Together Financial Services Limited
Q3 2019/20 Results

Company Registration No. 02939389

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Highlights

Together Financial Services Limited ('Together' or 'the Group'), one of the UK's leading specialist mortgage and secured loan providers, announces its results for the quarter ended March 31, 2020.

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

"The COVID-19 pandemic has had an enormous impact on economies across the globe. During these extraordinarily challenging times we have focused on supporting our customers, protecting and enabling our people and enhancing the future resilience of our business. I am immensely proud of the way all my colleagues have risen to the challenges of the crisis.

"Together reacted quickly to the evolving situation, with almost all colleagues working effectively from home by the end of March. In addition to providing mortgage payment holidays to around 17% of the Group's customers by value and redeploying and retraining colleagues to help with increased customer call volumes, we also temporarily paused accepting new loan applications as we prioritised supporting our existing customers and re-assessed our pipeline against tighter lending criteria. We also took additional prudent measures on commencement of the lockdown to preserve capital and liquidity and to enhance our financial flexibility, including our parent holding company paying the interest on our Senior PIK Toggle Notes as payment in kind.

"The disruption resulting from the coronavirus pandemic has had an adverse impact on an otherwise strong quarter. Average monthly lending reduced by 5.2% compared with the same period last year, as we moved quickly to adopt more conservative underwriting requirements and reduced origination levels, and underlying profit before tax was 55.8% lower at £13.9m as our credit impairment charge increased substantially to reflect a deterioration in the macroeconomic outlook due to COVID-19. However since March, cash inflows from repayments and redemptions have been better than we had prudently expected and, due to the measures we have taken to preserve liquidity, our total accessible liquidity increased from £81m at 31st March to £126m at 22nd May. In addition we have also agreed with our funding partners, and in line with the government guidance, to treat customers requiring forbearance due to COVID-19 separately to our normal forbearance arrangements.

"While it is too early to reliably estimate the full economic impact of COVID-19, we expect the remainder of 2020 to be challenging. The gradual easing of the national lockdown will not signal a return to the 'old normal' but rather the first stage of moving towards the 'next normal' with an expected significant increase in the number of borrowers who require support from specialist lenders. With a resilient business model proven through several economic cycles, a diversified funding structure and robust levels of liquidity, we believe Together will emerge from this crisis well placed to support our customers and play our part in supporting the UK's economic recovery."

Financial performance: quarter ended 31 March '20 (Q3'20)

- Average monthly loan originations of £160.8m, down 5.2% compared with quarter ended 31 March '19 (Q3'19: £169.7m) and down 21.9% from quarter ended 31 December '19 (Q2'20: £205.8m) including reduced lending in March of £130m
  - Weighted average origination LTVs remain very conservative at 58.0% (Q3'19: 58.0%; Q2'20: 58.0%)
- Group loan book reaches £4.3bn, up 24.4% compared with 31 March '19 (£3.5bn) and up 3.9% compared with 31 December '19 (£4.2bn)
  - Loan book weighted average indexed LTVs reduced to 53.9% (Q3'19: 55.1%; Q2'20: 54.9%)
- Interest receivable and similar income of £100.1m, up 16.1% on Q3'19 (£86.3m) and up 3.4% compared with Q2'20 (£96.8m), driven by interest earned on the growing loan book
- Underlying NIM remains attractive at 6.2%, although lower than 6.3% in Q2'20 and 6.8% in Q3'19 reflecting ongoing competitive margin pressure, redemption of higher yielding back-book loans and increased gearing
- Annualised cost of risk at 3.8% compared with 0.4% in Q3'19 and 0.5% in Q2'20 due to a significant increase in impairment charges to £40.1m (Q3 '19: £3.1m) principally to reflect deterioration in the macroeconomic outlook due to COVID-19
- Underlying EBITDA of £48.5m, compared with £61.9m in Q3'19 and £71.6m in Q2'20 due mainly to the increase in impairment charges
- Underlying PBT of £13.9m, down 55.8% on Q3'19 (£31.4m) and down 62.0% compared with Q2'20 (£36.5m) due mainly to the increase in impairment charges

Highlights (continued)

- Cash generation remained robust, with cash receipts of £392.0m, up 4.1% compared with Q3'19 (£376.7m), although lower than Q2'20 (£432.6m) partly reflecting seasonal factors as well as some potential impact of COVID-19 in the month of March.
- Successfully issued £435m of 4⅞ % Senior Secured Notes, due 2026, using proceeds to redeem former 6¼% 2021 notes and repay amounts drawn under revolving credit facility

Key metrics	March 31, 2020	March 31, 2019	December 31, 2019
Interest receivable and similar income* (£m)	100.1	86.3	96.8
Underlying interest cover ratio*	1.5:1	2.1:1	1.8:1
Underlying net interest margin** (%)	6.2	6.8	6.3
Underlying cost-to-income ratio*[1] (%)	19.8	39.8	35.1
Cost of risk** (%)	3.8	0.4	0.5
Underlying profit before taxation[1]* (£m)	13.9	31.4	36.5
Loans and advances to customers (£m)	4,315.9	3,470.7	4,159.2
Net debt gearing (%)	80.5	77.4	79.5
Shareholder funds (£m)[2]	829.2	773.6	823.2
Underlying return on equity[1]** (%)	7.1	14.2	15.5

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

COVID-19 update:

- ***Supporting our customers***
  - Provided mortgage payment holidays and other COVID-19 forbearance to around 17% of Group customers by value, in line with government and industry guidance
  - Colleagues redeployed and retrained to help handle increased customer call volumes
  - Funded c. £55m of lending from within pipeline during lockdown

- ***Protecting and enabling our colleagues***
  - 98% of colleagues working from home to support customers by end of March with regular communications to keep them informed and supported
  - Topped up payments for colleagues placed on furlough, as lending activity reduced, to 100% of full salary for lower paid and 80% for all colleagues
  - Strengthened governance with additional Executive and Board meetings and Gerald Grimes, Group CEO Designate, joining Group Board on 17th May

- ***Enhancing the future resilience of our business***
  - Early prudent actions to preserve headroom in facilities and enhance financial flexibility in long-term best interests of our customers, the business and our bondholders:
    - Temporarily paused accepting new loan applications until we had greater visibility on impact of COVID-19, in order to preserve liquidity, manage credit risk, support our existing customers and re-assess pipeline applications against tighter lending criteria
    - Board of Bracken Midco1 elected to satisfy Senior PIK Toggle interest in form of payment in kind
    - Agreed COVID-19 facility covenant waivers for the provision of mortgage payment holidays with banks in all four private securitisations
    - Further strengthened total accessible liquidity to £126m at 22nd May (31st March: £81m)

[1] Underlying metrics include adjustments to exclude £0.4m customer provisions in Q3'20 (Q2'20: £11.0m), £7.4m interest payable relating to the refinance of the 2021 Senior Secured Notes in Q3'20. For further details see 'Financial review' section

[2] Includes subordinated shareholder loans of £27.9m (Q3'19: £26.6m, Q2'20: £28.2).

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 March 31, 2020, 65.0% 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 March 31, 2020, 31.4% of our loan portfolio was classified as retail purpose, 63.4% as commercial purpose (which included 22.4% of buy to let +) and 5.2% 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.

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

The LTVs of our loan portfolio on a weighted average indexed basis as of March 31, 2020, was 53.9% and the LTV on a weighted-average basis of new loans underwritten in the quarter ended March 31, 2020 was 58.0%. As of March 31, 2020, 97.7% of the total loan portfolio and 92.7% of the Borrower Group[3] loan portfolio, calculated by value, consisted of loans with indexed LTVs equal to or less than 80%. This fundamental, long-standing principle of lending at conservative LTV levels, has provided us with significant protection in times of falling house prices and economic downturns, thereby mitigating our levels of credit losses.

[3] See Structure diagram on p.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 March 31, 2020 with comparatives to March 31, 2019. 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 March 31, 2020 the Borrower Group's loan assets were subject to a fixed and floating charge in respect of £785m 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"), 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, 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, 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 March 31, 2019 and 2020 and for the quarter ended December 31, 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, customer communications provision and interest payable relating to the refinance of the 2021 Senior Secured Notes. (See Notes 14 and 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 March 31, 2020. 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. 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 March 31		**3 months ended or as at December 31**
(£m, except for percentages and ratios or unless otherwise noted)	**2020**	**2019**	**2019**
Group			
Interest receivable and similar income	100.1	86.3	96.8
Fee and commission income	0.9	1.1	1.3
Income	101.0	87.4	98.1
Underlying NIM[4]	6.2%	6.8%	6.3%
Underlying cost-to-income*[5]	19.8%	39.8%	35.1%
Impairment charge	(40.1)	(3.1)	(4.9)
EBITDA[6]	48.1	61.9	60.6
Underlying EBITDA*[6]	48.5	61.9	71.6
EBTIDA margin[6]	47.6%	70.8%	61.8%
Underlying EBITDA margin*[6]	48.0%	70.8%	73.0%
Profit on ordinary activities before tax	6.1	31.4	25.5
Underlying profit on ordinary activities before tax*	13.9	31.4	36.5
Underlying return on equity*[7]	7.1%	14.2%	15.5%
Supplemental cash flow information:			
Cash receipts	392.0	376.7	432.6
New advances	482.5	509.1	617.3
LTV of loan portfolio (on a weighted average basis, based on LTV of loans at origination) [6]	58.2%	57.9%	58.2%
LTV of loan portfolio (on a weighted average indexed basis) [6]	53.9%	55.1%	54.9%
Borrower Group			
LTV of loan portfolio (on a weighted average basis, based on LTV of loans at origination) [6]	59.7%	58.4%	60.4%
LTV of loan portfolio (on a weighted average indexed basis) [6]	55.9%	57.4%	58.4%

* Underlying metrics include adjustments to exclude £0.4m customer provisions in Q3'20 (Q2'20: £11.0m) and £7.4m interest payable relating to the refinance of the 2021 Notes in Q3'20.

