30 March 2021

S&U plc
("S&U", "the Group" or "the Company")

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 JANUARY 2021

S&U plc (LSE: SUS), the motor finance and specialist lender, today announces its preliminary results for the year ended 31 January 2021:

Group Key Financials:

- Robust and resilient response to Covid pandemic
- Profit before tax ("PBT"): £18.1m (2020: £35.1m)- reduction primarily due to additional Covid related provisions on motor finance – H2 profit of £11.8m (H1: £6.3m)
- Amounts receivable from customers reduced by 7% to £280.9m (2020: £301.8m)
- Revenue reduced by 7% at £83.8m (2020: £89.9m)
- Basic earnings per share: 120.7p (2020: 239.6p) – H2 eps 78.8p (H1: 41.9p)
- Final dividend of 43p per ordinary share to be paid on 9 July 2021 (2020: 50p)
- Net Borrowings at £98.8m (2020: £117.8m) – gearing at 54.6% (2020: 65.7%)

Advantage Motor Finance Highlights:

- PBT: £17.2m (2020: £34.0m). Significant rebound in H2 from Covid impacted first half with H2 PBT: £11.1m (H1: £6.1m)
- H2 performance includes robust and improving collections – less than 3,000 customers in March 2021 on payment holiday (compared to over 15,000 active payment holidays at peak)
- Annual PBT reflects £36.0m of Covid impacted forward looking IFRS9 loan loss provisions (2020: £16.5m)
- Total annual collections at £180.5m (2020: £196.5m) a decrease of £16m partly reflecting smaller book and FCA mandated payment holidays and repossession restrictions- now lifted
- Annual net advances: £102.6m (2020: £149.0m) reflecting lockdowns and tightened Covid related underwriting – new business quality good
- Net receivables at £246.8m (2020: £280.8m) and customer numbers : 63,000 (2020: 64,000)

Aspen Bridging Highlights:

- PBT: £0.8m (2020: £1.2m) - a substantial recovery in H2 (£0.7m) from Covid affected H1 (£0.1m)
- H2 PBT performance underpinned by strong advances and repayments
- Amounts receivable from customers now £34.1m (2020: £21.0m) with no loans past due at March 2021
- 234 new loan facilities in 4 years with 165 repaid up to 31 January 2021 and 69 remaining on live book

Anthony Coombs, Chairman of S&U plc stated:
"Although uncertainty still surrounds the economic climate following Covid, the skies are definitely brightening. As I predicted last year, the fall in consumer demand and confidence is proving to be temporary and will not alter the fundamentals underpinning the demand for the vehicles and properties S&U finances. My confidence in our superb staff, our financial strength and sound strategy allows me to predict a return to S&U's habitual levels of success. We relish the challenge."

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A conference call presentation for analysts will be held on 30th March 2021 at 9.30am

Introduction

Both globally and in the UK, the past year has seen seismic events, the like of which have not been seen in peace time. Although the Government now has a road-map out of this strange terrain, the implications of Covid for the British economy, and for society as a whole, defy firm prediction.

Against such a background, S&U has this year produced a solid and durable set of results, of which all our loyal colleagues can be rightly proud. Profit Before Tax is £18.1m (2020: £35.1m) on revenue of £83.8m (2020: £89.9m), giving earnings per share of 120.7p (2020: 239.6p). Our financial position has strengthened still further as increased cash generation has lowered gearing to 54.6% (2020: 65.7%). This coupled with an extension of S&U's medium-term funding facilities allows significant headroom for the rebound in growth we plan for our motor finance and property bridging businesses. These are the bald facts.

Financial Highlights

- Profit before tax ("PBT"): £18.1m (2020: £35.1m)
- Revenue: £83.8m (2020: £89.9m)
- Earnings per share ("EPS"): 120.7p (2020: 239.6p)
- Group net assets: £181.0m (2020: £179.5m)
- Group gearing*: 54.6% (2020: 65.7%)
- Treasury – post year-end Group facilities extended to £155m
- Group collections*: £214.3m (2020: £228.8m)
- Dividend proposed: 90p per ordinary share (2020: 120p)

* key alternative performance measurement definitions are given in note 2.4 below

But behind these facts lies a much more important story of perseverance, initiative and real courage as our staff have coped with and then overcome the personal and business challenges posed by Covid. Though some have experienced the disease, all are thankfully safe and have adapted stoically to home-working, whilst about 25 are manning our offices. I pay tribute to them all.

The current vaccination programme and a more coherent Government policy roadmap for Covid justify greater optimism. The pandemic previously has undoubtedly hit the UK harder than most in the developed world. Whatever the reasons, which range from a dense and urbanised population, disparities in income and living conditions and cultural attitudes, the result has been a death rate higher than in any large country and a fall in economic output over the past year of just over 10% - the second worst performance of any industrialised nation.

Many of the immediate economic consequences have been postponed, and possibly avoided, by monetary policy which has seen interest rates at record lows and a quantitative easing programme of £900bn over the past year alone. This has been matched by loose fiscal policies resulting in government debt increasing to over £2trillion, the long-term consequences of which are simply unknown. In the short term, the results of this economic intensive care have been undeniably positive. Although around 3.5m people are still "temporarily" away from paid work, unemployment still stands at just over 5.5% - well below those levels experienced after the Global Financial Crisis. Although this may rise next year, recent net emigration and an adaptable workforce should mitigate this. This short macro-economic digression is intended to demonstrate not only the uncertainties our business faces, but also the opportunities presented to us. Personal saving rates have recovered strongly as has consumer confidence and the appetite to spend. This, and a recent evidence of returning business confidence, have seen Government predictions for GDP growth rise to 4.5% this year and 6.6% next.

