Together Financial Services Limited

Full Year 2019 Results

Company Registration No. 02939389

Contents

Highlights 2

An introduction to Together Financial Services Limited 4

Presentation of financial and other information 5

Terms relating to our loan analysis 7

Key performance indicators 9

Operating review 10

Financial review 12

Recent developments 13

Significant factors which may affect results of operations 14

Summary corporate and financing structure 18

Summary results and financial position of Bracken Midco1 PLC 19

Annual report and audited consolidated financial statements 21

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 year ended June 30, 2019.

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

"Together delivered another solid performance during the year, with strong lending volumes at low LTVs driving continued growth in the loan book and increased profitability and cash generation.

"Originations were up 19.4% to £2.0bn at conservative LTVs of 58.0%, as the loan book grew to a new high of £3.7bn. Net interest margin remained highly attractive within our peer group at 6.8% and profit before tax rose 7.1% to £130.3m, as the Group generated cash receipts of £1.6bn during the year.

"We further extended our distribution capabilities, launching the Together+ platform for strategic packager brokers and our new Corporate Relationship team for larger relationship based customers. We maintained our proactive review and engagement programme with customers and brokers, using the feedback to improve our processes, products and propositions and to further enhance the customer journey. During the year, we raised or refinanced over £2.0bn of facilities, increasing the scale and diversity of our funding base and extending the maturities to support the Group's future growth. We are also very proud that for the second year running we have been included in the Sunday Times '100 Best Companies to Work For'.

"While the UK's economic outlook remains uncertain with lead indicators continuing to be mixed and the 31 October Brexit deadline approaching, we are continuing to see strong demand from customers. With our through-the-cycle experience, robust asset quality and strong diversified funding base, we believe the Group remains well placed to deliver on its growth plans."

- **Continued growth in the loan book and profitability driven by strong lending volumes**
  - Average monthly loan originations up 19.4% to £165.2m (2018: £138.3m), while weighted average LTV remained conservative at 58.0% (2018: 58.0%)
  - Loan book reached £3.7bn in 2019, up 24.9% compared with 2018 (£3.0bn), with weighted average indexed LTVs remaining conservative at 54.3% (2018: 55.3%)
  - Interest receivable and similar income up 17.4% at £343.1m (2018: £292.2m), driven by interest earned on the growing loan book
  - Net interest margin remains highly attractive at 6.8% (2018: 7.7%) despite competitive market conditions, redemption of higher yielding legacy products, higher gearing and product mix changes
  - IFRS 9 net impairment charge of £15.4m for 2019 (2018: £11.4m presented under IAS 39)
  - EBITDA up 14.7% to £251.5m (2018: £219.2m) and PBT up 7.1% to £130.3m (2018: £121.7m)
  - Group remains highly cash generative with receipts up 25.8% to £1.6bn (2018: £1.2bn)

Highlights (continued)

- **Further enhanced operations and governance**
  - Introduced Together+ platform for strategic packaging brokers, increased penetration of mortgage networks and clubs and launched new Corporate Relationship team to deliver relationship based customer lending
  - Rolled out improved customer experience programme across all departments, utilising customer and partner insights to optimise our processes and further improve our customer journey
  - Second successive year in The Sunday Times '100 Best Companies to Work For', third successive year in Sunday Times Top Track 250 and won overall 'Securitisation Issuer of the Year' at Global Capital Securitisation Awards
  - Appointed Richard Gregory as Chairman and in September 2019 Liz Blythe as Non-Executive Director of the Together Personal Finance board
  - Well prepared for implementation of the Senior Managers and Certification Regime (SM&CR) within the Personal Finance division, effective from December 2019
- **Increased scale and diversity of funding on improved terms and extended maturities**
  - Increased AA rated CABS to £1.25bn, releasing £145m of equity to reduce Borrower Group gearing
  - Issued £350m Senior PIK Toggle Notes to refinance existing Senior PIK Toggle and Vendor Notes at Bracken Midco1 PLC level
  - Completed second public RMBS ('TABS 2') raising £272.6m against a loan portfolio of £286.9m
  - Refinanced Delta ABS facility increasing commitments from £90m to £200m

Key metrics	**2019** ***IFRS 9***[1]	**2018** ***IAS 39***[1]
Interest receivable and similar income (£m)	343.1	292.2
Interest cover ratio	2.2:1	2.4:1
Net interest margin (%)	6.8	7.7
Cost-to-income ratio (%)	36.2	34.2
Impairment charge (£m)	15.4	11.4
Cost of risk (%)	0.5	0.4
Profit before taxation (£m)	130.3	121.7
Loans and advances to customers (£m)	3,694.5	2,958.2
Net debt gearing (%)	78.0	74.6
Shareholder funds (£m)[2]	789.9	737.0
Return on equity (%)	14.9	15.6

[1] The results for 2019 are reported under IFRS 9, while those for 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 14 to the annual financial statements included within this report.