The key performance indicators above for the quarter ended March 31, 2020 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 March 31, 2020 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 March 31, 2020, and March 31, 2019 by arrears banding, for the Group and Borrower Group is as follows:

	Group Loan Portfolio Arrears Analysis		Borrower Group Loan Portfolio Arrears Analysis	
	March 31, 2020	**March 31, 2019**	**March 31, 2020**	**March 31, 2019**
Nil Arrears & Arrears ≤ 1 month	**85.8%**	**86.5%**	**57.9%**	**66.7%**
Performing Arrears				
1-3 months	4.0%	3.1%	6.3%	3.7%
3-6 months	0.2%	0.4%	0.7%	0.9%
>6 months	0.3%	0.5%	1.1%	1.3%
Total Performing Arrears	**4.5%**	**4.0%**	**8.1%**	**5.9%**
Development Loans	**5.2%**	**6.0%**	**19.7%**	**17.8%**
Total Performing Loans & Development Loans	**95.5%**	**96.5%**	**85.7%**	**90.4%**
Non-Performing Arrears				
3-6 months	0.8%	0.6%	1.7%	1.3%
>6 months	1.0%	0.9%	3.4%	2.5%
Past due[1]	1.2%	0.7%	4.2%	2.1%
Total Non-Performing Arrears	**3.0%**	**2.2%**	**9.3%**	**5.9%**
Repossessions & LPA Sales	**1.5%**	**1.3%**	**5.0%**	**3.7%**
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.

The above analysis (and arrears analysis in the related presentation) does not distinguish between a COVID-19 mortgage payment holiday (MPH) and arrears as at March 31, 2020. The impact to the above analysis is expected to be small given the number of MPH in force at such time and the propensity for this to cause a change in arrears classification at such time. It is intended the impact of MPH will be separated from arrears analysis in future quarters. Please refer to Note 9 for further analysis of MPH provided at March 31, 2020.

An analysis of our loan portfolio as at March 31, 2020, by indexed and origination LTV banding, for the Group and Borrower Group is as follows:

Group Loan Portfolio Indexed LTV Analysis (£m)	**Performing Loans**	**Development Loans**	**Non - Performing Loans**	**Repossessions & LPA Sales**	**Total Loan Portfolio**
<=60%	2,445.1	104.2	74.6	46.9	2,670.8
>60% <=80%	1,392.1	89.8	51.6	15.9	1,549.4
>80% <=100%	51.2	22.2	2.5	0.2	76.1
>100%	14.9	7.5	0.3	-	22.7
Total	**3,903.3**	**223.7**	**129.0**	**63.0**	**4,319.0**

Borrower Group Loan Portfolio Indexed LTV Analysis (£m)	**Performing Loans**	**Development Loans**	**Non - Performing Loans**	**Repossessions & LPA Sales**	**Total Loan Portfolio**
<=60%	466.8	104.2	58.3	42.4	671.7
>60% <=80%	231.9	89.8	44.0	14.7	380.4
>80% <=100%	35.4	22.2	2.5	0.2	60.3
>100%	14.0	7.5	0.3	-	21.8
Total	**748.1**	**223.7**	**105.1**	**57.3**	**1,134.2**

Operating review (continued)

Group Loan Portfolio Origination LTV Analysis (£m)	Performing Loans	Development Loans	Non - Performing Loans	Repossessions & LPA Sales	Total Loan Portfolio
<=60%	1,877.9	121.2	57.9	21.7	2,078.7
>60% <=80%	1,911.7	78.5	65.2	37.2	2,092.6
>80% <=100%	86.6	11.5	2.8	1.5	102.4
>100%	27.1	12.5	3.1	2.6	45.3
Total	**3,903.3**	**223.7**	**129.0**	**63.0**	**4,319.0**

Borrower Group Loan Portfolio Origination LTV Analysis (£m)	Performing Loans	Development Loans	Non - Performing Loans	Repossessions & LPA Sales	Total Loan Portfolio
<=60%	364.9	121.2	46.3	17.6	550.1
>60% <=80%	289.6	78.5	53.0	35.6	456.7
>80% <=100%	66.6	11.5	2.7	1.5	82.2
>100%	27.0	12.5	3.1	2.6	45.2
Total	**748.1**	**223.7**	**105.1**	**57.3**	**1,134.2**

The indexed weighted-average LTV of the loan portfolio for the total Group at March 31, 2020 is 53.9% compared with the prior year comparable quarter of 55.1% (March 31, 2019) and prior quarter of 54.9% (December 31, 2019).

The indexed weighted-average LTV of the loan portfolio for the Borrower Group at March 31, 2020 is 55.9% compared with the prior year comparable quarter of 57.4% (March 31, 2020) and the prior quarter of 58.4% (December 31, 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 March 31, 2020, 31.4% of our loan portfolio was classified as retail-purpose, 63.4% of our loan portfolio was classified as commercial-purpose (which included 22.4% of buy to let +) and 5.2% of our loan portfolio was classified as development funding, calculated by value. At March 31, 2019, 31.7% of our loan portfolio was classified as retail purpose, 62.3% of our loan portfolio was classified as commercial purpose (which included 21.3% of buy to let +) and 6.0% of our loan portfolio was classified as development funding.

The proportion of our loan portfolio secured by residential security by value has decreased to 65.0% as at March 31, 2020, when compared with 65.6% as at March 31, 2019 and 65.1% as at December 31, 2019.

The proportion of our loan portfolio secured on first charges has increased to 73.2% as at March 31, 2020, when compared with 70.4% as at March 31, 2019 and 72.8% as at December 31, 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 March 31, 2020, including further advances, we have originated an average of £160.8m per month compared with £169.7m per month in the quarter to December 31, 2019 and £205.8m per month in the quarter to December 31, 2019.

Our loans and advances to customers stands at £4,315.9 as at March 31, 2020, compared with £3,470.7m as at March 31, 2019 and £4,159.2m as at December 31, 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 16.1% to £100.1m for the quarter to March 31, 2020 compared with £86.3m in the quarter to March 31, 2019 and has increased 3.4% when compared with £96.8m in the prior quarter (December 31, 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 underlying net interest margin (adjusting to exclude exceptional interest payable in respect of the refinancing of the 2021 notes) from 6.8% in the prior year comparable quarter to March 31, 2019 to 6.2% in the quarter to March 31, 2020 and compares to 6.3% in the prior quarter to December 31, 2019. The inclusion of the refinancing of the 2021 notes equates to a 0.6 percentage points reduction in net interest margin.

The net impairment charge to the income statement was £40.1m for the quarter to March 31, 2020, compared with £3.1m in the prior year comparable quarter (March 31, 2019) and £4.9m in the prior quarter (December 31, 2019). The primary driver of this increase was changes to forward-looking assumptions as a result of the COVID-19 outbreak, which resulted in a £24.6m increase, where the largest impact was as a result of the revisions to the macroeconomic forecast assumptions and the number of scenarios adopted, in the light of the coronavirus outbreak, which contributed £20.2m of the charge during the quarter. The prior quarter charge to December 31, 2019 benefited from a £4.9m reduction due to improvements in the macroeconomic outlook at that time and also from the impact of regular model recalibrations.

The underlying cost-to-income ratio for the quarter to March 31, 2020 was 19.8%[8], lower than the prior year comparative of 38.0% (March 31, 2019) and the prior quarter (December 31, 2019) of 35.1%. During the quarter certain accruals were reduced, primarily in relation to executive bonuses and long term incentive schemes.

Underlying EBITDA of £48.5m[8] compared with £61.9m in the prior year comparable quarter (March 31, 2019) and £71.6m[8] in the prior quarter (December 31, 2019). Underlying EBITDA margin was 48.0% for the quarter to March 31, 2020 compared with 70.8% in the prior year comparable quarter (March 31, 2019) and 73.0% for the prior quarter (December 31, 2019).

Underlying profit before tax of £13.9m[8] compared with £31.4m in the prior year comparable quarter (March 31, 2019) and £36.5m[8] in the prior quarter (December 31, 2019).

Cash receipts for the quarter were £392.0m up 4.1% compared with £376.7m in the prior year comparable quarter (March 31, 2019) and down by 10.4% when compared with £432.6m in the prior quarter (December 31, 2019) partly due to seasonal factors and also some expected impact of COVID-19 towards the end of the quarter.

Loans and advances to customers have increased by 24.4% to £4,315.9m compared with £3,470.7m as at the prior year comparable quarter (March 31, 2019) and up by 3.9% compared with £4,159.2m as at the prior quarter (December 31, 2019). Shareholder funds have increased by 7.2% to £829.2m compared with £773.6m at March 31, 2019 and increased by 1.2% from £823.2m as at the prior quarter (December 31, 2019).

8 Excluding adjustments £0.4m customer provisions in Q3‘20 (Q2‘20: £11.0m) and £7.4m interest payable relating to the refinance of the 2021 notes in Q3‘20.

Recent developments

Trading update

In line with the official guidance, we took the steps necessary to relocate our colleagues with the majority now working remotely from home, ensuring that we can provide service and support to our existing customers during this difficult time. We have been closely monitoring official government guidance and where appropriate implementing changes to our forbearance policies in order to support our customers who are impacted by COVID-19. These include the adoption of measures to support the government's recent announcements on mortgage payment holidays. To support this we have redeployed and retrained a number of colleagues from across the business, where appropriate.

The Group has offered mortgage-payment holidays to a number of customers as a result of COVID-19 as disclosed in Note 9. At May 27, 2020, the Group has offered mortgage-payment holidays to approximately 6,300 customers representing 17% of the Group's loan book. Following the start of the UK-wide lockdown on March 23, we announced that we had temporarily paused accepting new loan applications as we prioritised supporting our existing customers in completing transaction that were already in process. This decision also recognised the practical challenges of underwriting new loans and undertaking sufficiently informed credit assessments in a period of such uncertainty, as well as the need to cautiously preserve capital and manage our liquidity at the height of the uncertainty.

Reflecting the decision to temporarily pause accepting new applications and the practical difficulties in processing existing applications during the lockdown period, the Group took the decision to furlough certain employees particularly in the sales, marketing and underwriting functions. At May 26, 2020 this represented approximately 290 colleagues. The Group continued to support all colleagues including regular communications and topping up salaries to 100% for all lower paid colleagues and to 80% of salaries for all other colleagues.

Following the government announcing an easing of the nationwide lockdown earlier in the month, we now intend to commence a gradual and cautious return to lending, initially focussing on a reassessment of existing pipeline and then progressing to new applications albeit with stricter lending criteria

In May 2020, the Group and each of the note purchasers to its four private securitisations entered into certain waivers and amendments of its facility documents in order to support the provision of up to three month mortgage payment holidays in line with the, as at then, government guidance in response to the COVID-19 outbreak. On the May 22, 2020 the government announced its intention to extend mortgage payment holidays to support individuals and families for a further three months.

