Together Financial Services Limited
Q2 2019/20 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 December 31, 2019.

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

"Together continued to achieve strong growth in new lending during the quarter, with the loan book reaching a new high of £4.2bn, driving robust increases in underlying profitability and cash generation.

"Average monthly loan originations were up 19.8% on the same quarter last year, while weighted average origination LTVs remained very conservative at 58.0% for new lending and 54.9% across the whole loan book. The Group continued to deliver a strong financial performance, with underlying profit before tax up 17% on Q2 last year at £36.5m and cash receipts up 19.2% at £432.6m.

"We further enhanced our governance with the recent appointments of John Hooper to the Board of our Personal Finance business and Gerald Grimes as Group CEO Designate to add additional breadth and bandwidth of the Executive team and to provide a clear succession plan. We continued to strengthen and diversify our funding during the quarter, completing our third public residential mortgage backed securitisation and upsizing our private revolving Lakeside securitisation to £500m. Earlier this month, we also successfully issued £435m of 4⅞% Senior Secured Notes, upsizing from the initial £385m to meet the significant levels of demand from investors.

"While lead indicators continue to be mixed, a recent pick up in business confidence following the UK general election result and the passing of the EU Withdrawal Agreement Bill by Parliament has led some economists to highlight possible early signs of a recovery in the UK economy. Unemployment is at its lowest level since the mid-1970s, wage growth has accelerated to its highest levels in a decade and the Bank of England's Monetary Policy Committee has recently maintained UK base rates at 0.75%. However, the continued spread of the coronavirus and ongoing tensions between the US and Iran have contributed to financial markets remaining volatile. Despite this macroeconomic uncertainty, we continue to see strong demand from our customers and believe the Group remains well placed to deliver on its growth plans."

- **Strong new lending volumes drive loan book to over £4bn while credit quality maintained**
  - Record average monthly loan originations of £205.8m in the quarter ended December 31, 2019 (Q2'20), up 19.8% compared with £171.7m in quarter ended December 31, 2018 (Q2'19), and up 16.8% from £176.2m in quarter ended 31 September, 2019 (Q1'20)
    - Weighted average LTVs of new originations remained conservative at 58.0% (Q2'19: 58.9%; Q1'20: 58.1%)
  - Loan book reaches new high of £4.2bn, up 28.0% compared with £3.2bn at December 31, 2018 and up 7.2% compared with £3.9bn at September 30, 2019
    - Loan book weighted average indexed LTVs remained very conservative at 54.9% (Q2'19: 55.6%; Q1'20: 55.0%)

- **Loan book growth drives increased profitability and strong cash generation**
  - Interest receivable and similar income of £96.8m up 15.1% compared to £84.1m in Q2'19 and up 4.7% compared with £92.5m in Q1'20, driven by interest earned on the growing loan book
  - Net interest margin remains attractive at 6.3% for the quarter ended December 31, 2019, although lower than 7.1% in Q2'19 and 6.4% at Q1'20, reflecting continued competitive market conditions, redemption of higher yielding back-book loans, higher gearing and product mix changes
  - Annualised cost of risk was 0.47%, consistent with 0.47% in Q2'19 but slightly lower than 0.58% in Q1'20, mainly reflecting the impact of favourable changes in property values and macroeconomic scenarios which reduced the current quarter impairment charge
  - Underlying EBITDA of £71.6m, up 18.3% compared with £60.5m in Q2'19 and up 5.9% compared with £67.6m in Q1'20
  - Underlying PBT up 17.0% to £36.5m compared with £31.2m in Q2'19 and up 5.8% compared with £34.5m in Q1'20, predominantly due to increase in interest receivable and similar income
  - Strong cash generation with cash receipts of £432.6m, up 19.2% compared with £363.0m in Q2'19, although slightly lower than £437.6m in Q1'20 reflecting seasonal factors

Highlights (continued)

- **Continued to enhanced governance model**
  - Gerald Grimes to be appointed Group CEO Designate, effective from April 6, 2020
  - John Hooper joined Personal Finance board as NED
  - SM&CR adopted since December 2019
  - Ernst & Young LLP replaced Deloitte as auditor of the Group supporting rotation and independence

- **Further strengthened and diversified funding structure, extending maturities and improving cost efficiencies**
  - Completed third public residential backed securitisation ("TABS 3") in October, issuing £315m of rated notes against a loan portfolio of £332m, with 79.0% of the notes AAA rated
  - Refinanced Lakeside ABS, increasing facility from £255m to £500m and extending its maturity to November 2023
  - Successfully issued £435m of 4⅞% Senior Secured Notes, due 2026, upsized from £385m due to investor demand. Proceeds used primarily to redeem former 6¼% 2021 notes and to repay amounts drawn under the revolving credit facility
  - S&P revised their outlook from Stable to Positive on Together Financial Services Limited and Bracken Midco1 PLC. Fitch has also upgraded the rating on the senior PIK Toggle notes issued by Midco1 to 'B+' from 'B'.

Key metrics	**December 31, 2019**	**December 31, 2018**	**September 30, 2019**
Interest receivable and similar income* (£m)	96.8	84.1	92.5
Interest cover ratio*	1.8:1	2.1:1	2.0:1
Net interest margin** (%)	6.3	7.1	6.4
Underlying cost-to-income ratio*[1] (%)	35.1	38.0	34.4
Cost of risk** (%)	0.47	0.47	0.58
Underlying profit before taxation[1]* (£m)	36.5	31.2	34.5
Loans and advances to customers (£m)	4,159.2	3,248.4	3,878.4
Net debt gearing (%)	79.5	76.5	78.6
Shareholder funds (£m)[2]	823.2	746.4	814.9
Underlying return on equity[1]** (%)	15.5	14.7	15.0

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

[1] Underlying metrics include adjustments to exclude £11.0m customer provisions in Q2'20 (Q1'20: £3.0m).
[2] Includes subordinated shareholder loans of £28.2m (Q2'19: £26.1m, Q1'20: £27.6).

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 45 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 low loan-to-value ("LTV") lending and offer retail and commercial purpose mortgage loans. Our loans include secured first and second-lien loans, of which, as of December 31, 2019, 65.1% 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 primarily through mortgage intermediaries, our professional network and auction houses, each across the United Kingdom, and through our direct sales team. We underwrite and service all our mortgage loans directly.

As of December 31, 2019, 31.5% of our loan portfolio was classified as retail purpose, 63.1% as commercial purpose (which included 22.2% of buy to let +) and 5.4% 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, including 'chain breaks,' which are loans used by customers to purchase a new home ahead of completing the sale of their existing home. 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.

The LTVs of our loan portfolio on a weighted average indexed basis as of December 31, 2019, was 54.9% and the LTV on a weighted-average basis of new loans underwritten in the quarter ended December 31, 2019 was 58.0%. As of December 31, 2019, 96.9% of the total loan portfolio and 90.6% 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 minimising our levels of credit losses.

[3] See Structure diagram on p.18 for definition of Borrower Group

Presentation of financial and other information

Financial statements

This quarterly report presents the unaudited condensed consolidated financial statements of Together Financial Services Limited as of and for the three months ended December 31, 2019 with comparatives to December 31, 2018. 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.

As at December 31, 2019 the Borrower Group's loan assets were subject to a fixed and floating charge in respect of £725m senior secured notes and £35m in respect of bank borrowings.

The only notable commitments, not recognised within our statement of financial position, are the outstanding pipeline of loan offers and undrawn portions of existing facilities.

During the period, the Group undertook transactions with affiliated companies. Details of these transactions can be found in Note 19 of the unaudited interim condensed consolidated financial statements in this report.

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

Charles Street Conduit Asset Backed Securitisation 1 Limited ("Charles Street ABS"), Lakeside Asset Backed Securitisation 1 Limited ("Lakeside ABS"), Delta Asset Backed Securitisation 1 Limited ("Delta ABS 1"), Together Asset Backed Securitisation 1 PLC ("Together ABS 1"), Highfield Asset Backed Securitisation 1 Limited ("Highfield ABS"), Together Asset Backed Securitisation 2018-1 PLC ("Together ABS 2"), Delta Asset Backed Securitisation 2 Limited ("Delta ABS 2") and Together Asset Backed Securitisation 2019 – 1 PLC ("Together ABS 3"), 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, Delta ABS 1 (in respect of Q2'19), Together ABS 1, Highfield ABS, Together ABS 2, Delta ABS 2 and Together ABS 3 are maintained on the consolidated statement of financial position as assets, within loans and advances to customers and the associated interest receivable credited to the consolidated income statement. The loan notes issued by Charles Street ABS, Lakeside ABS, Delta ABS 1 (in respect of Q2'19), Together ABS 1, Highfield ABS, Together ABS 2, Delta ABS 2 and Together ABS 3 to certain lenders, to finance the purchase of the loans and any interest and fees accrued on the loan notes but not yet paid in respect thereof, are maintained on the consolidated statement of financial position as liabilities due to creditors with interest and debt issuance costs expensed through the income statement.

The subordinated shareholder loans were initially recognised at fair value. As the instruments are interest-free rather than at market rates, their fair values differ from their nominal amounts and are estimated by discounting the related expected future cash flows. As market rates are not observable for these loans, management has derived discount rates by reference to other arm's length transactions with investors, making allowance for the tenor and seniority of the loans. The receipt of an interest-free loan is an economic benefit and, because this benefit has been provided by the Company's parent, it is initially credited to non-distributable reserves as a capital contribution. As the loan approaches maturity the increase in its amortised cost is charged to income with a corresponding transfer to reduce the related non-distributable reserve.

