Together Financial Services Limited
Q2 2018/19 Results

Company Registration No. 02939389

Contents

Highlights

Together Financial Services Limited ('Together' or 'the Group'), one of the UK's leading specialist mortgage and loan providers, is pleased to announce its results for the quarter ended December 31, 2018.

Commenting on today's results, Mike McTighe, Group Chairman of Together, said:

"Together achieved strong lending volumes in the second quarter, with our Commercial Finance and Personal Finance businesses both achieving increased levels of originations to drive the loan book to a new high of £3.25bn.

"Average monthly loan originations were £171.7m, up 24.9% on the seasonally lower previous quarter, while origination LTVs remained conservative at 58.9% and principal losses remained very low at less than 0.1%. We further extended our reach into the mortgage networks and clubs during the quarter, launching our bridging products via these channels and, since the period end, we have launched Together**+**, offering exclusive products, marketing support and enhanced services to our key packaging brokers.

"The Group remained highly profitable and cash generative with profit before tax of £31.2m, up 2.8% on the previous quarter, and cash receipts of £363.0m for the quarter. We also added additional breadth and maturity to our funding structure with the successful completion of our second public residential mortgage backed security issue for £287m, which received strong support from investors. This brought our total funds raised or refinanced in the last 12 months to over £2.8bn.

"With the March 29, 2019 Brexit deadline looming and the UK parliament remaining divided over the best way forward, the UK's economic outlook remains uncertain. Lead indicators are also mixed, with weaker consumer spending and UK house price inflation forecast to slow, while average weekly earnings are up 3.4% year-on-year and employment running at its highest level since 1971. Against this backdrop, we are continuing to see strong demand for our products and, with the additional headroom we have in our facilities, we believe Together remains well placed to deliver on our continued growth plans."

- **Higher lending volumes drive continued robust loan book growth**
  - Average monthly loan originations of £171.7m, up 24.9% on Q1'19 (£137.5m) and up 28.3% on Q2'18 (£133.9m)
  - Increased levels of originations in both Commercial Finance and Personal Finance
  - Group weighted average LTV of new originations in the quarter has remained conservative at 58.9% compared with 58.1% in Q1'19 and 58.7% in Q2'18
  - Loan book reached new high of £3.25bn at December 31, 2018, up 7.9% compared with September 30, 2018 (£3.01bn) and up 27.6% compared with December 31, 2017 (£2.55bn)
- **Strong profitability and cash generation maintained**
  - Interest receivable and similar income at £84.1m, up 2.4% on Q1'19 (£82.2m) and up 18.1% on Q2'18 (£71.2m) driven by interest earned on the growing loan book
  - Net interest margin remains highly attractive at 7.1%, in line with Q1'19 (7.2%) although down on Q2'18 (8.0%), reflecting competitive market conditions, redemption of higher yielding legacy products and changes in product mix
  - IFRS 9 net impairment charge of £3.8m, compared with £4.3m in Q1'19 and £2.6m for Q2'18 (presented under IAS 39). IFRS 9 incorporates provisions for increased economic uncertainity
  - EBITDA increased slightly to £60.5m compared with £59.8m in Q1'19, and was up 11.4% compared with £54.3m in Q2'18
  - PBT remains strong at £31.2m, up 2.8% on Q1'19 (£30.4m), although down 1.0% on Q2'18 (£31.5m) reflecting the impact of the adoption of IFRS 9, net interest margin compression and ongoing cost of investment to support future growth
  - Group remains highly cash generative with receipts of £363.0m, up 21.2% compared with £299.5m in Q2'18, although lower than £414.7m in Q1'19 reflecting seasonal factors

Highlights (continued)

- **Significant additional liquidity raised to support lending growth**
  - Successful completion of a second residential mortgage backed securitisation, Together Asset Backed Securitisation 2018-1 PLC ("TABS 2") completed in November 2018 for £287m
- **Continued investment in platform and governance**
  - Richard Gregory, OBE, announced as Chairman of Together Personal Finance

Key metrics	**Q2 2019 *IFRS 9***	**Q1 2019 *IFRS 9***	**Q2 2018 *IAS 39***
Interest receivable and similar income (£m)	84.1	82.2	71.2
Net interest margin (%)	7.1	7.2	8.0
Profit before taxation (£m)	31.2	30.4	31.5
Impairment charge (£m)	3.8	4.3	2.6
Net debt gearing ratio	3.33:1	3.19:1	2.65:1
Interest cover ratio	2.14:1	2.10:1	2.47:1
Loans and advances to customers (£m)	3,248.4	3,011.4	2,545.8
Shareholder funds (£m)[1]	746.4	718.8	694.7

- **Basis of preparation**
  - The results for Q1 and Q2 2019 are reported under IFRS 9, while those for Q2 2018 are reported under IAS 39. We have elected not to restate comparative figures. An explanation of the impact of transition to IFRS 9 is given in Notes 2 and 6 to the interim financial statements included within this report.

[1] Includes shareholder loans notes of £26.1m (Q1 2019: £25.6m, Q2 2018: £24.1m.)

An introduction to Together Financial Services Limited

We are a specialist UK secured mortage and loan provider, established in 1974 and have successfully operated throughout our 44-year history. We focus on low loan-to-value (“LTV”) lending and offer retail and commercial-purpose mortgage loans. Our loans include secured first and second-lien loans, of which 65.9% are secured by residential properties, with the balance secured by commercial and semi-commercial properties, all within the United Kingdom. We specialise in offering individually underwritten loans to underserved market segments, thereby minimising competition from retail ("high street") banks and other lenders. We offer our loans through one consistent brand 'Together' and distribute them through brokers across the United Kingdom (which we refer to as the "broker network"), mortgage networks, clubs, professional firms, auction houses and through our direct sales team. We originate and service all of our mortgage loans directly.

As of December 31, 2018, 31.5% of our loan portfolio was classified as retail purpose, 63.0% as commercial purpose (which included 20.9% of buy to let) and 5.5% of the loan portfolio was classified as development funding, calculated by value. We classify mortgages as retail purpose lending when the mortgage is regulated by the Financial Conduct Authority ("FCA") as well as certain loans written prior to the introduction of the relevant regulation which we consider would have been subject to regulation if underwritten as of the date of this report. Retail-purpose loans include loans for purchasing a new home (including ‘chain breaks,’ which are loans used by customers to purchase a new home ahead of completing the sale of their existing home), making home improvements, debt consolidation, large personal purchases and since March 2016 also includes "consumer buy-to-let" loans ("CBTL") written post this date. Our retail purpose loans also include regulated bridging loans. We classify mortgages as "commercial purpose" where a loan is not defined as retail purpose or a development loan. Commercial-purpose loans include loans on which the proceeds of the loan or the property securing the loan is used for business purposes. Our classification of a mortgage as either retail or commercial-purpose is unrelated to the collateral securing it.

Our underwriting process consists of a detailed and individualised credit, affordability and repayment assessment, as well as a security assessment which includes an independent valuation, which we believe provides us with a thorough understanding of each loan application. In the underwriting process we primarily focus on affordability, being the ability of the loan applicant to make loan payments in line with agreed terms ("affordability"), and the repayment strategy, where the loan will not be repaid from instalments, and security, being the adequacy of the property which will serve as security for the loan ("security"). To ensure strict compliance with our underwriting guidelines, we have in place mandate and authorisation controls, a staff training and competency program and quality-assurance sampling procedures.

The LTV of our loan portfolio on a weighted average indexed basis as of December 31, 2018, was 55.6% and the LTV on a weighted-average basis of new loans underwritten by us in the quarter ended December 31, 2018 was 58.9%. As of December 31, 2018, 96.6% of our total loan portfolio and 91.6% of the Borrower Group[2] loan portfolio, calculated by value, consisted of loans with LTVs at origination equal to or less than 80%. This fundamental, long-standing principle of lending at conservative LTV levels, has provided significant protection in times of falling house prices and economic downturns, thereby minimising levels of provisions and losses.

[2] See Structure diagram on p.17 for definition of Borrower Group

Presentation of financial and other information

Financial Statements

This quarterly report presents the unaudited condensed consolidated financial statements of Together Financial Services Limited as of and for the three months ended December 31, 2018 with comparatives to December 31, 2017. The interim condensed consolidated financial statements of Together Financial Services Limited have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), are unaudited and are derived from internal management reporting.

The Group adopted IFRS 9 *Financial Instruments* on July 1, 2018. IFRS 9 impacts the Group's classification, measurement and impairment of financial instruments. Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively. The Group has taken advantage of the exemptions allowing it to not restate comparative periods. Accordingly, the information presented for the prior year financial period does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for the current periods under IFRS 9.

The impact of transitioning to IFRS 9, was a day 1 reduction in the Group's reserves of £30.7m, which was primarily driven by a move to an expected credit loss model for loans and advances to customers. Further details on the impact of transitioning to IFRS 9 can be found in Notes 2 and 6 of the unaudited interim condensed consolidated financial statements in this report.

As at December 31, 2018 the Borrower Group's loan assets were subject to a fixed and floating charge in respect of £725m senior secured notes and £5m in respect of bank borrowings.

The only notable commitments, not recognised within our consolidated statement of financial position, is the operating lease agreements held for the Group's head office buildings and the outstanding pipeline of loan offers.

During the period, the Group had transactions with affiliated companies. Details of these transactions can be found in Note 17 of the unaudited interim condensed consolidated financial statements in this report.

We have not included financial information prepared in accordance with FRS 102 or US GAAP. IFRS differs in certain significant respects from FRS 102 and US GAAP. You should consult your own professional advisors for an understanding of the differences between IFRS, FRS 102 and US GAAP and how those differences could affect the financial information contained in this quarterly report.

Charles Street Conduit Asset Backed Securitisation 1 Limited ("Charles Street ABS"), Lakeside Asset Backed Securitisation 1 Limited ("Lakeside ABS"), Delta Asset Backed Securitisation 1 Limited ("Delta ABS"), Together Asset Backed Securitisation 1 PLC ("Together ABS 1"), Highfield Asset Backed Securitisation 1 Limited ("Highfield ABS") and Together Asset Backed Securitisation 2018-1 PLC ("Together ABS 2"), the bankruptcy-remote special purpose vehicles established for purposes of secured borrowings, are consolidated into the unaudited interim condensed consolidated financial statements in accordance with IFRS 10 *Consolidated Financial Statements*. Mortgage loans sold to Charles Street ABS, Lakeside ABS, Delta ABS, Together ABS 1, Highfield ABS and Together ABS 2 are maintained on the consolidated statement of financial position as assets, within loans and advances to customers and the associated interest receivable credited to the consolidated income statement. The loan notes issued by Charles Street ABS, Lakeside ABS, Delta ABS, Together ABS 1, Highfield ABS and Together ABS 2 to certain lenders, to finance the purchase of the loans and any interest and fees accrued on the loan notes but not yet paid in respect thereof, are maintained on the condensed consolidated statement of financial position as liabilities due to creditors with interest and debt issuance costs expensed through the condensed income statement.