All this means that S&U's habitual caution should now be seasoned with ambition and optimism for the next two years. Thus, July to October 2020 saw the used car finance market record 120,000 to 140,000 transactions per month, the highest for over three years. In the same period Finance and Leasing Association figures showed the strongest used car price growth for a decade. Similarly, the housing market, upon which Aspen's bridging loans largely depend, has confounded early predictions of collapse; instead it finished 2020 with a 6.3% increase in house prices, and nearly 104,000 monthly mortgage approvals (40% higher than before the pandemic) reinforcing this incipient trend.

Despite the inevitable shorter-term impact of the pandemic upon the level and quality of the Group's business, we fully expect to see a gradual and sustained rebound in Group Profits. Current initiatives in both businesses may even accelerate this recovery.

This is why we have, post year-end, increased our medium-term borrowing facilities from £130m to £155m (despite a fall in Group borrowing this year of £19m to £98.8m). This will provide ample headroom for the surge in growth in customer numbers and good quality business we anticipate.

Advantage Finance ("Advantage")

In a year which saw the Covid lock-downs close dealerships lead to an initial 80% fall in loan transaction numbers, and when FCA mandated customer repayment "holidays" affected nearly 21,000 or about a third of Advantage's customers, Advantage Finance, our non-prime motor finance division, has delivered a very creditable result. Profit Before Tax is £17.2m (2020: £34.0m) on revenue of £79.5m (2020: £85.5m).

Challenging market conditions due to Covid and a prudent tightening of under-writing criteria early last year saw transactions fall from 23,234 in 2019/20 to 15,600. Overall customer numbers stood at nearly 63,000 (2020: 64,000) and net receivables at £246.8m (2020: £280.8m). The net receivables and the lower profit reflected IFRS forward looking loan loss provisions of £36m for the year (2020: £17m). Return on Capital Employed before finance costs is 8.6% (2020: 15.2%) and Advantage's risk adjusted yield on average receivables was 16.4% for the year (2020: 25.5%) (definitions are in note 1.13).

Advantage's previous track record of 20 years of continuous profits growth has been built on three pillars, and remains unchanged by Covid.

The first pillar is its insistence that real profits are reflected in cash repayments from our loyal customers. This year, despite the payment holidays which affected nearly 21,000 of our customers and resulted in an estimated £13m lower collection, total cash collected at Advantage was £180m against £196m last year.

This resulted in a monthly collection rate against contractual due of nearly 84% (2020: 94%) which, despite Covid, reflects the excellent relationships Advantage has always enjoyed with its customers. In turn these depend upon the work Advantage does on customer forbearance, income and expenditure analysis and consistent customer communications. These are evidenced by Advantage's positive and close relationships with the FCA regulator, who recently favourably reviewed collections procedures as part of an industry wide review.

Advantage's second pillar for success depends upon their ability to analyse and anticipate customer circumstances and to tailor finance products for them. This year has seen further strengthening of its under-writing "black box" as it has continued to widen its use of credit information and refine its scorecard. This has enabled Advantage to cautiously under-write a record 1.5m loan applications during the year despite Covid (2020: 1.4m), providing a solid platform for the selection of good quality customers in uncertain times. Evidence of the improvement in customer repayments this should bring about is in our first payment statistics which at 98.5% are now up on pre-Covid levels.

The third pillar of Advantage's success relates to its relationships with its introducer brokers – strengthened this year through their maintaining the supply of credit throughout the various Lockdowns and by carefully testing and learning new products to cater for changing customer needs. These relationships continue to both improve the efficiency of the loan process and, together with continuous improvements in our underwriting should see a significant upturn in Advantage's approval/transaction rates. These in turn will lead to increase in transactions growth, market share and debt yield.

The Victorian Prime Minister Benjamin Disraeli once said "there is no education like adversity". Advantage has used the hiatus in growth caused by Covid to set out a strategy for major improvements to an already successful business. Whilst the whole process is guided by Graham Wheeler in his first – slightly over-eventful – year as Chief Executive, great credit also goes to his team of directors and all the staff at Advantage for the results they have achieved and the fundamental progress they continue to make.

Aspen Bridging

Just as the more apocalyptic predictions about the UK housing market made in early 2020 have proven wrong, so it was in the year of Covid that Aspen, our property bridging finance provider, unequivocally demonstrated its potential for making a substantial and sustained contribution to the success of the Group.

Profit Before Tax for the year is £0.8m (2020: £1.2m), and this despite a first half during which the property market was effectively frozen. Although this reduced profits in the first half to just £118,000, Aspen produced £695,000 profit in the second half. The main deficit on last year related to lower interest income from a dearth in deals in the first half.

