Together Financial Services Limited
Full Year 2020 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 year ended June 30, 2020.

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

"The coronavirus pandemic has had a significant impact on the economy, on businesses and on the way we live our lives. Together entered the crisis in a strong position and we reacted quickly to support our customers, protect our colleagues and enhance the future resilience of our business. I would like to thank all of my colleagues for their commitment and flexibility in adapting to new ways of working to support our customers.

"For the first eight months of the financial year, Together continued to perform strongly with robust levels of originations and profitability. Following the announcement of the national lockdown, we temporarily paused accepting new applications as we focused on supporting our existing customers, providing Covid-19 related forbearance to around 23% of customers by value, and took prudent steps to ensure our business was in a strong position to weather the crisis. Despite the impact of Covid-19, we lent around £1.7bn during the year to grow our loan book to £4.2bn, while the portfolio LTV remained low at 54.9%. The business continued to be highly profitable and cash generative with underlying profit before tax of £118.5m and cash receipts of £1.6bn for the year. Our early proactive actions, along with completion of TABS 4 and the refinancing of our revolving credit facility, has resulted in the Group having undrawn facility headroom of over £850m with accessible liquidity of £264m at September 18, 2020. Combined with accelerating our modernisation and transformation programmes, I am confident Together is well positioned for the future.

"While it remains too early to reliably estimate the full economic impact of Covid-19, we expect conditions to remain challenging for some time. Unemployment is already rising and, with government stimulus packages set to unwind over the coming months, many people will find themselves in a very different position to how they entered the crisis. We are shaping our business to meet our customers' evolving needs, to make us more efficient and to help us play our part in supporting the UK's economic recovery."

Financial performance: year ended June 30, 2020

- Average monthly loan originations down 14.9% to £140.7m (2019: £165.2m), while weighted average origination LTV remain conservative at 57.7% (2019: 58.0%)
- Group loan book reaches £4.2bn, up 12.7% compared with 2019 (£3.7bn), with weighted average indexed LTVs slightly increased to 54.9% (2019: 54.3%)
- Interest receivable and similar income up 13.2% at £388.4m (2019: £343.1m), driven by interest earned on the growing loan book
- Underlying NIM remains attractive at 6.6% (2019: 6.8%) despite competitive market conditions, redemption of higher yielding back-book loans and a small increase in gearing
- Annualised cost of risk has increased to 1.7% (2019: 0.5%) due to a significant increase in impairment charges to £66.9m (2019: £15.4m) principally to reflect deterioration in the macroeconomic outlook and the resulting impact on loan book performance
- Underlying EBITDA up 1.6% to £255.6m (2019: £251.5m) and underlying PBT down 9.1% to £118.5m (2019: £130.3m) due mainly to the increase in impairment charges
- Cash generation remained robust with cash receipts of £1.6bn (2019: £1.6bn)

Highlights (continued)

Key metrics	2020	2019
Interest receivable and similar income (£m)	388.4	343.1
Underlying interest cover ratio[1]	2.0:1	2.2:1
Interest cover ratio	1.7:1	2.2:1
Underlying net interest margin[1] (%)	6.6	6.8
Net interest margin (%)	6.4	6.8
Underlying cost-to-income ratio[2] (%)	29.0	36.2
Cost-to-income ratio (%)	36.5	36.2
Cost of risk (%)	1.7	0.5
Underlying profit before taxation[2] (£m)	118.5	130.3
Profit before taxation (£m)	94.6	130.3
Loans and advances to customers (£m)	4,162.2	3,694.5
Net debt gearing (%)	78.6	78.0
Shareholder funds[3] (£m)	856.4	789.9
Underlying return on equity[4] (%)	12.8	14.8
Return on equity (%)	10.4	14.8

Further strengthened governance structure

- Gerald Grimes joined Group Board on May 17, 2020 as Group CEO Designate
- Liz Blythe (September '19) and John Hooper (January '20) joined the Personal Finance board as NEDs and Chair the Personal Finance Audit Committee and Personal Finance Risk Committee respectively.
- Adopted the 'Wates' corporate governance principles for large private companies and finalised the implementation of the Senior Managers & Certification Regime within the Personal Finance division.
- The directors, having considered the requirements for rotation of auditors voluntarily tendered the audit. After a competitive tender, Ernst & Young LLP has been appointed as the Group's auditors
- A search has commenced for a successor to John Lowe, who resigned as Group Finance Director with effect from the end of September '20 with an Interim Group Finance Director now appointed

[1] Underlying metrics include adjustments to exclude £6.7m interest payable relating to the refinance of the 2021 Senior Secured Notes (2019: £nil). For further details see 'Financial review' section.

[2] Underlying metrics include adjustments to exclude £17.2m customer provisions (2019: £nil), £6.7m interest payable relating to the refinance of the 2021 Senior Secured Notes (2019: £nil). For further details see 'Financial review' section.

[3] Includes subordinated shareholder loans of £28.4m (2019: £27.1m).

[4] Underlying metric is adjusted for additional customer provisions and refinancing cost incurred during the period along with the associated tax on these exceptional items. These exceptional items are adjusted within profit after tax and shareholder funds.

Highlights (continued)

Increased scale, diversity and maturity of funding

- Undrawn facility headroom increased to £857m at September 18, 2020
- September '20 – Successfully completed the refinancing of revolving credit facility ('RCF') by extending maturity to June '23
- July '20 – Successfully completed fourth residential mortgage backed securitisation ('RMBS'), Together Asset Backed Securitisation 2020 – 1 PLC ('TABS4), issuing £360.5m of rated notes against a loan portfolio of £366m, with 79.5% of the notes AAA rated
- February '20 - 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
- October '19 - Successfully completed third RMBS, Together Asset Backed Securitisation 2019 – 1 PLC ('TABS3'), in October issuing rated notes of £315m on a mortgage portfolio of £332m
- September '19 - Increased revolving Lakeside securitisation facility from £255m to £500m on improved terms and extended maturity, adding two further banks

Covid-19 update: Supporting customers, enabling colleagues and enhancing future business resilience

