Together Financial Services Limited
Q2 2022/23 Results

Company Registration No. 02939389

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Highlights

Together Financial Services Limited ('Together' or 'the Group'), one of the UK's leading non-bank relationship lenders, is pleased to announce its results for the quarter ended December 31, 2022.

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

"Together delivered another robust performance in the period, against a backdrop of extreme macroeconomic uncertainty, growing the loan book to £5.9bn while controlling origination volumes, increasing rates and maintaining prudent LTVs. The Group remained highly profitable and cash generative, and the successful launch of our £467m FABS warehouse facility in December added further strength and diversity to our funding.

"We continued to deliver our strategic change agenda during the quarter, making further incremental progress on delivering the right experience for our customers and creating a more agile, efficient and scalable platform. We also rolled out new training programmes to support growth and performance for all of our colleagues and made good progress against our sustainability targets and measures.

"While inflation has started to show signs of trending lower and the pace of interest rate rises has slowed, some economists are forecasting the UK economy could enter recession during 2023 and this continued uncertainty may result in increasing numbers of people looking to specialist lenders for support. With a clear purpose, a proven and well-funded business model and a successful multi-cycle track record, we believe Together is well placed to help many more customers realise their ambitions."

Financial highlights: Quarter ended December 31, 2022

- Robust loan book growth at conservative LTVs with low arrears
  - Average monthly lending of £212.5m, up 6.3% on Q2'22 (£199.9m), down 26.5% on Q1'23 (£289.7m), reflecting a controlled approach to originations
    - Conservative weighted average origination LTVs of 60.8% (Q2'22: 61.4%; Q1'23: 62.0%)
  - Group net loan book increased to £5.9bn, up 33.3% on Q2'22 (£4.4bn) and up 3.6% on Q1'23 (£5.7bn)
    - Weighted average indexed LTV remains very low at 53.4% (Q2'22: 51.6%; Q1'23: 51.9%)
    - Arrears profile remains benign, reflecting robust loan book quality
    - Impairment coverage increased slightly from previous quarter at 1.85% (Q1'23: 1.63%) due to increased impairment provisioning resulting from future macroeconomic uncertainty in forward-looking IFRS 9 modelling, however down from prior year comparable quarter (Q2'22: 2.02%)

Financial highlights: Quarter ended December 31, 2022 (continued)

- Resilient and sustainable financial performance
  - Interest receivable and similar income of £133.6m, up 40.2% on Q2‘22 (£95.3m) and up 12.3% on Q1‘23 (£119.0m)
  - Underlying net interest margin of 4.8% (Q2‘22: 5.8%; Q1‘23: 4.9%), reflecting the continued impact of the extent and timing of rising interest rates
  - Annualised cost of risk of 1.3% (Q2‘22: 0.03%; Q1‘23: 0.9%), with change due to an increased impairment charge as a result of increased IFRS 9 provisioning, due to greater macroeconomic uncertainty
  - Group remains highly profitable and cash generative
    - Underlying profit before tax of £25.8m, down 40.0% on Q2‘22 (£43.0m) and down 25.6% on Q1‘23 (£34.7m) primarily due to higher impairment charges
    - Cash receipts of £559.9m (Q2‘22: £507.4m; Q1‘23: £541.8m) as redemptions remain strong

Key metrics	Q2 2023	Q2 2022	Q1 2023
Interest receivable and similar income (£m)	133.6	95.3	119.0
Underlying interest cover ratio[1]	1.4:1	2.4:1	1.7:1
Interest cover ratio	1.3:1	2.3:1	1.8:1
Underlying net interest margin[2] (%)	4.8	5.8	4.9
Net interest margin (%)	4.8	5.8	4.9
Underlying cost-to-income ratio[1] (%)	35.7	31.9	32.3
Cost-to-income ratio (%)	47.2	36.5	28.0
Underlying cost-to-asset ratio[1] (%)	1.6	1.8	1.6
Cost-to-asset ratio (%)	2.2	2.0	1.3
Cost of risk (%)	1.3	0.03	0.9
Underlying profit before taxation[1] (£m)	25.8	43.0	34.7
Profit before taxation (£m)	17.8	40.1	37.7
Underlying EBITDA[1]	91.0	76.5	88.3
Loans and advances to customers[3] (£m)	5,891.9	4,421.5	5,684.9
Net debt gearing (%)	82.3	76.9	81.2
Shareholder funds[4] (£m)	1,046.0	984.4	1,093.6
Underlying return on equity[1] (%)	8.3	15.6	11.1
Return on equity (%)	5.8	14.6	12.0

1 December 31, 2022 excluded a £8.4m one-off discretionary bonus and a £0.4m release of costs accrued in a prior period relating to the Group’s strategic options review (Q2‘22: £4.2m accrued share incentive scheme costs and release of £1.3m customer redress provisions, whilst Q1‘23 excluded a £3.0m release of costs accrued in a prior period relating to the Group’s strategic options review).
2 There are no exceptional items impacting upon net interest income recorded in the current or comparable prior periods.
3 Net loan book is the net of gross loans and advances to customers and impairment allowances
4 Includes subordinated shareholder loans of £32.5m (Q2‘22: £30.4m, Q1‘23: £32.0m)

Highlights (continued)

Operational highlights

- Shaping our business for the future
  - Further enhanced customer experience, redesigning and relaunching website, delivering digital portal into alpha testing and improving document management, collections and call handling infrastructure
  - Progressed with embedding new ‘ABS Suite’ securitisation platform and implementing agile change practices as we build an agile and rapidly scalable platform
  - Continued to empower colleagues to grow and deliver value for stakeholders, running a ‘Learnfest’ learning and development week and rolled out new training programmes to support growth and performance for all of our colleagues
- Further strengthened and diversified funding to support growth plans
  - Oct‘22: S&P upgraded Together to ‘BB’ (previously ‘BB-’), citing our resilient earnings, capital buffers and asset quality. S&P also upgraded Together’s Senior Secured Notes to ‘BB’ (previously ‘BB-’) and Bracken Midco1 PLC’s PIK Toggle Note to ‘BB-‘ (previously ‘B+’)
  - Dec‘22: successful completion of £467m FABS warehouse facility for first charge owner occupied and buy-to-let loans
  - 31 Dec‘22: £1.3bn facility headroom and £344.1m immediately available liquidity
- Good progress against Sustainability targets
  - Our planet
    - Climate Risk Management Framework approved and Climate Working Group established to progress ambitions to reduce emissions, consumption and become Net Zero
    - Signed partnership with Inspired Energy to progress Net Zero ambitions, including disclosure of Scope 3 emissions
  - Our customers
    - Maintained over 4 out of 5 star ratings on Feefo, Trustpilot and Google[5] and received Platinum Trusted Service Award from Feefo for the third year running
    - Achieved ‘Crystal Mark’ accreditation from Plain English for post-completion correspondence and website content
  - Our colleagues
    - Signed Race at Work Charter, joined Business Disability Forum and Age Inclusive Accredited by 55/Redefined
    - 30% women in senior management positions at Dec‘22, up from 26% at Dec‘21
  - Our communities
    - Approved plan to support charitable giving in excess of £1m per annum
    - We have now financed 341 social and affordable housing properties, securing homes for 1,207 tenants including key workers, vulnerable women and the elderly

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5 Based on 157 reviews collated by Feefo, Trustpilot and Google Reviews during Q2'23

An introduction to Together Financial Services Limited

One of the UK's leading specialist mortgage and secured loans providers, Together has successfully operated through several economic cycles since it was established in 1974. We pride ourselves on bringing common sense to lending by helping individuals, families, property investors and small- and medium-sized enterprises ("SMEs") to achieve their ambitions.

We focus on conservative 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, 2022, 62.8% 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 the effect of competition. We offer our loans through one, consistent brand - 'Together' - and distribute them primarily through mortgage intermediaries, our professional network, auction houses, and through our direct sales channels, each across mainland United Kingdom. We underwrite and service all our mortgage loans directly.

As of December 31, 2022, 23.6% of our loan portfolio was classified as retail purpose and 76.4% as commercial purpose (which included 29.5% of buy to let + and 4.3% of development loans), calculated by value. We classify mortgages as retail purpose lending when the mortgage is regulated by the Financial Conduct Authority ("FCA"). 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"). Our retail purpose loans also include regulated bridging loans, which can be used for 'chain breaks' and 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, 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. 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 by second and third line oversight, including by risk, compliance and internal audit teams. Additionally, external loan asset audits have been conducted at least annually, pursuant to the terms of certain of our financing arrangements.

Gross loan origination volumes remained strong in the quarter. This is in the context of our fixed rate offering returning to market in October, at revised prices following September's market disruption. Average originations of £212.5m during the quarter reflected both the higher rates subsequently seen in the interest rate swaps market post-September, as well as our robust and controlled approach to underwriting that is continually monitored and amended to reflect the prevailing macroeconomic environment. These originations resulted in the loan book reaching a new high of £5.9bn at December 31, 2022.

The LTVs of our loan portfolio on a weighted average indexed basis as of December 31, 2022, was 53.4% and the LTV on a weighted-average basis of new loans underwritten in the quarter ended December 31, 2022 was 60.8%. As at December 31, 2022, 98.5% of the total 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.

Presentation of financial and other information

Financial statements

This report presents the unaudited interim condensed consolidated financial statements of Together Financial Services Limited as of and for the six months ended December 31, 2022 with comparatives to December 31, 2021 and September 30, 2022. The unaudited interim condensed consolidated financial statements of Together Financial Services Limited have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

We have not included financial information prepared in accordance with FRS 102 or US GAAP. International accounting standards (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 2 Limited ("Charles Street ABS 2" or “CABS 2”), Lakeside Asset Backed Securitisation 1 Limited ("Lakeside ABS” or “LABS”), Highfield Asset Backed Securitisation 1 Limited (“Highfield ABS” or “HABS”), Delta Asset Backed Securitisation 2 Limited (“Delta ABS 2” or “DABS”), Together Asset Backed Securitisation 2018-1 PLC (“Together ABS 2” or “TABS 2)”), Together Asset Backed Securitisation 2019 – 1 PLC (“Together ABS 3” or “TABS 3”), Together Asset Backed Securitisation 2020 – 1 PLC (“Together ABS 4” or “TABS 4)”), Together Asset Backed Securitisation Together Asset Backed Securitisation 2021–CRE1 PLC (“Together ABS CRE 1” or “CRE 1”), Together Asset Backed Securitisation 2021-CRE2 PLC (“Together ABS CRE 2” or “CRE 2”), Together Asset Backed Securitisation 2022-CRE1 plc (“Together ABS CRE 3” or “CRE 3”), Brooks Asset Backed Securitisation 1 Limited (“Brooks ABS” or “BABS”), Together Asset Backed Securitisation 2021-1ST1 PLC RMBS (“Together ABS 1ST1” or “TABS 5”), Together Asset Backed Securitisation 2022-2ND1 PLC RMBS (“Together ABS 2ND1” or “TABS 6”), Together Asset Backed Securitisation 2022 – 1ST1 PLC RMBS (“Together ABS 7”) and Fairway Asset Backed Securitisation 1 Limited (“Fairway ABS 1” or “FABS 1”), 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 2, Lakeside ABS, Highfield ABS, Delta ABS 2, Together ABS 2, Together ABS 3, Together ABS 4, Together ABS CRE 1, Together ABS CRE 2, Together ABS CRE 3, Brooks ABS, Together ABS 1ST1, Together ABS 2ND1, Together ABS 7 and FABS 1 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 2, Lakeside ABS, Highfield ABS, Delta ABS 2, Together ABS 2, Together ABS 3, Together ABS 4, Together ABS CRE 1, Together ABS CRE 2, Together ABS CRE 3, Brooks ABS, Together ABS 1ST1, Together ABS 2ND1 and Fairway ABS 1 to certain lenders, to finance the purchase of the mortgage 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 amortised 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 figures used for presentation in this report.

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, Net interest margin, Underlying net interest margin, Return on equity, Underlying return on equity, Cost-to-income ratio, Underlying cost-to-income ratio 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 quarters ended December 31, 2021 and 2022, and for the quarter ended September 30, 2022 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.

In this quarterly report references to “Underlying EBITDA”, “Underlying Profit Before Tax”, “Underlying net interest margin”, “Underlying return on equity”, “Underlying cost-to-asset” and “Underlying cost-to-income ratio” exclude the effects of certain non-recurring items.

Presentation of financial and other information (continued)

Other financial information (Non-IFRS) (continued)

For the quarter ended December 31, 2022 these excluded non-recurring items consisted of a £8.4m one-off discretionary bonus for certain senior management and a £0.4m release of costs accrued in a prior period relating to the Group's strategic options review. Q2'22 consisted of £4.2m share incentive scheme charges and release of £1.3m customer redress provisions, whilst Q1'23 excluded a £3.0m release of costs accrued in a prior period relating to the Group's strategic option review.

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" reflects 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 excluding the effects of exceptional items[8]).

In this quarterly report references to "Net interest margin" reflects the net interest margin for Together Financial Services. Net interest margin is calculated by dividing net interest income (derived from the Company's consolidated financial statements) for the quarter, divided by the average total loan assets.

In this quarterly report references to "Underlying net interest margin" reflects the Underlying net interest margin for Together Financial Services. Underlying net interest margin is calculated by dividing underlying net interest income (derived from the Company's consolidated financial statements excluding exceptional items[9]) for the quarter, divided by the average total loan assets.

In this quarterly report references to "Return on equity" reflects the return on equity for Together Financial Services. Return on equity is calculated as profit after taxation (derived from the Company's consolidated financial statements), 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.

In this quarterly report references to "Underlying return on equity" reflects the Underlying return on equity for Together Financial Services. Return on equity is calculated as underlying profit after taxation (derived from the Company's consolidated financial statements excluding exceptional items[8]), 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.

In this quarterly report references to "Cost-to-income ratio" reflects the Cost-to-income ratio for Together Financial Services. Cost-to-income ratio is calculated by dividing administration expenses for the quarter over net operating income (both derived from the Company's condensed consolidated financial statements.)

References to "Underlying cost-to-income ratio" reflects the Underlying cost-to-income ratio for Together Financial Services. Underlying cost-to-income ratio is calculated by dividing underlying administration expenses (derived from the Company's consolidated financial statements excluding the effects of exceptional items[8]) for the quarter over underlying net operating income (derived from the Company's consolidated financial statements excluding the effects of exceptional items).

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, Net interest margin, Underlying net interest margin, Return on equity, Underlying return on equity, Cost-to-income ratio, Underlying cost-to-income ratio 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.

8 December 31, 2022 excluded a £8.4m one-off discretionary bonus and a £0.4m release of costs accrued in a prior period relating to the Group's strategic options review (Q2'22: £4.2m accrued share incentive scheme costs and release of £1.3m customer redress provisions, whilst Q1'23 excluded a £3.0m release of costs accrued in a prior period relating to the Group's strategic options review).

9 No adjustments have been made in the current or comparable periods.

Terms relating to our loan analysis

With the exception of the application of certain forbearance measures we do not reschedule our loans by capitalising arrears. In this quarterly report, arrears data is based on the latest contractual position and does 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.

The Group continues to serve its customers including to support those customers who experience financial difficultly through using our forbearance toolkit, and has proactively taken steps to consider the impact of macroeconomic factors such as the rising cost of living. These include review and monitoring of customer affordability assessments; loan book stress testing and scenario analysis; and operational management of such potential shifts in the operating environment including maintenance of existing customer support levels.

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, loans which may return to being performing assets, are 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 report and related presentation, data referring to loan portfolio analysis is in reference to core operating subsidiaries including Together Personal Finance Limited and Together Commercial Finance Limited, as well as the following subsidiaries which no longer originate new advances to customers: Auction Finance Limited, Blemain Finance Limited, Bridging Finance Limited and Harpmanor Limited. Data referring to our loan portfolio analysis is presented after allowances for impairment and include certain other accounting adjustments (including adjustments to recognise income at the effective interest rate).

In this 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 (a) development loans, (b) 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 and (c) 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. 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 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) 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) 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, 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) include certain other accounting adjustments (including

Terms relating to our loan analysis (continued)

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 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 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 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) certain other accounting adjustments (including adjustments to recognise income at the effective interest rate), compared to the appraised value (typically the assessed value of real property in the opinion of a qualified appraiser or valuer or from an automated valuation model during the mortgage origination process or the revised valuation of the property if a later valuation has been undertaken) of the property securing the loan.

In this 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 annual and adjusted for movements in property prices since the latest appraised valuation in accordance with the relevant regional property indices.

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

Key performance indicators

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

	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)	**2022**	**2021**	**2022**
Group			
Interest receivable and similar income	133.6	95.3	119.0
Fee and commission income	1.1	1.0	1.4
Income	134.8	96.3	120.4
Net interest margin	4.8%	5.8%	4.9%
Underlying net interest margin**	4.8%	5.8%	4.9%
Cost-to-income	47.2%	36.5%	28.0%
Underlying cost-to-income*	35.7%	31.9%	32.2%
Cost-to-asset	2.2%	2.0%	1.3%
Underlying cost-to-asset*	1.7%	1.8%	1.6%
Impairment charge	18.9	0.3	11.9
EBITDA	83.0	73.6	91.3
Underlying EBITDA*	91.0	76.5	88.3
EBITDA margin	61.6%	76.4%	75.9%
Underlying EBITDA margin*	67.6%	79.4%	73.4%
Profit on ordinary activities before tax	17.8	40.1	37.7
Underlying profit on ordinary activities before tax*	25.8	43.0	34.7
Return on equity	5.8%	14.6%	12.0%
Underlying return on equity*	11.1%	15.6%	11.1%
Supplemental cash flow information:			
Cash receipts	559.9	507.4	541.8
New advances	637.4	599.7	869.2
LTV of loan originations (on a weighted average basis, based on LTV of loans at origination)	60.8%	61.4%	62.0%
LTV of loan portfolio (on a weighted average indexed basis)	53.4%	51.6%	51.9%

* These underlying metrics include adjustments to exclude a £8.4m one-off discretionary bonus and a £0.4m release of costs accrued in a prior period relating to the Group's strategic options review (Q2'22: £4.2m accrued share incentive scheme costs and release of £1.3m customer redress provisions, whilst Q1'23 excluded a £3.0m release of costs accrued in a prior period relating to the Group's strategic options review).

