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# Strong foundations Confident future

**Annual Report and Accounts**  
for the Year ended 31 January 2017

Stock code: SUS



# Welcome to our 2017 Annual Report

S&U plc was founded in 1938. Our aim is to provide Britain's foremost motor finance and specialist lending service and since 1999 our Advantage Finance subsidiary has provided motor finance for over 100,000 customers.

## Our Values

- » Respect for every customer and always treating customers fairly.
- » Conservative approach to underwriting and collections to enable sustainable growth.
- » Our success is built on placing customers at the heart of our business.

## Reasons to invest

- » A group with exceptional customer service at its core.
- » Track record of growth and profitability.
- » Strong balance sheet.

## Our Business

- » **Motor Finance**  
Motor finance facilities provided to over 100,000 customers in UK since inception in 1999, via secured hire purchase loans.



Visit our website at [www.suplc.co.uk](http://www.suplc.co.uk)

# Financial Highlights

from continuing operations

REVENUE (£m)

**£60.5m**

(2016: £45.2m)

2017	60.5
2016	45.2
2015	36.1
2014	26.2
2013	20.9

BASIC EPS (P)

**170.7p**

(2016: 133.6p)

2017	170.7p
2016	133.6p
2015	100.1p
2014	62.2p
2013	41.7p

PROFIT BEFORE TAX (£m)

**£25.2m**

(2016: £19.5m)

2017	25.2
2016	19.5
2015	14.8
2014	9.5
2013	6.3

DIVIDEND DECLARED (P)

**91p**

(2016: 76p)

2017	91
2016	76*
2015	66
2014	54
2013	46

\*Excluding a special dividend of £1.25 per ordinary share paid in November 2015.



**BASIC EPS (PENCE)**

INCREASED BY 28%



**PROFIT BEFORE TAX**

INCREASED BY 29%

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## At a Glance

**Our aim is to provide Britain's foremost motor finance and specialist lending service. We currently have over 43,000 customers and provide work for over 100 people.**



### Motor Finance

Set up in 1999, Advantage has grown to be one of the most progressive and innovative motor finance companies in the country and is a member of the Finance and Leasing Association. Advantage employ over 100 people and since 1999 have provided motor finance for over 100,000 customers across the UK, growing at the rate of 20,000 per year.

Operating within the non-prime market sector, Advantage has built its excellent reputation and track record on quality as opposed to quantity. Funding is invested wisely through a very experienced management team the majority of whom have been with the Company since inception. Low staff turnover and a strong focus on reward and recognition are fundamental to the success of Advantage which has achieved 17 consecutive years of record profits.

“Delivering excellent levels of customer service is a central philosophy at Advantage. We believe that placing customers at the heart of the business has been a key factor in our ongoing success.”

**Guy Thompson**  
Managing Director, Advantage Finance

**43,000** Advantage  
live customer numbers

**20,042** new  
agreements (up 32%)





## CASE STUDY: MR K

Mr K is a Brighton based Account Manager for an HR Company. He first took out motor finance with Advantage in November 2010 in order to purchase a 2006 Vauxhall Astra.

Mr K's credit profile at the time indicated that he had been through a previous period of difficulty which resulted in several historic defaults on his credit profile. Despite more recent credit commitments showing as being paid on time, Mr K was struggling to find a lender willing to provide the finance required for a vehicle purchase. The loan that Mr K chose from Advantage was within his repayment budget and he was able to make the payments without difficulty, eventually paying it off on time, four years later, in 2014.

When the time came for Mr K to change his vehicle, in August 2016, he once again approached Advantage Finance, knowing that he could arrange the finance in advance of choosing his next vehicle. His application was dealt with from start to finish by Michaela, a customer service manager specialising in helping existing or previous customers who look to change their vehicle and take out further finance with the firm.

By this time, Mr K's financial situation had improved further and Advantage were happy to approve an increased line of credit which allowed him to purchase a 2014 Fiat 500S. Despite borrowing a larger amount, Mr K was able to make similar monthly payments as

before by choosing a longer term, comfortable that the low age and mileage of the vehicle that he was purchasing would make it last until well after the loan was repaid.

Mr K was clearly happy with the service he received from Advantage, on both the earlier loan and the latest one, and left the following comments on a customer review website:

**“Having used Advantage previously I was confident in the service but I was blown away by how good it was from Michaela who has been brilliant throughout the process and most importantly being in regular contact.**

**In addition to this Michaela is extremely courteous, professional and has a lovely manner and sense of humour and always made sure I was aware of any things that needed to be completed at my end.**

**She's been brilliant and I cannot recommend her highly enough”.**

# A1 Chairman's Statement

**“S&U continues to go from strength to strength”**



“S&U continues to go from strength to strength with our motor finance business delivering its 17th successive year of record pre-tax profits. This excellent track record is testimony to the dedication, expertise, drive and wisdom of our team at Advantage. The road to sustained success is not made up of a giant leap but of a thousand small steps, and this kind of approach will continue to sustain and dynamise our business over the next decade.”

**Anthony Coombs**  
Chairman

Earnings per share up  
**28% to 170.7p**

Net receivables increased  
**33% to £193.5m**

Brexit, Trump and another record set of results from S&U, plus a change. . . We live in interesting times, but for the eighth consecutive year, I am very pleased to announce record profits for S&U plc. Group profit before tax from continuing operations is £25.2m, a near 30% increase on last year (2016: £19.5m). In a buoyant, but more competitive market, revenue has increased by 34% to £60.5m (2016: £45.2m).

Advantage Finance, our motor finance business, achieved a record of over 20,000 new agreements, an increase of 32% on last year; net receivables are now £193.5m, up 33% from £145.1m last year. The car finance market remains robust with latest annual application numbers at Advantage, nearly 53% more than a year ago.

Whilst impairment has increased slightly as the business develops, it remains only slightly above the record quality range of the last three years, and is reflected in collections of £121.8m this year, a third higher than last.

Our new secured bridging finance operation, Aspen Bridging, is now being piloted; funding has been arranged for both this and for the continued growth of Advantage, into which we have invested an additional £33.2m this year. Nevertheless, Group gearing is just 35% (2016: 9%) on Group net assets which are at a record £139.5m (2016: £128.3m).

In sum, S&U has the ideal platform to continue its record growth and profitability focussing on its proven fields in specialist finance.

## Financial Highlights from continuing operations

- › P.B.T. at £25.2m (2016: £19.5m)
- › E.P.S. = 170.7p (2016: 133.6p)
- › Group net assets: £139.5m (2016: £128.3m)
- › Group gearing at 35% (2016: 9%)
- › Increase in funding facilities post yearend gives current committed headroom of £37m
- › Pilot launch of Aspen Bridging
- › Full FCA consumer credit permission for Advantage Finance
- › Dividend of 91p per ordinary share (2016: 76p) (+20%)

## Highlights

Advantage Finance, our motor finance business based in Grimsby, has produced a 17th successive year of record profits – an achievement I suspect is unparalleled anywhere in the UK Finance Industry. Profit before tax this year is £25.2m (2016: £20.4m) an increase of 23% and, remarkably, over four times what it was five years ago.

Notwithstanding the best efforts of the nation's economic forecasters, the used car market in the UK, which Advantage services, remains strong. In the last year 750,000 applications were made to Advantage for finance – an increase of no less than 53% on the year before. This, in turn, reflects a British used car market up 7.3% to 8.2m vehicles in 2016. As a result, Advantage wrote a record 20,000 new agreements, at improved rates and across a stable range of customers. Advantage's total book is now at £193.5m of net receivables, up from £145.1m last year. This represents a record 43,000 live customers (2016: 32,600) making monthly repayments which are now nearly £9m, an increase of a third on last year.

Advantage's mantra of "steady, sustainable growth" implies and depends upon robust debt quality and excellent customer relationships. Our customers require careful and consistent under-writing; hence the introduction of an updated, but still bespoke, credit scoring system this year. This continuous refinement has under-pinned the quality of Advantage's loan book throughout its history. The past three years have seen impairment as a proportion of revenue in a historically low range of 16% to 20% against 25% to 37% in the previous three years when Advantage still enjoyed very good profitability. Since 2015 the record growth and an inevitable increase in competition at the higher quality end of the Advantage product range has seen both a slight upturn in impairment to just over 20% this year and some increase in brokerage costs. These are mainly offset by improved interest rates and so margins continue to be very healthy.

Since the sale of our Home Credit business in 2015, S&U has prudently explored opportunities for diversifying its earnings. After exhaustive research, we are now piloting Aspen Bridging which will provide bridging finance for individuals and business owners, secured on residential and commercial property. Although this business is in its infancy, its infrastructure and service capabilities provide a good foundation; we are therefore exploring its ability to benefit from a bridging market where aggregated loan balances are estimated to reach £8.8bn a year in the UK by 2020.

## Dividends

Both S&U's prospects and current trading performance justify the Board in recommending to shareholders a final dividend this year of 39p per ordinary share (2016: 33p). This will be paid on the 7th July 2017 to ordinary shareholders on the share register at the 16th June 2017. As always, this payment is subject to approval by shareholders at the AGM to be held on the 18th May 2017.

This final proposed dividend will mean that total dividends paid this year are 91p per ordinary share - a near 20% increase on the record 76p per share paid a year ago. Whilst rewarding shareholders for the Group's continued success it also secures a slight improvement in dividend cover, with the aim of achieving two times cover in the near future.

## Funding Review

The continuing growth of Advantage Finance and the piloting of Aspen Bridging will require further investment by the Group this year. Both the Group's conservative gearing and a funding market with an appetite for our business at attractive rates, have allowed us to increase total committed facilities after the year end to £95m and further funds will be arranged should we require them.

Beyond that, our expectation of a benign and stable macro-economic future for the UK, a more certain bank lending environment and our increased ability to access a broader range of finance as the size of our loan books grow, all point to sensible headroom being available for S&U's future expansion.

# A1 Chairman's Statement

## Continued

### Regulation, Risk and Governance

Advantage's good and long-standing relationship with the Financial Conduct Authority, both directly and through the Finance and Leasing Association, was confirmed in December by the grant of full authorisation under the Regulator's new licencing regime. For both commercial and ethical reasons, S&U takes these responsibilities extremely seriously. In addition to scrutiny by Deloitte, our statutory Auditors, the Group continues to work ever more closely with RSM, our Internal Auditors, whose remit is to provide assurance on our operations including our systems, customer care, risk register and regulatory compliance. They, in turn, report to the Group's Audit Committee.

Although it will initially operate in the un-regulated lending field, the above arrangements have been replicated at Aspen Bridging, where Brightstone Law, Fieldfisher and RSM provide guidance and supervision.

Nevertheless, whatever our achievements and growth, the loadstone of S&U's success has always been its "family" ethos and the identity, and continuity, of interest its management has with its stakeholders, whether customers, employees or shareholders. This is not simply a matter of shareholding structure, but of corporate culture. It leads to a conservative approach to financing and a longer-term vision of the pace and sustainability of the Company's growth.

It also means valuing relationships over the long term, which is why I report with gratitude and some sadness, the retirement from the Board of Keith Smith, our Senior Non-Executive Director, at the forthcoming AGM in May. Keith has given us wise counsel and constructive criticism for over eighteen years and his contribution has been invaluable.

### Current Trading and Outlook

Any markets exhibiting significant growth will inevitably attract competition, and those for used car finance and property bridging are no exception. The fact that Advantage has been able to both prosper and to increase its market share, is testimony to the dedication, expertise, drive and wisdom of our team there, and in particular of its visionary M.D., Guy Thompson. I pay tribute to them and indeed to all those who work for and with us.

The road to sustained success is not made up of a giant leap but of a thousand small steps, and this kind of approach will continue to sustain and dynamise our business over the next decade. Both Advantage and Aspen operate in growing markets. These in turn exist within a robust British economy, where the labour market is strong and where the current focus on increasing productivity and reducing regulation should underpin economic growth.

Our continued purpose is to take responsible and sustainable advantage of this; I am confident we will..



**Anthony Coombs**  
Chairman  
27 March 2017





**CASE STUDY: MR D**

**Amazing team at Advantage Finance**

The service I have received from Michaela and Natalie at Advantage Finance has been amazing with them helping in any way possible to get my agreement sorted after my last car was written off and having to get a new agreement in place for my new car. I cannot thank them enough for going out of their way to help me.

This is my 3rd agreement with them and I will not hesitate to return for all future purchases.

**CASE STUDY: MR C**

**Would Recommend Highly**

Been with Advantage over 12 months now and recently did change of bike, after being let down on several bikes. Advantage have gone out of their way to help verify dealers and get me prices on finance plans, also chasing up with dealers to get relevant documents sent for fast pay-out.

The customer service is flawless, other companies could learn an awful lot from the team they have.

Thank you for everything Helen, Michaela, Nat, Dean and everyone else I have spoken to and who has helped me get my new bike.

Mr C  
October 16

.....  
*Update Jan 17*

Spoken to Sue in payments department today as a change in our circumstances meant that couldn't guarantee payment be in for collection was so worried but Sue was so helpful and did everything to help us and put our collection date back to give us time to get funds together, also said if had given 24 hours' notice could have stopped tomorrow's payment, once again Advantage have surpassed customer service standards. Thank you so much.

Mr C

## A2 Business Model and Strategy

### A2.1 Strategic Review

The S&U Group is now focussed on two areas of specialist finance. The first is the specialist motor finance market in which Advantage Finance, our Grimsby based business, has been so remarkably successful over the past 17 years. During that time, whether in the credit expansion of the early millennium, the banking crisis and recession of 2008 and beyond, and the recovery since, Advantage has, without exception, produced record profits and income every year.

The second is the secured property bridging market, which S&U is piloting in the coming financial year through a new start-up Aspen Bridging. This market, estimated at just over £5bn per annum in the UK at present, has been the subject of painstaking research and investigation by a dedicated team at S&U over the past 12 months. Our conclusion is that the fundamental problem of under supply in the housing market in the UK, together with a more highly regulated and therefore lengthy mortgage process for buyers and residential landlords, gives significant opportunities for bridging finance.

Throughout its history, Advantage has been dedicated to providing motor finance on a simple hire purchase basis to customers in the lower and middle income groups. These customers, although decent, hardworking and well intentioned, may have impaired credit records which have seen them in the past unable to access rigidly under-written "mainstream" finance products. Impairment may have been the result of payment records marred by periods of unemployment, short-time working, divorce or family difficulty, or simply may have been due to spells abroad, frequent home moves or a history of self-employment.

Advantage's success in serving this demographic group has rested on 3 pillars. The first is its own commitment to excellence. It prides itself in the quality of its relationships with introducing brokers and dealers; in the speed and thoroughness of its ever more sophisticated under-writing and transaction methods; and in the skill and empathy with which it interacts with its customers – both at the inception and throughout the term of their loan. Treating Customers Fairly has always been Advantage's lodestar. Whilst rigorous in meeting its legal and compliance requirements both of the FCA and of statute, Advantage believe that in the words of Anita Roddick, "being good is good business". Hence the interests of Advantage and its customers are mutually interwoven and re-enforced.

The second pillar of success rests upon the buoyant market in which Advantage operates and its growing, but still small, share of it. Thus the estimated size (Society of Motor Manufacturers and Traders) of the UK's Used Car Market reached a record 8.2 million cars in 2016, an increase of 7.2% from 7.6 million sold in the previous year.

Around 1.2 million of these transactions are bought using finance. This number has grown from around 750,000 just 4 years ago and is estimated to be worth £12bn per annum. Of these best estimates show around 64% involve hire purchase, as opposed to PCP or Lease hire. Advantage's non prime hire purchase product is taking an increasing share of this market.

The third pillar relates to the business philosophy of both Advantage and its parent S&U plc. Over 70 years and three family generations of experience in the specialist credit and lending industry has fused ambition for growth with a conservative approach to both credit quality and funding. As a myriad of financial institutions, including our most prominent banks have discovered, lending is easy. But responsible, sensible and repayable lending is not. S&U's watchword is, and will always be – "steady sustainable growth". In whatever financial sector we operate, this is the key to S&U's success.

### A2.2 Business Review

Operating Results from continuing operations

	<b>Year ended 31 January 2017 £m</b>	Year ended 31 January 2016 £m
<b>Revenue</b>	<b>60.5</b>	45.2
Cost of Sales	<b>(25.0)</b>	(16.6)
<b>Gross Profit</b>	<b>35.5</b>	28.6
Administrative Expenses	<b>(8.6)</b>	(7.3)
<b>Operating Profit</b>	<b>26.9</b>	21.3
Finance Costs (Net)	<b>(1.7)</b>	(1.8)
<b>Profit before Taxation</b>	<b>25.2</b>	19.5

### Advantage Finance

Highlights:

- 17th successive record pre-tax profit of £25.2m (2016: £20.4m) a 23% increase
- New loan transactions at a record 20,000 up 32%
- Net receivables at a record £193.5m (2016: £145.1m)
- Customer numbers reached a record 43,000 (2016: 32,600)
- Monthly collections stable and for year increased by 32% - monthly repayment cash collected now approaching £9m per month

Advantage Finance, our motor finance business, has produced its 17th record set of pre-tax profits at £25.2m (2016: £20.4m). Its first full decade saw profits rise to £4.2m in 2011. In the following 6 years its reputation amongst introducers and customers for efficient and fair service, its expertise and refinement in under-writing credit risk responsibly and consistently, and its ability to develop new products to match an evolving car finance market, have been the foundations of Advantages accelerated growth.

# A2 Business Model and Strategy

## continued

All have enabled Advantage to cement a leading position in a growing non prime motor finance market and to maintain healthy margins despite some increased competition over recent years. Crucially this has been reflected in a second successive 32% increase in customer numbers in 2016/17 (matched by a 33% increase in net receivables) over the year and in excellent collections, both in absolute terms and also as a percentage of monies due. A small additional provision has been made this year for claims resulting from the recent FCA announcement on Payment Protection Insurance, which Advantage ceased selling eight years ago.

Advantage continues to go from strength to strength. Its sustainable growth is based upon a relentless quest for improvement throughout the business and I again congratulate everybody working there on a fine performance.

### A2.3 Funding Review

We have been pleased to invest a further £33m into Advantage motor finance this financial year. This follows an investment of £27m last year. As a result Group gearing has risen from 9%, following the sale of our Home Credit business in 2015, to just 35% this year.

In order to meet the continued expansion of the Group, further facilities have been arranged this year and after the yearend. Committed facilities now total £95m and will be augmented as required.

Following the decision of the British people to leave the European Union, and despite the gloomy prognosis of many so-called economic experts, both the British economy and the Bank Lending Market remain robust. This has been reflected in our ability to attract further finance at good rates and the interest rate environment in the UK remains benign. In addition, as the size of our businesses and loan books grow, avenues of potential financing widen.

### A2.4 Principal Risks and Uncertainties

The Group is involved in the provision of consumer credit and it is considered that the key material risk to which the Group is exposed is the credit risk inherent in amounts receivable from customers. This risk is principally controlled through our credit control policies supported by ongoing reviews for impairment. The value of amounts receivable from customers may also be subject to the risk of a severe downturn in the UK economy which might affect customer ability to repay. The Group is particularly exposed to the non prime motor finance sector and within that to the values of used vehicles which are used as security. These economic and concentration risks are principally controlled through our credit control policies including loan to value limits for the security and through ongoing monitoring and evaluation.

These well tried and tested methods will be equally important in limiting risk at Aspen Bridging. Historically impairment rates in this market are extremely low, principally because loan to value calculations are conservative, interest is retained up front, and loan periods are unlikely to last beyond a year. Further Aspen has introduced a variety of controls to limit risk in a heavily under supplied housing market.

Funding risk relates to the availability of sufficient borrowing facilities for the Group to meet its liabilities as they fall due. This risk is managed by ensuring that the Group has a variety of funding sources and by managing the maturity of borrowing facilities such that sufficient funding is available for the medium term. Compliance with banking covenants is monitored closely so that facilities remain available at all times. The Group's activities expose it to the financial risks of changes in interest rates and where appropriate the Group considers the use of interest rate derivative contracts to hedge these exposures in bank borrowings.

In terms of legal risk, the Group is subject to legislation including consumer credit legislation which contains very detailed and highly technical requirements. The Group has procedures in place and employs dedicated compliance resource and specialist legal advisers to ensure compliance with this legislation. As required as part of the standard FCA full permission regime, Advantage Finance Limited applied for and received renewed authorisation in 2016. Regulatory Risk, is addressed by the constant review and monitoring of Advantage's internal controls and processes. This process is buttressed by specific advice from trade and other organisations and by the work of our internal auditors.

The Group is also exposed to conduct risk in that it could fail to deliver fair outcomes to its customers which in turn could impact the reputation and financial performance of the Group. The Group principally manages this risk through Group staff training and motivation (Advantage is an Investor in People) and through detailed monthly monitoring of customer outcomes for compliance and treating customers fairly.

Other operational risks are endemic to any finance business. Rigorous procedures, detailed recovery plans and, above all, sound experience and commercial common sense provide Advantage and the Group with appropriate protection. In particular, recent work has been focused on Cyber Security and this will be an ongoing process overseen by the Audit Committee.

## A3 Statements of Viability and Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out above. The financial position of the Group, its cash flows, liquidity position, borrowing facilities, legal and regulatory risk position are set out in the financial statements and Strategic Report.

