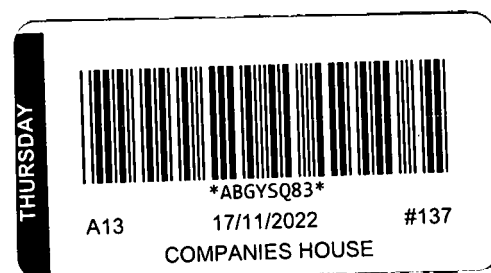




Redhill Famco Limited
Annual report and
consolidated financial statements
for the year ended 30 June 2022

Company Registration No. 10162640



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Annual report and consolidated financial statements for the year ended 30 June 2022

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Officers and professional advisers

Directors

HN Moser
GD Beckett

Secretary

GD Beckett

Registered office

Lake View
Lakeside
Cheadle
Cheshire
SK8 3GW

Auditor

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

Strategic Report

The directors present 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 2022.

Business review

Business model and strategy

The Group's principal activity continues to be the provision of mortgage finance secured on property and land within 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 private and public securitisations, senior secured notes, senior PIK toggle notes, a revolving credit facility, subordinated shareholder loans and reinvestment of profits.

Results and dividends

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

	2022	2021
Interest receivable (£m)	395.2	371.6
Net interest margin (%)	4.9	5.1
Underlying net interest margin (%)	4.9	5.3
Interest-cover ratio	1.8:1	1.7:1
Underlying interest-cover ratio	1.8:1	1.7:1
Cost-to-asset ratio (%)	2.0	2.0
Underlying cost-to-asset ratio (%)	1.8	2.1
Cost-to-income ratio (%)	43.3	40.7
Underlying cost-to-income ratio (%)	38.4	42.5
Impairment charge (£m)	4.3	16.1
Cost of risk (%)	0.1	0.4
Profit before taxation (£m)	125.4	111.2
Underlying profit before taxation (£m)	136.6	110.6
Return on equity (%)	16.2	17.6
Underlying return on equity (%)	17.6	17.5
Loans and advances to customers (£m)	5,247.9	4,011.9
Weighted average loan-to-value (LTV) of originations ² (%)	61.0	59.8
Weighted average indexed LTV of portfolio ³ (%)	51.5	52.1
Net debt gearing (%)	86.9	84.5
Equity (£m)	671.6	561.3

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)

Interest receivable and similar income has increased by 6.4% to £395.2m for the year to 30 June 2022 (2021: £371.6m). This mainly reflected the sharp growth achieved in the mortgage portfolio, and in the latter part of the year, reflected the passing on of interest-rate increases to certain new and existing loans as appropriate.

Interest payable and similar charges has increased by 4.3% to £169.1m (2021: £162.1m). The increase was driven by the substantially higher interest-rate environment, which increases reference rates on our funding facilities, and by higher borrowing, in support of the growth in the Group's loan book. However, interest payable as a percentage of borrowings decreased from 4.4% in 2021 to 3.5% in 2022. This reflects the Group's ability to refinance its existing facilities on improved terms as well as the increasing cost-efficiency of the Group's funding structure.

Net interest margin fell slightly to 4.9% (2021: 5.1%) as interest payable increased at a quicker rate than interest income and the Group's product mix evolved during the year. Underlying net interest margin also fell slightly to 4.9% (2021: 5.3%) having incurred no one-off interest charges in the year (2021: £5.9m). This reflects the impact of rising interest rates has had on our variable borrowings, along with the delay and extent to which such increases have been passed onto our existing and new variable rate products, resulting in some compression of our net interest margin.

Administrative expenses rose by 13.2% £98.9m (2021: £87.4m) but, on an underlying basis, fell from £93.9m last year to £87.7m this year. On an underlying basis, expenses fell because of the continued fall in redress costs.

The ratio of costs to assets remained consistent at 2.0% and costs to income rose to 43.3% (38.4% on an underlying basis) from 40.7% (42.5% on an underlying basis) in the prior year.

Impairment charges for the year were £4.3m, down 73% from £16.1m last year. As a percentage of average loans and advances to customers, this represented a cost of risk of just 0.1%, compared with 0.4% for the year ended 30 June 2021. The reduced impairment charge for the year principally reflects better economic performance than expected, strong house-price growth and lower than expected arrears and realised losses.

The directors of the Company do not recommend the payment of a dividend (2021: £nil).

Strategic Report (continued)

Business review (continued)

Position

The Group has been able to resume its growth with no change to its longstanding principle of focusing lending at prudent LTVs. As a result, whilst lending increased substantially during the year, the weighted-average LTV of loans originated in the year increased only slightly from 59.8% for 2021 to 61.0% for the year to 30 June 2022. House-price inflation contributed to the weighted-average indexed LTV of the Group's loan portfolio as whole actually falling, from 52.1% last year to 51.5% at 30 June 2022, continuing the trend of recent years. The Group's conservative approach to LTV provides significant protection against any potential fall in 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, net loans and advances to customers have increased by 30.8% to £5,247.9m compared with £4,011.9m at 30 June 2021 primarily as a result of £2.6bn of loan originations during the year (2021: £1.2bn). Originations were approximately 132% higher than the previous year as the Group accelerated its lending activity and sought to capitalise on its strong market proposition, facilitated through an effective distribution and retention strategy.

Equity has increased by 19.6% to £671.6m compared with £561.3m at 30 June 2021. Net debt gearing rose to 86.9% (2021: 84.5%) as the Group increased its borrowings during the year from £3.7bn last year to £4.9bn at 30 June 2022 in support of its resumption of strong lending growth. The subordinated shareholder funding is included for the purposes of calculating the Group's gearing ratio.

Future developments

The directors do not expect any significant change to the activities of the both the Group and the Company 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 30.

Strategic Report (continued)

Business review (continued)

Funding activity during the year

In the year to June 2022, the Group successfully raised or refinanced £4.2bn of facilities to support the Group's lending activities, including the Group's first dedicated facility for non-performing loans:

- In July 2021 the Group announced the launch of the Brooks ABS facility. This is a new type of facility secured on loans with some degree of arrears or imperfect credit history. The Brooks ABS facility raised £71m of external funding.
- In September 2021 the Group refinanced its £525m Highfield ABS facility, extending its maturity date from June 2022 to September 2025 and reducing the coupon.
- In September 2021 the Group redeemed the loan notes in its first RMBS, Together ABS 1, taking back beneficial title to the mortgage assets that had previously been securitised.
- Also in September 2021 the Group announced the launch of its inaugural 1st charge-only RMBS, Together ABS 5. The issuance raised £302m of external funding.
- In November 2021 the Group announced the issuance of an additional £100m of its 4% senior secured notes due 2026 through its wholly owned subsidiary Jerrold Finco PLC, and which was subsequently increased to £120m following significant demand.
- Also in November 2021, the Group announced the issuance, through Bracken Midco 1, of £380.0m of Senior PIK Toggle Notes due 2027. This was at a coupon of 6.75% cash interest and 7.50% PIK interest and was part of the refinancing of the existing notes which were due in 2023.
- In December 2021 the Group refinanced its Delta ABS 2 facility, increasing the size from £200m to £400m, as well as extending the maturity from 2022 to 2025.
- In March 2022 the Group refinanced its Charles Street ABS facility, significantly improving commercial terms and extending its maturity from September 2023 to March 2027. As part of the refinancing, the Group has taken the opportunity to close down the original facility and re-issue it as a new one, Charles Street ABS 2.
- In April 2022 the Group refinanced its Lakeside ABS facility, extending its maturity from October 2023 to April 2026, with an increase in size from £500m to £700m and the addition of a new funding partner.
- In May 2022 the Group launched another RMBS, Together ABS 6. The issuance raised £321m of external funding with 73.5% of its notes AAA rated on issuance.
- In June 2022 the Group launched a new CMBS, Together CRE 3. The external funding raised was £365m and 80% of the notes were AAA rated.
- Since the year end, in July 2022 the Group has completed a further RMBS, Together ABS 7, raising £470m of external funding and with 89% of its issued notes AAA rated.
- Also in September 2022, the Group refinanced its Brooks Asset Backed Securitisation ('BABS') facility, with an additional £24m of funding secured.
- Also after the year end, again in September 2022, the Group refinanced its revolving credit facility, increasing the facility size from £71.9m to £138.5m and extended the maturity initially to 2026.

Over the course of the year the Group successfully completed the transition of all its Libor-based financial instruments to a new reference rate, the reformed sterling overnight index average (Sonia). Further detail is set out in Note 29 to the financial statements.

In October 2021 Fitch revised the outlook of the TFSL Group's long-term rating from negative to stable, and affirmed its BB-rating, citing the more stable UK economic backdrop, improvements in Together's liquidity and earnings profiles, and success over the past year in further developing its funding base. In January 2022, S&P also upgraded Together's outlook, this time from stable to positive, citing its successful navigation of the pandemic, resilient earnings, stable and diversified funding base and the potential for significant loan-book growth.

Together's diverse funding sources comprise two publicly listed senior secured notes (SSNs), five private and, including transactions since June 2022, ten public securitisations, and a revolving credit bank facility (RCF).

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

Strategic Report (continued)

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.

Our Stakeholder engagement report sets out how we engage with our stakeholders and, where relevant, how we have continued to evolve our approach to supporting our stakeholders in response to the wider challenges such as cost of living pressures, residual impacts of the Covid-19 pandemic, and beyond. Further information is provided in our Sustainability Report in the TFSL Annual Report and Accounts.

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 Together Financial Services Limited, an indirect subsidiary of the Group.

Together continues to focus on delivering a comprehensive value proposition for colleagues, and on supporting their wellbeing. We have also continued to listen to feedback from our colleagues, through quarterly surveys and communications. More details of our support for colleagues can be found in our Sustainability Report in the TFSL Report and Accounts.

During the year, the Group has rolled out a refreshed platform for conducting colleague engagement surveys, enhancing our approach to collecting and monitoring colleague feedback, and delivering actions to improve the overall colleague value proposition.

We continue to support colleagues at the start of their careers, through our apprentice and graduate programmes. Through our 55+ diversity and inclusion strand we offer support to colleagues as they move towards the end of their careers as well as celebrating those colleagues who achieve long service milestones.

Our Accountability Charter continues to bring together the principles of the Senior Managers & Certification Regime and our Play your Part Beliefs – respect for people, doing the right thing, and being accountable. This also provides us with a solid footing in our ongoing preparation for the Financial Conduct Authority's forthcoming Consumer Duty regulations.

The principles of good conduct have been further embedded by amendments to our performance management process for all colleagues. This has enhanced the focus on the 'how' colleagues conduct themselves as well as the 'what' that they achieve, which has strengthened focus on behaviours and accountability. To support this, people managers received training on how to ensure that colleagues display the appropriate behaviours in the achievement of their objectives. Relevant colleagues continue to receive training on both the Regime and the Accountability Charter on an annual basis via an online learning module and, if appropriate, face to face sessions.

We are proud of the business we have built together, and in August 2022, after the year-end, we were awarded Investors in People silver accreditation, taking the first step in meeting our objective to achieve external recognition for our investment in our colleagues, 18 months ahead of our plan. This exemplifies the culture at Together, and is evidence of the steps taken to empower and involve our colleagues, creating sustainable success.

Our diversity

Last year we established a Diversity and Inclusion Advisory Committee. During the year, as our work on diversity and inclusion progressed, we re-branded the Committee as the Diversity and Inclusion Steering Committee and expanded its membership to include colleague representatives. The Committee's remit includes, gender, age, ethnicity, LGBTQ+ and disability.

The Diversity and Inclusion Steering Committee aims to support senior leadership in ensuring alignment between the Group's operations and strategic aims, and its diversity and inclusion goals. More information on our diversity and inclusion strategy can be found in the Sustainability Report in the TFSL Annual Report and Accounts.

Customers

Our purpose is to make finance work for our customers. We use our experience and entrepreneurial culture to help our customers realise their ambitions. We remain committed to delivering excellent service to our customers and we monitor customer feedback to understand both what we do well and how we can improve.

Strategic Report (continued)

Stakeholder engagement report (continued)

Customers (continued)

Modernisation and automation

We continue to execute a process of modernisation and automation to take advantage of technology to help further improve our customers and broker journey in terms of consistency, efficiency and speed. As part of this process, we are integrating new technologies through incremental change, allowing us to introduce additional IT solutions as technology advances and our customers' needs evolve. Throughout this process, we are continually learning from our customers and take regular customer feedback at key touchpoints throughout the loan lifecycle. More information on how we're transforming and modernising our platform can be found in the Operating Review in the TFSL Annual Report and Accounts.

Customer feedback

Our customer-facing colleagues are focused on delivering positive outcomes. To support this, we actively seek feedback both from our customers and intermediaries and we take complaints very seriously. For more information see our Sustainability Report in the TFSL Annual Report and Accounts.

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. Our Board and management team are committed to ensuring that this is effective through the right culture, clear and aligned goals, and people with the right skills and experience.

We have provided the FCA with information relating to a range of matters and we will continue to work closely with the FCA, sharing knowledge and insight of the specialist lending sector.

During the year, we have continued to monitor the regulatory landscape and have attended a number of conferences and forums led by the FCA, and trade associations such as the Finance & Leasing Association and UK Finance. Activity in the regulatory landscape has covered a wide range of topics such as the FCA's Finalised Guidance on the Fair Treatment of Vulnerable Customers, planning the implementation of Consumer Duty and the publication of the FCA's annual Business Plan. We also participated in a number of forums held by trade associations regarding these regulatory publications, to discuss interpretation, assist with industry understanding and help facilitate a consistent approach to good customer outcomes throughout the industry. Actively engaging in such forums enables us to participate in industry discussions on regulatory matters and to contribute to industry feedback on current issues.

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 those which are in line with the 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.

The Group continually focuses on improving its customer processes and responding to changes in customer needs. During the period, the regulated division continued to identify ways to improve customer experience and outcomes, including the development of a framework aimed at ensuring consistency of customer outcomes, which seeks to build upon and enhance existing practices, policies and procedures. A process has been undertaken to assess the way that customer rates, and certain charges, are set and reviewed, and consider those that have historically been charged to certain customers, which has included continued engagement with the regulator following their thematic review in this area. This programme is in the process of being implemented, and is expected to be completed during the next financial year.

Disclosures in respect of customer redress provisions can be found in Note 19 to the financial statements.

Community

Our Sustainability Report, included within the TFSL Annual Report and Accounts, includes information on the charity work we undertake and how we support our local community.

Strategic Report (continued)

Stakeholder engagement report (continued)

Partners

Maintaining good relationships with our partners provides us with confidence that we will be able to satisfy our lending appetite going forward. The intermediaries we work with, which include mortgage packagers and brokers, are central to ensuring our products are available to a wide range of potential customers. We adopt tailored strategies to address the needs of our partners, and our common customers, to ensure we maintain excellent levels of service.

We continue to develop and streamline our application processes to improve the customer journey for both direct and intermediary customers. More information on the automation achieved within our investment programme can be found in the Operating Review in the TFSL Annual Report and Accounts.

We will continue to seek to identify evolving market trends and emerging market segments where we believe we are well placed to help underserved customers and build successful market positions. By listening to the feedback that our customers and partners provide, we will continue to enhance our propositions, differentiate our loan offerings and seek to provide excellent service to our customers.

Investors, banks and capital markets

Our funding is provided by UK and international banks and other financial institutions who invest in our senior secured notes (bonds), revolving credit facility and our private and public securitisations. We have established longstanding banking relationships and have also built strong relationships with our institutional investors, many of whom invest across a number of our funding facilities. We consider these relationships to be central to the continued success of our business.

Our investor communications are designed to be 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 our bond investors, live investor conference calls with Q&A, monthly reporting to investors in our public securitisations, and regular attendance at investor conferences. We hosted virtual site visits for investors during the year which provided opportunities to meet management and we carry out regular due diligence activities with banking facility providers and maintain ongoing dialogue with our rating agencies, including annual visits.

During the year, we successfully completed further issuances under both the senior secured notes programme and public securitisation programme. These activities involved close collaboration with banking partners and investors around the financing needs of the business.

We welcome feedback received from our banks, investors and from debt and equity analysts to help us to further improve our communications.

Suppliers

Suppliers 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 material supplier contracts to ensure contractual commitments are clear and that obligations around sensitive information such as customer data comply with relevant regulations. In addition, we ensure that any new supplier's appointment is consistent with our Modern Slavery Statement which 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 Together Financial Services Limited Board which is the main board of the Group at an operational level and also meets regularly with Non-Executive Directors outside the Boardroom. This facilitates alignment between Board decisions and the interests of the shareholder.

Our private ownership structure provides a long term stable form of capital which supports making decisions to create long term value. More information can be found in the Financial Review in the TFSL Annual Report and Accounts.

Strategic Report (continued)

Section 172 statement

Section 172 of the Companies Act 2006 defines the legal requirement for a director to act both individually and collectively, in a way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole with regards to all of its stakeholders. 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 Redhill Board has complied with section 172 of the Companies Act. The Company is the ultimate parent of the Together Group, with other subsidiaries operating as intermediate holding companies. As a result, the board of the Company delegates the majority of decisions to the board of Together Financial Services Limited (TFSL), which has responsibility for the activities of the Together Group. Both directors of the Company are members of the board of TFSL. As a result, references have been provided where appropriate to the TFSL annual report and accounts where more information can be found.

Certain decisions which do not relate to the activities of the Together Group are made by the board, such as in respect of the payment of dividends by the Company.

<u>S172 requirement to have regard to:</u>	<u>How the Board has fulfilled its s172 duties</u>
(a) the likely consequences of any decision in the long term	<ul style="list-style-type: none">• 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. Further information can be found in the TFSL Annual Report.• The Board has approved the going-concern basis of accounting for the year ending 30 June 2022. This statement of going concern can be found in the Directors' Report.
(b) the interests of the company's employees	<ul style="list-style-type: none">• The Company has no employees and undertakes all its statutory, financial, legal, governance and oversight responsibilities via employees of TFSL. Further details on the TFSL Group's employees can be found throughout the TFSL Annual Report and Accounts.
(c) the need to foster the company's business relationships with suppliers, customers and others	<ul style="list-style-type: none">• Maintaining positive stakeholder relationships is crucial to the Group's long-term sustainability. Further information on the Group's relationships can be found within the Stakeholder Engagement Report within this annual report.
(d) the impact of the company's operations on the community and the environment	<ul style="list-style-type: none">• The Group continues to support charitable and community organisations whilst working to reduce its environmental footprint. This is done through its four pillars of supporting local communities, supporting charities, providing training and mentoring for young people and working to protect the environment. Further information on these programmes can be found within the Sustainability Report in the TFSL Annual Report and Accounts.
(e) the desirability of the company maintaining a reputation for high standards of business conduct, and	<ul style="list-style-type: none">• Policies and procedures are in place throughout the Group to facilitate high standards of governance and compliance in line with best practice and legal and regulatory expectations for all Group companies.
(f) the need to act fairly between members of the company	<ul style="list-style-type: none">• 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 within this annual report.