Presentation of financial and other information (continued)

Other financial information (Non-IFRS)

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

We have included in this report and related presentation, certain financial measures and ratios, including EBITDA, 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 December 31, 2018 and 2019 and for the quarter ended September 30, 2019 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 exceptional provisions made in respect to forbearance and customer communications provision. (See note 15 to our interim unaudited condensed consolidated financial statements presented herein.

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).

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, we do not reschedule our loans by capitalising arrears. In this quarterly report and related presentation, arrears data is based on the contractual position and does not take into account either payment plans or agreed changes to payment dates. Arrears data is further subdivided into performing and non-performing arrears loans as described below.

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 December 31, 2019. Data referring to our loan portfolio analysis are presented after allowances for impairment and for periods on or after June 30, 2019 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’s 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’ contractual instalments, or where cash receipts collected in the prior three months are equal to or greater than 90% of the contractual instalments due. The balance of loans are classified as (i) non-performing arrears loans, where such loans have arrears of greater than three months’ contractual instalments due and where receipts collected in the prior three months are less than 90% of contractual instalments due, (ii) loans for which the security is subject to a repossession order or for which an LPA receiver has been appointed and is under sale status and (iii) development loans. 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.

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

Terms relating to our loan analysis (continued)

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 and for periods on or after June 30, 2019 include certain other accounting adjustments (including adjustments to recognise income at the effective interest rate). 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 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 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 December 31		3 months ended or as at September 30
(£m, except for percentages and ratios or unless otherwise noted)	**2019**	**2018**	**2019**
Group			
Interest receivable and similar income	96.8	84.1	92.5
Fee and commission income	1.3	1.1	1.1
Income	98.1	85.2	93.6
NIM[4]	6.3%	7.1%	6.4%
Underlying cost-to-income*[5]	35.1%	38.0%	34.4%
Impairment charge	(4.9)	(3.8)	(5.5)
EBITDA[6]	60.6	60.5	64.6
Underlying EBITDA*[6]	71.6	60.5	67.6
EBTIDA margin[6]	61.8%	71.0%	69.0%
Underlying EBITDA margin*[6]	73.0%	71.0%	72.2%
Profit on ordinary activities before tax	25.5	31.2	31.5
Underlying profit on ordinary activities before tax*	36.5	31.2	34.5
Underlying return on equity*[7]	15.5%	14.7%	15.0%
Supplemental cash flow information:			
Cash receipts	432.6	363.0	437.6
New advances	617.3	515.2	528.6
LTV of loan portfolio (on a weighted average basis, based on LTV of loans at origination) [6]	58.2%	57.8%	58.2%
LTV of loan portfolio (on a weighted average indexed basis) [6]	54.9%	55.6%	55.0%
Borrower Group			
LTV of loan portfolio (on a weighted average basis, based on LTV of loans at origination) [6]	60.4%	59.6%	59.9%
LTV of loan portfolio (on a weighted average indexed basis) [6]	58.4%	58.9%	58.0%

* Underlying metrics include adjustments to exclude £11.0m customer provisions in the quarter ended December 31, 2019 (September 30, 2019: £3.0m)

The key performance indicators above for the quarter ended December 31, 2019 have been derived from unaudited consolidated condensed interim financial statements and management information. In the opinion of management, such financial data reflects all adjustments necessary for a fair presentation of the results for those periods and has been prepared in accordance with IFRS. The financial information should be read in conjunction with the Annual Report and Consolidated Financial Statements of Together Financial Services Limited and the accounting policies described therein as at June 30, 2019.

[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] For definitions please see sections: "Other financial information" and "Terms relating to our loan analysis"

[7] Return on equity – calculated as annualised profit after tax for the quarter adding back shareholder loan interest as a percentage of the average of the opening and closing shareholder funds for the respective quarter

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 prudent underwriting policies, LTVs and traditional security

During the period to December 31, 2019 the Group has continued to focus on prudent underwriting policies and LTVs, as well as traditional security such as residential housing stock, in providing its mortgage loans. The Group continues to target an average of origination LTVs of between 55% and 65% for new loans and continues to focus principally on residential security. The Group has continued to use affordability and repayment assessments to ensure customers are able to service and repay their loans.

An analysis of the loan portfolio as at December 31, 2019, and December 31, 2018 by arrears banding, for the Group and Borrower Group is as follows:

	Group Loan Portfolio Arrears Analysis		Borrower Group Loan Portfolio Arrears Analysis	
	December 31, 2019	**December 31, 2018**	**December 31, 2019**	**December 31, 2018**
Nil Arrears & Arrears ≤ 1 month	**86.1%**	**86.4%**	**57.6%**	**68.4%**
Performing Arrears				
1-3 months	3.0%	3.2%	3.7%	3.9%
3-6 months	0.3%	0.4%	0.9%	1.1%
>6 months	0.3%	0.6%	1.2%	1.6%
Total Performing Arrears	**3.6%**	**4.2%**	**5.8%**	**6.6%**
Development Loans	**5.4%**	**5.6%**	**20.1%**	**15.8%**
Total Performing Loans & Development Loans	**95.1%**	**96.2%**	**83.5%**	**90.8%**
Non-Performing Arrears				
3-6 months	0.9%	0.9%	2.3%	1.8%
>6 months	1.3%	0.9%	4.6%	2.5%
Past due[1]	1.2%	0.9%	3.7%	2.2%
Total Non-Performing Arrears	**3.4%**	**2.7%**	**10.6%**	**6.5%**
Repossessions & LPA Sales	**1.5%**	**1.1%**	**5.9%**	**2.7%**
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

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

An analysis of our loan portfolio as at December 31, 2019, 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%	2,286.3	74.5	81.1	32.0	2,473.9
>60% <=80%	1,374.2	103.5	57.2	25.0	1,559.9
>80% <=100%	59.4	29.8	5.0	5.9	100.1
>100%	11.6	16.2	0.1	-	27.9
Total	**3,731.5**	**224.0**	**143.4**	**62.9**	**4,161.8**

Borrower Group Loan Portfolio Indexed LTV Analysis (£m)	**Performing Loans**	**Development Loans**	**Non - Performing Loans**	**Repossessions & LPA Sales**	**Total Loan Portfolio**
<=60%	407.9	74.5	66.4	33.4	582.2
>60% <=80%	250.5	103.5	46.6	24.9	425.5
>80% <=100%	36.1	29.8	5.0	5.9	76.8
>100%	11.3	16.2	0.1	-	27.6
Total	**705.8**	**224.0**	**118.1**	**64.2**	**1,112.1**

Operating review (continued)

Group Loan Portfolio Origination LTV Analysis (£m)	Performing Loans	Development Loans	Non - Performing Loans	Repossessions & LPA Sales	Total Loan Portfolio
<=60%	1,827.6	116.1	74.1	17.8	2,035.6
>60% <=80%	1,825.0	83.5	63.5	39.7	2,011.7
>80% <=100%	65.7	11.8	2.7	5.3	85.5
>100%	13.2	12.6	3.1	0.1	29.0
Total	**3,731.5**	**224.0**	**143.4**	**62.9**	**4,161.8**

Borrower Group Loan Portfolio Origination LTV Analysis (£m)	Performing Loans	Development Loans	Non - Performing Loans	Repossessions & LPA Sales	Total Loan Portfolio
<=60%	322.3	116.1	62.9	19.6	520.9
>60% <=80%	320.2	83.5	49.4	39.2	492.3
>80% <=100%	50.0	11.8	2.7	5.3	69.8
>100%	13.3	12.6	3.1	0.1	29.1
Total	**705.8**	**224.0**	**118.1**	**64.2**	**1,112.1**

The indexed weighted-average LTV of the loan portfolio for the total Group at December 31, 2019 is 54.9% compared with the prior year comparable quarter of 55.6% (December 31, 2018) and prior quarter of 55.0% (September 30, 2019).

The indexed weighted-average LTV of the loan portfolio for the Borrower Group at December 31, 2019 is 58.4% compared with the prior year comparable quarter of 58.9% (December 31, 2018) and the prior quarter of 58.0% (September 30, 2019).

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 December 31, 2019, 31.5% of our loan portfolio was classified as retail-purpose, 63.1% of our loan portfolio was classified as commercial-purpose (which included 22.2% of buy to let +) and 5.4% of our loan portfolio was classified as development funding, calculated by value. At December 31, 2018, 31.5% of our loan portfolio was classified as retail purpose, 63.0% of our loan portfolio was classified as commercial purpose (which included 20.9% of buy to let +) and 5.5% of our loan portfolio was classified as development funding.

The proportion of our loan portfolio secured by residential security by value has decreased to 65.1% as at December 31, 2019, when compared with 65.9% as at December 31, 2018 and 66.0% as at September 30, 2019. The proportion of our loan portfolio secured on first charges has increased to 72.8% as at December 31, 2019, when compared with 69.3% as at December 31, 2018 and 72.1% as at September 30, 2019.

Controlled growth of our loan portfolio

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

In the quarter to December 31, 2019, including further advances, we have originated an average of £205.8m per month compared with £171.7m per month in the quarter to December 30, 2018 and £176.2m per month in the quarter to September 30, 2019.

Our loans and advances to customers stands at £4,159.2m as at December 31, 2019, compared with £3,248.4m as at December 31, 2018 and £3,878.4m as at September 30, 2019.