### Statement of Viability

In assessing the viability of the Group as required by the UK Corporate Governance Code, the directors considered funding, business and risk evaluation cycles and concluded that a three year period was appropriate for viability assessment. The directors therefore considered the three year period commencing 1 February 2017 and assessed;

- › funding and financial forecasts for this period and the underlying assumptions
- › information regarding the principal risks noted in A2.4 above
- › information regarding mitigating actions which can be taken

Having considered all relevant information, the directors confirm that they have robustly assessed the principal risks facing S&U plc. From this assessment the directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period commencing 1 February 2017.

### Statement of Going Concern

In assessing the going concern, the directors are mindful of the need to effectively manage the Group's risks and internal controls. Details of the Group's financial risk management objectives, its financial instruments; and its exposures to credit risk, market risk and liquidity risk are set out in the notes to the financial statements and in the principal risks and uncertainties noted in A2.4 above. The Group's objectives, policies and processes for managing its capital are described in the notes to the financial statements.

In considering all of the above, the directors believe that the Group is well placed and has sufficient financial resources to manage its business risks successfully whatever the current economic outlook.

After making enquiries, 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.



## CASE STUDY: MISS D

Miss D is 54 and lives in Buckinghamshire. For the last four and a half years she has been employed as a credit controller for a national business waste disposal firm. In need of reliable transport, Miss D was looking to finance the purchase of a good quality used car to replace her existing vehicle.

Although earning a good and stable income and very little in the way of financial commitments, Miss D did have a few credit defaults from several years ago which, although now fully repaid, were still showing on her credit profile. She therefore knew that getting finance may not be a straightforward proposition. She therefore decided to approach an internet based motor finance broker who advertised being able to help in these circumstances and, after visiting their website and entering her details, she was passed to Advantage Finance who were able to approve the application and provide Miss D with a line of credit with which to choose her new car from any dealer of her choice.

Miss D settled on a 2012 Nissan Juke priced at £7800 and a deposit consisting of £1000 cash and £900 part-exchange allowance on her old car. She chose to take the finance of £5900 over 54 months with monthly repayments of £198 which were well within her budget. The loan paperwork was produced and sent through to Miss D for her to read, sign and return. The loan was set up and Miss D was able to collect her new car the following day.

Miss D was contacted shortly afterwards as part of the Advantage customer care program and has indicated that she is happy with all aspects of the service she has received.

## A4 Corporate Social Responsibility

### A4.1 Employees

S&U maintains a “family ethos” for all those who work within it. We pride ourselves on the centrality of the customer – staff relationship in all our operations. We therefore ensure that all staff receive appropriate initial training and regular re-training in the field and in areas of specialism. We encourage employees to gain professional qualifications where appropriate. External management training is also undertaken in the motor finance division and recently at Aspen Bridging.

The FCA Regulatory regime is centred on our treating customers fairly. All employees within the Group are required to demonstrate appropriate knowledge and skills. This formalises and deepens our existing good customer practice. Such practice will continue to permeate the Group at every level and on a day to day basis.

The Group’s policy is to give full and fair consideration to applications for employment by disabled persons, having regard to the nature of their employment. Suitable opportunities and training are offered to disabled persons in order to provide their career development. It goes without saying that a Group based on a family ethos has no truck with discrimination of any kind irrespective of race, gender or sexual orientation or identity— except of course on the basis of performance. People prosper and are promoted within S&U purely on merit.

Reviews of performance take place annually and all operations are reviewed on a monthly basis. We encourage staff to make suggestions for constructive change within the Group.

### A4.2 Community

S&U does not exist in a vacuum. Our success depends upon our understanding the customers we serve. Where this may not be the case, we have well established policies for any who may wish to complain, routed to our Compliance Department in Grimsby. Our records demonstrate we enjoy high levels of customer satisfaction and 85 of only 99 complaints which reached the Financial Ombudsman Service were decided in the Group’s favour (2016: 33 of 49 complaints were decided in the Group’s favour).

S&U supports its wider community through charitable giving and activities relating to fundraising. During the year the Group gave over £52,000 charitable contributions, most of it through the Keith Coombs Trust. The Trust which Anthony Coombs chairs, but which has a Board of independent trustees, mainly gives to charities helping children with disabilities. Last year the Company supported The National Institute for Conductive Education, which deals with adults and children with cerebral palsy, strokes and head injuries, Red Boots, Cure Leukaemia for Kids and other like charities. This year we have been delighted to support a ground breaking initiative by the National Society for Prevention of Cruelty to Children in extending its Childline for deaf and hard of hearing children. We will continue to work with the NSPCC on developing this initiative over the coming year.

The Group also makes financial contributions in the artistic and cultural fields. During the year it sponsored the Birmingham Royal Ballet and innovative new theatrical productions at The Almeida theatre in London.

### A4.3 Environment and Health and Safety Policy

The Group is not engaged in manufacturing or other processes which might compromise the health and safety of our staff or our visitors. Appropriate checks are made on all who join the Company, mainly to prove their financial integrity and stability and their suitability to deal with our customers.

S&U makes sure its staff are aware of how they can promote their personal safety. S&U is engaged in the finance field and therefore its overall environmental impact is considered to be low. The main area of environmental impact is made by its team as they drive about their daily business. However this impact is reducing due to the disposal of our home credit business.

### A4.4 Greenhouse gas (GHG) emissions

This section includes our mandatory reporting of greenhouse gas emissions required to be reported under the Companies Act 2006 (Strategic Report and Directors’ Report) Regulations 2013.

This greenhouse gas reporting year has been established to align with our financial reporting year, being 1 February 2016 to 31 January 2017.

#### Greenhouse gas emissions data

For period 1 February 2016 to 31 January 2017

	Tonnes CO <sub>2</sub>	
	Year ended 31 Jan 2017	Year ended 31 Jan 2016
<b>Scope 1 (Direct emissions)</b>		
Combustion of fuel – Petrol & diesel used by company cars	121	226
Gas consumption	18	6
Air conditioning systems	27	27
<b>Scope 2 (Energy indirect emissions)</b>		
Purchased electricity	79	84
Total scope 1 and 2	245	343
<b>Scope 3 (Other indirect emissions)</b>		
Water consumption	1	1
Waste	5	2
<b>Total scope 1, 2 and 3</b>	<b>251</b>	<b>346</b>
Company’s chosen intensity measurement: Normalised tonnes scope 1, 2 and 3 CO <sub>2</sub> e per £m turnover	4.1	5.5

Gas and electricity usage is based on consumption recorded on purchase invoices. Vehicle fuel usage is based on expense claims and recorded mileage, which has reduced since the disposal of our home credit business.

We have reported on all material emission sources we deem ourselves responsible for.

The methodology used to calculate our emissions is based on the "Environmental Reporting Guidelines: including mandatory greenhouse gas emissions reporting guidance" (June 2013) issued by the Department for Environment, Food & Rural Affairs ("DEFRA"). We have also utilised DEFRA'S 2014 conversion factors within our reporting methodology.

The 2013 data forms the baseline data for subsequent periods. In order to express our annual emissions in absolute and relative terms, we have used turnover in our intensity ratio calculation, as this is the most relevant indication of our growth and provides for a good comparative measure over time.

### A5. Approval of Strategic Report

Section A of this Annual Report comprises a Strategic Report prepared for the Group as a whole in accordance with Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Approved by the Board of Directors and signed on behalf of the Board.



**Anthony Coombs**  
Chairman  
27 March 2017



## B1 Board of Directors





## 1 Anthony Coombs MA (Oxon)

(Chairman)  
(Nominations Committee)

Joined S&U in 1975 and was appointed Managing Director in 1999 and then Chairman in 2008. Between 1987 and 1997 served as a Member of Parliament and was a member of the Government. He is a director and trustee of a number of companies and charities.

## 2 Graham Coombs MA (Oxon) MSc (Lon)

(Deputy Chairman)

Joined S&U after graduating from London Business School in 1976.

## 3 Chris Redford ACA

(Group Finance Director)

A Chartered Accountant with over 10 years business experience in the Fast Moving Consumer Goods, food and travel sectors prior to his appointment as Finance Director of Advantage Finance in 1999. Following a successful start up period for Advantage he was appointed as Group Finance Director with effect from 1 March 2004.

## 4 Guy Thompson

(Managing Director)

Guy joined the Group in 1999 as Managing Director of Advantage Finance and has overseen an excellent performance in their first 17 years. Guy has a strong track record in the finance and motor sectors and since his appointment brings these skills to the Board of S&U plc.

## 5 Demetrios Markou MBE FCA

(Non-executive)  
(Nominations, Audit and Remuneration Committees)

A Chartered Accountant with over 40 years experience in public practice in Birmingham and director of many private companies. He has extensive commercial and political experience.

## 6 Keith Smith TD FCIM

(Non-executive)  
(Nominations, Audit and Remuneration Committees)

A former member of the London Stock Exchange and Fellow of the Securities Institute, he has been a principal in stockbroking firms for more than thirty years, specialising in corporate finance. He is the senior independent Director.

## 7 Graham Pedersen

(Non-executive)  
(Nominations, Audit and Remuneration Committees)

Graham joined the Board of S&U in early 2015 and brings enormous experience as a regulator at the Bank of England, Financial Services Authority and Prudential Regulation Authority and as a banker with detailed knowledge and involvement in the speciality finance sector.

## 8 Fiann Coombs BA (Lon) MSc (Lon)

(Non-executive)

An economic analyst with wide-ranging professional and commercial skills and experience, Fiann has brought these skills to the considerable benefit of the S&U Group since his appointment to the Board in 2002.

## 9 Tarek Khlaf

(Non-executive)  
(Nominations, Audit and Remuneration Committees)

Tarek co founded Crossbridge Capital where he is currently Group CEO. Prior to this he held leading roles in financial services with Credit Suisse and JP Morgan and in journalism with CNN and Fox. Tarek holds a BA degree in Economics and an MBA degree from Harvard Business School. He is a trustee and patron of the NSPCC.

## B2 Directors' Remuneration Report

### B2.1 Report of the Board to the Shareholders on Remuneration Policy

#### Introduction

On behalf of your Board, I am pleased to present our Directors' Remuneration Report for the year ended 31 January 2017 together with details of our new Directors' Remuneration Policy.

Our previous Directors' Remuneration Policy was adopted at our 2014 AGM with a vote in favour of 99.8%. As we are required to put the policy to Shareholders every three years, we have used this opportunity to review the appropriateness of the policy in the context of our strategy, the new structure of the Board, market conditions and remuneration trends within the company and the financial services industry. With this in mind we are proposing some changes, which are intended to simplify the overall framework and to provide a market competitive package with an uncomplicated link between annual progress towards long-term success and executive director rewards. Details of the proposed changes are set out in the Remuneration Policy which will be put to Shareholders for a binding vote at our forthcoming AGM.

The Annual Remuneration Report provides details of the amounts earned in respect of the year ended 31 January 2017 and how the Remuneration Policy will be operated for the year commencing 1 February 2017. This is subject to an advisory vote at the 2017 AGM.

#### 2015/16 key decisions and pay outcomes

The aim of the Company's Remuneration Policy is to deliver simple and fair remuneration packages which are linked to both Group and personal performance, retention focussed and appropriate for the Company, its Shareholders and the directors.

The year ending 31 January 2017 was another year of record results for S&U plc with Group profit before tax up by nearly 30% versus last year. New agreements at Advantage Finance, our motor finance business, have reached a volume of over 20,000 for the first time, an increase of 32% on last year and net receivables are now £193.5m from £145.1m last year. The car finance market remains robust with latest application numbers at Advantage nearly 35% more than a year ago.

As disclosed in the Annual Report on Remuneration last year, for the year ending 31 January 2017, there were no increases to executive director salaries other than to Guy Thompson, who received a base salary increase of 6.7% from £300,000 to £320,000 with effect from 1 February 2016 reflecting the continued excellent performance of Advantage Finance (which currently contributes almost all of Group profit) as well as the new structure of the Board. Taking into account retention and motivation considerations, wider director remuneration trends and Guy Thompson's contribution to the performance of Advantage Finance in the first half of this year it was decided to:-

- increase Guy Thompson's base salary from £320,000 to £360,000 with effect from 1 July 2016; and
- increase the maximum bonus opportunity for Guy Thompson. Based on the underlying profit performance of Advantage Finance for the year ending 31 January 2017, Guy Thompson earned a bonus of £125,000. Based on performance in the year ended 31 January 2017 and the year ended 31 January 2018 a further deferred cash bonus of up to £25,000 will be paid to Guy Thompson at the end of March 2018. The value of the total bonus (including the deferred bonus) awarded equates to 44% of the salary he earned in the year.

Based on the underlying profit performance of the Group, the Remuneration Committee judged the extent to which annual bonus targets had been met. Consequently, bonuses of £25,000 were awarded to Anthony Coombs and Graham Coombs and a bonus of £50,000 to Chris Redford.

No LTIP or DSOP options were granted to the Executive Directors during the year ending 31 January 2017.

Further details regarding base salary increases and bonus payments made to the executive directors are set out in the Annual Report on Remuneration.

## Key remuneration decisions for the year ending 31 January 2018

The Remuneration Committee approved salary increases for the executive directors of between 2% and 5.5% with effect from 1 February 2017 after carefully considering their performance and taking into account the range of salary increases awarded to the wider work force.

For the year ending 2018, no changes are proposed to the maximum annual bonus opportunity for Anthony Coombs and Graham Coombs which will remain at £50,000, or for Chris Redford which will remain at £60,000.

Subject to shareholder approval of the new Remuneration Policy at the 2017 AGM, the maximum annual bonus for Guy Thompson will be £300,000. For Guy Thompson, 33% of the maximum bonus potential (i.e. up to £100,000) will be deferred (in cash) for 12 months and will be paid at the end of March 2019 subject to the bonus target being met in respect of the year ended 31 January 2019.

The annual bonuses will continue to be assessed against stretching divisional and group PBT targets.

There is no intention to grant options under the LTIP or DSOP for the year ending 31 January 2018. For the year ending 31 January 2018, the Remuneration Committee considers that outstanding LTIP and DSOP awards provide sufficient shareholder alignment for Chris Redford and Guy Thompson and that the significant shareholding held by Graham Coombs and Anthony Coombs similarly provides adequate alignment to Shareholders.

An increase of just over 3% has been proposed in respect of fees for the year ended 31 January 2018 for the non-executive directors.

The Remuneration Committee continues to welcome Shareholder feedback on their remuneration decisions or on any issue related to executive remuneration.

I will be retiring as the Chairman of the Remuneration Committee on 18 May 2017, the date of the Company's AGM when I will also be retiring from the Board. I wish the Company and all its employees continued success and I am grateful to my fellow non-executive directors for their support and contribution over the years. Mr Tarek Khat will be replacing me as Chairman of the Remuneration Committee with effect from 18 May 2017.

I commend this report to Shareholders and ask that you support the resolutions to approve the Company's Remuneration Policy and the Annual Remuneration Report at the Company's AGM on 18 May 2017.

### Keith Smith

Chairman of the Remuneration Committee  
27 March 2017

## B2 Directors' Remuneration Report

### 3.2 Remuneration Policy Report

This section sets out the Remuneration Policy for Executive Directors and Non-executive Directors, which Shareholders will be asked to approve at the AGM on 18 May 2017. Until this time the Policy approved by Shareholders at the AGM on 20 May 2014 will continue to apply. As set out in the Remuneration Committee Chairman's letter starting on page 16, the changes proposed are intended to simplify the overall framework and to provide an uncomplicated link between executive director performance and reward. A summary of the main changes that have been made to the Remuneration Policy are outlined below.

#### Current Policy

The maximum variable remuneration which may be granted (other than in exceptional circumstances) is 135% of salary (i.e. an annual bonus of up to 60% of salary, the grant of market value options under the Share Option Plan (DSOP) worth up to 25% of salary and the grant of nil or nominal priced options under the Long Term Incentive Plan (LTIP) worth up to 50% of salary).

In exceptional circumstances, the maximum variable remuneration which may be granted is 210% of salary (i.e. an annual bonus of 60% and DSOP and LTIP awards with a combined value of up to 150% of salary).

Maximum level of variable remuneration which may be granted on recruitment (excluding buy-out awards) is 210% of salary.

#### Proposed changes and rationale

To provide a market competitive package that is simple and built around annual progress towards long-term success.

- › Removal of the Share Option Plan (DSOP) for Executive Directors.
- › The maximum variable remuneration which may be granted is 150% of salary and up to 200% of salary in exceptional circumstances.
- › No change to maximum LTIP that may be granted of up to 50% of salary (or up to 150% of salary in exceptional circumstances).
- › Subject to the above limits, the Remuneration Committee may decide how the overall maximum variable remuneration opportunity for any year is split between annual bonus and LTIP.
- › To provide a retention mechanism and focus on annual progress towards long-term success, up to 40% of the bonus earned may be deferred (in cash) for at least 12 months, usually subject to meeting specified performance targets in the deferral period and continued employment
- › Maximum level of variable remuneration which may be granted on recruitment (excluding buy-out awards) has been reduced to 200% of salary.
- › The malus and clawback provisions introduced from 2015/16 performance periods onwards have been included in the policy and are in line with best practice.
- › Other minor amendments have been made to aid administration of the policy.

The following table describes each of the components of the remuneration package for executive directors:

Component	Purpose	Operation	Opportunity	Performance Measures
<b>Base salary</b>	<p>To help recruit and retain executive directors.</p> <p>To provide the core element of fixed remuneration, which reflects the director's experience and the size and scope of the role.</p>	<p>Normally reviewed annually and fixed for 12 months, but may be reviewed more frequently in cases where an individual changes position or responsibility.</p> <p>Salaries are determined by the Remuneration Committee, who will take into account a range of factors, including, but not limited to:</p> <ul style="list-style-type: none"> <li>› Role, experience and individual performance;</li> <li>› Corporate and individual performance;</li> <li>› Pay levels for comparable positions in companies of a similar size and complexity; and</li> <li>› Group profitability and organisational salary budgets.</li> </ul>	<p>No maximum salary opportunity has been set out in this policy report to avoid setting expectations for executive directors and employees. The base salaries effective as at 1 February 2017 are shown on page 30.</p> <p>The Remuneration Committee has resolved to move base salaries progressively to a level which is market competitive taking account of individual factors such as:</p> <ul style="list-style-type: none"> <li>› Increased individual responsibilities;</li> <li>› Performance in role;</li> <li>› An new executive director being moved to market positioning over time;</li> <li>› Remuneration trends within the financial services industry; and</li> <li>› Alignment to market level.</li> </ul>	N/A
<b>Benefits</b>	<p>To provide cost-effective benefits to help recruit and retain executive directors, through ensuring a competitive overall remuneration package.</p>	<p>Executive directors are entitled to a range of benefits in line with market practice, including, but not limited to, private medical insurance, and a company car.</p> <p>Other benefits may be provided based on individual circumstances. These may include, for example, permanent health cover, death in service benefit, relocation and travel allowances.</p>	<p>Whilst the Remuneration Committee has not set an absolute maximum, the value of benefits is set at a level which the Remuneration Committee considers is appropriately positioned against companies of a similar size and complexity in the relevant market.</p>	N/A

## B2 Directors' Remuneration Report

Component	Purpose	Operation	Opportunity	Performance Measures
<b>Annual Bonuses</b>	<p>To reward executive directors for the achievement of the annual financial and individual targets.</p> <p>Provide alignment with Shareholders' interests.</p>	<p>Targets are set annually and any pay-out is determined by the Remuneration Committee after the period-end, based on performance against those targets.</p> <p>The Remuneration Committee may adjust the bonus pay-out either up or down should the formulaic outcome be considered not to produce a fair result for either the executive director or the Company, taking account of the Remuneration Committee's assessment of overall business performance.</p> <p>Up to 40% of the bonus earned to be deferred (in cash) for at least twelve months and usually subject to meeting specified performance targets in the deferral period and continued employment.</p>	<p>Up to 150% of base salary (and up to 200% of salary in exceptional circumstances).</p> <p>The combined annual bonus and LTIP opportunities for any year cannot exceed 150% of base salary (and up to 200% of salary in exceptional circumstances).</p>	<p>Targets are set annually, reflecting the Group's strategy and alignment with key financial, strategic and/or individual objectives.</p> <p>Targets, whilst stretching, do not encourage inappropriate business risks to be taken.</p> <p>At least 80% of the bonus is assessed against key financial performance metrics of the business and the balance may be based on non-financial strategic measures and/or individual performance.</p> <p>Vesting of the annual bonus will apply on a scale between 0% and 100% based on the Remuneration Committee's assessment of the extent to which the performance metrics have been met.</p>

Component	Purpose	Operation	Opportunity	Performance Measures
<b>Long Term Incentive Plan (LTIP) 2010</b>	To provide an incentive to executive directors to achieve the annual and longer term financial and strategic business targets and to align their interests with those of Shareholders.	<p>The LTIP was approved by Shareholders at the 2010 AGM.</p> <p>The Remuneration Committee may grant nil-priced or nominal-priced options to acquire shares in the Company.</p> <p>The grant and/or vesting of options is dependent on the achievement of such performance conditions as the Remuneration Committee determines, measured over a minimum period of one year. Options will normally become exercisable three years from date of grant subject to satisfaction of the performance conditions and the continued employment of the participant by the Group.</p> <p>LTIP options vest early on a change of control (or other relevant event) unless the Remuneration Committee determines otherwise, taking into account the performance conditions (as determined by the Remuneration Committee) and pro-rating for time, although the Remuneration Committee has discretion not to apply time pro-rating.</p> <p>As described on page 24 LTIP awards may also vest early in "good leaver" circumstances.</p>	<p>The LTIP allows for the grant of options over shares worth up to 50% of base salary in any plan year.</p> <p>The combined annual bonus and LTIP opportunities for any year cannot exceed 150% of base salary (and up to 200% of salary in exceptional circumstances).</p> <p>In applying these limits no account will be taken of shares which have been awarded to ensure that a participant is not financially disadvantaged if he agrees to satisfy the Group's social security liability in relation to his option.</p>	<p>The grant and/or vesting of LTIP options is subject to the satisfaction of performance targets set by the Remuneration Committee.</p> <p>The performance measures are reviewed regularly to ensure they remain relevant but will be based on individual and/or financial measures and/or share price growth related measures.</p> <p>The relevant metrics and the respective weightings may vary each year based upon Company strategic priorities.</p> <p>Vesting of LTIP options will apply on a scale between 0% and 100% based on the Remuneration Committee's assessment of the extent to which the performance metrics have been met.</p> <p>The Remuneration Committee does not intend to grant any LTIP options to executive directors in the year ending 31 January 2018.</p>

## B2 Directors' Remuneration Report

Component	Purpose	Operation	Opportunity	Performance Measures
<b>Retirement benefits</b>	To provide competitive retirement benefits to help recruit and retain executive directors	The Company offers defined contribution pensions to all executive directors. In appropriate circumstances, executive directors may take a salary supplement instead of contributions into a pension plan.	Maximum contributions for a director will be up to 20% of base salary.	N/A

The following table provides a summary of the key components of the remuneration package for non-executive directors:

Component	Purpose	Operation	Opportunity
<b>Fees</b>	To provide the core fixed element of remuneration for the particular non-executive director role.	The Board of Directors determines non-executive fees, taking into account the skills, knowledge, and experience of the individual, whilst taking into account appropriate market data.  Directors may be entitled to benefits such as the use of secretarial support, travel costs, or other benefits that may be appropriate.	The fee is set as a fixed annual fee.  Overall fees paid to non-executive directors will remain within the limit set out in the Company's Articles of Association of £300,000, taking into account the percentage increase in the General Index of Retail Prices for the 12 preceding months.