Corporate Governance

TFSL Board activity

In addition to the ongoing oversight activities performed by the TFSL Board, during the year, the TFSL Board considered the following key topics and took the following principal decisions:

- Setting the strategic direction of the Group, considering the infrastructure and governance required to support the requirements of the Group.
- Review of the Group's Environment, Society and Governance (ESG) credentials and future requirements.
- Oversight of the Group's culture, including consideration of colleague engagement, investment in colleague training and development and monitoring culture and performance against the Group's strategic aims.
- Oversight of colleague wellbeing and health and safety performance.
- Capital structure, liquidity, fundraising activities and dividends paid within the Group.
- Review of the FCA wind down plan.
- Approval of a process to approve Treasury transactions in accordance with a programme agreed with the TFSL Board on an annual basis.
- Approval of entry into, amendment or extension of certain debt funding agreements.
- Ongoing reviews of the appropriateness of the organisational and governance structures to support the Group's activities, including establishing a sub-committee of the TFSL Board for the purpose of approving decisions relating to the Group's strategic options review.
- Regular updates from the executive directors on performance against objectives and review of financial performance against targets.
- Changes in the legal and regulatory landscape.
- The programme of change activity and prioritisation of key strategic and regulatory projects including oversight of the Group's modernisation and transformation programme.
- Approval of the Group's risk appetite and risk management framework.
- Approval of the Group annual budgets and review of interim reforecasts.
- Review and approval of Group policies and assurance over the internal control framework which has been implemented to monitor compliance.
- Cyber resilience, information security and data management including compliance with the General Data Protection Regulation.
- Key contracts and expenditure outside of the TFSL executive directors' delegated authority.
- Approval of the Group's tax policy and tax strategy.
- Approval of the Group Annual Report & Accounts.

Further details on the activities of the TFSL Board and committees during the year can be found in the TFSL Corporate Governance Statement.

Corporate Governance (continued)

Corporate governance statement

For the year ended 30 June 2022, the Company adopted the Wates Corporate Governance Principles for Large Private Companies as a measure of good practice for the governance of large private companies. The Wates Principles are to be adopted on an 'apply and explain' basis, and provide suggested guidance as to how companies might achieve each of the respective principles.

The TFSL Board, being the operational board for the Together Group, sets the overall governance framework within which the Redhill Group operates. The framework is 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, whilst meeting stakeholder expectations, and legal and regulatory requirements.

<u>Principle</u>	<u>How the principle has been applied during the year</u>
Principle 1 – purpose and leadership An effective board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.	<ul style="list-style-type: none"> During the year, the Group has embedded its purpose and vision. This has included aligning long-term strategic planning, operational plans, and colleague objectives to the purpose and vision approved by the TFSL Board. For further details on the Group's purpose, see the Our Purpose section with the TFSL Annual Report and Accounts. The TFSL Board sets the Group's objectives, taking into account key stakeholders, and ensures that the necessary experience, skills and resources are in place to help our customers, partners, colleagues, community and our wider society realise their ambitions by making finance work. More information on the Group's strategy can be found within the Strategic Report.
Principle 2 – board composition Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company.	<ul style="list-style-type: none"> The TFSL Chair leads the TFSL Board and facilitates open debate and constructive discussion whilst ensuring that the executive directors receive appropriate challenge. The role of the Chair and CEO is not exercised by the same individual. The TFSL Board has a wealth of knowledge relevant to the specialist lending sector and the Board benefits from three non-executive directors who provide challenge and bring a range of knowledge and expertise from both the financial services sector and elsewhere. The approval of directors taking external appointments is a matter reserved for the TFSL Remuneration & Nomination Committee. This ensures that directors continue to have sufficient capacity to make a valuable contribution to the Group and that there are no material conflicts. In accordance with directors' duties under s.177 and s.182 of the Companies Act 2006, the agenda for each TFSL Board meeting requires directors to declare any interests which may give rise to a conflict. Interests are logged by the Company Secretary. During the year, the Group Conflicts of Interest Policy was reviewed and updated to ensure that processes continued to reflect the Group's ethical and regulatory responsibilities in regards to colleague interests including those of the TFSL Board.

Corporate Governance (continued)

Principle 3 – directors' responsibilities

The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision making and independent challenge.

- The Company Secretary works with the chairs of the TFSL Board and sub-committees to ensure that agendas are structured to facilitate appropriate discussion and challenge. Board and committee agendas are structured in line with objectives to focus discussions on the key business deliverables required to support the achievement of longer-term goals alongside operational updates.
- The TFSL Board and committees receive information in a timely manner via a secure Board portal to maintain confidentiality.
- All TFSL Board and committee actions are monitored and tracked to completion to ensure that, alongside comprehensive and accurate minutes, a complete record of decision making is maintained.
- Reporting of management information on key governance activity is provided to each TFSL Board meeting by the Company Secretary via a governance dashboard. The dashboard provides a clear view of how the circulation of packs and minutes are tracking against agreed Service Level Agreements. The Company Secretary and chairs use this information to monitor activities and ensure that governance processes continue to facilitate effective decision making and adhere to best practice.
- The Group's governance framework is regularly reviewed to ensure the governance structure is appropriate and effective for the size, structure and complexity of the Group. Improvements have been introduced during the year to enhance the efficiency of the existing framework.

Principle 4 – opportunity and risk

A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks

- During the year, the TFSL Board has considered the evolving macroeconomic climate and its potential impact on the Group's ability to achieve its strategic objectives. More information on the Group's strategy can be found in the Strategic Report.
- The TFSL Risk Committee operates under delegated authority from the Board on matters of risk management and internal controls. More information on the Committee's activities can be found in the Corporate Governance and Committee Structure section in the TFSL Annual Report and Accounts.
- The Group enterprise risk management framework provides a formalised structure for the risk management of the Group. The TFSL Board reviews and approves the risk appetite statements and associated limits and early warning triggers on an annual basis or more frequently if required. More information on the principal risks and uncertainties facing the business and risk management framework can be found in the Risk Management section.
- The Group continues to focus on the transformation and modernisation of key business processes and the benefits of efficiencies achieved through automation are regularly reported to the TFSL Board through a suite of operational KPIs. More information on this work can be found in the Operating Review in the TFSL Annual Report and Accounts.
- Treasury and financial risk updates are standing items on the TFSL Board agenda to ensure that the Board remains informed on the funding and liquidity position of the Group. Updates are comprehensive and agendas are structured to allow time for detailed discussion.

Corporate Governance (continued)

Principle 5 – remuneration

A board should promote executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the company.

- The TFSL Board delegates authority to its Remuneration and Nomination Committee. More information on the activities of the Committee can be found in the Corporate Governance and Committee Structure section in the TFSL Annual Report and Accounts.
- The Remuneration and Nomination Committee is responsible for ensuring that variable pay structures do not incentivise inappropriate behaviour, and considers this in determining remunerations structures.

Principle 6 – stakeholder relationships and engagement

Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.

- More information on engagement with stakeholders and employees, can be found in the Stakeholder Engagement Report.
 - During the year, the Group's ESG priorities were approved. Targets were established for stakeholder groups relating to colleague engagement, customer advocacy and community investments. For further information, see the Sustainability Report section in the TFSL Annual Report and Accounts.
 - The programme of change to introduce improvements into the business IT infrastructure was overseen throughout the year. The TFSL Board received regular reports from the Chief Information Officer providing updates about the progress of the change programme.
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Risk management

Risk Profile

The Risk Profile highlights the top risks the Group is facing along with our actions taken during the year and expectations of future developments.

Macroeconomic and political uncertainty (Strategic Risk)

The UK's economic performance continues to be greatly impacted by external factors. Generally speaking, during the year ended June 2022, the UK economy had been on an upwards trajectory of recovery from the worst impacts of Covid-19. However, the Russian attack on Ukraine has increased commodity prices, particularly oil and gas, and disrupted trade and business confidence.

Unemployment has recovered to pre-pandemic levels leading to a bounce back in consumer demand. This, coupled with price increases caused by the disruption of global supply chains, has led to escalating inflation. Wages, though rising significantly in nominal terms, have fallen in real terms and the increase in the cost of living for low-income households has become a major issue for policymakers. In response, the Bank of England has progressively raised Base Rate from 0.1% at the beginning of the financial year to 1.25% in June 2022, with further rate rises continuing after the end of the financial year.

Whilst the economy has generally proven robust over much of the year to date, the accelerating inflation and its consequences for living standards and interest rates have led to concern among forecasters about the economy's prospects. Furthermore, changes in interest rates impact upon the Group's borrowing costs, and potentially upon the interest rates paid by our customers. Increased borrowing costs can, particularly if interest rate rises are not fully passed on to our customers, result in compression of our Net Interest Margin (NIM).

What we did in FY22

In response to macroeconomic factors during the year, the Group:

- Closely monitored financial resources and concluded frequent refreshes of financial projections, stress testing and monitoring of key risk indicators under a range of scenarios. This included monitoring the conflict in Ukraine, its impact on energy, fuel and commodities and the potential affordability impacts for customers;
- Delivered change and transformation projects to facilitate a responsive business platform;
- Increases in our cost of funds were passed on as increases in variable interest rates to our customers where appropriate regularly reviewed our product pricing for new customers, and entered into interest rate swaps on certain liabilities to match cash flows of our liabilities to our loan assets ;
- Modelled and assessed the impact of squeezed affordability on the loan book;
- Successfully concluded several refinancing activities and issuances of new funding lines to further diversify the Group's funding resources; and
- Utilised new sources of data to support operational strategies for contacting customers in or approaching financial difficulty.

Group expectations for FY23 and direction

Since the publication of the annual report for the year ended 30 June 2022 there has been significant market instability, particularly following announcements of the UK government's economic strategy in September 2022, and forecasters' expectations of the economy for the coming year have become more pessimistic. The economic outlook continues to be subject to great uncertainty, reflecting factors including geopolitical volatility and its consequences for energy supplies, inflation and the cost of living, and the effectiveness of the response of fiscal and monetary policy.

The Group anticipates some continuing challenges arising from macroeconomic disruption, for example the impact of cost of living pressures may affect the ability of customers to continue to make repayments. This could result in a rise in defaults and a consequent rise in the Group's impairment charge. However, the actions taken during the year leave the Group well placed to support our customers through these challenges.

Our model of lending at sensible loan-to-values and appropriate adjusted risk margin, has meant that the Group has been able to achieve respectable and sustainable returns throughout multiple economic cycles.

Risk management (continued)

Risk Profile (continued)

People (Operational Risk)

The Group strives to attract and retain the right talent. This has been increasingly challenging given the current competitive nature of the labour market. This increase in competition has been against a backdrop of rising cost of living and changes in ways of working.

What we did in FY22

In response to the escalating people risk, the Group:

- Undertook an external benchmarking exercise to review the current employee value proposition;
- Improved engagement of existing colleagues through the communication of both the purpose and vision and action plans coming out of people surveys;
- Devised and implemented a flexible working approach across the business;
- Continued to develop and refine succession planning and career progression plans with a view to reducing key person dependency risk;
- Identified and delivered actions following a business-wide colleague wellbeing survey; and
- Expanded our graduate and apprenticeship programme, offering invaluable career development opportunities and building our talent pool for the future.

Group expectations for FY23 and direction

The Group is set to continue to support our colleagues and recognise the significant contribution that they play. Our focus will be on retaining colleagues by ensuring we continue to build on our employee offering and by providing opportunities for personal development. The Group will also continue to expand, and build upon, its diverse pool of talent in line with its ambitious growth plans.

Operational capacity (Operational Risk)

As part of our ambitious growth plan, we recognise that we need to upgrade our operational capability and the Group is embarking on a significant change programme to deliver this. This includes enhancing data management and control frameworks and focusing on the ability of our operations to service the business plan. This risk is also being considered in conjunction with the ongoing people and macroeconomic risks.

What we did in FY22

In response to operational risks faced in the year, the Group:

- Enhanced and developed our data strategy and roadmap;
- Continued to deliver change and transformation projects across the business to automate key manual processes;
- Agreed and defined business critical services and established a mapping and impact tolerance methodology. We have assessed the potential vulnerabilities associated with these services and identified areas to improve resilience;
- Modelled a downturn scenario and assessed the impact on operational plans including resourcing;
- Designed and implemented a change prioritisation model and enhanced resource planning processes;
- Designed, and obtained assurance over, a new change delivery methodology including governance arrangements and continuous learning mechanisms; and
- Reviewed and adapted controls to ensure compliance with the new UK-GDPR.

Group expectations for FY23 and direction

The Group will continue to successfully complete change and transformations projects that will enhance the business's operational capacity and resilience. This includes automating key processes and further maturing our data management processes. We will also focus on the realisation of the benefits arising from projects and utilise our new change prioritisation model to ensure change occurs at the right time. Finally, we will continue to deliver change projects that increase the responsiveness of our business platform to mitigate potential operational stresses brought on by macroeconomic changes.

Risk management (continued)

Risk Profile (continued)

Regulatory and conduct changes (Compliance Risk and Conduct Risk)

The Group pays close attention to changes in regulation as they have the potential to impact the way we do business. Failure to comply with changes in regulation could result in fines, reputational damage and the potential revocation of regulatory permissions. The FCA continues to look closely at those businesses in the non-standard lending sector.

What we did in FY22

In response to the continued focus on regulation and conduct in FY22, the Group:

- Developed a framework aimed at ensuring consistency of customer outcomes, which seeks to build on and enhance existing practices, policies and procedures;
- Assessed and enhanced the way that customer rates, and certain charges, are set and reviewed;
- Considered historical rates charged to certain customers, which includes continued engagement with the regulator following their thematic review in this area;
- Continued to progress remediation projects, primarily relating to forbearance and customer communications, in relation to redeemed customers; and
- Continued to maintain robust anti-money laundering controls and enhanced our new and ongoing financial crime customer risk assessment process.

Group expectations for FY23 and direction

The evolution of the regulatory environment continues to be a key area of focus for the Group, particularly given the increasing focus on the specialist lending sector. We continue to respond to any regulatory enquiries in a clear and transparent way and to monitor our own performance against regulatory standards and best practice.

The FCA finalised the rules relating to its new Consumer Duty in July 2022. The new Duty requires firms to focus on supporting and empowering customers whilst avoiding any foreseeable harm at every stage in the customer relationship. The FCA has also issued its 2022/23 Business Plan, setting out its future role and priorities. The key focuses, as outlined within the report, are reducing and preventing serious harm, setting and testing higher standards and promoting competition and positive changes.

The Group'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.

Climate (Meta Risk to be incorporated within the ERMF)

The focus on climate change, and its impact on financial performance and risk management, has intensified throughout the year. The risks of climate change are likely to cause material disruption to the activities of the Group through the transition of the UK economy to lower carbon activities. There is also likely to be an impact arising from changes to regulation.

What we did in FY22

In response to the continued focus on regulation and conduct in FY22, the Group:

- Engaged a third party to develop an ESG approach following extensive communication with a range of stakeholders;
- Established an ESG Committee whose purpose is to support the Group Board and the Executive Committee in ensuring progress is made against the Group's ESG strategy; and
- Considered the impact of climate risk (both physical and transitional) in relation to existing identified material risks.

For further details on the Group's activities during the year in relation to climate risk, see the ESG report in the TFSL Annual Report and Accounts.

Risk management (continued)

Risk Profile (continued)

Climate (Meta Risk to be incorporated within the ERMF) (continued)

Group expectations for FY23 and direction

The Group will further enhance its understanding of climate risk and how it may impact the business model. Climate Risk will be embedded across existing level one risk types within the ERMF to ensure we remain within risk appetite in light of current and future climate-related risks.

We will also build upon the climate-related governance already in place and assess possible climate scenarios and their impact on our financial performance and position.

For further detail on climate risk, please see our 'TCFD' disclosures within the Sustainability Report in the TFSL Annual Report and Accounts.

Principal risks and uncertainties

The principal risks the Group faces are those that it is inherently exposed to and those which management believe could significantly impact the achievement of the Group's purpose and vision.

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

- Strategic risk;
- Credit risk;
- Liquidity and funding risk;
- Market risk;
- Capital risk;
- Operational risk;
- Conduct risk; and
- Compliance risk.

This section includes disclosures required by IFRS 7 and IFRS 9, which are subject to audit where noted, in respect of the Financial Statements.

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.

Management and mitigation

- Regular Board oversight of the Group's strategy, including monitoring of financial and non-financial performance indicators and ensuring the alignment of objectives;
- Developing succession planning, and continuing to focus on our colleagues; and
- Delivering upon the Group's modernisation and transformation agenda, to improve the customer journey and increase the operational efficiency of the business.

Risk management (continued)

Principal risks and uncertainties (continued)

Strategic risk (continued)

Direction of travel

During the year, the Group refreshed its long-term strategic plan as well as communicating its updated Vision, Purpose, Strategic Objectives and Beliefs.

The Group has experienced strong performance in FY22 with significant growth in new lending. The Group continues to explore new technologies and methodologies for delivering change in order to meet its ambitious growth targets.

Strategic Risk has increased during the year as macroeconomic instability has continued, resulting in an increased risk that the Group may face challenges in executing its strategic plans.

The Group has made significant progress in developing its strategic objectives in relation to its environmental and social contribution. For further information see the ESG report in the TFSL Annual Report and Accounts.

Overall responsibility for governance and monitoring of the Together Group's direction and strategy lies with the TFSL Group Board of Directors. Both directors of the Company are also members of the TFSL Group Board of Directors.

For further detail of the role and structure of the Board, and the committee structure which supports the Board's activities, see the Corporate Governance and Committee Structure section in the TFSL Annual Report and Accounts.

