9 April 2024

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

PRELIMINARY UNAUDITED RESULTS FOR THE YEAR ENDED 31 JANUARY 2024

S&U plc (LSE: SUS), the motor finance and specialist lender, today announces its preliminary results for the year ended 31 January 2024.

Group Key Financials:

- Revenue increased by 12% to £115.4m (2023: £102.7m)
- Profit before tax ("PBT"): £33.6m (2023: £41.4m)
- Group net receivables at year-end increased by 10% to £462.9m (2023: £420.7m)
- Group impairment charge of £24.2m (2023: £13.9m) reflecting increased motor arrears during H2
- Group net finance costs at £15.0m (2023: £7.5m) on higher borrowings and increased base rates this year
- Basic earnings per share: 209.2p (2023: 277.5p)
- Final dividend of 50p per ordinary share to be paid on 12 July 2024 (2023: 60p)
- Net Borrowings at £224.4m (2023: £192.4m) – gearing at 95.8% (2023: 85.5%)

Advantage Motor Finance Highlights:

- Revenue increased by 9% to £98.2m (2023: £89.8m)
- PBT: £28.8m (2023: £37.2m)
- Impairment charge: £23.3m (2023: £12.9m) reflecting increased arrears during H2
- Live monthly repayments at 92.1% of due (2023: 93.6%)
- Annual net advances: £175.9m (2023: £186.6m)
- Net receivables at year end at £332.5m (2023: £306.8m)

Aspen Bridging Highlights:

- Revenue increased by 34% to £17.3m (2023: £12.9m)
- PBT: £4.8m (2023: £4.5m)
- Annual PBT performance underpinned by good advances at sensible Loan to Values
- Good repayments this year and impairment charge remains low at £0.9m (2023: £1.0m)
- Amounts receivable from customers now £130.4m (2023: £113.9m)

Anthony Coombs, Chairman of S&U plc stated:
"Enthusiastic and supportive customers underpin S&U's long success and guarantee its future. Current trends, both at Advantage and Aspen, prove that S&U has an abundance of these and trading since our year-end is encouraging. Of course, challenges remain. As Marcus Aurelius, a second century Roman Emperor and Stoic philosopher once said, "sometimes the art of living is more like wrestling than dancing". Confident in our people, business philosophy and the markets we serve so well, we wrestle on."

For further information, please contact:

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A conference call presentation for analysts will be held on 9th April 2024 at 9.30am

CHAIRMAN'S REVIEW

Introduction

Times of change and contrasting fortune often bring out the best in people. The past year has been such a time. After a first half which saw profit before tax ahead of both 2022/23 and budget, a combination of prolonged and raised interest rates, a British economy sliding towards recession and, most of all, a flurry of regulatory activity has seen profits for the year as a whole at £33.6m against £41.4m (the highest normalised profit in S&U's history) last year.

Whilst short of the "emerging opportunities" we foresaw a year ago, the results do not do justice to the solid underlying trading of the Group, nor to the sterling efforts of our staff. Working as always together, they will continue to ensure that we shall overcome short-term challenges and restore S&U to its habitual path of steady and sustainable growth.

The strength of S&U's trading is demonstrated by Group revenue this year at £115.4m (2023: £102.7m) and record equity of £234.2m (2023: £224.9m). Customer numbers in both Advantage, our Grimsby-based motor finance provider, and at Aspen our property financier in Solihull, are at a record. So are the Group total repayments they produce of nearly £370m, up 18.5% on 2023. Net receivables for S&U have now reached a best ever £462.9m, and Aspen has recently attained the £500m mark for lending over its seven-year history.

That growth has occurred whilst preserving sustainable quality. Our repayments are one indicator of our historically good relations with our valued customers. Thus, despite what we anticipate to be a temporary hiatus in the last quarter, Advantage live monthly repayments as percent of due finished at 92.1% for the year (2023: 93.6%) with bad debt and voluntary termination write-offs remaining within budget and just under 10% more than last year. Meanwhile, not only were Aspen's profits at a record £4.8m (2023: £4.5m) but its total repayments reached £144.4m for the first time, with just 15 loans beyond term at year end.

Financial Highlights*

	2024	2023
Revenue:	£115.4m	£102.7m
Profit before tax ("PBT"):	£33.6m	£41.4m
Earnings per share ("EPS")	209.2p	277.5p
Group net assets:	£234.2m	£224.9m
Group gearing*:	95.8%	85.5%
Group total repayments*:	£369.8m	£311.9m
Dividend proposed:	120p per ordinary share	133p

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

Advantage Finance ("Advantage")

The contrast between the very creditable trading record mentioned in my introduction and the results we announce at Advantage can be explained in two ways. The first is a persistently higher level of borrowing costs as books have grown and interest rates remained higher than anticipated. As a result, on Advantage year-end borrowings £18m higher than last year, interest payable has risen by £4.4m for the year as a whole.

Second, and even more significant, there has been an upsurge over the past months in regulatory activity by the Financial Conduct Authority involving inquiries into Advantage alongside, we understand, the majority of firms in the motor lending industry. One such current inquiry is into the linking of interest rates charged to customers to the level of commission paid by lenders to broker introducers. Happily, Advantage is not involved since it has never engaged in this practice which would cut across its long-standing model of matching rate to risk.

