THE CREDIT YOU DESERVE

Tried and Tested

Annual Report and Accounts
for the Year ended 31 January 2019

Welcome to the S&U 2019 Annual Report

S&U plc was founded in 1938. Our aim is to provide Britain's foremost hire purchase motor finance and specialist lending service. Since 1999 our Advantage Finance subsidiary has provided hire purchase motor finance for over 150,000 customers.

→ Read about **Advantage Finance** on page 02

Our Values

Making the customer the heart of our business.

Respect for every customer and always treating customers fairly.

Conservative approach to underwriting and collections to enable sustainable growth.

Our Businesses

Motor Finance

Hire purchase motor finance for over 150,000 customers since 1999.

Property Bridging Finance

Launched in early 2017 and growing steadily after successful pilot phase.

Reasons to invest

A track record of growth and profitability.

Exceptional customer service.

A strong balance sheet.

→ Read more on **Our Growth** on page 03

Visit our website at **www.suplc.co.uk**

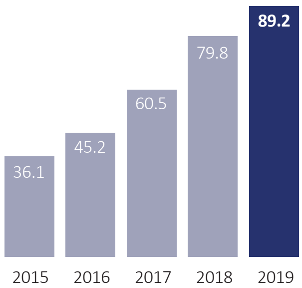
Financial Highlights

from continuing operations

Revenue (£m)

£89.2m

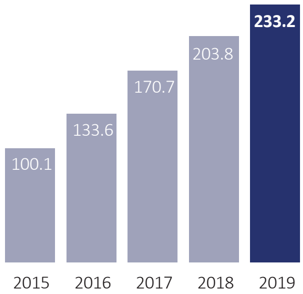
(2018: £79.8m)



Basic EPS (p)

233.2p

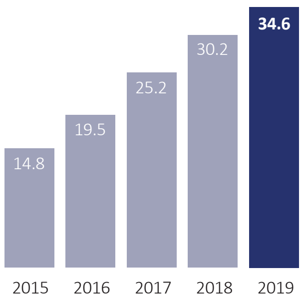
(2018: 203.8p)



Profit Before Tax (£m)

£34.6m

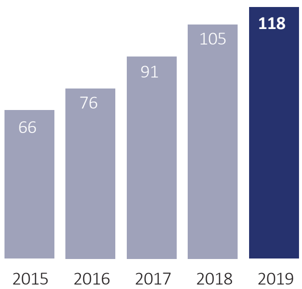
(2018: £30.2m)



Dividend Declared (p)

118p

(2018: 105p)



Basic Earnings per Share (p) 14%

Profit Before Tax 15%

→ Read our **Financial Statements** on pages 48 to 76

Group at a glance

Our aim is to provide Britain's foremost motor finance and specialist lending service. We currently have over 59,000 customers and a strong focus on staff recognition, reward and retention is fundamental to our success.

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 (FLA) and our Credit Risk Director Alan Tuplin is the Chair of the Credit and Risk Committee as well as representing the FLA at SCOR (Steering Committee on Reciprocity). Advantage employ over 150 people and since 1999 have provided hire purchase motor finance for over 150,000 customers across the UK, growing at the rate of over 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.

"Advantage Finance has achieved record profits in every year since inception which we are of course extremely proud of. This success story is underpinned by our excellent staff and our track record of very low staff turnover. Advantage is an accredited member of IIP and reward, recognition and motivation is embedded throughout the business. There is also a significant level of internal promotion and self-development which ensures we retain our quality staff which is a vital ingredient in our success story."

Guy Thompson
Managing Director, Advantage Finance Ltd

Property Bridging Finance

Aspen Bridging launched in 2017 to cater for the burgeoning short term refurbishment and residential markets. Aspen Bridging lends up to £2m per deal with an average loan of £375,000. Based in Solihull, Aspen's success since its founding has been recognised by the recent signing off of its pilot phase and it is now a fully-fledged member of the S&U Group.

Aspen believe that by combining the best of traditional bridging with state of the art technology and a single-minded focus on service excellence, we can bring a modern and fresh approach to the specialist bridging market. As a result, its 11 strong team are earning a growing reputation for speedy service and consistent delivery amongst its broker partners. Early trading has seen Aspen already consistently profitable and positioned to make a significant contribution to S&U profits over the next decade.

"Aspen believe that by combining the best parts of traditional bridging with state of the art technology and a single minded focus on service excellence, we bring a modern and fresh approach to the specialist bridging market."

Ed Ahrens
Managing Director, Aspen Bridging

A1 Chairman's statement

"The combination of growing markets, an expanded and dedicated team, a strong financial structure and responsible strategy, allows me to be confident of our continued success."

Anthony Coombs
Chairman

For the 10th successive year, I am pleased to announce increased profits for S&U plc. Group profit before tax (PBT) is £34.6m (2018: £30.2m), an increase of over 14%. For no less than the 19th successive year, Advantage Finance has produced a record profit. Equally encouraging is the progress made by Aspen Bridging, our property bridging finance business, which has achieved over £800,000 profits in only its second year of existence.

Group revenue for the year was £89.2m (2018: £79.8m); both receivables at £277m, and Advantage and Aspen customer numbers, 59,000 (+8%) were at highest ever levels.

In my statement a year ago I referred to a slowing economy and lower levels of consumer confidence, partly induced by relentless pessimism in much of the media about life after Brexit. For Advantage I anticipated that this might necessitate "sensible gear changes, steering tweaks and an easing of the accelerator". Such realism and ability to adapt to micro economic change, has been a hallmark of S&U's "steady, sustainable growth" over the past 20 years.

So it has proved this year. As the economy and the motor sector has slowed, prudently tightened underwriting and some increased competition have seen Group advances moderate to £152m against £165m in 2018. This is primarily due to a prudent 21,000 new deals at Advantage this year, which was less than the record 24,500 achieved last year but still the second highest new customer intake ever. Meanwhile, Aspen Bridging has nearly doubled its advances to £23.1m (2018: £13.3m).

Our realistic approach to growth has been rewarded by record Group collections of nearly £200m (2018: £156m), comprised of an 18% increase in Advantage and an increase of nearly five times at Aspen. These reflect, in more uncertain times, lower motor finance advances and good cash generation, so that Group borrowings have grown by just £3m. In turn, our treasury position has strengthened as gearing as fallen to 65% from 69% last year. This strong financial base supported by our tried and tested experience and expertise gained over the past 20 years, allows S&U to approach the current unprecedented economic uncertainties in both Britain and Europe with great confidence. Indeed, over the next year I anticipate that this could present significant opportunities for growth as consumer confidence and political certainty return.

Financial Highlights*

- Profit before tax ("PBT") £34.6m (2018: £30.2m)
- Revenue £89.2m (2018: £79.8m)
- Earnings per share ("EPS") 233.2p (2018: 203.8p)
- Group net assets £165.4m (2018: £152.8m)
- Group gearing at 65% (2018: 69%)
- Treasury – new £25m revolving credit facility with NatWest agreed to 2024- Group facilities now at £160m
- Record Group collections of nearly £200m (2018: £156m)
- Increased investment in Aspen Bridging after successful pilot
- Dividend of 118p per ordinary share (2018: 105p)

* Key alternative performance measurement definitions are given in note 1.12 on page 55.

IFRS9 and IFRS16 Change in accounting policy

As highlighted in previous announcements the Group has adopted IFRS9 financial instruments and IFRS16 Leases which were effective for the first time during the year ended 31 January 2019. In accordance with transitional provisions of the IFRS9 Standard, comparative periods have not been restated and therefore, whilst there

A1 Chairman's statement (continued)

is no material effect on the reported profit of S&U, information for the year to 31 January 2018 and for the year to 31 January 2019 is not directly comparable. Further information on the accounting transition is set out in the notes at the end of this preliminary results statement.

Advantage Finance ("Advantage")
Advantage Finance, our Grimsby based motor finance business has continued its remarkable achievement of 19 years of record profits since its launch in 1999. This year PBT is £33.6m against £30.2m last year rooted in an increase of 4% in net receivables at £259m (2018: £248m post IFRS9 adjustment). As a result Advantage has maintained its commendable and consistent record of the past eight years of producing a return of at least 15% on average capital employed before cost of funds.

This year however has seen a pause in transactions growth at 21,053, 14% less than the 24,518 in 2018, although the second highest ever. The reasons are sensible and soundly based.

First, our aim is to maintain and improve the quality of our loan book. As I predicted a year ago, whilst the labour market in the United Kingdom has remained healthy this has not been reflected in any consistent easing of the pressure on working people's average real incomes. This pressure persuaded some customers to take on newer forms of high cost credit financial obligations which resulted in slightly less consistent repayments to Advantage this year than we anticipated. Impairment including the impact of IFRS9 therefore was slightly higher than anticipated in 2018/19 and risk adjusted yield reduced to 24.6% in the year to 31 January 19 from 26.7% last year. Return on average capital employed remained healthy at 15.6% for the year to 31 January 2019 (2018: 16.1%). Further underwriting changes, which clearly recognise these high cost credit obligations, and marketing improvements to attract a better product mix, are designed to maintain returns and gradually return impairment levels to those of the past five years.

The second reason for the pause in transaction growth, albeit from near record levels, reflects competition within a healthy used car finance market. Recently this has contrasted with the more newsworthy, but much smaller new car market which has seen a decline, according to the Society of Motor Manufacturers and Traders ("SMMT") figures, of around 7%. By contrast, the used car market reached 7.95m vehicles, the third highest since SMMT monitoring began in 2001.

Furthermore, the number of used cars sold on finance through dealership rose, according to figures from the Finance and Leasing Association, by 7% in the year to December 2018. Industry experts expect this rise to continue – albeit slightly more slowly – over the next two years.

This growth is reflected in robust used car values. Although residual values are less important in Advantage's sector of the car market – the car values at loan inception are lower and our Hire Purchase products reduce our exposure – we are nevertheless encouraged by the good recent performance of used car prices, including the diesel economy models favoured by many of our customers.

Such a large and growing market has inevitably attracted competition, leading to higher broker commissions and more adventurous finance terms being offered – often from less experienced new lenders. Advantage Finance is ideally placed to respond to this and to take the opportunities available in an active market. Commission improvements, product refinements and constant adjustments to the customer journey have all been introduced, consolidating our leading position with our broker partners.

Thus this year has seen further development of Dealflo, our customer e signature system and of our industry leading underwriting system. Continuous improvement of this kind has been the bedrock of Advantage's record breaking history and is grounded in our belief that steady, sustainable growth is always dependent upon rigorous under-writing, the right products and speedy, reliable service for our much valued customers.

Aspen Bridging
Aspen Bridging our property lending subsidiary launched in 2017 is fully justifying the Board's decision this year to sign-off its pilot phase. Profit before tax this year is £838,000 against a small £298,000 start-up loss last year. 2018/19 has seen Aspen's loan book grow to just over £18m (2018: £11m). The number of deals completed has risen to 62 - from just 35 a year ago.

Since launch this means that Aspen have written £36m of gross business and had over £17m in repayments. Although competitive pressure has seen initial margins slightly tighten, controlled loan extensions and associated exit fees have seen overall margins close to budget. Both fixed and variable costs per deal are falling and now, with a full complement of eleven staff, will fall further next year as the business grows.

Aspen operates in the flourishing home refurbishment and investment market, with loans repaid either by onward sale or by re-mortgage. With a gross average loan size of £375,000 (2018: £380,000), this is a space which main stream banks are generally too inflexible and slow to fill, thus allowing Aspen to develop bespoke products and a fast, reliable and personalised service. Every customer is seen on site, all properties are secured on a first charge and the reliability and speed of service is such that transactions can be completed within three days when necessary.

Since they both appeal to, and provide the incentive for, efficient refurbishment and development, Aspen's stepped interest products have proved particularly popular. Conservative valuation policies and close relationships with its customers continue to help Aspen manage any defaulted accounts to successful conclusions and achieve a low level of impairment which is a key driver to success in this market.

Aspen's innovative products were recognised last year when Aspen was highly commended in the newcomer of the year and was awarded the Product of the Year at the Bridging and Commercial Annual Awards. The bridging market is a buoyant one as evidenced, by a recent survey by MINTEL showing expected growth from c£7.5bn per annum currently to over £10bn by 2021. As a result, we anticipate controlled revenue growth at Aspen of at least 50% per year over the next two years, an expectation which justifies S&U planned increased investment over the same period.

Dividends

Current Company valuations generally appear to owe more to wider cyclical macro-economic and political concerns than to the long term earnings performance of individual companies. Nevertheless, S&U plc has always strived to augment this for our loyal shareholders with a consistent dividend which parallels our sustained earnings growth. Thus, as earnings per share from continuing operations has risen by 230% over the past four years, from 100.1p in 2014/15 to 233.2p this year, so dividends should broadly reflect this, consistent with our long term aim of increasing coverage by earnings to 200%. This year we maintain this approach.

Your Board therefore recommend a final dividend of 51p per ordinary share (2018: 45p). This will be paid on the 12th July 2019 to ordinary shareholders on the share register at the 21st June 2019, subject to the approval of the shareholders at the AGM to be held on the 23rd May 2019. This will mean that dividends from S&U this year will be 118p per ordinary share against 105p in 2017/8 an increase of over 12.3%.

Funding Review

As should be expected from any high quality lending business during a pause in growth, cash generation for the Group this year has, despite the steady growth in the Aspen book, seen a net investment after tax and dividend outflows of just £3m (2018: £56m). Year-end borrowings were therefore £108m (2018: £104m) against Group banking facilities of £135m (2018: £115m).

Our ambitions and our perceived opportunities for growth remain undiminished. The four to five year cycle of lending at Advantage requires medium term funding and in addition to our excellent existing funding facilities we also now welcome back NatWest as an active lending partner. NatWest with whom we have had a relationship for over 50 years are providing us with a new £25m five

A1 Chairman's statement (continued)

year revolving credit facility. NatWest have welcomed this by looking forward to a "successful and long-term relationship" with S&U, "a well established and leading UK speciality finance provider with a long proven track record." The resulting total group funding gives S&U plc considerable headroom for future growth.

Governance

As we find regularly confirmed during meetings with our shareholders, sector analysts and potential investors, S&U's consistent approach to sustainable growth is seen to be underpinned by its history, management philosophy and shareholder structure. Although regrettably rarer in the wider business community today, the Coombs family shareholding and its involvement in the running of the Company over 80 years has ensured good governance since well before Governance became a burgeoning professional industry.

Happily, this approach has been recognised in the past year by more flexible, but still rigorous, updating of the UK Corporate Governance Code. The Revised Code lays more emphasis on the way in which the Code Principles on Good Governance can be reasonably interpreted to explain how a company complies with the Provisions or explains why it does not. In requiring both clear reasons for non-compliance in "particular circumstances based on a range of factors, including the size, complexity, history and ownership structure of the company", it specifically eschews a "tick box" approach to compliance. Instead it reinforces this by exhorting investor representatives to avoid a mechanistic response to incidences of non-compliance, and to assess explanations for "differing company approaches *thoughtfully*" [my italics]. The buds of common-sense appear to be stubbornly pushing through. Let us hope that this year this is reflected in practice. S&U's adoption of this approach can be seen in this report's section on Governance – B3. In it, we anticipate most of the changes which will be required in our next Annual Report, but which are discretionary now.