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

Management and mitigation

- The Group's comprehensive underwriting procedures, which, as appropriate, have regard to creditworthiness, affordability levels, repayment strategies and LTV ratios;
- Customer affordability models are utilised by the Group, and are tailored to the customer and loan type. The affordability models continue to consider factors such as the rising rate environment and increases in the cost of living;
- Undertaking stress testing to model the impact of increased numbers of customers requiring support and other interventions, to allow appropriate resource and operational planning;
- Monitoring of customer performance throughout the life of the loan, with regard to arrears, proactive collection strategies, or the application of forbearance measures;
- Capturing additional data and establishing enhanced monitoring of the specific risks posed to the portfolio by the impacts of affordability and the rising cost of living. This has included accessing additional data, where appropriate, for example from credit reference agencies;
- Performance of regular assessments of the sensitivity of the loan book to movements in macroeconomic factors;
- Measuring and monitoring credit quality for impairment purposes using a suite of IFRS 9 models. Our detailed disclosures in respect of IFRS 9 credit modelling are included within Notes 2, 3 and 12 to the financial statements.

Direction of travel

The Group continued to experience improvements in its credit indicators through the year as coronavirus restrictions were lifted.

Following interest rate rises during the second half of the year, alongside rising levels of inflation, the Group continues to closely monitor customer affordability and levels of arrears. A rise in the level of arrears, due to cost of living pressures, could result in an uptick in defaults and a consequent increase in the Group's impairment charge. These macroeconomic changes are yet to be reflected in the credit risk profile but the Group continues to respond accordingly.

Risk management (continued)

Principal risks and uncertainties (continued)

Credit risk (continued)

Maximum exposure to credit risk

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

Audited	Note	2022 £m	2021 £m
Included within the statement of financial position:			
Gross customer balances		5,357.1	4,132.4
Unsecured loans		-	0.2
Accounting adjustments		(23.5)	(16.3)
Less: allowance for impairment	12	(85.7)	(104.4)
Loans and advances to customers	12	5,247.9	4,011.9
Cash and cash equivalents	10	265.8	239.2
Derivative assets held for risk management	11	11.2	0.6
Amounts owed by related parties	13	43.1	19.3
Other debtors	13	1.1	0.6
		5,569.1	4,271.6
Not included within the statement of financial position:			
Commitments to lend (net of ECL)	28	219.1	106.0
Maximum exposure to credit risk		5,788.2	4,377.6

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. The maximum exposure to credit risk increased to £5,788.0m during FY22, largely as a result of growth in the loan book.

An impairment allowance is held against the gross exposures on loans and advances to customers, measured on an expected credit loss (ECL) basis under IFRS 9. Further details on the Group's ECL methodology, and the movement in impairment losses throughout the year, are shown in Notes 2 and 12 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.

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 (LTV). 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 where this has been obtained. The table below shows gross customer balances by indexed LTV banding.

	2022 £m	2022 % of gross customer balances	2021 £m	2021 % of gross customer balances
60% or less	3,630.3	67.8	2,676.4	64.8
61 – 85%	1,625.3	30.3	1,328.3	32.1
86 – 100%	63.5	1.2	78.3	1.9
Greater than 100%	38.0	0.7	49.4	1.2
Gross customer balances	5,357.1	100.0	4,132.4	100.0

Of the gross customer balances at 30 June 2022, 98.1% (30 June 2021: 96.9%) of loans had an indexed LTV of less than or equal to 85%.

Risk management (continued)

Principal risks and uncertainties (continued)

Credit risk (continued)

The weighted average LTV of new lending has increased during the year:

	2022 %	2021 %
Buy-to-let	64.5	62.3
Development	43.6	34.2
Unregulated bridging	60.8	60.8
Commercial term	58.4	57.9
Retail	56.7	52.2
Average weighted LTV	59.5	57.2

Concentration of credit risk

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

	2022 %	2021 %
East Anglia	4.3	4.5
East Midlands	4.0	3.9
Ireland	0.1	0.1
London	15.3	16.7
North East	1.6	1.6
North West	17.3	16.3
Scotland	5.2	4.8
South East	24.9	25.0
South West	6.3	7.4
Wales	3.7	3.4
West Midlands	9.8	9.3
Yorks & Humber	7.5	7.0
Gross customer balances	100.0	100.0

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:

	2022 %	2021 %
Up to £50,000	6.8	9.5
£50,000 - £100,000	13.8	15.5
£100,000 - £250,000	24.6	23.4
£250,000 - £500,000	16.6	16.3
£500,000 - £1,000,000	11.2	10.5
£1,000,000 - £2,500,000	12.1	11.5
More than £2,500,000	14.9	13.3
Gross customer balances	100.0	100.0

The proportion of the Group's gross customer balances in excess of £2.5m has shown a small increase compared to the prior year. Of these loans, 93.7% (30 June 2021: 89.0%) have an LTV of under 85% at 30 June 2022.

Risk management (continued)

Principal risks and uncertainties (continued)

Credit risk (continued)

Forbearance

Forbearance occurs when a concession is made on the contractual terms of a loan or mortgage in response to a borrower's financial difficulties. Forbearance measures are to support the customer and are based on the individual's unique circumstances. In the Personal Finance division, this is offered in accordance with regulatory guidance. For those customers requiring additional assistance, the Group works with a number of not-for-profit agencies.

A range of forbearance options are available, including:

- Informal payment plan setting;
- Reduced payment plans;
- Interest rate amendments/deferrals/freezes;
- Term extensions;
- Variation of contracts;
- Capitalisation of payment shortfalls;
- Assisted sales; and
- Balance adjustments and reduction in redemption figures.

Loans are reported as forborne until they meet the exit criteria which includes:

- Performing for 2 years since the last forbearance event;
- Making regular payments; and
- The loan being less than 30 days past due.

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.

The Group faces a key liquidity risk from a number of its private securitisation facilities that are subject to portfolio covenants and eligibility restrictions. In certain circumstances assets can be exchanged, repurchased or additional capital can be injected into the facilities to ensure compliance.

Failure to comply with the facility terms or breach of non-curable performance covenants will cause facilities to go into early amortisation, with removal of undrawn facility headroom and deferral of Group cash flows which will be prioritised to repay the facilities.

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 at an acceptable cost.

Risk management (continued)

Principal risks and uncertainties (continued)

Liquidity and funding risk (continued)

Management and mitigation

- Regular stress testing, including on a forecast basis, to test the ability of the Group to meet its obligations under normal and stressed conditions which are modelled and monitored against a 150-day survival period;
- Close monitoring of liquidity risk against limits, triggers, covenants and restrictions to ensure compliance and ensure early identification of any liquidity stress;
- Forecasting of expected cash inflows and outflows, including the outstanding pipeline of loan offers, and monitoring of actual cash flows and the composition and quality of liquid resources;
- Proactive refinancing of facilities well in advance of their contractual maturity dates and diversification of funding.
- Diversification of funding sources;
- Maintenance of depth of maturity through regular new issuances and timely refinancing of existing sources of funding.
- Monitoring individual funding maturity dates and maturity concentrations.

Direction of travel

The Group has successfully launched a number of new facilities in FY22 as well as completing a number of transactions to refinance existing borrowing facilities. This increased funding diversity partially mitigates increases in risk of funding a growing loan portfolio, meaning that in aggregate the level of this risk is unchanged.

We continue to refinance existing facilities well in advance of their contractual maturity date. This ensures the protection of the business now and in the future.

The following is an analysis of the gross undiscounted contractual cash flows payable on the Group's financial liabilities, including expected future interest payments, based upon current forecast market rates for floating rate instruments. For the loan notes issued by amortising public mortgage-backed securitisations, the contractual call date, rather than the ultimate contractual maturity date, has been applied in the analysis below.

Audited 30 June 2022	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
Loan notes	3,391.9	490.1	587.9	2,777.4	-	3,855.4
Senior secured notes	1,055.4	50.4	53.3	1,188.3	-	1,292.0
Senior PIK toggle notes	380.0	25.7	25.7	469.8	-	521.2
Lease liability	29.6	1.0	1.0	2.2	25.4	29.6
Subordinated shareholder loans	21.5	-	-	-	105.2	105.2
	4,878.4	567.2	667.9	4,437.7	130.6	5,803.4
Debt issue costs	(28.5)	-	-	-	-	-
Borrowings	4,849.9	567.2	667.9	4,437.7	130.6	5,803.4
Trade creditors	3.3	3.3	-	-	-	3.3
Other creditors	0.6	0.6	-	-	-	0.6
Commitments to lend	-	219.4	-	-	-	219.4
	4,853.8	790.5	667.9	4,437.7	130.6	6,026.7

Risk management (continued)

Principal risks and uncertainties (continued)

Liquidity and funding risk (continued)

Audited 30 June 2021	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
Loan notes	2,327.7	290.2	499.6	1,681.8	-	2,471.6
Senior secured notes	935.0	45.5	47.5	577.4	562.4	1,196.8
Senior PIK toggle notes	368.2	32.7	32.7	384.5	-	449.9
Lease liability	29.9	0.9	0.8	2.1	26.1	29.9
Subordinated shareholder loans	23.1	-	-	-	105.2	105.2
	3,683.9	369.3	580.6	2,645.8	657.7	4,253.4
Debt issue costs	(18.4)	-	-	-	-	-
Borrowings	3,665.5	369.3	580.6	2,645.8	657.7	4,253.4
Trade creditors	1.1	1.1	-	-	-	1.1
Other creditors	1.5	1.5	-	-	-	1.5
Commitments to lend	-	106.0	-	-	-	106.0
	3,668.1	477.9	580.6	2,645.8	657.7	4,362.0

The weighted average maturity of the Group's borrowings is 3.8 years at 30 June 2022 (30 June 2021: 2.8 years) and the Group has a strong track record of successful refinancing and raising new facilities.

The depth of maturity in the Group's existing debt facilities provides significant mitigation in respect of refinancing risk. Following the refinancing of the Lakeside Asset Backed Securitisation (ABS) facility, the earliest maturity of wholesale funding is the Highfield Asset Backed Securitisation (the drawn amount at 30 June 2022 of £118m representing 2.0% of the Group's available borrowing facilities), which is not due until September 2025. Following the redemption of the notes issued by Together ABS 1, the earliest call date on any of the Group's public securitisations is Together ABS 2 in November 2022. Further detail is set out in Note 18 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.

Management and mitigation

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

Direction of travel

The Group has continued to carefully manage its assets and liabilities following the rate rises over the year.

However, rising interest rates during the year increased the Group's risk through an increase in the cost of funding. The Group is unable to pass these increases on immediately, resulting in a temporary mismatch with interest receipts.

The Group will continue to monitor its options in order to mitigate its exposure to interest rate risk.

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 and increase of 0.5% and 1.0% in interest rates, based on the interest rates prevalent at the year-end dates and before any mitigation or management actions other than the passing on of interest rate rises to variable rate products (other than regulated bridging loans).

	2022 £m	2021 £m
1.0% decrease	(18.2)	(17.6)
0.5% decrease	(9.1)	(8.8)
0.5% increase	9.1	8.8
1.0% increase	18.2	17.6

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. The sensitivity remains linear beyond those percentages shown above.

Note 11 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 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.

Management and mitigation

- Continuous monitoring of the required regulatory capital requirements with relevant subsidiaries and the actual levels projected;
- Business planning and stress testing over a forecast horizon of 12-18 months;
- Reviewing the level of gearing within securitisation facilities and within the Senior Borrower Group, and consistently managing these to ensure the Group has sufficient capital to support the facilities and to mitigate refinancing risk.

Direction of travel

The Group continues to closely monitor levels of capital against requirements and remains responsive to outcomes of stress testing.

Gearing levels remained within appetite throughout the year.

Current and forecast levels of Group capital, including the gearing ratio, are monitored and reported to the Board on a regular basis. Total shareholder funds increased by £108.6m over the year (2021: £80.6m increase). The net debt gearing ratio has increased to 86.9% at 30 June 2022 (30 June 2021: 84.5%) as a result of a rise in debt to fund loan portfolio growth.

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 includes execution risk in relation to the performance of the Group's modernisation and transformation agenda, and risks relating to the transition from the ways of working implemented following the onset of the Covid-19 pandemic back to a sustainable, business as usual, approach.

Management and mitigation

- Regularly reviewing the top identified risks and the development of focused action plans to mitigate them.
- Conducting root cause analysis to understand any incidents which do occur and implement appropriate responses.
- 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, and the development of action plans to address these risks.
- Specialist risk advice to and independent assurance over the delivery of change projects by the Group Risk department.
- Investment in cyber risk prevention systems, resulting in a mature cyber security capability, including a dedicated cyber security team and market-leading detection tools.

Direction of travel

The Group adopted an ambitious change agenda but has been successful in closely monitoring and managing the associated risks. An objective of the change agenda is to reduce operational risk through the reduction and removal of manual processes as well as minimising key person dependencies.

We also remain responsive to ongoing changes in ways of working.

Conduct risk

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

The risk can arise from the failure to define and embed an appropriate culture, colleague behaviours that are inconsistent with defined Group values, and from our business activities if they fail to deliver fair and appropriate outcomes to our customers. Failure to manage this risk sufficiently could result in reputational damage, regulatory sanction, remediation programmes, and impact the Group's operating model.

Management and mitigation

- Regular review of the effectiveness of our business activities and processes for their ability to deliver consistent fair customer outcomes. Recently, reviews have focused on vulnerable customers, those with increasing balances and products at higher interest rates.
- Mobilising projects to enhance the approach to account management within the Personal Finance division, in order to improve the consistency of approaches to the management of both new and existing customers.
- Performance of gap analyses against industry body and regulator guidance and good practice to identify continual improvements to business processes.
- Identifying and supporting customers when things go wrong, for example, through application of forbearance tools and complaint handling.
- Root cause analysis of complaints, claims or failings, focusing on continuous improvement aiming to identify where we could improve the outcome for customers.

Direction of travel

The Group continues to put good customer outcomes at the centre of its decision-making process. This has meant a number of projects, including reviewing our practices and policies, have taken place during FY22 which has resulted in a release on provisions of £1.9m (2021: £13.2m).

We remained supportive of those customers impacted by Covid-19 and increases in the cost of living.

Risk management (continued)

Principal risks and uncertainties (continued)

Conduct risk (continued)

Where the Group identifies potential instances 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.

The Group is committed to delivering positive customer experiences and outcomes, and has progressed with remediation programmes where customers have been adversely affected by legacy issues. In addition, the Personal Finance division continues to assess its policies and procedures, and has developed a framework aimed at ensuring consistency of customer outcomes, which seeks to build upon and enhance existing practices, policies and procedures. A provision has been recognised to reflect that the Group may make payments to customer populations in scope upon finalisation of the framework.

For more information, see Note 19 of the financial statements.

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 regulations, leading to customer dissatisfaction or detriment, legal action against the Group and/or potentially fines from a regulator.

Management and mitigation

- Quality assurance reviews in operational areas with oversight provided by experienced risk and compliance departments.
- Proactively engaging with the Group's regulators to provide transparency with regard to actions taken to ensure compliant outcomes for legacy customers.
- Monitoring compliance with regulatory obligations by in-house Compliance, Financial Crime and Data Protection team through execution of a Board approved monitoring programme.
- Monitoring of compliance with legal obligations by an in-house legal department. Regular meetings are held with operations personnel, the legal department and the compliance team to identify trends in potential legal claims and proactively make process improvements to improve customer outcomes.
- Horizon scanning and impact assessments of potential regulatory and legal change. The compliance function monitors all regulatory developments, including the matters identified in the Group's operating plan, to allow for new guidance to be considered, and changes implemented where appropriate.

Direction of travel

The level of regulatory change continues to be high with significant focus on nonstandard lending. However, the Group has the capabilities to respond and interacts with the regulator to take part in thematic reviews when required.

The Group continues to manage its prudential risk and enhance its risk measurement and monitoring capability.

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



GD Beckett

Director

14 November 2022

Directors' report

The directors present their report for the year ended 30 June 2022. Certain information required to be included in a directors' report can be found in the other sections of the Annual Report, as referenced below and in the sections that follow. All of the information presented in these sections is incorporated by reference into this Directors' Report and is deemed part of this report.

The Group's principal activity continues to be the provision of mortgage finance secured on property and land within the United Kingdom. The directors do not expect any significant change to the activities of the Redhill Famco Limited group of companies.

Results and dividends

The results for the year are set out in the consolidated statement of comprehensive income. The profit before taxation for the year ended 30 June 2022 was £125.4m (30 June 2021: £111.2m). Further details on the Group's financial performance are included within the Business Review. No dividends are proposed (30 June 2021: £nil).

Financial position

As shown in the consolidated statement of financial position, loans and advances to customers net of impairment provisions have increased by 30.8% to £5,247.9m (2021: £4,011.9). At the same time, shareholders' funds have increased by 18.6% to £693.1m (2021: £584.4m), including shareholder loans and notes of £21.5m (2021: £23.1m). Further details on the Group's financial position are included within the Business Review.

Employee consultation

The Group places considerable value on the involvement of its employees 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. Employees are consulted regularly on a wide range of matters affecting their current and future interests. Further details on the engagement of employees are set out in the Stakeholder Engagement Report.

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

The Group recognises the importance of protecting the environment, and acts to reduce its impact by recycling and reducing energy consumption. During the year the Group has devoted significant time and resources to further development of our ESG strategy, which is detailed further within the Sustainability Report within the Together Financial Services Limited Annual Report and Accounts.

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. The report is set out in detail below but further details on the Group's environmental impact can be found within the Sustainability Report in the Together Financial Services Limited Annual Report and Accounts.

Directors' report (continued)

Environment (continued)

Energy performance results

Energy use by source	Units	21/22	20/21
Gas	kWh	831,409	993,294
Electricity	kWh	1,858,804	1,664,074
Transportation	kWh	294,313	227,998
Total		2,984,526	2,885,366

GHG emission results

Emissions by category*	Units	21/22	20/21
Scope 1 - Combustion of gas and fuel for transport	tCO ₂ e	288.6	240.3
Scope 2 - Purchased electricity	tCO ₂ e	359.5	388.0
Total		648.1	628.3

Intensity ratio

	21/22	20/21
Total emissions tCO₂e/employee	0.9	1.1

* Note that scope 3 emissions are not currently measured by the Group

The Group supports the UK's ambition to reduce GHG emission to net zero by 2050.

Over the next year, we will work to establish a strategy for delivering our net zero ambitions. The key considerations and strategic focus areas will be:

1. Reducing the impact the business has on the environment by reducing our own emissions and establishing an accurate baseline for our scope 3 emissions.
2. Supporting our customers in transitioning to a more energy efficient way of living and, in the future, developing products and servicing to support this.
3. Integrating climate considerations into our risk management framework.

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 the period up to 14 November 2023, which is 12 months from the date of signing this report. 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.

