)**	**Future quarter when GDP returns to Dec-19 levels**	**Weighting**	**Sep 2020**	**Dec 2020**	**Mar 2021**	**Jun 2021**	**Jun 2022**	**Jun 2023**	**Jun 2024**
Upside	Mar-21	10%	(10.1)	(2.4)	2.6	32.0	3.1	3.0	1.7
Mild Upside	Sep-21	10%	(11.9)	(4.9)	0.0	29.1	3.4	2.7	1.7
Base	Mar-22	50%	(12.6)	(7.1)	(2.4)	26.2	3.5	2.0	1.8
Stagnation	Mar-24	10%	(18.5)	(13.5)	(8.6)	19.0	4.8	2.2	1.9
Downside	May-25	10%	(20.5)	(15.9)	(11.0)	16.3	5.3	2.2	1.9
Severe downside	Jun-27	10%	(23.8)	(19.9)	(14.9)	11.7	6.1	2.1	2.0
Weighted average			**(14.8)**	**(9.2)**	**(4.4)**	**23.9**	**4.0**	**2.2**	**1.8**
Bank rate	**Future quarter which anticipates the first rate rise**	**Weighting**	**Sep 2020**	**Dec 2020**	**Mar 2021**	**Jun 2021**	**Jun 2022**	**Jun 2023**	**Jun 2024**
Upside	Sep-20	10%	0.2	0.4	0.6	0.9	1.8	2.0	2.0
Mild Upside	Dec-20	10%	0.1	0.2	0.4	0.6	1.3	1.4	1.5
Base	Jun-23	50%	0.1	0.1	0.1	0.1	0.1	0.2	0.4
Stagnation	Sep-23	10%	0.1	0.1	0.1	0.1	0.1	0.1	0.3
Downside	Sep-22	10%	0.1	0.0	(0.1)	(0.3)	(0.3)	0.0	0.1
Severe downside	Jun-23	10%	0.1	(0.1)	(0.4)	(0.5)	(0.5)	(0.4)	(0.3)
Weighted average			**0.1**	**0.1**	**0.1**	**0.1**	**0.3**	**0.4**	**0.6**
Unemployment rate	**% peak**	**Weighting**	**Sep 2020**	**Dec 2020**	**Mar 2021**	**Jun 2021**	**Jun 2022**	**Jun 2023**	**Jun 2024**
Upside	6.2%	10%	6.2	6.1	5.5	4.6	4.4	4.2	4.0
Mild Upside	6.4%	10%	6.3	6.4	5.9	5.2	4.9	4.6	4.3
Base	7.5%	50%	6.4	7.5	7.0	6.5	5.8	5.2	4.5
Stagnation	8.8%	10%	6.8	8.5	8.8	8.1	6.2	6.3	6.0
Downside	9.8%	10%	6.9	9.3	9.8	9.0	6.6	6.5	6.2
Severe downside	11.7%	10%	7.0	10.7	11.7	10.5	7.2	6.9	6.5
Weighted average			**6.5**	**7.8**	**7.7**	**7.0**	**5.9**	**5.4**	**4.1**
Annual change in house-price index (%)	**Start to trough % change**	**Weighting**	**Sep 2020**	**Dec 2020**	**Mar 2021**	**Jun 2021**	**Jun 2022**	**Jun 2023**	**Jun 2024**
Upside	(1.0%)	10%	0.4	1.0	(0.3)	(0.4)	10.1	13.5	3.6
Mild Upside	(3.6%)	10%	(0.7)	(1.1)	(3.0)	(3.6)	7.5	10.7	3.7
Base	(7.7%)	50%	(1.2)	(4.2)	(6.9)	(7.7)	4.4	5.2	3.9
Stagnation	(16.2%)	10%	(5.1)	(7.3)	(11.2)	(13.8)	(2.1)	0.8	4.3
Downside	(22.1%)	10%	(6.4)	(8.8)	(13.1)	(16.3)	(4.9)	(2.0)	4.5
Severe downside	(34.0%)	10%	(8.5)	(11.2)	(16.4)	(20.6)	(10.1)	(7.6)	5.0
Weighted average			**(2.6)**	**(4.8)**	**(7.8)**	**(9.3)**	**2.2**	**4.2**	**4.1**

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

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

Unless otherwise stated, all amounts are stated in £m

14. Loans and advances to customers (continued)

Measurement of expected credit losses (ECL) (continued)

Incorporation of forward-looking information (continued)

Judgement is required to set the scenario weightings, informed by an external provider of economic forecasts, to consider the interaction between the severity of the scenarios and the weightings applied. Management has sought to assess the reasonableness of the probabilities by comparing the weighted average of each economic indicator with other available macroeconomic forecasts, in addition to benchmarking the base-case scenario.

In developing these scenarios the Group has taken into account the unprecedented levels of support the government and Bank of England are providing to borrowers and the general economy.

Each scenario has a forecast horizon of ten years, where the most relevant period of these scenarios is disclosed above. To project the economic variables for the remaining term of each instrument, it is assumed that the forecasts used in all scenarios revert to our long-term base-case forecast beyond a ten-year horizon.

The section of this note on critical accounting estimates shows the unweighted ECL by scenarios and provides sensitivities of the ECL to changes in scenario weightings.

The most significant assumptions used for the ECL estimate as at 30 June 2019 were 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

Significant increases in credit risk, forbearance and contract modifications

The Group monitors all financial instruments that are subject to credit risk to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase then the Group measures the loss allowance based on a lifetime rather than a 12-month ECL.

The Group uses qualitative and quantitative criteria, including:

- A loan becoming 30 days or more past due,
- Certain qualitative indicators, such as those used in the servicing of the loan which indicate increased credit risk,
- There is an increase in the lifetime PD of the loan since origination which is judged to be significant, and
- Loans which exhibit certain indicators of credit risk and are in receipt of a mortgage-payment deferral.

The Group offers forbearance to assist customers who are experiencing financial distress and considers an account as forborne at the time a customer in financial difficulty is granted a concession. For accounting purposes, any gains or losses arising upon granting forbearance are usually not material because losses are already included in ECLs. Subsequently, the Group may determine after a probationary period that a restructuring has significantly improved credit risk such that the asset is moved back to stage 1.

In March 2020 the government announced very substantial and wide-ranging support measures in anticipation of the effect of the Covid-19 pandemic on the wider economy. These measures included the availability of mortgage-payment deferrals, initially for up to three months for borrowers who have been impacted by Covid-19. In June 2020, the government allowed borrowers to extend the deferral period by a further three months where necessary, while encouraging those able to resume payments to do so.

The Group considers that its agreement to such a customer request for a mortgage-payment deferral represents a contractual modification. Because interest on such accounts will continue to accrue at the effective rate this does not generally give rise to any material modification gains or losses.

The Group does not automatically consider a request for a mortgage-payment deferral as representing a significant increase in credit risk requiring a change in classification of the loan to stage 2 or to stage 3. Instead the Group uses a number of indicators of credit risk to determine whether a loan which has received a mortgage-payment deferral should be reclassified to stage 2 or to stage 3. This assessment uses loan-level information where available, such as an indication from a borrower or a permanent change in their circumstances, but also uses a portfolio-level approach to determine populations of borrowers with higher credit-risk characteristics which have been reclassified to stage 2 or to stage 3 on a more judgemental basis.

Unless otherwise stated, all amounts are stated in £m

14. Loans and advances to customers (continued)

Significant increases in credit risk, forbearance and contract modifications (continued)

As at 30 June 2020, 16%[10] of the Group's customers by value remained on mortgage-payment deferrals as a result of Covid-19. Details of these deferrals are as follows:

Stage allocation	No. accounts	Gross balance	ECL
	No.		
Stage 1	4,075	441.8	1.6
Stage 2	1,180	181.4	4.0
Stage 3	436	54.8	2.8
Total	5,691	678.0	8.4

The section of this note on critical accounting judgements provides a sensitivity of the impact on ECL of measuring all Stage 1 loans in mortgage-payment deferral using a lifetime ECL instead of a 12-month ECL.