As a result of a strong second half when transaction numbers more than doubled from 25 in the first half year to 55 in the second half year, advances for the year reached £43.5m against £31.3m last year. Average gross loan size was £550,000 against £432,000 in the first half. As consumer confidence returned and Aspen's product range was made more competitive, broker relationships were developed and key partners were incentivised, so Aspen's loan book grew to £34.1m against £21.0m last year. In addition, recent months have seen the introduction of a light development product for the burgeoning small refurbishment market, and CBILS (Coronavirus Business Interruption Loan Scheme) validation which for its limited duration will bring further small business deals at good margins.

All this has been achieved whilst tightening checks on borrowers and on the valuations which underpin our lending policies. Loan quality has improved over the past year and Aspen now has no loans past due and no defaults over the entire book.

This gives Aspen both the base and the momentum for the substantial growth it expects in the coming year. As a result, our deliberately cautious investment in the business is anticipated to double during the coming year and this is expected to deliver a significant rebound in profits. This will reflect the market credibility of the business and the hard work of both Ed Ahrens, Chief Executive, Jack Coombs, his deputy, and their growing team over the past year.

Dividends

Just as the wise person invests and re-invests for the longer-term, so we have always believed that S&U's dividend policy should reflect the long-term trading prospects of the Group - not just the vicissitudes of the short-term. At S&U, where shareholders capital and management's stake in it have been invested for many years, dividends should reflect this consistency of loyalty as well as our confidence in future trading.

Throughout the pandemic, S&U has not furloughed staff nor taken any Government support. Therefore, we have decided this year that a combination of confidence in the post Covid recovery, S&U's financial strength and the prospects for our businesses justifies a final dividend of 43p per share (2020: 50p). Subject, as always, to the approval of shareholders at our AGM on the 20th May 2021, this final dividend will be paid on 9th July 2021 to those on the register on the 18th June 2021.

Total dividends for this year would therefore be 90p per ordinary share (2020: 120p). On this year's earnings per share of 120.7p (2020: 239.6p), this will see cover at 1.34 times (2020: 2.00 times). We expect gradually to return to our habitual ratio of twice covered over the coming years.

Funding Review

As predicted in my statement last year, the effect of Covid lockdowns and the robust and improving collections performance at Advantage has resulted in significant cash generation there. Borrowing at Advantage has fallen by £32m during the year. This is partly offset by our growing investment in the shorter-term Aspen bridging business where borrowing grew by £12.5m during the year.

As a result, Group borrowing at year-end was £98.8m (2020: £117.8m). This saw S&U's traditionally strong gearing ratio fall yet again to just 54.6% against 65.7% last year. Early repayment of £25m of shorter dated maturity facilities during the year means that at year-end £130m of medium-term facilities are available to the Group.

Over the next two years our growth prospects and strategy will require additional funding. This is why post year-end we have put in place additional longer-term facilities of £50m on terms up to eight years. This provides total committed Group facilities of £155m which will be augmented as required.

Governance and Regulation

S&U has now been in business for 83 years, 60 years as a fully listed company, and most of that time has been spent in the highly regulated financial services sector. We note the current trend towards ever more detailed reporting on wider ESG responsibilities particularly through our Section 172 Statement. However, we have always held the view that any serious company with sustainable ambitions should recognise that it does not exist in a vacuum. We all have responsibilities, not only to our shareholders and staff but, morally and in our own commercial interests, to our customers and to a wider, albeit often ill-defined, "community." These exist in addition to demands made upon us by the FRC or the Corporate Governance Code. Whether the box-ticking approach adopted by some institutional advisors to these issues is either proportionate or advances responsible business is a matter of debate. What is clear is that the British economy, even free from European legislation, will struggle to better a growth rate of around 1.5% a year unless the corporate sector can convince the public of the virtues of free enterprise in providing for a decent, opportunity driven society.

That will be achieved by practical action not virtue signalling. Examples abound. Thus, in December the Financial Conduct Authority completed a review of collection procedures in the motor finance industry. This followed the imposition of payment holidays and increased concerns about vulnerable customers during the pandemic. Following the review Advantage received positive comments for their treatment and communication with their customers, particularly vulnerable ones.

Again, on diversity and opportunities for all, it has always been S&U's policy to recruit and promote from as wide a pool of talent as possible, solely on the basis of aptitude and ability. In an ever-evolving society this should make quotas unnecessary. For instance, recent recruitment at Aspen has been primarily from the "BAME" community, and from both sexes. What their sexual preferences are is neither known nor of interest to us. All are thriving.

Being largely office based, S&U's direct impact on the environment is confined to the premises we use and how we reach them. The past year has seen substantial refurbishment and improvement in new buildings at Advantage's Grimsby HQ. This will reduce our carbon footprint and, more important, provide a better working environment for our employees. Further, the successful adoption of home working during Covid will see this continue, so that more flexible patterns of work in future will offer environmental, convenience and psychological benefits for those who value it.

Finally, like any environmentally socially responsible business, S&U aims to ensure that the vehicles and property it finances contribute towards a cleaner and more sustainable world. Aspen monitors this through monitoring whether EPC and other standards, especially for new builds, meet Governement guidelines and the requirements of mortgage lenders. Advantage aims to ensure that the vehicles it finances are cleaner too. Its ability to do this is obviously constrained by our customers' preferences, which presently favour the internal combustion engine. This is partly due to the lack of a charging infrastructure and, primarily, to EVs still being too expensive. Thus, even a five-year-old Nissan Leaf, with average mileage, sells for £12,000, the top end of the affordable non-prime price range.