However, another FCA inquiry focusing on affordability, forbearance and vulnerable customers has been initiated by the FCA across the industry to ease the perceived burden of a prolonged period of cost-of-living increases. This FCA inquiry has increased Advantage's costs and inhibited both the range of products we offer our customers, and our ability to sensibly help them maintain their loan repayments - which bolsters their future credit rating.

These inquiries should not detract from the underlying strength of Advantage's results and business model. Receivables have reached a record £332.5m (2023: £306.8m) and revenue is up to a record £98.2m (2023:

£89.8m). Total new deal numbers were over 21,500, which was on budget. Live monthly repayments were a record £172.1m representing 92.1% of due for the year (2023: 93.6%). Total deal numbers written off to bad debt were 3717 of a total c. 65,000 on the books, under budget, but up 540 on a year ago and 74% of customers were up to date at year end, against 77.6% a year ago.

Those fundamental strengths were not reflected in Advantage's PBT of £28.8m for two reasons. The first is that provisions prudently made on an IFRS9 estimate of future cash flows have increased by £8.2m on last year. Whether these prove overcautious or otherwise will be evident as the year progresses. The second relates to additional costs incurred as a result of the FCA's inquiries in "professional fees" as well as an increase in base rate driving extra finance costs in Advantage of over £4m on last year. Both are not expected to persist.

More widely than just at Advantage, on an industry wide basis, this recent upsurge in regulation has a number of important characteristics and implications.

Before delving into the specifics, it's essential to acknowledge that S&U endorses the FCA's objectives aimed at enhancing the consumer experience, safeguarding customers from the infrequent but possible negligence within the finance sector and assisting individuals in navigating challenges that may arise during the tenure of their loan. We have consistently maintained that lending is not a win-lose scenario, and believe that transparent, straightforward, and mutually agreed-upon regulations serve the best interests of both the customer and the lender. This perspective aligns with the FCA's additional responsibilities to uphold the integrity of the UK's financial system and to foster competitive practices that benefit consumers. By fulfilling these roles, the FCA, along with other regulatory bodies, can more effectively meet its broader mandate to support the international competitiveness and growth of the UK economy.

This includes efforts to broaden access to credit for all consumer segments, particularly those often categorized as non-prime by traditional financial standards. Such initiatives can stimulate consumption, which constitutes a significant portion of overall demand, thereby driving economic expansion.

In recent years, a notable trend has emerged contrary to expectations. The workforce of the FCA has expanded to 4,289 employees, an increase of 1,100 in the last year, paralleled by a substantial contraction in credit availability. A February report by Clearscore, a data provider and credit scorer, in collaboration with Ernst and Young, highlights a marked decrease in the availability of debt products for non-standard customers over the last twelve years. Specifically, the non-prime market has seen a reduction of more than 30% since 2019. Consequently, Clearscore/E&Y estimates indicate that the number of people whose credit needs are not met has risen from 12 to 13 million in 2018 to 16 to 17 million. This has led to a greater reliance on illegal money lending.

The report by Clearscore and E&Y also notes the inherent challenges in regulation, which must consider the 'fairness' of outcomes for customers in diverse situations. This has been reflected in the FCA's continuous issuance of guidance, including the recent introduction of an outcome-based consumer duty. This approach, often based on retrospective assessment, introduces a degree of uncertainty regarding customer relationships, which in the case of Advantage, have been established and refined over 25 years. Unintended consequences may include a dampening effect on innovation and the introduction of new products. Furthermore, there has been a notable decrease in industry capital, with Ernst & Young estimating a reduction of £2 billion in recent years, as funders grow cautious due to concerns about repayment reliability.

Additionally, imposing restrictions on customers' ability to address their arrears, in pursuit of comprehensive and sometimes intrusive affordability assessments, may inadvertently lead to a preventable worsening of their credit scores.

Central to ensuring consistent and equitable outcomes for customers is the precise definition of terms such as 'affordability' and 'vulnerability', which are inherently subjective and fluctuate over time, particularly in an inflationary environment where the lines between 'essential' and 'discretionary' spending may become indistinct.

In efforts to clarify these critical issues, Advantage actively collaborates with regulators, prioritizing the long-term interests of its customers. The company takes pride in its high customer satisfaction ratings, evidenced by a 4.7 out of 5 score on FEEFO and Trustpilot, and remains committed to offering a spectrum of forbearance options to assist customers facing payment challenges, ensuring they can continue to use their vehicles whenever feasible.

Advantage's strap line for new customers is "We see more than your score" an initial assessment which goes alongside Advantage's traditional aim to improve a customer's credit rating following the successful repayment of their loan. Since a typical 'non-prime' customer has experience of credit arrears and often default in the years prior to application, this is an approach many customers find comforting and valuable as Advantage testimonials show. Almost all can improve their credit score following successful repayment of an Advantage loan.

Preparations for the Consumer Duty at Advantage last summer were thorough. Readiness for the new Duty was overseen by independent legal advisers and then reviewed by RSM, S&U's internal auditors. Moreover, a previous FCA review of affordability at Advantage had been deemed satisfactory.