The subordinated shareholder loans were initially recognised at fair value. As the instruments are interest-free rather than at market rates, their fair values differ from their nominal amounts and are 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. The receipt of an interest-free loan is an economic benefit and, because this benefit has been provided by the Company's parent, it is initially credited to non-distributable reserves as a capital contribution. As the loan approaches maturity the increase in its amortised cost is charged to income with a corresponding transfer to reduce the related non-distributable reserve.

Presentation of financial and other information (continued)

Other Financial Information (Non-IFRS)

All key performance measures shown in this document are calculated using underlying figures, not the rounded numbers.

We have included in this quarterly report and related presentation, certain financial measures and ratios, including EBITDA, EBITDA margin and certain leverage and coverage ratios that are not presented in accordance with IFRS.

In this quarterly report and related presentation, references to EBITDA for the quarters ended December 31, 2017 and 2018 and September 30, 2018 for Together Financial Services Limited, can be extracted from the unaudited interim condensed consolidated financial statements of Together Financial Services Limited, by taking profit after taxation and adding back interest payable and similar charges, tax on profit, depreciation and amortisation. EBITDA margin is calculated as EBITDA divided by the sum of interest receivable and similar income, and fee and commission income.

We are not presenting EBITDA-based measures as measures of our results of operations. EBITDA-based measures have important limitations as an analytical tool, and should not be consideredin isolation or as substitutes for analysis of the results of operations. Management believes that the presentation of EBITDA-based measures is helpful to investors, securities analysts and other parties to measure operating performance and ability to service debt. EBITDA-based measures may not be comparable to similarly titled measures used by other companies.

EBITDA, EBITDA margin and certain leverage and coverage ratios are not measurements of financial performance under IFRS and should not be considered as alternatives to other indicators of operating performance, cash flows or any other measure of performance derived in accordance with IFRS.

Terms relating to our loan analysis

With the exception of the application of certain limited forbearance measures, we do not reschedule our loans by capitalising arrears. In this quarterly report and related presentation, arrears data is based on the original contractual position, using actual cash received to identify performing and non-performing arrears loans, and does not take into account either payment plans or agreed changes to payment dates.

Repossessed properties, Law of Property Act ("LPA") receivership-in-sale status and development loans are excluded from arrears numbers. LPA receivership in rental status, which may return to being performing assets, are included in arrears numbers.

Repossessed properties are properties in respect of which a court order has been actioned by a charge holder to the security, or in respect of which the borrower has surrendered ownership of the property. An LPA receivership is typically used to exercise security over property that is used for commercial purposes, which enables us to sell the property ("sale status"), or divert income streams from properties directly to ourselves ("rental status") which may not lead to an eventual sale process if the borrower is able to recover their position.

Development loans are commercial-purpose loans that we extend to finance the development of land or property, primarily into residential units, with repayments typically being made out of the sale of property units. We underwrite relatively few new development loans each quarter and continue to support a small number of historical funding commitments already agreed or required to complete existing developments. Development loans are reported as a separate category of loans within this analysis.

In this quarterly report and related presentation, data referring to loan portfolio analysis is in reference to core operating subsidiaries: Auction Finance Limited, Blemain Finance Limited, Bridging Finance Limited, Harpmanor Limited, Together Personal Finance Limited and Together Commercial Finance Limited, which represent 99.9% of total loan book balances by value as of December 31, 2018. Data referring to loan portfolio analysis is presented after allowances for impairments and before certain accounting adjustments, on an IFRS 9 basis for balances from July 1, 2018 (IAS 39 basis for balances prior to July 1, 2018).

In this quarterly report and related presentation, a loan is considered performing (or a “performing loan”) if it has (i) nil arrears or arrears less than or equal to one month’s contractual instalment or where no contractual instalment is due (ii) “performing arrears loans,” being loans with arrears greater than one month but less than or equal to three months’ contractual instalments, or where cash receipts collected in the prior three months are equal to or greater than 90% of the contractual instalments due. The balance of loans are classified as (i) non-performing arrears loans, where such loans have arrears of greater than three months’ contractual instalments due and where receipts collected in the prior three months are less than 90% of contractual instalments due, (ii) loans for which the security is subject to a repossession order or for which an LPA receiver has been appointed and is under sale status and (iii) development loans.

In this quarterly report and related presentation, the term "performing loans" refers to the aggregate of (i) the principal amount of performing loans outstanding, (ii) accrued interest and fees and (iii) net of any allowances for impairments, in respect of such loans, as of the date presented. The term "non-performing arrears loans" refers to the aggregate of (i) the principal amount of non-performing arrears loans outstanding, (ii) accrued interest and fees and (iii) net of any allowances for impairments, in respect of such loans, as of the date presented. For balances on July 1, 2018 and onwards financial instruments, including the impairment of loans and advances to customers, are measured on an IFRS 9 basis, and on an IAS 39 basis for preceding periods. Non-performing arrears loans do not take into account loans for which the security is subject to a repossession order or for which an LPA receiver has been appointed and is under sale status or development loans, all of which are reported as separate categories and are also calculated based on the principal amount plus accrued interest and fees net of any allowances for impairments, in respect of such loans. Our loan analysis excludes loans with carrying values of nil for which full provisions are in place. Our provisions analysis also excludes allowances for impairment in respect of loans for which the carrying value is nil after impairment.

In this quarterly report and related presentation, the term "total loan assets" refers to the total balance of loans provided to our customers as included within our statement of financial position, stated after provisions for impairments and fees and commissions spread over the behavioural life of the loan.

In this quarterly report and related presentation, the term "second-lien loans" includes second-lien loans and also subsequent-lien loans.

Terms relating to our loan analysis (continued)

The LTV ratio is a ratio (reflected as a percentage) of the aggregate of (i) the principal amount of a mortgage loan, (ii) any higher ranking charge mortgage loans secured on the same property, (iii) the accrued interest and fees thereon and (iv) net of allowances for impairments compared with the latest appraised value of the property securing the loan. In respect of allowances for impairments, these are measured on an IFRS 9 basis for periods from July 1, 2018 onwards, and on an IAS 39 basis for preceding periods. The appraised value of real property is based upon the opinion of a qualified appraiser, valuer or derived from an automated valuation model during the mortgage origination process, or the reappraised valuation of the property if a later valuation has been undertaken.

In this quarterly report and related presentation, 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 also 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.

Key performance indicators

2019 Q1 and Q2 figures are calculated on an IFRS 9 basis, all comparatives are based on IAS 39

The following table summarises key financial data and key performance indicators as of the dates and for the periods indicated.

	Unaudited		
	3 months ended or as at December 31,		**3 months ended or as at September 30,**
(£m, except for percentages and ratios or unless otherwise noted)	**2018** ***IFRS 9***	**2017** ***IAS 39***	**2018** ***IFRS 9***
Group			
Interest receivable and similar income	84.1	71.2	82.2
Fee and commission income	1.1	1.2	1.0
	85.2	72.4	83.2
Impairment charge	(3.8)	(2.6)	(4.3)
EBITDA	60.5	54.3	59.8
EBITDA margin	71.0%	74.9%	71.8%
Profit on ordinary activities before tax	31.2	31.5	30.4
Supplemental cash flow information:			
Cash receipts	363.0	299.5	414.7
New advances	515.2	401.6	412.6
LTV of loan portfolio (on a weighted average basis, based on LTV of loans at origination)	57.8%	57.2%	57.7%
LTV of loan portfolio (on a weighted average indexed basis)	55.6%	53.6%	54.4%
Borrower Group			
LTV of loan portfolio (on a weighted average basis, based on LTV of loans at origination)	59.6%	58.9%	59.8%
LTV of loan portfolio (on a weighted average indexed basis)	58.9%	57.5%	56.8%

For definitions please see sections: "Terms relating to our loan analysis" and "Key definitions".

The key performance indicators above for the quarter ended December 31, 2018 have been derived from unaudited interim condensed consolidated financial statements and management information. In the opinion of management, such financial data reflects all adjustments necessary for a fair presentation of the results for those periods and have been prepared in accordance with IFRS. The financial information should be read in conjunction with the Annual Report and Consolidated Financial Statements of Together Financial Services Limited and the accounting policies described therein as at June 30, 2018.

Operating review

2019 Q1 and Q2 figures are calculated on an IFRS 9 basis, all comparatives are based on IAS 39

The section below provides a more detailed overview of performance in relation to a number of the key metrics that management use when assessing the performance of the business.

Continued focus on prudent underwriting policies, LTVs and traditional security

During the period to December 31, 2018 the Group has continued to focus on prudent underwriting policies and LTVs, as well as traditional security such as residential housing stock, in providing its mortgage loans. The Group continues to target an average of origination LTVs of between 55% and 60% for new loans and continues to focus principally on residential security. The Group has continued to use affordability and repayment assessments to ensure customers are able to service and repay their loans.