Directors

All directors listed below have served throughout the year and to the date of this report, unless otherwise indicated:

HN Moser

GD Beckett

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.

Charitable donations

During the year the Group made donations of £224,000 (2021: £136,000) to charities.

Directors' report (continued)

Political donations

During the year neither the Group nor the Company made any political donations.

Audit information

Pursuant to Section 487 of the Companies Act 2006, the Auditor will be deemed to be reappointed and Ernst and Young LLP will therefore continue in office.

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

14 November 2022

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 Group and Parent Company financial statements in accordance with UK adopted international accounting standards. 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 Group and the Company and of the profit of the Group and the Company for that year.

In preparing these financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- 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 UK adopted international accounting standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company and Group financial position and financial performance;
- state whether UK adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the Company and the Group will not continue in business.

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

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report and corporate governance statement that comply with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

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

Opinion

We have audited the financial statements of Redhill Famco Limited (the "Company") and its subsidiaries (the "Group") for the year ended 30 June 2022 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, the consolidated and company statement of cashflows, and the related notes 1 to 31, including a summary of significant accounting policies and information in the Risk Management section of the annual report, marked as "audited". The financial reporting framework that has been applied in their preparation is applicable law and UK adopted International Accounting Standards and as regards the Company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the Group's and of the Company's affairs as at 30 June 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted International Accounting Standards;
- the Company financial statements have been properly prepared in accordance with UK adopted International Accounting Standards as applied in accordance with section 408 of the Companies Act 2006; and
- 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. We are independent of the Group 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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Company's ability to continue as a going concern for the period to 14 November 2023, which is twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

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 contained within the annual report.

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 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 Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 statement of directors' responsibilities set out on page 30, 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 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 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.

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

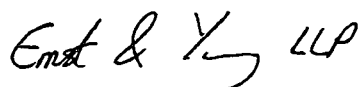
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are UK adopted International Accounting Standards, the Companies Act 2006, Financial Conduct Authority rules and regulations, and UK Tax Legislation.
- We understood how the Company is complying with those frameworks by making enquiries of management, internal audit, legal counsel, those charged with governance, and reviewing relevant committee minutes and board reports. We enquired as to any known instances of non-compliance or suspected non-compliance with laws and regulations.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the controls that the Company has established to address risks identified by the Company, or that otherwise seek to prevent, deter or detect fraud. We considered the risk of fraud through inappropriate journal postings and the risk of fraud in key areas of estimation, notably expected credit loss provisions, conduct and legal provisions, and revenue recognition relating to effective interest rate accounting.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquires of management and internal audit for their awareness of any known instances of non-compliance or suspected non-compliance with laws and regulations, reviewing key policies and correspondence exchanged with the Company's regulators. We performed journal entry testing, with a focus on post-closing adjustments and those considered to be at a heightened risk of fraud based on our understanding of the business and incorporated unpredictability into the nature, timing, and extent of our testing. In addition, we designed specific audit procedures to address the risk of fraud in key areas of estimation, including challenging the assumptions and judgements made by management, with the support of auditor's specialists where applicable.
- The Company operates in the financial services industry, which is a highly regulated environment. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

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.



Stephen Littler (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester
14 November 2022

Consolidated statement of comprehensive income

Year ended 30 June 2022

All amounts are stated in £m

Income statement	Note	2022	2021
Interest receivable and similar income	4	395.2	371.6
Interest payable and similar charges	5	(169.1)	(162.1)
Net interest income		226.1	209.5
Fee and commission income		5.2	4.2
Fee and commission expense		(3.0)	(1.8)
Net fair value losses on derivatives held for risk-management purposes measured at fair value through income statement	11	(0.3)	1.1
Other income		0.6	1.7
Operating income		228.6	214.7
Administrative expenses	6	(98.9)	(87.4)
Operating profit		129.7	127.3
Impairment losses	12	(4.3)	(16.1)
Profit before taxation		125.4	111.2
Income tax	9	(24.3)	(19.0)
Profit after taxation		101.1	92.2
Other comprehensive income and expense			
Items that may be reclassified to the income statement			
<i>Movement in the cashflow-hedging reserve:</i>			
Effective portion of changes in fair value of derivatives		11.3	1.3
Amount reclassified to income statement		0.8	0.3
		12.1	1.6
<i>Movement in the cost-of-hedging reserve:</i>			
Effective portion of changes in fair value of derivatives		0.3	(0.5)
Amount reclassified to income statement		0.2	0.2
		0.5	(0.3)
Other comprehensive income for the year, net of tax		12.6	1.3
Total comprehensive income for the year		113.7	93.5

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

Consolidated statement of financial position

As at 30 June 2022

All amounts are stated in £m

	Note	2022	2021
Assets			
Cash and cash equivalents	10	265.8	239.2
Derivative assets held for risk management	11	11.2	0.6
Loans and advances to customers	12	5,247.9	4,011.9
Other assets	13	49.4	25.2
Property, plant and equipment	15	33.3	31.6
Intangible assets	16	7.1	7.0
Deferred tax asset	17	11.4	11.0
Total assets		5,626.1	4,326.5
Liabilities			
Derivative liabilities held for risk management	11	-	1.2
Current tax liabilities		1.8	1.6
Borrowings	18	4,849.9	3,665.5
Provisions for liabilities and charges	19	20.3	27.6
Other liabilities	20	82.5	69.3
Total liabilities		4,954.5	3,765.2
Equity			
Share capital	21	-	-
Subordinated shareholder-funding reserve	18	24.7	30.8
Other reserves		4.8	2.7
Cost-of-hedging reserve		0.1	(0.4)
Cashflow hedging reserve		11.0	(1.1)
Retained earnings		631.0	529.3
Total equity		671.6	561.3
Total equity and liabilities		5,626.1	4,326.5

These financial statements were approved and authorised for issue by the Board of Directors on 14 November 2022.

Company Registration No. 10162640.

Signed on behalf of the Board of Directors



HN Moser
Director



GD Beckett
Director

Company statement of financial position

As at 30 June 2022

All amounts are stated in £m

	Note	2022	2021
Assets			
Cash and cash equivalents		0.5	10.1
Other assets	13	50.0	27.4
Investments in subsidiaries	14	38.9	38.9
Total assets		89.4	76.4
Liabilities			
Borrowings	18	21.5	23.1
Other liabilities		0.1	0.1
Total liabilities		21.6	23.2
Equity			
Share capital	21	-	-
Share premium account		-	-
Subordinated shareholder-funding reserve	18	24.7	30.8
Retained earnings		43.1	22.4
Total equity		67.8	53.2
Total equity and liabilities		89.4	76.4

Redhill Famco Limited (the Company) reported a profit after tax for the year ended 30 June 2022 of £20.1m (2021: £18.6m 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 14 November 2022.

Company Registration No. 10162640.

Signed on behalf of the Board of Directors



HN Moser
Director



GD Beckett
Director

Consolidated statement of changes in equity

Year ended 30 June 2022

All amounts are stated in £m

	Called-up share capital	Subordinated shareholder- funding reserve	Cashflow hedging reserve	Cost-of- hedging reserve	Other reserves	Retained earnings	Total
Year ended 30 June 2022							
At beginning of year	-	30.8	(1.1)	(0.4)	2.7	529.3	561.3
Total comprehensive income	-	-	12.1	0.5	-	101.1	113.7
Repayment to shareholder	-	(5.5)	-	-	-	-	(5.5)
Share-based payment	-	-	-	-	4.5	-	4.5
Purchase of shares	-	-	-	-	(2.4)	-	(2.4)
Transfer between reserves	-	(0.6)	-	-	-	0.6	-
At end of year	-	24.7	11.0	0.1	4.8	631.0	671.6

	Called-up share capital	Subordinated shareholder- funding reserve	Cashflow hedging reserve	Cost-of- hedging reserve	Other reserves	Retained earnings	Total
Year ended 30 June 2021							
At beginning of year	-	31.4	(2.7)	(0.1)	2.7	436.5	467.8
Total comprehensive income	-	-	1.6	(0.3)	-	92.2	93.5
Transfer between reserves	-	(0.6)	-	-	-	0.6	-
At end of year	-	30.8	(1.1)	(0.4)	2.7	529.3	561.3

Other reserves consist of the following:

	Share premium account	Capital redemption reserve	Treasury share reserve	Share-based payment reserve	Total
As at 30 June 2022	-	1.3	(2.6)	6.1	4.8
As at 30 June 2021	-	1.3	(0.2)	1.6	2.7

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

In the financial statements for the previous year, the capital redemption reserve was stated net of a £0.2m debit reserve for treasury shares.

During the year, the Group made repayments to its shareholder in relation to subordinated shareholder loan balances. This resulted in an adjustment to the subordinated shareholder-funding reserve.

Company statement of changes in equity

Year ended 30 June 2022

All amounts are stated in £m

Year ended 30 June 2022	Called-up share capital	Share premium account	Subordinated shareholder- funding reserve	Retained earnings	Total
At beginning of year	-	-	30.8	22.4	53.2
Profit for the financial year	-	-	-	20.1	20.1
Repayment to shareholder	-	-	(5.5)	-	(5.5)
Transfer between reserves	-	-	(0.6)	0.6	-
At end of year	-	-	24.7	43.1	67.8

Year ended 30 June 2021	Called-up share capital	Share premium account	Subordinated shareholder- funding reserve	Retained earnings	Total
At beginning of year	-	-	31.4	3.2	36.6
Profit for the financial year	-	-	-	18.6	18.6
Transfer between reserves	-	-	(0.6)	0.6	-
At end of year	-	-	30.8	22.4	53.2

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 2022

All amounts are stated in £m

	Note	2022	2021
Cash flows from operating activities			
Profit after tax		101.1	92.2
Adjustment for non-cash items included in profit after tax	23	(186.0)	(155.1)
Changes in operating assets and liabilities	23	(1,264.2)	118.1
Interest income		395.2	371.6
Income tax paid		(24.5)	(17.4)
Net cash (outflow)/inflow from operating activities		(978.4)	409.4
Cash flows from investing activities			
Cash paid to acquire property, plant and equipment		(3.3)	(0.6)
Investment in intangible assets		(3.2)	(2.0)
Proceeds from disposal of property, plant and equipment		-	0.2
Net cash outflow from investing activities		(6.5)	(2.4)
Cash flows from financing activities			
Drawdown of loan notes		1,292.4	35.0
Repayment of loan notes		(1,787.7)	(1,233.0)
Proceeds from issuance of loan notes		1,559.5	795.9
Repayment of senior secured notes		-	(350.0)
Proceeds from issuance of senior secured notes		120.6	500.0
Net cash (outflows)/inflows from bank facilities		-	(10.0)
Interest paid		(167.5)	(156.0)
Purchase of shares by employee-benefit trust		(2.4)	-
Purchase and cancellation of derivatives		(0.6)	(0.6)
Principal elements of lease liability payments		(1.3)	(1.6)
Interest paid on lease liabilities		(1.5)	(0.6)
Net cash inflow/(outflow) from financing activities		1,011.5	(420.9)
Net increase/(decrease) in cash and cash equivalents		26.6	(13.9)
Cash and cash equivalents at beginning of year		239.2	253.1
Cash and cash equivalents at end of year	10	265.8	239.2

At 30 June 2022 cash and cash equivalents include £200.1m (2021: £148.7m) of restricted cash (see Note 10).

Company statement of cashflows

For the year ended 30 June 2022

All amounts are stated in £m

	Note	2022	2021
Cash outflow from operating activities			
Profit after tax		20.1	18.6
Adjustment for non-cash items included in profit after tax	23	-	1.5
Changes in operating assets and liabilities	23	(22.6)	(11.4)
Interest income		2.7	1.4
Net cash inflow from operating activities		0.2	10.1
Cash outflow from financing activities			
Interest paid		(9.8)	-
Net cash outflow from financing activities		(9.8)	-
Net increase/(decrease) in cash and cash equivalents		(9.6)	10.1
Cash and cash equivalents at beginning of year		10.1	-
Cash and cash equivalents at end of year		0.5	10.1

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 UK adopted international accounting standards.

The preparation of financial statements in accordance with the above 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 and 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.

Going concern

In preparing these financial statements, the directors have assessed the Group's ability to continue as a going concern. As part of the Group's ongoing monitoring and reforecasting, consideration has been given to the changing macroeconomic environment and outlook and specific consideration has been given to the following:

- Changes in customer-repayment behaviour;
- Changes in credit risk;
- Potential for declining or stagnating property values;
- Potential for access to wholesale-funding markets;
- Changes in market rates of interest
- Potential reduction in new mortgage-origination volumes; and
- Changes to operating costs.

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 against many downside risks. The factors listed above have an impact upon the results of the Group, to a greater or lesser degree, however are not projected to cast significant doubt on the entities ability to continue as a going concern.

The key risks which could cause doubt as to whether the Group could continue to operate as a going concern are judged to be primarily in relation to funding and liquidity. The Group has a diverse mix of funding sources, which are structured in order to reduce the risk to the Group. Funding and liquidity risks, including reverse stress testing to identify the point at which the Group would cease to be able to operate, are discussed below.

Notes to the financial statements (continued)

All amounts are stated in £m

2. Significant accounting policies (continued)

Going concern (continued)

Funding

The Group has a diverse funding base, utilising shareholder funds, private and public securitisation facilities, senior secured notes, PIK toggle notes, and a revolving credit facility to fund its activities and lending.

The Group has retained access to wholesale-funding markets throughout the market disruption during the past several years, which has allowed the continuation of the existing strategy of refinancing facilities in advance of their contractual maturities. This is just one example of risk factors which have been considered as part of scenario planning, but have not so far crystallised into significant adverse effects on the Group's business.

A key risk associated with wholesale funding is refinancing risk, where the Group has a proven track record of successfully refinancing borrowings. The depth of maturity in the Group's existing debt facilities provides significant mitigation in respect of refinancing risk. Following the refinancing of the Lakeside Asset Backed Securitisation (ABS) facility, the earliest maturity of wholesale funding is the Highfield Asset Backed Securitisation (the drawn amount at 30 June 2022 of £118m representing 2.0% of the Group's available borrowing facilities), which is not due until September 2025. The earliest call date on our public securitisation is the Together Asset Backed Securitisation 2 facility (representing 2% of the Group's borrowings) in November 2022.

To mitigate refinancing risk, the Group has demonstrated an ability to access the wholesale funding markets on multiple occasions during the year as shown within Note 18.

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.

Liquidity

The Group retains liquidity through managing its total accessible liquidity (TAL) within set risk appetite limits. As at 30 June 2022, TAL stood at £406.9m (2021: £453.3m).

The Group holds liquidity in the form of cash and can also access liquidity through sales of eligible assets into our private securitisation warehouse facilities. In respect of the eligibility criteria and covenants, the Group may, in certain circumstances, seek waivers and/or amendments within the going-concern assessment period. This could include, but is not limited to, impacts on covenants as a result of a deterioration in loan-book performance due to adverse economic conditions or reductions in property values. The Group successfully negotiated waivers to certain covenants during the coronavirus pandemic, which mitigated the risk that the Group would be unable to access liquidity due to an excess of ineligible assets, and this remains a management action available if required in future periods.

In the event that waivers or amendments are required but not agreed, and existing covenants are breached (and the breach is not rectified by using headroom in other facilities or through other remedies 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 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. This would delay and potentially reduce cash inflows ordinarily flowing to the Senior Borrower Group as excess spread from each of the securitisations.

The risk of lower levels of cash inflows from redemptions can be mitigated by increasing the amount of liquid resources held as cash. Total cash balances remain at elevated levels compared with before the pandemic, at £265.8m at 30 June 2022 (30 June 2021: £239.2m), of which £65.7m is unrestricted cash (30 June 2021: £90.5m) as shown in Note 10.

Stress testing has been performed in order to assess the extent to which these factors would have to detrimentally impact cash flows in order for the Group to be unable to meet its liabilities as they fall due, and the extent of any increase in credit losses which could result in covenant breaches on the Group's borrowings. The results of this stress testing are detailed below.

Notes to the financial statements (continued)

All amounts are stated in £m

2. Significant accounting policies (continued)

Going concern (continued)

Stress testing

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 in respect of the former and maintenance tests on gearing in respect of the latter.

To evaluate the Group's resilience in 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 cash flows 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 could not continue to operate as a going concern. The Group could continue in such a scenario by servicing the loans funded by the Senior Borrower Group. Stresses were applied to cash inflows to assess the ability to continue to service and repay borrowings as they fall due, and stresses on profitability were separately considered to assess the ability to comply with gearing covenants.

The results of the reverse-stress test showed that unrealistic reductions in expected cash inflows within the Senior Borrower Group would be required for the Senior Borrower Group not to be able to meet its liabilities as they fall due within the going-concern period. Even in the event that actual experience approached the level of reductions judged unrealistic, further management actions could be taken to mitigate the impact. The Group has periodically repeated the reverse-stress testing, which continues to show significant headroom.

In addition, the potential impact of reductions in the level of profitability were assessed (as a proxy for a reduction in equity), using increases in expected credit losses as the primary driver, in order to determine the reduction which would result in the Group's gearing breaching the RCF covenant. The testing showed that profitability would have to fall by a substantial amount and the profitability of such a severe outcome is considered remote.

The deployment of additional management actions could also mitigate the possible impacts, including but not limited to: renegotiation of the terms of existing borrowings, raising alternative funding and measures to further reduce costs.

The directors are satisfied that the Company and the Group have adequate resources to continue in operation for the going-concern assessment period ending 14 November 2023, which is 12 months from the date of signing this report.

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

2. Significant accounting policies (continued)

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.

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.

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

2. Significant accounting policies (continued)

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.

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 procurement 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.

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

2. Significant accounting policies (continued)

Leases

At the 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.

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 interest rate implicit in the lease or 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
- 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
- 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.

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.

The Group as lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

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.

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

2. Significant accounting policies (continued)

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.

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.

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, and include 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.

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

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 transaction costs.

All of the Group's financial assets are classified as measured at amortised cost, with the exception of derivative assets, 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 entities for the purpose of collateralising the issuance of loans. 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.

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

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 certain of the Group's subsidiaries which engage in regulated lending, these criteria are aligned to the regulatory definition of credit impaired.

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.

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. For accounts which are in a shortfall position, this is judged to occur when an account is fully provided against, and no payments have been received for six consecutive months. The Group may continue to apply enforcement activities for loans written off and any subsequent recoveries are recognised as impairment gains in the income statement.

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

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

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 cash flow hedges is recognised through other comprehensive income in the cash flow 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.

