Together Financial Services Limited
Q2 2020/21 Results

Company Registration No. 02939389

Contents

Highlights

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

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

"Together delivered another robust performance in the quarter to 31 December, as we remained focused on supporting our customers, protecting our colleagues and shaping our business for the future.

"Average monthly lending rose to £74.4m as we continued to cautiously increase originations, with the loan book ending the quarter at £3.9bn with a very conservative LTV of 52.2%. We remained highly profitable and cash generative, with underlying profit before tax increasing to £38.2m and cash receipts increasing to £430.6m as redemptions continued to be strong during the quarter and, at 8 February, the Group had accessible liquidity of £366m.

"We also further extended our funding headroom with the successful issuance of a £500m bond in January, the first sterling corporate bond issuance in 2021 and since the formal completion of the Brexit process. The issuance was upsized by £50 million on the back of strong investor support and contributed to the Group having undrawn facility headroom of £1,127m at 8 February.

"While we expect conditions to remain uncertain for some time, with strong levels of capital and liquidity and our modernisation and transformation programmes underway, we believe the Group is well positioned to take advantage of future market opportunities and to play our part in supporting the UK's economic recovery."

Financial performance: quarter ended December 31, 2020

- Group loan book of £3.9bn at December 31, 2020, down 6.6% compared with £4.2bn at December 31, 2019 (Q2'20) and down 2.9% compared with £4.0bn at September 30, 2020 (Q1'21), as redemption levels remained strong while the Group continued to cautiously increase new lending
- Loan book weighted average indexed LTVs reduced to 52.2%[1] compared with 54.9% at Q2'20 and 52.4% at Q1'21
- Average monthly loan originations of £74.4m, down 63.8% compared with £205.8m in Q2'20 however up 70.6% from £43.6m in Q1'21 as the Group continued its cautious growth in new lending
- Loan originations continued to increase in January 2021 to £104m
- Weighted average origination LTVs remain very conservative at 58.5% (Q2'20: 58.0%; Q1'21: 56.4%)
- Interest receivable and similar income of £92.9m down 4.0% compared with £96.8m in Q2'20 and down 2.5% compared with £95.3m in Q1'21, broadly consistent with the decrease in the size of the loan book
- Net interest margin remained highly attractive at 6.5% (Q2'20: 6.3%; Q1'21: 6.4%) particularly given the conservative LTVs and consequent high levels of collateral underpinning the quality of the loan book
- Annualised cost of risk for the quarter was 0.6%, up only slightly from 0.5% in Q2'20 which was prior to the impact Covid-19, and lower than 1.3% in Q1'21 where additional charges were recognised due to impact of Covid-19 on the macroeconomic conditions and outlook.
- Underlying profit before tax was £38.2m, up 4.7% compared with £36.5m in Q2'20 and up 12.7% compared with £33.9m in Q1'21 due mainly to a reduction in impairment charge during the quarter
- Cash generation remained robust, with cash receipts of £430.6m (Q2'20: £432.6m; Q1'21: £377.3m) as redemption levels remained strong
- Dividend paid in Q2'21 (declared in Q1'21) primarily to cash service the interest due on the Senior PIK Toggle Notes of Bracken Midco1 PLC

1 During the quarter the Group transitioned to an updated house-price index applied to collateral valuations resulting from an update to the methodology applied by IHT Markit, the owner and administrator of the Halifax House Price Index. The impact of the transition was to increase LTV by 0.8% as at 31st December 2020 compared to the previous methodology (Senior Borrower Group LTV was increased by 0.7%). Comparatives for previous quarters have not been updated.

Highlights (continued)

Key metrics	Q2 2021	Q2 2020	Q1 2021
Interest receivable and similar income* (£m)	92.9	96.8	95.3
Interest cover ratio*	2.4:1	1.8:1	2.1:1
Net interest margin** (%)	6.5	6.3	6.4
Underlying cost-to-income ratio*[2] (%)	31.3	35.1	29.6
Cost-to-income ratio* (%)	29.6	52.4	31.8
Cost of risk** (%)	0.6	0.5	1.3
Underlying profit before taxation*(£m)	38.2	36.5	33.9
Profit before taxation* (£m)	39.3	25.5	32.4
Underlying EBITDA*	68.8	71.6	65.4
Loans and advances to customers (£m)	3,883.8	4,159.2	4,000.8
Net debt gearing (%)	75.9	79.5	77.2
Shareholder funds[3] (m)	892.1	823.2	858.3
Underlying return on equity* (%)	14.9	15.7	13.8
Return on equity* (%)	15.3	11.1	13.2

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

Shaping the business for the future

- Number of key modernisation projects now underway to streamline the application journey, increasing efficiency, reducing costs and improving user experience for customers and intermediaries including:
  - Automating ID and validation, income verification, affordability assessments, asset valuations and enhancements to risk-based product pricing;
  - Providing digital document uploads, paperless direct debits and E-Disbursements;
  - Improving the layout and user experience of our intermediary platform, My Broker Venue; and
  - Rolling out the Together app to all of our direct customers, offering a new messaging and data-sharing platform to make it quicker and easier for them to do business with Together
- Focus on automating processes and easy decisions while using our experienced underwriters more efficiently
- Continued to strengthen our capital and liquidity positions to support future growth
  - Successfully issued £500m Senior Secured Notes at 5.25%, due 2027. Proceeds used to redeem the £350m Senior Secured Notes at 6⅛%, due to mature in 2024 and support further growth in lending.
  - Undrawn facility headroom £1,127m at February 8, 2021 (December 31, 2020: £997m; September 30, 2020: £872m)
  - Immediate accessible liquidity £366m at February 8, 2021 (December 31, 2020: £300m; September 30, 2020: £285m)
  - S&P revised outlook from Negative to Stable on Together Financial Services Limited and Bracken Midco1 PLC

2 Underlying metrics include adjustments to exclude £1.4m customer redress provision release and £0.3m redundancy costs in Q2'21 (£11.0m additional customer redress provisions in Q2'20, £1.5m redundancy costs in Q1'21)

3 Includes subordinated shareholder loans of £29.3m (Q2'20: £28.2m, Q1'21: £28.8).

Highlights (continued)

Covid-19 update

- Supported our customers throughout the pandemic, providing mortgage-payment deferrals to c.7800 customers. At February 15, 2021, 2.1% of customers by value remained within a payment deferral (November 5, 2020: 3%). Of the accounts who have exited payment deferrals 82% have resumed full payments, 14% are making part payments and 4% making no payments

An introduction to Together Financial Services Limited

We are one of the UK's leading specialist mortgage and secured loans providers by loan book size, established in 1974, and have successfully operated through several economic cycles during our 46 year history. We pride ourselves on bringing common sense to lending by helping individuals, families, small- and medium-sized enterprises ("SME") and other 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 to market segments in which customers are generally underserved by mainstream lenders. Our loans include secured first and second-lien loans, of which, as of December 31, 2020, 64.2% were secured by residential properties, with the balance secured by commercial and semi-commercial properties, all within the United Kingdom. We differentiate ourselves by offering flexible lending criteria, responding quickly to our customers' needs and underwriting each application on its individual merits, supported by an effective service proposition, thereby minimising competition. We offer our loans through one, consistent brand 'Together' and distribute them primarily through mortgage intermediaries, our professional network and auction houses, each across mainland United Kingdom, and through our direct sales channels. We underwrite and service all our mortgage loans directly.

As of December 31, 2020, 30.5% of our loan portfolio was classified as retail purpose, 64.6% as commercial purpose (which included 24.4% of buy to let +) and and 4.9% of the loan portfolio was classified as development loans, 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 such relevant regulation if the loan had been 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/or 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 a formal committee structure to agree on policy decisions, setting risk appetites and monitoring credit quality and oversight, including by risk, compliance and internal audit teams. Additionally, external loan asset audits have been conducted annually, pursuant to the terms of certain of our financing arrangements.

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 December 31, 2020, was 52.2% and the LTV on a weighted-average basis of new loans underwritten in the quarter ended December 31, 2020 was 58.5%. As of December 31, 2020, 98.0% of the total loan portfolio and 93.6% of the Borrower Group[4] 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 property prices and economic downturns, thereby mitigating our levels of credit risk.

4 See Structure diagram on p.22 for definition of Borrower Group

Presentation of financial and other information

Financial statements

This quarterly report presents the unaudited condensed consolidated financial statements of Together Financial Services Limited as of and for the three months ended December 31, 2020 with comparatives to December 31, 2019 and September 30, 2020. The interim condensed consolidated financial statements of Together Financial Services Limited have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), are unaudited and are derived from internal management reporting.

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

Charles Street Conduit Asset Backed Securitisation 1 Limited ("Charles Street ABS"), Lakeside Asset Backed Securitisation 1 Limited ("Lakeside ABS"), Together Asset Backed Securitisation 1 PLC (“Together ABS 1”), Highfield Asset Backed Securitisation 1 Limited (“Highfield ABS”), Together Asset Backed Securitisation 2018-1 PLC (“Together ABS 2”), Delta Asset Backed Securitisation 2 Limited (“Delta ABS 2”), Together Asset Backed Securitisation 2019 – 1 PLC (“Together ABS 3”) and Together Asset Backed Securitisation 2020 – 1 PLC (“Together ABS 4”), the bankruptcy-remote special purpose vehicles established for purposes of secured borrowings, are consolidated into our unaudited interim condensed consolidated financial statements in accordance with IFRS 10 Consolidated Financial Statements. Mortgage loans sold to Charles Street ABS, Lakeside ABS, Together ABS 1, Highfield ABS, Together ABS 2, Delta ABS 2, Together ABS 3 and Together ABS 4 are maintained on the consolidated statement of financial position as assets, within loans and advances to customers and the associated interest receivable credited to the consolidated income statement. The loan notes issued by Charles Street ABS, Lakeside ABS, Together ABS 1, Highfield ABS, Together ABS 2, Delta ABS 2, Together ABS 3 and Together ABS 4 to certain lenders, to finance the purchase of the loans and any interest and fees accrued on the loan notes but not yet paid in respect thereof, are maintained on the consolidated statement of financial position as liabilities due to creditors with interest and debt issuance costs expensed through the income statement.

Other financial information (Non-IFRS)

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

We have included in this report and related presentation, certain financial measures and ratios, including EBITDA, Underlying EBITDA, EBITDA margin, Underlying EBITDA margin, Underlying profit before taxation and certain leverage and coverage ratios that are not presented in accordance with IFRS.

In this quarterly report and related presentation, references to EBITDA for the quarter ended December 31, 2019 and 2020 and for the quarter ended September 30, 2020 for Together Financial Services Limited, can be extracted from the unaudited interim condensed consolidated financial statements of Together Financial Services Limited, by taking profit after taxation and adding back income tax, depreciation and amortisation and interest payable and similar charges. EBITDA margin is calculated as EBITDA divided by the sum of interest receivable and similar income plus fee and commission income.

In this quarterly report references to “Underlying EBITDA” and “Underlying Profit Before Tax” exclude the effects of certain exceptional customer redress provisions and redundancy costs. Q2‘21 excluded certain customer redress reversals of £1.4m and additional redundancy costs of £0.3m. Q2‘20 excluded the effects of certain exceptional customer redress provisions of £11.0m, whilst Q1‘21 excluded the effects of provision of redundancy costs of £1.5m.

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

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

Presentation of financial and other information (continued)

Other financial information (Non-IFRS) (continued)

We are not presenting EBITDA-based measures as measures of our results of operations. EBITDA-based measures have important limitations as an analytical tool, and should not be considered in isolation or as substitutes for analysis of the results of operations. Management believes that the presentation of EBITDA-based measures is helpful to investors, securities analysts and other parties to measure operating performance and ability to service debt. EBITDA-based measures may not be comparable to similarly titled measures used by other companies.

EBITDA, Underlying EBITDA, EBITDA margin, Underlying EBITDA margin, Underlying Profit Before Tax and certain leverage and coverage ratios are not measurements of financial performance under IFRS and should not be considered as alternatives to other indicators of operating performance, cash flows or any other measure of performance derived in accordance with IFRS.

Terms relating to our loan analysis

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

In March 2020, the FCA announced that all mortgage lenders should grant payment deferrals, meaning arrangements under which a firm permits the customer to make reduced or no payments, to certain regulated borrowers facing short-term liquidity issues and requesting assistance as a result of Covid-19 (" mortgage-payment deferrals"). This guidance was further updated on multiple occasions providing for a maximum payment deferral period of up to 6 months to end at the latest of July 31, 2021 and to include Buy to Let loans. The Group continues in its actions to serve its customers by continuing to offer payment deferrals in accordance with government guidance, to extend such guidance as appropriate to its commercial (unregulated) loans and to support customers using our wider forbearance toolkit.

Following the government announcement to allow customers to apply for mortgage-payment deferrals we provided our customers with options of how to pay the missed instalments and any additional interest that has accrued in the payment deferral period upon exit of the aforementioned period including; (i) increase the contractual monthly instalment for the remainder of the loan, (ii) increase the contractual monthly instalment for an agreed period of time before returning to the previous contractual monthly instalment, (iii) the customer makes a specific one off payment at the end of the mortgage-payment deferral period that ensures the remaining contractual monthly instalments are not adjusted, and (iv) extend the term of the loan while keeping the contractual monthly instalment the same throughout the remaining period. We continue to have an open dialogue with customers who request mortgage-payment deferrals and we are actively managing customers' cases consistent with our usual approach for loans in arrears. We intend to support customers throughout Covid-19 and as customers transition out of mortgage-payment deferral periods, we aim to work with them to understand their circumstances and identify the most appropriate options to support them as needed. Where the customer continues to experience financial difficulty following the end of a mortgage-payment deferral arrangement, we will continue to work with the customer using our existing forbearance options. Where the contractual monthly instalment has been amended by any of the options referred to above, this has been reflected in the respective monthly arrears position, which is calculated off the most recent agreed monthly instalment for that period.

