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Common sense lending

Redhill Famco Limited

Annual report and consolidated financial statements for the year ended 30 June 2023

Company Registration No. 10162640

Redhill Famco Limited
Annual report and consolidated financial statements for the year ended 30 June 2023

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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 2023.

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.

	2023	2022
Interest receivable (£m)	577.4	395.2
Net interest margin (%)	4.8	4.9
Underlying net interest margin (%)	4.8	4.9
Interest-cover ratio	1.5:1	1.8:1
Underlying interest-cover ratio	1.5:1	1.8:1
Cost-to-asset ratio (%)	1.6	2.0
Underlying cost-to-asset ratio (%)	1.5	1.8
Cost-to-income ratio (%)	36.3	43.3
Underlying cost-to-income ratio (%)	34.5	38.4
Impairment charge (£m)	42.4	4.3
Cost of risk (%)	0.7	0.1
Profit before taxation (£m)	135.2	125.4
Underlying profit before taxation (£m)	140.2	136.6
Return on equity (%)	14.5	16.2
Underlying return on equity (%)	15.0	17.6
Loans and advances to customers (£m)	6,410.2	5,247.9
Weighted average loan-to-value (LTV) of originations[2] (%)	61.0	61.0
Weighted average indexed LTV of portfolio[3] (%)	55.3	51.5
Net debt gearing (%)	88.8	86.9
Equity (£m)	799.9	671.6

[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 significantly by 46.1% to £577.4m for the year to 30 June 2023 (2022: £395.2m). This was driven by the increases in yield on the loan book as the Group passed on interest rate increases to variable rate customers and repriced its new lending, in addition to the continued growth in the loan book in the year.

Interest payable and similar charges has also increased significantly by 77.2% to £299.6m (2022: £169.1m). The increase was driven by rapidly rising interest payable on borrowings as a result of the Bank of England continuing its policy of increasing its Bank rate that was mirrored in certain debt facility reference rates the Group pays.

Net interest margin fell slightly to 4.8% (2022: 4.9%) due to the factors mentioned above. Underlying net interest margin also fell slightly to 4.8% (2022: 4.9%) having incurred no one-off interest charges in the year (2022: £nil).

Cost metrics for the year improved due to continued careful management of costs, with the cost-to-income ratio falling to 36.3% (2022: 43.3%) and the cost-to-asset ratio falling from 2.0% to 1.6%, despite a slight increase in administrative expenses by 2.2% to £101.1m (2022: £98.9m).

Impairment charges for the year were £42.4m, up significantly from £4.3m last year resulting in the total loss allowance on loans and advances as at the year-end standing at £109.8m (2022: £85.7m). As a percentage of average loans and advances to customers, this represented a cost of risk of 0.7%, compared with 0.1% for the year ended 30 June 2022. The increased impairment charge for the year principally reflects the impact of increasing coverage levels on a growing loan book and due to the more pessimistic forward-looking macroeconomic assumptions, with arrears levels continuing to be monitored.

The directors of the Company do not recommend the payment of a dividend (2022: £nil).

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 has remained static at 61.0% for the year to 30 June 2023 (2022: 61.0%). House-price inflation contributed to the weighted-average indexed LTV of the Group's loan portfolio as a whole actually increasing, from 51.5% last year to 55.3% at 30 June 2023, disrupting 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 22.1% to £6,410.2m compared with £5,247.9m at 30 June 2022 primarily as a result of increased new originations averaging £233.1m per month during the year (2022: £226.8m) with the Group controlling origination volumes whilst maintaining prudent LTVs. The ECL loss allowance has increased in the period to £109.8m (2022: £85.7m) as a result of increasing coverage levels on a growing loan book as discussed above.

Equity has increased by 19.1% to £799.9m compared with £671.6m at 30 June 2022. Net debt gearing increased to 88.8% (2022: 86.9%) as the Group increased its borrowings during the year from £4.9bn last year to £6.1bn at 30 June 2023 in support of its lending growth. The subordinated shareholder funding is included within equity 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.

Funding activity during the year

In the year to June 2023 the Group successfully raised or refinanced £1.2bn of facilities to support the Group's lending activities:

- In July 2022, the Group announced the issuance of its largest ever RMBS, Together Asset Backed Securitisation 2022 – 1ST1 PLC (TABS 7), raising £494.4m.
- In September 2022, the Group refinanced its revolving credit facility, increasing the facility size from £71.9m to £138.3m and extended the maturity to 2026.
- Also in September 2022, the Group refinanced its BABS facility, extending its maturity to March 2027 with an additional £24m of funding secured.
- In December 2022, the Group launched a new facility, Fairway Asset Backed Securitisation 1 Limited (FABS), raising £467.4m.
- In June 2023, the Group refinanced its Lakeside ABS facility, raising a further £125.0m of funding.
- Since the year end, in July 2023, the Group issued an RMBS, Together Asset Backed Securitisation 2023 – 1st1 PLC (TABS 8), raising £404.4m in external funding.
- In September 2023, the Group completed the issuance of a further RMBS, Together Asset Backed Securitisation 2023 – 1st2 PLC (TABS 9), raising £443m.
- In the same month, the Group exercised its option to redeem the loan notes in Together ABS 3, taking back the beneficial title to the mortgage assets that had previously been securitised.
- Also in September 2023, the Group refinanced its BABS facility, extending the maturity date to September 2027 and raising an additional £55.0m of funding.

In November 2022 S&P upgraded the Group's rating to BB with a stable outlook, citing strong earnings resilience, stable asset quality, funding and liquidity remaining solid, and significant headroom in private facilities.

After the year end, in October 2023, Fitch upgraded the Group's rating to BB, as well as upgrading the senior secured notes issues by the Jerrold FinCo PLC subsidiary to BB, and the £380m Bracken Midco1 PLC senior PIK toggle notes to B+, citing the Group's sound financial performance in the year.

The Group has a diverse and flexible funding structure incorporating senior secured notes, private and public securitisations and a revolving credit facility.

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 demonstrate how 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 wider economic challenges such as the cost-of-living crisis. 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 supporting colleague well-being and delivers a comprehensive value proposition for colleagues. We have continued to listen to feedback from our colleagues via an interactive engagement platform, which enables management to receive real time feedback from colleagues on completion of quarterly engagement surveys. More details on our engagement with colleagues can be found in our Sustainability Report in the TFSL Annual Report and Accounts.

We continue to support colleagues at the start of their careers, through our apprentice and graduate programmes. Through our 50+ diversity and inclusion strand we offer support to colleagues as they move toward the end of their careers as well as continuing to celebrate those colleagues who achieve long service milestones.

During the year, managers were encouraged to have discussions with their teams about career development with the launch of Confident Career Conversations workshops. The sessions helped managers understand how to support colleagues with their development and work towards their career goals.

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 foundation to our ongoing compliance with the Financial Conduct Authority's Consumer Duty regulations.

The principles of good conduct have been further embedded by amendments to our performance management process for all colleagues to enhance the focus on the 'how' colleagues conduct themselves as well as the 'what' that they achieve. This 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

Our diversity

During the year, our work on diversity and inclusion continued to progress with our Diversity & Inclusion Committee, evolving to become the Diversity, Equity & Inclusion Steering Committee, to include equality of opportunity as part of the Committee's remit. The Committee aims to support senior leadership in ensuring alignment between the Group's operations and its diversity, equity and inclusion goals. More information on our diversity, equity and inclusion strategy can be found in the Sustainability Report in the TFSL Annual Report and Accounts.

Three new colleague Togetherness groups were also established within the year;

Sunflowers – disability awareness group;

Embrace – underrepresented ethnic groups; and

Parents & Carers.

In December 2022, we also signed up to the Race at Work Charter which is championed by the TFSL Group's Chief Compliance Officer.

Our customers and partners

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.

Stakeholder engagement report (continued)

Our customers and partners (continued)

Modernisation and automation

We continue to execute a process of modernisation and automation to take advantage of technology to help further improve our customer 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 touch-points throughout the loan life-cycle. More information on how we're modernising our platform can be found in the Operating Review in the TFSL Annual Report and Accounts.

Listening to Customers

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. We have implemented a number of enhancements to our customer service over the last year, which are discussed in more detail in our Operating Review.

We understand that we have a part to play in supporting our customers to make energy efficiency improvements to their homes. We have conducted research to better understand our customers' needs in this area. For more information see our Sustainability Report in the TFSL Annual Report and Accounts.

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 based on the length of the relationship with the partner and the significance of the market share we hold. Partners are segmented into gold, silver, bronze and green categories. A roving underwriter services is provided to support pre-underwriting reviews and support complex enquiries, and our customers, to ensure we maintain excellent levels of service for both partners and customers.

We continue to develop and streamline our application processes to improve the customer journey for both direct and intermediary customers. 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.

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 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.

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 including, the new Consumer Duty, the latest publication of the FCA Business Plan, firms' progress on embedding the FCA's Finalised Guidance on the Fair Treatment of Vulnerable Customers, supporting borrowers impacted by the rising cost of living, Borrowers in Financial Difficulty and Mortgage Prisoners.

Stakeholder engagement report (continued)

Our regulators (continued)

In June 2023, the Government announced the Mortgage Charter, which seeks to provide additional protections for customers who may face financial difficulties. We are undertaking an impact assessment of each of the commitments within the Charter, in order to determine whether similar outcomes can be made available to our customers.

Customer redress

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 was successfully completed in the financial year.

Disclosures in respect of customer redress provisions can be found in Note 20 to the Financial Statements.

Our investors and shareholder

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 long-standing banking relationships and have also built strong relationships with our institutional investors, many of whom invest across a number of our funding facilities. 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, periodic reporting to investors in our public and private securitisations, and regular attendance at investor conferences.

We hosted on-site and virtual 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 on-site annual visits. We also attended a number of conferences throughout the year, including securitisation industry conferences in Europe and North America as well as high yield and leveraged finance conferences, both virtually and in person.

During the year, we successfully completed further issuances under 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 and we used the results of 2023 Investor Survey to help us to further improve our communications

Our shareholder

Redhill Famco Limited is the ultimate parent entity of the Group which is wholly controlled by HN Moser. Mr Moser also 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 of Together Financial Services Limited Board 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

Our community

We understand that our impact extends beyond our local community and the communities in which we operate. The 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 and on our impact on the wider environment.

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.

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.

S172 requirement to have regard to:	**How the Board has fulfilled its s172 duties**
(a) the likely consequences of any decision in the long term	• The Board meets to consider operational and financial performance and key internal developments in the context of the short and medium-term objectives in place to protect the long-term value of the business. Further information on the Company's activity can be found in the strategic report. • The overall governance and risk management framework 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.
(b) the interests of the company's employees	• 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	• Maintaining positive stakeholder relationships is crucial to the Group's long-term sustainability. Further information on this can be found within the Stakeholder Engagement Report.
(d) the impact of the company's operations on the community and the environment	• The Group continues to support charitable and community organisations whilst working to reduce its environmental footprint. Further information on this can be found within the Sustainability Report in the TFSL Annual Report.
(e) The desirability of the company maintain a reputation for high standard of business conduct, and	• 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	• 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.

Strategic Report (continued)

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:

- Approval of the 3 year strategic plan and consideration of the infrastructure, resources and governance required to support the achievement of the plan.
- Oversight of the Group's culture, including consideration of colleague engagement, investment in colleague training and development and monitoring the culture and performance against the Group's strategic aims.
- Oversight of colleague wellbeing and health and safety performance.
- Oversight of the development of the Group's sustainability framework.
- Approval of charitable donations in line with the charitable donation framework.
- Capital management and allocation.
- Approval of the funding plan and entry into, amendment or extension of certain debt funding agreements.
- Approval of dividend payments.
- Ongoing review of the appropriateness of the organisational and governance structures to support the Group's activities and approval of the Corporate Rationalisation project.
- 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 IT and Change programmes.
- 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 seeking of 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.
- Consideration of the effectiveness of the governance of the Group and approval of the commencement of a governance effectiveness project to support the Board to have greater focus on the Group's strategic objectives and priorities.

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

Strategic Report (continued)

Corporate Governance (continued)

Corporate governance statement

For the year ended 30 June 2023, 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, supporting our sustainability goals, and meeting our legal and regulatory requirements.

Principle	How the principle has been applied during the year
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.	• 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. 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 strategy, see the Strategic report section within the TFSL Annual Report and Accounts. • In December 2022, the TFSL Board approved a revised Strategic Plan and financial reforecast which was presented by the business in response to the significant market turbulence experienced during the year. The Plan provided updates on progress against the Group's strategic objectives and set out key activities and areas of focus for each core business function. Progress made on the Group's strategic objectives is regularly discussed by the TFSL Group Executive Committee with updates provided to the TFSL Board at each meeting.
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.	• 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 TFSL 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 and directors recuse themselves from discussions for which they are conflicted as appropriate.

Strategic Report (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 committees to ensure that agendas are structured to facilitate appropriate discussion and challenge with sufficient time given to key areas of focus. 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. All 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. • The Matters Reserved for the Board and Committee Terms of Reference are regularly reviewed to ensure clear responsibilities and delegation of authority. Information on the activities of the Board and its Committees during the year can be found in the Corporate Governance section. • The Company Secretary provides an update on key governance activity to each Board meeting. The update includes a governance dashboard which gives a clear view of how the circulation of packs and minutes are tracked 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.
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	• The Group Risk Committee operates under delegated authority from the TFSL Board on matters of risk management and internal controls. This year, the newly appointed CRO completed a thorough review of Risk reporting, which has led to a more streamlined pack, with enhanced information, to drive a better quality of discussion around the key risks facing the business. 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 by the divisional CEOs. More information on this work can be found in the Operating review. • The TFSL Board regularly receives comprehensive Treasury and financial risk updates to ensure that members remain informed on the funding and liquidity position of the Group. During the year the TFSL Board received training from the Treasury team to enhance their understanding of the funding transaction process.

Strategic Report (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 Company has no employees, and therefore decisions on remuneration are taken within the TFSL Group for employees within the Group.
	•	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.
	•	During the year the Remuneration and Nomination Committee approved an increase to colleague base pay in recognition of the financial challenges facing colleagues. The Committee also took into consideration the increased cost of living when making decisions regarding the approach to the annual salary review.
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 in the TFSL Annual Report and Accounts.
	•	The TFSL Board receives regular reporting on progress made against the Group's Sustainability targets. More information on the activities of the Sustainability Committee including the strategy can be found in the Sustainability Report section in the TFSL Annual Report and Accounts.

Strategic Report (continued)

Risk Management

Top & Emerging Risks

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

There have been a number of macroeconomic and political challenges in the UK throughout the year.