Regulation

Although coming after the year end, of great interest, was March's report from the Financial Conduct Authority ("FCA) on the motor finance industry. As we made plain post publication, the report contained no surprises and a great deal of comfort for firms like Advantage. The report focused on three areas. On commissions, it recognised that the flat fee basis used by Advantage minimised risk for customers. Second, its recommended separation of credit scoring and customer affordability assessment is a practice long used at Advantage. Third, it emphasised the value of transparent and plain communication with customers prior to transactions, and of ensuring that brokers and introducers did the same.

As I anticipated last year, Advantage's excellent record on customer relations, its continued investment in compliance and under-writing – (the latter has seen an updated scorecard and automated affordability calculations) – and long experience allow us to give the FCA report a genuine welcome.

Although unregulated, Aspen Bridging has thorough and rigorous underwriting and collections processes. In particular, Aspen personnel make personal visits to every financed property and are supported by Field Fisher and Brightstone (specialist bridging lawyers), VAS (valuation) and Jackson Cohen (regulatory experts) in the credit assessment process.

Current Trading and Outlook

This year I am particularly proud of the performance of our business and especially of our teams at Advantage and at Aspen. They have worked ceaselessly on the myriad of small improvements in product design, process and customer service which a more constrained and competitive economic environment always requires. They continue to do so, building on experience and expertise in Advantage's case of nearly 20 years which is tried and tested and of proven success.

Our prognosis for the next twelve months is realistic, but optimistic. The long-term outlook for responsible and good quality used car finance, at affordable monthly repayments provided by Advantage is strong. The continuing shortage of affordable housing and the ability to finance its provision similarly argues for further growth in Aspen's property bridging market.

The combination of active markets, an expanded and dedicated team, a sound financial structure and responsible strategy, allows me to be confident of our continued success.

Anthony Coombs
Chairman
25 March 2019

A2 Business Model and Strategy

A2.1 Strategic Review

S&U PLC now operates in two areas of specialist finance. The first and most established is Advantage Finance, based in Grimsby and engaged for the past 19 years in the non prime sector of the motor finance business. During those 19 years the remarkable success of Advantage in producing competitive finance products, lent responsibly with excellent customer service has been reflected in an almost unique record of 19 years of consistently increasing profits.

This long experience has enabled Advantage to gain a significant understanding of the kind of simple hire purchase motor finance suitable for customers in lower and middle income groups. Although decent, hardworking and well intentioned, some of these customers may have impaired credit records which have seen them in the past unable to access rigid and inflexible "mainstream" finance products. Advantage provides transparency, simplicity, clarity and suitability to both service and product which these customers require.

As a result Advantage currently receives over 1,000,000 applications a year and has written no less than 150,000 customer loans since starting trading in 1999.

In practice this translates into simple Hire Purchase ("HP") products, repaid over an average of just over four years and ranging in loan size from £3,000 to £12,000 with an average of £6,200. The increasing quality of the used cars Advantage finances gives customers the reliability they need to get to work and to provide family transport. Advantage's success in serving this demographic group has rested on three pillars. The first is the buoyancy of the used car market in which it operates and. Latest figures from the SMMT showed the used car market in the UK last year comprised 7.95 million sales, the third highest since SMMT monitoring began in 2001. Over 1.4 million vehicles are bought on finance, a market worth around £17bn a year. Around two-thirds or 900,000 vehicles are financed on HP, a simple and transparent product suited to Advantage's demographic, which remains resistant to more complex personal contract lease plans.

The second pillar of Advantage's success relates to its own commitment to excellence. The quality of our relationship with introducing brokers, dealers and our customers is based upon a continuous and relentless search for product and service improvement. As Guy Thompson, Advantage's founder and Managing Director points out, good business is the result of a thousand small improvements rather than a very few revolutionary ones. Whilst recognising the importance of its statutory obligations and relationship with the FCA in ensuring that customers are treated fairly, Advantage's care for its customers is embedded deeply in its business culture. For instance this year it has further enhanced Dealflo which is specifically designed to make the customers finance journey simpler, easier to understand and more transparent. Above all good business is founded on good ethical principles to which companies and customers ascribe.

The third pillar of Advantage's success depends upon its proven ability to adapt to a changing economy and labour market and the impact they may have on our customers. Non prime finance customers may have less income flexibility than others, and may have payment records marred by unemployment, divorce or other difficulties. Advantage's under-writing model, garnered from information available through credit reference agencies like Experian and through our repayment experience over 19 years, is state of the art. It is constantly recalibrated to take account of changes in real income and affordability and of socio economic data to a post code level. Advantage's underwriting scoring system therefore continuously evolves to reflect changes in customer circumstances.

Aspen Bridging, in only its second year of operation has continued its successful progress in the property bridging finance sector. It is positioned to take advantage of a housing market characterised by a fundamental and long-term mismatch between supply and demand. A generally poor quality British housing stock twinned with unmet demand for inexpensive, quality housing, have seen an upsurge in demand for bridging loans, from investors and entrepreneurs needing a bridge for refurbishment and improvement currently in anticipation of a sale or a refinancing if the property is to be held for investment. Currently mainstream banks are not adept at providing bespoke finance which is fast and flexible. Hence the opportunities in this market are significant.

Our over-arching factor in the success of our business over 80 years and through three family generations of management is our business philosophy. The identity of interest between management and shareholders has fused our ambition for growth with a conservative approach to both credit quality and funding.

A2 Business Model and Strategy (continued)

A2.2 Business Review

Operating Results

	Year ended 31 January 2019 £m	Year ended 31 January 2018 £m
Revenue	**89.2**	79.8
Cost of Sales	**(38.9)**	(36.9)
Gross Profit	**50.3**	42.9
Administrative Expenses	**(11.2)**	(9.9)
Operating Profit	**39.1**	33.0
Finance Costs (Net)	**(4.5)**	(2.8)
Profit before Taxation	**34.6**	30.2

Advantage Motor Finance

Highlights:

- 19th successive year of record profits of £33.6m (2018: £30.2m)
- Net receivables at a record £259m (2018: £248m) an increase of 4% Customer numbers reached a record 59,000 (2018: 54,000)
- 10% lower acquisition cost per deal this year on new advances 14% lower due to a combination of tighter approvals and increased competition
- Total annual collections at £181.5m (2018: £153.3m) an increase of 18%
- Risk Adjusted Yield* at 25% (2018: 27%) and a Return on Capital Employed† of 15.6% (2018: 16.1%)

A remarkable 19 years of increased profits at Advantage has seen a recent milestone of £250m receivables, an increase of 30% on last year, and a record level of collections of £153.3m up 26% in the same period. The disparity between the two increases is explained by a small increase in loan term, by the timing of new deals towards the second half of the year and by an increase in impairment, albeit not to historically elevated levels. This is due to both product mix and some pressure on real incomes for a small minority of customers. Advantage has strengthened its collection capability to assist these customers whilst under-writing requirements are being continuously refined. We expect these changes to help reverse the marginal reduction in the last two years in both risk adjusted yield and return on capital employed and underpin our confidence for whatever economic conditions lie ahead.

* "Risk Adjusted Yield" is calculated as Revenue net of Loan loss provisioning charge divided by average net receivables during the period. This ratio is an important indicator in non prime finance where yield has a strong relationship to the underlying level of risk

† "Return on Capital Employed" is calculated as Operating Profit before finance costs divided by the average Capital Employed during the period. Capital Employed is the sum of Bank Overdrafts plus Borrowings less Cash and Cash Equivalents plus Total Equity. This ratio is an important indicator of performance recognising that the level of profit can depend on the level of investment in both debt and equity.

Aspen Property Bridging Finance

Highlights:

- Profit of £838,000 in only its second year in operation (2018: startup loss £298,000)
- Aspen gaining credibility and support within the bridging broking community
- £18m net receivables (2018: £11m) and 62 new bridging loan facilities in the year (2018: 35)
- Good repayment track record building- 43 facilities repaid so far and no capital losses
- Increased investment in Aspen announced by S&U following successful pilot sign off in November 18

Aspen, our new bridging operation has made a promising start. Now comprised of eleven full-time and enthusiastic staff, it is building a reputation amongst the bridging finance broker community for speedy, reliable and flexible service. The standard of service it provides has already been recognised in securing nominations for industry wide awards. Each loan applicant has a dedicated account manager and, each property, after undergoing a local valuation which is reviewed by an independent in-house bridging expert, is then visited and assessed by Aspen staff. Momentum is growing and the planned review of this promising pilot business will take place later in the year.

A2.3 Funding Review

The growth of Aspen offset by lower new loan growth of Advantage has seen S&U invest a further £3m in the business this year (2018: £56m). Group gearing* is now 65% (2018: 69%) well within our covenanted limits and, more importantly, within the conservative trading appetite traditionally associated with S&U.

After the year end a further £25m of term banking facilities have been put in place so that facilities now stand at £160m against £135m last year. The year-end borrowing of £108m means that substantial headroom is in place for further growth.

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

A2.4 Principal Risks and Uncertainties

There have been no material changes in the principal risks and uncertainties in the last year.

A2.4.1 Consumer and Economic risks

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 current lack of clarity around Brexit make it very difficult to anticipate the effects of Brexit on the environment generally or on our customers. We have considered the position carefully and as the Group exclusively operates in the UK market, we believe the main Brexit risk posed for our Group is indirect and could be the potential for adverse economic conditions and higher levels of unemployment leading to more repayment delinquency. However, despite the ongoing Brexit uncertainty, recent UK employment figures are good and Advantage historically have not suffered greatly through previous economic downturns. We therefore believe the risks currently posed to the Group by Brexit are limited.

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 credit, 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 a maximum of one year. Further Aspen has introduced a variety of controls to limit risk in a heavily under supplied housing market.

A2.4.2 Funding and Liquidity Risk

Funding and Liquidity 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 uses interest rate derivative contracts to hedge these exposures in bank borrowings.

A2.4.3 Legal, Regulatory and Conduct Risk

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 a regulated lender Advantage Finance Limited applied for a standard FCA licence in 2016 and received renewed authorisation. Advantage directors are prominent members of the Finance and Leasing Association's committees and, through them, regularly liaise with the FCA. 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.

Whilst engaged in the un-regulated sector, during its pilot stage Aspen Bridging has adopted procedures which are consistent with those required in the regulated sector. This provides both commercial discipline and provides a platform for standards should Aspen widen its products into the regulated field.

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.

A2.4.4 Other Operational Risks

Other operational risks are endemic to any finance business. Rigorous procedures, detailed recovery plans and, above all, sound experience and commercial common sense provides Advantage and the Group with appropriate protection. In particular recent work has been focused on Cyber Security. Although breaches are rare, a review has been completed internally and monitored by RSM, our internal auditors. 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, planning, financial forecasting and risk evaluation cycles and concluded that a three year period was appropriate for viability assessment. The three year period is consistent with the Group planning horizons. The directors therefore considered the three year period commencing 1 February 2019 and assessed:

- funding and financial forecasts for this period and the underlying assumptions by considering the potential impact of the principal risks facing the Group, as set out in A2.4;
- information regarding current prospects of the Group;
- the impacts of different macroeconomic scenarios and whether any severe shock could threaten the Group's future performance, solvency or liquidity;
- analysis of key sensitivities which could affect profitability during the viability period; Assumptions made are clearly stated and additional scenarios are modelled to demonstrate the potential impact of risks and uncertainties on profitability and funding;
- 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 2019.

Statement of Going Concern

In assessing the appropriateness of the going concern assumption, 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, liquidity risk and economic risk including Brexit 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 despite the current uncertain 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.

Our Customers

Mr R

Mr R is a Government worker. His wife, who is a Nurse took finance out with Advantage in July 2018 for a small economical car and recommended us to her husband. Mr R takes home approximately £1,550 per month and in February 2019 was looking for a diesel estate vehicle for his own transport requirements. Following on from the recommendation from his wife, he made a direct approach to Advantage in order to enquire about assistance for his motor finance requirements, and dealt with Natalie, a customer advisor working as part of the Advantage new business team.

Mr R's credit profile was assessed as part of the application, together with his overall income and outgoings to ensure that the proposed loan was again appropriate and affordable for his circumstances. Although there were two small credit defaults showing from several years ago, these were settled, and there were no other current credit commitments. Of course, Mr R's previous Advantage loan was also present, which itself had an excellent payment history.

Mr R's application was approved and after being given an indication of his credit limit, settled on a car from a dealer of his choice, and after agreeing to a £5,495 purchase price, Advantage provided a £5,495 loan to be repaid over 53 months at monthly repayments well suited to Mr R's budget.

Once the terms had been agreed, Advantage were able to progress the transaction very quickly using its new electronic signature system which meant that Mr R was able to complete all the relevant documentation and purchase the vehicle without any delay.

Mr R took the time to review his experience on an online review site and was clearly happy with the service he received from Advantage, leaving the following comments as part of a 5 star review:

"The most helpful people I have come across in any financial dealings. Explained everything well in a warm friendly manner. Went the extra mile when problems came up and most important kept the customer informed throughout the process. Take a bow Natalie and Advantage Finance!"

Our Customers

Mrs M

Mrs M works as a Florist and lives with her partner. She takes home approximately £1,800 per month and in November 2018 was looking for an economical vehicle to provide her transport requirements.

An application for motor finance was placed by a leading internet broker with Advantage, whose systems were able to electronically assess and approve the application within seconds. This assessment included a full appraisal of existing credit reference data and an electronic income verification check. As part of these substantial checks, Advantage was able to confirm that Mrs M's circumstances met its lending and affordability criteria and was able to convey a credit limit for Mrs M to work with as she searched for a suitable vehicle.

As it turned out, Mrs M chose one vehicle which Advantage were happy to finance but then changed her mind and ended up deciding to buy a Citroen C5 at a purchase price of £3,815 with affordable monthly repayments of £151 to be repaid over 47 months, from a local dealer.

Mrs M was contacted shortly after the loan was set up to confirm that the vehicle had been successfully collected and that she was happy with the overall transaction. As part of this "Welcome Call" she left the following 'five star' review

"Very, very happy with the service I have received."

Our Customers

Aspen

"Aspen's support & flexibility on the case was much appreciated, particularly as this is the first major deal I have written for these clients. The team at Aspen has definitely gone the extra mile..."

Overview:
The client is an experienced developer looking to use bridging finance in order complete on a purchase of a site with planning, whilst also providing cash flow to finish works on their current project, a detached house in 2nd-fix stage.

- £700,000.00 gross facility
- Multiple property bridge
- Purchase needed to complete in 7 days
- Using funds for works, refinancing of development funding, and acquisition

Challenge/Solution:
Aspen MD Ed Ahrens visited the property, reviewed the planning and coordinated with the customer for a revisit by the buildings control inspectorate to confirm the works are compliant to date.

Contracts exchanged already leaving only a 7-day window in which to complete purchase of the new site, which now had full planning permission.

Aspen immediately underwrote the case within the three-hour SLA and provided a Formal DIP booked in a valuation and legals instructed on the same day.

Lack of time and multiple applicants to interview with AML checks and complex legals and valuations needed to complete rapidly.

Aspen met one borrower on site and facetimed the others. Aspen got the valuations in 48 hours and also liaised between the broker and the customer on the legals until all requisitions were satisfied.

"Working closely with the developers and with the Introducer, who worked tirelessly to co-ordinate all parties throughout, and carefully reviewing the plans in person with them, as we always do, made it possible to complete this deal quickly."

Ed Ahrens
MD at Aspen

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. As required by legislation, we confirm that as an organisation, we respect and recognise human rights in all aspects of our business.