### Legacy awards

The Committee retains the ability to settle awards made under the 2008 Discretionary Share Option Plan ("DSOP") to participants. When the DSOP lapses in 2018, it is not currently intended to renew this plan. Existing awards under the DSOP, where the vesting criteria has in all cases been met, will become exercisable to executive directors as set out in the Remuneration Policy approved by Shareholders at the 2014 AGM.

### Recovery provisions

The annual bonus (including any deferred awards) and LTIP awards are subject to "malus" and "clawback" provisions as follows.

For up to two years following the payment of the annual bonus award, the Committee may require repayment of all or part of the bonus in the event of a material misstatement or error in assessing performance measures which has led to an overpayment of the bonus or in the event of dismissal due to gross misconduct in the bonus year or in the event of criminal behaviour. Some or all of any deferred award under the annual bonus may be clawed back (via a cancellation of the award) prior to vesting in equivalent circumstances.

During the vesting period of an LTIP award the Committee may clawback all or part of the award (via the cancellation of unvested LTIP awards) in the event of a material misstatement or error in assessing performance measures which has led to an the award vesting to a greater degree than would otherwise have been the case or in the event of dismissal due to gross misconduct.

### Remuneration Committee approach to setting performance measures and targets

Performance measures are selected that are aligned to the Company's strategy. Stretching performance targets are set each year for the annual bonus and/or long term incentive awards. When setting these performance targets, the Remuneration Committee will take into account a number of different reference points, which may include the Company's business plans and strategy and the market environment. Full vesting will only occur for what the Remuneration Committee considers to be stretching performance.

In setting appropriate annual bonus and long term incentive parameters the Remuneration Committee considers the Group's and each division's financial performance, typically pre-tax profit performance for the year, and the appropriate percentage of basic salary to be awarded for each executive director.



### Remuneration Committee Flexibility

The Remuneration Committee retains the ability to adjust or set different performance measures where it considers it appropriate to do so (for example, to reflect changes in the structure of the business and to assess performance on a fair and consistent basis from year to year).

The Remuneration Committee administers the bonus scheme and the variable incentive plans according to their respective rules and in accordance with HMRC rules where relevant. They have flexibility within the limits in the table above to determine the timing and quantum of awards to individual participants, and to determine good or bad leaver status for determining a leaver's entitlement to share options under the rules of the LTIP scheme.

Options under the LTIP may be adjusted in the event of a variation of capital in accordance with the scheme rules.

### Remuneration Policy for other employees

Remuneration arrangements are determined throughout the Group based on the principle that reward should be sufficient to attract and retain high calibre talent, without paying more than is necessary, and should be aligned to the delivery of our business strategy.

All members of staff receive an annual pay review and all members of staff whose performance has been exceptional are entitled to a discretionary bonus.

Senior employees are eligible to participate in the LTIP 2010, at the Remuneration Committee's discretion, thereby encouraging wider workforce share ownership.

In determining pay levels for employees, management consider individual and Company performance and market rates for similar positions. Senior management whose performance has been exceptional may also be eligible for share options with similar performance conditions to the options awarded to executive directors.

### Remuneration Policy for newly appointed directors

The policy aims to facilitate the appointment of individuals of sufficient calibre to lead the business and execute the strategy effectively for the benefit of Shareholders. When appointing a new director, the Remuneration Committee seeks to ensure that arrangements are in the best interests of the Company and not to pay more than is appropriate.

The Remuneration Committee will seek to offer a remuneration package in line with the Remuneration Policy and commensurate with other directors having regard to their responsibilities and experience. The maximum level of variable remuneration which may be granted (excluding buy-out awards referred to below) is 200% of salary (i.e.

the maximum annual bonus and LTIP opportunity). The Remuneration Committee retains the discretion to make remuneration decisions which are outside the policy set out in the table above to facilitate the recruitment of candidates of the appropriate calibre required to optimise Company performance (but subject to the limit on variable remuneration). The Remuneration Committee would ensure that awards within the 200% of salary variable remuneration limit are linked to the achievement of appropriate and challenging performance measures. It is not the Company's intention to make non-performance related incentive payments (for example, "golden hellos").

The Remuneration Committee may make payments or awards to recognise or 'buy-out' remuneration arrangements forfeited on leaving a previous employer. The Remuneration Committee will normally aim to do so broadly on a like-for-like basis taking into account a number of relevant factors regarding the forfeited arrangements which may include the form of award, any performance conditions attached to the awards and the time at which they would have vested. These payments or awards are excluded from the maximum level of variable remuneration referred to above, however the Remuneration Committee's intention is that the value awarded would be no higher than the expected value of the forfeited arrangements.

Any share awards referred to in this section will be granted, as far as possible, under the Company's existing share plans. If necessary, and subject to the limits referred to above, in order to facilitate the awards mentioned above, the Remuneration Committee may rely on exemption 9.4.2 of the Listing Rules which allows for the grant of awards to facilitate, in exceptional circumstances, the recruitment of a director.

Where a position is fulfilled internally, any ongoing remuneration obligations or outstanding variable pay elements shall be allowed to continue according to the original terms.

Fees payable to a newly-appointed Chairman or non-executive director will be in line with the fee policy in place at the time of appointment.

### Director Service contracts

It is the Company's policy that executive directors should have contracts with an indefinite term providing for a maximum of one year's notice.

Non-executive directors are not employed under contracts of service, but are generally appointed for fixed terms of three years renewable for further terms of one to three years, if both parties agree.

All directors offer themselves for re-election at each AGM in accordance with the UK Corporate Governance Code.

## B2 Directors' Remuneration Report

### Payments for loss of office

The policy set out below provides the framework for contracts for directors:

	<b>Policy</b>
<b>Termination payment</b>	<p>Severance payments in relation to the service contracts are limited to basic salary for the notice period plus benefits in kind (including company car and private health insurance) and pension contributions (which may include salary supplements).</p> <p>Benefits provided in connection with termination of employment may also include, but are not limited to, outplacement and legal fees.</p>
<b>Vesting of incentives for leavers</b>	<p><b>Annual bonus</b></p> <p>The Remuneration Committee has the discretion to determine appropriate bonus amounts taking into consideration the circumstances in which an executive director leaves. Typically for 'good leavers', bonus amounts (as determined by the Remuneration Committee) will be pro-rated for time in service to termination and will be, subject to performance, paid at the usual time.</p> <p><b>Deferred annual bonus</b></p> <p>Typically for 'good leavers', unless the Committee determines otherwise, unvested deferred bonus awards shall continue and vest on the normal vesting date subject to meeting any minimum performance target set during the deferral period. If a participant dies, unvested deferred bonus awards will vest at that time. Unvested deferred bonus awards will usually, lapse on termination for any other reason.</p> <p><b>Share-based awards</b></p> <p>The vesting of share-based awards is governed by the rules of the relevant incentive plans, as approved by Shareholders.</p> <p>Under the LTIP if a participant leaves employment of the Group, options will normally lapse if the participant leaves employment before vesting unless and to the extent the Remuneration Committee decides otherwise.</p> <p>Options may vest and become exercisable in "good leaver" circumstances, including death, disability, ill-health, injury, redundancy, retirement, sale of the participant's employer or any other reason determined by the Remuneration Committee.</p> <p>Under the LTIP any "good leaver" options will vest at the date of cessation of employment unless the Remuneration Committee decides they should vest at the normal vesting date.</p> <p>In either case, unless the Remuneration Committee determines otherwise, the extent to which an option vests will be determined by the Remuneration Committee taking into account the time which has elapsed between the grant of that option and the date of leaving and the extent to which any performance conditions have been satisfied. In determining the proportion of an option which vests, the Remuneration Committee may take into account such other factors, including the performance of the Company and the conduct of the participant as it deems relevant.</p> <p>An option may then be exercised, to the extent vested, during the period of six months, or twelve months in the case of death, (or such other period as the Remuneration Committee may determine) commencing on the date of such cessation or from the normal vesting date as appropriate.</p> <p>Where a buy-out award is made under the listing rules then the leaver provisions would be determined at the time of the award.</p>
<b>Mitigation</b>	<p>The executive directors' service contracts do not provide for any reduction in payments for mitigation or for early payment.</p>

The Remuneration Committee reserves the right to make additional exit payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of a settlement or compromise of any claim arising in connection with the termination of a director's office or employment. In doing so, the Remuneration Committee will recognise and balance the interests of Shareholders and the departing executive director, as well as the interests of the remaining directors.

Where the Remuneration Committee retains discretion, it will be used to provide flexibility in certain situations, taking into account the particular circumstances of the director's departure and performance, with the objective of ensuring that the director is not paid for poor performance.

The notice period to be given by the non-executive directors or the Company is up to six months and discretion is retained to terminate with or without due notice or paying any payment in lieu of notice dependent on what is considered to be in the best interests of the Company in the particular circumstances.

#### **Statement of consideration of employment conditions elsewhere in the Company**

When determining the remuneration arrangements for executive directors, the Remuneration Committee takes into consideration, as a matter of course, the pay and conditions of employees throughout the Group. The Remuneration Committee does not formally consult employees on executive remuneration.

#### **Statement of consideration of Shareholder views**

From time to time the Remuneration Committee also consults with major Shareholders (other than on their own pay for those on the Board) in addition to proposing the remuneration report and resolutions annually to all Shareholders.

#### **Illustration of application of Remuneration Policy**

The charts below set out an illustration of the Remuneration Policy with effect from 1 February 2017.

For these purposes base salary is the latest known salary as at 1 February 2017 and benefits is as disclosed in the single figure table on page 28 for the year ending 31 January 2017. Pension is based on the policy set out in the future policy table (i.e. a maximum contribution of 20% of base salary) and base salary effective at 1 February 2017.

Three scenarios have been illustrated for each executive director:

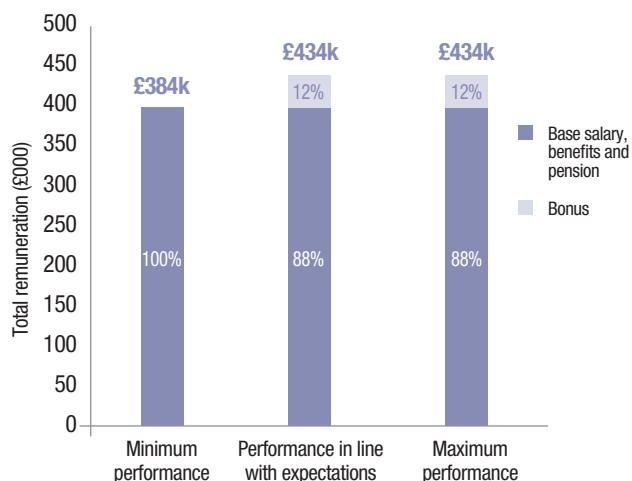
<b>Minimum performance</b>	<ul style="list-style-type: none"> <li>➤ No bonus pay-out</li> <li>➤ No LTIP</li> </ul>
<b>Performance in line with expectations</b>	<ul style="list-style-type: none"> <li>➤ Bonus: £50,000 for Anthony Coombs and Graham Coombs, £60,000 for Chris Redford and £300,000 for Guy Thompson.</li> <li>➤ No LTIP</li> </ul>
<b>Maximum performance</b>	<ul style="list-style-type: none"> <li>➤ Bonus: £50,000 for Anthony Coombs and Graham Coombs, £60,000 for Chris Redford and £300,000 for Guy Thompson.</li> <li>➤ No LTIP</li> </ul>

As required by the regulations, the scenarios are based on the proposed operation of the policy for the year ended 31 January 2018.

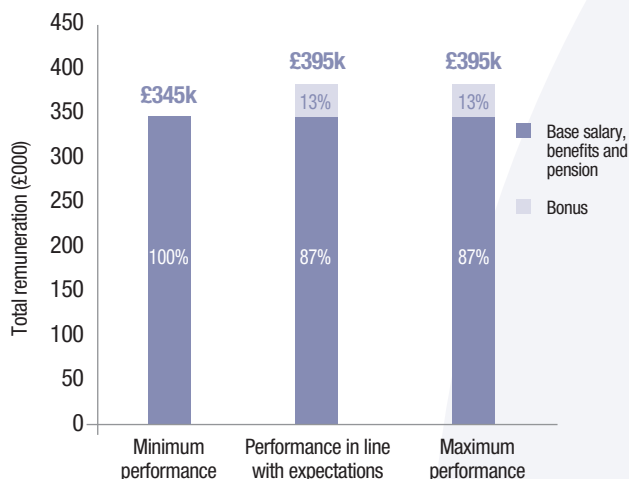
# B2 Directors' Remuneration Report

## Scenario Charts

### Anthony Coombs



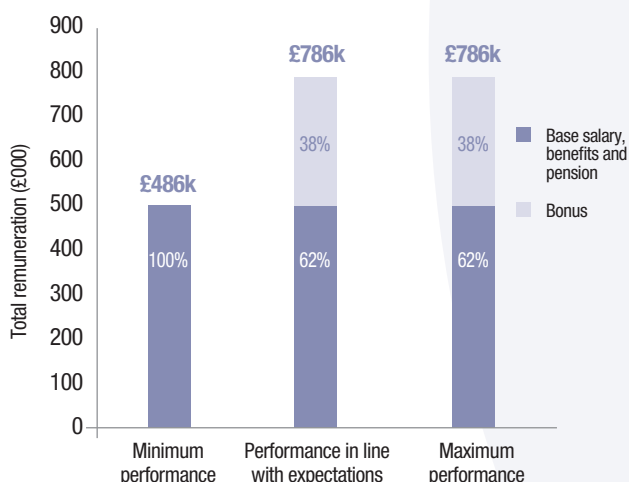
### Graham Coombs



### Chris Redford



### Guy Thompson



## Existing contractual arrangements

The Remuneration Committee retains discretion to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed:

- before the AGM held on 20th May 2014 (the date the Company's first shareholder-approved Directors' Remuneration Policy came into effect);
- after the AGM held on 24th April 2014 and before the policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved Directors' Remuneration Policy in force at the time they were agreed; or

- at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company.

For these purposes "payments" includes the Remuneration Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" no later than at the time the award is granted

The Remuneration Committee may make minor changes to this Remuneration Policy which do not have a material advantage to directors, to aid in its operation or implementation, taking into account the interests of Shareholders but without the need to seek Shareholder approval.

## 2.3 Annual Remuneration Report

This section covers how the remuneration policy was implemented in the year ending 31 January 2017. Certain elements of the Annual Remuneration Report are subject to audit and this has been highlighted at the start of each section.

### Remuneration Committee (this section is not subject to audit)

The Company has established a Remuneration Committee which is constituted in accordance with the recommendations of the Combined Code. The members of the Remuneration Committee are Mr G Pedersen, Mr D Markou, Mr K Smith and Mr T Khlal (who joined the Committee on 21 March 2016), who are all independent non-executive directors. Biographical details of these directors are set out on page 15. The Remuneration Committee is chaired by Mr K Smith. In May 2017 Mr K Smith will step down as Chairman of the Remuneration Committee and Mr T Khlal will be appointed the new Remuneration Committee Chairman.

None of the Remuneration Committee has any personal financial interest (other than as Shareholders), conflicts of interest arising from cross-directorship or day-to-day involvement in running the business. The Remuneration Committee makes recommendations to the board.

The Remuneration Committee is responsible within the authority delegated by the Board for determining the Remuneration Policy and for determining the specific remuneration packages for each of the executive directors. In setting the Remuneration Policy for executive directors the Remuneration Committee considers;

- › the need to attract retain and motivate high quality executive directors to optimise Group performance;
- › the need for an uncomplicated link between executive director performance and rewards;
- › the need for an appropriate balance between fixed and variable remuneration and short term and long term rewards and alignment with shareholder interests;
- › best practice and remuneration trends within the company and the financial services industry;
- › the requirements of the UK Corporate Governance Code and existing executive director contracts; and
- › previous shareholder feedback.

The Remuneration Committee's terms of reference were reviewed during the year and are available on our website [www.suplc.co.uk](http://www.suplc.co.uk).

### Advisors to the Remuneration Committee

The Remuneration Committee is assisted in its work by the Chairman, Deputy Chairman and the Group Finance Director. The Chairman is consulted on the remuneration of those who report directly to him and also of other senior executives. No executive director or employee is present or takes part in discussions in respect of matters relating directly to their own remuneration.

During the year, the Remuneration Committee was also assisted in its work by Deloitte LLP. Deloitte LLP was appointed by the Board and the advice provided to the Remuneration Committee was limited to technical advice in connection with the disclosure of directors' remuneration. The Board took into account the Remuneration Consultants Group's Code of Conduct when reviewing the appointment of Deloitte LLP and also took into account Deloitte LLP role as external auditor. Deloitte LLP's fees for providing advice to the Company during the year were charged on a time and materials basis and were £3,900 (+ VAT). The Remuneration Committee is satisfied that all advice received was objective and independent.