[2] Includes subordinated shareholder loans of £27.1m (2018: £25.1m).

An introduction to Together Financial Services Limited

We are a specialist UK secured mortgage loan provider, established in 1974 and have successfully operated throughout our 45-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 mortgage intermediaries, professional network and auction houses, each across the United Kingdom, and through our direct sales team. We underwrite and service all of our mortgage loans ourselves.

As of June 30, 2019, 31.8% of our loan portfolio was classified as retail purpose, 62.9% as commercial purpose (which included 22.1% of buy to let +) and 5.3% 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. 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. This is supported by a formal enterprise risk-management framework, which includes conducting internal and compliance audits as well as a formal committee structure to agree on policy decisions, setting risk appetites and monitoring credit quality.

The LTV of our loan portfolio on a weighted average indexed basis as of June 30, 2019, was 54.3% and the LTV on a weighted-average basis of new loans underwritten in the year ended June 30, 2019 was 58.0%. As of June 30, 2019, 97.4% of the total loan portfolio and 92.7% of the Borrower Group[3] loan portfolio, calculated by value, consisted of loans with indexed LTVs 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.

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

Presentation of financial and other information

Financial statements

This annual report presents the set of audited consolidated financial statements of Together Financial Services Limited as of and for the year ended June 30, 2019 with comparatives to June 30, 2018. The 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 independently audited 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 comparatives. Accordingly, the information presented for the prior year financial year does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for the current year 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 14 of the audited consolidated financial statements in this report.

As at June 30, 2019 the Borrower Group's loan assets were subject to a fixed and floating charge in respect of £725m senior secured notes and £55m 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 year, the Group undertook transactions with affiliated companies. Details of these transactions can be found in Note 27 of the audited 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 annual 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 1"), Together Asset Backed Securitisation 1 PLC ("Together ABS 1"), Highfield Asset Backed Securitisation 1 Limited ("Highfield ABS"), Together Asset Backed Securitisation 2018-1 PLC ("Together ABS 2") and Delta Asset Backed Securitisation 2 Limited ("Delta ABS 2"), the bankruptcy-remote special purpose vehicles established for purposes of secured borrowings, are consolidated into the financial statements in accordance with IFRS 10 *Consolidated Financial Statements*. Mortgage loans sold to Charles Street ABS, Lakeside ABS, Delta ABS 1, Together ABS 1, Highfield ABS, Together ABS 2 and Delta 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 1, Together ABS 1, Highfield ABS, Together ABS 2 and Delta 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 consolidated statement of financial position as liabilities due to creditors with interest and debt issuance costs expensed through the 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 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 report and related presentation, references to EBITDA for the year ended June 30, 2018 and 2019 for Together Financial Services Limited, can be extracted from the audited consolidated financial statements of Together Financial Services Limited, by taking profit after taxation and adding back income tax, depreciation and amortisation and interest payable and similar charges. EBITDA margin is calculated as EBITDA divided by the sum of interest receivable and similar income plus 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 considered in 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 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. Development loans are reported as a separate category within our analysis.

In this 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 99.99% of total loan book balances by value as of June 30, 2019. Data referring to loan portfolio analysis is presented after allowances for impairments on an IFRS 9 basis for balances from July 1, 2018 (IAS 39 basis for balances prior to July 1, 2018).

In this 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 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, (iii) net of any allowances for impairments, and iv) and as of June 30, 2019, certain other accounting adjustments (including adjustments to recognise income at the effective interest rate), 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, (iii) net of any allowances for impairments and iv) as of June 30, 2019, certain other accounting adjustments (including adjustments to recognise income at the effective interest rate), 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 the prior year. 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 and as of June 30, 2019 including certain other accounting adjustments (including adjustments to recognise income at the effective interest rate) in respect of such loans. Our loan and impairment allowance analysis excludes loans with carrying values of nil for which full provisions are in place.