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

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

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

In this quarterly report and related presentation, data referring to loan portfolio analysis is in reference to core operating subsidiaries (which includes certain subsidiaries that no longer originate new advances to customers): Auction Finance Limited, Blemain Finance Limited, Bridging Finance Limited, Harpmanor Limited, Together Personal Finance Limited and Together Commercial Finance Limited, which in aggregate represent 99.9% of total loan book balances by value as of December 31, 2020. Data referring to our loan portfolio analysis are presented after allowances for impairment and for periods on or after December 31, 2020 include certain other accounting adjustments (including adjustments to recognise income at the effective interest rate).

Terms relating to our loan analysis (continued)

In this quarterly report and related presentation, a loan is considered performing (a "performing loan") if it (i) has nil arrears or arrears less than or equal to one month of the latest contractual instalment or where no contractual monthly instalment is due or (ii) "performing arrears loans," being loans with arrears greater than one month's but less than or equal to three months' of the latest contractual instalments, or where cash receipts collected in the prior three months are equal to or greater than 90% of the latest 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. As a result of the introduction of mortgage-payment deferrals, some accounts have had contractual instalments set as zero. Due to the fact that such instalments were set as zero, a small number of loans that were previously classified as non-performing loans have been classified as performing loans in line with (i) above. Such loan categorisation definitions used differ to the categorisations 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 aggregate of (i) the principal amount, (ii) accrued interest and fees, (iii) net of any allowances for impairment in respect of such loans and (iv) for periods on or after June 30, 2019 include certain other accounting adjustments (including adjustments to recognise income at the effective interest rate) as of the date presented. Our loan and impairment allowance analysis excludes loans with carrying values of nil for which full provisions are in place.

In this quarterly report and related presentation, the term "total loan assets" refers to the total balance of loans provided to our customers as included within our statement of financial position, stated after allowances for impairment. In this quarterly report and related presentation, the term "second-lien loans" includes second-lien loans and also subsequent-lien loans.

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

In this quarterly report and related presentation, the average LTV on originations is calculated on a "weighted average basis," 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.

Terms relating to our loan analysis (continued)

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[5].

With respect to data related to LTV in this quarterly report and related presentation, the LTV statistics is 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.

5 During the quarter the Group transitioned to an updated house price index. See footnote 1 on page 1 for further detail.

Key performance indicators

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

	Unaudited		
	3 months ended or as at December 31		**3 months ended or as at September 30**
(£m, except for percentages and ratios or unless otherwise noted)	**2020**	**2019**	**2020**
Group			
Interest receivable and similar income	92.9	96.8	95.3
Fee and commission income	0.7	1.3	0.8
Income	93.6	98.1	96.1
NIM[6]	6.5%	6.3%	6.4%
Underlying cost-to-income*[7]	31.3%	35.1%	29.6%
Impairment charge	(6.1)	(4.9)	(13.4)
EBITDA[9]	69.9	60.6	63.9
Underlying EBITDA*[9]	68.8	71.6	65.4
Underlying EBITDA margin*[9]	73.5%	73.0%	68.0%
Profit on ordinary activities before tax	39.3	25.5	32.4
Underlying profit on ordinary activities before tax*	38.2	36.5	33.9
Underlying return on equity*[8]	14.9%	15.7%	13.8%
Supplemental cash flow information:			
Cash receipts	430.6	432.6	377.3
New advances	223.2	617.3	130.7
LTV of loan originations (on a weighted average basis, based on LTV of loans at origination) **[9]	58.5%	58.0%	56.4%
LTV of loan portfolio (on a weighted average indexed basis) ***[9]	52.2%	54.9%	52.4%

* Underlying metrics include adjustments to exclude £1.4m customer redress provision release and £0.3m redundancy costs in Q2'21 (£11.0m additional customer redress provisions in Q2'20, £1.5m redundancy costs in Q1'21)

** Originations for a period of 3 months

*** During the quarter the Group transitioned to an updated house price index. See footnote 1 on page 1 for further detail.

The key performance indicators above for the quarter ended December 31, 2020 have been derived from unaudited consolidated financial statements and management information. In the opinion of management, such financial data reflects all adjustments necessary for a fair presentation of the results for those periods and has been prepared in accordance with IFRS. The financial information should be read in conjunction with the audited annual report and consolidated financial statements of Together Financial Services Limited and the accounting policies described therein as at June 30, 2020.

6 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

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

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

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

Operating review

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

Continued focus on LTVs

During the period to December 31, 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 December 31, 2020, and December 31, 2019 by arrears banding, for the Group and Borrower Group is set out below. Additional analysis has been provided for December 31, 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 December 31, 2020 ('Live'):

	Group Loan Portfolio Arrears Analysis			
	December 31, 2020			December 31, 2019
	Total Loan	Of which, requested MPD		Total Loan
	Portfolio	Total	Live	Portfolio
Nil Arrears & Arrears ≤ 1 month	**85.1%**	**19.6%**	**1.6%**	**86.1%**
Performing Arrears				
1-3 months	3.6%	2.0%	0.2%	3.0%
3-6 months	0.5%	0.1%	0.0%	0.3%
>6 months	0.3%	0.1%	0.0%	0.3%
Total Performing Arrears	**4.4%**	**2.2%**	**0.2%**	**3.6%**
Development Loans	**4.9%**	**0.1%**	**0.0%**	**5.4%**
Total Performing Loans & Development Loans	**94.4%**	**21.9%**	**1.8%**	**95.1%**
Non-Performing Arrears				
3-6 months	0.8%	0.6%	0.1%	0.9%
>6 months	1.8%	0.3%	0.0%	1.3%
Past due[1]	1.7%	0.0%	0.0%	1.2%
Total Non-Performing Arrears	**4.3%**	**0.9%**	**0.1%**	**3.4%**
Repossessions & LPA Sales	**1.3%**	**0.3%**	**0.0%**	**1.5%**
Total	**100.0%**	**23.1%**	**1.9%**	**100.0%**

	Borrower Group Loan Portfolio Arrears Analysis			
	December 31, 2020			December 31, 2019
	Total Loan	Of which, requested MPD		Total Loan
	Portfolio	Total	Live	Portfolio
Nil Arrears & Arrears ≤ 1 month	**63.4%**	**11.1%**	**0.9%**	**57.6%**
Performing Arrears				
1-3 months	4.2%	1.8%	0.3%	3.7%
3-6 months	1.3%	0.2%	0.0%	0.9%
>6 months	0.9%	0.1%	0.0%	1.2%
Total Performing Arrears	**6.4%**	**2.1%**	**0.3%**	**5.8%**
Development Loans	**15.9%**	**0.3%**	**0.0%**	**20.1%**
Total Performing Loans & Development Loans	**85.7%**	**13.5%**	**1.2%**	**83.5%**
Non-Performing Arrears				
3-6 months	1.5%	0.7%	0.0%	2.3%
>6 months	5.1%	0.9%	0.1%	4.6%
Past due[1]	3.9%	0.0%	0.1%	3.7%
Total Non-Performing Arrears	**10.5%**	**1.6%**	**0.2%**	**10.6%**
Repossessions & LPA Sales	**3.8%**	**0.8%**	**0.0%**	**5.9%**
Total	**100.0%**	**15.9%**	**1.4%**	**100.0%**

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

Operating review (continued)

An analysis of our loan portfolio as at December 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%	2,415.2	95.0	116.6	43.9	2,670.7
>60% <=80%	1,024.2	67.5	50.6	5.2	1,147.5
>80% <=100%	37.9	25.8	2.0	0.9	66.6
>100%	10.9	0.7	0.1	0.0	11.7
Total	**3,488.2**	**189.0**	**169.3**	**50.0**	**3,896.5**

Borrower Group Loan Portfolio Indexed LTV Analysis (£m)	Performing Loans	Development Loans	Non - Performing Loans	Repossessions & LPA Sales	Total Loan Portfolio
<=60%	548.2	95.0	85.1	40.3	768.6
>60% <=80%	236.9	67.5	37.6	4.5	346.5
>80% <=100%	36.3	25.8	2.0	0.9	65.0
>100%	10.9	0.7	0.1	0.0	11.7
Total	**832.3**	**189.0**	**124.8**	**45.7**	**1,191.8**

Group Loan Portfolio Origination LTV Analysis (£m)	Performing Loans	Development Loans	Non - Performing Loans	Repossessions & LPA Sales	Total Loan Portfolio
<=60%	1,708.4	111.6	81.9	11.2	1,913.1
>60%<=80%	1,690.1	57.2	83.0	34.6	1,864.9
>80%<=100%	66.9	6.4	1.1	4.1	78.5
>100%	22.8	13.8	3.3	0.1	40.0
Total	**3,488.2**	**189.0**	**169.3**	**50.0**	**3,896.5**

Borrower Group Loan Portfolio Origination LTV Analysis (£m)	Performing Loans	Development Loans	Non - Performing Loans	Repossessions & LPA Sales	Total Loan Portfolio
<=60%	402.4	111.6	58.5	9.8	582.3
>60%<=80%	353.4	57.2	61.9	31.7	504.2
>80%<=100%	53.7	6.4	1.1	4.1	65.3
>100%	22.8	13.8	3.3	0.1	40.0
Total	**832.3**	**189.0**	**124.8**	**45.7**	**1,191.8**

The indexed weighted-average LTV of the loan portfolio for the total Group at December 31, 2020 is 52.2%[10] a decrease compared with the prior year comparable quarter of 54.9% (December 31, 2019) and prior quarter of 52.4% (September 30, 2020).

The indexed weighted-average LTV of the loan portfolio for the Borrower Group at December 31, 2020 is 54.6%[10][10], a decrease compared with the prior year comparable quarter of 58.4% (December 31, 2019) and prior quarter of 54.8% (September 30, 2020).

10 During the quarter the Group transitioned to an updated house price index. See footnote 1 on page 1 for further detail.

Operating review (continued)

Maintenance of loan portfolio mix and continued differentiation of our offerings

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

As of December 31, 2020, 30.5% of our loan portfolio was classified as retail purpose, 64.6% as commercial purpose (which included 24.4% of buy to let +) and 4.9% of the loan portfolio was classified as development loans, calculated by value.

The proportion of our loan portfolio secured by residential security by value has decreased to 64.2% as at December 31, 2020, when compared with 65.1% as at December 31, 2019 and 64.7% as at September 30, 2020. The proportion of our loan portfolio secured on first charges has increased to 73.4% as at December 31, 2020, when compared with 72.8% as at December 31, 2019 and 72.9% as September 30, 2020.

Controlled origination growth

In the quarter to December 31, 2020, including further advances, we have originated an average of £74.4m per month, a decrease compared with £205.8m per month in the quarter to December 31, 2019, primarily due to our initial cautious approach to credit risk as a result of Covid-19. Originations have increased compared with £43.6m per month in the quarter to September 30, 2020 as we have purposely looked to return to growth having gained a better understanding of credit risk whilst continuing to employ tighter underwriting criteria.

Our loans and advances to customers stands at £3,883.8m as at December 31, 2020, compared with £4,159.2m as at December 31, 2019 and £4,000.8m as at September 30, 2020.

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

Financial review

Interest receivable and similar income decreased by 4.0% to £92.9m for the quarter to December 31, 2020 compared with £96.8m in the quarter to December 31, 2019 and has decreased 2.5% when compared with £95.3m in the prior quarter (September 30, 2020). This is broadly consistent with the decrease in the size of the loan book.

Interest payable and similar charges decreased by 13.1% to £29.2m for the quarter to December 31, 2020 compared with £33.6m in the quarter to December 31, 2019 and decreased 3.0% when compared with £30.1m in the prior quarter (September 30, 2020). This reduction is due to improvements in the cost of funding achieved through refinancing of facilities and lower market interest rates. In addition, interest payable has decreased as the level of borrowings has fallen, which is consistent with the decrease in the size of the loan book.

As a result of the above, net interest margin of 6.5% for the current quarter to December 31, 2020 was higher than the prior year comparable quarter of 6.3% to December 31, 2019 and also slightly higher than 6.4% in the prior quarter September 30, 2020.

The underlying cost-to-income ratio for the quarter to December 31, 2020 was 31.3%[11], lower than the prior year comparable quarter of 35.1% (December 31, 2019). Cost-to-income improved from last year due to careful management of costs including reductions in staff costs following actions taken in response to the coronavirus pandemic. However, the underlying cost-to-income ratio was higher than the prior quarter (September 30, 2020) of 29.6% mainly due to a decrease in interest receivable and similar income.

Impairment losses for the quarter to December 31, 2020 were £6.1m, an increase of £1.2m on the £4.9m reported in the quarter ended December 31, 2019, however a decrease of £7.3m on the £13.4m recorded in quarter ended September 30, 2020. As a result, cost of risk for the quarter was 0.6% on an annualised basis, up only slightly from 0.5% in quarter to December 31, 2019, which was prior to the impact of Covid-19, and lower than 1.3% in the quarter to September 30, 2020 where additional charges were recognised due to the impact of Covid-19 on the macroeconomic conditions and outlook. The impairment coverage ratio of 3.2% as at December 31, 2020 remained consistent with prior quarter (September 30, 2020) but increased from 1.7% as at December 31, 2019, providing increased cover for future losses. The increased coverage is principally driven by an increase in the amount of loans in stage 2 and 3 of the IFRS 9 Expected Credit Loss ('ECL') Model.