** These underlying metrics include no adjustments in the current or comparable prior periods.

The key performance indicators above for the quarter ended December 31, 2022 have been derived from the unaudited interim condensed consolidated financial statements, which have has been prepared in accordance with IFRS, 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. The financial information should be read in conjunction with the unaudited interim condensed consolidated financial statements of Together Financial Services Limited and the accounting policies described therein as at December 31, 2022.

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 quarter to December 31, 2022 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, and has enhanced affordability assessments to reflect macroeconomic pressures and increases in the cost of living.

An analysis of the loan portfolio as at December 31, 2022, and December 31, 2021 by arrears banding, for the Group and Borrower Group is set out below:

	Group Loan Portfolio Arrears Analysis		Borrower Group Loan Portfolio Arrears Analysis	
	December 31, 2022	**December 31, 2021**	**December 31, 2022**	**December 31, 2021**
Nil Arrears & Arrears ≤ 1 month	**90.4%**	**90.4%**	**71.5%**	**80.3%**
Performing Arrears				
1-3 months	1.7%	1.8%	1.5%	1.7%
3-6 months	0.2%	0.2%	0.1%	0.3%
>6 months	0.3%	0.4%	0.4%	0.5%
Total Performing Arrears	**2.2%**	**2.4%**	**2.0%**	**2.5%**
Development loans	**4.4%**	**3.4%**	**17.8%**	**9.4%**
Total performing Loans & Development Loans	**97.0%**	**96.2%**	**91.3%**	**92.2%**
Non-Performing Arrears				
3-6 months	0.4%	0.4%	0.5%	0.6%
>6 months	0.9%	1.2%	2.4%	2.1%
Past due[1]	0.4%	0.7%	0.9%	1.7%
Total Non-Performing Arrears	**1.7%**	**2.3%**	**3.8%**	**4.4%**
Repossessions & LPA Sales	**1.3%**	**1.5%**	**4.9%**	**3.4%**
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

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

Operating review (continued)

An analysis of our loan portfolio as at December 31, 2022, by indexed and origination LTV banding, for the Group and Borrower Group is as follows:

Group Loan Portfolio Indexed LTV Analysis (£m)	Performing Loans	Non - Performing Loans	Development Loans	Repossessions & LPA Sales	Total Loan Portfolio
<=60%	3,610.6	81.5	121.0	79.1	3,892.2
>60% <=80%	1,803.2	15.2	98.9	5.0	1,922.3
>80% <=100%	35.7	0.9	33.4	2.7	72.7
>100%	9.4	2.8	1.2	-	13.4
Total	**5,458.9**	**100.4**	**254.5**	**86.8**	**5,900.6**

Borrower Group Loan Portfolio Indexed LTV Analysis (£m)	Performing Loans	Non - Performing Loans	Development Loans	Repossessions & LPA Sales	Total Loan Portfolio
<=60%	542.7	46.1	120.8	68.2	777.8
>60% <=80%	474.7	6.1	98.9	2.1	581.8
>80% <=100%	30.8	0.6	33.4	0.8	65.6
>100%	4.6	2.8	1.2	-	8.6
Total	**1,052.8**	**55.6**	**254.3**	**71.1**	**1,433.8**

Group Loan Portfolio Origination LTV Analysis (£m)	Performing Loans	Non - Performing Loans	Development Loans	Repossessions & LPA Sales	Total Loan Portfolio
<=60%	2,323.2	48.7	157.7	27.1	2,556.7
>60%<=80%	3,037.8	44.7	82.4	39.4	3,204.3
>80%<=100%	70.2	0.9	10.9	20.3	102.3
>100%	27.7	6.1	3.5	-	37.3
Total	**5,458.9**	**100.4**	**254.5**	**86.8**	**5,900.6**

Borrower Group Loan Portfolio Origination LTV Analysis (£m)	Performing Loans	Non - Performing Loans	Development Loans	Repossessions & LPA Sales	Total Loan Portfolio
<=60%	396.4	29.3	157.7	23.1	606.5
>60%<=80%	579.3	19.6	82.4	27.7	709.0
>80%<=100%	52.5	0.8	10.8	20.3	84.4
>100%	24.6	5.9	3.4	-	33.9
Total	**1,052.8**	**55.6**	**254.3**	**71.1**	**1,433.8**

The indexed weighted-average LTV of the loan portfolio for the total Group at December 31, 2022 is 53.4% compared with the prior year comparable quarter of 51.6% (December 31, 2021) and prior quarter of 51.9% (September 30, 2022)

The indexed weighted-average LTV of the loan portfolio for the Borrower Group at December 31, 2022 is 56.6% compared with the prior year comparable quarter of 55.5% (December 31, 2021) and prior quarter of 55.6% (September 30, 2022).

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, 2022, 23.6% of our loan portfolio was classified as retail purpose and 76.4% as commercial purpose (which included 29.5% of buy to let + and 4.2% of development loans), calculated by value. At December 31, 2021, 25.5% of our loan portfolio was classified as retail purpose, 74.5% of our loan portfolio was classified as commercial purpose (which included 27.9% of but to let + and 3.4% of development loans).

The proportion of our loan portfolio secured by residential security by value has reduced slightly to 62.8% as at December 31, 2022 when compared with 63.8% at December 31, 2021.

The proportion of our loan portfolio secured on first charges has increased to 82.6% as at December 31, 2022, when compared with 78.5% as at December 31, 2021.

Controlled origination growth

In the quarter to December 31, 2022, including further advances, we have originated an average of £212.5m per month, an increase compared with £199.9m per month in the quarter to December 31, 2021, however down from £289.7m per month in the immediately preceding quarter to September 30, 2022. The reduction when comparing to the prior quarter can be attributed to the residual impact from our pause in fixed rate lending at the end of September due to macroeconomic disruption, along with pricing and underwriting strategies that are continually monitored and amended to reflect our risk appetite and the economic environment. We have since reintroduced our fixed rate product offering during this quarter, and continue to offer a broad range of products to underserved segments of the secured mortgage market and in time of such macroeconomic uncertainty, we benefit from our rich pool of experienced and skilled underwriters, supported by our continued investment in technology and product innovation.

Whilst lending growth remains a strategic aim of the business, this is underpinned by a requirement to only do so in a responsible and controlled manner and as such, future origination volumes will be driven by market opportunities to lend at appropriate interest rates and within our predetermined risk appetite.

Our loans and advances to customers stands at £5,891.9m as at December 31, 2022, compared with £4,421.5m as at December 31, 2021 and £5,684.9m as at September 30, 2022.

Financial review

Interest receivable and similar income grew by 40.2% to £133.6m for the quarter to December 31, 2022 compared with £92.9m in the quarter to December 31, 2021, and up 12.2% compared with £119.0m for the quarter ended September 30, 2022. This reflects the growth in the loan book, and the passing on of funding cost increases to new and existing loans.

Interest payable and similar charges have increased by 98.1% to £63.8m for the quarter to December 31, 2022 compared with £32.2m in the quarter to December 31, 2021 and up 22.2% when compared with £52.2m in the quarter to September 30, 2022. This is primarily driven by the substantially higher interest rate environment, with increased reference rates on our variable funding facilities, and by increased borrowing, supporting the growth in the Group's loan book.

There has been a decrease in underlying net interest margin from 5.8% in the prior year comparable quarter to December 31, 2021 to 4.8% in the quarter to December 31, 2022, and from 4.9% in September 30, 2022 when calculated using our stated methodology. The continued fall in net interest income mainly arose due to the impact of rising interest rates, which increases the interest cost of the Group's variable funding facilities. The Group has taken action to mitigate this, through passing rate rises on to its existing variable rate customers and actively reviewing pricing of new lending. However, there is a natural time lag between such interest rate increases and the speed at which we can pass these on to both existing and new customers to cater for governance, operational processes, pipeline and notice periods. In addition, over time the Group has seen higher yielding back book loans redeem and be replaced with lower yielding front book loans as the loan book's credit quality has improved significantly over time. Finally, the product mix has also evolved over time by way of some further weighting to lower yielding term products but which have the advantage of providing the Group with steady annuity-like income. Over time however, as the rate of central bank rate increases decrease or stop, we expect an element of "catch-up" to positively impact our net interest margin as our pass-on of funding costs takes greater effect.

The cost-to-income ratio for the quarter to December 31, 2022 was 47.2%, higher than the prior year comparable quarter of 36.5% (December 31, 2021) and the prior quarter of 28.0% (September 30, 2022) mainly as a one-off discretionary bonus paid to certain senior management during the quarter. On an underlying basis the ratio for the quarter to December 31, 2022 was 35.7%, higher than the prior year equivalent quarter (December 31, 2021) of 31.9% and the prior quarter (September 30, 2022) of 32.3%, primarily due to the impact of salary costs owing to a higher relative headcount at the start of this quarter as well as a national insurance write back occurring in the prior quarter..

The cost-to-asset ratio for the quarter was 2.2% which is higher than the prior year comparable quarter of 2.0% (December 31, 2021) and the prior quarter of 1.3% (September 30, 2022) with the movement explained by the factors listed above.

Expected credit loss impairment charges for the quarter to December 31, 2022 were £18.9m, an increase of £18.6m to the losses reported in the quarter ended December 31, 2021 (£0.3m) and an increase of £7.0m to the prior quarter ended September 30, 2022. This owed primarily to the impact of more conservative macroeconomic forecasts, which are incorporated in the measurement of impairment provisions and losses under IFRS 9 as opposed to any identifiable deterioration in the credit quality of our loan book, and which remains generally benign currently.

As a result, cost of risk for the quarter has increased to 1.3% from 0.03% in the prior year comparable quarter to December 31, 2021 and from 0.9% in the prior quarter to September 30, 2022.

The impairment coverage ratio was 1.8% as at December 31, 2022, lower than the prior year comparable quarter (December 31, 2021) of 2.0% and higher than the prior quarter (September 30, 2022) of 1.6%. Coverage has fallen compared to the prior year comparable quarter due to a stronger underlying performance of the loan book and differing relative macroeconomic forecasts at a point in time.

Underlying EBITDA was £91.0m for the quarter to December 31, 2022 up 19.0% compared with £76.5m in the prior year comparable quarter to December 31, 2021 and up 3.1% compared with £88.3m in the prior quarter to September 30, 2022.

Underlying EBITDA margin was 67.6% for the quarter ended December 31, 2022 compared with 79.4% in the prior year comparable quarter ended December 31, 2021 and 73.4% in the prior quarter ended September 30, 2022.

Underlying profit before tax[10] decreased by 40.0% to £25.8m when compared with £43.0m in the prior year comparable quarter ended December 31, 2021, and by 25.6% when compared with £34.7m in the prior quarter ended September 30, 2022, primarily due to the expected credit loss impairment charges referred to above.

10 December 31, 2022 excluded a £8.4m one-off discretionary bonus and a £0.4m release of costs accrued in a prior period relating to the Group's strategic options review (Q2'22: £4.2m accrued share incentive scheme costs and release of £1.3m customer redress provisions, whilst Q1'23 excluded a £3.0m release of costs accrued in a prior period relating to the Group's strategic options review)

Financial review (continued)

The Group's highly cash generative business model proved robust, with cash receipts of £559.9m for the quarter to December 31, 2022 compared with £507.4m in the prior year comparable quarter to December 31, 2021 and £541.8m in the prior quarter to September 30, 2022.

Loans and advances to customers have increased by 33.3% to £5,891.9m compared with £4,421.5m as at December 31, 2021 and by 3.6% compared with £5,684.9m as at September 30, 2022.

Shareholder funds have increased by 6.3% to £1,046.0m compared with £984.4m at December 31, 2021, however a decrease of 4.4% from £1,093.6m at September 30, 2022, mainly owing to dividends paid in the period.

Recent developments

Trading update

Monthly cash receipts of principal and interest in January 2023 were £141.7m, compared to a monthly average of £186.5m for the 3 month period to December 31, 2022. Facility Headroom was £1.2bn at Janury 31, 2023 (January 31, 2022: £1.4bn; December 31, 2022: £1.3bn) and total accessible liquidity was £297.4m at 31 January 2023 (January 31, 2022: £410.1m; December 31, 2022: £344.1m).

TABS 2 was redeemed in full on 14 November 2022 following the optional call date.

Fairway Asset Backed Securitisation ("FABS"), our £467.4 million warehouse facility for first charge owner occupied and buy-to-let loans secured against residential property in England, Scotland and Wales, was completed in December 2022.

New originations

Monthly mortgage originations in January 2023 were £192.6m compared to a monthly average of £212.5m for the 3 month period to December 31, 2022. Originations are considred broadly consistent with the prior quarter when factoring in seasonality and reduced completions typically seen in January, whilst we continue to actively manage the risk and return profile of our frontbook.

Credit rating actions

In October, Fitch reaffirmed the credit rating of Together at 'BB-' with a stable outlook. In addition, Fitch also reaffirmed the rating of Together's Senior Secured Notes at 'BB-' and Bracken Midco1 Plc's PIK Toggle Notes at 'B'.

In November, S&P upgraded the credit rating of Together to 'BB' (previously 'BB-') with a stable outlook and upgraded Together's Senior Secured Notes and Bracken Midco1 Plc's PIK Toggle Notes to 'BB' and 'BB-' respectively (previously 'BB-' and 'B+' respectively). S&P cited Together's strong earnings capacity, resilient performance, stable funding profile and liquidity headroom as reasons supporting this upgrade.

Significant factors which may affect results of operations

Economic environment

Since the publication of the annual report for the year ended 30 June 2022 there was a period of significant market disruption associated with announcements of the UK government's economic strategy in the autumn. The markets have subsequently stabilised, but economic expectations for the coming year remain more pessimistic than at the beginning of the financial year.

Monthly GDP fell in December 2022 and in real terms remains below pre-pandemic levels. The Bank of England had previously warned that the economy was likely to enter into a prolonged recession. However, many commentators now expect that the UK is likely to avoid a recession in the current year, and will grow marginally despite the impact of high prices. In the quarter to December 2022 unemployment remained flat at 3.7%, and down very slightly from 3.8% for the quarter to June 2022. Market expectations are for unemployment to rise but only to levels that historically are relatively modest. Annual inflation as measured by CPI appears to have peaked at 11.1% in October, and had fallen to 10.1% at the end of January. The rate of reduction is currently very slow, with reductions in petrol prices being offset by increased prices in food, hospitality and household costs. In response the Bank of England has progressively increased Bank Base Rate to 4.00%; current yield curves reflect an expected peak of almost 4.5% in the summer of 2023. Market pricing of mortgage rates rose very sharply due to the market turmoil in the autumn; they have subsequently calmed somewhat but remain at levels significantly higher than in June 2022. The combined economic pressures on affordability have led to house prices falling each month since the end of the summer, and at the end of January stand at more than 3% and 4% below their peak according to the Nationwide and the Halifax respectively. These affordability pressures mean that house prices are widely expected to fall further in the next year, though the extent of any fall may be restrained by the continuing shortage of supply.

The economic outlook continues to be subject to great uncertainty, reflecting factors including geopolitical volatility and its consequences for energy supplies, inflation and the cost of living, and the effectiveness of the response of fiscal and monetary policy. Note 8 to the financial statements sets out the macroeconomic assumptions the Group has made in calculating expected credit losses (ECLs) at the reporting date.

The Group benefits from all its lending being secured on property 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 the resilience needed in such uncertain times.

Loan assets performance

The performance of our total loan assets depends on our ability to collect each expected loan 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 and sustainability of the loan instalments based upon known factors at the time of origination and to assess the repayment strategy and the marketability and value of the underlying security.

Our underwriting criteria, processes, controls and systems have been developed and refined based upon many years of experience. For each loan application, a detailed assessment is made of the customer circumstances, among other checks, an assessment of the financial position of the customer to ensure that the loan is both affordable and sustainable (as appropriate) along with an assessment of the repayment strategy. In addition, an assessment of the underlying security and its value is undertaken.

The performance of our loan assets is closely linked to the economic environment, which influences the ability of customers to make repayments of their borrowings. The macroeconomic pressures on customer affordability, driven by high inflation and other issues have led us to continually evaluate our affordability and underwriting approach with a view to the risk profile of originations whilst actively managing and monitoring our back-book in light of the economic backdrop.

It is possible that further deterioration in the macroeconomic environment could adversely affect borrowers' ability to make repayments, and lead to an increase in arrears.

Significant factors which may affect results of operations (continued)

Property market

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

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.

House and property price inflation has already started to decrease from the record levels observed in recent years, to more modest levels in 2023 and this trend is expected by forecasters to potentially continue further during the year.

The Group lends at prudent LTVs at origination to provide protection from falls in property prices. Average origination LTV was 60.8% for the quarter to December 31, 2022 compared to 61.4% for the prior year comparable quarter to December 31, 2021 and 62.0% for the prior quarter to September 30, 2022.

Together is a national lender and has a loan portfolio which is diversified across the UK, with less than 20% concentrated in the London region where property prices have tended to fluctuate to a greater extent. Our London portfolio is not focused on 'Prime' 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 has continued to progress a number of key modernisation and transformation initiatives to optimise application journeys, improve user experiences for our customers and intermediaries and increase operational efficiency.

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 and retain customers who are not serviced by other lenders, 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 fully 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 and has resulted in or may further result in increased competition in certain segments of the market where we operate and in turn result in lower yields.

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

Significant factors which may affect results of operations (continued)

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, commercial mortgage-backed securitisation 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 cash flows to the Senior Borrower Group (as defined in the group structure on page 22). 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, 2022 cash balances increased significantly, at £317.5m (December 31, 2021: £260.1m), of which £72.8m is unrestricted cash (December 31, 2021: £83.4m) as shown in Note 6.

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 sufficiently ahead of their maturity dates to allow for any market disruption. The continued war in Ukraine and the resultant increases in energy and non-energy costs and interest rate rises is continuing to cause some market uncertainty and has constrained certain funding markets and / or had a negative impact on commercial terms. Continued future uncertainty or further negative economic data may restrict the ability of the Group to complete further funding transactions, at least in the short term, or may have a further negative impact on commercial terms available.

