Together Financial Services Limited
Q1 2020/21 Results

Company Registration No. 02939389

Contents

Highlights

Together Financial Services Limited ('Together' or 'the Group'), one of the UK's leading specialist mortgage and secured loan providers, is pleased to announce its results for the quarter ended September 30, 2020.

Commenting on today's results, Gerald Grimes, Group CEO Designate of Together, said:

"Together delivered a resilient performance in the quarter to 30 September, despite the ongoing challenges of Covid-19, as we continued to focus on supporting our customers, protecting our colleagues and shaping our business for the future.

"We prudently increased originations, lending £130.7m as the loan book ended the quarter at £4bn, while maintaining very conservative portfolio LTVs of 52.4%. The Group remained robustly profitable and cash generative, with underlying profit before tax of £33.9m and cash receipts of £377.3m. We also further strengthened our liquidity and capital positions including issuing our fourth public RMBS, the £366m TABS 4, and extending our revolving credit facility. At 6 November, the Group had undrawn facility headroom of £937m and accessible liquidity of £287m.

"While we expect conditions to remain challenging for some time, as we deliver our modernisation and transformation programmes and with strong levels of capital and liquidity, we believe Together is well positioned for the future and to play our part in supporting the UK's economic recovery."

Financial performance: quarter ended September 30, 2020

- Group loan book for the quarter of £4.0bn, up 3.2% compared with £3.9bn at September 30, 2019 and down 3.9% compared with £4.2bn at June 30, 2020
- Loan book weighted average indexed LTVs reduced to 52.4% compared with 55% at September 30, 2019 and 54.9% at June 30, 2020
- Average monthly loan originations of £43.6m down 75.3% compared with £176.2m in quarter ended September 30, 2020 (Q1'20), although up 118% from £20.0m in quarter ended June 30, 2020 (Q4'20)
- Weighted average origination LTVs remain conservative at 56.4% (Q1'20: 58.1%; Q4'20: 46.9%)
- Interest receivable and similar income of £95.3m up 3.0% compared with £92.5m in Q1'20, driven by interest earned on the growing loan book, however down 3.7% compared with £99.0m in Q4'20, consistent with the decrease in the size of the loan book
- Net interest margin remained highly attractive at 6.4%, in line with 6.4% in Q1'20 and 6.5% at Q4'20, particularly given the low LTVs and consequent high levels of collateral underpinning the quality of the loan book
- Cost of risk for the quarter was 1.31% on an annualised basis which was an increase compared with 0.58% in Q1'20 principally reflecting the deterioration in the macroeconomic conditions and outlook since the Covid-19 outbreak and the resulting impact on loan book performance, although slightly lower when compared with 1.55% in Q4'20
- Despite the challenging climate, the Group's underlying EBITDA has decreased only slightly to £65.4m compared with £67.6m reported in Q1'20 and £67.7m in Q4'20
- Cash generation remained robust, with cash receipts of £377.3m, although down 13.8% compared with £437.6m in Q1'20 but up 25.6% compared with £300.4m in Q4'20
- Dividend declared in Q1'21 pimarily to cash service the interest due on the Senior PIK Toggle Notes of Bracken Midco1 plc

Highlights (continued)

Key metrics	Q1 2021	Q1 2020	Q4 2020
Interest receivable and similar income* (£m)	95.3	92.5	99.0
Interest cover ratio*	2.1:1	2.0:1	2.2:1
Net interest margin** (%)	6.4	6.4	6.5
Underlying cost-to-income ratio*[1] (%)	29.6	34.3	28.1
Cost-to-income ratio* (%)	31.8	39.2	32.2
Cost of risk** (%)	1.31	0.58	1.55
Underlying profit before taxation**Error! Bookmark not defined.*** (£m)	33.9	34.5	34.4
Profit before taxation (£m)	32.4	31.5	31.5
Loans and advances to customers (£m)	4,000.8	3,878.4	4,162.2
Net debt gearing (%)	77.2	78.6	78.6
Shareholder funds[2] (m)	858.3	814.9	856.4
Underlying return on equity**Error! Bookmark not defined.**** (%)	13.8	15.0	14.4
Return on equity* (%)	13.2	13.7	13.2

*Calculation based on a 3 month period
**Calculation based on a 3 month period and annualised

Covid-19 update: Supporting our customers and enhancing the resilience of our business

- Continued to support our customers, 23% of customers by value have taken a payment deferral since the onset of Covid-19. At November 5, 2020, 3% of customers by value remained within a payment deferral (September 18, 2020: 7%). Of the accounts who have exited payment deferrals 80% have resumed payments, 15% are making part payments and 5% making no payments
- On October 31, 2020, the government announced new national restrictions for England which were implemented from November 5, 2020
  - In addition, on November 1, 2020 the window for mortgage payment deferrals was extended to the end of January 2021 and on November 5, 2020 the coronavirus job retention scheme was extended to the end of March 2021
- Successfully increased facility headroom and accessible liquidity
  - Further extended scale, diversity and maturity of funding with issuance of fourth residential mortgage securitisation (‘RMBS’), TABS 4, for £366m with 79.5% of the notes AAA rated and refinancing of revolving credit facility, extending maturity to June ‘23
  - Undrawn facility headroom £937m at November 6, 2020 (September 30, 2020: £872m; June 30, 2020: £406m)
  - Immediate accessible liquidity £287m at November 6, 2020 (September 30, 2020: £285m; June 30, 2020: £145m)

[1] Underlying metrics include adjustments to exclude £1.5m redundancy costs in Q1‘21 (£3.0m additional customer provisions in Q1‘20, £2.9m additional customer provisions in Q4‘20)

[2] Includes subordinated shareholder loans of £28.8m (Q1‘20: £27.6m, Q4‘20: £28.4).

Highlights (continued)

Shaping the business for the future

- Continued progression on modernisation and transformation programmes:
    - Extended 'e-files' to Commercial Finance, having previously rolled-out to Personal Finance, saving significant colleague time and around 450 trees per year
    - Commenced projects to roll-out paperless direct debits, electronic disbursements and automatic income validation across the business
    - Launched Together app to Commercial Finance direct customers to transform the way they process their applications (October 2020)
- Completed thorough review of our operating model to ensure our cost base remains appropriate including completion of an employee consultation process which resulted in reducing colleague numbers by 175 and savings of c. £9m per annum
- Awarded Best Specialist Lender at Mortgage Strategy Awards 2020
- UK TV advertising campaign supporting Channel 4 "The Great House Giveaway" to increase brand awareness
- Gradually increasing lending with simplified product offering and reduced LTVs and loan sizes
    - Expect lending volumes to continue to increase cautiously, but remaining below pre-Covid-19 levels in the near term while credit risk becomes more transparent and measurable and we deliver efficiency benefits from our modernisation and transformation projects
- Positioning business to help support UK economic recovery as one of the UK's largest specialist lenders

An introduction to Together Financial Services Limited

We are one of UK's leading specialist mortgage and secured loans providers by loan book size, established in 1974, and have successfully operated throughout our 46 year history. We pride ourselves on bringing common sense to lending by helping individuals, families and businesses to achieve their ambitions in a world that has changed when traditional lending has not.

We focus on prudent loan-to-value ("LTV") lending and offer retail and commercial purpose mortgage loans. Our loans include secured first and second-lien loans, of which, as of September 30, 2020, 64.7% were 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 mainstream lenders (including high street banks) and other lenders. We offer our loans through one, consistent brand 'Together' and distribute them across mainland United Kingdom primarily through mortgage intermediaries, our professional network and auction houses, and through our direct sales team. We underwrite and service all our mortgage loans directly.

As of September 30, 2020, 31.3% of our loan portfolio was classified as retail purpose, 63.8% as commercial purpose (which included 23.5% of buy to let +) and 4.9% 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 under the current regulatory framework. Retail purpose loans include loans for purchasing a new 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, which can be used for 'chain breaks' which are loans used by customers to purchase a new home ahead of completing the sale of their existing home, amongst other things. 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 are 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 typically 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 support 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, risk and compliance audits as well as a formal committee structure to agree on policy decisions, setting risk appetites and monitoring credit quality.

In response to the coronavirus outbreak, the Group's lending criteria has been further tightened in line with reduced credit risk appetite.

The LTVs of our loan portfolio on a weighted average indexed basis as of September 30, 2020, was 52.4% and the LTV on a weighted-average basis of new loans underwritten in the quarter ended September 30, 2020 was 56.4%. As of September 30, 2020, 98.2% of the total loan portfolio and 94.1% 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 us with significant protection in times of falling house prices and economic downturns, thereby mitigating our levels of credit losses.

[3] See Structure diagram on p.22 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 September 30, 2020 with comparatives to September 30, 2019 and June 30, 2020. 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.

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"), 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”), Delta Asset Backed Securitisation 2 Limited (“Delta ABS 2”), Together Asset Backed Securitisation 2019 – 1 PLC (“Together ABS 3”) and Together Asset Backed Securitisation 2020 – 1 PLC (“Together ABS 4”), the bankruptcy-remote special purpose vehicles established for purposes of secured borrowings, are consolidated into our unaudited interim condensed consolidated financial statements in accordance with IFRS 10 Consolidated Financial Statements. Mortgage loans sold to Charles Street ABS, Lakeside ABS, Together ABS 1, Highfield ABS, Together ABS 2, Delta ABS 2, Together ABS 3 and Together ABS 4 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, Together ABS 1, Highfield ABS, Together ABS 2, Delta ABS 2, Together ABS 3 and Together ABS 4 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.

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, Underlying EBITDA, EBITDA margin, Underlying EBITDA margin, Underlying profit before taxation 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 quarter ended September 30, 2019 and 2020 and for the quarter ended June 30, 2020 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 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.

In this quarterly report references to “Underlying EBITDA” and “Underlying Profit Before Tax” exclude the effects of redundancy cost whilst comparatives for both Q1 ‘2020 and Q4 ‘2020 exclude the effects of certain exceptional customer provisions.

In this quarterly report references to “EBITDA margin” reflects EBITDA margin for Together Financial Services. EBITDA margin is calculated as EBITDA divided by the sum of interest receivable and similar income plus fee and commission income (derived from the Company’s consolidated financial statements).

In this quarterly report references to “Underlying EBITDA margin” reflect Underlying EBITDA margin for Together Financial Services. Underlying EBITDA margin is Underlying EBITDA divided by the sum of interest receivable and similar income and fee and commission income (derived from the Company’s consolidated financial statements, in each of the preceding two cases).

Presentation of financial and other information (continued)

Other financial information (Non-IFRS) (continued)

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, Underlying EBITDA, EBITDA margin, Underlying EBITDA margin, Underlying Profit Before Tax 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 forbearance measures (including the treatment of recent Mortgage-Payment Deferrals (defined below) introduced pursuant to FCA guidance related to Covid-19), we do not reschedule our loans by capitalizing arrears. In this offering memorandum, arrears data are based on the latest contractual position and do not take into account either payment plans or agreed changes to payment dates, other than with respect to Mortgage-Payment Deferrals for which the arrears calculation is described in further detail below. Arrears data is further subdivided into performing and non-performing arrears loans as described below.

Following the government announcement to allow customers to apply for mortgage-payment deferrals we provided our customers with four options of how to pay the missed instalments and any additional interest that has accrued in the payment deferral period upon exit of the aforementioned period; (i) increase the contractual monthly instalment for the remainder of the loan, (ii) increase the contractual monthly instalment for an agreed period of time before returning to the previous contractual monthly instalment, (iii) the customer makes a specific one off payment at the end of the mortgage-payment deferral period that ensures the remaining contractual monthly instalments are not adjusted, and (iv) extend the term of the loan while keeping the contractual monthly instalment the same throughout the remaining period. If none of these options are suitable for the customer, we will be working with the customer using our existing forbearance options to recover the principal amounts and accrued interest not received during this period to bring the loan back in line with the scheduled term. Where the contractual monthly instalment has been amended by any of these options, this has not been reflected in the monthly arrears position, which is calculated off the most recent contractual monthly instalment.

Repossessed properties, Law of Property Act ("LPA") receivership in sale status (“LPA Sales”) and development loans are excluded from arrears numbers. LPA receivership in rental status, which may return to being performing assets, is 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 or refinance of property units. We underwrite relatively few new development loans each quarter. Development loans are reported as a separate category of loans within our analysis.