In response to ongoing concerns regarding the cost of living and its declared objective to "deliver quantifiable consumer benefits," the FCA has launched comprehensive inquiries across the industry, affecting approximately two-thirds of non-prime motor finance companies. In anticipation of the findings, Advantage has consented to specific limitations on its repayment processes. These modifications have temporarily influenced monthly repayments and recovery efforts. However, following constructive dialogues with the regulatory body, these measures are being thoughtfully adjusted to ensure flexibility and effectiveness.

As the motor finance industry transitions to new modes of regulation and evolving assurance of fair customer outcomes, it is to be expected that the mutual learning and understanding between firms and regulator will cause some temporary disruption. In future however, Advantage expects that its long-term experience and humane approach to every customer, irrespective of their background, as evidenced by its industry-leading customer satisfaction and Ombudsman “uphold” rates, will be vindicated and rightly bear fruit.

Finally, I have great pleasure in welcoming Karl Werner as the new Chief Executive of Advantage. Karl has impressed enormously in the few months he has been with us, and his long experience of the finance industry and its regulation, particularly at MotoNovo and Aldermore Bank will make him a distinguished successor to Graham Wheeler.

Aspen Bridging

Aspen has continued its impressive progress. Despite an increase in finance costs of £3.6m, profit this year has reached a record £4.8 m (2023: £4.5m) on revenues of £17.3 m (2023: £12.9m). Net receivables are now £130.4 m (2023: £113.9m) following record deal numbers in the year. As Aspens’ reputation amongst the finance broking community grows, so does the quality of deal and customer it attracts. As we foresaw last year, this has meant a continuation of last year’s higher £0.9m average loan size, whilst average Loan to Values were under 70%, a small reduction on last year. This reflects high quality security and the more experienced developer/investor customers Aspen now attracts.

This is welcome, given the uncertainty surrounding the housing market, which continues to mirror the wider economic issues of the past two years. Annual UK residential transactions last year were 1 million, about 15% down on the year before. However, as mortgage approvals recover, this is expected to reach 1.1 million transactions next year. Average prices for residential properties, which are Aspens’ main security, fell slightly last year but have shown recent signs of recovery. Predictions for the current year range from a 3% average rise at Knight Frank to a 3% price fall from Halifax. Given the prospects for a further fall in mortgage rates and a healthy labour market feeding latent demand, our view is that house prices will rise up to 5% on average this year, and possibly more in the south east, where most bridging activity occurs.

These trends are also reflected in the refinance market which has seen average falls of nearly one percent in both interest and stress test rates over the past six months. All this is reflected in total repayments in the year by Aspen of a record £144.4m (2023: £96.1m). A growing book requires expert supervision, and Aspen has strengthened its risk and recoveries department by recruiting further experience in that area. The capital receivables book of c£133 million is high quality. Of 163 current loans, just 15 are beyond term, up just one on last year. Only four properties were in repossession at year end, for which recovery is in progress and adequate provision has been made.

The team at Aspen, based in Solihull in newly expanded offices, has grown to 25 from 21 two years ago. Since Aspen’s live book debt has roughly doubled to £130.4m in that period, productivity has substantially increased.

Efficiency measures are carried out quarterly; current trends on all measures are impressive and will be maintained.

Staff are encouraged into CPD; partly as a result, staff turnover has remained low and morale high. Aspen runs a female-managed football team, predictably ‘Aspen Villa’, promoted last season. Regular staff excursions and celebrations occur, most recently to mark £500m of lending. Momentum is being maintained with current lending at over £15m per month. Since its launch in 2017, Aspen has more than met S&U’s expectations, and great things are expected of it in the future.

Dividends

Whilst recognising its primary responsibilities to its shareholders, S&U has always sought to balance the interests of all its stakeholders. This year’s fall in profit together with our wish to protect our loyal staff from recent increases in the cost of living has made this a particularly delicate one this year.

Thus, except for senior directors, average salaries this year have matched the rate of inflation, with more for living wage earners. Higher base interest rates have cost the Group an additional £8m this year, and our incoherent Government have raised the rate of corporation tax by nearly a third.

Taking all this into account, subject to the approval of shareholders at our AGM on 6 June, the board proposes a final dividend of 50p per ordinary share (2023: 60p). This will be paid on 12 July 2024 to the shareholders on the register on 21 June 2024. Total dividends for the year will then be 120p per share (2023: 133p).

Funding and Treasury

Our confidence in S&U's business strategy, in our customers and the market we serve has been reflected in the additional £32m invested in our businesses over the past year. Net borrowings at year-end was £224.4m (2023: £192.4m). Current Group gearing therefore stands at 95.8%, well within banking covenants and S&U's traditionally conservative risk appetite. The first half of the year saw Group funding facilities increase by £70m, excluding overdrafts, to £280m from our funding partners, comfortably in excess of our anticipated requirements until 2026. In the meantime, we budget for the current Bank rate, but hope for speedy reductions and a more growth-friendly approach from the Bank of England.

