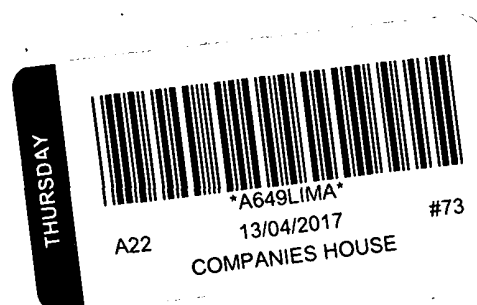


**Company Registration No: 03773673**

**Advantage Finance Limited**

**Annual Report and Financial Statements**

**For the year ended 31 January 2017**



# **Advantage Finance Limited**

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## **Advantage Finance Limited**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

B A Burton  
K Charlton  
A M V Coombs  
G D C Coombs  
J Murdoch  
C H Redford  
J G Thompson  
A Tuplin  
H A Wilkinson  
S Wilkinson  
M Walker  
D Sandiford (Appointed 6 2 2017)

#### **COMPANY SECRETARY**

C H Redford

#### **REGISTERED OFFICE**

6 The Quadrangle  
Cranmore Avenue  
Solihull  
Birmingham  
B90 4LE

#### **BANKERS**

HSBC Bank plc  
130 New Street  
Birmingham  
B2 4JU

#### **SOLICITORS**

DLA  
Victoria Square House,  
Victoria Square,  
Birmingham  
B2 4DC

#### **AUDITOR**

Deloitte LLP  
Chartered Accountants and Statutory Auditors  
Birmingham  
United Kingdom

#### **INTERNAL AUDITOR**

RSM Risk Assurance Services LLP  
Hull  
United Kingdom

## **Advantage Finance Limited**

### **STRATEGIC REPORT**

#### **PRINCIPAL ACTIVITIES**

The Company's principal activity during the year continued to be the provision of hire purchase motor finance.

#### **BUSINESS REVIEW, RESULTS AND DIVIDENDS**

The financial year 2016/2017 was a very successful year for Advantage Finance, as new business volumes grew and there continued to be good repayment performance. Pre tax profit grew by 23%. Revenue increased by 34% and the number of live agreements increased by 32% to 43,067. Liabilities increased by 33% and net assets were up 32%.

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

The directors see these results as providing a firm platform for the future development and growth of the Company.

The Company's profit on ordinary activities after tax was £20.2m (2016: £16.3m). Interim ordinary dividends of £6.1m (2016: £4.7m) were paid during the year, leaving retained profits of £14.1m (2016: £11.6m) to be transferred to reserves. The Company's principal balance sheet asset remains its book debt and the directors consider the year-end balance sheet position to be satisfactory.

#### **REVIEW OF PRINCIPAL RISKS AND UNCERTAINTIES**

The Company is involved in the provision of consumer credit and it is considered that the key material risk to which the Company 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 Company is a nationwide UK lender and individual exposures are for small amounts to many individual borrowers so concentration risk is low. It is recognised that as the Company is only involved in Motor Finance, there is an element of market concentration and within that to the values of used vehicles which are used as security. These economic and concentration risks are principally controlled through our credit control policies including loan to value limits for the security and through ongoing monitoring and evaluation.

Funding risk relates to the availability of sufficient borrowing facilities for the Company to meet its liabilities as they fall due. This funding risk is managed at Group level and during the year ended 31 January 2017 this risk has increased in line with the increase in group gearing. The Board is of the view that the gearing level remains conservative, especially for a lending organisation. This funding 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.

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

## **STRATEGIC REPORT (CONTINUED)**

The Company 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 Company. The Company principally manages this risk through Company staff training and motivation (Advantage is an Investor in People) and through detailed monthly monitoring of customer outcomes for compliance and treating customers fairly.

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

## **STATEMENT OF GOING CONCERN**

The Company'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 Company, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. In assessing the going concern, the directors are mindful of the need to effectively manage the Company's risks. The Company is part of the S&U Group and the Group's objectives, policies and processes for managing its capital are described in the notes to the S&U Plc Group accounts. Details of the Group's financial risk management objectives, its financial instruments and hedging activities; and its exposures to credit risk, market risk and liquidity risk are also set out in the notes to the S&U Plc Group financial statements and in the principal risks and uncertainties set out above. In considering all of the above, the directors believe that the Company is well placed and has sufficient financial resources to manage its business risks successfully despite the uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the Company 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 financial statements.