In this 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 adjustments to recognise income at the effective interest rate.

In this 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)

In respect to originations, Loan to Value ratio ('LTV') is a ratio (reflected as a percentage) of the aggregate of (i) the principal amount of a mortgage loan and (ii) any higher ranking charge mortgage loans secured on the same property, compared to the appraised value (the assessed value of real property in the opinion of a qualified appraiser or valuer or from an automated valuation model during the mortgage origination process.

In this report and related presentation, the average LTV on originations is calculated on a "weighted average basis," pursuant to which LTV is calculated by multiplying each LTV by the respective principal loan amount and then dividing the sum of the weighted LTVs by the total amount of principal loans.

In respect to our loan portfolio 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, (iv) net of allowances for impairments and v) as of June 30, 2019 certain other accounting adjustments (including adjustments to recognise income at the effective interest rate), 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 the prior year. 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 revised valuation of the property if a later valuation has been undertaken.

In this 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 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.

	12 months ended or as at June 30,	
(£m, except for percentages and ratios or unless otherwise noted)	**2019** *IFRS 9*	**2018** *IAS 39*
Group		
Interest receivable and similar income	343.1	292.2
Fee and commission income	4.4	4.7
	347.5	296.9
NIM	6.8%	7.7%
Cost-to-income	36.2%	34.2%
Impairment charge	(15.4)	(11.4)
EBITDA	251.5	219.2
EBITDA margin	72.4%	73.8%
Profit on ordinary activities before tax	130.3	121.7
Return on equity	14.9%	15.6%
Supplemental cash flow information:		
Cash receipts	1,570.1	1,248.3
New advances	1,982.8	1,660.1
LTV of loan portfolio (on a weighted average basis, based on LTV of loans at origination)	58.0%	57.4%
LTV of loan portfolio (on a weighted average indexed basis)	54.3%	55.3%
Borrower Group		
LTV of loan portfolio (on a weighted average basis, based on LTV of loans at origination)	58.3%	58.7%
LTV of loan portfolio (on a weighted average indexed basis)	55.9%	58.8%

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

The key performance indicators above for the year ended June 30, 2019 have been derived from audited 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 has 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, 2019.

Operating review

2019 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 year to June 30, 2019 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 65% 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 June 30, 2019, and June 30, 2018 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	
	June 30, 2019 IFRS 9	June 30, 2018 IAS 39	June 30, 2019 IFRS 9	June 30, 2018 IAS 39
Nil Arrears & Arrears ≤ 1 month	**85.9%**	**86.4%**	**64.3%**	**68.2%**
Performing Arrears				
1-3 months	4.0%	3.2%	5.3%	4.2%
3-6 months	0.3%	0.6%	0.9%	1.6%
>6 months	0.5%	0.6%	1.7%	1.7%
Total Performing Arrears	**4.8%**	**4.4%**	**7.9%**	**7.5%**
Non-Performing Arrears				
3-6 months	0.7%	0.6%	1.3%	1.4%
>6 months	0.7%	1.2%	1.9%	3.2%
Past due[1]	1.4%	0.8%	4.1%	1.8%
Total Non-Performing Arrears	**2.8%**	**2.6%**	**7.3%**	**6.4%**
Development Loans	**5.3%**	**5.6%**	**16.7%**	**15.1%**
Repossessions	**1.2%**	**1.0%**	**3.8%**	**2.8%**
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

[1] Relates to term loans and regulated bridging loans which have gone past stated contractual maturity date.

An analysis of our loan portfolio as at June 30, 2019, 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%	2,088.2	63.4	63.2	28.6	2,243.4
>60% <=85%	1,245.7	37.6	96.0	14.9	1,394.2
>85% <=100%	11.0	0.9	21.9	1.8	35.6
>100%	9.2	0.9	13.3	-	23.4
Total	**3,354.1**	**102.8**	**194.4**	**45.3**	**3,696.6**