An analysis of the loan portfolio as at December 31, 2018, and December 31, 2017 by arrears banding, reflecting the adoption of IFRS 9 on July 1, 2018, for the Group and Borrower Group is as follows:

	Group Loan Portfolio Arrears Analysis		Borrower Group Loan Portfolio Arrears Analysis	
	December 31, 2018 IFRS 9	**December 31, 2017 IAS 39**	**December 31, 2018 IFRS 9**	**December 31, 2017 IAS 39**
Nil Arrears & Arrears ≤ 1 month	**86.4%**	**86.3%**	**68.4%**	**65.5%**
Performing Arrears				
1-3 months	3.2%	3.5%	3.9%	5.1%
3-6 months	0.4%	0.5%	1.1%	1.3%
>6 months	0.6%	0.4%	1.6%	1.2%
Total Performing Arrears	**4.2%**	**4.4%**	**6.6%**	**7.6%**
Non-Performing Arrears				
3-6 months	0.9%	1.5%	1.8%	3.7%
>6 months	0.9%	1.3%	2.5%	3.7%
Past due (term loans)	0.4%	0.5%	1.1%	1.8%
LPA Rent	0.5%	0.1%	1.1%	0.1%
Total Non-Performing Arrears	**2.7%**	**3.4%**	**6.5%**	**9.3%**
Development Loans	**5.6%**	**4.5%**	**15.8%**	**13.4%**
Repossessions	**1.1%**	**1.4%**	**2.7%**	**4.2%**
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

An analysis of our loan portfolio as at December 31, 2018, by indexed and origination LTV banding, reflecting the adoption of IFRS 9 on July 1, 2018, for the Group and Borrower Group is as follows:

Group Loan Portfolio Indexed LTV Analysis (£m)	Performing Loans	Non - Performing Loans	Development Loans	Repossessions	Total Loan Portfolio
<=60%	1,696.8	40.6	55.7	14.9	1,808.0
>60% <=85%	1,207.4	49.7	89.3	20.1	1,366.5
>85% <=100%	22.8	0.2	33.7	0.6	57.3
>100%	15.4	0.2	1.7	-	17.3
Total	**2,942.4**	**90.7**	**180.4**	**35.6**	**3,249.1**

Borrower Group Loan Portfolio Indexed LTV Analysis (£m)	Performing Loans	Non - Performing Loans	Development Loans	Repossessions	Total Loan Portfolio
<=60%	441.1	29.0	55.7	11.2	537.0
>60% <=85%	382.3	46.2	89.3	17.6	535.4
>85% <=100%	17.7	0.2	33.7	0.6	52.2
>100%	13.4	0.2	1.7	-	15.3
Total	**854.5**	**75.6**	**180.4**	**29.4**	**1,139.9**

Operating review (continued)

2019 Q1 and Q2 figures are calculated on an IFRS 9 basis, all comparatives are based on IAS 39

Group Loan Portfolio Origination LTV Analysis (£m)	Performing Loans	Non - Performing Loans	Development Loans	Repossessions	Total Loan Portfolio
<=60%	1,453.0	45.2	108.3	13.5	1,620.0
>60%<=85%	1,453.8	41.2	57.0	17.2	1,569.2
>85%<=100%	27.8	1.1	7.3	4.2	40.4
>100%	7.8	3.2	7.8	0.7	19.5
Total	**2,942.4**	**90.7**	**180.4**	**35.6**	**3,249.1**

Borrower Group Loan Portfolio Origination LTV Analysis (£m)	Performing Loans	Non - Performing Loans	Development Loans	Repossessions	Total Loan Portfolio
<=60%	387.2	34.8	108.3	9.4	539.7
>60%<=85%	434.2	36.4	57.0	17.0	544.6
>85%<=100%	25.6	1.2	7.3	2.3	36.4
>100%	7.5	3.2	7.8	0.7	19.2
Total	**854.5**	**75.6**	**180.4**	**29.4**	**1,139.9**

The indexed weighted-average LTV of the loan portfolio for the total Group at December 31, 2018 is 55.6% compared with the prior quarter of 54.4% (September 30, 2018) and the prior year comparable quarter of 53.6% (December 31, 2017).

The indexed weighted-average LTV of the loan portfolio for the Borrower Group at December 31, 2018 is 58.9% compared with the prior quarter of 56.8% (September 30, 2018) and the prior year comparable of 57.5% (December 31, 2017).

Maintenance of loan portfolio mix and continued differentiation of our offerings

We aim to maintain a diversified loan portfolio mix between retail purpose and commercial purpose lending and security types over the medium term.

As at December 31, 2018, 31.5% of our loan portfolio was classified as retail-purpose, 63.0% of our loan portfolio was classified as commercial-purpose (which included 20.9% of buy to let) and 5.5% of our loan portfolio was classified as development funding, calculated by value. At December 31, 2017, 33.1% of our loan portfolio was classified as retail purpose, 62.4% of our loan portfolio was classified as commercial purpose (which included 22.6% of buy to let) and 4.5% of our loan portfolio was classified as development funding.

The proportion of our loan portfolio secured by residential security by value has decreased slightly to 65.9% as at December 31, 2018, when compared with 66.6% as at September 30, 2018 and 71.9% as at December 31, 2017. The proportion of our loan portfolio secured on first charges has increased to 69.3% as at December 31, 2018, compared with 67.7% as at September 30, 2018 and 64.9% as at December 31, 2017.

Controlled growth of our loan portfolio

We have continued to grow our loan portfolio using established distribution channels across the United Kingdom. We continue to focus on markets where we can offer products by identifying customer groups that are underserved by mainstream lenders.

In the quarter to December 31, 2018, including further advances, we have funded an average of £171.7m per month compared with £137.5m per month in the quarter to September 30, 2018 and £133.9m per month in the quarter to December 31, 2017.

Our total loan portfolio (net of impairment) stands at £3,248.4m as at December 31, 2018, compared with £3,011.4m as at September 30, 2018 and £2,545.8m as at December 31, 2017.

We intend to continue to grow our loan portfolio in a controlled manner, ensuring the quality of new loans is of an acceptable standard.

Financial review

2019 Q1 and Q2 figures are calculated on an IFRS 9 basis, all comparatives are based on IAS 39

Interest income has increased 2.4% to £84.1m for the current quarter to December 31, 2018 compared with £82.2m in the prior quarter (September 30, 2018) and has increased 18.1% compared with £71.2m in the prior year comparable quarter (December 31, 2017). This increase primarily results from growth in the size of the loan book offset by a reduction in the average interest rate earned on new originations reflecting increased market competition, and the continued run-off of the higher yielding back book of loans.

The net impairment charge to the income statement was £3.8m for the quarter to December 31, 2018 compared with £4.3m in the prior quarter (September 30, 2018) and £2.6m in the prior year comparable quarter (December 31, 2017) prepared on IAS 39 basis. IFRS 9 is an expected loss model as opposed to IAS 39 which is an incurred loss model. Under IFRS 9 the expected loss is a probability weighted estimate under different macroeconomic assumptions of the present value of credit losses discounted over the expected life of the loan at its original effective interest rate. Under IFRS 9 new loans originated in the quarter resulted in an impairment charge of £2.5m compared with £1.2m in the prior quarter (September 30, 2018) and changes in model parameters and macroeconomic assumptions lead to a £1.3m charge due to increased economic uncertainties, compared with a £0.8m charge in the prior quarter (September 30, 2018), both of which would not have been previously reflected under IAS 39. The recognition of an expected credit loss (ECL) on origination of a loan will generally lead to an earlier recognition of charges to the income statement under IFRS 9 compared to IAS 39. This change in accounting simply reflects a change in the timing of recognition of losses and does not change the underlying economic position. A detailed explanation of the impact of transition to IFRS 9 is given in Notes 2 and 6 to the interim financial statements.

Profit before tax of £31.2m for the quarter to December 31, 2018 compares with £30.4m in the prior quarter (September 30, 2018) and £31.5m in the prior year comparable (December 31, 2017). Strong loan book growth has resulted in a 18.1% increase in interest receivable and similar income although competitive market conditions, and the redemptions of higher yielding legacy products has resulted in a reduction in net interest margin from 8.0% to 7.1%.

The Group continues to be highly profitable, with EBITDA up 1.2% to £60.5m compared with £59.8m in the prior quarter (September 30, 2018) and up 11.4% compared with £54.3m in the prior year comparable quarter (December 31, 2017). EBITDA margin was 71.0% for the quarter to December 31, 2018 compared with 71.8% for the prior quarter (September 30, 2018) and 74.9% in the prior year comparable quarter (December 31, 2017).

High levels of cash generation maintained, with cash receipts of £363.0m compared with £414.7m in the prior quarter (September 30, 2018) and up 21.2% compared with £299.5m in in the prior year comparable quarter (December 31, 2017).

Recent developments

Trading Update

Mortgage originations in January 2019 were £159.8m, compared to a monthly average of £171.7m for the quarter to December 31, 2018.

Securitisation update

On November 8, 2018, the Group completed its second residential mortgage backed securitisation, raising £272.6m against a loan portfolio of £286.9m, Together ABS 2, with 78.5% of the notes rated as AAA by Moody's and DBRS. The issue, which will support the Group's ambitious growth strategy, was oversubscribed and received interest from a range of institutions, many of whom had invested in the Group's inaugural public RMBS in September 2017.

Continued investment in platform and governance

On January 31, 2019 Richard Gregory, OBE, was appointed as Chairman of Together Personal Finance. Richard replaces David Bennett who is stepping down after almost nine years.

Together rises 25 places in the Sunday Times Grant Thornton Top Track 250 league table

The Sunday Times has named Together, in the Sunday Times Grant Thornton Top Track 250 league table, published in October 2018.

Together ranked 82nd in the prestigious league table, rising 25 places from last year among the UK's private mid-market companies based on latest sales (interest receivable and similar income).

Secured lender of the Year

Together was named the Secured Lender of the Year at the Mortgage Introducer Awards.

Networks and Clubs

Together enhanced its intermediary offering to Networks and Clubs through the addition of bridging products.

Expanding the product offerings is key to our growth plans and this is also a great opportunity to grow relationships and tap into new business opportunities.

Ratings update

On January 24, 2019 Moody's Investors Service ('Moody's') upgraded the credit rating of two notes and affirmed the ratings of three notes within the Group's first public residential mortgage backed security, Together ABS 1.

Together rating affirmed by both S&P and Fitch at BB- and BB, respectively.

Significant factors which may affect results of operations

Loan Assets Performance

The performance of our loan assets depends on our ability to collect each expected loan installment, including interest and principal payments, on a timely basis. This in turn, depends in part on, the strength of our underwriting process to ensure the affordability of the loan installments and to assess the sustainability of such payments based upon known factors at the time of origination, an assessment of the repayment strategy, and the marketability and value of the underlying security. Our underwriting criteria, processes, controls and systems have been developed and refined using many years of experience. For each loan application, a detailed individualised assessment is made of the customer including, among other checks, an assessment of the financial position of the customer to ensure, when appropriate, that the loan is both affordable and sustainable, an assessment of the repayment strategy and an assessment of the underlying security and its valuation. In addition, the performance of our total loan assets is impacted by our continued investment in our collections infrastructure, which impacts our ability to collect expected loan installments.

Macroeconomic Conditions

During the quarter to December 31, 2018 the UK's economic outlook remains uncertain, primarily due to an increase in the probability of a "no-deal" Brexit outcome following parliamentary rejection of the government's Brexit withdrawal agreement. Consequently, the downside scenario used within expected credit loss provisioning under IFRS reflects a more pessimistic view than in prior periods, particularly with regard to house prices. As a result, the value of sterling has reflected some short-term, volatility within the period but was little changed over the quarter.

Whilst uncertain and adverse economic conditions may present challenges, Together continues to apply its experience gained over numerous economic cycles, has a focus on prudent loan to value lending secured on UK property and has a diversified mix of debt facilities with depth to maturity. Changes in economic conditions may also reduce competition, which we have seen with the recent market exits of competitors and present opportunities for specialist lenders such as Together.

Property Market

Together operates in a number of specialist segments of the UK mortgage market, helping customers who are typically underserved by mainstream banks.