As at 30 June 2020, 1,153 customers had exited the mortgage-payment deferral scheme. Out of those who capitalised interest, 98% did so over the original term, 1.9% either made a lump sum payment or extended their contractual monthly instalment (CMI+) to revert back to the original CMI, 0.2% agreed to pay over an extended term with the original CMI and 0.5% have selected other options.

The most up-to-date information relating to customers who have exited the mortgage-payment deferrals scheme is detailed in note 33 of the financial statements.

Loss allowance

A loss allowance is derived from the application of the foregoing techniques. The following tables analyse the movement of the loss allowance during the year ended 30 June 2020 and 30 June 2019.

	2020			
Loss allowance	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of year	**(11.2)**	**(9.6)**	**(46.2)**	**(67.0)**
Transfer to a 12-month ECL	(0.3)	0.7	-	0.4
Transfer to a lifetime ECL not credit impaired	10.0	(20.5)	2.2	(8.3)
Transfer to a lifetime ECL credit impaired	1.2	13.1	(27.8)	(13.5)
Other changes in credit risk during the year	(11.5)	(5.0)	(15.1)	(31.6)
Impairment of interest income on stage 3 loans	-	-	(13.6)	(13.6)
New financial assets originated	(3.4)	(2.8)	-	(6.2)
Financial assets derecognised	7.4	3.1	9.8	20.3
Changes in models and risk parameters	(4.6)	-	(9.6)	(14.2)
Impairment losses for the year charged to income statement	**(1.2)**	**(11.4)**	**(54.1)**	**(66.7)**
Unwind of discount	-	-	13.6	13.6
Write-offs net of recoveries	-	-	1.3	1.3
Balance at end of year	**(12.4)**	**(21.0)**	**(85.4)**	**(118.8)**

[10] This data covers customers who have contacted us to make amendments to their mortgage-payment deferrals between 1 July 2020 and 8 August 2020 and their account has been amended retrospectively.

Unless otherwise stated, all amounts are stated in £m

14. Loans and advances to customers (continued)

Loss allowance (continued)

	2019			
Loss allowance	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of year	**(10.4)**	**(9.4)**	**(54.3)**	**(74.1)**
Transfer to a 12-month ECL	(2.9)	4.4	-	1.5
Transfer to a lifetime ECL not credit impaired	5.3	(15.1)	4.1	(5.7)
Transfer to a lifetime ECL credit impaired	1.0	5.4	(13.3)	(6.9)
Other changes in credit risk during the year	(5.5)	0.1	1.6	(3.8)
Impairment of interest income on stage 3 loans	-	-	(12.1)	(12.1)
New financial assets originated	(6.7)	(0.4)	-	(7.1)
Financial assets derecognised	7.5	4.4	8.3	20.2
Changes in models and risk parameters	0.5	1.0	(1.0)	0.5
Impairment losses for the year charged to income statement	**(0.8)**	**(0.2)**	**(12.4)**	**(13.4)**
Unwind of discount	-	-	12.1	12.1
Write-offs net of recoveries	-	-	8.4	8.4
Balance at end of year	**(11.2)**	**(9.6)**	**(46.2)**	**(67.0)**

Other changes in credit risk include other remeasurements in the loss allowance which have not resulted from a change in the allocated stage and this includes: the development or cure of loan arrears, changes in payment performance or the likelihood of recovery cashflows, the impact of changes in collateral valuations and other changes in the status of the loan. The loss allowance on new financial assets originated represents the ECL on initial recognition. Subsequent changes in ECL are reflected in other movements in the above table.

The loss allowance has increased by £51.8m to £118.8m (2019: £67.0m). The key changes in the estimate for ECL are set out below.

A key increase in the allowance for the year was the increased charge of £14.2m resulting from changes in models and risk parameters (2019: £0.5m release). The primary driver of this increase was a change to the macroeconomic scenarios and forward-looking assumptions as a result of the Covid-19 outbreak, including the number of scenarios used, discussed in detail above. This resulted in a net £19.9m increase during the second half of the year, offset by releases of £5.6m recognised in the first half of the year. Due to the nature of the current economic environment, there has been significant government intervention which may have the effect of temporarily suppressing changes in loan book performance which would otherwise occur. To address this risk judgemental changes to models were made to incorporate the possibility of additional future deterioration in the loan book due to the macroeconomic environment. The impact of this judgement was an increase of £6.0m in ECL and a further £2.0m due to the transition in stage allocation of a proportion of loans in receipt of a mortgage-payment deferral, using additional indicators of credit risk, and which are included within the £14.2m in respect of changes in models and risk parameters.

The impact of loans transferring between stages has increased ECL by £21.4m during the year (2019: £11.1m) and other changes in credit risk have increased ECL by £31.6m (2019: £3.8m). There are a number of drivers of the combined increase of £53.0m observed in these line items, the principal ones being:

- £21.6m due to increases in arrears levels. These and other qualitative and quantitative factors are used to assess the allocated stages of loans and can therefore result in the recognition of allowances based on lifetime losses on loans which were previously measured using a 12-month loss. Arrears levels also affect the probability of default assigned to loans.
- £18.8m due to changes in the assessment of the likely recovery outcome for loans, based either on the likelihood of repossession or on changes in estimated amounts to be recovered. This includes the effect of changes in the estimated collateral values for loans; and
- £8.2m due to accounts which have entered repossession or receivership, transferring to the measurement of a lifetime ECL credit impaired.

Unless otherwise stated, all amounts are stated in £m

14. Loans and advances to customers (continued)

Loss allowance (continued)

The impairment of interest income recognised on stage 3 loans of £13.6m (2019: £12.1m) was offset by the unwinding of discounting on expected cashflows of the same amount. New originations increased ECL by £6.2m (2019: £7.1m), driven by new lending undertaken during the year and the requirement to measure all loans using a forward-looking ECL. Increases in ECL were offset by releases of £20.3m (2019: £20.2m) on loans which have redeemed during the period.

The contractual amount outstanding on financial assets that were written off during the period is £nil (2019: £nil). These assets may still be subject to enforcement activity and therefore further recoveries are possible.

Impairment losses for the year

	30 June 2020	30 June 2019
Movements in impairment allowance, charged to income	(66.7)	(13.4)
Amounts released from deferred income	(0.7)	1.7
Write-offs net of recoveries	0.5	(3.7)
Charged to the income statement	**(66.9)**	**(15.4)**

The following tables set out changes in the gross carrying amount of loans and advances to customers that contributed to the changes in the loss allowance:

	2020			
Movements in gross carrying amounts	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of year	3,025.3	419.5	316.7	3,761.5
Transfer to a 12-month ECL	69.9	(69.9)	-	-
Transfer to a lifetime ECL not credit impaired	(753.1)	807.1	(54.0)	-
Transfer to a lifetime ECL credit impaired	(30.4)	(325.8)	356.2	-
New financial assets originated	1,592.7	27.3	-	1,620.0
Financial assets derecognised including write-offs	(843.1)	(137.0)	(120.4)	(1,100.5)
Balance at end of year	**3,061.3**	**721.2**	**498.5**	**4,281.0**

	2019			
Movements in gross carrying amounts	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of year	2,305.5	358.5	356.0	3,020.0
Transfer to a 12-month ECL	257.3	(254.7)	(2.6)	-
Transfer to a lifetime ECL not credit impaired	(467.9)	552.2	(84.3)	-
Transfer to a lifetime ECL credit impaired	(33.5)	(164.5)	198.0	-
New financial assets originated	1,907.0	24.9	(0.9)	1,931.0
Financial assets derecognised including write-offs	(943.1)	(96.9)	(149.5)	(1,189.5)
Balance at end of year	**3,025.3**	**419.5**	**316.7**	**3,761.5**

Unless otherwise stated, all amounts are stated in £m

14. Loans and advances to customers (continued)

Critical accounting estimates

Key areas of estimation uncertainty in the ECL models are the macroeconomic scenarios used, and the calculations of loss given default and probability of default. The sensitivities below were performed by recalculating the impairment allowance by changing only those assumptions stated, and with all other variables unchanged:

Macroeconomic scenarios

The following table shows the unweighted ECL for each the scenarios modelled as at 30 June 2020 and 30 June 2019 and the probabilities that were applied in the calculation of ECL.