- Provided mortgage-payment deferrals and other Covid-19 forbearance to around 23% of Group customers by value. As at September 18, 2020, we were providing Covid-19 forbearance to c.7% of Group customers. Of the accounts who have exited payment deferrals 79.8% have resumed payments, 17.5% are making part payments and 2.7% making no payments.
- 98% of colleagues supported to work from home by end of March
  - Phased return to office commenced following initial easing of lockdown
- Temporarily paused accepting new loan applications to preserve liquidity, manage credit risk, support existing customers and re-assess pipeline applications against tighter lending criteria
  - Advanced c. £60m of lending from within pipeline during April, May and June, with £33m of lending in July and £49m in August
- Agreed Covid-19 facility covenant waivers for provision of certain concentrations of mortgage-payment deferrals with banks in all four private securitisations
- Further strengthened accessible liquidity to £264m at September 18, 2020 (June 30, 2020: £144.7m)

Shaping the business for the future

- Strategically reviewed future shape of business to best support evolving customer needs
  - Accelerating modernisation and transformation programmes, including introducing new technologies and automating processes to enhance customer journey and deliver operational efficiencies
- Completed thorough review of costs to ensure our cost base remains appropriate
  - Employee consultation process completed, reducing colleague numbers by 191
- While gradually increasing lending, we expect lending volumes to continue to increase cautiously, but remaining below pre-Covid-19 levels in the near term while credit risk becomes more transparent and measurable and we deliver efficiency benefits from our transformational projects
- Positioning business to help support UK economic recovery as one of the UK's largest specialist lenders

An introduction to Together Financial Services Limited

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

We focus on prudent loan-to-value ("LTV") lending and offer retail and commercial purpose mortgage loans. Our loans include secured first and second-lien loans, of which, as of June 30, 2020, 65% 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 June 30, 2020, 31.5% of our loan portfolio was classified as retail purpose, 63.5% as commercial purpose (which included 22.9% of buy to let +) and 5.0% of the loan portfolio was classified as development funding, calculated by value. We classify mortgages as retail purpose lending when the mortgage is regulated by the Financial Conduct Authority ("FCA") as well as certain loans written prior to the introduction of the relevant regulation which we consider would have been subject to regulation if underwritten under the current regulatory framework. Retail purpose loans include loans for purchasing a new home, making home improvements, debt consolidation, large personal purchases and since March 2016 also includes "consumer buy-to-let" loans ("CBTL") written post this date. Our retail purpose loans also include regulated bridging loans, which can be used for 'chain breaks' which are loans used by customers to purchase a new home ahead of completing the sale of their existing home, amongst other things. We classify mortgages as "commercial purpose" where a loan is not defined as retail purpose. Commercial-purpose loans include loans on which the proceeds of the loan or the property securing the loan are used for business purposes. Our classification of a mortgage as either retail or commercial purpose is unrelated to the collateral securing it.

Our underwriting process consists of a detailed and individualised credit, affordability and repayment assessment, as well as a security assessment which typically includes an independent valuation, which we believe provides us with a thorough understanding of each loan application. In the underwriting process we primarily focus on affordability, being the ability of the loan applicant to make loan payments in line with agreed terms ("affordability"), and the repayment strategy, where the loan will not be repaid from instalments, and security, being the adequacy of the property which will serve as security for the loan ("security"). To support compliance with our underwriting guidelines, we have in place mandate and authorisation controls, a staff training and competency program and quality assurance sampling procedures. This is supported by a formal enterprise risk management framework, which includes conducting internal, risk and compliance audits as well as a formal committee structure to agree on policy decisions, setting risk appetites and monitoring credit quality.

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

The LTVs of our loan portfolio on a weighted average indexed basis as of June 30, 2020, was 54.9% and the LTV on a weighted-average basis of new loans underwritten in the year ended June 30, 2020 was 57.7%. As of June 30, 2020, 97.0% of the total loan portfolio and 89.2% of the Borrower Group[5] 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.

[5] See Structure diagram on p.22 for definition of Borrower Group

Presentation of financial and other information

Financial statements

This annual report presents the audited consolidated financial statements of Together Financial Services Limited as of and for the year ended June 30, 2020 with comparatives to June 30, 2019. The consolidated financial statements of Together Financial Services Limited have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), are independently audited and are derived from internal management reporting.

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

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 annual report and related presentation, references to EBITDA for the year ended June 30, 2019 and 2020 for Together Financial Services Limited, can be extracted from the audited consolidated financial statements of Together Financial Services Limited, by taking profit after taxation and adding back income tax, depreciation and amortisation and interest payable and similar charges. EBITDA margin is calculated as EBITDA divided by the sum of interest receivable and similar income plus fee and commission income.

In this annual report references to "Underlying EBITDA" and "Underlying Profit Before Tax" exclude the effects of additional provisions made in respect to forbearance and customer communications provisions and interest payable relating to the refinance of the 2021 Senior Secured Notes. (See Notes 5 and 23 to our audited consolidated financial statements presented herein.)

In this annual 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 annual 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 or upon the exit of Covid-19 mortgage-payment deferrals, we do not reschedule our loans by capitalising arrears. In this annual report and related presentation, arrears data is based on the latest 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.

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

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

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

Development loans are commercial-purpose loans that we extend to finance the development of land or property, primarily into residential units, with repayments typically being made out of the sale or refinance of property units. We underwrite relatively few new development loans each quarter. Development loans are reported as a separate category of loans within our analysis.

In this annual 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 June 30, 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 annual report and related presentation, a loan is considered performing (a “performing loan”) if it (i) has nil arrears or arrears less than or equal to one month of the latest contractual instalment or where no contractual monthly instalment is due or (ii) “performing arrears loans,” being loans with arrears greater than one month’s but less than or equal to three months’ of the latest contractual instalments, or where cash receipts collected in the prior three months are equal to or greater than 90% of the contractual instalments due in the prior three months. The balance of loans are classified as (i) non-performing arrears loans, where such loans have arrears of greater than three months’ of the latest contractual instalments due and where receipts collected in the prior three months are less than 90% of the three latest contractual instalments due, past contractual term or subject to LPA receivership in rental status (ii) loans for which the security is subject to a repossession order or for which an LPA receiver has been appointed and is under sale status and (iii) development loans. Such loan categorization definitions used differ to the categorizations applied in determining if a loan is classified as Stage 1, Stage 2 and Stage 3 under IFRS 9.