For estimating losses we use a range of forecasts which carry a very high level of uncertainty due to the unprecedented nature of the macroeconomic environment and outlook, resulting from the impacts of Covid-19 and continued uncertainty over Brexit; and the difficulty in foreseeing the timing and scale of future recovery. As a result, the actual observed losses incurred by the Group may differ from current estimated ECL's.

Underlying profit before tax[11] was £38.2m up 4.7% compared with £36.5m in the prior year comparable quarter (December 31, 2019) for the reasons set out above. Underlying profit before tax[11] was up 12.7% compared to £33.9m in the prior quarter (September 30, 2020), due mainly to a decrease in impairment losses.

Cash receipts of £430.6m remained robust for the quarter ended December 31, 2021 (December 31, 2019: £432.6m, September 30, 2021: £377.3m) as redemption activity remained strong.

Loans and advances to customers have decreased by 6.6% to £3,883.8m compared with £4,159.2m as at December 31, 2019 and has reduced by 2.9% compared with £4,000.8m as at September 30, 2020. This is driven by strong levels of redemptions and controlled levels of originations. Shareholder funds have increased by 8.3% to £891.9m compared with £823.2m at December 31, 2019 and increased by 3.9% from £858.3m as at September 30, 2020.

11 Exclude £1.4m customer redress provision release and £0.3m redundancy costs in Q2'21 (£11.0m additional customer redress provisions in Q2'20, £1.5m redundancy costs in Q1'21)

Recent developments

Trading update

The Group has offered mortgage-payment deferrals to 23% of its loan book, by value, extending beyond the government's criteria to also include certain other customers. As at February 15, 2021, 2.1% of the Group's loan book by value were on mortgage-payment deferrals.

Of the 7,562 loans where a payment deferral was applied, as at February 15, 2021, 7,089 (94%) loans had reached the end of their mortgage-payment deferral period and 473 (6%) loans were still within a payment deferral. Of the 7,089 customers who reached the end of their mortgage-payment deferral period, 5,795[12] (82%) resumed full payments, 989 (14%) made partial payments and the remaining 305 (4%) customers have either not paid or are past their term.

Monthly cash receipts of principal and interest in January were £130m compared to a monthly average of c.£143.5m between October and December, 2020.

The Group has £1,127m of undrawn facility headroom at February 8, 2021.

The Group has £366m of accessible liquidity at February 8, 2021[13].

On January 4, 2021 the government announced a third national lockdown for England with a gradual release of the restrictions announced on February 22, 2021 due to commence in March 2021 subject to certain data points on the virus infection rate, hospitalisations and vaccination rates.

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

New originations

Monthly mortgage originations in January 2021 were £104m compared to a monthly average of c. £74m between October and December, 2020.

Senior Secured Notes

On 25 January 2021, the Group announced the issuance of a £500m Senior Secured Note at 5.25%, due 2027. The proceeds being used to redeem former £350m 6⅛% 2024 Senior Secured Note and to support further growth in lending.

Ratings update

On 27 January 2021, S&P revised the corporate rating outlook from Negative to Stable on Together Financial Services Limited and Bracken Midco1 PLC whilst affirming a 'BB-' long-term issuer credit rating on Together Financial Services Limited and 'B+' long-term issuer credit rating on Bracken Midco1 PLC.

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

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

Significant factors which may affect results of operations

Macroeconomic environment

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

Annual inflation is slightly higher at 0.8%, and Bank of England Bank Base Rate remains at 0.1%. As expected, unemployment is rising, reaching 5.0% in the quarter to November 2020. The surge in house prices, seen after the easing of the initial lockdown and following reductions in stamp duty, appears to be continuing, being 7.3% for the year to December 2020 according to the Nationwide, and 6.0% according to the Halifax. As expected, GDP initially continued to increase following its low point in April 2020, but in November it fell by an estimated 2.6% following new lockdown restrictions to end the month still c8.6% below pre-pandemic levels.

The government has now completed its Brexit negotiations with the EU and the UK has started to trade under the new terms. Notwithstanding this, the economic outlook continues to be highly uncertain due to the coronavirus pandemic. Successively stricter restrictions have been imposed within the UK, partly in response to the emergence of new variants of the virus, and it is now possible that the economy will contract again. However, the UK's vaccination programme is progressing, and many commentators therefore expect restrictions to ease and economic growth to resume within the next few months. It is expected that the upcoming March budget will give some indication of the government's intentions for the current furlough scheme and for its strategy for funding the greatly increased expenditure it has incurred in response to the pandemic. Note 9 to the financial statements sets out the macroeconomic assumptions the Group has made in deriving expected credit losses (ECLs) at the reporting date.

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

Loan assets performance

The performance of our total loan assets depends on our ability to collect each expected loan instalment, 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 instalments and to assess the sustainability of such payments based upon known factors at the time of origination, an assessment of the repayment strategy and the marketability and value of the underlying security. Our underwriting criteria, processes, controls and systems have been developed and refined based upon many years of experience. For each loan application, a detailed assessment is made of the customer circumstances, among other checks, an assessment of the financial position of the customer to ensure that the loan is both affordable and sustainable (as appropriate) along with an assessment of the repayment strategy. In addition, an assessment of the underlying security and its value is undertaken. Due to Covid-19, we have sought to further tighten certain areas of our underwriting criteria, including around areas of affordability, valuation and exit strategy plausibility which we considered was appropriate and prudent to reflect the increased risks that Covid-19 has created for borrowers and in turn lenders. In addition, the performance of our total loan assets is impacted by our continued investment in our collections infrastructure, which impacts our ability to collect expected loan instalments.

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

Since the outbreak, the government has announced a series of very substantial and wide-ranging support measures designed to mitigate the effect of the pandemic on the wider economy. On October 31, 2020, the government announced new national restrictions for England which were implemented from November 5, 2020 and a further full national lockdown on January 5, 2021. A gradual release of the restrictions was announced on February 22, 2021 due to commence on March 8, 2021 subject to certain conditions including the progress of the vaccination programme, evidence that vaccines are reducing deaths and hospitalisations, infection rates not leadings to any surge in hospitalisations, and new variants do not change the risk of lifting restrictions. In addition the government announced fiscal support measures, including extensions of the coronavirus job retention scheme and mortgage-payment deferral scheme.

Significant factors which may affect results of operations (continued)

Loan assets performance (continued)

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

As at December 31, 2020, 724 customer loan accounts, representing 1.9% of the loan portfolio by value, had a Covid-19 mortgage-payment deferral arrangement. Further detail on the impact on the Group's loss allowance is set out in Note 9.

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

Property market

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

The Group lends at prudent LTVs at origination to provide protection from falls in property prices. Average origination LTV was 58.5% for the quarter to December 31, 2020 compared to 58.0% for the quarter to December 31, 2019 and 56.4% for the quarter to September 31, 2020.

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

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

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

Together is a national lender and has a loan portfolio which is diversified across the UK, with less than 30% concentrated in the London region where property prices have tended to fluctuate to a greater extent. Our London portfolio is not focused on 'Prime'[14] central London properties and, with weighted average loan-to-value ratios in line with the average of our portfolio for the rest of the country, we consider this provides a level of mitigation against moderate house price falls in such areas.

Competition

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

Competition in the mortgage lending industry can take a number of forms, including interest rates and fee competition, underwriting criteria, convenience and customer service, and marketing and distribution channels.

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

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

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

Significant factors which may affect results of operations (continued)

Competition (continued)

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

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.

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

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

The liquidity and funding risks arising from reducing levels of eligible assets and/or the risk of lower levels of cash inflows from redemptions can be mitigated by increasing the amount of liquidity resources held as cash. A key management action to generate net cash inflows is the ability to control levels of new lending. As at December 31, 2020 cash balances increased to £269.6m (December 31, 2019: £136.3m), of which £116.4m is unrestricted cash (December 31, 2019: £22.5m) as shown in Note 7.

The Group has a strong track record of successful refinancing and raising new facilities, and has continued to increase its bank and investor base during recent transactions ensuring that existing facilities are refinanced suffiently ahead of their maturity dates to allow for any market disruption. The outbreak of the coronavirus is causing some market uncertainty, and whilst to-date debt and securitistion markets have remained open, future uncertainty or negative economic data may restrict the ability of the Group to complete further funding transactions, at least in the short term, or may change the commercial terms available.

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

Significant factors which may affect results of operations (continued)

Interest rate environment

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

We are affected by changes in prevailing interest rates in the United Kingdom. An increase in prevailing interest rates increases the cost of servicing some of our borrowings. Although our total loan assets mainly consist of variable rate mortgage loans and we have the right in respect of such loans to increase pricing if our own funding costs increase, our level of arrears and ultimately cash flows may be adversely affected if we increase the pricing of our customers' mortgages in relation to any potential increases in our funding costs.

We have also seen a growth in demand for fixed rate products in recent years which has risen as a percentage of our total loan portfolio. The Group raises funding using a mix of fixed and variable funding which provides some natural offset in movements in interest rates on assets and liabilities.

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

An increase in interest rates can also adversely affect the credit quality of the customers to whom we lend and our loan origination volumes as loans may become less attractive to customers.

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

Regulatory considerations

The Group has certain subsidiaries which are authorised and regulated by the FCA in addition to subsidiaries which undertake unregulated lending. The Group has responded to new guidance issued by the FCA in response to the coronavirus pandemic, including offering mortgage-payment deferrals to customers and the treatment of vulnerable customers. We also have to comply with the relevant UK regulations including anti-money laundering regulations, the General Data Protection Regulations and the UK 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 for the year ended June 30, 2019, instances were identified where, for certain customers in arrears, the outcome may have been improved if different forbearance tools had been applied. In addition, some past written communications with customers should have been clearer and more complete, including in instances where balances are not expected to be repaid by the customer by the contractual maturity date, using their current repayment schedule.

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

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 United Kingdom’s exit from the European Union;
- the impact of Covid-19, or any mutation of Covid-19, on the global and UK economy and resultant impact on our liquidity position, capital position, funding capability, capital markets, operational risk profile, portfolio credit risk profile, reputation, results of operations and financial condition;
- the impact of the success or failure of vaccines and the ability of the UK Government to distribute and administer them to combat Covid-19;
- the impact of a downturn in the property market;
- our ability to accurately identify the credit profile and behaviours of our customers;
- our ability to accurately value properties;
- our ability to act proactively with customers to minimise the risk of repossession and potential losses in the event of a repossession;
- our ability to detect and prevent fraud during and after the loan underwriting process;
- the impact of the changing financial circumstances of our customers;
- the impact of rising unemployment;
- our relationships with mortgage intermediaries, professional networks and other distribution channels;
- the impact of competition;
- legislative, taxation and regulatory changes affecting our ability to operate or the profit generated from our activities;
- the effectiveness of our compliance, Enterprise Risk Management Framework and internal audit functions;
- failure to comply with current, past or future regulatory rules or guidance, or the retrospective interpretation thereof, 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, costs and settlements associated with dealing with claims made from claims management companies and/or claimant law firms;
- the impact of litigation;
- our ability to retain our senior management and our underwriters, account executives, sales personnel, client facing employees and key individuals;
- loss of a material number of employees being available due to a health crisis including Covid-19;
- failure to operate effectively and in line with regulations and legal requirements while working remotely;

Significant factors which may affect results of operations (continued)

Risk factors (continued)

- failure to operate a Covid-19 secure workplace in breach of health and safety regulations;
- the impact of changes in working practices following Covid-19;
- interruption or loss of our information processing systems or third party systems we use or failure to maintain secure information systems (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;
- our ability to benefit from special corporation tax regimes for securitization companies;
- the potential for conflicting interests between the shareholder and third-party funding providers;
- exclusion of US GAAP financial information; and
- changes in accounting standards.