In this quarterly report and related presentation, data referring to loan portfolio analysis is in reference to core operating subsidiaries (which includes certain subsidiaries that no longer originate new advances to customers): Auction Finance Limited, Blemain Finance Limited, Bridging Finance Limited, Harpmanor Limited, Together Personal Finance Limited and Together Commercial Finance Limited, which in aggregate represent 99.9% of total loan book balances by value as of September 30, 2020. Data referring to our loan portfolio analysis are presented after allowances for impairment and for periods on or after September 30, 2020 include certain other accounting adjustments (including adjustments to recognise income at the effective interest rate).

In this quarterly report and related presentation, a loan is considered performing (a “performing loan”) if it (i) has nil arrears or arrears less than or equal to one month of the latest contractual instalment or where no contractual monthly instalment is due or (ii) “performing arrears loans,” being loans with arrears greater than one month’s but less than or equal to three months’ of the latest contractual instalments, or where cash receipts collected in the prior three months are equal to or greater than 90% of the contractual instalments due in the prior three months. The balance of loans are classified as (i) non-performing arrears loans, where such loans have arrears of greater than three months’ of the latest contractual instalments due and where receipts collected in the prior three months are less than 90% of the three latest contractual instalments due, past contractual term or subject to LPA receivership in rental status (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. Such loan categorization definitions used differ to the categorizations applied in determining if a loan is classified as Stage 1, Stage 2 and Stage 3 under IFRS 9.

Terms relating to our loan analysis (continued)

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, (iii) net of any allowances for impairment in respect of such loans, and iv) for periods on or after June 30, 2019, certain other accounting adjustments (including adjustments to recognise income at the effective interest rate), 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 impairment in respect of such loans and (iv) for periods on or after June 30, 2019 certain other accounting adjustments (including adjustments to recognise income at the effective interest rate), as of the date presented.

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 aggregate of (i) the principal amount, (ii) accrued interest and fees, (iii) net of any allowances for impairment in respect of such loans and (iv) for periods on or after June 30, 2019 include certain other accounting adjustments (including adjustments to recognise income at the effective interest rate) as of the date presented. Our loan and impairment allowance analysis excludes loans with carrying values of nil for which full provisions are in place.

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

In respect to originations, Loan-to-Value ratio (“LTV”) is a ratio (reflected as a percentage) of (i) the principal amount of a mortgage loan on origination and (ii) any higher ranking charge mortgage loans secured on the same property compared to the appraised value (typically 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) of the property securing the loan.

In this quarterly 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) for periods on or after June 30, 2019 certain other accounting adjustments (including adjustments to recognise income at the effective interest rate), compared to the appraised value (typically 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 or the revised valuation of the property if a later valuation has been undertaken) of the property securing the loan.

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.

With respect to data related to LTV, in this annual report and related presentation the LTV statistics calculated per each loan on a standalone basis. In certain cases, there are multiple loans with a single borrower (or related borrowers) which are either secured on the same property or with cross security charges in place. If we were to present data related to LTV on a consolidated basis per each borrower or each property, LTV and related data would differ from the data presented herein in certain cases.

Key performance indicators

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 September		**3 months ended or as at June 30**
(£m, except for percentages and ratios or unless otherwise noted)	**2020**	**2019**	**2020**
Group			
Interest receivable and similar income	95.3	92.5	99.0
Fee and commission income	0.8	1.1	0.4
Income	96.1	93.6	99.4
NIM[4]	6.4%	6.4%	6.5%
Underlying cost-to-income*[5]	29.6%	34.3%	28.1%
Impairment charge	(13.4)	(5.5)	(16.4)
EBITDA	63.9	64.7	64.8
Underlying EBITDA*[7]	65.4	67.6	67.7
Underlying EBITDA margin*[7]	68.0%	72.3%	68.0%
Profit on ordinary activities before tax	32.4	31.5	31.5
Underlying profit on ordinary activities before tax*	33.9	34.5	34.4
Underlying return on equity*[6]	13.8%	15.0%	14.4%
Supplemental cash flow information:			
Cash receipts	377.3	437.6	300.4
New advances	130.7	528.6	60.2
LTV of loan portfolio (on a weighted average basis, based on LTV of loans at origination)[7] **	56.4%	58.1%	46.9%
LTV of loan portfolio (on a weighted average indexed basis)[7]	52.4%	55.0%	54.9%

* Underlying metrics include adjustments to exclude £1.5m of redundancy costs in Q1'21 (£3.0m additional customer provisions in Q1'20, £2.9m additional customer provisions in Q4'20)

** Originations for 3 months period

The key performance indicators above for the quarter ended September 30, 2020 have been derived from unaudited 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 audited annual report and consolidated financial statements of Together Financial Services Limited and the accounting policies described therein as at June 30, 2020.

[4] Net interest margin (NIM) – annualised net interest income for the quarter as a percentage of the average of the opening and closing net loans and advances to customers for the respective quarter

[5] Cost-to-income – calculated as administrative expenses for the quarter including depreciation and amortisation divided by operating income for the quarter

[6] Return on equity – calculated as annualised profit after tax for the quarter adding back shareholder loan interest net of associated tax calculated using the effective tax rate, expressed as a percentage of the average of the opening and closing shareholder funds for the respective quarter

[7] For definitions please see sections: "Other Financial Information" and "Terms relating to our loan analysis"

Operating review

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

Continued focus on LTVs

During the period to September 30, 2020 the Group has continued to focus on prudent underwriting policies and LTVs. 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 September 30, 2020, and September 30, 2019 by arrears banding, for the Group and Borrower Group is set out below. Additional analysis has been provided for September 30, 2020 for the population of the loan portfolio where borrowers have requested Covid-19 mortgage-payment deferrals ('MPD'). Separate analysis is presented for those which have requested an MPD at any time ('Total') and those which remain in a MPD at September 30, 2020 ('Live'):

	Group Loan Portfolio Arrears Analysis			
	September 30, 2020			September 30, 2019
	Total Loan Portfolio	Of which, requested MPD Total	Of which, requested MPD Live	
Nil Arrears & Arrears ≤ 1 month	**85.1%**	**20.4%**	**5.4%**	**85.9%**
Performing Arrears				
1-3 months	3.8%	2.0%	0.5%	3.3%
3-6 months	0.5%	0.2%	0.1%	0.3%
>6 months	0.3%	0.1%	0.1%	0.4%
Total Performing Arrears	**4.6%**	**2.3%**	**0.7%**	**4.0%**
Development Loans	**4.9%**	**0.1%**	**0.0%**	**5.2%**
Total Performing Loans & Development Loans	**94.6%**	**22.8%**	**6.1%**	**95.1%**
Non-Performing Arrears				
3-6 months	0.9%	0.3%	0.1%	1.2%
>6 months	1.6%	0.1%	0.0%	1.0%
Past due[1]	1.6%	0.0%	0.0%	1.3%
Total Non-Performing Arrears	**4.1%**	**0.4%**	**0.1%**	**3.5%**
Repossessions & LPA Sales	**1.3%**	**0.2%**	**0.0%**	**1.4%**
Total	**100.0%**	**23.4%**	**6.2%**	**100.0%**

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

	Borrower Group Loan Portfolio Arrears Analysis			
	September 30, 2020			September 30, 2019
	Total Loan Portfolio	Of which, requested MPD Total	Of which, requested MPD Live	
Nil Arrears & Arrears ≤ 1 month	**58.6%**	**12.2%**	**3.1%**	**61.3%**
Performing Arrears				
1-3 months	5.7%	2.5%	0.7%	4.4%
3-6 months	1.2%	0.5%	0.2%	0.8%
>6 months	0.9%	0.2%	0.1%	1.3%
Total Performing Arrears	**7.8%**	**3.2%**	**1.0%**	**6.5%**
Development Loans	**17.6%**	**0.4%**	**0.1%**	**17.4%**
Total Performing Loans & Development Loans	**84.0%**	**15.8%**	**4.2%**	**85.2%**
Non-Performing Arrears				
3-6 months	2.0%	0.5%	0.2%	2.9%
>6 months	5.2%	0.5%	0.1%	3.0%
Past due[1]	4.3%	0.0%	0.0%	3.9%
Total Non-Performing Arrears	**11.5%**	**1.0%**	**0.3%**	**9.8%**
Repossessions & LPA Sales	**4.5%**	**0.5%**	**0.0%**	**5.0%**
Total	**100.0%**	**17.3%**	**4.5%**	**100.0%**

Operating review (continued)

An analysis of our loan portfolio as at September 30, 2020, by indexed and origination LTV banding, for the Group and Borrower Group is as follows:

Group Loan Portfolio Indexed LTV Analysis (£m)	Performing Loans	Development Loans	Non - Performing Loans	Repossessions & LPA Sales	Total Loan Portfolio
<=60%	2,450.3	98.0	114.9	37.3	2,700.5
>60% <=80%	1,094.9	74.8	48.8	12.3	1,230.8
>80% <=100%	32.7	21.1	1.6	1.0	56.4
>100%	14.4	1.3	0.5	0.1	16.3
Total	**3,592.3**	**195.2**	**165.8**	**50.7**	**4,004.0**

Borrower Group Loan Portfolio Indexed LTV Analysis (£m)	Performing Loans	Development Loans	Non - Performing Loans	Repossessions & LPA Sales	Total Loan Portfolio
<=60%	489.8	98.0	83.5	38.3	709.6
>60% <=80%	208.3	74.8	42.5	10.8	336.4
>80% <=100%	25.8	21.1	1.6	1.0	49.5
>100%	14.2	1.3	0.5	-	16.0
Total	**738.1**	**195.2**	**128.1**	**50.1**	**1,111.5**

Group Loan Portfolio Origination LTV Analysis (£m)	Performing Loans	Development Loans	Non - Performing Loans	Repossessions & LPA Sales	Total Loan Portfolio
<=60%	1,752.2	113.4	80.4	14.2	1,960.2
>60%<=80%	1,748.2	59.3	80.6	32.0	1,920.1
>80%<=100%	68.0	8.7	1.5	4.4	82.6
>100%	23.9	13.8	3.3	0.1	41.1
Total	**3,592.3**	**195.2**	**165.8**	**50.7**	**4,004.0**

Borrower Group Loan Portfolio Origination LTV Analysis (£m)	Performing Loans	Development Loans	Non - Performing Loans	Repossessions & LPA Sales	Total Loan Portfolio
<=60%	347.7	113.4	61.3	17.0	539.4
>60%<=80%	311.8	59.3	62.1	28.6	461.8
>80%<=100%	54.6	8.7	1.5	4.4	69.2
>100%	23.9	13.8	3.3	0.1	41.1
Total	**738.0**	**195.2**	**128.2**	**50.1**	**1,111.5**

The indexed weighted-average LTV of the loan portfolio for the total Group at September 30, 2020 is 52.4% compared with the prior year comparable quarter of 55.0% (September 30, 2019) and prior quarter of 54.9% (June 30, 2020).

The indexed weighted-average LTV of the loan portfolio for the Borrower Group at September 30, 2020 is 54.8%, a decrease compared with 58.0% as at September 30, 2019 and lower than the prior quarter of 57.4% (June 30, 2020).

Operating review (continued)

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 September 30, 2020, 31.3% of our loan portfolio was classified as retail purpose, 63.8% of our loan portfolio was classified as commercial purpose (which included 23.5% of buy to let +) and 4.9% of our loan portfolio was classified as development funding, calculated by value.

The proportion of our loan portfolio secured by residential security by value has decreased to 64.7% as at September 30, 2020, when compared with 66.0% as at September 30, 2019 and 64.9% as at June 30, 2020. The proportion of our loan portfolio secured on first charges has increased to 72.9% as at September 30, 2020, when compared with 72.1% as at September 30, 2019 and had remained consistent at 72.9% with prior quarter ended June 30, 2020.

Controlled origination growth

In the quarter to September 30, 2020, including further advances, we have originated an average of £43.6m per month compared with £176.2m per month in the quarter to September 30, 2019 and £20.0m per month in the quarter to June 30, 2020, primarily due to the pause in accepting new applications during the initial lockdown period. On exiting the initial lockdown we recommenced accepting new applications on a phased basis initially using a selected panel of intermediaries from our well-established distribution network as well as through our direct channels and using tighter underwriting criteria.

Our loans and advances to customers stands at £4,000.8m as at September 30, 2020, compared with £3,878.4m as at September 30, 2019 and £4,162.2m as at June 30, 2020.

We continue to offer a broad range of products to underserved segments of the secured mortgage market and we benefit from a rich pool of experienced skilled underwriters supported by our continued investment in technology and product innovation.