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

Financial review

Interest receivable and similar income has increased 15.1% to £96.8m for the quarter to December 31, 2019 compared with £84.1m in the quarter to December 31, 2018 and has increased 4.7% when compared with £92.5m in the prior quarter (September 30, 2019). This increase primarily results from growth in the size of the loan book. It is partially offset by a reduction in the average interest rate earned on the loan book due to the impact of lower rates on new originations, reflecting increased market competition and the continued run-off of the higher-yielding back book of loans. This has resulted in a reduction in net interest margin from 7.1% in the prior year comparable quarter to December 31, 2018 to 6.3% in the quarter to December 31, 2019 and compares to 6.4% in the prior quarter to September 30, 2019.

The net impairment charge to the income statement was £4.9m for the quarter to December 31, 2019, compared with £3.8m in the prior year comparable quarter (December 31, 2018) and £5.5m in the prior quarter (September 30, 2019). The impact of favourable changes in property values and forecast macroeconomic scenarios used in the calculation of the impairment allowance for Q2'20 reduced the impairment charge.

The underlying cost-to-income ratio for the quarter to December 31, 2019 was 35.1%[8], lower than the prior year comparative of 38.0% (December 31, 2018) but higher than the prior quarter (September 30, 2019) of 34.4%.

Underlying EBITDA of £71.6m[8] increased 18.3% compared with £60.5m in the prior year comparable quarter (December 31, 2018) and 5.9% compared with £67.6m[8] in the prior quarter (September 30, 2019). Underlying EBITDA margin was 73.0% for the quarter to December 31, 2019 compared with 71.0% in the prior year comparable quarter (December 31, 2018) and 72.2% for the prior quarter (September 30, 2019).

Underlying profit before tax of £36.5m[8] was up 17.0% compared with £31.2m in the prior year comparable quarter (December 31, 2018) and up 5.8% from £34.5m[8] in the prior quarter (September 30, 2019).

Strong levels of cash generation were achieved, with cash receipts of £432.6m up 19.2% compared with £363.0m in the prior year comparable quarter (December 31, 2018) and slightly down by 1.1% when compared with £437.6m in the prior quarter (September 30, 2019).

Loans and advances to customers have increased by 28.0% to £4,159.2m compared with £3,248.4m as at the prior year comparable quarter (December 31, 2018) and up by 7.2% compared with £3,878.4m as at the prior quarter (September 31, 2019). Shareholder funds have increased by 10.3% to £823.2m compared with £746.4m at December 31, 2018 and increased by 1.0% from £814.9m as at the prior quarter (September 30, 2019).

[8] Excluding adjustments of £11.0m related to customer provisions in the quarter ended December 31, 2019 (September 30, 2019: £3.0m)

Recent developments

Trading update

Monthly mortgage originations in January 2020 decreased to £170.5m, compared with a monthly average of £205.8m for the quarter to December 31, 2019 partly reflecting seasonal factors.

Appointments

It was announced that Gerald Grimes will join the business on April 6, 2020 as our Group CEO Designate and be appointed to the Group Board as an Executive Director. Gerald has over 30 years of financial services experience; he brings significant and valuable experience at an executive management level, increases the breadth and bandwidth of the Executive team and provides a clear succession plan for Henry Moser.

On January 2, 2020 John Hooper joined the Together Personal Finance board as non-executive director. John brings extensive banking, finance and risk experience, gained in both an executive and non-executive capacity, and will be a valuable addition to the board.

Ernst & Young LLP were appointed auditors for the Group in preparation for the audit of the Group's June 30, 2020 results.

Senior secured notes

On February 10, 2020 Jerrold Finco PLC, a subsidiary of Together Financial Services Limited, issued £435m 4⅞% Senior Secured Notes, due 2026. The proceeds being primarily used to repay the 6¼% Senior Secured Notes due 2021.

Ratings update

S&P affirmed our 'BB-' long-term issuer credit rating on Together Financial Services Limited and our 'B+' long-term issuer credit rating on Bracken Midco1 PLC. SSN ratings reaffirmed at 'BB-' and PIK Toggle notes as 'B+'. Whilst revising the corporate rating outlook from Stable to Positive on Together Financial Services Limited and Bracken Midco1 PLC.

Fitch has upgraded the senior PIK Toggle notes issued by Bracken Midco 1 Plc to 'B+' from 'B'. Fitch Ratings also affirmed Together Financial Services Limited's Long-Term Issuer Default Ratings (IDR) at 'BB' and the senior secured notes issued by subsidiary Jerrold Finco Plc and guaranteed by Together at 'BB'.

Significant factors which may affect results of operations

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 individualized assessment is made of the customer including, among other checks, an assessment of the financial position of the customer to ensure that the loan is both affordable and sustainable and an assessment of the repayment strategy. In addition, an assessment of the underlying security and its value is undertaken. In addition, the performance of our total loan assets is impacted by our continued investment in our collections infrastructure, which impacts our ability to collect expected loan installments.

Macroeconomic conditions

The Group is impacted by general business and economic conditions in the United Kingdom. Current economic indicators are generally little changed from those set out in the annual report for the year to June 30, 2019: unemployment, inflation and GDP growth are all at levels similar to those at the year end. Whilst Bank Base Rate is unchanged, market expectations for future interest rates have fallen overall, reflecting low inflation and modest GDP growth, and continue to show some volatility, heavily influenced by international trade tensions. The recent general election result has brought considerably greater political stability and the UK has finally left the EU although residual uncertainty remains over the UK's long-term trading relationship with the EU, set to be negotiated throughout 2020. Early economic indicators suggest a resultant growth in confidence. Note 9 to the financial statements sets out the macroeconomic assumptions made in deriving expected credit losses (ECLs).

The Group continues to see strong demand from customers. The Group's strong financial position, through-the-cycle experience, diversified funding base and low-LTV lending all provide significant mitigation from uncertain economic times and the Group remains well placed to deliver on its growth plans.

Property market

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

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

The annual rate of growth in house prices rose with the Halifax reporting annual national house price growth of 4.0% to December 2019. Employment remains strong and wage inflation rose which should provide support for the housing market.

Together is a national lender and has a loan portfolio which is diversified across the UK, with less than 30% concentrated in the London region. Our London portfolio is not focused on 'Prime'[9] central London properties and, with weighted average loan-to-value ratios in line with the average of our portfolio for the rest of the country, it is well protected against moderate house price falls.

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

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

Significant factors which may affect results of operations (continued)

Competition

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

Competition in the 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.

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. This has encouraged a number of new entrants, or re-entrants into the market in the form of non-bank lenders or newly formed challenger banks which are likely to increase competition in the segments where we operate.

Funding

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

Interest rate environment

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

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

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

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

Regulatory considerations

The Group has certain subsidiaries which are authorised and regulated by the FCA in addition to subsidiaries which undertake unregulated lending. The FCA has extended SM&CR to all regulated firms in December 2019, which replaced the Approved Persons Regime. We also have to comply with the relevant UK and EU regulations including anti-money laundering regulations, the General Data Protection Regulations and the EU Securitisation Regulation.

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

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

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

As a result of undertaking internal reviews within the regulated division during the year to June 30, 2019, 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 in instances where balances are not expected to be repaid by the customer by the contractual maturity date, using their current repayment schedule.

Significant factors which may affect results of operations (continued)

Regulatory considerations (continued)

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.

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 United Kingdom's contemplated exit from the European Union;
- the impact of a downturn in the property market;
- our ability to accurately value properties;
- our ability to accurately identify the credit profile and behaviours of our customers;
- our ability to 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 the loan underwriting process;
- the impact of the changing financial circumstances of our customers;
- our relationships with mortgage intermediaries, professional networks and other distribution channels;
- the impact of competition;
- legislative, taxation and regulatory changes affecting our ability to operate or the profit generated from our activities;
- the effectiveness of our compliance, Enterprise Risk Management Framework and internal audit functions;
- our exposure to the cost of redress, potential regulatory sanctions and fines;
- the impact of fluctuations in interest rates and our ability to obtain financing;
- changes to the ways in which the United Kingdom regulates the loan industry and other regulatory changes;
- changes or uncertainty in respect of LIBOR 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 of litigation;
- our ability to retain our senior management and our underwriters, account executives, sales personnel and other client facing employees;
- interruption or loss of our information processing systems or third party systems we use or failure to maintain secure information systems and technological changes (including as a result of cyber-attacks);
- technological changes and failure to adequately anticipate or respond to these changes;
- the accuracy of our ststems, 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 affecting the capacity to expand our business;

Significant factors which may affect results of operations (continued)

Risk factors (continued)

- the potential for conflicting interests between the 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.