The transition to EVs is therefore likely to be evolutionary not revolutionary. Although EV registrations in the UK trebled last year to 108,000 vehicles, this still comprised just 7% of UK car sales. Even by 2030 when the sale of new ICE vehicles will be banned, EVs are estimated to only make up 9% of the UK car parc. Nevertheless, Advantage foresees exciting opportunities and has established a working party to study the development of the EV market and to prepare strategies and products to take advantage of it.

Current Trading and Outlook

Although uncertainty still surrounds the economic climate following Covid, the skies are definitely brightening. As I predicted last year the suppression of consumer demand and confidence is likely to be temporary and will not alter the fundamentals underpinning the demand for the vehicles and properties S&U finances.

This is already evident in our most recent applications figures for both Advantage and Aspen, and bodes well for the rebound in activity we anticipate this year. Recent Government measures announced in the Budget, particularly in relation to the extension of the furlough, stamp duty concessions and business support measures should, in conjunction with the vaccination programme, make a swift return to the new economic "normal" even faster than anticipated.

Beyond that, our ability in the UK to double our "natural" rate of GDP growth to at least 3% per annum will depend upon the Government's appetite for the kind of regulatory easing and tax incentives for enterprise which Brexit brings within our reach. In the meantime, as the teams at Aspen and Advantage have proved so ably this year, S&U will continue to make the kind of operational and product improvements which have been features of the past year, and indeed of our history.

Given the pressures and dislocation they have faced in the past year, on behalf of your Board, I pay a humbled tribute to our superb staff, and indeed their families. It is above all my confidence in them as well as the financial strength and strategic direction of S&U, that allows me to predict a return to our habitual levels of success.

Anthony Coombs
Chairman
29 March 2021

CONSOLIDATED INCOME STATEMENT

Year ended 31 January 2021

	Note	2021 £'000	2020 £'000
Revenue	3	**83,761**	89,939
Cost of Sales	4	**(50,969)**	(37,092)
Gross Profit		**32,792**	52,847
Administrative expenses		**(11,096)**	(12,863)
Operating profit		**21,696**	39,984
Finance costs (net)	5	**(3,568)**	(4,850)
Profit before taxation		**18,128**	35,134
Taxation		**(3,482)**	(6,252)
Profit for the year attributable to equity holders		**14,646**	28,882
Earnings per share basic	7	**120.7p**	239.6p
Earnings per share diluted	7	**120.7p**	239.4p
Dividends per share			
- Proposed Final Dividend		**43.0p**	50.0p
- Interim dividends in respect of the year		**47.0p**	70.0p
- Total dividend in respect of the year		**90.0p**	120.0p
- Paid in the year		**108.0p**	120.0p

All activities derive from continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2021 £'000	2020 £'000
Profit for the year attributable to equity holders	**14,646**	28,882
Actuarial loss on defined benefit pension scheme	**(9)**	(14)
Total Comprehensive Income for the year	**14,637**	28,868

Items above will not be reclassified subsequently to the Income Statement

CONSOLIDATED BALANCE SHEET
31 January 2021

	Note	2021 £'000	2020 £'000
ASSETS			
Non current assets			
Property, plant and equipment including right of use assets		**2,713**	2,108
Amounts receivable from customers	6	**170,591**	195,604
Deferred tax assets		**109**	94
		173,413	197,806
Current Assets			
Amounts receivable from customers	6	**110,319**	106,146
Trade and other receivables		**1,106**	1,473
Cash and cash equivalents		**1**	656
		111,426	108,275
Total Assets		**284,839**	306,081
LIABILITIES			
Current liabilities			
Bank overdrafts and loans		**(1,295)**	-
Trade and other payables		**(2,763)**	(3,126)
Tax Liabilities		**(593)**	(3,697)
Accruals and deferred income		**(658)**	(601)
		(5,309)	(7,424)
Non current liabilities			
Borrowings		**(97,500)**	(118,500)
Lease Liabilities		**(551)**	(233)
Financial Liabilities		**(450)**	(450)
		(98,501)	(119,183)
Total liabilities		**(103,810)**	(126,607)
NET ASSETS		**181,029**	179,474
Equity			
Called up share capital		**1,717**	1,715
Share premium account		**2,301**	2,301
Profit and loss account		**177,011**	175,458
Total equity		**181,029**	179,474

STATEMENT OF CHANGES IN EQUITY

Year ended 31 January 2021

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total equity £'000
At 1 February 2019	1,701	2,301	161,365	165,367
Profit for year	-	-	28,882	28,882
Other comprehensive income for year	-	-	(14)	(14)
Total comprehensive income for year	-	-	28,868	28,868
Issue of new shares in year	14	-	-	14
Cost of future share based payments	-	-	99	99
Tax credit on equity items	-	-	(413)	(413)
Dividends	-	-	(14,461)	(14,461)
At 31 January 2020	1,715	2,301	175,458	179,474
Profit for year	-	-	14,646	14,646
Other comprehensive income for year	-	-	(9)	(9)
Total comprehensive income for year	-	-	14,637	14,637
Issue of new shares in year	2	-	-	2
Cost of future share based payments	-	-	75	75
Tax charge on equity items	-	-	(61)	(61)
Dividends	-	-	(13,098)	(13,098)
At 31 January 2021	1,717	2,301	177,011	181,029