The annual rate of growth in house prices continued to fall, with the Halifax reporting annual national house price growth of only 1.3% to December 2018, but with notable regional variation evident. However, employment remains strong and wage inflation rose which should provide support for the housing market.

Together is a national lender and has a loan portfolio which is diversified across the UK, with less than 30% concentrated in the London region. Our London portfolio is not focused on 'high end' central London properties and, with weighted average loan-to-value ratios lower than the average for the rest of the country, it is well protected against moderate house price falls.

As a specialist lender we continue to see a strong appetite among professional landlords for expanding their portfolios, and anticipate that the recent regulatory and tax changes will lead to an increasing professionalisation of the BTL market.

Significant factors which may affect results of operations (continued)

Competition

Competition in the secured lending industry can take a number of forms, including interest rates and fee competition, underwriting criteria, convenience and customer service, and marketing and distribution channels.

Mainstream (‘high-street’) lenders continue to focus on their core businesses of automated credit decisions which excludes certain customers, property or transaction types. This has encouraged a number of new entrants, or re-entrants into the market in the form of non-bank lenders or newly formed challenger banks which are likely to increase competition in the segments where we operate.

Competition levels could impact the acquisition cost of obtaining business along with the interest rates and fees that we can charge for our mortgage loans.

Funding

We fund our total loan assets from cash generated by operations, shareholder reserves, the Subordinated Shareholder funding, senior secured notes, a revolving credit facility, residential mortgage-backed securitisations, and through other asset-backed facilities. The volume of loans we are able to originate is limited, in part, by the amount and terms of funding available to us along with the level of our capital reserves.

Regulatory considerations

The Group has certain subsidiaries which are authorised and regulated by the FCA in addition to subsidiaries which undertake lending which is not regulated. We also have to comply with the relevant UK and EU regulations including anti-money laundering regulations and the General Data Protection Regulations.

We continue to invest in our compliance, legal and governance functions to ensure we are adequately resourced to ensure compliance with all existing and future requirements.

Risk Factors

This quarterly report contains statements that are, or may be deemed to be, forward looking statements. In some cases, these forward looking statements can be identified by the use of forward looking terminology, including the words “aims,” “believes,” “estimates,” “anticipates,” “expects,” “intends,” “may,” “will,” “plans,” “predicts,” “assumes,” “shall,” “continue” or “should” or, in each case, their negative or other variations or comparable terminology or by discussions of strategies, plans, objectives, targets, goals, future events or intentions.

Many factors may cause our results of operations, financial condition, liquidity and the development of the industries in which we operate to differ materially from those expressed or implied by the forward looking statements contained in this quarterly report. These factors include among others:

- the impact of economic conditions on our results of operations and financial condition;
- the impact of the United Kingdom’s exit from the European Union;
- the impact of a downturn in the property market;
- our ability to accurately value properties;
- our ability to accurately identify the credit profile and behaviours of our customers;
- our ability to detect and prevent fraud during the loan underwriting process;
- the impact of the changing financial circumstances of our customers;
- our relationships with brokers, professional networks and other distribution channels;
- the impact of competition;
- legislative, taxation and regulatory changes affecting our ability to operate or the profit generated from our activities;
- our exposure to potential regulatory sanctions and fines;
- the impact of fluctuations in interest rates and our ability to obtain financing;
- changes to the ways in which the United Kingdom regulates the loan industry;
- changes or uncertainty in respect of LIBOR that may affect our sources of funding;
- the impact of new initiatives by the UK Government that may affect our business;
- the impact of litigation;
- our ability to retain our senior management and our underwriters, account executives, sales personnel and other client facing employees;

Significant factors which may affect results of operations (continued)

Risk Factors (continued)

- interruption or loss of our information processing systems or third party systems we use or failure to maintain secure information systems and technological changes (including as a result of cyber-attacks);
- technological changes and failure to adequately anticipate or respond to these changes;
- our substantial debt;
- interest rate fluctuations;
- imbalances in maturity between our total loan assets and our sources of funds affecting the capacity to expand our business;
- exclusion of US GAAP financial information; and
- changes in accounting standards.

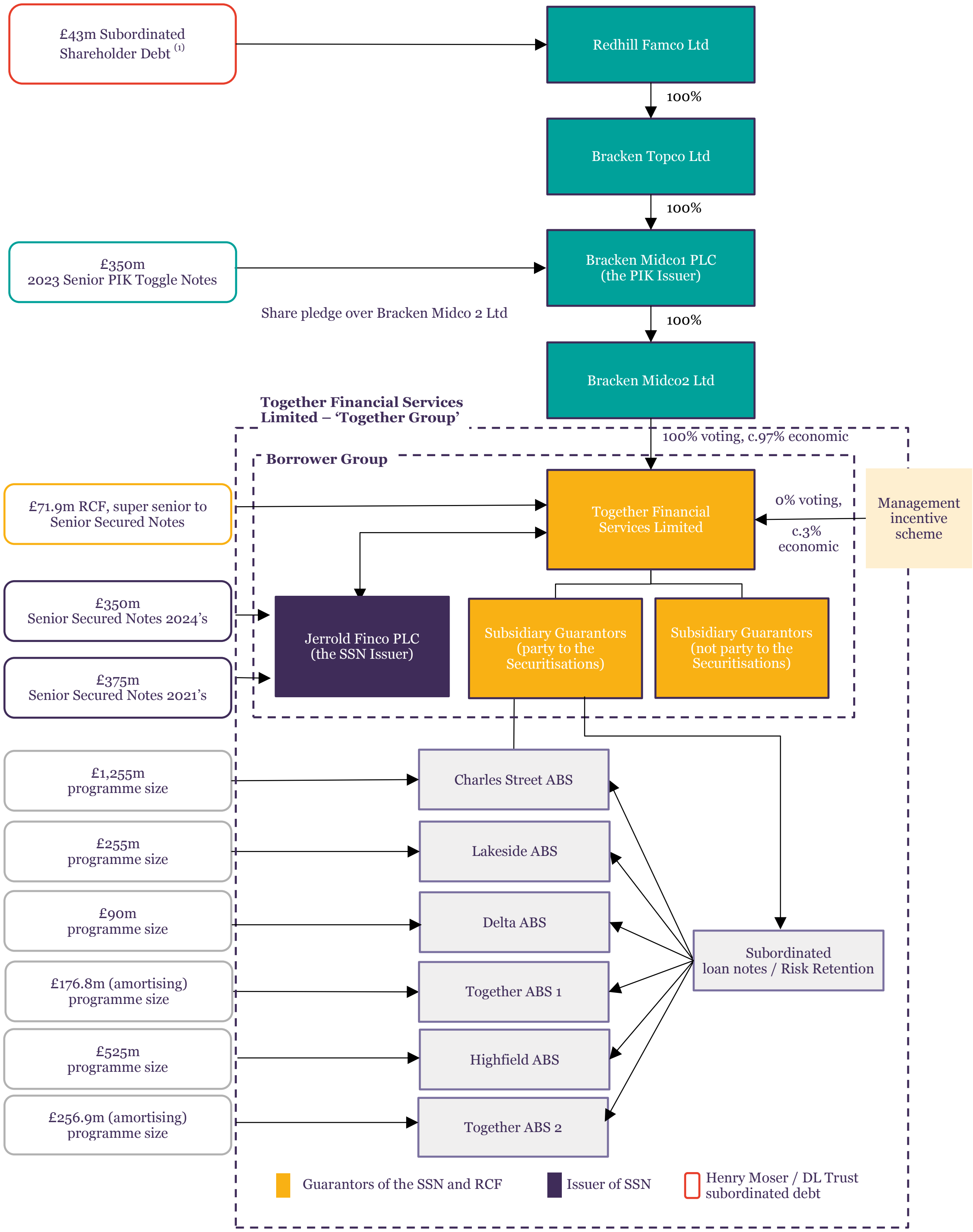
These risks are not exhaustive. Other sections of this quarterly report describe additional factors that could adversely affect our results of operations, financial condition, liquidity and the markets in which we operate. New risks can emerge from time to time, and it is not possible for us to predict all such risks, nor can we assess the impact of all such risks on our business or the extent to which any risks, or combination of risks and other factors, may cause actual results to differ materially from those contained in any forward looking statements. Given these risks and uncertainties, you should not rely on forward looking statements as a prediction of actual results.

Any forward looking statements are only made as of the date of this quarterly report, and we do not intend, and do not assume any obligation, to update forward looking statements set forth in this quarterly report. You should interpret all subsequent written or oral forward looking statements attributable to us or to persons acting on our behalf as being qualified by the cautionary statements in this quarterly report. As a result, you should not place undue reliance on these forward looking statements.

Summary corporate and financing structure

The diagram below provides a simplified overview of our corporate and financing structure on a consolidated basis as at January 31, 2019.

The diagram does not include all entities in our Group nor does it show all liabilities in our Group.



(1) Subordinated Shareholder Funding based upon nominal value

Summary results and financial position of Bracken Midco1 PLC

The tables below set out the unaudited interim condensed consolidated results and financial position of Bracken Midco1 PLC, the issuer of 2023 Senior PIK Toggle Notes and its subsidiaries, compared to the unaudited interim condensed consolidated results and financial position of Together Financial Services Limited and its subsidiaries, for and as of the quarter ended December 31, 2018. The results reflect the adoption of IFRS 9 on July 1, 2018.