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 – except of course on the basis of performance. Further equality and diversity information is contained in the corporate governance report on page 33. People prosper and are promoted within S&U purely on merit.

Formal 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 or to our head office in Solihull. Our records demonstrate we enjoy high levels of customer satisfaction and 63 of only 94 complaints which reached the Financial Ombudsman Service in the year were decided in the Group's favour (2018: 62 of 105 complaints were decided in the Group's favour). In the year to 31 January 2019, 77% of complaints which reached the Financial Ombudsman Service were related to the satisfactory quality of the vehicle (2018: 77%).

S&U supports its wider community through charitable giving and activities relating to fundraising. During the year the Group gave over £87,000 (2018: £89,000) in 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.

The Group also makes financial contributions in the artistic and sporting fields, particularly in order to develop young talent. It was the initial sponsor of the new "Ballet Now" an initiative at the Birmingham Royal Ballet which encourages young choreographers, designers and composers. In addition it works with Chance to Shine, the MCC sponsored cricket charity, providing play facilities for youngsters in the most deprived areas of Birmingham.

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 employees as they drive about their daily activities.

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.

We recognise that climate risk is an increasing one but due to the nature of our business it is not a principal risk in this business. This greenhouse gas reporting year has been established to align with our financial reporting year, being 1 February to 31 January.

Greenhouse gas emissions data

For period 1 February 2018 to 31 January 2019

	Tonnes CO_2	
	Year ended 31 Jan 2019	Year ended 31 Jan 2018
Scope 1 (Direct emissions)		
Combustion of fuel – Petrol & diesel used by company cars	**106**	107
Gas consumption	**10**	20
Air conditioning systems	**27**	34
Scope 2 (Energy indirect emissions)		
Purchased electricity	**62**	59
Total scope 1 and 2	**205**	220
Scope 3 (Other indirect emissions)		
Water consumption	**1**	1
Waste	**9**	7
Total scope 1, 2 and 3	**214**	228
Company's chosen intensity measurement:		
Normalised tonnes scope 1, 2 and 3 CO_2e per £m turnover	**2.4**	2.9

Gas and electricity usage is based on consumption recorded on purchase invoices. Vehicle fuel usage is based on expense claims and recorded mileage.

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 2018 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 the 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
25 March 2019

B1 Board of Directors

Anthony Coombs
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.

Graham Coombs MA (Oxon) MSc (Lon)
Deputy Chairman
Joined S&U after graduating from London Business School in 1976.

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.

Guy Thompson
Managing Director Advantage Finance
Guy joined the Group in 1999 as Managing Director of Advantage Finance and has overseen an excellent performance in their first 18 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.

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.

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.

Fiann Coombs BA (Lon) MSc (Lon)
Non-executive
A professional psychotherapist with experience as an economic analyst and wide ranging commercial skills, Fiann has brought these skills to the considerable benefit of the S&U Group since his appointment to the Board in 2002.

Tarek Khlat
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 from Georgetown University 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 2019.

Overall Advantage increased profit before tax by 11% this year and, coupled with a healthy and profitable second year for Aspen our fledgling Property Bridging Finance business, S&U plc Group profits this year increased by 15% to £34.6m.

This performance has been led by Guy Thompson, the Managing Director of Advantage Finance. Guy Thompson was granted 12,000 shadow share options in August 2018 and it is proposed a further grant of 12,000 shadow share options will be granted in August 2019, as disclosed in last year's Directors' Remuneration Report. The extent to which these have vested so far is reflected in the outcomes section below.

The Company's forward looking Remuneration Policy was approved with a binding vote at AGM on 18 May 2018 and, consistent with the usual 3 year review period, there are no changes proposed to the policy this year. A copy of our full Remuneration Policy Report is available on our website www.suplc.co.uk.

The Directors' Remuneration Report therefore sets out how the Remuneration Policy will be operated for the year commencing 1 February 2019 (this is subject to an advisory vote at the 2019 AGM).

2018/19 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 2019 saw over 21,000 new agreements in the year for Advantage's motor finance and in their second year of operation Aspen Bridging lent over £20m with early repayments in line with our expectations. Whilst the political and economic uncertainties inherent in both the Brexit negotiations and a slowing economy remain, S&U has continued to demonstrate its historic ability to produce excellent results and strong, sustainable growth.

Anthony Coombs, Graham Coombs and Chris Redford

Based on the underlying profit performance of the Group, the Remuneration Committee judged the level at which the annual bonus payments should be made. Group PBT for the year grew by 15% to £34.6m. Although this was below the target of £36.85m, the Remuneration Committee has concluded that, due to the double digit profit growth achieved, for the financial year 2018/19 bonuses of £20,000 each would be awarded to Anthony Coombs and Graham Coombs, equal to 40% of the maximum annual bonus opportunity. A bonus of £25,000 would be awarded to Chris Redford, equal to just below 42% of the maximum annual bonus opportunity.

The deferred bonus for Chris Redford of £15,000 brought forward from 2017/18, as disclosed in last year's Directors' Remuneration Report, was deemed not payable as the performance target was not met.

In April 2018 Chris Redford was granted 5,000 LTIP share options, as disclosed in last year's Directors Remuneration Report, and 2,500 of these share options were deemed to have vested with reference to performance during the year ended 31 January 2019 based on an increase to Group PBT. The balance of 2,500 share options were deemed to have lapsed as the target Group PBT of £36.85m for the year was not met. The 2,500 vested share options will not be exercisable until April 2021.

Guy Thompson

Based on the underlying profit performance of Advantage, the Remuneration Committee judged the level at which the annual bonus payments should be made. Consequently, for the financial year 2017/18 a bonus of £150,000 was awarded to Guy Thompson equal to 75% of the maximum annual bonus opportunity.

The deferred bonuses for Guy Thompson of £150,000 brought forward from 2017/18 as disclosed in last year's Directors' Remuneration Report were deemed not payable as the performance target was not met.

Guy Thompson was granted 12,000 shadow share options in August 2018, as disclosed in last year's Directors Remuneration Report, and 6,000 of these share options were deemed to have vested during the year ended 31 January 2019, 3,000 will vest if additional performance targets for the year ended 31 January 2020 are achieved and the balance of 3,000 shadow share options were deemed to have lapsed. The 6,000 vested share options will not be exercisable until August 2021. The 3,000 share options due to vest based on performance targets for the year ended 31 January 2020 will not be exercisable until August 2022.

Key remuneration decisions for the year ending 31 January 2020

The Remuneration Committee approved salary increases for the executive directors of between 2.5% and 4.6% with effect from 1 February 2019 after carefully considering their performance and taking into account the range of salary increases awarded to the wider work force.

For the year ending 31 January 2020, where the performance targets set are achieved, the annual bonus has been set at £75,000 for Anthony Coombs, Graham Coombs and Chris Redford and £200,000 for Guy Thompson. Where the performance targets set are exceeded, the Remuneration Committee has the discretion to pay an increased annual bonus and the maximum amount payable will not exceed the maximum limits stated in the Remuneration Policy. The annual bonuses will continue to be assessed against stretching divisional and group PBT targets and Return on Capital Employed (ROCE).

The Committee intends to grant 7,500 share options under the LTIP to Chris Redford, subject to achieving certain group PBT and ROCE targets for the year ending 31 January 2020.

The combined incentive potential between the annual bonus and LTIP (including shadow share options) for each director will not exceed the exceptional circumstances limit of 200% of salary as set out in the Remuneration Policy.

For the year ending 31 January 2020, the Remuneration Committee considers that the significant shareholding held by Anthony Coombs and Graham Coombs similarly provides adequate alignment to shareholders.

An increase from £33,000 to £35,000 has been proposed in respect of fees for the year ended 31 January 2020 for the non-executive directors and an increase to £37,000 for the senior non-executive director.

The Remuneration Committee continues to welcome Shareholder feedback on their remuneration decisions or on any issue related to executive remuneration. I commend this report to Shareholders and ask that you support the resolution to approve the Company's Annual Remuneration Report at the Company's AGM on 23 May 2019.

Tarek Khlat
Chairman of the Remuneration Committee

25 March 2019

B2 Directors’ Remuneration Report (continued)

B2.2 ANNUAL REMUNERATION REPORT

This section covers how the remuneration policy was implemented in the year ending 31 January 2019. 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 Graham Pedersen, Mr Demetrios Markou and Mr Tarek Khlat, who are all independent non-executive directors. Biographical details of these directors are set out on pages 16 and 17. The Remuneration Committee is chaired by Mr Tarek Khlat.

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**.

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 on the reporting regulations 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’s role as external auditor. Following consultation with the Board and since May 2018, advice on remuneration is now being provided by KPMG LLP.

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 2019:

	Age	Salaries and fees £000	Allowances and benefits £000	Pension Contribution/ Salary Supplement in Lieu of Pension £000	Bonus £000	Share incentive plans (LTIP) £000	Total £000
Executive directors							
Anthony Coombs	66	340	52	–	20	–	412
Graham Coombs	66	325	23	–	20	–	368
Chris Redford	54	215	22	31	25	53	346
Guy Thompson	63	390	41	51	150	127	759
Non-executive directors							
Demetrios Markou	75	35	–	–	–	–	35
Fiann Coombs	50	33	–	–	–	–	33
Graham Pedersen	64	33	–	–	–	–	33
Tarek Khlat	52	33	–	–	–	–	33
Total		1,404	138	82	215	180	2,019

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 2018:

	Salaries and fees £000	Allowances and benefits £000	Pension Contributions/ Salary Supplement in Lieu of Pension £000	Bonus £000	Share incentive plans (LTIP) £000	Total £000
Executive directors						
Anthony Coombs	340	47	–	–	–	387
Graham Coombs	320	23	–	–	–	343
Chris Redford	210	21	30	45	–	306
Guy Thompson	380	40	60	175	413	1,068
Non-executive directors						
Keith Smith	11	–	–	–	–	11
Demetrios Markou	31	–	–	–	–	31
Fiann Coombs	31	–	–	–	–	31
Graham Pedersen	31	–	–	–	–	31
Tarek Khlat	31	–	–	–	–	31
Total	1,385	131	90	220	413	2,239

B2 Directors’ Remuneration Report (continued)

Salaries & fees	The amount of salary/fees received in the period.
Allowances and benefits	The taxable value of benefits received in the period. These are company car or allowance, private fuel, life insurance and private medical insurance.
Pension	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.
Annual Bonus	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 23.
Share incentive plans (LTIP)	For the year ending 31 January 2019: • 50% of the 12,000 LTIP shadow share options granted to Guy Thompson on 01 August 2018 (i.e. 6,000 shadow share options) vested in respect of performance to 31 January 2019, 25% (i.e. 3,000 shadow share options) are subject to a further performance target for the year ended 31 January 2020 and 25% (i.e. 3,000 shadow share options) were deemed to have lapsed as although Group profits this year increased by 15% the PBT target was not met. The 6,000 vested shadow share options are subject to continued employment until August 2021 and will not be exercisable until August 2021. The 3,000 shadow share options, due to vest based on performance targets for the year ended 31 January 2020, are subject to continued employment until August 2022 and will not be exercisable until August 2022. • 50% of the 5,000 LTIP share options granted to Chris Redford in April 2018 (i.e. 2,500 shares) vested in respect of performance to 31 January 2019 and 50% (i.e. 2,500 shares) were deemed to have lapsed. The 2,500 vested share options are subject to continued employment until April 2021 and will not be exercisable until April 2021. • Although both the above LTIP options are subject to continued employment, the value of the shares vesting by reference to performance to 31 January 2019 is shown above based on the three month average share price to 31 January 2019. For the year ended 31 January 2018 comparative figures for the value of options vesting under the share incentive plans have been calculated as follows: • 20% of the 65,000 LTIP options granted to Guy 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 were also subject to continued employment until 29 August 2018, the value of the shares vesting by reference to performance to 31 January 2018 is shown above based on the three month average share price to 31 January 2018.

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 2019).

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 practice. As disclosed in the Annual Report on Remuneration last year, for the year ending 31 January 2019, Graham Coombs, Chris Redford and Guy Thompson all received a salary increase of between 1.6% and 2.6%. Anthony Coombs did not receive any increase in salary.

For the year ending 31 January 2020, Anthony Coombs, Graham Coombs, Chris Redford and Guy Thompson all received a salary increase of between 2.5% and 4.6%. 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 5.2%.

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

Executive director	Base salary as at 31 January 2019 £000	Base salary for year to 31 January 2020 £000	Increase %
Anthony Coombs	340	355	4.4
Graham Coombs	325	340	4.6
Chris Redford	215	225	4.6
Guy Thompson	390	400	2.5

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 £33,000 to £35,000 with effect from 1 February 2019. The basic senior non-executive fee was increased from £35,000 to £37,000 with effect from 1 February 2019. 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.

Non-executive director fees	2017/18 £000	2018/19 £000	2019/20 £000
Basic fee	31	33	35
Additional fee for Senior Independent Non-executive director	3	2	2

Annual bonus

For the year ending 31 January 2019, 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 2019 together with the Group PBT targets and details of the actual bonus earned.

	Performance targets	Maximum annual bonus opportunity year ending 31 January 2019 £000	Bonus pay-out % of maximum %	Actual bonus earned for the year ending 31 January 2019 £000
Anthony Coombs	Group PBT target (£36.85m)	50	40	20
Graham Coombs		50	40	20
Chris Redford		60**	42	25
Guy Thompson	Advantage Finance PBT target*	200***	75	150

*While 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 to assist our investors in understanding how our incentive pay-outs relate to performance delivered. Details of the Group PBT targets are disclosed above.

** In addition a £15,000 bonus was deferred from 2017/18 and was dependent on performance in the year ended 31 January 2019. It was deemed not payable as the performance target was not met.

***In addition a £150,000 bonus was deferred from 2017/18 and dependent on performance in the year ended 31 January 2019. It was deemed not payable as the performance target was not met.

B2 Directors' Remuneration Report
(continued)

Based on performance in the year ended 31 January 2019 bonuses of £20,000 each were deemed payable to Anthony Coombs and Graham Coombs and a bonus of £25,000 was deemed payable to Chris Redford. Although actual Group PBT was £34.6m, slightly below the £36.85m target, given the Group profits increased by 15% in the year, the Remuneration Committee exercised its discretion to vest reduced bonuses.

As disclosed in the Annual Report on Remuneration last year, for the year ending 31 January 2019, the maximum annual bonus opportunity for Guy Thompson was set at £200,000 with an additional £150,000 deferred from 2017/18 subject to further performance targets. Based on performance in the year ended 31 January 2019 a bonus of £150,000 was deemed payable to Guy. This equates to a total bonus payable in respect of the year ended 31 January 2019 of 38.5% of the salary he earned in the year.

Annual bonus in 2019/20
For the year ending 31 January 2020, where the performance targets set are achieved, the annual bonus has been set at £75,000 for Anthony Coombs, Graham Coombs and Chris Redford and £200,000 for Guy Thompson. Where the performance targets set are exceeded, the Remuneration Committee has the discretion to pay an increased annual bonus and the maximum amount payable will not exceed the maximum limits stated in the Remuneration Policy. The annual bonus will continue to be assessed against stretching Group and divisional PBT targets.

Depending on the extent to which the targets are achieved only a proportion of the maximum annual bonus opportunity for Guy Thompson may become payable with the remainder deemed to have lapsed.

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

Awards granted during the period
Chris Redford was awarded 5,000 share options under the LTIP in April 2018 subject to achieving certain Group PBT and ROCE targets for the year ended 31 January 2019.