Ratings update

As a result of the increased uncertainty as a result of COVID-19 in April 2020 Fitch placed Together Financial Services Limited's long term issuer default rating of 'BB' on Rating Watch Negative. In addition S&P revised their outlook on the Together Financial Services Limited and Bracken Midco1 PLC ratings from Positive to Negative whilst affirming the long term credit rating at 'BB-' and 'B+' respectively.

Appointments

As previously announced Gerald Grimes joined the business as our Group CEO Designate in April 2020 and was appointed to the Group Board as an Executive Director on 17th May 2020. 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.

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.

Senior PIK Toggle notes

Reflecting the significant market uncertainty resulting from the COVID-19 pandemic, the directors of Bracken Midco1 PLC took additional prudent measures to preserve the Group's liquidity and capital. On April 8, 2020 Bracken Midco1 PLC announced the intention to 'pay in kind' (PIK), the interest that was due in April on its Senior PIK Toggle notes by the issuance of additional notes rather than paying in cash.

Significant factors which may affect results of operations

COVID-19

The coronavirus outbreak represents a major development in the risks and uncertainties facing the Group, and is the principal strategic risk to the achievement of the Group's objectives. The Group has successfully invoked its business-continuity processes to support the well-being of colleagues, and in order to maintain business operations including providing support to its customers.

Macroeconomic conditions

The Group is impacted by general business and economic conditions in the United Kingdom. Economic indicators for the first eight months of the current financial year were generally little changed from those set out in the annual report for the year to 30 June 2019. However, in March 2020 and subsequently, the emergence and rapid spread of the coronavirus has led to unprecedented upheaval in public health and the global economy. Interest rates have fallen sharply, and governments around the world have announced major monetary and fiscal intervention in mitigation. Authoritative up-to-date information on the performance of the UK economy is still very limited and, given the lack of similar events upon which to base predictions about the future, there is a lack of consensus among economists as to the duration or eventual scale of the economic consequences. However, it is considered unavoidable that economies around the world, including the UK's, will fall into recession, with little certainty as the duration and shape of the recovery period.

An economic downturn is expected to adversely impact the growth in the Group's lending and profitability. Note 9 to the accounts sets out the range of macroeconomic assumptions that the Group has used in estimating expected credit losses in line with IFRS9.

Against this uncertain and negative backdrop, the Group benefits from all lending being secured on property within the UK with low average LTVs, specialist through the cycle expertise built up over 45 years, and a strong, diversified funding base which management believes provide the Group with the resilience needed in such uncertain times.

Loan assets performance

The performance of our total loan assets depends on our ability to collect each expected loan installment, including interest and principal payments, on a timely basis. This, in turn, depends in part on the strength of our underwriting process to assess the affordability of the loan installments and to assess the sustainability of such payments based upon known factors at the time of origination, an assessment of the repayment strategy and the marketability and value of the underlying security. Our underwriting criteria, processes, controls and systems have been developed and refined based upon many years of experience. For each loan application, a detailed 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. The performance of our total loan assets is impacted by our continued investment in our collections infrastructure, which impacts our ability to collect expected loan installments.

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

In March 2020 the government announced very substantial and wide-ranging support measures in anticipation of the effect of the pandemic on the wider economy. These measures included the availability of mortgage-payment holidays, initially for up to three months, for borrowers who have been impacted by COVID-19. On May 22, 2020 the government announced its intention to extend the duration of both the term of mortgage payment holidays and the period in which mortgage customers can request such.

Whilst the Group has prudently tightened certain aspects of its lending criteria in response to COVID-19 its approach to managing and mitigating credit risk is otherwise unchanged.

Significant factors which may affect results of operations (continued)

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

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

Together is a national lender and has a loan portfolio which is diversified across the UK, with less than 30% concentrated in the London region. Our London portfolio is not focused on 'Prime'[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.

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.

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

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

Interest rate environment

Interest rates have recently been cut to a new record-low following the coronavirus outbreak. 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.

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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)

Interest rate environment (continued)

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 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.

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

Operational changes

With the COVID-19 pandemic, the Group has invoked its business-continuity process in proactively responding to the coronavirus outbreak. Steps taken include:

- The instigation of daily meetings by the leadership team to review and direct the Group's operational response to COVID-19
- Rapid expansion of the IT and operational capability for colleagues to work from home
- Adaption of Enterprise Risk Management Framework to support remote working
- Changes to forbearance measures to assist customers facing financial difficulty
- Development of HR procedures and communications strategy to support colleagues
- Review of arrangements with suppliers and implementation of contingency procedures
- Preparations for return to office including detailed social distancing and cleaning procedures at an advanced stage.

As the government starts its strategy to exit the lockdown, the leadership team have also been looking at the different options that would allow the Group to transition back towards normal business activities. Whilst the Group will continue to follow the government guidelines, management have also explored the operational requirements that need to be in place to ensure the safety of all colleagues. Alongside our ability for the vast majority of our colleagues to work from home we have also now put in place detailed social distancing and cleaning procedures to support a safe return to the office environment for a proportion of our colleagues when it is safe to do so.

Significant factors which may affect results of operations (continued)

Risk factors

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

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

- the impact of economic conditions on our results of operations and financial condition;
- the impact of the coronavirus to the global and UK economy and resultant impact on our liquidity position, results of operation 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 systems, data and models to correctly report our financial condition and forecasts;
- our substantial debt obligations and our ability to operate within financial covenants;
- access to debt markets and our ability to refinance our debt and raise new debt at acceptable cost;
- imbalances in maturity between our total loan assets and our sources of funds affecting the capacity to expand our business;
- the potential for conflicting interests between the shareholder and third-party funding providers;

Significant factors which may affect results of operations (continued)

Risk factors (continued)

- our ability to benefit from special corporation tax regimes for securitization companies;
- exclusion of US GAAP financial information; and
- changes in accounting standards.

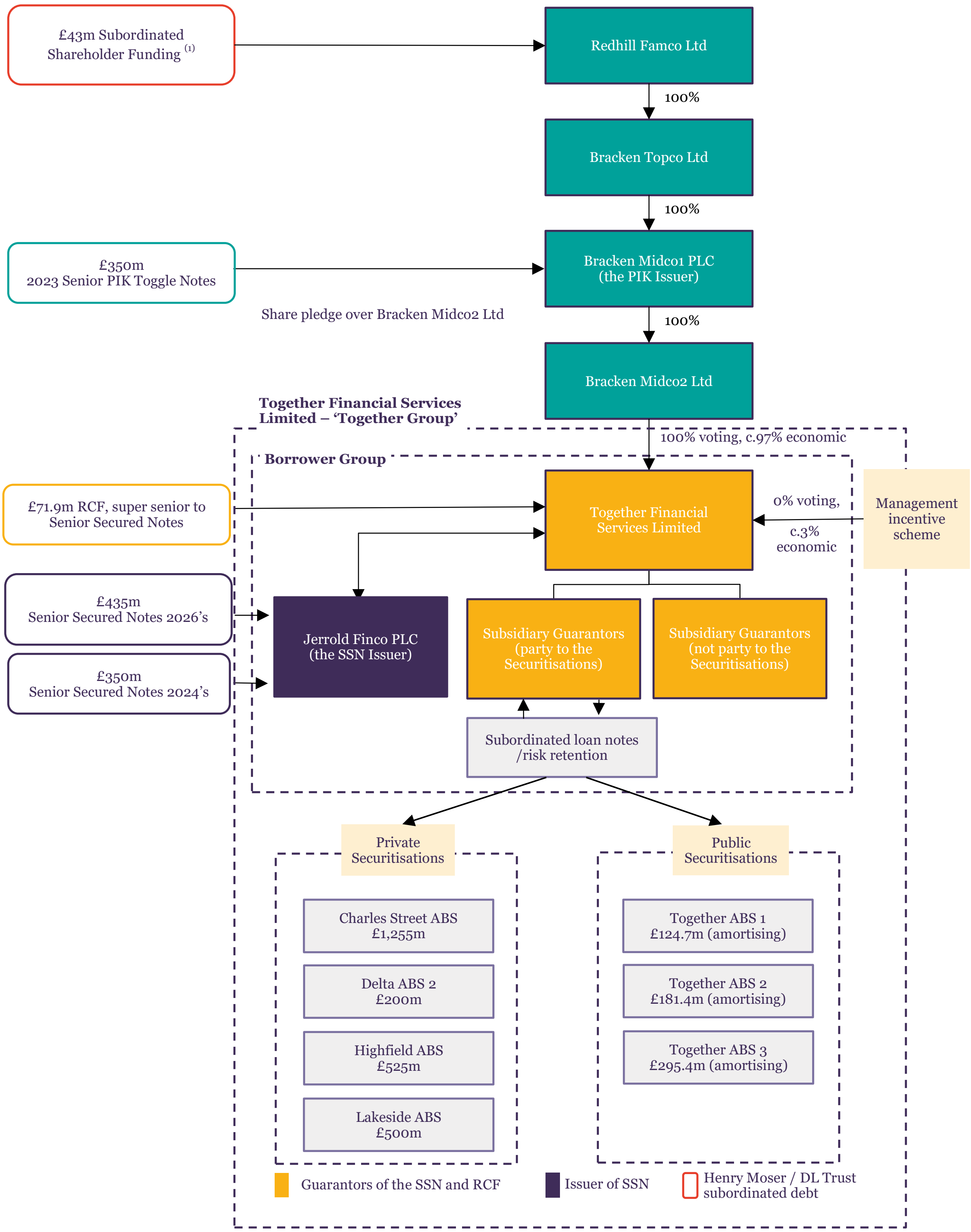
These risks are not exhaustive. Other sections of this quarterly report describe additional factors that could adversely affect our results of operations, financial condition, liquidity and the development of the industries in which we operate. New risks can emerge from time to time, and it is not possible 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 April 30, 2020.

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



(1) Subordinated Shareholder Funding based upon nominal value

Summary results and financial position of Bracken Midco1 PLC

The tables below set out the unaudited interim condensed consolidated results and financial position of Bracken Midco1 PLC, the issuer of 2023 Senior PIK Toggle Notes and its subsidiaries, compared to the unaudited interim consolidated condensed results and financial position of Together Financial Services Limited and its subsidiaries, for and as of the quarter ended March 31, 2020.