	Quarter ended December 31, 2018		
	Together Financial Services Ltd £m	**Adjustments £m**	**Bracken Midco1 PLC £m**
Profit before tax [1]	**31.2**	**(8.5)**	**22.7**

	As at December 31, 2018		
	Together Financial Services Ltd £m	**Adjustments £m**	**Bracken Midco1 PLC £m**
Assets			
Cash and balances at bank	8.3	2.7 [2]	11.0
Loans and advances to customers	3,248.4	-	3,248.4
Derivative assets held for risk management	0.4	-	0.4
Inventories	0.6	-	0.6
Other assets	4.6	-	4.6
Investments	0.1	-	0.1
Property, plant and equipment	6.1	-	6.1
Intangible assets	8.6	-	8.6
Deferred tax asset	8.0	-	8.0
Total assets	**3,285.1**	**2.7**	**3,287.8**
Liabilities			
Bank facilities	5.0	-	5.0
Loan notes	1,762.2	-	1,762.2
Senior secured notes	727.1	-	727.1
Senior PIK toggle notes	-	350.0 [3]	350.0
Obligations under finance leases	0.8	-	0.8
Debt issue costs	(16.9)	(4.4) [4]	(21.3)
Total borrowings (excluding subordinated shareholder funding)	**2,478.2**	**345.6**	**2,823.8**
Other liabilities	52.1	8.8 [5]	60.9
Current tax liabilities	8.4	-	8.4
Total liabilities	**2,538.7**	**354.4**	**2,893.1**
Equity			
Subordinated shareholding funding	26.1	(20.4)	5.7 [6]
Shareholders' equity	720.3	(331.3)	389.0
Total equity	**746.4**	**(351.7)**	**394.7**
Total equity and liabilities	**3,285.1**	**2.7**	**3,287.8**

(1) Presented to reflect the full quarter consolidated profit of Together Financial Services Limited and Bracken Midco1 PLC respectively
(2) Represents cash and cash equivalents held within Bracken Midco1 PLC and Bracken Midco2 Limited
(3) Represents the additional borrowings in the form of £350.0m 2023 Senior PIK Toggle Notes
(4) Represents unamortised debt issue costs associated with the issuance of the 2023 Senior PIK Toggle Notes
(5) Includes interest accrued on the 2023 Senior PIK Toggle Notes and outstanding amounts payable in connection with the issue of the 2023 Senior PIK Toggle Notes
(6) Represents the carrying value of shareholder funding owed to Bracken Topco Limited by Bracken Midco 1 PLC recognised at fair value

Summary results and financial position of Bracken Midco1 PLC (continued)

For the period to December 31, 2018, interest payable and similar charges for Bracken Midco1 PLC was, on a consolidated basis £36.7m compared to £28.3m for Together Financial Services Limited. The £8.6m variance comprises £8.8m of interest payable and debt issue amortisation on the Senior PIK Toggle, £0.3m being the unwind of the fair value adjustment in respect of intercompany loan amounts owed to Bracken Topco Limited, and the elimination on consolidation of £0.5m of fair value unwind at Together Financial Services Limited on intercompany loans owed to Bracken Midco2 Limited.

Unaudited Condensed Consolidated Interim Financial Statements

The unaudited condensed consolidated interim financial statements below show the financial performance for the quarter to and as at December 31, 2018.

Comparatives for these condensed consolidated financial statements are as follows:

- Consolidated Statement of Comprehensive Income and Consolidated Statement of Cash Flow have comparatives for the quarter to December 31, 2017; and

Consolidated Statement of Financial Position and Consolidated Statement of Changes in Equity have comparatives as at December 31, 2017 and June 30, 2018.

Unaudited consolidated statement of comprehensive income

Six months ended 31 December 2018

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

Income statement	Note	Three months ended 31 Dec 2018 IFRS 9	Three months ended 31 Dec 2017 IAS 39	Six months ended 31 Dec 2018 IFRS 9	Six months ended 31 Dec 2017 IAS 39
Interest receivable and similar income		84.1	71.2	166.3	139.2
Interest payable and similar charges	4	(28.3)	(22.0)	(56.7)	(43.1)
Net interest income		**55.8**	**49.2**	**109.6**	**96.1**
Fee and commission income		1.1	1.2	2.1	2.3
Fee and commission expense		(0.6)	(0.6)	(1.0)	(1.1)
Other net income		0.1	-	0.1	0.3
Operating income		**56.4**	**49.8**	**110.8**	**97.6**
Administrative expenses		(21.4)	(15.7)	(41.1)	(30.9)
Operating profit		**35.0**	**34.1**	**69.7**	**66.7**
Impairment losses		(3.8)	(2.6)	(8.1)	(4.2)
Profit before taxation		**31.2**	**31.5**	**61.6**	**62.5**
Income tax	5	(4.1)	(4.5)	(7.5)	(8.9)
Profit after taxation		**27.1**	**27.0**	**54.1**	**53.6**

The results for the current and preceding periods relate entirely to continuing operations. Other comprehensive income is not material in either period.

Unaudited consolidated statement of financial position

As at 31 December 2018

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

	Note	31 December 2018 IFRS 9	31 December 2017 IAS 39	30 June 2018 IAS 39
Assets				
Cash and balances at bank		8.3	6.7	-
Loans and advances to customers	6	3,248.4	2,545.8	2,958.2
Derivative assets held for risk management	7	0.4	-	-
Inventories		0.6	0.6	0.6
Other assets	8	4.6	5.5	4.3
Investments		0.1	0.1	0.1
Property, plant and equipment	9	6.1	5.0	6.3
Intangible assets	10	8.6	7.5	8.3
Deferred tax asset	11	8.0	2.2	1.4
Total assets		**3,285.1**	**2,573.4**	**2,979.2**
Liabilities				
Borrowings	12	2,504.3	1,855.6	2,216.8
Other liabilities	13	52.1	38.5	44.2
Current tax liabilities		8.4	8.8	6.3
Total liabilities		**2,564.8**	**1,902.9**	**2,267.3**
Equity				
Share capital	14	9.8	9.8	9.8
Share premium account		17.5	17.5	17.5
Merger reserve		(9.6)	(9.6)	(9.6)
Capital redemption reserve		1.3	1.3	1.3
Subordinated shareholding funding reserve		42.0	44.0	43.0
Share-based payment reserve		1.6	1.6	1.6
Retained earnings		657.7	605.9	648.3
Total equity		**720.3**	**670.5**	**711.9**
Total equity and liabilities		**3,285.1**	**2,573.4**	**2,979.2**

Unaudited consolidated statement of changes in equity

Six months ended 31 December 2018

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

Six months to 31 December 2018 IFRS 9	Called-up share capital	Share premium	Merger reserve	Capital redemption reserve	Subordinated shareholder funding reserve	Share-based payment reserve	Retained earnings	Total
At beginning of the period	9.8	17.5	(9.6)	1.3	43.0	1.6	648.3	711.9
Changes on initial application of IFRS 9	-	-	-	-	-	-	(30.7)	(30.7)
Restated balances at beginning of period	**9.8**	**17.5**	**(9.6)**	**1.3**	**43.0**	**1.6**	**617.6**	**681.2**
Retained profit for the financial period	-	-	-	-	-	-	54.1	54.1
Dividend paid	-	-	-	-	-	-	(15.0)	(15.0)
Transfer between reserves	-	-	-	-	(1.0)	-	1.0	-
At end of the period	**9.8**	**17.5**	**(9.6)**	**1.3**	**42.0**	**1.6**	**657.7**	**720.3**

Six months to 31 December 2017 IAS 39	Called-up share capital	Share premium	Merger reserve	Capital redemption reserve	Subordinated shareholder funding reserve	Share-based payment reserve	Retained earnings	Total
At beginning of the period	9.8	17.5	(9.6)	1.3	44.9	1.6	562.9	628.4
Retained profit for the financial period	-	-	-	-	-	-	53.6	53.6
Dividend paid	-	-	-	-	-	-	(11.5)	(11.5)
Transfer between reserves	-	-	-	-	(0.9)	-	0.9	-
At end of the period	**9.8**	**17.5**	**(9.6)**	**1.3**	**44.0**	**1.6**	**605.9**	**670.5**

Unaudited consolidated statement of cash flows

Six months ended 31 December 2018

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

	Note	Three months ended 31 Dec 2018	Three months ended 31 Dec 2017	Six months ended 31 Dec 2018	Six months ended 31 Dec 2017
Cash outflow from operating activities					
Cash outflow from operations	16	(177.9)	(119.7)	(204.3)	(199.1)
Income tax paid		(1.6)	(3.6)	(5.6)	(7.2)
Servicing of finance		(16.0)	(14.5)	(48.5)	(40.1)
Net cash outflow from operating activities		**(195.5)**	**(137.8)**	**(258.4)**	**(246.4)**
Cash flows from investing activities					
Purchase of property, plant and equipment		(0.1)	(0.3)	(0.6)	(1.2)
Purchase of intangible assets		(1.1)	(1.8)	(2.0)	(2.6)
Proceeds on disposal of property, plant and equipment		-	-	-	-
Net cash outflow from investing activities		**(1.2)**	**(2.1)**	**(2.6)**	**(3.8)**
Cash flows from financing activities					
Repayment of bank facilities		(20.0)	-	(25.7)	-
Drawdown of facilities		-	141.9	37.7	239.9
Proceeds from issuance of residential mortgage backed securitisation		272.6	-	272.6	261.3
Repayment of facilities		(71.5)	-	-	(250.0)
Dividends paid		-	(11.5)	(15.0)	(11.5)
Capital element of finance lease payments		(0.2)	-	(0.3)	(0.1)
Net cash inflow from financing activities		**180.9**	**130.4**	**269.3**	**239.6**
Net (decrease)/increase in cash and cash equivalents		(15.8)	(9.5)	8.3	(10.6)
Cash and cash equivalents at beginning of period		24.1	16.2	-	17.3
Cash and cash equivalents at end of period		**8.3**	**6.7**	**8.3**	**6.7**

Unaudited notes to the financial statements

1. Reporting entity and general information

Together Financial Services Limited, (the Company) is incorporated in the United Kingdom under the Companies Act 2006 and registered in England and Wales. The Company is a private company, limited by shares (company number: 02939389). The registered address of the Company is Lake View, Lakeside, Cheadle, Cheshire, SK8 3GW. The unaudited condensed consolidated interim financial statements comprise Together Financial Services Limited and its subsidiaries (the Group).

2. Significant accounting policies

Basis of preparation

The condensed consolidated interim financial statements have been prepared in accordance with the International Accounting Standard (IAS) 34 *Interim Financial Reporting*, as adopted by the European Union (EU). They do not include all the information required by International Financial Reporting Standards (IFRS) in full annual financial statements and should be read in conjunction with the Annual Report and Consolidated Financial Statements for the year ended 30 June 2018 which were prepared in accordance with IFRS as adopted by the EU.

The information for the year ended 30 June 2018 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report, and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

Accounting policies and judgements

The accounting policies, presentation and methods of computation are consistent with those applied by the Group in its latest audited annual financial statements, except for the adoption of a new accounting standard, IFRS 9, as set out below.

Adoption of new accounting standards, amendments and interpretations

The Group has adopted IFRS 9 *Financial instruments* issued by the IASB in July 2014 with a date of application of 1 July 2018. The adoption of IFRS 9 represents a significant change from the requirements of IAS 39 *Financial instruments: recognition and measurement*, and has resulted in changes in accounting policies for recognition, classification and measurement, and impairment of financial instruments. It also significantly amends the disclosures relating to financial instruments.

Classification of financial instruments

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

Measurement and impairment of financial instruments

IFRS 9 introduces a significant change in measurement of financial instruments, relating to non-substantial modifications of liabilities. Under IAS 39, the Group's policy for such modifications was to defer any related transaction costs as adjustments to carrying value that were charged to income over the liability's remaining life. Under IFRS 9 however, gains or losses on non-substantial modifications will be recognised immediately in the income statement and the Group will also consider qualitative factors in determining whether a modification is substantial.

