Together Financial Services Limited
Q2 2023/24 Results

Company Registration No. 02939389

Contents

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, 2023.

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

"Together achieved another strong set of results in the quarter to 31 December, reflecting the sustainability of our business model and the commitment and dedication of our team.

"The loan book grew to £6.8bn with LTVs remaining very prudent, as we maintained a controlled growth in lending at attractive margins and delivered increased net interest income, profit before tax and cash receipts. We also continued to diversify our funding, raising or refinancing over £1.1bn of facilities and achieving a rating upgrade to 'BB' from Fitch during the quarter.

"Looking ahead, while inflation has continued to fall, GDP growth is forecast to remain subdued and interest rates look likely to remain higher for longer. Despite the prevailing economic uncertainties, as we enter our 50th year in business we remain cautiously optimistic about the future and will continue to help our customers realise their ambitions and play our part in supporting the UK economy."

Performance highlights: quarter ended December 31, 2023

- Robust loan book growth at conservative LTVs
  - Average monthly lending of £233.0m, up 9.7% on Q2'23 (£212.5m), up 4.1% on Q1'24 (£223.5m)
    - Conservative weighted average origination LTVs of 57.4% (Q2'23: 60.8%; Q1'24: 58.6%)
  - Group net loan book increased to £6.8bn, up 15.3% on Q2'23 (£5.9bn) and up 2.7% on Q1'24 (£6.6bn)
    - Weighted average indexed LTV remains very low at 55.7% (Q2'23: 53.4%; Q1'24: 56.2%)
    - Impairment coverage of 1.8%, in line with 1.8% in the comparable quarter Q1'24 (Q2'23: 1.8%)

- Strong and sustainable financial performance
  - Interest receivable and similar income of £189.6m, up 41.9% on Q2'23 (£133.6m) and up 3.7% on Q1'24 (£182.9m)
  - Underlying net interest margin of 5.5% (Q2'23: 4.8%; Q1'24: 5.5%), consistent with previous quarter reflecting a prudent pricing approach
  - Annualised cost of risk of 0.7% (Q2'23: 1.3%; Q1'24: 0.8%), a decrease from the prior year when market uncertainly led to an increase in ECL, which has since abated in both Q2'24 and Q1'24
  - Group remains highly profitable and cash generative
    - Underlying profit before tax of £47.7m, up 84.8% on Q2'23 (£25.8m) and up 0.8% on Q1'24 (£47.3m)
    - Cash receipts of £703.6m (Q2'23: £559.9m; Q1'24: £653.8m) as redemptions remained strong

Highlights (continued)

Key metrics	Q2 2024	Q2 2023	Q1 2024
Interest receivable and similar income (£m)	189.6	133.6	182.9
Underlying interest cover ratio[1]	1.5:1	1.4:1	1.5.1
Interest cover ratio	1.5:1	1.3:1	1.5.1
Underlying net interest margin[2] (%)	5.5	4.8	5.5
Net interest margin (%)	5.5	4.8	5.5
Underlying cost-to-income ratio[1] (%)	31.8	35.7	31.6
Cost-to-income ratio (%)	31.8	47.2	31.6
Underlying cost-to-asset ratio (%)	1.6	1.6	1.6
Cost-to-asset ratio (%)	1.6	2.2	1.6
Cost of risk (%)	0.7	1.3	0.8
Underlying profit before taxation[1] (£m)	47.7	25.8	47.3
Profit before taxation (£m)	47.7	17.8	47.3
Underlying EBITDA[1]	147.1	91.0	142.8
Loans and advances to customers[4] (£m)	6,794.9	5,891.9	6,610.2
Net debt gearing (%)	83.1	82.3	83.0
Shareholder funds[3] (£m)	1,099.3	1,046.0	1,133.7
Underlying return on equity[1] (%)	13.3	8.3	13.0
Return on equity (%)	13.3	5.8	13.0

- **Supporting our customers and shaping our business for the future**
  - Achieved CCA Global Accreditation for excellence in customer service and launched new retention product to support existing customers
  - Introduced 'One Together' approach, combining divisional management teams to enhance efficiency, increase loan originations and deliver market leading customer outcomes
  - Group Operations team evolved to support core activities, operational excellence through service modernisation and business transformation programme
  - Ring-fenced transformation team formed, governance established and investment programme approved to deliver modern, adaptable platform and transform end-to-end customer journeys to future proof business
  - Recruited David Broadbent as CEO of Personal Finance with effect from 4th Mar '24, subject to regulatory approval, following Pete Ball's resignation. A formal handover will commence upon David's arrival
  - As announced earlier this month, Gerald Grimes (CEO designate) is stepping down in the spring to pursue personal ambitions. A process has therefore commenced for an appointment which will also provide for executive succession planning for our founder and CEO Henry Moser. In the meantime, Gary Beckett (Group MD and Chief Treasury Officer) will take over Gerald's responsibilities

1 There are no exceptional items during the current quarter. (Q2'23 Exceptional items consisted of an £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. Q1'24 had no exceptional costs).
2 There are no exceptional items impacting upon net interest income recorded in the current or comparable prior periods.
3 Includes subordinated shareholder loans of £34.8m (Q2'23: £32.5m, Q1'24: 34.3m)
4 Net loan book is the net of gross loans and advances to customers and impairment allowances

Highlights (continued)

Supporting our customers and shaping our business for the future (continued)

- Pete Ball and Gerald Grimes leave with our gratitude for their significant contributions and our best wishes for the future
- Maintained funding momentum to support growth plans
  - Nov '23: Issued £380.4m CRE4 small balance commercial real estate MBS
  - Dec '23: Upsized HABS warehouse facility by £200m to £725m and maturity extended to Dec '27
  - Jan '24: Issued first RMBS of 2024, the £302m second charge TABS10
- Oct '23: Fitch upgraded credit rating of Together to 'BB' with a stable outlook, from 'BB-' previously, rating of Together's Senior Secured Notes to 'BB', from 'BB-' previously, and rating of Bracken Midco1 Plc's PIK Toggle Notes to 'B+', from 'B' previously

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, 2023, 61.3% 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, 2023, 21.5% of our loan portfolio was classified as retail purpose and 78.5% as commercial purpose (which included 29.2% of buy to let + and 4.2% 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 period as we continued to control new originations in response to our operating environment. Average monthly originations of £233.0m during the quarter reflect our attitude to risk and an underwriting approach that is continually monitored and adjusted to reflect the prevailing macroeconomic environment. These originations resulted in the loan book reaching a new high of £6.8bn at December 31, 2023.

The LTVs of our loan portfolio on a weighted average indexed basis as of December 31, 2023, was 55.7% and the LTV on a weighted-average basis of new loans underwritten in the quarter ended December 31, 2023 was 57.4%. As of December 31, 2023, 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 three months ended December 31, 2023 with comparatives to December 31, 2022 and September 30, 2023. 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 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"), Together Asset Backed Securitisation 2023-CRE1 plc ("Together ABS CRE 4" or "CRE 4"), 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" or "TABS 7"), Together Asset Backed Securitisation 2023 – 1ST1 PLC RMBS ("Together ABS 8" or "TABS 8"), Together Asset Backed Securitisation 2023 – 1ST2 PLC RMBS ("Together ABS 9" or "TABS 9"), 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 annual statutory 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 4, Together ABS CRE 1, Together ABS CRE 2, Together ABS CRE 3, Together ABS CRE 4, Brooks ABS, Together ABS 5, Together ABS 6, Together ABS 7, Together ABS 8, Together ABS 9 and Fairway ABS 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 4, Together ABS CRE 1, Together ABS CRE 2, Together ABS CRE 3, Together ABS CRE 4, Brooks ABS, Together ABS 5, Together ABS 6, Together ABS 7, Together ABS 8, Together ABS 9 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 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, 2022 and 2023, and for the quarter ended September 30, 2023 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 and "Underlying cost-to-income ratio" exclude the effects of certain non-recurring items.

Presentation of financial and other information (continued)

Other information (Non-IFRS) (continued)

For the quarter ended December 31, 2023 there were no exceptional costs effecting any key performance measures. Q2‘23 excluded non-recurring items that consisted of a £0.4m release of costs accrued in a previous period, relating to the Group‘s strategic options review and a one-off £8.4m discretionary bonus, whilst Q4‘23 there were also no exceptional costs effecting any key performance measures.

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[6]).

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[7]) 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[6]), 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[6]) 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.

6 There are no exceptional items during the current quarter. (Q2‘23 Exceptional items consisted of an £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. Q1‘24 had no exceptional costs).
7 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 annual 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 wider 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.

Terms relating to our loan analysis (continued)

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 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 annual 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)	**2023**	**2022**	**2023**
Group			
Interest receivable and similar income	189.6	133.6	182.9
Fee and commission income	2.1	1.1	1.6
Income	191.7	134.8	184.5
Net interest margin	5.5%	4.8%	5.5%
Underlying net interest margin**	5.5%	4.8%	5.5%
Cost-to-income	31.8%	47.2%	31.6%
Underlying cost-to-income*	31.8%	35.7%	31.6%
Cost-to-asset	1.6%	2.2%	1.6%
Underlying cost-to-asset*	1.6%	1.7%	1.6%
Impairment charge	12.2	18.9	12.4
EBITDA	147.1	83.0	142.8
Underlying EBITDA*	147.1	91.0	142.8
EBITDA margin	76.8%	61.6%	77.4%
Underlying EBITDA margin*	76.8%	67.6%	77.4%
Profit on ordinary activities before tax	47.7	17.8	47.3
Underlying profit on ordinary activities before tax*	47.7	25.8	47.3
Return on equity	13.3%	5.8%	13.0%
Underlying return on equity*	13.3%	11.1%	13.0%
Supplemental cash flow information:			
Cash receipts	703.6	559.9	653.8
New advances	699.0	637.4	670.5
LTV of loan originations (on a weighted average basis, based on LTV of loans at origination)	57.4%	60.8%	58.6%
LTV of loan portfolio (on a weighted average indexed basis)	55.7%	53.4%	56.2%

* There are no exceptional items during the current quarter. (Q2‘23 Exceptional items consisted of an £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. Q1‘24 had no exceptional costs).

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

The key performance indicators above for the quarter ended December 31, 2023 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, 2023.