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

Interest rate environment

In response to rising inflation, the Bank of England has progressively raised Base Rate, from 1.25% at the beginning of the July 2022 to 2.25% in September 2022, rising to 3.0% in November 2022, 3.50% in December 2022 with a further rise to 4.0% in February 2023.

An increase in prevailing interest rates increases the cost of servicing our variable rate 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. In addition, there is a timing difference between the impact of rising interest rates, which have an immediate impact on the costs of our borrowing facilities, but which are not immediately passed onto customers for a variety of reasons, including regulatory, governance and operational factors.

Significant factors which may affect results of operations (continued)

Interest rate environment (continued)

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 certain 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. 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 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.

The Group continually focuses on improving its customer processes and responding to changes in customer needs. During the year ended 30 June 2022, the regulated division continued to identify ways to improve customer experience and outcomes, including the further development of a framework aimed at ensuring consistency of customer outcomes, which seeks to build upon and enhance existing practices, policies and procedures. The framework has a particular focus on customers in arrears and those with escalating balances, and development has continued during the period.

In addition, during the year ended 30 June 2022 a process was undertaken to assess the way that customer rates, and certain charges, are set and reviewed, and consider those that have historically been charged to certain customers. This included engagement with the regulator following their thematic review in some of those areas. This exercise is now complete and actions are in the process of being implemented. As a result of the process we have taken, and are continuing to take, certain actions such as the application of caps to historic interest rates, which will see redress paid to customers or reductions applied to their account balances.

During the period, the Group has progressed with the these matters utilising customer provisions balances as it progresses with no significant differences from the amounts provided, compared to the position as at 30 June 2022.

Disclosures in respect of these considerations can be found in Note 14 to the unaudited interim condensed consolidated 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 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;
- any further impact of Covid-19, or any future mutation of Covid-19 (or similar infectious diseases), and the impact of the related vaccines and medications, 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 war in Ukraine on the UK economy;
- 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 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 including rising inflation and interest rates and the cost of living pressures;
- the impact of rising unemployment, higher cost of living, higher interest rates or a reduced ability of our customers to service their mortgage loans;
- the impact of shortages of labour or materials affecting individual or business income;
- 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, the cost of delivering redress, potential regulatory sanctions and fines;
- the impact of rising interest rates and deterioration in economic conditions and the impact on our ability to obtain financing or obtain financing at competitive rates;
- 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 SONIA or other benchmarks 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;

Significant factors which may affect results of operations (continued)

Risk factors (continued)

- loss of a material number of employees being available due to a health crisis including Covid-19 (or other similar infectious diseases) and changes in working practices following Covid-19;
- our ability to retain our senior management and our underwriters, account executives, sales personnel, client facing employees and key individuals;
- failure to operate effectively and in line with regulations and legal requirements while working remotely;
- failure to operate a safe workplace in breach of health and safety regulations (including in response to any epidemic or pandemic);
- 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 securitisation companies;
- our ability to execute our modernisation and transformation priorities;
- the potential for conflicting interests between the shareholder and third-party funding providers;
- exclusion of US GAAP financial information; and
- changes in accounting standards.

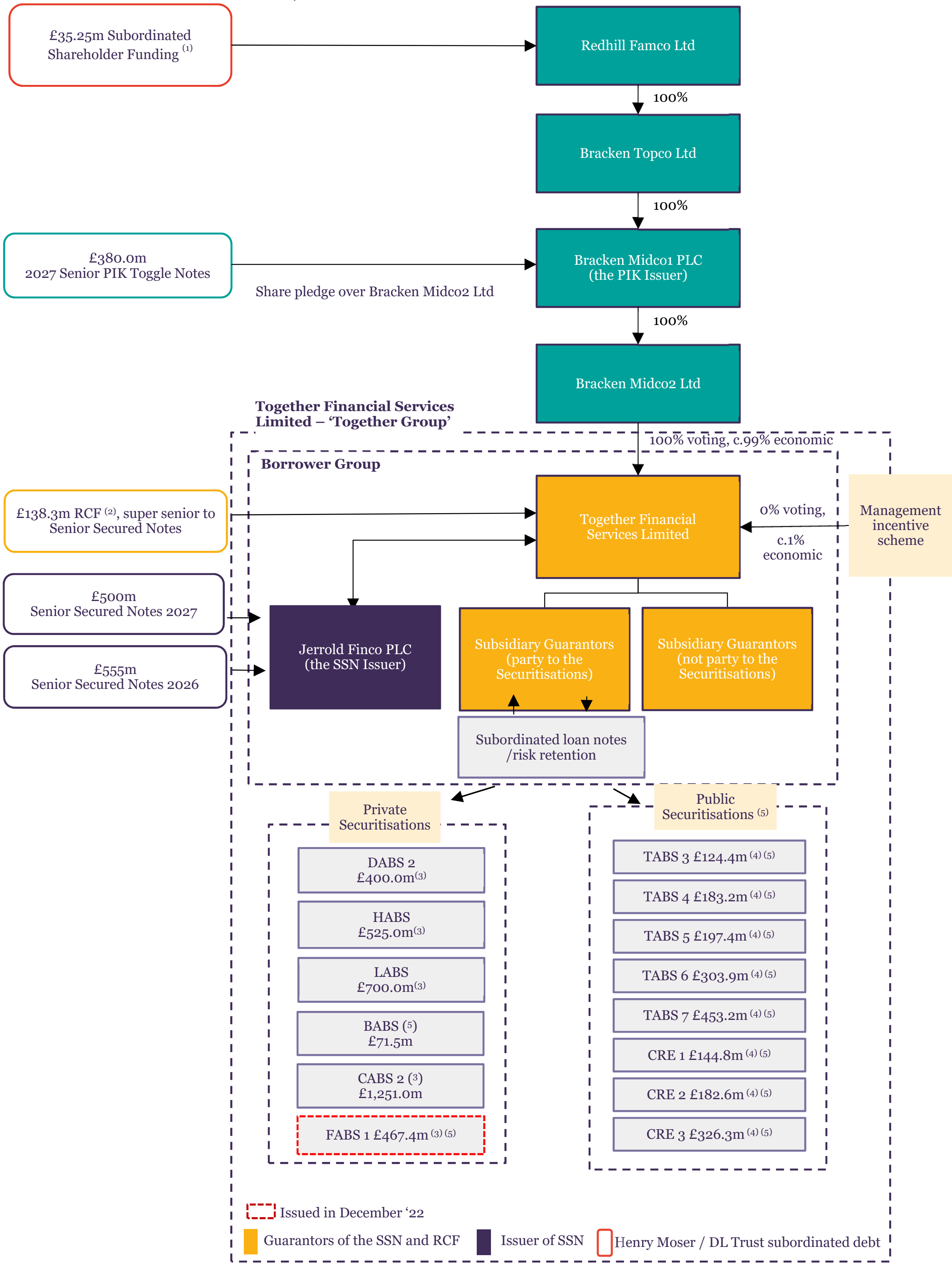
These risks are not exhaustive. Other sections of this report describe additional factors that could adversely affect our results of operations, financial condition, liquidity and the development of the industries in which we operate. New risks can emerge from time to time, and it is not possible for 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 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 December 31, 2022.

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) Total facility size, undrawn at December 31, 2022.
(3) Total facility size
(4) Outstanding Principal balance – senior notes
(5) Amortising

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 2027 Senior PIK Toggle Notes and its subsidiaries, compared to the unaudited interim condensed consolidated results and financial position of Together Financial Services Limited and its subsidiaries, for and as of the quarter ended December 31, 2022.

	Quarter ended December 31, 2022		
	Together Financial Services Ltd £m	**Adjustments £m**	**Bracken Midco1 PLC £m**
Profit before tax (1)	**17.8**	**(6.4)**	**11.4**

	As at December 31, 2022		
	Together Financial Services Ltd £m	**Adjustments £m**	**Bracken Midco1 PLC £m**
Assets			
Cash and balances at bank	317.5	0.6 (2)	318.1
Loans and advances to customers	5,891.9	-	5,891.9
Derivative assets held for risk management	41.5	-	41.5
Other assets	9.8	(0.3)	9.5
Property, plant and equipment	32.7	-	32.7
Intangible assets	8.9	-	8.9
Current tax asset	4.6	-	4.6
Deferred tax asset	8.5	-	8.5
Total assets	**6,315.4**	**0.3**	**6,315.7**
Liabilities			
Loan notes	4,114.3	-	4,114.3
Senior secured notes	1,055.3	-	1,055.3
Senior PIK toggle notes	-	380.0 (3)	380.0
Obligations under finance leases	29.3	-	29.3
Debt issue costs	(24.7)	(2.5) (4)	(27.2)
Total borrowings (excluding subordinated shareholder funding)	**5,174.2**	**377.5**	**5,551.7**
Other liabilities	81.5	5.3 (5)	86.8
Derivative liabilities held for risk management	0.1	-	0.1
Provisions for liabilities and charges	13.6	-	13.6
Total liabilities	**5,269.4**	**382.8**	**5,652.2**
Equity			
Subordinated shareholding funding	32.5	(23.6)	8.9
Shareholder's equity	1,013.5	(358.9)	654.6
Total equity	**1,046.0**	**(382.5)**	**663.5**
Total equity and liabilities	**6,315.4**	**0.3**	**6,315.7**

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

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

(3) Represents the additional borrowings in the form of £380.0m 2023 Senior PIK Toggle Notes

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

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

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

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

For the quarter to December 31, 2022, interest payable and similar charges for Bracken Midco1 PLC was, on a consolidated basis £70.1m compared to £63.8m for Together Financial Services Limited. The £6.3m variance comprises £6.6m 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 interim condensed consolidated financial statements

The unaudited interim condensed consolidated financial statements within the 'Results, reports and presentations' section of Together's investor website (investors.togethermoney.com), show the financial performance for the quarter to and as at December 31, 2022.

Comparatives for these unaudited interim condensed consolidated financial statements are as follows:

- Consolidated Statement of Comprehensive Income and Consolidated Statement of Cash Flows have comparatives for the quarter to December 31, 2021;
- Consolidated Statement of Changes in Equity have comparatives for the quarter to December 31, 2021; and
- Consolidated Statement of Financial Position have comparatives as at December 31, 2021 and June 30, 2022.

Together Financial Services Limited

Interim Management Report and Condensed Consolidated Financial Statements

For the six months ended 31 December 2022

Company Registration No. 02939389

Together Financial Services Limited

Interim management report and condensed consolidated financial statements

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Officers and professional advisers

Directors

RM McTighe*	Chairman
HN Moser	Chief Executive Officer
GM Grimes	Chief Executive Officer Designate
PS Ball	
GD Beckett	
W Bowser*	
MR Goldberg	
JM Shaoul*	

*Non-executives

Secretary

SE Batt

Registered office

Lake View
Lakeside
Cheadle
Cheshire
SK8 3GW

Auditor

Ernst & Young LLP
2 St Peter's Square
Manchester
M2 3DF

Interim management report

The directors present their interim management report and the unaudited interim condensed consolidated financial statements (interim financial statements) for the six months ended 31 December 2022. These interim financial statements are prepared for Together Financial Services Limited and its subsidiaries, trading as Together (the Group).

Business review

Key performance indicators

The Group's principal activity continues to be the provision of mortgage finance, secured on property and land, within the United Kingdom. The directors do not expect any significant change to the nature of the Group's activities.

A number of key performance indicators (KPIs) are monitored in order to review and assess performance, position and liquidity, and to measure performance against strategic objectives. The definitions of KPIs are unchanged from the annual report and accounts for the year ended 30 June 2022.

	As at 31 December 2022	As at 31 December 2021	As at 30 June 2022
Loans and advances to customers (£m)	**5,891.8**	4,421.5	5,247.9
Shareholder funds (£m)[1]	**1,046.0**	984.3	1,030.0
Net debt gearing (%)	**82.3**	76.9	79.7
Weighted average indexed LTV of portfolio (%)	**53.4**	51.6	51.5

	Six months ended 31 December 2022	Six months ended 31 December 2021	Year ended 30 June 2022
Average monthly lending volumes (£m)	**251.1**	189.4	226.8
Weighted average LTV of originations (%)	**61.5**	60.8	61.0
Net interest margin (%)[2]	**4.9**	6.0	5.5
Interest receivable (£m)	**252.6**	188.4	393.4
Impairment charge (£m)	**30.8**	1.4	4.3
Profit before tax (£m)	**55.5**	78.7	151.5
Interest cover ratio	**1.5:1**	2.3:1	2.1:1
Cost-to-income ratio (%)	**37.6**	36.8	39.4
Return on equity (%)[2]	**9.3**	13.9	12.9
Cost-to-asset ratio (%)[2]	**1.8**	2.1	2.1
Cost of risk (%)[2]	**1.1**	0.1	0.1

Results and dividends

The unaudited interim financial statements and related notes for the six months ended 31 December 2022 are set out on pages 9 to 40. The Group's profit before tax has decreased to £55.5m compared with £78.7m for the six-month period to 31 December 2021. This was principally due to increased allowance for expected credit losses, mainly due changes in the economic outlook which now projects falling property prices but also due to rising market interest rates and the impact of inflation on the business's costs; further detail is set out below.

Interest receivable and similar income increased by 34.1% to £252.6m for the period to 31 December 2022 (31 December 2021: £188.4m). This was primarily driven by an increase in the size of the loan book driven by the Company's increasing lending volumes, combined with the impact of a rising interest-rate environment. Interest payable and similar charges increased by 84.7% to £116.0m (31 December 2021: £62.8m), due to an increase in market interest rates, which impact upon the cost of our variable-rate borrowings, and to an increase in the balance of borrowings in support of growth in lending. The resultant net interest margin of 4.9% (31 December 2021: 6.0%), generated net interest income of £136.6m, up from £125.6m last year due to the growth in the loan book.

Reflecting rising inflation and discretionary costs, the Group has experienced a rise in its costs from £46.6m in the equivalent period in the prior year to £52.1m. As a result, the ratio of the Group's costs to income has increased from 36.8% last year to 37.6% for the period to 31 December 2022.

The annualised cost of risk increased to 1.8% (31 December 2021: 0.1%) mainly due to the impact of greater macroeconomic uncertainty on impairment losses, but did not reflect a material increase in arrears on the loan portfolio, which continue to be consistent with recent quarters. Further detail on impairment losses is set out in Note 8.

The Group has declared and paid interim dividends totalling £49.7m for the period ended 31 December 2022 (period ended 31 December 2021: £27.6m).

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[1] This is equity of £1,013.5m (31 December 2021: £954.0m; 30 June 2022: £998.6m) plus subordinated shareholder loans of £32.5m (31 December 2021: £30.3m; 30 June 2022: £31.4m).
[2] Note that these measures have been annualised to provide year-on-year comparisons.

Business review (continued)

Financial position

As shown in the unaudited consolidated statement of financial position on page 10, loans and advances to customers have increased by 33.3% to £5,891.9m compared with £4,421.5m at 31 December 2021. The increase is due to the Group continuing to increase lending. Average monthly lending for the period to 31 December 2022 increased 32.6% to £251.1m, compared with £189.4m in the six months to 31 December 2021.

The total of gross loans and advances to customers which are classified as stage 2 or stage 3 under IFRS 9 has increased to £1,766.2m from £1,299.1m at 31 December 2021. This largely reflects the increase in the loan portfolio. Further detail is set out in Note 8.

The total net value of derivative assets held to hedge interest-rate risk has increased to £41.4m from £11.2m 30 June 2022. The increase in the net value of derivatives has arisen primarily as a result of changes in the expectations for interest rates, which has increased the value of swaps.

Shareholder's funds have increased by 6.3% to £1,046.0m compared with £984.3m at 31 December 2021, reflecting retained profits invested in the business and movements in hedging reserves, offset by payments of dividends to the Group's parent.

Net debt gearing has increased to 82.3% (31 December 2021: 76.9%) reflecting a higher proportion of debt to equity compared with the prior year as the group has continued to utilise opportunities to increase leverage to fund further growth. The subordinated shareholder loan is treated as equity for the purposes of calculating the Group's gearing ratio.

Liquidity and funding

The Group's funding structure is unchanged from that described in the annual report and accounts for the year ended 30 June 2022 except as discussed below. The Group has continued its approach of refinancing facilities well in advance of their contractual maturity dates, and has completed the following transactions during the period:

- In July 2022, the Group announced the issuance of its largest ever RMBS, Together Asset Backed Securitisation 2022 – 1st1 PLC (TABS 7), raising £494.4m.
- In September 2022, the Group refinanced its revolving credit facility, increasing the facility size from £71.9m to £138.3m and extended the maturity to 2026.
- Also in September 2022, the Group refinanced its BABS facility, extending its maturity to March 2027 with an additional £24m of funding secured.
- In December 2022, the Group launched a new facility, Fairway Asset Backed Securitisation 1 Limited (FABS), raising £467.4m.

The actions taken by the Group have strengthened its funding position, and as such, these interim financial statements are prepared on a going-concern basis. Further disclosure relating to the assessment of the going-concern basis of accounting is included in Note 2.

Economic environment

Since the publication of the annual report for the year ended 30 June 2022 there was a period of significant market disruption associated with announcements of the UK government's economic strategy in the autumn. The markets have subsequently stabilised, but economic expectations for the coming year remain more pessimistic than at the beginning of the financial year.

Monthly GDP fell in December 2022 and in real terms remains below pre-pandemic levels. The Bank of England had previously warned that the economy was likely to enter into a prolonged recession. However, many commentators now expect that the UK is likely to avoid a recession in the current year, and will grow marginally despite the impact of high prices. In the quarter to December 2022 unemployment remained flat at 3.7%, and down very slightly from 3.8% for the quarter to June 2022. Market expectations are for unemployment to rise but only to levels that historically are relatively modest. Annual inflation as measured by CPI appears to have peaked at 11.1% in October, and had fallen to 10.1% at the end of January. The rate of reduction is currently very slow, with reductions in petrol prices being offset by increased prices in food, hospitality and household services. In response the Bank of England has progressively increased Bank Base Rate to 4.00%; current yield curves reflect an expected peak of almost 4.5% in the summer of 2023. Market pricing of mortgage rates rose very sharply due to the market turmoil in the autumn; they have subsequently calmed somewhat but remain at levels significantly higher than in June 2022. The combined economic pressures on affordability have led to house prices falling each month since the end of the summer, and at the end of January stand at more than 3% and 4% below their peak according to the Nationwide and the Halifax respectively. These affordability pressures mean that house prices are widely expected to fall further in the next year, though the extent of any fall may be restrained by the continuing shortage of supply.