## B2 Directors' Remuneration Report

### Single Figure Tables (this section is subject to audit)

The table below sets out in a single figure the total amount of remuneration including each component received by each of the directors for the year ended 31 January 2017

	Age	Salaries and fees	Allowances and benefits	Pension Contribution / Salary Supplement in Lieu of Pension	Bonus	Share incentive plans (DSOP / LTIP)	Total
<b>Executive directors</b>							
AMV Coombs	64	333	44	–	25	–	402
GDC Coombs	64	307	25	–	25	–	357
CH Redford	52	200	20	39	50	–	309
JG Thompson	61	343	30	60	125	391	949
<b>Non-executive directors</b>							
KR Smith	78	33	–	–	–	–	33
D Markou	73	30	–	–	–	–	30
F Coombs	48	30	–	–	–	–	30
G Pedersen	62	30	–	–	–	–	30
T Khlal (joined on 21 March 2016)	50	26	–	–	–	–	26
<b>Total</b>		1,332	119	99	225	391	2,166

The table below sets out in a single figure the total amount of remuneration including each component received by each of the directors for the year ended 31 January 2016

	Salaries and fees	Allowances and benefits	Pension Contribution / Salary Supplement in Lieu of Pension	Bonus	Share incentive plans (DSOP / LTIP)	Total
<b>Executive directors</b>						
AMV Coombs	333	36	–	25	–	394
GDC Coombs	307	22	–	25	–	354
CH Redford	200	19	39	20	293	571
JG Thompson	300	24	39	75	426	864
<b>Non executive directors</b>						
KR Smith	33					33
D Markou	30					30
G Pedersen (joined 18 Feb 2015)	29					29
F Coombs	30					30
<b>Total</b>	1,262	101	78	145	719	2,305

<b>Salaries &amp; fees</b>	The amount of salary / fees received in the period.
<b>Allowances and benefits</b>	The taxable value of benefits received in the period. These are company car or allowance, private fuel, life insurance and private medical insurance.
<b>Pension</b>	The pension figure represents the cash value of pension contributions received by the executive directors. This includes the Company's contributions to the defined contribution pension scheme and any salary supplement in lieu of a Company pension contribution.
<b>Annual Bonus</b>	Annual bonus is the value of the bonus earned in respect of the year. A description of the performance targets against which the bonus pay-out was determined is provided on page 30.
<b>Share incentive plans (DSOP / LTIP)</b>	<p>For the year ending 31 January 2017:-</p> <ul style="list-style-type: none"> <li>▶ 20% of the 65,000 LTIP options granted to J G Thompson on 24 May 2013 (i.e. 13,000 shares) and 20% of the 25,000 LTIP options granted on 3 October 2012 (i.e. 5,000 shares) vested in respect of performance to 31 January 2017 as the divisional PBT and new motor finance contract targets for Advantage Finance were achieved. Although both these LTIP options are also subject to continued employment until 29 August 2018, the value of the shares vesting by reference to performance to 31 January 2017 is shown above based on the three month average share price to 31 January 2017.</li> </ul> <p>For the year ended 31 January 2016 comparative figures the value of options vesting under the share incentive plans has been calculated as follows:</p> <ul style="list-style-type: none"> <li>▶ 20% of the 65,000 LTIP options granted to J G Thompson on 24 May 2013 (i.e. 13,000 shares) and 20% of the 25,000 LTIP options granted on 3 October 2012 (i.e. 5,000 shares) vested in respect of performance to 31 January 2016 as the divisional PBT and new motor finance contract targets for Advantage Finance were achieved. Although both these LTIP options are also subject to continued employment until 29 August 2018, the value of the shares vesting by reference to performance to 31 January 2016 is shown above based on the three month average share price to 31 January 2016.</li> <li>▶ LTIP options over 2,000 shares granted to Chris Redford during the year to 31 January 2016 vested in full as the Group PBT target of £27million for the year was achieved, adjusted for the impact of the disposal of the Home Credit Business. These awards will be subject to further continued employment to 1 May 2018, the value shown in the single figure table is therefore based on the three month average share price to 31 January 2016.</li> <li>▶ In addition the 10,000 shares granted to Chris Redford vesting in full on the completion of the sale of the Group's Home Credit business. As described above, these options are subject to continued employment such that 50% of the award will vest on 4 August 2018 and the remaining 50% will vest on 4 August 2019, the value shown in the single figure table is therefore based on the three month average share price to 4 August 2015.</li> </ul>

**Individual elements of remuneration (this section is subject to audit apart from the application of the Remuneration Policy to the individual elements of remuneration for the year ending 31 January 2017).**

**Base salary and fees**

Base salaries for individual executive directors are reviewed annually by the Remuneration Committee and are set with reference to individual performance, experience and responsibilities within the Group as well as with reference to similar roles in comparable companies. Non-executive directors will continue to receive directors' fees in line with market. As disclosed in the Annual Report on Remuneration last year, for the year ending 31 January 2017, there were no increases to executive director salaries other than to Guy Thompson, who received a base salary increase of 6.7% from £300,000 to £320,000 with effect from 1 February 2016 reflecting the continued excellent performance of Advantage Finance as well as the new structure of the board. Taking into account retention and motivation considerations, wider director remuneration trends and Guy Thompson's contribution to the excellent performance of Advantage Finance in the first half of this year it was decided to increase Guy Thompson's base salary from £320,000 to £360,000 with effect from 1 July 2016.

For the year ending 31 January 2018, Anthony Coombs, Graham Coombs, Chris Redford and Guy Thompson all received a salary increase of between 2% and 5.5%. This is broadly in line with the range of increases awarded to the wider force. The average base salary increase for the wider workforce was 4%.

## B2 Directors' Remuneration Report

The table below shows the base salary increases awarded in the year:

<b>Executive director</b>	<b>Base salary as at 31 January 2017 £000</b>	<b>Base salary for year to 31 January 2018 £000</b>	<b>Increase %</b>
AMV Coombs	333	340	2.1%
GDC Coombs	306.5	320	4.4%
CH Redford	200	210	5%
JG Thompson	360	380	5.5%

The remuneration policy for non-executive directors is determined by the Board. Fees reflect the responsibilities and duties placed upon non-executive directors whilst also having regard to market practice. The basic non-executive director fee was increased from £30,000 to £31,000 with effect from 1 February 2017. The non-executive directors do not participate in any of the Company's share incentive plans nor do they receive any benefits or pension contributions.

<b>Non-executive director fees</b>	<b>2015/16</b>	<b>2017/17</b>	<b>2017/18</b>
Basic fee	£30,000	£30,000	£31,000
Additional fee for -Senior Independent Non-executive director	£3,000	£3,000	£3,000

### Annual bonus

For the year ending 31 January 2017, annual bonuses for the executive directors were based on stretching Group or divisional PBT targets. The table below sets out the maximum bonus opportunity that each of the executive directors could earn for the year ending 31 January 2017 together with the Group PBT targets and details of the actual bonus earned.

	<b>Performance targets*</b>	<b>Maximum bonus opportunity year ending 31 January 2017</b>	<b>Bonus pay-out % of maximum</b>	<b>Actual bonus earned for the year ending 31 January 2017</b>
AMV Coombs	Group PBT target (£25.0m)	£50,000	50%	£25,000
GDC Coombs		£50,000	50%	£25,000
CH Redford		£60,000	83%	£50,000
JG Thompson (see note 1)	Advantage Finance PBT target	£150,000	83%	£125,000

As disclosed in the Annual Report on Remuneration last year, for the year ending 2017, the maximum annual bonus opportunity for Guy Thompson was set at £100,000. During the year the Remuneration Committee reviewed the remuneration package of Guy Thompson. Taking into account retention and motivation considerations, wider director remuneration trends and Guy's contribution to the excellent performance of Advantage Finance in the first half of this year it was decided to increase Guy's maximum bonus potential for 2016/17 to £150,000. Based on performance in the year ended 31 January 2017 a bonus of £125,000 was deemed payable to Guy and in respect of the year ended 31 January 2018 a further deferred cash bonus of up to £25,000 will be paid to Guy Thompson at the end of March 2018 (subject to meeting a further profit target in this year). These changes are within the existing Remuneration Policy which was approved by Shareholders with a binding vote on 20 May 2014 and equates to a total bonus payable in respect of the year ended 31 January 2017 of 36.4% of the salary he earned in the year (excluding the deferred cash bonus) and 43.7% of the salary he earned in the year (including the deferred cash bonus).

\* Whilst the Remuneration Committee is aware that some Shareholders wish to see detailed retrospective disclosure of bonus targets, it considers this inappropriate for the divisional PBT targets given that such targets are based on commercially sensitive information that the Board believes could negatively impact the Group's competitive position by providing our competitors with insight into our business plans and expectations, resulting in significant risk to future profitability and shareholder value. We will review annually this commercial sensitivity and consequent non-disclosure of the historic divisional PBT targets. However, we are committed to providing as much information as we are able to, in order assist our investors in understanding how our incentive pay-outs relate to performance delivered. Details of the Group PBT targets are disclosed above.



### Annual bonus in 2017/18

For the year ending 2018, the maximum annual bonus opportunity is £50,000 for Anthony Coombs and Graham Coombs; £60,000 for Chris Redford and, subject to shareholder approval of the new remuneration policy at the 2017 AGM, £300,000 for Guy Thompson.

For Guy Thompson, one third of the maximum bonus potential (i.e. up to £100,000) will be deferred (in cash) for 12 months and will be paid at the end of March 2019 subject to the bonus target being met in respect of the year ended 31 January 2019.

In addition, as noted above, based on performance in the year ended 31 January 2017 and the year ended 31 January 2018 a further deferred cash bonus of up to £25,000 will be paid to Guy Thompson at the end of March 2018.

The annual bonus will continue to be assessed against stretching Group and divisional PBT targets.

The Remuneration Committee considers that the actual annual bonus targets are commercially sensitive and should therefore remain confidential to the Company. They provide our competitors with insight into our business plans, expectations and our strategic actions. However, the Remuneration Committee will continue to disclose how the bonus pay-out delivered relates to performance against the Group PBT targets on a retrospective basis.

### Long Term Incentives – Long Term Incentive Plan (LTIP) 2010 and Deferred Share Option Plan (DSOP)

#### Awards granted during the period

No options were granted under the LTIP or DSOP to the Executive Directors during the year ending 31 January 2018.

#### Awards vesting based on performance in respect the year ended 31 January 2017

Details of awards vesting based on performance in respect of the year ended 31 January 2017 have been included in the notes to the single figure tables on page 29.

#### Awards for 2017/18

There is no intention to grant options under the LTIP or DSOP for the year ending 31 January 2018. The Remuneration Committee has reviewed the Remuneration Policy during the year and will be putting a new Remuneration Policy to Shareholders at the AGM in 2017. Further details are set out in the Remuneration Policy. For the year ending 31 January 2018, the Remuneration Committee considers that outstanding LTIP and DSOP awards provide sufficient shareholder alignment for Chris Redford and Guy Thompson and that the significant shareholding held by Graham Coombs and Anthony Coombs similarly provides adequate alignment to Shareholders.

### Total pension entitlements (this section is subject to audit)

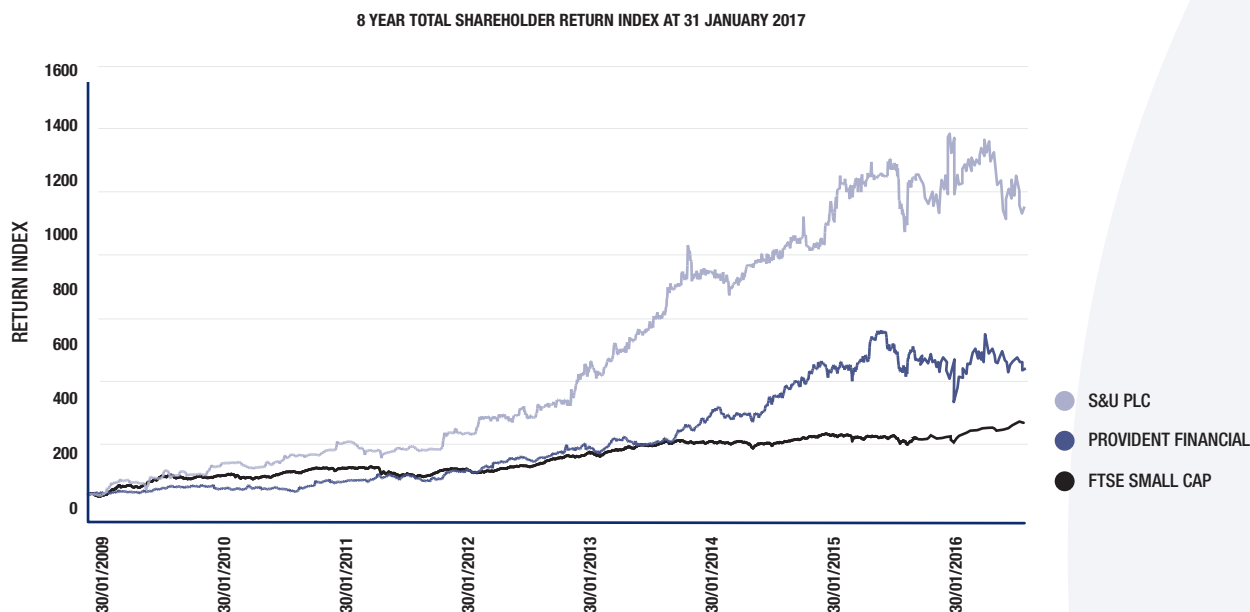
The Group makes contributions into a defined contribution scheme on behalf of JG Thompson and CH Redford or pays a salary supplement in lieu. None of the directors has accrued benefits under the defined benefit scheme.

Director	Defined contribution or salary supplement in lieu £000	Percentage of Salary %
CH Redford	39	19.5%
JG Thompson	60	17.5%

## B2 Directors' Remuneration Report

### Company performance – shareholder return graph (this section is not subject to audit)

The following graph shows the Company's Shareholder Return performance, compared with the performance of the FTSE Small Cap, over the past eight years. The performance has also been benchmarked against Provident Financial, a leading competitor. These comparators have been selected since they illustrate S&U's relative performance within their sector.



### Executive Chairman Remuneration for previous six years (this section is not subject to audit)

The Group does not have a CEO but the table below shows the detail required by the regulations for our executive chairman Mr Anthony Coombs:

	Single figure of remuneration (£000)	Annual bonus (% of maximum opportunity for the year)	Long term incentive (% of maximum number of shares for the year)
2017	427	50%	n/a
2016	394	100%	n/a
2015	390	100%	n/a
2014	370	100%	n/a
2013	445	50%	71%
2012	436	100%	100%
2011	360	100%	n/a
2010	337	57%	n/a

### Percentage change in Executive Chairman Remuneration (this section is not subject to audit)

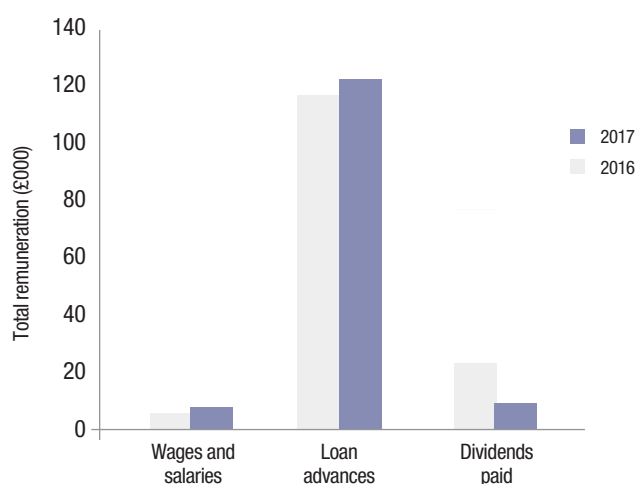
The table below sets out in relation to salary, taxable benefits and annual bonus the percentage increase in pay for Anthony Coombs compared to the wider workforce.

Element	Executive Chairman	Wider Workforce
Base salary	2%	4%
Allowances and benefits	22%*	n/a
Bonus	0%*	4%

\* Anthony Coombs received benefits and allowances of £36,000 in the year ending 31 January 2016 and £44,000 the year ending 31 January 2017. Anthony Coombs earned a bonus of £25,000 for the year ending 31 January 2017 and a bonus of £25,000 for the year ending 31 January 2016.

## Relative Importance of Spend on Pay (this section is not subject to audit)

The graph below shows the relative importance of spend on pay against other cash outflows of the Group for the years ending 31 January 2017 and 31 January 2016. Given the nature of the Group's business, the other significant outflows for the Group are loan advances and dividends payable.



## Payments for loss of office (this section is not subject to audit)

There were no loss of office payments made during the year ended 31 January 2017.

## Statement of directors' shareholding and share interests (this section is not subject to audit)

The table below details the shareholdings and share interests of the director as at 31 January 2017.

	Type	Owned Outright	Unvested subject to performance conditions	Unvested not subject to further performance conditions	Vested but unexercised	Total at 31 January 2017
AMV Coombs	Shares	1,341,527*				1,341,527
	LTIP				5,000	5,000
	DSOP					–
GDC Coombs	Shares	1,577,457*				1,577,457
	LTIP					–
	DSOP					–
CH Redford	Shares	9,000				9,000
	LTIP			14,000		14,000
	DSOP			600		600
JG Thompson	Shares					–
	LTIP		18,000	74,500		92,500
	DSOP			450		450
<b>Non-executive directors</b>						
KR Smith	Shares	27,500				27,500
D Markou	Shares	4,500				4,500
G Pedersen	Shares	0				0
F Coombs	Shares	283,550				283,550
T Khlal	Shares	0				0

\* In addition to the above holdings, Grevayne Properties Limited, a Company beneficially controlled by Anthony Coombs and Graham Coombs, hold 298,048 Ordinary Shares.

## B2 Directors' Remuneration Report

### Shareholder vote on January 2016 Remuneration Report (this section is not subject to audit)

The table below shows the voting outcome at the 17 May 2016 AGM for the 2016 Directors Remuneration Report (advisory) and the vesting outcome at the 20 May 2014 AGM for the 2014 Remuneration Policy.

	Number of votes "For" and "Discretion"	% of votes cast	Number of votes "Against"	% of votes cast	Total Number of votes cast	Number of votes "withheld"
2016 Annual Report on Remuneration	6,298,703	93.1%	465,391	6.9%	6,764,094	119,442
2014 Remuneration Policy	6,747,777	99.8%	11,096	0.2%	6,758,873	–

The Remuneration Committee welcomed the passing of the resolution and the support shown by those Shareholders who voted in favour and the Remuneration Committee has taken steps wherever practicable to understand Shareholder concerns when withholding their support.

### Approval

This report section B2 of the Annual Report and Accounts including both the Remuneration Policy Summary and The Annual Remuneration Report was approved by the Board of Directors on 27 March 2017 and signed on its behalf by:

#### Keith Smith

Chairman of the Remuneration Committee

## B3 Governance

### B3.1 Audit Committee Report

#### Role and Responsibilities

The Audit Committee is a committee of the Board of Directors. Its main role is to assist the Board and protect the interests of shareholders by reviewing the integrity and appropriateness of the Group's financial information, the systems of internal controls and risk management and the audit process.

#### Composition of the Committee and Meetings

The Company has established an Audit Committee which is constituted in accordance with the recommendations of the UK Corporate Governance Code. The members of the committee are Mr G Pedersen, Mr D Markou, Mr T Khlal and Mr K Smith, who are all independent non-executive directors. Biographical details of these directors are set out on page 15. The committee is chaired by Mr D Markou. Tarek Khlal joined the Audit Committee when he was appointed to the Board on 21st March 2016. Meetings are held not less than twice a year normally in conjunction with the interim and full year financial reports issued in September and March. The external auditors or individual members of the Audit Committee may request a meeting if they consider one is necessary and the Committee ensure that discussions are held with the external auditors without executive Board members present. During the year ending 31 January 2017 three meetings were held including Audit planning meetings.

#### Significant Issues related to the financial statements

The significant issues and areas of judgement considered by the Audit Committee in relation to the 2016 Financial Statements were as follows;

#### Impairment of receivables – Motor Finance – see also accounting policy 1.4 on page 53

Receivables are impaired in Motor Finance based on the overall contractual arrears status and also the number of cumulative contractual weekly payments that have been missed in the last 6 months. Impairment is calculated using models which use historical payment performance and amounts recovered from security realisation to generate the estimated amount and timing of future cash flows from each arrears stage. In addition a collective provision is held against incurred losses in the remainder of the loan book.

Judgement is applied as to the appropriate point at which receivables are impaired and the level of cash flows that are expected to be recovered from impaired customers.

In order to assess the appropriateness of the judgements applied, an exercise is performed to assess the most recent performance of customers, including the cash collection and recovery performance of impaired customers. This is used to help forecast expected cash collections which are then discounted at the effective interest rate and compared to the carrying value of receivables at the yearend with the difference being the impairment provision.

In assessing the adequacy of the Motor Finance impairment provision the Audit Committee considers;

- a) The work performed by management and by Deloitte in validating the data used and their challenge of the assumptions used by management; and
- b) The findings in light of current trading performance and expected future trading performance.

#### Revenue Recognition – see also accounting policy 1.3 on page 52

Interest income is recognised in the income statement for all loans and receivables measured at amortised cost using the effective interest rate method (EIR). The EIR is the rate that exactly discounts the expected future cash flows of the loan back to present value being the amount advanced to the customer. Under IAS39 credit charge income should be recognised on the shorter of the expected life or the contractual life of the loan. Under IAS39 management have judged that credit charges should be taken over the contractual life of the loan.

In assessing the appropriateness of revenue recognition the Audit Committee considers;

- a) The work performed by management and by Deloitte as part of their external audit, including their challenge of the assumptions used by management; and
- b) The findings in light of current trading experience and expected future trading experience.

## B3 Governance

### External Audit

The Committee formally reviews the effectiveness of the external auditors, Deloitte LLP, and the Group's relationship with them. The review consists of a list of relevant questions, which it discusses with the Group Finance Director, before discussing them with external auditors.

As a result the Committee concluded that the external audit process remained effective this year. Although Deloitte LLP have been Group Auditors since 2000, this year has seen a change in lead Audit Partner on the usual five-year rotational basis. Before recommending Deloitte's reappointment, the Audit Committee reviewed both the quality of service they provided and their continuing independence. They examined Deloitte's transparency report which demonstrates how audit quality is maintained in line with the "Audit Quality Framework" issued by the professional oversight board of the Financial Reporting Council. They also reviewed Deloitte's understanding of S&U plc's business, their access to appropriate specialists, and their understanding of the financial sector in which the Group operates. The Audit Committee then concluded that it was in the interests of the Group that Deloitte's continued as external auditors and have therefore recommended to the Board Deloitte's reappointment at the forthcoming Annual General Meeting.

S&U plc is not currently a FTSE 350 Company and therefore not required to put its Audit arrangements out to tender on a periodic basis. Nevertheless both the Audit Committee and Deloitte have put in place safeguards to ensure that the independence and objectivity of the external auditor is maintained. Further it is formulating a policy governing the external auditors' engagement for non-audit services, and in line with rules for public interest entities the provision of tax compliance services has been placed with KPMG with effect from 1 February 2017. Fees paid to the external auditor are shown in note 6 to the accounts. Overall the fees paid to the external auditor for non-audit services were £35,000 (2016: £824,000 including services connected to the disposal of Home Credit division).