Guy Thompson was awarded 12,000 shadow share options under the LTIP in August 2018 subject to achieving specified PBT targets for the year ended 31 January 2019.

Awards vesting based on performance in respect the year ended 31 January 2019
Details of awards vesting based on performance in respect of the year ended 31 January 2019 have been included in the notes to the single figure tables on page 25.

Awards for 2019/20
The Committee intends to grant 7,500 share options under the LTIP 2010 to Chris Redford, subject to achieving certain PBT and ROCE targets for the year ending 31 January 2020. The Remuneration Committee considers that the 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 LTIP vesting relates to performance against the Group PBT and ROCE targets on a retrospective basis.

As disclosed in last year's Directors' Remuneration Report, Guy Thompson will be awarded 12,000 shadow share options in August 2019. These shadow share options together with 3,000 of the shadow share options from the August 2018 award will be subject to achieving specified PBT and ROCE targets for the year ending 31 January 2020 and Guy Thompson's continued employment to 2020. The August 2019 award along with the 3,000 shadow share options from the August 2018 award will not be exercisable until August 2022.

The shadow share options give Guy Thompson the opportunity to receive a cash payment equal to the value of the vested shares for each award when the awards are exercised. These awards will be satisfied in cash rather than shares so as not to further dilute existing shareholders whilst ensuring that the value delivered is linked to the Company's share price in order to retain long term alignment.

		Vesting schedule 2019	2020
Anthony Coombs	Bonus	£20,000	£75,000
	LTIP (shares)	–	–
	Shadow share options	–	–
Graham Coombs	Bonus	£20,000	£75,000
	LTIP (shares)	–	–
	Shadow share options	–	–
Chris Redford	Bonus	£25,000	£75,000
	LTIP (shares)	2,500*	7,500
	Shadow share options	–	–
Guy Thompson	Bonus	£150,000	£200,000
	LTIP (shares)	–	–
	Shadow share options	6,000*	15,000†

*subject to continued employment

†3,000 deferred from 31 January 2018 and 12,000 proposed grant in August 2019

For the year ending 31 January 2020, the Remuneration Committee considers that the significant shareholding held by Anthony Coombs and Graham Coombs provides adequate alignment to shareholders.

Total pension entitlements in 2017/18 (this section is subject to audit)

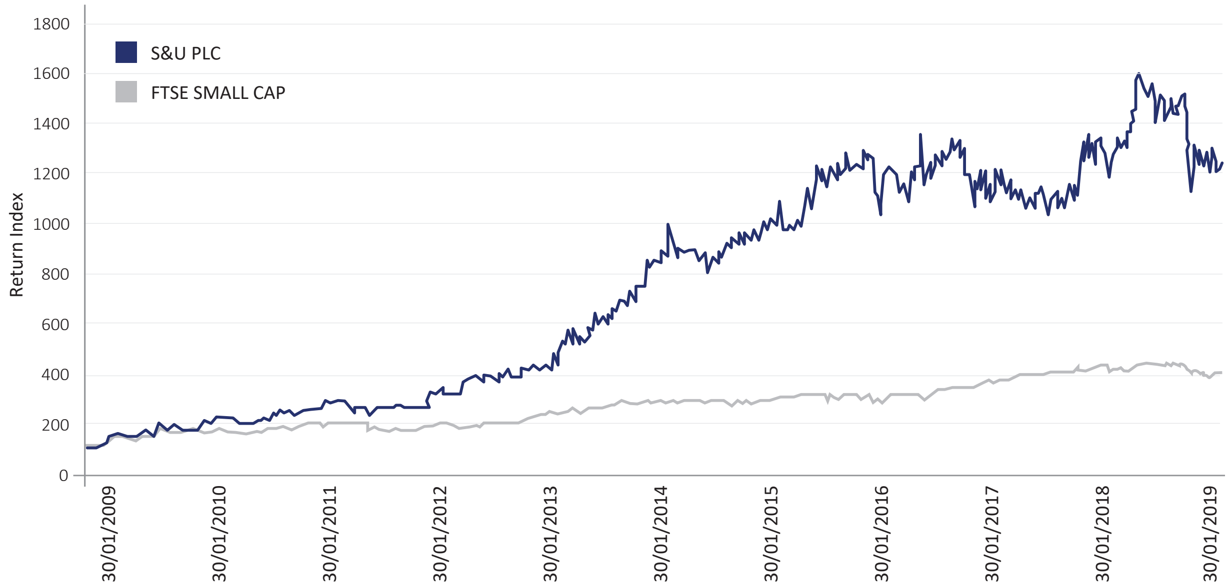
The Group makes contributions into a defined contribution scheme on behalf of Guy Thompson and Chris Redford or pays a salary supplement in lieu. None of the directors have accrued benefits under the defined benefit scheme.

Director	Defined contribution or salary supplement in lieu £000	Percentage of Salary %
Chris Redford	31	14.5
Guy Thompson	51	13.1

B2 Directors' Remuneration Report (continued)

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 ten years. This comparator has been selected since it illustrates S&U's relative performance within their sector.

10 Year Total Shareholder Return Index at 31 January 2019



Executive Chairman Remuneration for the previous ten 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	Annual bonus (% of maximum opportunity for the year)	Long term incentive (% of maximum number of shares for the year)
	£000	%	%
2019	387	40	n/a
2018	387	0	n/a
2017	402	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.

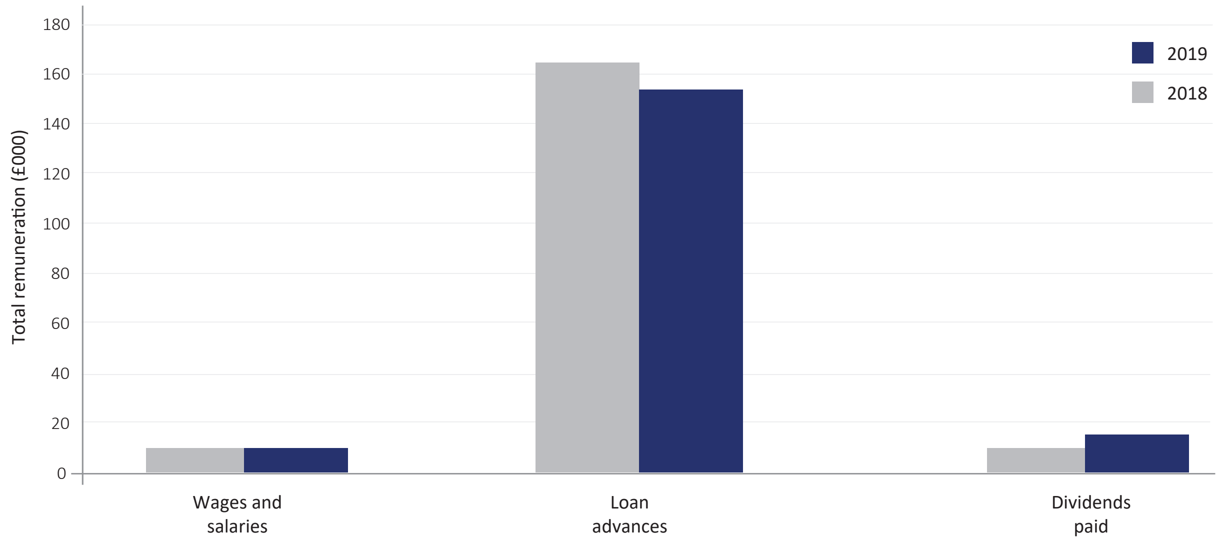
Element	Executive Chairman* %	Wider Workforce %
Base salary	4.4	5.2
Allowances and benefits	10.6	n/a
Bonus	n/a	3

*Anthony Coombs received benefits and allowances of £47,000 in the year ending 31 January 2018 and £52,000 in the year ending 31 January 2019. Anthony Coombs did not earn a bonus for the year ending 31 January 2018 and earned a bonus of £20,000 for the year ending 31 January 2019.

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 2019 and 31 January 2018. Given the nature of the Group's business, the other significant outflows for the Group are loan advances and dividends payable.

Annual expenditure January 2019 v January 2018



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 2019.

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B2 Directors' Remuneration Report

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 directors as at 31 January 2019.

	Type	Owned Outright	Unvested subject to performance conditions	Unvested not subject to further performance conditions	Vested but unexercised	Total at 31 January 2019
Anthony Coombs	Shares	1,342,527	–	–	–	1,342,527
	LTIP		–	–	5,000	5,000
Graham Coombs	Shares	1,581,457	–	–	–	1,581,457
	LTIP		–	–	–	–
Chris Redford	Shares	16,000	–	–	–	16,000
	LTIP		–	7,500	–	7,500
Guy Thompson*	Shares	–	–	–	–	–
	LTIP		–	–	90,000	90,000
Non-executive directors						
Demetrios Markou	Shares	4,500	–	–	–	4,500
Graham Pedersen	Shares	–	–	–	–	–
Fiann Coombs	Shares	283,550	–	–	–	283,550
Tarek Khlat	Shares	–	–	–	–	–

*In addition Guy Thompson participates in a shadow share option plan, which will be satisfied in cash rather than shares so as not to further dilute existing shareholders whilst ensuring that the value delivered is linked to the Company's share price in order to retain long term alignment.

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

There have been no changes to the above shareholdings and share interests between the 31 January 2019 and the date of this report.

Shareholder vote on the 2018 Remuneration Report (this section is not subject to audit)

The table below shows the voting outcome at the 18 May 2018 AGM for the 2018 Directors Remuneration Report (advisory) and the 2018 Remuneration Policy for Executive Directors and Non-executive Directors (binding).

	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"
Annual Report on Remuneration	5,694,123	92.89	436,098	7.11	6,131,782	1,561
Remuneration Policy	5,655,407	92.25	474,815	7.75	6,131,783	1,561

The Remuneration Committee welcomed the passing of the resolutions 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 25 March 2019 and signed on its behalf by:

Tarek Khlat
Chairman of the Remuneration Committee
25 March 2019

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 and Mr T Khlat, who are all independent non-executive directors. Biographical details of these directors are set out on pages 16 and 17. The Committee is chaired by Mr D Markou. 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 2019 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 January 2019 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 and in accordance with the provisions of IFRS9 a collective provision is made for expected credit losses in the next 12 months 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 year end with the difference being the impairment provision.

In assessing the adequacy of the Motor Finance impairment provision the Audit Committee considers, reviews and challenges:

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 – Motor Finance – see also accounting policy 1.3 on page 53

Interest income is recognised in the income statement for all loans and receivables measured at amortised cost using the constant period rate of return on the net investment in the loan which is akin to an 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 IFRS16 credit charge income should be recognised using the constant periodic rate of return which requires management to make judgements relating to the inclusion of directly attributable costs and fees and the cash flows related thereto.

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.

As our Property Bridging Finance business is currently less material there were no issues and areas of judgement considered significant by the Committee in relation to Aspen Bridging.

B3 Governance (continued)

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, the lead Audit Partner was changed two years ago 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 required to put its Audit arrangements out to tender until January 2024. 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 including governing the external auditors' engagement for non-audit services. In line with rules for public interest entities the provision of tax compliance services was placed with KPMG with effect from 1 February 2017 and we also now use KPMG for guidance on directors remuneration and reporting matters. 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 £23,000 (2018: £42,000).

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
25 March 2019

B3.2 CORPORATE GOVERNANCE

2018 has seen the revision by the FRC (Financial Reporting Council) of the UK Corporate Governance Code, together with the issue in July of an accompanying Guidance on Board Effectiveness. These update the Provisions of the Code and the way in which they should be applied in supporting the code's Principles. Although these will not apply to S&U plc until the 2019/2020 financial year, we have felt it right to anticipate future obligations and reflect these in our Governance Statement this year.

NARRATIVE STATEMENT

The way in which we comply with the Code's Provisions, or explain where we do not is described below in the five areas of "Leadership, Effectiveness, Accountability, Remuneration and Relations with Stakeholders." In addition our Chairman's Statement provides guidance as to how we interpret the revised codes more flexible approach in giving clear reasons for any non-compliance within the provisions. The rationale for this includes a "Company's particular circumstances based on a range of factors, including the size, complexity, history and ownership structure."

In S&U's case this is always meant an identity of interest between controlling shareholders and the executive management of the Company. The requirement of the Code of Principles for Board's to "promote the long–term sustainability or success of the Company, generating value for shareholders and contributing to wider society" is sustained by this and by our consistent mantra of "steady, sustainable growth." Family investment and management has over the past 80 years been reflected in ambition for growth and for new markets buttressed by a conservative approach to risk, to treasury activities and to return on capital employed. The same culture is seen in "work force engagements" through employment stability, good communications and a streamlined, non bureaucratic, management structure, as a staple of S&U well before the Governance Code even existed.

This has inevitably meant some departure from the detailed Provisions of the Code which primarily focuses on larger companies, a more formal approach to employee relations, a shorter history to establish a proven responsible culture, and a divorce between equity and management. We have carefully explained the reasons for any departures and will hopefully, as the revised code requires, now see these considered by investors and their representatives "thoughtfully" and not evaluated in "a mechanistic way".

Leadership

During the year the Company was controlled through the Board of Directors which at 31 January 2019 comprised four executive and four non-executive directors. The Chairman is 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.

Under Provision 9 of the Code it is recommended that the Chairman should be independent on appointment and should not have previously served as Chief Executive of the Company. Mr. Anthony Coombs was appointed Chairman in 2008 as part of an established succession plan reflecting the Coombs family's majority holding in S&U, the identity of interest between management and shareholders and the consequence success of the Company. As explained above this has been (and is perceived by the investing community) as a significant strength in the responsible, long–term strategic approach to S&U's development.

Mr. Coombs now serves as Executive Chairman and his responsibilities as Managing Director have been transferred to the Managing Directors of Advantage Finance and Aspen Bridging.

The Board has a formal schedule of matters reserved to it and meets at least four 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 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

B3 Governance (continued)

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.**

Mr D Markou has served as a non-executive director on the Board for over 9 years. Notwithstanding this length of service the Board considers him to be independent due to his robust judgement and character and the invaluable balance and experience he has brought to the Board's deliberations. This experience is particularly important as the company transitions from IAS39 to IFRS9 and IFRS16 and consolidates its recent growth.

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 Khlat, a Banker, FCA Approved Person and Wealth Manager of great experience and expertise was appointed to the Board.

Mr 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. G Pedersen, comprises the independent non-executive directors and Mr. A.M.V. Coombs, Group Chairman. Audit and Remuneration Committees are made up of the three independent non-executive directors and chaired by Mr. D. Markou and Mr T. Khlat respectively.

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.

Directors have both the time and experience to fulfil their responsibilities and none sit on other PLC boards. The Nomination Committee advises the Board on refreshment and succession planning, whilst independent recruitment consultants are used for important executive roles. Whilst the Board notes the Code's focus on diversity, both Board and executive appointments are made purely on the basis of ability and temperament. irrespective of race, gender or sexual orientation.

Messrs AMV Coombs, GDC Coombs, CH Redford, JG Thompson, G Pedersen, F Coombs, T Khlat and D Markou being eligible offer themselves for re-election at the next Annual General Meeting. Mr T Khlat, 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.

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 7 to 9, 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 37 and those of the auditor on page 45.