During the year, the Group reclassified £0.5m worth of inventories to property, plant and equipment.

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

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:

Land and buildings	<i>Buildings over 50 years, straight-line; land not depreciated</i>
Fixtures and fittings	<i>10-15 years straight-line on cost</i>
Motor vehicles	<i>25% reducing balance</i>
Computer equipment	<i>3-5 years straight-line on cost</i>

All items of property, plant and equipment are reviewed for indications of impairment on a regular basis and at each reporting 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 the item, 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 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 intangible 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 provisions are recognised in relation to live loans, they may be settled by the application of credits to customer accounts. Where this is the case, it is the Group's accounting policy to recognise a provision for the expected settlement amounts. At the point of application, the provision is utilised and the corresponding adjustment applied within loans and advances to customers.

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.

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

2. Significant accounting policies (continued)

New and revised standards, amendments and interpretations not yet effective (continued)

The International Accounting Standards Board has issued amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments Disclosures relating to market reforms of benchmark interest rates. The reforms result in transitioning from interbank offered rates (IBORs) such as Libor to alternative benchmark interest rates (also referred to as near-risk-free rates or RFRs). In the UK, the Bank of England has determined that the reformed sterling overnight index average (Sonia) is the RFR that generally replaces sterling Libor.

Phase 1 ('Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7') of the IASB's amendments was mandatory for annual reporting periods beginning on or after 1 January 2020 and adopted in the Group's results for the year ended 30 June 2021.

Phase 2 ('Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39, IFRS 4, IFRS 7 and IFRS 16') of the amendments is effective for reporting periods beginning on or after 1 January 2021 and was adopted by the Group for the year ended 30 June 2022. Phase 2 enables entities to reflect the effects of transitioning to RFRs without giving rise to accounting impacts that would not provide useful information to users of financial statements.

The application of the Phase 2 amendments impacts the Group's accounting as follows:

- Changes to the basis for determining contractual cash flows as a result of the reforms are required, as a practical expedient, to be treated prospectively as changes to a floating interest rate, rather than as a contractual modification. This applies only provided that, for the financial instrument, the transition from the IBOR benchmark rate to the new RFR takes place on an economically equivalent basis.
- Phase 2 provides temporary reliefs that allow the Group's hedging relationships to continue upon the replacement of an existing interest-rate benchmark with a new RFR. The reliefs require the Group to amend hedge designations and hedge documentation to reference the new rate and amend the method for assessing hedge effectiveness. Updates to hedge documentation must be made by the end of the reporting period in which a replacement takes place.
- If the hedged item is modified due to the reforms, the cumulative gain or loss in the cash flow hedging and cost-of-hedging reserves for designated cash flow hedges and for discontinued hedging relationships is deemed to be based on the new RFR.

The amendments also require further new disclosures of the nature and extent of the risks arising from the reforms, how the entity is managing the risks and transition, and progress made.

Note 29 sets out the financial disclosures.

A number of other new or 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.

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

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.

Significant judgements in applying the Group's accounting policies

These significant judgements are those which the directors consider to result in a significant risk of material adjustment in the carrying amounts of the Group's assets and liabilities within the next financial year.

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 judgements:

- 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; and
- Determining where there is requirement for post-model adjustment and determining inputs for the calculation of ECL where there is such a requirement.

Further detail on the judgements in respect of the measurement of ECL and sensitivities thereon is set out in Note 12 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 can also be judgement required in determining whether contingent liability disclosures are required. Further disclosures in respect of this can be found in Note 19 to the financial statements.

The following key judgement does not give rise to a significant risk of material adjustment in carrying amounts of the Group's assets and liabilities in the next financial year, but does represent a significant judgement taken during the period.

c) Modifications of financial liabilities

The Group, from time to time, conducts refinancing of its wholesale funding facilities, which results in amendments to the contractual terms, in particular when refinancing private warehouse facilities. Depending on the facts and circumstances the assessment can be straightforward and in other cases significant judgement may be required to determine whether the amendments constitute a substantial or non-substantial contractual modification under IFRS 9. This can require the calculation of the change in the carrying value of the facility implied by the new contractual terms, which requires judgement to be applied in forecasting the amounts and timings of future cash flows in order to determine if the modification meets the 10% threshold, which would result in a substantial modification and therefore de-recognition of the existing instrument.

In addition, qualitative factors applied in accordance with our accounting policies require consideration, and significant judgement is required to determine which factors are indicative that a substantial modification has occurred. Further disclosure in respect of these judgements can be found in note 18 to the Financial Statements.

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty

a) Loan impairment allowance

The Group utilises macroeconomic forecasts and the other assumptions and estimates necessary for the calculation of ECL. Further detail on these estimates and assumptions and the sensitivities thereon is set out in Note 12.

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 19 to the Financial Statements.

c) Interest income recognition

Interest income is recognised using the effective interest rate ('EIR') method. The EIR of a financial instrument is the rate which exactly discounts the estimated future cash flows of the instrument to its carrying amount. In calculating the EIR, all contractual terms of the financial instrument are taken into account, including transaction costs and other premiums or discounts, but not expected credit losses.

The estimation of future cash flows requires the Group to estimate the expected behavioural lives of groups of assets. The Group utilises models which draw upon the Group's actual historical experience; however there is estimation uncertainty to the extent that future performance may not mirror that of the past.

Climate-related matters

In making the judgements and estimates required for preparation of these financial statements, the directors have had regard to the potential impacts of climate-related factors. For the current reporting period, it has been judged that no material adjustment to the judgements or methods of estimation is required to reflect the potential impacts of climate related matters, based upon the information available at the balance sheet date. For further information, please refer to the Sustainability Report in the TFSL Annual Report and Accounts.

4. Interest receivable and similar income

	2022	2021
Interest on loans and advances to customers	395.2	371.6

Included within interest on loans and advances to customers is £11.4m (2021: £12.1m) relating to credit impaired loans.

5. Interest payable and similar charges

	2022	2021
On borrowings	166.8	160.1
On lease liabilities	1.5	0.6
On derivatives in qualifying and discontinued hedging relationships	0.8	1.4
	169.1	162.1

In the prior year, interest payable on borrowings included a call penalty of £5.4m, the release of the issue premium of £0.7m and the write-off of deferred up-front fees of £1.2m as a result of early refinancing of the 2024 senior secured notes. It was also net of a modification gain of £1.0m arising on the extension in January 2021 of the maturity date of £25.1m of interest-free subordinated shareholder loans. There are no similar costs arising within the current financial year.

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

6. Administrative expenses

	Note	2022	2021
Staff costs	7	69.2	53.8
Auditor's remuneration	8	1.0	0.6
Depreciation of property, plant and equipment	15	2.3	2.2
Amortisation of intangible assets	16	3.0	3.1
Provisions for liabilities and charges	19	(1.9)	13.2
Legal and professional costs		6.1	2.3
IT costs		6.2	5.2
Other administrative costs		13.0	7.0
		98.9	87.4

Included within staff costs is £9.1m of expenditure relating to the Together Group's strategic options review, including a £4.5m charge for share-based payments. Legal and professional costs includes expenditure of £3.3m also relating to the strategic options review. There is also a one-off customer redress release of £1.2m included within provisions for liabilities and charges. The costs and release above have been adjusted for in the calculation of underlying metrics within the Alternative Performance Measures.

7. Staff costs

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

	2022 No.	2021 No.
Management and administration		
Full time	618	557
Part time	54	52
	672	609

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

Staff remuneration	Note	2022	2021
Wages and salaries		55.3	42.5
Social security costs		5.3	3.8
Pension	26	1.6	1.3
		62.2	47.6
Directors' remuneration			
Emoluments		7.0	6.2
Company contribution to personal pension schemes	26	-	-
		7.0	6.2
Total staff costs		69.2	53.8

The emoluments of the highest paid director were £4.1m (2021: £3.9m) including £nil (2021: £nil) of Company contributions to a defined contribution pension scheme for any directors. Details of the pension arrangements operated by the Group are given in Note 26.

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

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

8. Auditor's remuneration

	2022	2021
Fees payable for the audit of the Company's accounts	-	-
Fees payable for the audit of the Company's subsidiaries	0.7	0.4
Audit-related assurance services	0.2	0.1
Other assurance services	0.1	0.1
	1.0	0.6

9. Income tax

	2022	2021
Current tax		
Corporation tax	24.7	21.9
Adjustment in respect of prior years	0.1	0.5
	24.8	22.4
Deferred tax		
Origination and reversal of temporary differences	1.8	(0.4)
Effect of changes in tax rates	-	(1.7)
Adjustment in respect of prior years	(2.3)	(1.3)
	(0.5)	(3.4)
Total tax on profit	24.3	19.0

Corporation tax is calculated at 19% (2021: 19%) 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:

	2022	2021
Profit before tax	125.4	111.2
Tax on profit at standard UK corporation tax rate of 19% (2021: 19%)	23.8	21.1
<i>Effects of:</i>		
Section 455 CTA 2010 charge	0.8	-
Expenses not deductible for tax purposes	1.9	0.6
Income not taxable	-	(0.2)
Changes in tax rate	-	(1.7)
Adjustment in respect of prior years	(2.2)	(0.8)
Group tax charge for year	24.3	19.0

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the Group's future current tax charge accordingly.

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

10. Cash and cash equivalents

	2022	2021
Unrestricted cash	65.7	90.5
Restricted cash	200.1	148.7
Total cash and cash equivalents	265.8	239.2

Restricted cash is held in securitisation vehicles for use in managing the Group's securitisation facilities. It is ring-fenced under the terms of the agreements and is not readily available. Within restricted cash £31.8m (2021: £39.7m) represents amounts that could be accessed by the Group, for example by allocating additional eligible assets into the private securitisations. The balance of restricted cash represents amounts which are held within the securitisations for other purposes and may be accessible in the 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.

11. Derivative assets held for risk management

The Group applies hedge accounting for its strategy of cash flow 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 pay fixed rates of interest, and to address the resultant risk of mismatches in the cash flows, the securitisation vehicles may enter into interest-rate swaps (which may include floors) or purchase interest-rate caps. The notional amounts of these derivatives are 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; and
- Differences in the expected maturity of the hedged item and the hedging instrument.

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

	2022		2021	
	Assets	Liabilities	Assets	Liabilities
Interest-rate swaps and floors	10.9	-	0.6	(1.2)
Interest-rate caps	0.3	-	-	-
Derivatives designated in cashflow hedges	11.2	-	0.6	(1.2)

All derivatives mature in under five years. The average fixed interest rate on swaps is 1.43%. The average strike rate on caps is 2.5%.

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

11. Derivative assets held for risk management (continued)

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

Year ended 30 June 2022	Carrying amount of liabilities	Changes in fair value for calculating hedge ineffectiveness	Debit/(credit) balance	
			Cashflow-hedging reserve	Cost-of-hedging reserve
Borrowings hedged by interest-rate swaps and floors				
Continuing hedging relationships	454.6	10.1	(11.0)	-
Discontinued hedging relationships	-	1.1	-	-
	454.6	11.2	(11.0)	-
Borrowings hedged by interest-rate caps				
Continuing hedging relationships	75.7	0.1	-	(0.1)
Total of all borrowings hedged by derivatives	530.3	11.3	(11.0)	(0.1)

Year ended 30 June 2021	Carrying amount of liabilities	Changes in fair value for calculating hedge ineffectiveness	Debit/(credit) balance	
			Cashflow-hedging reserve	Cost-of-hedging reserve
Borrowings hedged by interest-rate swaps and floors				
Continuing hedging relationships	298.6	0.8	1.0	-
Discounted hedging relationships	-	-	(2.1)	-
	298.6	0.8	(1.1)	-
Borrowings hedged by interest-rate caps				
Continuing hedging relationships	128.6	-	-	0.4
Total of all borrowings hedged by derivatives	427.2	0.8	(1.1)	0.4

Details of instruments used to hedge borrowings are set out below:

	Carrying amounts				Debit/(credit) balance		
	Notional amount	Derivative assets	Derivative liabilities	Net total	Cash flow-hedging reserve	Cost-of-hedging reserve	Fair-value (gains)/losses through income statement
2022							
Interest-rate swaps and floors							
Borrowings	454.6	10.9	-	10.9	(11.0)	-	0.5
Discontinued hedges	-	-	-	-	-	-	-
	454.6	10.9	-	10.9	(11.0)	-	0.5
Interest-rate caps							
Borrowings	75.7	0.3	-	0.3	-	(0.1)	(0.2)
Total of all derivatives	530.3	11.2	-	11.2	(11.0)	(0.1)	0.3

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

11. Derivative assets held for risk management (continued)

	Carrying amounts			Debit/(credit) balance			
	Notional amount	Derivative assets	Derivative liabilities	Net total	Cash flow-hedging reserve	Cost-of-hedging reserve	Fair –value (gains)/losses through income statement
2021							
Interest-rate swaps and floors							
Borrowings	298.6	0.6	(1.2)	(0.6)	(1.0)	0.3	(1.1)
Discontinued hedges	-	-	-	-	2.1	-	-
	298.6	0.6	(1.2)	(0.6)	1.1	0.3	(1.1)
Interest-rate caps							
Borrowings	-	-	-	-	-	0.1	-
Total of all derivatives	298.6	0.6	(1.2)	(0.6)	1.1	0.4	(1.1)

All interest-rate-cap balances relate to continuing hedging relationships. The following tables summarise the movements relating to hedging instruments.

	Debit/credit balance			
	Carrying amount of liabilities	Changes in fair value for calculating hedge ineffectiveness	Cashflow-hedging reserve	Cost-of-hedging reserve
For the year ended 30 June 2022				
Interest-rate swaps and floors				
Balances at the beginning of the period	(0.6)	1.1	0.3	-
Changes in fair value recognised in other comprehensive income	11.2	(11.3)	0.1	-
Hedge ineffectiveness recognised as (gains)/losses in the income statement	0.3	-	-	(0.3)
Total changes in fair value for calculating hedge ineffectiveness	11.5	(11.3)	0.1	(0.3)
Changes on settlement of interest or its reclassification to income statement	0.3	(0.3)	-	-
Reclassification of cost of hedging to income statement	-	-	(0.1)	-
Amounts released on cancellation of derivatives	(0.3)	(0.5)	(0.3)	1.6
Payments on discontinuance of hedging relationships	-	-	-	(0.8)
Balances at the end of the period	10.9	(11.0)	-	0.5
Interest-rate caps				
Balances at the beginning of the period	-	-	0.1	-
Changes in fair value recognised in other comprehensive income	0.1	-	(0.1)	-
Hedge ineffectiveness recognised as (gains)/losses in the income statement	0.2	-	-	(0.2)
Total changes in fair value for calculating hedge ineffectiveness	0.3	-	(0.1)	(0.2)
Reclassification of cost of hedging to income statement	-	-	(0.1)	-
Total of all borrowings hedged by derivatives	0.3	-	(0.1)	(0.2)

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

11. Derivative assets held for risk management (continued)

	Debit/credit balance			
	Carrying amount of liabilities	Changes in fair value for calculating hedge ineffectiveness	Cashflow-hedging reserve	Cost-of-hedging reserve
For the year ended 30 June 2021				
Interest-rate swaps and floors				
Balances at the beginning of the period	(0.3)	2.7	(0.1)	-
Changes in fair value recognised in other comprehensive income	0.9	(1.4)	0.5	-
Hedge ineffectiveness recognised as (gains)/losses in the income statement	1.1	-	-	(1.1)
Total changes in fair value for calculating hedge ineffectiveness	2.0	(1.4)	0.5	(1.1)
Changes on settlement of interest or its reclassification to income statement	(0.2)	(0.2)	-	-
Reclassification of cost of hedging to income statement	-	-	(0.1)	-
Amounts released on cancellation of derivatives	0.6	-	-	-
Balances at the end of the period	(0.6)	1.1	0.3	(1.1)
Interest-rate caps				
Balances at the beginning of the period	-	-	0.2	-
Changes in fair value recognised in other comprehensive income	-	-	-	-
Hedge ineffectiveness recognised as (gains)/losses in the income statement	-	-	-	-
Total changes in fair value for calculating hedge ineffectiveness	-	-	-	-
Reclassification of cost of hedging to income statement	-	-	(0.1)	-
Total of all borrowings hedged by derivatives	-	-	0.1	-

12. Loans and advances to customers

	30 June 2022			
	Stage 1	Stage 2	Stage 3 and POCI	Total
Gross loans and advances	3,879.0	1,042.5	412.1	5,333.6
Loss allowance	(7.1)	(27.1)	(51.5)	(85.7)
	3,871.9	1,015.4	360.6	5,247.9
ECL coverage (%)	0.2	2.6	12.5	1.6
	30 June 2021			
	Stage 1	Stage 2	Stage 3 and POCI	Total
Gross loans and advances	2,541.3	1,089.9	485.1	4,116.3
Loss allowance	(4.0)	(28.7)	(71.7)	(104.4)
	2,537.3	1,061.2	413.4	4,011.9
ECL coverage (%)	0.2	2.6	14.8	2.5

Loans and advances to customers include total gross amounts of £4.3m (2021: £5.0m), equivalent to £0.3m net of allowances (2021: £1.0m) loaned to companies in which HN Moser is a director and shareholder. The companies concerned were Sunnywood Estates Limited, Edgworth Developments Limited and, in 2021, August Blake Developments; further details are given in Note 24.

Group gross balances of credit impaired loans include £15.8m (2021: £11.8m) of purchased or originated credit impaired (POCI) loans, which are presented net of lifetime ECL impairment provisions of £1.9m (2021: £1.4m).

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

12. Loans and advances to customers (continued)

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 increased credit risk

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.

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 a probationary period in line with the below:

- Into stage 2: 6 months of performing at stage 2 or better; and
- Into stage 1: 9 months of performing at stage 1.

The Group undertakes back-testing and validation procedures in order to assess the reasonableness of assumptions and judgements applied in calculating ECLs. The results of these procedures are considered in determining the ongoing appropriateness of key judgements and inputs, which are subject to oversight from the Audit Committee.

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

12. Loans and advances to customers (continued)

Measurement of expected credit losses (ECL) (continued)

Incorporation of forward-looking information

Variables

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 and changes in house prices. The Group has developed a range of future economic scenarios of these variables, drawing on external forecasts where appropriate.

During the period, further developments have been implemented within the Group's Economic Response Models (ERM) which model the relationship between macroeconomic data and default rates. During the Covid-19 pandemic, the relationship between annual GDP growth and defaults did not behave as expected when the models were developed prior to the pandemic, and required manual intervention and utilisation of post-model adjustments within the ECL calculation.