Borrower Group Loan Portfolio Indexed LTV Analysis (£m)	Performing Loans	Non - Performing Loans	Development Loans	Repossessions	Total Loan Portfolio
<=60%	536.7	50.5	63.2	28.6	679.0
>60% <=85%	287.8	34.2	96.0	14.4	432.4
>85% <=100%	10.4	0.9	21.9	1.7	34.9
>100%	6.5	0.9	13.3	-	20.7
Total	**841.4**	**86.5**	**194.4**	**44.7**	**1,167.0**

Operating review (continued)

2019 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%	1,659.7	53.2	98.4	15.5	1,826.8
>60%<=85%	1,657.7	45.6	76.5	27.2	1,807.0
>85%<=100%	27.7	0.7	9.7	2.1	40.2
>100%	9.0	3.3	9.8	0.5	22.6
Total	**3,354.1**	**102.8**	**194.4**	**45.3**	**3,696.6**

Borrower Group Loan Portfolio Origination LTV Analysis (£m)	Performing Loans	Non - Performing Loans	Development Loans	Repossessions	Total Loan Portfolio
<=60%	447.2	44.7	98.4	15.8	606.1
>60%<=85%	360.1	37.8	76.5	26.3	500.7
>85%<=100%	25.5	0.7	9.7	2.1	38.0
>100%	8.6	3.3	9.8	0.5	22.2
Total	**841.4**	**86.5**	**194.4**	**44.7**	**1,167.0**

The indexed weighted-average LTV of the loan portfolio for the total Group at June 30, 2019 is 54.3% compared with the prior year of 55.3% at June 30, 2018.

The indexed weighted-average LTV of the loan portfolio for the Borrower Group at June 30, 2019 is 55.9% compared with the prior year of 58.8% at June 30, 2018.

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.

As at June 30, 2019, 31.8% of our loan portfolio was classified as retail-purpose, 62.9% of our loan portfolio was classified as commercial-purpose (which included 22.1% of buy to let +) and 5.3% of our loan portfolio was classified as development funding, calculated by value. At June 30, 2018, 31.5% of our loan portfolio was classified as retail purpose, 62.9% of our loan portfolio was classified as commercial purpose (which included 21.5% of buy to let +) and 5.6% of our loan portfolio was classified as development funding.

The proportion of our loan portfolio secured by residential security by value has decreased to 65.9% as at June 30, 2019, when compared to 68.0% as at June 30, 2018. The proportion of our loan portfolio secured on first charges has increased to 71.5% as at June 30, 2019, compared with 67.8% as at June 30, 2018.

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 year to June 30, 2019, including further advances, we have funded an average of £165.2m per month compared with £138.3m per month in the year to June 30, 2018.

Our loans and advances to customers stands at £3,694.5m as at June 30, 2019, compared with £2,958.2m as at June 30, 2018.

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 figures are calculated on an IFRS 9 basis, all comparatives are based on IAS 39

Interest income has increased 17.4% to £343.1m for the year to June 30, 2019 (June 30, 2018: £292.2m). This increase primarily results from growth in the size of the loan book offset by a reduction in the average interest rate earned on the loan book due to the impact of new originations rates, 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 £15.4m for the year to June 30, 2019 (June 30, 2018: £11.4m (IAS 39)). 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 scenarios 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 year resulted in an impairment charge of £7.1m. The ECL charge was adversely impacted by £0.9m due to a changing macroeconomic outlook during the year, primarily due to a reduction in forecast house price growth when compared to the forecasts on transition on July 1, 2018. 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 14 to the annual report and audited consolidated financial statements.

Profit before tax has increased to £130.3m for the year to June 30, 2019 compared with £121.7m in the year to June 30, 2018. Strong loan book growth of 24.9% has resulted in a 17.4% increase in interest receivable and similar income although competitive market conditions, the redemptions of higher yielding legacy products and increased gearing has resulted in a reduction in net interest margin from 7.7% (June 30, 2018) to 6.8% for the year to June 30, 2019.

The Group continues to be highly profitable, with EBITDA up 14.7% to £251.5m compared with £219.2m in the prior year (June 30, 2018). EBITDA margin was 72.4% for the year to June 30, 2019 compared with 73.8% for the prior year (June 30, 2018).