Governance and Regulation

The recent period of modest economic growth, alongside political uncertainties, has heightened awareness of the critical role that corporate sustainability and profitability play in any functioning free-market system. This shift in focus has even led figures like Larry Fink, who was once a staunch advocate for corporations in the United States, to reconsider the overriding importance of the Environmental, Social, and Governance (ESG) agenda.

S&U's extensive experience in engaging with respectable individuals, who may not have flawless credit histories, predates the establishment of the FCA by seventy-five years. While acknowledging that the commercial landscape evolves, my stance has been consistent on two fronts.

Firstly, I believe that in organizations where Christian and family values are at the core, such as S&U, there is a natural alignment between commercial pursuits and consumer protection. History has shown that a well-regulated free-market system is unparalleled in enhancing welfare and living standards.

Secondly, S&U has always been a proponent of the critical role the FCA plays in ensuring fair treatment for consumers. Nonetheless, for the markets serving these consumers to remain stable and competitive, ensuring access is paramount. Without this, numerous vulnerable consumers might find themselves resorting to unregulated, and potentially illicit, lending options—a scenario diametrically opposed to the expectations of a civilized society.

S&U's commitment to such a society is evidenced in part by the community activities in which our employees are involved. At Group level this year saw the tenth anniversary of the Keith Coombs Trust, named for my father and former chairman. The Trust focuses its work on children and young people with all kinds of disability - mental, physical and emotional. Through charities in Birmingham, London, Kidderminster and in Africa and India, it funds and promotes work for those who are unable to help themselves.

Finally, in challenging times we should remind ourselves that sustainable success depends upon happy and satisfied customers and the people who serve them. The past six months have not been easy and I pay tribute to all of them; and also, to Graham Wheeler who, over the past four years has led Advantage through COVID, a cost of living crisis and regulatory change. On his retirement, I am pleased that he has now agreed to join S&U's board in a non-executive capacity.

Current Trading and Outlook

Enthusiastic and supportive customers underpin S&U's long success and guarantee its future. Current trends, both at Advantage and Aspen, prove that S&U has an abundance of these and trading since our year end is encouraging. Of course, challenges remain. As Marcus Aurelius, a second century Roman Emperor and Stoic philosopher once said, "sometimes the art of living is more like wrestling than dancing". Confident in our people, business philosophy and the markets we serve so well, we wrestle on.

Anthony Coombs

Chairman

8 April 2024

CONSOLIDATED INCOME STATEMENT

Year ended 31 January 2024	**Note**	**2024**	2023
		£'000	£'000
Revenue	3	**115,437**	102,714
Cost of Sales	4	**(22,821)**	(23,676)
Impairment charge	5	**(24,203)**	(13,877)
Gross Profit		**68,413**	65,161
Administrative expenses	6	**(19,767)**	(16,256)
Operating profit		**48,646**	48,905
Finance costs	7	**(15,062)**	(7,495)
Profit before taxation		**33,584**	41,410
Taxation		**(8,147)**	(7,692)
Profit for the year attributable to equity holders		**25,437**	33,718
Earnings per share basic	9	**209.2p**	277.5p
Earnings per share diluted	9	**209.2p**	277.5p
Dividends per share			
- Proposed Final Dividend		**50.0p**	60.0p
- Interim dividends in respect of the year		**70.0p**	73.0p
- Total dividend in respect of the year		**120.0p**	133.0p
- Paid in the year		**133.0p**	128.0p

All activities derive from continuing operations

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2024	2023
	£'000	£'000
Profit for the year attributable to equity holders	**25,437**	33,718
Actuarial loss on defined benefit pension scheme	**(6)**	(13)
Total Comprehensive Income for the year	**25,431**	33,705

Items above will not be reclassified subsequently to the Income Statement

CONSOLIDATED BALANCE SHEET

31 January 2024	**Note**	**2024**	2023
		£'000	£'000
ASSETS			
Non current assets			
Property, plant and equipment including right of use assets		**2,310**	2,616
Amounts receivable from customers	8	**241,985**	219,305
Deferred tax assets		**155**	110
		244,450	222,031
Current Assets			
Amounts receivable from customers	8	**220,953**	201,405
Trade and other receivables		**1,442**	1,601
Cash and cash equivalents		**1**	3,137
		222,396	206,143
Total Assets		**466,846**	428,174
LIABILITIES			
Current liabilities			
Bank overdrafts and loans		**(881)**	-
Trade and other payables		**(4,897)**	(4,602)
Tax Liabilities		**(564)**	(888)
Lease Liabilities		**(170)**	(166)
Accruals and deferred income		**(1,971)**	(1,262)
		(8,483)	(6,918)
Non current liabilities			
Borrowings		**(223,500)**	(195,500)
Lease Liabilities		**(251)**	(421)
Financial Liabilities		**(450)**	(450)
		(224,201)	(196,371)
Total liabilities		**(232,684)**	(203,289)
NET ASSETS		**234,162**	224,885
Equity			
Called up share capital		**1,719**	1,719
Share premium account		**2,301**	2,301
Profit and loss account		**230,142**	220,865
Total equity		**234,162**	224,885