A revised ERM has been developed and implemented, which removes GDP from the modelling for default rates. The Group's models continue to utilise unemployment, Bank of England base rate and, for certain loan types, forecast house prices in the modelling of default rates projected and used in the calculation of ECLs. The revised models have a greater degree of correlation to historic default rates and therefore, are judged to be the most appropriate approach to prediction of future account behaviour, based on the economic scenarios adopted. Forecast house prices continue to be incorporated into the calculation of loss given default.

Scenarios

Prior to the coronavirus pandemic, the Group calculated ECL using a base case, an upside and a downside scenario, weighted 40%, 30% and 30% respectively. The unprecedented societal and economic impact caused by the coronavirus outbreak meant that the available economic forecasts were subject to significant uncertainty and showed a wide range of views on the depth, shape and duration of the impact of the pandemic.

As a result of this uncertainty, the Group's approach to developing economic scenarios for the purposes of measuring ECLs was to increase the number of scenarios from three to six. The base case is weighted at 50% and each of the other five scenarios is weighted at 10%. The Group continues to apply this methodology as uncertainty remains significantly elevated compared with pre-pandemic levels, despite the period of recovery since spring 2021, owing to the war in Ukraine and the rising cost of living.

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.

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 10 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.

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

12. 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 2022, by economic indicator, until June 2026 are as follows. In addition, GDP, which is not used within our models, is included to provide context as to the nature of the scenarios. Changes to the macroeconomic outlook subsequent to the balance sheet date, due to events occurring after 30 June 2022, have not resulted in reassessment of these scenarios, as these represent non-adjusting events in accordance with IAS 10 *Events After the Reporting Date*.

Bank rate		Weighting	Sep 2022	Dec 2022	Mar 2023	Jun 2023	Jun 2024	Jun 2025	Jun 2026	
Upside		10%	1.8	2.6	3.2	3.5	3.8	3.8	3.8	
Mild Upside		10%	1.8	2.5	3.0	3.4	3.5	3.5	3.5	
Base		50%	1.6	2.4	2.9	3.0	3.0	3.0	3.0	
Stagnation		10%	1.5	1.8	2.0	2.5	2.5	2.5	3.5	
Downside		10%	1.3	1.3	1.3	1.3	1.3	1.3	1.3	
Severe downside		10%	1.1	1.0	0.9	0.8	0.8	0.8	0.5	
Weighted average			1.5	2.1	2.5	2.6	2.7	2.7	2.7	
Unemployment rate		% peak	Weighting	Sep 2022	Dec 2022	Mar 2023	Jun 2023	Jun 2024	Jun 2025	Jun 2026
Upside		3.3%	10%	3.5	3.3	3.3	3.3	3.3	3.3	3.3
Mild Upside		3.8%	10%	3.8	3.7	3.7	3.7	3.6	3.6	3.6
Base		3.9%	50%	3.8	3.8	3.9	3.9	3.8	3.8	3.7
Stagnation		6.7%	10%	4.4	4.6	5.0	5.3	6.3	6.7	6.5
Downside		6.9%	10%	4.4	4.7	5.1	5.4	6.5	6.9	6.7
Severe downside		7.3%	10%	4.5	4.8	5.2	5.7	6.9	7.3	7.1
Weighted average			4.0	4.0	4.2	4.3	4.6	4.7	4.6	4.6
Annual change in house-price index (%)		Start to trough % change	Weighting	Sep 2022	Dec 2022	Mar 2023	Jun 2023	Jun 2024	Jun 2025	Jun 2026
Upside		n/a*	10%	13.5	11.0	8.4	7.3	0.4	3.1	3.7
Mild Upside		n/a*	10%	12.5	9.4	6.2	4.6	0.0	1.0	3.5
Base		n/a*	50%	9.7	5.7	2.0	0.2	0.2	0.2	2.1
Stagnation		(11.4%)	10%	9.3	4.5	(0.4)	(3.7)	(6.3)	(3.6)	3.9
Downside		(16.3%)	10%	8.6	3.4	(1.9)	(5.7)	(7.9)	(5.4)	4.0
Severe downside		(24.6%)	10%	7.4	1.5	(4.6)	(9.1)	(10.7)	(8.8)	4.3
Weighted average			10.0	5.9	1.8	(0.5)	(2.3)	(1.3)	3.0	3.0
Annual GDP change (annual %)**			Weighting	Sep 2022	Dec 2022	Mar 2023	Jun 2023	Jun 2024	Jun 2025	Jun 2026
Upside			10%	5.5	5.0	4.2	5.1	4.2	3.6	2.4
Mild Upside			10%	5.3	4.4	3.1	3.5	3.4	3.3	2.3
Base			50%	5.1	3.7	1.7	1.4	1.8	2.4	2.0
Stagnation			10%	4.6	2.5	(0.3)	(1.4)	1.1	2.3	2.0
Downside			10%	4.4	2.0	(1.1)	(2.6)	0.6	2.1	2.0
Severe downside			10%	4.1	1.1	(2.5)	(4.7)	(0.2)	1.8	1.9
Weighted average			4.9	3.4	1.2	0.7	1.8	2.5	2.0	2.0

* House price index (HPI) is forecast to increase in all future periods in this scenario.

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

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

12. 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 2021 by scenario until June 2025 are as follows:

Bank Rate	Future quarter which anticipates the first rate rise	Weighting	Sep 2021	Dec 2021	Mar 2022	Jun 2022	Jun 2023	Jun 2024	Jun 2025
Upside		10%	0.2	0.4	0.6	0.9	1.8	2.0	2.1
Mild Upside		10%	0.2	0.3	0.4	0.5	1.3	1.5	1.5
Base		50%	0.1	0.1	0.1	0.1	0.3	0.5	0.8
Stagnation		10%	0.1	0.1	0.1	0.1	0.1	0.1	0.3
Downside		10%	0.1	(0.1)	(0.3)	(0.3)	(0.3)	(0.3)	0.0
Severe downside		10%	(0.1)	(0.3)	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)
Weighted average			0.1	0.1	0.1	0.1	0.4	0.5	0.7
Unemployment rate	% peak	Weighting	Sep 2021	Dec 2021	Mar 2022	Jun 2022	Jun 2023	Jun 2024	Jun 2025
Upside	4.4%	10%	4.4	4.2	4.0	4.0	4.0	4.0	4.0
Mild Upside	4.5%	10%	4.5	4.4	4.3	4.3	4.3	4.3	4.3
Base	5.5%	50%	5.1	5.5	5.1	4.8	4.5	4.5	4.5
Stagnation	6.4%	10%	5.7	6.0	6.0	6.1	6.4	6.3	6.0
Downside	6.6%	10%	5.9	6.3	6.3	6.4	6.6	6.5	6.2
Severe downside	6.9%	10%	6.8	6.8	6.8	6.8	6.9	6.8	6.5
Weighted average			5.2	5.5	5.3	5.1	5.1	5.0	4.9
Annual change in house-price index (%)	Start to trough % change	Weighting	Sep 2021	Dec 2021	Mar 2022	Jun 2022	Jun 2023	Jun 2024	Jun 2025
Upside	n/a*	10%	11.6	8.2	5.7	6.2	5.0	11.2	3.1
Mild Upside	n/a*	10%	10.0	6.1	2.9	2.8	2.5	8.4	3.2
Base	(2.3%)	50%	7.4	3.0	(0.8)	(1.6)	(0.5)	3.0	3.4
Stagnation	(15.3%)	10%	5.0	(0.6)	(5.7)	(8.1)	(6.6)	(1.3)	3.8
Downside	(22.4%)	10%	3.8	(2.2)	(7.8)	(10.8)	(9.3)	(4.1)	4.1
Severe downside	(34.3%)	10%	1.9	(4.8)	(11.4)	(15.3)	(14.3)	(9.5)	4.5
Weighted average			6.9	2.2	(2.0)	(3.3)	(2.5)	2.0	3.6
Annual GDP change (annual %)		Weighting	Sep 2021	Dec 2021	Mar 2022	Jun 2022	Jun 2023	Jun 2024	Jun 2025
Upside		10%	5.1	9.9	15.3	12.4	5.1	2.3	1.6
Mild Upside		10%	4.8	9.3	14.2	10.8	4.4	2.0	1.6
Base		50%	4.5	8.5	12.9	8.7	3.1	1.6	1.5
Stagnation		10%	3.8	6.7	10.1	5.2	3.2	1.3	1.5
Downside		10%	3.6	6.2	9.0	3.4	3.3	1.2	1.4
Severe downside		10%	3.2	5.4	7.7	1.4	2.4	1.1	1.4
Weighted average			4.3	8.0	12.1	7.7	3.4	1.6	1.5
Annual quarterly GDP change (%)	Future quarter when GDP returns to Dec-19 levels	Weighting	Sep 2021	Dec 2021	Mar 2022	Jun 2022	Jun 2023	Jun 2024	Jun 2025
Upside	Sep-21	10%	10.7	12.0	15.5	11.5	3.2	2.0	1.4
Mild Upside	Sep-21	10%	9.5	10.6	13.8	9.5	2.9	1.8	1.5
Base	Dec-21	50%	8.2	8.7	11.5	6.5	2.2	1.5	1.5
Stagnation	Sep-22	10%	5.6	4.3	7.5	3.3	1.9	1.2	1.6
Downside	Sep-23	10%	4.6	3.3	4.9	0.9	2.7	1.1	1.7
Severe downside	Dec-25	10%	3.0	1.7	3.2	(2.2)	3.0	0.9	1.7
Weighted average			7.4	7.6	10.2	5.5	2.5	1.4	1.6

*House price index (HPI) is forecast to increase in all future periods in this scenario.

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

12. Loans and advances to customers (continued)

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 increased credit risk.

The Group offers forbearance to assist customers who are experiencing financial distress and considers an account as forbome 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.

Loss allowance

The following tables analyse the movement of the loss allowance during the year ended 30 June 2022 and 30 June 2021:

Loss allowance	2022			
	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	(4.0)	(28.7)	(71.7)	(104.4)
Transfer to a 12-month ECL	(1.1)	6.3	-	5.2
Transfer to a lifetime ECL not credit impaired	3.9	(12.8)	4.2	(4.7)
Transfer to a lifetime ECL credit impaired	0.3	19.8	(25.6)	(5.5)
Other changes in credit risk during the year	(7.0)	(7.1)	6.8	(7.3)
Impairment of interest income on stage 3 loans	-	-	(11.4)	(11.4)
New financial assets originated	(2.7)	(2.9)	(1.3)	(6.9)
Financial assets derecognised	4.0	9.5	18.4	31.9
Changes in models and risk parameters	(0.5)	(11.1)	2.7	(8.9)
Impairment losses for the year charged to income statement	(3.1)	1.7	(6.2)	(7.6)
Unwind of discount	-	-	11.4	11.4
Write-offs net of recoveries	-	(0.1)	14.5	14.4
Changes on refinancing of impaired loans	-	-	0.5	0.5
Balance at end of year	(7.1)	(27.1)	(51.5)	(85.7)

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

12. Loans and advances to customers (continued)

Loss allowance (continued)

Loss allowance	2021			
	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	(12.4)	(21.0)	(85.4)	(118.8)
Transfer to a 12-month ECL	(1.9)	5.2	-	3.3
Transfer to a lifetime ECL not credit impaired	8.2	(24.6)	15.9	(0.5)
Transfer to a lifetime ECL credit impaired	0.9	24.2	(42.7)	(17.6)
Other changes in credit risk during the year	(3.9)	(15.4)	(4.0)	(23.3)
Impairment of interest income on stage 3 loans	-	-	(12.1)	(12.1)
New financial assets originated	(1.7)	(3.0)	-	(4.7)
Financial assets derecognised	3.0	9.6	26.4	39.0
Changes in models and risk parameters	3.8	(3.6)	(2.3)	(2.1)
Impairment losses for the year charged to income statement	8.4	(7.6)	(18.8)	(18.0)
Unwind of discount	-	-	12.1	12.1
Write-offs net of recoveries	-	(0.1)	16.6	16.5
Changes on refinancing of impaired loans	-	-	3.8	3.8
Balance at end of year	(4.0)	(28.7)	(71.7)	(104.4)

Changes in models and risk parameters resulted in a charge of £8.9m (30 June 2021: £2.1m). The main drivers of this change were updates to macroeconomic data, including the update to the economic response model.

Other changes in credit risk include the development or cure of loan arrears and other changes in status. The loss allowance on new financial assets originated represents the ECL on initial recognition. Subsequent changes in ECL are reflected in other movements in the above table.

The loss allowance has decreased by £18.7m to £85.7m (2021: £104.4m). Reductions in the loss allowance are as a result of write offs net of recoveries, and ECL releases on financial assets derecognised offset increases owing to the movements of loans through the three-stage model, and other changes in credit risk.

The key changes in the estimate for ECL are set out below.

The impact of loans transferring between stages has increased ECL by £5.0m during the year (2021: £14.8m) and other changes in credit risk have increased ECL by £7.3m (2021: £23.3m). There are a number of drivers of the combined increase of £12.3m observed in these line items, the principal ones being:

- £6.4m 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.
- £4.3m due to changes in qualitative criteria used to assess whether a loan has experienced a significant increase in credit risk. The criteria have been expanded to include customers who are not in arrears, but may have suffered a certain level of income shock based on credit bureau data. Also includes loans which are not in arrears or otherwise exhibiting signs of an increase in credit risk but are secured on certain property types which may have been affected by the current macroeconomic environment.
- £11.9m due to other factors impacting credit risk, such as changes in probability of default and also valuation changes within the year.
- £11.6m release due to increases in HPI during the year.

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

12. Loans and advances to customers (continued)

Loss allowance (continued)

The impairment of interest income recognised on stage 3 loans of £11.4m (2021: £12.1m) was offset by the unwinding of discounting on expected cash flows of the same amount. New originations increased ECL by £6.9m (2021: £4.7m), 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 £31.9m (2021: £39.0m) on loans which have redeemed during the period. ECL has reduced by £0.5m (2021: £3.8m) due to refinancing of credit impaired assets where the new loans have been classified as POCI. The gross balances of the new POCI assets included £0.5m of ECLs on initial recognition, resulting in a net release of £0.1m.

Write-offs net of recoveries includes £8.2m (2021: £4.9m) that has arisen during the normal performance of the loan book. The other £8.3m (2021: £11.6m) relates to accounts that have been written off following a refinement to the write-off criteria applied by the Group. Accounts are classified as shortfall where the property has been repossessed and sold but an outstanding balance remains.

Impairment losses for the year

	30 June 2022	30 June 2021
Movements in impairment allowance, charged to income	(7.6)	(18.0)
Amounts released from deferred income	0.2	(0.5)
Write-offs net of recoveries	3.0	-
Gains/(losses) on derecognition of assets held at amortised cost as a result of refinancing impaired loans	0.1	2.4
Charged to the income statement	(4.3)	(16.1)

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:

Movements in gross carrying amounts	2022			
	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	2,541.3	1,089.9	485.1	4,116.3
Transfer to a 12-month ECL	739.2	(739.2)	-	-
Transfer to a lifetime ECL not credit impaired	(926.9)	1,009.3	(82.4)	-
Transfer to a lifetime ECL credit impaired	(10.6)	(206.9)	217.5	-
New financial assets originated	2,508.5	44.0	3.8	2,556.3
Financial assets derecognised including write-offs	(972.5)	(154.6)	(211.9)	(1,339.0)
Balance at end of year	3,879.0	1,042.5	412.1	5,333.6

Movements in gross carrying amounts	2021			
	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	3,061.3	721.2	498.5	4,281.0
Transfer to a 12-month ECL	526.7	(524.8)	(1.9)	-
Transfer to a lifetime ECL not credit impaired	(1,239.7)	1,452.4	(212.7)	-
Transfer to a lifetime ECL credit impaired	(32.1)	(446.3)	478.4	-
New financial assets originated	967.0	102.9	2.7	1,072.6
Changes on refinancing of impaired loans	-	-	(0.7)	(0.7)
Financial assets derecognised including write-offs	(741.9)	(215.5)	(279.2)	(1,236.6)
Balance at end of year	2,541.3	1,089.9	485.1	4,116.3

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

12. Loans and advances to customers (continued)

Stage 2 disaggregation

	30 June 2022		30 June 2021	
	Gross Exposure	Impairment Allowance	Gross Exposure	Impairment Allowance
> 30 days past due	69.6	4.4	76.6	2.2
< 30 days past due	972.9	22.7	1,013.3	26.5
Total	1,042.5	27.1	1,089.9	28.7

The slight reduction in total stage 2 loans since June 2021 is mainly because during the year the Group removed certain judgemental qualitative criteria which had been applied to the staging methodology within the ECL calculation during the pandemic. These overrides had moved accounts through the stages based upon risk factors, and the progression of the economy's recovery and emergence from the pandemic means that certain cohorts of accounts have not been impacted to the degree initially expected. The removal of these criteria has resulted in the transfer of £240m of gross loans and advances from stage 2 to stage 1, and £23m of gross loans and advances from stage 3 to stage 2, since June 2021.

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 unweighted ECL when 100% probability was applied to each scenario as at 30 June 2022 and 30 June 2021:

	2022		2021	
Scenarios	Probability of the scenario	Unweighted ECL	Probability of the scenario	Unweighted ECL
Upside	10%	35.5	10%	49.8
Mild upside	10%	42.0	10%	56.0
Base case	50%	60.7	50%	75.4
Stagnation	10%	112.2	10%	137.5
Downside	10%	148.0	10%	174.9
Severe downside	10%	215.6	10%	248.9
Weighted average		85.7		104.4

Utilising multiple economic scenarios reflects the non-linearity of the forward-looking expected credit loss approach.

Sensitivities can be derived from this table by applying different combinations of probabilities to the unweighted ECLs and comparing these with 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 applied in each scenarios (ie a 10% haircut applied to the index in each forecast future period) would result in an increase in the impairment allowance of £14.7m at 30 June 2022 (30 June 2021: £20.3m); conversely, a 10% increase would result in a decrease in the impairment allowance of £11.3m at 30 June 2022 (30 June 2021: £15.7m).

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 £6.8m at 30 June 2022 (30 June 2021: £7.3m). 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 £6.1m at 30 June 2022 (30 June 2021: £7.0m).

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

12. Loans and advances to customers (continued)

Significant 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 sensitivity below was performed by recalculating the impairment allowance by changing only the item stated, and with all other variables unchanged.