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 January 2021

	Note	2021 £'000	2020 £'000
Net cash from/(used in) operating activities	8	32,940	4,946
Cash flows used in investing activities			
Proceeds on disposal of property, plant and equipment		103	40
Purchases of property, plant and equipment		(1,215)	(305)
Net cash used in investing activities		(1,112)	(265)
Cash flows (used in)/from financing activities			
Dividends paid		(13,098)	(14,461)
Issue of new shares		2	14
Receipt of new borrowings		4,000	10,500
Repayment of borrowings		(25,000)	-
Increase/(decrease) in lease liabilities		318	(41)
Net increase/(decrease) in overdraft		1,295	(38)
Net cash (used in)/from financing activities		(32,483)	(4,026)
Net (decrease)/increase in cash and cash equivalents		(655)	655
Cash and cash equivalents at the beginning of year		656	1
Cash and cash equivalents at the end of year		1	656
Cash and cash equivalents comprise			
Cash and cash in bank		1	656

There are no cash and cash equivalent balances which are not available for use by the Group (2020: £nil).

1. **SHAREHOLDER INFORMATION**

1.1 Preliminary Announcement

The figures shown for the year ended 31 January 2021 are not statutory accounts within the meaning of section 435 of the Companies Act 2006. The statutory accounts for the year ended 31 January 2021 on which the auditors have given an unqualified audit report and did not contain an adverse statement under section 498(2) or 498(3) of the Companies Act 2006 will be delivered to the Registrar of Companies after the Annual General Meeting. The figures shown for the year ended 31 January 2020 are not statutory accounts. A copy of the statutory accounts has been delivered to the Registrar of Companies, contained an unqualified audit report and did not contain an adverse statement under section 498(2) or 498(3) of the Companies Act 2006. This announcement has been agreed with the Company's auditors for release. A copy of this preliminary announcement will be published on the website www.suplc.co.uk. The Directors are responsible for the maintenance and integrity of the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differ from legislation in other jurisdictions.

1.2 Annual General Meeting

The Annual General Meeting will be held on 20 May 2021 and further details of arrangements will be published in the AGM notice.

1.3 Dividend

If approved at the Annual General Meeting a final dividend of 43p per Ordinary Share is proposed, payable on 9 July 2021 with a record date of 18 June 2021.

1.4 Annual Report

The 2021 Annual Report and Financial Statements and AGM notice will be displayed in full on our website www.suplc.co.uk in due course and also posted to those Shareholders who have still opted to receive a hardcopy. Copies of this announcement are available from the Company Secretary, S & U plc, 2 Stratford Court, Cranmore Boulevard, Solihull B90 4QT.

2. **KEY ACCOUNTING POLICIES**

The 2021 financial statements have been prepared in accordance with applicable accounting standards and accounting policies – these key accounting policies are a subset of the full accounting policies.

2.1 Basis of preparation

As a listed Company we are required to prepare our consolidated financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financials Reporting Standards (IFRS) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial statements have also been prepared in accordance with International Financial Reporting Standards as issued by the IASB We have also prepared our S&U plc Company financial statements in in conformity with the requirements of the Companies Act 2006 and International Financials Reporting Standards (IFRS) as adopted by the European Union. These financial statements have been prepared under the historical cost convention. The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries for the year ended 31 January 2021. The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. In arriving at this reasonable expectation, the directors have considered the current situation in respect of Covid-19 and, in particular, the potential for increased customer repayment difficulties and temporary challenges with asset recovery and realisation at potentially lower residual values as well as operational challenges. Increased repayment difficulties relate to potentially worse customer employment and/or health situations, potentially mitigated by government support and movement restrictions which lower customer outgoings, as well as being potentially mitigated by the forbearance and experience of our skilled staff. Asset recovery and realisation challenges relate mainly to government movement restrictions and the recently announced route map and easing of FCA repossession restrictions are likely to prove helpful mitigants in this respect. Operational challenges relate to the need to mobilise and support staff working from home, which has already been significantly mitigated by staff support and technology. The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

There are no new standards which have been adopted by the group this year which have a material impact on the financial statements of the Group.
At the date of authorisation of these financial statements the directors anticipate that the adoption in future periods of any other Standards and interpretations which are in issue but not yet effective, will have no material impact on the financial statements of the Group.

2.2 Revenue recognition

Interest income is recognised in the income statement for all loans and receivables measured at amortised cost using the constant periodic rate of return on the net investment in the loans, which is akin to an effective interest rate (EIR) method. The EIR is the rate that exactly discounts estimated future cash flows of the loan back to the present value of the advance. Under IFRS16, credit charge income should be recognised using the EIR. Acceptance fees charged to customers and any direct transaction cost are included in the calculation of the EIR. For lease agreements in Advantage Finance which are classified as credit impaired (i.e. stage 3 assets under IFRS 9), the group recognises revenue 'net' of the impairment provision to align the accounting treatment under IFRS 16 with the requirements of IFRS 9 and also with the treatment adopted for similar assets in Aspen.

2.3 Impairment and measurement of amounts receivable from customers

All customer receivables are initially recognised at the amount loaned to the customer plus direct transaction costs. After initial recognition the amounts receivable from customers are subsequently measured at amortised cost.