The UK's macroeconomic environment in 2022-23 has been characterised by high inflation and subdued economic growth, with energy, fuel and food being key drivers of inflation. As a result, the Bank of England has taken the decision at multiple points throughout the year to increase the Bank Rate, which has an impact on the price of borrowing for both businesses and consumers, with the Bank Rate rising from 1.25% at the beginning of the year to 5.00% at June 2023, with further increases after the year end. Despite interest rate increases, inflation has remained at high levels, with CPI at 7.9% at June 2023, although lower than the peak of 11.1% in October 2022, and with inflation lowering since the year end to 6.8% in the 12 months to July 2023.

Throughout the ongoing cost of living crisis, unemployment has remained at relatively low levels, although has increased to 4.2% for June 2023 (June 2022: 3.8%). In the same period, real wages have fallen which has increased pressure on households across the country. The UK's growth has also remained at continued low levels in the year, with market consensus that growth will remain stagnant at best over the short term.

Despite the improvements in the UK's macroeconomic environment in the latter months of 2022-23, there remain challenges to both businesses and consumers from the continuing cost of living issues, and higher costs of borrowing. The Group has reacted to the ongoing cost of living challenges and increases in the Bank Rate, ensuring that good customer outcomes are delivered and vulnerable customers are supported, whilst repricing fixed rate mortgages and updating the rate for variable products, to reflect the changes in cost of borrowing.

The squeeze on the financial position of individuals and businesses in the economy has the potential to impact on the ability of some customers to afford their mortgage repayments. Increases in the Bank of England's Bank Rate also leads to increasing borrowing costs for the Group, which can result in compression of our net interest margin as a result of the lag in being able to pass these rates onto customers.

What we did in FY23

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 scenario planning and stress testing has informed management decisions on resourcing and processes;
- Implemented and embedded the tools, resources and processes needed to proactively manage and assist arrears cases;
- Continuous assessments of our competitive position to make informed decisions around our product and pricing;
- Implemented a more active hedging strategy to ensure interest rate risk within the Group was appropriately managed;
- Reviews of our administrative cost base and identification of efficiencies and waste; and
- Made significant operational improvements to pass on cost of fund changes in an efficient and controlled manner.

Direction and focus for FY24

Whilst the level of economic uncertainty has recently declined, the macroeconomic outlook remains pessimistic. The Group continues to perform stress testing and run scenario analysis to ensure that the Group is well-positioned regardless of the economic environment. The Group also maintains profitable returns through its model of lending at sustainable LTVs.

Furthermore, economic forecasts currently anticipate continued cost of living pressures over the next few years, with low and stagnant growth in the UK economy. The Group continues to support those of our customers facing challenges whilst closely monitoring arrears levels.

Strategic Report (continued)

Risk Management (continued)

Top & Emerging Risks (continued)

People

The market for talent and experience remains highly competitive, with continued challenges posed by high rates of inflation within the UK economy. The Group remains committed to providing an engaging working environment for employees, as demonstrated by our achievement of Silver accreditation for Investors in People during the year.

What we did in FY23

In response to the escalating people risk, the Group:

- Continued to make improvements to the colleague value proposition;
- Regularly conducted employee engagement surveys to understand areas of focus for colleagues;
- Continued to develop and refine succession planning, retention strategies and career progression plans with a view to reducing key person dependency risk;
- Closely monitored key operational metrics to understand areas of focus for resource; and
- Built on our existing DEI (diversity, equity and inclusion) strategy, with the Group's DEI networks organising events throughout the year.

Direction and focus for FY24

The Group continues to support our colleagues, recognising their significant contribution and providing opportunities for personal development. We will continue to attract talent through our competitive employee offering and our commitments to diversity.

Operational process risk

As part of our ambitious growth plan, we recognise that we need to enhance our operational capability and continue to deliver appropriate customer service for our customers. The Group is committed to enhancing data management and control frameworks in order to support the ongoing enhancements to our operational processes.

What we did in FY23

In response to its Operation Process risk, the Group:

- Reengineered key operational processes to embed improved in-process controls;
- Improved risk and control self-assessment engagement in operational areas to ensure key risks are appropriately recognised, assessed and effectively mitigated;
- Enhanced and developed our data strategy and roadmap; and
- Obtained assurance over critical business processes across multiple operational departments;

Direction and focus for FY24

The Group will continue to prioritise operational process enhancement, including automating key processes where possible whilst still maintaining flexibility to ensure our customers remain at the heart of what we do. The Group will give particular focus to key areas such as data management, control frameworks and operational capacity and capability in order to support our ongoing process enhancements.

Risk Management (continued)

Top & Emerging Risks (continued)

Regulatory and conduct changes

The Group closely monitors changes in regulation as they have the potential to impact the way we do business. Remaining cognisant of regulatory and conduct changes is also in line with our commitment to deliver good customer outcomes. Failure to comply with changes in regulation could result in fines, reputational damage and the potential revocation of regulatory permissions.

What we did in FY23

In response to the continued focus on regulation and conduct in FY23, the Group:

- Developed and implemented a roadmap for the FCA's new Consumer Duty;
- Continued to make good progress against existing customer remediation projects; and
- Monitored and acted on guidance relating to supporting customers in a rising cost of living environment.

Direction and focus for FY24

The Group will focus on continuing to provide, and demonstrate, good outcomes within all of its interactions with customers and potential customers, ensuring this through the design and execution of all processes that have the potential to lead to poor customer outcomes.

It is expected that there will be an increase in customer vulnerabilities given the current macroeconomic environment. The Group will continue to support its customers and be proactive in implementing any changes to FCA rules or guidance.

The Group's compliance function will also continue to monitor proposed changes to the FCA regulatory landscape, to assess the potential impact of any changes, and to allow for procedures and processes to be adapted accordingly.

Climate

Climate risk continues to receive significant public interest as well as increasing regulatory scrutiny. Climate risk primarily arises in two channels: physical risks, and its impact on the valuation of assets and liabilities, and transitional risk from the movement towards a low-carbon economy. There is also the potential for reputational risk arising from a failure to meet stakeholder demands in relation to climate management and monitoring.

What we did in FY23

In response to climate change risk during FY23, the Group:

- Developed and embedded a climate-related risk framework;
- Partnered with a third party to baseline our scope 3 emissions and begin road mapping our path to net zero; and
- Formalised our climate-related governance and began regular reporting and monitoring of climate-related risks and opportunities to the Board.

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

Risk Management (continued)

Top & Emerging Risks (continued)

Climate (continued)

Direction and focus for FY24

The Group will focus on furthering our understanding of the impact of climate-related risks on both financial performance and planning. This will involve building on our current qualitative scenario analysis, developing our quantitative analysis.

The Group will also look to build on our net zero pathway plan and to further understand the impact of our operations on climate through the Scope 3 baseline.

For further detail on climate risk, please see our TCFD Report.

Change

Change is key to ensuring that the business is competitive, provides good customer outcomes and is efficient and effective in its daily activities. The size and scale of changes needed to leverage new technology and maintain current systems and services is a key challenge for all financial services firms. The Group remains committed to investing, managing and overseeing an effective change management function, as demonstrated by the continued embedding and enhancement of agile methodologies during the year.

What we did in FY23

In response to its people risk, the Group:

- Continued to enhance the in-flight governance around the agile processes to deliver timely identification of delivery risks;
- Enhanced the processes for prioritisation and commitment to change activities to ensure that those changes needed to address high risks or that offered high reward are delivered;
- Introduced new tools and systems to support teams in delivering the required changes efficiently and effectively; and
- Obtained increased resource to assist in delivering the desired and necessary changes within the required timescales and delivering the full level of value.

Direction and focus for FY24

The Group continues to support Change through investment in people, processes and systems to enable the timely delivery of changes that deliver the expected level of value. We will continue to enhance the governance processes to ensure that any deviations are identified and addressed early to protect the value they will deliver.

Cybersecurity

Due to the geopolitical environment and the ever evolving nature and complexity of cyber threats, there is a heightened cyber risk. To manage this risk, there have been a number of elements that have been considered:

- Strengthened our external and internal perimeter defences;
- Continued to enhance our response capabilities to ensure that any realised threats are identified and resolved efficiently and effectively; and
- Continued to evolve the tools and process used to counter cyber threats, including educating our key stakeholders on how they play their part in protecting the business.

What we did in FY23

In response to the cybersecurity risk faced in the year, the Group:

- Continued to make progress against the Group's cyber roadmap;
- Built on existing infrastructure, improving security and defences; and
- Closely monitored related metrics and carried out extensive testing to understand weaknesses in environment.

Direction and focus for FY24

The Group will continue to invest in its cybersecurity capabilities and will focus on enhancing the level of maturity of its related controls and defences, utilising 3rd party experts to benchmark ourselves against the highest standards.

Risk Management (continued)

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 risk;
- Funding risk;
- Interest rate 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.
- Delivering the Group's modernisation and transformation agenda, to improve the customer journey and increase the operational efficiency of the business.
- Responding appropriately to the changing external environment, utilising scenario and budget setting to inform decision making.

Sensitivity and stress testing analysis are carried out against the loan book and business plans, in order to monitor our ability to deliver on our strategic objectives. As part of this we:

- Maintain a prudent liquidity position, with diversity of mix and tenor of funding structures, and closely monitored gearing levels.
- Perform the annual budget process, with a 12-18 month outlook, which aligns with the Group's objectives.
- Perform regular forecasting to ensure we are able to respond to a changing environment whilst still achieving our strategic objectives.

Direction of travel

During the year, the Group's strategic risk increased as a result of the macroeconomic environment. In the first half of FY23, market instability was fuelled by the announcement of the government's economic strategy. Moving into the second half of FY23, the outlook remains pessimistic, driven by worse than forecast falls in inflation with both wage growth and core inflation proving more stubborn than expected. This has led to expectations that the Bank of England will have to raise rates further and keep them higher for longer than previously assumed.

Market volatility has, at times, made product pricing more difficult with the Group, with fixed-rate lending paused in September following the mini-budget. Throughout the year, the Group has responded to external pressures that have threatened to impact its performance.

Risk Management (continued)

Principal risks and uncertainties (continued)

Credit risk

Credit risk is the risk arising as a 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. We continued to update affordability models throughout the year in response to external pressures such as inflation and rising base rate;
- 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. During the year, the Group developed a score-based approach to prioritise those customers most in need of support; and
- Measuring and monitoring credit quality for impairment purposes using expected credit loss models. Our detailed disclosures in respect of expected credit loss modelling are included within notes 2, 3 and 13 to the Financial Statements.

Direction of travel

The rising interest rate environment and increasing cost of living pressures have continued to impact our customers throughout the year. These factors have been taken into consideration when forecasting and adjusting affordability models during FY23. The Group has also closely monitored arrears levels and customer credit data to ensure that we are supporting those customers who need it the most. Macroeconomic forecasts are modelled in our expected credit loss provisioning, which takes into account expectations around variables such as Base Rate and house prices.

Strategic Report (continued)

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	2023 £m	2022 £m
Included within the statement of financial position:			
Gross customer balances		6,540.3	5,357.1
Accounting adjustments		(20.3)	(23.5)
Less: allowance for impairment	13	(109.8)	(85.7)
Loans and advances to customers	13	6,410.2	5,247.9
Cash and cash equivalents	11	323.5	265.8
Derivative assets held for risk management	12	62.3	11.2
Amounts owed by related parties	14	87.6	43.1
Other debtors	14	3.0	1.1
		6,886.6	**5,569.1**
Not included within the statement of financial position:			
Commitments to lend (net of ECL)	29	156.0	219.4
Maximum exposure to credit risk		**7,042.6**	**5,788.5**

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 £7,042.6m during FY23, largely as a result of growth in the loan book, growth in cash balances and growth in derivatives balance.

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 through the year, are shown in Notes 2 and 13 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.

	2023 £m	2023 % of gross customer balances	2022 £m	2022 % of gross customer balances
60% or less	3,651.8	55.9	3,630.3	67.8
61 – 85%	2,736.0	41.8	1,625.3	30.3
86 – 100%	81.6	1.2	63.5	1.2
Greater than 100%	70.9	1.1	38.0	0.7
Gross customer balances	**6,540.3**	**100.0**	**5,357.1**	**100.0**

Of the gross customer balances at 30 June 2023, 97.7% (30 June 2022: 98.1 %) of loans had an indexed LTV or 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 remained static during the year:

	2023 %	2022 %
Buy-to-let	65.0	64.5
Development	46.7	43.6
Bridging	63.1	60.8
Commercial term	56.7	58.4
Retail	54.2	56.7
Average weighted LTV of new lending	**61.0**	**61.0**

Concentration of credit risk

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

	2023 %	2022 %
East Anglia	4.0	4.3
East Midlands	4.5	4.0
Ireland	0.1	0.1
London	14.5	15.3
North East	1.6	1.6
North West	18.8	17.3
Scotland	5.4	5.2
South East	23.4	24.9
South West	6.1	6.3
Wales	3.9	3.7
West Midlands	9.5	9.8
Yorkshire & Humber	8.2	7.5
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:

	2023 %	2022 %
Up to £50,000	5.3	6.8
£50,000 – £100,000	12.4	13.8
£100,000 – £250,000	24.5	24.6
£250,000 – £500,000	18.0	16.6
£500,000 – £1,000,000	11.7	11.2
£1,000,000 – £2,500,000	12.2	12.1
More than £2,500,000	15.9	14.9
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, 93.6% (30 June 2022: 93.7%) have an LTV of under 85% at 30 June 2023.

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

Liquidity 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.

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. This includes weekly monitoring of redemptions for any indication of a stress.
- Monitoring of liquidity risk against Board approved risk appetite limits and triggers.
- Monitoring of covenants and eligibility criteria within the securitisations.
- 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.

Direction of travel

The Group's liquidity position remains strong, evidenced by the level of cash and its total accessible liquidity (TAL).

The Group's private securitisation facilities present a key liquidity risk. These facilities are subject to portfolio covenants and eligibility restrictions but, in certain circumstances, assets can be exchanged, repurchased or additional capital can be injected into the facilities to ensure compliance. There is a risk that facilities may go into early amortisation if there is a failure to comply with the facility terms or a breach of non-curable performance covenants. This would result in the removal of undrawn facility headroom and deferral of Group cash flows which will be prioritised to repay the facilities.

The Group monitors liquidity by reference to its TAL, which comprises cash plus immediately accessible headroom in its funding facilities (subject to drawdown notice periods, asset eligibility and covenants), which includes the revolving credit facility and each of the private securitisations.