	2020		2019	
Scenarios	**Probability of the scenario**	**Unweighted ECL**	**Probability of the scenario**	**Unweighted ECL**
Upside	10%	57.2	-	-
Mild upside	10%	66.3	30%	38.3
Base case	50%	88.0	40%	42.0
Stagnation	10%	150.2	-	-
Downside	10%	192.7	30%	128.9
Severe downside	10%	281.5	-	-
Weighted average		**118.8**		**67.0**

Sensitivities can be derived from this table by applying different combinations of probabilities to the unweighted ECLs and comparing these to the weighted average which is the amount recorded within the statement of financial position.

Loss given default

The LGD model uses current security values and forecast HPI assumptions to project property values for each of the economic scenarios. An immediate and sustained 10% reduction in forecast house prices (ie a 10% haircut applied to the index in each forecast future period), applied in each scenario, would result in an increase in the impairment allowance of £23.7m at 30 June 2020 (30 June 2019: £11.1m); conversely, a 10% increase would result in a decrease in the impairment allowance of £17.9m at 30 June 2020 (30 June 2019: £7.5m).

Probability of default and probability of repossession given default

A 10% relative worsening of both PDs and PPGDs simultaneously (eg a 1.0% PD increasing to 1.1%) would increase the total impairment allowance by £7.2m at 30 June 2020 (30 June 2019: £4.6m). A 10% relative improvement of both PDs and PPGDs simultaneously (eg a 1.0% PD decreasing to 0.9%) would result in a decrease in the impairment allowance by £7.0m at 30 June 2020 (30 June 2019: £4.3m).

Unless otherwise stated, all amounts are stated in £m

14. Loans and advances to customers (continued)

Critical accounting judgements

Key areas of judgement in the ECL models include judgements about which loans have been subject to a significant increase in credit risk since initial recognition and therefore should be classified as Stage 2, with a resultant loss allowance based on a lifetime rather than a 12-month ECL.

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

Sensitivities	**Increase in allowance**
Measure all loans in Stage 1 using a lifetime ECL	**14.5**

Sensitivities – mortgage-payment deferrals	**Increase in allowance**
Measure all loans which are in a Covid-19 mortgage-payment deferral, currently in Stage 1, using a lifetime ECL not credit impaired (Stage 2)	**2.5**
Measure all loans which are in a Covid-19 mortgage-payment deferral, currently in Stage 2 using a lifetime ECL credit impaired (Stage 3)	**2.5**

15. Derivative assets held for risk management

The Group applies hedge accounting for its strategy of cashflow hedging the interest-rate risk on floating-rate liabilities in certain of its securitisation vehicles. These liabilities fund portfolios of mortgage assets, some of which receive fixed rates of interest, and to address the resultant risk the securitisation vehicles may purchase interest-rate caps or enter into interest-rate swaps. The notional amount of these derivatives is designated against a proportion of floating-rate notes funding fixed-rate mortgages, and decline over time in line with the expected repayment of the mortgages.

The effectiveness of this strategy is assessed by comparing the changes in fair value of the interest-rate derivatives with changes in the fair value of the hedged floating-rate notes and uses the hypothetical-derivative method.

The Group establishes the hedging ratio by matching the notional amount of the derivative with the corresponding floating-rate notes. In these hedging relationships, the main potential sources of ineffectiveness are:

- Repayment of the notes faster than the decline in the notional amount of the derivative.
- For interest-rate swaps, the inclusion of a transaction cost in the fixed rate leg.
- Changes in the credit risk of either party.

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

	2020		**2019**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Interest-rate swaps and floors	-	**(2.9)**	-	-
Interest-rate caps	-	-	**0.1**	-
Derivatives designated in cashflow hedges	-	**(2.9)**	**0.1**	-

All derivatives mature in under five years. The average fixed interest rate on swaps is 0.73%. The average strike rate on caps is 2.5%.

Unless otherwise stated, all amounts are stated in £m

15. Derivative assets held for risk management (continued)

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

	2020		
	Carrying amount of liabilities	Changes in fair value for calculating hedge ineffectiveness	Cashflow-hedging reserve
Hedged by interest-rate swaps and floors			
Borrowings	244.9	(0.2)	(0.2)
Discontinued hedges	-	-	(2.5)
	244.9	**(0.2)**	**(2.7)**
Hedged by interest-rate caps			
Borrowings	229.5	-	-

	2019		
	Carrying amount of liabilities	Changes in fair value for calculating hedge ineffectiveness	Cashflow-hedging reserve
Hedged by interest-rate swaps			
Borrowings	-	-	-
Hedged by interest-rate caps			
Borrowings	98.9	(0.2)	-

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

		Carrying amounts		Changes in fair value				
	Notional amount	Derivative assets	Derivative liabilities	For calculating hedge ineffective-ness	Recognised through other comprehensive income	Outside the hedging relationship recognised directly in net fair value losses on derivatives	Hedge ineffective-ness recognised in other net losses	Reclassified from cashflow-hedging reserve to interest payable
2020								
Interest-rate swaps and floors								
Borrowings	244.9	-	(2.9)	(0.2)	(0.2)	0.1	-	-
Discontinued hedges	-	-	-	-	(2.5)	(0.6)	-	0.1
	244.9	**-**	**(2.9)**	**(0.2)**	**(2.7)**	**(0.5)**	**-**	**0.1**
Interest-rate caps	**229.5**	-	-	-	-	-	-	-
2019								
Interest-rate swaps	-	-	-	-	-	-	-	-
Interest-rate caps	98.9	0.1	-	(0.2)	(0.2)	-	-	-

Unless otherwise stated, all amounts are stated in £m

16. Inventories

	2020	2019
Properties held for resale	**0.6**	**0.6**

17. Other assets

Group	**2020**	**2019**
Amounts owed by related parties	10.6	9.8
Other debtors	1.4	0.8
Prepayments and accrued income	3.9	3.2
	15.9	**13.8**

Company	**2020**	**2019**
Amounts owed by subsidiaries	6.3	5.5
Amounts owed by related parties	9.8	9.1
Prepayments and accrued income	-	0.2
	16.1	**14.8**

Amounts owed by related parties of the Group are in respect of companies outside the Group in which HN Moser is a director and shareholder. Also included within amounts owed by related parties is £0.2m (2019: £0.3m) in relation to a director's loan. The loan is interest free and repayable on demand.

The Company regularly assesses whether there is evidence that financial assets are impaired. The Group has continued to report substantial profits and the directors do not consider that there has been a significant increase in credit risk; accordingly an ECL for the amounts owed by subsidiaries is considered to be immaterial. Any loss given default on amounts owed by related parties is expected to be immaterial, and accordingly no ECL has been recognised.