The directors assess on an ongoing basis whether there is objective evidence that a loan asset or group of loan assets is impaired and requires a deduction for impairment. A loan asset or a group of loan assets is impaired only if there is objective evidence of credit impairment as a result of one or more events that occurred after the initial recognition of the loan. Objective evidence may include evidence that a borrower or group of borrowers is experiencing financial difficulty or delinquency in repayments. Impairment is then calculated by estimating the future cash flows for such impaired loans, discounting the flows to a present value using the original EIR and comparing this figure with the balance sheet carrying value. All such impairments are charged to the income statement. Under IFRS 9 for all stage 1 accounts which are not credit impaired, a further collective provision for expected credit losses in the next 12 months is calculated and charged to the income statement.

Key assumptions in ascertaining whether a loan asset or group of loan assets is impaired include information regarding the probability of any account going into default (PD) and information regarding the likely eventual loss including recoveries (LGD. These assumptions and assumptions for estimating future cash flows are based upon observed historical data and updated to reflect current and future conditions. As required under IFRS9, all assumptions are reviewed regularly to take account of differences between previously estimated cash flows on impaired debt and the eventual losses.

There are 3 classification stages under IFRS9 for the impairment of amounts receivable from customers:

Stage 1: Not credit impaired and no significant increase in credit risk since initial recognition

Stage 2: Not credit impaired and a significant increase in credit risk since initial recognition

Stage 3: Credit impaired

For all loans in stages 2 and 3 a provision equal to the lifetime expected credit loss is taken In addition and in accordance with the provisions of IFRS9 a collective provision for 12 months expected credit losses ("ECL") is recognised for the remainder of the loan book. 12-month ECL is the portion of lifetime ECL that results from default events on a financial asset that are possible within 12 months after the reporting date.

In our Motor Finance business, all loans 1 month or more in contractual arrears are deemed credit impaired and are therefore included in IFRS9 stage 3. The expected credit loss ("ECL") is the probability weighted estimate of credit losses.

A PD/LGD model was developed by our Motor Finance business, Advantage Finance, to calculate the expected loss impairment provisions in accordance with IFRS9. Stage 1 expected losses are recognised on inception/initial recognition of a loan based on the probability of a customer defaulting in the next 12 months. This is determined with reference to historical data updated for current and future conditions. If a motor finance loan falls one month or more in contractual arrears then this is deemed credit impaired and included in IFRS9 Stage 3. There are some motor finance loans which are up to date with payments but the customer is in some form of forbearance and we deem this to be a significant increase in credit risk and so these loans are included in Stage 2. As a result of the uncertainty over the performance of customers who were granted a payment holiday as part of the Government and FCA support measures as a result of the Covid pandemic and have also either requested a second payment holiday or have had a previous payment delinquency, we have assessed these customers to have a significant increase in credit risk and they are therefore included in Stage 2. This is why the volume of customers in Stage 2 has increased at 31 January 2021. As we do not have historical data for such customers, we made an assumption on the loss rates associated with such customers by reference to relevant Stage 3 loss rates. Further sensitivity over this estimation uncertainty is provided in note 2.5.

As required under IFRS9 the expected impact of movements in the macroeconomy is also reflected in the expected loss model calculations. For motor finance, assessments are made to identify correlation of the level of impairment provision with forward looking external data regarding forecast future levels of employment, interest rates and used car values which may affect the customers' future propensity to repay their loan. In relation to the current uncertainties around Covid impacts and the evolution of Brexit, management have judged that there is currently a more heightened risk of an economic downturn. To factor in such uncertainties, management has included an overlay to reflect this macroeconomic outlook, based on our estimated unemployment levels in future periods. Further sensitivity over this estimation uncertainty is provided in note 2.5.

Other than the changes to the approach mentioned above, there were no significant changes to estimation techniques applied to the calculations used at 31 January 2021 and those used at 31 January 2020.

PD/LGD calculations for expected loss impairment provisions were also developed for our Property Bridging business Aspen Bridging in accordance with IFRS9. Stage 1 expected losses are recognised on inception/initial recognition of a loan based on the probability of a customer becoming impaired in the next 12 months. The Bridging product has a single repayment scheduled for the end of the loan term and if a bridging loan is not granted an extension or repaid beyond the end of the loan term then this is deemed credit impaired and included in IFRS9 Stage 3. Due mainly to the high values of property security attached to bridging loans, the bridging sector typically has lower credit risk and lower impairment than other credit sectors.

2.4 Performance Measurements

i) Risk adjusted yield as % of average monthly receivables is the gross yield for the period (revenue minus impairment) divided by the average amounts receivable from customers for the period.

ii) Rolling 12-month impairment to revenue % is the impairment charged in the income statement during the 12 months prior to the reporting date divided by the revenue for the same 12-month period. Historic comparisons using this measure were affected by the adoption of new accounting standards IFRS9 and IFRS16 and risk adjusted yield is considered a more historically comparable guide to receivables performance.

iii) Return on average capital employed before cost of funds is calculated as the Operating Profit divided by the average capital employed (total equity plus Bank Overdrafts plus Borrowings less cash and cash equivalents)

iv) Dividend cover is the basic earnings per ordinary share declared for the financial year dividend by the dividend per ordinary share declared for the same financial year.

v) Group gearing is calculated as the sum of Bank Overdrafts plus Borrowings less cash and cash equivalents divided by total equity.

vi) Group collections are the total monthly collections, settlement proceeds and recovery collections in motor finance added to the total amount retained from advances, customer redemptions and recovery collections in property bridging.