During the period TAL has decreased to £248.0m at 30 June 2023 (2022: £406.9m), whilst cash balances have increased to £323.5m at 30 June 2023 (2022: £265.8m). Not all cash is accessible at any one time due to securitisation requirements and covenant restrictions, and so accessible cash, which is just one component of TAL, is lower than the total cash balance.

Risk Management (continued)

Principal risks and uncertainties (continued)

Funding risk

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.

Management and mitigation

- 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.
- Monitoring the maturity mismatch between assets and liabilities.
- Proactive refinancing of facilities well in advance of their contractual maturity dates and diversification of funding.

Direction of travel

There has been a reduction in funding transactions across the market, particularly in the first half of the financial year, due to increased uncertainty in the macroeconomic environment, which increases funding costs and makes accessing additional funding more difficult.

However, this has somewhat improved in the second half of the financial year, and since year end, with an increase in the number of finance transactions within the market.

The following is an analysis of the gross undiscounted contractual cash flows payable on our financial liabilities, including expected future interest payments, based upon forecast market rates for floating rate instruments.

Audited 30 June 2023	**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**
Revolving credit facility	70.0	-	-	70.0	-	70.0
Loan notes	4,511.3	777.0	533.5	3,550.5	-	4,861.0
Senior secured notes	1,055.2	53.3	53.3	1,135.0	-	1,241.6
Senior PIK toggle notes[1]	380.0	25.7	25.7	444.1	-	495.5
Lease liability	29.1	1.1	1.1	2.4	24.5	29.1
Subordinated shareholder loans	25.0	-	-	-	68.0	68.0
	6,070.6	**857.1**	**613.6**	**5,202.0**	**92.5**	**6,765.2**
Debt issue costs	(21.1)	-	-	-	-	-
Borrowings	**6,049.5**	**857.1**	**613.6**	**5,202.0**	**92.5**	**6,765.2**
Trade creditors	3.2	3.2	-	-	-	3.2
Other creditors	1.3	1.3	-	-	-	1.3
Commitments to lend	156.0	156.0	-	-	-	156.0
	6,210.0	**1,017.6**	**613.6**	**5,202.0**	**92.5**	**6,925.7**

[1]The contractual cashflows of the PIK notes are presented within this table on the basis of being cash serviced.

Risk Management (continued)

Principal risks and uncertainties (continued)

Liquidity and funding risk (continued)

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**

The weighted average maturity of the Group's borrowings is 2.9 years at 30 June 2023 (30 June 2022: 3.8 years) and the Group has a strong track record of successful refinancing and raising new facilities, as seen through the additional facilities raised post year end and as shown in note 19.

The depth of maturity in the Group's existing debt facilities provides significant mitigation in respect of refinancing risk. The earliest maturity of wholesale funding is the Highfield Asset Backed Securitisation (the drawn amount at 30 June 2023 of £388.0m representing 8.6% of the Group's total loan notes as at the reporting date), which is not due until September 2025. Following the redemption of the notes issued by Together ABS 3 in September 2023, the earliest call date on any of the Group's public securitisations is Together ABS 4 in June 2024. Further detail is set out in note 19 to the Financial Statements.

Interest rate risk

Interest rate risk is the risk arising from the Group's exposure to movements in interest rates as a result of repricing mismatches between assets and liabilities that are either fixed or floating rate.

Management and mitigation

- Monitoring of interest rate risk exposure, including forward-looking stress testing of earnings at risk, which incorporates new business assumptions and expected redemptions and undertaking hedging transactions as appropriate.
- Introduced a new hedging strategy to formalise the Group's interest rate risk management activity.
- 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, the Bank of England has increased base rate to its highest level in almost 15 years and persistently high inflation has led to market expectations of further increases, reflected in higher swap rates. Base rate rises have led to an increase in the cost of the Company's variable rate of borrowings.

The Group is unable to pass these increases on immediately to its variable rate customers, due to the requirement to notify customers of rate changes at least one month before they are enacted. This lag to passing on cost of funds movements results in a temporary mismatch, lowering net interest income.

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

Risk Management (continued)

Principal risks and uncertainties (continued)

Interest rate 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. The sensitivity presumes that there is no lag in the pass-on of rate changes to customers and it is calculated on a contractual basis.

	2023 £m	**2022 £m**
1.0% decrease	(20.7)	(18.2)
0.5% decrease	(10.4)	(9.1)
0.5% increase	10.4	9.1
1.0% increase	20.7	18.2

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 12 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 continued to closely monitor its gearing levels to ensure that there is sufficient capital resources to achieve its lending plans and to maintain compliance with Senior Secured Note covenants. The Group has no regulatory capital requirements beyond those of its regulated subsidiaries.

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 £110.1m over the year (2022: £108.6m increase). The net debt gearing ratio has increased to 88.8% at 30 June 2023 (30 June 2022: 86.9%) 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 business process, people, information security, technology infrastructure and third party risks.

Management and mitigation

- Regularly reporting 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, and independent assurance, over the delivery of change projects by the Group Risk department.

Direction of travel

The Group has experienced a rise in operational risk as a result of external pressures. This includes a competitive labour market, increasing our people risk, as well as the increasing cyber and fraud risk from the current geopolitical and rising cost of living environments respectively.

We have identified a need to enhance and improve our controls over change governance and our oversight of key 3rd parties who we rely on for critical business activities.

The rapid interest rate rises have put further pressure on our existing manual processes, driving increased customer contact and operational activity and therefore increasing our business process risk. The Group continues to progress its change and transformation plan, to improve and enhance these processes, whilst ensuring these are scalable and efficient.

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.
- Performance of gap analyses against industry body and regulator guidance and good practice to identify continual improvements to business processes. During FY23, this has particularly focused on providing support to customers impacted by the rising cost of living.
- 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 put good customer outcomes at the centre of its decision-making process and continued to make good progress against our remediation projects.

We remained cognisant of our customers' circumstances and the potential for a rise in vulnerabilities.

Strategic Report (continued)

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.

For more information, see Note 20 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.
- 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 scrutiny remains high as a result of the challenging macroeconomic environment and the implementation of the Financial Conduct Authority's new Consumer Duty.

The Group's Consumer Duty plan was approved by the Personal Finance divisions' Board and external expertise were utilised in implementing the plan. The Group has developed its Consumer Duty plan throughout the year and following year end, it has been implemented in line with the deadline for compliance.

The Group continues to work to manage its compliance risk. During the year, a new financial crime system was implemented and progress was made on enhancing our in-process controls.

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

GD Beckett
Director
2 November 2023

Strategic Report (continued)

TCFD Report

Climate-related financial disclosures

In the previous year, the UK government introduced new requirements on businesses to report climate-related financial disclosures, with the legislation largely reflecting the recommendations issued by the Task Force on Climate-related Financial Disclosures (TCFD). In the current year, the Group has adopted the disclosure requirements. The disclosures outline the activities the Group has conducted during FY23, along with the focuses for FY24.

Our climate considerations

The Group is committed to playing its part in seeking to address the impact of the climate crisis. We have focused initially on identifying our impact so we can measure the effectiveness of our actions against our goals.

"Our Planet" is one of the four key pillars of our sustainability strategy and we are focused, in the short term, on minimising the environmental impact of our direct operations, as well as how we can have an impact on the carbon footprint of our lending. However, we remain committed to our purpose of realising people's ambitions by making finance work. As such, we will continue to lend to under-served customers, and wherever possible assist them in reducing their own environmental impact.

Climate change and its impacts remain a key area of regulatory and reporting focus. The Group is cognisant of emerging reporting requirements as well as changes to existing frameworks. As such, in the coming year we will continue to build on our current disclosures, deepening our understanding of the impact of climate change on the Group.

The TCFD report describes the Group's current position in relation to each of the four TCFD pillars, as well as discussion around the planned activities for the future. The four TCFD pillars are as follows:

- **Governance** – The Group's governance around climate-related risks and opportunities.
- **Strategy** – The actual and potential impacts of climate-related risks and opportunities on the Group's business and strategy.
- **Risk Management** – How the Group identifies, assesses and manages climate-related risks and opportunities.
- **Metrics and Targets** – The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Governance

Under the governance pillar of the TCFD recommended disclosures, in-scope entities are required to describe the organisation's governance around climate-related risks and opportunities. These governance arrangements should be discussed at both a board and management level.

Activities during FY23	Opportunities and developments for FY24
Board and Board committee oversight During the year, the TFSL Board has driven action on prioritising sustainability matters, including demanding plans, reporting and activity in this area, with the Group Finance Director being designated as the responsible Executive Committee member. The TFSL Board and its relevant sub-committees have overseen the development, approval and integration of the Group's climate-related risks framework. Furthermore, the TFSL Board has approved the designation of climate risk as a cross-cutting risk, impacting all existing level one and two risks within the Group's Enterprise Risk Management Framework (ERMF). In addition to this direct oversight, TFSL Board sub-committees, including the Risk Committee and Audit Committee, have considered climate-related matters during the year. This includes proposed climate risk metrics and requirements on climate-related financial disclosures. As well as the above, qualitative risk appetite statements and quantitative risk appetite metrics have been approved in the year.	The TFSL Board will continue to oversee sustainability considerations across the Group. It will ensure that climate-related risks and opportunities are being considered across the breadth of the business. This includes establishing a capability to report on climate emissions more regularly and track our progress in regular climate reporting which will guide future activity.

Strategic Report (continued)

Sustainability Committee During the year, the Group established a climate working group with representatives from across the business. The working group reports into the Sustainability Committee and works to identify and monitor risks across the business. The Sustainability Committee reports into the Executive Committee and Group Board on a monthly basis. This is done through a report which provides quantitative information on the Group's progress against its targets and commitments, as well as qualitative information on the Group's climate-related risks and opportunities.	The Group will continue the process of embedding the Sustainability Committee. This will include expanding on the information reported to the Board and Executive Committee, with a view that climate-related information will inform strategic decisions. The Group's newly established climate working group will be formalised and embedded within the existing governance structure. This includes establishing reporting lines and the working group's terms of reference. Finally, the Group will look to build on the controls and procedures that are applied to the management of climate-related risks and opportunities.
Third-party expertise The Group continued to develop its climate-related expertise, working with an external adviser to continue to report our Scope 1 and 2 emissions and calculate a baseline of our Scope 3 emissions and to build our net zero roadmap. The Group also piloted a partnership with a third party to provide retrofitting services for customer properties, exploring our ability to support customers in reducing their energy usage and our scope 3 emissions.	The Group will continue to work with its external adviser improving our Scope 1, 2 and 3 emissions measurement and formalising the net zero roadmap. We will look to understand the outcome of the retrofitting pilot scheme and will determine whether a full roll-out would be of benefit to our customers. Finally, the Group will look to work with external advisers to develop our quantitative scenario analysis.

Strategy

The Group has continued to develop its risk management and sustainability strategies through the following activities. These considerations include the following:

- Assess the climate-related risks and opportunities identified by the Group over the short, medium and long term;
- Assess the impact of climate-related risks and opportunities on the Group's business, strategy and financial planning; and
- Assess the resilience of our strategy, taking into consideration different climate-related scenarios.

The Group has continued to develop its risk management and sustainability strategies through the following activities. These considerations include the following:

Activities during FY23	Opportunities and developments for FY24
The Group has considered its exposure to climate risks within its climate-related risks framework. The framework also gauges the impact and likelihood of each given risk, resulting in an approximation of the level of materiality.	The Group will continue to monitor for any emerging climate-related risks, and will update the climate-related risks framework accordingly. The Group will also look to quantify the potential impact of the risks identified. We will then determine appropriate responses and mitigating actions for the risks identified.
The Group has considered the Bank of England's Climate Biennial Exploratory Scenario (CBES) scenario analysis when performing initial assessments of climate-related risks. The scenario analysis did not identify any significant vulnerabilities.	The Group will continue to build on the existing scenario analysis, quantifying the impact of each scenario on the financial performance and position. This will involve obtaining appropriate data from a third-party expert.
The Group has continued to explore climate-related opportunities during the year, engaging with customers over their needs. We have launched an EPC education hub to support our customers and intermediaries in their sustainability journey.	The Group will look to develop a green mortgage product that is of benefit to our customers and is in line with the Group's purpose. The outcome of the retrofitting pilot scheme will also be analysed to determine whether this partnership would be beneficial for our customers.

TCFD Report (continued)

Risk Management

The Group has undertaken actions during the year to develop the assessment of climate-related risk, in the context of the Group's wider risk management framework. The following table describes:

- Our processes for identifying and assessing climate-related risks;
- Processes for managing climate-related risks; and
- How processes for identifying, assessing and managing climate-related risks are integrated into the Group's overall risk management.

Activities during FY23	Opportunities and developments for FY24
The Group has begun to embed climate risk within the enterprise risk management framework (ERMF) and this is reflected in updates to the policy. Climate risk has been identified, and approved, as an overarching risk, impacting all level one and level two risks within the ERMF. Climate risk therefore is a source of risk for all the risk types listed in our risk universe, and could add to or exacerbate any of the elements described within the ERMF.	Climate risk within the ERMF will continue to be embedded as part of ongoing risk management, with the process continuing to mature. The Climate Risk Working Group have a roadmap of activities for assessing and addressing the related climate risk across the business in order to progress the initial assessment.
The climate-related risks framework was finalised, following input from stakeholders from across the business. The framework was then taken through the appropriate governance channels and was approved. Note that the framework sets out an initial view of climate related risks.	Within the context of the climate risk management framework, the Group will consider its vulnerability in relation to each identified risk, as well as the potential speed of onset. The Climate Risk Working Group will progress through a roadmap of activities, building on the initial framework set.
During the year, risk metrics were established against a number of those risks identified within the climate-related risks framework. Associated risk appetite levels have also been set. These metrics and appetites have been approved through the Group's risk governance channels.	Following the establishment of the Group's climate-related metrics and appetites, regular reporting against these will now be taken to the Executive Risk Committee. The Group will also consider whether there are any specific risk management measures that should be implemented in response to the monitoring of metrics and appetite. Additional risk appetite metrics will be developed as we obtain additional data, including Scope 3 related data and future climate impact data.

Risk identification and measurement

As previously noted, climate is an overarching risk, so identification takes place across all existing level one and two risk types. We remain aware of emerging climate risks through regular horizon scanning as well as through the use of scenario analysis, historical data and models, with climate-related risks now being reported into the governance structure.

The measurement of climate risk is reflected within the Group's climate-related risks framework, which considers the likelihood and impact of each risk, resulting in an inherent risk rating. This risk rating then informs the Group's response to the risk in question as well as the resource assigned to the risk.