STATEMENT OF CHANGES IN EQUITY

Year ended 31 January 2024

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total equity £'000
At 1 February 2022	1,718	2,301	202,728	206,747
Profit for year	-	-	33,718	33,718
Other comprehensive income for year	-	-	(13)	(13)
Total comprehensive income for year	-	-	33,705	33,705
Issue of new shares in year	1	-	-	1
Cost of future share based payments	-	-	6	6
Tax credit on equity items	-	-	(28)	(28)
Dividends	-	-	(15,546)	(15,546)
At 31 January 2023	1,719	2,301	220,865	224,885
Profit for year	-	-	25,437	25,437
Other comprehensive income for year	-	-	(6)	(6)
Total comprehensive income for year	-	-	25,431	25,431
Dividends	-	-	(16,154)	(16,154)
At 31 January 2024	1,719	2,301	230,142	234,162

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 January 2024

	Note	2024 £'000	2023 £'000
Net cash used in operating activities	11	**(446)**	(55,265)
Cash flows used in investing activities			
Proceeds on disposal of property, plant and equipment		**76**	166
Purchases of property, plant and equipment		**(265)**	(826)
Net cash used in investing activities		**(189)**	(660)
Cash flows from financing activities			
Dividends paid		**(16,154)**	(15,546)
Finance cost paid		**(15,062)**	(7,495)
Issue of new shares		**-**	1
Receipt of new borrowings		**173,500**	84,500
Repayment of borrowings		**(145,500)**	-
Increase/(decrease) in lease liabilities		**(166)**	170
Net increase/(decrease) in overdraft		**881**	(2,568)
Net cash generated from financing activities		**(2,501)**	59,062
Net increase/(decrease) in cash and cash equivalents		**(3,136)**	3,137
Cash and cash equivalents at the beginning of year		**3,137**	-
Cash and cash equivalents at the end of year		**1**	3,137
Cash and cash equivalents comprise			
Cash and cash in bank		**1**	3,137

There are no cash and cash equivalent balances which are not available for use by the Group (2023: £nil).

1. SHAREHOLDER INFORMATION

1.1 Preliminary Announcement

The figures shown for the year ended 31 January 2024 are not statutory accounts within the meaning of section 435 of the Companies Act 2006. The unaudited preliminary announcement was approved by the Board of directors on 8 April 2024. The Company's Annual Report will be finalised subsequent to this preliminary unaudited results announcement. The figures shown for the year ended 31 January 2023 are not statutory accounts. A copy of the statutory accounts has been delivered to the Registrar of Companies, contained an unqualified audit report and did not contain an adverse statement under section 498(2) or 498(3) of the Companies Act 2006. This announcement has been agreed with the Company’s auditors for release. A copy of this unaudited preliminary announcement will be published on the website www.suplc.co.uk. The Directors are responsible for the maintenance and integrity of the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differ from legislation in other jurisdictions.

1.2 Annual General Meeting

The Annual General Meeting will be held on 6 June 2024 and further details of arrangements will be published in the AGM notice.

1.3 Dividend

If approved at the Annual General Meeting a final dividend of 50p per Ordinary Share is proposed, payable on 12 July 2024 with a record date of 21 June 2024.

1.4 Annual Report

The 2024 Annual Report and Financial Statements and AGM notice will be displayed in full on our website www.suplc.co.uk in due course and also posted to those Shareholders who have still opted to receive a hardcopy. Copies of this announcement are available from the Company Secretary, S & U plc, 2 Stratford Court, Cranmore Boulevard, Solihull B90 4QT.

2. KEY ACCOUNTING POLICIES

The 2024 financial statements have been prepared in accordance with applicable accounting standards and accounting policies – these key accounting policies are a subset of the full accounting policies.

2.1 Basis of preparation

As a listed Group we are required to prepare our consolidated financial statements in accordance with UK-adopted international accounting standards. 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 2024. 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.

There are no new standards which have been adopted by the group this year which have a material impact on the financial statements of the Group.

At the date of authorisation of this preliminary announcement the directors anticipate that the adoption in future periods of any other Standards and interpretations which are in issue but not yet effective, will have no material impact on the financial statements of the Group.

2.2 Revenue recognition

Interest income is recognised in the income statement for all loans and receivables measured at amortised cost using the constant periodic rate of return on the net investment in the loans, which is akin to an effective interest rate (EIR) method. The EIR is the rate that exactly discounts estimated future cash flows of the loan back to the present value of the advance and hire purchase interest income is then recognised using the EIR. Acceptance fees charged to customers and any direct transaction costs are included in the calculation of the EIR. For hire purchase agreements in Advantage Finance which are classified as credit impaired (i.e. stage 3 assets under IFRS 9), the group recognises revenue 'net' of the impairment provision to align the accounting treatment under IFRS 16 with the requirements of IFRS 9 and also with the treatment adopted for similar assets in Aspen. Revenue starts to be recognised from the date of completion of the loan – after completion hire purchase customers have a 14-day cooling off period during which they can cancel their loan.

2.3 Impairment and measurement of amounts receivable from customers

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

Amortised cost includes a deduction for loan loss impairment provisions for expected credit losses ("ECL") assessed by the directors in accordance with the requirements of IFRS9.