Financial review

Interest receivable and similar income increased by 3.0% to £95.3m for the quarter to September 30, 2020 compared with £92.5m in the prior year comparable quarter (September 30, 2019) but has decreased 3.7% when compared with £99.0m in the prior quarter (June 30, 2020). The increase in interest receivable and similar income from comparable quarter is primarily due to increase in the size of the loan book. Interest receivable and similar income decreased from prior quarter mainly due to a decrease in the size of the loan book.

Interest payable and similar charges decreased by 5.3% to £30.1m compared with £31.8m in the prior year comparable quarter (September 30, 2019). This reduction is due to improvements in the cost of funding achieved through refinancing and the new public securitisation completed in the period, combined with lower market interest rates.

As a result of the above, net interest margin of 6.4% for the current quarter to September 30, 2020 remained consistent with prior year comparable quarter (September 30, 2019) but slightly lower than 6.5% in the prior quarter (June 30, 2020).

The underlying cost-to-income ratio for the quarter to September 30, 2020 was 29.6%[8], lower than the prior year comparable quarter of 34.3% (September 30, 2019) but higher than the prior quarter (June 30, 2019) of 28.1%. Cost-to-income improved from last year due to careful management of costs in response to the coronavirus pandemic.

[8] Exclude £1.5m redundancy costs in Q1'21 (£3.0m additional customer provisions in Q1'20, £2.9m additional customer provisions in Q4'20).

Impairment losses for the quarter to September 30, 2020 were £13.4m, an increase of £7.9m on the £5.5m reported in the quarter ended September 30, 2019, however a decrease of £3.0m on the £16.4m recorded in quarter ended June 30, 2020. As a result, cost of risk for the quarter was 1.31% on an annualised basis, an increase compared with 0.58% in quarter to September 30, 2019, but slightly lower when compared with 1.55% in the quarter to June 30, 2020. Although the mortgage portfolio has grown by 3.2% compared with September 30, 2019, the impairment coverage ratio has increased to 3.2% from 1.8% as at September 30, 2019, providing increased cover for potential future losses, principally in respect of stage 2 and 3 loans. Impairment coverage ratio was 2.8% as at June 30, 2020.

For estimating losses we use a range of forecasts which carry a very high level of uncertainty due to the unprecedented nature of the macroeconomic environment and outlook, resulting from the impacts of Covid-19 and continued uncertainty over Brexit; and the difficulty in foreseeing the timing and scale of future recovery.

The components of the impairment charge of £13.4m for the period to September 30, 2020 is set out below.

One of the key increases in the allowance for the period was the increased charge of £5.8m resulting from changes in models and risk parameters (September 30, 2019: £0.7m release). The driver of this increase was a change to the macroeconomic outlook and other forward-looking assumptions.

The impact of loans transferring between stages and other changes in credit risk have increased ECL by £12.1m, the principal drivers being:

- £4.8m due to changes in qualitative criteria to assess whether a loan has experienced a significant increase in credit risk. The criteria have been expanded to include: customers who are not in arrears, but may have suffered a certain level of income shock based on credit bureau data, and; loans which are not in arrears or otherwise exhibiting signs of an increase in credit risk but are secured on certain property types which may be most affected by social restrictions such as certain hospitality and retail-purpose properties.
- £3.5m due to increases in arrears levels and other qualitative and quantitative factors used to assess the allocated stages of loans which can result in the recognition of allowances based on lifetime losses on loans which were previously measured using a 12-month loss. Arrears levels also affect the probability of default assigned to loans; and
- £3.0m due to changes in the assessment of the likely recovery outcome for loans, based either on the likelihood of repossession or on changes in estimated amounts to be recovered. This includes the effect of changes in the estimated collateral values for loans.

New originations increased ECL by £0.9m (September 30, 2019: £1.3m), driven by new lending undertaken during the period and the requirement to measure all loans using a forward-looking ECL. Increases in ECL were offset by releases of £6.0m (September 30, 2019: £5.1m) on loans which have redeemed during the period.

Underlying EBITDA[9] of £65.4m down 3.3% compared with £67.6m in the prior year comparable quarter (September 30, 2019) and down 3.4% compared with £67.7m in the prior quarter (June 30, 2020). Underlying EBITDA margin was 68.0% for the quarter to September 30, 2020 compared with 72.3% in the prior year comparable quarter (September 30, 2019) and 68.0% for the prior quarter (June 30, 2020).

Underlying profit before tax of £33.9m[10] down 1.7% compared with £34.5m in the prior year comparable quarter (September 30, 2019) and down 1.2% to £34.4m in the prior quarter (June 30, 2020).

Cash receipts for the quarter were £377.3m down 13.8% compared with £437.6m in the prior year comparable quarter (September 30, 2019) however increased 25.6% compared with £300.4m in the prior quarter (June 30, 2020).

Loans and advances to customers have increased by 3.2% to £4,000.8m compared with £3,878.4m as at September 30, 2019 and has reduced by 3.9% compared with £4,162.2m as at June 30, 2020. Shareholder funds have increased by 5.3% to £858.3m compared with £814.9m at September 30, 2019 and increased by 0.2% from £856.4m as at June 30, 2020, reflecting the declaration of a £26.4m dividend in September 2020 (subsequently paid in October 2020), primarily used to cash service interest on the Midco1 PIK Toggle Notes.

[9] Exclude £1.5m redundancy costs in Q1‘21 (£3.0m additional customer provisions in Q1‘20, £2.9m additional customer provisions in Q4‘20).

[10] Exclude £1.5m redundancy costs in Q1‘21 (£3.0m additional customer provisions in Q1‘20, £2.9m additional customer provisions in Q4‘20).

Recent developments

Trading update

The Group has offered mortgage-payment deferrals to 23% of its loan book, by value, extending beyond the government's criteria to also include certain other customers. As at November 5, 2020, 3% of the Group's loan book by value were on mortgage-payment deferrals.

Of the 7,274 loans where a payment deferral was applied, as at November 5, 2020, 6,723 loans had reached the end of their mortgage-payment deferral period and 551 loans were still within a payment deferral. Of the 6,723 customers who reached the end of their mortgage-payment deferral period, 5,588[11] resumed full payments, 691 made partial payments and the remaining 444 customers have either not paid or are past their term.

Monthly cash receipts of principal and interest in October and up to November 6, 2020, were £127m and £34m respectively, compared to a monthly average of c.£126m between July and September, 2020.

The Group has £937m of undrawn facility headroom at November 6, 2020.

The Group has £287m of accessible liquidity at November 6, 2020[12].

In October 2020 Bracken Midco1 PLC cash serviced the £16.4m interest due on its PIK Toggle Notes, using the proceeds of dividends from Together via Bracken Midco2 Limited.

On October 31, 2020, the government announced new national restrictions for England which were implemented from November 5, 2020 and are currently expected to remain in place at least until December 2, 2020. In addition the government announced fiscal support measures, including extensions of the coronavirus job retention scheme and mortgage-payment deferral scheme.

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

New originations

Monthly mortgage originations in October 2020 and up to November 6, 2020 were £64m and £14m respectively, compared to a monthly average of c. £44m between July and September, 2020.

11 Include accounts which were fully redeemed since ending their mortgage-payment deferral period.

12 Includes £115m of cash, £72m undrawn RCF and £100m of eligible assets available to sell to securitisation vehicles.

Significant factors which may affect results of operations

Macroeconomic environment

Many of the current economic indicators are at levels similar to those seen at the time of publication of the annual report for the year to 30 June 2020, while the uncertainty associated with the outlook continues to be very high.

Annual inflation is slightly lower at 0.7%, and Bank of England Bank Base Rate remains at 0.1%. As expected, unemployment has started to rise, reaching 4.8% in the quarter to September 2020. The surge in house prices, seen after the easing of the initial lockdown and following reductions in stamp duty, appears to be continuing, being 5.8% for the year to October 2020 according to the Nationwide, and 7.5% according to the Halifax. As expected, GDP continued to increase following its low point in April 2020, but at the end of September 2020 was still c8% below pre-pandemic levels.

The economic outlook continues to be extremely uncertain. New lockdown restrictions had been imposed regionally within the UK and subsequently restrictions have been introduced in England since early November. While the government's fiscal measures continue to change in response to the changing infection rate and lockdown restrictions, there is again greater uncertainty over the economic outlook. An autumn budget, which would normally set out the government's strategy for the coming years, will now not be held this year. Separately, the government's Brexit negotiations with the EU have not yet concluded with the current transition period expiring at the end of December 2020. Note 9 to the financial statements sets out the macroeconomic assumptions the Group has made in deriving expected credit losses (ECLs) at the reporting date.

An economic downturn adversely impacts the Group, including reducing growth in our lending markets and can reduce the value of property used as security against loans extended. Against such a backdrop, the Group benefits from all its lending being secured on property and/or land within the UK at prudent average LTVs. It also benefits from its specialist through-the-cycle expertise and strong, diversified funding base. Management believes these factors continue to provide the Group with a level of mitigation in such uncertain times.

Loan assets performance

The performance of our total 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 assess 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 based upon many years of experience. For each loan application, a detailed assessment is made of the customer circumstances, among other checks, an assessment of the financial position of the customer to ensure that the loan is both affordable and sustainable (as appropriate) along with an assessment of the repayment strategy. In addition, an assessment of the underlying security and its value is undertaken. 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.

Since the coronavirus outbreak, the Group's results have been adversely impacted by increased expected credit losses in line with IFRS9. The extent of any further impact will be influenced by the expected duration and severity of the disruption on the UK economy.

Since the outbreak, the government has announced a series of very substantial and wide-ranging support measures designed to mitigate the effect of the pandemic on the wider economy. On October 31, 2020, the government announced new national restrictions for England which were implemented from November 5, 2020 and are currently expected to remain in place at least until December 2, 2020. In addition the government announced fiscal support measures, including extensions of the coronavirus job retention scheme and mortgage-payment deferral scheme.

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

As at September 30, 2020, 2,123 customer loan accounts, representing 6%[13] of the loan portfolio by value, had a Covid-19 mortgage-payment deferral arrangement. Further detail on the impact on the Group's loss allowance is set out in Note 9.

[13] Based on net loan book

Significant factors which may affect results of operations (continued)

Loan assets performance (continued)

In addition to prudently tightening certain aspects of its lending criteria in response to Covid-19 the Group has further enhanced its loan servicing and credit risk management processes, including: capturing additional data through open banking and credit reference agencies, establishing enhanced monitoring and reporting ; updating arrears management standards and processes to reflect the latest FCA guidance on mortgage-payment deferrals; enhanced management information to provide further analysis and focus on particular risk factors; and overlaying macroeconomic sensitivity analysis of the loan book, including an increase in the number of scenarios modelled for the purpose of calculating the impairment loss allowance.

Property market

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

The Group lends at prudent LTVs at origination to provide protection from falls in property prices. Average origination LTV was 56.4% for the quarter to September 30, 2020 compared to 58.1% for the quarter to September 30, 2019.

The risks to the property market may increase in the forthcoming year in light of adverse economic conditions; however any further government interventions may provide mitigation. The Group expects to continue to lend using revised lending criteria and to continue its longstanding approach of lending at prudent LTVs.

The impact of the coronavirus to future property values is highly uncertain. The macroeconomic scenarios used in modelling expected credit losses are set out in Note 9 to the financial statements.

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

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 'Prime'[14] 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, we consider this provides a level of mitigation against moderate house price falls.

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 mortgage 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.

The risk of competition has been incorporated into the Group's forward planning process and the external market is regularly monitored.

The Group continues to offer a broad product range to underserved segments of the market and benefits from a rich pool of experienced and skilled underwriters. The Group also continues to invest in technology and product innovation.

The longevity of the Group's trading has resulted in the development of long term relationships with both intermediaries and individuals providing access to both new and repeat customers. In addition our diverse range of products, flexible approach to underwriting and experience means that we have the ability to attract customers who are not serviced by other lenders, together protecting our competitive position. The Group will continue to monitor the external environment and is confident, given this experience, gained over many economic cycles, that it will remain competitive in the segments in which it operates.

Uncertain economic times can reduce the number of new entrants into our chosen markets and may also reduce competition from existing lenders. Lenders who operate in mainstream and specialist segments have generally sought to focus on their core markets and restrict their lending criteria in a recessionary environment, which may provide increased lending opportunities for Together.

Mainstream lenders (including high street banks) continue to focus on their core businesses of automated credit decisions which excludes certain customers, property or transaction types.

[14] As defined by the Coutts London Prime Index – residential property only

Competition (continued)

This has encouraged a number of new entrants, or re-entrants in recent years 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.

Liquidity and 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.