Risk management, monitoring and reporting

Risk management of climate-related risks involves the formulation of an action plan for mitigating risks and may include risk acceptance, risk reduction, and risk avoidance. Risks assessed outside of risk appetite must have approved action plans in place to reduce the risk to an acceptable level or an approved risk acceptance.

Monitoring of climate-related risks takes place through the Group's approved risk metrics, which have associated trigger and limit levels, as well through stress testing and scenario analysis. Effective climate-related risk reporting is contingent on providing management and the governance structure with clear, climate-related risk information. The Group regularly reports on key metrics and exposures against risks appetite limits, and will look to build scenario analysis.

TCFD Report (continued)

Climate risks and opportunities

Use of scenario analysis

The Group has considered the Bank of England's Climate Biennial Exploratory Scenario (CBES) when identifying climate-related risks. The scenario outlines three paths with reference to climate policy action. More information on these scenarios is included in the TFSL Group Annual Report & Accounts.

Risks

In the previous year, the Group established the time horizons for considering climate-related risks and opportunities.

Given the nature of climate-related risks, they can become apparent over a wide variety of time-frames from months to year to decades. We have adopted best practice by defining what time-frames are relevant for each risk identified. The time-frames we have assessed against are:

Short term – up to 3 years | Medium term – up to 10 years | Long term – over 10 years

Risk category and type	Example risks
Credit	
Transitional Timeframe – medium-long term; Impact – low	• Increased risk of default due to reduced affordability caused by increasing energy costs arising from the transition to net zero. • Increased risk of loss given default due to reduced house prices arising from changes to government policies.
Physical Timeframe – medium-long term; Impact – low	• Increased risk of loss given default due to reduced house prices as a result of physical impacts. • Increased risk of probability of default and loss given default due to increased exposure to uninsured properties as a result of rising insurance costs.
Financial	
Transitional Timeframe – short term; Impact – low	• Risk of higher funding costs due to investor requirements on the portfolio and/or Company compliance with climate-related requirements.
Physical Timeframe – medium term; Impact – very low	• Increased costs as a result of operational and credit risks outlined within this table.
Operational	
Transitional Timeframe – short-medium term; Impact – very low	• Risk that existing third parties will not meet our climate change requirements and new relationships will need to be identified. • Risk that operational costs increase due to activities required to demonstrate our transition to net zero.
Physical Timeframe – medium-long term; Impact – very low	• Increased risk of disruption to operations due to flooding or other climate risks directly affecting our customers and increasing contact with us. • Increased risk of flooding or other damage to our offices preventing employee access or systems damage.

Strategic Report (continued)

Strategic	
Transitional Timeframe – medium term; Impact – very low	• Risk that we do not meet our wider business targets due to management of the portfolio required to meet our obligations under government climate change regulations.
Compliance	
Transitional Timeframe – medium term; Impact – very low	• Risk that climate-related requirements result in some properties not being able to be mortgaged, or only with a mortgage at a high rate, causing consumer detriment.
Conduct	
Transitional Timeframe – short-medium term; Impact – very low	• Risk of reputational damage if we are not seen to be making progress against on net zero targets. • Risk of reputational damage if we lend to corporate customers who are not playing their part in meeting net zero targets, reducing our appeal to colleagues and customers.
Physical	
Timeframe – short-medium term; Impact – very low	• Risk that customers are adversely affected by an industry movement towards stricter lending criteria to manage physical risks.

Opportunities

The Group remains cognisant of the climate-related opportunities available. These are considered as part of the Group's strategy in positioning itself for a transition to a low-carbon economy and supporting our customers during this change.

During the year, the Group has engaged customers in research relating to green mortgages and environmental products. The purpose of the research was to understand the needs of our customers within this sphere. The research highlighted the need for more educational ,resources for our customers to enhance understanding of Energy Performance Certificates (EPCs) and the associated impending regulatory change.

In response to this research, the Group has launched an EPC education hub on its website. This includes customer-specific guidance along with a range of resources detailing the necessary actions for improving their EPC rating.

The Group is also exploring an opportunity in the form of a partnership, working together to retrofit customers' homes. We are currently exploring this opportunity through a pilot scheme. Retrofitting would be beneficial for our customers, reducing energy costs whilst reducing their impact on the climate.

Metrics and targets

The Group published climate-related metrics and targets in its Annual Report for the year ended 30 June 2022, as part of its wider sustainability strategy.

These metrics and targets allow the Group to assess and manage its climate-related risks and opportunities. The disclosure requirements in relation to metrics and targets are as follows:

- Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process;
- Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks; and
- Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

TCFD Report (continued)

Activities during FY23	Opportunities and developments for FY24
Throughout the year, the Sustainability Committee has monitored progress against the Group's climate-related targets. The committee has also reported on this progress to the Board and other relevant committees.	The Group will establish milestones and/or interim targets in relation to its existing long-term targets. This will serve as another tool for monitoring progress against our climate-related commitments. Further metrics and targets are likely to be defined and monitored in relation to the Group's identified climate-related opportunities.
During the year, the Group established a set of metrics in relation to some of the more significant climate-related risks identified. These metrics are subject to monitoring by the Sustainability Committee.	Once the Group has finalised its approach to the identified climate-related opportunities, we will look to establish a set of metrics with which to monitor them. The monitoring of these metrics will also be within the remit of the Sustainability Committee.
The Group has worked with an external adviser to continue reporting our Scope 1 and 2 emissions and develop a Scope 3 baseline for FY23 and to develop a roadmap to net zero. As part of the Scope 3 baselining, the Group has utilised the Partnership for Carbon Accounting Financials (PCAF) standard for measuring our financed emissions. The Group has furthered the understanding of our data requirements in relation to our metrics and targets.	The Group will look to further improve the measurement of our Scope 3 emissions, improving the quality of our data and refining our financed emissions methodology. We will also look to further develop and formalise our net zero road-map. The continued improvement of our data on our mortgage portfolio, both from a quantitative and qualitative perspective, will further inform our assessment of climate-related risks and opportunities.

Metrics

During the year, the Group identified initial metrics relating to those climate-related risks considered to be most pertinent to the achievement of our strategy. The initial metrics identified will then drive our data requirements to ensure the data we have in relation to climate risk allows us to measure our performance.

These risks have been approved through the appropriate governance channels and are subject to monitoring through both the Sustainability Committee and the Risk Committee.

We will look to establish metrics to monitor our climate-related opportunities moving forward; these metrics will be subject to approval from the Sustainability Committee.

Strategic Report (continued)

TCFD Report (continued)

Greenhouse gas emissions

The Group monitors its greenhouse gas (GHG) performance to track performance against its net zero targets, and to support the UK's ambition to reduce GHG emissions to net zero by 2050.

Energy use by source	Units	2023	2022
Gas	kWh	**1,002,386**	768,278
Electricity	kWh	**1,918,925**	1,891,939
Transport	kWh	**631,365**	322,257
Total		**3,552,676**	2,982,474

Emissions by category	Units	2023	2022
Scope 1 & 2 location based			
Scope 1 – Combustion of gas and fuel for transport	tCO_2e	**305.1**	209.4
Scope 2 – Purchased electricity	tCO_2e	**392.3**	370.7
Total Scope 1 & 2 (location based)	tCO_2e	**697.4**	580.1
Scope 1 & 2 market based			
Scope 1 – Combustion of gas and fuel for transport	tCO_2e	**305.1**	210.2
Scope 2 – Purchased electricity	tCO_2e	**264.3**	381.4
Total Scope 1 & 2 (market based)	tCO_2e	**569.4**	591.6
Total Scope 3 – Upstream and downstream activities	tCO_2e	**159,169.3**	n/a
Total Scope 1, 2 & 3 (location based)	tCO_2e	**159,866.7**	n/a
Total Scope 1, 2 & 3 (market based)	tCO_2e	**159,738.7**	n/a

Intensity ratio	2023	2022
Scope 1 & 2 intensity ratio – Total emissions T/CO_2e employee (location-based)	**0.91**	0.86
Scope 1 & 2 intensity ratio – Total emissions T/CO_2e employee (market-based)	**0.74**	0.88

Scope 1 & 2 emissions

Our Scope 1 emissions have increased in the year, which has been driven by a full year of COVID restrictions being eased, leading to more office and site-based working, more travel and more business events when compared to the prior year.

Electricity usage has increased for the same reasons and therefore Scope 2 emissions on a location-based approach (based on the average emissions usage on the local grid) have increased since the prior year. However, Together's Scope 2 emissions when calculated on a market-based approach (using emissions from Together's chosen tariff) have decreased as a result of us moving one of our two main office buildings to a zero carbon energy tariff in October 2022, in turn reducing our intensity ratio on market-based Scope 1 & 2 since the prior year.

Other energy improvements in the year include increasing the percentage of our car fleet that are electric or hybrid vehicles, and working towards the decommissioning of a server room.

Scope 3 emissions

The most significant source of Scope 3 emissions is the financed emissions, through mortgage lending. According to the Partnership for Carbon Accounting Financials (PCAF) guidance, emissions from all energy consumed by the properties during the reporting year, should be apportioned based on LTV and emissions calculated under Scope 3 Category 15.

TCFD Report (continued)

Scope 3 emissions (continued)

This year marks the Group's first year measuring financed emissions, creating a baseline for comparison for future periods. Understanding the extent of our financed emissions is key to monitoring our progress against targets and to fully account for our impact on the climate, with these emissions accounting for 97% of Together's total carbon footprint.

Currently, Together has calculated financed emissions using an average consumption based approach, as company specific data on financed emissions are not currently readily available. As we look to improve our climate-related data as part of our risk management roadmap, we will refine our methodology for calculating Scope 3, as per the GHG Protocol, using more Together specific data, such as EPC ratings and floor space.

Other Scope 3 emissions include emissions from purchased goods & services, employee commuting, and capital goods, in order of magnitude.

Methodology
The below outlines the Group's approach to calculating the emissions associated with each of Scope 1, 2 & 3.

Scope 1

- ***Emissions related to the combustion of fuels*** - Total GHG emissions related to the combustion of fuels in our operations, multiplied by a UK emissions factor.
- ***Emissions related to transportation*** - Total GHG emissions related to transportation, multiplied by a UK emissions factor.

Scope 2

- ***Emissions related to the generation of procured electricity*** - Direct electricity consumption multiplied by a market-based emissions factor that takes into account the Group's chosen energy tariff, and a location-based factor which is based on local grid average emissions.

Scope 3

- ***Category 2: Capital goods*** - Spend by category multiplied by DEFRA conversion factors.
- ***Category 3: Fuel-related goods*** - Activity-based electricity, gas and transport fuel consumption using Well-to-Tank (WTT) emissions factors.
- ***Category 4: Upstream and transportation distribution*** - Spend on transportation of materials, including the destination location and transport mode, multiplied by DEFRA conversion factors.
- ***Category 5: Waste generated in operations*** - Emissions data related to the Group waste as calculated by our waste management provider and using BEIS emissions factors.
- ***Category 6: Business travel*** - Spend by transport type and number of hotel stays, multiplied by a BEIS emissions factor.
- ***Category 7: Employee commuting*** - Distance travelled in miles, average commuter days and mode of travel from employee survey.
- ***Category 12: End of life treatment of sold products*** - Weight of letters and brochures distributed to customers.
- ***Category 15: Investments*** - See Scope 3 emissions section for further details.

The Scope 1 and 2 intensity ratio is calculated by dividing the emissions by average monthly number of employees as included in Note 7 of the Financial Statements.

Strategic Report (continued)

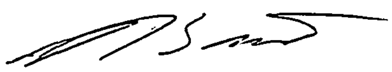
TCFD Report (continued)

Targets

Targets	**Actions taken during FY23**	**Focus for FY24**
To reduce our carbon emissions from our own operations by 70% by 2027	The Group continued the process of converting the company fleet to electric/hybrid vehicles, with 79% of the fleet converted as at year end. The Group renewed one of its office buildings to a zero carbon electricity tariff. Partnering with a third-party expert, the Group improved accuracy of Scope 1 and 2 reporting and developed a baseline for its Scope 3 emissions, including financed emissions.	The Group will continue to make improvements to the energy efficiency of its office buildings as part of a wider refurbishment programme. This will include improving the insulation of the buildings as well as the office plant. Following the baselining exercise during FY23, we will look to hone the methodology we employ as well as the accuracy of the data used. This will form the basis for our net zero roadmap. The Group will support its customers in the transition to a net zero economy, providing the information and support to make energy efficiency improvements to their properties.
To reduce our direct energy consumption by 50% by 2030.		
To be net zero for our own operations by 2030.		

Following the baselining exercise during the year, the Group will look to regularly monitor and report progress in relation to the targets outlined above.

Strategic Report approved on behalf of the Directors and signed on behalf of the Board



GD Beckett
Director
2 November 2023

Directors' report

The directors present their report for the year ended 30 June 2023. 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 2023 was £135.2m (30 June 2022: £125.4m). Further details on the Group's financial performance are included within the Business Review. No dividends are proposed (30 June 2022: £nil).

Financial position

As shown in the consolidated statement of financial position, loans and advances to customers net of impairment provisions have increased by 22.1% to £6,410.2m (2022: £5,247.9m). At the same time, shareholders' funds have increased by 19.0% to £824.9m (2022: £693.1m), including shareholder loans and notes of £25.0m (2022: £21.5m). Further details on the Group's financial position are included within the Business Review.

Employee engagement

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 detail 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 Streamlined Energy and Carbon Report (SECR) reporting framework 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.

During the year, the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 have also become mandatory for the Group as a large private company, with the relevant disclosures included in the TCFD Report.

Directors' report (continued)

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 2 November 2024, 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 £974,916 (2022: £224,000) to charities.

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
2 November 2023

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' or the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 30 June 2023 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Statements 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 Parent 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 Parent Company's affairs as at 30 June 2023 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 Parent 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 Parent Company's ability to continue as a going concern for a period ending 2 November 2024, 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 Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

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

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities set out on page 38, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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, 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.