## **APPROVAL OF STRATEGIC REPORT**

This Strategic Report has been prepared for the Company in accordance with Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

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



HA Wilkinson

Director 31 March 2017

## **Advantage Finance Limited**

### **DIRECTORS' REPORT**

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

#### **DIRECTORS**

The directors who served during the year were:

BA Burton, AMV Coombs, GDC Coombs, K Charlton, J Murdoch, CH Redford, JG Thompson, A Tuplin, HA Wilkinson, S Wilkinson and M Walker.

D Sandiford was also appointed a director on 6.2.2017.

Under article 14 of the Company's articles of association, the Company has qualifying third party indemnity provisions for the benefit of its directors which remain in force at the date of this report.

#### **DIVIDENDS**

Dividends of £6,100,000 (2016: £4,700,000) were paid during the year.

#### **CAPITAL STRUCTURE**

Details of the issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 16. The Company has one class of ordinary share which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

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 transfers of securities or on voting rights.

#### **AUDIT STATEMENT**

Each of the directors at the date of approval of this report confirms that:

1. so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
2. the director has taken all steps that he ought to have taken as a director 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.

#### **AUDITOR**

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.

## **DIRECTORS' REPORT (CONTINUED)**

### **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 financial statements or in the Group Annual Report 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 Company's principal risks and uncertainties are set out in the Strategic Report.
- The Company's likely future developments are also set out in the Strategic Report.

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

  
HA Wilkinson

Director

31 March 2017

## **Advantage Finance Limited**

### **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 have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements 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.

#### **Responsibility statement**

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company;
- the strategic report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces; 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



HA Wilkinson

Director

31 March 2017



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ADVANTAGE FINANCE LIMITED**

We have audited the financial statements of Advantage Finance Limited for the year ended 31 January 2017 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

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

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 January 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

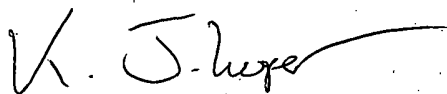
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ADVANTAGE FINANCE LIMITED**

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



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

**ADVANTAGE FINANCE LIMITED**  
**INCOME STATEMENT**  
**For the year ended 31 January 2017**

	Note	2017 £000	2016 £000
<b>Revenue</b>		60,521	45,182
Cost of sales	3	(25,065)	(16,591)
<b>Gross profit</b>		<u>35,456</u>	<u>28,591</u>
Administrative expenses		(5,940)	(4,948)
<b>Operating profit</b>	5	<u>29,516</u>	<u>23,643</u>
Finance costs	6	(4,330)	(3,243)
<b>Profit before tax</b>		<u>25,186</u>	<u>20,400</u>
Taxation	7	(5,012)	(4,080)
<b>Profit for the year</b>		<u><u>20,174</u></u>	<u><u>16,320</u></u>

All activities derive from continuing operations.

'Other Comprehensive Income' was £nil in the current year and prior year and therefore a statement of comprehensive income has not been provided.

**BALANCE SHEET****As at 31 January 2017**

	<b>Note</b>	<b>2017 £000</b>	<b>2016 £000</b>
<b>ASSETS</b>			
<b>Non Current Assets</b>			
Property, plant and equipment	9	1,044	1,025
Investments	10	-	-
Amounts receivable from customers	11	136,373	102,069
Deferred tax assets	15	380	345
		<u>137,797</u>	<u>103,439</u>
<b>Current Assets</b>			
Amounts receivable from customers	11	57,156	43,072
Trade and other receivables	12	377	419
Cash and cash equivalents		3	-
		<u>57,536</u>	<u>43,491</u>
<b>Total Assets</b>		<u>195,333</u>	<u>146,930</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Bank overdrafts	13	(999)	(2,807)
Trade and other payables	14	(16,829)	(1,559)
Tax liabilities		(2,955)	(2,514)
Provision for liabilities		(834)	(155)
Accruals and deferred income		(643)	(1,217)
<b>Total current liabilities</b>		<u>(22,260)</u>	<u>(8,252)</u>
<b>Non current liabilities</b>			
Trade and other payables	14	(114,000)	(94,000)
<b>Total non current liabilities</b>		<u>(114,000)</u>	<u>(94,000)</u>
<b>Total liabilities</b>		<u>(136,260)</u>	<u>(102,252)</u>
<b>NET ASSETS</b>		<u>59,073</u>	<u>44,678</u>
<b>Equity</b>			
Called up share capital	16	1	1
Profit and loss account		59,072	44,677
<b>Total equity</b>		<u>59,073</u>	<u>44,678</u>

The financial statements for Advantage Finance Limited (company registered no.03773673) were approved by the Board of Directors on 31 March 2017.