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 including a review during the reporting period 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 overviews 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 58 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. 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 11 women hold 31% of senior management positions and women hold 65% of other employee positions and during the year no female directors served

B3 Governance (continued)

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 2019 is shown in the table below:

Meeting Attendance	Board	Nominations	Remuneration	Audit
Number of meetings	**5**	**1**	**2**	**3**
AMV Coombs	5	1	n/a	n/a
GDC Coombs	5	n/a	n/a	n/a
D Markou	5	1	2	3
G Pedersen	5	1	2	3
F Coombs	5	n/a	n/a	n/a
JG Thompson	5	n/a	n/a	n/a
T Khlat	5	n/a	2	3
CH Redford	5	n/a	n/a	n/a

on the Board.

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 page 18.

Relations with Stakeholders

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.

Members of the Board meet frequently with shareholders and conduct regular roadshows throughout the UK to present to current and future investors. Shareholder and Investor relations are managed by CAG, a specialist consultancy who issue regular reports on these activities.

Mutual commitment and loyalty between Company and its employees has underpinned S&U's 80 year history. Both its size, with 160 employees at Grimsby and 20 in Solihull and its family ethos ensure that the "employee voice" is heard and heeded. Regular appraisals and feedback meetings are held and internal promotion is encouraged. As a result staff retention rates are very high. Whistleblower Policies are in place at Advantage.

The size, history and culture of the company encourage participation of all directors and senior management and employee relations and make designated board members or workforce committees unnecessary.

B3.3 COMPLIANCE STATEMENT

Throughout the year ended 31 January 2019 the company has discharged and met its responsibilities under the Principles and Provisions of the 2018 UK Corporate Governance Code and under the guidance attached to it. Where it does not follow the code, "a clear rationale for the action" is taken instead.

Graham Pedersen
Chairman of the Nominations Committee
25 March 2019

B4. Directors' Report

B4. DIRECTORS' REPORT

The directors present their Annual Report and the audited financial statements for the year ended 31 January 2019.

The names of the directors who served during the year are shown in the directors biographies on page 16. All directors served for the full year to 31 January 2019.

Dividends

Dividends of £13,080,000 (2018: £11,377,000) were paid during the year.

After the year end a second interim dividend for the financial year of 35.0p per ordinary share (2018: 32.0p) was paid to shareholders on 15 March 2019.

The directors now recommend a final dividend, subject to shareholders approval of 51.0p per share (2018: 45.0p). This, together with the interim dividends of 67.0p per share (2018: 60.0p) already paid, makes a total dividend for the year of 118.0p per share (2018: 105.0p).

SUBSTANTIAL SHAREHOLDINGS

At 25 March 2019, 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	15.4%
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.

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.

Changes in accounting policies

As highlighted in previous announcements the Group has adopted IFRS9 financial instruments which was effective for the first time during the year ended 31 January 2019. In accordance with transitional provisions of the IFRS9 Standard, comparative periods have not been restated and therefore information for the year to 31 January 2018 and for the year to 31 January 2019 is not directly comparable.

Implementation of IFRS9 resulted in a £2.47m reduction in the Group's opening equity at 1 February 2018 being £3.05m net of £0.58m related to the associated tax impact. There has been no change in the carrying amount of financial instruments under IFRS9 on the basis of changes to their measurement categories. The £2.47m reduction is solely due to the replacement of the IAS39 incurred loss impairment approach with an expected credit loss approach under IFRS9.

B4 Directors' Report (continued)

As part of its transition to IFRS9 the Group has also early adopted IFRS16 Leases with effect from 1 February 2018 in advance of its normal effective date of 1 February 2019. The Group has elected to adopt the modified retrospective approach allowed under IFRS16 and as such there was no opening effect on equity as at 1 February 2018. For short term leases (lease terms of 12 months or less) and leases of low value assets the Group has opted to recognise a lease expense on a straight line basis as permitted by IFRS16. This expense is presented within Administrative expenses in the consolidated income statement. At 31 January 2019 the introduction of IFRS16 has resulted in a recognition of right of use assets of £265,000 and lease liabilities of £274,000. The introduction of IFRS16 also changes the revenue recognition accounting for our motor finance hire purchase contracts whereby the grossing up of revenue and impairment for uncharged interest on arrears now ceases. The effect of this on the income statement is to reduce revenue and impairment by £2.4m each for the year to 31 January 2019 and in tandem with IFRS9 impairment changes make historic impairment to revenue trends less directly comparable. The ceasing of this grossing up under IFRS16 has no effect on the risk adjusted yield measure which we have therefore also highlighted for comparative purposes. As any effect on revenue and impairment of grossing up was equal and opposite, the effect of this IFRS16 change on profit is £nil.

Post balance sheet events

As reported in the Chairman's Funding Review, the company has recently concluded a new £25m five year funding facility until March 2024.

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 and those of subsidiary company 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
25 March 2019

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 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
25 March 2019

Chris Redford
Group Finance Director
25 March 2019

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

Report on the audit of the financial statements

Opinion

In our opinion:

- **the financial statements of S & U plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 January 2019 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.**

We have audited the financial statements which comprise:

- the group income Statement;
- the statement of comprehensive income;
- the group and parent company balance sheets;
- the group and parent company statements of changes in equity;
- the group cash flow statement; and
- the related notes 1 to 26.

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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • loan loss provisioning • revenue recognition under IFRS 16 Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year identified with .
Materiality	The materiality that we used for the group financial statements was £1.7m which was determined on the basis of 5% of profit before tax.
Scoping	The Group is made up of the Parent Company of S&U Plc ('S&U'), the main trading entity Advantage Finance Limited ('Advantage') and Aspen Bridging Limited ('Aspen'). 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.

Independent Auditor's Report to the members of S&U Plc (continued)

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed 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 and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

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

Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on page 9 that describe the principal risks and explain how they are being managed or mitigated;
- 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; or
- 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 are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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.

Loan loss provisioning

Key audit matter description

IFRS 9 Financial Instruments is effective for the annual period beginning on 1 February 2018 for the group. This is a new and complex accounting standard which has required considerable judgement and interpretation in its implementation.

The group held loan loss provisions of £57.8 million (2018: £44.5 million in accordance with IAS 39) against amounts receivable from customers from motor finance of £316.8 million (2018: £295.7 million). The transition adjustment on adoption of IFRS 9 at 1 February 2018 was an increase of £3.0 million (resulting in a total provision of £47.5 million).

The assessment of the loan loss provision against amounts receivable from customers is complex and requires management to make significant judgements concerning Probability of Defaults ("PD's"), Loss Given Defaults ("LGD's") and requirement of any post-model overlays to be applied to the modelled provision including those related to the macroeconomic environment. These assumptions are informed using historical behaviour data.

In prior year we determined our key audit matter to be the completeness of the IBNR provision under IAS 39. In current year, under IFRS 9 and the expected credit loss model, we identified a key audit matter in relation to two areas. The first was the completeness and accuracy of post-model overlays in Advantage Finance Limited made by management to reflect instances where the historical data used to generate PD's and LGD's is not expected to reflect the prospective customer patterns. The second was in respect of the appropriateness of time period of the data set used to calculate PD's and LGD's.

Given the degree of judgement involved in determining key assumptions, we also identified that there is a potential for fraud through possible manipulation of this balance.

Management's associated accounting policies are detailed within note 1 on page 52 with detail about judgements in applying accounting policies and critical accounting estimates on pages 53 to 55 and within the Audit Committee report on page 29.

How the scope of our audit responded to the key audit matter

We first understood management's process and relevant controls around loan loss provisioning through discussions and walkthroughs, we then evaluated the design and implementation of the relevant controls.

We challenged the completeness and appropriateness of identified management overlays, through our understanding of the Group's loan book and the external environment and by reference to supporting calculations and industry updates.

We challenged management's key assumptions, including testing the accuracy of key aspects of the probability of default and loss given default calculation, through independent recalculation using underlying data for which we have tested the completeness and accuracy.

We challenged management's consideration of the future economic environment within the macroeconomic scenarios, including the potential effect of the withdrawal of the United Kingdom from the European Union by comparing modelled assumptions to publicly available data from the Office of National Statistics and comparable peer data.

We reconciled the loan loss provision models to the general ledger and substantively tested a sample of loans to assess whether the data used in the provision calculation was complete and accurate.

Key observations

Based on the evidence obtained, we found that the assumptions underpinning the loan loss provisioning model, including management overlays, were determined and applied appropriately and the recognised provision was reasonably stated.

Independent Auditor's Report to the members of S&U Plc (continued)

Revenue recognition under IFRS 16

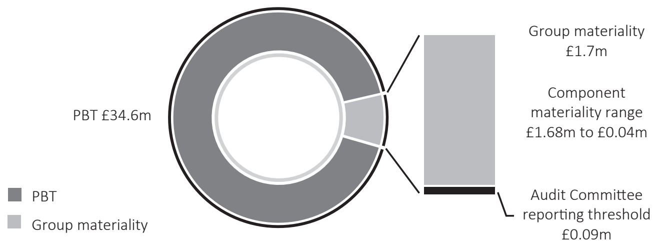
Key audit matter description	IFRS 16 Leases is effective for the annual period beginning on 1 February 2019 for the group, however this has been early adopted by management as part of the transition to IFRS 9 as at 1 February 2018. Recognising income under IFRS 16 on loans using a constant periodic rate of return on the net investment of the lease (akin to effective interest rate "EIR" under IAS 39) is a complex area. It requires management to make significant judgements relating to the inclusion of directly attributable costs/fees and the cash flows related thereto, with accounting entries generated using complex spreadsheet models. The group held an EIR adjustment of £11 million in relation to this matter against amounts receivable from customers from motor finance, which is being amortised over the lease term of the associated receivables. We have determined our key audit matter to be the initial implementation of IFRS 16 and management's assessment of any differences between the new standard and their current income recognition approach; whilst also ensuring that management has adequate customer data to be able to make their assessment. Given the degree of judgement involved in determining key assumptions, we also identified that there is a potential for fraud through possible manipulation of this balance. Management's associated accounting policies are detailed within note 1 on page 52 with detail about judgements in applying accounting policies and critical accounting estimates on pages 53 to 55 and within the Audit Committee report on page 29.
How the scope of our audit responded to the key audit matter	We first understood management's process and relevant controls around recognition of interest income through discussions and walkthroughs, we then evaluated the design and implementation of the relevant controls. We assessed requirements of IFRS 16 for identifying a lease and compared these requirements to broker and customer agreements to determine if they should be termed as leases. We also assessed the agreements to determine if they were operating leases or finance leases. We reviewed the ongoing treatment of fees and charges arising on receivables from customer and the appropriateness of their inclusion or exclusion in the group's EIR models and performed a reconciliation of the EIR adjustments within the model back to the general ledger. We substantively tested a sample of loans to assess whether the data used in the EIR calculation was complete and accurate. We also recalculated the EIR for a sample of loans. 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.
Key observations	The results of our testing were satisfactory and the underlying methodology used for the calculation of the adjustment is considered materially accurate in the context of the accounting policies and the requirements of the relevant accounting standards

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:

	Group financial statements	Parent company financial statements
Materiality	£1.7m (2018: £1.8m)	£1.0m (2018: £0.7m)
Basis for determining materiality	5% (2018: 6%) of profit before tax ('PBT').	Parent company materiality equates to 3% of equity, which is capped at 60% of group materiality. The prior year materiality was capped at 40% of Group materiality on the basis of the equity. In the current year we determined 60% cap to be a more appropriate basis.
Rationale for the benchmark applied	We determined materiality using profit before tax as we considered this to be the most appropriate measure to assess the performance of the Group. The decrease in basis of profit before tax from 6% to 5% is consistent with the basis of materiality that we use for similar peer organisations	Equity is used as the basis for materiality because the parent company is a non–trading entity, as such we consider equity to reflect its holding activities.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £86,400 (2018: £89,500), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

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.

The group is made up of the Parent Company of S & U plc ('S & U'), the main trading entity Advantage Finance Limited and Aspen Bridging Limited which started trading in February 2017.

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 (2018: 100%), 100% of the Group's revenue (2018: 100%) and 100% of the Group's profit before tax (2018: 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 £0.04m to £1.68m (2018: £0.2m to £1.8m).

C Independent Auditor's Report to the members of S&U Plc (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report including the strategic report and corporate governance report, other than the financial statements and our auditor's report thereon.

We have nothing to report in respect of these matters.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management and the audit committee, including obtaining and reviewing supporting documentation, concerning the group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
- the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including tax, pensions and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: loan loss provisioning and revenue recognition under IFRS 16; and
- obtaining an understanding of the legal and regulatory frameworks that the group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the group. The key laws and regulations we considered in this context included the UK Companies Act, listing rules and tax legislation.

C Independent Auditor's Report to the members of S&U Plc (continued)

Audit response to risks identified

As a result of performing the above, we identified loan loss provisioning and revenue recognition under IFRS 16 as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the audit committee and in–house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and FCA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non–compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- 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 group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or 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 in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 16 June 1998 to audit the financial statements for the year ending 31 January 1999 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 21 years, covering the years ending 31 January 1999 to 31 January 2019.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Use of our report

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.

Kieren Cooper (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
25 March 2019

D1 The Accounts
D1.1 Group Income Statement

For the year ended 31 January 2019

	Notes	2019 £000	2018 £000
Revenue	3	**89,215**	79,781
Cost of sales	4	**(38,937)**	(36,880)
Gross profit		**50,278**	42,901
Administrative expenses		**(11,177)**	(9,923)
Operating profit	6	**39,101**	32,978
Finance costs (net)	7	**(4,541)**	(2,818)
Profit before taxation	2	**34,560**	30,160
Taxation	9	**(6,571)**	(5,746)
Profit for the year attributable to equity holders		**27,989**	24,414
Earnings per share			
From continuing operations			
Basic	11	**233.2p**	203.8p
Diluted	11	**232.0p**	202.4p

Statement of Comprehensive Income

	Note	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Profit for the year attributable to equity holders		**27,989**	24,414	**10,547**	8,419
Actuarial loss on defined benefit pension scheme	26	**(15)**	(14)	**(15)**	(14)
Total Comprehensive Income for the year		**27,974**	24,400	**10,532**	8,405

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

D1.2 Balance Sheet

As at 31 January 2019

Company Registration No: 0342025

	Notes	**Group IFRS9 2019 £000**	Group IAS39 2018 £000	**Company 2019 £000**	Company 2018 £000
ASSETS					
Non current assets					
Property, plant and equipment	12	**2,296**	1,931	**422**	137
Investments	13	**–**	–	**533**	533
Amounts receivable from customers	14	**182,689**	178,597	**–**	–
Trade and other receivables	15	**–**	–	**135,000**	115,000
Deferred tax assets	18	**398**	487	**31**	63
		185,383	181,015	**135,986**	115,733
Current assets					
Amounts receivable from customers	14	**94,374**	83,459	**–**	–
Trade and other receivables	15	**1,055**	718	**47,800**	65,909
Cash and cash equivalents		**1**	1	**1**	408
		95,430	84,178	**47,801**	66,317
Total assets		**280,813**	265,193	**183,787**	182,050
LIABILITIES					
Current liabilities					
Bank overdrafts and loans	16	**(38)**	(991)	**(7)**	–
Trade and other payables	17	**(2,139)**	(2,549)	**(114)**	(94)
Current tax liabilities		**(3,995)**	(3,600)	**(219)**	(269)
Accruals and deferred income		**(550)**	(787)	**(145)**	(131)
		(6,722)	(7,927)	**(485)**	(494)
Non current liabilities					
Borrowings	16	**(108,000)**	(104,000)	**(108,000)**	(104,000)
Lease liabilities		**(274)**	–	**(230)**	–
Financial liabilities	20	**(450)**	(450)	**(450)**	(450)
		(108,724)	(104,450)	**(108,680)**	(104,450)
Total liabilities		**(115,446)**	(112,377)	**(109,165)**	(104,944)
NET ASSETS		**165,367**	152,816	**74,622**	77,106
Equity					
Called up share capital	19	**1,701**	1,699	**1,701**	1,699
Share premium account		**2,301**	2,289	**2,301**	2,289
Profit and loss account		**161,365**	148,828	**70,620**	73,118
Total equity		**165,367**	152,816	**74,622**	77,106

The parent company's profit for the financial year after taxation amounted to £10,547,000 (2018: £8,419,000)

These financial statements were approved by the Board of Directors on 25 March 2019.

