Company Registration No: 03773673

Advantage Finance Limited

Annual Report and Financial Statements

For the year ended 31 January 2018

Advantage Finance Limited

CONTENTS

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

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
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, DIVIDENDS AND FUTURE DEVELOPMENTS

Despite a recent reported slow-down in the new car market, demand for Advantage's products and for its excellent customer service remain strong.

Applications for finance in the financial year were a record 860,000 mainly received through its loyal broker network. This enabled us to write a record 24,500 new agreements, an increase of 22% on last year, albeit this reflects under 3% of applications received. Advantage's customers now number over 54,000 a rise of 26% against 43,000 last year. This has resulted in net receivables increasing above the milestone £250m mark at £251.2m (2017: £193.5m). Meanwhile collections increased this year by 26% in line with customer numbers to a record £153.3m (2017: £121.8m).

The size, quality and profitability of Advantage is reward for the hard work and stewardship of the 140 people who work there. No less than 18 years of consistently increasing profit is, I suspect, an almost unparalleled achievement in the often choppy waters of British consumer finance, particularly in the non-prime field. Here, accurate customer selection, appropriate products and the ability to "steer" for changing economic circumstances are paramount. Naturally our customers are not immune to the economic cycle; although the labour market has been strong in recent years, it has been characterised by slightly falling real incomes, as wage growth has failed to keep pace with albeit historically low levels of inflation.

For some customers who have sought to maintain living standards by taking new lines of credit, this has reduced capacity and been reflected in a rise in impairment to £19.4m this year. At 24.6% of revenue this is still relatively low versus the average for the previous 10 years of 27.2%. Further, 18 successive years of profit growth and operational refinement have given Advantage the experience and wisdom to make timely and targeted adjustments to its already sophisticated and sensitive under-writing model. In motoring terms, the shape of the road and the nature of the terrain has made for sensible gear changes, steering tweaks and an easing of the accelerator. The result is proving to be a slightly lower risk adjusted yield of 27% this year (2017: 28%). Early signs of the under-writing changes already made are having a beneficial effect upon both new customer quality and early repayment performance, which we anticipate will lead to a reduction in impairment to revenue in due course. The principle of continuous improvement is inherent in our future development.

Speed and consistency of service for our customers and introducer brokers has always been the bedrock of our long-standing relationships, and the quality customers they bring with them. This year has seen the introduction of Dealflo, our paperless and transparent customer management system. In making their finance journey easier and more comprehensible, we are seeing a significant uplift in successful customer transactions. This will sharpen even further Advantage's competitive edge and hence its future growth.

The Company's profit on ordinary activities after tax was £24.4m (2017: £20.2m). Interim ordinary dividends of £8.2m (2017: £6.1m) were paid during the year, leaving retained profits of £16.2m (2017: £14.1m) to be transferred to reserves. No further dividends are proposed for the year ended 31 January 2018 (2017: £Nil). The Company's principal balance sheet asset continues to be its loan book and the directors consider the year-end balance sheet position to be satisfactory.

REVIEW OF PRINCIPAL RISKS AND UNCERTAINTIES

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

Credit, Economic, and Concentration Risks

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 the ability of a customer to repay. The Company operates in the UK market and it is very difficult to anticipate the effects of Brexit on the environment generally or on our customers. 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 credit, economic and concentration risks are principally controlled through our credit control policies including loan to value limits for the security and through ongoing monitoring and evaluation.

Funding and Liquidity Risks

Funding and liquidity risk relates to the availability of sufficient borrowing facilities for the Company to meet its liabilities as they fall due. This funding and liquidity risk is managed at Group level and during the year ended 31 January 2018 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.

Legal Risk

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 a regulated lender Advantage Finance Limited applied for a standard FCA licence in 2016 and received renewed authorisation. Advantage directors are prominent members of the Finance and Leasing Association's committees and, through them, regularly liaise with the FCA. Regulatory Risk is addressed by the constant review and monitoring of Advantage's internal controls and processes. This process is buttressed by specific advice from Trade and other organisations and by the work of our internal auditors.

Conduct Risk

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

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. Although breaches are rare, a review has been completed internally and monitored by RSM, our internal auditors. This will be an ongoing process overseen by the Audit Committee.

Advantage Finance Limited

STRATEGIC REPORT (CONTINUED)

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 appropriatness of the going concern assumption, 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 financial statements. 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 19 April 2018

Advantage Finance Limited

DIRECTORS' REPORT

The directors present their Annual Report and the audited financial statements for the year ended 31 January 2018.

DIRECTORS

The directors who served during the year and up to the date of signing the financial statements were:
BA Burton, AMV Coombs, GDC Coombs, K Charlton, J Murdoch, CH Redford, JG Thompson, A Tuplin, HA Wilkinson, S Wilkinson, M Walker and D Sandiford (appointed during the year on 6 February 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 £8,200,000 (2017: £6,100,000) were paid during the year.

CAPITAL STRUCTURE

Details of the issued share capital, together with details of the movements in the Company's issued shared 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.

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 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

19 April 2018

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 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

19 April 2018

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 January 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Advantage Finance Ltd (the 'company') 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.

Basis for opinion

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

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ADVANTAGE FINANCE LIMITED (CONTINUED)

Other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Report on other legal and regulatory requirements

Opinions 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 or the directors' report.