Signed on behalf of the Board of Directors



HAWilkinson

## Advantage Finance Limited

### STATEMENT OF CHANGES IN EQUITY For the year ended 31 January 2017

	Called up share capital £000	Profit and loss account £000	Total equity £000
At 1 February 2015	1	32,723	32,724
Total comprehensive income for year	-	16,320	16,320
Cost of future share based payments	-	292	292
Tax charge on equity items	-	42	42
Dividends	-	(4,700)	(4,700)
At 31 January 2016	1	44,677	44,678
Total comprehensive income for year	-	20,174	20,174
Cost of future share based payments	-	266	266
Tax charge on equity items	-	55	55
Dividends	-	(6,100)	(6,100)
At 31 January 2017	1	59,072	59,073

### CASH FLOW STATEMENT For the year ended 31 January 2017

	Note	2017 £000	2016 £000
Net cash inflow from operating activities	17	8,154	1,638
<b>Cash flows from investing activities</b>			
Proceeds on disposal of property, plant and equipment		43	26
Purchases of property, plant and equipment		(286)	(422)
Net cash used in investing activities		(243)	(396)
<b>Cash flows from financing activities</b>			
Dividends paid		(6,100)	(4,700)
Net (decrease)/ increase in overdraft		(1,808)	2,807
Net cash used in financing activities		(7,908)	(1,893)
Net increase/ (decrease) in cash and cash equivalents		3	(651)
Cash and cash equivalents at the beginning of year		-	651
Cash and cash equivalents at the end of year		3	-

## **Advantage Finance Limited**

### **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 January 2017**

#### **1. ACCOUNTING POLICIES**

##### **1.1 General Information**

Advantage Finance Limited is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 2. All operations are situated in the United Kingdom.

##### **1.2 Basis of preparation**

As part of a listed group we elected to prepare our financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and therefore the company financial statements comply with Article 4 of the EU IAS Regulation.

These financial statements have been prepared under the historical cost convention. As discussed in the Strategic Report, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

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

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

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

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

##### **1.3 Revenue recognition**

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

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

## **Advantage Finance Limited**

### **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 January 2017**

#### **1. ACCOUNTING POLICIES (CONTINUED)**

##### **1.4 Amounts receivable from customers**

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

The directors assess on an ongoing basis whether there is objective evidence that a loan asset or group of loan assets is impaired and requires a deduction for impairment. A loan asset or a group of loan assets is impaired only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan. Objective evidence may include evidence that a borrower or group of borrowers is experiencing financial difficulty, default or delinquency in repayments. Impairment is then calculated by estimating the future cash flows for such impaired loans, discounting the flows to a present value using the original EIR and comparing this figure with the balance sheet carrying value. All such impairments are charged to the income statement. For all accounts which are not impaired, a further incurred but not reported provision (IBNR) is calculated and charged to the income statement based on management's estimates of the propensity of these financial statements to default from conditions which existed at the balance sheet date.

Key assumptions in ascertaining whether a loan asset or group of loan assets is impaired include information regarding the probability of any account going into default and information regarding the likely eventual loss including recoveries. These assumptions for estimating future cash flows are based upon observed historical data and updated as management considers appropriate to reflect current and future conditions. All assumptions are reviewed regularly to take account of differences between previously estimated cash flows on impaired debt and the eventual losses.

##### **1.5 Property, plant and equipment**

Property, plant and equipment is stated at cost less accumulated depreciation and any provision for impairment. 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
Fixtures and Fittings	20% per annum straight line
Motor Vehicles	25% per annum reducing balance

##### **1.6 Investments**

Investments are stated at cost less provision for any impairment.