Unless otherwise stated, all amounts are stated in £m

18. Investments in subsidiaries

The Company held the following investments in subsidiary undertakings:

	2020	2019
Investments in subsidiaries	**38.9**	**38.9**

The Company has the following subsidiaries, all of which are incorporated in Great Britain and are registered in England and Wales and operate throughout the United Kingdom:

	Shares and voting rights	Principal activities
Direct subsidiary		
Bracken Topco Limited	100%	Intermediate holding company
Indirect holding-company subsidiaries		
Bracken Midco1 PLC	100%	Intermediate holding company
Bracken Midco2 Limited	100%	Intermediate holding company
Together Financial Services Limited	100%	Intermediate holding company
Together Financial Services Limited subsidiaries		
Auction Finance Limited	100%	Commercial lending
Blemain Finance Limited	100%	Retail lending
Bridging Finance Limited	100%	Commercial lending
Harpmanor Limited	100%	Commercial lending
Jerrold Finco PLC	100%	Financier
Spot Finance Limited	100%	Retail lending
Together Commercial Finance Limited	100%	Commercial lending
Together Personal Finance Limited	100%	Retail lending
FactFocus Limited	100%	Property investment
General Allied Properties Limited	100%	Non–trading
Heywood Finance Limited	100%	Non–trading
Heywood Leasing Limited	100%	Non–trading
Jerrold Mortgage Corporation Limited	100%	Non–trading
Phone-a-Loan Limited	100%	Non–trading
Supashow Limited	100%	Non–trading
BridgingFinance.co.uk Limited (Company registration number 04159852)	100%	Dormant
Classic Car Finance Limited (Company registration number 03237779)	100%	Dormant
Jerrold Holdings Limited (Company registration number 04950229)	100%	Dormant
Together123 Limited (Company registration number 10758537)	100%	Dormant

The companies shown above as subsidiaries of Together Financial Services Limited are all direct holdings of ordinary share capital, with the exception of Spot Finance Limited which is held by Blemain Finance Limited. The dormant subsidiaries have taken advantage of the exemption from audit under section 479A of the Companies Act 2006. The registered address of all subsidiaries is Lake View, Lakeside, Cheadle, Cheshire, SK8 3GW.

The results of the following securitisation vehicles and trust are also consolidated in the Group accounts:

Charles Street Conduit Asset Backed Securitisation 1 Limited
Delta Asset Backed Securitisation 2 Limited
Jerrold Holdings Employee Benefit Trust
Together Asset Backed Securitisation 1 PLC
Together Asset Backed Securitisation 2018 - 1 PLC
Together Asset Backed Securitisation 2019 - 1 PLC
Delta Asset Backed Securitisation 1 Limited
Highfield Asset Backed Securitisation 1 Limited
Lakeside Asset Backed Securitisation 1 Limited
Together Asset Backed Securitisation 1 Holdings Limited
Together Asset Backed Securitisation 2018 - 1 Holdings Limited
Together Asset Backed Securitisation 2019 - 1 Holdings Limited

Unless otherwise stated, all amounts are stated in £m

19. Property, plant and equipment

2020	Fixtures, fittings and equipment	Motor vehicles	Right-of-use assets – leasehold property	Total
Cost				
At beginning of year	7.9	1.8	-	9.7
Impact of adopting IFRS 16	-	-	13.7	13.7
At beginning of year (adjusted)	**7.9**	**1.8**	**13.7**	**23.4**
Additions	0.5	0.4	0.9	1.8
Disposals	(0.1)	(0.3)	-	(0.4)
Reclassification of lease liabilities	-	-	1.4	1.4
At end of year	**8.3**	**1.9**	**16.0**	**26.2**
Depreciation				
At beginning of year	3.5	0.8	-	4.3
Impact of adopting IFRS 16	-	-	5.1	5.1
At beginning of year (adjusted)	**3.5**	**0.8**	**5.1**	**9.4**
Charge for the year	1.3	0.2	1.0	2.5
Disposals	(0.1)	(0.2)	-	(0.3)
Reclassification of lease liabilities	-	-	0.7	0.7
At end of year	**4.7**	**0.8**	**6.8**	**12.3**
Net book value				
At 30 June 2020	**3.6**	**1.1**	**9.2**	**13.9**
At 30 June 2019	4.4	1.0	-	5.4

2019	Fixtures, fittings and equipment	Motor vehicles	Total
Cost			
At beginning of year	8.5	1.8	10.3
Additions	0.8	0.2	1.0
Disposals	(1.4)	(0.2)	(1.6)
At end of year	**7.9**	**1.8**	**9.7**
Depreciation			
At beginning of year	3.5	0.5	4.0
Charge for the year	1.4	0.3	1.7
Disposals	(1.4)	–	(1.4)
At end of year	**3.5**	**0.8**	**4.3**
Net book value			
At 30 June 2019	**4.4**	**1.0**	**5.4**
At 30 June 2018	5.0	1.3	6.3

Unless otherwise stated, all amounts are stated in £m

20. Intangible assets

	Computer software 2020	Computer software 2019
Cost		
At beginning of year	14.5	11.4
Additions	3.5	3.2
Disposals	-	(0.1)
At end of year	**18.0**	**14.5**
Amortisation		
At beginning of year	5.7	3.1
Charge for the year	4.2	2.7
Disposals	-	(0.1)
At end of year	**9.9**	**5.7**
Net book value		
At end of year	**8.1**	**8.8**
At beginning of year	8.8	8.3

21. Deferred tax asset

2020	Accelerated capital allowances	Short-term timing differences	Total
At beginning of year	(1.0)	8.5	7.5
IFRS 16 adjustment	-	0.3	0.3
Charge to income statement	0.1	(1.2)	(1.1)
Effect of changes in tax rate	-	0.9	0.9
At end of year	**(0.9)**	**8.5**	**7.6**

2019	Accelerated capital allowances	Short-term timing differences	Total
At beginning of year	(0.8)	2.2	1.4
IFRS 9 adjustment	-	6.4	6.4
Charge to income statement	(0.1)	(0.1)	(0.2)
Adjustment in respect of prior years	(0.1)	-	(0.1)
At end of year	**(1.0)**	**8.5**	**7.5**

22. Borrowings

Group	2020	2019
Bank facilities	10.0	55.0
Loan notes	2,729.8	2,221.5
Senior secured notes	786.1	726.8
Senior PIK toggle notes	368.2	350.0
Lease liabilities	11.5	0.8
Subordinated shareholder loans	20.3	17.2
	3,925.9	**3,371.3**
Debt issue costs	(17.7)	(18.9)
Total borrowings	**3,908.2**	**3,352.4**
Of which:		
Due for settlement within 12 months	93.6	74.5
Due for settlement after 12 months	3,814.6	3,277.9
	3,908.2	**3,352.4**

Company	2020	2019
Subordinated shareholder loans	20.3	17.2
	20.3	**17.2**
Of which:		
Due for settlement within 12 months	-	-
Due for settlement after 12 months	20.3	17.2
	20.3	**17.2**

Loan notes have the following features:

Loan facility	Established	Facility type	Facility size (£m)	Expiry
Charles Street ABS	2007	Revolving	1,255.0	Sept 2023
Delta ABS 2	2019	Revolving	200.0	Mar 2023
Highfield ABS	2018	Revolving	525.0	Jun 2022
Lakeside ABS	2015	Revolving	500.0	Oct 2023
Together ABS 1	2017	Amortising	122.9	Sept 2021
Together ABS 2	2018	Amortising	179.8	Nov 2022
Together ABS 3	2019	Amortising	291.7	Sept 2023

In the case of the amortising facilities, the expiry date shown is the date of the option to call the facility and the facility size is shown as the amortised position at the balance sheet date. The expiry date for revolving facilities include an amortisation period of one year except for Lakeside ABS.

Refer to notes 2 and 33 for more details in relation to bank facilities.