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, 2023 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, 2023, and December 31, 2022 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, 2023	**December 31, 2022**	**December 31, 2023**	**December 31, 2022**
Nil Arrears & Arrears ≤ 1 month	**88.4%**	**90.4%**	**63.5%**	**71.5%**
Performing Arrears				
1-3 months	3.0%	1.7%	4.6%	1.5%
3-6 months	0.2%	0.2%	0.1%	0.1%
>6 months	0.2%	0.3%	0.2%	0.4%
Total Performing Arrears	**3.4%**	**2.2%**	**4.9%**	**2.0%**
Development loans	**4.2%**	**4.4%**	**19.8%**	**17.8%**
Total performing Loans & Development Loans	**96.0%**	**97.0%**	**88.2%**	**91.3%**
Non-Performing Arrears				
3-6 months	0.8%	0.4%	1.6%	0.5%
>6 months	0.9%	0.9%	2.2%	2.4%
Past due[1]	0.4%	0.4%	1.1%	0.9%
Total Non-Performing Arrears	**2.1%**	**1.7%**	**4.9%**	**3.8%**
Repossessions & LPA Sales	**1.9%**	**1.3%**	**6.9%**	**4.9%**
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, 2023, 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%	3,476.6	96.8	122.1	106.9	3,802.4
>60% <=80%	2,670.9	41.4	104.2	27.5	2,844.0
>80% <=100%	60.1	1.4	54.4	2.1	118.0
>100%	23.4	0.1	4.9	2.5	30.9
Total	**6,231.0**	**139.7**	**285.6**	**139.0**	**6,795.3**

Borrower Group Loan Portfolio Indexed LTV Analysis (£m)	Performing Loans	Non - Performing Loans	Development Loans	Repossessions & LPA Sales	Total Loan Portfolio
<=60%	500.7	48.2	122.0	85.2	756.1
>60% <=80%	416.4	20.7	104.2	10.3	551.6
>80% <=100%	49.6	1.1	54.4	1.8	106.9
>100%	18.9	0.1	4.9	2.5	26.4
Total	**985.6**	**70.1**	**285.5**	**99.8**	**1,441.0**

Group Loan Portfolio Origination LTV Analysis (£m)	Performing Loans	Non - Performing Loans	Development Loans	Repossessions & LPA Sales	Total Loan Portfolio
<=60%	2,749.5	64.5	172.8	60.5	3,047.3
>60%<=80%	3,372.4	67.7	105.3	60.1	3,605.5
>80%<=100%	70.8	5.0	3.1	17.5	96.4
>100%	38.3	2.5	4.4	0.9	46.1
Total	**6,231.0**	**139.7**	**285.6**	**139.0**	**6,795.3**

Borrower Group Loan Portfolio Origination LTV Analysis (£m)	Performing Loans	Non - Performing Loans	Development Loans	Repossessions & LPA Sales	Total Loan Portfolio
<=60%	434.6	32.6	172.8	53.8	693.8
>60%<=80%	459.7	30.3	105.2	28.0	623.2
>80%<=100%	56.9	4.8	3.1	17.1	81.9
>100%	34.4	2.4	4.4	0.9	42.1
Total	**985.6**	**70.1**	**285.5**	**99.8**	**1,441.0**

The indexed weighted-average LTV of the loan portfolio for the total Group at December 31, 2023 is 55.7% compared with the prior year comparable quarter of 53.4% (December 31, 2022) and prior quarter of 56.2% (September 30, 2023)

The indexed weighted-average LTV of the loan portfolio for the Borrower Group at December 31, 2023 is 57.9% compared with the prior year comparable quarter of 58.6% (December 31, 2022) and prior quarter of 58.6% (September 30, 2023).

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, 2023, 21.5% of our loan portfolio was classified as retail purpose and 78.5% as commercial purpose (which included 29.2% of buy to let + and 4.2% of development loans), calculated by value. At December 31, 2022, 23.6% of our loan portfolio was classified as retail purpose, 76.4% of our loan portfolio was classified as commercial purpose (which included 29.5% of but to let + and 4.2% of development loans).

The proportion of our loan portfolio secured by residential security by value has reduced slightly to 61.3% as at December 31, 2023 when compared with 62.8% at December 31, 2022.

The proportion of our loan portfolio secured on first charges has increased to 83.8% as at December 31, 2023, when compared with 82.6% as at December 31, 2022.

Controlled origination growth

In the quarter to December 31, 2023, including further advances, we have originated an average of £233.0m per month, an increase compared with £212.5m per month in the quarter to December 31, 2022 and an increase from £223.5m per month in the immediately preceding quarter to September 30, 2023. This generally reflects our ongoing controlled approach to originations that is underpinned by underwriting that is continually monitored and adjusted to reflect the prevailing macroeconomic environment.

Our loans and advances to customers stands at £6,794.9m as at December 31, 2023, compared with £5,891.8m as at December 31, 2022 and £6,610.2m as at September 30, 2023.

Financial review

Interest receivable and similar income grew by 41.9% to £189.6m for the quarter to December 31, 2023 compared with £133.6m in the quarter to December 31, 2022, and up 3.7% when compared with £182.9m for the quarter ended September 30, 2023. This reflects the growth in the loan book and our policy of passing on movements in our funding costs to new and existing loans where applicable.

Interest payable and similar charges have increased by 53.4% to £97.8m for the quarter to December 31, 2023 compared with £63.8m in the quarter to December 31, 2022 and up 4.1% when compared with £93.9m in the quarter to September 30, 2023. This is primarily driven by the substantially higher interest rate environment when compared to the prior year, which increases reference rates on our variable funding facilities, and by increased borrowing, in support of the growth in the Group‘s loan book.

Net interest income has increased by 31.4% to £91.8m for the period ending December 31, 2023 when compared with £69.8m for the period ended December 31, 2022 and up 3.2% from £88.9m for the quarter ended September 30, 2023, reflecting the factors noted above.

There has been an increase in net interest margin from 4.8% in the prior year comparable quarter to December 31, 2022 to 5.5% in the quarter to December 31, 2023, which is consistent with the prior quarter at 5.5% in September 30, 2023, when calculated using our stated methodology. There is a natural time lag in our pass-on of movements in our funding costs owing to notice periods in our mortgage loan agreements that initially reduced our net interest margin before recovering as the pass-on of movements in our funding costs caught up with central bank interest rate rises.

The cost-to-income ratio for the quarter to December 31, 2023 was 31.8%, lower than the prior year comparable quarter of 47.2% (December 31, 2022) and broadly consistent with the prior quarter of 31.6% (September 30, 2023). In addition to the factors already noted above with regards to movements in interest receivable and similar income, administrative expenses and net operating income remained relatively stable compared to the prior quarter.

The cost-to-asset ratio for the quarter was 1.6% which is lower than the prior year comparable quarter of 2.2% (December 31, 2022) and in line with the prior quarter of 1.6% (September 30, 2023) with the movement explained by the factors listed above.

Expected credit loss impairment charges for the quarter to December 31, 2023 were £12.2m, a £6.7m decrease on the prior year comparable quarter ended December 31, 2022 of £18.9m and a slight decrease again of £0.2m to the prior quarter ended September 30, 2023 of £12.4m. The movement between the periods reflects the impact of maintaining prudent coverage impairment levels on a growing loan book.

As a result, cost of risk for the quarter has decreased to 0.7% from 1.3% in the prior year comparable quarter to December 31, 2022 and from 0.8% in the prior quarter to September 30, 2023.

The impairment coverage ratio was 1.8% as at December 31, 2023, consistent with the prior year comparable quarter (December 31, 2022) of 1.8% and the prior quarter (September 30, 2023) of 1.8%.

Underlying EBITDA[8] was £147.1m for the quarter to December 31, 2023 up 61.6% compared with £91.0m in the prior year comparable quarter to December 31, 2022 and down 3.0% compared with £142.8m in the prior quarter to September 30, 2023. The increase is based on factors detailed above

Underlying EBITDA margin was 76.8% for the quarter ended December 31, 2023 compared with 67.6% in the prior year comparable quarter ended December 31, 2022 and 77.4% in the prior quarter ended September 30, 2023.

Underlying profit before tax[6] increased by 84.8% to £47.7m when compared with £25.8m in the prior year comparable quarter ended December 31, 2022, and increased by 0.8% when compared with £47.3m in the prior quarter ended September 30, 2023, primarily due to increased size of the loan book between quarters along with the increased impairment charges and staff costs in the prior year comparable quarter.

The Group‘s highly cash generative business model proved robust, with cash receipts of £703.6m for the quarter to December 31, 2023 supported by strong levels of redemptions, compared with £559.9m in the prior year comparable quarter to December 31, 2022 and £653.8m in the prior quarter to September 30, 2023.

Net loans and advances to customers have increased by 15.3% to £6,794.9m compared with £5,891.8m as at December 31, 2022 and by 2.8% compared with £6,610.2m as at September 30, 2023.

6 There are no exceptional items during the current quarter. (Q2‘23 Exceptional items consisted of an £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. Q1‘24 had no exceptional costs).

Financial review (continued)

Shareholder funds have increased by 5.1% to £1,099.3m compared with £1,046.0m at December 31, 2022 and a decrease of 3.0% compared to £1,133.7m at September 30, 2023, reflecting retained profits of £36.7m reinvested in the business offset by both £32.8m of dividends during the quarter and a £38.7m cash flow-hedging reserve decrease. This cash flow-hedging reserve arose as a result of movements in the valuation of derivatives held for interest rate hedging purposes, caused by changes in market interest rate expectations and which are expected to unwind over time.

Recent developments

Trading update

Monthly cash receipts of principal and interest in January 2024 were £216.1m, compared to a monthly average of £234.5m for the 3 month period to December 31, 2023. Facility Headroom was £1.6bn at January 31, 2024 (December 31, 2023: £1.4bn; December 31, 2022: £1.3bn) and total accessible liquidity was £309.1m at January 31, 2024 (December 31 2023: £326.1m; December 31, 2022: £344.1m).

New originations

Monthly mortgage originations in January 2024 were £223.4m – seasonally lower than the monthly average of £233.0m for the 3 month period to December 31, 2023.

Funding

On January 19, 2024, Together successfully completed TABS 10, the £302m second charge-only residential, mortgage backed securitization.

Directorate changes

On January 11, 2024, the company announced the appointment of David Broadbent as CEO of its subsidiary, Together Personal Finance Limited. David will join the Company on March 4, 2024 and subject to regulatory approval, will replace Pete Ball who is leaving Together Personal Finance in spring 2024 after seven years with the Company. A formal handover process will commence on David's arrival.

As announced on February 2, 2024, Gerald Grimes decided to step down from his role as CEO Designate of Together to pursue other personal ambitions. A process has therefore commenced for an appointment which will also provide for executive succession planning for our founder and CEO Henry Moser. In the meantime Gary Beckett (Group MD and Chief Treasury Officer) will take over Gerald's responsibilities.

Both Pete Ball and Gerald Grimes leave with our gratitude for their significant contributions and with our best wishes for the future.

Significant factors which may affect results of operations

Economic environment

The UK economy has seen some improvement in recent months, with a lower rate of inflation, resilience in house prices, and lowering forecasts for the Bank Rate. However, growth in the economy is forecast to remain low, with a continued risk of macroeconomic pressure from ongoing geopolitical uncertainty.

UK GDP is estimated by the ONS to have fallen by 0.3% in the three months to December 2023 when compared with the previous quarter. The Bank of England has forecast that GDP growth will be marginally positive throughout 2024, which remains below historical averages. Unemployment increased across 2023, reaching a peak of 4.3% in the latest figures from the ONS, although remains low in a historical context.