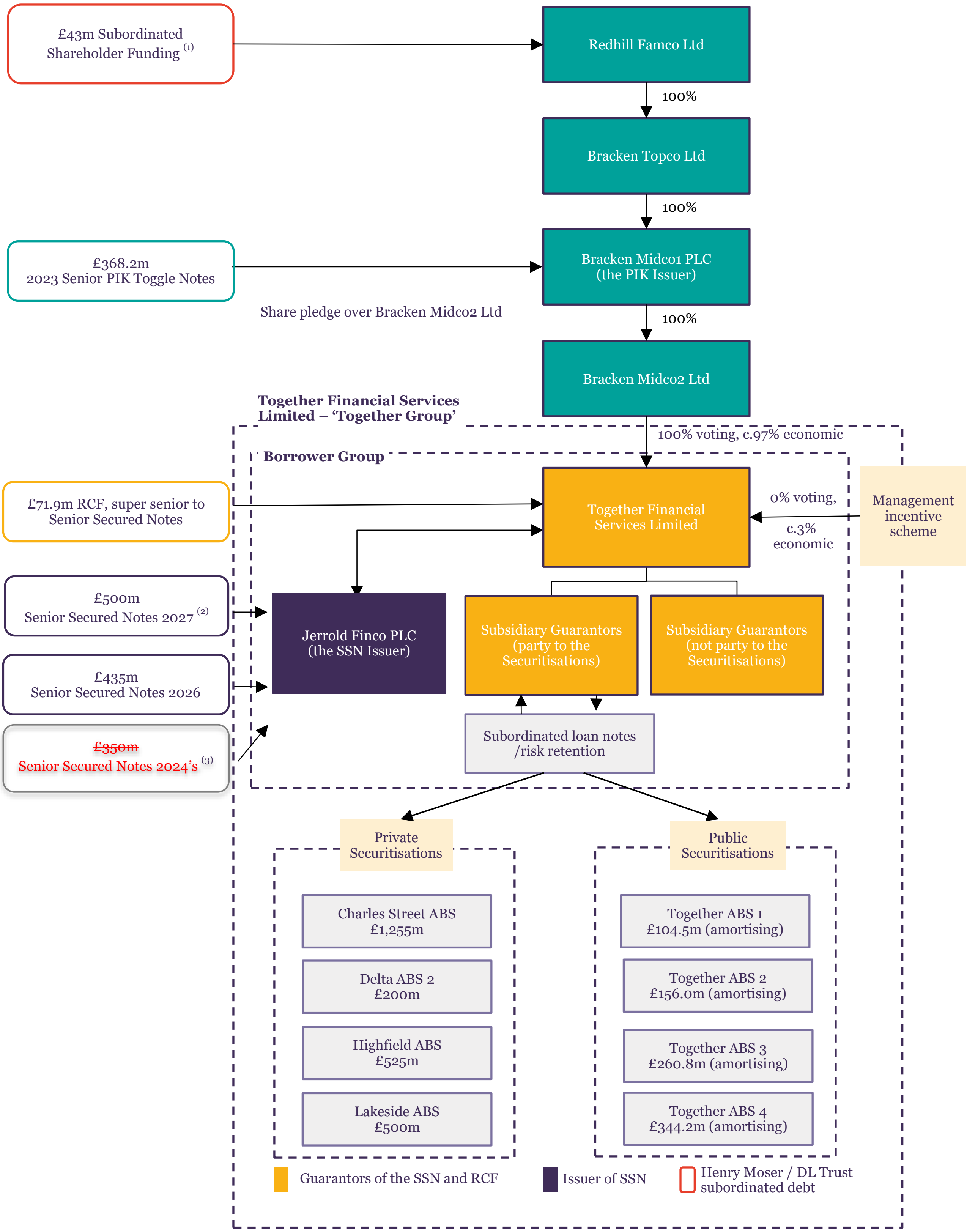
These risks are not exhaustive. Other sections of this quarterly report describe additional factors that could adversely affect our results of operations, financial condition, liquidity and the development of the industries in which we operate. New risks can emerge from time to time, and it is not possible for us to predict all such risks, nor can we assess the impact of all such risks on our business or the extent to which any risks, or combination of risks and other factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, you should not rely on forward-looking statements as a prediction of actual results.

Any forward-looking statements are only made as of the date of this quarterly report, and we do not intend, and do not assume any obligation, to update forward-looking statements set forth in this quarterly report. You should interpret all subsequent written or oral forward-looking statements attributable to us or to persons acting on our behalf as being qualified by the cautionary statements in this quarterly report. As a result, you should not place undue reliance on these forward-looking statements.

Summary corporate and financing structure

The diagram below provides a simplified overview of our corporate and financing structure on a consolidated basis as at January 31, 2021.

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



(1) Subordinated Shareholder Funding based upon nominal value
(2) Priced on January 14, 2021 and closed January 25, 2021
(3) Redeemed with the use of proceeds from the issuance of the £500m Senior Secured Notes 2027's which closed on January 25, 2021

Summary results and financial position of Bracken Midco1 PLC

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

	Quarter ended December 31, 2020		
	Together Financial Services Ltd £m	Adjustments £m	Bracken Midco1 PLC £m
Profit before tax [(1)]	**39.3**	**(8.9)**	**30.4**

	As at December 31, 2020		
	Together Financial Services Ltd £m	Adjustments £m	Bracken Midco1 PLC £m
Assets			
Cash and balances at bank	269.6	0.6 [(2)]	270.2
Loans and advances to customers	3,883.8	-	3,883.8
Inventories	0.6	-	0.6
Other assets	4.6	-	4.6
Investments	0.1	-	0.1
Property, plant and equipment	13.7	-	13.7
Intangible assets	7.6	-	7.6
Current tax asset	0.3	-	0.3
Deferred tax asset	7.6	-	7.6
Total assets	**4,187.9**	**0.6**	**4,188.5**
Liabilities			
Loan notes	2,433.2	-	2,433.2
Senior secured notes	785.7	-	785.7
Senior PIK toggle notes	-	368.2 [(3)]	368.2
Obligations under finance leases	11.9	-	11.9
Debt issue costs	(14.2)	(1.2) [(4)]	(15.4)
Total borrowings (excluding subordinated shareholder funding)	**3,216.6**	**367.0**	**3,583.6**
Other liabilities	54.1	12.4 [(5)]	66.5
Derivative liabilities held for risk management	2.2	-	2.2
Provisions for liabilities and charges	22.9	-	22.9
Total liabilities	**3,295.8**	**379.4**	**3,675.2**
Equity			
Subordinated shareholding funding	29.4	(22.4)	7.0[(6)]
Shareholders' equity	862.7	(356.4)	506.3
Total equity	**892.1**	**(378.8)**	**513.3**
Total equity and liabilities	**4,187.9**	**0.6**	**4,188.5**

(1) Presented to reflect the full quarterly interim consolidated profit of Together Financial Services Limited and Bracken Midco1 PLC (also incorporating Bracken Midco2 Limited) respectively

(2) Represents cash and cash equivalents held within Bracken Midco1 PLC and Bracken Midco2 Limited

(3) Represents the additional borrowings in the form of £368.2m 2023 Senior PIK Toggle Notes

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

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

(6) Represents the carrying value of shareholder funding owed to Bracken Topco Limited by Bracken Midco1 PLC

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

For the period to December 31, 2020, interest payable and similar charges for Bracken Midco1 PLC was, on a consolidated basis £38.1m compared to £29.2m for Together Financial Services Limited. The £8.9m variance comprises £9.2m of interest payable and debt issue amortisation on the Senior PIK Toggle, £0.2m 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 consolidated financial statements attached show the financial performance for the quarter and six months to December 31, 2020.

Comparatives for these consolidated financial statements are as follows:

- Consolidated Statement of Comprehensive Income and Consolidated Statement of Cash Flows have comparatives for the quarter and six months to December 31, 2019;
- Consolidated Statement of Changes in Equity have comparatives for the six months to December 31, 2019; and
- Consolidated Statement of Financial Position have comparatives as at December 31, 2019 and September 30, 2020.

Unaudited consolidated statement of comprehensive income

Six months ended 31 December 2020

Unless otherwise indicated, all amounts are stated in £m

		Three months ended		Six months ended	
Income statement	**Note**	**31 Dec 2020**	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**
Interest receivable and similar income		92.9	96.8	188.2	189.3
Interest payable and similar charges	4	(29.2)	(33.6)	(59.3)	(65.4)
Net interest income		**63.7**	**63.2**	**128.9**	**123.9**
Fee and commission income		0.7	1.3	1.5	2.4
Fee and commission expense		(0.2)	(0.7)	(0.4)	(1.3)
Fair value gains/(losses) on derivatives	8	0.3	-	0.4	(0.3)
Other income	5	-	-	1.2	-
Operating income		**64.5**	**63.8**	**131.6**	**124.7**
Administrative expenses		(19.1)	(33.4)	(40.4)	(57.3)
Operating profit		**45.4**	**30.4**	**91.2**	**67.4**
Impairment losses	9	(6.1)	(4.9)	(19.5)	(10.4)
Profit before taxation		**39.3**	**25.5**	**71.7**	**57.0**
Income tax	6	(6.2)	(3.3)	(10.7)	(7.7)
Profit after taxation		**33.1**	**22.2**	**61.0**	**49.3**
Other comprehensive expense					
Items that may be reclassified to the income statement					
Movement in the cash-flow hedging reserve:					
Effective portion of changes in fair value of derivatives	8	0.1	1.1	0.1	(0.2)
Amounts reclassified to income statement		-	-	0.1	-
		0.1	**1.1**	**0.2**	**(0.2)**
Movement in the cost-of- hedging reserve:					
Effective portion of changes in fair value of derivatives	8	(0.1)	-	(0.2)	-
Amounts reclassified to income statement		0.1	-	0.1	-
		-	**-**	**(0.1)**	**-**
Other comprehensive income/(expense) for the year, net of tax		**0.1**	**1.1**	**0.1**	**(0.2)**
Total comprehensive income for the year		**33.2**	**23.3**	**61.1**	**49.1**

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

Unaudited consolidated statement of financial position

As at 31 December 2020

Unless otherwise indicated, all amounts are stated in £m

	Note	31 December 2020	31 December 2019	30 June 2020
Assets				
Cash and cash equivalents	7	269.6	136.3	252.5
Loans and advances to customers	9	3,883.8	4,159.2	4,162.2
Inventories		0.6	0.6	0.6
Other assets	10	4.6	9.5	6.3
Investments		0.1	0.1	0.1
Property, plant and equipment	11	13.7	14.3	13.9
Intangible assets	12	7.6	9.3	8.1
Current tax asset		0.3	2.7	3.2
Deferred tax asset	13	7.6	7.5	7.6
Total assets		**4,187.9**	**4,339.5**	**4,454.5**
Liabilities				
Derivative liabilities held for risk management	8	2.2	0.2	2.9
Borrowings	14	3,246.0	3,467.0	3,550.1
Provisions for liabilities and charges	15	22.9	19.3	22.3
Other liabilities	16	54.1	58.0	51.2
Total liabilities		**3,325.2**	**3,544.5**	**3,626.5**
Equity				
Share capital		9.8	9.8	9.8
Subordinated shareholding funding reserve		38.8	39.9	39.7
Cash flow-hedging reserve		(2.5)	(0.2)	(2.7)
Cost-of-hedging reserve		(0.2)	(0.2)	(0.1)
Other reserves		10.6	10.8	10.6
Retained earnings		806.2	734.9	770.7
Total equity		**862.7**	**795.0**	**828.0**
Total equity and liabilities		**4,187.9**	**4,339.5**	**4,454.5**

Unaudited consolidated statement of changes in equity

Six months ended 31 December 2020

Unless otherwise indicated, all amounts are stated in £m

Six months to 31 December 2020	**Called-up share capital**	**Subordinated shareholder funding reserve**	**Cash flow-hedging reserve**	**Cost-of-hedging reserve**	**Other reserves**	**Retained earnings**	**Total**
At beginning of the period	9.8	39.7	(2.7)	(0.1)	10.6	770.7	828.0
Total comprehensive income/(expense)	-	-	0.2	(0.1)	-	61.0	61.1
Dividend paid	-	-	-	-	-	(26.4)	(26.4)
Transfer between reserves	-	(0.9)	-	-	-	0.9	-
At end of the period	**9.8**	**38.8**	**(2.5)**	**(0.2)**	**10.6**	**806.2**	**862.7**

Six months to 31 December 2019	**Called-up share capital**	**Subordinated shareholder funding reserve**	**Cash flow-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/(expense)	-	-	(0.2)	-	-	49.3	49.1
Dividend paid	-	-	-	-	-	(15.6)	(15.6)
Transfer between reserves	-	(1.1)	-	-	-	1.1	-
At end of the period	**9.8**	**39.9**	**(0.2)**	**(0.2)**	**10.8**	**734.9**	**795.0**

Other reserves consist of the following:

	Share premium account	**Merger reserve**	**Capital redemption reserve**	**Share-based payment reserve**	**Total**
As at 31 December 2020	17.5	(9.6)	1.1	1.6	10.6
As at 31 December 2019	17.5	(9.6)	1.3	1.6	10.8
As at 30 June 2020	17.5	(9.6)	1.1	1.6	10.6

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

Unaudited consolidated statement of cash flows

Six months ended 31 December 2020

Unless otherwise indicated, all amounts are stated in £m

	Note	Three months ended 31 Dec 2020	Three months ended 31 Dec 2019	Six months ended 31 Dec 2020	Six months ended 31 Dec 2019
Cash flows from operating activities					
Profit after tax		33.1	22.2	61.0	49.3
Adjustment for non-cash items included in profit after tax	18	(47.8)	(41.7)	(90.2)	(86.5)
Changes in operating assets and liabilities	18	109.4	(276.6)	256.7	(474.9)
Interest income		92.9	96.8	188.2	189.3
Income tax paid		(5.1)	(8.2)	(7.8)	(18.7)
Net cash inflow/(outflow) from operating activities		**182.5**	**(207.5)**	**407.9**	**(341.5)**
Cash flows from investing activities					
Cash paid on purchase of property, plant and equipment		-	(1.0)	-	(2.1)
Investment in intangible assets		(0.5)	-	(1.1)	(0.4)
Proceeds on disposal of property, plant and equipment		0.1	-	0.2	0.1
Net cash outflow from investing activities		**(0.4)**	**(1.0)**	**(0.9)**	**(2.4)**
Cash flows from financing activities					
Net cash outflows from bank facilities		-	(20.0)	(10.0)	(20.0)
Repayment of loan facilities		(169.6)	7.0	(657.0)	144.5
Proceeds from issuance of loan notes		-	315.4	360.5	315.4
Interest paid		(16.3)	(33.0)	(55.3)	(63.3)
Dividends paid		(26.4)	(15.6)	(26.4)	(15.6)
Purchase and cancellation of derivatives		-	(0.2)	(0.6)	(0.2)
Principal elements of lease liability payments		(0.4)	(0.4)	(0.8)	(0.8)
Interest paid on lease liabilities		(0.3)	-	(0.3)	-
Net cash (outflow)/inflow from financing activities		**(213.0)**	**253.2**	**(389.9)**	**360.0**
Net (decrease)/increase in cash and cash equivalents		(30.9)	44.7	17.1	16.1
Cash and cash equivalents at beginning of period		300.5	91.6	252.5	120.2
Cash and cash equivalents at end of period		**269.6**	**136.3**	**269.6**	**136.3**

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 contained in EU-adopted IFRS. They do not include all the information required by International Financial Reporting Standards (IFRS) in full annual financial statements and should be read in conjunction with the annual report and consolidated financial statements for the year ended 30 June 2020 which were prepared in accordance with IFRS as adopted by the EU.