On 10 October 2019, the Group completed its third residential-mortgage-backed securitisation, TABS 3. The transaction successfully raised £315.4m of external funding against a loan portfolio of £332.0m that was 79.0% funded by notes rated as AAA.

On 30 October 2019, the Group refinanced Lakeside ABS increasing the facility size from £255m to £500m and extended its maturity to October 2023.

On 10 February 2020, the Group refinanced its £375m senior secured notes due to mature in 2021, increasing the amount to £435m and extending the maturity to February 2026. The Group also has senior secured notes in issue of £350m, which are due to mature 2024.

Unless otherwise stated, all amounts are stated in £m

22. Borrowings (continued)

In light of the significant market uncertainty resulting from the Covid-19 pandemic, the Group took prudent measures on commencement of the lockdown to preserve capital and liquidity and to enhance financial flexibility. These included electing to service the interest that was due in April 2020 on senior PIK toggle notes in the form of 'payment in kind' (PIK) rather than servicing in cash. A higher coupon rate attaches to the servicing in PIK form as opposed to cash which meant that as a result of such election the charge for the period increased from £15.5m to £18.2m. The election to PIK also increased the principal balance of the notes from £350m to £368.2m and hence the amount on which subsequent interest is calculated.

Refer to notes 2 and 29 for more details in relation to the lease liabilities.

Subordinated shareholder loans were novated from TFSL to the Company as part of the refinancing of the Group undertaken on the 2 November 2016. The subordinated shareholder loans total £43.0m due in 2036. The difference between the total nominal value of £43.0m and the initial fair value of £9.7m represented a non-distributable subordinated shareholder reserve, of which £1.9m had amortised by 30 June 2020 (2019: £1.3m). The remainder of the reserve will be released over the life of the instruments.

Debt issue costs, which consist of the prepaid fees in relation to the bank loan, loan notes, senior PIK toggle notes and the senior secured notes, are deducted from the loan carrying amounts and charged to interest expense over the expected duration or term of the facility or notes as appropriate.

Borrowings have the following maturities:

2020

Group	**<1 year**	**1-2 years**	**2-5 years**	**>5 years**	**Total**
Bank facilities	10.0	-	-	-	10.0
Loan notes	82.8	565.9	2,081.1	-	2,729.8
Senior secured notes	-	-	351.1	435.0	786.1
Senior PIK toggle notes	-	-	368.2	-	368.2
Lease liabilities	1.4	1.2	3.3	5.6	11.5
Subordinated shareholder loans	-	-	-	20.3	20.3
	94.2	**567.1**	**2,803.7**	**460.9**	**3,925.9**
Debt issue costs	(0.6)	(2.1)	(11.3)	(3.7)	(17.7)
	93.6	**565.0**	**2,792.4**	**457.2**	**3,908.2**

Company	**<1 year**	**1-2 years**	**2-5 years**	**>5 years**	**Total**
Subordinated shareholder loans	-	-	-	20.3	20.3
	-	**-**	**-**	**20.3**	**20.3**

2019

Group	**<1 year**	**1-2 years**	**2-5 years**	**>5 years**	**Total**
Bank facilities	-	55.0	-	-	55.0
Loan notes	74.7	259.9	1,886.9	-	2,221.5
Senior secured notes	-	-	726.8	-	726.8
Senior PIK toggle notes	-	-	350.0	-	350.0
Lease liabilities	0.5	0.3	-	-	0.8
Subordinated shareholder loans	-	-	-	17.2	17.2
	75.2	**315.2**	**2,963.7**	**17.2**	**3,371.3**
Debt issue costs	(0.7)	(0.8)	(17.4)	-	(18.9)
	74.5	**314.4**	**2,946.3**	**17.2**	**3,352.4**

Company	**<1 year**	**1-2 years**	**2-5 years**	**>5 years**	**Total**
Subordinated shareholder loans	-	-	-	17.2	17.2
	-	**-**	**-**	**17.2**	**17.2**

Unless otherwise stated, all amounts are stated in £m

23. Provisions

2020	Customer provisions	Other provisions	Total
Balance beginning of year	17.0	1.5	18.5
Charge for the year	6.8	1.3	8.1
Provisions utilised	(2.8)	(0.2)	(3.0)
Balance at end of year	**21.0**	**2.6**	**23.6**

Provisions

As a result of undertaking internal reviews within the regulated division during the year to 30 June 2019, instances were identified where, for certain customers in arrears, the outcome may have been improved if different forbearance tools had been applied. In addition, some past written communications with customers should have been clearer and more complete, including in instances where balances are not expected to be repaid by the customer by the contractual maturity date, using their current repayment schedule.

The Together Group's Personal Finance division has continued to focus on the resolution of these matters, providing regular updates on progress to the FCA. Changes to operational processes for the application of forbearance and for communicating more clearly with customers have already been implemented. Experienced third parties have been appointed to support this activity, including providing additional resource and support in establishing an appropriate assurance framework.

In order to address these matters in a timely and appropriate manner for customers, work is being undertaken in a phased approach. In the initial phase, remediation is not intended to be based on individual customer-level reviews, but instead will be calculated using a defined set of parameters and criteria for the customer populations, which simplifies and expedites progress whilst also ensuring customer detriment, where experienced, is appropriately addressed.

Within customer provisions, a provision of £15.9m for forbearance and customer-communication remediation has been estimated at the reporting date. Depending on the outcome of further testing and the selection of certain judgements and assumptions, the total financial impact is estimated to be within the range of £9.0m to £17.0m. In addition, a further £0.9m provision has been estimated for administrative expenses relating to the remediation. The total charge to the income statement during the year in respect of these matters is £2.8m, of which £0.1m has been utilised during the year.

The forbearance provision and the customer communications provision represent the estimated financial impacts arising from both live and redeemed customers and comprise: (i) estimated customer settlement payments, (ii) expected accrued interest between the reporting date and the assumed remediation date, and (iii) estimated administration costs related to the remediation activities.

The calculation of the forbearance and customer communications provisions and the estimated ranges of impacts contains some limitations, and a number of significant judgements and estimates have been necessary, including: judgements about the circumstances where customers may have been disadvantaged, the estimated amounts for customer redress due, judgements about the extent of the customer population included, the extent of any overlap between remediation activities, and the assumed timing of remediation activities.

Estimates for provisions and associated ranges are based on management's best estimate using the information available. Further work will be undertaken during the remediation phase, planned for completion during the coming year which could lead to a revision of the provisions estimate, potentially outside the current estimated range.

The total provisions above is comprise of other provisions which are individually immaterial.

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

24. Other liabilities

Group	2020	2019
Trade creditors	1.1	1.9
Other creditors	1.5	2.6
Other taxation and social security	0.7	1.0
Accruals and deferred income	58.8	53.5
	62.1	**59.0**

25. Share capital

All amounts are stated in pounds.

Called-up, allotted and fully paid	2020	2019
1,000,000 ordinary shares of 1 penny each	**10,000**	**10,000**

The balance on the share premium account is £49,900 (2019: £49,900).

26. Financial instruments and fair values

The Group measures fair values using the following hierarchy, which reflects the significance of the inputs used in making the measurements:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Measurements derived from observable data, such as market prices or rates;

Level 3: Measurements rely on significant inputs not based on observable market data.

Financial instruments measured at fair value

The following table 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:

Derivative (liabilities)/assets held for risk management	Level 1	Level 2	Level 3	Fair value	Carrying value
2020					
Interest-rate risk	-	(2.9)	-	**(2.9)**	**(2.9)**
2019					
Interest-rate risk	-	0.1	-	**0.1**	**0.1**

The Group's derivative assets are interest-rate caps and its derivative liability is an interest-rate swap. The valuations of these instruments are level 2, being derived from generally accepted valuation models that use forecast future interest-rate curves derived from market data. At the end of the reporting year, the value of the interest-rate caps was not material and therefore is not presented in the table above due to rounding.