Ernst & Young LLP

Stephen Littler (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester
2 November 2023

Consolidated statement of comprehensive income

Year ended 30 June 2023
All amounts are stated in £m

Income statement	Note	2023	2022
Interest receivable and similar income	4	577.4	395.2
Interest payable and similar charges	5	(299.6)	(169.1)
Net interest income		**277.8**	**226.1**
Fee and commission income		5.7	5.2
Fee and commission expense		(3.3)	(3.0)
Net fair value losses on derivatives	12	(2.1)	(0.3)
Other income		0.6	0.6
Operating income		**278.7**	**228.6**
Administrative expenses	6	(101.1)	(98.9)
Operating profit		**177.6**	**129.7**
Impairment losses	13	(42.4)	(4.3)
Profit before taxation		**135.2**	**125.4**
Taxation	10	(28.0)	(24.3)
Profit after taxation		**107.2**	**101.1**

Other comprehensive income and expense	2023	2022
Items that may be reclassified to the income statement		
Movement in the cash flow hedging reserve:		
Effective portion of changes in fair value of derivatives	45.9	11.3
Amount reclassified to income statement	(7.5)	0.8
	38.4	**12.1**
Movement in the cost-of-hedging reserve:		
Effective portion of changes in fair value of derivatives	(0.1)	0.3
Amount reclassified to income statement	-	0.2
	(0.1)	**0.5**
Other comprehensive income for the year, net of tax	**38.3**	**12.6**
Total comprehensive income for the year	**145.5**	**113.7**

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

Consolidated statement of financial position

As at 30 June 2023
All amounts are stated in £m

	Note	2023	2022
Assets			
Cash and cash equivalents	11	323.5	265.8
Derivative assets held for risk management	12	62.3	11.2
Loans and advances to customers	13	6,410.2	5,247.9
Other assets	14	96.9	49.4
Property, plant and equipment	16	32.2	33.3
Intangible assets	17	11.2	7.1
Deferred tax asset	18	11.1	11.4
Total assets		**6,947.4**	**5,626.1**
Liabilities			
Derivative liabilities held for risk management	12	0.1	-
Current tax liabilities		3.5	1.8
Borrowings	19	6,049.5	4,849.9
Provisions for liabilities and charges	20	7.2	20.3
Other liabilities	21	87.2	82.5
Total liabilities		**6,147.5**	**4,954.5**
Equity			
Share capital	22	-	-
Subordinated shareholder-funding reserve	19	24.0	24.7
Other reserves		4.8	4.8
Capital reserve		(17.2)	-
Cost-of-hedging reserve		-	0.1
Cashflow hedging reserve		49.4	11.0
Retained earnings		738.9	631.0
Total equity		**799.9**	**671.6**
Total equity and liabilities		**6,947.4**	**5,626.1**

These financial statements were approved and authorised for issue by the Board of Directors on 2 November 2023.

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 2023

All amounts are stated in £m

	Note	2023	2022
Assets			
Cash and cash equivalents		0.3	0.5
Other assets	14	95.7	50.0
Investments in subsidiaries	15	38.9	38.9
Total assets		**134.9**	**89.4**
Liabilities			
Borrowings	19	25.0	21.5
Other liabilities	21	0.1	0.1
Total liabilities		**25.1**	**21.6**
Equity			
Share capital	22	-	-
Share premium account		-	-
Subordinated shareholder-funding reserve	19	23.9	24.7
Retained earnings		85.9	43.1
Total equity		**109.8**	**67.8**
Total equity and liabilities		**134.9**	**89.4**

Redhill Famco Limited (the Company) reported a profit after tax for the year ended 30 June 2023 of £42.0m (2022: £20.1m 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 2 November 2023.

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 2023
All amounts are stated in £m

Year ended 30 June 2023	Called-up share capital	Subordinated shareholder-funding reserve	Cashflow hedging reserve	Cost-of-hedging reserve	Other reserves	Capital Reserve	Retained earnings	Total
At beginning of year	-	24.7	11.0	0.1	4.8	-	631.0	671.6
Total comprehensive income	-	-	38.4	(0.1)	-	-	107.2	145.5
Purchase of shares	-	-	-	-	-	(17.2)	-	(17.2)
Transfer between reserves	-	(0.7)	-	-	-	-	0.7	-
At end of year	**-**	**24.0**	**49.4**	**-**	**4.8**	**(17.2)**	**738.9**	**799.9**

Year ended 30 June 2022	Called-up share capital	Subordinated shareholder-funding reserve	Cashflow hedging reserve	Cost-of-hedging reserve	Other reserves	Capital Reserve	Retained earnings	Total
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**

Other reserves consist of the following:

	Share premium account	Capital redemption reserve	Treasury share reserve	Share-based payment reserve	Total
As at 30 June 2023	-	1.3	(2.6)	6.1	4.8
As at 30 June 2022	-	1.3	(2.6)	6.1	4.8

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

In the current year, the Group increased its investment in one of its subsidiary companies, Together Financial Services Limited as shown in the Capital reserve.

During the prior 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 2023
All amounts are stated in £m

Year ended 30 June 2023	Called-up share capital	Share premium account	Subordinated shareholder-funding reserve	Retained earnings	Total
At beginning of year	-	-	24.7	43.1	67.8
Profit for the financial year	-	-	-	42.0	42.0
Transfer between reserves	-	-	(0.8)	0.8	-
At end of year	**-**	**-**	**23.9**	**85.9**	**109.8**

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**

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

Consolidated statement of cash flows

For the year ended 30 June 2023
All amounts are stated in £m

	Note	2023	2022
Cash flows from operating activities			
Profit after tax		107.2	101.1
Adjustment for non-cash items included in profit after tax	24	(217.0)	(186.0)
Changes in operating assets and liabilities	24	(1,261.4)	(1,264.2)
Interest income		577.4	395.2
Income tax paid		(25.9)	(24.5)
Net cash outflow from operating activities		**(819.7)**	**(978.4)**
Cash flows from investing activities			
Cash paid to acquire property, plant and equipment		(1.7)	(3.3)
Investment in intangible assets		(7.3)	(3.2)
Net cash outflow from investing activities		**(9.0)**	**(6.5)**
Cash flows from financing activities			
Drawdown of loan notes		1,535.7	1,292.4
Repayment of loan notes		(1,335.2)	(1,787.7)
Proceeds from issuance of loan notes		918.9	1,559.5
Proceeds from issuance of senior secured notes		-	120.6
Net cash inflows from bank facilities		70.0	-
Interest paid		(292.5)	(167.5)
Purchase of shares by employee-benefit trust		-	(2.4)
Purchase and cancellation of derivatives		(7.5)	(0.6)
Principal elements of lease liability payments		(1.5)	(1.3)
Interest paid on lease liabilities		(1.5)	(1.5)
Net cash inflow from financing activities		**886.4**	**1,011.5**
Net increase in cash and cash equivalents		57.7	26.6
Cash and cash equivalents at beginning of year		265.8	239.2
Cash and cash equivalents at end of year	11	**323.5**	**265.8**

At 30 June 2023 cash and cash equivalents include £238.4m (2022: £200.1m) of restricted cash (see Note 11).

Interest received was £577.4m (2022: £395.2m), interest paid was £292.5m (2022: £167.5m) and dividends received were £nil (2022: £nil).

Company statement of cash flows

For the year ended 30 June 2023
All amounts are stated in £m

	Note	2023	2022
Cash flows from operating activities			
Profit after tax		42.0	20.1
Adjustment for non-cash items included in profit after tax	24	(2.1)	-
Changes in operating assets and liabilities	24	(45.7)	(22.6)
Interest income		5.6	2.7
Net cash (outflow)/inflow from operating activities		**(0.2)**	**0.2**
Cash flows from financing activities			
Interest paid		-	(9.8)
Net cash outflow from financing activities		**-**	**(9.8)**
Net decrease in cash and cash equivalents		(0.2)	(9.6)
Cash and cash equivalents at beginning of year		0.5	10.1
Cash and cash equivalents at end of year		**0.3**	**0.5**

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. Details of subsidiary companies included in the Group are provided in Note 15. The Group is primarily involved in financial services.

2. Significant accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with 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 as 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;
- Changes 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 entity's 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)

Unless otherwise stated, 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.

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. The earliest maturity of wholesale funding is the Highfield Asset Backed Securitisation (the drawn amount at the reporting date representing 8.6% of the Group's total loan notes), which is not due until September 2025. The earliest call date on our public securitisation is the Together Asset Backed Securitisation 3 facility (representing 2% of the Group's borrowings) in September 2023.

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. The Group was able to successfully refinance and upsize its Lakeside ABS facility by a further £125m in June, obtained £404.4m of further financing through Together ABS 8 in July 2023, and £443m through Together ABS 9 in September 2023. This shows the Group's ability to continue to obtain further funding from the financial markets, even through periods of market disruption. Further information on the Group's borrowings and the maturities of these borrowings are included within note 19 of the Financial Statements.

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

Liquidity

The Group retains liquidity through managing its total accessible liquidity (TAL) within set risk appetite limits. For further information, see the Risk management report.

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. The Group continues to hold significant cash balances to allow sufficient liquidity, with cash balances of £323.5m at 30 June 2023 (30 June 2022: £265.8m), of which £85.1m is unrestricted cash (30 June 2022: £65.7m) as shown in Note 11.

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 on the following page.

Notes to the financial statements (continued)

Unless otherwise stated, 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 2 November 2024, 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 has 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.

2. Significant accounting policies (continued)

Operating segments

IFRS 8 Operating Segments requires an entity whose debt or equity securities are publicly traded to disclose its operating segments. This is out of scope for the Group, as the listed financial instruments are issued by Bracken Midco1 PLC and Jerrold Finco PLC and the securitisations which are indirect subsidiaries of the Company. 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 e.g. procuration fees paid to introducers are recognised as an adjustment to the contractual interest rate and recorded in interest income.

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

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

2. Significant accounting policies (continued)

Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

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 re-measurements 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.

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. Current and deferred tax items are recognised in the income statement except tax on items that are recognised in other comprehensive income shall be recognised in other comprehensive income, and tax on items that are recognised directly in equity shall be recognised in equity.

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 can 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.

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, except Derivatives held for risk management which are discussed on the following page, are classified as measured at amortised cost, being the gross carrying amount less expected impairment allowance, using the effective interest rate method, as they meet both of the following conditions:

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

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

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

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

Financial liabilities

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

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

2. Significant accounting policies (continued)

Impairment of financial instruments

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

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

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

For 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, i.e. before allowance for impairment, except for those assets which are credit impaired, for which interest income is recognised on the carrying amount net of the allowance for impairment.

Loans are written off when the 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.

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, i.e. 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.

2. Significant accounting policies (continued)

Investments

Investments in subsidiaries are stated at cost less provision for impairment. Investments are assessed for impairment on at least an annual basis, or as and when impairment triggers are identified.

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

All items of property, plant and equipment are reviewed for indications of impairment on a regular basis and at each 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

Adoption of new and revised standards and interpretations during the current reporting period

During the year ended 30 June 2023, no new accounting standards came into effect. A number of amendments were made by the IASB which became effective during the year and have been adopted by the Group and Company. None of these amendments have a significant impact upon the Group or Company.

Future developments

A number of other new revised standard issued by the International Accounting Standards Board during the year have not yet come into effect. None of these are expected to have a material impact on the Group or Company financial statements.

3. Critical accounting judgements and key sources of estimation uncertainty

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

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 13 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 20 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 19 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 13 to the Financial Statements.

b) Provisions and contingent liabilities

The calculation of the Group's provisions contain significant estimation uncertainty. Further disclosures in respect of this can be found in Note 20 to the Financial Statements.

c) Interest income recognition

Interest on loans and advances to customers 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 account of, 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.

The fees recognised on an EIR basis through interest income on loans and advances to customers are recognised based on expected weighted average behavioural lives. At 30 June 2023, the Group had £38.6m (2022: £36.8m) of deferred fees that are recognised over the expected behavioural life of the loan. An change in the weighted average behavioural life by +/-10% leads to an impact on interest income on loans and advances to customers of (£4.4m) and £6.5m respectively.

d) Fair value of derivatives held for risk management

The fair value of derivatives is the price that would be received to sell a derivative asset or paid to transfer a derivative liability in an orderly transaction between market participants at the measurement date. The valuation of these instruments are derived from valuation models that use forecast future interest-rate curves, which is subject to estimation uncertainty. Further detail on the judgements in respect of derivatives held for risk management purposes is set out in note 12 to the Financial Statements

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 TCFD Report.

4. Interest receivable and similar income

	2023	2022
Interest receivable on loans and advances to customers	572.8	395.2
Interest receivable on cash and cash equivalents	4.6	-
	577.4	**395.2**

Included within interest on loans and advances to customers is £11.1m (2022: £11.4m) relating to credit impaired loans.

5. Interest payable and similar charges

	2023	2022
On borrowings	310.7	166.8
On lease liabilities	1.5	1.5
On derivatives in qualifying and discontinued hedging relationships	(12.6)	0.8
	299.6	**169.1**

Unless otherwise stated, all amounts are stated in £m

6. Administrative expenses

	Note	2023	2022
Staff costs	7	67.6	69.2
Other staff related costs		6.9	5.2
Auditor's remuneration	9	0.9	1.0
Depreciation of property, plant and equipment	16	2.8	2.3
Amortisation of intangible assets	17	3.1	3.0
Provisions for liabilities and charges	20	(1.0)	(1.9)
Legal and professional costs		3.5	6.1
IT costs		7.7	6.2
Other administrative costs		9.6	7.8
		101.1	**98.9**

Included within staff costs is £8.4m of costs relating to a discretionary bonus along with a £3.4m release of expenditure relating to the Group's strategic options review (2022: £9.1m, including a £4.5m charge for share-based payments). In the prior year, legal and professional costs included expenditure of £3.3m also relating to the strategic options review, as well as a one-off customer redress release of £1.2m included within provisions for liabilities and charges. The costs have been adjusted for in the calculation of underlying metrics within the Alternative Performance Measures section of the Notes to the Financial Statements.

7. Staff costs

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

	2023 No.	2022 No.
Full time	705	618
Part time	61	54
Average monthly employees	**766**	**672**

The aggregate payroll costs included in administrative expenses, including directors' remuneration as detailed in note 8, was as follows:

	Note	2023	2022
Wages and salaries		58.1	60.8
Social security costs		7.7	6.8
Pension	27	1.8	1.6
Total staff costs	6	**67.6**	**69.2**

Wages and salaries in 2022 included a charge related to share-based payments of £4.5m. Details of Directors' remuneration are provided in note 8.

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

8. Directors' remuneration

Emoluments		9.6	7.0
Company contribution to personal pension schemes	27	-	-
Total directors' remuneration		**9.6**	**7.0**

The emoluments of the highest paid director were £5.4m (2022: £4.1m) including £nil (2022: £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 27.