The information within this interim report relating to the year ended 30 June 2020 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report, and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

Accounting policies and judgements

The accounting policies, presentation and methods of computation are consistent with those applied by the Group in its latest audited annual financial statements, except for the amendments to IFRS 9 and IFRS 7 as outlined below.

Adoption of new and revised IFRSs

The International Accounting Standards Board has issued amendments to IFRS 9 *Financial instruments* and IFRS 7 *Financial instruments disclosures* relating to market reforms of benchmark interest rates. The reforms will result in transitioning from interbank offered rates (IBORs) such as Libor to alternative benchmark interest rates (also referred to as near-risk-free rates or RFRs). In the UK, the Bank of England has determined that the reformed sterling overnight index average (Sonia) is the RFR that will replace sterling Libor.

Phase 1 ('Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7') of the IASB's amendments, which are mandatory for annual reporting periods beginning on or after 1 January 2020, modify certain hedge-accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the reforms are completed.

The application of the amendments impacts the Group's accounting as follows:

- The Group has floating-rate loan notes, linked to sterling Libor, which it cashflow hedges using interest-rate caps, swaps or floors. The amendments permit continuation of hedge accounting even though the reforms mean there is uncertainty about the timing and amount of the hedged cash flows.

- The Group will retain the cumulative gain or loss in its cashflow-hedging and cost-of-hedging reserves for designated cashflow hedges that are subject to the reforms, despite this uncertainty. Should the Group consider the hedged future cash flows are no longer expected to occur due to reasons other than the reforms, the cumulative gain or loss will be immediately reclassified to the income statement.

The amendments also requires additional disclosures in relation to those hedging relationships to which the reliefs are applied.

The Group will continue to apply the Phase 1 amendments to IFRS 9 until the end of any uncertainty with respect to the timing and amount of the underlying cash flows arising from the reforms. The Group expects this uncertainty will continue until its contracts that reference sterling Libor are amended to specify the date on which it will be replaced and the bases for the replacement Sonia cash flows, including any fixed spread, are determined.

2. Significant accounting policies (continued)

Adoption of new and revised IFRSs (continued)

Phase 2 ('Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39, IFRS 4 and IFRS 16') of the amendments, effective for reporting periods beginning on or after 1 January 2021 with earlier adoption permitted, enables entities to reflect the effects of transitioning to RFRs without giving rise to accounting impacts that would not provide useful information to users of financial statements.

The application of the Phase 2 amendments will impact the Group's accounting as follow:

- Changes to the basis for determining contractual cash flows as a result of the reforms are required, as a practical expedient, to be treated prospectively as changes to a floating interest rate, rather than as a contractual modification. This only applies provided that, for the financial instrument, the transition from the IBOR benchmark rate to the new RFR takes place on an economically equivalent basis.

- Phase 2 provides temporary reliefs that allow the Group's hedging relationships to continue upon the replacement of an existing interest-rate benchmark with a new RFR. The reliefs require the Group to amend hedge designations and hedge documentation to reference the new rate and amend the method for assessing hedge effectiveness. Updates to hedging documentation must be made by the end of the reporting period in which a replacement takes place.

- If the hedged item is modified due to the reforms, the cumulative gain or loss in the cashflow hedging and cost-of-hedging reserves for designated cashflow hedges and for discontinued hedging relationships is deemed to be based on the new RFR.

The amendments also require further new disclosures of the nature and extent of the risks arising from the reforms, how the entity is managing the risks and transition, and progress made.

Note 22 sets out the financial disclosures.

Presentation of risk disclosures

Disclosures under IFRS 7 *Financial Instruments: Disclosures* concerning the nature and extent of principal risks have been presented within the interim management report. Unless otherwise indicated, these disclosures are consistent with the Group's latest audited annual financial statements.

Going concern

In preparing these interim financial statements, the directors have assessed, the Group's ability to continue as a going concern, including specific consideration of the continuing impacts of the coronavirus pandemic upon the Group through the effects on our customers, the property market, and the wholesale funding market.

The impacts of the pandemic continue to evolve, and the Group has continued to regularly reassess and reforecast its liquidity and funding positions, and compliance with financial covenants, in order to proactively manage the risks which may arise with respect to the going concern assumption.

The Group's business model, being one which is ordinarily highly cash generative, operating in profitable market segments and lending at low average loan-to-value (LTV) ratios, provides mitigation to many downside risks. Economic uncertainty is likely to continue which may lead to a reduction in cash inflows and could also lead to increased credit losses.

As part of the Group's monitoring and reforecasting for the impacts of the pandemic, specific consideration has been given to the following:

- the impact of offering mortgage-payment deferrals in line with government guidance;
- exit strategies for customers post the mortgage-payment deferrals;
- slowing of customer-repayment behaviour;
- increases in credit risk;

2. Significant accounting policies (continued)

Going concern (continued)

- the potential for declining or stagnating property values;
- reduced access to wholesale-funding markets;
- changes in market rates of interest;
- reductions in new mortgage origination volumes; and
- changes to operating costs.

Stress testing has been performed in order to assess the extent to which these factors would have to detrimentally impact cash flows in order for the Group to be unable to meet its liabilities as they fall due, and the extent of any increase in credit losses which could result in covenant breaches on the Group's borrowings. The results of this stress testing are detailed further below.

In response to the pandemic, the directors and Group management have undertaken a number of actions in order to mitigate potential risks.

The risk of lower levels of cash inflows from redemptions can be mitigated by increasing the amount of liquid resources held as cash. In order to increase cash held, the directors have controlled levels of new lending throughout the pandemic, which, in combination with other management actions, has increased total cash balances to £269.6m at 31 December 2020 (31 December 2019: £136.3m, 30 June 2020: £252.5m), of which £116.4m is unrestricted cash (31 December 2019: £22.5m, 30 June 2020: £112.9m) as shown in Note 7.

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

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

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

In January 2021 the Group issued the £500m SSN 2027 at a coupon of 5.25%. The proceeds from the issuance have been used to repay the £350m SSN 2024 which were at a coupon of 6.125%, buy back assets held in private securitisations and for general corporate purposes. This further lengthens the maturity profile of the Group's borrowings; continues the practice of proactively refinancing well in advance of maturity dates and further increases the amount of headroom in the Group's facilities.

In respect of the private securitisations, the Group may, in certain circumstances, need to seek further waivers and amendments within the going-concern assessment period. This includes, but is not limited to, impacts on covenants as a result of: a further extension in the duration of the mortgage-payment deferrals scheme; deterioration in loan-book performance due to adverse economic conditions; or reductions in property values.

In the event that waivers or amendments are required but not agreed, and existing headroom in covenants is utilised causing a breach, and the breach is not rectified by using headroom in other facilities within a defined cure period, then the noteholders of the private securitisation facilities have the option to call a default of the facility. If a facility defaults, then the cash inflows from the securitised asset pool for each facility are used to repay the interest and principal of the most senior loan notes with the deferred consideration and any interest payment of the subordinated notes due to the originators deferred until such time as all the liabilities ranking more senior are repaid in full. This would delay cash inflows ordinarily flowing to the Senior Borrower Group as excess spread from each of the securitisations.

2. Significant accounting policies (continued)

Going concern (continued)

Stress testing

Aside from the private securitisations, the facilities within the Senior Borrower Group, being the Senior Secured Notes and the RCF, also include certain financial covenants including tests on gearing and minimum levels of interest cover, tested on a debt-incurrence basis and a maintenance basis respectively.

To evaluate the Group's resilience to meeting these tests, a reverse-stress scenario has been developed and was considered as part of the going-concern assessment.

The scenario is one which assumes no cash flows are received from the securitisations, there is no access to drawdown funding from the private securitisations, and no access to the wholesale funding markets is possible, and therefore loan-origination volumes are limited to meeting pipeline commitments. This is considered by the directors to be an extreme outcome. However due to the bankruptcy-remote nature of securitisations, the default of one or more private securitisation facilities would not mean that the Group cannot continue to operate as a going concern. The Group could continue in such a scenario by servicing the loans funded by the Senior Borrower Group. Stresses were applied to cash inflows to assess the ability to continue to service and repay borrowings as they fall due, and stresses on profitability were separately considered to assess the ability to comply with gearing covenants.

The results of the reverse-stress test showed that unrealistic reductions in expected cash inflows within the Senior Borrower Group would be required for the Senior Borrower Group not to be able meets its liabilities as they fall due, within the going-concern assessment period. Even in the event that actual experience approached the level of reductions judged unrealistic, further management actions could be taken to mitigate the impact.

In addition, the potential impact of reductions in the level of profitability were assessed, using increases in expected credit losses as the primary driver, in order to determine the reduction which would result in the Group's gearing breaching the RCF covenant. The testing showed that profitability would have to fall by a substantial amount with the probability of such a severe outcome considered remote. The deployment of additional management actions could also mitigate the possible impacts, including but not limited to: renegotiation of the terms of existing borrowings, raising additional funding and measures to further reduce costs.

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

Cash and cash equivalents

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

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical judgements in applying the Group's accounting policies

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

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

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

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

Key sources of estimation uncertainty

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

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

c)

Interest income is recognised using the effective interest rate ('EIR') method. The EIR of a financial instrument is the rate which exactly discounts the estimated future cash flows of the instrument to its carrying amount. In calculating the EIR, all contractual terms of the financial instrument are taken account of, including transaction costs and other premiums or discounts, but not expected credit losses.

The estimation of future cash flows requires the Group to estimate the expected behavioural lives of groups of assets. The Group utilises models which draw upon the Group's actual historical experience, however there is estimation uncertainty to the extent that future performance may not mirror that of the past.

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

Unless otherwise indicated, all amounts are stated in £m

4. Interest payable and similar charges

	Three months ended		Six months ended	
	31 Dec 2020	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**
On borrowings	28.8	33.4	58.3	65.1
On lease liabilities	0.1	0.2	0.3	0.3
On derivatives in a qualifying hedge	0.3	-	0.7	-
	29.2	**33.6**	**59.3**	**65.4**

5. Other income

	Three months ended		Six months ended	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
Other income	-	-	1.2	-
	-	**-**	**1.2**	**-**

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

Unless otherwise indicated, all amounts are stated in £m

6. Income tax

	Three months ended		Six months ended	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Current tax				
Corporation tax	6.2	3.0	10.7	7.4
	6.2	**3.0**	**10.7**	**7.4**
Deferred tax				
Origination and reversal of temporary differences	-	0.3	-	0.3
Total deferred tax	**-**	**0.3**	**-**	**0.3**
Total tax on profit	**6.2**	**3.3**	**10.7**	**7.7**

Corporation tax is calculated at 19.0% (31 December 2019: 18.5%) of the estimated taxable profit for the period. The differences between the total tax charge for the period and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are as follows:

	Three months ended		Six months ended	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Profit before tax	39.3	25.5	71.7	57.0
Tax on profit at standard UK corporation tax rate of 19.0% (December 2019: 18.5%)	7.5	4.7	13.6	10.6
Effects of:				
Expenses not deductible for tax purposes	-	0.2	-	0.3
Income not taxable	(0.1)	(0.1)	(0.1)	(0.2)
Group relief *	(1.2)	(1.5)	(2.8)	(3.0)
Tax charge for period	**6.2**	**3.3**	**10.7**	**7.7**

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

In March 2020, the government announced that the main rate of corporation tax will remain at 19.0%, rather than reducing to 17.0% from 1 April 2020.

Unless otherwise indicated, all amounts are stated in £m

7. Cash and cash equivalents

	31 December 2020	31 December 2019	30 June 2020
Unrestricted cash	116.4	22.5	112.9
Restricted cash	153.2	113.8	139.6
	269.6	**136.3**	**252.5**

Restricted cash is ring fenced and held in securitisation vehicles for use in managing the Group's securitisation facilities under the terms of the agreements. Within restricted cash £62.6m (31 December 2019: £34.7m, 30 June 2020: £62.0m) represents amounts that can be accessed by the Group, for example by allocating additional eligible assets into the private securitisations, but which are not considered readily available. The balance of restricted cash is not readily available and represents amounts which are held within the securitisations for other purposes and may be accessible in future, such as cash reserves or amounts paid over as deferred consideration.