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

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

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

Stage 3: Credit impaired

The directors assess whether there is objective evidence that a loan asset or group of loan assets is credit impaired and should be classified as stage 3. A loan asset or a group of loan assets is credit impaired only if there is objective evidence of credit impairment as a result of one or more events that occurred after the initial recognition of the loan. Objective evidence may include evidence that a borrower or group of borrowers is experiencing financial difficulty or delinquency in repayments. Impairment is then calculated by estimating the future cash flows for such impaired loans, discounting the flows to a present value using the original EIR and comparing this figure with the balance sheet carrying value. All such impairments are charged to the income statement. Under IFRS 9 for all stage 1 accounts which are not credit impaired, a further collective provision for expected credit losses in the next 12 months is calculated and charged to the income statement.

Key assumptions in ascertaining whether a loan asset or group of loan assets is credit 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.

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 which is Stage 1. 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. This results in more of our net receivables being in stage 3 and the associated stage 3 loan loss provisions being higher than if we adopted a more prime customer receivables approach of 3 months or more in arrears. Our approach of 1 month or more in contractual arrears is based on our historic observation of subsequent loan performance after our customers fall 1 month or more in contractual arrears within our non-prime motor finance customer receivables book. The expected credit loss ("ECL") is the probability weighted estimate of credit losses.

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

As required under IFRS9 the expected impact of movements in the macroeconomy is also reflected in the expected loss model calculations. For motor finance, assessments are made to identify the correlation of the level of impairment provision with forward looking external data regarding forecast future levels of employment, inflation, interest rates and used car values which may affect the customers' future propensity to repay their loan. The macroeconomic overlay assessments for 31 January 2024 reflect that further to considering such external macroeconomic forecast data, management have judged that there is currently a more heightened risk of an adverse economic environment for our customers and the value of our motor finance security. To factor in such uncertainties, management has included an overlay for certain groups of assets to reflect this macroeconomic outlook, based on estimated unemployment, inflation and used vehicle price levels in future periods. An overlay for used vehicle prices was also included at 31 January 2023 as we assumed at that point that these prices would fall by 13.5% after a large increase in the previous 12 months. As at 31 January 2024, we have not included an overlay for used vehicle prices as we assume that used vehicle prices will now remain stable after the anticipated large decrease in the previous 12 months. Further sensitivity over this estimation uncertainty is provided in note 2.5.

Other than the changes to the approach mentioned above, there were no significant changes to estimation techniques applied to the calculations used at 31 January 2023 and those used at 31 January 2022.

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

Assets in both our secured loan businesses are written off once the asset has been repossessed and sold and there is no prospect of further legal or other debt recovery action. Where enforcement action is still taking place, loans are not written off. In motor finance where the asset is no longer present then another indicator used to determine whether the loan should be written off is the lack of any receipt for 12 months from that customer.

2.4 Performance Measurements

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

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

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

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

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

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

2.5 Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical accounting judgements

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

Significant increase in credit risk for classification in Stage 2

The Company's transfer criteria determine what constitutes a significant increase in credit risk, which results in a customer being moved from Stage 1 to Stage 2. Stage 2 currently includes customers who have a good payment record but have been identified as vulnerable by trained staff. Vulnerability can be driven by factors including health, life events, resilience or capability. All customer facing staff are trained to help recognise characteristics of vulnerability. Stage 2 previously included some pandemic payment holiday customers but these customers have all now had 12 months to re-establish their post-holiday payment track record and are therefore now either correctly included in another stage or their agreement has finished.

Key sources of estimation uncertainty

The directors consider that the sources of estimation uncertainty which have the most significant effect on the amounts recognised in the financial statements are those inherent in the consumer credit markets in which we operate relating to impairment as outlined in 2.3 above. In particular, the Group's impairment provision is dependent on estimation uncertainty in forward-looking on areas such as employment rates, inflation rates and used car and property prices.

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

Macroeconomic overlay for our motor finance business

For this overlay, the Group considers four probability-weighted scenarios in relation to unemployment rate: base, upside, downside and severe scenarios as follows:

	Base	Upside (30% decrease)	Downside (30 % increase)	Severe (50% increase)	Weighted
Weighting	50%	10%	35%	5%	
Q1 2024	4.40%	3.08%	5.72%	6.60%	4.84%
Q1 2025	4.70%	3.29%	6.11%	7.05%	5.17%
Q1 2026	4.90%	3.43%	6.37%	7.35%	5.39%
Q1 2027	4.90%	3.43%	6.37%	7.35%	5.39%

Inflation rates were not previously factored into the macroeconomic overlay prior to 31 January 2022 when we included them due to the extraordinary increases forecast for the following 12 months period and the potential impact on our customers and their repayments – high inflation and forecast inflation were still present at 31 January 2023 and to a lesser extent at 31 January 2024. The Group considers four probability-weighted scenarios in relation to inflation rate: base, upside, downside and severe scenarios as follows:

	Base	Upside (30% decrease)	Downside (30 % increase)	Severe (50% increase)	Weighted
Weighting	50%	10%	35%	5%	
Q1 2024	9.70%	6.79%	12.61%	14.55%	10.96%
Q1 2025	3.00%	2.10%	3.90%	4.50%	3.39%
Q1 2026	1.00%	0.70%	1.30%	1.50%	1.13%
Q1 2027	0.40%	0.28%	0.52%	0.60%	0.45%

An increase by 0.5% in the weighted average unemployment rate would result in an increase in loan loss provisions by £1.1m. A decrease by 0.5% would result in a decrease in loan loss provisions by £1,108,644. An increase by 0.5% in the weighted average inflation rate would result in an increase in loan loss provisions by £0.5m. A decrease by 0.5% would result in a decrease in loan loss provisions by £0.5m.