2.5 Critical accounting judgements and key sources of estimation uncertainty

In preparing these financial statements, the Company has made judgements, estimates and assumptions which affect the reported amounts within the current and next financial year. Actual results may differ from these estimates.

Estimates and judgements are regularly reviewed based on past experience, expectations of future events and other factors..

Critical accounting judgements

The following are the critical accounting judgements, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Significant increase in credit risk for classification in Stage 2

The Company's transfer criteria determine what constitutes a significant increase in credit risk, which results in a customer being moved from Stage 1 to Stage 2. As a result of the uncertainty over the performance of customers who were granted a payment holiday as part of the Government and FCA support measures and have also either requested a second payment holiday or have had a previous payment delinquency, we have assessed these customers to have a significant increase in credit risk and they are therefore included in Stage 2.

Key sources of estimation uncertainty

The directors consider that the sources of estimation uncertainty which have the most significant effect on the amounts recognised in the financial statements are those inherent in the consumer credit markets in which we operate relating to impairment as outlined in 1.4 above. In particular, the Group's impairment provision is dependent on estimation uncertainty in forward-looking on areas such as interest rates, employment rates, and used car and property prices.

The Group implemented IFRS 9 from 1 February 2018 by developing models to calculate expected credit losses in a range of economic scenarios. These models involve setting modelling assumptions, weighting of economic scenarios, the criteria of determining significant deterioration in credit quality and the application of adjustments to model outputs. We have outlined assumptions in our expected credit loss model in the current year. Reasonable movement in these assumptions might have a material impact on the impairment provision value.

Stage 2 loss rates

Historically the Group had very low value of receivables in the stage 2 and as a result no significant experience in the payment performance of customers in this stage. Directors have made an assumption on the level of loss rate applied to stage 2 receivables. If the loss rate applied decreased by 3% it would result in a decrease in the impairment provision by £996k.

Stage 3 loss rates

Due to the uncertainty over the impact of Covid-19 on the performance of customers in stage 3, Directors have changed one of the staging criteria for stage 3 agreements, increasing the loss rates for customers who have requested and were granted a payment holiday. Applying the same loss rates as customers who have not had a payment holiday would decrease the impairment provision by £2,480k.

Macroeconomic overlay

The Group considers four probability-weighted scenarios in relation to unemployment rate: base, upside, downside and severe scenarios. The weighted average increase in the unemployment rate over the next four years is 2%. Due to the current uncertainty in relation to the ongoing Covid-19 global pandemic and the recently agreed Brexit trade agreement the choice of scenarios and weightings are subject to a significant degree of estimation and the Group uses external data to help this process. An increase by 0.5% in the weighted average unemployment rate would result in an increase in the impairment loss by £743k. A decrease by 0.5% would result in a decrease in the impairment loss by £743k.

3. SEGMENTAL ANALYSIS

Analyses by class of business of revenue and profit before taxation from continuing operations are stated below:

	Revenue		Profit before taxation	
Class of business	**Year ended 31.1.21 £'000**	**Year ended 31.1.20 £'000**	**Year ended 31.1.21 £'000**	**Year ended 31.1.20 £'000**
Motor finance	79,553	85,465	17,198	34,027
Property Bridging finance	4,208	4,474	813	1,205
Central costs net of central finance income	-	-	117	(98)
	83,761	89,939	18,128	35,134

Analyses by class of business of assets and liabilities are stated below:

	Assets		Liabilities	
Class of business	**Year ended 31.1.21 £'000**	**Year ended 31.1.20 £'000**	**Year ended 31.1.21 £'000**	**Year ended 31.1.20 £'000**
Motor finance	250,207	283,776	(144,036)	(178,836)
Property Bridging finance	34,271	21,204	(32,213)	(19,791)
Central	361	1,101	77,748	78,989
	284,839	306,081	(98,501)	(119,638)

Depreciation of assets for motor finance was £417,000 (2020: £337,000), for property bridging finance was £18,000 (2020: £17,000) and for central was £86,000 (2020: £96,000). Fixed asset additions for motor finance were £1,198,000 (2020: £278,000), for property bridging finance were £14,000 (2020: £9,000) and for central were £3,000 (2010: £18,000).

The net finance credit for central costs was £2,577,000 (2020: £2,607,000), for motor finance was a cost of £5,381,000 (2020: £6,597,000) and for property bridging finance was a cost of £764,000 (2020: £861,000). The tax charge for central costs was £48,000 (2020: tax credit of £7,000), for motor finance was a tax charge of £3,265,000 (2020: £6,031,000) and for property bridging finance was a tax charge of £169,000 (2020: £229,000).

The significant products in motor finance are car and other vehicle loans secured under hire purchase agreements.

The significant products in property bridging finance are bridging loans secured on property.

The assets and liabilities of the Parent Company are classified as Central.

No geographical analysis is presented because all operations are situated in the United Kingdom.