8. Derivatives held for risk management

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

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

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

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

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

	31 December 2020		31 December 2019		30 June 2020	
	Assets	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest-rate swaps and floors	-	(2.2)	-	(0.2)	-	(2.9)
Interest-rate caps	-	-	-	-	-	-
Derivatives designated in cash flow hedges	**-**	**(2.2)**	**-**	**(0.2)**	**-**	**(2.9)**

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

Unless otherwise indicated, all amounts are stated in £m

8. Derivatives held for risk management (continued)

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

	31 December 2020		
	Carrying amount of liabilities	Changes in fair value for calculating hedge ineffectiveness	Cash flow-hedging reserve
Hedged by interest-rate swaps and floors			
Borrowings	315.7	(0.3)	(0.2)
Discontinued hedges	-	-	(2.3)
	315.7	**(0.3)**	**(2.5)**
Hedged by interest-rate caps			
Borrowings	203.0	-	-

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

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

Unless otherwise indicated, all amounts are stated in £m

8. Derivatives held for risk management (continued)

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

		Carrying amounts		Changes in fair value				
	Notional amount	Derivative assets	Derivative liabilities	For calculating hedge ineffective-ness	Recognised through other comprehensive income	Outside the hedging relationship recognised directly in fair-value gains/(losses) on derivatives	Hedge ineffective-ness recognised in fair value gains/ (losses) on derivatives	Reclassified from cashflow-hedging reserve to interest payable
Six months ended 31 December 2020								
Interest-rate swaps and floors								
Borrowings	315.7	-	(2.2)	0.2	0.2	0.3	0.1	-
Discontinued hedges	-	-	-	-	-	-	-	0.1
	315.7	**-**	**(2.2)**	**0.2**	**0.2**	**0.3**	**0.1**	**0.1**
Interest-rate caps	203.0	-	-	-	-	-	-	-
Six months ended 31 December 2019								
Interest-rate swaps								
Borrowings	135.0	-	(0.2)	-	-	(0.2)	-	-
Discontinued hedges	-	-	-	-	(0.2)	(0.1)	-	-
	135.0	**-**	**(0.2)**	**-**	**(0.2)**	**(0.3)**	**-**	**-**
Interest-rate caps	233.1	-	-	-	-	-	-	-
Year ended 30 June 2020								
Interest-rate swaps and floors								
Borrowings	244.9	-	(2.9)	(0.2)	(0.2)	0.1	-	-
Discontinued hedges	-	-	-	-	(2.5)	(0.6)	-	0.1
	244.9	-	(2.9)	(0.2)	(2.7)	(0.5)	-	0.1
Interest-rate caps	229.5	-	-	-	-	-	-	-

Unless otherwise indicated, all amounts are stated in £m

9. Loans and advances to customers

	31 December 2020			
	Stage 1	**Stage 2**	**Stage 3 and POCI**	**Total**
Gross loans and advances	2,510.6	932.2	568.5	4,011.3
Loss allowance	(5.8)	(28.1)	(93.6)	(127.5)
	2,504.8	**904.1**	**474.9**	**3,883.8**

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

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

Loans and advances to customers include total gross amounts of £6.9m (31 December 2019: £10.5m; 30 June 2020: £9.7m), equivalent to £2.9m net of allowances (31 December 2019: £11.2m; 30 June 2020: £5.5m) loaned to August Blake Developments Limited, Sunnywood Estates Limited and Edgworth Developments Limited, companies in which HN Moser is a director and shareholder. Further details of these loans are given in Note 19.

Group gross balances of credit impaired loans include £9.0m (31 December 2019: £nil) of purchased or originated credit impaired (POCI) loans, which are presented net of lifetime ECL impairment provisions of £1.2m (31 December 2019: £nil).

Measurement of expected credit losses (ECL)

ECL model

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

Incorporation of forward-looking information

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

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

Unless otherwise indicated, all amounts are stated in £m

9. Loans and advances to customers (continued)

Measurement of expected credit losses (ECL) (continued)

Incorporation of forward-looking information (continued)

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

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

Annual GDP change (annual %)*		Weighting	Mar 2021	Jun 2021	Sep 2021	Dec 2021	Dec 2022	Dec 2023	Dec 2024
Upside		10%	(13.5)	(4.4)	(0.7)	6.2	14.5	2.0	1.8
Mild Upside		10%	(13.7)	(5.2)	(2.3)	3.8	14.1	2.1	1.9
Base		50%	(13.8)	(5.7)	(3.2)	2.0	11.3	2.3	2.0
Stagnation		10%	(14.1)	(6.4)	(4.1)	0.5	8.9	2.4	2.1
Downside		10%	(14.5)	(7.3)	(5.5)	(1.4)	9.0	2.5	2.1
Severe downside		10%	(15.2)	(8.9)	(7.9)	(4.6)	9.3	2.7	2.2
Weighted average			(14.0)	(6.1)	(3.6)	1.5	11.2	2.3	2.0
Annual quarterly GDP change (%)**	**Future quarter when GDP returns to Dec-19 levels**	**Weighting**	**Mar 2021**	**Jun 2021**	**Sep 2021**	**Dec 2021**	**Dec 2022**	**Dec 2023**	**Dec 2024**
Upside	Dec-21	10%	(10.7)	14.7	5.3	15.7	5.7	1.8	1.8
Mild Upside	Mar-22	10%	(11.6)	12.4	2.2	12.3	6.2	1.9	1.8
Base	Sep-22	50%	(12.1)	10.8	0.7	8.6	5.4	2.1	1.9
Stagnation	Jun-24	10%	(13.2)	9.4	(0.6)	6.5	3.7	2.2	2.0
Downside	Jun-25	10%	(14.8)	7.3	(2.5)	4.5	3.9	2.3	2.0
Severe downside	Dec-26	10%	(17.7)	3.7	(5.7)	1.1	4.1	2.4	2.1
Weighted average			(12.8)	10.1	0.2	8.3	5.1	2.1	1.9
Bank rate	**Future quarter which anticipates the first rate rise**	**Weighting**	**Mar 2021**	**Jun 2021**	**Sep 2021**	**Dec 2021**	**Dec 2022**	**Dec 2023**	**Dec 2024**
Upside	Mar-21	10%	0.2	0.3	0.4	0.6	1.3	1.5	1.8
Mild Upside	Mar-21	10%	0.2	0.3	0.3	0.4	0.8	1.0	1.3
Base	Mar-24	50%	0.1	0.1	0.1	0.1	0.1	0.1	0.3
Stagnation	Mar-26	10%	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Downside	June-26	10%	0.0	(0.1)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Severe downside	June-27	10%	(0.1)	(0.3)	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)
Weighted average			0.1	0.1	0.1	0.1	0.2	0.2	0.4
Unemployment rate	**% peak**	**Weighting**	**Mar 2021**	**Jun 2021**	**Sep 2021**	**Dec 2021**	**Dec 2022**	**Dec 2023**	**Dec 2024**
Upside	6.6%	10%	6.3	6.4	6.6	6.2	4.0	4.0	4.0
Mild Upside	6.8%	10%	6.3	6.5	6.8	6.3	4.5	4.4	4.3
Base	7.5%	50%	6.9	7.2	7.5	7.4	5.6	4.7	4.5
Stagnation	8.3%	10%	7.1	7.7	8.3	8.2	7.0	6.5	6.1
Downside	8.8%	10%	7.6	8.2	8.8	8.8	7.3	6.7	6.4
Severe downside	9.7%	10%	8.4	9.1	9.7	9.7	7.8	7.1	6.7
Weighted average			7.0	7.4	7.8	7.6	5.9	5.2	5.0
Annual change in house-price index (%)	**Start to trough % change**	**Weighting**	**Mar 2021**	**Jun 2021**	**Sep 2021**	**Dec 2021**	**Dec 2022**	**Dec 2023**	**Dec 2024**
Upside	1.4%	10%	6.1	5.9	3.5	2.0	2.3	10.3	5.0
Mild Upside	(2.5%)	10%	4.5	3.8	0.7	(1.3)	(0.1)	7.6	5.2
Base	(8.4%)	50%	2.1	0.7	(2.9)	(5.5)	(3.1)	2.3	5.4
Stagnation	(21.4%)	10%	(0.2)	(2.8)	(7.7)	(11.7)	(9.0)	(2.0)	5.8
Downside	(27.9%)	10%	(1.3)	(4.3)	(9.8)	(14.3)	(11.7)	(4.8)	6.0
Severe downside	(39.0%)	10%	(3.1)	(6.9)	(13.3)	(18.7)	(16.5)	(10.2)	6.5
Weighted average			1.6	(0.1)	(4.1)	(7.2)	(5.0)	1.2	5.5

*Annual GDP growth represents the average annual change in GDP up to the date shown.

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

Unless otherwise indicated, all amounts are stated in £m

9. Loans and advances to customers (continued)

Measurement of expected credit losses (ECL) (continued)

Incorporation of forward-looking information (continued)

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

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

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

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

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

Unless otherwise indicated, all amounts are stated in £m

9. Loans and advances to customers (continued)

Measurement of expected credit losses (ECL) (continued)

Incorporation of forward-looking information (continued)

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

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

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

Unless otherwise indicated, all amounts are stated in £m

9. Loans and advances to customers (continued)

Contract modifications, forbearance and significant increases in credit risk

As at 31 December 2020, 1.9% of the Group's customers by value remained on mortgage-payment deferrals as a result of Covid-19. Mortgage-payment deferrals represent a contractual modification; however as interest on these accounts continues to accrue at the effective interest rate this does not generally give rise to a material modification gain or loss. Details of these are as follows:

Stage allocation	No. of accounts	Gross balance	ECL
Stage 1	407	34.3	0.0
Stage 2	219	30.4	1.4
Stage 3	98	12.3	0.5
Total	724	77.0	1.9

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

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

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

Loss allowance

The following tables analyse the movement of the loss allowance during the periods ended 31 December 2020 and 31 December 2019.

	Six months ended 31 December 2020			
Loss allowance	**Stage 1**	**Stage 2**	**Stage 3 and POCI**	**Total**
Balance at beginning of period	**(12.4)**	**(21.0)**	**(85.4)**	**(118.8)**
Transfer to a 12-month ECL	(1.3)	3.5	-	2.2
Transfer to a lifetime ECL not credit impaired	4.6	(15.5)	7.6	(3.3)
Transfer to a lifetime ECL credit impaired	0.3	11.1	(19.1)	(7.7)
Other changes in credit risk during the period	(0.3)	(8.6)	(6.2)	(15.1)
Impairment of interest income on stage 3 loans	-	-	(6.1)	(6.1)
New financial assets originated	(0.9)	(1.4)	-	(2.3)
Financial assets derecognised	2.1	4.8	9.8	16.7
Changes in models and risk parameters	2.1	(1.0)	(7.7)	(6.6)
Impairment losses for the period charged to income statement	**6.6**	**(7.1)**	**(21.7)**	**(22.2)**
Unwind of discount	-	-	6.1	6.1
Write-offs net of recoveries	-	-	4.1	4.1
Changes on refinancing of impaired loans	-	-	3.3	3.3
Balance at end of period	**(5.8)**	**(28.1)**	**(93.6)**	**(127.5)**

Unless otherwise indicated, all amounts are stated in £m

9. Loans and advances to customers (continued)

Loss allowance (continued)

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

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

The loss allowance has increased by £8.7m from £118.8m at 30 June 2020 to £127.5m (31 December 2019: £70.9m).

One of the key increases in the allowance for the period was the increased charge of £6.6m resulting from changes in model and risk parameters (31 December 2019: £5.6m release). The main drivers of the increase were a £4.4m charge due to an additional overlay to the methodology for applying forced sale discounts ('FSDs') to collateral valuations based on the geographical location of the security within the ECL methodology and other regular updates to the calibration of model parameters, which resulted in a charge of £1.5m.

The impact of loans transferring between stages has increased ECL by £8.8m during the period (31 December 2019: £8.1m) and other changes in credit risk have increased ECL by £15.1m (31 December 2019: £9.3m). There are a number of drivers of the combined increase of £23.9m observed in these line items, the principal ones being:

- £4.8m due to changes in qualitative criteria to assess whether a loan has experienced a significant increase in credit risk, where the criteria have been expanded to include: customers who are not in arrears, but may have suffered a certain level of income shock based on credit bureau data, and; widening the criteria to include loans which are not in arrears or otherwise exhibited signs of an increase in credit risk but the loan is secured on certain property types which may be most affected by social restrictions such as certain hospitality and retail purpose properties;
- £6.1m due to increases in arrears levels. These and other qualitative and quantitative factors are used to assess the allocated stages of loans and can therefore result in the recognition of allowances based on lifetime losses on loans which were previously measured using a 12-month loss. Arrears levels also affect the probability of default assigned to loans;
- £10.5m due to changes in the assessment of the likely recovery outcome for loans, based either on the likelihood of repossession or on changes in estimated amounts to be recovered. This includes £3.8m owing to the transition to an updated house-price index applied to collateral valuations; and
- £2.4m due to accounts which have entered repossession or receivership, transferring to the measurement of a lifetime ECL credit impaired.

Unless otherwise indicated, all amounts are stated in £m

9. Loans and advances to customers (continued)

Loss allowance (continued)

The impairment of interest income recognised on stage 3 loans of £6.1m (31 December 2019: £6.5m) was offset by the unwinding of discounting on expected cash flows of the same amount. New originations increased ECL by £2.3m (31 December 2019: £3.5m), driven by new lending undertaken during the period and the requirement to measure all loans using a forward-looking ECL. Increases in ECL were offset by releases of £16.7m (31 December 2019: £11.0m) on loans which have redeemed during the period. ECL has reduced by £3.3m (31 December 2019: £nil) due to refinancing of credit impaired assets where the new loans have been classified as POCI. The gross balances of the new POCI assets included £1.0m (31 December 2019: £nil) of ECLs on initial recognition, resulting in a net release of £2.3m (31 December 2019: £nil).

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 (31 December 2019: £nil).