Terms relating to our loan analysis (continued)

In this annual report and related presentation, the term "performing loans" refers to the aggregate of (i) the principal amount of performing loans outstanding, (ii) accrued interest and fees, (iii) net of any allowances for impairment in respect of such loans, and (iv) for periods on or after June 30, 2019, certain other accounting adjustments (including adjustments to recognise income at the effective interest rate), as of the date presented. The term " non-performing arrears loans" refers to the aggregate of (i) the principal amount of non-performing arrears loans outstanding, (ii) accrued interest and fees, (iii) net of any allowances for impairment in respect of such loans and (iv) for periods on or after June 30, 2019 certain other accounting adjustments (including adjustments to recognise income at the effective interest rate), as of the date presented.

Non-performing arrears loans do not take into account loans for which the security is subject to a repossession order or for which an LPA receiver has been appointed and is under sale status or development loans, all of which are reported as separate categories and are also calculated based on the aggregate of (i) the principal amount, (ii) accrued interest and fees (iii) net of any allowances for impairment in respect of such loans, and (iv) for periods on or after June 30, 2019 include certain other accounting adjustments (including adjustments to recognise income at the effective interest rate) as of the date presented. Our loan and impairment allowance analysis excludes loans with carrying values of nil for which full provisions are in place.

In this annual 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 annual 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 annual 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 annual report and related presentation, the average LTV of our loan portfolio is calculated on a "weighted average basis," by multiplying each LTV by the respective loan amount and then dividing the sum of the weighted LTVs by the total amount of loans. The weighted average LTV of our loan portfolio is also presented on an "indexed basis," pursuant to which the value of the properties securing our loans are reviewed quarterly and adjusted for movements in property prices since the latest appraised valuation in accordance with the relevant regional property indices.

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

Key performance indicators

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

(£m, except for percentages and ratios or unless otherwise noted)	12 months ended or as at June 30, 2020	2019
Group		
Interest receivable and similar income	388.4	343.1
Fee and commission income	4.5	4.4
Income	392.9	347.5
Underlying NIM**[6]	6.6%	6.8%
Underlying cost-to-income*[7]	29.0%	36.2%
Impairment charge	(66.9)	(15.4)
EBITDA[8]	238.4	251.5
Underlying EBITDA***[8]	255.6	251.5
EBTIDA margin[8]	60.4%	72.4%
Underlying EBITDA margin***[6]	64.8%	72.4%
Profit on ordinary activities before tax	94.6	130.3
Underlying profit on ordinary activities before tax*	118.5	130.3
Underlying return on equity*[9]	12.8%	14.8%
Supplemental cash flow information:		
Cash receipts	1,562.7	1,570.1
New advances	1,688.3	1,982.8
LTV of loan portfolio (on a weighted average basis, based on LTV of loans at origination) [6]	57.7%	58.0%
LTV of loan portfolio (on a weighted average indexed basis) [6]	54.9%	54.3%
Borrower Group		
LTV of loan portfolio (on a weighted average basis, based on LTV of loans at origination) [6]	60.7%	58.3%
LTV of loan portfolio (on a weighted average indexed basis) [6]	57.4%	55.9%

* Underlying metrics include adjustments to exclude £17.2m customer provisions (2019: £nil) and £6.7m interest payable relating to the refinance of the 2021 Notes in Q3'20 (2019: £nil).

** Underlying metric includes adjustments to exclude £6.7m interest payable relating to the refinance of the 2021 Notes in Q3'20 (2019: £nil).

*** Underlying metrics include adjustments to exclude £17.2m customer provisions (2019: £nil).

The key performance indicators above for the year ended June 30, 2020 have been derived from audited consolidated financial statements and management information. In the opinion of management, such financial data reflects all adjustments necessary for a fair presentation of the results for those periods and has been prepared in accordance with IFRS. The financial information should be read in conjunction with the audited annual report and consolidated financial statements of Together Financial Services Limited and the accounting policies described therein as at June 30, 2020.

[6] Net interest margin (NIM) –net interest income for the year as a percentage of the average of the opening and closing net loans and advances to customers for the year
[7] Cost-to-income – calculated as administrative expenses for the year including depreciation and amortisation divided by operating income for the year
[8] For definitions please see sections: "Other financial information" and "Terms relating to our loan analysis"
[9] Underlying return on equity – calculated as profit after tax for the year adding back shareholder loan interest and adjusted for exceptional items and associated tax expressed as a percentage of the average of the opening and closing shareholder funds adjusted for exceptional items during the period

Operating review

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

Continued focus on LTVs

During the year to June 30, 2020 the Group has continued to focus on prudent underwriting policies and LTVs. The Group continues to target an average of origination LTVs of between 55% and 65% for new loans and continues to focus principally on residential security. The Group has continued to use affordability and repayment assessments to ensure customers are able to service and repay their loans.

An analysis of the loan portfolio as at June 30, 2020, and June 30, 2019 by arrears banding, for the Group and Borrower Group is set out below. Additional analysis has been provided for June 30, 2020 for the population of the loan portfolio where borrowers have requested Covid-19 mortgage-payment deferrals ('MPD'). Separate analysis is presented for those which have requested an MPD at any time ('Total') and those which remain in a MPD at June 30, 2020 ('Live'):

	Group Loan Portfolio Arrears Analysis			
	June 30, 2020			June 30, 2019
	Total Loan Portfolio	Of which, requested MPD Total	Of which, requested MPD Live	
Nil Arrears & Arrears ≤ 1 month	**83.6%**	**18.8%**	**13.6%**	**85.9%**
Performing Arrears				
1-3 months	5.5%	2.7%	1.1%	4.0%
3-6 months	0.4%	0.2%	0.2%	0.3%
>6 months	0.2%	0.1%	0.1%	0.5%
Total Performing Arrears	**6.1%**	**3.0%**	**1.4%**	**4.8%**
Development Loans	**5.0%**	**0.1%**	**0.0%**	**5.3%**
Total Performing Loans & Development Loans	**94.7%**	**21.9%**	**15.0%**	**96.0%**
Non-Performing Arrears				
3-6 months	1.3%	0.3%	0.1%	0.7%
>6 months	1.3%	0.0%	0.0%	0.7%
Past due[1]	1.4%	0.0%	0.0%	1.4%
Total Non-Performing Arrears	**4.0%**	**0.3%**	**0.1%**	**2.8%**
Repossessions & LPA Sales	**1.3%**	**0.0%**	**0.0%**	**1.2%**
Total	**100.0%**	**22.2%**	**15.1%**	**100.0%**