The economic outlook continues to be subject to great uncertainty, reflecting factors including geopolitical volatility and its consequences for energy supplies, inflation and the cost of living, and the effectiveness of the response of fiscal and monetary policy. Note 8 to the financial statements sets out the macroeconomic assumptions the Group has made in calculating expected credit losses (ECLs) at the reporting date.

The Group benefits from all its lending being secured on property 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 the resilience needed in such uncertain times.

Business review (continued)

Regulatory, compliance and legal considerations

The companies within the Group's Personal Finance division undertake lending which is authorised and regulated by the Financial Conduct Authority (FCA). Further information in respect of regulatory matters can be found in the conduct and compliance risk section within the following report on principal risks and uncertainties and within Note 14 to the interim financial statements.

There are a number of risks and uncertainties which could have an impact on the Group. To identify and mitigate these risks the Group utilises an enterprise risk-management framework (ERMF), which is unchanged from that described in the annual report and accounts for the year ended 30 June 2022.

Principal risks and uncertainties

Strategic risk

Strategic risk is the risk of failure to achieve objectives that impact the long-term interest of stakeholders, or from an inability to adapt to the external environment.

The Group's strategy and approach to managing and mitigating strategic risk is materially unchanged from the annual report and accounts for the year ended 30 June 2022.

Credit risk

Credit risk is the risk arising as a result of default by customers or counterparties due to failure to honour obligations when they fall due.

The Group is exposed to changes in the economic position of its customers, which may adversely impact their ability to make loan repayments. The level of this risk is driven by macroeconomic factors as well as by factors relating to specific customers, such as a change in the borrower's circumstances.

Credit risk also arises if the value of assets used as security for loans falls in value, given this is the primary source of recourse should a borrower fail to repay amounts due.

Whilst the Group's approach to managing and mitigating credit risk is materially unchanged from the annual report and accounts for the year ended 30 June 2022, there has been heightened review and monitoring of customer affordability assessments as the impact of the cost-of-living crisis on customers is being monitored.

Note 8 to the interim financial statements provides detail on expected credit losses for the period ended 31 December 2022.

Liquidity and funding risk

Liquidity risk is the risk that the Group is unable to access sufficiently liquid financial resources to meet the Group's financial obligations as they fall due. Funding risk is the risk of being unable to access funding markets or to be able to do so only at excessive cost. This includes the risk of reduced funding options due to adverse conditions in the wholesale funding market, potentially caused by political and economic uncertainty, leading to the inability to secure additional funding for new business, or refinance existing facilities at an acceptable cost.

An overview of the Group's sources of funding is set out in the annual report and accounts for the year ended 30 June 2022, and the Group's activities during the period to 31 December 2022 are included within the business review above. The approach to managing and mitigating liquidity and funding risk is unchanged from the annual report and accounts for the year ended 30 June 2022.

The ability of the Group to service debt is measured using an interest cover ratio, being EBITDA divided by interest payable. This decreased to 1.5:1 for the six months ended 31 December 2022 compared with 2.3:1 for the six months ended 31 December 2021. The fall was mainly due to the increased allowance for expected credit losses.

One aspect of the Group's management of liquidity risk is to manage the maturity dates of its borrowings. The weighted average maturity of the Group's existing debt facilities is 3.5 years at 31 December 2022 (31 December 2021: 3.0 years). The Group has £1,309.7m of undrawn facility headroom as at 31 December 2022 (31 December 2021: £1,495.5m). The Group has a strong track record of successful refinancing and raising new facilities, which has continued during the period.

The Group monitors liquidity by reference to its total accessible liquidity (TAL), which comprises cash plus immediately accessible headroom in its funding facilities (subject to drawdown notice periods, asset eligibility and covenants), which includes the revolving credit facility and each of the private securitisations.

During the period, TAL has decreased to £344.1m at 31 December 2022 (31 December 2021: £419.1m), whilst cash balances have increased to £317.5m at 31 December 2022 (31 December 2021: £260.1m). Not all cash is accessible at any one time due to securitisation requirements and covenant restrictions, and so accessible cash, which is just one component of TAL, is lower than the total cash balance.

The depth of the maturity in the Group's existing debt facilities provides significant mitigation in respect of refinancing risk; the earliest maturity of wholesale funding is the Highfield Asset Backed Securitisation facility (the amount drawn at the reporting date representing 4% of the Group's borrowings) in September 2025 and the earliest call date on our public securitisations is Together Asset Backed Securitisation 3 facility (representing 2% of the Group's borrowings) in September 2023. Further detail is set out in Note 13.

A key management action to mitigate funding and liquidity risk is the ability to control levels of new lending which could potentially increase cash held over time, depending upon the degree to which originations are restricted. The Group also benefits from a business model which is ordinarily cash-generative with a high level of redemptions and therefore cash inflows. Liquidity is monitored daily to ensure the Group can meet its financial obligations, including the outstanding pipeline of loan offers, as and when they fall due.

Principal risks and uncertainties (continued)

Liquidity and funding risk (continued)

Some of the Group's funding is subject to financial covenants. Note 2 to the interim 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.

Market risk

Market risk is the risk arising from the Group's exposure to movements in market values, including movements in interest rates.

The fact that the Group does not carry out proprietary trading or hold positions in assets or equities which are actively traded means the key market risk faced by the Group is interest-rate risk, the risk of loss through mismatched asset and liability positions sensitive to changes in interest rates.

The Group's approach to managing and mitigating interest-rate risk is largely unchanged from the annual report and accounts for the year ended 30 June 2022. However, as a result of the rising interest-rate environment, the Group has adopted a more active Group hedging strategy. This has resulted in an increase in the volume of interest swap transactions executed by the Group; further details can be found in Note 7.

The table below sets out the increase/(decrease) in profit before tax of an immediate decrease and increase of 0.5% and 1.0% in interest rates, based on the interest rates prevalent at 31 December 2022 and 31 December 2021 and before any mitigation or management actions.

	31 December 2022 (£m)	31 December 2021 (£m)
0.5% decrease	**(9.4)**	(9.8)
0.5% increase	**9.4**	9.8
1.0% decrease	**(18.7)**	(19.6)
1.0% increase	**18.7**	19.6

The above interest-rate-risk sensitivity represents the movement taking into account the Group's contractual assets, liabilities, and derivatives and their maturity and repricing arrangements.

Note 7 to the interim financial statements details the Group's use of derivatives to mitigate interest-rate risk.

Capital risk

Capital risk is the risk of failure to hold adequate capital buffers and to appropriately manage the Group's capital base to withstand the crystallisation of individual risks or a combined stress event. Given capital also comprises a material source of funding via subordination in bond and securitisation structures, insufficient capital also gives rise to funding and liquidity risk. Capital risk includes the risk of excessive gearing. Regulatory capital requirements must also be met at all times within certain of the Group's subsidiaries.

The Group's approach to managing and mitigating capital risk is materially unchanged from the annual report and accounts for the year ended 30 June 2022.

Note 2 to the interim financial statements provides further detail on the assessment of the going-concern basis of accounting. This includes an assessment of the risks to the Group arising from any potential breaches of lending covenants, including gearing tests, and potential mitigating actions.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes execution risk in relation to the performance of the Group's modernisation and transformation agenda.

The Group's approach to managing and mitigating operational risk is materially unchanged from the annual report and accounts for the year ended 30 June 2022.

Conduct and compliance risk

Conduct risk is the risk arising from business activities that fail to deliver appropriate and consistent outcomes to customers and other stakeholders. This risk can arise from the failure to define and embed an appropriate culture, colleague behaviours that are inconsistent with defined Group values, and from our business activities if they fail to deliver fair and appropriate outcomes to our customers. Failure to manage this risk sufficiently could result in reputational damage, regulatory sanction, remediation programmes, and impact the Group's operating model. Further information can be found in Note 14.

Compliance risk is the risk arising from the failure to comply with existing or new legislation or regulations in the markets within which the Group operates. This includes the risk that the Group misinterprets regulation or legislation. This could include the risk of developing business practices and processes that do not adhere to, or are not in line with, the spirit of the law or regulation, leading to customer dissatisfaction or detriment, legal action against the Group and/or potentially fines from the regulator.

Employee engagement

The Group places considerable value on the involvement of its colleagues and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings, and internal publications. Colleagues are consulted regularly on a wide range of matters affecting their current and future interests. For further information, please refer to the Colleagues section of the Stakeholder engagement report within the Group's annual report and account for the year ended 30 June 2022.

Disabled employees

Applications for employment by people with disabilities are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff acquiring or developing disabilities, every effort is made to ensure that their employment with the Group continues and that appropriate arrangements are put in place. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Environment

While the Group operates in the financial services sector, which is generally considered to have relatively limited environmental impact, the Group recognises the importance of protecting the environment, and acts to reduce its impact, including by recycling and reducing energy consumption. For further information, please refer to the Sustainability report within the Group's annual report and accounts for the year ended 30 June 2022.

Statement of going concern

The directors are required to prepare the interim financial statements on the going-concern basis unless it is inappropriate to presume that the Group will continue in operation for a period of at least twelve months from the date of this report.

The directors have assessed, in the light of current and anticipated economic conditions, the Group's ability to continue as a going concern. Further detail on this assessment is set out in Note 2 to the interim financial statements.

The directors are satisfied that the Company and the Group have adequate resources to continue in operation for the going concern assessment period ending 21 February 2024, which is 12 months from the date of signing this report, Accordingly, the directors have adopted the going-concern basis in preparing these accounts.

Directors

The directors of the Company are set out on page 1.

Directors' indemnities

The Company has made qualifying third-party provisions for the benefit of its directors.

Statement of directors' responsibilities

We confirm that to the best of our knowledge:

- This condensed set of unaudited condensed consolidated financial statements has been prepared in accordance with UK adopted International Accounting Standard (IAS) 34 *Interim Financial Reporting*, and
- The interim management report includes a fair review of the information required, being an indication of important events during the period of the financial year to the reporting date and a description of principal risks and uncertainties to the extent that they relate to the remainder of the financial year.

GD Beckett
Director
21 February 2023

GM Grimes
Director
21 February 2023

Auditor’s independent review report to Together Financial Services Limited

Conclusion

We have been engaged by the Group to review the condensed set of financial statements in the Interim Management Report and Condensed Consolidated Financial Statements for the six months ended 31 December 2022 which comprises the condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and related notes 1 to 21. We have read the other information contained in the Interim Management Report and Condensed Consolidated Financial Statements and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Interim Management Report and Condensed Consolidated Financial Statements for the six months ended 31 December 2022 is not prepared, in all material respects, in accordance with the accounting policies outlined in note 2, which comply with UK-adopted International Accounting Standard (IAS) 34 Interim Financial Reporting.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Financial Reporting Council. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in Note 2, the annual financial statements of the Group are prepared in accordance with UK-adopted international accounting standards.

Conclusions Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis of Conclusion section of this report, nothing has come to our attention to suggest that management have inappropriately adopted the going concern basis of accounting or that management have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with this International Standard on Review Engagements, however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the directors

The directors are responsible for preparing the Interim Management Report and Condensed Consolidated Financial Statements in accordance with the accounting policies set out in Note 2.

In preparing the Interim Management Report and Condensed Consolidated Financial Statements, the directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor’s Responsibilities for the review of the financial information

In reviewing the Interim Management Report and Condensed Consolidated Financial Statements, we are responsible for expressing to the Group a conclusion on the condensed set of financial statements in the Interim Management Report and Condensed Consolidated Financial Statements. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the Group in accordance with guidance contained in International Standard on Review Engagements (UK) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group, for our work, for this report, or for the conclusions we have formed.

Ernst & Young LLP

Ernst & Young LLP

Manchester

21 February 2023

Unaudited condensed consolidated statement of comprehensive income
Six months ended 31 December 2022

Unless otherwise indicated, all amounts are stated in £m

Income statement	Note	Three months ended **31 December 2022**	Three months ended 31 December 2021	Six months ended **31 December 2022**	Six months ended 31 December 2021
Interest receivable and similar income		**133.6**	95.3	**252.6**	188.4
Interest payable and similar charges	4	**(63.8)**	(32.2)	**(116.0)**	(62.8)
Net interest income		**69.8**	63.1	**136.6**	125.6
Fee and commission income		**1.3**	1.0	**2.8**	2.2
Fee and commission expense		**(0.7)**	(0.6)	**(1.6)**	(1.3)
Net fair-value (losses)/gains on derivatives	7	**(1.0)**	–	**0.4**	0.2
Other income		**0.1**	–	**0.2**	–
Operating income		**69.5**	63.5	**138.4**	126.7
Administrative expenses		**(32.8)**	(23.1)	**(52.1)**	(46.6)
Operating profit		**36.7**	40.4	**86.3**	80.1
Impairment losses	8	**(18.9)**	(0.3)	**(30.8)**	(1.4)
Profit before taxation		**17.8**	40.1	**55.5**	78.7
Income tax	5	**(2.7)**	(5.3)	**(9.0)**	(12.6)
At end of period		**15.1**	34.8	**46.5**	66.1
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	7	**(12.1)**	1.9	**19.4**	3.1
Amounts reclassified to income statement		**(1.3)**	0.1	**(1.2)**	0.2
		(13.4)	2.0	**18.2**	3.3
Movement in the cost-of-hedging reserve:					
Effective portion of changes in fair value of derivatives		**–**	0.1	**(0.1)**	0.3
Amounts reclassified to income statement	7	**–**	–	**–**	–
		–	0.1	**(0.1)**	0.3
Other comprehensive (expense)/income for the period, net of tax		**(13.4)**	2.1	**18.1**	3.6
Total comprehensive income for the period		**1.7**	36.9	**64.6**	69.7

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

Unaudited condensed consolidated statement of financial position
As at 31 December 2022

Unless otherwise indicated, all amounts are stated in £m

	Note	**31 December 2022**	31 December 2021	30 June 2022
Assets				
Cash and cash equivalents	6	**317.5**	260.1	264.5
Derivative assets held for risk management	7	**41.5**	3.6	11.2
Loans and advances to customers	8	**5,891.9**	4,421.5	5,247.9
Other assets	9	**9.9**	10.0	7.5
Property, plant and equipment	10	**32.7**	31.2	33.3
Intangible assets	11	**8.9**	6.7	7.1
Deferred tax asset	12	**8.5**	10.9	8.8
Current tax asset		**4.6**	–	–
Total assets		**6,315.5**	4,744.0	5,580.3
Liabilities				
Derivative liabilities held for risk management	7	**0.1**	–	–
Current tax liabilities		**–**	0.1	1.7
Borrowings	13	**5,206.8**	3,700.5	4,482.8
Provisions for liabilities and charges	14	**13.6**	23.3	20.3
Other liabilities	15	**81.5**	66.1	76.9
Total liabilities		**5,302.0**	3,790.0	4,581.7
Equity				
Share capital		**9.8**	9.8	9.8
Subordinated-shareholder-funding reserve		**35.5**	37.8	36.6
Cashflow-hedging reserve		**29.2**	2.2	11.0
Cost-of-hedging reserve		**–**	(0.1)	0.1
Other reserves		**12.7**	14.8	12.7
Retained earnings		**926.3**	889.5	928.4
Total equity		**1,013.5**	954.0	998.6
Total equity and liabilities		**6,315.5**	4,744.0	5,580.3

Unaudited condensed consolidated statement of changes in equity
Six months ended 31 December 2022

Unless otherwise indicated, all amounts are stated in £m

Six months to 31 December 2022	**Called-up share capital**	**Subordinated-shareholder-funding reserve**	**Cashflow-hedging reserve**	**Cost-of-hedging reserve**	**Other reserves**	**Retained earnings**	**Total**
At beginning of period	**9.8**	**36.6**	**11.0**	**0.1**	**12.7**	**928.4**	**998.6**
Total comprehensive income	**–**	**–**	**18.2**	**(0.1)**	**–**	**46.5**	**64.6**
Dividend paid	**–**	**–**	**–**	**–**	**–**	**(49.7)**	**(49.7)**
Transfer between reserves	**–**	**(1.1)**	**–**	**–**	**–**	**1.1**	**–**
At end of period	**9.8**	**35.5**	**29.2**	**–**	**12.7**	**926.3**	**1,013.5**

Six months to 31 December 2021	Called-up share capital	Subordinated-shareholder-funding reserve	Cash flow-hedging reserve	Cost-of-hedging reserve	Other reserves	Retained earnings	Total
At beginning of period	9.8	38.7	(1.1)	(0.4)	10.6	850.1	907.7
Total comprehensive income	–	–	3.3	0.3	–	66.1	69.7
Dividend to parent	–	–	–	–	–	(27.6)	(27.6)
Transfer between reserves	–	(0.9)	–	–	–	0.9	–
Share-based payment	–	–	–	–	4.2	–	4.2
At end of period	9.8	37.8	2.2	(0.1)	14.8	889.5	954.0

Other reserves consist of the following:

	Share premium	**Merger reserve**	**Capital redemption reserve**	**Treasury share reserve**	**Share-based payment reserve**	**Total**
As at 31 December 2022	**17.5**	**(9.6)**	**1.3**	**(2.6)**	**6.1**	**12.7**
As at 31 December 2021	17.5	(9.6)	1.1	–	5.8	14.8
As at 30 June 2022	17.5	(9.6)	1.3	(2.6)	6.1	12.7

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

In the financial statements for the period ended 31 December 2021, the capital redemption reserve was stated net of a £0.2m debit reserve for treasury shares.