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

9. Auditor's remuneration

	2023	2022
Fees payable for the audit of the Company's accounts	0.1	0.1
Fees payable for the audit of the Company's subsidiaries	0.7	0.6
Audit-related assurance services	0.1	0.2
Other assurance services	-	0.1
Total auditor's remuneration	**0.9**	**1.0**

10. Taxation

	2023	2022
Current tax		
Corporation tax	27.1	24.7
Adjustment in respect of prior years	0.6	0.1
Total current tax charge	**27.7**	**24.8**
Deferred tax		
Origination and reversal of temporary differences	1.7	1.8
Effect of changes in tax rates	(0.5)	-
Adjustment in respect of prior years	(0.9)	(2.3)
Total deferred tax charge / (credit)	**0.3**	**(0.5)**
Total taxation	**28.0**	**24.3**

Corporation tax is calculated at 20.5% (2022: 19%) of the estimated taxable profit for the year which reflects the change in UK corporation tax rate in the period as discussed below.

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:

	2023	2022
Profit before tax	135.2	125.4
Tax on profit at standard UK corporation tax rate of 20.50% (2022: 19%)	27.7	23.8
Effects of:		
Section 455 CTA 2010 charge	-	0.8
Expenses not deductible for tax purposes	1.5	1.9
Income not taxable	(0.5)	-
Group Relief	0.1	
Changes in tax rate	(0.5)	-
Adjustment in respect of prior years	(0.3)	(2.2)
Group tax charge for year	**28.0**	**24.3**

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. The net deferred tax asset at 30 June 2023 has been calculated using these rates, to reflect the expected timing of reversal of the related temporary differences, resulting in a £0.5m (2022: £Nil) increase in the value of the net deferred tax asset.

Unless otherwise stated, all amounts are stated in £m

11. Cash and cash equivalents

	2023	2022
Unrestricted cash	85.1	65.7
Restricted cash	238.4	200.1
Total cash and cash equivalents	**323.5**	**265.8**

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 £41.7m (2022: £31.8m) 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.

12. 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 transaction costs or off-market interest rates 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:

	2023		2022	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Interest-rate swaps and floors	**61.8**	**(0.1)**	**10.9**	**-**
Interest-rate caps	**0.5**	**-**	**0.3**	**-**
Derivatives designated in cash flow hedges	**62.3**	**(0.1)**	**11.2**	**-**

All derivatives mature in one to five years. The average fixed interest rate on swaps is 2.495%. The average strike rate on caps is 2.500%.

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

12. Derivative assets held for risk management (continued)

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

Year ended 30 June 2023	Carrying amount of liabilities	Changes in fair value for calculating hedge ineffectiveness	Debit/(credit) balance: Cash flow-hedging reserve	Debit/(credit) balance: Cost-of-hedging reserve
Borrowings hedged by interest-rate swaps and floors				
Continuing hedging relationships	1,155.2	41.1	(43.8)	-
Discontinued hedging relationships	-	4.8	(5.5)	-
	1,155.2	**45.9**	**(49.3)**	-
Borrowings hedged by interest-rate caps				
Continuing hedging relationships	15.9	(0.1)	(0.1)	-
Total of all borrowings hedged by derivatives	**1,171.1**	**45.8**	(49.4)	-

Year ended 30 June 2022	Carrying amount of liabilities	Changes in fair value for calculating hedge ineffectiveness	Debit/(credit) balance: Cash flow-hedging reserve	Debit/(credit) balance: Cost-of-hedging reserve
Borrowings hedged by interest-rate swaps and floors				
Continuing hedging relationships	454.6	10.1	(11.0)	-
Discounted 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)

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

	Notional amount	Carrying amounts: Derivative assets	Carrying amounts: Derivative liabilities	Carrying amounts: Net total	Debit/(credit) balance: Cash flow-hedging reserve	Debit/(credit) balance: Cost-of-hedging reserve	Debit/(credit) balance: Fair –value (gains)/losses through income statement
2023							
Interest-rate swaps and floors							
Borrowings	1,155.2	61.8	(0.1)	61.7	(43.8)	-	2.6
Discontinued hedges	-	-	-	-	(5.5)	-	-
	1,155.2	**61.8**	**(0.1)**	**61.7**	**(49.3)**	**-**	**2.6**
Interest-rate caps							
Borrowings	15.9	0.5	-	0.5	(0.1)	-	(0.5)
Total of all derivatives	**1,171.1**	**62.3**	**(0.1)**	**62.2**	**(49.4)**	**-**	**2.1**

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

	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**

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

	Debit/credit balance			
For the year ended 30 June 2023	**Net derivative assets/ (liabilities)**	**Cash flow-hedging reserve**	**Cost-of-hedging reserve**	**Fair-value (gains)/losses through income statement**
All derivatives				
Balances at the beginning of the period	**11.2**	**(11.0)**	**(0.1)**	–
Payments on purchase of derivatives	**13.7**	–	–	–
Changes in fair value recognised in other comprehensive income	**45.8**	**(45.9)**	**0.1**	–
Hedge ineffectiveness recognised as (gains)/losses in the income statement	**2.8**	–	–	**(2.8)**
Total changes in fair value for calculating hedge ineffectiveness	**48.6**	**(45.9)**	–	**(2.8)**
Changes on settlement of interest or its reclassification to income statement	**(11.0)**	7.5	–	4.9
Amounts released on cancellations of derivatives	**(0.1)**	–	–	–
Payments on discontinuance of hedging relationships	**(0.2)**	–	–	–
Balances at end of the period	**62.2**	**(49.4)**	–	**2.1**

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

12. Derivative assets held for risk management (continued)

	Debit/credit balance			
For the year ended 30 June 2022	**Net derivative assets/ (liabilities)**	**Cash-flow-hedging reserve**	**Cost-of-hedging reserve**	**Fair-value (gains)/losses through income statement**
All derivatives				
Balances at the beginning of the period	(0.6)	1.1	0.4	–
Changes in fair value recognised in other comprehensive income	11.3	(11.3)	–	–
Hedge ineffectiveness recognised as (gains)/losses in the income statement	0.5	–	–	(0.5)
Total changes in fair value for calculating hedge ineffectiveness	11.8	(11.3)	–	(0.5)
Changes on settlement of interest or its reclassification to income statement	0.3	(0.3)	–	–
Reclassification of cost of hedging to income statement	–	–	(0.2)	–
Amounts released on cancellations of derivatives	(0.3)	(0.5)	(0.3)	1.6
Payments on discontinuance of hedging relationships	–	–	–	(0.8)
Balances at end of the period	11.2	(11.0)	(0.1)	0.3

During the year, the Group has transacted a number of swaps at off-market rates which has resulted in net fair-value losses for the year of £2.1m (30 June 2022: £0.3m). The Group's hedging relationships are otherwise generally highly effective, with other changes in the fair value of derivatives largely mirrored in hedging reserves.

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

13. Loans and advances to customers

	30 June 2023			
	Stage 1	Stage 2	Stage 3 and POCI	Total
Gross loans and advances to customers	4,575.3	1,459.5	485.2	6,520.0
Loss allowance on loans and advances to customers	(17.6)	(30.6)	(61.6)	(109.8)
	4,557.7	**1,428.9**	**423.6**	**6,410.2**
ECL coverage (%)	0.4	2.1	12.7	1.7

	30 June 2022			
	Stage 1	Stage 2	Stage 3 and POCI	Total
Gross loans and advances to customers	3,879.0	1,042.5	412.1	5,333.6
Loss allowance on loans and advances to customers	(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

Loans and advances to customers include total gross amounts of £0.8m (2022: £4.3m), equivalent to £0.3m net of allowances (2022: £0.3m), loaned to Sunnywood Estates Limited, a company in which HN Moser is a director and shareholder and, in 2022, Edgeworth Developments Limited; further details are given in note 25.

Group gross balances of credit impaired loans include £17.1m (2022: £15.8m) of purchased or originated credit impaired (POCI) loans, which are presented net of lifetime ECL impairment provisions of £1.9m (2022: £1.9m).

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 such as forborne accounts as described below, or specific accounts where stage overrides are made on a specific case basis.

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, i.e. minimum losses, which are assigned based on the LTV of the loan and the type of security, and have been developed from historical data.
- EAD is an estimate of the expected gross carrying amount at a future default date. EAD is based on the current loan amount adjusted for expected repayments of principal, contractual drawdowns of loan commitments, and the impact of missed payments which would be expected for an account in default.

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

13. Loans and advances to customers (continued)

Measurement of expected credit losses (ECL) (continued)

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.

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.

During the current year, the Group has made adjustments to the model which have resulted in individually material movements to the ECL estimate. The Group has:

- Refined the significant increase in credit risk criteria for bridging products to reflect external credit data and internal scoring data;
- Updated the approach to the assumption in the LGD model of the time taken to sell a property in downside macroeconomic scenarios;
- Updated the forced sale discounts in the LGD model to better reflect historical data; and
- Macroeconomic forecasts have been routinely updated within the model to reflect the latest macroeconomic forecasts.

Post-model adjustments

The Group makes post-model adjustments to its ECL provision where appropriate to reflect factors or risks that are not judged to be fully reflected in the model, which is done on both a portfolio level, as well as adjustments relating to specific loans.

Portfolio level post-model adjustments are made for potential risks that may emerge where additional coverage is judged to be appropriate at the time. Specific loan post-model adjustments are made in relation to specific loans where further information on the loan becomes known that would require adjustments to be made to the ECL calculation for that loan to reflect the identified risk.

13. 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.

Scenarios

The Group calculates ECL using six scenarios, calibrated around a base case. This approach provides an ability to assess a wide range of economic uncertainty.

The base case is weighted at 50% and each of the other five scenarios is weighted at 10%, with two upside scenarios, and three downside scenarios.

Since the year ended 30 June 2022, the level of macroeconomic uncertainty has increased. Owing to this, the scenarios utilised for estimating ECLs have been adjusted accordingly, with reasonably high levels of inflation assumed in five scenarios, resulting in persistently high Bank of England base rate. The base scenario, stagnation and downside scenarios are 'stagnationary' in nature and are collectively allocated a 70% weighting. The severe downside economic scenario represents a severely stressed environment, with high levels of inflation resulting in persistently high interest rates, increases in unemployment to levels broadly aligned to those seen during the global financial crisis, and a severe fall in property values.

The assumed trajectories for unemployment forecasts have generally worsened, and a decline in house prices is assumed – to varying degrees – in all of the six economic scenarios. The nature of the downside scenario is most closely aligned to the experience during the 2008 global financial crisis.

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.

Unless otherwise stated, all amounts are stated in £m

13. Loans and advances to customers (continued)

The most significant assumptions used for the ECL estimate as at 30 June 2023, by economic indicator, until June 2027 are as follows.

Bank Rate	% peak	Peak	Weighting	Sep 2023	Dec 2023	Mar 2024	Jun 2024	Jun 2025	Jun 2026	Jun 2027
Upside	7.1	Mar 2024	10%	5.8	6.8	7.0	7.0	6.8	5.6	4.6
Mild upside	6.8	Mar 2024	10%	5.6	6.5	6.8	6.8	6.1	4.9	3.9
Base	6.3	Mar 2024	50%	5.2	5.9	6.2	6.3	5.7	4.8	4.2
Stagnation	6.5	Jun 2024	10%	5.4	6.1	6.4	6.5	5.9	5.0	4.4
Downside	5.3	Mar 2024	10%	5.0	5.1	5.2	5.3	3.9	2.4	1.3
Severe downside	7.0	Mar 2024	10%	5.9	6.3	7.0	6.7	4.7	2.7	2.0
Weighted average				5.4	6.1	6.3	6.3	5.6	4.4	3.7

Unemployment rate	% peak	Weighting	Sep 2023	Dec 2023	Mar 2024	Jun 2024	Jun 2025	Jun 2026	Jun 2027
Upside	3.5	10%	3.5	3.4	3.3	3.3	3.3	3.3	3.3
Mild upside	3.8	10%	3.8	3.8	3.8	3.8	3.7	3.6	3.6
Base	4.2	50%	3.9	4.0	4.0	4.1	4.2	3.8	3.8
Stagnation	6.7	10%	4.4	4.7	5.0	5.3	6.5	6.7	6.5
Downside	7.0	10%	4.4	4.8	5.1	5.4	6.7	7.0	6.7
Severe downside	7.3	10%	4.5	4.9	5.3	5.7	7.1	7.3	7.1
Weighted average			4.0	4.2	4.3	4.4	4.8	4.7	4.6

Annual change in house-price index (%)	Start to trough % change	Weighting	Sep 2023	Dec 2023	Mar 2024	Jun 2024	Jun 2025	Jun 2026	Jun 2027
Upside	(2.8%)	10%	(0.1)	(1.5)	(1.3)	(0.2)	0.3	6.0	5.7
Mild upside	(6.1%)	10%	(1.1)	(2.9)	(3.3)	(2.7)	(1.2)	4.8	5.4
Base	(11.0%)	50%	(2.5)	(5.0)	(6.0)	(6.0)	(3.3)	2.6	5.3
Stagnation	(18.8%)	10%	(3.8)	(7.2)	(9.3)	(10.4)	(6.4)	(0.6)	5.5
Downside	(21.8%)	10%	(4.5)	(8.3)	(10.7)	(12.3)	(7.9)	1.9	8.5
Severe downside	(27.4%)	10%	(5.5)	(10.0)	(13.2)	(15.4)	(10.4)	(0.6)	8.7
Weighted average			(2.8)	(5.5)	(6.8)	(7.1)	(4.2)	2.5	6.0

Unless otherwise stated, all amounts are stated in £m

13. 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 scenario until June 2026 are as follows:

Bank Rate	% peak	Peak	**Weighting**	**Sep 2022**	**Dec 2022**	**Mar 2023**	**Jun 2023**	**Jun 2024**	**Jun 2025**	**Jun 2026**
Upside	3.8	Sept 2023	10%	1.8	2.6	3.2	3.5	3.8	3.8	3.8
Mild Upside	3.5	Sept 2023	10%	1.8	2.5	3.0	3.4	3.5	3.5	3.5
Base	3.0	Jun 2023	50%	1.6	2.4	2.9	3.0	3.0	3.0	3.0
Stagnation	2.5	Jun 2023	10%	1.5	1.8	2.0	2.5	2.5	2.5	3.5
Downside	1.3	Sept 2022	10%	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Severe downside	1.0	Sept 2022	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**
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**

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

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,
- Increases in internal risk scores on certain portfolio accounts,
- External credit bureau data signifying increases in credit risk for a customer,
- 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, such as forborne accounts as described below, or specific accounts where stage overrides are made on a specific case basis.