In accordance with this policy the Audit Committee ensured no external service provided by the auditors involved it in management of functions or decision making or in influencing managements view on the adequacy of internal controls or financial reporting. If it were to be material to the Group, any Corporate Finance or other advice that Deloitte provided during the year would be reviewed by the Audit Committee to ensure that they did not compromise the auditing function of Deloitte in any way.

### Internal Audit

During the year, RSM have continued to provide internal audit services for the Group. An agreement, overseen by the Audit Committee, has now been entered into with RSM who will be responsible for regular internal audits of the Group's Regulatory Controls, Customer Compliance, Risk Management and Governance Policy and Procedures.

The Committee considers that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

#### Demetrios Markou

Chairman of the Audit Committee  
22 March 2017

## B3.2 Corporate Governance

The latest version of the UK Corporate Governance Code was issued by the Financial Reporting Council in September 2014. The Code sets out Provisions for Good Corporate Governance along with a series of supporting principles.

A narrative statement on how the Company has applied the provisions and a statement explaining the extent to which the provisions of the Code have been complied with, appear below.

### Narrative Statement

The Code establishes Code Provisions, which are split into five areas, "Leadership", "Effectiveness", "Accountability", "Remuneration and "Relations with Shareholders". The current position of the Company in each area is described below.

### Leadership

During the year the Company was controlled through the Board of Directors which at 31 January 2017 comprised four executive and four non-executive directors. The Chairman is mainly responsible for the running of the Board. He has to ensure that all directors receive sufficient relevant information on financial, business and corporate issues prior to meetings. He is also responsible for co-ordinating the Company's business and implementing Group strategy. The Chairman and Deputy Chairman are jointly responsible for acquisitions outside the traditional business, the development of the business into new areas, and relations with the investing community, public and media.

The Board has a formal schedule of matters reserved to it and meets at least six times a year with monthly circulation of papers. It is responsible for overall Group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. It monitors the exposure to key business risks and reviews the strategic direction of the business. This includes its code of conduct, its annual budgets, its progress towards achievement of those budgets and its capital expenditure programmes. The Board also considers environmental and employee issues and key appointments. It also ensures that all directors receive appropriate training on appointment and then subsequently as appropriate. The Board reviews the performance of the directors and committees. The Board has established a Nominations Committee, an Audit Committee and a Remuneration Committee. Each committee operates within defined terms of reference. Advantage Finance is managed by separate boards of directors. The minutes of their meetings and of the standing committees will be circulated to and reviewed by the Board of Directors. Terms of reference for the committees are available from S&U plc head office and on our website [www.suplc.co.uk](http://www.suplc.co.uk).

Mr KR Smith and Mr D Markou have served as non-executive directors on the Board for over 9 years. Notwithstanding this length of service the Board considers them to be independent due to their robust judgement and character and the invaluable balance and experience they have brought to the Board's deliberations. Apart from common shareholdings, neither Mr Smith nor Mr Markou have any other cross directorships or other significant commercial links with other directors. In addition, their financial, business and stock market training and experience are considered invaluable to the Board. Graham Pedersen was appointed to the Board in February 2015 and brings a wealth of experience to the S&U board both as a regulator and a banker. In March 2016, Tarek Khlata, a Banker, FCA Approved Person and Wealth Manager of great experience and expertise was appointed to the Board.

From 21st March 2016 onwards, although exempt as a "smaller company" outside the FTSE 350, S&U plc complied with the code requirement for at least half the Board, excluding the Chairman, to be independent non-executive directors. For this purpose Fiann Coombs is not considered to be independent by virtue of his close association with family shareholders, and therefore does not sit on Board Committees. The Nominations Committee, chaired by Mr. K.R. Smith, comprises the independent non-executive directors and Mr. A.M.V. Coombs, Group Chairman. Audit and Remunerations Committees are made up of the four independent non-executive directors and chaired by Mr. D. Markou and Mr K.R. Smith respectively. Keith Smith will be retiring as the Chairman of the Remuneration Committee on 18 May 2017 and with effect from that date the Remuneration Committee will be chaired by Tarek Khlata.

### Effectiveness

Our executive directors are appraised annually by the Chairman, the Deputy Chairman and the independent non-executives. The Chairman and the Deputy Chairman are appraised annually by the independent non-executives. The results of these appraisals are considered by the Remuneration Committee for the determination of their remuneration recommendations.

Our non-executive directors receive full updates on Company progress and relevant issues and bring their experience and sound judgement to bear on matters arising. The Chairman considers the effectiveness of each non-executive director annually.

Messrs AMV Coombs, GDC Coombs, CH Redford, JG Thompson, G Pedersen, F Coombs, T Khlata and D Markou being eligible offer themselves for re-election at the next Annual General Meeting. Mr T Khlata, Mr G Pedersen, Mr F Coombs and Mr D Markou are non-executive directors and the Chairman has determined their performance to be both effective and committed. After 18 years of distinguished service as a non executive director of the company, Mr KR Smith has decided to retire and will not be offering himself for reelection. Mr Smith will therefore step down from the Board on the date of the next Annual General Meeting and the Board would like to thank him for his wise counsel and advice during his years of service to S&U plc.

## B3 Governance

The Company Secretary Mr CH Redford, is available to provide advice and services to all Board members and is responsible for ensuring Board procedures are followed. All directors are also able to take independent advice in furtherance of their duties if necessary.

### Accountability

#### Financial Reporting

Reviews of the performance and financial position of the Group are included in the Chairman's Report. The Board uses this, together with the Strategic Report within pages 02 to 13, to present a balanced and understandable assessment of the Company's position and prospects. The Directors' responsibilities in respect of the financial statements are described on page 41 and those of the auditor on page 42.

#### Internal Control

The Board acknowledges that it is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group's internal control systems are reviewed regularly with the aim of continuous improvement. Whilst the Board acknowledges its overall responsibility for internal control, it believes strongly that senior management within the Group's operating businesses should also contribute in a substantial way and this has been built into the process.

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. The process has been in place for the year under review and up to the date of approval of the report and financial statements. The process is regularly reviewed by the Board and accords with the revised guidance in the UK Corporate Governance Code.

The Board intends to keep its risk control procedures under constant review, particularly as regards the need to embed internal control and risk management procedures further into the operations of the business and to deal with areas of improvement which come to management's and the Board's attention.

As might be expected in a Group of this size, a key control procedure is the day to day supervision of the business by the executive directors, supported by the managers with responsibility for operating units and the central support functions of finance, information systems and human resources.

The executive directors are involved in the budget setting process, constantly monitor key statistics and review management accounts on a monthly basis, noting and investigating major variances. All significant capital expenditure decisions are approved by the Board as a whole.

The executive directors receive reports setting out key performance and risk indicators and consider possible control issues brought to their attention by early warning mechanisms, which are embedded within the operational units and reinforced by risk awareness training. The executive directors also receive regular reports from the credit control and health and safety functions, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high level review of the arrangements.

#### Relationship with Auditor

The Audit Committee has specific terms of reference which deal with its authority and duties. It meets at least twice a year with the external auditor attending by invitation in order that the Committee can review the external audit process and results. The Committee oversees the monitoring of the adequacy of the Group's internal controls and whistleblowing procedures, accounting policies and financial reporting and provides a forum through which the Group's external auditor reports to the non-executive directors. The Committee assists the Board in discharging its duties to ensure the financial statements meet legal requirements, and also reviews the independence of the external auditor. This is assessed through examination of the nature and value of non-audit services performed during the year. The value of non-audit services is disclosed on page 36 and all non-audit service requirements are considered by the Group before an appointment is made. The non-audit services provided were audit related assurance, tax compliance and in the previous year services relating to the Home Credit disposal. The objectivity and independence of the auditor has been safeguarded by all work being completed by partners and staff who, whilst having specialist knowledge of the sector, have no involvement in the audit of the financial statements, other than for audit related assurance services.

#### Equality and Diversity

The Group is committed to ensuring that existing members of staff, job applicants, or workers are treated fairly in an environment which is free from any form of discrimination. The Group will always wish to ensure appointments reflect the best skills available for the role. Currently women hold 15% of senior management positions and 65% of other employee positions and during the year no female director served on the Board.



## Board and Committee attendance

The attendance of individual directors at the regular meetings of the Board and its committees during the year ended 31 January 2017 is shown in the table below;

Meeting Attendance	Board	Nominations	Remuneration	Audit
<b>Number of meetings</b>	<b>4</b>	<b>1</b>	<b>2</b>	<b>3</b>
AMV Coombs	4	1	na	na
GDC Coombs	4	na	na	na
KR Smith	3	1	2	3
D Markou	4	1	2	3
G Pedersen	4	1	2	2
F Coombs	4	na	na	na
JG Thompson	4	na	na	na
T Khlal (Appointed 21.3.2016)	0	na	1	1
CH Redford	4	na	na	na

## Remuneration

The Remuneration Committee has specific terms of reference which deal with its authority and duties and these, together with details of how the Company has complied with the Remuneration provisions of the UK Corporate Governance Code, are detailed in the Directors Remuneration Report on pages 16 to 34.

## Relations with Shareholders

The Company continues to communicate with both institutional and private investors and responds quickly to all queries received verbally or in writing. All shareholders have at least twenty working days notice of the Annual General Meeting at which all directors are introduced and are available for questions.

The Board is aware of the importance of maintaining close relations with investors and analysts for the Group's market rating. Positive steps have been taken in recent years to enhance these relationships. Twice yearly road shows are conducted by the Chairman and senior directors when the performance and future strategy of the company is discussed with larger shareholders. Queries from all shareholders are dealt with personally by the Chairman: in addition members of the Board obtain regular feedback from major shareholders and discuss this at Board meetings.

## B3.3 Compliance Statement

Throughout the year ended 31 January 2017 the Company has been in compliance with the Code Provisions set out in the September 2014 UK Corporate Governance Code except for the following matters:

Section A.2 and A.3 of the Code requires that the roles of Chairman and Chief Executive should not be exercised by the same individual and that a Chief Executive should not go on to be Chairman of the same Company. Although not required by the Code, S&U has provided annual explanations to justify why the Board considered that the appointment of Mr AMV Coombs as Chairman in 2008 was the best option given the size, nature and structure of the company. Since that date, Mr Coombs has served as Executive Chairman and his responsibilities as Managing Director have been devolved to the Managing Directors of the relevant divisions including currently Motor Finance and Bridging Finance. The progress of the company has proved the success of these arrangements.

## B4 Directors' Report

### B4. Directors' Report

The directors present their Annual Report and the audited financial statements for the year ended 31 January 2017.

#### Dividends

Dividends of £9,548,000 (2016: £23,090,000, including exceptional dividends of £14,877,000) were paid during the year.

After the year end a second interim dividend for the financial year of 28.0p per ordinary share (2016: 23.0p) was paid to shareholders on 17 March 2017.

The directors now recommend a final dividend, subject to shareholders approval of 39.0p per share (2016: 33.0p). This, together with the interim dividends of 52.0p per share (2016: 43.0p) already paid, makes a total dividend for the year of 91.0p per share (2016: 76.0p). An additional exceptional dividend of 125.0p per share was also paid during the previous year in November 2015 from the proceeds of disposal of our home credit business.

#### Substantial Shareholdings

At 27 March 2017, the Company had been notified of the following interests of 3% or more in its issued ordinary share capital (excluding those of the directors disclosed above):

Shareholder	No of shares	% of share capital
Jennifer Coombs	1,855,698	15.5%
Wiseheights Limited	2,420,000	20.2%

#### Capital Structure

Details of the issued share capital, together with details of the movements in the Company's issued shared capital during the year are shown in note 20. The Company has one class of ordinary shares which carry no right to fixed income. Each ordinary share carries the right to one vote at general meetings of the Company. The cumulative preference shares carry 6% interest but do not carry voting rights.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

#### Employees

The Group recognises the need to communicate with employees. Regular updates are sent out to each employee to keep employees informed of the progress of the business as well as regular memos to the branches in respect of new initiatives.

#### Auditor

Each of the persons who is a director at the date of approval of the annual report confirms that; so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

#### Post Balance Sheet Events

As reported in the Chairman's Funding Review, the company has recently concluded extended funding facilities. These comprise a £25m facility until 2021 and bring total Group committed facilities to £95m.

#### Directors

Under article 154 of the Company's articles of association, the Company has qualifying third party indemnity provisions for the benefit of its directors which remain in force at the date of this report.

#### Information Presented in Other Sections

Certain information required to be included in the Director's report can be found in other sections of the Annual Report and Accounts as described below. All the information presented in these sections is incorporated by reference into this Director's report by reference into this Director's report and is deemed to form part of this report.

- The Group's principal risks and uncertainties are set out in section A2.4 in the Strategic Report.
- Information concerning director's contractual arrangements and entitlements under share based remuneration arrangements is given in section B2 in the Directors' remuneration report.
- Information surrounding future developments is given in the Strategic Report
- Disclosures concerning greenhouse gas emissions are given in Section A4.4 in the Strategic Report.

The Board confirms that the Annual Report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Approved by the Board of Directors and signed on behalf of the Board

#### Chris Redford

Company Secretary  
27 March 2017

# B5 Directors' Responsibilities Statement

## B5. Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the Parent Company financial statements under IFRSs as adopted by the EU. Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- › properly select and apply accounting policies;
- › present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- › provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- › make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Responsibility Statement

We confirm that to the best of our knowledge:

- › the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- › the strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- › the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

By order of the Board

**Anthony Coombs**  
Chairman  
27 March 2017

**Chris Redford**  
Group Finance Director  
27 March 2017

# C Independent Auditor's Report to the members of S&U Plc

## Opinion on financial statements of S&U plc

### In our opinion:

- › the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 January 2017 and of the group's profit for the year then ended;
- › the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- › the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- › the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The financial statements that we have audited comprise:

- › the Group Income Statement;
- › the Group Statement of Comprehensive Income;
- › the Group and Parent Company Balance Sheets;
- › the Group and Parent Company Statements of Changes in Equity;
- › the Group and Parent Company Cash Flow Statements; and
- › the related notes 1 to 27.


The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

### Summary of our audit approach

#### Key risks

The key risks that we identified in the current year were:

- › Provision for impairment losses against loans and receivables
- › Revenue recognition

Within this report, any new risks are identified with  and any risks which are the same as the prior year identified with .

#### Materiality

The materiality that we used in the current year was £1.9m which was determined on the basis of 7.5% of pre-tax profit.

#### Scoping

The group is made up of the parent entity of S&U PLC and the main trading entity of Advantage Finance Limited. We focused our Group audit scope on the audit work at two locations; Solihull and Grimsby, both of which were subject to a full audit. These locations account for 100% of the Group's net assets, 100% of the Group's revenue and 100% of the Group's pre-tax profit.

**Significant changes in our approach** No significant changes have been made to our audit approach.

## Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the group

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within [note a] to the financial statements and the directors' statement on the longer-term viability of the group contained within the strategic report on page 10.

We are required to state whether we have anything material to add or draw attention to in relation to:

- › the directors' confirmation on page 10 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- › the disclosures on page 09 that describe those risks and explain how they are being managed or mitigated;
- › the directors' statement on page 10 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- › the directors' explanation on page 10 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

**We confirm that we have nothing material to add or draw attention to in respect of these matters.**

**We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.**

## Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards.

**We confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.**

## Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

# C Independent Auditor's Report to the members of S&U Plc

## Provision for impairment losses against loans and receivables

### Risk description

The assessment of Advantage Finance's £30.8 million (2016: £24.3 million) provision for impairment losses against loans and receivables is complex and requires management to make significant judgements being the identification of loss events (the "Impairment Trigger"); the estimation of future cash flows used to determine the provision required; and the level of Incurred But Not Reported ("IBNR") risk in the element of the book that has not reached the Impairment Trigger.

The IBNR provision is the most judgemental area of these key assumptions given the growing loan book and the low interest rate environment which could potentially mask the level of customers who may suffer financial distress in the future. As a result we have focused our risk to the appropriateness of the IBNR provision.

Management's associated accounting policies are detailed on pages 52 to 54 with detail about judgements in applying accounting policies and critical accounting estimates on page 54 and within the Audit Committee Report on page 35. The quantum of the provision is set out in note 15 to the financial statements.

### How the scope of our audit responded to the risk

We first understood management's process and key controls around impairment provisioning by undertaking a walk-through. Following identification of the key controls we evaluated the associated design and implementation of such controls. Specifically, we assessed the implementation of controls that the group has in place to manage the risk of inappropriate assumptions being used within impairment provisioning.

In conjunction with our internal IT specialists we tested the general IT controls over the loan administration systems and evaluated the design and implementation of controls over the manner in which data is extracted from these systems to determine impairment.

We challenged the appropriateness of the key management assumptions used in the impairment calculations for loans and receivables, including specifically, the number of bad debt and voluntary termination cases expected within the emergence period and the average loss per case. This involved analysis of the Group's historical default and cash collection experience and benchmarking the key assumptions to external economic and industry data. Sensitivity analysis was performed in relation to the key assumptions in order to assess the potential for management bias.

We also tested the mechanical accuracy of the model which is used to determine the provision by agreeing a sample of model inputs back to underlying source data.

### Key observations

Based on the evidence obtained, we found that the impairment model assumptions were appropriately applied, and the recognised provision was reasonably stated.

## Revenue recognition

### Risk description

Revenue recognition and specifically the application of the requirement in IAS 39 "Financial Instruments" ("IAS 39") to recognise income on loans using an effective interest rate method is a complex area. It requires management to make significant judgements relating to the expected life of each loan, the inclusion of directly attributable costs and the cash flows related thereto, with accounting entries generated using complex spreadsheet models.

Changes to these assumption could significantly impact the level of income recognised in any given period. We therefore focus our work on assessing the appropriateness of the estimated behavioural lives, the inclusion of directly attributable costs and the expected future cash flows.

Management's associated accounting policies are detailed on pages 52 to 54 with detail about judgements in applying accounting policies and critical accounting estimates on page 54 and within the Audit Committee Report on page 35.

**How the scope of our audit responded to the risk**

We first understood management’s process and key controls around revenue recognition by undertaking a walk-through. Following identification of the key controls we evaluated the associated design and implementation of such controls. Specifically, we assessed the implementation of controls that the group has in place to manage the risk of inappropriate assumptions being used within the effective interest rate models.

In conjunction with our internal IT specialists we tested the general IT controls over the loan administration systems and evaluated the design and implementation of controls over the manner in which data is extracted from these systems to determine the effective interest rate.

We reviewed management’s assumptions used in the recognition of revenue using the effective interest rate method, including the impact of early repayments, and assessed whether the revenue recognition policies adopted were in compliance with IAS 39. We considered the assumptions in respect of future cash flows by reference to the group’s historical experience. Sensitivity analysis was performed in order to assess the sensitivity of changing the average lives.

We challenged the level of directly attributable costs being deferred through management’s model by reviewing policy documentation between the entity and the broker network to independently determine the level of commission expected to be deferred.

We also tested the mechanical accuracy of the model which is used to determine revenue by agreeing a sample of model inputs back to underlying source data. The effective interest rate was recalculated for a sample of loans.

**Key observations**

We determined the accounting for revenue to be acceptable and in line with the requirements of IAS 39.

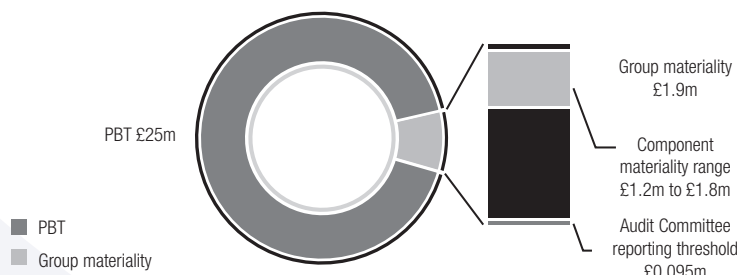
These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Our application of materiality**

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Group materiality</b>	£1.9m (2016: £1.7m)
<b>Basis for determining materiality</b>	7.5% (2016: 7.5%) of pre-tax profit. Pre-tax profit in 2016 was adjusted for the exceptional profit on sale of the home collect credit business.
<b>Rationale for the benchmark applied</b>	Pre-tax profit is used as the basis for materiality because we consider it the most appropriate benchmark to assess the performance of the Group



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £95,000 (2016: £33,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. The change in the reporting threshold has been made following our reassessment of what matters require communicating. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

# C Independent Auditor's Report

## An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

Based on that assessment, we focused our Group audit scope on the audit work at two locations; Solihull and Grimsby, both of which were subject to a full audit. These locations account for 100% of the Group's net assets (2016: 100%), 100% of the Group's revenue (2016: 100%) and 100% of the Group's pre-tax profit (2016: 100%).

We have performed testing over the consolidation of group entities. These audits were performed directly by the group audit team and executed at levels of materiality applicable to each individual entity which were lower than group materiality and ranged from £1.2m to £1.8m (2016: £0.9m to £1.4m).

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- › the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- › the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- › the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

## Matters on which we are required to report by exception

### Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- › we have not received all the information and explanations we require for our audit; or
- › adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- › the parent company financial statements are not in agreement with the accounting records and returns.

**We have nothing to report in respect of these matters.**

### Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

**We have nothing to report arising from these matters.**

### Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code.