Used vehicle price overlay and sensitivity for our motor finance business

At the year ended 31 January 2024, we have assumed that used vehicle prices will remain stable after a period when used vehicle prices increased during years ended 31 January 2022 and 31 January 2023 and then decreased during year ended 31 January 2024. This assumption as at 31 January 2024 has been made after considering market trends and expectations but is uncertain. If used car prices were assumed to fall by 5% instead, then this would result in an increase in loan loss provisions of £3.0m. If used vehicle prices were assumed to increase by 5% instead, then this would result in a decrease in loan loss provisions of £3.0m.

Expected loss sensitivity for our property bridging business

The PD/LGD expected loss impairment provision model calculations developed for our Aspen bridging business have been based on extrapolating an inherently low volume sample of historic defaults and losses to reflect the current receivables and current market conditions. If the probability of default were assessed to be 10% higher than these calculations, then this would result in an increase in loan loss provisions of £0.3m. If the probability of default were assessed to be 10% lower than these calculations, then this would result in a decrease in loan loss provisions of £0.3m.

3. SEGMENTAL ANALYSIS

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

	Revenue		Profit before taxation	
Class of business	**Year ended 31.1.24 £'000**	**Year ended 31.1.23 £'000**	**Year ended 31.1.24 £'000**	**Year ended 31.1.23 £'000**
Motor finance	98,177	89,801	28,810	37,171
Property Bridging finance	17,260	12,913	4,803	4,457
Central costs net of central finance income	-	-	(29)	(218)
	115,437	102,714	33,584	41,410

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

	Assets		Liabilities	
Class of business	**Year ended 31.1.24 £'000**	**Year ended 31.1.23 £'000**	**Year ended 31.1.24 £'000**	**Year ended 31.1.23 £'000**
Motor finance	335,502	311,168	(181,944)	(164,452)
Property Bridging finance	130,808	116,714	(121,431)	(109,485)
Central	536	292	70,691	70,648
	466,846	428,174	(232,684)	(203,289)

Depreciation of assets for motor finance was £399,000 (2023: £425,000), for property bridging finance was £14,000 (2023: £15,000) and for central was £97,000 (2023: £85,000). Fixed asset additions for motor finance were £218,000 (2023: £394,000), for property bridging finance were £20,000 (2023: £13,000) and for central were £27,000 (2023: £419,000).

The net finance credit for central costs was £2,904,000 (2023: £2,507,000), for motor finance was a cost of £11,018,000 (2023: £6,619,000) and for property bridging finance was a cost of £6,948,000 (2023: £3,383,000). The tax charge for central costs was £25,000 (2023: £58,000 credit), for motor finance was a tax charge of £6,967,000 (2023: £6,901,000) and for property bridging finance was a tax charge of £1,155,000 (2023: £848,000).

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

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

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

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

4. COST OF SALES

	2024	2023
	£'000	£'000
Cost of sales – motor finance	20,726	21,687
Cost of sales – property bridging finance	2,095	1,989
Total cost of sales	22,821	23,676

5. IMPAIRMENT CHARGE

	2024	2023
	£'000	£'000
Loan loss provisioning charge		
Loan loss provisioning charge – motor finance	23,280	12,885
Loan loss provisioning charge – property bridging finance	923	992
Total impairment charge	24,203	13,877

6. ADMINISTRATIVE EXPENSES

	2024	2023
	£'000	£'000
Administrative expenses - motor finance	14,343	11,439
Administrative expenses - property bridging	2,491	2,092
Administrative expenses - central	2,933	2,752
Total administrative expenses	19,767	16,283

7. FINANCE COSTS

	2024	2023
	£'000	£'000
31.5% cumulative preference dividend	141	141
Lease liabilities interest	16	12
Bank loan and overdraft interest payable	14,905	7,342
Total finance costs	15,062	7,495

8. AMOUNTS RECEIVABLE FROM CUSTOMERS

	2024	2023
	£'000	£'000
Motor finance hire purchase	437,181	403,282
Less: Loan loss provision motor finance	(104,685)	(96,465)
Amounts receivable from customers motor finance	332,496	306,817
Property bridging finance loans	132,746	115,451
Less: Loan loss provision property bridging finance	(2,304)	(1,558)
Amounts receivable from customers property bridging finance	130,442	113,893
Amounts receivable from customers	462,938	420,710
Analysis of future due date due		
- Due within one year	220,953	201,405
- Due in more than one year	241,985	219,305
Amounts receivable from customers	462,938	420,710
Analysis of Security		
Loans secured on vehicles under hire purchase agreements	327,485	302,159
Loans secured on property	130,442	113,893
Other loans not secured - motor finance where security no longer present	5,011	4,658
Amounts receivable from customers	462,938	420,710