Signed on behalf of the Board of Directors

AMV Coombs
Chairman

C Redford
Group Finance Director

D1.3 Statement of Changes in Equity

For the year ended 31 January 2019

Group	Called up share capital £000	Share premium account £000	Profit and loss account £000	Total equity £000
At 1 February 2017	1,695	2,281	135,491	139,467
Profit for year	–	–	24,414	24,414
Other comprehensive income for year	–	–	(14)	(14)
Total comprehensive income for year	–	–	24,400	24,400
Issue of new shares in year	4	8	–	12
Cost of future share based payments	–	–	317	317
Tax credit on equity items	–	–	(3)	(3)
Dividends	–	–	(11,377)	(11,377)
At 31 January 2018	1,699	2,289	148,828	152,816
Profit for year	–	–	27,989	27,989
Other comprehensive income for year	–	–	(15)	(15)
Total comprehensive income for year	–	–	27,974	27,974
Issue of new shares in year	2	12	–	14
Cost of future share based payments	–	–	203	203
IFRS9 receivables adjustment	–	–	(3,050)	(3,050)
Tax charge on equity items	–	–	490	490
Dividends	–	–	(13,080)	(13,080)
At 31 January 2019	1,701	2,301	161,365	165,367

Company	Called up share capital £000	Share premium account £000	Profit and loss account £000	Total equity £000
At 1 February 2017	1,695	2,281	76,016	79,992
Profit for year	–	–	8,419	8,419
Other comprehensive income for year	–	–	(14)	(14)
Total comprehensive income for year	–	–	8,405	8,405
Issue of new shares in year	4	8	–	12
Cost of future share based payments	–	–	98	98
Tax charge on equity items	–	–	(24)	(24)
Dividends	–	–	(11,377)	(11,377)
At 31 January 2018	1,699	2,289	73,118	77,106
Profit for year	–	–	10,547	10,547
Other comprehensive income for year	–	–	(15)	(15)
Total comprehensive income for year	–	–	10,532	10,532
Issue of new shares in year	2	12	–	14
Cost of future share based payments	–	–	82	82
Tax charge on equity items	–	–	(32)	(32)
Dividends	–	–	(13,080)	(13,080)
At 31 January 2019	1,701	2,301	70,620	74,622

D1.4 Cash Flow Statement

For the year ended 31 January 2019

	Note	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Net cash generated from/(used in) operating activities	22	**10,530**	(43,418)	**8,808**	(44,032)
Cash flows used in investing activities					
Proceeds on disposal of property, plant and equipment		**45**	37	**–**	10
Purchases of property, plant and equipment		**(830)**	(1,077)	**(386)**	(34)
Net cash used in investing activities		**(785)**	(1,040)	**(386)**	(24)
Cash flows (used in)/from financing activities					
Dividends paid		**(13,080)**	(11,377)	**(13,080)**	(11,377)
Issue of new shares		**14**	12	**14**	12
Receipt of new borrowings		**4,274**	56,000	**4,230**	56,000
Repayment of borrowings		**–**	–	**–**	–
Net (decrease)/increase in overdraft		**(953)**	(180)	**7**	(172)
Net cash (used in)/from financing activities		**(9,745)**	44,455	**(8,829)**	44,463
Net (decrease)/increase in cash and cash equivalents		**–**	(3)	**(407)**	407
Cash and cash equivalents at the beginning of year		**1**	4	**408**	1
Cash and cash equivalents at the end of year		**1**	1	**1**	408
Cash and cash equivalents comprise					
Cash and cash in bank		**1**	1	**1**	408

There are no cash and cash equivalent balances which are not available for use by either the Group or the Company (2018: £nil).

D2 Notes to the Accounts

Year ended 31 January 2019

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 78 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 2019. 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 and these have had no significant effect on the amounts reported in these financial statements with the exception of the standards and effects set out below:

As highlighted in previous announcements the Group has adopted IFRS9 financial instruments which was effective for the first time during the year ended 31 January 2019 – the main change in this standard for the group is to replace the IAS39 incurred loss impairment approach with an expected loss approach under IFRS9. In accordance with transitional provisions of the IFRS9 Standard, comparative periods have not been restated and therefore information for the year to 31 January 2018 and for the year to 31 January 2019 is not directly comparable.

Implementation of IFRS9 resulted in a £2.47m reduction in the Group's opening equity at 1 February 2018 being £3.05m net of £0.58m related to the associated tax impact. There has been no change in the carrying amount of financial instruments under IFRS9 on the basis of changes to their measurement categories. The £2.47m reduction is solely due to the replacement of the IAS39 incurred loss impairment approach with an expected credit loss approach under IFRS9.

At 1 February 2018 the Group has adopted IFRS 9 Financial Instruments which was effective for the first time during the year ended 31 January 2019 – this standard requires the Group to review fees, charges and other income for the purposes of calculating the effective interest rate on our loans. As part of its transition to IFRS9 the Group has also early adopted IFRS16 Leases with effect from 1 February 2018 in advance of its normal effective date of 1 February 2019. The Group has elected to adopt the modified retrospective approach allowed under IFRS16 and there was no opening effect on equity as at 1 February 2018. For short term leases (lease terms of 12 months or less) and leases of low value assets the Group has opted to recognise a lease expense on a straight line basis as permitted by IFRS16. This expense is presented within Administrative expenses in the consolidated income statement. The introduction of IFRS16 also changes a minor element of our accounting for our motor finance hire purchase contracts whereby the grossing up of revenue and impairment for uncharged interest on arrears now ceases. The effect of this on the income statement is to reduce revenue and impairment by £2.4m each for the year to 31 January 19 and in tandem with IFRS9 impairment changes make historic impairment to revenue trends less directly comparable. The ceasing of this grossing up under IFRS16 has no effect on the risk adjusted yield measure which we have therefore also highlighted for comparative purposes. As any effect on revenue and impairment of grossing up was equal and opposite, the effect of this IFRS16 change on profit is £nil.

Amendments to the Share–based payment standard IFRS2 and Annual Improvements to IFRS s: 2014–2016 Cycle – IFRS1 and IAS28 Amendments also became effective in the period commencing 1 February 2018 – they have no material impact on the Group. At the date of authorisation of these financial statements the directors anticipate that the adoption in future periods of any other Standards and interpretations which are in issue but not yet effective, will have no material impact on the financial statements of the Group.

1.3 Revenue recognition

Interest income is recognised in the income statement for all loans and receivables measured at amortised cost using the constant periodic rate of return on the net investment in the loans, which is akin to an effective interest rate (EIR) method. The EIR is the rate that exactly discounts estimated future cash flows of the loan back to the present value of the advance. Under IFRS16, credit charge income should be recognised using the EIR. Acceptance fees charged to customers and any direct transaction cost are included in the calculation of the EIR.

1.4 Impairment and measurement of amounts receivable from customers

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

The directors assess on an ongoing basis whether there is objective evidence that a loan asset or group of loan assets is impaired and requires a deduction for impairment. A loan asset or a group of loan assets is impaired only if there is objective evidence of credit impairment as a result of one or more events that occurred after the initial recognition of the loan. Objective evidence may include evidence that a borrower or group of borrowers is experiencing financial difficulty, 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. Under IFRS 9 for all accounts which are not credit impaired, a further collective provision for expected credit losses in the next 12 months is calculated and charged to the income statement.

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

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

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

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

Stage 3: Credit impaired

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

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

A PD/LGD model was developed by our Motor Finance business, Advantage Finance, to calculate the expected loss impairment provisions in accordance with IFRS9. Stage 1 expected losses are recognised on inception/initial recognition of a loan based on the probability of a customer defaulting in the next 12 months. This is determined with reference to historical data updated for current and future conditions. If a motor finance loan falls one month or more in contractual arrears then this is deemed credit impaired and included in IFRS9 Stage 3. There are some motor finance loans which are up to date with payments but the customer is in some form of forbearance and we deem this to be a significant increase in credit risk and so these loans are included in Stage 2.

D2 Notes to the Accounts (continued)

Year ended 31 January 2019

1. ACCOUNTING POLICIES (CONTINUED)

1.4 Impairment and measurement of amounts receivable from customers (Continued)

As required under IFRS9 the expected impact of movements in the macroeconomy is also reflected in the expected loss model calculations. For motor finance, assessments are made using forward looking external data regarding forecast future levels of employment, interest rates and used car values which may affect the customers' future propensity to repay their loan. The macroeconomic overlay assessments for 31 January 2019 reflect that further to considering such external macroeconomic forecast data and current uncertainties around Brexit, management have judged that there is currently a more heightened risk of an economic downturn. To factor in such uncertainties, management has included an overlay on the PD and LGD for certain groups of Stage 1 assets."

There were no significant changes to estimation techniques applied to the calculations used at 31 January 2019 and those used at 1 February 2018.

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

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.

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 Investments

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

1.11 Critical accounting judgements and key sources of estimation uncertainty

There are no key accounting judgements which the directors have made in the process of applying the Group's accounting policies. The directors consider that the sources of estimation uncertainty which have the most significant effect on the amounts recognised in the financial statements are those inherent in the consumer credit markets in which we operate relating to impairment as outlined in 1.4 above.

Measuring impairment in financial instruments is a key accounting judgement. The Group's impairment provision is dependent on management's forward looking judgements on areas such as interest rates, employment rates, and used car prices. The Group implemented IFRS 9 from 1 February 2018 by developing models to calculate expected credit losses in a range of economic scenarios. The key areas of judgement include setting modelling assumptions, weighting of economic scenarios, the criteria of determining significant deterioration in credit quality and the application of adjustments to model outputs.

1.12 Performance Measurements

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

ii. Rolling 12 month impairment to revenue % is the impairment charged in the income statement during the 12 months prior to the reporting date divided by the revenue for the same 12 month period. Historic comparisons using this measure are more affected by the adoption of new accounting standards IFRS9 and IFRS16 as referred to above.

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

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

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

D2 Notes to the Accounts (continued)

Year ended 31 January 2019

2. SEGMENTAL ANALYSIS

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

	Revenue		Profit before taxation	
Class of business	**Year ended 31.1.19 £000**	Year ended 31.1.18 £000	**Year ended 31.1.19 £000**	Year ended 31.1.18 £000
Motor finance	**86,372**	78,882	**33,640**	30,211
Property bridging finance	**2,843**	899	**838**	(298)
Central costs net of central finance income	**–**	–	**82**	247
	89,215	79,781	**34,560**	30,160

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

	Assets		Liabilities	
Class of business	**Year ended 31.1.19 IFRS9 £000**	Year ended 31.1.18 IAS39 £000	**Year ended 31.1.19 IFRS9 £000**	Year ended 31.1.18 IAS39 £000
Motor finance	**261,964**	253,971	**(172,039)**	(178,402)
Property bridging finance	**18,358**	10,975	**(17,961)**	(11,217)
Central	**491**	247	**74,554**	77,242
	280,813	265,193	**(115,446)**	(112,377)

Depreciation of assets for motor finance was £312,000 (2018: £251,000), for property bridging finance was £14,000 (2018: £9,000) and for central was £88,000 (2018: £34,000). Fixed asset additions for motor finance were £418,000 (2018: £999,000), for property bridging finance were £26,000 (2018: £44,000) and for central, including capitalisation of a right of use lease asset for head office premises, were £386,000 (2018: £35,000).

The net finance credit for central costs was £2,537,000 (2018: £2,626,000), for motor finance was a cost of £6,539,000 (2018: £5,307,000) and for property bridging finance was a cost of £539,000 (2018: £137,000). The tax charge for central costs was £35,000 (2018: £49,000), for motor finance was a tax charge of £6,377,000 (2018: £5,753,000) and for property bridging finance was a tax charge of £159,000 (2018: tax credit of £56,000).

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

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

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

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

3. REVENUE

	2019 £000	2018 £000
Interest and other income from motor finance hire purchase loans	**86,372**	78,882
Interest and other income from property bridging loans	**2,843**	899
Total revenue	**89,215**	79,781

4. COST OF SALES

	2019 £000	2018 £000
Loan loss provisioning charge – motor finance	**22,980**	19,434
Loan loss provisioning charge – property bridging finance	**206**	162
Total loan loss provisioning charge	**23,186**	19,596
Other cost of sales – motor finance	**15,298**	16,977
Other cost of sales – property bridging finance	**453**	307
Total cost of sales	**38,937**	36,880

5. INFORMATION REGARDING EMPLOYEES

	2019 No.	2018 No.
The monthly average number of persons employed by the Group in the year was:		
Motor finance	**161**	129
Property bridging finance	**6**	4
Central	**12**	13
	179	146

	2019 £000	2018 £000
Staff costs during the year (including directors):		
Wages and salaries	**7,060**	6,686
Social security costs	**682**	659
Pension costs for defined contribution scheme	**296**	261
	8,038	7,606

Figures above are for continuing operations only.

Directors' remuneration and details of the highest paid director are disclosed in the audited section of the Directors' Remuneration Report.

D2 Notes to the Accounts (continued)

Year ended 31 January 2019

6. OPERATING PROFIT

	2019 £000	2018 £000
Operating profit from continuing operations is after charging:		
Depreciation and amortisation:		
Owned assets	**414**	294
Staff costs	**8,038**	7,606
Cost of future share based payments	**203**	317
Loss on sale of fixed assets	**6**	5

The analysis of auditor's remuneration is as follows:

	2019 £000	2018 £000
Fees payable to the Group's auditor for the audit of the Company's annual accounts		
Fees payable to the Group's auditor for other services to the Group	**24**	23
The audit of the Company's subsidiaries	**98**	60
Total audit fees	**122**	83
Audit related assurance services	**23**	36
Tax compliance services	**–**	–
Other services	**–**	6
Total non-audit fees	**23**	42
Total	**145**	125

7. FINANCE COSTS (NET)

	2019 £000	2018 £000
31.5% cumulative preference dividend	**142**	142
Lease Liabilities	**4**	–
Bank loan and overdraft	**4,395**	2,676
Interest payable and similar charges	**4,541**	2,818
Interest receivable	**–**	–
	4,541	2,818

8. 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 £10,547,000 (2018: £8,419,000).

9. TAX ON PROFIT BEFORE TAXATION

Continuing Operations	2019 £000	2018 £000
Corporation tax at 19.2% (2018: 19.2%) based on profit for the year	**6,578**	5,800
Adjustment in respect of prior years	**(7)**	(5)
	6,571	5,795
Deferred tax (timing differences – origination and reversal)	**–**	(49)
	6,571	5,746

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.