**We have nothing to report arising from our review.**

### Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- › materially inconsistent with the information in the audited financial statements; or
- › apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
- › otherwise misleading.

**We confirm that we have not identified any such inconsistencies or misleading statements.**

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.



## Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Kieren Cooper** (Senior statutory auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Birmingham, United Kingdom  
27 March 2017

# D1 The Accounts

## D1.1 Group Income Statement

Year ended 31 January 2017

	Notes	2017 £000	2016 £000
<b>Continuing Operations</b>			
<b>Revenue</b>	3	<b>60,521</b>	45,182
Cost of sales	4	<b>(25,065)</b>	(16,591)
<b>Gross profit</b>		<b>35,456</b>	28,591
Administrative expenses		<b>(8,585)</b>	(7,340)
<b>Operating profit</b>	6	<b>26,871</b>	21,251
Finance costs (net)	7	<b>(1,668)</b>	(1,782)
<b>Profit before taxation</b>	2	<b>25,203</b>	19,469
Taxation	10	<b>(4,861)</b>	(3,583)
<b>Profit for the year from continuing operations</b>		<b>20,342</b>	15,886
<b>Profit for the year from discontinued operations</b>	8	<b>–</b>	53,299
<b>Profit for the year attributable to equity holders</b>		<b>20,342</b>	69,185
<b>Earnings per share</b>			
<b>From continuing operations</b>			
Basic	12	<b>170.7p</b>	133.6p
Diluted	12	<b>169.1p</b>	132.4p
<b>From continuing and discontinued operations</b>			
Basic	12	<b>170.7p</b>	581.9p
Diluted	12	<b>169.1p</b>	576.5p

## Statement of Comprehensive Income

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
<b>Profit for the year attributable to equity holders</b>	<b>20,342</b>	69,185	<b>6,267</b>	74,040
Actuarial loss on defined benefit pension scheme	<b>(18)</b>	(34)	<b>(18)</b>	(34)
<b>Total Comprehensive Income for the year</b>	<b>20,324</b>	69,151	<b>6,249</b>	74,006

items above will not be reclassified subsequently to the Income Statement.

# D1.2 Balance Sheet

## 31 January 2017

	Note	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
<b>ASSETS</b>					
<b>Non current assets</b>					
Property, plant and equipment	13	1,190	1,149	146	124
Investments	14	–	–	1,951	1,951
Amounts receivable from customers	15	136,373	102,069	–	–
Trade and other receivables	16	–	–	70,000	70,000
Deferred tax assets	19	441	435	61	91
		<b>138,004</b>	103,653	<b>72,158</b>	72,166
<b>Current assets</b>					
Amounts receivable from customers	15	57,156	43,072	–	–
Trade and other receivables	16	603	580	56,869	21,826
Cash and cash equivalents		4	18,251	1	20,906
		<b>57,763</b>	61,903	<b>56,870</b>	42,732
<b>Total assets</b>		<b>195,767</b>	165,556	<b>129,028</b>	114,898
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Bank overdrafts and loans	17	(11,171)	(152)	(10,172)	–
Trade and other payables	18	(2,009)	(1,632)	(175)	(91)
Current tax liabilities		(3,104)	(3,046)	(149)	(532)
Accruals and deferred income		(1,566)	(2,020)	(90)	(649)
		<b>(17,850)</b>	(6,850)	<b>(10,586)</b>	(1,272)
<b>Non current liabilities</b>					
Borrowings	17	(38,000)	(30,000)	(38,000)	(30,000)
Financial liabilities	21	(450)	(450)	(450)	(450)
		<b>(38,450)</b>	(30,450)	<b>(38,450)</b>	(30,450)
<b>Total liabilities</b>		<b>(56,300)</b>	(37,300)	<b>(49,036)</b>	(31,722)
<b>NET ASSETS</b>		<b>139,467</b>	128,256	<b>79,992</b>	83,176
<b>Equity</b>					
Called up share capital	20	1,695	1,691	1,695	1,691
Share premium account		2,281	2,264	2,281	2,264
Profit and loss account		135,491	124,301	76,016	79,221
<b>Total equity</b>		<b>139,467</b>	128,256	<b>79,992</b>	83,176

These financial statements were approved by the Board of Directors on 27 March 2017.

Signed on behalf of the Board of Directors

**A M V Coombs**  
Chairman

**C Redford**  
Group Finance Director

## D1.3 Statement of Changes in Equity

### Year ended 31 January 2017

<b>Group</b>	<b>Called up share capital £000</b>	<b>Share premium account £000</b>	<b>Profit and loss account £000</b>	<b>Total equity £000</b>
At 1 February 2015	1,685	2,215	77,564	81,464
Profit for year	–	–	69,185	69,185
Other comprehensive income for year	–	–	(34)	(34)
Total comprehensive income for year	–	–	69,151	69,151
Issue of new shares in year	6	49	–	55
Cost of future share based payments	–	–	681	681
Tax charge on equity items	–	–	(5)	(5)
Dividends	–	–	(23,090)	(23,090)
<b>At 31 January 2016</b>	<b>1,691</b>	<b>2,264</b>	<b>124,301</b>	<b>128,256</b>
Profit for year	–	–	20,342	20,342
Other comprehensive income for year	–	–	(18)	(18)
Total comprehensive income for year	–	–	20,324	20,324
Issue of new shares in year	4	17	–	21
Cost of future share based payments	–	–	409	409
Tax credit on equity items	–	–	5	5
Dividends	–	–	(9,548)	(9,548)
<b>At 31 January 2017</b>	<b>1,695</b>	<b>2,281</b>	<b>135,491</b>	<b>139,467</b>

<b>Company</b>	<b>Called up share capital £000</b>	<b>Share premium account £000</b>	<b>Profit and loss account £000</b>	<b>Total equity £000</b>
At 1 February 2015	1,685	2,215	27,962	31,862
Profit for year	–	–	74,040	74,040
Other comprehensive income for year	–	–	(34)	(34)
Total comprehensive income for year	–	–	74,006	74,006
Issue of new shares in year	6	49	–	55
Cost of future share based payments	–	–	390	390
Tax credit on equity items	–	–	(47)	(47)
Dividends	–	–	(23,090)	(23,090)
<b>At 31 January 2016</b>	<b>1,691</b>	<b>2,264</b>	<b>79,221</b>	<b>83,176</b>
Profit for year	–	–	6,267	6,267
Other comprehensive income for year	–	–	(18)	(18)
Total comprehensive income for year	–	–	6,249	6,249
Issue of new shares in year	4	17	–	21
Cost of future share based payments	–	–	144	144
Tax charge on equity items	–	–	(50)	(50)
Dividends	–	–	(9,548)	(9,548)
<b>At 31 January 2017</b>	<b>1,695</b>	<b>2,281</b>	<b>76,016</b>	<b>79,992</b>

## D1.4 Cash Flow Statement

### Year ended 31 January 2017

	Note	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
<b>Net cash used in operating activities</b>	23	<b>(27,431)</b>	(16,017)	<b>(29,485)</b>	(12,724)
<b>Cash flows (used in)/from investing activities</b>					
Proceeds on disposal of property, plant and equipment		<b>53</b>	1,685	<b>10</b>	1,428
Purchases of property, plant and equipment		<b>(361)</b>	(869)	<b>(75)</b>	(447)
Net proceeds on disposal of subsidiary		–	79,900	–	79,900
Net cash (used in)/from investing activities		<b>(308)</b>	80,716	<b>(65)</b>	80,881
<b>Cash flows from/(used in) financing activities</b>					
Dividends paid		<b>(9,548)</b>	(23,090)	<b>(9,548)</b>	(23,090)
Issue of new shares		<b>21</b>	55	<b>21</b>	55
Receipt of new borrowings		<b>18,000</b>	4,500	<b>18,000</b>	4,500
Repayment of borrowings		–	(29,000)	–	(29,000)
Net increase/(decrease) in overdraft		<b>1,019</b>	152	<b>172</b>	–
Net cash from/(used in) financing activities		<b>9,492</b>	(47,383)	<b>8,645</b>	(47,535)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(18,247)</b>	17,316	<b>(20,905)</b>	20,622
<b>Cash and cash equivalents at the beginning of year</b>		<b>18,251</b>	935	<b>20,906</b>	284
<b>Cash and cash equivalents at the end of year</b>		<b>4</b>	18,251	<b>1</b>	20,906
<b>Cash and cash equivalents comprise</b>					
Cash and cash in bank		<b>4</b>	18,251	<b>1</b>	20,906

There are no cash and cash equivalent balances which are not available for use by either the Group or the Company (2016: £nil).

# D2 Notes to the Accounts

## Year ended 31 January 2017

### 1. Accounting Policies

#### 1.1 General Information

S&U plc is a Company incorporated in England and Wales under the Companies Act. The address of the registered office is given on page 3 which is also the Group's principal business address. All operations are situated in the United Kingdom.

#### 1.2 Basis of preparation

As a listed Company we are required to prepare our consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation. We have also prepared our S&U plc Company financial statements in accordance with IFRS endorsed 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 2016. As discussed in the strategic report, 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.

In the current year and in accordance with IFRS requirements, certain new and revised Standards and Interpretations have been adopted but these have had no significant effect on the amounts reported in these financial statements.

At the date of authorisation of these financial statements the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 2	Share-based Payment
IFRS 9	Financial Instruments
IFRS 15	Revenue from contracts with customers

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company other than the adoption of IFRS 9 which may have a material impact on the financial assets reported by the Company. It is not practical to provide a reasonable estimate of the effect of IFRS 9 until more detailed guidance becomes available nearer the proposed date and a more detailed review is undertaken.

#### 1.3 Revenue recognition

Interest income is recognised in the income statement for all loans and receivables measured at amortised cost using the effective interest rate method (EIR). The EIR is the rate that exactly discounts estimated future cash flows of the loan back to the present value of the advance. Acceptance fees charged to customers and any direct transaction cost are included in the calculation of the EIR. Under IAS 39 credit charges on loan products continue to accrue at the EIR on all impaired capital balances throughout the life of the agreement irrespective of the terms of the loan and whether the customer is actually being charged arrears interest. This is referred to as the gross up adjustment to revenue and is offset by a corresponding gross up adjustment to the loan loss provisioning charge to reflect the fact that this additional revenue is not collectable.

Commission received from third party insurers for brokering the sale of motor finance insurance products, for which the Group does not bear any underlying insurance risk was recognised and credited to the income statement when the brokerage service was provided, after taking into account expected refunds payable on customer early settlements and policy cancellations. The sale of all such insurance products was discontinued in 2015.

# D2 Notes to the Accounts continued

## Year ended 31 January 2017

### 1. Accounting Policies continued

#### 1.4 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 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, default 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. For all accounts which are not impaired, a further incurred but not reported provision (IBNR) is calculated and charged to the income statement based on management's estimates of the propensity of these accounts to default from conditions which existed at the balance sheet date.

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 and information regarding the likely eventual loss including recoveries. These assumptions and assumptions for estimating future cash flows are based upon observed historical data and updated as management considers appropriate to reflect current and future conditions. All assumptions are reviewed regularly to take account of differences between previously estimated cash flows on impaired debt and the eventual losses.

#### 1.5 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Certain freehold property is held at previous revalued amounts less accumulated depreciation as the Group has elected to use these amounts as the deemed cost as at the date of transition to IFRS under the transitional arrangements of IFRS 1.

Depreciation is provided on the cost or valuation of property, plant and equipment in order to write such cost or valuation over the expected useful lives as follows;

Freehold Buildings	2% per annum straight line
Computers	20% per annum straight line
Fixtures and Fittings	10% per annum straight line or 20% per annum reducing balance
Motor Vehicles	25% per annum reducing balance

Freehold Land is not depreciated.

#### 1.6 Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

#### 1.7 Preference shares

The issued 31.5% preference share capital is carried in the balance sheet at amortised cost and shown as a financial liability. The issued 6% preference share capital is valued at par and shown as called up share capital.

#### 1.8 Pensions

The Group contributes as required to a defined benefit pension scheme. The defined benefit pension asset at the balance sheet date is calculated as the fair value of the plan assets less the present value of the defined benefit obligation. Actuarial gains and losses are recognised immediately in the financial statements.

The Group also operates several defined contribution pension schemes and the pension charge represents the amount payable by the Company for the financial year.

# D2 Notes to the Accounts continued

## Year ended 31 January 2017

### 1. Accounting Policies continued

#### 1.9 Share-based payments

The Company issues share options under the S&U plc 2008 Discretionary Share Option Plan and the S&U plc 2010 Long Term Incentive Plan. The cost of these share based payments is based on the fair value of options granted as required by IFRS2. This cost is then charged to the income statement over the three year vesting period of the related share options with a corresponding credit to reserves. When any share options are exercised, the proceeds received are credited to share capital and share premium.

#### 1.10 Leases

Rental costs under operating leases are charged to the income statement on a straight line basis.

#### 1.11 Investments

Investments held as non current assets are stated at cost less provision for any impairment.

#### 1.12 Critical accounting judgements and key sources of estimation uncertainty

The key accounting judgements which the directors have made in the process of applying the Group's accounting policies and which have the most significant effect on the amounts recognised in the financial statements are the judgements relating to revenue recognition and impairment in 1.3 and 1.4 above. The directors consider that there are no key sources of estimation uncertainty other than those inherent in the consumer credit market in which we operate.

### 2. Segmental Analysis

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

Class of business	Revenue		Profit before taxation	
	Year ended 31.1.17 £000	Year Ended 31.1.16 £000	Year ended 31.1.17 £000	Year ended 31.1.16 £000
Motor finance	60,521	45,182	25,186	20,400
Central costs net of central finance income	–	–	17	(931)
	<b>60,521</b>	45,182	<b>25,203</b>	19,469

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

Class of business	Assets		Liabilities	
	Year ended 31.1.17 £000	Year Ended 31.1.16 £000	Year ended 31.1.17 £000	Year ended 31.1.16 £000
Motor finance	195,330	146,930	(136,257)	(102,252)
Central	437	18,626	79,957	64,952
	<b>195,767</b>	165,556	<b>(56,300)</b>	(37,300)

Depreciation of assets for motor finance was £217,000 (2016: £179,000) and for central was £30,000 (2016: £30,000). Depreciation for discontinued home credit operations was £nil (2016: £225,000). Fixed asset additions for motor finance were £286,000 (2016: £422,000) and for central were £75,000 (2016: £55,000). Fixed asset additions for discontinued home credit operations were £nil (2016: £392,000).

The net finance credit for central costs was £2,662,000 (2016: £1,461,000) and for motor finance was a cost of £4,330,000 (2016: £3,243,000). The tax credit for central costs was £151,000 (2016: £497,000) and for motor finance was a tax charge of £5,012,000 (2016: £4,080,000). The tax charge for discontinued home credit operations was £nil (2016: £932,000).

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

The assets and liabilities of the Parent Company are classified as central costs net of central finance income.

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



### 3 Revenue

	2017	2016
<b>Continuing Operations</b>	<b>£000</b>	<b>£000</b>
Interest and acceptance fee income	59,127	42,848
Insurance and other commissions and option fees	1,394	2,334
<b>Total revenue</b>	<b>60,521</b>	<b>45,182</b>

### 4 Cost of Sales

	2017	2016
<b>Continuing Operations</b>	<b>£000</b>	<b>£000</b>
Loan loss provisioning charge – motor finance	12,194	7,611
Other cost of sales – motor finance	12,871	8,980
<b>Total cost of sales</b>	<b>25,065</b>	<b>16,591</b>

### 5 Information Regarding Employees

	2017	2016
<b>Continuing Operations</b>	<b>No.</b>	<b>No.</b>
The average number of persons employed by the Group in the year was:		
Motor finance	110	97
Central	15	14
	<b>125</b>	<b>111</b>
	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
<b>Staff costs during the year (including directors):</b>		
Wages and salaries	6,031	5,404
Social security costs	544	506
Pension costs for defined contribution scheme	229	227
	<b>6,804</b>	<b>6,137</b>

Figures above are for continuing operations only.

Directors' remuneration is disclosed in the audited section of the Directors' Remuneration Report.

## D2 Notes to the Accounts continued

### Year ended 31 January 2017

#### 6. Operating Profit

	2017 £000	2016 £000
<b>Operating profit from continuing operations is after charging:</b>		
Depreciation and amortisation:		
Owned assets	253	209
Staff costs	6,804	6,137
Cost of future share based payments	409	681
Rentals under operating leases for office properties	96	51
Loss on sale of fixed assets	14	5

The analysis of auditor's remuneration is as follows:

	2017 £000	2016 £000
<b>Fees payable to the Group's auditor for the audit of the Company's annual accounts</b>	26	26
<b>Fees payable to the Group's auditor for other services to the Group</b>		
The audit of Company's subsidiaries	49	39
<b>Total audit fees</b>	75	65
Audit related assurance services	25	26
Tax compliance services	5	18
Tax advisory services (home credit disposal)	–	141
Corporate finance services (home credit disposal)	–	501
Other services	5	138
<b>Total non-audit fees</b>	35	824
<b>Total</b>	110	889

#### 7. Finance Costs (Net)

	2017 £000	2016 £000
31.5% cumulative preference dividend	142	142
Bank loan and overdraft	1,561	1,770
Other interest payable	–	1
Interest payable and similar charges	1,703	1,913
Interest receivable	(35)	(131)
	1,668	1,782

## 8. Profit for the Period from Discontinued Operations (Last Year Only)

On 31 July 2015 all of the Loansathome4u home credit business was transferred to the subsidiary company SD Taylor Limited and that company was then sold. The disposal gives the Group an opportunity for further and faster expansion in Advantage motor finance business as well as an opportunity to explore other higher growth areas of specialist finance. The disposal was completed on 4 August 2015.

The results of the discontinued operations, which have been included in the consolidated income statement, were as follows:

	2017 £000	2016 £000
Revenue	–	17,191
Loan loss provision for consumer credit	–	(3,646)
Other cost of sales	–	(113)
Administrative Expenses	–	(9,340)
Finance costs (net)	–	–
Profit before taxation	–	4,092
Attributable taxation	–	(852)
Profit after taxation	–	3,240
Profit on disposal of discontinued operations	–	50,139
Attributable taxation	–	(80)
<b>Profit for the period from discontinued operations</b>	<b>–</b>	<b>53,299</b>

As shown above a profit of £50.1m arose on the disposal being the difference between the disposal proceeds of £82.4m and the carrying value of the disposed home credit assets less transaction costs.

The net assets at the date of disposal of Loansathome4u were as follows:

	2016 £000
Property plant and equipment	1,628
Amounts receivable from customers	29,854
Other assets	235
Creditors and accrued expenses	(1,531)
Corporation tax and deferred tax liabilities	(425)
<b>Net assets at disposal</b>	<b>29,761</b>
Transaction costs	2,507
Gain on disposal	50,139
<b>Total consideration (satisfied in cash)</b>	<b>82,407</b>

During the six months last year up to the date of disposal Loansathome4u contributed £7.8m to the group's operating cash flows.

It is expected that, subject to agreement with HMRC, no tax charge will arise as a result of the sale of the Home Credit business by S&U due to the application of the statutory relief provided by the Substantial Shareholdings Exemption.

## D2 Notes to the Accounts continued

### Year ended 31 January 2017

#### 9. Profit of Parent Company

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the Parent Company is not presented as part of these accounts. The Parent Company's profit for the financial year after taxation amounted to £6,267,000 (2016: £74,040,000).

#### 10. Tax on Profit Before Taxation

	2017 £000	2016 £000
<b>Continuing Operations</b>		
Corporation tax at 20.0% (2016: 20.2%) based on profit for the year	5,027	3,696
Adjustment in respect of prior years	(166)	19
	<b>4,861</b>	3,715
Deferred tax (timing differences - origination and reversal)	–	(132)
	<b>4,861</b>	3,583
<b>Discontinued Operations</b>		
Corporation tax at 20.0% (2016: 20.2%) based on profit for the period	–	852
Corporation tax on disposal of home credit operation	–	80
	–	932

The actual tax charge for the current and the previous year from continuing operations varies to the standard rate for the reasons set out in the following reconciliation.

	2017 £000	2016 £000
Profit on ordinary activities before tax from continuing operations	25,203	19,469
Tax on profit on ordinary activities at standard rate of 20% (2016: 20.2%)	5,041	3,932
<i>Factors affecting charge for the period:</i>		
Expenses not deductible for tax purposes	64	100
Effects of other tax rates and timing differences	(78)	(472)
Prior period adjustments	(166)	19
Total actual amount of tax	<b>4,861</b>	3,583

The main rate of corporation tax was reduced from 21% to 20% with effect from 1 April 2015, therefore the tax rates applicable to the current period is a rate of 20% (2016: 20.2%).

Finance (No.2) Bill 2015 provides that the tax rate will reduce to 19% with effect from 1 April 2017 and Finance Bill 2016 provides that the tax rate will further reduce to 17% with effect from 1 April 2020. The effect of these proposed tax rate reductions will be reflected in future periods.