8. AMOUNTS RECEIVABLE FROM CUSTOMERS (CONTINUED)

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

As at 31 January 2024	Not credit Impaired Stage 1: Subject to 12 months ECL £'000	Not credit Impaired Stage 2: Subject to lifetime ECL £'000	Credit Impaired Stage 3: Subject to lifetime ECL £'000	Total £'000
Amounts receivable (capital)				
Motor finance	291,566	5,125	140,490	437,181
Property bridging finance	121,908	-	10,838	132,746
Total	413,474	5,125	151,328	569,927
Loan loss provisions				
Motor finance	(21,315)	(1,323)	(82,047)	(104,685)
Property bridging finance	(914)	-	(1,390)	(2,304)
Total	(22,229)	(1,323)	(83,437)	(106,989)
Amounts receivable (net)				
Motor finance	270,251	3,802	58,443	332,496
Property bridging finance	120,994	-	9,448	130,442
Total	391,245	3,802	67,891	462,938

As at 31 January 2023	Stage 1: Subject to 12 months ECL £'000	Stage 2: Subject to lifetime ECL £'000	Stage 3: Subject to lifetime ECL £'000	Total £'000
Amounts receivable (capital)				
Motor finance	285,050	2,236	115,996	403,282
Property bridging finance	108,378	-	7,073	115,451
Total	393,428	2,236	123,069	518,733
Loan loss provisions				
Motor finance	(26,640)	(662)	(69,163)	(96,465)
Property bridging finance	(1,116)	-	(442)	(1,558)
Total	(27,756)	(662)	(69,605)	(98,023)
Amounts receivable (net)				
Motor finance	258,410	1,574	46,833	306,817
Property bridging finance	107,262	-	6,631	113,893
Total	365,672	1,574	53,464	420,710

8. AMOUNTS RECEIVABLE FROM CUSTOMERS (CONTINUED)

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

Analysis of Loan loss provisions	**Stage 1: Subject to 12 months ECL £'000**	**Stage 2: Subject to lifetime ECL £'000**	**Stage 3: Subject to lifetime ECL £'000**	**Total Provision £'000**
At 1 February 2022	22,575	2,769	66,783	92,127
Net transfers and changes in credit risk	(10,020)	(1,905)	(1,710)	(13,635)
New loans originated	15,599	148	11,765	27,512
Total impairment charge to income statement	**5,579**	**(1,757)**	**10,055**	**13,877**
Amount netted off revenue for stage 3 assets	-	-	8,893	8,893
Utilised provision on write-offs	(398)	(350)	(16,126)	(16,874)
At 31 January 2023	27,756	662	69,605	98,023
Net transfers and changes in credit risk	(14,755)	565	12,331	(1,859)
New loans originated	11,863	354	13,845	26,062
Total impairment charge to income statement	**(2,892)**	**919**	**26,176**	**24,203**
Amount netted off revenue for stage 3 assets	-	-	9,162	9,162
Utilised provision on write-offs	(2,635)	(258)	(21,506)	(24,399)
At 31 January 2024	22,229	1,323	83,437	106,989

9. EARNINGS PER ORDINARY SHARE

The calculation of earnings per ordinary share (“eps”) from continuing operations is based on profit after tax of £25,437,000 (2023: £33,718,000).

The number of shares used in the basic eps calculation is the weighted average number of shares in issue during the year of 12,150,760 (2023: 12,149,205). There are a total of nil dilutive share options in issue (2023: nil) and taking into account the appropriate proportion of these dilutive options the number of shares used in the diluted eps calculation is 12,150,760 (2023: 12,149,205).

10. CONTINGENT LIABILITIES

Our motor finance subsidiary Advantage was included in the FCA’s multi-firm Cost of Living Forbearance Outcomes review in 2023 and as a result the FCA concluded that enhancements may be required to Advantage’s approach to arrears management and the application of forbearance. Advantage and the FCA have been in correspondence throughout 2023/24 to discuss and agree the necessary steps and Advantage will carry out an assessment of whether any customers were adversely affected by its practices. Where this is found to be the case Advantage will seek to redress any detriment.

The financial effect of any customer redress cannot be reliably assessed at this early stage of the review. This ongoing assessment is expected to be in advanced stages in Summer 2024, with any redress being made after that.

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

	2024	2023
	£'000	£'000
Operating Profit	48,646	48,905
Tax paid	(8,515)	(7,748)
Depreciation on plant, property and equipment	510	525
(Profit)/loss on disposal of plant, property and equipment	(16)	(26)
Increase in amounts receivable from customers	(42,228)	(97,795)
Decrease/increase in trade and other receivables	159	138
Increase in trade and other payables	295	255
Increase in accruals and deferred income	709	488
Equity-settled future share-based payments addback	-	6
Movement in retirement benefit asset/obligations	(6)	(13)
Net cash used in operating activities	(446)	(55,265)