	2019 £000	2018 £000
Profit on ordinary activities before tax from continuing operations	**34,560**	30,160
Tax on profit on ordinary activities at standard rate of 19.0% (2018: 19.2%)	**6,566**	5,781
Factors affecting charge for the period:		
Expenses not deductible for tax purposes	**55**	60
Effects of other tax rates and timing differences	**(43)**	(90)
Prior period adjustments	**(7)**	(5)
Total actual amount of tax	**6,571**	5,746

The main rate of corporation tax was reduced from 21% to 20% with effect from 1 April 2015 and from 20% to 19% with effect from 1 April 2017, therefore the tax rate applicable to the current period is a rate of 19.0% (2018: 19.2%).

Finance Bill 2016 provides that the tax rate will further reduce to 17% with effect from 1 April 2020. The effect of this proposed tax rate reduction will be reflected in future periods.

10. DIVIDENDS

	2019 £000	2018 £000
2nd Interim paid for the year ended 31/1/2018 – 32.0p per Ordinary share (28.0p)	**3,837**	3,350
Final paid for the year ended 31/1/2018 – 45.0p per Ordinary share (39.0p)	**5,403**	4,672
1st Interim paid for the year ended 31/1/2019 – 32.0p per Ordinary share (28.0p)	**3,843**	3,357
Total ordinary dividends paid	**13,083**	11,379
6% cumulative preference dividend paid March and September	**12**	12
Credit for unpresented dividend payments over 12 years old	**(15)**	(14)
Total dividends paid	**13,080**	11,377

A second interim dividend of 35.0p per ordinary share for the year ended 31 January 2019 was paid on 15 March 2019 and the directors are proposing a final dividend for the year ended 31 January 2019 of 51.0p per ordinary share. The final dividend will be paid on 12 July 2019 to shareholders on the register at close of business on 21 June 2019 subject to approval by shareholders at the Annual General Meeting on Thursday 23 May 2019.

D2 Notes to the Accounts (continued)

Year ended 31 January 2019

11. EARNINGS PER ORDINARY SHARE

The calculation of earnings per ordinary share from continuing operations is based on profit after tax of £27,989,000 (2018: £24,414,000).

The number of shares used in the basic eps calculation is the weighted average number of shares in issue during the year of 12,003,051 (2018: 11,978,685). There are a total of 133,834 dilutive share options in issue (2018: 148,601). The number of shares used in the diluted eps calculation is 12,065,970 (2018: 12,061,348).

12. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land and buildings £000	Motor vehicles £000	Fixtures and Fittings £000	Right to Use £000	Total £000
Cost or valuation					
At 1 February 2017	578	398	1,244	–	2,220
Additions	691	126	260	–	1,077
Disposals	(61)	(68)	(259)	–	(388)
At 31 January 2018	1,208	456	1,245	–	2,909
Additions	64	162	301	303	830
Disposals	(3)	(87)	(94)	–	(184)
At 31 January 2019	1,269	531	1,452	303	3,555
Accumulated depreciation					
At 1 February 2017	138	177	715	–	1,030
Charge for the year	27	79	188	–	294
Eliminated on disposals	(60)	(36)	(250)	–	(346)
At 31 January 2018	105	220	653	–	978
Charge for the year	46	91	239	38	414
Eliminated on disposals	(2)	(51)	(80)	–	(133)
At 31 January 2019	149	260	812	38	1,259
Net book value					
At 31 January 2019	1,120	271	640	265	2,296
At 31 January 2018	1,103	236	592	–	1,931

Included in the above is land at a cost or valuation of £22,000 (2018: £22,000) which is not depreciated.

Included in Right to Use assets above, are leases now capitalised under IFRS16 including the lease of our new head office premises.

Company	Freehold Land and Buildings £000	Motor vehicles £000	Fixtures and Fittings £000	Right to Use £000	Total £000
Cost or valuation					
At 1 February 2017	42	117	113	–	272
Additions	–	34		–	34
Disposals	–	(31)	–	–	(31)
At 31 January 2018	42	120	113	–	275
Additions	–	–	135	251	386
Disposals	–	–	(25)	–	(25)
At 31 January 2019	42	120	223	251	636
Accumulated depreciation					
At 1 February 2017	10	61	55	–	126
Charge for the year		20	13	–	33
Eliminated on disposals	–	(21)	–	–	(21)
At 31 January 2018	10	60	68	–	138
Charge for the year	1	15	38	34	88
Eliminated on disposals	–	–	(12)	–	(12)
At 31 January 2019	11	75	94	34	214
Net book value					
At 31 January 2019	31	45	129	217	422
At 31 January 2018	32	60	45	–	137

Included in the above is land at cost of £22,000 (2018: £22,000) which is not depreciated.

Included in Right to Use assets above, are leases now capitalised under IFRS16 including the lease of our new head office premises.

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

	Group		Company	
	2019 £000	2018 £000	**2019 £000**	2018 £000
	10	10	**10**	10

D2 Notes to the Accounts (continued)

Year ended 31 January 2019

13. INVESTMENTS AND RELATED PARTY TRANSACTIONS

Company	2019 £000	2018 £000
Shares in subsidiary companies		
At historic cost less impairment	**533**	533

Interests in subsidiaries

The principal subsidiaries of the Company, which are wholly owned directly by the Company, operate in Great Britain and are incorporated in England and Wales.

Subsidiary and Registered Number	Principal activity
Advantage Finance Limited (03773673)	Motor finance
Aspen Bridging Limited (10270026)	Property bridging finance

The following are wholly owned dormant subsidiaries of the group which take advantage of exemptions provided under s394a, s448a and s479a and do not prepare, file or have audited individual company accounts;

Advantage Motor Finance Limited (03773678), Advantage4u Limited (06691669), Advantage Direct Finance Limited (07037684), Advantage Partner Finance Limited (07036720), Advantage Asset Finance Limited (06691598), S&U Stores Limited (00448884), Communitas Finance Limited (05344125), Cash Kangaroo Limited (08435795), AE Holt Limited (00207302), EC Clothes Limited (00268965) and Wilson Tupholme Limited (00101451).

All dormant subsidiaries are directly owned by S&U plc with the exception of Advantage Motor Finance Limited and Communitas Finance Limited, which are indirectly wholly owned via Advantage Finance Limited.

All companies in the Group have their registered office at 2 Stratford Court, Cranmore Boulevard, Solihull B90 4QT.

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 26. During the year the Group made charitable donations amounting of £87,000 (2018: £89,000) 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 (2018: £nil). During the year the Group obtained supplies at market rates amounting to £5,713 (2018: £5,580) 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 £10,500,000 (2018: £8,200,000). 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 2019 the Company was owed £182,762,859 (2018: £180,863,631) by other Group undertakings as part of an inter company loan facility and owed £nil (2018: £nil). All related party transactions were settled in full when due.

14. AMOUNTS RECEIVABLE FROM CUSTOMERS

	Group	
	2019 IFRS9 £000	2018 IAS39 £000
Motor finance hire purchase	**316,655**	295,677
Less: Loan loss provision motor finance	**(57,845)**	(44,462)
Amounts receivable from customers motor finance	**258,810**	251,215
Property bridging finance loans	**18,621**	11,003
Less: Loan loss provision property bridging finance	**(368)**	(162)
Amounts receivable from customers property bridging finance	**18,253**	10,841
Amounts receivable from customers total	**277,063**	262,056
Analysis by future date due		
– Due within one year	**94,374**	83,459
– Due in more than one year	**182,689**	178,597
Amounts receivable from customers	**277,063**	262,056
Analysis of security		
Loans secured on vehicles under hire purchase agreements	**254,742**	247,994
Loans secured on property	**18,253**	10,841
Other loans not secured	**4,068**	3,221
Amounts receivable from customers	**277,063**	262,056
Analysis of overdue		
Not impaired		
Neither past due nor impaired	**231,393**	229,994
Past due up to 3 months but not impaired	**–**	–
Past due over 3 months but not impaired	**–**	–
Impaired		
Past due up to 3 months	**33,201**	24,192
Past due over 3 months and up to 6 months	**4,256**	2,894
Past due over 6 months or default	**8,213**	4,976
Amounts receivable from customers	**277,063**	262,056

The credit risk inherent in amounts receivable from customers is reviewed 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 contract 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 (2018: £nil).

14. AMOUNTS RECEIVABLE FROM CUSTOMERS (CONTINUED)

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

	Not Credit Impaired		Credit Impaired		
As at 31 January 2019	**Stage 1: Subject to 12 months ECL £'000**	**Stage 2: Subject to lifetime ECL £'000**	**Stage 3: Subject to lifetime ECL £'000**	**Total Provision £'000**	**Amounts Receivable £'000**
Motor finance	(12,685)	(71)	(45,089)	(57,845)	316,655
Property bridging finance	(131)	–	(237)	(368)	18,621
Total	(12,816)	(71)	(45,326)	(58,213)	335,276

	Not Credit Impaired		Credit Impaired		
As at 1 February 2018 On transition to IFRS9	**Stage 1: Subject to 12 months ECL £'000**	**Stage 2: Subject to lifetime ECL £'000**	**Stage 3: Subject to lifetime ECL £'000**	**Total Provision £'000**	**Amounts Receivable £'000**
Motor finance	(12,331)	(122)	(35,059)	(47,512)	295,677
Property bridging finance	–	–	(162)	(162)	11,003
Total	(12,331)	(122)	(35,221)	(47,674)	306,680

The above tables are prepared on an IFRS9 basis. In accordance with the transitional provisions of the standard comparatives have not been restated. Closing total loan loss provisions of £44.62m under IAS39 as at 31 January 2018 were carried forward as opening total loan loss provisions of £47.67m under IFRS9 at 1 February 2018 requiring an adjustment to opening equity before taxation of £3.05m as shown in the consolidated statement of changes in equity above.

	Not Credit Impaired		Credit Impaired	
Loan loss provisions	**Stage 1: Subject to 12 months ECL £'000**	**Stage 2: Subject to lifetime ECL £'000**	**Stage 3: Subject to lifetime ECL £'000**	**Total Provision £'000**
At 1 February 18 IAS39				44,624
Impact of IFRS9 adoption				3,050
At 1 February 18 IFRS9	12,331	122	35,221	47,674
Net transfers and changes in credit risk	(4,656)	(55)	16,137	11,426
New loans originated	5,348	29	6,383	11,760
Total impairment charge to income statement	**692**	**(26)**	**22,520**	**23,186**
Utilised provision on write-offs	(207)	(25)	(12,415)	(12,647)
At 31 January 2019 IFRS9	12,816	71	45,326	58,213

15. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Amounts owed by subsidiary undertakings	**–**	–	**182,763**	180,864
Other debtors	**483**	16	**7**	4
Prepayments and accrued income	**572**	702	**30**	41
	1,055	718	**182,800**	180,909

The amounts owed by subsidiary undertakings in the Company's balance sheet are stated net of impairment and, other than £0.0m of intercompany receivables from Advantage Finance Limited (2018: £nil) which are due within one year and £135.0m of intercompany receivables from Advantage Finance Limited (2018: £115.0m), 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.

16. BORROWINGS INCLUDING BANK OVERDRAFTS AND LOANS

	Group		Company	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Bank overdrafts and loans – due within one year	**38**	991	**7**	–
Bank and other loans – due in more than one year	**108,000**	104,000	**108,000**	104,000
	108,038	104,991	**108,007**	104,000

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 2019:

- a facility for £5 million (2018: £3m) which is subject to annual review in July 2019.
- a facility for £2 million (2018: £2m) which is subject to annual review in March 2020.

Total drawdowns of these overdraft facilities at 31 January 2019 were £38,333 (2018: £991,353).

S&U plc had the following revolving credit facilities available at 31 January 2019:

- a facility for £60 million (2018: 60m) which is due for repayment in March 2021.
- a facility for £25 million (2018: £25m) which is due for repayment in March 2021.

An additional new revolving credit facility for £25m was put in place after the yearend which is due for repayment in March 2024. The maturity on the £60m has also been extended to March 22 after the year end.

S&U plc had the following term loan facilities available at 31 January 2019:

- a facility for £25 million (2018: £15m) which is due for repayment in April 2021.
- a facility for £25 million (2018: £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 2019 was £7,704 overdrawn (2018: £nil).

A maturity analysis of the above borrowings is given in note 21.

D2 Notes to the Accounts (continued)

Year ended 31 January 2019

17. TRADE AND OTHER PAYABLES

	Group		Company	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Trade creditors	**442**	382	**33**	43
Other creditors	**1,697**	2,167	**81**	51
	2,139	2,549	**114**	94

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

18. DEFERRED TAX

Group	Accelerated tax depreciation £000	Share-based payments £000	Retirement benefit obligations £000	Total £000
At 1 February 2017	(50)	491	–	441
Credit/(debit) to income	(10)	59	–	49
Credit to equity	–	(3)	–	(3)
At 31 January 2018	(60)	547	–	487
(Debit)/credit to income	(38)	38	–	–
Charge to equity	–	(89)	–	(89)
At 31 January 2019	(98)	496	–	398

Company	£000	£000	£000	£000
At 1 February 2017	(5)	66	–	61
Credit to income	7	19	–	26
Charge to equity	–	(24)	–	(24)
At 31 January 2018	2	61	–	63
Credit to income	(15)	15	–	–
Charge to equity	–	(32)	–	(32)
At 31 January 2019	(13)	44	–	31

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 2019.

19. CALLED UP SHARE CAPITAL AND PREFERENCE SHARES

	2019	2018
	£000	£000
Called up, allotted and fully paid		
12,011,426 Ordinary shares of 12.5p each (2018: 11,990,159)	**1,501**	1,499
200,000 6.0% Cumulative preference shares of £1 each	**200**	200
Called up share capital	**1,701**	1,699

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.

20. FINANCIAL LIABILITIES

Preference Share Capital	2019 £000	2018 £000
Called up, allotted and fully paid		
3,598,506 31.5% Cumulative preference shares of 12.5p each (2018: 3,598,506)	**450**	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.

21. 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 2019 the Group's indebtedness amounted to £108,038,000 (2018: £104,991,000) and the Company's indebtedness amounted to £108,000,000 (2018: £104,000,000). The Group gearing was 65.3% (2018: 68.7%), 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 2019 of £27.0m (2018: £11.0m). 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 2019 was estimated to be 30% (2018: 31%). The Company had no financial assets at 31 January 2018 or 31 January 2019. The average effective interest rate of financial liabilities of the Group at 31 January 2019 was estimated to be 4% (2018: 4%). The average effective interest rate on financial liabilities of the Company at 31 January 2019 was estimated to be 4% (2018: 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. The credit risk is also mitigated in the bridging property finance segment of our business by ensuring that the valuation of the security at origination of the loan is rigorously assessed and is within loan to value 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.

D2 Notes to the Accounts (continued)

Year ended 31 January 2019

21. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk

The Group's activities expose it to the financial risks of changes in interest rates and the Group uses 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. The Group has low gearing for its sector and the directors consider a 0.5% and a 1% movement in interest rates to reflect the UK interest rate environment and to be appropriate for sensitivity analyses. 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 2019 would decrease/increase by £0.5million (2018: decrease/increase by £0.4million). This is mainly attributable to the Group's exposure on its variable rate borrowings.
- total equity would decrease/increase by £0.4million (2018: decrease/increase by £0.3million). 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 2019 would decrease/increase by £1.0million (2018: decrease/increase by £0.7million). This is mainly attributable to the Group's exposure on its variable rate borrowings.
- total equity would decrease/increase by £0.8million (2018: decrease/increase by £0.6million). This is mainly attributable to the Group's exposure on its variable rate borrowings.