The Group continues to be highly cash generative, with cash receipts of £1,570.1m, cash debt service of £105.1m (excluding £9.1m of debt issuance costs and £29.9m of PIK dividends paid in connection with the servicing of PIK Toggle Notes in Bracken Midco1 PLC) and other cash expense payments of £116.9m for the year to June 30, 2019. This compares with cash receipts of £1,248.3m, cash debt service of £78.0m (excluding £8.4m of debt issuance costs and £22.9m of PIK dividends paid in connection with the servicing of PIK Toggle Notes in Bracken Midco1 PLC) and other cash payments of £108.8m for the year to June 30, 2018.

Loans and advances to customers have increased by 24.9% to £3,694.5m compared with £2,958.2m in the prior year (June 30, 2018). Shareholder's funds have increased by 7.2% to £789.9m compared with £737.0m at June 30, 2018.

Recent developments

Trading update

Average monthly mortgage originations in July and August 2019 were £173.8m, compared to a monthly average of £165.2m for the year to June 30, 2019.

Together Personal Finance board update

The Together Personal Finance board has been further strengthened by the appointment of Liz Blythe as Non-Executive Director in September 2019. Liz brings senior risk and audit expertise gained over 25 years in financial services.

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 servicing capability, which impacts our ability to collect expected loan installments.

Macroeconomic conditions

The ongoing uncertainty and lack of clarity as to how and when the UK will exit the European Union is generating adverse economic consequences.

Amongst other impacts, Brexit may affect the availability of wholesale funding, reduce customer confidence, increase operating costs, affect property values and impact interest rates.

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 has a substantial lending exposure to the residential, buy-to-let, and commercial property sectors. Any property value falls or increase in unemployment may lead to a rising number of defaults or a reduction in the amount recovered in the event of default.

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 has slowed with the Land Registry showing growth of 0.9% to June 2019. 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 in line with the average of our portfolio 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

The competitive landscape contains risks from new entrants, increased competition from incumbent lenders and disruptive products/software solutions potentially affecting lending activities. The effect of this could result in lower lending volumes, higher customer attrition and/or, lower net interest margins.

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.

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.

Interest rate environment

The low interest rate environment, introduced to stimulate growth following the financial crisis, has persisted for longer than first expected. If interest rates are increased faster than expected, loan servicing costs are likely to increase, which could cause an increase in credit losses and the group may be affected by mismatches between asset and liability positions.

We are affected by changes in prevailing interest rates in the United Kingdom. An increase in prevailing interest rates increases the cost of servicing some of our borrowings. Although our total loan assets mainly consist of variable rate mortgage loans and we have the right to increase pricing if our own funding costs increase, our level of arrears and ultimately cash flows may be adversely affected if we increase the pricing of our customers' mortgages in relation to any potential increases in our funding costs. We have also seen a growth in demand for fixed rate products which has risen as a percentage of our total loan portfolio. An increase in interest rates can also adversely affect the credit quality of the customers to whom we lend and our loan origination volumes as loans may become less attractive to customers.

We partly mitigate this risk by seeking to raise financing with longer maturity periods and have recently introduced certain interest rate swaps within some of our securitisation structures.

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

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. The FCA is extending SM&CR to all regulated firms in December 2019, which will replace the current Approved Persons Regime. We also have to comply with the relevant UK and EU regulations including anti-money laundering regulations, the General Data Protection Regulations and the EU Securitisation Regulation.

Changes in regulation may impact the way in which the Group conducts its business. Failure to comply with changes in regulation could result in fines, reputational damage and potential revocation of regulatory permissions.

The Group takes all regulatory considerations seriously and have compliance, legal and governance functions in place to monitor compliance with these requirements.

Given that we operate in the regulated markets we are at risk of failing to comply with existing regulation and the potential impact of changes in regulation on our activities. From time to time, we may identify, including through our compliance and internal audit functions, regulatory breaches or potential regulatory breaches or other issues related to compliance matters.

As a result of undertaking internal reviews, within the regulated division, instances have been identified where some past written communications with customers should have been clearer and more complete in respect of customer balances not expected to be repaid by their contractual maturity date and other instances where, for certain customers in arrears the outcome may have been improved if different forbearance measures had been applied.