Unaudited condensed consolidated statement of cash flows
Six months ended 31 December 2022

Unless otherwise indicated, all amounts are stated in £m

	Note	Three months ended		Six months ended	
		31 December 2022	31 December 2021	**31 December 2022**	31 December 2021
Cash flows from operating activities					
Profit after tax		**15.1**	34.8	**46.5**	66.1
Adjustment for non-cash items included in profit after tax	17	**(22.3)**	(53.2)	**(95.3)**	(102.1)
Changes in operating assets and liabilities	17	**(252.0)**	(186.6)	**(687.8)**	(400.8)
Interest income		**133.6**	95.3	**252.6**	188.4
Income tax paid		**(4.9)**	(7.6)	**(15.0)**	(14.2)
Net cash outflow from operating activities		**(130.5)**	(117.3)	**(499.0)**	(262.6)
Cash flows from investing activities					
Cash paid on purchase of property, plant and equipment		**(0.5)**	(0.6)	**(0.9)**	(0.8)
Investment in intangible assets		**(2.0)**	(0.6)	**(3.3)**	(1.2)
Proceeds from disposal of property, plant and equipment		**0.1**	–	**0.3**	–
Net cash (outflow)/inflow from investing activities		**(2.4)**	(1.2)	**(3.9)**	(2.0)
Cash flows from financing activities					
Drawdown of loan notes		**399.1**	170.0	**939.1**	390.0
Repayment of loan notes		**(617.4)**	(63.2)	**(1,160.6)**	(485.6)
Proceeds from issuance of loan notes		**450.0**	–	**944.0**	373.3
Proceeds from issuance of Senior Secured Notes		**–**	120.0	**–**	120.0
Interest paid		**(44.3)**	(30.3)	**(104.8)**	(72.2)
Dividends paid		**(49.7)**	(27.6)	**(49.7)**	(27.6)
Purchase and cancellation of derivatives		**(10.5)**	(0.1)	**(10.5)**	(0.5)
Principal elements of lease liability payments		**(0.4)**	(0.3)	**(0.9)**	(0.6)
Interest paid on lease liabilities		**(0.3)**	(0.4)	**(0.7)**	(0.7)
Net cash inflow from financing activities		**126.5**	168.1	**555.9**	296.1
Net increase/(decrease) in cash and cash equivalents		**(6.4)**	49.6	**53.0**	31.5
Cash and cash equivalents at beginning of period		**323.9**	210.5	**264.5**	228.6
Cash and cash equivalents at end of period	6	**317.5**	260.1	**317.5**	260.1

At 31 December 2022 cash and cash equivalents include £244.6m (31 December 2021: £176.7m) of restricted cash (see Note 6).

Unaudited notes to the condensed consolidated financial statements

Unless otherwise indicated, all amounts are stated in £m

1. Reporting entity and general information

Together Financial Services Limited is incorporated and domiciled in the UK. The Company is a private company, limited by shares, and is registered in England (company number: 02939389). These financial statements are prepared for Together Financial Services Limited and its subsidiaries under the Companies Act 2006. The registered address of the Company is Lake View, Lakeside, Cheadle, Cheshire, SK8 3GW. The consolidated unaudited interim condensed consolidated 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 condensed interim financial statements have been prepared in accordance with the UK-adopted International Accounting Standard (IAS) 34 *Interim Financial Reporting*. They do not include all the information required by the International Accounting Standards 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 2022 which were prepared in accordance with UK adopted international accounting standards.

The information within this interim report relating to the year ended 30 June 2022 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report, and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

Accounting policies and judgements

The accounting policies, presentation and methods of computation are consistent with those applied by the Group in its latest audited annual financial statements.

Presentation of risk disclosures

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

Going concern

In preparing these interim financial statements, the directors have assessed the Group's ability to continue as a going concern. As part of the Group's ongoing monitoring and reforecasting, consideration has been given to the changing macroeconomic environment and outlook and specific consideration has been given to the following:

- changes in customer-repayment behaviour;
- changes in credit risk;
- potential for declining or stagnating property values;
- potential for access to wholesale-funding markets;
- changes in market rates of interest;
- changes in new mortgage-origination volumes; and
- changes to operating costs.

The Group's business model, being one which is ordinarily highly cash generative, operating in profitable market segments and lending at low average loan-to-value (LTV) ratios, provides mitigation against many downside risks. The factors listed above have an impact upon the results of the Group, to a greater or lesser degree, however are not projected to cast significant doubt on the entity's ability to continue as a going concern.

The key risks which could cause doubt as to whether the Group could continue to operate as a going concern are judged to be primarily in relation to funding and liquidity. The Group has a diverse mix of funding sources, which are structured in order to reduce the risk to the Group. Funding and liquidity risks, including reverse stress testing to identify the point at which the Group would cease to be able to operate, are discussed below.

2. Significant accounting policies (continued)

Going concern (continued)

Funding

The Group has a diverse funding base, utilising shareholder funds, private and public securitisation facilities, senior secured notes and a revolving credit facility to fund its activities and lending.

The Group has retained access to wholesale-funding markets throughout the market disruption during the past several years, which has allowed the continuation of the existing strategy of refinancing facilities in advance of their contractual maturities. This is just one example of risk factors which have been considered as part of scenario planning, but have not so far crystallised into significant adverse effects on the Group's business.

A key risk associated with wholesale funding is refinancing risk, where the Group has a proven track record of successfully refinancing borrowings. The depth of maturity in the Group's existing debt facilities provides significant mitigation in respect of refinancing risk. The earliest maturity of wholesale funding is the Highfield Asset Backed Securitisation facility (the amount drawn at the reporting date representing 4% of the Group's borrowings) in September 2025. The earliest call date on our public securitisations is the Together Asset Backed Securitisation 3 facility (representing 2% of the Group's borrowings) in September 2023.

To mitigate refinancing risk, the Group has demonstrated an ability to access the wholesale funding markets on multiple occasions during the period as shown within Note 13.

Liquidity

The Group holds liquidity in the form of cash and can also access liquidity through sales of eligible assets into our private securitisation warehouse facilities. In respect of the eligibility criteria and covenants, the Group may, in certain circumstances, seek waivers and/or amendments within the going-concern assessment period. This could include, but is not limited to, impacts on covenants as a result of a deterioration in loan-book performance due to adverse economic conditions or reductions in property values. The Group successfully negotiated waivers to certain covenants during the coronavirus pandemic, which mitigated the risk that the Group would be unable to access liquidity due to an excess of ineligible assets, and this remains a management action available if required in future periods.

In the event that waivers or amendments are required but not agreed, and existing covenants are breached (and the breach is not rectified by using headroom in other facilities or through other remedies 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 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 and potentially reduce cash inflows ordinarily flowing to the Senior Borrower Group as excess spread from each of the securitisations.

The risk of lower levels of cash inflows from redemptions can be mitigated by increasing the amount of liquid resources held as cash. Total cash balances remain at elevated levels compared with before the pandemic, at £317.5m at 31 December 2022 (31 December 2021: £260.1m, 30 June 2022: £264.5m), of which £72.9m is unrestricted cash (31 December 2021: £83.4m, 30 June 2022: £64.3m) as shown in Note 6.

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 on the following page.

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 revolving-credit facility (RCF), also include certain financial covenants including tests on gearing and minimum levels of interest cover in respect of the former and maintenance tests on gearing in respect of the latter.

To evaluate the Group's resilience in 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 could not 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 to meet its liabilities as they fall due, within the going-concern 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. The Group has periodically repeated the reverse-stress testing, which has continued to show significant headroom.

In addition, the potential impact of reductions in the level of profitability was assessed (as a proxy for a reduction in equity), 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 and the probability of such a severe outcome is 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 alternative 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 ending 21 February 2024, which is 12 months from the date of signing this report.

3. Significant accounting judgements and key sources of estimation uncertainty

In preparing these interim 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.

Significant judgements in applying the Group's accounting policies

These significant judgements are those which the directors consider to result in a significant risk of material adjustment in the carrying amounts of the Group's assets and liabilities within the next financial year.

a) Loan impairment allowance

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

- The incorporation of forward-looking information in the measurement of expected credit losses (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; and
- Determining where there is requirement for post-model adjustment and determining inputs for the calculation of ECL where there is such a requirement.

Further detail on the judgements in respect of the measurement of ECL and sensitivities thereon is set out in Note 8 to the Financial Statements.

b) Provisions and contingent liabilities

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 this can be found in Note 14 to the Financial Statements.

The following key sources of estimation uncertainty do not give rise to a significant risk of material adjustment in carrying amounts of the Group's assets and liabilities in the next financial year, but do represent significant judgement made during the period.

Unless otherwise indicated, all amounts are stated in £m

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

Key sources of estimation uncertainty

a) Loan impairment allowance
The Group utilises macroeconomic forecasts and the other assumptions and estimates necessary for the calculation of ECL. Further detail on these estimates and assumptions and sensitivities thereon is set out in Note 8 to the Financial Statements.

b) Provisions and contingent liabilities
The calculation of the Group's provisions contains significant estimation uncertainty. Further disclosures in respect of this can be found in Note 14 to the Financial Statements.

c) Interest income recognition
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.

Climate-related matters

In making the judgements and estimates required for preparation of these financial statements, the directors have had regard to the potential impacts of climate-related factors. For the current reporting period, it has been judged that no material adjustment to the judgements or methods of estimation is required to reflect the potential impacts of climate-related matters, based upon the information available at the reporting date. For further information, please refer to the Sustainability report contained in the annual report and accounts for the year ended 30 June 2022.

4. Interest payable and similar charges

	Three months ended		Six months ended	
	31 December 2022	31 December 2021	**31 December 2022**	31 December 2021
On borrowings	**64.9**	31.6	**116.7**	61.6
On lease liabilities	**0.4**	0.4	**0.7**	0.7
On derivatives in qualifying and discontinued hedging relationships	**(1.5)**	0.2	**(1.4)**	0.5
	63.8	32.2	**116.0**	62.8

Unless otherwise indicated, all amounts are stated in £m

5. Income tax

	Three months ended		Six months ended	
	31 December 2022	31 December 2021	**31 December 2022**	31 December 2021
Current tax				
Corporation tax	**2.5**	5.3	**8.7**	12.6
	2.5	5.3	**8.7**	12.6
Deferred tax				
Origination and reversal of temporary differences	**0.3**	0.1	**0.5**	0.1
Effect of changes in tax rates	**(0.1)**	(0.1)	**(0.2)**	(0.1)
	0.2	–	**0.3**	–
Total tax on profit	**2.7**	5.3	**9.0**	12.6

Corporation tax is calculated at an average of 20.50% (31 December 2021: 19.0%) of the estimated taxable profit for the year.

The differences between the Group tax charge for the year 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 December 2022	31 December 2021	**31 December 2022**	31 December 2021
Profit before tax	**17.8**	40.1	**55.5**	78.7
Tax on profit at standard UK corporation tax rate of 20.5% (31 December 2021: 19.0%)	**3.6**	7.6	**11.4**	15.0
Effects of:				
Expenses not deductible for tax purposes	**–**	0.9	**0.1**	0.8
Income not taxable	**0.2**	(1.9)	**(0.1)**	–
Group relief*	**(1.0)**	(1.2)	**(2.2)**	(3.2)
Effect of changes in tax rates	**(0.1)**	(0.1)	**(0.2)**	–
Group tax charge for year	**2.7**	5.3	**9.0**	12.6

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

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the Group's future current tax charge accordingly. The net deferred tax asset at 31 December 2022 has been calculated using these rates, to reflect the expected timing of reversal of the related temporary differences, resulting in a £0.1m (31 December 2021: £1.7m) increase in the value of the net deferred tax asset.

6. Cash and cash equivalents

	31 December 2022	31 December 2021	30 June 2022
Unrestricted cash	**72.9**	83.4	64.3
Restricted cash	**244.6**	176.7	200.2
Total cash and cash equivalents	**317.5**	260.1	264.5

Restricted cash is held in securitisation vehicles for use in managing the Group's securitisation facilities. It is ring-fenced under the terms of the securitisation agreements and is not readily available. Within restricted cash, £53.1m (31 December 2021: £44.8m, 30 June 2022: £31.8m) represents amounts that could be accessed by the Group, for example by allocating additional eligible assets into the private securitisations. The balance of restricted cash 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.

All cash and cash equivalents held by the Group are denominated in pounds sterling.

Unless otherwise indicated, all amounts are stated in £m

7. 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 of mismatches in the cash flows the securitisation vehicles may enter into interest-rate swaps (which may include floors) or purchase interest-rate caps. The notional amounts of these derivatives are 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's hedging relationships are highly effective; changes in the fair value of derivatives were largely mirrored in hedging reserves while the impact on the income statement for the six months to 31 December 2022 was limited to a gain of £0.4m (31 December 2021: £0.2m gain).

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 transaction costs or off-market interest rates 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 2022		31 December 2021		30 June 2022	
	Assets	**Liabilities**	Assets	Liabilities	Assets	Liabilities
Interest-rate swaps and floors	**41.1**	**(0.1)**	3.5	–	10.9	–
Interest-rate caps	**0.4**	**–**	0.1	–	0.3	–
Derivatives designated in cash-flow hedges	**41.5**	**(0.1)**	3.6	–	11.2	–

All derivatives mature in under five years. The average fixed interest rate on swaps is 1.86%. The average strike rate on caps is 2.50%.

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

			Debit/(credit) balance	
31 December 2022	**Carrying amount of liabilities**	**Changes in fair value for calculating hedge ineffectiveness**	**Cashflow-hedging reserve**	**Cost-of-hedging reserve**
Borrowings hedged by interest-rate swaps and floors				
Continuing hedging relationships	**880.1**	**19.2**	**(29.0)**	**–**
Discontinued hedging relationships	**–**	**–**	**–**	**–**
	880.1	**19.2**	**(29.0)**	**–**
Borrowings hedged by interest-rate caps				
Continuing hedging relationships	**16.2**	**0.1**	**(0.2)**	**–**
Total of all borrowings hedged by derivatives	**896.3**	**19.3**	**(29.2)**	**–**

			Debit/(credit) balance	
31 December 2021	Carrying amount of liabilities	Changes in fair value for calculating hedge ineffectiveness	Cashflow-hedging reserve	Cost-of-hedging reserve
Borrowings hedged by interest-rate swaps and floors				
Continuing hedging relationships	284.5	3.2	(4.0)	0.1
Discontinued hedging relationships	–	0.2	1.8	–
	284.5	3.4	(2.2)	0.1
Borrowings hedged by interest-rate caps				
Continuing hedging relationships	94.5	-	–	–
Total of all borrowings hedged by derivatives	379.0	3.4	(2.2)	0.1

7. Derivatives held for risk management (continued)

Debit/(credit) balance

Unless otherwise indicated, all amounts are stated in £m

30 June 2022	Carrying amount of liabilities	Changes in fair value for calculating hedge ineffectiveness	Cash flow-hedging reserve	Cost-of-hedging reserve
Borrowings hedged by interest-rate swaps and floors				
Continuing hedging relationships	454.6	10.1	(11.0)	–
Discontinued hedging relationships	–	1.1	–	–
	454.6	11.2	(11.0)	–
Borrowings hedged by interest-rate caps				
Continuing hedging relationships	75.7	0.1	–	(0.1)
Total of all borrowings hedged by derivatives	530.3	11.3	(11.0)	(0.1)

Details of instruments used to hedge borrowings are set out below:

		Carrying amounts			**Debit/(credit) balance**		
31 December 2022	**Notional amount**	**Derivative assets**	**Derivative liabilities**	**Net total**	**Cashflow-hedging reserve**	**Cost-of-hedging reserve**	**Fair-value (gains)/losses through income statement**
Interest-rate swaps and floors							
Borrowings	**880.1**	**41.1**	**(0.1)**	**41.0**	**(29.0)**	**–**	**(0.1)**
Discontinued hedges	–	–	–	–	–	–	–
	880.1	**41.1**	**(0.1)**	**41.0**	**(29.0)**	**–**	**(0.1)**
Interest-rate caps							
Borrowings	**16.2**	**0.4**	**–**	**0.4**	**(0.2)**	**–**	**(0.3)**
Total of all derivatives	**896.3**	**41.5**	**(0.1)**	**41.4**	**(29.2)**	**–**	**(0.4)**

		Carrying amounts			Debit/(credit) balance		
31 December 2021	Notional amount	Derivative assets	Derivative liabilities	Net total	Cashflow-hedging reserve	Cost-of-hedging reserve	Fair-value (gains)/losses through income statement
Interest-rate swaps and floors							
Borrowings	284.5	3.5	–	3.5	(4.0)	0.1	(0.2)
Discontinued hedges	–	–	–	–	1.8	–	–
	284.5	3.5	–	3.5	(2.2)	0.1	(0.2)
Interest-rate caps							
Borrowings	94.5	0.1	–	0.1	–	–	–
Total of all derivatives	379.0	3.6	–	3.6	(2.2)	0.1	(0.2)

		Carrying amounts			Debit/(credit) balance		
30 June 2022	Notional amount	Derivative assets	Derivative liabilities	Net total	Cashflow-hedging reserve	Cost-of-hedging reserve	Fair-value (gains)/losses through income statement
Interest-rate swaps and floors							
Borrowings	454.6	10.9	–	10.9	(11.0)	–	0.5
Discontinued hedges	–	–	–	–	–	–	–
	454.6	10.9	–	10.9	(11.0)	–	0.5
Interest-rate caps							
Borrowings	75.7	0.3	–	0.3	–	(0.1)	(0.2)
Total of all derivatives	530.3	11.2	–	11.2	(11.0)	(0.1)	0.3

7. Derivatives held for risk management (continued)

All interest-rate-cap balances relate to continuing hedging relationships. The following tables summarise the movements relating to hedging instruments.