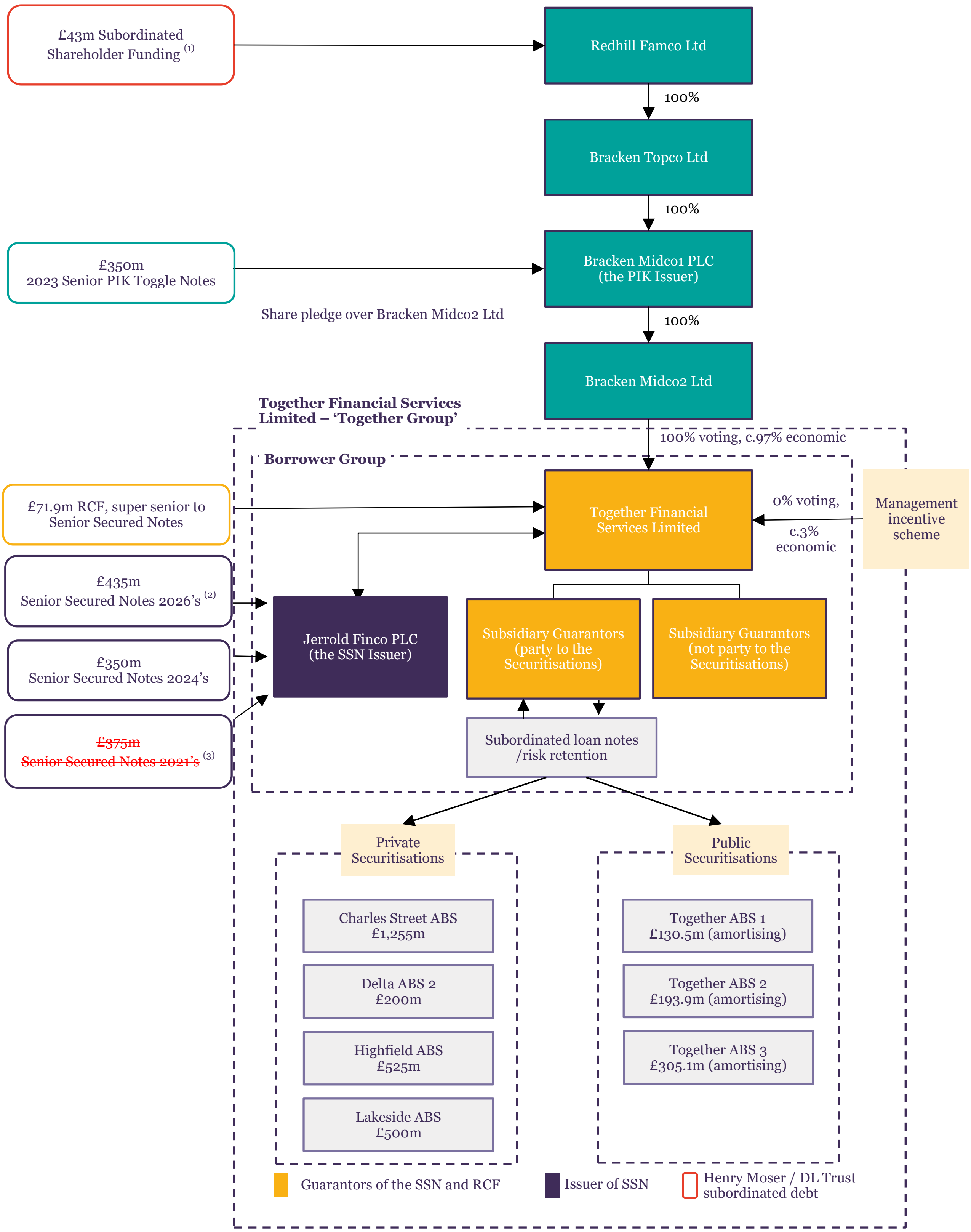
These risks are not exhaustive. Other sections of this quarterly report describe additional factors that could adversely affect our results of operations, financial condition, liquidity and the development of the industries in which we operate. New risks can emerge from time to time, and it is not possible 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 January 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
(2) Prices on January 30, 2020 and closed February 10, 2020
(3) Redeemed with the use of proceeds from the issuance of the £435m Seniior Secured Notes 2026's which closed on February 10, 2020

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 condensed results and financial position of Together Financial Services Limited and its subsidiaries, for and as of the quarter ended December 31, 2019.

	Quarter ended December 31, 2019		
	Together Financial Services Ltd £m	Adjustments £m	Bracken Midco1 PLC £m
Profit before tax (1)	**25.5**	**(8.4)**	**17.1**

	As at December 31, 2019		
	Together Financial Services Ltd £m	Adjustments £m	Bracken Midco1 PLC £m
Assets			
Cash and balances at bank	136.3	0.6 (2)	136.9
Loans and advances to customers	4,159.2	-	4,159.2
Inventories	0.6	-	0.6
Other assets	9.5	-	9.5
Investments	0.1	-	0.1
Property, plant and equipment	14.3	-	14.3
Intangible assets	9.3	-	9.3
Current tax asset	2.7	-	2.7
Deferred tax asset	7.5	-	7.5
Total assets	**4,339.5**	**0.6**	**4,340.1**
Liabilities			
Bank facilities	35.0	-	35.0
Loan notes	2,681.4	-	2,681.4
Senior secured notes	726.4	-	726.4
Senior PIK toggle notes	-	350.0 (3)	350.0
Obligations under finance leases	11.5	-	11.5
Debt issue costs	(15.5)	(2.8) (4)	(18.3)
Total borrowings (excluding subordinated shareholder funding)	**3,438.8**	**347.2**	**3,786.0**
Other liabilities	58.0	9.4 (5)	67.4
Derivative liabilities held for risk management	0.2	-	0.2
Provisions for liabilities and charges	19.3	-	19.3
Total liabilities	**3,516.3**	**356.6**	**3,872.9**
Equity			
Subordinated shareholding funding	28.2	(21.9)	6.3 (6)
Shareholders' equity	795.0	(334.1)	460.9
Total equity	**823.2**	**(356.0)**	**467.2**
Total equity and liabilities	**4,339.5**	**0.6**	**4,340.1**

(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 £350.0m 2023 Senior PIK Toggle Notes

(4) Represents unamortised debt issue costs associated with the issuance of the 2023 Senior PIK Toggle Notes

(5) Includes interest accrued on the 2023 Senior PIK Toggle Notes

(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 December 31, 2019, interest payable and similar charges for Bracken Midco1 PLC was, on a consolidated basis £42.0m compared to £33.6m for Together Financial Services Limited. The £8.4m variance comprises £8.7m of interest payable and debt issue amortisation on the Senior PIK Toggle, £0.2m being the unwind of the fair value adjustment in respect of intercompany loan amounts owed to Bracken Topco Limited, and the elimination on consolidation of £0.5m of fair value unwind at Together Financial Services Limited on intercompany loans owed to Bracken Midco2 Limited.

Unaudited condensed consolidated interim financial statements

The unaudited condensed consolidated financial statements attached show the financial performance for the quarter and six months to and as at December 31, 2019.

Comparatives for these consolidated financial statements are as follows:

- Consolidated Statement of Comprehensive Income and Consolidated Statement of Cash Flow have comparatives for the quarter and six months to December 31, 2018;
- Consolidated Statement of Changes in Equity have comparatives for the six months to December 31, 2018; and
- Consolidated Statement of Financial Position have comparatives as at December 31, 2018 and June 30, 2019.

Unaudited consolidated statement of comprehensive income

Six months ended 31 December 2019

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

Income statement	Note	Three months ended 31 Dec 2019	Three months ended 31 Dec 2018	Six months ended 31 Dec 2019	Six months ended 31 Dec 2018
Interest receivable and similar income		96.8	84.1	189.3	166.3
Interest payable and similar charges	4	(33.6)	(28.3)	(65.4)	(56.7)
Net interest income		**63.2**	**55.8**	**123.9**	**109.6**
Fee and commission income		1.3	1.1	2.4	2.1
Fee and commission expense		(0.7)	(0.6)	(1.3)	(1.0)
Other net gains and losses	5	-	0.1	(0.3)	0.1
Operating income		**63.8**	**56.4**	**124.7**	**110.8**
Administrative expenses		(33.4)	(21.4)	(57.3)	(41.1)
Operating profit		**30.4**	**35.0**	**67.4**	**69.7**
Impairment losses	9	(4.9)	(3.8)	(10.4)	(8.1)
Profit before taxation		**25.5**	**31.2**	**57.0**	**61.6**
Income tax	6	(3.3)	(4.1)	(7.7)	(7.5)
Profit after taxation		**22.2**	**27.1**	**49.3**	**54.1**
Other comprehensive expense					
Items that may be reclassified to the income statement					
Movement in the cash flow hedging reserve:					
Effective portion of changes in fair value of derivatives	8	1.1	-	(0.2)	-
Other comprehensive income/(expense) for the year, net of tax		1.1	-	(0.2)	-
Total comprehensive income for the year		**23.3**	**27.1**	**49.1**	**54.1**

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

Unaudited consolidated statement of financial position

As at 31 December 2019

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

	Note	31 December 2019	31 December 2018	30 June 2019
Assets				
Cash and cash equivalents	7	136.3	70.7	120.2
Derivative assets held for risk management	8	-	0.4	0.1
Loans and advances to customers	9	4,159.2	3,248.4	3,694.5
Inventories		0.6	0.6	0.6
Other assets	10	9.5	4.6	4.8
Investments		0.1	0.1	0.1
Property, plant and equipment	11	14.3	6.1	5.4
Intangible assets	12	9.3	8.6	8.8
Current tax asset		2.7	-	-
Deferred tax asset	13	7.5	8.0	7.5
Total assets		**4,339.5**	**3,347.5**	**3,842.0**
Liabilities				
Derivative liabilities held for risk management	8	0.2	-	-
Current tax liabilities		-	8.4	8.7
Borrowings	14	3,467.0	2,566.7	3,015.7
Provisions for liabilities and charges	15	19.3	4.9	4.3
Other liabilities	16	58.0	47.2	50.5
Total liabilities		**3,544.5**	**2,627.2**	**3,079.2**
Equity				
Share capital		9.8	9.8	9.8
Share premium account		17.5	17.5	17.5
Merger reserve		(9.6)	(9.6)	(9.6)
Capital redemption reserve		1.3	1.3	1.3
Subordinated shareholding funding reserve		39.9	42.0	41.0
Share-based payment reserve		1.6	1.6	1.6
Cashflow-hedging reserve		(0.2)	-	-
Cost-of-hedging reserve		(0.2)	-	(0.2)
Retained earnings		734.9	657.7	701.4
Total equity		**795.0**	**720.3**	**762.8**
Total equity and liabilities		**4,339.5**	**3,347.5**	**3,842.0**