The most significant impact of IFRS 9 for the Group relates to the impairment of financial instruments. IFRS 9 replaces the 'incurred loss' model of IAS 39 with an 'expected loss' model that also applies to loan commitments. IFRS 9 therefore recognises credit losses earlier than IAS 39.

2. Significant accounting policies (continued)

Transition to IFRS 9

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively. The Group has taken advantage of the exemptions allowing it not to restate comparative periods. Differences in the carrying amounts of financial instruments resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 July 2018. Accordingly, the information presented for the previous financial period does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for the current period under IFRS 9.

Reconciliation of statement of financial position from IAS 39 to IFRS 9

The only financial instruments affected by transition from IAS 39 to IFRS 9 are loans and advances to customers and borrowings. The following table reconciles the remeasurement changes in their carrying amounts together with the impact on deferred tax and retained earnings on 1 July 2018 (all amounts measured in £m):

	IAS 39 30 June 2018	Expected credit losses	Modification of financial liabilities	Total impact of adoption of IFRS 9	IFRS 9 1 July 2018
Loans and advances to customers	2,958.2	(31.5)	-	(31.5)	2,926.7
Borrowings	(2,216.8)	-	(5.6)	(5.6)	(2,222.4)
Deferred tax asset	1.4	5.4	1.0	6.4	7.8
Retained earnings impact	**-**	**(26.1)**	**(4.6)**	**(30.7)**	**-**
Retained earnings	**711.9**	**(26.1)**	**(4.6)**	**(30.7)**	**681.2**

In addition on transition to IFRS 9, loans and advances to customers of £19.3m that were fully impaired were written off, with no net impact on amortised cost due to a change in our accounting policy for write-offs from 1 July 2018.

The accounting policies for the recognition, classification and measurement of financial instruments are detailed below.

Financial assets & liabilities

Financial assets

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

From 1 July 2018, all of the Group's financial assets are classified as measured at amortised cost, being the gross carrying amount less expected credit losses, using the effective interest rate method, as they meet both of the following conditions:

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

The Group's business model for its financial assets is to hold them to collect contractual cash flows, with sales of mortgage loans and advances to customers only made internally to consolidated special purpose vehicles for the purpose of collateralising the issuance of loan notes. The loans' cash flows are consistent with a basic lending arrangement, the related interest only including consideration for the time value of money, credit and other basic lending risks, and a profit margin consistent with such an arrangement. Cash and cash equivalents also meet these conditions and accordingly management has classified all of the Group's financial assets as measured at amortised cost.

Prior to 1 July 2018, all of the Group's financial assets were categorised as loans and receivables, and subsequent to initial recognition were measured at amortised cost using the effective interest rate method, less impairment losses.

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

2. Significant accounting policies (continued)

Financial assets (continued)

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 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. From 1 July 2018, a modified loan's credit risk is assessed to see if it remains higher than on initial recognition for the purposes of calculating expected credit losses.

Financial liabilities

The Group's financial liabilities, which largely consist of borrowings, are all classified as measured at amortised cost for both the current and prior period. All of the 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. From 1 July 2018, all gains or losses on non-substantial modifications, calculated as a change in the net present value of future cashflows, will be recognised immediately in the income statement. The Group may also consider qualitative factors in determining whether a modification is substantial. Prior to 1 July 2018, the Group's policy for such modifications was to defer related transaction costs as adjustments to the carrying value of the instrument, amortised over its remaining expected life.

Impairment of financial instruments

Policy applicable from 1 July 2018

From 1 July 2018, 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 EIR. Credit losses for financial assets are the difference between the contractual cash flows, including the amount of committed pipeline lending which is expected to be drawn down, and the cash flows expected to be received.

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

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

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

Besides instruments that become credit impaired on entering default, lifetime ECLs are also used for any that are credit impaired on origination. In the ordinary course of business the Group does not purchase or originate credit-impaired financial assets; management therefore considers any such balances to be immaterial.

More details of the Group's definitions of default and significant increases in credit risk and their application are provided in Note 6 to these financial statements.

2. Significant accounting policies (continued)

Impairment of financial instruments (continued)

Policy applicable from 1 July 2018 (continued)

If, due to the financial difficulties of the borrower, the terms of a financial asset are renegotiated or modified, or the asset is replaced with a new one, then an assessment is made of whether the asset should be derecognised. A loan to a borrower granted such concessions due to forbearance is considered to be credit impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In the latter case, the measurement of the loss allowance on the new asset will generally be based on a 12-month ECL.

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

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

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

Policy applicable before 1 July 2018

The accounting policies and amounts relating to financial instruments in the prior financial year, reported as comparative information, are in accordance with IAS 39 and consistent with the Group's latest audited annual 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.

For the period beginning 1 July 2018, the effective interest rate is the rate that, at inception of the instrument, discounts its estimated future cash payments or receipts to:

- the gross carrying amount, i.e. before expected credit losses, in the case of financial assets, or:
- amortised cost in the case of financial liabilities.

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 credit-impaired assets. For credit-impaired assets a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses. The calculation includes all fees, transaction costs and other premiums or discounts that relate to the origination of the instrument.

The accounting policies and amounts relating to interest income and expense in the prior financial year, reported as comparative information, are in accordance with IAS 39 and consistent with the Group's latest audited annual financial statements.

Going concern

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

2. Significant accounting policies (continued)

Derivatives held for risk-management purposes and hedge accounting

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 at each period end. 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 or of the cash flows of recognised assets or liabilities.

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 is deferred in other comprehensive income, as a cost of hedging, over the term of the hedge to the extent that it relates to the hedged item. The hedged items so designated by the Group are related to time periods, and the amount of the original time value of the option that relates to the hedged item is amortised from equity to the income statement, within other net income, on a straight-line basis over the term of the hedging relationship.

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

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

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. From 1 July 2018 the critical judgments relating to the classification of financial assets and the key estimates relating to impairment have changed as a result of the implementation of IFRS 9.

Critical judgements in applying the Group's accounting policies

The only critical judgements, apart from those involving estimates dealt with below, are the assessments that result in the classification of the Group's loans and advances to customers as assets measured at amortised cost. These assessments are that the loans are held in a business model whose objective is to hold the asset to collect the contractual cash flows, and that their contractual terms give rise to cash flows that are solely payments of principal and interest. Given these assets are mortgage loans, the judgements, while critical, are considered straight forward.

Key sources of estimation uncertainty

Estimates and associated assumptions are based on historical experience and other relevant factors, and are reviewed on a continuing basis. Actual results may differ from these estimates, and revisions to estimates are recognised prospectively. The calculation of the Group's allowance for losses on its loans and advances to customers under IFRS 9 relies on the following key matters:

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

Note 6 gives more details on the assumptions made.

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

4. Interest payable and similar charges

	Three months ended		Six months ended	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
On borrowings	**28.3**	**22.0**	**56.7**	**43.1**

5. Income tax

	Three months ended		Six months ended	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Current tax				
Corporation tax	4.5	4.4	7.7	8.7
	4.5	**4.4**	**7.7**	**8.7**
Deferred tax				
Origination and reversal of temporary differences	(0.4)	0.1	(0.2)	0.2
Total deferred tax	**(0.4)**	**0.1**	**(0.2)**	**0.2**
Total tax on profit	**4.1**	**4.5**	**7.5**	**8.9**

Corporation tax is calculated at 19.00% (31 December 2017: 19.00%) of the taxable profit for the period.

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

	Three months ended		Six months ended	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Profit before tax	31.2	31.5	61.6	62.5
Tax on profit at standard UK corporation tax rate of 19.00%	5.9	6.0	11.7	11.9
Effects of:				
Expenses not deductible for tax purposes	0.5	0.2	1.3	0.3
Income not taxable	(0.5)	(0.1)	(1.2)	(0.1)
Group relief	(1.8)	(1.6)	(4.3)	(3.2)
Tax charge for period	**4.1**	**4.5**	**7.5**	**8.9**

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

6. Loans and advances to customers

	31 December 2018					
	Stage 1: 12-month ECL IFRS 9	Stage 2: Lifetime ECL not credit impaired IFRS 9	Stage 3: Lifetime ECL credit impaired IFRS 9	Total IFRS 9	31 December 2017 IAS 39	30 June 2018 IAS 39
Gross loans and advances	2,692.4	325.1	303.8	3,321.3	2,604.4	3,020.0
Loss allowance	(12.6)	(11.0)	(49.3)	(72.9)	(58.6)	(61.8)
	2,679.8	**314.1**	**254.5**	**3,248.4**	**2,545.8**	**2,958.2**

None of the Group's financial assets are credit-impaired on purchase or origination. Comparative amounts for December 2017 and June 2018 reflect the measurement basis under IAS 39.

Loans and advances to customers include total gross amounts of £13.1m (31 December 2017: £10.9m; 30 June 2018: £12.5m), equivalent to £11.2m net of allowances (31 December 2017: £9.2m; 30 June 2018: £10.2m), loaned to August Blake Developments Limited, Sunnywood Estates Limited and Edgworth Developments Limited, companies in which HN Moser is a director and shareholder. These loans are on a commercial basis secured on certain assets of those companies.

Measurement of expected credit losses (ECL)

ECL model

The Group considers default to occur, and such loans are considered to be credit impaired, in any of the following circumstances relating to a loan:

- It becomes 90 days or more past due
- Its security has been taken into possession
- The appointment of receivers
- There is evidence of fraud

The 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 generally 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. For loans which have marked individual characteristics and are closely managed, PDs are assigned using a slotting approach which comprises a range of quantitative and qualitative criteria.
- LGD is an estimate of the likely loss percentage 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, discounted at the original effective interest rate of the loan for the average period for recovery of sale proceeds. The LGD calculation includes floors, ie minimum losses, which are based on the LTV of security and developed from historical data.
- EAD is an estimate of the expected gross carrying amount at a future default date. EAD is based on the current loan amount adjusted for expected repayments of principal, contractual drawdowns of loan commitments, and the impact of missed payments which would be expected for an account in default.

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

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

6. Loans and advances to customers (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 occur only after the completion of probationary periods.

Incorporation of forward-looking information

The Group uses forward-looking information in its measurement of ECL and in identifying significant increases in credit risk (discussed in the next section). The Group's statistical analysis of historical data has confirmed that the key economic variables that drive credit risk, and the ECL for the Group's financial instruments, are unemployment, Bank Rate, economic activity as measured by Gross Domestic Product (GDP), and changes in house prices. The Group has developed a range of future economic scenarios of these variables, drawing on external forecasts where appropriate, and calculates ECL using a base case, an upside and a downside scenario, weighted 40%, 30% and 30% respectively. The base case is broadly aligned to the Group's internal planning assumptions. The downside scenario represents a recession during which house prices falls by 12% from peak to trough.