There have however been some improvements to the economy with annual inflation at 4.0% in January, down from a peak of 11.1% in October 2022, but still above the Bank of England's target of 2%. These lower inflation rates are expected to contribute towards rises in real wages which could lead to improving real household disposable incomes, although offset by higher borrowing costs with the Base Rate currently being maintained at 5.25%. Market expectations are that this is the peak of the Bank Rate in the current economic cycle, with reductions in this rate being a possibility in 2024.

The increase in mortgage rates in the market over 2023 has had an impact on mortgage affordability and has contributed towards falls in UK house prices over the period. However, there has been some resilience in the market in the final months of 2023, with the Halifax reporting monthly house price increases of 1.1% in December, although some commentators are still forecasting this trend to reverse over the course of 2024 with further falls.

The Group continues to lend on property or land within the UK at prudent average LTVs along with assessments on affordability and repayment, which limits any impact of potentially falling house prices.

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.

Whilst house price inflation turned negative for the first time in more than 11 years, there was a small reversal in this trend over the last few months of the calendar year. The expectation by certain market forecasters however is that house price inflation will potentially continue to be marginally negative over the course of 2024 overall.

The Group lends at prudent LTVs at origination to provide protection from falls in property prices. Average origination LTV was 57.4% for the quarter to December 31, 2023 compared to 60.8% for the prior year comparable quarter to December 31, 2022 and 58.6% for the prior quarter to September 30, 2023.

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 result in mainstream lenders further tightening criteria as they seek to focus on their core markets. Other less established specialist lenders may also curtail lending as funding options may become more restrictive. This may provide increased lending opportunities for established 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 21). 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, 2023 cash balances remained significantly above risk appetite, at £346.6m (December 31, 2022: £358.7m), of which £57.7m is unrestricted cash (December 31, 2022: £98.1m) as shown in Note 7.

The Group has a strong track record of successful refinancing and raising new facilities, and has continued to increase its bank and investor base during recent transactions ensuring that existing facilities are refinanced sufficiently ahead of their maturity dates to allow for any market disruption. The continued war in Ukraine and Israel 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 audited 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, 4.0% in February 2023, 4.25% in March 2023, 4.50 % in May 2023, 5.0% in June 2023 and most recently to 5.25% in August 2023, with market expectation for rate cuts to come later in 2024.

An increase in prevailing interest rates increases the cost of servicing some of our borrowings. Although our total loan assets mainly consist of variable rate mortgage loans and we have the right in respect of such loans to increase pricing if our own funding costs increase, our level of arrears and ultimately cash flows may be adversely affected if we increase the pricing of our customers' mortgages in relation to any potential increases in our funding costs. 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, given governance and operational factors as well as contractual notice requirements.

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 undertakes 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.

Disclosures in respect of these considerations can be found in Note 15 to the audited 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;

Significant factors which may affect results of operations (continued)

Risk factors (continued)

- the impact of litigation;
- 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.

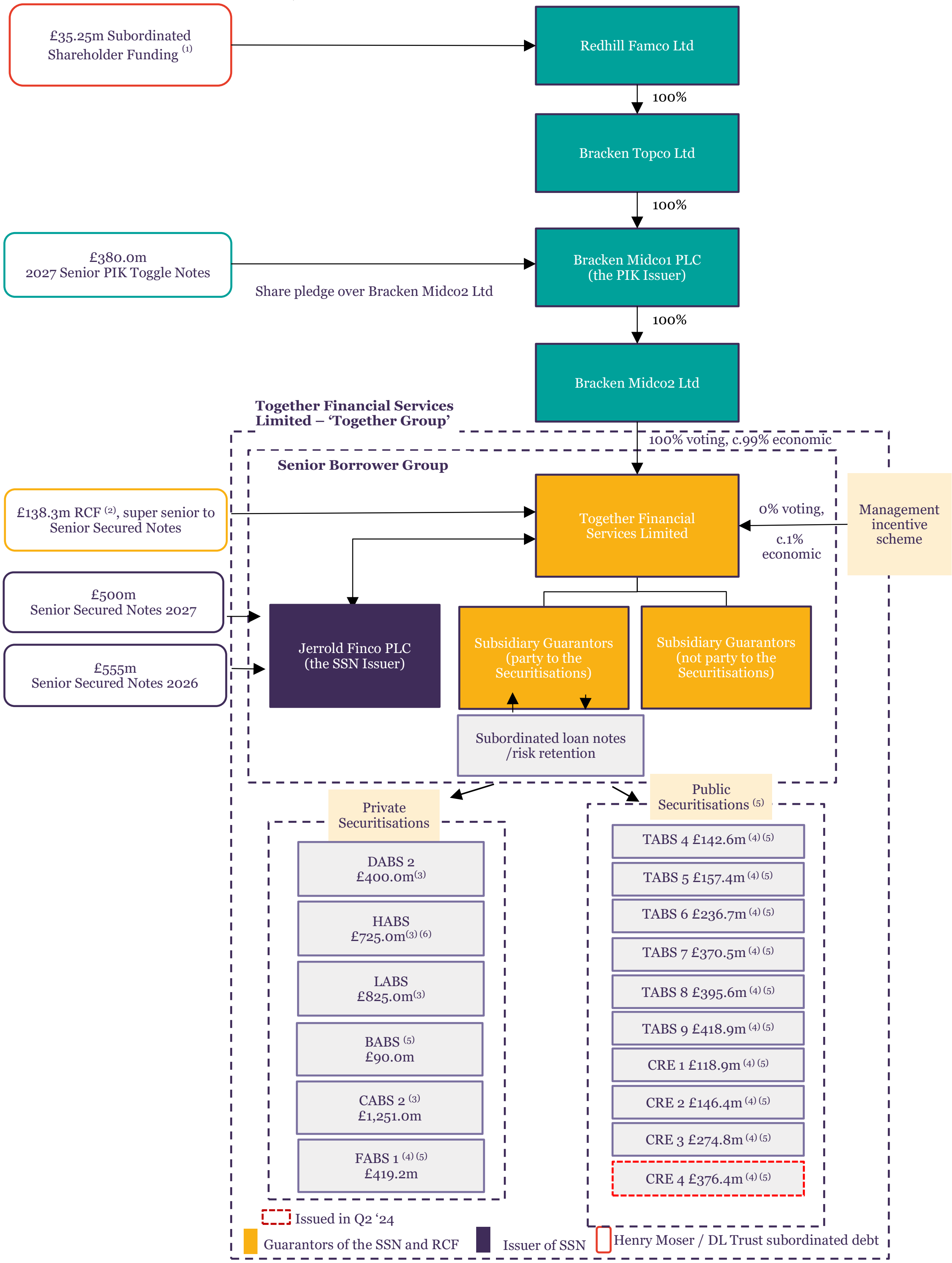
These risks are not exhaustive. Other sections of this report describe additional factors that could adversely affect our results of operations, financial condition, liquidity and the development of the industries in which we operate. New risks can emerge from time to time, and it is not possible for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

Summary corporate and financing structure

The diagram below provides a simplified overview of our corporate and financing structure on a consolidated basis as at December 31, 2023.

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, 2023.
(3) Total facility size
(4) Outstanding Principal balance – senior notes
(5) Amortising
(6) In December 2023, the Group successfully refinanced its Highfield ABS facility, extending its maturity from September 2025 to December 2027 with an increase in size from £525m to £725m and the addition of a new funding partner.

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, 2023.

	Quarter ended December 31, 2023		
	Together Financial Services Ltd £m	**Adjustments £m**	**Bracken Midco1 PLC £m**
Profit before tax [1]	**47.7**	**(6.3)**	**41.3**

	As at December 31, 2023		
	Together Financial Services Ltd £m	**Adjustments £m**	**Bracken Midco1 PLC £m**
Assets			
Cash and balances at bank	346.6	0.6[2]	347.2
Loans and advances to customers	6,794.9	-	6,794.9
Derivative assets held for risk management	14.9	-	14.9
Other assets	12.2	(0.4)	11.8
Property, plant and equipment	31.4	-	31.4
Intangible assets	12.8	-	12.8
Deferred tax asset	7.2	-	7.2
Total assets	**7,220.0**	**0.2**	**7,220.2**
Liabilities			
Loan notes	4,939.2	-	4,939.2
Senior secured notes	1,055.0	-	1,055.0
Senior PIK toggle notes	-	380.0[3]	380.0
Obligations under finance leases	28.8	-	28.8
Debt issue costs	(21.4)	(1.6) [4]	(23.0)
Total borrowings (excluding subordinated shareholder funding)	**6,001.6**	**378.4**	**6,380.0**
Other liabilities	94.1	5.3[5]	99.4
Derivative liabilities held for risk management	18.8	-	18.8
Provisions for liabilities and charges	4.5	-	4.5
Current tax liabilities	1.7	-	1.7
Total liabilities	**6,120.7**	**383.7**	**6,504.4**
Equity			
Subordinated shareholding funding	34.8	(24.8)	10.0(6)
Shareholder's equity	1,064.5	(358.7)	705.8
Total equity	**1,099.3**	**(383.5)**	**715.8**
Total equity and liabilities	**7,220.0**	**0.2**	**7,220.2**

(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 2027 Senior PIK Toggle Notes

(4) Represents unamortised debt issue costs associated with the issuance of the 2027 Senior PIK Toggle Notes

(5) Includes interest accrued on the 2027 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, 2023, interest payable and similar charges for Bracken Midco1 PLC was, on a consolidated basis £104.1m compared to £97.8m for Together Financial Services Limited. The £6.3m variance comprises £6.6m of interest payable and debt issue amortisation on the Senior PIK Toggle, £0.3m 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 £0.6m 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, 2023.

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, 2022;

- Consolidated Statement of Changes in Equity have comparatives for the quarter to December 31, 2022; and

- Consolidated Statement of Financial Position have comparatives as at December 31, 2022 and June 30, 2023.