Significant factors which may affect results of operations (continued)

Regulatory considerations (continued)

The FCA has been notified of these findings, and a plan has been proactively developed by the Personal Finance division and communicated to the FCA as part of ongoing dialogue on this matter. Further evaluation of these issues is underway, and the Personal Finance division has appointed an experienced third-party consultancy to help support our activity, with a view to identifying any instances where customers have been adversely affected. Given the nature of individual circumstances that may have arisen, this assessment could result in individual case reviews being required. The range of circumstances and work required to assess individual factors means that, at this stage, it is not practicable to estimate the financial impact of any remediation activity, but it is expected that redress payments will be made to certain affected customers, and that this could depending on the outcome of such reviews be material for the entities involved. The Group is committed to delivering good customer outcomes and has already taken steps to improve these written customer communications. In relation to the forbearance findings quality assurance processes have been enhanced and additional training has been provided for some customer-facing colleagues to support them in selecting the most appropriate forbearance for our customers.

Risk factors

This 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 annual 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 contemplated 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 mortgage intermediaries, 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;
- the effectiveness of our compliance, Enterprise Risk Management Framework and internal audit functions;
- our exposure to the cost of redress, 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 and other regulatory changes;
- 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;
- 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;
- compliance with our substantial debt obligations;

Significant factors which may affect results of operations (continued)

Risk factors (continued)

- imbalances in maturity between our total loan assets and our sources of funds affecting the capacity to expand our business;
- our ability to benefit from special corporation tax regimes for securitization companies;
- exclusion of US GAAP financial information; and
- changes in accounting standards.

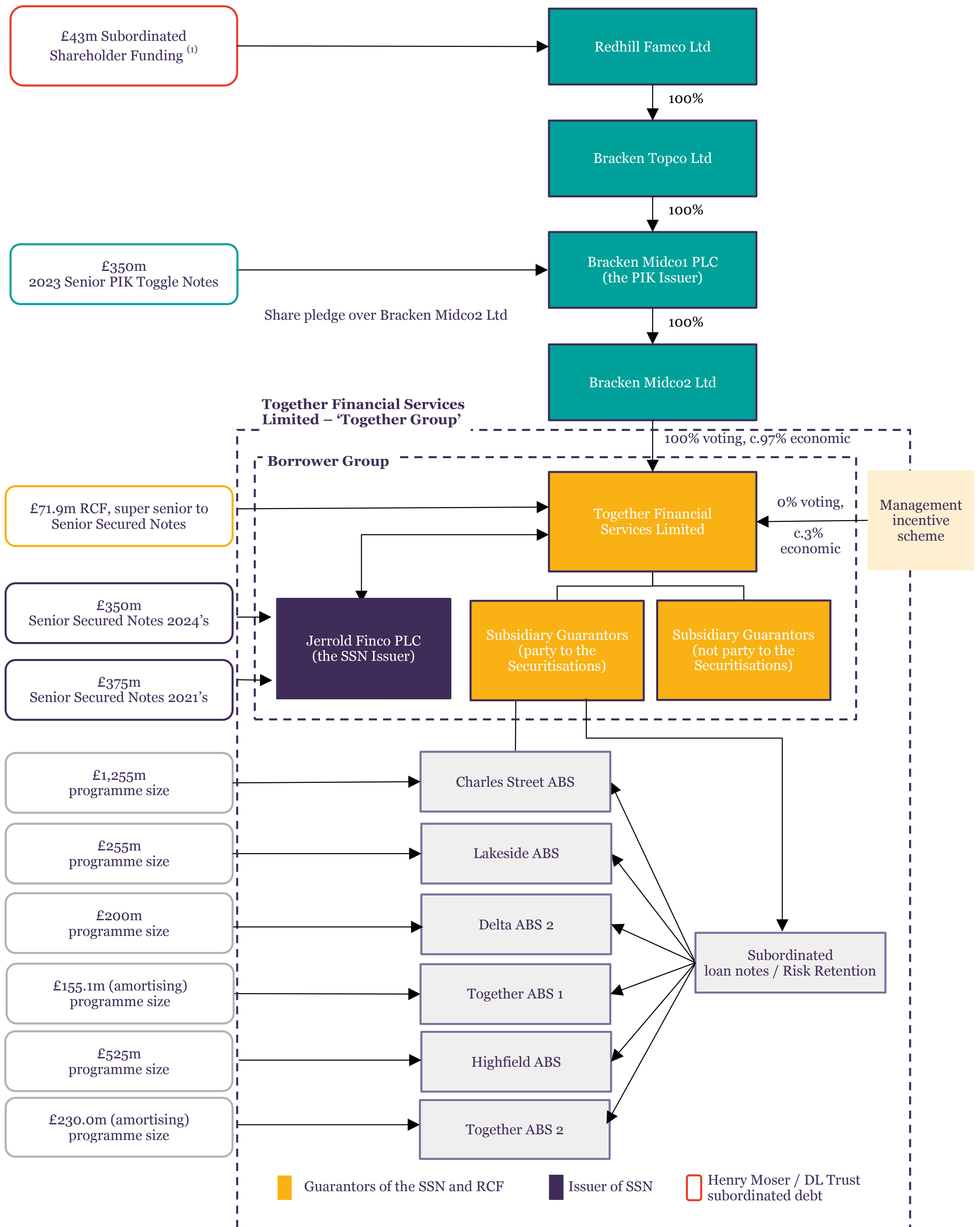
These risks are not exhaustive. Other sections of this report describe additional factors that could adversely affect our results of operations, financial condition, liquidity and the markets in which we operate. New risks can emerge from time to time, and it is not possible for us to predict all such 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 report, and we do not intend, and do not assume any obligation, to update forward looking statements set forth in this 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 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 June 30, 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 condensed annual consolidated results and financial position of Bracken Midco1 PLC, the issuer of 2023 Senior PIK Toggle Notes and its subsidiaries, compared to the audited consolidated results and financial position of Together Financial Services Limited and its subsidiaries, for and as of the year ended June 30, 2019. The results reflect the adoption of IFRS 9 on July 1, 2018.