Unaudited consolidated statement of changes in equity

Six months ended 31 December 2019

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

Six months to 31 December 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**
Retained profit for the financial period	-	-	-	-	-	49.3	49.3
Other comprehensive income/(expense)	-	-	(0.2)	-	-	-	(0.2)
Total comprehensive income	**-**	**-**	**(0.2)**	**-**	**-**	**49.3**	**49.1**
Dividend paid	-	-	-	-	-	(15.6)	(15.6)
Transfer between reserves	-	(1.1)	-	-	-	1.1	-
At end of the period	**9.8**	**39.9**	**(0.2)**	**(0.2)**	**10.8**	**734.9**	**795.0**

Six months to 31 December 2018	**Called-up share capital**	**Subordinated shareholder funding reserve**	**Other reserves**	**Retained earnings**	**Total**
At beginning of the period	9.8	43.0	10.8	648.3	711.9
Changes on initial application of IFRS 9	-	-	-	(30.7)	(30.7)
Restated balances at beginning of the period	**9.8**	**43.0**	**10.8**	**617.6**	**681.2**
Retained profit for the financial period	-	-	-	54.1	54.1
Dividend paid	-	-	-	(15.0)	(15.0)
Transfer between reserves	-	(1.0)	-	1.0	-
At end of the period	**9.8**	**42.0**	**10.8**	**657.7**	**720.3**

Other reserves consist of the following:

	Share premium	**Merger reserve**	**Capital redemption reserve**	**Share-based payment reserve**	**Total**
As at 31 December 2019	17.5	(9.6)	1.3	1.6	10.8
As at 31 December 2018	17.5	(9.6)	1.3	1.6	10.8
As at 30 June 2019	17.5	(9.6)	1.3	1.6	10.8

Unaudited consolidated statement of cash flows

Six months ended 31 December 2019

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

	Note	Three months ended 31 Dec 2019	Three months ended 31 Dec 2018	Six months ended 31 Dec 2019	Six months ended 31 Dec 2018
Cash outflow from operating activities					
Cash outflow from operations	18	(199.5)	(175.7)	(323.0)	(197.9)
Income tax paid		(8.3)	(1.2)	(18.8)	(5.6)
Servicing of finance		(33.0)	(17.6)	(63.3)	(48.8)
Net cash outflow from operating activities		**(240.8)**	**(194.5)**	**(405.1)**	**(252.3)**
Cash flows from investing activities					
Purchase of property, plant and equipment		(0.2)	(0.4)	(0.7)	(0.6)
Purchase of intangible assets		(1.0)	(1.1)	(2.1)	(2.0)
Proceeds on disposal of property, plant and equipment		0.1	-	0.1	-
Net cash outflow from investing activities		**(1.1)**	**(1.5)**	**(2.7)**	**(2.6)**
Cash flows from financing activities					
Repayment of bank facilities		(20.0)	(20.0)	(20.0)	(25.7)
Drawdown of facilities		13.7	-	151.2	19.7
Net proceeds from issuance of residential mortgage-backed securitisation		308.7	272.6	308.7	272.6
Repayment of facilities		-	(72.8)	-	-
Dividends paid		(15.6)	-	(15.6)	(15.0)
Capital element of finance lease payments		(0.2)	(0.2)	(0.4)	(0.3)
Net cash inflow from financing activities		**286.6**	**179.6**	**423.9**	**251.3**
Net increase/(decrease) in cash and cash equivalents		44.7	(16.4)	16.1	(3.6)
Cash and cash equivalents at beginning of period		91.6	87.1	120.2	74.3
Cash and cash equivalents at end of period		**136.3**	**70.7**	**136.3**	**70.7**

At 31 December 2019 cash and cash equivalents include £113.8m (31 December 2018: £62.4m) of restricted cash (see Note 7).

Unaudited notes to the financial statements

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 2019 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 2019 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report, and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

Accounting policies and judgements

The accounting policies, presentation and methods of computation are consistent with those applied by the Group in its latest audited annual financial statements, except for the adoption of a new accounting standard, IFRS 16, as set out below.

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.

Adoption of new accounting standards, amendments and interpretations

On 1 July 2019, the Group adopted the requirements of IFRS 16 *Leases*, the new standard that replaces IAS 17 *Leases*. The standard applies to all leasing arrangements and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessor and lessee accounting.

The Group has adopted IFRS 16 using a modified retrospective approach and, as such, comparative information for 2018 is not restated. Leases which were already classified as leases were not re-evaluated on adoption of IFRS 16. The Group's accounting policy applicable from 1 July 2019 is set out on pages 14-15 of the financial statements.

2. Significant accounting policies (continued)

Transition

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease agreement as of 1 July 2019.

The effects of adopting IFRS 16 as at 1 July 2019 were as follows:
- Right-of-use assets of £8.6m were recognised and are presented in a new right-of-use leasehold-property category within property, plant and equipment in the statement of financial position.
- Lease liabilities of £10.2m were recognised and are presented within borrowings in the statement of financial position.
- A deferred tax asset of £0.3m was recognised and is included in the deferred tax asset in the statement of financial position.
- The net effect of these adjustments had a £1.3m impact on opening retained earnings.

	IAS 17 30 June 2019	Right-of-use asset	Lease liability	Deferred tax	IFRS 16 1 July 2019
Property, plant and equipment	5.4	8.6	-	-	14.0
Lease liability	(0.8)	-	(10.2)	-	(11.0)
Deferred tax asset	7.5	-	-	0.3	7.8
Retained earnings impact		8.6	(10.2)	0.3	

Operating lease commitments at 30 June 2019 as disclosed under IAS 17 were £14.0m. Once discounted using the interest rate implicit in the agreement, this was £10.2m at 1 July 2019.

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as at 30 June 2019 as follows:

	1 July 2019
Operating lease commitments as at 30 June 2019	14.0
Effect of discounting using the interest rate implicit in the lease	(3.8)
	10.2
Finance lease liabilities already recognised as at 30 June 2019	0.8
Lease liabilities recognised at 1 July 2019	**11.0**

Leases

Policy applicable from 1 July 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16. This policy is applied to contracts entered into, on or after 1 July 2019.

The Group as a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone costs.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

2. Significant accounting policies (continued)

Leases (continued)

The Group as a lessee (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses the interest rate implicit in the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group as lessor

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

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

Rentals received under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Policy applicable before 1 July 2019
The Group as lessee

Assets held under finance leases which confer rights and obligations similar to those attached to owned assets are capitalised as tangible fixed assets and depreciated over the shorter of the lease terms and their useful lives. The capital element of future lease obligations is recorded within liabilities, while the interest element is charged to the income statement over the period of the leases to produce a constant rate of interest on the balance of capital repayments outstanding.

Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Rentals under operating leases are charged on a straight-line basis over the lease term and the related assets are not recognised in the statement of financial position.

The Group as lessor

Rentals received under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Going concern

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

2. Significant accounting policies (continued)

Cash and cash equivalents

Cash which is restricted within securitisation vehicles has been reclassified from borrowings to cash and cash equivalents. The reclassifications have also been made within the comparatives for 31 December 2018, consistent with the change in accounting policy disclosed within the Group's latest audited annual financial statements. See Note 7 for further details of this reclassification.

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.

Critical judgements in applying the Group's accounting policies

There is judgement involved in determining whether certain matters should be disclosed as a contingent liability and what reliable information can be included in this disclosure. In addition there is judgement in determining that a contingent liability disclosure is the appropriate treatment if a reliable estimate is not available to inform the estimation of a provision. Further disclosures in respect of this can be found in Note 15 to the financial statements.

There have been no other significant changes to the other critical judgements disclosed in the Group's Annual Report and Accounts for the year ended 30 June 2019.

Key sources of estimation uncertainty

Estimates and associated assumptions are based on historical experience and other relevant factors, and are reviewed on a continuing basis. Actual results may differ from these estimates, and revisions to estimates are recognised prospectively.

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

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

The Group's Annual Report and Accounts for the year end 30 June 2019 disclosed certain sensitivities concerning the recognition of loss allowances on loans and advances to customers, and the recognition of interest income. The Group's approach to the measurement of expected credit losses is unchanged and therefore updated sensitivities are not presented.