	Quarter ended March 31, 2020		
	Together Financial Services Ltd £m	Adjustments £m	Bracken Midco1 PLC £m
Profit before tax (1)	**6.1**	**(8.4)**	**(2.3)**

	As at March 31, 2020		
	Together Financial Services Ltd £m	Adjustments £m	Bracken Midco1 PLC £m
Assets			
Cash and balances at bank	151.8	0.6	152.4
Loans and advances to customers	4,315.9	-	4,315.9
Inventories	0.6	-	0.6
Other assets	7.9	-	7.9
Investments	0.1	-	0.1
Property, plant and equipment	14.0	-	14.0
Intangible assets	9.0	-	9.0
Current tax asset	6.8	-	6.8
Deferred tax asset	7.7	-	7.6
Total assets	**4,513.8**	**0.6**	**4,514.3**
Liabilities			
Bank facilities	35.0	-	35.0
Loan notes	2,805.9	-	2,805.9
Senior secured notes	786.3	-	786.3
Senior PIK toggle notes	-	350.0	350.0
Obligations under finance leases	11.5	-	11.5
Debt issue costs	(17.6)	(2.4)	(20.0)
Total borrowings (excluding subordinated shareholder funding)	**3,621.1**	**347.6**	**3,968.7**
Other liabilities	43.3	17.7	61.0
Derivative liabilities held for risk management	1.9	-	1.9
Provisions for liabilities and charges	18.3	-	18.3
Total liabilities	**3,684.6**	**365.3**	**4,049.9**
Equity			
Subordinated shareholding funding	27.9	(21.4)	6.5
Shareholders' equity	801.3	(343.3)	457.9
Total equity	**829.2**	**(364.7)**	**464.4**
Total equity and liabilities	**4,513.8**	**0.6**	**4,514.3**

(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 March 31, 2020, interest payable and similar charges for Bracken Midco1 PLC was, on a consolidated basis £49.0m compared to £40.6m 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 nine months to and as at March 31, 2020.

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 nine months to March 31, 2019;
- Consolidated Statement of Changes in Equity have comparatives for the nine months to March 31, 2019; and
- Consolidated Statement of Financial Position have comparatives as at March 31, 2019 and June 30, 2019.

Unaudited consolidated statement of comprehensive income

Nine months ended 31 March 2020

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

		Three months ended		Nine months ended	
Income statement	**Note**	**31 Mar 2020**	**31 Mar 2019**	**31 Mar 2020**	**31 Mar 2019**
Interest receivable and similar income		100.1	86.3	289.4	252.6
Interest payable and similar charges	4	(40.6)	(29.4)	(106.0)	(86.1)
Net interest income		**59.5**	**56.9**	**183.4**	**166.5**
Fee and commission income		0.9	1.1	3.2	3.2
Fee and commission expense		(0.5)	(0.6)	(1.8)	(1.6)
Other net gains and losses	5	-	-	(0.2)	0.1
Operating income		**59.9**	**57.4**	**184.6**	**168.2**
Administrative expenses		(13.7)	(22.9)	(71.0)	(64.0)
Operating profit		**46.2**	**34.5**	**113.6**	**104.2**
Impairment losses	9	(40.1)	(3.1)	(50.5)	(11.2)
Profit before taxation		**6.1**	**31.4**	**63.1**	**93.0**
Income tax	6	1.2	(4.5)	(6.5)	(12.0)
Profit after taxation		**7.3**	**26.9**	**56.6**	**81.0**
Other comprehensive income and expense					
Items that may be reclassified to the income statement					
Movement in the cashflow-hedging reserve:					
Effective portion of changes in fair value of derivatives	8	(1.7)	-	(1.9)	-
Amounts reclassified to income statement	4	0.1	-	0.1	-
		(1.6)	**-**	**(1.8)**	**-**
Movement in the cost-of- hedging reserve:					
Effective portion of changes in fair value of derivatives	8	(0.1)	-	(0.1)	(0.2)
Amounts reclassified to income statement		0.1	-	0.1	-
		-	**-**	**-**	**(0.2)**
Other comprehensive expense for the period, net of tax		**(1.6)**	**-**	**(1.8)**	**-**
Total comprehensive income for the period		**5.7**	**26.9**	**54.8**	**80.8**

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

Unaudited consolidated statement of financial position

As at 31 March 2020

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

	Note	31 March 2020	31 March 2019	30 June 2019
Assets				
Cash and cash equivalents	7	151.8	92.7	120.2
Derivative assets held for risk management	8	-	0.1	0.1
Loans and advances to customers	9	4,315.9	3,470.7	3,694.5
Inventories		0.6	0.6	0.6
Other assets	10	7.9	4.5	4.8
Investments		0.1	0.1	0.1
Property, plant and equipment	11	14.0	6.1	5.4
Intangible assets	12	9.0	8.8	8.8
Current tax asset		6.8	-	-
Deferred tax asset	13	7.7	8.1	7.5
Total assets		**4,513.8**	**3,591.7**	**3,842.0**
Liabilities				
Derivative liabilities held for risk management	8	1.9	-	-
Current tax liabilities		-	8.5	8.7
Borrowings	14	3,649.0	2,792.2	3,015.7
Provisions for liabilities and charges	15	18.3	4.6	4.3
Other liabilities	16	43.3	39.4	50.5
Total liabilities		**3,712.5**	**2,844.7**	**3,079.2**
Equity				
Share capital		9.8	9.8	9.8
Subordinated shareholding funding reserve		40.2	41.5	41.0
Cashflow-hedging reserve		(1.8)	-	-
Cost-of-hedging reserve		(0.2)	(0.2)	(0.2)
Other reserves		10.6	10.8	10.8
Retained earnings		742.7	685.1	701.4
Total equity		**801.3**	**747.0**	**762.8**
Total equity and liabilities		**4,513.8**	**3,591.7**	**3,842.0**

Unaudited consolidated statement of changes in equity

Nine months ended 31 March 2020

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

Nine months to 31 March 2020	**Called-up share capital**	**Subordinated shareholder funding reserve**	**Cashflow-hedging reserve**	**Cost-of-hedging reserve**	**Other reserves**	**Retained earnings**	**Total**
At beginning of the period	9.8	41.0	-	(0.2)	10.8	701.4	762.8
Changes on initial application of IFRS 16	-	-	-	-	-	(1.3)	(1.3)
Restated balances at beginning of period	**9.8**	**41.0**	**-**	**(0.2)**	**10.8**	**700.1**	**761.5**
Total comprehensive income	-	-	(1.8)	-	-	56.6	54.8
Dividend paid	-	-	-	-	-	(15.6)	(15.6)
Purchase of shares*	-	-	-	-	(0.2)	-	(0.2)
Modification of subordinated debt	-	0.8	-	-	-	-	0.8
Transfer between reserves	-	(1.6)	-	-	-	1.6	-
At end of the period	**9.8**	**40.2**	**(1.8)**	**(0.2)**	**10.6**	**742.7**	**801.3**

* relates to purchase of shares by employee-benefit trust

Nine months to 31 March 2019	**Called-up share capital**	**Subordinated shareholder funding reserve**	**Cost-of-hedging 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 period	**9.8**	**43.0**	**-**	**10.8**	**617.6**	**681.2**
Total comprehensive income	-	-	(0.2)	-	81.0	80.8
Dividend paid	-	-	-	-	(15.0)	(15.0)
Transfer between reserves	-	(1.5)	-	-	1.5	-
At end of the period	**9.8**	**41.5**	**(0.2)**	**10.8**	**685.1**	**747.0**

Other reserves consist of the following:

	Share premium	**Merger reserve**	**Capital redemption reserve**	**Share-based payment reserve**	**Total**
As at 31 March 2020	17.5	(9.6)	1.1	1.6	10.6
As at 31 March 2019	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
Nine months ended 31 March 2020
Unless otherwise indicated, all amounts are stated in £m.

	Note	Three months ended 31 Mar 2020	Three months ended 31 Mar 2019	Nine months ended 31 Mar 2020	Nine months ended 31 Mar 2019
Cash outflow from operating activities					
Cash outflow from operations	18	(113.8)	(156.7)	(436.8)	(354.6)
Income tax paid		(3.1)	(4.5)	(21.9)	(10.1)
Servicing of finance		(50.8)	(42.0)	(114.1)	(90.8)
Net cash outflow from operating activities		**(167.7)**	**(203.2)**	**(572.8)**	**(455.5)**
Cash flows from investing activities					
Purchase of property, plant and equipment		(0.2)	(0.4)	(0.9)	(1.0)
Purchase of intangible assets		(0.5)	-	(2.6)	(2.0)
Proceeds on disposal of property, plant and equipment		0.1	-	0.2	-
Net cash outflow from investing activities		**(0.6)**	**(0.4)**	**(3.3)**	**(3.0)**
Cash flows from financing activities					
Repayment of bank facilities		-	-	(20.0)	-
Drawdown of bank facilities		-	30.0	-	4.3
Drawdown of facilities		124.4	285.6	275.6	305.3
Net proceeds from issuance of residential mortgage-backed securitisation		-	-	308.7	272.6
Net proceeds from refinancing of senior secured notes		60.0	-	60.0	-
Repayment of facilities		-	(90.0)	-	(90.0)
Purchase of shares by employee-benefit trust		(0.2)	-	(0.2)	-
Dividends paid		-	-	(15.6)	(15.0)
Capital element of finance lease payments		(0.4)	-	(0.8)	(0.3)
Net cash inflow from financing activities		**183.8**	**225.6**	**607.7**	**476.9**
Net increase in cash and cash equivalents		15.5	22.0	31.6	18.4
Cash and cash equivalents at beginning of period		136.3	70.7	120.2	74.3
Cash and cash equivalents at end of period		**151.8**	**92.7**	**151.8**	**92.7**

At 31 March 2020 cash and cash equivalents include £125.6m (31 March 2019: £91.3m) 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 2019 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 17-18 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.

2. Significant accounting policies (continued)

Going concern

The directors have assessed, in the light of current and anticipated economic conditions, the Group's ability to continue as a going concern.

The Group closely monitors and manages its liquidity, funding and capital position and compliance with financial covenants and produces regular forecasts and scenarios.