Unless otherwise stated, all amounts are stated in £m

26. Financial instruments and fair values (continued)

Financial instruments not measured at fair value

All the Group's other financial assets and liabilities are held at amortised cost. The carrying value is a reasonable approximation of fair value for all financial instruments other than for loans and advances to customers and for borrowings. For loans and advances to customers and for borrowings, fair value is calculated based upon the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

The following table analysis the fair values of loans and advances and of borrowings into different levels according to the degree to which the fair values are based on observable inputs:

2020	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets					
Loans and advances to customers	-	-	4,142.9	4,142.9	**4,162.2**
Financial liabilities					
Borrowings	1,038.9	604.4	2,158.6	3,801.9	**3,908.2**

2019	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets					
Loans and advances to customers	-	-	3,723.5	3,723.5	**3,694.5**
Financial liabilities					
Borrowings	1,074.4	2,276.5	19.3	3,370.2	**3,352.4**

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 at which we most recently advanced similar loans. This rate is assumed to encompass the time value of money, plus a risk premium to account for the inherent uncertainty in the timing and amount of future cash flows arising from mortgage assets. Forecast principal repayments are based on redemption at maturity with an overlay for historical behavioural experience to take account of expected prepayment. The eventual timing of future cash flows may be different from the forecast due to unpredictable customer behaviour. A further adjustment is made to reflect expected credit losses over the life of each loan.

Due to current market conditions, it is considered that the fair value of a loan portfolio is especially uncertain and that price discovery for loan portfolios may be challenging. In the comparative period, for 30 June 2019, fair values were estimated using only the methodology described above. However, for the 30 June 2020 reporting, fair-values have been estimated to be the lower of: the carrying value and the fair value for each product as calculated above. Consequently, the fair value of loans and advances to customers is lower than the carrying value overall for the year ended 30 June 2020.

The fair value of senior secured notes and senior PIK toggle notes is considered to be level 1, although the number of transactions were low compared to pre-Covid-19 trading. The fair value is lower than carrying value primarily due to the price at which bonds were trading in the secondary market due to the economic impact of Covid-19 at 30 June 2020.

The fair value of loan notes issued by private securitisations is estimated to be the carrying value because the notes track a floating rate of interest but where the margins payable are only observable inputs when they are issued or refinanced. Due to current market conditions these notes have been reclassified from level 2 to level 3 reflecting the increased uncertainty over the margins for such loan notes. Public residential mortgage-backed securities continue to be classified as level 2.

Other borrowings stated at fair value in level 3 almost entirely represent subordinated shareholder loans and lease liabilities. Market prices are not available for these loans and so fair value has been estimated by discounting the related expected future cash flows. As market rates are not observable for these loans, management has derived discount rates by reference to other arm's length transactions with investors, making allowance for the tenor and seniority of the loans.

Unless otherwise stated, all amounts are stated in £m

27. Notes to the statement of cashflows

Group	**2020**	**2019**
Adjustments for non-cash items in profit after tax:		
Net interest income	(212.8)	(186.1)
Changes in expected credit losses charged to income statement	66.7	13.4
Taxation	13.3	16.0
Provisions for liabilities and charges	8.1	16.2
Depreciation and amortisation	6.7	4.4
Net losses on financial instruments	0.5	-
(Gains)/losses on disposal of fixed assets	(0.1)	0.1
	(117.6)	**(136.0)**

Changes in operating assets and liabilities		
Increase in loans and advances to customers	(534.4)	(781.2)
Increase in other assets	(2.1)	(9.5)
(Decrease)/increase in other liabilities	(4.5)	2.4
	(541.0)	**(788.3)**

Company	**2020**	**2019**
Adjustments for non-cash items in profit after tax:		
Net interest expense	1.9	2.2
Taxation	-	0.1
	1.9	**2.3**

Changes in operating assets and liabilities		
Increase in other assets	(1.3)	(9.9)
	(1.3)	**(9.9)**

Unless otherwise stated, all amounts are stated in £m

27. Notes to the statement of cashflows (continued)

Reconciliation of changes in liabilities arising from financing activities

2020

Group	At beginning of year	Net cash flows	Non-cash changes: IFRS 16 adjustment	Prepaid fees	Lease additions	PIK interest	Reclassification of leases	Interest expense	At end of year
Bank facilities	55.0	(45.0)	-	-	-	-	-	-	10.0
Loan notes	2,221.5	508.3	-	-	-	-	-	-	2,729.8
Senior secured notes	726.8	60.0	-	-	-	-	-	(0.7)	786.1
Senior PIK toggle notes	350.0	-	-	-	-	18.2	-	-	368.2
Lease liability	0.8	(1.6)	10.2	-	1.4	-	0.7	-	11.5
Subordinated shareholder loans	17.2	-	-	-	-	-	-	3.1	20.3
	3,371.3	**521.7**	**10.2**	-	**1.4**	**18.2**	**0.7**	**2.4**	**3,925.9**
Debt issue costs	(18.9)	-	-	1.2	-	-	-	-	(17.7)
Total borrowings	**3,352.4**	**521.7**	**10.2**	**1.2**	**1.4**	**18.2**	**0.7**	**2.4**	**3,908.2**

2019

Group	At beginning of year	Net cash flows	Non-cash changes: IFRS 9 adjustment	Prepaid fees	Interest expense	At end of year
Bank facilities	30.6	24.4	-	-	-	55.0
Loan notes	1,526.7	700.4	(5.6)	-	-	2,221.5
Senior secured notes	727.4	-	-	-	(0.6)	726.8
Senior PIK toggle notes	220.0	130.0	-	-	-	350.0
Vendor notes	110.5	(110.5)	-	-	-	-
Lease liability	1.1	(0.3)	-	-	-	0.8
Subordinated shareholder loans	14.2	-	-	-	3.0	17.2
	2,630.5	**744.0**	**(5.6)**	-	**2.4**	**3,371.3**
Debt issue costs	(23.0)	-	-	4.1	-	(18.9)
Total borrowings	**2,607.5**	**744.0**	**(5.6)**	**4.1**	**2.4**	**3,352.4**

Interest expense includes amortisation of premiums and discounts.

2020

Company	At beginning of year	Non-cash changes: Interest expense	At end of year
Subordinated shareholder loans	17.2	3.1	20.3
	17.2	**3.1**	**20.3**

2019

Company	At beginning of year	Non-cash changes: Interest expense	At end of year
Subordinated shareholder loans	14.2	3.0	17.2
	14.2	**3.0**	**17.2**

28. Related party transactions

Relationships

The Company has the following related parties:

a) Controlling party

All the voting shares of Redhill Famco Limited are wholly controlled by HN Moser, a director of Redhill Famco Limited. On 9 March 2020, all shares held by the DL Moser 1995 Family Settlement No1 Trust were transferred to HN Moser, making him the sole owner and controlling party of the Group.

In November 2016, subordinated funding was novated from TFSL to the Company as part of the refinancing of the Group. The Company pays interest of Bank Rate plus 5% on the subordinated loan which is for a fixed term, as set out in note 22. The difference between the loans' maturity amounts and their fair values represents a capital contribution to the Group which is being amortised through income over the life of the loan.