Debit/(credit) balance

Unless otherwise indicated, all amounts are stated in £m

Six months ended 31 December 2022	Net derivative assets/ (liabilities)	Cashflow-hedging reserve	Cost-of-hedging reserve	Fair-value (gains)/losses through income statement
Interest-rate swaps and floors				
Balances at the beginning of the period	**10.9**	**(11.0)**	–	–
Payments on purchase of derivatives	**12.0**	–	–	–
Changes in fair value recognised in other comprehensive income	**19.2**	**(19.2)**	–	–
Hedge ineffectiveness recognised as (gains)/losses in the income statement	**0.3**	–	–	**(0.3)**
Total changes in fair value for calculating hedge ineffectiveness	**19.5**	**(19.2)**	–	**(0.3)**
Changes on settlement of interest or its reclassification to income statement	**(1.4)**	**1.2**	–	**0.2**
Balances at end of the period	**41.0**	**(29.0)**	–	**(0.1)**
Interest-rate caps				
Balances at the beginning of the period	**0.3**	–	**(0.1)**	–
Changes in fair value recognised in other comprehensive income	**0.1**	**(0.2)**	**0.1**	–
Hedge ineffectiveness recognised as (gains)/losses in the income statement	**0.3**	–	–	**(0.3)**
Total changes in fair value for calculating hedge ineffectiveness	**0.4**	**(0.2)**	**0.1**	**(0.3)**
Amounts released on cancellation of derivatives	**(0.1)**	–	–	–
Payments on discontinuance of hedging relationships	**(0.2)**	–	–	–
Balances at end of the period	**0.4**	**(0.2)**	–	**(0.3)**
Total of all derivatives				
Balances at end of the period	**41.4**	**(29.2)**	–	**(0.4)**
Balances at beginning of the period	**11.2**	**(11.0)**	**(0.1)**	–

	Debit/(credit) balance			
Six months ended 31 December 2021	Net derivative assets/ (liabilities)	Cashflow-hedging reserve	Cost-of-hedging reserve	Fair-value (gains)/losses through income statement
Interest-rate swaps and floors				
Balances at the beginning of the period	(0.6)	1.1	0.3	–
Changes in fair value recognised in other comprehensive income	3.3	(3.1)	(0.2)	–
Hedge ineffectiveness recognised as (gains)/losses in the income statement	0.2	–	–	(0.2)
Total changes in fair value for calculating hedge ineffectiveness	3.5	(3.1)	(0.2)	(0.2)
Changes on settlement of interest or its reclassification to income statement	0.2	(0.2)	–	–
Amounts released on cancellations of derivatives	0.4	–	–	–
Balances at end of the period	3.5	(2.2)	0.1	(0.2)
Interest-rate caps				
Balances at the beginning of the period	–	–	0.1	–
Changes in fair value recognised in other comprehensive income	0.1	–	(0.1)	–
Hedge ineffectiveness recognised as (gains)/losses in the income statement	–	–	–	–
Total changes in fair value for calculating hedge ineffectiveness	0.1	–	(0.1)	–
Reclassification of cost of hedging to income statement	–	–	–	–
Balances at end of the period	0.1	–	–	–
Total of all derivatives				
Balances at end of the period	3.6	(2.2)	0.1	(0.2)
Balances at beginning of the period	(0.6)	1.1	0.4	–

Unless otherwise indicated, all amounts are stated in £m

8. Loans and advances to customers

	31 December 2022			
	Stage 1	**Stage 2**	**Stage 3 and POCI**	**Total**
Gross loans and advances	**4,236.5**	**1,348.5**	**417.7**	**6,002.7**
Loss allowance	**(14.9)**	**(35.5)**	**(60.4)**	**(110.8)**
	4,221.6	**1,313.0**	**357.3**	**5,891.9**
ECL coverage (%)	**0.4**	**2.6**	**14.5**	**1.8**

	31 December 2021			
	Stage 1	Stage 2	Stage 3 and POCI	Total
Gross loans and advances	3,283.7	819.3	409.8	4,512.8
Loss allowance	(10.4)	(23.2)	(57.7)	(91.3)
	3,273.3	796.1	352.1	4,421.5
ECL coverage (%)	0.3	2.8	14.1	2.0

	30 June 2022			
	Stage 1	Stage 2	Stage 3 and POCI	Total
Gross loans and advances	3,879.0	1,042.5	412.1	5,333.6
Loss allowance	(7.1)	(27.1)	(51.5)	(85.7)
	3,871.9	1,015.4	360.6	5,247.9
ECL coverage (%)	0.2	2.6	12.5	1.6

Loans and advances to customers include total gross amounts of £4.3m (31 December 2021: £4.6m, 30 June 2022: £4.3m), equivalent to £0.3m net of allowances (31 December 2021: £0.6m, 30 June 2022: £0.3m), loaned to companies in which HN Moser is a director and shareholder. The companies concerned were Sunnywood Estates Limited, Edgworth Developments Limited and, in December 2021, August Blake Developments; further details are given in Note 18.

Group gross balances of credit impaired loans include £15.6m (31 December 2021: £14.0m, 30 June 2022: £15.8m) of purchased or originated credit impaired (POCI) loans, which are presented net of lifetime ECL impairment provisions of £1.9m (31 December 2021: £1.9m, 30 June 2022: £1.9m).

Measurement of expected credit losses (ECL)

ECL model

The Group considers whether financial assets are credit impaired at each reporting date. For these purposes, it considers default to occur, and such loans are considered to be credit impaired, in any of the following circumstances relating to a loan:

- It becomes 90 days or more past due
- Its security has been taken into possession
- The appointment of receivers
- There is evidence of fraud
- Loans which exhibit certain indicators of increased credit risk

The Group calculates its ECL using a statistical model based on probability of default (PD), loss given default (LGD) and exposure at default (EAD):

- PD is an estimate of the likelihood of default over a given time horizon, estimated at a point in time. The calculation is based on statistical models that utilise both market and internal data, based on current conditions adjusted to take into account estimates of future conditions that will impact PD and estimates for customer prepayment behaviour. For development loans, PDs are assigned using a slotting approach which comprises a range of quantitative and qualitative criteria.
- LGD is an estimate of the likely loss in the event of a default. The expected loss amounts vary according to loan-to-value (LTV) ratios and future collateral prices. The estimates are based on the Group's history of recovery rates, calculated as forced-sale discounts, and the probability of repossession given default (PPGD), discounted at the original effective interest rate of the loan for the average period for recovery of sale proceeds. The LGD calculation includes floors, ie minimum losses, which are assigned based on the LTV of the loan and the type of security, and have been developed from historical data.
- EAD is an estimate of the expected gross carrying amount at a future default date. EAD is based on the current loan amount adjusted for expected repayments of principal, contractual drawdowns of loan commitments, and the impact of missed payments which would be expected for an account in default.

ECL is calculated at an individual loan level as the product of PD, LGD and EAD, discounted to the reporting date.

8. Loans and advances to customers (continued)

Measurement of expected credit losses (ECL) (continued)

ECL model (continued)
In accordance with IFRS 9, the Group uses a three-stage model for impairment based on changes in credit quality since initial recognition:

- A financial instrument not credit-impaired on initial recognition is classified in stage 1. The loss allowance for such instruments is calculated as the portion of lifetime ECL of those default events expected to occur within 12 months of the reporting date, weighted by the probability of that default occurring.
- An instrument moves to stage 2 if there is an increase in its credit risk that is significant but not such that the instrument is considered credit impaired. The loss allowance for stage 2 instruments is calculated as the lifetime ECL. The determination of significant increases in credit risk is explained further, later in this section.
- Stage 3 instruments are credit impaired and the loss allowance calculated as the lifetime ECL.

Improvements in credit quality may result in instruments moving categorisation, from stage 3 to stage 2 where they are no longer considered credit impaired or to stage 1 where the credit risk is no longer significantly increased compared with initial recognition. Such transitions generally occur only after the completion of the following probationary periods:

- Into stage 2: 6 months of performing at stage 2 or better; and
- Into stage 1: 9 months of performing at stage 1.

The Group undertakes back-testing and validation procedures in order to assess the reasonableness of assumptions and judgements applied in calculating ECLs. The results of these procedures are considered in determining the ongoing appropriateness of key judgements and inputs, which are subject to oversight from the Audit Committee.

During the quarter, the Group has made adjustments to the model which have resulted in individually material movements to the ECL estimate, although the net impact of these is not material. The group has:

- Refined its calculation of the probability of possession given default, to more accurately reflect the likelihood of possession of collateral on stage 1 and 2 loans;
- Refined thresholds used to determine if an account has undergone a significant increase in credit risk since origination; and
- Updated the modelling of redemption rates in a rising interest rate environment, to more accurately reflect recent experience.

Incorporation of forward-looking information

Variables
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, and changes in house prices. The Group has developed a range of future economic scenarios of these variables, drawing on external forecasts where appropriate.

Scenarios
The Group calculates ECL using six scenarios, calibrated around a base case. This approach reflects high levels of economic uncertainty, which were precipitated by the coronavirus pandemic, and have continued subsequently.

The base case is weighted at 50% and each of the other five scenarios is weighted at 10%, with two upside scenarios, and three downside scenarios. During the final quarter of the year ended 30 June 2022, the Group amended the nature of its stagnation scenario to reflect a ‘stagflationary’ scenario, with low growth combined with high inflation, which is judged to be a more appropriate reflection of likely scenarios given the current macroeconomic trajectory.

Since the year ended 30 June 2022, the level of macroeconomic uncertainty has continued to increase. Owing to this, the scenarios utilised for estimating ECLs have been adjusted further, with reasonably high levels of inflation assumed in five scenarios, resulting in persistently high Bank of England base rates. The base scenario, stagflation and severe downside scenarios are ‘stagnationary’ in nature and are collectively allocated a 70% weighting. The severe downside economic scenario represents a severely stressed ‘stagflationary’ environment, with high levels of inflation resulting in persistently high interest rates, coupled with low growth, increases in unemployment to levels broadly aligned to those seen during the global financial crisis, and a severe fall in property values.

The assumed trajectories for unemployment forecasts have generally worsened, and a decline in house prices is assumed – to varying degrees – in five of the six economic scenarios. The nature of the downside scenario is most closely aligned to the experience during the global financial crisis.

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

Unless otherwise indicated, all amounts are stated in £m

8. Loans and advances to customers (continued)

Incorporation of forward-looking information (continued)

To project the economic variables for the remaining term of each instrument, it is assumed that the forecasts used in all scenarios revert to our long-term base case forecast beyond a 10-year horizon.

The section of this note on significant 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 2022, by economic indicator, until December 2026 are as follows. In addition, GDP, which is not used within our models, is included to provide context as to the nature of the scenarios:

Bank Rate	Date of peak base rate	Weighting	Mar 2023	Jun 2023	Sep 2023	Dec 2023	Dec 2024	Dec 2025	Dec 2026
Upside	Dec 23	10%	4.1	5.0	5.4	5.5	5.4	4.0	2.6
Mild upside	Dec 23	10%	4.0	4.8	5.1	5.3	4.9	3.4	2.3
Base	Jun 23	50%	4.0	4.5	4.5	4.5	4.0	3.5	3.3
Stagflation	Jun 23	10%	4.5	5.5	5.5	5.5	5.2	4.8	4.3
Downside	Dec 22	10%	3.5	3.5	3.5	3.5	2.9	1.9	1.3
Severe downside	Jun 23	10%	4.8	5.8	5.8	5.8	4.0	2.0	2.0
Weighted average			**4.1**	**4.7**	**4.8**	**4.8**	**4.2**	**3.4**	**2.9**

Unemployment rate	% peak	Weighting	Mar 2023	Jun 2023	Sep 2023	Dec 2023	Dec 2024	Dec 2025	Dec 2026
Upside	n/a*	10%	3.6	3.5	3.5	3.3	3.3	3.3	3.3
Mild upside	4.3%	10%	3.9	4.1	4.3	4.2	3.9	3.8	3.7
Base	4.7%	50%	4.0	4.3	4.6	4.7	4.2	3.9	3.8
Stagflation	6.9%	10%	4.5	5.0	5.5	5.8	6.6	6.9	6.0
Downside	7.1%	10%	4.5	5.1	5.6	6.0	6.8	7.1	6.8
Severe downside	7.5%	10%	4.6	5.2	5.8	6.2	7.2	7.5	6.7
Weighted average			**4.1**	**4.4**	**4.8**	**4.9**	**4.9**	**4.8**	**4.6**

Annual change in house-price index (%)	Start to trough % change	Weighting	Mar 2023	Jun 2023	Sep 2023	Dec 2023	Dec 2024	Dec 2025	Dec 2026
Upside	(3.9%)	10%	6.5	2.8	(1.2)	(2.8)	0.3	6.2	5.5
Mild upside	(7.0%)	10%	5.5	1.3	(3.2)	(5.2)	(1.2)	4.7	5.6
Base	(8.7%)	50%	5.0	1.0	(3.5)	(5.8)	(2.8)	2.5	3.3
Stagflation	(19.3%)	10%	2.6	(3.2)	(9.2)	(12.7)	(6.5)	(1.1)	6.0
Downside	(23.1%)	10%	1.9	(4.2)	(10.6)	(14.6)	(7.9)	(1.8)	8.2
Severe downside	(29.9%)	10%	0.8	(6.0)	(13.0)	(17.6)	(10.4)	(4.9)	8.5
Weighted average			**4.3**	**(0.4)**	**(5.5)**	**(8.2)**	**(4.0)**	**1.5**	**5.0**

Annual GDP change (annual %)**	Weighting	Mar 2023	Jun 2023	Sep 2023	Dec 2023	Dec 2024	Dec 2025	Dec 2026
Upside	10%	2.3	1.8	2.1	3.0	3.8	3.9	2.6
Mild upside	10%	2.0	1.2	1.0	1.4	3.0	3.5	2.5
Base	50%	1.7	0.4	(0.5)	(0.9)	1.5	2.7	2.2
Stagflation	10%	1.3	(0.7)	(2.3)	(3.5)	0.7	2.5	2.2
Downside	10%	1.2	(1.3)	(3.1)	(4.6)	0.2	2.3	2.1
Severe downside	10%	0.9	(2.0)	(4.4)	(6.5)	(0.6)	2.0	2.1
Weighted average		**1.6**	**0.1**	**(0.9)**	**(1.5)**	**1.4**	**2.8**	**2.2**

* Unemployment rate is forecast to decrease in all future periods in this scenario.
** Annual GDP change represents the average annual change in GDP up to the date shown.

Unless otherwise indicated, all amounts are stated in £m

8. Loans and advances to customers (continued)

Incorporation of forward-looking information (continued)

The most significant assumptions used for the ECL estimate as at 31 December 2021 by scenario until December 2025 were as follows:

Bank Rate	Weighting	Mar 2022	Jun 2022	Sep 2022	Dec 2022	Dec 2023	Dec 2024	Dec 2025
Upside	10%	0.5	0.8	1.0	1.3	2.0	2.3	2.3
Mild upside	10%	0.4	0.5	0.6	0.9	1.8	2.0	2.0
Base	50%	0.3	0.5	0.5	0.5	1.0	1.0	1.3
Stagnation	10%	0.3	0.3	0.3	0.3	0.5	0.5	0.8
Downside	10%	0.1	0.0	0.0	0.0	0.3	0.3	0.5
Severe downside	10%	0.1	0.0	(0.1)	(0.3)	(0.3)	0.0	0.0
Weighted average		**0.3**	**0.4**	**0.4**	**0.5**	**0.9**	**1.0**	**1.2**

Unemployment rate	% peak	Weighting	Mar 2022	Jun 2022	Sep 2022	Dec 2022	Dec 2023	Dec 2024	Dec 2025
Upside	n/a	10%	4.0	3.8	3.8	3.8	3.8	3.8	3.8
Mild upside	n/a	10%	4.2	4.0	3.9	3.8	3.8	3.8	3.8
Base	4.3%	50%	4.3	4.2	4.2	4.1	3.9	3.8	3.8
Stagnation	6.1%	10%	5.2	5.2	5.4	5.7	6.0	6.1	5.9
Downside	6.3%	10%	5.4	5.6	5.7	5.9	6.2	6.3	6.1
Severe downside	6.6%	10%	5.8	6.1	6.1	6.3	6.5	6.6	6.4
Weighted average			**4.6**	**4.6**	**4.6**	**4.6**	**4.6**	**4.5**	**4.5**

Annual change in house-price index (%)	Start to trough % change	Weighting	Mar 2022	Jun 2022	Sep 2022	Dec 2022	Dec 2023	Dec 2024	Dec 2025
Upside	n/a*	10%	8.1	7.5	7.5	7.8	5.1	9.5	2.6
Mild upside	n/a*	10%	6.4	5.3	4.6	4.3	2.6	6.9	2.7
Base	n/a*	50%	4.0	2.4	1.5	1.0	1.0	1.0	1.0
Stagnation	(15.2%)	10%	1.6	(1.3)	(4.2)	(6.8)	(6.5)	(2.7)	3.4
Downside	(22.1%)	10%	0.5	(2.9)	(6.3)	(9.4)	(9.1)	(5.4)	3.6
Severe downside	(33.8%)	10%	(1.3)	(5.5)	(9.9)	(13.9)	(13.9)	(10.7)	4.0
Weighted average			**3.5**	**1.5**	**(0.1)**	**(1.3)**	**(1.7)**	**0.3**	**2.1**

Annual GDP change (annual %)	Weighting	Mar 2022	Jun 2022	Sep 2022	Dec 2022	Dec 2023	Dec 2024	Dec 2025
Upside	10%	11.8	7.7	7.9	8.4	4.7	2.1	1.9
Mild upside	10%	11.5	7.1	6.9	6.9	4.1	1.9	1.8
Base	50%	11.2	6.3	5.7	5.0	2.8	1.6	1.8
Stagnation	10%	10.6	5.1	3.7	2.3	2.4	1.4	1.7
Downside	10%	10.4	4.5	2.9	1.1	2.0	1.3	1.7
Severe downside	10%	10.0	3.7	1.5	(0.8)	1.4	0.9	1.7
Weighted average		**11.0**	**6.0**	**5.1**	**4.3**	**2.9**	**1.5**	**1.8**

Annual quarterly GDP change (%)	Weighting	Mar 2022	Jun 2022	Sep 2022	Dec 2022	Dec 2023	Dec 2024	Dec 2025
Upside	10%	10.8	7.0	7.4	8.3	2.9	2.1	1.7
Mild upside	10%	9.7	5.7	5.9	6.4	2.6	1.9	1.8
Base	50%	8.4	4.0	3.9	3.6	1.9	1.6	1.8
Stagnation	10%	6.0	1.4	1.0	0.7	1.6	1.4	1.9
Downside	10%	5.0	0.3	(0.2)	(0.6)	1.5	1.3	1.9
Severe downside	10%	3.4	(1.5)	(2.2)	(2.9)	1.1	1.1	2.0
Weighted average		**7.7**	**3.3**	**3.1**	**3.0**	**1.9**	**1.6**	**1.8**

* House price index (HPI) is forecast to increase in all future periods in this scenario.