These projections have been updated in light of the changing outlook due to the coronavirus outbreak to assess the impact of a range of factors which might arise as a result of Covid-19 and in-particular the impact that this has on our customers, the property market and on the wholesale funding market. Specific consideration was given to the impact of: offering mortgage payment holidays in-line with government guidance, the slowing of customer repayment behaviour, increases in credit risk, declining property values, reduced access to wholesale funding markets, changes in market rates of interest, reductions to new mortgage origination volumes and changes to operating costs. The Group's recent decision to temporarily cease accepting new loan applications retains additional cash within the Group and reduces leverage during a period of uncertainty. The Group's business model, being one which is ordinarily highly cash generative, operating in profitable market segments and lending at low-LTV provides mitigation to many downside risks.

Alongside the shareholder funding and retained equity which has consistently been reinvested back into the business, the Group is wholly reliant on the wholesale funding markets, including a combination of public securitisations, private revolving securitisations, senior secured notes and a revolving credit facility. Further detail on the Group's sources of funding is set out in the Annual Report and Accounts for the year ended 30 June 2019 and within the Business review of the interim management report.

A key risk associated with wholesale funding is refinancing risk, where the Group has a proven track-record of successfully refinancing borrowings. The coronavirus outbreak has had a significant impact on the capital markets and the availability and/or pricing of wholesale funding, The depth of maturity in the Group's existing debt facilities provides significant mitigation in respect of refinancing risk with the earliest maturity of wholesale funding not due until June 2021 (representing 2% of its liabilities), then June 2022 (representing 12% of its liabilities), with the balance due between 2023 and 2026.

In May 2020, the Group and each of the note purchasers to its four private securitisations entered into waivers and amendments of its facility documents in order to support the provision of up to three month mortgage payment holidays in line with the, as at then, government guidance in response to the Covid-19 outbreak.

Given the government's announcement on the 22 May 2020 of its intention to extend mortgage payment holidays to support individuals and families and the uncertainty surrounding the economic outlook, the Group may need to seek further waivers and amendments in respect of the private securitisations within the going concern assessment period. This includes, but is not limited to, impacts on covenants as a result of: increases in the number or concentration of customers who elect to take a mortgage payment holiday due to Covid-19; an extension in the duration of mortgage payment holiday scheme; deterioration in loan book performance due to adverse economic conditions; or reductions in property values. In the event that waivers or amendments are required but not agreed and existing headroom in covenants is used causing a breach, and the breach is not rectified within a cure period, then the Noteholders of the private securitistion facilities have the option to call a default of the facility. If a facility defaults, then the cash inflows from the securitised asset pool for each facility are used to repay the interest and principal of the most senior loan notes with the deferred considerations and any interest payment of the subordinated notes due to the originators deferred until such time as all the liabilities ranking more senior are repaid in full. The directors consider that the following factors increase the likelihood of successfully receiving any waivers where required: the quality and low-LTV nature of the loan book; the underlying performance of the Group prior to the coronavirus outbreak; guidance from UK regulatory bodies that covenant waivers as a result Covid-19 should be looked at favourably; and that UK banks have been given access to central bank funding schemes and have received reductions in capital requirements to support UK businesses.

2. Significant accounting policies (continued)

Going Concern (continued)

Aside from the private securitisations, the senior borrower group (which provides external funding by senior secured notes and a revolving credit facility) also has financial covenants, including tests on gearing and minimum levels of interest-cover. To evaluate the Group's resilience to meeting these tests, a reverse-stress scenario has been developed and was considered as part of the going concern assessment. The scenario is one which assumes no cashflows are received from the securitisations and there is no access to drawdown funding from the private securitisations. This is considered by the directors to be an extreme outcome. However due to the bankruptcy-remote nature of securitisations, the default of one or more private securitisation facilities would not necessarily lead to an inability for the Group to continue to operate as a going concern. The Group could continue in such a scenario by servicing the loans funded by the senior borrower group. Stresses were applied to cash inflows to assess the ability to continue to service and repay borrowings as they fall due, and stresses on profitability were separately considered to assess the ability to comply with gearing covenants. A number of management actions would also be possible to preserve or increase available financial resources, including but not limited to: reductions in any new loan originations volumes, renegotiation of the terms of existing borrowings, raising additional funding and measures to reduce costs.

The results of the reverse-stress test showed that unrealistic reductions in expected cash inflows would be required in order that the senior borrower group would not be able meets its liabilities as they fall due within the going concern assessment period, after available management actions were considered. In addition, the risk to gearing was separately assessed and it was found that very substantial reductions in profitability would be required to result in breaches of senior borrower group gearing covenants. The probability of such outcomes could be further reduced by the deployment of additional management actions and is considered remote.

The directors are satisfied that the Company and the Group has adequate resources to continue in operation for the going concern assessment period. Accordingly, the directors have adopted the going-concern basis in preparing these accounts.

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 March 2019, 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.

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

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

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

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

Key sources of estimation uncertainty

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.

As a result of the coronavirus pandemic the Group has used significantly changed macroeconomic assumptions. Sensitivities relating to these and other aspects of the ECL estimate are set out in note 9 to the accounts.

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.

4. Interest payable and similar charges

	Three months ended		Nine months ended	
	31 Mar 2020	**31 Mar 2019**	**31 Mar 2020**	**31 Mar 2019**
On borrowings	40.3	29.4	105.4	86.1
On lease liabilities	0.2	-	0.5	-
On derivatives in a qualifying hedging relationship	0.1	-	0.1	-
	40.6	**29.4**	**106.0**	**86.1**

Interest payable on borrowings includes a call penalty of £5.9m and the write-off of deferred up-front fees of £0.8m as a result of early refinancing of 2021 senior secured notes.

5. Other net gains and losses

	Three months ended		Nine months ended	
	31 Mar 2020	**31 Mar 2019**	**31 Mar 2020**	**31 Mar 2019**
Rental income	-	-	-	0.1
Net costs from financial instruments mandatorily measured at fair value through the income statement				
Interest-rate derivatives held for risk-management purposes	-	-	(0.2)	-
	-	**-**	**(0.2)**	**0.1**

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

6. Income tax

	Three months ended		Nine months ended	
	31 Mar 2020	**31 Mar 2019**	**31 Mar 2020**	**31 Mar 2019**
Current tax				
Corporation tax	(1.2)	4.6	6.4	12.3
Adjustment in respect of previous period	0.2	-	-	-
	(1.0)	**4.6**	**6.4**	**12.3**
Deferred tax				
Origination and reversal of temporary differences	0.7	(0.1)	1.0	(0.3)
Effect of changes in tax rates	(0.9)	-	(0.9)	-
Total deferred tax	**(0.2)**	**(0.1)**	**0.1**	**(0.3)**
Total tax on profit	**(1.2)**	**4.5**	**6.5**	**12.0**

Corporation tax is calculated at 19.00% (31 March 2019: 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		Nine months ended	
	31 Mar 2020	**31 Mar 2019**	**31 Mar 2020**	**31 Mar 2019**
Profit before tax	6.1	31.4	63.1	93.0
Tax on profit at standard UK corporation tax rate of 19.00% (March 2019 : 19.00%	1.2	6.0	12.0	17.7
Effects of:				
Expenses not deductible for tax purposes	0.2	1.2	0.4	2.5
Income not taxable	(0.1)	(1.0)	(0.2)	(2.2)
Group relief	(1.7)	(1.7)	(4.8)	(6.0)
Adjustment in respect of previous period	0.1	-	-	-
Effect of changes in tax rate	(0.9)	-	(0.9)	-
Tax charge for period	**(1.2)**	**4.5**	**6.5**	**12.0**

The Spring Budget presented on 11 March 2020 reversed the previously enacted reduction to 17% from 1 April 2020, instead the rate is to be held at 19%. Following the passing of the Budget Resolutions on 17 March 2020 this rate change has been substantively enacted. As such the group's tax liability and deferred tax assets have been remeasured accordingly using the revised rate of 19%.

7. Cash and cash equivalents

	31 March 2020	**31 March 2019**	**30 June 2019**
Unrestricted cash	26.2	1.4	22.6
Restricted cash	125.6	91.3	97.6
	151.8	**92.7**	**120.2**

Cash which is restricted within securitisation vehicles of £125.6m (31 March 2019: £91.3m, 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 March 2019, 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 is £43.6m (31 March 2019: £29.5m, 30 June 2019: £32.4m) which is not considered readily available, but can be accessed by the Group, for example by allocating additional eligible assets into the private securitisations. The balance of restricted cash cannot be accessed.

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

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 March 2020		**31 March 2019**		**30 June 2019**	
	Assets	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest-rate swaps	-	(1.9)	-	-	-	-
Interest-rate caps	-	-	0.1	-	0.1	-
Derivatives designated in cashflow hedges	**-**	**(1.9)**	**0.1**	**-**	**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 March 2020		
	Carrying amount of liabilities	Changes in fair value for calculating hedge ineffectiveness	Cashflow-hedging reserve
Hedged by interest-rate swaps			
Borrowings	134.1	(1.7)	(1.7)
Discontinued hedges	-	-	(0.1)
	134.1	**(1.7)**	**(1.8)**
Hedged by interest-rate caps			
Borrowings	231.6	(0.1)	-

	31 March 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	99.7	(0.2)	-

	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
Nine months ended 31 March 2020								
Interest-rate swaps								
Borrowings	134.1	-	(1.9)	(1.7)	(1.7)	(0.2)	-	-
Discontinued hedges	-	-	-	-	(0.2)	-	-	0.1
	134.1	**-**	**(1.9)**	**(1.7)**	**(1.9)**	**(0.2)**	**-**	**0.1**
Interest-rate caps	231.6	-	-	(0.1)	(0.1)	-	-	-
Nine months ended 31 March 2019								
Interest-rate swaps	-	-	-	-	-	-	-	-
Interest-rate caps	99.7	0.1	-	(0.2)	(0.2)	-	-	-
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 March 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross loans and advances	3,522.2	488.9	410.2	4,421.6
Loss allowance	(20.9)	(19.1)	(65.7)	(105.7)
	3,501.3	**470.1**	**344.5**	**4,315.9**

	31 March 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross loans and advances	2,872.3	361.0	303.9	3,537.2
Loss allowance	(12.0)	(10.3)	(44.2)	(66.5)
	2,860.3	**350.7**	**259.7**	**3,470.7**

	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 £10.0m (31 March 2019: £13.0m; 30 June 2019: £10.9m), equivalent to £6.3m net of allowances (31 March 2019: £10.5m; 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.