Besides the companies owned by Redhill Famco Limited, other entities controlled by HN Moser are deemed to be related parties and during the year transacted with the Company's subsidiaries as follows:

Entity	Nature of transactions
Bracken House Properties LLP	The Group pays operating lease and insurance costs to Bracken House Properties LLP for its provision of the Group's head office properties.
Centrestand Limited	The Group collects rents and pays service charges and costs on behalf of Centrestand Limited.
Charles Street Commercial Investments Limited	The Group refers borrowers outside its lending criteria to Charles Street Commercial Investments Limited. The Group performs underwriting, collection and arrears-management activities for these loans. The Group also manages accounts payable on behalf of the company and provides ancillary accounting and treasury services for which it is reimbursed. The Group also has a loan to Charles Street Commercial Investments Limited, which is repayable on demand and pays interest of Bank Rate plus 5%, up to a maximum rate of 9% (inclusive of Bank Rate).
Sterling Property Co. Limited	Sterling Property Co. Limited provides property management services for properties repossessed or placed into LPA receivership by the Group.
August Blake Developments Limited, Edgworth Developments Limited, Sunnywood Estates Limited	The Group provides loans with interest charged at 5% per annum, secured on certain assets of these companies. The Group also manages accounts payable on behalf of these entities.

Balances due to or from the above entities are interest-free and repayable on demand, unless otherwise stated.

Unless otherwise stated, all amounts are stated in £m

28. Related party transactions (continued)

b) Subsidiaries

Details of the Company's interest in its subsidiaries are listed in note 18. The Company utilises its bank and subordinated shareholder funding, and bonds raised by a subsidiary company, to provide treasury funding to its lending subsidiaries. Interest is recharged among Group companies based on the Group's external cost of borrowings. The cost of equity funding is not charged. All amounts are repayable on demand.

c) Key management personnel

Key management personnel comprise directors of the Group. There are no transactions with directors other than the director's loan disclosed in note 17 and remuneration in the ordinary course of business (note 10).

Transactions

The amounts receivable from and payable to related parties by the Group and Company are disclosed in notes 17 and 24 to the financial statements. The Group and Company had the following transactions with related parties during the year:

Group	2020 Charge/ (credit) to income or equity	2020 Paid	2019 Charge/ (credit) to income or equity	2019 Paid
Lease and insurance costs	1.4	1.8	1.4	1.4
Accounts payable transactions	-	1.2	-	1.9
Impairment of related party loans	1.9	-	0.7	-
Interest expense on lease liabilities	0.5	-	-	-
Interest receivable on related party loans	(1.2)	-	(0.8)	-
Interest expense on subordinated shareholder loan	3.1	-	3.0	-
Repayment of related party loan	-	-	-	9.1
Total of HN Moser and related parties	**5.7**	**3.0**	**4.3**	**12.4**

Company	2020 Charge/ (credit) to income or equity	2020 Paid	2019 Charge/ (credit) to income or equity	2019 Paid
Interest receivable on related party loans	(1.2)	-	(0.8)	-
Interest expense on subordinated shareholder loan	3.1	-	3.0	-
Repayment of related party loan	-	-	-	9.1
Total of HN Moser and related parties	**1.9**	**-**	**2.2**	**9.1**

29. Leases

The Group occupies two head-office buildings. One of the properties is subject to a lease for 15 years. Negotiations are currently ongoing with the landlord (Bracken House Limited LLP) with regard to lease arrangements for the second property which has been accounted for as a lease in accordance with the draft lease terms.

Previously leases were classified as operating leases under IAS 17.

The Group also leases certain IT equipment with contract terms of one to three years. These leases are short-term and/or of low-value items and the Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

The table below sets out the amounts recognised in the income statement in respect of the Group's and Company's right-of-use assets and lease liabilities during the year ended 30 June 2020:

Group and Company	**Administrative expenses £m**	**Interest expense £m**	**Total £m**
Depreciation expense of right-of-use assets	1.0	-	1.0
Interest expense on lease liabilities	-	0.5	0.5
Total recognised in the income statement	**1.0**	**0.5**	**1.5**

The below table sets out the carrying amounts of the Group's and Company's right-of-use assets and lease liabilities and the movements during the year ended 30 June 2020.

Group	**Right-of-use assets – leasehold property £m**	**Lease liabilities £m**
At beginning of year	8.6	(11.0)
Additions	0.9	(1.4)
Depreciation expense	(1.0)	-
Interest expense on lease liabilities	-	(0.5)
Payments	-	2.1
Reclassification	0.7	(0.7)
At end of year	**9.2**	**(11.5)**

Lease liabilities include hire-purchase obligations for motor vehicles. The Group had total cash outflows for leases of £2.1m during the year ended 30 June 2020.

30. Pension arrangements

During the year the Group contributed to employees' personal pension plans. The total cost for the year amounted to £1.4m (2019: £1.1m). Additionally, the Group operated a defined contribution scheme for which the pension costs charge for the year amounted to £nil (2019: £nil).

31. Share-based payments

Senior management has previously been granted D shares and options over E shares of Together Financial Services Limited. The ability to dispose of such shares and execute such options is conditional on sale of shares held by other shareholders amounting to 25% or more of Together Financial Services Limited's share capital on a cumulative basis. The value of these shares is dependent upon the value of Together Financial Services Limited at the time of granting. Awards are treated as equity settled and are satisfied by the same entity where the obligation rests at the point awards are realised. The options over the E shares have not yet been exercised.

32. Commitments and contingencies

The Group has commitments to extend credit which are not recorded on the balance sheet. This includes both undrawn elements of existing facilities, as well as new commitments to lend. The amounts do not represent the amounts at risk at the balance sheet date but the amounts that would be at risk should the facilities be fully drawn upon and should the customer default.

At 30 June 2020, the Group had undrawn commitments to lend of £88.4m (30 June 2019: £153.8m) relating mostly to undrawn elements of lines of credit granted to existing customers for property development. The decrease in undrawn commitments is largely driven by a decrease in the Personal Finance loan pipeline as at 30 June 2020 compared with 30 June 2019.

The ECL on the undrawn elements of existing facilities is included within the total ECL held within net loans and advances to customers. The ECL on new lending commitments is £nil (30 June 2019: £0.1m), and is classified within other liabilities.

Fixed and floating charges

As at 30 June 2020, the Group's assets were subject to a fixed and floating charge in respect of £1,153m (30 June 2019: £1,075m) senior secured notes and senior PIK toggle notes, and £10m in respect of bank borrowings (30 June 2019: £55m).

33. Events after the reporting date

a) Mortgage-payment deferrals

After the balance sheet date the continuing development of the Covid-19 pandemic has resulted in the Group maintaining its actions to serve its customers and protect colleagues, consistent with the supportive measures announced by the UK government. The Group has offered mortgage-payment deferrals to a number of customers as a result of Covid-19 as disclosed in note 14. At 9 December 2020, 2% of the Group's loans by value still remained on mortgage-payment deferrals as a result of Covid-19.

Customers may take the option to extend their payment deferral, in line with government guidance, and of the 4,888 loans reaching the end of their initial deferral period and have had a payment fall due, up to 8 December 2020:

- 418 customers were still in a payment deferral period; and
- 4,470 customers had reached the end of their mortgage-payment deferral period and have had a payment fall due;
  - 3,700* customers have made full payments;
  - 456 customers have made partial payments; and
  - 314 customers have not made payments or are past their term.

*include accounts which were fully redeemed since ending their mortgage-payment deferral period.

The government implemented new national restrictions for England between 5 November 2020 and 2 December 2020 which were subsequently replaced with a tier system. In addition the government announced fiscal support measures, including extensions of the coronavirus job retention scheme and mortgage-payment deferral scheme.

The impact on the macroeconomic outlook of such restrictions and resulting support measures is uncertain. Changes in the macroeconomic outlook will impact upon the calculation of ECL, where disclosure of the macroeconomic scenarios used for estimating ECL is set out in note 14. In addition within note 14, disclosure is provided showing the unweighted ECL for each of the scenarios incorporated within the ECL calculation, together with the weighting applied to that scenario. Sensitivities can be derived from this disclosure by applying different combinations of probabilities to the unweighted ECLs and comparing these to the weighted average which is the amount recorded within the statement of financial position.