	Year ended June 30, 2019		
	Together Financial Services Ltd £m	**Adjustments £m**	**Bracken Midco1 PLC £m**
Profit before tax [1]	**130.3**	**(44.5)**	**85.8**

	As at June 30, 2019		
	Together Financial Services Ltd £m	**Adjustments £m**	**Bracken Midco1 PLC £m**
Assets			
Cash and balances at bank	120.2	0.6 [2]	120.8
Loans and advances to customers	3,694.5	-	3,694.5
Derivative assets held for risk management	0.1	-	0.1
Inventories	0.6	-	0.6
Other assets	4.8	-	4.8
Investments	0.1	-	0.1
Property, plant and equipment	5.4	-	5.4
Intangible assets	8.8	-	8.8
Deferred tax asset	7.5	-	7.5
Total assets	**3,842.0**	**0.6**	**3,842.6**
Liabilities			
Bank facilities	55.0	-	55.0
Loan notes	2,221.5	-	2,221.5
Senior secured notes	726.8	-	726.8
Senior PIK toggle notes	-	350.0 [3]	350.0
Obligations under finance leases	0.8	-	0.8
Debt issue costs	(15.5)	(3.6) [4]	(19.1)
Total borrowings (excluding subordinated shareholder funding)	**2,988.6**	**346.4**	**3,335.0**
Other liabilities	54.8	8.2 [5]	63.0
Current tax liabilities	8.7	-	8.7
Total liabilities	**3,052.1**	**354.6**	**3,406.7**
Equity			
Subordinated shareholding funding	27.1	(21.1)	6.0 [6]
Shareholders' equity	762.8	(333.0)	429.9
Total equity	**789.9**	**(354.1)**	**435.9**
Total equity and liabilities	**3,842.0**	**0.6**	**3,842.6**

(1) Presented to reflect the full annual 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 Midco1 PLC

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

For the year to June 30, 2019, interest payable and similar charges for Bracken Midco1 PLC was, on a consolidated basis £161.4m compared to £116.8m for Together Financial Services Limited. The £44.5m variance comprises £44.2m of interest payable and debt issue amortisation on the Senior PIK Toggle (of which £11.3m related to exceptional interest payable and similar charges associated with the early refinancing of the £220m Senior PIK Toggle Notes), £2.3m 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 £2.0m of fair value unwind at Together Financial Services Limited on intercompany loans owed to Bracken Midco2 Limited.

Annual report and audited consolidated financial statements

The annual report and audited consolidated financial statements attached show the financial performance for the year to and as at June 30, 2019.

Comparatives for these consolidated financial statements are as follows:

- Consolidated Statement of Comprehensive Income and Consolidated Statement of Cash Flow have comparatives for the year to June 30, 2018; and
- Consolidated Statement of Financial Position and Consolidated Statement of Changes in Equity have comparatives as at June 30, 2018.