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

Unless otherwise stated, all amounts are stated in £m

13. Loans and advances to customers (continued)

Loss allowance

The following tables analyse the movement of the loss allowance during the year ended 30 June 2023 and 30 June 2022:

	2023			
Loss allowance	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of year	**(7.1)**	**(27.1)**	**(51.5)**	**(85.7)**
Transfer to a 12-month ECL	(2.6)	17.9	-	15.3
Transfer to a lifetime ECL not credit impaired	11.0	(20.4)	2.6	(6.8)
Transfer to a lifetime ECL credit impaired	0.7	16.1	(26.2)	(9.4)
Other changes in credit risk during the year	(26.9)	(27.6)	(10.4)	(64.9)
Impairment of interest income on stage 3 loans	-	-	(11.0)	(11.0)
New financial assets originated	(5.6)	(2.3)	(1.8)	(9.7)
Financial assets derecognised	6.1	9.8	12.5	28.4
Changes in models and risk parameters	6.8	3.0	5.4	15.2
Impairment losses for the year charged to income statement	**(10.5)**	**(3.5)**	**(28.9)**	**(42.9)**
Unwind of discount	-	-	11.0	11.0
Write-offs net of recoveries	-	-	7.8	7.8
Balance at end of year	**(17.6)**	**(30.6)**	**(61.6)**	**(109.8)**

	2022			
Loss allowance	**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

13. Loans and advances to customers (continued)

Loss allowance (continued)

The loss allowance has increased by £24.1m to £109.8m (2022: £85.7m).

At a summary level, this is as a result of increasing the level of ECL balance sheet coverage on a growing loan book. If coverage at 30 June 2023 had been maintained at 30 June 2022 levels, then growth in the loan book would have resulted in £19.1m increase in the loss allowance and increasing the levels of coverage has contributed a further £5.0m.

This net movement in loss allowance comprises a range of drivers which are reconciled further in the table below. The principle changes can be summarised as follows:

- Changes in models and risk parameters resulted in a release of £15.2m (2022: charge £8.9m). The main drivers of this change were updates to macroeconomic data, including the update to the economic response model and changes to model parameters.
- Offsetting this release, presented within the 'other changes in credit risk during the year' row, is a £15.9m charge for increases in post-model adjustments. £13.7m of this is from increasing the portfolio-level post-model adjustments to £18.3m (2022: £4.6m) to increase coverage in respect of potential risks which may emerge for commercial loans and the potential risk associated with the changed interest rate environment. The remaining £2.2m of the charge relates to increasing coverage on specific accounts, with this increasing to £9.0m (2022: £6.8m).
- Allowances recognised on newly originated loans resulted in a charge of £9.7m (2022: charge £6.9m) due to the forward-looking nature of the ECL approach, where all loans have some level of allowance from origination.
- The impairment of interest income recognised on stage 3 loans of £11.0m (2022: £11.4m) was offset by the unwinding of discounting on expected cash flows of the same amount.
- The remaining net £20.6m charge (2022: £19.6m release) comprises increases in ECL during the life of loans offset by releases on loans which redeem and where allowances are released. This has been driven by increases in arrears levels, changes to the criteria for when loans are assigned to different stages, changes to probabilities of default assigned to the loans, changes to valuations as a result of indexation and individual revaluations, and lower releases from redemptions compared to the prior year.

Impairment losses for the period also increased to a charge of £42.4m (2022: charge £4.3m). In the prior periods charges were lower because coverage built up during the pandemic was unwound as the economic outlook improved and the loan book grew significantly. In the current year, the principal components of the charge can be summarised as:

- Maintaining the coverage on the balance sheet, for a growing loans book, as described above contributed £26.9m to the charge due to the changes in the balance sheet of £19.1m described above in addition to replacing balance sheet coverage utilised by write-offs of £7.8m.
- Impairment of interest charged on certain stage 3 loans of £11.0m as described above, which also acts to maintain the level of coverage on the loan book.
- Increasing coverage on the balance sheet as described above contributed a further £5.0m to the charge.

Unless otherwise stated, all amounts are stated in £m

13. Loans and advances to customers (continued)

Impairment losses for the year

	30 June 2023	30 June 2022
Movements in impairment allowance, charged to income	(42.9)	(7.6)
Amounts released from deferred income	0.4	0.2
Write-offs net of recoveries	0.1	3.0
Gains on de-recognition of assets held at amortised cost as a result of refinancing impaired loans	-	0.1
Charged to the income statement	**(42.4)**	**(4.3)**

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:

	2023			
Movements in gross carrying amounts	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of year	3,879.0	1,042.5	412.1	5,333.6
Transfer to a 12-month ECL	1,157.5	(1,157.5)	-	-
Transfer to a lifetime ECL not credit impaired	(2,088.4)	2,155.6	(67.2)	-
Transfer to a lifetime ECL credit impaired	(15.4)	(286.7)	302.1	-
New financial assets originated	2,613.0	31.1	4.2	2,648.3
Financial assets derecognised including write-offs	(970.5)	(325.5)	(165.9)	(1,461.9)
Balance at end of year	**4,575.2**	**1,459.5**	**485.3**	**6,520.0**

	2022			
Movements in gross carrying amounts	**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**

Unless otherwise stated, all amounts are stated in £m

13. Loans and advances to customers (continued)

Stage 2 disaggregation

	30 June 2023		30 June 2022	
	Gross Exposure	**Impairment Allowance**	**Gross Exposure**	**Impairment Allowance**
> 30 days past due	94.1	9.2	69.6	4.4
< 30 days past due	1,365.4	21.4	972.9	22.7
Total	**1,459.5**	**30.6**	**1,042.5**	**27.1**

Significant 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 2023 and 30 June 2022:

	2023		2022	
Scenarios	**Probability of the scenario**	**Unweighted ECL**	**Probability of the scenario**	**Unweighted ECL**
Upside	10%	62.0	10%	35.5
Mild upside	10%	71.7	10%	42.0
Base case	50%	94.3	50%	60.7
Stagnation	10%	135.1	10%	112.2
Downside	10%	154.9	10%	148.0
Severe downside	10%	202.8	10%	215.6
Weighted average		**109.8**		**85.7**

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 scenario (ie a 10% cut applied to the index in each forecast future period) would result in an increase in the impairment allowance of £19.1m at 30 June 2023 (30 June 2022: £14.7m); conversely, a 10% increase would result in a decrease in the impairment allowance of £14.5m at 30 June 2023(30 June 2022: £11.3m).

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 £8.3m at 30 June 2023 (30 June 2022: £6.8m). A 10% relative improvement of both PDs and PPGDs simultaneously (eg a 1.0% PD decreasing to 0.9%) would result in a decrease in the impairment allowance by £7.9m at 30 June 2023 (30 June 2022: £6.1m).

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

13. 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.

	Increase in allowance	
Sensitivities	**2023**	**2022**
Measure all loans in Stage 1 using a lifetime ECL	**38.1**	**35.1**

14. Other assets

Group	**2023**	**2022**
Amounts owed by related parties	87.6	43.1
Other debtors	3.0	1.1
Investments	0.1	0.1
Inventories	0.1	0.1
Prepayments and accrued income	6.1	5.0
	96.9	**49.4**

Company	**2023**	**2022**
Amounts owed by subsidiaries	9.0	7.8
Amounts owed by related parties	86.7	42.2
	95.7	**50.0**

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 £0.4m (2022: £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

15. Investments in subsidiaries

The Company held the following investments in subsidiary undertakings:

	2023	2022
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	99.9%*	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%	Members voluntary liquidation
Heywood Leasing Limited	100%	100%	Members voluntary liquidation
Jerrold Mortgage Corporation Limited	100%	100%	Members voluntary liquidation
Pronto Finance Ltd (Formally Phone-a-Loan Limited)	100%	100%	Members voluntary liquidation
Supashow Limited	100%	100%	Non–trading
Loplarge Ltd (Formally BridgingFinance.co.uk Limited)	100%	100%	Members voluntary liquidation
Classic Car Finance Limited	100%	100%	Members voluntary liquidation
Achillean Group Ltd (Formally Jerrold Holdings Limited)	100%	100%	Members voluntary liquidation
Together123 Limited	100%	100%	Members voluntary liquidation

* The remaining 0.1% 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 registered address of all subsidiaries is Lake View, Lakeside, Cheadle, Cheshire, SK8 3GW.

During the year the TFSL Group reviewed their structure with the aim of simplifying it and reducing the number of non-trading or dormant subsidiaries. As a result, a number of subsidiaries are now under member's voluntary liquidation as listed in the table above

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.

Unless otherwise stated, all amounts are stated in £m

15. 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 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 – 1ST1 PLC
- Together Asset Backed Securitisation 2022 – CRE-1 PLC
- Fairway Asset Backed Securitisation 1 Limited

16. Property, plant and equipment

2023	Land and Buildings	Fixtures, fittings and equipment	Motor vehicles	Right-of-use assets – leasehold property	Total
Cost					
At beginning of year	0.5	10.5	2.6	35.5	49.1
Additions	-	1.1	1.0	-	2.1
Disposals	-	(0.1)	(0.6)	-	(0.7)
At end of year	**0.5**	**11.5**	**3.0**	**35.5**	**50.5**
Depreciation					
At beginning of year	-	5.9	1.1	8.9	15.9
Charge for the year	-	1.2	0.6	0.9	2.7
Disposals	-	-	(0.3)	-	(0.3)
At end of year	**-**	**7.1**	**1.4**	**9.8**	**18.3**
Net book value					
At 30 June 2023	**0.5**	**4.4**	**1.6**	**25.7**	**32.2**
At 30 June 2022	0.5	4.6	1.6	26.6	33.3

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

16. Property, plant and equipment (continued)

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
Reclassifications 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

17. Intangible assets

	Computer software 2023	Computer software 2022
Cost		
At beginning of year	23.1	20.0
Additions	7.2	3.2
Disposals	(1.6)	(0.1)
At end of year	**28.7**	**23.1**
Amortisation		
At beginning of year	16.0	13.0
Charge for the year	3.1	3.0
Disposals	(1.6)	-
At end of year	**17.5**	**16.0**
Net book value		
At end of year	**11.2**	**7.1**
At beginning of year	7.1	7.0

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

18. Deferred tax asset

2023	Accelerated capital allowances	Short-term timing differences	Total
At beginning of year	(0.7)	12.1	11.4
Release/(Charge) to income statement	0.1	(1.8)	(1.7)
Adjustment in respect of prior years	(0.1)	1.0	0.9
Effect of changes in tax rate	-	0.5	0.5
At end of year	**(0.7)**	**11.8**	**11.1**

2022	Accelerated capital allowances	Short-term timing differences	Total
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**

19. Borrowings

Group	2023	2022
Revolving credit facility	70.0	-
Loan notes	4,511.3	3,391.9
Senior secured notes	1,055.2	1,055.4
Senior PIK toggle notes	380.0	380.0
Lease liabilities	29.1	29.6
Subordinated shareholder loans	25.0	21.5
	6,070.6	**4,878.4**
Debt issue costs	(21.1)	(28.5)
Total borrowings	**6,049.5**	**4,849.9**
Of which:		
Due for settlement within 12 months	515.1	355.6
Due for settlement after 12 months	5,534.4	4,494.3
	6,049.5	**4,849.9**

Company	2023	2022
Subordinated shareholder loans	25.0	21.5
	25.0	**21.5**
Of which:		
Due for settlement within 12 months	-	-
Due for settlement after 12 months	25.0	21.5
	25.0	**21.5**

19. Borrowings (continued)

Loan notes have the following features:

Loan facility	Established	Facility type	Facility size (£m)	Maturity*
Brooks ABS	2021	Amortising	50.9	Mar 2027
Charles Street ABS 2	2022	Revolving	1,251.5	Mar 2027
Delta ABS 2	2019	Revolving	400.0	Dec 2025
Fairway ABS	2022	Amortising	414.8	Dec 2026
Highfield ABS	2018	Revolving	525.0	Sep 2025
Lakeside ABS	2015	Revolving	825.0	Apr 2026
Together ABS 3	2019	Amortising	110.9	Sep 2023
Together ABS 4	2020	Amortising	166.8	Jun 2024
Together ABS 5	2021	Amortising	186.2	Oct 2025
Together ABS 6	2022	Amortising	255.2	May 2026
Together ABS 7	2022	Amortising	390.8	Jun 2026
Together CRE 1	2021	Amortising	132.4	Feb 2025
Together CRE 2	2021	Amortising	168.0	Feb 2026
Together CRE 3	2022	Amortising	315.6	Oct 2026

*Maturity dates are as at 30 June 2023. For further details regarding post year-end refinancing, see Note 30.

In the case of the amortising facilities, the maturity 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 maturity dates for revolving facilities include an amortisation period covering one year prior to the maturity date, 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 £3.9m had amortised by 30 June 2023 (2022: £3.2m). The remainder of the reserve will be released over the life of the instruments.

19. Borrowings (continued)

The Group has undertaken the following refinancing activity during and subsequent to the year ended 30 June 2023:

- In July 2022, the Group has completed a further RMBS, Together ABS 7, raising £470m of external funding with 89% of its notes AAA rated on issuance..
- In September 2022, the Group refinanced its revolving credit facility, increasing the facility size from £71.9m to £138.3m and extended the maturity to September 2026.
- Also in September 2022, the Group refinanced its BABS facility, extending its maturity to March 2027 with an additional £24m of funding secured.
- In December 2022, the Group launched a new facility, Fairway Asset Backed Securitisation 1 Limited (FABS), raising £467.4m.
- In June 2023, the Group refinanced its Lakeside ABS facility, raising a further £125.0m of funding.
- Since the year end, in July 2023, the Group issued an RMBS, Together Asset Backed Securitisation 2023 – 1st1 PLC (TABS 8), raising £404.4m in external funding.
- In September 2023, the Group completed the issuance of a further RMBS, Together Asset Backed Securitisation 2023 – 1st2 PLC (TABS 9), raising £443m.
- In the same month, the Group exercised its option to redeem the loan notes in Together ABS 3, taking back the beneficial title to the mortgage assets that had previously been securitised.
- Also in September 2023, the Group refinanced its BABS facility, extending the maturity date to September 2027 and raising an additional £55.0m of funding.

Refer to Note 26 for more details in relation to lease liabilities.

Debt-issue costs, which consist of the prepaid fees in relation to the revolving credit facility, loan 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.