33. Events after the reporting date (continued)

a) Mortgage-payment deferrals (continued)

The Group continues in its actions to serve its customers by continuing to offer payment deferrals aligned to government guidance as well as the support of our wider forbearance toolkit aligned to customers circumstances.

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

b) Restructuring

With the severity of the pandemic and its impact on business, the Group has had to make some difficult decisions regarding restructuring our business and the Group recently announced that it has launched an employee consultation process on proposals to reduce colleague numbers reflecting the anticipated future levels of lending activity and efficiencies in a revised operating structure. This employee consultation process ended on 7 September 2020 and as a result 191 colleagues were made redundant.

c) Funding activity

On 15 October 2020, the Group paid in cash £16.3m to service semi-annual interest due on the senior PIK toggle notes.

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

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

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

d) New originations

During the period from lockdown we have continued to see demand for our products and since the easing of lockdown restrictions we have been able to cautiously resume accepting new applications on a phased basis using criteria appropriate to the changed market. As a result, average monthly mortgage originations from July to November 2020 have increased to £54.6m.

34. Controlling party

As at 30 June 2020 Redhill Famco Limited is wholly controlled by HN Moser.

Appendix

Unless otherwise stated, all amounts are stated in £m

Alternative performance measures

In the reporting of financial information, we use certain measures that are not required under IFRS, the Generally Accepted Accounting Principles ('GAAP') under which we report. These measures are consistent with those used by management to assess underlying performance. In addition, a number of non-IFRS metrics are calculated which we consider to be helpful in understanding the performance of the Group.

These alternative performance measures have been defined below:

Cost of risk

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

	2020 £m	2019 £m
Impairment charge	66.9	15.4
Average net loans and advances to customers	3,928.3	3,326.3
	1.7%	**0.5%**

Cost-to-income ratio

Administrative expenses including depreciation and amortisation divided by operating income.

	2020 £m	2019 £m
Administrative expenses	79.5	97.3
Operating income	215.8	188.3
	36.8%	**51.7%**

Underlying cost-to-income ratio

Administrative expenses including depreciation and amortisation divided by operating income but excluding the effects of additional provisions made in respect of forbearance and customer communications and refinancing costs relating to 2021 senior secured notes.

	2020 £m	2019 £m
Administrative expenses	79.5	97.3
Less additional customer provisions	(2.8)	(14.4)
Administrative expenses excluding exceptional costs	76.7	82.9
Operating income	215.8	188.3
Add back refinance cost	6.7	5.0
Operating income excluding exceptional costs	222.5	193.3
	34.5%	**42.9%**

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

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

	2020 £m	2019 £m
Profit before tax	69.4	75.6
Add back:		
Interest payable and similar charges	176.1	157.2
Depreciation and amortisation	6.7	4.4
	252.2	**237.2**

Appendix (continued)

Unless otherwise stated, all amounts are stated in £m

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

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

	2020 £m	2019 £m
EBITDA	252.2	237.2
Add back:		
Additional customer provisions	2.8	14.4
	255.0	**251.6**

Interest-cover ratio

The ratio of EBITDA to interest payable and similar charges.

	2020 £m	2019 £m
EBITDA	252.2	237.2
Interest payable and similar charges	176.1	157.2
	1.4:1	**1.5:1**

Underlying interest-cover ratio

The ratio of underlying EBITDA to interest payable and similar charges excluding one-off refinancing cost relating to 2021 senior secured notes.

	2020 £m	2019 £m
Underlying EBITDA	255.0	251.6
Interest payable and similar charges	176.1	157.2
Deduct:		
Refinancing cost	(6.7)	(5.0)
	1.5:1	**1.7:1**

Net debt gearing

Net debt expressed as a percentage of loans and advances to customers. The senior-secured-notes premium relates to an amortising issue premium on the 2024 senior secured notes.

	2020 £m	2019 £m
Total borrowings	3,908.2	3,352.4
Add back debt issue costs	17.7	18.9
Less shareholder loans	(20.3)	(17.2)
Less lease liabilities	(11.5)	(0.8)
Less senior secured notes premium	(1.0)	(1.8)
Less cash and cash equivalents	(253.1)	(121.0)
Net debt	**3,640.0**	**3,230.5**
Loans and advances to customers	**4,162.2**	**3,694.5**
	87.5%	**87.4%**

Appendix (continued)

Unless otherwise stated, all amounts are stated in £m

Net interest margin (NIM)

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

	2020 £m	2019 £m
Net interest income	212.8	186.1
Average loans and advances to customers	3,928.3	3,326.3
	5.4%	**5.6%**

Underlying net interest margin

Net interest income adjusted for one-off refinancing cost relating to 2021 senior secured notes as a percentage of the average of the opening and closing net loans and advances to customers.

	2020 £m	2019 £m
Net interest income	212.8	186.1
Add back:		
Refinancing cost	6.7	5.0
Adjusted net interest income	219.5	191.1
Average loans and advances to customers	3,928.3	3,326.3
	5.6%	**5.7%**

Underlying profit before taxation

Profit before tax adjusted for one-off exceptional items.

	2020 £m	2019 £m
Profit before tax	69.4	75.6
Add back:		
Additional customer provision	2.8	14.4
Refinancing cost	6.7	5.0
	78.9	**95.0**

Return on equity (ROE)

Calculated as profit after tax adding back shareholder loan interest net of associated tax calculated using the effective tax rate, expressed as a percentage of the average of the opening and closing shareholder funds (which include shareholder loans of £20.3m (2019: £17.2m)).

	2020 £m	2019 £m
Profit after tax	56.1	59.6
Add back shareholder loan interest	3.1	3.0
Less tax on shareholder loan interest	(0.6)	(0.6)
Total return to shareholder funds	58.6	62.0
Average shareholder funds	463.4	419.8
	12.6%	**14.8%**

Appendix (continued)

Unless otherwise stated, all amounts are stated in £m

Underlying return on equity

Calculated as total return to the shareholder adjusted for additional customer provisions and refinancing cost and associated tax on these exceptional items, expressed as a percentage of the average of the opening and closing shareholder funds (which include shareholder loans of £20.3m (2019: £17.2m) adjusted for exceptional items during the period).

	2020 £m	2019 £m
Total return to shareholder funds	58.6	62.0
Add exceptional items:		
Additional customer provision	2.8	14.4
Refinancing cost	6.7	5.0
	9.5	19.4
Less tax on exceptional costs using effective tax rate	(1.8)	(3.7)
	7.7	15.7
Underlying return to shareholder funds	66.3	77.7
Underlying average shareholder funds	467.2	427.7
	14.2%	**18.2%**

Cost-to-asset ratio

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

	2020 £m	2019 £m
Administrative expenses	79.5	97.3
Average total assets	4,158.2	3,452.7
	1.9%	**2.8%**

Underlying cost-to-asset ratio

Administrative expenses including depreciation and amortisation but excluding the effects of additional provisions made in respect of forbearance and customer communications divided by the average of the opening and closing total assets.

	2020 £m	2019 £m
Administrative expenses	79.5	97.3
Less additional customer provisions	(2.8)	(14.4)
Adjusted Administrative expenses	76.7	82.9
Average total assets	4,158.2	3,452.7
	1.8%	**2.4%**

Shareholder funds

Sum of equity and subordinated shareholder loans notes (including accrued interest on the subordinated shareholder loans).

	2020 £m	2019 £m
Equity	467.8	415.8
Shareholder loans	20.3	17.2
	488.1	**433.0**