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

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

The liquidity and funding risks arising from reducing levels of eligible assets and/or the risk of lower levels of cash inflows from redemptions can be mitigated by increasing the amount of liquidity resources held as cash. A key management action to generate net cash inflows is the ability to control levels of new lending, which in combination with other management actions, has increased cash balances to £300.5m at September 30, 2020 (September 30, 2019: £91.6m), of which £147.9m is unrestricted cash (September 30, 2019: £16.9m) as shown in Note 7.

The Group has a strong track record of successful refinancing and raising new facilities, and has continued to increase its bank and investor base during recent transactions. The outbreak of the coronavirus is causing market uncertainty, which may restrict the ability of the Group to complete further funding transactions, at least in the short term, or may change the commercial terms available.

Some of the Group's funding is subject to financial covenants. Note 2 to the financial statements provides further detail on the assessment of the going concern basis of preparation. This includes an assessment of the risks presented to the Group by any potential breaches of lending covenants including potential mitigating actions.

Interest rate environment

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

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 in respect of such loans 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 in recent years which has risen as a percentage of our total loan portfolio. The Group raises funding using a mix of fixed and variable funding which provides some natural offset in movements in interest rates on assets and liabilities.

Significant factors which may affect results of operations (continued)

Interest rate environment

In addition the Group has also undertaken numerous hedging transactions to provide further mitigation against mismatches in fixed and floating rates and undertakes stress analysis on any remaining mismatches.

During the period, the Group issued TABS 4, which uses SONIA as a reference rate which has historically tracked Bank Rate more closely than Libor.

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.

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

Regulatory considerations (continued)

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

Disclosures in respect of this can be found in Note 15 to the financial statements.

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 coronavirus to the global and UK economy and resultant impact on our liquidity position, capital position, operational risk profile, portfolio credit risk profile, reputation, results of operation 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;

Significant factors which may affect results of operations (continued)

Risk factors (continued)

- our ability to act proactively with customers to minimise the risk of repossession and potential losses in the event of a repossession;
- our ability to detect and prevent fraud during and after the loan underwriting process;
- the impact of the changing financial circumstances of our customers;
- the impact of rising unemployment;
- 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;
- failure to comply with current or historic regulatory rules or guidance or to treat customers fairly;
- failure to identify and offer the appropriate treatment to vulnerable customers;
- 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;
- the impact and cost associated with greater prudential regulation;
- changes or uncertainty in respect of LIBOR or SONIA that may affect our sources of funding;
- the impact of new initiatives by the UK Government that may affect our business;
- the impact and costs associated with dealing with claims management companies;
- the impact of litigation;
- our ability to retain our senior management and our underwriters, account executives, sales personnel, client facing employees and key individuals;
- loss of a material number of employees being available due to a health crisis including Covid-19;
- 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;
- the accuracy of our systems, data and models to correctly report our financial condition and forecasts;
- our substantial debt obligations and our ability to operate within financial covenants;
- access to debt markets and our ability to refinance our debt and raise new debt at acceptable cost;
- imbalances in maturity between our total loan assets and our sources of funds;
- failure to operate a Covid-19 secure workplace in breach of health and safety regulations;
- the potential for conflicts of interests between our shareholder and third-party funding providers;
- our ability to benefit from special corporation tax regimes for securitization companies;
- exclusion of US GAAP financial information; and
- changes in accounting standards.

Significant factors which may affect results of operations (continued)

Risk factors (continued)

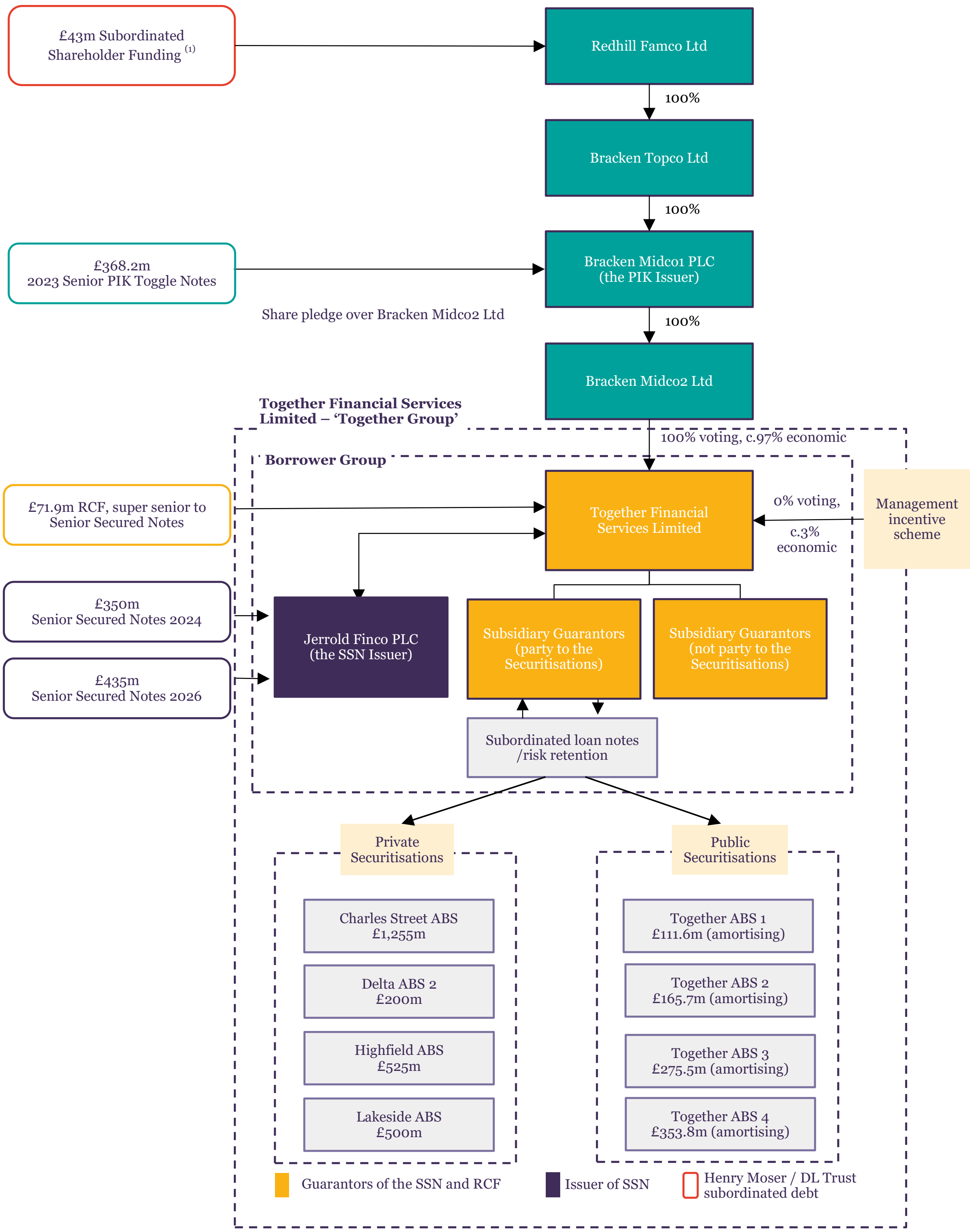
These risks are not exhaustive. Other sections of this quarterly report describe additional factors that could adversely affect our results of operations, financial condition, liquidity and the development of the industries in which we operate. New risks can emerge from time to time, and it is not possible 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 October 31, 2020.

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 consolidated results and financial position of Together Financial Services Limited and its subsidiaries, for and as of the quarter ended September 30, 2020.

	Quarter ended September 30, 2020		
	Together Financial Services Ltd £m	**Adjustments £m**	**Bracken Midco1 PLC £m**
Profit before tax [1]	**32.4**	**(8.9)**	**23.5**

	As at September 30, 2020		
	Together Financial Services Ltd £m	**Adjustments £m**	**Bracken Midco1 PLC £m**
Assets			
Cash and balances at bank	300.5	0.6 [2]	301.1
Loans and advances to customers	4,000.8	-	4,000.8
Inventories	0.6	-	0.6
Other assets	4.4	-	4.4
Investments	0.1	-	0.1
Property, plant and equipment	14.4	-	14.4
Intangible assets	8.0	-	8.0
Current tax asset	1.4	-	1.4
Deferred tax asset	7.6	-	7.6
Total assets	**4,337.8**	**0.6**	**4,338.4**
Liabilities			
Bank facilities	-	-	-
Loan notes	2,602.9	-	2,602.9
Senior secured notes	785.9	-	785.9
Senior PIK toggle notes	-	368.2 [3]	368.2
Obligations under finance leases	12.4	-	12.4
Debt issue costs	(16.0)	(1.7) [4]	(17.7)
Total borrowings (excluding subordinated shareholder funding)	**3,385.2**	**366.5**	**3,751.7**
Other liabilities	70.1	(6.4) [5]	63.7
Derivative liabilities held for risk management	2.4	-	2.4
Provisions for liabilities and charges	21.8	-	21.8
Total liabilities	**3,479.5**	**360.1**	**3,839.6**
Equity			
Subordinated shareholding funding	28.8	(22.0)	6.8 [6]
Shareholders' equity	829.5	(337.5)	492.0
Total equity	**858.3**	**(359.5)**	**498.8**
Total equity and liabilities	**4,337.8**	**0.6**	**4,338.4**

(1) Presented to reflect the full quarterly interim consolidated profit of Together Financial Services Limited and Bracken Midco1 PLC (also incorporating Bracken Midco2 Limited) 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 £368.2m 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 and group dividend accrual reversed in consolidation of £26.4m

(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 period to September 30, 2020, interest payable and similar charges for Bracken Midco1 PLC was, on a consolidated basis £39.0m compared to £30.1m for Together Financial Services Limited. The £8.9m variance comprises £9.2m of interest payable and debt issue amortisation on the Senior PIK Toggle, £0.1m 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 £0.4m 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 consolidated financial statements attached show the financial performance for the quarter and three months to September 30, 2020.

Comparatives for these consolidated financial statements are as follows:

- Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and
- Consolidated Statement of Cash Flow have comparatives for the quarter to September 30, 2019; and
- Consolidated Statement of Financial Position have comparatives as at September 30, 2019 and June 30, 2020.

Unaudited consolidated statement of comprehensive income

Three months ended 30 September 2020

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

Income statement	Note	Three months ended 30 September 2020	30 September 2019
Interest receivable and similar income		95.3	92.5
Interest payable and similar charges	4	(30.1)	(31.8)
Net interest income		**65.2**	**60.7**
Fee and commission income		0.8	1.1
Fee and commission expense		(0.2)	(0.6)
Net fair value gains /(losses) on derivatives held for risk-management purposes measured at fair value through income statement	8	0.1	(0.3)
Other income	5	1.2	-
Operating income		**67.1**	**60.9**
Administrative expenses		(21.3)	(23.9)
Operating profit		**45.8**	**37.0**
Impairment losses	9	(13.4)	(5.5)
Profit before taxation		**32.4**	**31.5**
Income tax	6	(4.5)	(4.4)
Profit after taxation		**27.9**	**27.1**
Other comprehensive income and expense			
Items that may be reclassified to the income statement			
Movement in the cashflow-hedging reserve:			
Effective portion of changes in fair value of derivatives	8	-	(1.3)
Amounts reclassified to income statement		0.1	-
		0.1	**(1.3)**
Movement in the cost-of-hedging reserve:			
Effective portion of changes in fair value of derivatives	8	(0.1)	-
Amounts reclassified to income statement		-	-
		(0.1)	**-**
Other comprehensive expense for the period, net of tax		**-**	**(1.3)**
Total comprehensive income for the period		**27.9**	**25.8**

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

Unaudited consolidated statement of financial position

As at 30 September 2020

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

	Note	30 September 2020	30 September 2019	30 June 2020
Assets				
Cash and cash equivalents	7	300.5	91.6	252.5
Loans and advances to customers	9	4,000.8	3,878.4	4,162.2
Inventories		0.6	0.6	0.6
Other assets	10	4.4	4.9	6.3
Investments		0.1	0.1	0.1
Property, plant and equipment	11	14.4	13.6	13.9
Intangible assets	12	8.0	9.1	8.1
Current tax asset		1.4	-	3.2
Deferred tax asset	13	7.6	7.8	7.6
Total assets		**4,337.8**	**4,006.1**	**4,454.5**
Liabilities				
Derivative liabilities held for risk management	8	2.4	1.6	2.9
Current tax liabilities		-	2.6	-
Borrowings	14	3,414.0	3,164.8	3,550.1
Provisions for liabilities and charges	15	21.8	8.9	22.3
Other liabilities	16	70.1	40.9	51.2
Total liabilities		**3,508.3**	**3,218.8**	**3,626.5**
Equity				
Share capital		9.8	9.8	9.8
Subordinated shareholding funding reserve		39.3	40.5	39.7
Cashflow-hedging reserve		(2.6)	(1.3)	(2.7)
Cost-of-hedging reserve		(0.2)	(0.2)	(0.1)
Other reserves		10.6	10.8	10.6
Retained earnings		772.6	727.7	770.7
Total equity		**829.5**	**787.3**	**828.0**
Total equity and liabilities		**4,337.8**	**4,006.1**	**4,454.5**