4. COST OF SALES

	2021 £'000	2020 £'000
Loan loss provisioning charge – motor finance	35,995	16,507
Loan loss provisioning charge – property bridging finance	710	713
Total loan loss provisioning charge	36,705	17,220
Other cost of sales – motor finance	13,586	19,238
Other cost of sales – property bridging finance	678	634
Total cost of sales	50,969	37,092

5. FINANCE COSTS (NET)

	2021 £'000	2020 £'000
31.5% cumulative preference dividend	142	142
Lease liabilities interest	13	4
Bank loan and overdraft	3,455	4,704
Interest payable and similar charges	3,610	4,850
Interest receivable	(42)	-
Total finance costs (net)	3,568	4,850

6. AMOUNTS RECEIVABLE FROM CUSTOMERS

	2021 £'000	2020 £'000
Motor finance hire purchase	339,349	344,131
Less: Loan loss provision motor finance	(92,583)	(63,374)
Amounts receivable from customers motor finance	246,766	280,757
Property bridging finance loans	34,475	21,949
Less: Loan loss provision property bridging finance	(331)	(956)
Amounts receivable from customers property bridging finance	34,144	20,993
Amounts receivable from customers	280,910	301,750
Analysis of future due date due		
- Due within one year	110,319	106,146
- Due in more than one year	170,591	195,604
Amounts receivable from customers	280,910	301,750
Analysis of Security		
Loans secured on vehicles under hire purchase agreements	242,039	275,744
Loans secured on property	34,144	20,993
Other loans not secured - motor finance where security no longer present	4,727	5,013
Amounts receivable from customers	280,910	301,750

The credit risk inherent in amounts receivable from customers is reviewed as per note 2.3 and under this review the credit quality of assets which are neither past due nor impaired was considered to be good with the exception of 6,298 Covid impacted payment deferral customers who although not in arrears at 31.1.21 were assessed from a review of internal data to have a significant increase in credit risk. Under IFRS9 therefore these customers although not in arrears are included in stage 2 at 31.1.21 with an increased impairment provision (2020: N/A).

6. AMOUNTS RECEIVABLE FROM CUSTOMERS (CONTINUED)

Analysis of loan loss provision and amounts receivable from customers (capital)

As at 31 January 2021	Not credit Impaired Stage 1: Subject to 12 months ECL £'000	Not credit Impaired Stage 2: Subject to lifetime ECL £'000	Credit Impaired Stage 3: Subject to lifetime ECL £'000	Total Provision £'000	Amounts Receivable £'000
Motor finance	(14,367)	(12,759)	(65,457)	(92,583)	339,349
Property bridging finance	(313)	-	(18)	(331)	34,475
Total	(14,680)	(12,759)	(65,475)	(92,914)	373,824

As at 31 January 2020	Stage 1: Subject to 12 months ECL £'000	Stage 2: Subject to lifetime ECL £'000	Stage 3: Subject to lifetime ECL £'000	Total Provision £'000	Amounts Receivable £'000
Motor finance	(13,375)	(51)	(49,948)	(63,374)	344,131
Property bridging finance	(228)	-	(728)	(956)	21,949
Total	(13,603)	(51)	(50,676)	(64,330)	366,080

Analysis of Loan loss provisions	Stage 1: Subject to 12 months ECL £'000	Stage 2: Subject to lifetime ECL £'000	Stage 3: Subject to lifetime ECL £'000	Total Provision £'000
At 1 February 2019	12,816	71	45,326	58,213
Net transfers and changes in credit risk	(5,539)	(41)	8,293	2,713
New loans originated	6,551	30	7,926	14,507
Total impairment charge to income statement	**1,012**	**(11)**	**16,219**	**17,220**
Amount netted off revenue for stage 3 assets	-	-	7,292	7,292
Utilised provision on write-offs	(225)	(9)	(18,161)	(18,395)
At 31 January 2020	13,603	51	50,676	64,330
Net transfers and changes in credit risk	(5,051)	11,502	17,014	23,465
New loans originated	6,302	1,219	5,719	13,240
Total impairment charge to income statement	**1,251**	**12,721**	**22,733**	**36,705**
Amount netted off revenue for stage 3 assets	-	-	8,891	8,891
Utilised provision on write-offs	(174)	(13)	(16,825)	(17,012)
At 31 January 2021	14,680	12,759	65,475	92,914

7. EARNINGS PER ORDINARY SHARE

The calculation of earnings per ordinary share from continuing operations is based on profit after tax of £14,646,000 (2020: £28,882,000).

The number of shares used in the basic eps calculation is the weighted average number of shares in issue during the year of 12,129,768 (2020: 12,056,027). There are a total of 17,000 dilutive share options in issue (2020: 30,667). The number of shares used in the diluted eps calculation is 12,134,619 (2020: 12,066,617).

8. RECONCILIATION OF OPERATING PROFIT TO NET CASH FROM OPERATING ACTIVITIES

	2021	**2020**
	£'000	**£'000**
Operating Profit	21,696	39,984
Finance costs paid	(3,610)	(4,850)
Finance income received	42	0
Tax paid	(6,662)	(6,659)
Depreciation on plant, property and equipment	520	450
(Profit)/loss on disposal of plant, property and equipment	(13)	3
Decrease/(increase) in amounts receivable from customers	20,840	(24,687)
Decrease/(increase) in trade and other receivables	367	(418)
(Decrease)/increase in trade and other payables	(363)	987
Increase in accruals and deferred income	57	51
Increase in cost of future share based payments	75	99
Movement in retirement benefit asset/obligations	(9)	(14)
Net cash from/(used in) operating activities	32,940	4,946