The most significant assumptions used for the ECL estimate as at 1 July 2018, and 31 December 2018 are in the following ranges for the next ten years:

At 1 July 2018	Minimum	Average	Maximum
Annual GDP growth (%)	(0.6)	1.7	3.3
Bank Rate (%)	0.25	2.0	3.4
Unemployment rate (%)	3.0	4.3	6.0
Annual change in house-price index (%)	(6.2)	3.0	8.7

At 31 December 2018	Minimum	Average	Maximum
Annual GDP growth (%)	(0.9)	1.7	3.7
Bank Rate (%)	0.25	2.0	3.2
Unemployment rate (%)	3.2	4.2	6.3
Annual change in house-price index (%)	(7.7)	2.7	8.8

After ten years, to project the economic variables for the remaining term of each instrument, it is assumed that the variables revert to long-run average rates.

Significant increase in credit risk

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.

To determine whether credit risk has increased significantly the Group uses quantitative criteria, such as increases in lifetime PD and LTV, and qualitative criteria such as a borrower's status or credit quality. A 'backstop' criterion is also applied such that all loans more than 30 days past due are considered to have undergone a significant increase in credit risk.

Modified assets

The Group may modify the terms of customer loans either for commercial reasons or because of the financial distress of the customer. It is not unusual for borrowers to transfer from a bridging loan to a term loan, which the Group treats as a derecognition of the original loan and the recognition of a new loan.

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

6. Loans and advances to customers (continued)

The Group offers a range of approaches to assist customers who are experiencing financial distress. Assistance is provided through trained colleagues in dedicated teams. For those customers requiring more assistance the Group works with a number of external not-for-profit agencies. The Group actively operates timely collections and arrears management processes to ensure early identification of issues to support our customers and minimise credit losses. The Group's offer of forbearance is considered separately for each customer dependent on their individual circumstances. Forbearance can be temporary or permanent in nature depending on the circumstances of the customer and the concession agreed. Examples of concessions agreed include reduced payment arrangements, extension of the mortgage term, or a change in the repayment profile.

The Group considers an account as forborne at the time a customer in financial difficulty is granted a concession. Generally, forbearance is entered into when a loan is already credit impaired, and gains or losses on modification are usually not material because losses are already included in the ECLs. Subsequently, the Group monitors the performance of modified assets, and may determine after a probationary period that a restructuring has significantly improved credit risk such that the asset is moved back to stage 1.

Loss allowance

A loss allowance is derived from the application of the foregoing techniques. The following table analyses the movement of the loss allowance during the period. Comparative amounts for 2018 and 2017 represent the allowance for credit losses and reflect the measurement basis under IAS 39.

	Six months ended 31 December 2018 (IFRS 9 basis)			
	Stage 1: 12-month ECL	**Stage 2: Lifetime ECL not credit impaired**	**Stage 3: Lifetime ECL credit impaired**	**Total**
Loans and advances to customers at amortised cost				
At the beginning of period	**(10.5)**	**(9.5)**	**(54.0)**	**(74.0)**
Change in credit risk during the period	(1.7)	(3.2)	(3.6)	(8.5)
Impairment of interest income on stage 3 loans	-	-	(6.3)	(6.3)
New financial assets originated	(3.2)	(0.5)	-	(3.7)
Financial assets derecognised	3.4	2.5	5.8	11.7
Changes in models and risk parameters	(0.9)	(0.7)	(0.5)	(2.1)
Impairment losses for the period charged to income statement	**(2.4)**	**(1.9)**	**(4.6)**	**(8.9)**
Unwind of discount (recognised within interest receivable)	-	-	6.3	6.3
Write-offs net of recoveries	0.3	0.4	3.0	3.7
At the end of period	**(12.6)**	**(11.0)**	**(49.3)**	**(72.9)**

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

Allowance for impairment losses (IAS 39 basis)	**Six months ended 31 December 2017**	**Year ended 30 June 2018**
At the beginning of the period	**(62.2)**	**(62.2)**
Charges to the income statement	(0.3)	(9.1)
Unwind of discount	2.1	8.9
Write-offs net of recoveries	1.8	0.6
At end of the period	**(58.6)**	**(61.8)**

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

6. Loans and advances to customers (continued)

Loss allowance (continued)

Impairment losses for period (IFRS 9 basis)	Six months ended 31 December 2018
Movements in ECL, charged to income	8.9
Amounts released from deferred income	(1.5)
Write-offs net of recoveries	0.7
Charge to income statement	**8.1**

£927.8m of new mortgage loans originated during the period resulted in an increase of £3.2m in the loss allowance measured on a 12-month ECL basis. The Group's highly cash-generative business model, with around half of all loans redeeming within two years, resulted in redemptions of £777.7m and a release of ECLs totalling £11.7m. The ECL charge was adversely impacted by £2.0m due to a changing macroeconomic outlook at the end of the period, primarily due to a reduction in forecast house price growth, when compared to the forecast at 1 July 2018.

The contractual amount outstanding on financial assets that were written off during the period and are still subject to enforcement activity at the period end is £nil (31 December 2017: £nil.)

The gross loss on modifications resulting from forbearance was already materially reflected in the ECL allowance and therefore there was no additional impact recognised in the income statement for such loans.

7. Derivative assets held for risk management

	Notional amount 2018	Fair value 2018	Notional amount 2017	Fair value 2017
Interest-rate options	**100.4**	**0.4**	**-**	**-**

In order to cap any exposure in its Together ABS 2 securitisation to changes in cash flows from major interest-rate movements, in November 2018 the Group purchased an option under which it will receive interest to the extent that libor exceeds a strike rate of 2.5%. The initial notional amount of the cap was for £100.6m, reducing to nil within five years. The fair value of the instrument at 31 December 2018 was £0.4m. The changes in fair value since origination, and the amounts recognised in the income statement and other comprehensive income, are not material. The Group held no derivative instruments in previous periods.

8. Other assets

	31 December 2018	31 December 2017	30 June 2018
Amounts owed by related parties	0.6	1.7	0.5
Other debtors	0.7	0.8	0.9
Prepayments and accrued income	3.3	3.0	2.9
	4.6	**5.5**	**4.3**

Amounts owed by related parties of the Group are in respect of companies in which HN Moser is a director and shareholder. Also included within amounts owed by related parties is £0.2m (31 December 2017: £0.2m; 30 June 2018: £0.2m) in relation to a director's loan. The loan is interest free and repayable on demand.

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

9. Property, plant and equipment

For six month period ended 31 December 2018	Fixtures, fittings and equipment	Motor vehicles	Total
Cost			
At beginning of period	8.5	1.8	10.3
Additions	0.6	-	0.6
Disposals	-	-	-
At end of period	**9.1**	**1.8**	**10.9**
Depreciation and amortisation			
At beginning of period	3.5	0.5	4.0
Charge for the period	0.5	0.3	0.8
Disposals	-	-	-
At end of period	**4.0**	**0.8**	**4.8**
Net book value			
At end of period	**5.1**	**1.0**	**6.1**
At beginning of period	**5.0**	**1.3**	**6.3**

For six month period ended 31 December 2017	Fixtures, fittings and equipment	Motor vehicles	Total
Cost			
At beginning of period	6.5	1.6	8.1
Additions	1.1	0.1	1.2
Disposals	(0.7)	(0.3)	(1.0)
At end of period	**6.9**	**1.4**	**8.3**
Depreciation and amortisation			
At beginning of period	3.2	0.5	3.7
Charge for the period	0.5	0.1	0.6
Disposals	(0.8)	(0.2)	(1.0)
At end of period	**2.9**	**0.4**	**3.3**
Net book value			
At end of period	**4.0**	**1.0**	**5.0**
At beginning of period	3.3	1.1	4.4

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

9. Property, plant and equipment (continued)

For six month period ended 30 June 2018	Fixtures, fittings and equipment	Motor vehicles	Total
Cost			
At beginning of period	6.9	1.4	8.3
Additions	1.7	0.4	2.1
Disposals	(0.1)	-	(0.1)
At end of period	**8.5**	**1.8**	**10.3**
Depreciation and amortisation			
At beginning of period	2.9	0.4	3.3
Charge for the period	0.6	0.2	0.8
Disposals	-	(0.1)	(0.1)
At end of period	**3.5**	**0.5**	**4.0**
Net book value			
At end of period	**5.0**	**1.3**	**6.3**
At beginning of period	4.0	1.0	5.0

10. Intangible assets

	31 December 2018	31 December 2017	30 June 2018
Cost			
At beginning of period	11.4	7.2	9.8
Additions	2.0	2.6	3.3
Disposals	-	-	(1.7)
At end of period	**13.4**	**9.8**	**11.4**
Amortisation			
At beginning of period	3.1	1.5	2.3
Charge for the period	1.7	0.8	2.5
Disposals	-	-	(1.7)
At end of period	**4.8**	**2.3**	**3.1**
Net book value			
At end of period	**8.6**	**7.5**	**8.3**
At beginning of period	8.3	5.7	7.5

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

11. Deferred tax asset

	31 December 2018	31 December 2017	30 June 2018
At beginning of the period	1.4	2.4	2.2
IFRS 9 adjustment	6.4	-	-
Charge to income statement	0.2	(0.2)	(1.0)
Adjustment in respect of prior periods	-	-	0.2
	8.0	**2.2**	**1.4**

The deferred tax asset consisted of the following:

	31 December 2018	31 December 2017	30 June 2018
Accelerated capital allowances	(0.7)	(0.1)	(0.7)
Short-term timing differences	8.7	2.3	2.1
	8.0	**2.2**	**1.4**

12. Borrowings

	31 December 2018	31 December 2017	30 June 2018
Bank facilities	5.0	-	30.7
Loan notes	1,762.2	1,274.1	1,452.4
Subordinated shareholder loans	26.1	24.1	25.1
Senior secured notes	727.1	575.0	727.4
Obligations under finance leases	0.8	0.5	1.1
	2,521.2	**1,873.7**	**2,236.7**
Debt issue costs	(16.9)	(18.1)	(19.9)
	2,504.3	**1,855.6**	**2,216.8**
Of which:			
Due for settlement within 12 months	80.3	166.0	48.2
Due for settlement after 12 months	2,424.0	1,689.6	2,168.6
	2,504.3	**1,855.6**	**2,216.8**

The loan notes are provided through revolving facilities provided by Charles Street ABS, Lakeside ABS, Delta ABS, Highfield ABS and two amortising facilities provided by Together ABS 1 and Together ABS 2. The Charles Street ABS facility was established in 2007 and is currently £1.25bn maturing in September 2023. The £255m Lakeside ABS facility matures in January 2021. The £90m Delta ABS facility matures in January 2021, and the £525m Highfield ABS facility matures in June 2022. The Group's £186.2m residential mortgage-backed securitisation via the special purpose vehicle Together ABS 1 has a contractual maturity date of 2049 with an option to call the facility in September 2021. The Group's £267m residential mortgage-backed securitisation via the special purpose vehicle Together ABS 2 has a contractual maturity of 2050, with an option to call in November 2022.