Unaudited consolidated statement of changes in equity

Three months ended 30 September 2020

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

Three months to 30 September 2020	Called-up share capital	Subordinated shareholder funding reserve	Cashflow-hedging reserve	Cost-of-hedging reserve	Other reserves	Retained earnings	Total
At beginning of the period	9.8	39.7	(2.7)	(0.1)	10.6	770.7	828.0
Total comprehensive income	-	-	0.1	(0.1)	-	27.9	27.9
Dividend declared	-	-	-	-	-	(26.4)	(26.4)
Transfer between reserves	-	(0.4)	-	-	-	0.4	-
At end of the period	**9.8**	**39.3**	**(2.6)**	**(0.2)**	**10.6**	**772.6**	**829.5**

Three months to 30 September 2019	Called-up share capital	Subordinated shareholder funding reserve	Cashflow-hedging reserve	Cost-of-hedging reserve	Other reserves	Retained earnings	Total
At beginning of the period	9.8	41.0	-	(0.2)	10.8	701.4	762.8
Changes on initial application of IFRS 16	-	-	-	-	-	(1.3)	(1.3)
Restated balances at beginning of period	**9.8**	**41.0**	**-**	**(0.2)**	**10.8**	**700.1**	**761.5**
Total comprehensive income	-	-	(1.3)	-	-	27.1	25.8
Transfer between reserves	-	(0.5)	-	-	-	0.5	-
At end of the period	**9.8**	**40.5**	**(1.3)**	**(0.2)**	**10.8**	**727.7**	**787.3**

Other reserves consist of the following:

	Share premium account	Merger reserve	Capital redemption reserve	Share-based payment reserve	Total
As at 30 September 2020	17.5	(9.6)	1.1	1.6	10.6
As at 30 September 2019	17.5	(9.6)	1.3	1.6	10.8
As at 30 June 2020	17.5	(9.6)	1.1	1.6	10.6

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

Unaudited consolidated statement of cashflows

Three months ended 30 September 2020

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

	Note	Three months ended 30 September 2020	30 September 2019
Cash flows from operating activities			
Profit after tax		27.9	27.1
Adjustment for non-cash items included in profit after tax	18	(42.4)	(44.8)
Changes in operating assets and liabilities	18	147.3	(198.3)
Interest income		95.3	92.5
Income tax paid		(2.7)	(10.5)
Net cash inflow/(outflow) from operating activities		**225.4**	**(134.0)**
Cash flows from investing activities			
Cash paid on purchase of property, plant and equipment		-	(0.2)
Investment in intangible assets		(0.6)	(1.1)
Proceeds on disposal of property, plant and equipment		0.1	-
Net cash outflow from investing activities		**(0.5)**	**(1.3)**
Cash flows from financing activities			
Drawdown of loan notes		-	137.5
Repayment of loan notes		(487.4)	-
Proceeds from issuance of loan notes		360.5	-
Net cash outflows from bank facilities		(10.0)	-
Interest paid		(39.0)	(30.3)
Purchase and cancellation of derivatives		(0.6)	-
Payment of lease liabilities		(0.4)	(0.5)
Net cash inflow/(outflow) from financing activities		**(176.9)**	**106.7**
Net increase/(decrease) in cash and cash equivalents		48.0	(28.6)
Cash and cash equivalents at beginning of period		252.5	120.2
Cash and cash equivalents at end of period		**300.5**	**91.6**

At 30 September 2020 cash and cash equivalents included £152.6m (30 September 2019: £74.7m) of restricted cash (see Note 7).

Unaudited notes to the financial statements

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

1. Reporting entity and general information

Together Financial Services Limited (the Company) is incorporated and domiciled in the UK. The Company is a private company, limited by shares and registered in England (company number: 02939389). The registered address of the Company is Lake View, Lakeside, Cheadle, Cheshire, SK8 3GW. The unaudited interim consolidated condensed financial statements comprise Together Financial Services Limited and its subsidiaries (the Group). The Group is primarily involved in financial services.

2. Significant accounting policies

Basis of preparation

The unaudited interim consolidated condensed 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 2020 which were prepared in accordance with IFRS as adopted by the EU.

The information within this interim report relating to the year ended 30 June 2020 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.

Presentation of risk disclosures

Disclosures under IFRS 7 *Financial Instruments: Disclosures* concerning the nature and extent of principal risks have been presented within the interim management report. Unless otherwise indicated, these disclosures are 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 Group closely monitors and manages its liquidity, funding and capital position and compliance with financial covenants and produces regular forecasts and scenarios.

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

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

The risk of lower levels of cash inflows from redemptions can be mitigated by increasing the amount of liquidity resources held as cash. A key management action to improve cashflow is the ability to control levels of new lending which, in combination with other management actions, has increased total cash balances to £300.5m at 30 September 2020 (30 September 2019: £91.6m, 30 June 2020: £252.5m), of which £147.9m is unrestricted cash (30 September 2019: £16.9m, 30 June 2020: £112.9m) as shown in Note 7.

2. Significant accounting policies (continued)

Going concern (continued)

Alongside the shareholder funding and retained profit which has primarily been reinvested back into the business, the Group is reliant on the wholesale-funding markets, including a combination of public securitisations, private revolving securitisations, senior secured notes and a revolving credit facility (RCF).

A key risk associated with wholesale funding is refinancing risk, where the Group has a proven track-record of successfully refinancing borrowings. The coronavirus outbreak has had an impact on the capital markets and the availability and/or pricing of wholesale funding. The depth of maturity in the Group's existing debt facilities provides significant mitigation in respect of refinancing risk with the earliest maturity of wholesale funding being the HABS facility (the amount drawn at the reporting date representing 12% of Group's borrowings) in June 2022 and the earliest call date for the public securitisations is TABS1 (representing 3% of Group's borrowings) in September 2021. Further detail is set out in Note 14.

In addition the Group has demonstrated an ability to access the wholesale markets in current market conditions. In July 2020, the Group successfully issued the latest and largest issuance in its residential mortgage-backed securitisation (RMBS) programme, Together Asset Backed Securitisation 2020 - 1 PLC (TABS 4) raising £361m. In September 2020, the maturity date on the undrawn £71.9m RCF facility was extended from June 2021 to June 2023.

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

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

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

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

2. Significant accounting policies (continued)

Cash and cash equivalents

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

3. Critical accounting judgements and key sources of estimation uncertainty

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

Critical judgements in applying the Group's accounting policies

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

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

Further detail on the judgements in respect of the measurement of ECL and sensitivities thereon is set out in Note 9 to the accounts.

There is considerable judgement required to estimate provisions and to provide useful information concerning the nature of the uncertainty contained within these estimates, including the disclosure of a range of possible impacts. There is also judgement required in determining whether contingent liability disclosures are required. Further disclosures in respect of these can be found in Notes 15 and 21.

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

There have been no other significant changes to other critical judgements disclosed in the Group's annual report and accounts for the year ended 30 June 2020.

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

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

Key sources of estimation uncertainty

As a result of the Covid-19 pandemic the Group has used significantly-changed macroeconomic forecasts, and these forecasts and the other assumptions and estimates necessary for the calculation of ECL contain a greater level of uncertainty than in previous periods due to the increased level of uncertainty in the economic outlook. Further detail on these estimates and assumptions and the sensitivities thereon is set out in Note 9.

The calculation of the Group's provisions contain significant estimation uncertainty. Further disclosures in respect of this can be found in Note 15.

c)

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

There have been no other significant changes to estimation uncertainties disclosed in the Group's annual report and accounts for the year ended 30 June 2020.

4. Interest payable and similar charges

	Three months ended	
	30 September 2020	**30 September 2019**
On borrowings	29.2	31.7
On lease liabilities	0.1	0.1
On derivatives in a qualifying hedging relationship	0.8	-
	30.1	**31.8**

5. Other income

	Three months ended	
	30 Septermber 2020	**30 September 2019**
Other income	1.2	-
	1.2	**-**

Other income includes grant income received from the government in respect of employees who were furloughed under the Coronavirus Job Retention Scheme.

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

6. Income tax

	Three months ended 30 September 2020	30 September 2019
Current tax		
Corporation tax	4.5	4.4
	4.5	**4.4**
Deferred tax		
Origination and reversal of temporary differences	-	-
Total deferred tax	**-**	**-**
Total tax on profit	**4.5**	**4.4**

Corporation tax is calculated at 19.00% (30 September 2019: 18.50%) of the estimated 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 30 September 2020	30 September 2019
Profit before tax	32.4	31.5
Tax on profit at standard UK corporation tax rate of 19.00% (September 2019: 18.50%)	6.2	5.8
Effects of:		
Expenses not deductible for tax purposes	-	0.1
Income not taxable	-	(0.1)
Group relief*	(1.7)	(1.4)
Tax charge for period	**4.5**	**4.4**

*The group referred to is a tax group headed by Redhill Famco Limited, the ultimate parent company of Together Financial Services Limited.

In March 2020, the government announced that the main rate of corporation tax will remain at 19%, rather than reducing to 17% from 1 April 2020.

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

7. Cash and cash equivalents

	30 September 2020	30 September 2019	30 June 2020
Unrestricted cash	147.9	16.9	112.9
Restricted cash	152.6	74.7	139.6
	300.5	**91.6**	**252.5**

Restricted cash is ring fenced and held in securitisation vehicles for use in managing the Group's securitisation facilities under terms of the agreements. Within restricted cash £67.2m (30 September 2019: £9.2m, 30 June 2020: £62.0m) represents amounts that can be accessed by the Group, for example by allocating additional eligible assets into the private securitisations, but which are not considered readily available. The balance of restricted cash is not readily available and represents amounts which are held within the securitisations for other purposes and may be accessible in future, such as cash reserves or amounts paid over as deferred consideration.

8. Derivatives held for risk management

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

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

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

- Repayment of the notes faster than the decline in the notional amount of the derivative
- For interest-rate swaps, the inclusion of a transaction cost in the fixed-rate leg
- Changes in the credit risk of either party
- Differences in the expected maturity of the hedged item and the hedging instrument

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

	30 September 2020		30 September 2019		30 June 2020	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest-rate swaps and floors	-	(2.4)	-	(1.6)	-	(2.9)
Interest-rate caps	-	-	-	-	-	-
Derivatives designated in cashflow hedges	**-**	**(2.4)**	**-**	**(1.6)**	**-**	**(2.9)**

All derivatives mature in under five years. The average fixed interest rate on swaps is 0.39%. The average strike rate on caps is 2.5%.