Unless otherwise stated, all amounts are stated in £m

19. Borrowings (continued)

Borrowings have the following maturities:

2023

Group	<1 year	1-2 years	2-5 years	>5 years	Total
Revolving credit facility	-	-	70.0	-	70.0
Loan notes	516.0	306.2	3,689.1	-	4,511.3
Senior secured notes	-	-	1,055.2	-	1,055.2
Senior PIK toggle notes	-	-	380.0	-	380.0
Lease liabilities	1.1	1.1	2.4	24.5	29.1
Subordinated shareholder loans	-	-	-	25.0	25.0
	517.1	**307.3**	**5,196.7**	**49.5**	**6,070.6**
Debt issue costs	(2.0)	(1.8)	(17.3)	-	(21.1)
	515.1	**305.5**	**5,179.4**	**49.5**	**6,049.5**

Company	<1 year	1-2 years	2-5 years	>5 years	Total
Subordinated shareholder loans	-	-	-	25.0	25.0
	-	**-**	**-**	**25.0**	**25.0**

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**

20. Provisions

2023	Customer provisions	Other provisions	Total
Balance beginning of year	14.1	6.2	20.3
Release for the year	(0.2)	(0.8)	(1.0)
Provisions utilised	(10.8)	(1.3)	(12.1)
Balance at end of year	**3.1**	**4.1**	**7.2**

Provisions

As at 30 June 2023, the Group has recognised provisions of £7.2m (30 June 2022: £20.3m). 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.

Unless otherwise stated, all amounts are stated in £m

20. 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 further development and delivery 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 who have experienced financial difficulty and has seen reductions applied to such customer account balances during the year.

In addition, during the prior 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 review of fair pricing in financial services. During the year ended 30 June 2023 the relevant action plan has been completed. This has resulted in the application of caps to historic interest rates and charges as well as payments to relevant customers or reductions applied to account balances as appropriate.

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 £0.3m (50% decrease: reduction of £0.3m).

Contingent liabilities – fixed and floating charges

As at 30 June 2023, the Group's assets were subject to a fixed and floating charge in respect of £1,055m senior secured notes (30 June 2022: £1,055m) and £70.0m in respect of bank borrowings (30 June 2022: £nil).

21. Other liabilities

Group	2023	2022
Amounts owed to related parties	-	0.1
Trade creditors	3.2	3.3
Other creditors	1.3	0.6
Other taxation and social security	1.5	2.2
Accruals and deferred income	31.3	45.5
Interest on borrowings	49.9	30.8
	87.2	**82.5**

Company	2023	2022
Amounts owed to subsidiaries	0.1	-
	0.1	**-**

22. Share capital

All amounts are stated in pounds.

Called-up, allotted and fully paid	2023	2022
1,000,000 ordinary shares of 1 penny each	**10,000**	**10,000**

The balance on the share premium account is £49,900 (2022: £49,900).

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

23. 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 relying 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
2023					
Interest-rate risk					
Derivative assets	-	62.3	-	62.3	**62.3**
Derivative liabilities	-	(0.1)	-	(0.1)	**(0.1)**
2022					
Interest-rate risk					
Derivative assets	-	11.2	-	**11.2**	**11.2**
Derivative liabilities	-	-	-	-	-

The Group's derivative assets at 30 June 2023 and 2022 were interest-rate swaps and caps; its derivative liabilities at 30 June 2023 were interest-rate swaps. 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.

Unless otherwise stated, all amounts are stated in £m

23. 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:

2023	**Level 1**	**Level 2**	**Level 3**	**Fair value**	**Carrying value**
Financial assets					
Loans and advances to customers	-	-	6,317.3	6,317.3	**6,410.2**
Financial liabilities					
Borrowings	1,197.9	2,261.5	2,368.5	5,827.8	**6,049.5**

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**

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 2023.

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. The revolving credit facility is classified as level 2 given this is a private facility without quoted market prices, but with observable inputs.

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

24. Notes to the statement of cashflows

Group	2023	2022
Adjustments for non-cash items in profit after tax:		
Net interest income	(277.8)	(226.1)
Changes in expected credit losses charged to income	42.9	7.6
Taxation	28.0	24.3
Provisions for liabilities and charges	(1.0)	(1.9)
Depreciation and amortisation	6.0	5.3
Share-based payment	-	4.5
Capital Reserve	(17.2)	-
Net losses on financial instruments	2.1	0.3
	(217.0)	**(186.0)**

Changes in operating assets and liabilities		
Increase in loans and advances to customers	(1,205.2)	(1,243.6)
Increase in other assets	(47.5)	(24.6)
Increase/(decrease) in other liabilities and provisions	(8.7)	4.0
	(1,261.4)	**(1,264.2)**

Company	2023	2022
Adjustments for non-cash items in profit after tax:		
Net interest expense	(2.1)	-
	(2.1)	**-**

Changes in operating assets and liabilities		
Increase in other assets	(45.7)	(22.6)
	(45.7)	**(22.6)**

Unless otherwise stated, all amounts are stated in £m

24. Notes to the statement of cashflows (continued)

Reconciliation of changes in liabilities arising from financing activities

2023

Group	At beginning of year	Net cash flows	Non-cash changes: Lease Additions	Non-cash changes: Prepaid fees	Non-cash changes: Amortisation of premiums and discounts	Non-cash changes: Interest expense	At end of year
Revolving credit facility	-	70.0	-	-	-	-	70.0
Loan notes	3,391.9	1,119.4	-	-	-	-	4,511.3
Senior secured notes	1,055.4	-	-	-	(0.2)	-	1,055.2
Senior PIK toggle notes	380.0	-	-	-	-	-	380.0
Lease liability	29.6	(1.4)	0.9	-	-	-	29.1
Subordinated shareholder loans	21.5	-	-	-	-	3.5	25.0
	4,878.4	**1,188.0**	**0.9**	**-**	**(0.2)**	**3.5**	**6,070.6**
Debt issue costs	(28.5)	-	-	7.4	-	-	(21.1)
Total borrowings	**4,849.9**	**1,188.0**	**0.9**	**7.4**	**(0.2)**	**3.5**	**6,049.5**

2022

Group	At beginning of year	Net cash flows	Lease Additions	Prepaid fees	Amortisation of premiums and discounts	Interest expense	At end of year
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**

2023

Company	At beginning of year	Non-cash changes: Interest expense	At end of year
Subordinated shareholder loans	21.5	3.5	25.0
	21.5	**3.5**	**25.0**

2022

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

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

25. 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 19. 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. The Company was dissolved on 20 June 2023.
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 paid interest of Bank Rate plus 5%, up to a maximum rate of 9% (inclusive of Bank Rate) up to 31st March 2023, at which point interest was paid at Bank Rate plus 2%. During the year, the loan to Charles Street Commercial Investments Limited was increased.
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.
Sunnywood Estates Limited	The Group provides loans with interest charged at 5% per annum, secured on certain assets of this company. The Group also manages accounts payable on behalf of the entity
Edgworth Developments Limited	The Group provided loans with interest charged at 5% per annum, secured on certain assets of this company which was redeemed during the year. The Group also managed accounts payable on behalf of the entity up to redemption.

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

25. Related party transactions (continued)

b) Subsidiaries

Details of the Company's interests in its subsidiaries are listed in Note 15.

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 14 and remuneration in the ordinary course of business (Note 8).

Transactions

The amounts receivable from and payable to related parties by the Group and Company are disclosed in notes 14 and 21 to the financial statements. The Group and Company had the following transactions with related parties during the year:

Group	2023 Charge/ (credit) to income or equity	2023 Paid	2022 Charge/ (credit) to income or equity	2022 Paid
Lease and insurance costs	2.7	2.7	2.2	2.2
Accounts payable transactions	-	0.6	-	0.9
Impairment of related party loans	-	-	0.1	-
Interest expense on lease liabilities	1.5	-	1.5	-
Interest receivable on related party loans	(4.6)	-	(1.8)	-
Repayment to shareholder	-	-	5.5	-
Interest expense on subordinated shareholder loan	3.6	-	2.6	-
Related parties of HN Moser	**3.2**	**3.3**	**10.1**	**3.1**

Company	2023 Charge/ (credit) to income or equity	2023 Paid	2022 Charge/ (credit) to income or equity	2022 Paid
Interest receivable on related party loans	(5.6)	-	(0.9)	-
Repayment to shareholder	-	-	5.5	-
Interest expense on subordinated shareholder loan	3.6	-	2.6	-
Related parties of HN Moser	**(2.0)**	-	**7.2**	-

26. 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 2023 and year ended 30 June 2022:

2023	Administrative expenses £m	Interest expense £m	Total £m
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**

2022	Administrative expenses £m	Interest expense £m	Total £m
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**

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 2023 and the year ended 30 June 2022.

	2023		2022	
Group	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	26.7	(29.6)	27.7	(29.9)
Additions	-	(0.9)	-	(0.9)
Depreciation expense	(1.1)	-	(1.0)	-
Interest expense on lease liabilities	-	(1.5)	-	(1.5)
Payments	-	2.9	-	2.7
At end of year	**25.6**	**(29.1)**	**26.7**	**(29.6)**

The analysis of lease liabilities includes hire-purchase obligations for motor vehicles. The Group had total cash outflows for leases of £2.9m during the year ended 30 June 2023 (2022: £2.7m).

27. Pension arrangements

During the year the Group contributed to employees' personal pension plans. The total cost for the year amounted to £1.8m (2022: £1.6m).

Notes to the financial statements (continued)

Unless otherwise stated, all amounts are stated in £m

28. 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.

29. 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 2023, the Group had undrawn commitments to lend of £156.0m (30 June 2022: £219.4m). 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 £0.1m (30 June 2022: £0.3m), and is classified within provisions for liabilities and charges.

30. Events after the reporting date

In July 2023, the Group issued an RMBS, Together Asset Backed Securitisation 2023 – 1st 1 PLC (TABS 8), raising £404.4m.

In September 2023, the Group completed the issuance of a further RMBS, Together Asset Backed Securitisation 2023 – 1st2 PLC (TABS 9), raising £443m.

In the same month, the Group exercised its option to redeem the loan notes in Together ABS 3, taking back the beneficial title to the mortgage assets that had previously been securitised.

Also in September 2023, the Group refinanced its BABS facility, extending the maturity date to September 2027 and raising an additional £55.0m of funding.

31. Controlling party

As at 30 June 2023, 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 the UK adopted International 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-IAS 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.

	2023 £m	2022 £m
Impairment charge	42.4	4.3
Average net loans and advances to customers	5,829.1	4,629.9
	0.7%	**0.1%**

Cost-to-income ratio

Administrative expenses including depreciation and amortisation divided by operating income.

	2023 £m	2022 £m
Administrative expenses	101.1	98.9
Operating income	278.7	228.6
	36.3%	**43.3%**

Underlying cost-to-income ratio

Administrative expenses including depreciation and amortisation divided by operating income but excluding the effects of a discretionary bonus and strategic option costs release.

	2023 £m	2022 £m
Administrative expenses	101.1	98.9
Less discretionary bonus	(8.4)	-
Plus/(Less) strategic options costs	3.4	(7.9)
Less charge for share-based payment	-	(4.5)
Plus releases in forbearance and customer-communication	-	1.2
Administrative expenses excluding exceptional costs	96.1	87.7
Operating income	278.7	228.6
Add back refinance cost	-	-
Operating income excluding exceptional costs	278.7	228.6
Underlying cost/income ratio	**34.5%**	**38.4%**

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

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

	2023 £m	2022 £m
Profit before tax	135.2	125.4
Add back:		
Interest payable and similar charges	299.6	169.1
Depreciation and amortisation	6.0	5.3
	440.8	**299.8**

Appendix (continued)

Unless otherwise stated, all amounts are stated in £m

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

EBITDA adjusted for discretionary bonus and strategic options cost release.

	2023 £m	2022 £m
EBITDA	440.8	299.8
Add back:		
Discretionary bonus	8.4	-
Strategic options (release)/costs	(3.4)	7.9
Charge for share-based payment	-	4.5
Less releases of forbearance and customer communication provisions	-	(1.2)
	445.8	**311.0**

Interest-cover ratio

The ratio of EBITDA to interest payable and similar charges.

	2023 £m	2022 £m
EBITDA	440.8	299.8
Interest payable and similar charges	299.6	169.1
	1.5:1	**1.8:1**

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.

	2023 £m	2022 £m
Total borrowings	6,049.5	4,849.9
Add back debt issue costs	21.1	28.5
Less shareholder loans	(25.0)	(21.5)
Less lease liabilities	(29.1)	(29.6)
Less senior secured notes premium	(0.2)	(0.4)
Less cash and cash equivalents	(323.5)	(265.8)
Net debt	**5,692.8**	**4,561.1**
Loans and advances to customers	**6,410.2**	**5,247.9**
	88.8%	**86.9%**

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. There are no adjustments on an underlying basis.

	2023 £m	2022 £m
Net interest income	277.8	226.1
Average loans and advances to customers	5,829.1	4,629.9
	4.8%	**4.9%**

Underlying profit before taxation

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

	2023 £m	2022 £m
Profit before tax	135.2	125.4
Add back:		
Discretionary bonus	8.4	-
Strategic options (release)/costs	(3.4)	7.9
Charge for share-based payment	-	4.5
Less release of forbearance and customer communication provisions	-	(1.2)
	140.2	**136.6**

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.

	2023 £m	2022 £m
Profit after tax	107.2	101.1
Add back shareholder loan interest	3.6	2.6
Less tax on shareholder loan interest	(0.7)	(0.5)
Total return to shareholder funds	110.1	103.2
Average shareholder funds	759.0	638.7
	14.5%	**16.2%**

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.

	2023 £m	2022 £m
Total return to shareholder funds	110.1	103.2
Add back/(deduct) exceptional items		
Discretionary bonus costs	8.4	-
Strategic options (release)/costs	(3.4)	7.9
Charge for share-based payment	-	4.5
Less releases of forbearance and customer communication provisions	-	(1.2)
	5.0	11.2
Less tax on exceptional costs using effective tax rate	(1.0)	(2.2)
	4.0	9.0
Underlying return to shareholder funds	114.1	112.2
Underlying average shareholder funds	759.0	638.7
	15.0%	**17.6%**

Cost-to-asset ratio

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

	2023 £m	2022 £m
Administrative expenses	101.1	98.9
Average total assets	6,286.7	4,976.3
	1.6%	**2.0%**

Underlying cost-to-asset ratio

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

	2023 £m	2022 £m
Administrative expenses	101.1	98.9
Less discretionary bonus costs	(8.4)	-
(Less)/Plus strategic option costs	3.4	(7.9)
Less) charge for share-based payment	-	(4.5)
Plus releases of forbearance and customer communications provisions	-	1.2
Underlying administrative expenses	96.1	87.7
Average total assets	6,286.7	4,976.3
	1.5%	**1.8%**

Shareholder funds

This is equity plus subordinated shareholder loans.

	2023 £m	2022 £m
Equity	799.9	671.6
Shareholder loans	25.0	21.5
	824.9	**693.1**