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

	Borrower Group Loan Portfolio Arrears Analysis			
	June 30, 2020			June 30, 2019
	Total Loan Portfolio	Of which, requested MPD Total	Of which, requested MPD Live	
Nil Arrears & Arrears ≤ 1 month	**53.0%**	**9.0%**	**6.7%**	**64.3%**
Performing Arrears				
1-3 months	9.3%	4.0%	1.7%	5.3%
3-6 months	1.0%	0.4%	0.3%	0.9%
>6 months	0.9%	0.2%	0.2%	1.7%
Total Performing Arrears	**11.2%**	**4.6%**	**2.2%**	**7.9%**
Development Loans	**19.3%**	**0.4%**	**0.1%**	**16.7%**
Total Performing Loans & Development Loans	**83.5%**	**14.0%**	**9.0%**	**88.9%**
Non-Performing Arrears				
3-6 months	3.1%	0.4%	0.2%	1.3%
>6 months	4.5%	0.1%	0.1%	1.9%
Past due[1]	3.8%	0.0%	0.0%	4.1%
Total Non-Performing Arrears	**11.4%**	**0.5%**	**0.3%**	**7.3%**
Repossessions & LPA Sales	**5.1%**	**0.1%**	**0.0%**	**3.8%**
Total	**100.0%**	**14.6%**	**9.3%**	**100.0%**

Operating Review (continued)

Continued focus on prudent LTVs (continued)

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

Group Loan Portfolio Indexed LTV Analysis (£m)	Performing Loans	Development Loans	Non - Performing Loans	Repossessions & LPA Sales	Total Loan Portfolio
<=60%	2,158.9	70.7	82.5	17.7	2,329.8
>60% <=80%	1,528.6	101.7	81.1	30.3	1,741.7
>80% <=100%	33.4	30.6	0.9	6.6	71.5
>100%	18.1	4.2	-	-	22.3
Total	**3,739.0**	**207.2**	**164.5**	**54.6**	**4,165.3**

Borrower Group Loan Portfolio Indexed LTV Analysis (£m)	Performing Loans	Development Loans	Non - Performing Loans	Repossessions & LPA Sales	Total Loan Portfolio
<=60%	370.0	70.7	56.8	20.4	517.9
>60% <=80%	272.2	101.7	65.5	27.5	466.9
>80% <=100%	31.3	30.6	0.9	6.6	69.4
>100%	16.8	4.2	-	-	21.0
Total	**690.3**	**207.2**	**123.2**	**54.5**	**1,075.2**

Group Loan Portfolio Origination LTV Analysis (£m)	Performing Loans	Development Loans	Non - Performing Loans	Repossessions & LPA Sales	Total Loan Portfolio
<=60%	1,810.6	114.3	80.2	16.4	2,021.5
>60% <=80%	1,872.6	71.8	77.7	34.8	2,056.9
>80% <=100%	32.2	8.0	2.8	3.4	46.4
>100%	23.6	13.1	3.8	-	40.5
Total	**3,739.0**	**207.2**	**164.5**	**54.6**	**4,165.3**

Borrower Group Loan Portfolio Origination LTV Analysis (£m)	Performing Loans	Development Loans	Non - Performing Loans	Repossessions & LPA Sales	Total Loan Portfolio
<=60%	325.3	114.3	57.3	19.2	516.1
>60% <=80%	309.9	71.8	59.3	31.9	472.9
>80% <=100%	31.5	8.0	2.8	3.4	45.7
>100%	23.6	13.1	3.8	-	40.5
Total	**690.3**	**207.2**	**123.2**	**54.5**	**1,075.2**

The indexed weighted-average LTV of the loan portfolio for the total Group at June 30, 2020 is 54.9% compared with the prior year of 54.3% at June 30, 2019.

The indexed weighted-average LTV of the loan portfolio for the Borrower Group at June 30, 2020 is 57.4% compared with the prior year of 55.9% at June 30, 2019.

Maintenance of loan portfolio mix and continued differentiation of our offerings

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

As at June 30, 2020, 31.5% of our loan portfolio was classified as retail-purpose, 63.5% of our loan portfolio was classified as commercial-purpose (which included 22.9% of buy to let +) and 5.0% of our loan portfolio was classified as development loans, calculated by value. At June 30, 2019, 31.8% of our loan portfolio was classified as retail purpose, 62.9% of our loan portfolio was classified as commercial purpose (which included 22.1% of buy to let +) and 5.3% of our loan portfolio was classified as development funding.

The proportion of our loan portfolio secured by residential security by value has decreased to 64.9% as at June 30, 2020, when compared with 65.9% as at June 30, 2019.

The proportion of our loan portfolio secured on first charges has increased to 72.9% as at June 30, 2020, compared with 71.6% as at June 20, 2019.

Controlled growth of our loan portfolio

In the year to June 30, 2020, including further advances, we have originated an average of £140.7m per month compared with £165.2m per month in the year to June 30, 2019, primarily due to the pause in accepting new applications at the height of uncertainty as the country went into lockdown, and prior to the pandemic had been running at approximately 13% higher than the same period in the previous year.

Our loans and advances to customers stands at £4,162.2 as at June 30, 2020, compared with £3,694.5m as at June 30, 2019.

For the majority of the year, we have continued to grow our loan portfolio using established distribution channels across the United Kingdom and overall the loan book has grown despite the pause in accepting new applications. We have since recommenced accepting new applications on a phased basis initially using a selected panel of intermediaries from our well-established distribution network and using tighter underwriting criteria.

We continue to offer a broad product range to underserved segments of the market and we benefit from a rich pool of experience and skilled underwriters along with our continued investment in technology and product innovation.

Financial review

Interest receivable and similar income have increased by 13.2% to £388.4m for the year to 30 June 2020 (2019: £343.1m). This is consistent with the increase in the loan book with a marginal reduction in yield as higher-yielding loans originated following the credit crisis continued to be replaced by loans at market rates that reflected the increasing competition before the coronavirus pandemic.

Interest payable and similar charges have increased by 17.4% to £137.1m (2019: £116.8m). This includes £6.7m of one off interest charges due to the early refinancing of the 2021 senior secured notes. Excluding this one off charge underlying interest increased by 11.7% reflecting improvements in the cost of funding achieved through refinancings and the new securitisation completed during the year, and in the second half of the year by the lower interest-rate environment as a result of the Bank of England's response to the pandemic. Partly offset by a slight increase the levels of gearing as the improving quality of assets enabled the Group to increase the advance rates of existing borrowing facilities and complete a further more-capital-efficient residential mortgage-backed securitisation.