Unless otherwise indicated, all amounts are stated in £m

8. Loans and advances to customers (continued)

Incorporation of forward-looking information (continued)

The most significant assumptions used for the ECL estimate as at 30 June 2022, by economic indicator, until June 2026 are as follows. In addition, GDP, which is not used within our models, is included to provide context as to the nature of the scenarios:

Bank Rate	Weighting	Sep 2022	Dec 2022	Mar 2023	Jun 2023	Jun 2024	Jun 2025	Jun 2026
Upside	10%	1.8	2.6	3.2	3.5	3.8	3.8	3.8
Mild upside	10%	1.8	2.5	3.0	3.4	3.5	3.5	3.5
Base	50%	1.6	2.4	2.9	3.0	3.0	3.0	3.0
Stagnation	10%	1.5	1.8	2.0	2.5	2.5	2.5	3.5
Downside	10%	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Severe downside	10%	1.1	1.0	0.9	0.8	0.8	0.8	0.5
Weighted average		**1.5**	**2.1**	**2.5**	**2.6**	**2.7**	**2.7**	**2.7**

Unemployment rate	% peak	Weighting	Sep 2022	Dec 2022	Mar 2023	Jun 2023	Jun 2024	Jun 2025	Jun 2026
Upside	3.3%	10%	3.5	3.3	3.3	3.3	3.3	3.3	3.3
Mild upside	3.8%	10%	3.8	3.7	3.7	3.7	3.6	3.6	3.6
Base	3.9%	50%	3.8	3.8	3.9	3.9	3.8	3.8	3.7
Stagnation	6.7%	10%	4.4	4.6	5.0	5.3	6.3	6.7	6.5
Downside	6.9%	10%	4.4	4.7	5.1	5.4	6.5	6.9	6.7
Severe downside	7.3%	10%	4.5	4.8	5.2	5.7	6.9	7.3	7.1
Weighted average			**4.0**	**4.0**	**4.2**	**4.3**	**4.6**	**4.7**	**4.6**

Annual change in house-price index (%)	Start to trough % change	Weighting	Sep 2022	Dec 2022	Mar 2023	Jun 2023	Jun 2024	Jun 2025	Jun 2026
Upside	n/a*	10%	13.5	11.0	8.4	7.3	0.4	3.1	3.7
Mild upside	n/a*	10%	12.5	9.4	6.2	4.6	0.0	1.0	3.5
Base	n/a*	50%	9.7	5.7	2.0	0.2	0.2	0.2	2.1
Stagnation	(11.4%)	10%	9.3	4.5	(0.4)	(3.7)	(6.3)	(3.6)	3.9
Downside	(16.3%)	10%	8.6	3.4	(1.9)	(5.7)	(7.9)	(5.4)	4.0
Severe downside	(24.6%)	10%	7.4	1.5	(4.6)	(9.1)	(10.7)	(8.8)	4.3
Weighted average			**10.0**	**5.9**	**1.8**	**(0.5)**	**(2.3)**	**(1.3)**	**3.0**

Annual GDP change (annual %)**	Weighting	Sep 2022	Dec 2022	Mar 2023	Jun 2023	Jun 2024	Jun 2025	Jun 2026
Upside	10%	5.5	5.0	4.2	5.1	4.2	3.6	2.4
Mild upside	10%	5.3	4.4	3.1	3.5	3.4	3.3	2.3
Base	50%	5.1	3.7	1.7	1.4	1.8	2.4	2.0
Stagnation	10%	4.6	2.5	(0.3)	(1.4)	1.1	2.3	2.0
Downside	10%	4.4	2.0	(1.1)	(2.6)	0.6	2.1	2.0
Severe downside	10%	4.1	1.1	(2.5)	(4.7)	(0.2)	1.8	1.9
Weighted average		**4.9**	**3.4**	**1.2**	**0.7**	**1.8**	**2.5**	**2.0**

* House price index (HPI) is forecast to increase in all future periods in this scenario.
** Annual GDP change represents the average annual change in GDP up to the date shown.

Unless otherwise indicated, all amounts are stated in £m

8. Loans and advances to customers (continued)

Significant increases in credit risk, forbearance and contract modifications

The Group monitors all financial instruments that are subject to credit risk to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase then the Group measures the loss allowance based on a lifetime rather than a 12-month ECL.

The Group uses qualitative and quantitative criteria including:

- A loan becoming 30 days or more past due,
- Certain qualitative indicators, such as those used in the servicing of the loan which indicate increased credit risk,
- There is an increase in the lifetime PD of the loan since origination which is judged to be significant, and
- Loans which exhibit certain indicators of increased credit risk.

The Group offers forbearance to assist customers who are experiencing financial distress and considers an account as forborne at the time a customer in financial difficulty is granted a concession. For accounting purposes, any gains or losses arising upon granting forbearance are usually not material because losses are already included in ECLs. Subsequently, the Group may determine after a probationary period that a restructuring has significantly improved credit risk such that the asset is moved back to stage 1.

Loss allowance

The following tables analyse the movement of the loss allowance during the periods ended 31 December 2022 and 31 December 2021.

	Six months ended 31 December 2022			
Loss allowance	**Stage 1**	**Stage 2**	**Stage 3 and POCI**	**Total**
Balance at beginning of year	**(7.1)**	**(27.1)**	**(51.5)**	**(85.7)**
Transfer to a 12-month ECL	**(0.9)**	**4.5**	**–**	**3.6**
Transfer to a lifetime ECL not credit impaired	**5.7**	**(8.1)**	**0.6**	**(1.8)**
Transfer to a lifetime ECL credit impaired	**0.1**	**5.9**	**(6.5)**	**(0.5)**
Other changes in credit risk during the year	**(9.9)**	**(7.1)**	**(4.0)**	**(21.0)**
Impairment of interest income on stage 3 loans	**–**	**–**	**(5.5)**	**(5.5)**
New financial assets originated	**(3.7)**	**(1.4)**	**(1.0)**	**(6.1)**
Financial assets derecognised	**2.8**	**5.5**	**6.4**	**14.7**
Changes in models and risk parameters	**(1.9)**	**(7.7)**	**(4.9)**	**(14.5)**
Impairment losses for the year charged to income	**(7.8)**	**(8.4)**	**(14.9)**	**(31.1)**
Unwind of discount	**–**	**–**	**5.5**	**5.5**
Write-offs net of recoveries	**–**	**–**	**0.5**	**0.5**
Balance at end of year	**(14.9)**	**(35.5)**	**(60.4)**	**(110.8)**

Unless otherwise indicated, all amounts are stated in £m

8. Loans and advances to customers (continued)

Loss allowance (continued)

Loss allowance	Six months ended 31 December 2021 Stage 1	Stage 2	Stage 3 and POCI	Total
Balance at beginning of year	(4.0)	(28.7)	(71.7)	(104.4)
Transfer to a 12-month ECL	(0.5)	3.8	–	3.3
Transfer to a lifetime ECL not credit impaired	1.4	(6.4)	3.5	(1.5)
Transfer to a lifetime ECL credit impaired	0.1	9.8	(13.1)	(3.2)
Other changes in credit risk during the year	(2.5)	(5.1)	1.5	(6.1)
Impairment of interest income on stage 3 loans	–	–	(5.7)	(5.7)
New financial assets originated	(1.4)	(0.5)	(1.0)	(2.9)
Financial assets derecognised	1.7	5.5	11.0	18.2
Changes in models and risk parameters	(5.2)	(1.5)	1.3	(5.4)
Impairment losses for the year charged to income	(6.4)	5.6	(2.5)	(3.3)
Unwind of discount	–	–	5.7	5.7
Write-offs net of recoveries	–	(0.1)	10.3	10.2
Changes on refinancing of impaired loans	–	–	0.5	0.5
Balance at end of year	(10.4)	(23.2)	(57.7)	(91.3)

Changes in models and risk parameters resulted in a charge of £14.5m (31 December 2021: £5.4m). The main drivers of this change were updates to macroeconomic data.

Other changes in credit risk includes 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 £25.1m to £110.8m (30 June 2022: £85.7m). The increase in the loss allowance reflects the charge for the six months with an offset as a result of the unwind of the discounting of expected cash flows.

The key changes in the estimate for ECL are set out below.

The impact of loans transferring between stages has decreased ECL by £1.3m during the year (31 December 2021: £1.4m decrease) and other changes in credit risk have increased ECL by £21.0m (31 December 2021: £6.1m). There are a number of drivers of the combined increase of £19.7m observed in these line items, the principal ones being:

- £4.8m due to changes in the assessment of likely recovery for loans, based either on the likelihood of repossession or on changes in estimated amounts to be recovered. This includes the effect of changes in the estimated collateral values for loans.
- £8.9m due to changes in arrears status on certain loans. 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.
- £4.8m due to accounts which have entered repossession or receivership, transferring to the measurement of a lifetime-ECL credit impaired.

The impairment of interest income recognised on stage 3 loans of £5.5m (31 December 2021: £5.7m) offset the unwinding of discounting on expected cash flows of the same amount. New originations increased ECL by £6.1m (31 December 2021: £2.9m), driven by new lending undertaken during the year and the requirement to measure all loans using a forward-looking ECL. Increases in ECL were offset by releases of £14.7m (31 December 2021: £18.2m) on loans which have redeemed during the period.

Unless otherwise indicated, all amounts are stated in £m

8. Loans and advances to customers (continued)

Impairment losses for the period

	Six months ended	
	31 December 2022	31 December 2021
Movements in impairment allowance, charged to income	**31.1**	3.3
Amounts released from deferred income	**(0.1)**	(0.3)
Write-offs net of recoveries	**(0.2)**	(1.6)
Charged to the income statement	**30.8**	1.4

The following tables set out changes in the gross carrying amount of loans and advances to customers that contributed to the changes in the loss allowance:

	Six months ended 31 December 2022			
Movements in gross carrying amounts	**Stage 1**	**Stage 2**	**Stage 3 and POCI**	**Total**
Balance at beginning of year	**3,879.0**	**1,042.5**	**412.1**	**5,333.6**
Transfer to a 12-month ECL	**467.3**	**(467.3)**	**–**	**–**
Transfer to a lifetime ECL not credit impaired	**(1,006.3)**	**1,034.5**	**(28.2)**	**–**
Transfer to a lifetime ECL credit impaired	**(6.8)**	**(106.6)**	**113.4**	**–**
New financial assets originated	**1,431.8**	**13.3**	**2.9**	**1,488.0**
Financial assets derecognised including write-offs	**(528.5)**	**(167.9)**	**(82.5)**	**(778.9)**
Balance at end of year	**4,236.5**	**1,348.5**	**417.7**	**6,002.7**

	Six months ended 31 December 2021			
Movements in gross carrying amounts	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	2,541.3	1,089.9	485.1	4,116.3
Transfer to a 12-month ECL	429.3	(429.3)	–	–
Transfer to a lifetime ECL not credit impaired	(243.2)	299.6	(56.4)	–
Transfer to a lifetime ECL credit impaired	(4.3)	(99.4)	103.7	–
New financial assets originated	1,004.4	48.5	2.2	1,055.1
Financial assets derecognised including write-offs	(443.8)	(90.0)	(124.8)	(658.6)
Balance at end of year	3,283.7	819.3	409.8	4,512.8

Unless otherwise indicated, all amounts are stated in £m

8. Loans and advances to customers (continued)

Analysis of stage 2 loans

Days past due	31 December 2022 Gross exposure	31 December 2022 Impairment allowance	30 June 2022 Gross exposure	30 June 2022 Impairment allowance
> 30 days past due	**127.6**	**9.4**	69.6	4.4
< 30 days past due	**1,221.2**	**26.1**	972.9	22.7
Total	**1,348.8**	**35.5**	1,042.5	27.1

There has been an increase in total stage 2 loans since June 2022 as well as an increase in the total balance classed as stage 2 due to being 30 days in arrears.

The primary driver is increased probability of default at an account level as a result of updated macroeconomic forecasts, which reflect recent economic volatility. As a result, more accounts are identified as stage 2 when their PD at 31 December 2022 is compared to their PD when they were originated.

Significant 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 unweighted ECL when 100% probability was applied to each scenario as at 31 December 2022, 31 December 2021 and 30 June 2022.

	31 December 2022 Probability of the scenario	31 December 2022 Unweighted ECL	31 December 2021 Probability of the scenario	31 December 2021 Unweighted ECL	30 June 2022 Probability of the scenario	30 June 2022 Unweighted ECL
Upside	**10%**	**44.0**	10%	43.2	10%	35.5
Mild upside	**10%**	**55.5**	10%	49.3	10%	42.0
Base case	**50%**	**83.7**	50%	65.2	50%	60.7
Stagnation	**10%**	**151.4**	10%	119.7	10%	112.2
Downside	**10%**	**185.0**	10%	153.2	10%	148.0
Severe downside	**10%**	**254.1**	10%	221.7	10%	215.6
Weighted average		**110.8**		91.3		85.7

Utilising multiple economic scenarios reflects the non-linearity of the forward-looking ECL approach.

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

Loss given default

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 applied in each scenario (ie a 10% cut applied to the index in each forecast future period) would result in an increase in the impairment allowance of £13.6m at 31 December 2022 (30 June 2022: £14.7m); conversely, a 10% increase would result in a decrease in the impairment allowance of £8.6m at 31 December 2022 (30 June 2022: £11.3m).

Probability of default and probability of repossession given default

A 10% relative worsening of both PDs and PPGDs simultaneously (eg a 1.0% PD increasing to 1.1%) would increase the total impairment allowance by £19.9m at 31 December 2022 (30 June 2022: £6.8m). A 10% relative improvement of both PDs and PPGDs simultaneously (eg a 1.0% PD decreasing to 0.9%) would result in a decrease in the impairment allowance by £15.7m at 31 December 2021 (30 June 2022: £6.1m).

Significant 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 sensitivity below was performed by recalculating the impairment allowance by changing only the item stated, and with all other variables unchanged.

Sensitivities	Increase in allowance 31 December 2022	Increase in allowance 31 December 2021
Measure all loans in stage 1 using a lifetime ECL	**44.1**	22.3

Unless otherwise indicated, all amounts are stated in £m

9. Other assets

	31 December 2022	31 December 2021	30 June 2022
Amounts owed by related parties	**1.5**	0.7	1.3
Amounts owed by parent company	**–**	2.1	–
Other debtors	**1.9**	1.3	1.0
Prepayments and accrued income	**6.3**	5.2	5.0
Inventories	**0.1**	0.6	0.1
Investments	**0.1**	0.1	0.1
	9.9	10.0	7.5

Amounts owed by related parties of the Group are mainly in respect of companies in which HN Moser is a director and shareholder. Also included within amounts owed by related parties is £0.4m (31 December 2021: £0.3m; 30 June 2022: £0.3m) in relation to a director's loan. The loan is interest free and repayable on demand.

10. Property, plant and equipment

Six months ended 31 December 2022	Land and buildings	Fixtures, fittings and equipment	Motor vehicles	Right-of-use assets	Total
Cost					
At beginning of period	**0.5**	**10.5**	**2.6**	**35.5**	**49.1**
Additions	**–**	**0.6**	**0.5**	**–**	**1.1**
Disposals	**–**	**–**	**(0.3)**	**–**	**(0.3)**
At end of year	**0.5**	**11.1**	**2.8**	**35.5**	**49.9**
Depreciation					
At beginning of period	**–**	**5.9**	**1.0**	**8.9**	**15.8**
Charge for the period	**–**	**0.6**	**0.3**	**0.5**	**1.4**
At end of period	**–**	**6.5**	**1.3**	**9.4**	**17.2**
Net book value					
At end of period	**0.5**	**4.6**	**1.5**	**26.1**	**32.7**
At beginning of period	**0.5**	**4.6**	**1.6**	**26.6**	**33.3**

Six months ended 31 December 2021	Fixtures, fittings and equipment	Motor vehicles	Right-of-use assets	Total
Cost				
At beginning of period	8.1	1.6	35.5	45.2
Additions	0.4	0.3	–	0.7
At end of period	8.5	1.9	35.5	45.9
Depreciation				
At beginning of period	5.0	0.8	7.8	13.6
Charge for the period	0.5	0.1	0.5	1.1
At end of period	5.5	0.9	8.3	14.7
Net book value				
At end of period	3.0	1.0	27.2	31.2
At beginning of period	3.1	0.8	27.7	31.6

Unless otherwise indicated, all amounts are stated in £m

10. Property, plant and equipment (continued)

Year ended 30 June 2022	Land and buildings	Fixtures, fittings and equipment	Motor vehicles	Right-of-use assets	Total
Cost					
At beginning of year	–	8.1	1.6	35.5	45.2
Additions	–	2.4	1.1	–	3.5
Reclassification from inventories	0.5	–	–	–	0.5
Disposals	–	–	(0.1)	–	(0.1)
At end of year	0.5	10.5	2.6	35.5	49.1
Depreciation					
At beginning of year	–	5.0	0.8	7.8	13.6
Charge for the year	–	0.9	0.3	1.1	2.3
Disposals	–	–	(0.1)	–	(0.1)
At end of year	–	5.9	1.0	8.9	15.8
Net book value					
At end of year	0.5	4.6	1.6	26.6	33.3
At beginning of year	–	3.1	0.8	27.7	31.6

During the prior year, the Group reclassified certain land and buildings from other debtors to property, plant and equipment. This reclassification happened after 31 December 2021 and therefore the comparative value of land and buildings is still shown within other debtors for the period ending 31 December 2021.

11. Intangible assets

	Six months ended		Year ended
Computer software	**31 December 2022**	31 December 2021	30 June 2022
Cost			
At beginning of year	**23.1**	20.0	20.0
Additions	**3.3**	1.3	3.2
Disposals	**0.1**	–	(0.1)
At end of year	**26.5**	21.3	23.1
Amortisation			
At beginning of year	**16.0**	13.0	13.0
Charge for the year	**1.6**	1.6	3.0
At end of year	**17.6**	14.6	16.0
Net book value			
At end of year	**8.9**	6.7	7.1
At beginning of year	**7.1**	7.0	7.0

Unless otherwise indicated, all amounts are stated in £m

12. Deferred tax asset

	Six months ended		Year ended
	31 December 2022	31 December 2021	30 June 2022
At beginning of period	**8.8**	11.0	11.0
Charge to income statement	**(0.5)**	(0.1)	(1.8)
Adjustment in respect of prior years	**–**	–	(0.4)
Effect of changes in tax rates	**0.2**	–	–
At end of period	**8.5**	10.9	8.8

The deferred tax asset consisted of the following:

	31 December 2022	31 December 2021	30 June 2022
Accelerated capital allowances	**(0.5)**	(0.5)	(0.6)
Short-term timing differences	**9.0**	11.4	9.4
	8.5	10.9	8.8

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the Company's future current tax charge accordingly. The deferred tax asset at 31 December 2022 has been calculated based on these rates, reflecting the expected timing of reversal of the related temporary differences, resulting in a £0.2m (31 December 2021: £nil) increase in the value of the deferred tax asset.