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

8. Derivatives held for risk management (continued)

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

	30 September 2020		
	Carrying amount of liabilities	Changes in fair value for calculating hedge ineffectiveness	Cashflow-hedging reserve
Hedged by interest-rate swaps and floors			
Borrowings	318.5	(0.2)	(0.2)
Discontinued hedges	-	-	(2.4)
	318.5	**(0.2)**	**(2.6)**
Hedged by interest-rate caps			
Borrowings	225.0	-	-

	30 September 2019		
	Carrying amount of liabilities	Changes in fair value for calculating hedge ineffectiveness	Cashflow-hedging reserve
Hedged by interest-rate swaps			
Borrowings	228.7	(1.3)	(1.3)
Hedged by interest-rate caps			
Borrowings	98.1	(0.1)	-

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

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

8. Derivatives held for risk management (continued)

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

		Carrying amounts		Changes in fair value				
	Notional amount	Derivative assets	Derivative liabilities	For calculating hedge ineffective-ness	Recognised through other comprehensive income	Outside the hedging relationship recognised directly in net fair value losses on derivatives	Hedge ineffective-ness recognised in other net losses	Reclassified from cashflow-hedging reserve to interest payable
Three months ended 30 September 2020								
Interest-rate swaps and floors								
Borrowings	318.5	-	(2.4)	0.1	0.1	0.1	-	-
Discontinued hedges	-	-	-	-	-	-	-	0.1
	318.5	**-**	**(2.4)**	**0.1**	**0.1**	**0.1**	**-**	**0.1**
Interest-rate caps	225.0	-	-	-	-	-	-	-
Three months ended 30 September 2019								
Interest-rate swaps	228.7	-	(1.6)	(1.3)	(1.3)	(0.3)	-	-
Interest-rate caps	98.1	-	-	(0.1)	-	-	-	-
Year ended 30 June 2020								
Interest-rate swaps								
Borrowings	244.9	-	(2.9)	(0.2)	(0.2)	0.1	-	-
Discontinued hedges	-	-	-	-	(2.5)	(0.6)	-	0.1
	244.9	-	(2.9)	(0.2)	(2.7)	(0.5)	-	0.1
Interest-rate caps	229.5	-	-	-	-	-	-	-

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

9. Loans and advances to customers

	30 September 2020			
	Stage 1	**Stage 2**	**Stage 3 and POCI**	**Total**
Gross loans and advances	2,544.4	1,029.3	555.1	4,128.8
Loss allowance	(7.8)	(32.7)	(87.5)	(128.0)
	2,536.6	**996.6**	**467.6**	**4,000.8**

	30 September 2019			
	Stage 1	**Stage 2**	**Stage 3 and POCI**	**Total**
Gross loans and advances	3,190.8	399.5	356.6	3,946.9
Loss allowance	(10.7)	(8.9)	(48.9)	(68.5)
	3,180.1	**390.6**	**307.7**	**3,878.4**

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

Loans and advances to customers include total gross amounts of £6.8m (30 September 2019: £9.8m; 30 June 2020: £9.7m), equivalent to £2.9m net of allowances (30 September 2019: £6.9m; 30 June 2020: £5.5m) loaned to August Blake Developments Limited, Sunnywood Estates Limited and Edgworth Developments Limited, companies in which HN Moser is a director and shareholder. Further details of these loans are given in Note 19.

Group gross balances of credit impaired loans include £9.0m (2019: £nil) of purchased or originated credit impaired (POCI) loans, which are presented net of lifetime ECL impairment provisions of £1.2m (2019: £nil).

Measurement of expected credit losses (ECL)

ECL model

The Group's general approach to the measurement of expected credit losses (ECL) and forbearance is unchanged from the annual report and accounts for the year ended 30 June 2020.

Incorporation of forward-looking information

The Group uses forward-looking information in its measurement of ECL and in identifying significant increases in credit risk (discussed in the next section). The Group's statistical analysis of historical data has confirmed that the key economic variables that drive credit risk, and the ECL for the Group's financial instruments, are unemployment, Bank Rate, economic activity as measured by GDP, and changes in house prices. The Group has developed a range of future economic scenarios of these variables, drawing on external forecasts where appropriate, but the uncertainty over the current macroeconomic forecasts is much higher than prior to the outbreak of Covid-19. The unprecedented nature of the current recession leads to high levels of uncertainty in forecasting the timing and speed of an eventual recovery.

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

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

9. Loans and advances to customers (continued)

Incorporation of forward-looking information (continued)

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

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

Annual GDP change (annual %)*		Weighting	Dec 2020	Mar 2021	Jun 2021	Sep 2021	Sep 2022	Sep 2023	Sep 2024
Upside		10%	(9.2)	(8.3)	5.2	11.5	5.4	1.6	1.7
Mild Upside		10%	(9.5)	(9.0)	3.3	8.6	5.3	2.0	1.7
Base		50%	(10.0)	(10.5)	0.4	4.4	5.9	2.4	1.8
Stagnation		10%	(10.5)	(11.9)	(2.0)	1.0	4.6	2.5	1.9
Downside		10%	(10.9)	(13.1)	(4.2)	(1.9)	5.6	2.5	2.0
Severe downside		10%	(11.5)	(14.7)	(7.5)	(6.5)	6.8	2.8	2.0
Weighted average			(10.2)	(11.0)	(0.3)	3.5	5.7	2.3	1.8
Annual quarterly GDP change (%)**	**Future quarter when GDP returns to Dec-19 levels**	**Weighting**	**Dec 2020**	**Mar 2021**	**Jun 2021**	**Sep 2021**	**Sep 2022**	**Sep 2023**	**Sep 2024**
Upside	Jun-21	10%	(3.8)	1.8	32.2	15.8	1.9	1.7	1.6
Mild Upside	Sep-21	10%	(5.1)	0.3	27.5	11.7	3.2	1.8	1.7
Base	Mar-22	50%	(7.2)	(3.9)	22.2	6.4	5.1	1.9	1.7
Stagnation	Jun-24	10%	(9.3)	(7.1)	17.9	2.5	4.3	2.0	1.8
Downside	Jun-25	10%	(10.8)	(10.3)	13.8	(0.2)	5.1	2.1	1.9
Severe downside	Sep-27	10%	(13.0)	(14.8)	7.1	(5.2)	7.0	2.2	1.9
Weighted average			(7.8)	(5.0)	21.0	5.7	4.7	1.9	1.8
Bank rate	**Future quarter which anticipates the first rate rise**	**Weighting**	**Dec 2020**	**Mar 2021**	**Jun 2021**	**Sep 2021**	**Sep 2022**	**Sep 2023**	**Sep 2024**
Upside	Dec-20	10%	0.2	0.4	0.6	0.9	1.8	1.9	2.0
Mild Upside	Dec-20	10%	0.2	0.3	0.4	0.6	1.3	1.3	1.5
Base	Sep-24	50%	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Stagnation	Sep-24	10%	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Downside	Sep-25	10%	0.1	(0.1)	(0.3)	(0.3)	(0.3)	(0.3)	0.0
Severe downside	Jun-29	10%	0.1	(0.1)	(0.4)	(0.5)	(0.5)	(0.5)	(0.3)
Weighted average			0.1	0.1	0.1	0.1	0.3	0.3	0.4
Unemployment rate	**% peak**	**Weighting**	**Dec 2020**	**Mar 2021**	**Jun 2021**	**Sep 2021**	**Sep 2022**	**Sep 2023**	**Sep 2024**
Upside	5.3%	10%	5.0	5.3	5.0	4.9	4.6	4.3	4.0
Mild Upside	6.0%	10%	5.4	6.0	5.8	5.6	5.1	4.6	4.3
Base	8.5%	50%	7.5	8.5	8.0	7.8	7.0	5.8	5.0
Stagnation	10.0%	10%	7.7	10.0	8.9	8.6	7.6	7.3	7.1
Downside	11.0%	10%	9.3	11.0	10.1	9.9	9.0	8.5	8.4
Severe downside	12.0%	10%	10.2	12.0	10.5	10.3	9.4	9.1	8.9
Weighted average			7.5	8.7	8.0	7.8	7.1	6.3	5.8
Annual change in house-price index (%)	**Start to trough % change**	**Weighting**	**Dec 2020**	**Mar 2021**	**Jun 2021**	**Sep 2021**	**Sep 2022**	**Sep 2023**	**Sep 2024**
Upside	0.9%	10%	3.6	1.9	1.6	1.0	5.2	12.6	5.2
Mild Upside	(2.8%)	10%	2.0	(0.1)	(1.0)	(2.3)	2.8	9.9	5.4
Base	(7.3%)	50%	(0.3)	(3.1)	(4.7)	(6.4)	(0.2)	4.4	5.6
Stagnation	(18.4%)	10%	(2.6)	(6.4)	(9.4)	(12.6)	(6.4)	0.0	6.0
Downside	(25.0%)	10%	(3.7)	(7.9)	(11.4)	(15.2)	(9.1)	(2.8)	6.2
Severe downside	(36.5%)	10%	(5.4)	(10.4)	(14.8)	(19.5)	(14.0)	(8.3)	6.7
Weighted average			(0.8)	(3.8)	(5.8)	(8.1)	(2.3)	3.4	5.8

*Annual GDP growth represents the average annual change in GDP up to the date shown.
**Annual quarterly GDP change represents the change in quarterly GDP compared with the corresponding quarter in the previous year.

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

9. Loans and advances to customers (continued)

Incorporation of forward-looking information (continued)

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

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

The most significant assumptions used for the ECL estimate as at 30 September 2019 were in the following ranges for the next ten years:

At 30 September 2019	**Minimum**	**Average**	**Maximum**
Annual GDP growth (%)	(1.7)	1.5	3.8
Bank Rate (%)	0.00	1.50	2.75
Unemployment rate (%)	3.2	4.2	6.3
Annual change in house-price index (%)	(9.2)	2.6	10.7

Further detail on the approach taken to incorporate forward-looking information into the estimation of ECL is provided in the Group's annual report and accounts for the year ended 30 June 2020.

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

9. Loans and advances to customers (continued)

Incorporation of forward-looking information (continued)

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

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

*Annual GDP growth represents the average annual change in GDP up to the date shown.
**Annual quarterly GDP change represents the change in quarterly GDP compared with the corresponding quarter in the previous year.

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

9. Loans and advances to customers (continued)

Contract modifications, forbearance and significant increases in credit risk

As at 30 September 2020, 6.7% of the Group's customers by value remained on mortgage-payment deferrals as a result of Covid-19. Details of these are as follows:

Stage allocation	No. of accounts	Gross balance	ECL
Stage 1	1,160	129.3	0.3
Stage 2	665	103.4	3.3
Stage 3	298	42.8	2.3
Total	2,123	275.5	5.9

The most up-to-date information relating to customers who have exited the mortgage-payment deferrals scheme is detailed in Note 22.

Within the critical accounting judgements section of this note, a sensitivity has been provided to show the impact on ECL of measuring all Stage 1 loans which are in a mortgage-payment deferrals using a lifetime ECL instead of a 12 month ECL.

Further detail on contract modifications, forbearance and significant increases in credit risk is provided in the Group's annual report and accounts for the year ended 30 June 2020.

Loss allowance

The following tables analyse the movement of the loss allowance during the periods ended 30 September 2020 and 30 September 2019.

	Three months ended 30 September 2020			
Loss allowance	**Stage 1**	**Stage 2**	**Stage 3 and POCI**	**Total**
Balance at beginning of period	(12.4)	(21.0)	(85.4)	(118.8)
Transfer to a 12-month ECL	(0.7)	1.6	-	0.9
Transfer to a lifetime ECL not credit impaired	3.1	(9.9)	3.8	(3.0)
Transfer to a lifetime ECL credit impaired	0.1	4.9	(7.7)	(2.7)
Other changes in credit risk during the period	0.3	(4.5)	(3.1)	(7.3)
Impairment of interest income on stage 3 loans	-	-	(3.1)	(3.1)
New financial assets originated	(0.6)	(0.3)	-	(0.9)
Financial assets derecognised	1.1	1.4	3.5	6.0
Changes in models and risk parameters	1.3	(4.9)	(2.2)	(5.8)
Impairment losses for the period charged to income statement	**4.6**	**(11.7)**	**(8.8)**	**(15.9)**
Unwind of discount	-	-	3.1	3.1
Write-offs net of recoveries	-	-	0.3	0.3
Changes on refinancing of impaired loans	-	-	3.3	3.3
Balance at end of period	**(7.8)**	**(32.7)**	**(87.5)**	**(128.0)**

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

9. Loans and advances to customers (continued)

Loss allowance (continued)

Loss allowance	Three months ended 30 September 2019			
	Stage 1	Stage 2	Stage 3 and POCI	Total
Balance at beginning of period	**(11.2)**	**(9.6)**	**(46.2)**	**(67.0)**
Transfer to a 12-month ECL	-	0.1	-	0.1
Transfer to a lifetime ECL not credit impaired	1.0	(2.2)	0.3	(0.9)
Transfer to a lifetime ECL credit impaired	0.5	3.0	(6.4)	(2.9)
Other changes in credit risk during the period	(2.1)	(1.5)	1.1	(2.5)
Impairment of interest income on stage 3 loans	-	-	(3.2)	(3.2)
New financial assets originated	(1.3)	-	-	(1.3)
Financial assets derecognised	1.8	1.0	2.3	5.1
Changes in models and risk parameters	0.6	0.3	(0.2)	0.7
Impairment losses for the period charged to income statement	**0.5**	**0.7**	**(6.1)**	**(4.9)**
Unwind of discount	-	-	3.2	3.2
Write-offs net of recoveries	-	-	0.2	0.2
Balance at end of period	**(10.7)**	**(8.9)**	**(48.9)**	**(68.5)**

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

The loss allowance has increased by £9.2m from £118.8m at 30 June 2020 to £128.0m (30 September 2019: £68.5m).