As a result of the above, net interest income increased to £251.3m (2019: £226.3m). The resultant net interest margin percentage of 6.4%, 6.6% excluding the one-off interest charges (2019: 6.8%), remained highly attractive given the high levels of collateral underpinning the quality of the loan book.

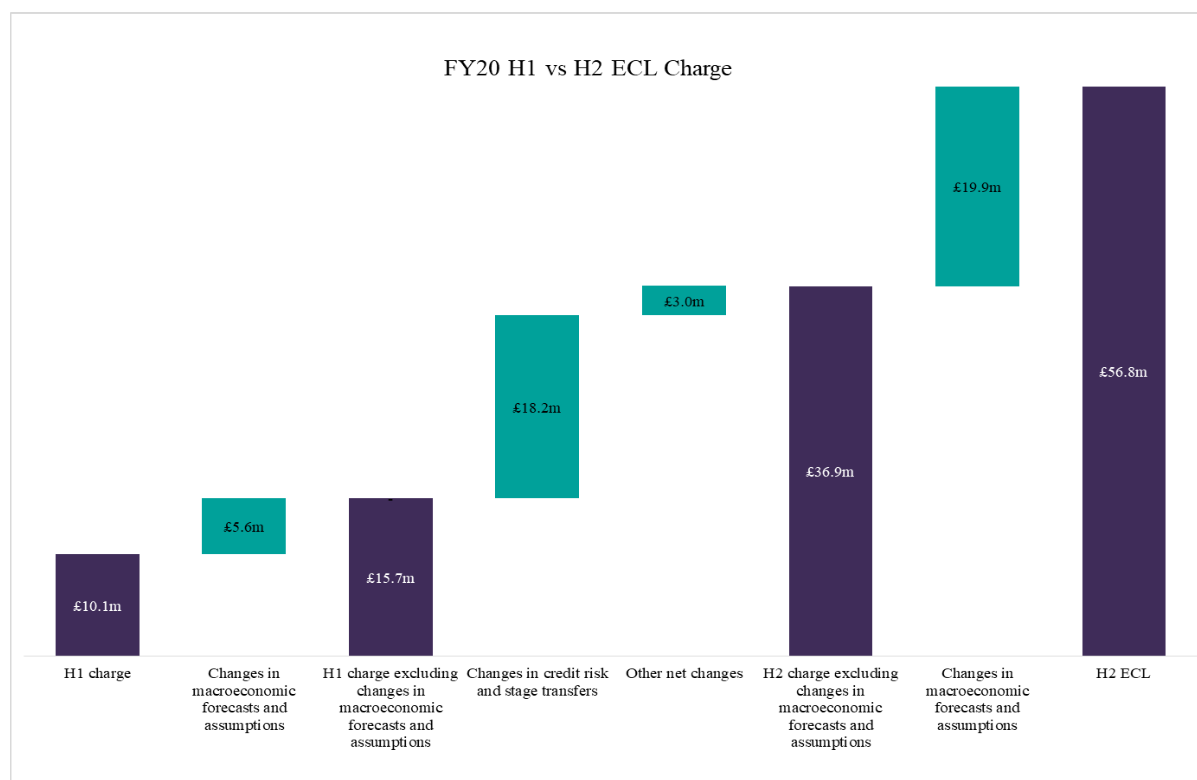
Administrative expenses were £92.8m (2019: £82.8m). The increase of 12.1%, which was less than the growth in the net loan portfolio, was due to exceptional provisions made for customer-remediation costs of £17.2m. Underlying costs were £75.6m and reflected the Group's keen focus on cost control through the year and actions to reduce expenditure for the final three months of the year in response to the pandemic. These measures included the furloughing of staff and a reduction in certain discretionary expenditure, including the release of certain provisions for incentive payments to colleagues and senior personnel. The underlying cost-to-income ratio for the year to June 30, 2020 was 29.0%[10] (2019: 36.2%).

[10] Excluding adjustments £17.2m customer provisions (2019: £nil) and £6.7m interest payable relating to the refinance of the 2021 notes in Q3'20 (2019: £nil).

Financial review (continued)

Impairment losses for the year were £66.9m, an increase of £51.5m on the £15.4m reported for the year to June 30, 2019, with the cost of risk increasing to 1.7% from 0.5% last year. The significant increase in the charge for the year reflects the deterioration in the macroeconomic outlook as a result of the pandemic and the resulting impact on loan book performance towards the end of the financial year. Although the mortgage portfolio has grown by 13.8% during the year, the impairment coverage ratio has increased by 56% to 2.8% from 1.8% in the prior year, providing increased cover for potential future losses, principally in respect of stage 2 and 3 loans.

For estimating losses we use a range of forecasts which carry a very high level of uncertainty due to the unprecedented nature of the recession and the difficulty in foreseeing the timing and scale of future recovery. The impact of the change in the macroeconomic environment and outlook can most readily be seen in the chart below of the increase in the loss charge from the first half to the second half of the year, where changes in forward looking assumptions have resulted in an increase in the charge of £19.9m.



In addition to changes in the macroeconomic outlook and other forward-looking assumptions, impairment losses have also increased due to an increase in the proportion of loans which have not maintained their payments and consequently have transferred to a different stage. Other changes in ECL result for changes in the credit risk of each loan, including changes in payment performance, collateral values, repossession or receivership and other qualitative indicators.

Underlying EBITDA £255.6m[8] (2019: £251.5m), underlying EBITDA margin was 64.8%[8] (2019: 72.4%), underlying profit before tax of £118.5m[8] (2019: 130.3m).

The Group continues to be highly cash generative, with cash receipts of £1,562.7m, cash debt service of £118.9m (excluding £5.9m of call penalty) and other cash expense payments of £125.6m (excluding £15.6m of PIK dividends paid in connection with the servicing of PIK Toggle Notes in Bracken Midco1 PLC for the year to June 30, 2020.) This compares with cash receipts of £1,570.1m, cash debt service of £105.1m (excluding £9.1m of debt issuance costs) and other cash payments of £116.9m (excluding £29.9m of PIK dividends paid in connection with the servicing of PIK Toggle Notes in Bracken Midco1 PLC) for the year to June 30, 2019.