Measurement of expected credit losses (ECL)

ECL model

The Group's general approach to the measurement of expected credit losses (ECL) and forbearance is unchanged from the Annual Report and Accounts for the year ended 30 June 2019. However, because of the outbreak of the coronavirus, during the quarter to 31 March 2020 there have been significant changes in the forward-looking information used to measure ECL, and also in the options offered by the Group to borrowers seeking mortgage-payment holidays.

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.

Until the quarter to 31 March 2020 the Group calculated ECL using a base case, an upside and a downside scenario, weighted 40%, 30% and 30% respectively. The base case was broadly aligned to the Group's internal planning assumptions. The downside scenario represented a recession during which house prices fell by 16% from peak to trough.

The unprecedented societal and economic impact caused by the coronavirus outbreak and the responses of policymakers have transformed the macroeconomic environment and outlook. Up-to-date data is still relatively limited; available economic forecasts are subject to unprecedented uncertainty and show a very wide range of views of the depth, shape and duration of the impact. There is also a lack of similar past events on which to base our forward-looking assumptions and so judgements, which management consider are reasonable, have been taken where observable inputs are not available

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

9. Loans and advances to customers (continued)

Incorporation of forward-looking information (continued)

In such a context, the Group's approach to developing economic scenarios for the purposes of measuring ECLs has been to increase the number of scenarios from three to six to reflect the wider range of economic scenarios that are now considered possible around any base case:

The most significant assumptions used for the ECL estimate as at 31 March 2020 by scenario until June 2024 are as follows:

	Jun 2020	Sep 2020	Dec 2020	Mar 2021	Jun 2021	Jun 2022	Jun 2023	Jun 2024
Upside – 10% probability								
Annual GDP growth (%) *	(9.1)	(5.5)	(1.3)	2.7	13.9	4.6	2.9	1.5
Bank Rate (%)	0.10	0.25	0.50	1.00	1.25	2.25	2.75	3.25
Unemployment rate (%)	5.5	5.6	5.4	4.9	3.9	2.1	1.9	1.9
Annual change in house-price index (%)	2.6	5.0	5.7	6.4	6.8	11.8	9.2	3.3
Mild upside – 10% probability								
Annual GDP growth (%) *	(9.3)	(6.0)	(2.1)	1.6	12.8	3.9	2.4	1.5
Bank Rate (%)	0.10	0.25	0.50	0.75	1.00	1.50	2.00	2.50
Unemployment rate (%)	5.6	5.9	5.9	5.5	4.7	3.3	3.2	3.2
Annual change in house-price index (%)	1.4	2.8	2.8	2.9	3.9	9.1	7.3	3.4
Base case – 50% probability								
Annual GDP growth (%) *	(14.3)	(10.8)	(7.4)	0.1	11.0	2.6	1.4	1.6
Bank Rate (%)	0.10	0.01	0.10	0.10	0.10	0.50	1.00	1.25
Unemployment rate (%)	6.5	6.5	6.3	5.7	5.1	3.7	3.6	3.6
Annual change in house-price index (%)	1.0	(0.4)	(1.7)	(1.9)	(1.0)	5.1	3.3	3.6
Stagnation – 10% probability								
Annual GDP growth (%) *	(21.2)	(13.0)	(9.2)	(1.5)	9.6	1.7	0.8	1.7
Bank Rate (%)	0.10	0.10	0.10	0.10	0.10	0.25	0.75	1.00
Unemployment rate (%)	7.7	7.2	6.6	6.8	6.2	5.6	5.9	5.7
Annual change in house-price index (%)	(3.0)	(3.7)	(5.9)	(8.0)	(5.0)	(0.7)	0.1	4.0
Downside – 10% probability								
Annual GDP growth (%) *	(28.1)	(15.2)	(11.0)	(2.2)	8.9	1.2	0.5	1.7
Bank Rate (%)	0.10	0.10	0.10	0.10	0.10	0.10	0.50	0.75
Unemployment rate (%)	8.8	7.8	7.0	6.9	6.4	5.8	6.1	5.9
Annual change in house-price index (%)	(4.3)	(5.2)	(7.9)	(10.6)	(7.1)	(3.6)	(1.9)	4.2
Severe downside – 10% probability								
Annual GDP growth (%) *	(35.1)	(17.4)	(12.8)	(3.3)	7.7	0.4	(0.2)	1.8
Bank Rate (%)	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Unemployment rate (%)	10.0	8.5	7.3	7.1	6.6	6.1	6.5	6.2
Annual change in house-price index (%)	(6.6)	(7.7)	(11.2)	(15.0)	(10.7)	(8.8)	(6.1)	4.7

*Annual GDP growth represents the change in quarterly GDP compared with the corresponding quarter in the previous year.

- The base case has been developed with reference to recent consensus views of economic forecasters, in particular relating to GDP and unemployment.
- The severe downside scenario is intended to broadly reflect the Office for Budget Responsibility (OBR) reference scenario for GDP and unemployment in 2020 (showing a 35% fall in GDP in the quarter to June 2020), but with a slower recovery in 2021 than that in the OBR scenario.
- The stagnation and downside scenarios sit between the base-case and the severe downside scenarios in their outlook.
- The upside and mild-upside scenarios also reflect a significant downturn in Q2 2020 but are more optimistic than the base case about the depth and duration of the downturn and the lasting effects it may have on the economy.
- The base case and the weighted-average forecast for each indicator has been benchmarked to other available independent macroeconomic forecasts.
- In developing these scenarios the Group has taken into account the unprecedented levels of support provided to borrowers and the general economy, by the government and Bank of England.

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

9. Loans and advances to customers (continued)

Incorporation of forward-looking information (continued)

In choosing the scenario weightings, management has applied judgement, but which is also informed by an external provider of economic forecasts. In addition, management has sought to incorporate downside risks in the economic outlook through the severity of the downside scenarios adopted and has assessed the reasonableness of the probabilities by comparing the weighted-average of each economic indicator to the consensus view of other available macroeconomic forecasts.

The most significant assumptions used for the ECL estimate as at 31 March 2019 and 30 June 2019 were in the following ranges for the next ten years:

At 31 March 2019	**Minimum**	**Average**	**Maximum**
Annual GDP growth (%)	(0.8)	1.7	3.8
Bank Rate (%)	0.5	1.75	3.0
Unemployment rate (%)	3.2	4.2	6.2
Annual change in house-price index (%)	(8.2)	2.9	10.6

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, including for those used at 31 March 2020, revert to our long-term base case forecast beyond a ten-year horizon.

Contract modifications, forbearance and significant increases in credit risk

In March 2020 the government announced very substantial and wide-ranging support measures in anticipation of the effect of the pandemic on the wider economy. These measures included the availability of mortgage-payment holidays, initially for up to three months for borrowers who have been impacted by Covid-19.

The Group considers that its agreement to a customer request for a mortgage-payment holiday as a result of Covid-19 represents a contractual modification. Because interest on such accounts will continue to accrue at the effective rate this does not generally give rise to any material modification gains or losses.

In recognition of the unprecedented level of support offered to borrowers by the government and Bank of England, and consistent with industry guidance, the Group does not automatically consider a request for a mortgage-payment holiday as representing a significant increase in credit risk requiring a change in classification of the loan from stage 1 to stage 2. Consistent with its previous practice, the Group continues to assess the credit risk of each loan based on its particular circumstances.

As at 31 March 2020, 1,299 customer loan accounts had payments due and were in receipt of a Covid-19 mortgage payment holiday. Details of these Covid-19 mortgage-payment holidays are as follows:

		31 March 2020		
Group	**Stage Allocation**	**No. accounts**	**Total gross balance**	**ECL**
		No.		
Mortgage-payment holidays	Stage 1	1,059	125.6	1.1
	Stage 2	163	24.2	0.6
	Stage 3	77	5.3	0.1
Total		**1,299**	**155.1**	**1.8**

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

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 March 2020 and 31 March 2019.

Loss allowance	Nine months ended 31 March 2020			
	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	(0.2)	0.5	-	0.3
Transfer to a lifetime ECL not credit impaired	3.9	(10.1)	1.5	(4.7)
Transfer to a lifetime ECL credit impaired	1.0	8.1	(18.0)	(8.9)
Other changes in credit risk during the period	(6.2)	(2.9)	(8.0)	(17.1)
Impairment of interest income on stage 3 loans	-	-	(10.3)	(10.3)
New financial assets originated	(3.6)	(1.3)	-	(4.9)
Financial assets derecognised	5.1	2.7	6.3	14.1
Changes in models and risk parameters	(9.7)	(6.5)	(2.8)	(19.0)
Impairment losses for the period charged to income statement	**(9.7)**	**(9.5)**	**(31.3)**	**(50.5)**
Unwind of discount	-	-	10.3	10.3
Write-offs net of recoveries	-	-	1.5	1.5
Balance at end of period	**(20.9)**	**(19.1)**	**(65.7)**	**(105.7)**

Loss allowance	Nine months ended 31 March 2019			
	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	(2.1)	3.5	-	1.4
Transfer to a lifetime ECL not credit impaired	2.2	(11.7)	4.8	(4.7)
Transfer to a lifetime ECL credit impaired	0.8	3.4	(9.0)	(4.8)
Other changes in credit risk during the period	(4.4)	(0.2)	(0.7)	(5.3)
Impairment of interest income on stage 3 loans	-	-	(9.2)	(9.2)
New financial assets originated	(5.2)	(0.6)	-	(5.8)
Financial assets derecognised	5.6	4.1	6.1	15.8
Changes in models and risk parameters	0.2	0.1	(0.5)	(0.2)
Impairment losses for the period charged to income statement	**(2.9)**	**(1.4)**	**(8.5)**	**(12.8)**
Unwind of discount	-	-	9.2	9.2
Write-offs net of recoveries	1.4	0.6	9.1	11.1
Balance at end of period	**(12.0)**	**(10.3)**	**(44.2)**	**(66.5)**

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

Unless otherwise indicated, all amounts are stated in £m

9. Loans and advances to customers (continued)

Loss allowance (continued)

A key impact on ECL in the period was a result of updates to assumptions about forward-looking information, included within the £19.0m charge for the period for changes in models and risk parameters (2019: £0.2m charge). The primary driver of this increase was changes to forward-looking assumptions as a result of the Covid-19 outbreak, which resulted in a £24.6m increase at the end of the period, offset by releases recognised earlier in the period. The single largest impact was as a result of the revisions to the macroeconomic forecast assumptions and the number of scenarios adopted, in the light of the coronavirus outbreak, which contributed £20.2m of the increase during the quarter. The macroeconomic scenarios are discussed in detail above.