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

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

4. Interest payable and similar charges

	Three months ended		Six months ended	
	31 Dec 2019	**31 Dec 2018**	**31 Dec 2019**	**31 Dec 2018**
On borrowings	33.4	28.3	65.1	56.7
On lease liabilities	0.2	-	0.3	-
	33.6	**28.3**	**65.4**	**56.7**

5. Other net gains and losses

	Three months ended		Six months ended	
	31 Dec 2019	**31 Dec 2018**	**31 Dec 2019**	**31 Dec 2018**
Rental income	-	0.1	-	0.1
Net costs from financial instruments mandatorily measured at fair value through the income statement				
Interest-rate derivatives held for risk-management purposes	-	-	(0.3)	-
	-	**0.1**	**(0.3)**	**0.1**

6. Income tax

	Three months ended		Six months ended	
	31 Dec 2019	**31 Dec 2018**	**31 Dec 2019**	**31 Dec 2018**
Current tax				
Corporation tax	3.0	4.5	7.4	7.7
	3.0	**4.5**	**7.4**	**7.7**
Deferred tax				
Origination and reversal of temporary differences	0.3	(0.4)	0.3	(0.2)
Total deferred tax	**0.3**	**(0.4)**	**0.3**	**(0.2)**
Total tax on profit	**3.3**	**4.1**	**7.7**	**7.5**

Corporation tax is calculated at 18.50% (31 December 2018: 19.00%) of the taxable profit for the period.

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

	Three months ended		Six months ended	
	31 Dec 2019	**31 Dec 2018**	**31 Dec 2019**	**31 Dec 2018**
Profit before tax	25.5	31.2	57.0	61.6
Tax on profit at standard UK corporation tax rate of 18.50% (December 2018 : 19.00%	4.7	5.9	10.6	11.7
Effects of:				
Expenses not deductible for tax purposes	0.2	0.5	0.3	1.3
Income not taxable	(0.1)	(0.5)	(0.2)	(1.2)
Group relief	(1.5)	(1.8)	(3.0)	(4.3)
Tax charge for period	**3.3**	**4.1**	**7.7**	**7.5**

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

7. Cash and cash equivalents

	31 December 2019	31 December 2018	30 June 2019
Unrestricted cash	22.5	8.3	22.6
Restricted cash	113.8	62.4	97.6
	136.3	**70.7**	**120.2**

Cash which is restricted within securitisation vehicles of £113.8m (31 December 2018: £62.4m, 30 June 2019: £97.6m) has been reclassified from borrowings to cash and cash equivalents. As such, reclassifications have been made within the comparatives for 31 December 2018, consistent with the change in accounting policy disclosed within the Group's latest audited annual financial statements.

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 £34.7m (31 December 2018: £4.2m, 30 June 2019: £32.4m) represents amounts which are not considered readily available, but can be accessed by the Group, for example by allocating additional eligible assets into the private securitisations.

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. The notional amounts of these derivatives correspond to the 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.

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

	31 December 2019		31 December 2018		30 June 2019	
	Assets	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest-rate swaps	-	(0.2)	-	-	-	-
Interest-rate caps	-	-	0.4	-	0.1	-
Derivatives designated in cashflow hedges	**-**	**(0.2)**	**0.4**	**-**	**0.1**	**-**

All derivatives mature in under five years. The average fixed interest rate on swaps is 0.73%. 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:

	31 December 2019		
	Carrying amount of liabilities	Changes in fair value for calculating hedge ineffectiveness	Cashflow-hedging reserve
Hedged by interest-rate swaps			
Borrowings	135.0	-	-
Discontinued hedges	-	-	(0.2)
	135.0	**-**	**(0.2)**
Hedged by interest-rate caps			
Borrowings	233.1	-	-

	31 December 2018		
	Carrying amount of liabilities	Changes in fair value for calculating hedge ineffectiveness	Cashflow-hedging reserve
Hedged by interest-rate swaps			
Borrowings	-	-	-
Hedged by interest-rate caps			
Borrowings	100.4	-	-

	30 June 2019		
	Carrying amount of liabilities	Changes in fair value for calculating hedge ineffectiveness	Cashflow-hedging reserve
Hedged by interest-rate swaps			
Borrowings	-	-	-
Hedged by interest-rate caps			
Borrowings	98.9	(0.2)	-

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 other net losses	Hedge ineffective-ness recognised in other net losses	Reclassified from cashflow-hedging reserve to interest payable
Six months ended 31 December 2019								
Interest-rate swaps								
Borrowings	135.0	-	(0.2)	-	-	(0.2)	-	-
Discontinued hedges	-	-	-	-	(0.2)	(0.1)	-	-
	135.0	**-**	**(0.2)**	**-**	**(0.2)**	**(0.3)**	**-**	**-**
Interest-rate caps	233.1	-	-	-	-	-	-	-
Six months ended 31 December 2018								
Interest-rate swaps	-	-	-	-	-	-	-	-
Interest-rate caps	100.4	0.4	-	-	-	-	-	-
Year ended 30 June 2019								
Interest-rate swaps	-	-	-	-	-	-	-	-
Interest-rate caps	98.9	0.1	-	(0.2)	(0.2)	-	-	-

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

9. Loans and advances to customers

	31 December 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross loans and advances	3,407.1	422.2	400.8	4,230.1
Loss allowance	(7.3)	(7.8)	(55.8)	(70.9)
	3,399.8	**414.4**	**345.0**	**4,159.2**

	31 December 2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross loans and advances	2,692.4	322.6	306.3	3,321.3
Loss allowance	(12.6)	(11.0)	(49.3)	(72.9)
	2,679.8	**311.6**	**257.0**	**3,248.4**

	30 June 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross loans and advances	3,025.3	419.5	316.7	3,761.5
Loss allowance	(11.2)	(9.6)	(46.2)	(67.0)
	3,014.1	**409.9**	**270.5**	**3,694.5**

None of the Group’s financial assets are credit impaired on purchase or origination.

Loans and advances to customers include total gross amounts of £10.5m (31 December 2018: £13.1m; 30 June 2019: £10.9m), equivalent to £7.4m net of allowances (31 December 2018: £11.2m; 30 June 2019: £8.0m) 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 – Related party transactions.

Measurement of expected credit losses (ECL)

The Group’s 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 2019.

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, and calculates ECL using a base case, an upside and a downside scenario, weighted 40%, 30% and 30% respectively. The base case is broadly aligned to the Group’s internal planning assumptions. The downside scenario represents a recession during which house prices fall 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)

The most significant assumptions used for the ECL estimate as at 31 December 2018, 30 June 2019 and 31 December 2019 are in the following ranges for the next ten years:

At 31 December 2019	**Minimum**	**Average**	**Maximum**
Annual GDP growth (%)	(0.7)	1.4	3.3
Bank Rate (%)	0.25	1.50	2.75
Unemployment rate (%)	3.1	4.1	6.2
Annual change in house-price index (%)	(7.7)	2.6	8.4

At 31 December 2018	**Minimum**	**Average**	**Maximum**
Annual GDP growth (%)	(0.9)	1.7	3.7
Bank Rate (%)	0.25	2.00	3.20
Unemployment rate (%)	3.2	4.2	6.3
Annual change in house-price index (%)	(7.7)	2.7	8.8

At 30 June 2019	**Minimum**	**Average**	**Maximum**
Annual GDP growth (%)	(1.1)	1.6	3.6
Bank Rate (%)	0.00	1.50	2.75
Unemployment rate (%)	3.2	4.1	6.2
Annual change in house-price index (%)	(8.7)	2.6	10.4

To project the economic variables for the remaining term of each instrument, it is assumed that the forecasts used in all scenarios revert to our long-term base case forecast beyond a ten-year horizon.

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

9. Loans and advances to customers (continued)

Loss allowance

A loss allowance is derived from the application of the foregoing techniques. The following tables analyse the movement of the loss allowance during the periods ended 31 December 2019 and 31 December 2018.

	Six months ended 31 December 2019			
Loans and advances to customers at amortised cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of period	**(11.2)**	**(9.6)**	**(46.2)**	**(67.0)**
Transfer to a 12-month ECL	(0.1)	0.3	-	0.2
Transfer to a lifetime ECL not credit impaired	2.4	(5.7)	0.8	(2.5)
Transfer to a lifetime ECL credit impaired	0.9	6.1	(12.8)	(5.8)
Other changes in credit risk during the period	(3.9)	(2.1)	(3.3)	(9.3)
Impairment of interest income on stage 3 loans	-	-	(6.5)	(6.5)
New financial assets originated	(2.9)	(0.6)	-	(3.5)
Financial assets derecognised	4.0	2.1	4.9	11.0
Changes in models and risk parameters	3.5	1.7	0.4	5.6
Impairment losses for the period charged to income statement	**3.9**	**1.8**	**(16.5)**	**(10.8)**
Unwind of discount	-	-	6.5	6.5
Write-offs net of recoveries	-	-	0.4	0.4
Balance at end of period	**(7.3)**	**(7.8)**	**(55.8)**	**(70.9)**

	Six months ended 31 December 2018			
Loans and advances to customers at amortised cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of period	**(10.5)**	**(9.5)**	**(54.0)**	**(74.0)**
Transfer to a 12-month ECL	(1.5)	2.2	-	0.7
Transfer to a lifetime ECL not credit impaired	1.9	(7.0)	2.4	(2.7)
Transfer to a lifetime ECL credit impaired	0.8	2.2	(5.6)	(2.6)
Other changes in credit risk during the period	(2.9)	(0.6)	(0.4)	(3.9)
Impairment of interest income on stage 3 loans	-	-	(6.3)	(6.3)
New financial assets originated	(3.2)	(0.5)	-	(3.7)
Financial assets derecognised	3.4	2.5	5.8	11.7
Changes in models and risk parameters	(0.9)	(0.7)	(0.5)	(2.1)
Impairment losses for the period charged to income statement	**(2.4)**	**(1.9)**	**(4.6)**	**(8.9)**
Unwind of discount	-	-	6.3	6.3
Write-offs net of recoveries	0.3	0.4	3.0	3.7
Balance at end of period	**(12.6)**	**(11.0)**	**(49.3)**	**(72.9)**

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.