Unaudited condensed consolidated statement of comprehensive income
Six months ended 31 December 2023

Unless otherwise indicated, all amounts are stated in £m

		Three months ended		Six months ended	
Income statement	Note	**31 December 2023**	31 December 2022	**31 December 2023**	31 December 2022
Interest receivable and similar income	4	**189.6**	133.6	**372.5**	252.6
Interest payable and similar charges	5	**(97.8)**	(63.8)	**(191.8)**	(116.0)
Net interest income		**91.8**	69.8	**180.7**	136.6
Fee and commission income		**2.1**	1.3	**3.7**	2.8
Fee and commission expense		**(0.5)**	(0.7)	**(1.0)**	(1.6)
Net fair-value (losses)/gains on derivatives	8	**(5.7)**	(1.0)	**(8.7)**	0.4
Other income		**0.1**	0.1	**0.2**	0.2
Operating income		**87.8**	69.5	**174.9**	138.4
Administrative expenses		**(27.9)**	(32.8)	**(55.4)**	(52.1)
Operating profit		**59.9**	36.7	**119.5**	86.3
Impairment losses	9	**(12.2)**	(18.9)	**(24.6)**	(30.8)
Profit before taxation		**47.7**	17.8	**94.9**	55.5
Income tax	6	**(11.0)**	(2.7)	**(22.1)**	(9.0)
Profit after taxation		**36.7**	15.1	**72.8**	46.5
Items that may be reclassified to the income statement					
Movement in the cash flow hedging reserve:					
Effective portion of changes in fair value of derivatives	8	**(31.1)**	(12.1)	**(46.4)**	19.4
Amounts reclassified to income statement		**(7.6)**	(1.3)	**(13.4)**	(1.2)
		(38.7)	(13.4)	**(59.8)**	18.2
Movement in the cost-of-hedging reserve:					
Effective portion of changes in fair value of derivatives		**–**	–	**–**	(0.1)
Amounts reclassified to income statement	8	**–**	–	**–**	–
		–	–	**–**	(0.1)
Other comprehensive (expense)/income for the period, net of tax		**(38.7)**	(13.4)	**(59.8)**	18.1
Total comprehensive (loss)/income for the period		**(2.0)**	1.7	**13.0**	64.6

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

Unaudited condensed consolidated statement of financial position
As at 31 December 2023

Unless otherwise indicated, all amounts are stated in £m

	Note	**31 December 2023**	31 December 2022	30 June 2023
Assets				
Cash and cash equivalents	7	**346.6**	317.5	322.8
Derivative assets held for risk management	8	**14.9**	41.5	62.3
Loans and advances to customers	9	**6,794.9**	5,891.9	6,410.2
Other assets	10	**12.2**	9.9	10.7
Property, plant and equipment	11	**31.4**	32.7	32.2
Intangible assets	12	**12.8**	8.9	11.2
Deferred tax asset	13	**7.2**	8.5	7.7
Current tax asset		**–**	4.6	–
Total assets		**7,220.0**	6,315.5	6,857.1
Liabilities				
Derivative liabilities held for risk management	8	**18.8**	0.1	0.1
Current tax liabilities		**1.7**	–	3.4
Borrowings	14	**6,036.4**	5,206.8	5,680.3
Provisions for liabilities and charges	15	**4.5**	13.6	7.2
Other liabilities	16	**94.1**	81.5	81.8
Total liabilities		**6,155.5**	5,302.0	5,772.8
Equity				
Share capital		**9.8**	9.8	9.8
Subordinated-shareholder-funding reserve		**33.2**	35.5	34.4
Cash flow-hedging reserve		**(10.4)**	29.2	49.4
Cost-of-hedging reserve		**–**	–	–
Other reserves		**12.7**	12.7	12.7
Retained earnings		**1,019.2**	926.3	978.0
Total equity		**1,064.5**	1,013.5	1,084.3
Total equity and liabilities		**7,220.0**	6,315.5	6,857.1

Unaudited condensed consolidated statement of changes in equity
Six months ended 31 December 2023

Unless otherwise indicated, all amounts are stated in £m

Six months to 31 December 2023	**Share capital**	**Subordinated-shareholder-funding reserve**	**Cash flow-hedging reserve**	**Cost-of-hedging reserve**	**Other reserves**	**Retained earnings**	**Total equity**
At beginning of period	**9.8**	**34.4**	**49.4**	**–**	**12.7**	**978.0**	**1,084.3**
Total comprehensive income	**–**	**–**	**(59.8)**	**–**	**–**	**72.8**	**13.0**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(32.8)**	**(32.8)**
Transfer between reserves	**–**	**(1.2)**	**–**	**–**	**–**	**1.2**	**–**
At end of period	**9.8**	**33.2**	**(10.4)**	**–**	**12.7**	**1,019.2**	**1,064.5**

Six months to 31 December 2022	Share capital	Subordinated-shareholder-funding reserve	Cash flow-hedging reserve	Cost-of-hedging reserve	Other reserves	Retained earnings	Total equity
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
Dividends 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

Year ended 30 June 2023	Share capital	Subordinated-shareholder-funding reserve	Cash flow-hedging reserve	Cost-of-hedging reserve	Other reserves	Retained earnings	Total equity
At beginning of year	9.8	36.6	11.0	0.1	12.7	928.4	998.6
Total comprehensive income	–	–	38.4	(0.1)	–	129.9	168.2
Dividends paid	–	–	–	–	–	(82.5)	(82.5)
Transfer between reserves	–	(2.2)	–	–	–	2.2	–
At end of year	9.8	34.4	49.4	–	12.7	978.0	1,084.3

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 2023	**17.5**	**(9.6)**	**1.3**	**(2.6)**	**6.1**	**12.7**
As at 31 December 2022	17.5	(9.6)	1.3	(2.6)	6.1	12.7
As at 30 June 2023	17.5	(9.6)	1.3	(2.6)	6.1	12.7

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

Unaudited condensed consolidated statement of cash flows
Six months ended 31 December 2023

Unless otherwise indicated, all amounts are stated in £m

	Note	Three months ended 31 December 2023	Three months ended 31 December 2022	Six months ended 31 December 2023	Six months ended 31 December 2022
Cash flows from operating activities					
Profit after taxation		**36.7**	15.1	**72.8**	46.5
Adjustment for non-cash items included in profit after taxation	18	**128.4**	111.3	**250.4**	157.3
Changes in operating assets and liabilities	18	**(199.1)**	(252.0)	**(406.4)**	(687.8)
Income tax paid		**(10.0)**	(4.9)	**(23.5)**	(15.0)
Net cash outflow from operating activities		**(44.0)**	(130.5)	**(106.7)**	(499.0)
Cash flows from investing activities					
Cash paid on purchase of property, plant and equipment		**(0.5)**	(0.5)	**(0.6)**	(0.9)
Investment in intangible assets		**(2.0)**	(2.0)	**(3.8)**	(3.3)
Proceeds from disposal of property, plant and equipment		**–**	0.1	**0.1**	0.3
Net cash outflow from investing activities		**(2.5)**	(2.4)	**(4.3)**	(3.9)
Cash flows from financing activities					
Drawdown of loan notes		**260.2**	399.1	**480.1**	939.1
Repayment of loan notes		**(475.7)**	(617.4)	**(1,289.5)**	(1,160.6)
Proceeds from issuance of loan notes		**367.0**	450.0	**1,237.3**	944.0
Net cash outflows from revolving credit facility		**–**	–	**(70.0)**	–
Interest paid		**(83.6)**	(44.3)	**(189.4)**	(104.8)
Dividends paid		**(32.8)**	(49.7)	**(32.8)**	(49.7)
Purchase and cancellation of derivatives		**–**	(10.5)	**0.4**	(10.5)
Principal elements of lease liability payments		**(0.3)**	(0.4)	**(0.6)**	(0.9)
Interest paid on lease liabilities		**(0.4)**	(0.3)	**(0.7)**	(0.7)
Net cash inflow from financing activities		**34.4**	126.5	**134.8**	555.9
Net increase/(decrease) in cash and cash equivalents		**(12.1)**	(6.4)	**23.8**	53.0
Cash and cash equivalents at beginning of period		**358.7**	323.9	**322.8**	264.5
Cash and cash equivalents at end of period	7	**346.6**	317.5	**346.6**	317.5

At 31 December 2023 cash and cash equivalents include £288.9m (31 December 2022: £244.6m) of restricted cash (see Note 7).

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 consolidated 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 UK-adopted International Accounting Standard 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 2023 which were prepared in accordance with UK-adopted international accounting standards.

The information within this interim report relating to the year ended 30 June 2023 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.

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 Lakeside Asset Backed Securitisation facility in April 2026, with the amount drawn at the reporting date representing 11% of the Group's borrowings. The earliest call date on our public securitisation is the Together Asset Backed Securitisation 4 facility is June 2024, with this representing 2% of the Group's borrowings.

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. The Group was able to obtain further financing through Together ABS 8 in July 2023, Together ABS 9 in September 2023, refinancing the BABS facility in September 2023, Together ABS CRE 4 in November 2023, as well as refinancing and upsizing of HABS facility in December 2023. This shows the Group's ability to continue to obtain further funding from the financial markets, even during periods of market disruption. Further information on the Group's borrowings and maturities of these borrowings is included within Note 14.

Liquidity

The Group retains liquidity through managing its total accessible liquidity (TAL) within set risk appetite limits. For further information regarding our management of TAL, see the principal risk and uncertainties section of the interim management report.

The Group holds liquidity in the form of cash and can also access liquidity by drawing on the revolving credit facility (RCF) 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. The Group also holds significant cash balances to allow sufficient liquidity, with cash balances of £346.6m at 31 December 2023 (31 December 2022: £317.5m, 30 June 2023: £322.8m), of which £57.7m is unrestricted cash (31 December 2022: £72.9m, 30 June 2023: £84.3) as shown in Note 7.

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 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 Group has adequate resources to continue in operation for the going concern assessment period ending 20 February 2025, 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 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 9 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 15 to the Financial Statements.

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

Significant judgements in applying the Group's accounting policies (continued)

c) Modifications of financial liabilities

The Group, from time to time, conducts refinancing of its wholesale funding facilities, which results in amendments to the contractual terms, in particular when refinancing private warehouse facilities. Depending on the facts and circumstances the assessment can be straightforward and in other cases significant judgement may be required to determine whether the amendments constitute a substantial or non-substantial contractual modification under IFRS 9. This can require the calculation of the change in the carrying value of the facility implied by the new contractual terms. This requires judgement to be applied in forecasting the amounts and timings of future cash flows in order to determine if the modification meets the 10% threshold, which would result in a substantial modification and therefore derecognition of the existing instrument.

In addition, qualitative factors applied in accordance with our accounting policies require consideration, and significant judgement is required to determine which factors are indicative that a substantial modification has occurred.

Key sources of estimation uncertainty

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 a significant judgement taken during the period.

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 9 to the Financial Statements.

b) 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 uses 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. For loans with a fixed-rate period which revert onto a variable rate, income recognition is assessed for the fixed and variable period separately; therefore no future income beyond that of the fixed-rate period is recognised as part of the EIR approach for fixed-rate lending.

The fees recognised on an EIR basis through interest income on loans and advances to customers are recognised based on expected weighted average behavioural lives. At 31 December 2023, the Group had £39.6m (31 December 2022: £40.8m) of deferred fees that are recognised over the expected behavioural life of the loan. A change in the weighted average life by +/- 10% leads to an impact on interest income on loans and advances to customers of a decrease of £0.8m and an increase of £1.0m respectively.

c) Provisions and contingent liabilities

The calculation of the Group's provisions contains estimation uncertainty. Further disclosures in respect of this can be found in Note 15 to the Financial Statements.

d) Fair value of derivatives held for risk management

The fair value of derivatives is the price that would be received to sell a derivative asset or paid to transfer a derivative liability in an orderly transaction between market participants at the measurement date. The valuations of these instruments are derived from models that use forecast future interest-related curves, and which are subject to estimation uncertainty. Further detail on the judgements in respect of derivatives held for risk management purposes is set out in Note 8 to the Financial Statements.

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 2023.