Sensitivities	Increase in allowance	
	2022	2021
Measure all loans in Stage 1 using a lifetime ECL	35.1	16.6

13. Other assets

Group	2022	2021
Amounts owed by related parties	43.1	19.3
Other debtors	1.1	0.6
Investments	0.1	0.1
Inventories	0.1	0.6
Prepayments and accrued income	5.0	4.6
	49.4	25.2
Company	2022	2021
Amounts owed by subsidiaries	7.8	7.0
Amounts owed by related parties	42.2	20.4
	50.0	27.4

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 £0.3m (2021: £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 and related parties is considered to be immaterial.

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

14. Investments in subsidiaries

The Company held the following investments in subsidiary undertakings:

	2022	2021
Investments in subsidiaries	38.9	38.9

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

	Shares	Voting rights	Principal activities
Direct subsidiary			
Bracken Topco Limited	100%	100%	Intermediate holding company
Indirect holding-company subsidiaries			
Bracken Midco1 PLC	100%	100%	Intermediate holding company
Bracken Midco2 Limited	100%	100%	Intermediate holding company
Together Financial Services Limited	99.7%*	100%*	Intermediate holding company
Together Financial Services Limited subsidiaries			
Auction Finance Limited	100%	100%	Commercial lending
Blemain Finance Limited	100%	100%	Retail lending
Bridging Finance Limited	100%	100%	Commercial lending
FactFocus Limited	100%	100%	Property investment
Harpmanor Limited	100%	100%	Commercial lending
Jerrold Finco PLC	100%	100%	Raising finance
Spot Finance Limited	100%	100%	Retail lending
Together Commercial Finance Limited	100%	100%	Commercial lending
Together Personal Finance Limited	100%	100%	Retail lending
General Allied Properties Limited	100%	100%	Non-trading
Heywood Finance Limited	100%	100%	Non-trading
Heywood Leasing Limited	100%	100%	Non-trading
Jerrold Mortgage Corporation Limited	100%	100%	Non-trading
Phone-a-Loan Limited	100%	100%	Non-trading
Supashow Limited	100%	100%	Non-trading
BridgingFinance.co.uk Limited (Company registration number 04159852)	100%	100%	Dormant
Classic Car Finance Limited (Company registration number 03237779)	100%	100%	Dormant
Jerrold Holdings Limited (Company registration number 04950229)	100%	100%	Dormant
Together123 Limited (Company registration number 10758537)	100%	100%	Dormant

* The remaining 0.3% is held by certain members of management granted shares under a share based payment arrangement. The holders of these shares have however waived their right to vote.

The companies shown above as subsidiaries of Together Financial Services Limited are all directly held, 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 employee benefit trust, Jerrold Holdings Employee Benefit Trust, is treated as a branch of the Company and therefore its results are included within these financial statements.

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

14. Investments in subsidiaries (continued)

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

- Brooks Asset Backed Securitisation 1 Limited
- Charles Street Conduit Asset Backed Securitisation 1 Limited
- Charles Street Conduit Asset Backed Securitisation 2 Limited
- Delta Asset Backed Securitisation 1 Limited
- Delta Asset Backed Securitisation 2 Limited
- Highfield Asset Backed Securitisation 1 Limited
- Lakeside Asset Backed Securitisation 1 Limited
- Together Asset Backed Securitisation 1 PLC
- Together Asset Backed Securitisation 2018 – 1 PLC
- Together Asset Backed Securitisation 2019 – 1 PLC
- Together Asset Backed Securitisation 2020 – 1 PLC
- Together Asset Backed Securitisation 2021 – CRE1 PLC
- Together Asset Backed Securitisation 2021 – CRE2 PLC
- Together Asset Backed Securitisation 2021 – 1ST1 PLC
- Together Asset Backed Securitisation 2022 – 2ND1 PLC
- Together Asset Backed Securitisation 2022 – CRE-1 PLC

15. Property, plant and equipment

2022	Land and Buildings	Fixtures, fittings and equipment	Motor vehicles	Right-of-use assets – leasehold property	Total
Cost					
At beginning of year	-	8.1	1.6	35.5	45.2
Additions	-	2.4	1.1	-	3.5
Reclassification from inventories	0.5	-	-	-	0.5
Disposals	-	-	(0.1)	-	(0.1)
At end of year	0.5	10.5	2.6	35.5	49.1
Depreciation					
At beginning of year	-	5.0	0.8	7.8	13.6
Charge for the year	-	0.9	0.3	1.1	2.3
Disposals	-	-	(0.1)	-	(0.1)
At end of year	-	5.9	1.0	8.9	15.8
Net book value					
At 30 June 2022	0.5	4.6	1.6	26.6	33.3
At 30 June 2021	-	3.1	0.8	27.7	31.6

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

15. Property, plant and equipment (continued)

2021	Fixtures, fittings and equipment	Motor vehicles	Right-of-use assets – leasehold property	Total
Cost				
At beginning of year	8.3	1.9	16.0	26.2
Additions	0.5	0.1	5.3	5.9
Lease modifications	-	-	14.4	14.4
Disposals	(0.7)	(0.4)	-	(1.1)
Impairment	-	-	(0.2)	(0.2)
At end of year	8.1	1.6	35.5	45.2
Depreciation				
At beginning of year	4.7	0.8	6.8	12.3
Charge for the year	1.0	0.2	1.0	2.2
Disposals	(0.7)	(0.2)	-	(0.9)
At end of year	5.0	0.8	7.8	13.6
Net book value				
At 30 June 2021	3.1	0.8	27.7	31.6
At 30 June 2020	3.6	1.1	9.2	13.9

The Group occupies two head-office buildings. During the year to 30 June 2021, revisions were made to the terms of both leases resulting in a remeasurement of the Group's lease liability and a modification adjustment to the corresponding right-of-use asset.

16. Intangible assets

	Computer software 2022	Computer software 2021
Cost		
At beginning of year	20.0	18.0
Additions	3.2	2.0
Disposals	(0.1)	-
At end of year	23.1	20.0
Amortisation		
At beginning of year	13.0	9.9
Charge for the year	3.0	3.1
At end of year	16.0	13.0
Net book value		
At end of year	7.1	7.0
At beginning of year	7.0	8.1

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

17. Deferred tax asset

	Accelerated capital allowances	Short-term timing differences	Total
2022			
At beginning of year	(0.5)	11.5	11.0
Charge to income statement	(0.2)	(1.6)	(1.8)
Adjustment in respect of prior years	0.1	2.2	2.3
Effect of changes in tax rate	(0.1)	-	(0.1)
At end of year	(0.7)	12.1	11.4
	Accelerated capital allowances	Short-term timing differences	Total
2021			
At beginning of year	(0.9)	8.5	7.6
Charge to income statement	0.2	0.2	0.4
Adjustment in respect of prior years	0.2	1.1	1.3
Effect of changes in tax rate	-	1.7	1.7
At end of year	(0.5)	11.5	11.0

18. Borrowings

Group	2022	2021
Loan notes	3,391.9	2,327.7
Senior secured notes	1,055.4	935.0
Senior PIK toggle notes	380.0	368.2
Lease liabilities	29.6	29.9
Subordinated shareholder loans	21.5	23.1
	4,878.4	3,683.9
Debt issue costs	(28.5)	(18.4)
Total borrowings	4,849.9	3,665.5

Of which:

Due for settlement within 12 months	355.6	345.5
Due for settlement after 12 months	4,494.3	3,320.0
	4,849.9	3,665.5

Company	2022	2021
Subordinated shareholder loans	21.5	23.1
	21.5	23.1

Of which:

Due for settlement within 12 months	-	-
Due for settlement after 12 months	21.5	23.1
	21.5	23.1

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

18. Borrowings (continued)

Loan notes have the following features:

Loan facility	Established	Facility type	Facility size (£m)	Maturity*
Brooks ABS	2021	Amortising	50.9	Jan 2026
Charles Street ABS 2	2022	Revolving	1,251.5	Mar 2027
Delta ABS 2	2019	Revolving	400.0	Dec 2025
Highfield ABS	2018	Revolving	525.0	Sep 2025
Lakeside ABS	2015	Revolving	700.0	Apr 2026
Together ABS 2	2018	Amortising	108.5	Nov 2022
Together ABS 3	2019	Amortising	160.0	Sep 2023
Together ABS 4	2020	Amortising	223.2	Jun 2024
Together ABS 5	2021	Amortising	261.5	Oct 2025
Together ABS 6	2022	Amortising	320.4	May 2026
Together CRE 1	2021	Amortising	161.9	Feb 2025
Together CRE 2	2021	Amortising	202.3	Feb 2026
Together CRE 3	2022	Amortising	363.7	Oct 2026

*Maturity dates are as at 30 June 2022. For further details regarding post year-end refinancing, see Note 30.

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 which has no amortisation period.

Subordinated shareholder loans were novated from Together Financial Services Limited (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 £3.2m had amortised by 30 June 2022 (2021: £2.5m). The remainder of the reserve will be released over the life of the instruments.

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

18. Borrowings (continued)

The Group has undertaken the following refinancing activity during and subsequent to the year ended 30 June 2022:

- In July 2021, the Group announced the launch of the Brooks ABS facility. This is a new type of facility secured on loans with some degree of arrears or imperfect credit history. The Brooks ABS facility raised £71m of external funding.
- In September 2021, the Group refinanced its £525m Highfield ABS facility, extending its maturity date from June 2022 to September 2025 and reducing the coupon. As part of the refinance, the Highfield ABS became a revolving facility having become amortising in June 2021. The refinancing of the Highfield ABS facility has been judged to constitute a non-substantial modification, as neither the present value of the cash flows nor the qualitative changes arising on the refinanced facility are substantially different from the facility prior to refinancing.

The Group has assessed that there is no material modification gain or loss arising on the transaction, based upon the cash flows arising under the average forecast utilisation levels of the facility. The estimation of modification gains and losses on revolving facilities used to hold mortgages before transfer to other facilities is subject to a high degree of judgement and uncertainty. If utilisation were to be 10% greater than that which results in a modification gain or loss of nil, the Group would have incurred a modification gain of £1.8m, whilst if utilisation were 10% lower, the Group would have incurred a modification loss of £1.8m.

- In September 2021, the Group redeemed the loan notes in its first residential-mortgage-backed securitisation, Together ABS 1, taking back beneficial title to the mortgage assets that had previously been securitised.
- Also in September 2021, the Group announced the pricing of its inaugural first-charge-only residential-mortgage-backed securitisation (RMBS), Together Asset Backed Securitisation 2021 – IST1 PLC (TABS 5). The issuance raised £302m of external funding.
- The Group has two senior secured notes in issue. The senior secured note of £435m is due to mature by 2026 and the senior secured note of £500m is due to mature by 2027. In November 2021, the Group announced the issuance of an additional £120m of its 4 7/8% senior secured notes due 2026 through its wholly owned subsidiary Jerrold Finco PLC at an offering price of 100.5%.
- Also in November 2021, the Group announced the issuance, through Bracken Midco1, of £380.0m of Senior PIK Toggle Notes due 2027. This was at a coupon of 6.75% cash interest and 7.50% PIK interest and was part of the refinancing of the existing notes which were due in 2023.
- In December 2021, the Group announced the successful refinancing of its Delta ABS 2 facility, from £200m to £400m. The maturity of DABS 2, which supports the Group's unregulated bridging lending, has also been extended to December 2025.
- In March 2022, the Group successfully refinanced its Charles Street ABS facility, improving commercial terms and extending its maturity from September 2023 to March 2027. As part of the refinancing, the Group has taken the opportunity to close down the original facility and re-issue it as a new facility, Charles Street ABS 2 (CABS 2).
- In April 2022, the Group successfully refinanced its Lakeside ABS facility, extending its maturity from October 2023 to April 2026, with an increase in size from £500m to £700m and the addition of a new funding partner.
- In May 2022, the Group successfully launched another RMBS, Together ABS 6. The issuance raised £321m of external funding with 73.5% of its notes AAA rated on issuance.
- In June 2022, the Group launched a new commercial-mortgage-backed securitisation, Together CRE 3. The external funding raised was £365m with 80% of the notes AAA rated on issuance.
- Since the year end, in July 2022, the Group has completed a further RMBS, Together ABS 7, raising £470m of external funding and with 89% of its issued notes AAA rated.
- Also after the year end, in September 2022, the Group refinanced its revolving credit facility, increasing the facility size from £71.9m to £138.3m and extended the maturity initially to 2026.
- Also in September 2022, the Group refinanced its BABS facility, with an additional £24m of funding secured.

Refer to Note 25 for more details in relation to lease liabilities.

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.

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

18. Borrowings (continued)

Borrowings have the following maturities:

2022

Group	<1 year	1-2 years	2-5 years	>5 years	Total
Loan notes	356.5	469.4	2,566.0	-	3,391.9
Senior secured notes	-	-	1,055.4	-	1,055.4
Senior PIK toggle notes	-	-	-	380.0	380.0
Lease liabilities	1.0	1.0	2.2	25.4	29.6
Subordinated shareholder loans	-	-	-	21.5	21.5
	357.5	470.4	3,623.6	426.9	4,878.4
Debt issue costs	(1.9)	(2.6)	(21.0)	(3.0)	(28.5)
	355.6	467.8	3,602.6	423.9	4,849.9

Company	<1 year	1-2 years	2-5 years	>5 years	Total
Subordinated shareholder loans	-	-	-	21.5	21.5
	-	-	-	21.5	21.5

2021

Group	<1 year	1-2 years	2-5 years	>5 years	Total
Loan notes	346.1	349.9	1,631.7	-	2,327.7
Senior secured notes	-	-	435.0	500.0	935.0
Senior PIK toggle notes	-	-	368.2	-	368.2
Lease liabilities	0.9	0.8	2.1	26.1	29.9
Subordinated shareholder loans	-	-	-	23.1	23.1
	347.0	350.7	2,437.0	549.2	3,683.9
Debt issue costs	(1.5)	(1.9)	(11.3)	(3.7)	(18.4)
	345.5	348.8	2,425.7	545.5	3,665.5

Company	<1 year	1-2 years	2-5 years	>5 years	Total
Subordinated shareholder loans	-	-	-	23.1	23.1
	-	-	-	23.1	23.1

19. Provisions

2022	Customer provisions	Other provisions	Total
Balance beginning of year	15.9	11.7	27.6
Charge for the year	0.9	(2.8)	(1.9)
Provisions utilised	(2.7)	(2.7)	(5.4)
Balance at end of year	14.1	6.2	20.3

Provisions

As at 30 June 2022, the Group has recognised provisions of £20.3m (30 June 2021: £27.6m). Estimating the amount of provisions requires the exercising of significant levels of judgement, with the amounts representing the best estimate of the amount required to settle or transfer the obligation at the reporting date. It is possible that the ultimate outcome could differ from amounts currently provided.

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

19. Provisions (continued)

Provisions (continued)

The Group continually focuses on improving its customer processes and responding to changes in customer needs. During the year, the regulated division continued to identify ways to improve customer experience and outcomes, including the development of a framework aimed at ensuring consistency of customer outcomes, which seeks to build upon and enhance existing practices, policies and procedures. The framework has a particular focus on customers in arrears and those with escalating balances.

In addition, during the year a process was undertaken to assess the way that customer rates, and certain charges, are set and reviewed, and consider those that have historically been charged to certain customers. This included engagement with the regulator following their thematic review in some of those areas. This exercise is now complete and actions are in the process of being implemented. As a result of the process we will take certain actions, such as the applications of caps to historic interest rates, which will see redress paid to customers or reductions applied to their account balances.

During the period the Group has progressed with the evaluation of these matters and there is increased certainty as to the amounts of payments that will be made, compared to the position as at 30 June 2021. Some uncertainty remains in respect of certain factors assessed in calculating these provisions, as the final proposals remain subject to board approval, however there is significantly reduced uncertainty from the prior year.

The current best estimate is that the Group may incur costs of £12.6m presented within customer provisions. This represents management's best estimate at the reporting date, derived by considering potential scenarios which could impact upon 'live and redeemed loans and also includes £1.5m which relates to estimated operational expenditure associated with these activities.

As a financial services company, the Group is required to comply with relevant legislation, and has processes in place to meet these standards and to manage any legal claims against the Group. Where such claims are received, the Group will investigate the facts and circumstances and will defend claims without merit.

Other provisions substantially represents a provision for such legal claims, which includes both legal claims already received but not yet concluded, and an expectation for future claims which are yet to be received, but relate to events which are judged to have already occurred, and the anticipated costs of undertaking these processes for claims which are received by the Group. An increase in the time period we are forecasting to receive claims over of 50% would result in an increase in the provision of £1.0m (50% decrease: reduction of £1.0m).

Contingent liabilities – fixed and floating charges

As at 30 June 2022, the Group's assets were subject to a fixed and floating charge in respect of £1,055m senior secured notes (30 June 2021: £935m).

20. Other liabilities

Group	2022	2021
Amounts owed to related parties	0.1	-
Trade creditors	3.3	1.1
Other creditors	0.6	0.6
Other taxation and social security	2.2	0.7
Accruals and deferred income	76.3	66.9
	82.5	69.3

21. Share capital

All amounts are stated in pounds.

Called-up, allotted and fully paid	2022	2021
1,000,000 ordinary shares of 1 penny each	10,000	10,000

The balance on the share premium account is £49,900 (2021: £49,900).

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

22. 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 analyses 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 assets/(liabilities) held for risk management	Level 1	Level 2	Level 3	Fair value	Carrying value
2022					
Interest-rate risk					
Derivative assets	-	11.2	-	11.2	11.2
Derivative liabilities	-	-	-	-	-
2021					
Interest-rate risk					
Derivative assets	-	0.6	-	0.6	0.6
Derivative liabilities	-	(1.2)	-	(1.2)	(1.2)

The Group's derivative assets are interest-rate swaps and caps and its derivative liability as at 30 June 2021 was an interest-rate swap and related floor. 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.

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

22. 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 analyses 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:

2022	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets					
Loans and advances to customers	-	-	5,206.0	5,206.0	5,247.9
Financial liabilities					
Borrowings	1,254.4	1,852.5	1,587.3	4,694.2	4,849.9
2021					
	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets					
Loans and advances to customers	-	-	4,073.3	4,073.3	4,011.9
Financial liabilities					
Borrowings	1,343.8	1,210.7	1,167.4	3,721.9	3,665.5

The fair value of loans and advances to customers is based on future interest cash flows (at current customer rates) and principal cash flows discounted using the rate at which we most recently advanced similar loans (a market rate). 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.