One of the key increases in the allowance for the period was the increased charge of £5.8m resulting from changes in models and risk parameters (30 September 2019: £0.7m release). The driver of this increase was a change to the macroeconomic outlook and other forward-looking assumptions.

The impact of loans transferring between stages has increased ECL by £4.8m during the period (30 September 2019: £3.7m) and other changes in credit risk have increased ECL by £7.3m (30 September 2019: £2.5m). There are a number of drivers of the combined increase of £12.1m observed in these line items, the principal ones being:

- £4.8m due to changes in qualitative criteria to assess whether a loan has experienced a significant increase in credit risk. The criteria have been expanded to include: customers who are not in arrears, but may have suffered a certain level of income shock based on credit bureau data, and; loans which are not in arrears or otherwise exhibiting signs of an increase in credit risk but are secured on certain property types which may be most affected by social restrictions such as certain hospitality and retail-purpose properties.
- £3.5m due to increases in arrears levels. These and other qualitative and quantitative factors are used to assess the allocated stages of loans and can therefore result in the recognition of allowances based on lifetime losses on loans which were previously measured using a 12-month loss. Arrears levels also affect the probability of default assigned to loans; and
- £3.0m due to changes in the assessment of the likely recovery outcome for loans, based either on the likelihood of repossession or on changes in estimated amounts to be recovered. This includes the effect of changes in the estimated collateral values for loans.

The impairment of interest income recognised on stage 3 loans of £3.1m (30 September 2019: £3.2m) was offset by the unwinding of discounting on expected cashflows of the same amount. New originations increased ECL by £0.9m (30 September 2019: £1.3m), driven by new lending undertaken during the period and the requirement to measure all loans using a forward-looking ECL. Increases in ECL were offset by releases of £6.0m (30 September 2019: £5.1m) on loans which have redeemed during the period. ECL has reduced by £3.3m (30 September 2019: £nil) due to refinancing of credit impaired assets where the new loans have been classified as POCI. The gross balances of the new POCI assets included £1.0m of ECLs on initial recognition, resulting in a net release of £2.3m.

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 (30 September 2019: £nil).

Unless otherwise indicated, all amounts are stated in £m

9. Loans and advances to customers (continued)

Impairment losses for the period

	Three months ended 30 September 2020	Three months ended 30 September 2019
Movements in impairment allowance, charged to income	15.9	4.9
Amounts released from deferred income	(0.2)	0.1
Write-offs net of recoveries	-	0.5
Gains on derecognition of assets held at amortised cost as a result of refinancing impaired loans	(2.3)	-
	13.4	**5.5**

Movements in gross carrying amounts

The following tables set out changes in the gross carrying amount of financial instruments that contributed to the changes in the loss allowance:

	Three months ended 30 September 2020			
	Stage 1	Stage 2	Stage 3 and POCI	Total
Loans and advances to customers at amortised cost				
Balance at beginning of period	3,061.3	721.2	498.5	4,281.0
Transfer to a 12-month ECL	91.1	(91.4)	0.3	-
Transfer to a lifetime ECL not credit impaired	(528.2)	571.8	(43.6)	-
Transfer to a lifetime ECL credit impaired	(9.8)	(129.3)	139.1	-
New financial assets originated	94.0	13.3	-	107.3
Financial assets derecognised including write-offs	(164.0)	(56.3)	(38.5)	(258.8)
Changes on refinancing of impaired loans	-	-	(0.7)	(0.7)
Balance at end of period	**2,544.4**	**1,029.3**	**555.1**	**4,128.8**

	Three months ended 30 September 2019			
	Stage 1	Stage 2	Stage 3 and POCI	Total
Loans and advances to customers at amortised cost				
Balance at beginning of period	3,025.3	419.5	316.7	3,761.5
Transfer to a 12-month ECL	14.0	(14.0)	-	-
Transfer to a lifetime ECL not credit impaired	(78.2)	90.4	(12.2)	-
Transfer to a lifetime ECL credit impaired	(11.9)	(72.7)	84.6	-
New financial assets originated	495.9	6.3	-	502.2
Financial assets derecognised including write-offs	(254.3)	(30.0)	(32.5)	(316.8)
Balance at end of period	**3,190.8**	**399.5**	**356.6**	**3,946.9**

Unless otherwise indicated, all amounts are stated in £m

9. Loans and advances to customers (continued)

Critical accounting estimates

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

Macroeconomic scenarios

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

	September 2020		**September 2019**		**June 2020**	
Scenarios	**Probability of the scenario**	**Unweighted ECL**	**Probability of the scenario**	**Unweighted ECL**	**Probability of the scenario**	**Unweighted ECL**
Upside	10%	60.1	-	-	10%	57.2
Mild upside	10%	68.6	30%	37.4	10%	66.3
Base case	50%	93.9	40%	42.1	50%	88.0
Stagnation	10%	165.0	-	-	10%	150.2
Downside	10%	211.5	30%	134.8	10%	192.7
Severe downside	10%	304.9	-	-	10%	281.5
Weighted average		**128.0**		**68.5**		**118.8**

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

Loss given default (LGD)

The LGD model uses current security values and forecast HPI assumptions to project property values for each of the economic scenarios. An immediate and sustained 10% reduction in forecast house prices (ie a 10% haircut applied to the index in each forecast future period), applied in each scenario, would result in an increase in the impairment allowance of £22.8m at 30 September 2020 (30 June 2020: £23.7m); conversely, a 10% increase would result in a decrease in the impairment allowance of £17.3m at 30 September 2020 (30 June 2020: £17.9m).

Probability of default (PD) and probability of repossession given default (PPGD)

A 10% relative worsening of both PDs and PPGDs simultaneously (eg a 1.0% PD increasing to 1.1%) would increase the total impairment allowance by £6.4m at 30 September 2020 (30 June 2020: £7.2m). A 10% relative improvement of both PDs and PPGDs simultaneously (eg a 1.0% PD decreasing to 0.9%) would result in a decrease in the impairment allowance by £6.4m at 30 September 2020 (30 June 2020: £7.0m).

Critical accounting judgements

Key areas of judgement in the ECL models include judgements about which loans have been subject to a significant increase in credit risk since initial recognition and therefore should be classified as Stage 2, with a resultant loss allowance based on a lifetime rather than a 12-month ECL. The sensitivities below were performed by recalculating the impairment allowance by changing only those items stated, and with all other variables unchanged.

Sensitivities	**September 2020**	**June 2020**
Measure all loans in Stage 1 using a lifetime ECL – increase in allowance	13.6	14.5

Sensitivities	**September 2020**	**June 2020**
Measure all loans which are in a Covid-19 mortgage-payment deferrals, currently in Stage 1, using a lifetime ECL not credit impaired (Stage 2) – increase in allowance	0.7	2.5
Measure all loans which are in a Covid-19 mortgage-payment deferrals, currently in Stage 2, using a lifetime ECL credit impaired (Stage 3) – increase in allowance	1.2	2.5

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

10. Other assets

	30 September 2020	30 September 2019	30 June 2020
Amounts owed by related parties	0.5	0.7	1.0
Other debtors	1.6	0.8	1.4
Prepayments and accrued income	2.3	3.4	3.9
	4.4	**4.9**	**6.3**

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 (30 September 2019: £0.3m; 30 June 2020: £0.2m) in relation to a director's loan. The loan is interest free and repayable on demand.

11. Property, plant and equipment

Three months ended 30 September 2020	**Fixtures, fittings and equipment**	**Motor vehicles**	**Right-of-use assets – leasehold property**	**Total**
Cost				
At beginning of period	8.3	1.9	16.0	26.2
Additions	-	-	1.2	1.2
Disposals	(0.7)	(0.2)	-	(0.9)
At end of period	**7.6**	**1.7**	**17.2**	**26.5**
Depreciation				
At beginning of period	4.7	0.8	6.8	12.3
Charge for the period	0.3	0.1	0.2	0.6
Disposals	(0.7)	(0.1)	-	(0.8)
At end of period	**4.3**	**0.8**	**7.0**	**12.1**
Net book value				
At end of period	**3.3**	**0.9**	**10.2**	**14.4**
At beginning of period	3.6	1.1	9.2	13.9

Three months ended 30 September 2019	**Fixtures, fittings and equipment**	**Motor vehicles**	**Right-of-use assets – leasehold property**	**Total**
Cost				
At beginning of period	7.9	1.8	13.7	23.4
Additions	0.2	-	-	0.2
Disposals	(0.1)	-	-	(0.1)
At end of period	**8.0**	**1.8**	**13.7**	**23.5**
Depreciation				
At beginning of period	3.5	0.8	5.1	9.4
Charge for the period	0.4	-	0.2	0.6
Disposals	(0.1)	-	-	(0.1)
At end of period	**3.8**	**0.8**	**5.3**	**9.9**
Net book value				
At end of period	**4.2**	**1.0**	**8.4**	**13.6**
At beginning of period	**4.4**	**1.0**	**8.6**	**14.0**

Unless otherwise indicated, all amounts are stated in £m

11. Property, plant and equipment (continued)

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

12. Intangible assets

Computer software	Three months ended 30 September 2020	Three months ended 30 September 2019	Year ended 30 June 2020
Cost			
At beginning of period	18.0	14.5	14.5
Additions	0.7	1.1	3.5
At end of period	**18.7**	**15.6**	**18.0**
Amortisation			
At beginning of period	9.9	5.7	5.7
Charge for the period	0.8	0.8	4.2
At end of period	**10.7**	**6.5**	**9.9**
Net book value			
At end of period	**8.0**	**9.1**	**8.1**
At beginning of period	8.1	8.8	8.8

13. Deferred tax asset

	Three months ended 30 September 2020	Three months ended 30 September 2019	Year ended 30 June 2020
At beginning of period	7.6	7.5	7.5
IFRS 16 adjustment	-	0.3	0.3
Charge to income statement	-	-	(1.1)
Effect of changes in tax rates	-	-	0.9
At end of period	**7.6**	**7.8**	**7.6**

The deferred tax asset consisted of the following:

	30 September 2020	30 September 2019	30 June 2020
Accelerated capital allowances	(0.9)	(1.0)	(0.8)
Short-term timing differences	8.5	8.8	8.4
	7.6	**7.8**	**7.6**

14. Borrowings

	30 September 2020	30 September 2019	30 June 2020
Bank facilities	-	55.0	10.0
Loan notes	2,602.9	2,359.0	2,729.8
Subordinated shareholder loans	28.8	27.6	28.4
Senior secured notes	785.9	726.6	786.1
Lease liabilities	12.4	10.5	11.5
	3,430.0	**3,178.7**	**3,565.8**
Debt issue costs	(16.0)	(13.9)	(15.7)
	3,414.0	**3,164.8**	**3,550.1**
Of which:			
Due for settlement within 12 months	118.6	72.4	93.6
Due for settlement after 12 months	3,295.4	3,092.4	3,456.5
	3,414.0	**3,164.8**	**3,550.1**

Loan notes consist of the following facilities:

	Established	Facility type	Facility size (£m)	Expiry
Charles Street ABS	2007	Revolving	1,255.0	Sept 2023
Delta ABS 2	2019	Revolving	200.0	Mar 2023
Highfield ABS	2018	Revolving	525.0	Jun 2022
Lakeside ABS	2015	Revolving	500.0	Oct 2023
Together ABS 1	2017	Amortising	116.4	Sept 2021
Together ABS 2	2018	Amortising	171.3	Nov 2022
Together ABS 3	2019	Amortising	282.2	Sept 2023
Together ABS 4	2020	Amortising	353.5	Jun 2024

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

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

Unless otherwise indicated, all amounts are stated in £m

14. Borrowings (continued)

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

Subordinated shareholder loans were originally issued on 2 November 2016. The subordinated shareholder loans are interest-free loans totalling £68.1m, which comprised £25.1m due in 2026 (previously 2024) and £43.0m due in 2036. The difference between the total nominal value of £68.1m and the initial fair values on origination or extension of £21.2m represents a non-distributable capital contribution of £46.9m, £7.6m of which has amortised by 30 September 2020 (30 September 2019: £5.6m; 30 June 2020: £7.2m). The remainder of the reserve will be released over the life of the instruments.

The Group has senior secured notes in issue of £350m and £435m, which are due to mature by 2024 and 2026 respectively.

Refer to Note 20 for more details in relation to the lease liabilities.

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.