Impairment losses for the period

	Six months ended	
	31 December 2020	**31 December 2019**
Movements in impairment allowance, charged to income	22.2	10.8
Amounts released from deferred income	0.3	0.2
Write-offs net of recoveries	(0.7)	(0.6)
Gains on derecognition of assets held at amortised cost as a result of refinancing impaired loans	(2.3)	-
	19.5	**10.4**

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:

	Six months ended 31 December 2020			
	Stage 1	**Stage 2**	**Stage 3 and POCI**	**Total**
Loans and advances to customers at amortised cost				
Balance at beginning of period	3,061.3	721.2	498.5	4,281.0
Transfer to a 12-month ECL	372.6	(371.0)	(1.6)	-
Transfer to a lifetime ECL not credit impaired	(820.2)	922.8	(102.6)	-
Transfer to a lifetime ECL credit impaired	(15.6)	(259.9)	275.5	-
New financial assets originated	273.5	34.6	-	308.1
Financial assets derecognised including write-offs	(361.0)	(115.5)	(100.6)	(577.1)
Changes on refinancing of impaired loans	-	-	(0.7)	(0.7)
Balance at end of period	**2,510.6**	**932.2**	**568.5**	**4,011.3**

	Six months ended 31 December 2019			
	Stage 1	**Stage 2**	**Stage 3 and POCI**	**Total**
Loans and advances to customers at amortised cost				
Balance at beginning of period	3,025.3	419.5	316.7	3,761.5
Transfer to a 12-month ECL	38.0	(38.0)	-	-
Transfer to a lifetime ECL not credit impaired	(228.4)	256.6	(28.2)	-
Transfer to a lifetime ECL credit impaired	(21.1)	(163.8)	184.9	-
New financial assets originated	1,086.1	13.8	-	1,099.9
Financial assets derecognised including write-offs	(492.8)	(65.9)	(72.6)	(631.3)
Balance at end of period	**3,407.1**	**422.2**	**400.8**	**4,230.1**

Unless otherwise indicated, all amounts are stated in £m

9. Loans and advances to customers (continued)

Critical accounting estimates

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

Macroeconomic scenarios

The following table shows the unweighted ECL for each the scenarios modelled as at 31 December 2020, 31 December 2019 and 30 June 2020 and the probabilities that were applied in the calculation of ECL.

	December 2020		December 2019		June 2020	
Scenarios	**Probability of the scenario**	**Unweighted ECL**	**Probability of the scenario**	**Unweighted ECL**	**Probability of the scenario**	**Unweighted ECL**
Upside	10%	66.6	-	-	10%	57.2
Mild upside	10%	74.9	30%	41.6	10%	66.3
Base case	50%	97.8	40%	47.1	50%	88.0
Stagnation	10%	162.5	-	-	10%	150.2
Downside	10%	202.0	30%	131.7	10%	192.7
Severe downside	10%	279.8	-	-	10%	281.5
Weighted average		**127.5**		**70.9**		**118.8**

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

Loss given default (LGD)

The LGD model uses current security values and forecast HPI assumptions to project property values for each of the economic scenarios. An immediate and sustained 10% reduction in forecast house prices (i.e. a 10% haircut applied to the index in each forecast future period), applied in each scenario, would result in an increase in the impairment allowance of £22.2m at 31 December 2020 (30 June 2020: £23.7m); conversely, a 10% increase would result in a decrease in the impairment allowance of £17.4m at 31 December 2020 (30 June 2020: £17.9m).

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

A 10% relative worsening of both PDs and PPGDs simultaneously (e.g. a 1.0% PD increasing to 1.1%) would increase the total impairment allowance by £8.3m at 31 December 2020 (30 June 2020: £7.2m). A 10% relative improvement of both PDs and PPGDs simultaneously (e.g. a 1.0% PD decreasing to 0.9%) would result in a decrease in the impairment allowance by £7.9m at 31 December 2020 (30 June 2020: £7.0m).

Critical accounting judgements

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

Sensitivities	**December 2020**	**June 2020**
Measure all loans in Stage 1 using a lifetime ECL – increase in allowance	10.1	14.5

Sensitivities	**December 2020**	**June 2020**
Measure all loans which are in a Covid-19 mortgage-payment deferrals, currently in Stage 1, using a lifetime ECL not credit impaired (Stage 2) – increase in allowance	0.1	2.5
Measure all loans which are in a Covid-19 mortgage-payment deferrals, currently in Stage 2, using a lifetime ECL credit impaired (Stage 3) – increase in allowance	0.7	2.5

Unless otherwise indicated, all amounts are stated in £m

10. Other assets

	31 December 2020	31 December 2019	30 June 2020
Amounts owed by related parties	0.9	3.9	1.0
Other debtors	1.0	0.9	1.4
Prepayments and accrued income	2.7	4.7	3.9
	4.6	**9.5**	**6.3**

Amounts owed by related parties of the Group are in respect of companies in which HN Moser is a director and shareholder. Also included within amounts owed by related parties is £0.2m (31 December 2019: £0.3m; 30 June 2020: £0.2m) in relation to a director's loan. The loan is interest free and repayable on demand.

11. Property, plant and equipment

Six months ended 31 December 2020	**Fixtures, fittings and equipment**	**Motor vehicles**	**Right-of-use assets – leasehold property**	**Total**
Cost				
At beginning of period	8.3	1.9	16.0	26.2
Additions	-	-	1.2	1.2
Disposals	(0.7)	(0.4)	-	(1.1)
At end of period	**7.6**	**1.5**	**17.2**	**26.3**
Depreciation				
At beginning of period	4.6	0.8	6.8	12.2
Charge for the period	0.6	0.1	0.5	1.2
Disposals	(0.7)	(0.1)	-	(0.8)
At end of period	**4.5**	**0.8**	**7.3**	**12.6**
Net book value				
At end of period	**3.1**	**0.7**	**9.9**	**13.7**
At beginning of period	3.6	1.0	9.2	13.9

Six months ended 31 December 2019	**Fixtures, fittings and equipment**	**Motor vehicles**	**Right-of-use assets – leasehold property**	**Total**
Cost				
At beginning of period	7.9	1.8	13.7	23.4
Additions	0.3	0.4	0.9	1.6
Disposals	(0.1)	(0.3)	-	(0.4)
At end of period	**8.1**	**1.9**	**14.6**	**24.6**
Depreciation				
At beginning of period	3.5	0.8	5.1	9.4
Charge for the period	0.6	0.1	0.5	1.2
Disposals	(0.1)	(0.2)	-	(0.3)
At end of period	**4.0**	**0.7**	**5.6**	**10.3**
Net book value				
At end of period	**4.1**	**1.2**	**9.0**	**14.3**
At beginning of period	4.4	1.0	**8.6**	14.0

Unless otherwise indicated, all amounts are stated in £m

11. Property, plant and equipment (continued)

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

12. Intangible assets

Computer software	Six months ended 30 December 2020	Six months ended 31 December 2019	Year ended 30 June 2020
Cost			
At beginning of period	18.0	14.5	14.5
Additions	1.1	2.1	3.5
At end of period	**19.1**	**16.6**	**18.0**
Amortisation			
At beginning of period	9.9	5.7	5.7
Charge for the period	1.6	1.6	4.2
At end of period	**11.5**	**7.3**	**9.9**
Net book value			
At end of period	**7.6**	**9.3**	**8.1**
At beginning of period	8.1	8.8	8.8

13. Deferred tax asset

	Six months ended 31 December 2020	Six months ended 31 December 2019	Year ended 30 June 2020
At beginning of period	7.6	7.5	7.5
IFRS 16 adjustment	-	0.3	0.3
Charge to income statement	-	(0.3)	(1.1)
Effect of changes in tax rates	-	-	0.9
At end of period	**7.6**	**7.5**	**7.6**

The deferred tax asset consisted of the following:

	31 December 2020	31 December 2019	30 June 2020
Accelerated capital allowances	(0.9)	(1.1)	(0.8)
Short-term timing differences	8.5	8.6	8.4
	7.6	**7.5**	**7.6**

14. Borrowings

	31 December 2020	31 December 2019	30 June 2020
Bank facilities	-	35.0	10.0
Loan notes	2,433.3	2,681.4	2,729.8
Subordinated shareholder loans	29.3	28.2	28.4
Senior secured notes	785.7	726.4	786.1
Lease liabilities	11.9	11.5	11.5
	3,260.2	**3,482.5**	**3,565.8**
Debt issue costs	(14.2)	(15.5)	(15.7)
	3,246.0	**3,467.0**	**3,550.1**
Of which:			
Due for settlement within 12 months	117.3	116.1	93.6
Due for settlement after 12 months	3,128.7	3,350.9	3,456.5
	3,246.0	**3,467.0**	**3,550.1**

Loan notes at the period end consist of the following facilities:

	Established	Facility type	Facility size (£m)	Expiry
Charles Street ABS	2007	Revolving	1,255.0	Sept 2023
Delta ABS 2	2019	Revolving	200.0	Mar 2023
Highfield ABS	2018	Revolving	525.0	Jun 2022
Lakeside ABS	2015	Revolving	500.0	Oct 2023
Together ABS 1	2017	Amortising	108.9	Sept 2021
Together ABS 2	2018	Amortising	162.6	Nov 2022
Together ABS 3	2019	Amortising	271.2	Sept 2023
Together ABS 4	2020	Amortising	360.5	Jun 2024

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

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

Unless otherwise indicated, all amounts are stated in £m

14. Borrowings (continued)

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

Subordinated shareholder loans were originally issued on 2 November 2016. The subordinated shareholder loans are interest-free loans totalling £68.1m, which comprised £25.1m due in 2026 (previously 2024) and £43.0m due in 2036. The difference between the total nominal value of £68.1m and the initial fair values on origination or extension of £21.2m represents a non-distributable capital contribution of £46.9m, £8.1m of which has amortised by 31 December 2020 (31 December 2019: £6.2m; 30 June 2020: £7.2m). The remainder of the reserve will be released over the life of the instruments.

The Group has senior secured notes in issue of £350m and £435m, which are due to mature by 2024 and 2026 respectively. Refer to Note 23 for details of funding activities after the reporting date.

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

Debt issue costs, which consist of the prepaid fees in relation to the bank loan, loan notes and the senior secured notes, are deducted from the loan carrying amounts and charged to interest expense over the expected duration or term of the facility or notes as appropriate.

Borrowings have the following maturities:

As at 31 December 2020	**<1 year**	**1-2 years**	**2-5 years**	**>5 years**	**Total**
Bank facilities	-	-	-	-	-
Loan notes	116.7	572.6	1,744.0	-	2,433.3
Subordinated shareholder loans	-	-	-	29.3	29.3
Senior secured notes	-	-	350.7	435.0	785.7
Lease liabilities	1.3	1.2	3.3	6.1	11.9
	118.0	**573.8**	**2,098.0**	**470.4**	**3,260.2**
Debt issue costs	(0.7)	(1.5)	(8.9)	(3.1)	(14.2)
	117.3	**572.3**	**2,089.1**	**467.3**	**3,246.0**

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

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

Unless otherwise indicated, all amounts are stated in £m

15. Provisions

	Customer provisions	Other provisions	Total
Balance at beginning of period	20.9	1.4	22.3
(Release)/charge for the period	(2.3)	5.6	3.3
Provisions utilised	(2.4)	(0.3)	(2.7)
Balance at end of period	**16.2**	**6.7**	**22.9**

As a result of undertaking internal reviews within the regulated division for the year ended 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.

Within customer provisions, a provision of £13.1m for forbearance and customer-communication remediation has been estimated at the reporting date. Depending on the outcome of further testing and the selection of certain judgements and assumptions, the total financial impact for these areas of remediation remains unchanged, as within the range of £9.0m to £17.0m. In addition, a £0.9m provision has been estimated for administrative expenses relating to the remediation. There has been a £1.4m release to the income statement during the period in respect of these matters and £1.4m has been utilised during the period.

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

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

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

As a financial services company, the Group is required to comply with relevant legislation, and has processes in place to meet these standards and to manage any legal claims against the Group. Where such claims are received, the Group will investigate the facts and circumstances and will defend claims without merit. Other provisions substantially represents a provision for such legal claims and the anticipated costs of undertaking these processes for claims which are received by the Group. A 50% increase in the anticipated volume of future claims will increase the provision by £1.3m (50% decrease: £1.3m).

Unless otherwise indicated, all amounts are stated in £m

16. Other liabilities

	31 December 2020	31 December 2019	30 June 2020
Trade creditors	2.4	1.3	1.1
Other creditors	1.9	3.4	1.5
Other taxation and social security	0.7	0.8	0.7
Accruals and deferred income	49.1	52.5	47.9
	54.1	**58.0**	**51.2**

17. Financial instruments and fair values

The Group measures fair values using the following hierarchy, which reflects the significance of the inputs used in making the measurements:

Level 1: Quoted prices in active markets for identical assets or liabilities;
Level 2: Measurements derived from observable data, such as market prices or rates;
Level 3: Measurements rely on significant inputs not based on observable market data.

Financial instruments measured at fair value

The following table summarises the fair values as at the period end of financial instruments measured at fair value, analysed into different levels according to the degree to which they are based on observable inputs:

Derivative liabilities held for risk management	Level 1	Level 2	Level 3	Fair value	Carrying value
31 December 2020					
Interest-rate risk	-	(2.2)	-	**(2.2)**	**(2.2)**
31 December 2019					
Interest-rate risk	-	(0.2)	-	**(0.2)**	**(0.2)**
30 June 2020					
Interest-rate risk	-	(2.9)	-	**(2.9)**	**(2.9)**

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

Financial instruments not measured at fair value

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

Unless otherwise indicated, all amounts are stated in £m

17. Financial instruments and fair values (continued)

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

31 December 2020	**Level 1**	**Level 2**	**Level 3**	**Fair value**	**Carrying value**
Financial assets					
Loans and advances to customers	-	-	3,843.3	**3,843.3**	**3,883.8**
Financial liabilities					
Borrowings	780.9	878.7	1,599.7	**3,259.3**	**3,246.0**

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

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

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

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

Unless otherwise indicated, all amounts are stated in £m

17. Financial instruments and fair values (continued)

The fair value of senior secured notes is considered to be level 1, reflecting quoted prices. The fair value is lower than carrying value primarily due to the price at which the notes were trading in the secondary market due to the economic impact of Covid-19 at 31 December 2020.