#### 11. Dividends

	2017 £000	2016 £000
2nd Interim paid for the year ended 31/1/2016 – 23.0p per Ordinary share (19.0p)	2,744	2,257
Final paid for the year ended 31/1/2016 – 33.0p per Ordinary share (30.0p)	3,944	3,564
Exceptional additional dividend re disposal 125.0p per Ordinary share (nil)	–	14,877
1st Interim paid for the year ended 31/1/2017 – 24.0p per Ordinary share (20.0p)	2,871	2,380
Total ordinary dividends paid	<b>9,558</b>	23,078
6% cumulative preference dividend paid March and September	12	12
Credit for unrepresented dividend payments over 12 years old	(22)	–
Total dividends paid	<b>9,548</b>	23,090

A second interim dividend of 28.0p per ordinary share for the year ended 31 January 2017 was paid on 17 March 2017 and the directors are proposing a final dividend for the year ended 31 January 2017 of 39.0p per ordinary share. The final dividend will be paid on 7 July 2017 to shareholders on the register at close of business on 16 June 2017 subject to approval by shareholders at the Annual General Meeting on Thursday 18 May 2017.

## 12. Earnings Per Ordinary Share

The calculation of earnings per ordinary share from continuing operations is based on profit after tax of £20,342,000 (2016: £15,886,000).

The calculation of earnings per ordinary share from continuing and discontinued operations is based on profit after tax of £20,342,000 (2015: £69,185,000).

The number of shares used in the basic eps calculation is the average number of shares in issue during the year of 11,918,610 (2016: 11,888,591). There are a total of 175,718 dilutive share options in issue (2016: 208,885). The number of shares used in the diluted eps calculation is 12,030,199 (2016: 12,000,152).

## 13. Property, Plant and Equipment

Group	Freehold land and buildings £000	Motor vehicles £000	Fixtures and Fittings £000	Total £000
<b>Cost or valuation</b>				
At 1 February 2015	887	3,233	2,229	6,349
Additions	1	308	560	869
Disposal of home credit operation	(311)	(2,899)	(1,599)	(4,809)
Disposals	–	(265)	(5)	(270)
At 31 January 2016	577	377	1,185	2,139
Additions	1	162	198	361
Disposals	–	(141)	(139)	(280)
At 31 January 2017	578	398	1,244	2,220
<b>Accumulated depreciation</b>				
At 1 February 2015	209	2,020	1,714	3,943
Charge for the year	26	212	188	426
Disposal of home credit operation	(117)	(1,861)	(1,203)	(3,181)
Eliminated on disposals	–	(193)	(5)	(198)
At 31 January 2016	118	178	694	990
Charge for the year	20	74	159	253
Eliminated on disposals	–	(75)	(138)	(213)
At 31 January 2017	138	177	715	1,030
<b>Net book value</b>				
At 31 January 2017	440	221	529	1,190
At 31 January 2016	459	199	491	1,149

Included in the above is land at a cost or valuation of £22,000 (2016: £22,000) which is not depreciated.

## D2 Notes to the Accounts continued

### Year ended 31 January 2017

#### 13. Property, Plant and Equipment continued

Group	Freehold land and buildings £000	Motor vehicles £000	Fixtures and Fittings £000	Total £000
<b>Cost or valuation</b>				
At 1 February 2015	80	2,421	1,237	3,738
Additions	–	188	259	447
Disposal of home credit operation	(38)	(2,335)	(1,414)	(3,787)
Disposals	–	(149)	–	(149)
At 31 January 2016	42	125	82	249
Additions	–	44	31	75
Disposals	–	(52)	–	(52)
At 31 January 2017	42	117	113	272
<b>Accumulated depreciation</b>				
At 1 February 2015	28	1,372	988	2,388
Charge for the year	1	159	78	238
Disposal of home credit operation	(20)	(1,335)	(1,028)	(2,383)
Eliminated on disposals	–	(118)	–	(118)
At 31 January 2016	9	78	38	125
Charge for the year	1	19	17	37
Eliminated on disposals	–	(36)	–	(36)
At 31 January 2017	10	61	55	125
<b>Net book value</b>				
At 31 January 2017	32	56	58	146
At 31 January 2016	33	47	44	124

Included in the above is land at cost of £22,000 (2016: £22,000) which is not depreciated.

The net book value of tangible fixed assets leased out under operating leases was

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
	10	–	10	–

#### 14. Investments and Related Party Transactions

Company	2017 £000	2016 £000
<b>Shares in subsidiary companies</b>		
At historic cost less impairment	1,951	1,951

##### Interests in subsidiaries

During the year to 31 January 2016 the company sold its wholly owned subsidiary SD Taylor Limited as part of the disposal of its home credit business. Details are given in note 8.

The principal subsidiary of the Company, which is wholly owned directly by the Company, operates in Great Britain and is incorporated in England and Wales.

Subsidiary	Principal activity
Advantage Finance Limited	Motor finance

The following are dormant subsidiaries of the group Advantage Motor Finance Limited, Advantage4u Limited, Advantage Direct Finance Limited, Advantage Partner Finance Limited, Advantage Asset Finance Limited, Aspen Bridging Limited, S&U Stores Limited, S&U Mail Order Holdings Limited, Communitas Finance Limited, Cash Kangaroo Limited, Sartorial Shops Limited, AE Holt Limited, M Appleton & Co Limited, EC Clothes Limited, Leonard Hughes Limited, Leonard Hughes (Supplies) Limited, George Kirkham Limited, Tweedies Sports Centres Limited, Annette Wolverhampton Limited, Deepdale Manufacturing Limited, Greenbank Warehouses Limited, Greendale Register Limited.

## Related party transactions

### Group

Transactions between the Company and its subsidiaries, which are related parties have been eliminated on consolidation and are not disclosed in this note. Transactions with the Company's pension scheme are disclosed in note 27. During the year the Group made charitable donations amounting to £52,000 (2016: £45,000) via the Keith Coombs Trust which is a related party because Messrs GDC Coombs, AMV Coombs, D Markou and CH Redford are trustees. The amount owed to the Keith Coombs Trust at the year end was £nil (2016: £nil). During the year the Group obtained supplies at market rates amounting to £9,841 (2016: £nil) from Grevayne Properties Limited a Company which is a related party because Messrs G D C and A M V Coombs are directors and shareholders. All related party transactions were settled in full when due.

### Company

The Company received dividends from other Group undertakings totalling £6,100,000 (2016:£4,700,000). During the year the Company recharged other Group undertakings for various administrative expenses incurred on their behalf. The Company also received administrative cost recharges from other Group undertakings. At 31 January 2017 the Company was owed £126,642,233 (2016: £91,664,060) by other Group undertakings as part of an inter company loan facility and owed £nil (2016: £nil). All related party transactions were settled in full when due.

## 15. Amounts Receivable from Customers

	<b>Group</b>	
	<b>2017</b>	2016
	<b>£000</b>	£000
Motor finance hire purchase	<b>224,283</b>	169,420
Less: Loan loss provision motor finance	<b>(30,754)</b>	(24,279)
Amounts receivable from customers	<b>193,529</b>	145,141
<b>Analysis by future date due</b>		
– Due within one year	<b>57,156</b>	43,072
– Due in more than one year	<b>136,373</b>	102,069
Amounts receivable from customers	<b>193,529</b>	145,141
<b>Analysis of security</b>		
Loans secured on vehicles under hire purchase agreements	<b>191,316</b>	143,844
Other loans not secured	<b>2,213</b>	1,297
Amounts receivable from customers	<b>193,529</b>	145,141
<b>Analysis of overdue</b>		
<b>Not impaired</b>		
Neither past due nor impaired	<b>170,683</b>	132,789
Past due up to 3 months but not impaired	–	–
Past due over 3 months but not impaired	–	–
<b>Impaired</b>		
Past due up to 3 months	<b>17,254</b>	9,176
Past due over 3 months and up to 6 months	<b>2,182</b>	1,244
Past due over 6 months or default	<b>3,410</b>	1,932
Amounts receivable from customers	<b>193,529</b>	145,141

The credit risk inherent in amounts receivable from customers is reviewed under impairment as per note 1.4 and under this review the credit quality of assets which are neither past due nor impaired was considered to be good. The above analysis of when loans are due is based upon original contractual terms which are not rescheduled. The carrying amount of amounts receivable from customers whose terms have been renegotiated that would otherwise be past due or impaired is therefore £nil (2016: £nil).

## D2 Notes to the Accounts continued

### Year ended 31 January 2017

#### 15. Amounts Receivable From Customers continued

	Consumer credit, rentals and other trading £000	Motor finance £000	Total £000
<b>Analysis of movements on loan loss provisions</b>			
<b>Group</b>			
At 1 February 2015	18,537	21,353	39,710
Disposal of Home Credit Operation	(18,537)	–	(18,537)
Charge for year	–	7,611	7,611
Amounts written off during year	–	(2,004)	(2,004)
Unwind of discount	–	(2,681)	(2,681)
At 31 January 2016	–	24,279	24,279
Charge for year	–	12,194	12,194
Amounts written off during year	–	(3,012)	(3,012)
Unwind of discount	–	(2,707)	(2,707)
At 31 January 2017	–	30,754	30,754
<b>Company</b>			
	<b>£000</b>	<b>£000</b>	<b>£000</b>
At 1 February 2015	8,748	–	8,748
Disposal of Home Credit Operation	(8,748)	–	(8,748)
At 31 January 2016 and 31 January 2017	–	–	–

There has been no material change in the average discount rate used for the years to 31 January 2016 and 31 January 2017.

#### 16. Trade and Other Receivables

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Amounts owed by subsidiary undertakings	–	–	126,642	91,664
Other debtors	17	15	3	8
Prepayments and accrued income	586	565	224	154
	<b>603</b>	<b>580</b>	<b>126,869</b>	<b>91,826</b>

The amounts owed by subsidiary undertakings in the Company's balance sheet are stated net of impairment and, other than £15.0m of intercompany receivables from Advantage Finance Limited (2016: £0.0m) which are due within one year and £70.0m of intercompany receivables from Advantage Finance Limited (2016: £70.0m), which are due after more than one year, the amounts owed by subsidiary undertakings have no fixed maturity date. Under IFRS7 there are no amounts included in trade and other receivables which are past due but not impaired. The carrying value of trade and other receivables is not materially different to their fair value.



## 17. Borrowings Including Bank Overdrafts and Loans

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Bank overdrafts and loans – due within one year	11,171	152	10,172	–
Bank and other loans – due in more than one year	38,000	30,000	38,000	30,000
	<b>49,171</b>	30,152	<b>48,172</b>	30,000

The carrying value of bank overdrafts and loans is not materially different to the fair value.

S&U plc had the following overdraft facilities available at 31 January 2017:

- › a facility for £3 million (2016: £3m) which is subject to annual review in July 2017.
- › a facility for £2 million (2016: £2m).

Total drawdowns of these overdraft facilities at 31 January 2017 were £1,171,145 (2016: £152,283).

S&U plc had the following revolving credit facilities available at 31 January 2017:

- › a facility for £40 million (2016: £25m) which is due for repayment in March 2021.
- › a facility for £15 million (2016: £15m) which is due for repayment in March 2018.\*

\* this facility was replaced after the yearend by a new £25m facility due for repayment in March 2021.

S&U plc had the following term loan facilities available at 31 January 2017:

- › a facility for £15 million (2015: £15m) which is due for repayment in April 2021.
- › a facility for £15 million (2015: £15m) which is due for repayment in April 2022.

The bank overdraft and loans are secured under a multilateral guarantee provided by S&U plc and its principal subsidiary Advantage Finance Ltd.

The Company is part of the Group overdraft facility and at 31 January 2017 was £172,225 overdrawn (2016:£nil).

A maturity analysis of the above borrowings is given in note 22.

## 18. Trade and Other Payables

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Trade creditors	342	214	58	25
Other creditors	1,667	1,418	117	66
	<b>2,009</b>	1,632	<b>175</b>	91

The carrying value of trade and other payables is not materially different to the fair value.

## D2 Notes to the Accounts continued

### Year ended 31 January 2017

#### 19. Deferred Tax

Group	Accelerated tax depreciation £000	Revaluation of property £000	Share based payments £000	Retirement benefit obligations £000	Total £000
At 1 February 2015	(130)	(23)	442	(4)	285
(Debit)/credit to income	(12)	–	144	–	132
Disposal of subsidiary	–	23	–	–	23
Charge to equity	85	–	(90)	–	(5)
At 31 January 2016	(57)	–	496	(4)	435
(Debit)/credit to income	7	–	(11)	4	–
Charge to equity	–	–	6	–	6
At 31 January 2017	(50)	–	491	–	441
<b>Company</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
At 1 February 2015	(103)	–	175	(4)	68
Credit to income	–	–	70	–	70
Charge to equity	85	–	(132)	–	(47)
At 31 January 2016	(18)	–	113	(4)	91
Credit to income	13	–	3	4	20
Charge to equity	–	–	(50)	–	(50)
At 31 January 2017	(5)	–	66	–	61

Finance Act 2013 enacted a reduced tax rate of 20% with effect from 1 April 2015 and the Finance (No.2) Bill 2015 provides that the tax rate will reduce to 19% with effect from 1 April 2017 and Finance Bill 2016 provides that the tax rate will further reduce to 17% with effect from 1 April 2020. The prevailing rate of corporation tax at the balance sheet date at which the deferred tax balance is expected to reverse is 19% and this has been applied to calculate the deferred tax position at 31 January 2017.

#### 20. Called Up Share Capital and Preference Shares

	2017 £000	2016 £000
<b>Called up, allotted and fully paid</b>		
11,963,042 Ordinary shares of 12.5p each (2016: 11,929,875)	<b>1,495</b>	1,491
200,000 6.0% Cumulative preference shares of £1 each	<b>200</b>	200
Called up share capital	<b>1,695</b>	1,691

The 6.0% cumulative preference shares enable the holder to receive a cumulative preferential dividend at the rate of 6.0% on paid up capital and the right to a return of capital plus a premium of 10p per share at either a winding up or a repayment of capital. The 6.0% cumulative preference shares do not carry voting rights so long as the dividends are not in arrears.

#### 21. Financial Liabilities

	2017 £000	2016 £000
<b>Preference Share Capital</b>		
<b>Called up, allotted and fully paid</b>		
3,598,506 31.5% Cumulative preference shares of 12.5p each (2015: 3,598,506)	<b>450</b>	450

The 31.5% cumulative preference shares entitle the holder to receive a cumulative preference dividend of 31.5% plus associated tax credit and the right to a return of twice the capital (2 lots of 12.5p) plus a premium of 22.5p per share on either a winding up or a repayment of capital. The rights of the holders of these shares to dividends and returns of capital are subordinated to those of the holders of the 6.0% cumulative preference shares. The 31.5% cumulative preference shares do not carry voting rights so long as the dividends are not in arrears.

## 22. Financial Instruments

The Group and the Company's principal financial instruments are amounts receivable from customers, cash, preference share capital, bank overdrafts and bank loans.

The Group and the Company's business objectives rely on maintaining a well spread customer base of carefully controlled quality by applying strong emphasis on good credit management, both through strict lending criteria at the time of underwriting a new credit facility and continuous monitoring of the collection process. The motor finance hire purchase debts are secured by the financed vehicle.

As at 31 January 2017 the Group's indebtedness amounted to £49,171,000 (2016: £30,000,000) and the Company's indebtedness amounted to £49,171,000 (2016: £30,000,000). The Group gearing was 35.3% (2016: 9.3%), being calculated as borrowings net of cash as a percentage of total equity. The Board is of the view that the gearing level remains conservative, especially for a lending organisation. The table below analyses the Group and Company assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date (to contractual maturity).

S&U plc has unused committed borrowing facilities at 31 January 2017 of £37.0m (2016: £44.8m). The preference share capital financial liability of £450,000 has no maturity date and is classified as more than five years.

The average effective interest rate on financial assets of the Group at 31 January 2017 was estimated to be 31% (2016: 30%). The Company had no financial assets at 31 January 2016 or 31 January 2017. The average effective interest rate of financial liabilities of the Group at 31 January 2017 was estimated to be 4% (2016:4%). The average effective interest rate on financial liabilities of the Company at 31 January 2017 was estimated to be 4% (2016: 4%).

### Currency and credit risk

The Group has no material exposure to foreign currency risk. The credit risk inherent in amounts receivable from customers is reviewed under impairment as per note 1.4. It should be noted that the credit risk at the individual customer level is limited by strict adherence to credit control rules which are regularly reviewed. The credit risk is also mitigated in the motor finance segment of our business by ensuring that the valuation of the security at origination of the loan is within glasses guide and cap limits. As confirmation required under IFRS 8, no individual customer contributes more than 10% of the revenue for the Group. Group trade and other receivables and cash are considered to have no material credit risk as all material balances are due from highly rated banking counterparties.

### Interest rate risk

The Group's activities expose it to the financial risks of changes in interest rates and the Group considers the use of interest rate derivative contracts where appropriate to hedge these exposures in bank borrowings. There is considered to be no material interest rate risk in cash, trade and other receivables, preference shares and trade and other payables.

The sensitivity analyses below have been determined based on the exposure to interest rates at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the liability outstanding at the balance sheet date was outstanding for the whole year.

If interest rates had been 0.5% higher/lower and all other variables were held constant, the Group's;

- profit for the year ended 31 January 2017 would decrease/increase by £0.2million (2016: decrease/increase by £0.1million). This is mainly attributable to the Group's exposure on its variable rate borrowings.
- total equity would decrease/increase by £0.2million (2016: decrease/increase by £0.1million). This is mainly attributable to the Group's exposure on its variable rate borrowings.

If interest rates had been 1% higher/lower and all other variables were held constant, the Group's;

- profit for the year ended 31 January 2016 would decrease/increase by £0.4million (2016: decrease/increase by £0.2million). This is mainly attributable to the Group's exposure on its variable rate borrowings.
- total equity would decrease/increase by £0.4million (2016: decrease/increase by £0.2million). This is mainly attributable to the Group's exposure on its variable rate borrowings.

## D2 Notes to the Accounts continued

### Year ended 31 January 2017

#### 22. Financial Instruments continued

##### Capital risk management

The Board of Directors assess the capital needs of the Group on an ongoing basis and approve all capital transactions. The Group's objective in respect of capital risk management is to maintain a conservative "Group Gearing" level with respect to market conditions, whilst taking account of business growth opportunities in a capital efficient manner. "Group Gearing" is calculated as the sum of Bank Overdrafts plus Bank Loans less Cash and Cash Equivalents divided by Total Equity. At 31 January 2017 the Group gearing level was 35.3% (2016:9.3%) which the directors consider to have met their objective.

External capital requirements are imposed by the FCA on Advantage Finance. Throughout the year this Company has maintained a capital base greater than this requirement.

##### Fair values of financial assets and liabilities

The fair values of amounts receivable from customers, bank loans and overdrafts and other assets and liabilities with the exception of the junior preference share capital are considered to be not materially different from their book values. The junior preference share capital classified as a financial liability is estimated to have a fair value of £1.9m (2016: £1.9m) but is considered more appropriate under IFRS to be included in the balance sheet at amortised cost. Fair values which are recognised or disclosed in these financial statements are determined in whole or in part using a valuation technique based on assumptions that are supported by prices from observable current market transactions in the same instrument (i.e. without modification or repackaging) and based on available observable market data. The fair value hierarchy is derived from Level 2 inputs in accordance with IFRS13.

##### Liquidity risk

The Group's liquidity risk is shown in the following tables which measure the cumulative liquidity gap. Most of the Group's financial assets are repayable within two years which together with net gearing of just over 35% results in a positive liquidity position.