##### **1.7 Tax**

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 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.

##### **1.8 Pensions**

The Company operates a defined contribution pension scheme and the pension charge represents the amount payable by the Company for the financial year.

## Advantage Finance Limited

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 January 2017

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### 1.9 Leases

Rental costs under operating leases are charged to the profit and loss account on a straight-line basis.

##### 1.10 Share based payments

The Company participates in the S&U plc Group 2008 Discretionary Share Option Plan and the S&U plc Group 2010 Long Term Incentive Plan and issues share-based payments under these plans. 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 vesting period (normally three years) of the related share options with a corresponding credit to reserves. Full disclosure of share based payments made under these plans is contained in the S&U plc Group Annual Report and Accounts for year ended 31 January 2017.

##### 1.11 Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

#### 2. SEGMENTAL ANALYSIS

All the Company's assets and liabilities, revenue and profit before tax are attributable to the provision of hire purchase car finance.

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

Segmental analysis is presented in the S&U plc Group Annual Report and Accounts for year ended 31 January 2017.

#### 3. COST OF SALES

	2017 £000	2016 £000
Loan loss provisioning charge	12,194	7,611
Other cost of sales	12,871	8,980
	<u>25,065</u>	<u>16,591</u>

#### 4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

Directors' emoluments	2017 £000	2016 £000
Salary	1,421	1,210
Pension and salary supplement in lieu	105	74
Social security	114	101
	<u>1,640</u>	<u>1,385</u>

The emoluments of the highest paid director are £949,237 for the year (2016: £863,066) including benefits received and receivable under long term incentive schemes of £391,000 (2016: £426,600), and the Company paid pension contributions on his behalf and salary supplement in lieu of £60,003 (2016: £38,762). Three of the directors are paid by other S&U plc Group companies and received no remuneration for their services to this company.



# **Advantage Finance Limited**

## **NOTES TO THE FINANCIAL STATEMENTS** **For the year ended 31 January 2017**

### **4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (CONTINUED)**

	2017	2016
Number of directors who are members of a defined contribution pension scheme	9	9
<b>Average number of persons employed</b>		
Management and administration	110	97
<b>Staff costs during the year (including directors):</b>	<b>£000</b>	<b>£000</b>
Wages and salaries	4,389	3,825
Social security costs	353	325
Other pension costs	164	172
	<u>4,906</u>	<u>4,322</u>

### **5. OPERATING PROFIT**

	2017 £000	2016 £000
<b>Operating profit is stated after charging:</b>		
Depreciation and amortisation:		
Owned assets	216	179
Staff Costs	4,906	4,322
Rentals under operating leases:		
Other operating leases	56	32
Loss on sale of fixed assets	8	5
<b>The analysis of auditor's remuneration is as follows;</b>		
Fees payable to the Company's Auditor for the audit of the Company's annual financial statements	49	47
<b>Total audit fees</b>	<b>49</b>	<b>47</b>
Audit related assurance services	21	18
Taxation compliance services	0	13
<b>Total non audit fees</b>	<b>21</b>	<b>31</b>
<b>Total</b>	<b><u>70</u></b>	<b><u>78</u></b>

### **6. FINANCE COSTS**

	2017 £000	2016 £000
Interest payable	<u>4,330</u>	<u>3,243</u>

## Advantage Finance Limited

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 January 2017

#### 7. TAX

	2017 £000	2016 £000
Corporation tax at 20.00% (2016: 20.17%) based on the profit for the year	5,041	4,102
Current tax adjustment in respect of prior years	(49)	40
Deferred tax (note 15)	20	(62)
	<u>5,012</u>	<u>4,080</u>

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

	2017 £000	2016 £000
Profit on ordinary activities before tax	25,186	20,400
Tax on profit on ordinary activities at standard rate of 20.00% (2016: 20.17%)	5,037	4,115
<i>Factors affecting charge for the period:</i>		
Expenses not deductible for tax purposes	14	(7)
Effects of change in tax rate	10	(68)
Adjustment in respect of prior years	(49)	40
Total tax charge for the year	<u>5,012</u>	<u>4,080</u>

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

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

#### 8. DIVIDENDS

	2017 £000	2016 £000
Ordinary dividend paid in the year £6,100 per share (2016: £4,700 per share)	<u>6,100</u>	<u>4,700</u>