Borrowings have the following maturities:

As at 30 September 2020	**<1 year**	**1-2 years**	**2-5 years**	**>5 years**	**Total**
Bank facilities	-	-	-	-	-
Loan notes	118.0	588.5	1,896.4	-	2,602.9
Subordinated shareholder loans	-	-	-	28.8	28.8
Senior secured notes	-	-	350.9	435.0	785.9
Lease liabilities	1.4	1.3	3.2	6.5	12.4
	119.4	**589.8**	**2,250.5**	**470.3**	**3,430.0**
Debt issue costs	(0.8)	(1.9)	(10.0)	(3.3)	(16.0)
	118.6	**587.9**	**2,240.5**	**467.0**	**3,414.0**

As at 30 September 2019	**<1 year**	**1-2 years**	**2-5 years**	**>5 years**	**Total**
Bank facilities	-	55.0	-	-	55.0
Loan notes	71.9	348.9	1,938.2	-	2,359.0
Subordinated shareholder loans	-	-	-	27.6	27.6
Senior secured notes	-	375.0	351.6	-	726.6
Lease liabilities	1.2	1.0	2.7	5.6	10.5
	73.1	**779.9**	**2,292.5**	**33.2**	**3,178.7**
Debt issue costs	(0.7)	(3.0)	(10.2)	-	(13.9)
	72.4	**776.9**	**2,282.3**	**33.2**	**3,164.8**

As at 30 June 2020	**<1 year**	**1-2 years**	**2-5 years**	**>5 years**	**Total**
Bank facilities	10.0	-	-	-	10.0
Loan notes	82.8	565.9	2,081.1	-	2,729.8
Subordinated shareholder loans	-	-	-	28.4	28.4
Senior secured notes	-	-	351.1	435.0	786.1
Lease liabilities	1.4	1.2	3.3	5.6	11.5
	94.2	**567.1**	**2,435.5**	**469.0**	**3,565.8**
Debt issue costs	(0.6)	(2.1)	(13.0)	-	(15.7)
	93.6	**565.0**	**2,422.5**	**469.0**	**3,550.1**

Unless otherwise indicated, all amounts are stated in £m

15. Provisions

	Customer provisions	Other provisions	Total
Balance at beginning of period	20.9	1.4	22.3
Charge/(release) for the period	(0.1)	1.2	1.1
Provisions utilised	(1.5)	(0.1)	(1.6)
Balance at end of period	**19.3**	**2.5**	**21.8**

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

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

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

Within customer provisions, a provision of £14.8m for forbearance and customer-communication remediation has been estimated at the reporting date. Depending on the outcome of further testing and the selection of certain judgements and assumptions, the total financial impact is estimated to be within the range of £9.0m to £17.0m. In addition, a further £1.2m provision has been estimated for administrative expenses relating to the remediation. The total charge to the income statement during the period in respect of these matters is £nil, however £0.8m has been utilised during the period.

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

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

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

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

Unless otherwise indicated, all amounts are stated in £m

16. Other liabilities

	30 September 2020	30 September 2019	30 June 2020
Dividends payable to parent company, Midco2 Limited	26.4	-	-
Trade creditors	0.6	1.4	1.1
Other creditors	1.5	2.2	1.5
Other taxation and social security	0.7	0.7	0.7
Accruals and deferred income	40.9	36.9	47.9
	70.1	**40.9**	**51.2**

17. 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 liabilities held for risk management	Level 1	Level 2	Level 3	Fair value	Carrying value
30 September 2020					
Interest-rate risk	-	(2.4)	-	**(2.4)**	**(2.4)**
30 September 2019					
Interest-rate risk	-	(1.6)	-	**(1.6)**	**(1.6)**
30 June 2020					
Interest-rate risk	-	(2.9)	-	**(2.9)**	**(2.9)**

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

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.

Unless otherwise indicated, all amounts are stated in £m

17. Financial instruments and fair values (continued)

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

30 September 2020	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets					
Loans and advances to customers	-	-	3,937.9	**3,937.9**	**4,000.8**
Financial liabilities					
Borrowings	717.5	923.3	1,717.7	**3,358.5**	**3,414.0**

30 September 2019	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets					
Loans and advances to customers	-	-	3,944.1	**3,944.1**	**3,878.4**
Financial liabilities					
Borrowings	735.7	2,414.0	41.2	**3,190.9**	**3,164.8**

30 June 2020	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets					
Loans and advances to customers	-	-	4,142.9	**4,142.9**	**4,162.2**
Financial liabilities					
Borrowings	732.5	604.4	2,174.0	**3,510.9**	**3,550.1**

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

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

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

17. Financial instruments and fair values (continued)

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

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

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

18. Notes to the statement of cashflows

	Three months ended	
	30 September 2020	**30 September 2019**
Adjustments for non-cash items in profit after tax:		
Net interest income	(65.2)	(60.7)
Changes in expected credit losses charged to income statement	15.9	4.9
Taxation	4.5	4.4
Provisions for liabilities and charges	1.1	4.9
Depreciation and amortisation	1.4	1.4
Net (gains)/losses on financial instruments	(0.1)	0.3
	(42.4)	**(44.8)**
Changes in operating assets and liabilities		
Decrease/(increase) in loans and advances to customers	145.5	(188.8)
Decrease/(increase) in other assets	1.9	(0.1)
Decrease in other liabilities	(0.1)	(9.4)
	147.3	**(198.3)**

19. 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 HN Moser, a director of Together Financial Services Limited.

Besides the companies owned by Redhill Famco Limited, other entities controlled by HN Moser 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 properties.
Centrestand Limited	The Group collects rents and pays service charges and costs on behalf of Centrestand Limited.
Charles Street Commercial Investments Limited	The Group refers borrowers outside its lending criteria to Charles Street Commercial Investments Limited. The Group performs underwriting, collection and arrears-management activities for these loans. The Group also manages accounts payable on behalf of the company and provides ancillary accounting and treasury services for which it is reimbursed.
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 at 5% per annum, secured on certain assets of these companies. The Group also manages accounts payable on behalf of these entities.

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

b) Parent companies

The Group transacted with the following parent companies owned by HN Moser:

Entity	Nature of transactions
Bracken Midco2 Limited	During 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 14. The difference between the loans' maturity amounts and their fair values represents a capital contribution to the Group which is being amortised over the life of the loan. The Group pays dividends to its parent company Bracken Midco2 Limited.

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 and the risk of the assets funded. The cost of equity funding is not charged. All amounts are repayable on demand.

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

19. Related party transactions (continued)

d) Key management personnel

Key management personnel comprise directors of the Group, including those serving in a similar capacity on an interim basis. There are no transactions with directors other than the director's loan disclosed in Note 10 and remuneration in the ordinary course of business.

Transactions

The amounts receivable from and payable to related parties by the Group are disclosed in Notes 10 & 16. The Group had the following transactions with related parties during the period:

	Three months ended			
	30 September 2020		30 September 2019	
	Charge/ (credit) to income or equity	**Paid**	**Charge/ (credit) to income or equity**	**Paid**
Lease and insurance costs	0.4	-	0.4	0.4
Accounts payable transactions	-	0.2	-	0.2
Impairment of related party loans	0.2	-	0.2	-
Interest on related party loans	(0.1)	-	(0.2)	-
Net provision of treasury funding	-	(0.4)	-	-
Related parties of HN Moser[15]	**0.5**	**(0.2)**	**0.4**	**0.6**
Interest expense	0.4	-	0.5	-
Parent companies	**0.4**	**-**	**0.5**	**-**
Total related parties	**0.9**	**(0.2)**	**0.9**	**0.6**

The Group declared an interim dividend of £26.4m during the period ended 30 September 2020 (period ended 30 September 2019: £nil).

15 Transactions in the prior period were with HN Moser and DL Moser 1995 Family Settlement No1 Trust (together Moser Shareholders).

20. Leases

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

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

The table below sets out the amounts recognised in the income statement in respect of the Group's right-of-use assets and lease liabilities during the three months ended 30 September 2020 and 30 September 2019:

Three months ended 30 September 2020	**Administrative expenses £m**	**Interest expense £m**	**Total £m**
Depreciation expense of right-of-use assets	0.2	-	0.2
Interest expense on lease liabilities	-	0.1	0.1
Total recognised in the income statement	**0.2**	**0.1**	**0.3**

Three months ended 30 September 2019	**Administrative expenses £m**	**Interest expense £m**	**Total £m**
Depreciation expense of right-of-use assets	0.2	-	0.2
Interest expense on lease liabilities	-	0.1	0.1
Total recognised in the income statement	**0.2**	**0.1**	**0.3**

The below table sets out the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the three months ended 30 September 2020 and 30 September 2019.

	Right-of-use assets - leasehold property £m	**Lease liabilities £m**
As at 1 July 2020	9.2	(11.5)
Additions	1.2	(1.2)
Depreciation expense	(0.2)	-
Interest expense on lease liabilities	-	(0.1)
Payments	-	0.5
Disposal of motor vehicles	-	(0.1)
As at 30 September 2020	**10.2**	**(12.4)**

	Right-of-use assets – leasehold property £m	**Lease liabilities £m**
As at 1 July 2019	8.6	(11.0)
Depreciation expense	(0.2)	-
Interest expense on lease liabilities	-	0.0
Payments	-	0.5
As at 30 September 2019	**8.4**	**(10.5)**

The lease liabilities analysis includes hire purchase obligations for motor vehicles. The Group had total cash outflows for leases of £0.5m (30 September 2019: £0.5m) in the three months ended 30 September 2020.

21. Commitments and contingencies

Commitments

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

At 30 September 2020, the Group had undrawn commitments to lend of £75.3m (30 September 2019: £159.2m). These relate mostly to lines of credit granted to existing customers for property development. The ECL on the undrawn elements of existing facilities is included within the total ECL held within net loans and advances to customers. The ECL on new lending commitments is £nil (30 September 2019: £0.1m), and is classified within other liabilities.

The decrease in undrawn commitments to lend compared with 30 September 2019 is driven by a decrease in Personal Finance loan pipeline as at 30 September 2020.

Fixed and floating charges

As at 30 September 2020, the Group's assets were subject to a fixed and floating charge in respect of £785m senior secured notes (30 September 2019: £725m; 30 June 2020: £785m) and £nil in respect of bank borrowings (30 September 2019: £55m; 30 June 2020: £10m).

22. Events after the reporting date

Mortgage-payment deferrals

After the balance sheet date the continuing development of the Covid-19 pandemic has resulted in the Group maintaining its actions to serve its customers and protect colleagues, consistent with the supportive measures announced by the UK government. The Group has offered mortgage-payment deferrals to a number of customers as a result of Covid-19 as disclosed in Note 9. At 5 November 2020, 3% of the Group's loans by value still remained on mortgage-payment deferrals as a result of Covid-19.

Customers may take the option to extend their payment deferral, in line with government guidance, and of the 7,274 loans reaching the end of their initial deferral period and have had a payment fall due, up to 5 November 2020:

- 551 customers were still in a payment deferral period; and
- 6,723 customers had reached the end of their mortgage-payment deferral period and have had a payment fall due;
    - 5,588* customers have made full payments;
    - 691 customers have made partial payments; and
    - 444 customers have not made payments or are past their term.

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

On 31 October 2020, the government announced new national restrictions for England which were implemented from 5 November 2020 and are currently expected to remain in place at least until 2 December 2020. In addition the government announced fiscal support measures, including extensions of the coronavirus job retention scheme and mortgage-payment deferral scheme.

The impact on the macroeconomic outlook of such restrictions and resulting support measures is uncertain. Changes in the macroeconomic outlook will impact upon the calculation of ECL, where disclosure of the macroeconomic scenarios used for estimating ECL is set out in Note 9. In addition within Note 9 disclosure is provided showing the unweighted ECL for each of the scenarios incorporated within the ECL calculation, together with the weighting applied to that scenario. Sensitivities can be derived from this disclosure by applying different combinations of probabilities to the unweighted ECLs and comparing these to the weighted average which is the amount recorded within the statement of financial position.

22. Events after the reporting date (continued)

Mortgage-payment deferrals (continued)

Following the government's latest announcement of new lockdown restrictions, the Group has run additional sensitivities to estimate the impact of a 3% fall in actual GDP for the quarter ending 31 December 2020. This is equivalent to a reduction of 5.3% in the base-case assumption for nominal GDP for the quarter ending 31 December 2020. Applying this 5.3% reduction in GDP to all scenarios would lead to a worsening of PDs in the short term, which would then increase the total impairment allowance by £0.8m at 30 September 2020. This sensitivity was performed by varying the forecast GDP only whilst all other forecast economic indicators and assumptions were left unchanged.

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

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