Cash receipts are lower in the current year, primarily due to lower levels of redemptions towards the end of the year.

Shareholder funds have increased by 8.4% to £856.4m (2019: £789.9m).

Recent developments

Trading update

The Group has offered mortgage-payment deferrals not only to borrowers covered by the government's criteria but also to certain other customers. Following the earlier easing of lockdown restrictions and the increasing resumption of economic activity, by 18 September, the number of mortgage-payment deferrals, by value, have fallen to 12% for retail customers and 5% for commercial customers, 7% overall.

Customers may take the option to extend their payment deferral, in line with government guidance. Of the 6,840 loans reaching the end of their initial deferral period by September 18, 2020, 1,885 customers extended for a further deferral period and 4,955 customers have reached the end of their mortgage-payment deferral period. Of the 4,955 customers who reached the end of their mortgage-payment deferral period, 4,274[11] resumed full payments, 484 made partial payments and the remaining 197 customers have either not paid or are past their term.

Monthly cash receipts of principal and interest in July, August and up to September 18, 2020, were £131m, £98m and £72m, respectively., compared to a monthly average of c.£100m between April and June, 2020.

The Group has £857m of undrawn facility headroom at September 18, 2020.

The Group has £264m of accessible liquidity at September 18, 2020[12].

Restructuring

With the severity of the pandemic and its impact on business, the Group has had to make some difficult decisions regarding restructuring our business and the Group recently announced that it has launched an employee consultation process on proposals to reduce colleague numbers reflecting the anticipated future levels of lending activity and efficiencies in a revised operating structure. This employee consultation process ended on September 7, 2020, and as a result 191 colleagues were made redundant.

New originations

Monthly mortgage originations in July, August and up to September 18, 2020, were £33m, £49m and £36m, respectively, compared to a monthly average of £20m between April and June, 2020.

Funding activity

On 18 September we successfully completed refinancing of our RCF, extending maturity to June '23.

On 23 July we successfully completed fourth residential mortgage backed securitisation ('RMBS') TABS4, issuing £360.5m of rated notes against a loan portfolio of £366m, with 79.5% of the notes AAA rated in July '20.

Given the government's announcement on May 22, 2020, to extend mortgage-payment deferrals to support individuals and families and the uncertainty surrounding the economic outlook, the Group has agreed further modifications to waivers for each of its private securitisations, including agreement of modifications to LABS in August '20 and CABS in September '20.

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

12 Includes £122m of cash, £72m undrawn RCF and £70m of eligible assets available to sell to securitisation vehicles.

Significant factors which may affect results of operations

Covid-19 and the macroeconomic environment

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.

The emergence of Covid-19 as a global pandemic has led to significant disruption to the world economy and there is little certainty in the economic outlook. In addition, the final form of the UK's exit from the European Union is not yet known. Amongst other impacts, macroeconomic uncertainty may affect the availability and pricing of wholesale funding, reduce customer confidence, reduce customers' ability to service and repay their loans which may in-turn affect our ability to comply with the covenants in our funding structures, increase operating costs and impact property values.

The Bank of England has acted to maintain a credit supply to the economy, including the provision of liquidity to banks to support lending, however this support is not available to the same extent to non-bank lenders which includes the Group.

An economic downturn is expected to adversely impact the growth in the Group's lending and profitability. Note 14 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 46 years, and a strong, diversified funding base which management believes provide the Group with the resilience needed in such uncertain times.

Operational response

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
- Close monitoring of human resource levels to meet new and changing demands

  Review of arrangements with suppliers and implementation of contingency procedures

The Group has demonstrated an ability for the vast majority of our colleagues to work from home, and have also now put in place detailed social distancing, personal temperature testing and enhanced cleaning procedures to support a safe and phased return to the office for a number of our colleagues.

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.

Significant factors which may affect results of operations (continued)

Loan assets performance (continued)

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 and extended such measures in June 2020. These measures included the availability of mortgage-payment deferrals, for up to six months, for borrowers who have been impacted by Covid-19.

As at June 30, 2020, 5,691 customer loan accounts, representing 16% of the loan portfolio by value, had payments due and were in receipt of a Covid-19 mortgage-payment deferral arrangement. Further detail on the impact on the Group's loss allowance is set out in Note 14.

In addition to prudently tightening certain aspects of its lending criteria in response to Covid-19 the Group has also enhanced the way that credit risk is managed and mitigating, including: capturing additional data and establishing enhanced monitoring of the specific risks posed to the portfolio by Covid-19 and the impact of customers in receipt of mortgage-payment deferrals; accessing additional data, where appropriate, from open banking and credit reference agencies; updating arrears management standards and processes to reflect the latest FCA guidance on mortgage-payment deferrals; enhanced management information to provide further analysis and focus on particular risk factors emerging as a result of coronavirus; and macroeconomic sensitivity analysis of the loan book, including an increase in the number of scenarios modelled for the purpose of calculating the impairment loss allowance.

Property market

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

The Group lends at prudent LTVs at origination to provide protection from falls in property prices. Average origination LTV was 57.7% for the year to June 30, 2020 (2019: 58.0%).

During the year the Group temporarily paused accepting new mortgage applications, following the onset of the Covid-19 pandemic, during a period when the impact of the outbreak on: the economy, affordability assessments for new lending applications, feasibility of conducting property valuations, and the property market in general was unclear. The Group has since tightened lending criteria in mitigation of these uncertainties.

The risks to the property market are expected to increase in the forthcoming year in light of adverse economic conditions and the Group expects to continue to lend using revised lending criteria and to continue its longstanding approach of lending at prudent LTVs.

The impact of the coronavirus to future property values is highly uncertain. The macroeconomic scenarios used in modelling expected credit losses are set out in Note 14 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'[13] 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.

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

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

Significant factors which may affect results of operations (continued)

Competition (continued)

In common with a number of lenders and at the height of uncertainty as the country went into lockdown, the Group took a prudent decision to temporarily pause accepting new mortgage applications. Our focus was on managing the existing pipeline of loans, including underwriting against more prudent criteria, along with supporting our existing customers by offering mortgage-payment deferrals. Supporting our existing customers at a time of great uncertainty was our priority, with the potential reputational impact with intermediaries mitigated by the temporary nature of the pause and that origination levels were significantly reduced across the industry. The Group has since recommenced accepting new applications on a phased basis initially using a selected panel of intermediaries from its well-established distribution network, as set out in Note 34 to the financial statements. The Group continues to offer a broad product range to underserved segments of the market and benefits from a rich pool of experience and skills underwriters. The Group also continues to invest in technology and product innovation.