New mortgage loans originated during the period resulted in an increase of £3.5m (2018: £3.7m) in the loss allowance. The Group's highly cash-generative business model, with around half of all loans redeeming within two years, resulted in a release of ECLs totalling £11.0m (2018: £11.7m). ECL was positively impacted by £5.6m (2018: adverse impact £2.1m) due to recalibration of model parameters and updates to the macroeconomic outlook during the period.

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

9. Loans and advances to customers (continued)

Loss allowance (continued)

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 (2018: £nil.)

The net loss on modifications resulting from forbearance was already materially reflected in the ECL allowance.

Movements in gross carrying amounts

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

	Six months ended 31 December 2019			
	Stage 1	**Stage 2**	**Stage 3**	**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	38.0	(38.0)	-	-
Transfer to a lifetime ECL not credit impaired	(228.4)	256.6	(28.2)	-
Transfer to a lifetime ECL credit impaired	(21.1)	(163.8)	184.9	-
New financial assets originated	1,086.1	13.8	-	1,099.9
Financial assets derecognised including write-offs	(492.8)	(65.9)	(72.6)	(631.3)
Balance at end of period	**3,407.1**	**422.2**	**400.8**	**4,230.1**

	Six months ended 31 December 2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers at amortised cost				
Balance at beginning of period	2,305.5	358.5	356.0	3,020.0
Transfer to a 12-month ECL	206.0	(206.0)	-	-
Transfer to a lifetime ECL not credit impaired	(222.9)	266.6	(43.7)	-
Transfer to a lifetime ECL credit impaired	(25.4)	(66.6)	92.0	-
New financial assets originated	899.9	8.3	-	908.2
Financial assets derecognised including write-offs	(470.7)	(38.2)	(98.0)	(606.9)
Balance at end of period	**2,692.4**	**322.6**	**306.3**	**3,321.3**

Impairment losses for the period

	Six months ended	
	31 December 2019	**31 December 2018**
Movements in impairment allowance, charged to income	10.8	8.9
Amounts released from deferred income	0.2	(1.5)
Write-offs net of recoveries	(0.6)	0.7
	10.4	**8.1**

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

10. Other assets

	31 December 2019	31 December 2018	30 June 2019
Amounts owed by related parties	3.9	0.6	0.7
Other debtors	0.9	0.7	0.9
Prepayments and accrued income	4.7	3.3	3.2
	9.5	**4.6**	**4.8**

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 £0.3m (31 December 2018: £0.2m; 30 June 2019: £0.3m) in relation to a director's loan. The loan is interest free and repayable on demand.

11. Property, plant and equipment

Six months ended 31 December 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	0.3	0.4	0.9	1.6
Disposals	(0.1)	(0.3)	-	(0.4)
At end of period	**8.1**	**1.9**	**14.6**	**24.6**
Depreciation				
At beginning of period	3.5	0.8	5.1	9.4
Charge for the period	0.6	0.1	0.5	1.2
Disposals	(0.1)	(0.2)	-	(0.3)
At end of period	**4.0**	**0.7**	**5.6**	**10.3**
Net book value				
At end of period	**4.1**	**1.2**	**9.0**	**14.3**
At beginning of period	4.4	1.0	8.6	14.0

The right-of-use assets arise from the recognition of leases under IFRS 16, as explained more fully in Note 20. Refer to Note 2 for the impact on property, plant and equipment on adoption of IFRS 16.

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

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

11. Property, plant and equipment (continued)

Year ended 30 June 2019	Fixtures, fittings and equipment	Motor vehicles	Total
Cost			
At beginning of year	8.5	1.8	10.3
Additions	0.8	0.2	1.0
Disposals	(1.4)	(0.2)	(1.6)
At end of year	**7.9**	**1.8**	**9.7**
Depreciation			
At beginning of year	3.5	0.5	4.0
Charge for the year	1.4	0.3	1.7
Disposals	(1.4)	-	(1.4)
At end of year	**3.5**	**0.8**	**4.3**
Net book value			
At end of year	**4.4**	**1.0**	**5.4**
At beginning of year	5.0	1.3	6.3

12. Intangible assets

Computer software	Six months ended 31 December 2019	Six months ended 31 December 2018	Year ended 30 June 2019
Cost			
At beginning of period	14.5	11.4	11.4
Additions	2.1	2.0	3.2
Disposals	-	-	(0.1)
At end of period	**16.6**	**13.4**	**14.5**
Amortisation			
At beginning of period	5.7	3.1	3.1
Charge for the period	1.6	1.7	2.7
Disposals	-	-	(0.1)
At end of period	**7.3**	**4.8**	**5.7**
Net book value			
At end of period	**9.3**	**8.6**	**8.8**
At beginning of period	8.8	8.3	8.3

13. Deferred tax asset

	Six months ended 31 December 2019	Six months ended 31 December 2018	Year ended 30 June 2019
At beginning of period	7.5	1.4	1.4
IFRS 9 adjustment	-	6.4	6.4
IFRS 16 adjustment	0.3	-	-
Charge to income statement	(0.3)	0.2	(0.2)
Adjustment in respect of prior periods	-	-	(0.1)
At end of period	**7.5**	**8.0**	**7.5**

The deferred tax asset consisted of the following:

	31 December 2019	31 December 2018	30 June 2019
Accelerated capital allowances	(1.1)	(0.7)	(0.9)
Short-term timing differences	8.6	8.7	8.4
	7.5	**8.0**	**7.5**

14. Borrowings

	31 December 2019	31 December 2018	30 June 2019
Bank facilities	35.0	5.0	55.0
Loan notes	2,681.4	1,824.6	2,221.5
Subordinated shareholder loans	28.2	26.1	27.1
Senior secured notes	726.4	727.1	726.8
Finance leases[10]	11.5	0.8	0.8
	3,482.5	**2,583.6**	**3,031.2**
Debt issue costs	(15.5)	(16.9)	(15.5)
	3,467.0	**2,566.7**	**3,015.7**

Of which:			
Due for settlement within 12 months	116.1	83.6	74.5
Due for settlement after 12 months	3,350.9	2,483.1	2,941.2
	3,467.0	**2,566.7**	**3,015.7**

	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	Nov 2023
Together ABS 1	2017	Amortising	275.0	Sept 2021
Together ABS 2	2018	Amortising	273.0	Nov 2022
Together ABS 3	2019	Amortising	332.0	Sept 2023

In the case of the amortising facilities, the expiry date shown is the date of the option to call the facility.

On 10 October 2019, the Group completed its third residential-mortgage-backed securitisation, Together Asset Backed Securitisation 2019-1 PLC (TABS 3). The transaction successfully raised £315.4m of external funding against a loan portfolio of £332.0m that was 79.0% funded by notes rated as AAA.

On 30 October 2019, the Group refinanced Lakeside ABS increasing the facility size from £255m to £500m and extended its maturity to November 2023.

Subordinated shareholder loans were issued on 2 November 2016. The subordinated shareholder loans are interest-free loans totalling £68.1m, which comprise £25.1m due in 2024 and £43.0m due in 2036. The difference between the total nominal value of £68.1m and the initial fair value of £22.0m represents a non-distributable capital contribution of £46.1m, £6.2m of which has amortised by 31 December 2019 (31 December 2018: £3.6m; 30 June 2019: £5.1m). The remainder of the reserve will be released over the life of the instruments.

The Group has senior secured notes in issue of £375m and £350m, which are due to mature by 2021 and 2024 respectively. Refer to Note 22 for details of funding after the reporting date.

Refer to Notes 2 and 20 for more details in relation to the finance leases.

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.

[10] Note that 31 December 2019 includes the impact of IFRS 16, whilst comparatives are presented under IAS 17.

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

14. Borrowings (continued)

Borrowings have the following maturities:

As at 31 December 2019	**<1 year**	**1-2 years**	**2-5 years**	**>5 years**	**Total**
Bank facilities	-	35.0	-	-	35.0
Loan notes	115.9	180.7	2,384.8	-	2,681.4
Subordinated shareholder loans	-	-	-	28.2	28.2
Senior secured notes	-	375.0	351.4	-	726.4
Finance leases	1.2	1.0	3.1	6.2	11.5
	117.1	**591.7**	**2,739.3**	**34.4**	**3,482.5**
Debt issue costs	(1.0)	(4.8)	(9.7)	-	(15.5)
	116.1	**586.9**	**2,729.6**	**34.4**	**3,467.0**

As at 31 December 2018	**<1 year**	**1-2 years**	**2-5 years**	**>5 years**	**Total**
Bank facilities	-	-	5.0	-	5.0
Loan notes	83.9	68.2	1,672.5	-	1,824.6
Subordinated shareholder loans	-	-	-	26.1	26.1
Senior secured notes	-	-	375.0	352.1	727.1
Finance leases	0.5	0.3	-	-	0.8
	84.4	**68.5**	**2,052.5**	**378.2**	**2,583.6**
Debt issue costs	(0.8)	(0.6)	(12.3)	(3.2)	(16.9)
	83.6	**67.9**	**2,040.2**	**375.0**	**2,566.7**

As at 30 June 2019	**<1 year**	**1-2 years**	**2-5 years**	**>5 years**	**Total**
Bank facilities	-	55.0	-	-	55.0
Loan notes	74.7	259.9	1,886.9	-	2,221.5
Subordinated shareholder loans	-	-	-	27.1	27.1
Senior secured notes	-	-	726.8	-	726.8
Finance leases	0.5	0.3	-	-	0.8
	75.2	**315.2**	**2,613.7**	**27.1**	**3,031.2**
Debt issue costs	(0.7)	(0.8)	(14.0)	-	(15.5)
	74.5	**314.4**	**2,599.7**	**27.1**	**3,015.7**

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

15. Provisions and contingent liabilities

	Customer provisions	Other provisions	Total
Balance at 1 July 2019	2.7	1.6	4.3
Charge/(release) for the period	16.0	(0.2)	15.8
Provisions utilised	(0.6)	(0.2)	(0.8)
Balance at 31 December 2019	**18.1**	**1.2**	**19.3**

In previous periods, provision amounts were included in accruals and deferred income within other liabilities as the amounts were not material. As a result of the increase in provisions in the period ended 31 December 2019, provision amounts are now disclosed separately in the statement of financial position and reclassified in prior period comparatives.

a) Provisions

As a result of undertaking internal reviews within the regulated division during the year to 30 June 2019, 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.