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 2019 the Group gearing level was 65.3% (2018: 68.7%) 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 (2018: £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. Management review and manage the maturity of borrowing facilities appropriately. Most of the Group's financial assets are repayable anyway within two years which together with net gearing of just over 65% 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
At 31 January 2019						
Financial assets	94,374	56,810	125,879	–	–	277,063
Other assets	–	–	–	–	3,749	3,749
Cash at bank and in hand	1	–	–	–	–	1
Total assets	94,375	56,810	125,879	–	3,749	280,813
Shareholders' funds	–	–	–	–	(165,367)	(165,367)
Bank overdrafts and loans	(38)	–	(108,000)	–	–	(108,038)
Lease liabilities	(57)	(57)	(160)	–	–	(274)
Financial liabilities	–	–	–	(450)	–	(450)
Other liabilities	–	–	–	–	(6,684)	(6,684)
Total liabilities and shareholders' funds	(95)	(57)	(108,160)	(450)	(172,051)	(280,813)
Cumulative gap	**94,280**	**151,033**	**168,752**	**168,302**	**–**	**–**

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
At 31 January 2018						
Financial assets	83,459	54,732	123,865	–	–	262,056
Other assets	–	–	–	–	3,136	3,136
Cash at bank and in hand	1	–	–	–	–	1
Total assets	83,460	54,732	123,865	–	3,136	265,193
Shareholders' funds	–	–	–	–	(152,816)	(152,816)
Bank overdrafts and loans	(991)	–	(104,000)	–	–	(104,991)
Financial liabilities	–	–	–	(450)	–	(450)
Other liabilities	–	–	–	–	(6,936)	(6,936)
Total liabilities and shareholders' funds	(991)	–	(104,000)	(450)	(159,752)	(265,193)
Cumulative gap	**82,469**	**137,201**	**157,066**	**156,616**	**–**	**–**

D2 Notes to the Accounts (continued)

Year ended 31 January 2019

21. FINANCIAL INSTRUMENTS (CONTINUED)

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
At 31 January 2019						
Other assets	–	–	135,000	–	48,786	183,786
Cash at bank and in hand	1	–	–	–	–	1
Total assets	1	–	135,000	–	48,786	183,787
Shareholders' funds	–	–	–	–	(74,622)	(74,622)
Bank overdrafts and loans	–	–	(108,000)	–	–	(108,000)
Financial liabilities	–	–	–	(450)	–	(450)
Lease liabilities	(42)	(42)	(146)	–	–	(230)
Other liabilities	–	–	–	–	(485)	(485)
Contingent liabilities	(31)	–	–	–	–	(31)
Total liabilities and shareholders' funds	(73)	(42)	(108,146)	(450)	(75,107)	(183,818)
Cumulative gap	**(72)**	**(114)**	**26,740**	**26,290**	**(31)**	**(31)**

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
At 31 January 2018						
Other assets		–	115,000		66,642	181,642
Cash at bank and in hand	408	–	–	–	–	408
Total assets	408	–	115,000		66,642	182,050
Shareholders' funds	–	–	–	–	(77,106)	(77,106)
Bank overdrafts and loans		–	(104,000)		–	(104,000)
Financial liabilities	–	–	–	(450)	–	(450)
Other liabilities	–	–	–	–	(494)	(494)
Contingent liabilities	(1,399)	–	–	–	–	(1,399)
Total liabilities and shareholders' funds	(1,399)	–	(104,000)	(450)	(77,600)	(183,449)
Cumulative gap	**(991)**	**(991)**	**10,009**	**9,559**	**(1,399)**	**(1,399)**

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
At 31 January 2019						
Bank overdrafts and loans	38	–	–	–	–	38
Trade and other payables	–	2,139	–	–	–	2,139
Tax liabilities	–	3,995	–	–	–	3,995
Accruals and deferred income	–	550	–	–	–	550
Borrowings	–	–	–	108,000	–	108,000
Lease liabilities	–	57	57	160	–	274
Financial liabilities	–	–	–	–	450	450
At 31 January 2019	38	6,741	57	108,160	450	115,446

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
At 31 January 2018						
Bank overdrafts and loans	991		–	–	–	991
Trade and other payables	–	2,549	–	–	–	2,549
Tax liabilities	–	3,600	–	–	–	3,600
Accruals and deferred income	–	787	–	–	–	787
Borrowings	–	–	–	104,000		104,000
Financial liabilities	–	–	–	–	450	450
At 31 January 2018	991	6,936	–	104,000	450	112,377

21. FINANCIAL INSTRUMENTS (CONTINUED)

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
At 31 January 2019						
Bank overdrafts and loans	7	–	–	–	–	7
Trade and other payables	–	114	–	–	–	114
Tax liabilities	–	219	–	–	–	219
Accruals and deferred income	–	145	–	–	–	145
Borrowings	–	–	–	108,000	–	108,000
Lease liabilities	–	42	42	146	–	230
Financial liabilities	–	–	–	–	450	450
At 31 January 2019	7	520	42	108,146	450	109,165

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
At 31 January 2018						
Bank overdrafts and loans			–	–	–	–
Trade and other payables	–	94	–	–	–	94
Tax liabilities	–	269	–	–	–	269
Accruals and deferred income	–	131	–	–	–	131
Borrowings	–	–	–	104,000		104,000
Financial liabilities	–	–	–	–	450	450
At 31 January 2018		494	–	104,000	450	104,944

22. RECONCILIATION OF OPERATING PROFIT TO NET CASH USED IN OPERATING ACTIVITIES

	Group 2019 £000	Group 2018 £000	**Company 2019 £000**	Company 2018 £000
Operating Profit	**39,101**	32,978	**8,046**	5,841
Finance costs paid	**(4,541)**	(2818)	**(146)**	(142)
Finance income received	**–**	–	**2,682**	2,768
Tax paid	**(5,597)**	(5,299)	**(85)**	46
Depreciation on plant, property and equipment	**414**	294	**88**	33
Loss on disposal of plant, property and equipment	**6**	5	**13**	
Decrease in investment	**–**	–	**–**	1,418
Increase in amounts receivable from customers	**(18,057)**	(68,527)	**–**	–
Increase in trade and other receivables	**(337)**	(115)	**(1,891)**	(54,040)
Increase/(decrease) in trade and other payables	**(410)**	540	**20**	(81)
(Decrease)/increase in accruals and deferred income	**(237)**	(779)	**14**	41
(Decrease)/Increase in cost of future share based payments	**203**	317	**82**	98
Movement in retirement benefit asset/obligations	**(15)**	(14)	**(15)**	(14)
Net cash used in operating activities	**10,530**	(43,418)	**8,808**	(44,032)

23. FINANCIAL COMMITMENTS

Capital commitments

At 31 January 2019 and 31 January 2018, the Group and Company had no capital commitments contracted but not provided for.

24. CONTINGENT LIABILITIES

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 2019 was £30,629 (2018: £1,399,186).

25. SHARE BASED PAYMENTS

The Company 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 2019**	Number Of Share Options 2018
Outstanding at beginning of year	**148,001**	174,668
Granted during the year	**10,000**	–
Lapsed during the year	**(3,500)**	–
Exercised during the year	**(20,667)**	(26,667)
Expired during the year	**–**	–
Outstanding at end of year	**133,834**	148,001
Exercisable at end of year	**95,000**	5,000

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

The weighted average remaining contractual life of the share options is 6 months (2018: 11 months).

The Group recognised total share based payment expenses for LTIP of £203,000 in the year to 31 January 2019 (2018: £317,000).

D2 Notes to the Accounts (continued)

Year ended 31 January 2019

26. 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 2016. At that valuation it was assumed that the appropriate post retirement discount rate was 1.90% and pension increases would be 3.35% 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 2019. 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 2019 is £nil.

Disclosures made in accordance with IAS 19

A full actuarial valuation was carried out at 31 March 2016 and updated to 31 January 2019 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 2019	At year end 31 January 2018
Rate of increase in salaries	**n/a**	n/a
Pension increases:		
Pre-97 Pension	**0.0%**	0.0%
Post-97 Pension	**3.2%**	3.2%
Discount rate	**2.3%**	2.4%

Mortality assumption for 31 January 2019 comes from the S2PA tables with CMI–20176 1.25% long term trend and for 31 January 2018 mortality assumption was from the S2PA tables with CMI–2016 1.25% long term trend.

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 2019 £000	Proportion held at 31 January 2018 £000
Equities	**49%**	79%
Bonds	**25%**	13%
Cash/Other	**26%**	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 19 £000	Jan 18 £000
Fair value of plan assets	**1,093**	1,151
Present value of defined benefit obligations	**(517)**	(533)
Surplus before restriction	**576**	618
Restriction on Surplus	**(576)**	(618)
Pension asset	**0**	0

The amount recognised in the income statements during the year

	Jan 19 £000	Jan 18 £000
Current service cost	**–**	–
Interest on obligation	**12**	15
Expected return on plan assets	**(27)**	(29)
Expense recognised in the income statement	**(15)**	(14)
Opening net (asset)	**–**	–
Expense	**(15)**	(14)
Contributions paid	**–**	–
Actuarial loss	**15**	14
Closing net (asset)	**0**	0

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

	Jan 19 £000	Jan 18 £000
Movement in present value of obligation		
Present value of obligation at 1 February	**533**	644
Interest cost	**12**	15
Current service cost	**–**	–
Benefits paid	**(41)**	(127)
Actuarial (gain)/loss on obligation – assumptions	**1**	(17)
Actuarial loss on obligation – experience	**12**	18
Present value of obligation at 31 January	**517**	533
Experience adjustment on scheme liabilities		
Actuarial (gain)/loss as percentage of scheme liabilities	**2%**	3%
Movement in fair value of plan assets		
Fair value of plan assets at 1 February	**1,151**	1180
Expected return on plan assets	**27**	29
Contributions	**–**	–
Benefits paid	**(41)**	(127)
Actuarial gain on plan assets	**(44)**	69
Fair value of plan assets at 31 January	**1,093**	1,151
Experience adjustment on assets		
Actuarial (gain)/loss as percentage of scheme assets	**(4%)**	6%

Five Year Financial Record

Continuing Operations Only	2015 IAS 39 £000	2016 IAS39 £000	2017 IAS39 £000	2018 IAS39 £000	**2019 IFRS9 £000**
Revenue	36,102	45,182	60,521	79,781	**89,215**
Cost of Sales	(6,674)	(8,980)	(12,871)	(17,284)	**(15,751)**
Impairment	(5,863)	(7,611	(12,194)	(19,596)	**(23,186)**
Administrative Expenses	(7,120)	(7,340)	(8,585)	(9,923)	**(11,177)**
Operating profit	16,445	21,251	26,871	32,978	**39,101**
Finance Costs (net)	(1,680)	(1,782)	(1,668)	(2,818)	**(4,541)**
Profit before taxation	14,765	19,469	25,203	30,160	**34,560**
Taxation	(2,920)	(3,583)	(4,861)	(5,746)	**(6,571)**
Profit for the year from continuing operations	11,845	15,886	20,342	24,414	**27,989**
Assets employed in all operations					
Fixed assets	2,406	1,149	1,190	1,931	**2,062**
Amounts receivable and other assets	142,953	164,407	194,577	263,262	**278,751**
Total Assets	145,359	165,556	195,767	265,193	**280,813**
Liabilities	(63,895)	(37,300)	(56,300)	(112,377)	**(115,446)**
Total equity	81,464	128,256	139,467	152,816	**165,367**
Earnings per Ordinary share from continuing operations	100.1p	133.6p	170.7p	203.8p	**233.2p**
Earnings per Ordinary share from continuing and discontinued operations	156.0p	581.9p	170.7p	203.8p	**233.2p**
Dividends declared per Ordinary share	66.0p	76.0p	91.0p	105.0p	**118.0p**
Group gearing	65.8%	9.3%	35.3%	68.7%	**65.3%**

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

Financial Calendar

Annual General Meeting			23 May 2019
Announcement of results	Half year ending 31 July 2019		24 September 2019
	Year ending 31 January 2020		March 2020
Payment of dividends	6% Cumulative preference shares		30 September 2019 & 31 March 2020
	31.5% Cumulative preference shares		31 July 2019 & 31 January 2020
	Ordinary shares	— 2018/2019 Final	12 July 2019
		Ex dividend Date	20 June 2019
		Record Date	21 June 2019
		— 2019/2020 First interim	November 2019
		— 2019/2020 Second interim	March 2020

Directions to our AGM

Annual General Meeting, Nuthurst Grange Country House Hotel, 23 May 2019 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.

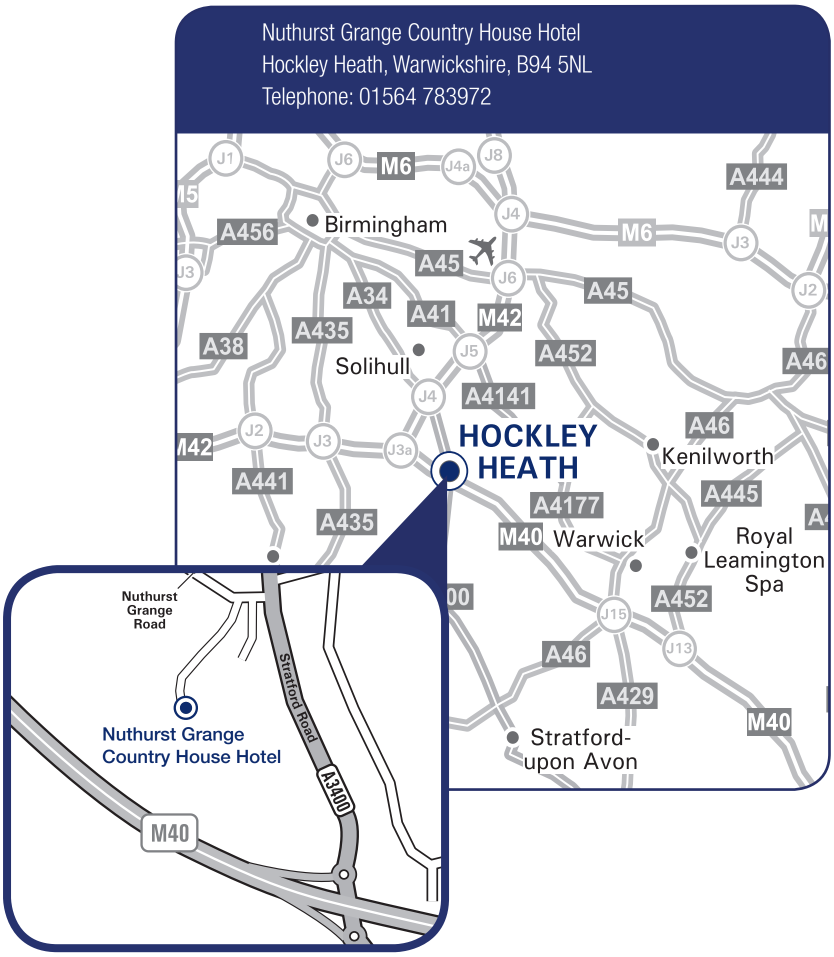
The entrance to the hotel is on the left-hand side (see map)

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”.



Officers and Professional Advisors

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- Advantage Finance)
D Markou MBE FCA (Non-executive)
G Pedersen (Non-executive)
T Khlat (Non-executive)
F Coombs BA (Lon) MSc (Lon) (Non-executive)

Secretary

C H Redford ACA

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