Unless otherwise indicated, all amounts are stated in £m

4. Interest receivable and similar income

	Three months ended		Six months ended	
	31 December 2023	31 December 2022	**31 December 2023**	31 December 2022
Interest income on loans and advances to customers	**185.6**	133.0	**364.5**	252.0
Interest income on cash and cash equivalents	**4.0**	0.6	**8.0**	0.6
	189.6	133.6	**372.5**	252.6

5. Interest payable and similar charges

	Three months ended		Six months ended	
	31 December 2023	31 December 2022	**31 December 2023**	31 December 2022
On borrowings	**106.7**	64.9	**208.8**	116.7
On lease liabilities	**–**	0.4	**–**	0.7
On derivatives in qualifying and discontinued hedging relationships	**(8.9)**	(1.5)	**(17.0)**	(1.4)
	97.8	63.8	**191.8**	116.0

6. Income tax

	Three months ended		Six months ended	
	31 December 2023	31 December 2022	**31 December 2022**	31 December 2022
Current tax				
Corporation tax	**10.5**	2.5	**21.6**	8.7
	10.5	2.5	**21.6**	8.7
Deferred tax				
Origination and reversal of temporary differences	**0.5**	0.3	**0.5**	0.5
Effect of changes in tax rates	**–**	(0.1)	**–**	(0.2)
	0.5	0.2	**0.5**	0.3
Total tax on profit	**11.0**	2.7	**22.1**	9.0

Corporation tax is calculated at 25.00% (31 December 2022: 20.50%) of the estimated taxable profit for the year. An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021.

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

	Three months ended		Six months ended	
	31 December 2023	31 December 2022	**31 December 2023**	31 December 2022
Profit before tax	**47.7**	17.8	**94.9**	55.5
Tax on profit at standard UK corporation tax rate of 25.0% (31 December 2022: 20.5%)	**11.9**	3.6	**23.7**	11.4
Effects of:				
Expenses not deductible for tax purposes	**0.2**	–	**0.4**	0.1
Income not taxable	**–**	0.2	**0.3**	(0.1)
Miscellaneous tax repaid	**(0.1)**	–	**(0.1)**	–
Group relief*	**(1.0)**	(1.0)	**(2.2)**	(2.2)
Effect of changes in tax rates	**–**	(0.1)	**–**	(0.2)
Group tax charge for year	**11.0**	2.7	**22.1**	9.0

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

Unless otherwise indicated, all amounts are stated in £m

7. Cash and cash equivalents

	31 December 2023	31 December 2022	30 June 2023
Unrestricted cash	**57.7**	72.9	84.3
Restricted cash	**288.9**	244.6	238.5
Total cash and cash equivalents	**346.6**	317.5	322.8

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, £57.9m (31 December 2022: £53.1m, 30 June 2023: £41.7m) 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.

8. Derivatives held for risk management

The Group applies hedge accounting for its strategy of cash flow hedging the interest-rate risk on floating-rate liabilities in certain of its securitisation vehicles. These liabilities fund portfolios of mortgage assets, some of which pay fixed rates of interest and, to address the resultant risk of mismatches in the cash flows, the securitisation vehicles may enter into interest-rate swaps 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 may decline over time in line with the expected repayment of the mortgages.

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

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

- Repayment of the notes faster than the decline in the notional amount of the derivative
- The inclusion of transaction costs or off-market rates of interest in the fixed-rate leg of interest-rate swaps
- 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 2023		31 December 2022		30 June 2023	
	Assets	**Liabilities**	Assets	Liabilities	Assets	Liabilities
Interest-rate swaps and floors	**14.9**	**(18.8)**	41.1	(0.1)	61.8	(0.1)
Interest-rate caps	–	–	0.4	–	0.5	–
Derivatives designated in cash flow hedges	**14.9**	**(18.8)**	41.5	(0.1)	62.3	(0.1)

All derivatives mature in under five years, except for swaps with notional amounts totalling £25.0m, which mature in over five years. The average fixed interest rate on swaps is 3.335%. During the period the Group cancelled its only cap.

Unless otherwise indicated, all amounts are stated in £m

8. Derivatives held for risk management (continued)

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

			Debit/(credit) balance	
31 December 2023	**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				
Continuing hedging relationships	**1,563.3**	**(46.4)**	**20.7**	**–**
Discontinued hedging relationships	**–**	**–**	**(10.3)**	**–**
	1,563.3	**(46.4)**	**10.4**	**–**
Borrowings hedged by interest-rate caps				
Continuing hedging relationships	**–**	**–**	**–**	**–**
Total of all borrowings hedged by derivatives	**1,563.3**	**(46.4)**	**10.4**	**–**

			Debit/(credit) balance	
31 December 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				
Continuing hedging relationships	880.1	19.2	(29.0)	–
	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	
30 June 2023	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				
Continuing hedging relationships	1,155.2	41.1	(43.8)	–
Discontinued hedging relationships	–	4.8	(5.5)	–
	1,155.2	45.9	(49.3)	–
Borrowings hedged by interest-rate caps				
Continuing hedging relationships	15.9	(0.1)	(0.1)	–
Total of all borrowings hedged by derivatives	1,171.1	45.8	(49.4)	–

Unless otherwise indicated, all amounts are stated in £m

8. Derivatives held for risk management (continued)

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

		Carrying amounts			Debit/(credit) balance		
31 December 2023	**Notional amount**	**Derivative assets**	**Derivative liabilities**	**Net total**	**Cash flow-hedging reserve**	**Cost-of-hedging reserve**	**Fair-value (gains)/losses through income statement**
Interest-rate swaps							
Borrowings	**1,563.3**	**14.9**	**(18.8)**	**(3.9)**	**20.7**	**–**	**8.6**
Discontinued hedges	**–**	**–**	**–**	**–**	**(10.3)**	**–**	**–**
	1,563.3	**14.9**	**(18.8)**	**(3.9)**	**10.4**	**–**	**8.6**
Interest-rate caps							
Borrowings	**–**	**–**	**–**	**–**	**–**	**–**	**0.1**
Total of all derivatives	**1,563.3**	**14.9**	**(18.8)**	**(3.9)**	**10.4**	**–**	**8.7**

		Carrying amounts			Debit/(credit) balance		
31 December 2022	Notional amount	Derivative assets	Derivative liabilities	Net total	Cash flow-hedging reserve	Cost-of-hedging reserve	Fair-value (gains)/losses through income statement
Interest-rate swaps							
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		
30 June 2023	Notional amount	Derivative assets	Derivative liabilities	Net total	Cash flow-hedging reserve	Cost-of-hedging reserve	Fair-value (gains)/losses through income statement
Interest-rate swaps							
Borrowings	1,155.2	61.8	(0.1)	61.7	(43.8)	–	2.6
Discontinued hedges	–	–	–	–	(5.5)	–	–
	1,155.2	61.8	–	61.7	(49.3)	–	2.6
Interest-rate caps							
Borrowings	15.9	0.5	–	0.5	(0.1)	–	(0.5)
Total of all derivatives	1,171.1	62.3	(0.1)	62.2	(49.4)	–	2.1

Unless otherwise indicated, all amounts are stated in £m

8. Derivatives held for risk management (continued)

The following tables summarise the movements relating to hedging instruments.

Six months ended 31 December 2023	Debit/(credit) balance Net derivative assets/ (liabilities)	Cash flow-hedging reserve	Cost-of-hedging reserve	Fair-value (gains)/losses through income statement
All derivatives				
Balances at the beginning of the period	**62.2**	**(49.4)**	**–**	**–**
Payments on purchase of derivatives	**0.3**	**–**	**–**	**–**
Changes in fair value recognised in other comprehensive income	**(46.4)**	**46.4**	**–**	**–**
Hedge ineffectiveness recognised as (gains)/losses in the income statement	**(4.1)**	**–**	**–**	**4.1**
Total changes in fair value for calculating hedge ineffectiveness	**(50.5)**	**46.4**	**–**	**4.1**
Changes on settlement of interest or its reclassification to income statement	**(14.7)**	**13.4**	**–**	**3.8**
Amounts released on cancellations of derivatives	**(0.8)**	**–**	**–**	**0.8**
Payments on discontinuance of hedging relationships	**(0.4)**	**–**	**–**	**–**
Balances at end of the period	**(3.9)**	**10.4**	**–**	**8.7**

Six months ended 31 December 2022	Debit/(credit) balance Net derivative assets/ (liabilities)	Cash flow-hedging reserve	Cost-of-hedging reserve	Fair-value (gains)/losses through income statement
All derivatives				
Balances at the beginning of the period	11.2	(11.0)	(0.1)	–
Payments on purchase of derivatives	12.0	–	–	–
Changes in fair value recognised in other comprehensive income	19.3	(19.4)	0.1	–
Hedge ineffectiveness recognised as (gains)/losses in the income statement	0.6	–	–	(0.6)
Total changes in fair value for calculating hedge ineffectiveness	19.9	(19.4)	0.1	(0.6)
Changes on settlement of interest or its reclassification to income statement	(1.4)	1.2	–	0.2
Amounts released on cancellations of derivatives	(0.1)	–	–	–
Payments on discontinuance of hedging relationships	(0.2)	–	–	–
Balances at end of the period	41.4	(29.2)	–	(0.4)

Fair-value losses for the period were £8.7m (31 December 2022: £0.4m gain). These arose mainly from the settlement of interest on swaps transacted at off-market rates, novation and origination of derivatives, and from falls in the value of swaps which mature after the loan notes which they hedge.

Unless otherwise indicated, all amounts are stated in £m

9. Loans and advances to customers

	31 December 2023			
	Stage 1	**Stage 2**	**Stage 3 and POCI**	**Total**
Gross loans and advances	**5,286.9**	**1,061.6**	**573.1**	**6,921.6**
Loss allowance	**(15.6)**	**(26.8)**	**(84.3)**	**(126.7)**
	5,271.3	**1,034.8**	**488.8**	**6,794.9**
ECL coverage (%)	**0.3**	**2.5**	**14.7**	**1.8**

	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

	30 June 2023			
	Stage 1	Stage 2	Stage 3 and POCI	Total
Gross loans and advances	4,575.3	1,459.5	485.2	6,520.0
Loss allowance	(17.6)	(30.6)	(61.6)	(109.8)
	4,557.7	1,428.9	423.6	6,410.2
ECL coverage (%)	0.4	2.1	12.7	1.7

There are no loans and advances to related parties at 31 December 2023. There were gross loans to related parties of £0.8m and £4.3m at 30 June 2023 and 31 December 2022 respectively, equivalent to £0.3m and £0.3m net of allowances in the same respective periods to Sunnywood Estates Limited and Edgeworth Developments Limited. Further information on related parties and related party transactions is included within Note 19.

Group gross balances of credit impaired loans include £15.1m (31 December 2022: £15.6m, 30 June 2023: £17.1m) of purchased or originated credit impaired (POCI) loans, which are presented net of lifetime ECL impairment provisions of £1.8m (31 December 2022: £1.9m, 30 June 2023: £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 such as forborne accounts as described below, or specific accounts where stage overrides are made on a specific case basis

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.