New mortgage loans originated during the period resulted in an increase of £4.9m (2019: £5.2m) in the loss allowance and redemptions resulted in a release of ECLs totalling £14.1m (2019: £15.8m).

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 (2019: £nil).

Movements in gross carrying amounts

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

	Nine months ended 31 March 2020			
	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	54.6	(54.6)	-	-
Transfer to a lifetime ECL not credit impaired	(381.7)	425.7	(44.0)	-
Transfer to a lifetime ECL credit impaired	(22.9)	(223.5)	246.4	-
New financial assets originated	1,543.0	20.6	-	1,563.6
Financial assets derecognised including write-offs	(696.1)	(98.5)	(108.9)	(903.5)
Balance at end of period	**3,522.2**	**489.2**	**410.2**	**4,421.6**

	Nine months ended 31 March 2019			
	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	231.8	(229.2)	(2.6)	-
Transfer to a lifetime ECL not credit impaired	(321.2)	386.4	(65.2)	-
Transfer to a lifetime ECL credit impaired	(30.1)	(105.6)	135.7	-
New financial assets originated	1,387.3	19.2	-	1,406.5
Financial assets derecognised including write-offs	(701.0)	(67.6)	(120.7)	(889.3)
Balance at end of period	**2,872.3**	**361.7**	**303.2**	**3,537.2**

Unless otherwise indicated, all amounts are stated in £m

9. Loans and advances to customers (continued)

Critical accounting estimates

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

Macroeconomic scenarios

If at 31 March 2020 a 100% probability was applied to the base case and severe downside scenarios, the incremental impact on the impairment allowance would have been as follows:

Scenarios	(Decrease)/increase in allowance
Base case	(31.9)
Severe downside	159.0

Changing the probability of certain scenarios in combination would have the following impact on the impairment allowance:

Scenarios	Increase in allowance
Reduce the probability of the base case to 40% and increase stagnation to 20%	3.1
Reduced the probability of the upside to 0% and increase stagnation to 20%	5.2
All scenarios weighted equally	21.2

Loss given default (LGD)

The LGD model uses current security values and forecast HPI assumptions to project property values for each of the economic scenarios. An immediate and sustained 10% relative reduction in forecast house prices, applied in each scenario, would result in an increase in the impairment allowance of £19.9m at 31 March 2020 (30 June 2019: £11.1m); conversely a 10% relative increase, would result in a decrease in the impairment allowance by £15.3m at 31 March 2020 (30 June 2019: £7.5m).

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

A 10% relative worsening of both PDs and PPGDs simultaneously (eg a 1.0% PD increasing to 1.1%) would increase the total impairment allowance by £8.1m at 31 March 2020 (30 June 2019: £4.6m). A 10% relative improvement of both PDs and PPGDs simultaneously (eg a 1.0% PD decreasing to 0.9%) would result in a decrease in the impairment allowance by £7.4m at 31 March 2020 (30 June 2019: £4.3m).

Critical accounting judgements

Key areas of judgement in the ECL models includes judgements about which loans have been subject to a significant increase in credit risk since initial recognition and therefore should be classified as Stage 2 and have a loss allowance that is based on a lifetime rather than a 12-month ECL. The Group uses qualitative and quantitative criteria, set out in the Annual Report and Accounts for the year ended 30 June 2019 and the accounting policy for mortgage-payment holidays set out above. The sensitivities below were performed by recalculating the impairment allowance by changing only those items stated, and with all other variables unchanged.

Sensitivities	Increase in allowance
Measure all loans which are in a Covid-19 mortgage-payment holidays in Stage 1 using a lifetime ECL	0.2
Measure all loans in Stage 1 using a lifetime ECL	10.8

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

9. Loans and advances to customers (continued)

Impairment losses for the period

	Nine months ended 31 March 2020	31 March 2019
Movements in impairment allowance, charged to income	50.5	12.8
Amounts released from deferred income	0.7	(1.8)
Write-offs net of recoveries	(0.7)	0.2
	50.5	**11.2**

10. Other assets

	31 March 2020	31 March 2019	30 June 2019
Amounts owed by related parties	3.4	0.6	0.7
Other debtors	1.0	0.7	0.9
Prepayments and accrued income	3.5	3.2	3.2
	7.9	**4.5**	**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 March 2019: £0.2m; 30 June 2019: £0.3m) in relation to a director's loan. The loan is interest free and repayable on demand.

Unless otherwise indicated, all amounts are stated in £m

11. Property, plant and equipment

Nine months ended 31 March 2020	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	0.4	0.5	0.9	1.8
Disposals	(0.1)	(0.3)	-	(0.4)
At end of period	**8.2**	**2.0**	**14.6**	**24.8**
Depreciation				
At beginning of period	3.5	0.8	5.1	9.4
Charge for the period	1.0	0.2	0.6	1.8
Disposals	(0.1)	(0.3)	-	(0.4)
At end of period	**4.4**	**0.7**	**5.7**	**10.8**
Net book value				
At end of period	**3.8**	**1.3**	**8.9**	**14.0**
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.

Nine months ended 31 March 2019	Fixtures, fittings and equipment	Motor vehicles	Total
Cost			
At beginning of period	8.5	1.8	10.3
Additions	0.8	0.2	1.0
Disposals	-	-	-
At end of period	**9.3**	**2.0**	**11.3**
Depreciation			
At beginning of period	3.5	0.5	4.0
Charge for the period	0.8	0.4	1.2
Disposals	-	-	-
At end of period	**4.3**	**0.9**	**5.2**
Net book value			
At end of period	**5.0**	**1.1**	**6.1**
At beginning of period	5.0	1.3	6.3

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

Unless otherwise indicated, all amounts are stated in £m

12. Intangible assets

Computer software	Nine months ended 31 March 2020	Nine months ended 31 March 2019	Year ended 30 June 2019
Cost			
At beginning of period	14.5	11.4	11.4
Additions	2.6	2.0	3.2
Disposals	-	-	(0.1)
At end of period	**17.1**	**13.4**	**14.5**
Amortisation			
At beginning of period	5.7	3.1	3.1
Charge for the period	2.4	1.5	2.7
Disposals	-	-	(0.1)
At end of period	**8.1**	**4.6**	**5.7**
Net book value			
At end of period	**9.0**	**8.8**	**8.8**
At beginning of period	8.8	8.3	8.3

13. Deferred tax asset

	Nine months ended 31 March 2020	Nine months ended 31 March 2019	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	(1.0)	0.3	(0.2)
Adjustment in respect of prior periods	-	-	(0.1)
Effect of changes in tax rates	0.9	-	-
At end of period	**7.7**	**8.1**	**7.5**

The deferred tax asset consisted of the following:

	31 March 2020	31 March 2019	30 June 2019
Accelerated capital allowances	(1.1)	(0.7)	(0.9)
Short-term timing differences	8.8	8.8	8.4
	7.7	**8.1**	**7.5**

14. Borrowings

	31 March 2020	31 March 2019	30 June 2019
Bank facilities	35.0	35.0	55.0
Loan notes	2,805.9	2,020.2	2,221.5
Subordinated shareholder loans	27.9	26.6	27.1
Senior secured notes	786.3	726.9	726.8
Finance leases[10]	11.5	0.8	0.8
	3,666.6	**2,809.5**	**3,031.2**
Debt issue costs	(17.6)	(17.3)	(15.5)
	3,649.0	**2,792.2**	**3,015.7**

Of which:			
Due for settlement within 12 months	91.6	78.2	74.5
Due for settlement after 12 months	3,557.4	2,714.0	2,941.2
	3,649.0	**2,792.2**	**3,015.7**

Loan notes consist of the following facilities:

	Established	Facility type	Facility size (£m)	Expiry
Charles Street ABS	2007	Revolving	1,255.0	Sept 2023
Delta ABS 2	2019	Revolving	200.0	Mar 2023
Highfield ABS	2018	Revolving	525.0	Jun 2022
Lakeside ABS	2015	Revolving	500.0	Nov 2023
Together ABS 1	2017	Amortising	124.7	Sept 2021
Together ABS 2	2018	Amortising	181.4	Nov 2022
Together ABS 3	2019	Amortising	295.4	Sept 2023

In the case of the amortising facilities, the expiry date shown is the date of the option to call the facility and the facility size is shown as the amortised position at the balance sheet date.

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 originally issued on 2 November 2016. The subordinated shareholder loans are interest-free loans totalling £68.1m, which at the start of the year comprised £25.1m due in 2024 and £43.0m due in 2036. In February 2020 the 2024 loans were extended to 2026. The difference between the nominal value and the initial fair value represents a capital contribution, and the extension of the 2024 notes resulted in a net decrease in the carrying value of the loan and a corresponding increase in the non-distributable reserves of £0.8m. The difference between the total nominal value of £68.1m and the initial fair values on origination or extension of £21.2m represents a non-distributable capital contribution of £46.9m, £6.7m of which has amortised by 31 March 2020 (31 March 2019: £4.6m; 30 June 2019: £5.1m). The remainder of the reserve will be released over the life of the instruments.

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 also has senior secured notes in issue of £350m, which are due to mature 2024.

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 March 2020 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 March 2020	<1 year	1-2 years	2-5 years	>5 years	Total
Bank facilities	-	35.0	-	-	35.0
Loan notes	90.9	158.8	2,556.1	-	2,805.8
Subordinated shareholder loans	-	-	-	27.9	27.9
Senior secured notes	-	-	351.3	435.0	786.3
Finance leases	1.4	1.2	3.1	5.8	11.5
	92.3	**195.0**	**2,910.5**	**468.7**	**3,666.5**
Debt issue costs	(0.7)	(1.4)	(15.4)	-	(17.5)
	91.6	**193.6**	**2,895.1**	**468.7**	**3,649.0**

As at 31 March 2019	<1 year	1-2 years	2-5 years	>5 years	Total
Bank facilities	-	-	35.0	-	35.0
Loan notes	78.7	372.6	1,568.9	-	2,020.2
Subordinated shareholder loans	-	-	-	26.6	26.6
Senior secured notes	-	-	726.9	-	726.9
Finance leases	0.5	0.3	-	-	0.8
	79.2	**372.9**	**2,330.8**	**26.6**	**2,809.5**
Debt issue costs	(1.0)	(1.1)	(15.2)	-	(17.3)
	78.2	**371.8**	**2,315.6**	**26.6**	**2,792.2**

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	16.8	(0.1)	16.7
Provisions utilised	(2.5)	(0.2)	(2.7)
Balance at 31 March 2020	**17.0**	**1.3**	**18.3**

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 March 2020, provision amounts are now disclosed separately in the statement of financial position and reclassified in prior period comparatives.