13. Borrowings

	31 December 2022	31 December 2021	30 June 2022
Loan notes	**4,114.4**	2,605.4	3,391.9
Senior secured notes	**1,055.3**	1,055.6	1,055.4
Subordinated shareholder loans	**32.5**	30.3	31.4
Lease liabilities	**29.3**	29.7	29.6
	5,231.5	3,721.0	4,508.3
Debt-issue costs	**(24.7)**	(20.5)	(25.5)
Total borrowings	**5,206.8**	3,700.5	4,482.8

Of which:

Due for settlement within 12 months	**435.5**	326.3	355.5
Due for settlement after 12 months	**4,771.3**	3,374.2	4,127.3
	5,206.8	3,700.5	4,482.8

Loan notes have the following features:

Loan facility	Established	Facility type	Facility size (£m)	Maturity
Brooks ABS	2021	Amortising	50.9	Jan 2026
Charles Street ABS 2	2022	Revolving	1,251.5	Mar 2027
Delta ABS 2	2019	Revolving	400.0	Dec 2025
Highfield ABS	2018	Revolving	525.0	Sept 2025
Lakeside ABS	2015	Revolving	700.0	Apr 2026
Together ABS 3	2019	Amortising	144.7	Sep 2023
Together ABS 4	2020	Amortising	207.0	Jun 2024
Together ABS 5	2021	Amortising	238.6	Oct 2025
Together ABS 6	2022	Amortising	303.2	May 2026
Together ABS 7	2022	Amortising	450.7	Jun 2026
Together CRE1	2021	Amortising	157.4	Feb 2025
Together CRE2	2021	Amortising	192.1	Feb 2026
Together CRE3	2022	Amortising	363.8	Oct 2026
Fairway ABS	2022	Amortising	432.3	Dec 2026

In the case of the amortising facilities, the maturity date shown is the date of the option to call the facility and the facility size is shown as the amortised position at the balance sheet date. The maturity dates for revolving facilities include an amortisation period covering one year prior to the maturity date, except for Lakeside ABS which has no amortisation period.

Following its refinancing in September 2022, the maturity date on the undrawn revolving credit facility (RCF) is September 2026 with the facility size increased from £71.9m to £138.3m.

Subordinated shareholder loans were originally issued on 2 November 2016. They are interest-free loans totalling £68.1m, which comprised £25.1m due in 2026, after maturity extensions, and £43.0m due in 2036. In January 2021, the 2026 loans were extended to 2027. The difference between the nominal value and the initial fair value represents a capital contribution, and the extension of the 2026 notes resulted in a net decrease in the carrying value of the loans of £1.0m, and a corresponding modification gain through income which was then transferred to non-distributable reserves. The difference between the total nominal value of £68.1m and the initial fair values on origination or extension of £22.2m represents a cumulative non-distributable capital contribution of £47.9m, £12.4m of which has amortised by 31 December 2022 (31 December 2021: £10.1m, 30 June 2022: £11.3m). The remainder of the reserve will be amortised over the life of the instruments.

The Group has undertaken the following financing activity subsequent to the year ended 30 June 2022:

- In July 2022, the Group announced the issuance of its largest ever RMBS, Together Asset Backed Securitisation 2022 – 1st1 PLC (TABS 7), raising £494.4m.
- In September 2022, the Group refinanced its BABS facility, with an additional £24m of funding secured and the maturity date extended to March 2027.
- In December 2022, the Group launched a new facility, Fairway Asset Backed Securitisation 1 Limited (FABS), raising £467.4m.

Refer to Note 19 for more details in relation to the lease liabilities.

Debt-issue costs, which consist of the prepaid fees in relation to the RCF facility, 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.

Unless otherwise indicated, all amounts are stated in £m

13. Borrowings (continued)

Borrowings have the following maturities:

As at 31 December 2022	**<1 year**	**1-2 years**	**2-5 years**	**>5 years**	**Total**
Loan notes	**436.9**	**400.7**	**3,276.8**	**–**	**4,114.4**
Senior secured notes	**–**	**–**	**1,055.3**	**–**	**1,055.3**
Subordinated shareholder loans	**–**	**–**	**–**	**32.5**	**32.5**
Lease liabilities	**0.8**	**1.2**	**2.3**	**25.0**	**29.3**
	437.7	**401.9**	**4,334.4**	**57.5**	**5,231.5**
Debt-issue costs	**(2.2)**	**(2.2)**	**(20.3)**	**–**	**(24.7)**
	435.5	**399.7**	**4,314.1**	**57.5**	**5,206.8**

As at 31 December 2021	<1 year	1-2 years	2-5 years	>5 years	Total
Loan notes	327.5	1,222.8	1,055.1	–	2,605.4
Senior secured notes	–	–	555.6	500.0	1,055.6
Subordinated shareholder loans	–	–	–	30.3	30.3
Lease liabilities	0.8	0.9	2.2	25.8	29.7
	328.3	1,223.7	1,612.9	556.1	3,721.0
Debt-issue costs	(2.0)	(4.5)	(10.8)	(10.8)	(20.5)
	326.3	1,219.2	1,602.1	552.9	3,700.5

As at 30 June 2022	<1 year	1-2 years	2-5 years	>5 years	Total
Loan notes	365.5	469.4	2,566.0	–	3,391.9
Senior secured notes	–	–	1,055.4	–	1,055.4
Subordinated shareholder loans	–	–	–	31.4	31.4
Lease liabilities	1.0	1.0	2.2	25.4	29.6
	357.5	470.4	3,623.6	56.8	4,508.3
Debt-issue costs	(2.0)	(2.6)	(20.9)	–	(25.5)
	355.5	467.8	3,602.7	56.8	4,482.8

Unless otherwise indicated, all amounts are stated in £m

14. Provisions and contingent liabilities

Provisions

	Customer provisions	Other provisions	Total
Balance at beginning of period	**14.1**	**6.2**	**20.3**
Release for the period	**(0.6)**	**(0.5)**	**(1.1)**
Provisions utilised	**(5.0)**	**(0.6)**	**(5.6)**
Balance at end of period	**8.5**	**5.1**	**13.6**

As at 31 December 2022, the Group has recognised provisions of £13.6m (30 June 2022: £20.3m). Estimating the amount of provisions requires the exercising of significant levels of judgement, with the amounts representing the best estimate of the amount required to settle or transfer the obligation at the reporting date. It is possible that the ultimate outcome could differ from amounts currently provided.

The Group continually focuses on improving its customer processes and responding to changes in customer needs. During the year ended 30 June 2022, the regulated division continued to identify ways to improve customer experience and outcomes, including the further development of a framework aimed at ensuring consistency of customer outcomes, which seeks to build upon and enhance existing practices, policies and procedures. The framework has a particular focus on customers in arrears and those with escalating balances, and development has continued during the period.

In addition, during the year ended 30 June 2022 a process was undertaken to assess the way that customer rates, and certain charges, are set and reviewed, and consider those that have historically been charged to certain customers. This included engagement with the regulator following their thematic review in some of those areas. This exercise is now complete and actions are in the process of being implemented. As a result of the process we will take certain actions, such as the application of caps to historic interest rates, which will see redress paid to customers or reductions applied to their account balances.

The current best estimate is that the Group may incur costs of £6.9m presented within customer provisions. This represents management's best estimate at the reporting date, derived by considering potential scenarios which could impact upon live and redeemed loans and also includes £0.4m which relates to estimated operational expenditure associated with these activities.

During the period, the Group has progressed with the these matters utilising customer provisions balances as it progresses with no significant differences from the amounts provided.

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, which includes both legal claims already received but not yet concluded, and an expectation for future claims which are yet to be received, but relate to events which are judged to have already occurred, and the anticipated costs of undertaking these processes for claims which are received by the Group. An increase in the time period we are forecasting to receive claims over of 50% would result in an increase in the provision of £0.8m (50% decrease: reduction of £0.8m).

Contingent liabilities – fixed and floating charges

As at 31 December 2022, the Group's assets were subject to a fixed and floating charge in respect of £1,055m senior secured notes (31 December 2021: £1,055m).

15. Other liabilities

	31 December 2022	31 December 2021	30 June 2022
Amounts owed to related parties	**0.1**	–	0.1
Trade creditors	**1.9**	0.8	3.3
Other creditors	**1.6**	0.9	0.4
Other taxation and social security	**7.0**	1.3	2.2
Accruals and deferred income	**70.9**	63.1	70.9
	81.5	66.1	76.9

Amounts owed to related parties of the Group are in respect of companies in which HN Moser is a director and shareholder.

Unless otherwise indicated, all amounts are stated in £m

16. 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 relying on significant inputs not based on observable market data.

Financial instruments measured at fair value

The Group's derivative instruments are interest-rate swaps, caps and, in the prior year, a floor. The valuations of these instruments are level 2, being derived from generally accepted calculation models that use forecast future interest-rate curves derived from market data.

The following table analyses 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:

31 December 2022	**Level 1**	**Level 2**	**Level 3**	**Fair value**	**Carrying value**
Interest-rate risk					
Derivative assets/(liabilities) held for risk management					
Derivative assets	**–**	**41.5**	**–**	**41.5**	**41.5**
Derivative liabilities	**–**	**(0.1)**	**–**	**(0.1)**	**(0.1)**

31 December 2021	Level 1	Level 2	Level 3	Fair value	Carrying value
Derivative assets	–	3.6	–	3.6	3.6
Derivative liabilities	–	–	–	–	–

30 June 2022	Level 1	Level 2	Level 3	Fair value	Carrying value
Derivative assets	–	11.2	–	11.2	11.2
Derivative liabilities	–	–	–	–	–

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.

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 2022	**Level 1**	**Level 2**	**Level 3**	**Fair value**	**Carrying value**
Financial assets					
Loans and advances to customers	**–**	**–**	**5,828.7**	**5,828.7**	**5,891.8**
Financial liabilities					
Borrowings	**886.3**	**2,409.5**	**1,752.5**	**5,048.3**	**5,206.8**

31 December 2021	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets					
Loans and advances to customers	–	–	4,515.5	4,515.5	4,421.5
Financial liabilities					
Borrowings	1,070.7	1,349.4	1,318.9	3,739.0	3,700.4

Unless otherwise indicated, all amounts are stated in £m

16. Financial instruments and fair values (continued)

Financial instruments not measured at fair value (continued)

30 June 2022	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets					
Loans and advances to customers	–	–	5,206.0	5,206.0	5,247.9
Financial liabilities					
Borrowings	930.3	1,852.5	1,590.0	4,372.8	4,482.8

The fair value of loans and advances to customers is based on future interest cash flows (at current customer 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.

For borrowings, the fair value of senior secured notes is considered to be level 1, reflecting quoted prices. The fair value is lower than the carrying value as the notes are trading at a discount to their par value as at 31 December 2022.

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 observable inputs only when they are issued or refinanced. These notes are classified as level 3 with publicly issued residential mortgage-backed securities classified as level 2.

Subordinated shareholder loans and lease liabilities are also classified as level 3. Market prices are not available for these loans and so fair value has been estimated by discounting the related expected future cash flows. As market rates are not observable for these loans, management has derived discount rates by reference to other arm’s length transactions with investors, making allowance for the tenor and seniority of the loans.

Unless otherwise indicated, all amounts are stated in £m

17. Notes to the cash flow statement

	Three months ended		Six months ended	
	31 December 2022	31 December 2021	**31 December 2022**	31 December 2021
Adjustments for non-cash items in profit after tax:				
Net interest income	**(69.8)**	(63.1)	**(136.6)**	(125.6)
Changes in expected credit losses charged to income statement	**43.0**	1.7	**31.1**	3.3
Taxation	**2.7**	5.3	**9.0**	12.6
Provisions for liabilities and charges	**(0.6)**	(2.6)	**(1.1)**	0.9
Depreciation and amortisation	**1.5**	1.3	**3.0**	2.7
Net losses/(gains) on financial instruments	**1.0**	–	**(0.4)**	(0.2)
Share-based payment	–	4.2	–	4.2
Gains on disposal of fixed assets	**(0.1)**	–	(0.3)	–
	(22.3)	(53.2)	**(95.3)**	(102.1)
Changes in operating assets and liabilities				
Increase in loans and advances to customers	**(250.0)**	(195.4)	**(675.1)**	(412.9)
Decrease/(increase) in other assets	**4.0**	(4.1)	**(2.4)**	(3.7)
(Decrease)/increase in other liabilities	**(6.0)**	12.9	**(10.3)**	15.8
	(252.0)	(186.6)	**(687.8)**	(400.8)

18. 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 owned and controlled by HN Moser, a director of Together Financial Services Limited.

Besides the companies owned by Redhill Famco Limited, other entities owned by HN Moser are deemed to be related parties and during the year 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 property.
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 also performs underwriting, collection and arrears-management activities for the company. The Group also manages accounts payable on behalf of the company and provides ancillary accounting and treasury services for which it receives a fee.
Sterling Property Co. Limited	Sterling Property Co. Limited provides property management services for properties repossessed or placed into LPA receivership by the Group. These services solely relate to properties repossessed prior to the current year. The Group also pays Sterling Property Co. Limited for the rental of additional office space.
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.
August Blake Developments Limited	The Group manages accounts payable on behalf of August Blake Developments Limited.

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

18. Related party transactions (continued)

Relationships (continued)

b) Parent companies

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

Unless otherwise indicated, all amounts are stated in £m

Entity	Nature of transactions
Bracken Midco2 Limited	In November 2016 the Company received subordinated funding from Bracken Midco2 Limited. The subordinated loans are interest-free and for fixed terms, as set out in note 13. The difference between the loans' maturity amounts and their fair values represents a capital contribution to the Group which is being amortised through income over the life of each loan. The Group pays dividends to its parent company Bracken Midco2 Limited.

c) Subsidiaries

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

d) Key management personnel

Key management personnel comprise directors of the Group. There are no transactions with directors other than the director's loan disclosed in Note 9 and remuneration in the ordinary course of business.

Transactions

The amounts receivable from and payable to related parties by the Group are disclosed in Notes 9 and 15 to the financial statements. The Group had the following transactions with related parties during the period:

	Six months ended			
	31 December 2022		31 December 2021	
Group	**Charge/ (credit) to income or equity**	**Paid**	Charge/ (credit) to income or equity	Paid/(received)
Lease and insurance costs	**1.1**	**1.1**	1.6	1.6
Accounts payable transactions	**–**	**0.4**	–	0.2
Impairment of related party loans	**–**	**–**	(0.1)	–
Net settlement of related party balances	**–**	**0.3**	–	1.5
Related parties of HN Moser	**1.1**	**1.8**	1.5	3.3
Interest expense	**1.1**	**–**	0.9	–
Dividends paid	**49.7**	**49.7**	27.6	27.6
Parent companies	**50.8**	**49.7**	28.1	27.6
Total related parties	**51.9**	**51.5**	30.0	30.9

The Group has declared and paid interim dividends of £49.7m as at 31 December 2022 (31 December 2021: £27.6m).

19. Leases

The table below sets out the amounts recognised in the income statement in respect of the Group's and Company's right-of-use assets and lease liabilities during the six months ended 31 December 2022 and 31 December 2021:

Three months ended 31 December 2022	**Administrative expenses £m**	**Interest expense £m**	**Total £m**
Depreciation expense of right-of-use assets	**0.2**	**–**	**0.2**
Interest expense on lease liabilities	**–**	**0.4**	**0.4**
Total recognised in the income statement	**0.2**	**0.4**	**0.6**

Three months ended 31 December 2021	Administrative expenses £m	Interest expense £m	Total £m
Depreciation expense of right-of-use assets	0.2	–	0.2
Interest expense on lease liabilities	–	0.4	0.4
Total recognised in the income statement	0.2	0.4	0.6

Six months ended 31 December 2022	**Administrative expenses £m**	**Interest expense £m**	**Total £m**
Depreciation expense of right-of-use assets	**0.5**	**–**	**0.5**
Interest expense on lease liabilities	**–**	**0.7**	**0.7**
Total recognised in the income statement	**0.5**	**0.7**	**1.2**

Six months ended 31 December 2021	Administrative expenses £m	Interest expense £m	Total £m
Depreciation expense of right-of-use assets	0.5	–	0.5
Interest expense on lease liabilities	–	0.7	0.7
Total recognised in the income statement	0.5	0.7	1.2

The table below sets out the movements in the carrying amounts of the Group's right-of-use assets and lease liabilities during the period.

	31 December 2022		31 December 2021	
	Right-of-use assets – leasehold property £m	**Lease liabilities £m**	Right-of-use assets – leasehold property £m	Lease liabilities £m
As at beginning of year	**26.6**	**(29.6)**	27.7	(29.9)
Additions	**–**	**(0.6)**	–	(0.4)
Depreciation expense	**(0.5)**	**–**	(0.5)	–
Interest expense on lease liabilities	**–**	**(0.7)**	–	(0.7)
Payments	**–**	**1.6**	–	1.3
As at end of year	**26.1**	**(29.3)**	27.2	(29.7)

The analysis of lease liabilities includes hire-purchase obligations for motor vehicles. The Group had total cash outflows for leases of £1.6m during the period (31 December 2021: £1.3m).

20. Commitments

The Group has commitments to extend credit which are not recorded on the balance sheet. This includes both the undrawn element of existing facilities and new commitments to lend.

At 31 December 2022, the Group had undrawn commitments to lend of £246.4m (31 December 2021: £164.9m). These relate mostly to lines of credit granted to existing customers for property development. The amounts do not represent the amounts at risk at the reporting date but the amounts that would be at risk should the facilities be fully drawn upon and should the customer default.

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 immaterial at both 31 December 2022 and 31 December 2021 and is classified within other liabilities.

21. Events after the reporting date

There are no events after the reporting date to disclose.