# **Advantage Finance Limited**

## **NOTES TO THE FINANCIAL STATEMENTS** **For the year ended 31 January 2017**

### **9. PROPERTY, PLANT AND EQUIPMENT**

	Short Leasehold Buildings £000	Motor vehicles £000	Fixtures and Fittings £000	Total £000
<b>Cost or valuation</b>				
At 1 February 2015	534	199	808	1,541
Additions	1	120	301	422
Disposals	-	(67)	(6)	(73)
At 1 February 2016	535	252	1,103	1,890
Additions	1	118	167	286
Disposals	-	(89)	(139)	(228)
As at 31 January 2017	536	281	1,131	1,948
<b>Accumulated depreciation</b>				
At 1 February 2015	87	88	553	728
Charge for the year	22	48	109	179
Eliminated on disposals	-	(37)	(5)	(42)
At 1 February 2016	109	99	657	865
Charge for the year	19	55	142	216
Eliminated on disposals	-	(39)	(138)	(177)
As at 31 January 2017	128	115	661	904
<b>Net book value</b>				
At 31 January 2017	408	166	470	1,044
At 31 January 2016	426	153	446	1,025

### **10. INVESTMENTS**

	2017. £	2016 £
Shares in subsidiary companies - cost and carrying value		
At the start and end of the year	2	2

#### **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	Principal activity
Advantage Motor Finance Limited	Dormant
Communitas Finance Limited	Dormant

The Company has not prepared consolidated accounts as it is a wholly-owned subsidiary of S&U plc, a company registered in England and Wales, and the ultimate parent company which prepares consolidated financial statements.

# **Advantage Finance Limited**

## **NOTES TO THE FINANCIAL STATEMENTS** **For the year ended 31 January 2017**

### **11. AMOUNTS RECEIVABLE FROM CUSTOMERS**

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

The credit risk inherent in amounts receivable from customers is reviewed under impairment as per note 1.4 and under this review the credit quality of assets which are neither past due nor impaired was considered to be good. The above analysis of when loans are due is based upon original 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 (2016: £nil).

Analysis of movements on loan loss provisions	£000
At 1 February 2015	21,353
Charge for year	7,611
Amounts written off during year	(2,004)
Unwind of discount	(2,681)
At 31 January 2016	24,279
Charge for year	12,194
Amounts written off during year	(3,012)
Unwind of discount	(2,707)
As at 31 January 2017	<u>30,754</u>

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

## Advantage Finance Limited

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 January 2017

#### 12. TRADE AND OTHER RECEIVABLES

	2017 £000	2016 £000
Other debtors	14	8
Prepayments and accrued income	363	411
	<u>377</u>	<u>419</u>

All the above amounts fall due within one year. The carrying value of trade and other receivables is not materially different to their fair value.

#### 13. BANK OVERDRAFTS

	2017 £000	2016 £000
Bank overdrafts – due within one year	999	2,807

The bank overdraft is secured by a cross-guarantee from the parent company S&U plc and all S&U plc group companies (see note 18).

#### 14. TRADE AND OTHER PAYABLES

	2017 £000	2016 £000
Trade creditors	284	189
Amounts owed to other group undertakings	128,996	94,018
Other creditors	1,549	1,352
	<u>130,829</u>	<u>95,559</u>

Other than £15m of intercompany payables due within one year and £70m of intercompany payable due after more than one year the amounts owed to other group undertakings have no fixed maturity date. Within 2017 and 2016 provisions for liabilities are an estimation of potential future costs arising as a result of certain product sales. As permitted by IAS 37 paragraph 92, certain disclosures required by that standard have not been provided.

#### 15. DEFERRED TAX

	Accelerated tax depreciation	Share Based Payments	Total
	£000	£000	£000
At 1 February 2015	(27)	268	241
(Debit)/credit to income	(12)	74	62
Debit to equity	-	42	42
At 1 February 2016	(39)	384	345
Credit to income	(6)	(14)	(20)
Credit to equity	-	55	55
At 31 January 2017	<u>(45)</u>	<u>425</u>	<u>380</u>

A deferred tax asset has been recognised on the basis that the Company has been historically profitable and the asset can be utilised in the future.