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

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

18. Notes to the statement of cash flows

	Three months ended		**Six months ended**	
	31 Dec 2020	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**
Adjustments for non-cash items in profit after tax:				
Net interest income	(63.7)	(63.2)	(128.9)	(123.9)
Changes in expected credit losses charged to income statement	6.3	5.9	22.2	10.8
Taxation	6.2	3.3	10.7	7.7
Provisions for liabilities and charges	2.2	10.9	3.3	15.8
Depreciation and amortisation	1.4	1.4	2.8	2.8
Net (gains)/losses on financial instruments	(0.3)	-	(0.4)	0.3
Losses on disposal of fixed assets	0.1	-	0.1	-
	(47.8)	**(41.7)**	**(90.2)**	**(86.5)**
Change in operating assets and liabilities				
Decrease/(increase) in loans and advances to customers	110.7	(286.7)	256.2	(475.5)
(Increase)/decrease in other assets	(0.2)	(4.6)	1.7	(4.7)
(Decrease)/increase in other liabilities and provisions	(1.1)	14.7	(1.2)	5.3
	109.4	**(276.6)**	**256.7**	**(474.9)**

19. Related party transactions

Relationships

The Company has the following related parties:

a) Controlling party

All the voting shares of Together Financial Services Limited are controlled by Bracken Midco2 Limited, a company whose ultimate parent is Redhill Famco Limited, which is wholly controlled by HN Moser, a director of Together Financial Services Limited.

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

Entity	Nature of transactions
Bracken House Properties LLP	The Group pays operating lease and insurance costs to Bracken House Properties LLP for its provision of the Group's head office properties.
Centrestand Limited	The Group collects rents and pays service charges and costs on behalf of Centrestand Limited.
Charles Street Commercial Investments Limited	The Group refers borrowers outside its lending criteria to Charles Street Commercial Investments Limited. The Group performs underwriting, collection and arrears-management activities for these loans. The Group also manages accounts payable on behalf of the company and provides ancillary accounting and treasury services for which it is reimbursed.
Sterling Property Company Limited	Sterling Property Company Limited provides property management services for properties repossessed or placed into LPA receivership by the Group.
August Blake Developments Limited, Edgworth Developments Limited, Sunnywood Estates Limited	The Group provides loans with interest charged at 5% per annum, secured on certain assets of these companies. The Group also manages accounts payable on behalf of these entities.

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

b) Parent companies

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

Entity	Nature of transactions
Bracken Midco2 Limited	During November 2016, the Company first received subordinated funding from Bracken Midco2 Limited. The subordinated loans are interest-free and for fixed terms, subject to periodic extension, as set out in Note 14. The difference between the loans' maturity amounts and their fair values represents a capital contribution to the Group which is being amortised over the life of the loan. The Group also pays dividends to its parent company Bracken Midco2 Limited.

c) Subsidiaries

The Company utilises its bank and subordinated shareholder funding, and bonds raised by a subsidiary company, to provide treasury funding to its lending subsidiaries. Interest is recharged among Group companies based on the Group's external cost of borrowings and the risk of the assets funded. The cost of equity funding is not charged. All amounts are repayable on demand.

Unless otherwise indicated, all amounts are stated in £m

19. Related party transactions (continued)

d) Key management personnel

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

Transactions

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

	Six months ended			
	31 December 2020		31 December 2019	
	Charge/ (credit) to income or equity	**Paid/ (received)**	**Charge/ (credit) to income or equity**	**Paid/ (received)**
Lease and insurance costs	0.4	0.8	0.7	0.7
Accounts payable transactions	-	0.4	-	0.8
Impairment of related party loans	-	-	0.5	-
Interest on related party loans	(0.1)	-	(0.3)	-
Net provision of treasury funding	-	(0.5)	-	
Related parties of HN Moser[15]	**0.3**	**0.7**	**0.9**	**1.5**
Interest expense	1.0	-	1.1	-
Dividend paid	-	26.4	15.6	15.6
Parent companies	**1.0**	**26.4**	**16.7**	**15.6**
Total related parties	**1.3**	**27.1**	**17.6**	**17.1**

The Group paid an interim dividend of £26.4m during the period ended 31 December 2020 (period ended 31 December 2019: £15.6m).

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

20. Leases

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

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

The table below sets out the amounts recognised in the income statement in respect of the Group's right-of-use assets and lease liabilities during the six months ended 31 December 2020 and 31 December 2019:

Three months ended 31 December 2020	**Administrative expenses £m**	**Interest expense £m**	**Total £m**
Depreciation expense on right-of-use assets	0.3	-	0.3
Interest expense on lease liabilities	-	0.2	0.2
Total recognised in the income statement	**0.3**	**0.2**	**0.5**

Three months ended 31 December 2019	**Administrative expenses £m**	**Interest expense £m**	**Total £m**
Depreciation expense on right-of-use assets	0.3	-	0.3
Interest expense on lease liabilities	-	0.2	0.2
Total recognised in the income statement	**0.3**	**0.2**	**0.5**

Six months ended 31 December 2020	**Administrative expenses £m**	**Interest expense £m**	**Total £m**
Depreciation expense on right-of-use assets	0.5	-	0.5
Interest expense on lease liabilities	-	0.3	0.3
Total recognised in the income statement	**0.5**	**0.3**	**0.8**

Six months ended 31 December 2019	**Administrative expenses £m**	**Interest expense £m**	**Total £m**
Depreciation expense on right-of-use assets	0.5	-	0.5
Interest expense on lease liabilities	-	0.3	0.3
Total recognised in the income statement	**0.5**	**0.3**	**0.8**

20. Leases (continued)

The below table sets out the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the six months ended 31 December 2020 and 31 December 2019.

	Right-of-use assets - leasehold property £m	**Lease liabilities £m**
As at 1 July 2020	9.2	(11.5)
Additions	1.2	(1.2)
Depreciation expense	(0.5)	-
Interest expense on lease liabilities	-	(0.3)
Payments	-	1.1
As at 31 December 2020	**9.9**	**(11.9)**

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

The lease liabilities analysis includes hire purchase obligations for motor vehicles. The Group had total cash outflows for leases of £1.1m (31 December 2019: £1.1m) in the six months ended 31 December 2020.

21. Commitments and contingencies

Commitments

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

At 31 December 2020, the Group had undrawn commitments to lend of £76.3m (31 December 2019: £202.5m). 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 December 2019: £0.1m), and is classified within other liabilities.

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

Fixed and floating charges

As at 31 December 2020, the Group's assets were subject to a fixed and floating charge in respect of £785m senior secured notes (31 December 2019: £725m; 30 June 2020: £785m) and £nil in respect of bank borrowings (31 December 2019: £35m; 30 June 2020: £10m).

22. Reforms of benchmark interest rates

The Group is exposed to sterling Libor which, for the Group's instruments, is expected to be discontinued on 31 December 2021 due to interest-rate benchmark reform. The exposures arise on derivatives and non-derivative financial liabilities. It will be necessary to transition to an alternative benchmark rate, also referred to as near-risk-free rates or RFRs. The RFR for sterling Libor will be the reformed sterling overnight index average (Sonia).

Progress towards implementation of alternative benchmark interest rates

The Group's mortgage loans do not directly reference Libor, and its only significant use is as a reference rate for some of the Group's floating-rate borrowings and, in two cases, their related hedging arrangements. The Group's preparations for the discontinuance of sterling Libor are under close management by the treasury department to minimise the risk to the business's performance and activities. The Group has been in discussions with its banks and investors who all expect to be ready to start transitioning from the end of March 2021.

Risks arising from the interest-rate benchmark reform

The key potential risks for the Group arising from the transition are:

- **Interest-rate basis risk**: this risk arises if negotiations with counterparties are not successfully concluded before the cessation of Libor, or if negotiations result in derivative and non-derivative instruments in a hedging relationship transitioning at different times, with difference adjustment spreads or to different calculation methodologies. Group management is working with all counterparties to avoid this from occurring and, on the basis of initial discussions, believes the likelihood of such a risk crystallising is very low.
- **Accounting**: if transition to Sonia is executed such that it does not permit the application of the reliefs in the Phase 2 amendments to IFRS 9, this could lead to volatility in the income statement as a result of the discontinuation of hedge-accounting relationships or if non-derivative financial instruments are modified or derecognised. However, the Group is aiming to agree changes to contracts that would allow IFRS 9 reliefs to apply, and any risk is considered very low.
- **Operational risk**: the implementation of alternative benchmark rates will require changes which potentially give rise to operational risks. The Group has plans in place to control the implementation of these changes to minimise the risk of such issues arising.

Unless otherwise indicated, all amounts are stated in £m

22. Reforms of benchmark interest rates (continued)

Interest-rate benchmark transition for non-derivative financial liabilities

The Group is already using Sonia as the reference rate for floating-rate notes and derivative contracts in its two most recent RMBSs. For its facilities referencing Libor, the Group is actively managing the transition to Sonia. All facilities to be transitioned by specific contract amendments will also require the agreement of spread adjustments to reduce or eliminate, to the extent reasonably practicable, any transfer of economic value from one party to another as a result of the transition to Sonia.

The table below summarises the position for the sterling Libor financial liabilities that are in scope of the IFRS 9 amendments due to interest-rate benchmark reform. The amounts represent the total facility size and so includes notes that pay interest at commercial paper rates, as well as notes that reference Libor.

Non-derivative financial liability	Maturing in	Total facility	Hedge accounting
Revolving credit facility	June 2023	71.9	N/a
Private securitisation loan notes			
Charles Street ABS	September 2023	1,255.0	Partially designated in cashflow hedge
Lakeside ABS	October 2023	500.0	N/a
Highfield ABS	June 2022	525.0	N/a
Delta ABS	March 2023	200.0	N/a
Public securitisation loan notes *			
Together ABS1	September 2021	108.9	N/a
Together ABS2	November 2022	162.6	Partially designated in cashflow hedge

* The stated maturity dates for the public securitisations are aligned to the maturity/call dates disclosed in note 14. The stated nominal amounts represent the amounts outstanding at the end of the period. The Group expects to continue with its existing strategy of seeking to refinance liabilities ahead of their contractual maturity.

To ensure the timely transition to Sonia, the Group will refinance its facilities in line with its funding plans in accordance with its strategy of refinancing facilities ahead of their maturities; where such refinancings will occur after the December 2021 transition date the Group plans to agree contact amendments with counterparties.

Interest-rate benchmark transition for derivatives and hedge relationships

The Group uses sterling-Libor derivatives for hedging purposes in only two of its securitisations, Charles Street ABS (CABS) and Together ABS2 (TABS2). CABS uses a combined interest-rate swap and floor and TABS2 uses a cap. All derivatives are subject to reform and the notional amounts can be found within note 8.

The agreements for both TABS2 and CABS already contain fallback provisions for the replacement of Libor which represent a starting point for discussions with investors relating to the loan notes and derivatives. The Group has already had initial discussions with its investors and banks for conclusion in 2021.

The Group will continue to apply the Phase 1 amendments to IFRS 9, relating to the uncertainty arising from the reforms and to which the Group is exposed with respect to the timing and amount of the underlying cash flows, until the end of that uncertainty. The Group has assumed the latter will occur once its contracts that reference Libor are amended to specify the date on which it will be replaced, the cash flows of the RFR, and the relevant spread adjustment. This will be dependent on the negotiations with investors and banks.

23. Events after the reporting date

Government actions to control Covid-19

On 4 January 2021 the government announced a third national lockdown for England with the restrictions due to be reviewed in late February 2021. The impact on the macroeconomic outlook of such restrictions and resulting support measures is uncertain.

Changes in the macroeconomic outlook will impact upon the calculation of ECL, and disclosures of the macroeconomic scenarios used for estimating ECL are set out in Note 9. The macroeconomic scenarios applied by the Group included an expectation that further social restrictions would be necessary in 2021. In addition, Note 9 discloses the unweighted ECL for each of the scenarios incorporated within the ECL calculation, together with the weighting applied to that scenario. Sensitivities can be derived from this by applying different probabilities to the unweighted ECLs and comparing the results with the weighted-average amount recorded within the statement of financial position.

On 22 February the Government set out a roadmap for easing restrictions, which is anticipated to have an impact on economic activity, and the UK's vaccination programme continues to process.

Mortgage-payment deferrals

After the balance sheet date the continuing development of the Covid-19 pandemic has resulted in the Group maintaining its actions to serve its customers and protect colleagues, consistent with the supportive measures announced by the UK government. The Group has offered mortgage-payment deferrals to a number of customers as a result of Covid-19 as disclosed in Note 9. At 15 February 2021, 2.1% of the Group's loans by value still remained on mortgage-payment deferrals as a result of Covid-19.

Customers may take the option to extend their payment deferral, in line with government guidance. Between the initiation of this support programme in March 2020 and 15 February 2021, 7,562 loans have reached the end of their initial deferral period and have had a payment fall due. Of these loans:

- 473 customers who are still in a payment deferral have requested an extension; and
- 7,089 customers had reached the end of their mortgage-payment deferral period and have had a payment fall due;
    - 5,795* customers have made full payments;
    - 989 customers have made partial payments; and
    - 305 customers have not made payments or are past their term.

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

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

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

Funding activity

On 25 January 2021, the Group announced the issuance of the £500m SSN 2027 at a coupon of 5.25%. The proceeds from the issuance have been used to repay the £350m SSN 2024 which were at a coupon of 6.125%, buy back held in private securitisations and for general corporate purposes. This further lengthens the maturity profile of the Group's borrowings; continues the practice of proactive financing well in advance of maturity dates; and further increases the amount of headroom in the Group's facilities.

The early redemption of the SSN 2024 has resulted in the payment of a call penalty of £5.4m and the write-off of deferred up-front fees of £1.3m. These costs have not been recognised within interest payable at the reporting date, however will be recognised in the next accounting period.