Group	Less than 1 year £'000	More than 1 year but not more than 2 years £'000	More than 2 years but not more than 5 years £'000	More than 5 years £'000	No fixed maturity date £000	Total £000
<b>At 31 January 2017</b>						
Financial assets	57,156	42,860	93,513	–	–	193,529
Other assets	–	–	–	–	2,234	2,234
Cash at bank and in hand	4	–	–	–	–	4
<b>Total assets</b>	<b>57,160</b>	<b>42,860</b>	<b>93,513</b>	<b>–</b>	<b>2,234</b>	<b>195,767</b>
Shareholders' funds	–	–	–	–	(139,467)	(139,467)
Bank overdrafts and loans	(11,171)	–	(23,000)	(15,000)	–	(49,171)
Financial liabilities	–	–	–	(450)	–	(450)
Other liabilities	–	–	–	–	(6,679)	(6,679)
<b>Total liabilities and shareholders' funds</b>	<b>(11,171)</b>	<b>–</b>	<b>–</b>	<b>(15,450)</b>	<b>(134,954)</b>	<b>(195,767)</b>
<b>Cumulative gap</b>	<b>45,989</b>	<b>88,849</b>	<b>159,362</b>	<b>143,912</b>	<b>–</b>	<b>–</b>

Group	Less than 1 year £'000	More than 1 year but not more than 2 years £'000	More than 2 years but not more than 5 years £'000	More than 5 years £'000	No fixed maturity date £000	Total £000
<b>At 31 January 2016</b>						
Financial assets	43,072	31,919	70,150	–	–	145,141
Other assets	–	–	–	–	2,164	2,164
Cash at bank and in hand	18,251	–	–	–	–	18,251
Total assets	61,323	31,919	70,150	–	2,164	165,556
Shareholders' funds	–	–	–	–	(128,256)	(128,256)
Bank overdrafts and loans	(152)	–	–	(30,000)	–	(30,152)
Financial liabilities	–	–	–	(450)	–	(450)
Other liabilities	–	–	–	–	(6,698)	(6,698)
Total liabilities and shareholders' funds	(152)	–	–	(30,450)	(134,954)	(165,556)
<b>Cumulative gap</b>	<b>61,171</b>	<b>93,090</b>	<b>163,240</b>	<b>132,790</b>	<b>–</b>	<b>–</b>

Company	Less than 1 year £'000	More than 1 year but not more than 2 years £'000	More than 2 years but not more than 5 years £'000	More than 5 years £'000	No fixed maturity date £000	Total £000
<b>At 31 January 2017</b>						
Other assets	15,000	–	55,000	15,000	44,027	129,027
Cash at bank and in hand	1	–	–	–	–	1
Total assets	15,001	–	55,000	15,000	44,027	129,028
Shareholders' funds	–	–	–	–	(79,992)	(79,992)
Bank overdrafts and loans	(10,172)	–	(23,000)	(15,000)	–	(48,172)
Financial liabilities	–	–	–	(450)	–	(450)
Other liabilities	–	–	–	–	(414)	(414)
Contingent liabilities	(999)	–	–	–	–	(999)
Total liabilities and shareholders' funds	(11,171)	–	–	(15,450)	(80,406)	(130,027)
<b>Cumulative gap</b>	<b>3,830</b>	<b>3,830</b>	<b>35,830</b>	<b>35,380</b>	<b>(999)</b>	<b>(999)</b>

Company	Less than 1 year £'000	More than 1 year but not more than 2 years £'000	More than 2 years but not more than 5 years £'000	More than 5 years £'000	No fixed maturity date £000	Total £000
<b>At 31 January 2016</b>						
Other assets	–	–	40,000	30,000	23,992	93,992
Cash at bank and in hand	20,906	–	–	–	–	20,906
Total assets	20,906	–	40,000	30,000	23,992	114,898
Shareholders' funds	–	–	–	–	(83,176)	(83,176)
Bank overdrafts and loans	–	–	–	(30,000)	–	(30,000)
Financial liabilities	–	–	–	(450)	–	(450)
Other liabilities	–	–	–	–	(1,272)	(1,272)
Contingent liabilities	(2,808)	–	–	–	–	(2,808)
Total liabilities and shareholders' funds	(2,808)	–	–	(30,450)	(84,448)	(117,706)
<b>Cumulative gap</b>	<b>18,098</b>	<b>18,098</b>	<b>58,098</b>	<b>57,648</b>	<b>(2,808)</b>	<b>(2,808)</b>

## D2 Notes to the Accounts continued

### Year ended 31 January 2017

#### 22. Financial Instruments continued

The gross contractual cash flows payable under financial liabilities are analysed as follows:

Group	Repayable on Demand £000	Less than 1 year £000	More than 1 year but not more than 2 years £000	More than 2 years but not more than 5 years £000	More than 5 years £000	Total £000
<b>At 31 January 2017</b>						
Bank overdrafts and loans	1,171	10,000	–	–	–	11,171
Trade and other payables	–	2,009	–	–	–	2,009
Tax liabilities	–	3,104	–	–	–	3,104
Accruals and deferred income	–	1,566	–	–	–	1,566
Borrowings	–	–	–	23,000	15,000	38,000
Financial liabilities	–	–	–	–	450	450
At 31 January 2017	1,171	16,679	–	23,000	15,450	56,300

Group	Repayable on Demand £000	Less than 1 year £000	More than 1 year but not more than 2 years £000	More than 2 years but not more than 5 years £000	More than 5 years £000	Total £000
<b>At 31 January 2016</b>						
Bank overdrafts and loans	152	–	–	–	–	152
Trade and other payables	–	1,632	–	–	–	1,632
Tax liabilities	–	3,046	–	–	–	3,046
Accruals and deferred income	–	2,020	–	–	–	2,020
Borrowings	–	–	–	–	30,000	30,000
Financial liabilities	–	–	–	–	450	450
At 31 January 2016	152	6,698	–	–	30,450	37,300

Company	Repayable on Demand £000	Less than 1 year £000	More than 1 year but not more than 2 years £000	More than 2 years but not more than 5 years £000	More than 5 years £000	Total £000
<b>At 31 January 2017</b>						
Bank overdrafts and loans	172	10,000	–	–	–	10,172
Trade and other payables	–	175	–	–	–	175
Tax liabilities	–	149	–	–	–	149
Accruals and deferred income	–	90	–	–	–	90
Borrowings	–	–	–	23,000	15,000	38,000
Financial liabilities	–	–	–	–	450	450
At 31 January 2017	172	10,414	–	23,000	15,450	49,036

Company	Repayable on Demand £000	Less than 1 year £000	More than 1 year but not more than 2 years £000	More than 2 years but not more than 5 years £000	More than 5 years £000	Total £000
<b>At 31 January 2016</b>	£'000	£'000	£'000	£'000	£'000	£'000
Bank overdrafts and loans	–	–	–	–	–	–
Trade and other payables	–	91	–	–	–	91
Tax liabilities	–	532	–	–	–	532
Accruals and deferred income	–	649	–	–	–	649
Borrowings	–	–	–	–	30,000	30,000
Financial liabilities	–	–	–	–	450	450
At 31 January 2016	–	1,272	–	–	30,450	31,722

### 23. Reconciliation of Operating Profit to Net Cash from Operating Activities

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
<b>Operating Profit (see footnote)</b>	<b>26,871</b>	25,343	<b>3,455</b>	3,978
Finance costs paid	(1,703)	(1,913)	(142)	(142)
Finance income received	35	131	2,804	1,636
Tax paid	(4,804)	(4,927)	(253)	(387)
Depreciation on plant, property and equipment	253	426	37	238
Loss on disposal of plant, property and equipment	14	15	6	7
Decrease in investment	–	–	–	481
(Increase)/decrease in amounts receivable from customers	(48,388)	(4,132)	–	16,062
Decrease in inventories	–	59	–	59
(Increase)/decrease in trade and other receivables	(23)	65	(35,043)	(22,062)
Increase/(decrease) in trade and other payables	377	(1,052)	84	(1,452)
(Decrease)/increase in accruals and deferred income	(454)	(938)	(559)	(219)
Increase in cost of future share based payments	409	681	144	390
Movement in retirement benefit asset/obligations	(18)	(14)	(18)	(14)
Disposal of subsidiary assets	–	(29,761)	–	(11,299)
<b>Net cash used in operating activities</b>	<b>(27,431)</b>	(16,017)	<b>(29,485)</b>	(12,724)

Operating profit for last year (Jan 2016) includes profit before tax on discontinued operations – note 8

## D2 Notes to the Accounts continued

### Year ended 31 January 2017

#### 24. Financial Commitments

##### Capital commitments

At 31 January 2017 and 31 January 2016, the Group and Company had no capital commitments contracted but not provided for.

##### Operating lease commitments

At 31 January 2017 and 31 January 2016, the Group and Company had outstanding commitments under non-cancellable operating leases for continuing operations which fall due as follows:

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Within one year	88	59	40	40
In the second to fifth years inclusive	45	88	20	60
After five years	–	–	–	–
	<b>133</b>	147	<b>60</b>	100

Operating lease payments represent rentals payable by the Group and the Company for certain of its office properties.

#### 25. Contingent Liabilities

Part of the Group's business is regulated by consumer credit legislation, which contains very detailed and highly technical requirements. In 2014, the Group commissioned an external review of its compliance with this legislation. The Group has identified some areas of potential non-compliance, although these are not considered to be material. While there is a risk that an eventual outcome may differ, the Group considers that no material present obligation in relation to non-compliance with consumer credit legislation is likely.

The Company has entered into cross-guarantee arrangements with respect to the bank overdrafts of certain of its subsidiaries. The maximum exposure under this arrangement at 31 January 2017 was £998,920 (2016: £2,808,086).

#### 26. Share Based Payments

The Company operates a Discretionary Share Option Plan (DSOP 2008) and full details of the share options outstanding under that plan are contained within the Report of the Board to the Shareholders on Remuneration Policy. The Company also operates a Long Term Incentive Plan (LTIP 2010) and full details of the share options outstanding during the year are shown below:

LTIP 2010	Number Of Share Options 2017	Number Of Share Options 2016
Outstanding at beginning of year	206,335	233,335
Granted during the year	–	21,000
Lapsed during the year	–	–
Exercised during the year	(31,667)	(48,000)
Expired during the year	–	–
Outstanding at end of year	174,668	206,335
Exercisable at end of year	5,000	5,000

All share options issued under the LTIP are exercisable at the ordinary share nominal value 12.5p.

The Group recognised total share based payment expenses for the DSOP and the LTIP of £409,000 in the year to 31 January 2017 (2016: £681,000).



## 27. Retirement Benefit Obligations

The Company operates a defined benefit scheme in the UK. The plan is funded by payment of contributions to a separate trustee administered fund. The pension cost relating to the scheme is assessed in accordance with the advice of a qualified independent actuary using the attained age method. The last formal valuation was at 31 March 2013. At that valuation it was assumed that the appropriate post retirement discount rate was 2.24%, salary increase for the active member would be 3.27% per annum and pension increases would be 3.05% per annum. The valuation results have been updated on the advice of a qualified actuary to take account of the requirements of IAS19 in order to assess the liabilities of the scheme as at 31 January 2017. The last actuarial valuation highlighted that the scheme was in surplus on an ongoing basis with the value of assets being sufficient to cover the actuarial value of accrued liabilities. No contributions are therefore being paid to the scheme at the present time and the estimated amount of contributions expected to be paid into the scheme during the year to 31 January 2018 is £nil.

### Disclosures made in accordance with IAS 19

A full actuarial valuation was carried out at 31 March 2013 and updated to 31 January 2017 by a qualified independent actuary. The valuation method used was the attained age method. The major assumptions used by the actuary were (in nominal terms):

	At year end 31 January 2017	At year end 31 January 2016
Rate of increase in salaries	Na	Na
Pension increases:		
Pre 97 Pension	0.0%	0.0%
Post 97 Pension	3.4%	1.9%
Discount rate	2.6%	3.5%
Mortality assumption	130%	130%

Mortality assumption for both years is stated as % of PCA00 Long cohort with 1% underpin.

The analysis of the scheme assets and the expected rate of return at the balance sheet date were as follows:

	Proportion held at 31 January 2017 £000	Proportion held at 31 January 2016 £000
Equities	81%	82%
Bonds	13%	10%
Cash/Other	6%	8%
Total market value of assets	100%	100%

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit schemes is as follows:

	Jan 17 £000	Jan 16 £000
Fair value of plan assets	1,180	1,078
Present value of defined benefit obligations	(644)	(552)
Surplus before restriction	536	526
Restriction on Surplus	(536)	(526)
<b>Pension asset</b>	<b>0</b>	<b>0</b>

## D2 Notes to the Accounts continued

### Year ended 31 January 2017

#### 27. Retirement Benefit Obligations continued

The amount recognised in the income statements during the year

	Jan 17 £000	Jan 16 £000
Current service cost	–	3
Interest on obligation	19	16
Expected return on plan assets	(37)	(33)
<b>Expense recognised in the income statement</b>	<b>(18)</b>	<b>(14)</b>
Opening net (asset)	–	(20)
Expense	(18)	(14)
Contributions paid	–	–
Actuarial loss	18	34
<b>Closing net (asset)</b>	<b>0</b>	<b>0</b>

The expense credit in both years is shown within administrative expenses.

	Jan 17 £000	Jan 16 £000
<b>Movement in present value of obligation</b>		
Present value of obligation at 1 February	552	750
Interest cost	19	16
Current service cost	–	3
Benefits paid	(45)	(112)
Actuarial loss/(gain) on obligation – assumptions	103	(38)
Actuarial loss/(gain) on obligation – experience	15	(67)
Present value of obligation at 31 January	644	552
<b>Experience adjustment on scheme liabilities</b>		
Actuarial loss/(gain) as percentage of scheme liabilities	2%	(12%)
<b>Movement in fair value of plan assets</b>		
Fair value of plan assets at 1 February	1,078	1,242
Expected return on plan assets	37	33
Contributions	–	–
Benefits paid	(45)	(112)
Actuarial gain/(loss) on plan assets	110	(85)
Fair value of plan assets at 31 January	1,180	1,078
<b>Experience adjustment on assets</b>		
Actuarial gain/(loss) as percentage of scheme assets	9%	(8%)

# Five Year Financial Record

	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000
<b>Continuing Operations Only</b>					
Revenue	20,903	26,226	36,102	45,182	<b>60,521</b>
Cost of Sales	(3,556)	(4,803)	(6,674)	(8,980)	<b>(12,870)</b>
Impairment	(5,347)	(5,112)	(5,863)	(7,611)	<b>(12,194)</b>
Administrative Expenses	(5,099)	(6,060)	(7,120)	(7,340)	<b>(8,585)</b>
Operating profit	6,901	10,251	16,445	21,251	<b>26,871</b>
Finance Costs (net)	(581)	(727)	(1,680)	(1,782)	<b>(1,668)</b>
Profit before taxation	6,320	9,524	14,765	19,469	<b>25,203</b>
Taxation	(1,426)	(2,197)	(2,920)	(3,583)	<b>(4,861)</b>
Profit for the year from continuing operations	4,894	7,327	11,845	15,886	<b>20,342</b>
<b>Assets employed in all operations</b>					
Fixed assets	1,790	1,932	2,406	1,149	<b>1,190</b>
Amounts receivable and other assets	86,924	108,019	142,953	164,407	<b>194,577</b>
	88,714	109,951	145,359	165,556	<b>195,767</b>
Liabilities	(27,648)	(40,541)	(63,895)	(37,300)	<b>(56,300)</b>
Total equity	61,066	69,410	81,464	128,256	<b>139,467</b>
<b>Earnings per Ordinary share from continuing operations</b>	41.7p	62.2p	100.1p	133.6p	<b>170.7p</b>
<b>Earnings per Ordinary share from continuing and discontinued operations</b>	92.6p	113.2p	156.0p	581.9p	<b>170.7p</b>
<b>Dividends declared per Ordinary share</b>	46.0p	54.0p	66.0p	76.0p	<b>91.0p</b>
<b>Group gearing</b>	33.7%	46.6%	65.8%	9.3%	<b>35.3%</b>

"Group Gearing" is calculated as the sum of Bank Overdrafts plus Borrowing less Cash and Cash Equivalents divided by Total Equity.

# Financial Calendar

<b>Annual General Meeting</b>		18 May 2017
<b>Announcement of results</b>	Half year ending 31 July 2017	September 2017
	Year ending 31 January 2018	March 2018
<b>Payment of dividends</b>	6% Cumulative preference shares	30 September 2017 & 31 March 2018
	31.5% Cumulative preference shares	31 July 2017 & 31 January 2018
	Ordinary shares — 2016/2017 Final	7 July 2017
	Ex dividend Date	15 June 2017
	Record Date	16 June 2017
	— 2017/2018 First interim	November 2017
— 2017/2018 Second interim	March 2018	

## Directions to our AGM

Annual General Meeting, Nuthurst Grange Country House Hotel, 18 May 2017 at 12 noon.

### From M42

Leave the M42 at junction 4 (signed Henley-in-Arden and A3400)

Join the A3400 (Stratford Road), following signs from Hockley Heath and Henley-in-Arden.

Continue on the A3400 for 2.5 miles until the junction with Nuthurst Grange Road.

Turn right onto Nuthurst Grange Road. The entrance to the hotel is on the left-hand side (see map)

### From M40 Southbound

Leave the M40 at junction 16 (signed Henley-in-Arden and A3400).

Join the A3400 (Stratford Road), following signs to Hockley Heath.

Turn left onto Nuthurst Grange Road.

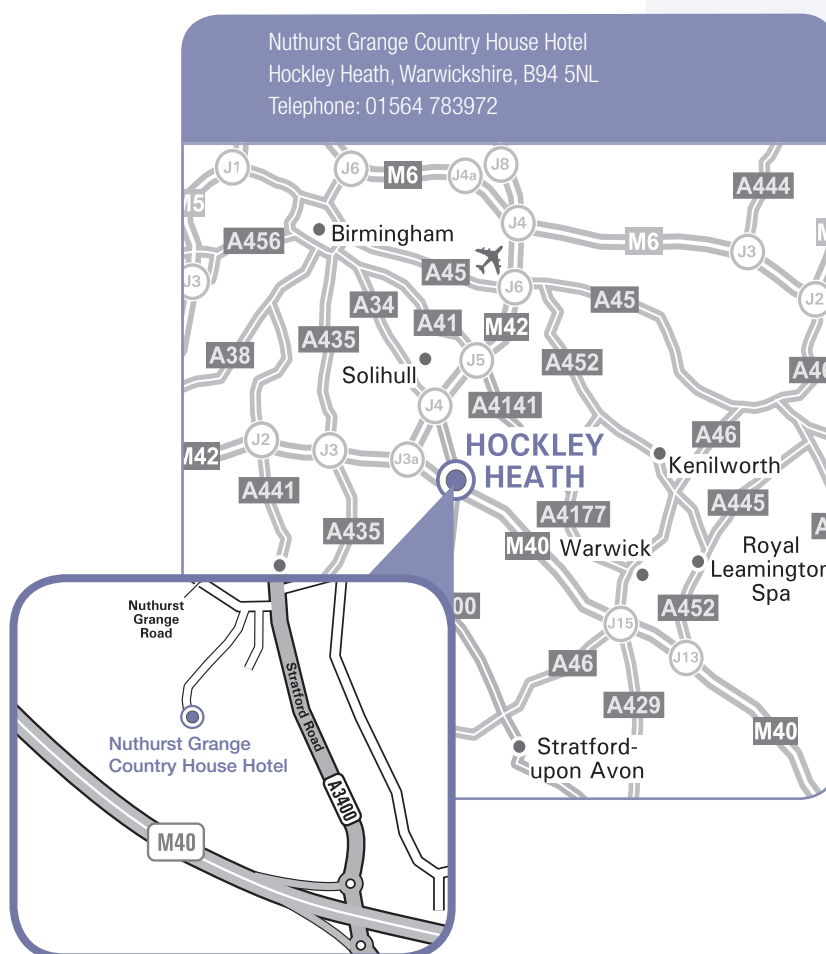
The entrance to the hotel is on the left-hand side (see map)

### From M40 Northbound

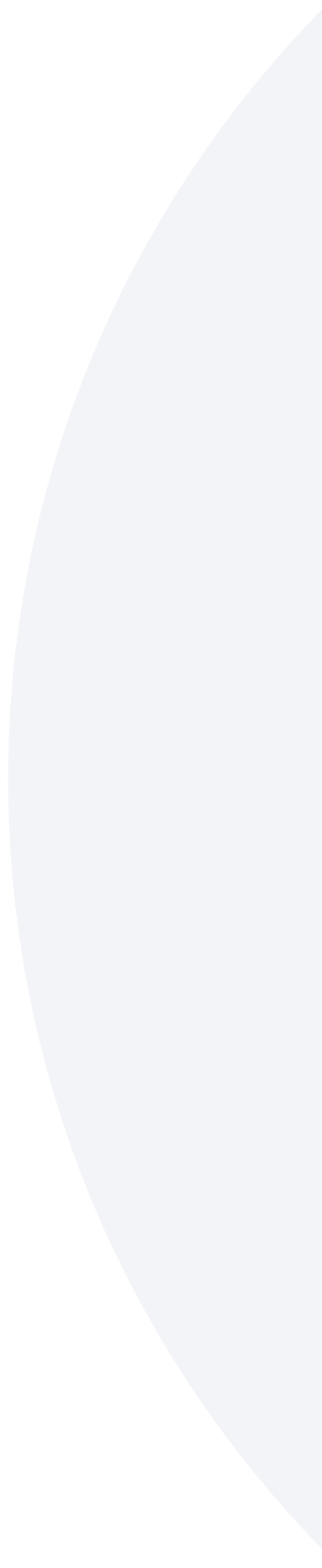
Follow M40 to its conclusion then join the M42 towards Birmingham international Airport.

Leave the M42 at junction 4 (signed Henley-in-Arden and A3400).

Follow directions above "From M42".



# Shareholder Notes



# Officers and Professional Advisers

## Directors

A M V Coombs MA (Oxon)	(Chairman)	
G D C Coombs MA (Oxon) MSc (Lon)	(Deputy Chairman)	
C H Redford ACA	(Group Finance Director)	
J G Thompson	(Managing Director – Motor Finance)	
D Markou MBE FCA	(Non-executive)	
K R Smith TD FCIM	(Non-executive)	
G Pedersen	(Non-executive)	
T Khlat	(Non-executive)	Appointed 21 March 2016
F Coombs BA (Lon) MSc (Lon)	(Non-executive)	

## Secretary

C H Redford ACA

## Registered office

6 The Quadrangle  
Cranmore Avenue  
Solihull  
West Midlands  
B90 4LE  
Tel: 0121 705 7777

## Registrars

Capita IRG plc  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU  
Shareholders can contact Capita on :-  
0871 664 0300 (calls cost 10p per minute plus network costs).

## Bankers

HSBC Bank plc  
130 New Street  
Birmingham B2 4JU

Allied Irish Bank (GB)  
8th Floor  
63 Temple Row  
Birmingham  
B2 5LS

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DLA  
Victoria Square  
Birmingham  
B2 4DL

## Stockbrokers

Arden Partners  
125 Old Broad Street  
London  
EC2 1AR

## Auditor

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Birmingham

## Internal Auditor

RSM Risk Assurance Services LLP



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