# **Advantage Finance Limited**

## **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 January 2017**

### **16. CALLED UP SHARE CAPITAL**

	2017 £000	2016 £000
Authorised, called up, allotted and fully paid 1,000 Ordinary shares of £1 each	1	1

### **17. RECONCILIATION OF PROFIT BEFORE TAX TO NET CASH FROM OPERATING ACTIVITIES**

	2017 £000	2016 £000
Profit before tax	25,186	20,400
Tax paid	(4,551)	(3,550)
Depreciation on plant, property and equipment	216	179
Loss on disposal of plant, property and equipment	8	5
Increase in amounts receivable from customers	(48,388)	(38,754)
Decrease/ (increase) in trade and other receivables	42	(138)
Increase in trade and other payables	35,949	23,914
Decrease in accruals and deferred income	(574)	(710)
Cost of future share based payments	266	292
<b>Net cash inflow from operating activities</b>	<b>8,154</b>	<b>1,638</b>

### **18. CONTINGENT LIABILITIES**

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

The Company has entered into cross-guarantee arrangements with respect to the loans and bank overdrafts of certain of other group companies. The maximum exposure under this arrangement at 31 January 2017 was £48,172,000 (2016: £32,807,000).

### **19. RELATED PARTY TRANSACTIONS**

The Company paid dividends to its parent company S&U plc of £6,100,000 (2016: £4,700,000). During the current and preceding year the Company was recharged by other group undertakings for various administrative expenses incurred on behalf of Advantage Finance Limited. At 31 January 2017 the Company owed £128,996,180 (2016: £94,018,008) to other group undertakings and was owed £nil by other group undertakings (2016: £nil).

### **20. ULTIMATE PARENT COMPANY**

The Company's ultimate parent company and controlling party is S&U plc, a company incorporated in England. This is the largest and smallest group of which the Company is a member and for which consolidated financial statements are drawn up. Copies of the group accounts of S&U plc may be obtained from its registered office at 6 The Quadrangle, Cranmore Avenue, Solihull B90 4LE.

## Advantage Finance Limited

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 January 2017

#### 21. FINANCIAL COMMITMENTS

##### Capital commitments

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

##### Operating lease commitments

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

	2017 £000	2016 £000
Within one year	48	19
In the second to fifth years inclusive	25	28
After five years	-	-
	<u>73</u>	<u>47</u>

#### 22. PENSION SCHEMES

The Company made contributions of £164,490 (2016: £172,296) to a defined contribution pension scheme and there are £15,177 outstanding contributions at 31 January 2017 (31 January 2016: £20,591).

#### 23. FINANCIAL INSTRUMENTS

The Company's principal financial instruments are amounts receivable from customers, cash, bank overdrafts and bank loans.

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 hire purchase debts are secured by the goods.

The table on the next page analyses the Company assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date (to contractual maturity).

The average effective interest rate on financial assets of the Company was estimated to be 31% (2016: 30%). The average effective interest rate on financial liabilities of the Company at 31 January 2017 was estimated to be 4% (2016: 4%).

##### Currency and credit risk

The Company 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 by ensuring that the valuation of the security at origination of the loan is within glasses guide and cap limits. As confirmation required under IFRS 8, no individual customer contributes more than 10% of the revenue for the Company. Company trade and other receivables and cash are considered to have no material credit risk as all material balances are due from highly rated banking counterparties.

##### Interest rate risk

The Company is part of the S&U plc Group whose 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 in accordance with disclosures made in the S&U plc accounts. There is considered to be no material interest rate risk in cash, trade and other receivables and trade and other payables.

## **Advantage Finance Limited**

### **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 January 2017**

#### **23. FINANCIAL INSTRUMENTS (CONTINUED)**

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

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

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

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

- profit for the year ended 31 January 2017 would decrease by £0.4million (2016: decrease by £0.2million). This is mainly attributable to the Group's exposure on its variable rate borrowings.
- total equity would decrease by £0.4million (2016: decrease by £0.2million). This is mainly attributable to the Group's exposure on its variable rate borrowings.

#### **Capital risk management**

The Company is part of the S&U plc Group and the Board of Directors of S&U plc 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. At 31 January 2017 the group gearing level was 35% (2016: 9%) which the directors consider to have met their objective. External capital requirements are imposed by the FCA on Advantage Finance itself. Throughout the year the 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 are considered to be not materially different from their book values. No assets or liabilities are held on the balance sheet at fair value.