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. Depending on the outcome of further testing and the selection of certain judgements and assumptions, the financial impact is estimated to be within the range of £3.0m to £5.0m. This estimate is based upon the impact of interest associated with certain fees and charges.

In respect of the matters related to clarity and completeness of communications with customers (‘customer communications provision’), a provision has been estimated at £10.4m, comprising £9.4m in respect of redress and a further £1.0m for administrative expenses. 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. Whilst certain areas of the provision and corresponding range have been estimated based upon calculations undertaken, such as interest on fees and charges in the case of the forbearance provision, other elements such as any potential redress for interest on missed payments have been judgementally estimated and could result in the upper end of the estimated range being exceeded.

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

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)

Fixed and floating charges

As at 31 March 2020, the Group's assets were subject to a fixed and floating charge in respect of £785m senior secured notes (31 March 2019: £725m; 30 June 2019: £725m) and £35m in respect of bank borrowings (31 March 2019: £35m; 30 June 2019: £55m).

16. Other liabilities

	31 March 2020	31 March 2019	30 June 2019
Trade creditors	1.6	0.9	1.9
Other creditors	2.0	1.9	2.7
Other taxation and social security	0.9	1.1	1.0
Accruals and deferred income	38.8	35.5	44.9
	43.3	**39.4**	**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 March 2020 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 March 2020					
Interest-rate risk	-	(1.9)	-	**(1.9)**	**(1.9)**
31 March 2019					
Interest-rate risk	-	0.1	-	**0.1**	**0.1**
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 not material and therefore is not presented in the table above due to rounding.

Financial instruments not measured at fair value

All the Group's other financial assets and liabilities are held at amortised cost. The carrying value is a reasonable approximation of fair value for all financial instruments other than for loans and advances to customers and for borrowings. For loans and advances to customers and for borrowings, fair value is calculated based upon the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Unless otherwise indicated, all amounts are stated in £m

17. Financial instruments and fair values (continued)

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

31 March 2020	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets					
Loans and advances to customers	-	-	4,303.5	**4,303.5**	**4,320.9**
Financial liabilities					
Borrowings	673.9	650.7	2,225.3	**3,549.9**	**3,649.0**

31 March 2019	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets					
Loans and advances to customers	-	-	3,507.0	**3,507.0**	**3,470.7**
Financial liabilities					
Borrowings	729.3	1,997.5	29.2	**2,756.0**	**2,700.9**

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

Due to current market conditions, it is considered that the fair value of a loan portfolio is especially uncertain and that price discovery for loan portfolios may be challenging. In the comparative periods, for 31 March 2019 and 30 June 2019, fair values were estimated using only the methodology described above. However, for the 31 March 2020 reporting, fair-values have been estimated to be to be the lower of: the carrying value and the fair value for each product as calculated above. Consequently, the fair value of loans and advances to customers is lower than the carrying value overall for the period ended 31 March 2020.

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

17. Financial instruments and fair values (continued)

The fair value of senior secured notes is considered to be level 1, although it is based on a limited number of transactions and where the fair value is lower than carrying value primarily due to the price at which bonds were trading in the secondary market due to the economic impact of Covid-19 at 31 March 2020.

Due to current market conditions, the fair value of loan notes issued by private securitisations has been reclassified from level 2 to level 3, whereas public residential mortgage-backed securities continue to be classified as level 2.

Other borrowings stated at fair value in level 3 almost entirely represent subordinated shareholder loans and 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.

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

	Three months ended		**Nine months ended**	
	31 Mar 2020	**31 Mar 2019**	**31 Mar 2020**	**31 Mar 2019**
Profit after tax	7.3	26.9	56.6	81.0
Adjustments for:				
Taxation	(1.2)	4.5	6.5	12.0
Depreciation and amortisation	1.4	0.2	4.2	2.7
Net losses on derivatives held for risk management	(0.1)	-	0.2	-
Gains on disposal of fixed assets	(0.2)	-	(0.2)	-
Interest expense	40.6	29.4	106.0	86.1
	47.8	**61.0**	**173.3**	**181.8**
Purchases and cancellations of derivatives held for risk management	-	-	(0.2)	-
Decrease/(increase) in fair value of derivatives held	-	0.3	-	(0.1)
Increase in loans and advances to customers	(156.7)	(222.3)	(621.4)	(544.0)
Decrease/(increase) in other assets	1.6	0.1	(3.1)	(0.2)
(Decrease)/increase in accruals	(4.5)	4.5	1.7	11.1
(Decrease)/increase in provisions	(1.0)	1.2	14.0	(0.7)
Decrease in trade and other creditors	(1.0)	(1.5)	(1.1)	(2.5)
	(161.6)	**(217.7)**	**(610.1)**	**(536.4)**
Cash outflow from operations	**(113.8)**	**(156.7)**	**(436.8)**	**(354.6)**

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. The Moser shareholders indirectly own 100% of the Company's voting share capital. On 9 March 2020, all shares held by the DL Moser 1995 Family Settlement No1 Trust were transferred to HN Moser, making him the sole owner and controlling party of the Group.

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.

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.

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

19. Related party transactions (continued)

d) Key management personnel

Key management personnel comprise directors of the Group. 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:

	Nine months ended 31 March 2020		Nine months ended 31 March 2019	
	Charge/ (credit) to income or equity	**Paid**	**Charge/ (credit) to income or equity**	**Paid**
Lease and insurance costs	1.1	1.1	1.0	1.0
Accounts payable transactions	-	1.1	-	1.2
Impairment of related party loans	1.2	-	1.1	-
Interest on related party loans	(0.4)	-	(0.6)	-
Related parties of the Moser Shareholders	**1.9**	**2.2**	**1.5**	**2.2**
Interest expense	1.5	-	1.5	-
Dividend paid	15.6	15.6	15.0	15.0
Parent companies	**17.1**	**15.6**	**16.5**	**15.0**
Total related parties	**19.0**	**17.8**	**18.0**	**17.2**

20. Leases

The Group occupies two head-office buildings. One of the properties is subject to a lease for 15 years. Negotiations are currently ongoing with the landlord (Bracken House Limited LLP) with regard to lease arrangements for the second property. For the purpose of this note the lease for the second property is accounted for consistently with the draft lease terms.

Previously 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 nine months ended 31 March 2020:

	Administrative expenses £m	**Interest expense £m**	**Total £m**
Depreciation expense of right-of-use assets	0.6	-	0.6
Interest expense on lease liabilities	-	0.8	0.8
Total recognised in the income statement	**0.6**	**0.8**	**1.4**

The below table sets out the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the nine months ended 31 March 2020.

	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	(0.6)	-
Interest expense on lease liabilities	-	(0.8)
Payments	-	1.6
As at 31 March 2020	**8.9**	**(11.5)**

The lease liabilities analysis includes hire purchase obligations for motor vehicles. The Group had total cash outflows for leases of £1.6m in the nine months ended 31 March 2020.

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 March 2020, the Group had undrawn commitments to lend of £165.1m (31 March 2019: £180.5m). These relate mostly to lines of credit granted to existing customers for property development. The ECL on the undrawn elements of existing facilities is included within the total ECL held within net loans and advances to customers. The ECL on new lending commitments is £0.1m (31 March 2019: £0.1m), and is classified within other liabilities.

The decrease in undrawn commitments to lend compared with 31 March 2019 is driven by a decrease in both the Personal Finance and Commercial Finance loan pipeline as at 31 March 2020.

22. Events after the reporting date

After the balance sheet date the continuing development of the Covid-19 situation has resulted in the Group taking certain actions to serve its customers and protect colleagues, consistent with the supportive measures announced by the UK government. Following the decision to temporarily stop accepting new applications and the practical difficulties in processing existing applications during the lockdown period, in April 2020 the Group took the decision to furlough a number of employees under the Job Retention Scheme particularly in the sales, marketing and underwriting functions. At 27 May 2020, this applied to approximately 290 colleagues. The Group continues to support all colleagues including regular communications and topping up salaries to 100% for all lower paid colleagues and to 80% of salaries for all other colleagues.

The Group has offered mortgage-payment holidays to a number of customers as a result of Covid-19 as disclosed in Note 9. At 27 May 2020, the Group has offered mortgage-payment holidays to approximately 6,300 customers representing 17% of the Groups loan book across both Commercial Finance and Personal Finance divisions. On 22 May 2020, the Financial Conduct Authority (FCA) announced proposals to continue support for customers who are struggling to pay their mortgage due to Covid-19; including setting out proposed options for customers coming to an end of a payment holiday, as well as proposals for those customers who are yet to request one.

In May 20, the Group and each of the note purchasers to its four private securitisations entered into certain waivers and amendments of its facility documents in order to support the provision of up to three month mortgage payment holidays in line with the, as at then, government guidance in response to the Covid-19 outbreak. Given the governments announcement on the 22 May 2020 of its intention to extend mortgage payment holidays to support individuals and families and the uncertainty surrounding the economic outlook, the Group may need to seek further waivers and amendments in respect of the private securitisations facilities.

In light of the significant market uncertainty resulting from the Covid-19 pandemic, the directors of the Group's parent company, Bracken Midco 1 PLC, have taken additional prudent measures to preserve the Group's liquidity and capital including to 'pay in kind' (PIK), the interest that was due in April on its Senior PIK Toggle notes by the issuance of additional notes rather than paying in cash. The directors of the Group did not declare the payment of a dividend to its parent company to ultimately fund the interest payment that would otherwise have been due.

The directors have carefully considered the impact of the above matters in their evaluation of the use of the going-concern basis for the preparation of these accounts, as set out in Note 2.

On 17 May 2020, Gerald Grimes was appointed to the Board as an Executive Director and CEO Designate. Gerald has over 30 years of financial services experience having held senior roles in a number of organisations including Barclays, GE Capital, The Funding Corporation, Hitachi Credit and most recently PCF Bank. In addition, he has, until recently, served as a board director of the Financial Leasing Association (previously Chairman), as a member of the Bank of England Advisory Board, and has an advisory role with the FCA Small Business Practitioner Board.