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

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

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

Liquidity and Funding

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

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

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

Significant factors which may affect results of operations (continued)

Liquidity and Funding (continued)

The liquidity and funding risks arising from reducing level of eligible assets and/or the risk of lower levels of cash inflows from redemptions can be mitigated by increasing the amount of liquidity resources held as cash. A key management action to generate net cash inflows is the ability to control levels of new lending, which in combination with other management actions, has increased cash balances to £252.5m at June, 30 2020 (June 30, 2019: £120.2m), of which £112.9m is unrestricted cash (2019: £22.6m) as shown in Note 13.

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

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

Interest rate environment

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

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

The Group conducts regular stress testing on the balance sheet for the impact of changes in interest rates arising from any mismatches in fixed and floating rates on the balance sheet. The Group raises funding using a mix of fixed and variable funding which provides some natural offset in movements in interest rates on assets and liabilities. During the year, the Group issued TABS 3, which uses SONIA as a reference rate which has historically tracked Bank Rate more closely than Libor. The Group also refinanced certain senior secured notes, securing fixed rate funding to 2026 and entered into interest rate derivatives where appropriate to mitigate interest rate risk.

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

Regulatory considerations

The Group has certain subsidiaries which are authorised and regulated by the FCA in addition to subsidiaries which undertake unregulated lending. The Group has responded to new guidance issued by the FCA in response to the coronavirus pandemic, including offering mortgage-payment deferrals to customers and the treatment of vulnerable customers. The Personal Finance division has implemented the FCA's Senior Managers and Certification Regime (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.

Significant factors which may affect results of operations (continued)

Regulatory considerations (continued)

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 23 to the financial statements.

Cyber-crime

Cyber-crime is a significant threat in our increasingly interconnected world and exposes all businesses and in particular financial services companies.

The Group continues to perform penetration testing on our systems and to strengthen its defences against cyber-crime, with investment in market-leading tools and investment in the cyber security team during the year.

Claims management companies (CMCs) and legal claims

CMCs and claimant law firms' activity can lead to a significant increase in the level of legal claims being received, whether these end up being settled or rejected.

During the year, the Group has seen a reduction in legal claims received from CMCs and claimant law firms compared with the prior year. CMCs became regulated during 2019 with the aim of raising standards and practices in the industry, which may impact on claim volumes. The Group evaluates the merits of each claim individually and determines an appropriate course of action.

Risk factors

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

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

- the impact of economic conditions on our results of operations and financial condition;
- the impact of the coronavirus to the global and UK economy and resultant impact on our liquidity position, capital position, operational risk profile, portfolio credit risk profile, reputation, results of operation and financial condition;
- the impact of the United Kingdom's 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 and after the loan underwriting process;
- the impact of the changing financial circumstances of our customers;
- the impact of rising unemployment;
- our relationships with mortgage intermediaries, professional networks and other distribution channels;

Significant factors which may affect results of operations (continued)

Risk factors (continued)

- the impact of competition;
- legislative, taxation and regulatory changes affecting our ability to operate or the profit generated from our activities;
- the effectiveness of our compliance, Enterprise Risk Management Framework and internal audit functions;
- failure to comply with current or historic regulatory rules or guidance or to treat customers fairly;
- failure to identify and offer the appropriate treatment to vulnerable customers;
- our exposure to the cost of redress, potential regulatory sanctions and fines;
- the impact of fluctuations in interest rates and our ability to obtain financing;
- changes to the ways in which the United Kingdom regulates the loan industry and other regulatory changes;
- the impact and cost associated with greater prudential regulation;
- changes or uncertainty in respect of LIBOR or SONIA that may affect our sources of funding;
- the impact of new initiatives by the UK government that may affect our business;
- the impact and costs associated with dealing with claims management companies;
- the impact of litigation;
- our ability to retain our senior management and our underwriters, account executives, sales personnel, client facing employees and other key employees;
- loss of a material number of employees being available due to Covid-19;
- interruption or loss of our information processing systems or third party systems we use or failure to maintain secure information systems, manage personal date in line with GDPR and keep up to date with technological changes (including as a result of cyber-attacks);
- technological changes and failure to adequately anticipate or respond to these changes;
- the accuracy of our systems, data and models to correctly report our financial condition and forecasts;
- our substantial debt obligations and our ability to operate within financial covenants;
- access to debt markets and our ability to refinance our debt and raise new debt at acceptable cost;
- imbalances in maturity between our total loan assets and our sources of funds;
- failure to operate a Covid-19 secure workplace in breach of health and safety regulations;
- the potential for conflicting interests between or third-party funding providers and between our shareholder and third-party funding providers;
- our ability to benefit from special corporation tax regimes for securitization companies;
- exclusion of US GAAP financial information; and
- changes in accounting standards.