A provision for forbearance-related remediation (‘forbearance provision’) has been estimated at £4.0m, which represents an increase of £1.0m since 30 September 2019. Depending on the outcome of further testing and the selection of certain judgements and assumptions, the financial impact is still estimated to be within the original range and which is now estimated at £3.0m to £5.0m.

In respect of the matters related to clarity and completeness of communications with customers (‘customer communications provision’), a provision has been estimated at £10.0m, comprising £9.0m in respect of redress and a further £1.0m for administrative expenses, which has been recognised during the period. Depending on the outcome of further testing and the selection of certain judgements and assumptions, the financial impact for the customer communications provision has been estimated to be in the range of £6.0m to £12.0m.

The forbearance provision and the customer communications provision represent the estimated financial impacts arising from both live and redeemed customers and comprises: (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 a number of significant judgements and estimates. Judgements have been necessary about: the circumstances where customers may have been disadvantaged, and the extent of the customer population included. Estimates have also been used, including the estimated amounts for customer redress due, and the assumed timing of remediation activities. The calculation also contains certain limitations, including: identifying the extent of any overlap between remediation activities, and is subject to further validation and testing.

Estimates for provisions and associated ranges are based on management’s best estimate using the information available at the reporting date. 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 of the current estimated range.

Other customer provisions and other provisions comprise other provisions which are individually immaterial.

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

15. Provisions and contingent liabilities (continued)

b) Contingent liabilities

Fixed and floating charges

As at 31 December 2019, the Group's assets were subject to a fixed and floating charge in respect of £725m senior secured notes (31 December 2018: £725m; 30 June 2019: £725m) and £35m in respect of bank borrowings (31 December 2018: £5m; 30 June 2019: £55m).

16. Other liabilities

	31 December 2019	31 December 2018	30 June 2019
Trade creditors	1.3	0.3	1.9
Other creditors	3.4	4.2	2.7
Other taxation and social security	0.8	1.0	1.0
Accruals and deferred income	52.5	41.7	44.9
	58.0	**47.2**	**50.5**

As set out in Note 15, provision amounts previously included within accruals and deferred income have been disclosed separately for the period ended 31 December 2019 and comparative amounts have been reclassified accordingly.

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 assets/(liabilities) held for risk management	Level 1	Level 2	Level 3	Fair value	Carrying value
31 December 2019					
Interest-rate risk	-	(0.2)	-	**(0.2)**	**(0.2)**
31 December 2018					
Interest-rate risk	-	0.4	-	**0.4**	**0.4**
30 June 2019					
Interest-rate risk	-	0.1	-	**0.1**	**0.1**

The Group's derivative assets are interest-rate caps and its derivative liability is an interest-rate swap. 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 £33,000 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:

31 December 2019	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets					
Loans and advances to customers	-	-	4,195.2	**4,195.2**	**4,159.2**
Financial liabilities					
Borrowings	745.7	2,716.4	42.7	**3,504.8**	**3,467.0**

31 December 2018	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets					
Loans and advances to customers	-	-	3,305.1	**3,305.1**	**3,248.4**
Financial liabilities					
Borrowings	704.9	1,829.6	26.3	**2,560.8**	**2,566.7**

30 June 2019	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets					
Loans and advances to customers	-	-	3,723.5	**3,723.5**	**3,694.5**
Financial liabilities					
Borrowings	737.4	2,280.0	29.2	**3,046.6**	**3,015.7**

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

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

The fair value of loans and advances to customers is higher than the carrying value, primarily due to the current origination rates used to discount future cash flows being below existing customer interest rates.

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

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

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

	Three months ended		Six months ended	
	31 Dec 2019	**31 Dec 2018**	**31 Dec 2019**	**31 Dec 2018**
Profit after tax	22.2	27.1	49.3	54.1
Adjustments for:				
Taxation	3.3	4.1	7.7	7.5
Depreciation and amortisation	1.4	1.5	2.8	2.5
Net losses on derivatives held for risk management	-	-	0.3	-
Interest expense	33.6	28.3	65.4	56.7
	60.5	**61.0**	**125.5**	**120.8**
Purchases and cancellations of derivatives held for risk management	(0.2)	(0.4)	(0.2)	(0.4)
Increase in loans and advances to customers	(280.8)	(237.0)	(464.7)	(321.7)
Increase in other assets	(4.6)	(0.5)	(4.7)	(0.3)
Increase in accruals	14.0	1.6	6.2	6.6
Increase/(decrease) in provisions	10.4	(0.6)	15.0	(1.9)
Increase/(decrease) in trade and other creditors	1.2	0.2	(0.1)	(1.0)
	(260.0)	**(236.7)**	**(448.5)**	**(318.7)**
Cash outflow from operations	**(199.5)**	**(175.7)**	**(323.0)**	**(197.9)**

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, and the DL Moser 1995 Family Settlement No1 Trust (together the Moser Shareholders). The Moser shareholders indirectly own 100% of the Company's voting share capital.

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

Entity	**Nature of transactions**
Bracken House Properties LLP	The Group pays operating lease and insurance costs to Bracken House Properties LLP for its provision of the Group's head office 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.

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

19. Related party transactions (continued)

b) Parent companies

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

Entity	Nature of transactions
Bracken Midco2 Limited	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.

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.

d) Key management personnel

Key management personnel comprise directors of the Group. There are no transactions with directors other than the director's loan disclosed in Note 10 and remuneration in the ordinary course of business.

Transactions

The amounts receivable from related parties by the Group are disclosed in Notes 9 & 10. The Group had the following transactions with related parties during the period:

	Six months ended			
	31 December 2019		31 December 2018	
	Charge/ (credit) to income or equity	Paid	Charge/ (credit) to income or equity	Paid
Lease and insurance costs	0.7	0.7	0.7	0.7
Accounts payable transactions	-	0.8	-	1.1
Impairment of related party loans	0.5	-	(0.1)	-
Interest on related party loans	(0.3)	-	(0.4)	-
Related parties of the Moser Shareholders	**0.9**	**1.5**	**0.2**	**1.8**
Interest expense	1.1	-	1.0	-
Dividend paid	15.6	15.6	15.0	15.0
Parent companies	**16.7**	**15.6**	**16.0**	**15.0**
Total related parties	**17.6**	**17.1**	**16.2**	**16.8**

20. Leases

The Group leases its two head-office buildings. The leases run for 15 and 25 years. Previously these leases were classified as operating leases under IAS 17.

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 six months ended 31 December 2019:

	Administrative expenses £m	**Interest expense £m**	**Total £m**
Depreciation expense of right-of-use assets	0.5	-	0.5
Interest expense on lease liabilities	-	0.3	0.3
Total recognised in the income statement	**0.5**	**0.3**	**0.8**

The below table sets out the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the six months ended 31 December 2019.

	Right-of-use assets - leasehold property £m	**Lease liabilities £m**
As at 1 July 2019	8.6	(11.0)
Additions	0.9	(1.3)
Depreciation expense	(0.5)	-
Interest expense on lease liabilities	-	(0.3)
Payments	-	1.1
As at 31 December 2019	**9.0**	**(11.5)**

The lease liabilities analysis includes hire purchase obligations for motor vehicles. The Group had total cash outflows for leases of £1.1m in the six months ended 31 December 2019.

21. 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 31 December 2019, the Group had undrawn commitments to lend of £202.5m (31 December 2018: £132.7m). These relate mostly to lines of credit granted to customers. The ECL on the undrawn elements of existing facilities is included within the total ECL held within net loans and advances to customers. The ECL on new lending commitments is £0.1m (31 December 2018: £0.1m), and is classified within other liabilities.

The increase in undrawn commitments to lend compared with 31 December 2018 is driven by an increase in both the Personal Finance and Commercial Finance loan pipeline as at 31 December 2019.

22. Events after the reporting date

On 10 February 2020, the Group refinanced its £375m Senior Secured Notes due to mature in 2021, increasing the amount to £435m and extending the maturity to February 2026. The Group will use part of the proceeds to repay the bank facilities of £35m.

The early refinancing of the 2021 Notes has resulted in the payment of a call penalty of £5.9m and the write-off of deferred up-front fees of £0.8m. These costs have not been recognised within interest payable at the reporting date.