9. 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 a probationary period.

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.

Post-model adjustments
The Group makes post-model adjustments to its ECL provision where appropriate to reflect factors or risks that are not judged to be fully reflected in the model, which is done on both a portfolio level, as well as adjustments relating to specific loans.

Portfolio-level post-model adjustments are made for potential risks that may emerge where additional coverage is judged to be appropriate at the time. At 31 December 2023 portfolio-level post-model adjustments totalled £14.5m (31 December 2022: £2.8m, 30 June 2023: £18.3m).

Specific loan post-model adjustments are made in relation to specific loans where further information on the loan becomes known that would require adjustments to be made to the ECL calculation for that loan to reflect the identified risk. At 31 December 2023 specific loan post-model adjustments amounted to an increase in the provision of £10.8m (31 December 2022: £8.1m, 30 June 2023: £9.0m).

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 provides an ability to assess a wide range of economic uncertainty.

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.

Both comparable periods included a 'stagflationary' scenario, which included low growth combined with high inflation, which is now judged to be a less appropriate reflection given the current macroeconomic trajectory. The severe downside economic scenario represents a severely stressed environment, with a recession, 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 all of the six economic scenarios. The nature of the downside scenario is most closely aligned to the experience during the 2008 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.

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.

Unless otherwise indicated, all amounts are stated in £m

9. Loans and advances to customers (continued)

Incorporation of forward-looking information (continued)

The most significant assumptions used for the ECL estimate as at 31 December 2023, by economic indicator, until December 2027 are as follows:

Bank Rate	Month base rate cut to below current of 5.25%	Weighting	Mar 2024	Jun 2024	Sep 2024	Dec 2024	Dec 2025	Dec 2026	Dec 2027
Upside	Sep-26	10%	5.8	6.3	6.3	6.3	5.8	5.0	4.8
Mild upside	Mar-26	10%	5.5	5.8	5.8	5.8	5.3	4.5	4.3
Base	Sep-24	50%	5.3	5.3	5.0	4.8	3.8	3.0	3.0
Stagnation	Jun-24	10%	5.3	5.0	4.5	4.3	3.3	2.3	1.8
Downside	Mar-24	10%	4.8	4.5	4.0	3.8	2.5	1.8	1.5
Severe downside	Mar-24	10%	4.8	4.0	3.5	3.3	1.8	1.0	0.8
Weighted average			**5.2**	**5.2**	**4.9**	**4.7**	**3.7**	**3.0**	**2.8**

Unemployment rate	% peak	Weighting	Mar 2024	Jun 2024	Sep 2024	Dec 2024	Dec 2025	Dec 2026	Dec 2027
Upside	n/a*	10%	4.0	3.8	3.6	3.3	3.3	3.3	3.3
Mild upside	4.3%	10%	4.3	4.3	4.2	4.1	3.8	3.8	3.7
Base	4.5%	50%	4.4	4.5	4.5	4.5	4.2	4.0	3.9
Stagnation	7.0%	10%	4.9	5.2	5.5	5.7	6.6	7.0	6.6
Downside	7.2%	10%	4.9	5.3	5.6	5.9	6.8	7.2	6.8
Severe downside	7.5%	10%	5.0	5.4	5.8	6.1	7.1	7.5	7.2
Weighted average			**4.5**	**4.7**	**4.7**	**4.8**	**4.9**	**4.9**	**4.7**

Annual change in house-price index (%)	Start to trough % change**	Weighting	Mar 2024	Jun 2024	Sep 2024	Dec 2024	Dec 2025	Dec 2026	Dec 2027
Upside	(1.4%)	10%	0.9	0.6	(0.6)	0.2	4.2	8.5	5.0
Mild upside	(3.7%)	10%	(0.1)	(0.9)	(2.7)	(2.3)	2.6	6.9	5.1
Base	(7.3%)	50%	(1.8)	(3.3)	(5.7)	(5.9)	0.4	4.3	5.3
Stagnation	(14.0%)	10%	(3.0)	(5.3)	(8.8)	(10.1)	(2.9)	1.0	5.5
Downside	(17.6%)	10%	(3.6)	(6.3)	(10.2)	(11.9)	(4.3)	(0.6)	5.6
Severe downside	(25.0%)	10%	(4.6)	(8.0)	(12.5)	(15.0)	(7.0)	(3.7)	5.9
Weighted average			**(2.0)**	**(3.6)**	**(6.3)**	**(6.8)**	**(0.5)**	**3.4**	**5.3**

* Unemployment rate is forecast to decrease in all future periods in this scenario.
** Where the start to trough is measured from Dec 2022 when the house price index fell

Unless otherwise indicated, all amounts are stated in £m

9. Loans and advances to customers (continued)

Incorporation of forward-looking information (continued)

The most significant assumptions used for the ECL estimate as at 31 December 2022, by economic indicator, until December 2026 were as follows:

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
Stagnation	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
Stagnation	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 (%)	Peak 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
Stagnation	(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**

* Unemployment rate is forecast to decrease in all future periods in this scenario.
** Peak to trough with peak being Dec-2022

Unless otherwise indicated, all amounts are stated in £m

9. Loans and advances to customers (continued)

Incorporation of forward-looking information (continued)

The most significant assumptions used for the ECL estimate as at 30 June 2023, by economic indicator, until June 2027 were as follows.

Bank Rate	Date of peak base rate	Weighting	Sep 2023	Dec 2023	Mar 2024	Jun 2024	Jun 2025	Jun 2026	Jun 2027
Upside	Mar 2024	10%	5.8	6.8	7.0	7.0	6.8	5.6	4.6
Mild upside	Mar 2024	10%	5.6	6.5	6.8	6.8	6.1	4.9	3.9
Base	Mar 2024	50%	5.2	5.9	6.2	6.2	5.7	4.8	4.2
Stagnation	Jun 2024	10%	5.4	6.1	6.4	6.5	5.9	5.0	4.4
Downside	Mar 2024	10%	5.0	5.1	5.3	5.3	3.9	2.4	1.3
Severe downside	Mar 2024	10%	5.9	6.6	6.9	6.7	4.7	2.7	2.0
Weighted average			**5.4**	**6.1**	**6.3**	**6.3**	**5.6**	**4.4**	**3.7**

Unemployment rate	% peak	Weighting	Sep 2023	Dec 2023	Mar 2024	Jun 2024	Jun 2025	Jun 2026	Jun 2027
Upside	n/a*	10%	3.5	3.4	3.3	3.3	3.3	3.3	3.3
Mild upside	3.8%	10%	3.8	3.8	3.8	3.8	3.7	3.6	3.6
Base	4.2%	50%	3.9	4.0	4.0	4.1	4.2	3.8	3.8
Stagnation	6.8%	10%	4.4	4.7	5.0	5.3	6.5	6.7	6.5
Downside	7.0%	10%	4.4	4.8	5.1	5.4	6.7	7.0	6.7
Severe downside	7.4%	10%	4.5	4.9	5.3	5.7	7.1	7.3	7.1
Weighted average			**4.0**	**4.2**	**4.3**	**4.4**	**4.8**	**4.7**	**4.6**

Annual change in house-price index (%)	Peak to trough % change**	Weighting	Sep 2023	Dec 2023	Mar 2024	Jun 2024	Jun 2025	Jun 2026	Jun 2027
Upside	(2.8%)	10%	(0.1)	(1.5)	(1.3)	(0.2)	0.3	6.0	5.7
Mild upside	(6.1%)	10%	(1.1)	(2.9)	(3.3)	(2.7)	(1.2)	4.8	5.4
Base	(11.0%)	50%	(2.5)	(5.0)	(6.0)	(6.0)	(3.3)	2.6	5.3
Stagnation	(18.8%)	10%	(3.8)	(7.2)	(9.3)	(10.4)	(6.4)	(0.6)	5.5
Downside	(21.8%)	10%	(4.5)	(8.3)	(10.7)	(12.3)	(7.9)	1.9	8.5
Severe downside	(27.4%)	10%	(5.5)	(10.0)	(13.2)	(15.4)	(10.4)	(0.6)	8.7
Weighted average			**(2.8)**	**(5.5)**	**(6.8)**	**(7.1)**	**(4.2)**	**2.5**	**6.0**

* Unemployment rate is forecast to decrease in all future periods in this scenario.
** Peak to trough with peak being Dec-2022

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. In the case of loans and advances to customers, 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,
- Increases in internal risk scores on certain portfolio accounts,
- External credit bureau data signifying increases in credit risk for a customer,
- 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, such as forborne accounts as described below, or specific accounts where stage overrides are made on a specific case basis.

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 expected losses are already included in allowances. 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.

Unless otherwise indicated, all amounts are stated in £m

9. Loans and advances to customers (continued)

Loss allowance

The following tables analyse the movement of the loss allowance during the periods ended 31 December 2023 and 31 December 2022.

	Six months ended 31 December 2023			
Loss allowance	**Stage 1**	**Stage 2**	**Stage 3 and POCI**	**Total**
Balance at beginning of period	**(17.6)**	**(30.6)**	**(61.6)**	**(109.8)**
Transfer to a 12-month ECL	**(1.9)**	**9.8**	**–**	**7.9**
Transfer to a lifetime ECL not credit impaired	**4.9**	**(15.1)**	**0.4**	**(9.8)**
Transfer to a lifetime ECL credit impaired	**0.1**	**6.9**	**(16.0)**	**(9.0)**
Other changes in credit risk during the period	**(3.0)**	**(9.0)**	**(16.9)**	**(28.9)**
Impairment of interest income on stage 3 loans	**–**	**–**	**(6.7)**	**(6.7)**
New financial assets originated	**(2.2)**	**(1.5)**	**(0.3)**	**(4.0)**
Financial assets derecognised	**2.5**	**4.5**	**7.5**	**14.5**
Changes in models and risk parameters	**1.6**	**8.2**	**1.4**	**11.2**
Impairment losses for the period charged to income statement	**2.0**	**3.8**	**(30.6)**	**(24.8)**
Unwind of discount	**–**	**–**	**6.7**	**6.7**
Write-offs net of recoveries	**–**	**–**	**1.2**	**1.2**
Balance at end of period	**(15.6)**	**(26.8)**	**(84.3)**	**(126.7)**

	Six months ended 31 December 2022			
Loss allowance	Stage 1	Stage 2	Stage 3 and POCI	Total
Balance at beginning of period	(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 period	(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 period 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 period	(14.9)	(35.5)	(60.4)	(110.8)

The loss allowance has increased by £16.9m to £126.7m (30 June 2023: £109.8m).

This increase in loss allowance is mainly due to maintaining coverage on a growing loan book, representing £10.1m of the total movement. A small increase in coverage from the prior period June 2023 at 1.7% to 1.8% accounts for the remaining £6.8m of the total movement. As forward-looking macroeconomic scenarios have stabilised and improved, some increases in arrears and loans in receivership has been observed, however these increases have been largely offset in the P&L by previously placed judgemental overlays and post model adjustments (PMA’s).