Subordinated shareholder loans were issued on 2 November 2016. The subordinated shareholder loans are interest-free loans totalling £68.1m, which comprise £25.1m due in 2024 and £43.0m due in 2036. The difference between the total nominal value of £68.1m and the initial fair value of £22.0m represents a non-distributable capital contribution of £46.1m, £4.1m of which has amortised by 31 December 2018 (31 December 2017: £2.1m; 30 June 2018: £3.1m). The remainder of the reserve will be released over the life of the instruments.

Debt issue costs, which consist of the prepaid fees in relation to the bank loan, loan notes 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 indicated, all amounts are stated in £m.

12. Borrowings (continued)

Borrowings have the following maturities

As at 31 December 2018	<1 year	1-2 years	2-5 years	>5 years	Total
Bank facilities	-	-	5.0	-	5.0
Loan notes	80.7	66.2	1,615.3	-	1,762.2
Subordinated shareholder loans	-	-	-	26.1	26.1
Senior secured notes	-	-	375.0	352.1	727.1
Finance leases	0.5	0.3	-	-	0.8
	81.2	**66.5**	**1,995.3**	**378.2**	**2,521.2**
Debt issue costs	(0.9)	(0.7)	(12.1)	(3.2)	(16.9)
	80.3	**65.8**	**1,983.2**	**375.0**	**2,504.3**

As at 31 December 2017	<1 year	1-2 years	2-5 years	>5 years	Total
Loan notes	166.2	29.9	1,078.0	-	1,274.1
Subordinated shareholder loans	-	-	-	24.1	24.1
Senior secured notes	-	-	375.0	200.0	575.0
Finance leases	0.2	0.3	-	-	0.5
	166.4	**30.2**	**1,453.0**	**224.1**	**1,873.7**
Debt issue costs	(0.4)	(0.3)	(13.9)	(3.5)	(18.1)
	166.0	**29.9**	**1,439.1**	**220.6**	**1,855.6**

As at 30 June 2018	<1 year	1-2 years	2-5 years	>5 years	Total
Bank facilities	5.7	-	25.0	-	30.7
Loan notes	42.6	34.2	1,375.6	-	1,452.4
Subordinated shareholder loans	-	-	-	25.1	25.1
Senior secured notes	-	-	375.0	352.4	727.4
Finance leases	0.4	0.5	0.2	-	1.1
	48.7	**34.7**	**1,775.8**	**377.5**	**2,236.7**
Debt issue costs	(0.5)	(0.4)	(15.0)	(4.0)	(19.9)
	48.2	**34.3**	**1,760.8**	**373.5**	**2,216.8**

13. Other liabilities

	31 December 2018	31 December 2017	30 June 2018
Trade creditors	0.3	1.1	1.2
Other creditors	4.2	3.1	2.5
Other taxation and social security	1.0	1.3	2.7
Accruals and deferred income	46.6	33.0	37.8
	52.1	**38.5**	**44.2**

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

14. Share capital

Authorised	31 December 2018	31 December 2017	30 June 2018
10,405,653 A ordinary shares of 50 pence each	5.2	5.2	5.2
9,149,912 B ordinary shares of 49.9 pence each	4.6	4.6	4.6
921,501 C ordinary shares of 1 penny each	-	-	-
70,000 D ordinary shares of 1 penny each	-	-	-
10,000 E ordinary shares of 1 penny each	-	-	-
	9.8	**9.8**	**9.8**

Issued, allotted and fully paid	31 December 2018	31 December 2017	30 June 2018
10,405,653 A ordinary shares of 50 pence each	5.2	5.2	5.2
9,149,912 B ordinary shares of 49.9 pence each	4.6	4.6	4.6
921,501 C ordinary shares of 1 penny each	-	-	-
70,000 D ordinary shares of 1 penny each	-	-	-
	9.8	**9.8**	**9.8**

15. Financial instruments and fair values

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

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

Financial instruments measured at fair value

The following table summarises the fair values as at the period 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 held for risk management	Level 1	Level 2	Level 3	Total
December 2018				
Interest-rate risk	-	0.4	-	**0.4**
December 2017				
Interest-rate risk	-	-	-	**-**
June 2018				
Interest-rate risk	-	-	-	**-**

The Group's only derivative is a purchased interest-rate cap, i.e. an option, used to hedge the cash flows on certain of the Group's floating-rate loan notes. The valuation is a level 2 measurement, being derived from generally accepted valuation models that use a forecast future interest-rate curve derived from market data.

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 fair value of financial assets is adjusted for expected credit losses under IFRS 9 in the current period, and incurred losses under IAS 39 in prior periods.

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

15. Financial instruments and fair values (continued)

The following table summarises the carrying and fair values of loans and advances and of borrowings as at the period end, analysing the fair values into the three different valuation levels:

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

31 December 2018	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets					
Loans and advances to customers	-	-	3,305.1	**3,305.1**	**3,248.4**
Financial liabilities					
Borrowings	704.9	1,772.0	26.3	**2,503.2**	**2,504.3**

31 December 2017	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets					
Loans and advances to customers	-	-	2,599.7	**2,599.7**	**2,545.8**
Financial liabilities					
Borrowings	591.0	1,248.6	27.1	**1,866.7**	**1,855.6**

30 June 2018	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets					
Loans and advances to customers	-	-	3,011.7	**3,011.7**	**2,958.2**
Financial liabilities					
Borrowings	737.2	1,480.1	33.9	**2,251.2**	**2,216.8**

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

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

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

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

16. Reconciliation of profit after tax to net cash outflow from operations

	Three months ended		Six months ended	
	31 Dec 2018	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**
Profit after tax	27.1	27.0	54.1	53.6
Adjustments for:				
Taxation	4.1	4.5	7.5	8.9
Depreciation and amortisation	1.5	0.7	2.5	1.4
IFRS 9 deferred tax adjustment	-	-	(6.4)	-
Interest expense	28.3	22.0	56.7	43.1
	61.0	**54.2**	**114.4**	**107.0**
Increase in fair value of derivatives held	(0.4)	-	(0.4)	-
Increase in loans and advances to customers	(237.8)	(176.4)	(321.7)	(304.9)
Increase in other assets	(0.5)	(1.4)	(0.3)	(1.1)
Increase/(decrease) in accruals	(0.5)	2.9	4.6	(0.2)
Decrease in inventories	-	0.3	-	0.3
Increase/(decrease) in trade and other creditors	0.3	0.7	(0.9)	(0.2)
	(238.9)	**(173.9)**	**(318.7)**	**(306.1)**
				-
Cash outflow from operations	**(177.9)**	**(119.7)**	**(204.3)**	**(199.1)**

17. Related party transactions

Relationships

The Company has the following related parties:

a) Controlling party

All the voting shares of Together Financial Services Limited are controlled by Bracken Midco2 Limited, a company whose ultimate parent is Redhill Famco Limited, which is wholly controlled by the Moser shareholders. HN Moser, a director of Together Financial Services Limited, and the DL Moser 1995 Family Settlement No1 Trust (together the Moser Shareholders) indirectly own 100% of the Company's voting share capital.

Besides the companies owned by Redhill Famco Limited (the ultimate parent company), other entities owned by the Moser Shareholders are deemed to be related parties and during the period transacted with the Company's subsidiaries as follows:

Entity	**Nature of transactions**
Bracken House Properties LLP	The Group pays operating lease and insurance costs to Bracken House Properties LLP for its provision of the Group's head office property.
Centrestand Limited	The Group collects rents and pays service charges and costs on behalf of Centrestand Limited.
Charles Street Commercial Investments Limited	The Group refers borrowers outside its lending criteria to Charles Street Commercial Investments Limited. The Group performs underwriting, collection and arrears-management activities for these loans. The Group also manages accounts payable on behalf of the company and provides ancilliary accounting and treasury services for which it is reimbursed.
Sterling Property Company Limited	Sterling Property Co. Limited provides property management services for properties repossessed or placed into LPA receivership by the Group.
August Blake Developments Limited, Edgworth Developments Limited, Sunnywood Estates Limited	The Group provides loans with interest charged on a commercial basis secured on certain assets of these companies. The Group also manages accounts payable on behalf of these entities, for which it is reimbursed.

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

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

17. Related party transactions (continued)

b) Parent companies

During the period the Group transacted with the following parent companies owned by the Moser Shareholders

Entity	Nature of transactions
Bracken Midco2 Limited	In November 2016, the Company received subordinated funding from Bracken Midco2 Limited. The subordinated loans are interest-free and for fixed terms, as set out in Note 12. 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.

c) Subsidiaries

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

d) 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 8 and remuneration in the ordinary course of business.

Transactions

The amounts receivable and payable by related parties to the Group are disclosed in Notes 6, 8, 12 and 13. The Group had the following transactions with related parties during the period:

	Six months ended 31 December 2018		Six months ended 31 December 2017	
	Charge/ (credit) to income or equity	Paid	Charge/ (credit) to income or equity	Paid/ (received)
Lease and insurance costs	0.7	0.7	0.5	0.7
Accounts payable transactions	-	1.1	-	0.8
Impairment of related party loans	(0.1)	-	0.3	-
Interest on related party loans	(0.4)	-	(0.4)	-
Collections transferred on loans to related party	-	-	-	(0.1)
Related parties of the Moser Shareholders	**0.2**	**1.8**	**0.4**	**1.4**
Interest expense	1.0	-	0.9	-
Dividends paid	15.0	15.0	11.5	11.5
Parent companies	**16.0**	**15.0**	**12.4**	**11.5**
Total related parties	**16.2**	**16.8**	**12.8**	**12.9**

18. Contingent liabilities

As at 31 December 2018, the Group's assets were subject to a fixed and floating charge in respect of £725m senior secured notes (31 December 2017: £575m; 30 June 2018: £725m) and £5m in respect of bank borrowings (31 December 2017: £nil; 30 June 2018: £25m).

19. Share-based payments

Senior management has previously been granted D shares and options over E shares of the Company. 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 the Company's share capital on a cumulative basis. The value of these shares is dependent upon the value of the Company at the time of granting. Such awards are treated as equity settled by virtue of where the obligation rests on such awards being realised. The options over the E shares have not yet been exercised.