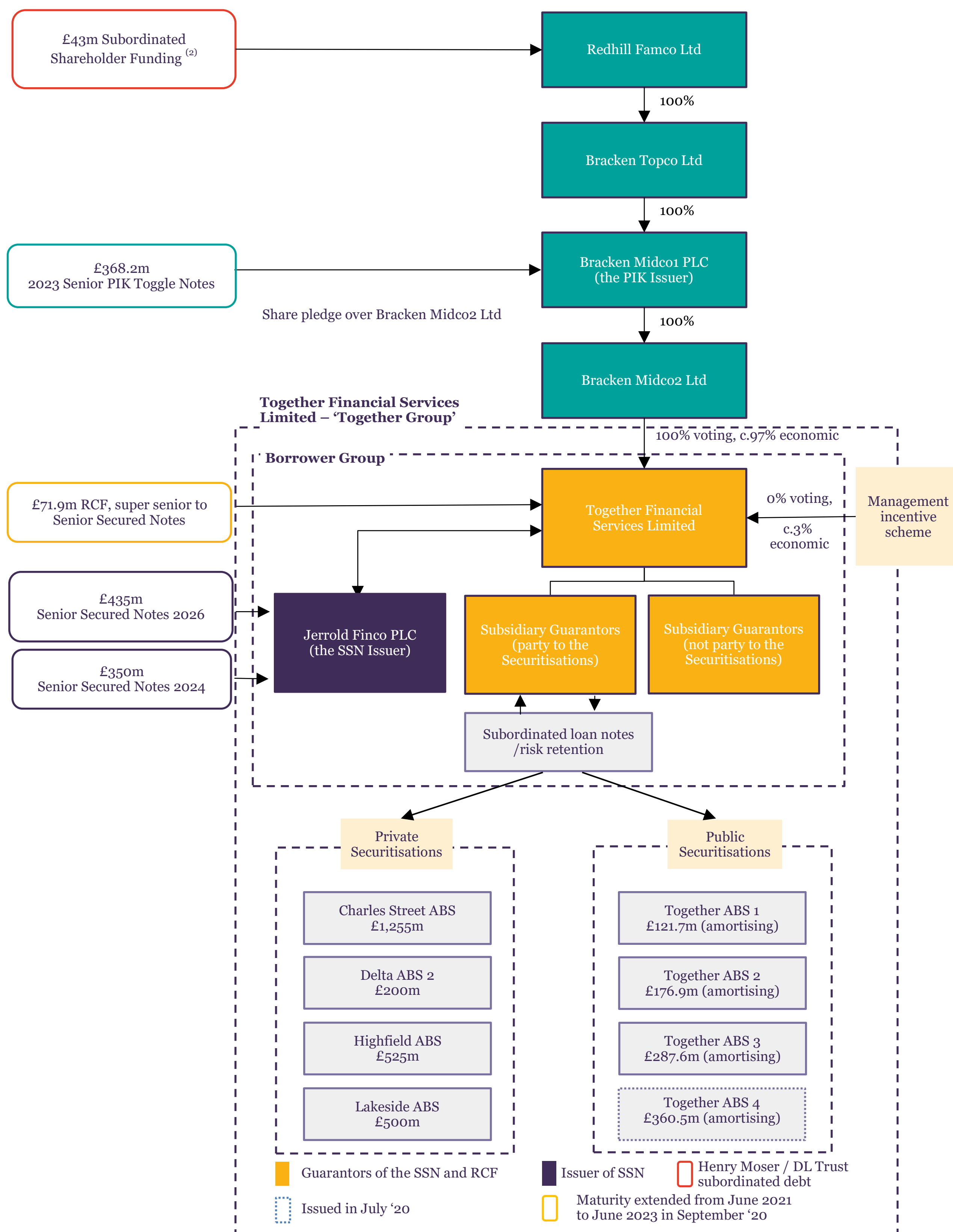
These risks are not exhaustive. Other sections of this annual report describe additional factors that could adversely affect our results of operations, financial condition, liquidity and the development of the industries in which we operate. New risks can emerge from time to time, and it is not possible 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 annual report, and we do not intend, and do not assume any obligation, to update forward-looking statements set forth in this annual 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 annual report. As a result, you should not place undue reliance on these forward-looking statements.

Summary corporate and financing structure

The diagram below provides a simplified overview of our corporate and financing structure on a consolidated basis as at June 30, 2020[1].

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



(1) Assumed if TABS4 and the RCF transacted at June 30, 2020
(2) Subordinated Shareholder Funding based upon nominal value

Summary results and financial position of Bracken Midco1 PLC

The tables below set out the unaudited condensed consolidated results and financial position of Bracken Midco1 PLC, the issuer of 2023 Senior PIK Toggle Notes and its subsidiaries, compared to the audited consolidated results and financial position of Together Financial Services Limited and its subsidiaries, for and as of the year ended June 30, 2020.

	Year ended June 30, 2020		
	Together Financial Services Ltd £m	**Adjustments £m**	**Bracken Midco1 PLC £m**
Profit before tax [(1)]	**31.5**	**(11.6)**	**19.9**

	As at June 30, 2020		
	Together Financial Services Ltd £m	**Adjustments £m**	**Bracken Midco1 PLC £m**
Assets			
Cash and balances at bank	252.5	0.6 [(2)]	253.1
Loans and advances to customers	4,162.2		4,162.2
Inventories	0.6		0.6
Other assets	6.3		6.3
Investments	0.1		0.1
Property, plant and equipment	13.9		13.9
Intangible assets	8.1		8.1
Current tax asset	3.2		3.2
Deferred tax asset	7.6		7.6
Total assets	**4,454.5**	**0.6**	**4,455.1**
Liabilities			
Bank facilities	10.0		10.0
Loan notes	2,729.8		2,729.8
Senior secured notes	786.1		786.1
Senior PIK toggle notes	-	368.2 [(3)]	368.2
Obligations under finance leases	11.5		11.5
Debt issue costs	(15.7)	(2.0) [(4)]	(17.7)
Total borrowings (excluding subordinated shareholder funding)	**3,521.7**	**366.2**	**3,887.9**
Other liabilities	51.2	11.0 [(5)]	62.2
Derivative liabilities held for risk management	2.9		2.9
Provisions for liabilities and charges	22.3		22.3
Total liabilities	**3,598.1**	**377.2**	**3,975.3**
Equity			
Subordinated shareholding funding	28.4	(21.7)	6.7 [(6)]
Shareholders' equity	828.0	(354.9)	473.1
Total equity	**856.4**	**(376.6)**	**479.8**
Total equity and liabilities	**4,454.5**	**(0.6)**	**4,455.1**

(1) Presented to reflect the full annual 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 plus the ‘pay in kind’ (PIK), the interest that was due in April ‘20 on its Senior PIK Toggle notes by the issuance of additional notes rather than paying in cash and the incurred penalty

(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 June 30, 2020, interest payable and similar charges for Bracken Midco1 PLC was, on a consolidated basis £173.9m compared to £137.1m for Together Financial Services Limited. The £36.8m variance comprises £38.1m of interest payable and debt issue amortisation on the Senior PIK Toggle, £0.7m being the unwind of the fair value adjustment in respect of intercompany loan amounts owed to Bracken Topco Limited, and the elimination on consolidation of £2.0m of fair value unwind at Together Financial Services Limited on intercompany loans owed to Bracken Midco2 Limited.

Annual report and audited consolidated financial statements

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

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

- Consolidated Statement of Financial Position and Consolidated Statement of Changes in Equity have comparatives as at June 30, 2019.