For borrowings, the fair value of senior secured notes and senior PIK toggle notes are considered to be level 1, reflecting quoted prices. The fair value for both notes is lower than the carrying value as the notes are trading at a discount to their par value as at 30 June 2022.

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 observable inputs only when they are issued or refinanced. These notes are classified as level 3 with publicly issued residential mortgage-backed securities classified as level 2.

Subordinated shareholder loans and lease liabilities are also classified as level 3. 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.

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

23. Notes to the statement of cashflows

Group	2022	2021
Adjustments for non-cash items in profit after tax:		
Net interest income	(226.1)	(209.5)
Changes in expected credit losses charged to income	7.6	18.0
Taxation	24.3	19.0
Provisions for liabilities and charges	(1.9)	13.2
Depreciation and amortisation	5.3	5.3
Share-based payment	4.5	-
Net losses on financial instruments	0.3	(1.1)
	(186.0)	(155.1)
Changes in operating assets and liabilities		
(Increase)/decrease in loans and advances to customers	(1,243.6)	132.3
Increase in other assets	(24.6)	(8.7)
Increase/(decrease) in other liabilities and provisions	4.0	(5.5)
	(1,264.2)	118.1
Company	2022	2021
Adjustments for non-cash items in profit after tax:		
Net interest expense	-	1.5
	-	1.5
Changes in operating assets and liabilities		
Increase in other assets	(22.6)	(11.4)
	(22.6)	(11.4)

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

23. Notes to the statement of cashflows (continued)

Reconciliation of changes in liabilities arising from financing activities

2022

Group	At beginning of year	Net cash flows	Lease Additions	Non-cash changes			At end of year
				Prepaid fees	Amortisation of premiums and discounts	Interest expense	
Loan notes	2,327.7	1,064.2	-	-	-	-	3,391.9
Senior secured notes	935.0	120.6	-	-	(0.2)	-	1,055.4
Senior PIK toggle notes	368.2	11.8	-	-	-	-	380.0
Lease liability	29.9	(1.2)	0.9	-	-	-	29.6
Subordinated shareholder loans	23.1	-	-	-	-	(1.6)	21.5
	3,683.9	1,195.4	0.9	-	(0.2)	(1.6)	4,878.4
Debt issue costs	(18.4)	-	-	(10.1)	-	-	(28.5)
Total borrowings	3,665.5	1,195.4	0.9	(10.1)	(0.2)	(1.6)	4,849.9

2021

Group	At beginning of year	Net cash flows	Lease Additions	Non-cash changes			At end of year
				Prepaid fees	Amortisation of premiums and discounts	Interest expense	
Bank facilities	10.0	(10.0)	-	-	-	-	-
Loan notes	2,729.8	(402.1)	-	-	-	-	2,327.7
Senior secured notes	786.1	150.0	-	-	(1.1)	-	935.0
Senior PIK toggle notes	368.2	-	-	-	-	-	368.2
Lease liability	11.5	(2.2)	20.6	-	-	-	29.9
Subordinated shareholder loans	20.3	-	-	-	-	2.8	23.1
	3,925.9	(264.3)	20.6	-	(1.1)	2.8	3,683.9
Debt issue costs	(17.7)	-	-	(0.7)	-	-	(18.4)
Total borrowings	3,908.2	(264.3)	20.6	(0.7)	(1.1)	2.8	3,665.5

Interest expense includes amortisation of premiums and discounts.

2022

Company	At beginning of year	Non-cash changes		At end of year
		Interest expense		
Subordinated shareholder loans	23.1	(1.6)		21.5
	23.1	(1.6)		21.5

2021

Company	At beginning of year	Non-cash changes		At end of year
		Interest expense		
Subordinated shareholder loans	20.3	2.8		23.1
	20.3	2.8		23.1

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

24. 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, who is the controlling party of the Group and Company.

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 18. 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 property.
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 receives a fee. The Company 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). During the year, the loan to Charles Street Commercial Investments Limited was increased as a result of the dividend received from the Group.
Sterling Property Co. Limited	Sterling Property Co. Limited provides property management services for properties repossessed or placed into LPA receivership by the Group. These services solely relate to properties repossessed prior to the current year. The Group also pays Sterling Property Co. Limited for the rental of additional office space.
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.

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

24. Related party transactions (continued)

b) Subsidiaries

Details of the Company's interests in its subsidiaries are listed in Note 14.

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 13 and remuneration in the ordinary course of business (Note 7).

During a previous accounting period, the Group granted options to senior management of TFSL under an equity-settled share-based payment scheme. During the current year, a charge of £4.5m has been recognised in the income statement, having met the threshold for recognition during the year. The majority of this charge represents the costs to the Group of services received from those individuals in previous accounting periods.

Transactions

The amounts receivable from and payable to related parties by the Group and Company are disclosed in notes 13 and 20 to the financial statements. The Group and Company had the following transactions with related parties during the year:

	2022		2021	
	Charge/ (credit) to income or equity	Paid	Charge/ (credit) to income or equity	Paid
Group				
Lease and insurance costs	2.2	2.2	1.5	1.2
Accounts payable transactions	-	0.9	-	1.0
Impairment of related party loans	0.1	-	0.1	-
Interest expense on lease liabilities	1.5	-	0.6	-
Interest receivable on related party loans	2.6	-	(0.9)	-
Repayment to shareholder	5.5	-	-	-
Interest expense on subordinated shareholder loan	(1.8)	-	2.8	-
Related parties of HN Moser	10.1	3.1	4.1	2.2
	2022		2021	
	Charge/ (credit) to income or equity	Paid	Charge/ (credit) to income or equity	Paid
Company				
Interest receivable on related party loans	(0.9)	-	(0.9)	-
Repayment to shareholder	5.5	-	-	-
Interest expense on subordinated shareholder loan	2.6	-	2.8	-
Related parties of HN Moser	7.2	-	1.9	-

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

25. Leases

The table below sets out the amounts recognised in the income statement in respect of the Group's right-of-use assets and lease liabilities during the year ended 30 June 2022 and year ended 30 June 2021:

	Administrative expenses £m	Interest expense £m	Total £m
2022			
Depreciation expense of right-of-use assets	1.0	-	1.0
Interest expense on lease liabilities	-	1.5	1.5
Total recognised in the income statement	1.0	1.5	2.5

	Administrative expenses £m	Interest expense £m	Total £m
2021			
Depreciation expense of right-of-use assets	1.0	-	1.0
Interest expense on lease liabilities	-	0.6	0.6
Total recognised in the income statement	1.0	0.5	1.6

The below table sets out the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the year ended 30 June 2022 and the year ended 30 June 2021.

Group	2022		2021	
	Right-of-use assets – leasehold property £m	Lease liabilities £m	Right-of-use assets – leasehold property £m	Lease liabilities £m
As at beginning of year	27.7	(29.9)	9.2	(11.5)
Additions	-	(0.9)	5.3	(5.6)
Modifications	-	-	14.4	(14.4)
Depreciation expense	(1.0)	-	(1.0)	-
Interest expense on lease liabilities	-	(1.5)	-	(0.6)
Payments	-	2.7	-	2.2
Impairment	-	-	(0.2)	-
At end of year	26.7	(29.6)	27.7	(29.9)

The lease liabilities analysis includes hire purchase obligations for motor vehicles. The Group had total cash outflows for leases of £2.7m during the year ended 30 June 2022 (2021: £2.2m).

26. Pension arrangements

During the year the Group contributed to employees' personal pension plans. The total cost for the year amounted to £1.6m (2021: £1.3m).

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

27. 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.

In accordance with IFRS 2, management considers that during the year, the likelihood of the occurrence of the conditions required for the scheme to vest has increased. As a result, a charge of £4.5m has been recognised in the income statement having met the threshold for recognition during the year, with a corresponding increase in the share-based payment reserve within equity. The majority of this charge represents the costs to the Group of services received from those individuals in previous accounting periods.

28. Commitments and contingencies

The Group has commitments to extend credit which are not recorded on the balance sheet. This includes both the undrawn element of existing facilities and new commitments to lend.

At 30 June 2022, the Group had undrawn commitments to lend of £219.4m (30 June 2021: £106.2m). These relate mostly to lines of credit granted to existing customers for property development. The amounts do not represent the amounts at risk at the reporting date but the amounts that would be at risk should the facilities be fully drawn upon and should the customer default.

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 £0.3m (30 June 2021: £0.2m), and is classified within other liabilities.

29. Reforms of benchmark interest rates

The Group's derivatives and non-derivative financial liabilities have been exposed to sterling Libor. Due to interest-rate benchmark reform, sterling Libor was discontinued on 31 December 2021 (other than for a 'synthetic' Libor available for instruments not transitioned from Libor by that date). It has therefore been necessary to transition to an alternative benchmark rate, also referred to as near-risk-free rates or RFR's. The Group's RFR for sterling Libor is the reformed sterling overnight index average (Sonia).

Implementation of alternative benchmark interest rates

The Group's mortgage loans do not directly reference Libor, and its only significant use has been as a reference rate for some of the Group's floating-rate borrowings and, in two cases, their related hedging arrangements. The Group's discontinuance of sterling Libor was closely managed by the treasury department to minimise the risk to the business's performance and activities and, during the year, the Group completed the transition arrangements for all its sterling-Libor facilities, as set out below.

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

29. Reforms of benchmark interest rates (continued)

Risks arising from the interest-rate benchmark reform

The key potential risks for the Group arising from the transition were:

- Interest-rate basis risk: this risk arises if negotiations with counterparties are not successfully concluded before the change cessation of Libor, or if negotiations result in derivative and non-derivative instruments in a hedging relationship transitioning at different times, with different adjustment spreads or to different calculation methodologies.
- Accounting: if transition to Sonia is executed such that it does not permit the application of the reliefs in the Phase 2 amendments to IFRS 9, this could lead to volatility in the income statement as a result of the discontinuation of hedge-accounting relationships or if non-derivative financial instruments are modified or derecognised.
- Operational risk: the implementation of alternative benchmark rates will require changes which potentially give rise to operational risks.

Group management successfully worked with all counterparties to implement the changes and none of the risks have crystallised.

Interest-rate benchmark transition for non-derivative financial liabilities

The Group is already using Sonia as the reference rate for floating-rate notes and derivative contracts in its most recent securitisations. For its facilities referencing Libor, the Group actively managed the transition to Sonia. All facilities to be transitioned by specific contract amendments, rather than upon refinancing, required the agreement of spread adjustments to reduce or eliminate, to the extent reasonably practicable, any transfer of economic value from one party to another as a result of the transition to Sonia.

The table below summarises the year-end position for the sterling-Libor financial liabilities that were in scope of the IFRS 9 amendments due to interest-rate benchmark reform. The amounts represent the total facility size and so include notes that pay interest at commercial-paper rates, as well as notes that reference Libor.

Non-derivative financial liability	Maturing in	Total facility	Hedge accounting	Transition progress
Revolving credit facility	June 2023	71.9	N/a	Transitioned to Sonia
Private securitisation loan notes				
Charles Street ABS	-	-	N/a	Facility extinguished
Lakeside ABS	April 2026	700.0	N/a	Transitioned to Sonia
Highfield ABS	September 2025	525.0	N/a	Transitioned to Sonia
Delta ABS	December 2025	400.0	N/a	Transitioned to Sonia
Public securitisation loan notes *				
Together ABS1	-	-	N/a	Facility extinguished
Together ABS2	November 2022	108.5	Partially designated in cashflow hedge	Transitioned to Sonia

* The stated maturity dates for the public securitisations are aligned to the maturity/call dates disclosed in Note 18. The stated nominal amounts represent the amounts outstanding at the end of the period.

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

29. Reforms of benchmark interest rates (continued)

Interest-rate benchmark transition for derivatives and hedge relationships

The Group used sterling-Libor derivatives for hedging purposes in only two of its securitisations, Charles Street ABS (CABS) and Together ABS2 (TABS 2). CABS used a combined interest-rate swap and floor and TABS 2 used a cap, and all derivatives were subject to reform. TABS 2 was successfully transitioned to Sonia by the Libor cessation date while the CABS derivatives were transitioned to synthetic Libor as an interim measure before being cancelled as part of the termination of the CABS facility.

30. Events after the reporting date

Since the year end, in July 2022, the Group has completed a further RMBS, Together ABS 7, raising £470m of external funding and with 89% of its issued notes AAA rated.

Also after the year-end, in September 2022, the Group refinanced its revolving credit facility, increasing the facility size from £71.9m to £138.3m and extended the maturity initially to 2026.

Also in September 2022, the Group refinanced its BABS facility, with an additional £24m of funding secured.

31. Controlling party

As at 30 June 2022 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 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.

	2022 £m	2021 £m
Impairment charge	4.3	16.1
Average net loans and advances to customers	4,629.9	4,087.0
	0.1%	0.4%

Cost-to-income ratio

Administrative expenses including depreciation and amortisation divided by operating income.

	2022 £m	2021 £m
Administrative expenses	98.9	87.4
Operating income	228.6	214.8
	43.3%	40.7%

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, strategic option costs and share-based payment.

	2022 £m	2021 £m
Administrative expenses	98.9	87.4
Less redundancy costs	-	(1.7)
Less strategic options costs	(7.9)	-
Less charge for share-based payment	(4.5)	-
Plus releases in forbearance and customer-communication	1.2	8.2
Administrative expenses excluding exceptional costs	87.7	93.9
Operating income	228.6	214.8
Add back refinance cost	-	5.9
Operating income excluding exceptional costs	228.6	220.7
Underlying cost/income ratio	38.4%	42.5%

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

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

	2022 £m	2021 £m
Profit before tax	125.4	111.2
Add back:		
Interest payable and similar charges	169.1	162.1
Depreciation and amortisation	5.3	5.3
	299.8	278.6

Appendix (continued)

Unless otherwise stated, all amounts are stated in £m

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

EBITDA adjusted for provision releases made in respect of forbearance and customer communication, strategic option costs and share-based payment.

	2022 £m	2021 £m
EBITDA	299.8	278.6
Add back:		
Redundancy costs	-	1.7
Strategic options costs	7.9	-
Charge for share-based payment	4.5	-
Less releases of forbearance and customer communication provisions	(1.2)	(8.2)
	311.0	272.1

Interest-cover ratio

The ratio of EBITDA to interest payable and similar charges.

	2022 £m	2021 £m
EBITDA	299.8	278.6
Interest payable and similar charges	169.1	162.1
	1.8:1	1.7:1

Underlying interest-cover ratio

The ratio of underlying EBITDA to interest payable and similar charges.

	2022 £m	2021 £m
Underlying EBITDA	311.0	272.1
Interest payable and similar charges	169.1	162.1
Deduct:		
Refinancing cost	-	(5.9)
	1.8:1	1.7:1

Net debt gearing

Net debt expressed as a percentage of loans and advances to customers. Net debt consists of certain borrowings facilities excluding any premiums less cash and cash equivalents.

	2022 £m	2021 £m
Total borrowings	4,849.9	3,665.5
Add back debt issue costs	28.5	18.4
Less shareholder loans	(21.5)	(23.1)
Less lease liabilities	(29.6)	(29.9)
Less senior secured notes premium	(0.4)	-
Less cash and cash equivalents	(265.8)	(239.2)
Net debt	4,561.1	3,391.6
Loans and advances to customers	5,247.9	4,011.9
	86.9%	84.5%

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.

	2022	2021
	£m	£m
Net interest income	226.1	209.5
Average loans and advances to customers	4,629.9	4,087.0
	4.9%	5.1%

Underlying net interest margin

Net interest income adjusted for one-off refinancing costs.

	2022	2021
	£m	£m
Net interest income	226.1	209.5
Add back:		
Refinancing cost	-	5.9
Adjusted net interest income	226.1	215.4
Average loans and advances to customers	4,629.9	4,087.0
	4.9%	5.3%

Underlying profit before taxation

Calculated at the Group's statutory profit before tax adjusted for one-off exceptional items.

	2022	2021
	£m	£m
Profit before tax	125.4	111.2
Add back:		
Refinancing cost	-	5.9
Redundancy costs	-	1.7
Strategic options costs	7.9	-
Charge for share-based payment	4.5	-
Less release of forbearance and customer communication provisions	(1.2)	(8.2)
	136.6	110.6

Return on equity (ROE)

Calculated the return to shareholder funds expressed as a percentage of the average of the opening and closing shareholder funds (which are defined later in this section). The return to shareholder funds is profit after tax adding back shareholder loan interest net of associated tax at the effective tax rate.

	2022	2021
	£m	£m
Profit after tax	101.1	92.2
Add back shareholder loan interest	2.6	2.9
Less tax on shareholder loan interest	(0.5)	(0.5)
Total return to shareholder funds	103.2	94.6
Average shareholder funds	638.7	536.3
	16.2%	17.6%

Appendix (continued)

Unless otherwise stated, all amounts are stated in £m

Underlying return on equity

Calculated as total return to the shareholder adjusted for exceptional items and their associated tax, expressed as a percentage of the average of the opening and closing shareholder funds.

	2022 £m	2021 £m
Total return to shareholder funds	103.2	94.6
Add back exceptional items		
Redundancy costs	-	1.7
Strategic options costs	7.9	-
Charge for share-based payment	4.5	-
Less releases of forbearance and customer communication provisions	(1.2)	(8.2)
Refinancing cost	-	5.9
	11.2	(0.6)
Less tax on exceptional costs using effective tax rate	(2.2)	0.1
	9.0	(0.5)
Underlying return to shareholder funds	112.2	94.1
Underlying average shareholder funds	638.7	536.3
	17.6%	17.5%

Cost-to-asset ratio

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

	2022 £m	2021 £m
Administrative expenses	98.9	87.4
Average total assets	4,976.3	4,395.5
	2.0%	2.0%

Underlying cost-to-asset ratio

Administrative expenses, excluding exceptional items, divided by the average of the opening and closing total assets.

	2022 £m	2021 £m
Administrative expenses	98.9	87.4
Less redundancy costs	-	(1.7)
Less strategic option costs	(7.9)	-
Less charge for share-based payment	(4.5)	-
Plus releases of forbearance and customer communications provisions	1.2	8.2
Underlying administrative expenses	87.7	93.9
Average total assets	4,976.3	4,395.5
	1.8%	2.1%

Shareholder funds

This is equity plus subordinated shareholder loans.

	2022 £m	2021 £m
Equity	671.6	561.3
Shareholder loans	21.5	23.1
	693.1	584.4