Unless otherwise indicated, all amounts are stated in £m

9. Loans and advances to customers (continued)

Loss allowance (continued)

This net movement in loss allowance comprises a range of drivers which are analysed further in the table on the next page. The principal changes can be summarised as follows

- Changes in models and risk parameters resulted in a release of £11.2m (31 December 2022 charge £14.5m). The main drivers of this change were updates to macroeconomic data, including the update to the economic response model and changes to model parameters, but which were partially offset by increases in post model adjustments recognised in the 'other changes in credit risk' line.
- Allowances recognised on newly originated loans resulted in a charge of £4.0m (31 December 2022: charge £6.1m) due to the forward-looking nature of the ECL approach, where all loans have some level of allowance from origination although at generally lower levels of coverage.
- The impairment of interest income recognised on stage 3 loans of £6.7m (31 December 2022: £5.5m) was offset by the unwinding of discounting on expected cash flows of the same amount.
- The remaining net £25.5m charge (31 December 2022: £5.0m) comprises of increases in ECL during the life of loans offset by releases on loans which redeem, and partial releases on PMAs built up in the prior year in anticipation of adverse economic conditions. Increases in ECL during the life of loans are driven by increases in arrears levels, changes to the criteria for when loans are assigned to different stages, changes to probabilities of default assigned to the loans, changes to valuations as a result of indexation and individual revaluations, and lower releases from redemptions compared with the prior year.

Impairment losses for the period increased to £24.6m (31 December 2022: charge £30.8m). The drivers of the current period charge are described above.

Impairment losses for the period

	Six months ended	
	31 December 2023	31 December 2022
Movements in impairment allowance, charged to income	**24.8**	31.1
Amounts released from deferred income	**–**	(0.1)
Write-offs net of recoveries	**(0.2)**	(0.2)
Charged to the income statement	**24.6**	30.8

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:

Movements in gross carrying amounts	**Six months ended 31 December 2023**			
	Stage 1	**Stage 2**	**Stage 3 and POCI**	**Total**
Balance at beginning of period	**4,575.2**	**1,459.6**	**485.2**	**6,520.0**
Transfer to a 12-month ECL	**808.4**	**(808.4)**	**-**	**-**
Transfer to a lifetime ECL not credit impaired	**(747.0)**	**772.2**	**(25.2)**	**-**
Transfer to a lifetime ECL credit impaired	**(7.9)**	**(199.7)**	**207.6**	**-**
New financial assets originated	**1,208.5**	**24.3**	**1.2**	**1,234.0**
Financial assets derecognised including write-offs	**(550.3)**	**(186.4)**	**(95.7)**	**(832.4)**
Balance at end of period	**5,286.9**	**1,061.6**	**573.1**	**6,921.6**

Movements in gross carrying amounts	Six months ended 31 December 2022			
	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	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 period	4,236.5	1,348.5	417.7	6,002.7

Unless otherwise indicated, all amounts are stated in £m

9. Loans and advances to customers (continued)

Analysis of stage 2 loans

Days past due	31 December 2023 Gross exposure	31 December 2023 Impairment allowance	30 June 2023 Gross exposure	30 June 2023 Impairment allowance
> 30 days past due	**200.5**	**9.5**	94.1	9.2
< 30 days past due	**861.1**	**17.3**	1,365.4	21.4
Total	**1,061.6**	**26.8**	1,459.5	30.6

There has been a decrease in total stage 2 loans since June 2023, due to improving macroeconomic data mean that fewer loans meet qualitative stage triggers where ECL coverage is typically lower. Coverage on stage 2 loans has therefore increased to 2.8% (30 June 2023: 2.1%), due to the reduced proportion of loans which are allocated to stage 2 for qualitative reasons, where ECL coverage is typically lower.

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 2023, 31 December 2022 and 30 June 2023.

	31 December 2023 Probability of the scenario	31 December 2023 Unweighted ECL	31 December 2022 Probability of the scenario	31 December 2022 Unweighted ECL	30 June 2023 Probability of the scenario	30 June 2023 Unweighted ECL
Upside	**10%**	**72.3**	10%	44.0	10%	62.0
Mild upside	**10%**	**84.7**	10%	55.5	10%	71.7
Base case	**50%**	**111.3**	50%	83.7	50%	94.3
Stagnation	**10%**	**153.5**	10%	151.4	10%	135.1
Downside	**10%**	**176.3**	10%	185.0	10%	154.9
Severe downside	**10%**	**223.1**	10%	254.1	10%	202.8
Weighted average		**126.7**		110.8		109.8

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 £22.6m at 31 December 2023 (30 June 2023: £19.1m); conversely, a 10% increase would result in a decrease in the impairment allowance of £17.9m at 31 December 2023 (30 June 2023: £14.5m).

Probability of default and probability of repossession given default

A 10% relative worsening of both PDs and PPGDs simultaneously (e.g. a 1.0% PD increasing to 1.1%) would increase the total impairment allowance by £6.2m at 31 December 2023 (30 June 2023: £8.3m). 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 £5.8m at 31 December 2023 (30 June 2023: £7.9m).

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 2023	Increase in allowance 31 December 2022
Measure all loans in stage 1 using a lifetime ECL	**23.3**	29.4

Unless otherwise indicated, all amounts are stated in £m

10. Other assets

	31 December 2023	31 December 2022	30 June 2023
Amounts owed by related parties	**1.3**	1.5	1.3
Other assets	**1.6**	1.9	3.1
Prepayments and accrued income	**9.1**	6.3	6.1
Investments	**0.1**	0.1	0.1
Inventories	**0.1**	0.1	0.1
	12.2	9.9	10.7

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 2022: £0.4m; 30 June 2023: £0.4m) in relation to a director's loan. The loan is interest free and repayable on demand.

11. Property, plant and equipment

Six months ended 31 December 2023	Land and buildings	Fixtures, fittings and equipment	Motor vehicles	Right-of-use assets	Total
Cost					
At beginning of period	**0.5**	**11.5**	**3.0**	**35.5**	**50.5**
Additions	**–**	**0.4**	**0.2**	**–**	**0.6**
Disposals	**–**	**–**	**(0.1)**	**–**	**(0.1)**
At end of period	**0.5**	**11.9**	**3.1**	**35.5**	**51.0**
Depreciation					
At beginning of period	**–**	**7.1**	**1.4**	**9.8**	**18.3**
Charge for the period	**–**	**0.7**	**0.2**	**0.5**	**1.4**
Disposals	**–**	**–**	**(0.1)**	**–**	**(0.1)**
At end of period	**–**	**7.8**	**1.5**	**10.3**	**19.6**
Net book value					
At end of period	**0.5**	**4.1**	**1.6**	**25.2**	**31.4**
At beginning of period	**0.5**	**4.4**	**1.6**	**25.7**	**32.2**

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 period	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

Unless otherwise indicated, all amounts are stated in £m

11. Property, plant and equipment (continued)

Year ended 30 June 2023	Land and buildings	Fixtures, fittings and equipment	Motor vehicles	Right-of-use assets	Total
Cost					
At beginning of year	0.5	10.5	2.6	35.5	49.1
Additions	–	1.1	1.0	–	2.1
Disposals	–	(0.1)	(0.6)	–	(0.7)
At end of year	0.5	11.5	3.0	35.5	50.5
Depreciation					
At beginning of year	–	5.9	1.0	8.9	15.8
Charge for the year	–	1.2	0.7	0.9	2.8
Disposals	–	–	(0.3)	–	(0.3)
At end of year	–	7.1	1.4	9.8	18.3
Net book value					
At end of year	0.5	4.4	1.6	25.7	32.2
At beginning of year	0.5	4.6	1.6	26.6	33.3

12. Intangible assets

	Six months ended		Year ended
Computer software	**31 December 2023**	31 December 2022	30 June 2023
Cost			
At beginning of period	**28.7**	23.1	23.1
Additions	**3.5**	3.3	7.2
Disposals	**–**	0.1	(1.6)
At end of period	**32.2**	26.5	28.7
Amortisation			
At beginning of period	**17.5**	16.0	16.0
Charge for the period	**1.9**	1.6	3.1
Disposals	**–**	–	(1.6)
At end of period	**19.4**	17.6	17.5
Net book value			
At end of period	**12.8**	8.9	11.2
At beginning of period	**11.2**	7.1	7.1

Unless otherwise indicated, all amounts are stated in £m

13. Deferred tax asset

	Six months ended		Year ended
	31 December 2023	31 December 2022	30 June 2023
At beginning of period	**7.7**	8.8	8.8
Charge to income statement	**(0.5)**	(0.5)	(2.3)
Adjustment in respect of prior years	**–**	–	0.9
Effect of changes in tax rates	**–**	0.2	0.3
At end of period	**7.2**	8.5	7.7

The deferred tax asset consisted of the following:

	31 December 2023	31 December 2022	30 June 2023
Accelerated capital allowances	**(0.5)**	(0.5)	(0.6)
Short-term timing differences	**7.7**	9.0	8.3
	7.2	8.5	7.7

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. The net deferred tax asset at 31 December 2023 has been calculated using these rates, to reflect the expected timing of reversal of the related temporary differences.

14. Borrowings

	31 December 2023	31 December 2022	30 June 2023
Revolving credit facility	–	–	70.0
Loan notes	**4,939.2**	4,114.4	4,511.3
Senior secured notes	**1,055.0**	1,055.3	1,055.2
Subordinated shareholder loans	**34.8**	32.5	33.7
Lease liabilities	**28.8**	29.3	29.1
	6,057.8	5,231.5	5,699.3
Debt-issue costs	**(21.4)**	(24.7)	(19.0)
Total borrowings	**6,036.4**	5,206.8	5,680.3

Of which:

	31 December 2023	31 December 2022	30 June 2023
Due for settlement within 12 months	**583.0**	435.5	515.1
Due for settlement after 12 months	**5,453.4**	4,771.3	5,165.2
	6,036.4	5,206.8	5,680.3

Loan notes have the following features:

Loan facility	Established	Facility type	Facility size (£m)	Maturity
Brooks ABS	2021	Amortising	83.9	Mar 2027
Charles Street ABS 2	2022	Revolving	1251.5	Mar 2027
Delta ABS 2	2019	Revolving	400.0	Dec 2025
Fairway ABS	2022	Amortising	384.2	Dec 2026
Highfield ABS	2018	Revolving	725.0	Sep 2025
Lakeside ABS	2015	Revolving	700.0	Apr 2026
Together ABS 4	2020	Amortising	142.7	Jun 2024
Together ABS 5	2021	Amortising	157.4	Oct 2025
Together ABS 6	2022	Amortising	224.7	May 2026
Together ABS 7	2022	Amortising	344.8	Jun 2026
Together ABS 8	2023	Amortising	377.3	Apr 2027
Together ABS 9	2023	Amortising	399.0	Sep 2027
Together CRE1	2021	Amortising	119.8	Feb 2025
Together CRE2	2021	Amortising	150.8	Feb 2026
Together CRE3	2022	Amortising	287.7	Oct 2026
Together CRE4	2023	Amortising	367.0	Oct 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.