# **Advantage Finance Limited**

## **NOTES TO THE FINANCIAL STATEMENTS** **For the year ended 31 January 2017**

### **23. FINANCIAL INSTRUMENTS (CONTINUED)**

#### **Liquidity risk**

The Company's liquidity risk is shown in the following tables which measure the cumulative liquidity gap.

	Less than 1 year	More than 1 year but not more than 2 years	More than 2 years but not more than 5 years	More than 5 years	Non interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>At 31 January 2017</b>						
Financial assets	57,156	42,860	93,513	-	-	193,529
Other assets	-	-	-	-	1,804	1,804
<b>Total assets</b>	<b>57,156</b>	<b>42,860</b>	<b>93,513</b>	<b>-</b>	<b>1,804</b>	<b>195,333</b>
Shareholder's funds	-	-	-	-	(59,073)	(59,073)
Bank overdrafts and loans	(999)	-	-	-	-	(999)
Other liabilities	(15,000)	(44,000)	(55,000)	(15,000)	(6,261)	(135,261)
<b>Total liabilities and shareholder's funds</b>	<b>(15,999)</b>	<b>(44,000)</b>	<b>(55,000)</b>	<b>(15,000)</b>	<b>(65,334)</b>	<b>(195,333)</b>
<b>Cumulative gap</b>	<b>41,157</b>	<b>40,017</b>	<b>78,530</b>	<b>63,530</b>	<b>-</b>	<b>-</b>
	Less than 1 year	More than 1 year but not more than 2 years	More than 2 years but not more than 5 years	More than 5 years	Non interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>At 31 January 2016</b>						
Financial assets	43,072	31,920	70,149	-	-	145,141
Other assets	-	-	-	-	1,789	1,789
<b>Total assets</b>	<b>43,072</b>	<b>31,920</b>	<b>70,149</b>	<b>-</b>	<b>1,789</b>	<b>146,930</b>
Shareholder's funds	-	-	-	-	(44,678)	(44,678)
Bank overdrafts and loans	(2,807)	-	-	-	-	(2,807)
Other liabilities	(5,445)	(24,000)	(40,000)	(30,000)	-	(99,445)
<b>Total liabilities and shareholder's funds</b>	<b>(8,252)</b>	<b>(24,000)</b>	<b>(40,000)</b>	<b>(30,000)</b>	<b>(44,678)</b>	<b>(146,930)</b>
<b>Cumulative gap</b>	<b>34,820</b>	<b>42,740</b>	<b>72,889</b>	<b>42,889</b>	<b>-</b>	<b>-</b>

# **Advantage Finance Limited**

## **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 January 2017**

### **23. FINANCIAL INSTRUMENTS (CONTINUED)**

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

	Repayable on Demand	Less than 1 year	More than 1 year but not more than 2 years	More than 2 years but not more than 5 years	More than 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>At 31 January 2017</b>						
Bank overdrafts and loans	999	-	-	-	-	999
Trade and other payables	-	1,829	-	-	-	1,829
Tax liabilities	-	2,955	-	-	-	2,955
Accruals and deferred income	-	1,477	-	-	-	1,477
Intercompany loans	-	15,000	44,000	55,000	15,000	129,000
<b>At 31 January 2017</b>	<b>999</b>	<b>21,261</b>	<b>44,000</b>	<b>55,000</b>	<b>15,000</b>	<b>136,260</b>

	Repayable on Demand	Less than 1 year	More than 1 year but not more than 2 years	More than 2 years but not more than 5 years	More than 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>At 31 January 2016</b>						
Bank overdrafts and loans	2,807	-	-	-	-	2,807
Trade and other payables	-	1,559	-	-	-	1,559
Tax liabilities	-	2,514	-	-	-	2,514
Accruals and deferred income	-	1,372	-	-	-	1,372
Intercompany loans	-	-	24,000	40,000	30,000	94,000
<b>At 31 January 2016</b>	<b>2,807</b>	<b>5,445</b>	<b>24,000</b>	<b>40,000</b>	<b>30,000</b>	<b>102,252</b>