The maturity date on the undrawn revolving credit facility (RCF) is September 2026 with a total facility size of £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 2027, after maturity extensions, and £43.0m due in 2036. The difference between the total nominal value of £68.1m and the initial fair values on origination or extension of £22.2m represents a cumulative non-distributable capital contribution of £47.9m, £14.7m of which has amortised by 31 December 2023 (31 December 2022: £12.4m, 30 June 2023: £13.5m). The remainder of the reserve will be amortised over the life of the instruments.

The Group has undertaken the following refinancing activity since the year ended 30 June 2023:

- In July 2023, the Group issued an RMBS, Together ABS 8, raising £404.4m of external funding.
- In September 2023, the Group refinanced its BABS facility, extending its maturity to September 2027 with an additional £55.0m of funding secured.
- Also in September 2023, the Group issued a further RMBS, Together ABS 9, raising £425.0m of external funding, whilst in the same month repaying its Together ABS 3 facility.
- In November 2023, the Group issued Together CRE 4, raising £367.0m of external funding.
- In December 2023, the Group upsized and extended the maturity date on its HABS facility, increasing the facility size by £200.0m.
- Since the period end, in January 2024, the Group issued Together ABS 10, raising £283.8m in external funding.

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

Unless otherwise indicated, all amounts are stated in £m

14. Borrowings (continued)

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

Borrowings have the following maturities:

As at 31 December 2023	**<1 year**	**1-2 years**	**2-5 years**	**>5 years**	**Total**
Loan notes	**584.4**	**454.6**	**3,900.2**	**–**	**4,939.2**
Senior secured notes	**–**	**–**	**1,055.0**	**–**	**1,055.0**
Subordinated shareholder loans	**–**	**–**	**20.1**	**14.7**	**34.8**
Lease liabilities	**1.1**	**1.0**	**2.5**	**24.2**	**28.8**
	585.5	**455.6**	**4,977.8**	**38.9**	**6,057.8**
Debt-issue costs	**(2.5)**	**(2.3)**	**(16.6)**	**–**	**(21.4)**
	583.0	**453.3**	**4,961.2**	**38.9**	**6,036.4**

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 30 June 2023	<1 year	1-2 years	2-5 years	>5 years	Total
Revolving credit facility	–	–	70.0	–	70.0
Loan notes	516.0	306.2	3,689.1	–	4,511.3
Senior secured notes	–	–	1,055.2	–	1,055.2
Subordinated shareholder loans	–	–	19.3	14.4	33.7
Lease liabilities	1.1	1.1	2.4	24.5	29.1
	517.1	307.3	4,836.0	38.9	5,699.3
Debt-issue costs	(2.0)	(1.8)	(15.2)	–	(19.0)
	515.1	305.5	4,820.8	38.9	5,680.3

Unless otherwise indicated, all amounts are stated in £m

15. Provisions and contingent liabilities

Provisions

Six months ended 31 December 2023	Customer provisions	Other provisions	Total
Balance at beginning of period	**3.1**	**4.1**	**7.2**
Charge/(release) for the period	**0.1**	**(0.1)**	**–**
Provisions utilised	**(2.3)**	**(0.4)**	**(2.7)**
Balance at end of period	**0.9**	**3.6**	**4.5**

Six months ended 31 December 2022	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 2023, the Group has recognised provisions of £4.5m (31 December 2022: £13.6m). Estimating the amount of provisions requires judgement, with the amounts representing the best estimate of the amount required to settle or transfer the obligation at the reporting date.

The level of provisions has continued to fall with the Group implementing further improvements for customers leading to continued utilisation of these provisions in the period in line with expectations. The Group also proactively engages with regulators and regularly monitors the requirement for further required provisions.

Other provisions substantially represents a provision for legal claims. 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. This 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. Where such claims are received, the Group will investigate the facts and circumstances and will defend claims without merit.

Contingent liabilities – fixed and floating charges

As at 31 December 2023, the Group's assets were subject to a fixed and floating charge in respect of £1,055m senior secured notes (31 December 2022: £1,055m).

16. Other liabilities

	31 December 2023	31 December 2022	30 June 2023
Amounts owed to related parties	**–**	0.1	–
Trade creditors	**2.5**	1.9	3.2
Other creditors	**5.6**	1.6	1.2
Other taxation and social security	**2.0**	7.0	1.5
Accruals and deferred income	**36.9**	28.7	26.0
Accrued interest on borrowings	**47.1**	42.2	49.9
	94.1	81.5	81.8

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

17. Financial instruments and fair values

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

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Measurements derived from observable data, such as market prices or rates;

Level 3: Measurements relying on significant inputs not based on observable market data.

Financial instruments measured at fair value

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 2023	**Level 1**	**Level 2**	**Level 3**	**Fair value**	**Carrying value**
Derivative assets/(liabilities) held for risk management – Interest-rate risk					
Derivative assets	–	**14.9**	–	**14.9**	**14.9**
Derivative liabilities	–	**(18.8)**	–	**(18.8)**	**(18.8)**

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

30 June 2023	Level 1	Level 2	Level 3	Fair value	Carrying value
Derivative assets/(liabilities) held for risk management – Interest-rate risk					
Derivative assets	–	62.3	–	62.3	62.3
Derivative liabilities	–	(0.1)	–	(0.1)	(0.1)

The Group's derivative assets and liabilities mainly consist of interest-rate swaps. The valuations of these instruments are level 2, being derived from generally accepted valuation models that use forecast future interest-rate curves derived from market data.

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 2023	**Level 1**	**Level 2**	**Level 3**	**Fair value**	**Carrying value**
Financial assets					
Loans and advances to customers	–	–	**6,735.6**	**6,735.6**	**6,794.9**
Financial liabilities					
Borrowings	**996.3**	**2,571.2**	**2,422.1**	**5,989.6**	**6,036.4**

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

Unless otherwise indicated, all amounts are stated in £m

17. Financial instruments and fair values (continued)

Financial instruments not measured at fair value (continued)

30 June 2023	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets					
Loans and advances to customers	–	–	6,317.3	6,317.3	6,410.2
Financial liabilities					
Borrowings	903.9	2,261.5	2,367.7	5,333.1	5,680.3

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 2023.

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

18. Notes to the cash flow statement

	Three months ended		Six months ended	
	31 December 2023	31 December 2022	**31 December 2023**	31 December 2022
Adjustments for non-cash items in profit after tax:				
Interest payable	**97.8**	63.8	**191.8**	116.0
Changes in expected credit losses charged to income statement	**12.2**	43.0	**24.6**	31.1
Taxation	**11.0**	2.7	**22.1**	9.0
Provisions for liabilities and charges	**–**	(0.6)	**–**	(1.1)
Depreciation and amortisation	**1.4**	1.5	**2.8**	3.0
Net losses/(gains) on financial instruments	**5.7**	1.0	**8.7**	(0.4)
Impairment of ROU asset	**0.3**	–	**0.5**	–
Gains on disposal of fixed assets	**–**	(0.1)	**(0.1)**	(0.3)
	128.4	111.3	**250.4**	157.3
Changes in operating assets and liabilities				
Increase in loans and advances to customers	**(196.8)**	(250.0)	**(409.2)**	(675.1)
Decrease/(increase) in other assets	**3.2**	4.0	**(1.5)**	(2.4)
(Decrease)/increase in other liabilities	**(5.5)**	(6.0)	**4.3**	(10.3)
	(199.1)	(252.0)	**(406.4)**	(687.8)
Additional information on cash flows from operating activities				
Interest income receipts	**163.5**	**122.5**	**318.7**	**225.9**

19. Related party transactions

Relationships

The Company has the following related parties:

a) Controlling party

All the voting shares of Together Financial Services Limited are controlled by Bracken Midco2 Limited, a company whose ultimate parent is Redhill Famco Limited, which is wholly 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 period transacted with the Company's subsidiaries as follows:

Entity	Nature of transactions
Bracken House Properties LLP	The Group pays operating lease and insurance costs to Bracken House Properties LLP for its provision of the Group's head office property.
Charles Street Finance Holdings Limited	The Group manages accounts payable on behalf of the company and provides ancillary accounting and treasury services for which it receives a fee.
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.
Charles Street Capital Limited	The Group refers borrowers outside its lending criteria to Charles Street Capital 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 period. The Group also pays Sterling Property Co. Limited for the rental of additional office space.
Sunnywood Estates Limited	The Group provides loans with interest charged at 5% per annum, secured on certain assets of the company, which were closed during the period. The Group also manages accounts payable on behalf of this entity.

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

Unless otherwise indicated, all amounts are stated in £m

19. Related party transactions (continued)

Relationships (continued)

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

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 14. 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 10 and remuneration in the ordinary course of business.

Transactions

The amounts receivable from and payable to related parties by the Group are disclosed in Notes 10 and 16 to the financial statements. The Group had the following transactions with related parties during the period:

	Six months ended			
	31 December 2023		31 December 2022	
Group	**Charge to income or equity**	**Paid/(received)**	Charge to income or equity	Paid
Lease and insurance costs	**0.5**	**0.5**	1.1	1.1
Accounts payable transactions	**–**	**0.2**	–	0.4
Net provision of treasury funding	**–**	**(0.3)**	–	0.3
Related parties of HN Moser	**0.5**	**0.4**	1.1	1.8
Interest expense	**1.2**	**–**	1.1	–
Dividends paid	**32.8**	**32.8**	49.7	49.7
Parent companies	**34.0**	**32.8**	50.8	49.7
Total related parties	**34.5**	**33.2**	51.9	51.5

The Group declared £32.8m of interim dividends as at 31 December 2023 (31 December 2022: £49.7m).

20. 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 2023 and 31 December 2022:

Six months ended 31 December 2023	**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 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

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 2023		31 December 2022	
	Right-of-use assets – leasehold property £m	**Lease liabilities £m**	Right-of-use assets – leasehold property £m	Lease liabilities £m
As at beginning of period	**25.6**	**(29.1)**	26.6	(29.6)
Additions	**–**	**(0.3)**	–	(0.6)
Depreciation expense	**(0.5)**	**–**	(0.5)	–
Interest expense on lease liabilities	**–**	**(0.8)**	–	(0.7)
Payments	**–**	**1.4**	–	1.6
As at end of period	**25.1**	**(28.8)**	26.1	(29.3)

The analysis of lease liabilities includes hire-purchase obligations for motor vehicles. The Group had total cash outflows for leases of £1.4m during the period (31 December 2022: £1.6m).

21. 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 2023, the Group had undrawn commitments to lend of £105.1m (31 December 2022: £264.4). 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 2023 and 31 December 2022 and is classified within other liabilities.

22. Events after the reporting date

In January 2024, the Group announced the pricing of a further RMBS, Together Asset Backed Securitisation 2024 – 2ND1 PLC (TABS 10).