Advantage Finance Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ADVANTAGE FINANCE LIMITED (CONTINUED)

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

Kieren Cooper (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Birmingham, United Kingdom

19 April 2018

ADVANTAGE FINANCE LIMITED
INCOME STATEMENT
For the year ended 31 January 2018

	Note	2018 £000	2017 £000
Revenue		78,882	60,521
Cost of sales	3	(36,410)	(25,065)
Gross profit		42,472	35,456
Administrative expenses		(6,954)	(5,940)
Operating profit	5	35,518	29,516
Finance costs	6	(5,307)	(4,330)
Profit before tax		30,211	25,186
Taxation	7	(5,753)	(5,012)
Profit for the year		24,458	20,174

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 2018

	Note	2018 £000	2017 £000
ASSETS			
Non Current Assets			
Property, plant and equipment	9	1,759	1,044
Investments	10	-	-
Amounts receivable from customers	11	178,597	136,373
Deferred tax assets	15	424	380
		180,780	137,797
Current Assets			
Amounts receivable from customers	11	72,618	57,156
Trade and other receivables	12	574	377
Cash and cash equivalents		-	3
		73,192	57,536
Total Assets		253,972	195,333
LIABILITIES			
Current liabilities			
Bank overdrafts	13	(1,399)	(999)
Trade and other payables	14	(2,482)	(16,829)
Tax liabilities		(3,387)	(2,955)
Provision for liabilities		(279)	(834)
Accruals and deferred income		(356)	(643)
Total current liabilities		(7,903)	(22,260)
Non current liabilities			
Trade and other payables	14	(170,500)	(114,000)
Total non current liabilities		(170,500)	(114,000)
Total liabilities		(178,403)	(136,260)
NET ASSETS		75,569	59,073
Equity			
Called up share capital	16	1	1
Profit and loss account		75,568	59,072
Total equity		75,569	59,073

The financial statements for Advantage Finance Limited (company registered no. 03773673) were approved by the Board of Directors on 19 April 2018.

Signed on behalf of the Board of Directors

HA Wilkinson

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 January 2018

	Called up share capital £000	Profit and loss account £000	Total equity £000
At 1 February 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
Total comprehensive income for year	-	24,458	24,458
Cost of future share based payments	-	217	217
Tax charge on equity items	-	21	21
Dividends	-	(8,200)	(8,200)
At 31 January 2018	1	75,568	75,569

CASH FLOW STATEMENT
For the year ended 31 January 2018

	Note	2018 £000	2017 £000
Net cash inflow from operating activities	17	8,768	8,154
Cash flows from investing activities			
Proceeds on disposal of property, plant and equipment		27	43
Purchases of property, plant and equipment		(998)	(286)
Net cash used in investing activities		(971)	(243)
Cash flows from financing activities			
Dividends paid		(8,200)	(6,100)
Net increase/(decrease) in overdraft		400	(1,808)
Net cash used in financing activities		(7,800)	(7,908)
Net (decrease)/increase in cash and cash equivalents		(3)	3
Cash and cash equivalents at the beginning of year		3	-
Cash and cash equivalents at the end of year		-	3

1. ACCOUNTING POLICIES

1.1 General Information

Advantage Finance Limited is a private limited company and is limited by shares. The company is 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.

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
IFRS 16	Leases

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 as follows:

From 1 February 2018 and for our accounts for the forthcoming year ending 31 January 2019, IFRS9 "Financial Instruments" replaces IAS 39 for the way we value and measure our financial assets. In particular, IFRS9 requires the impairment of our customer receivables to be recognised through an expected loss model rather than IAS 39's emphasis on historical impairment triggers. As Advantage Finance Limited customer receivables have been growing, the earlier expected loss provisioning under IFRS9 increases overall provisions at 1 February 2018. Therefore the overall impact of the new standard will be a small reduction in the carrying value of receivables on the balance sheet and our preliminary assessment is that it will have an impact of between 1% and 2% of net receivables. This day one impact will be charged to equity after adjusting related deferred tax balances. As this is an accounting adjustment, there is no impact on either the Company's cash flows or on the underlying profitability of its loans.

From 1 February 2018 and for our accounts for the forthcoming year ending 31 January 2019, the Company will be early adopting IFRS16 for revenue recognition purposes as part of the Company's required transition to IFRS9. This early adoption of IFRS16 is not expected to make any significant difference to the financial statements.

1. ACCOUNTING POLICIES (CONTINUED)

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 (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. Acceptance fees charged to customers and any direct transaction costs are included in the calculation of the EIR. Under IAS 39 interest income 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.

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

1.5 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any provision for impairment. Certain freehold property is held at previous revalued amounts less accumulated depreciation as the Company 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:

Leasehold Buildings	2% per annum straight line
Fixtures and Fittings	20% per annum straight line
Motor Vehicles	25% per annum reducing balance

1. ACCOUNTING POLICIES (CONTINUED)

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.

1.9 Leases

Rental costs under operating leases are charged to the income statement 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 2018.

1.11 Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

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 2018.

3. COST OF SALES

	2018 £000	2017 £000
Loan loss provisioning charge	19,434	12,194
Other cost of sales	16,976	12,871
	36,410	25,065

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

Directors' emoluments	2018 £000	2017 £000
Salary	1,669	1,421
Pension and salary supplement in lieu	109	105
Social security	261	114
	2,039	1,640

The emoluments of the highest paid director are £1,068,067 for the year (2017: £949,237) including benefits received and receivable under long term incentive schemes of £412,920 (2017: £391,000), and the Company paid pension contributions on his behalf and salary supplement in lieu of £60,000 (2017: £60,003). Nine of the directors exercised share options under long term incentive schemes during the year (2017: 7) and the highest paid director exercised 2,950 share options under long term incentive schemes during the year (2017: Nil). Three of the directors are paid by other S&U plc Group companies and received no remuneration for their services to this company.

	2018	2017
Number of directors who are members of a defined contribution pension scheme	9	9
Average number of persons employed		
Management and administration	129	110

Staff costs during the year (including directors):	£000	£000
Wages and salaries	5,024	4,389
Social security costs	420	353
Other pension costs	190	164
	5,634	4,906

5. OPERATING PROFIT

	2018 £000	2017 £000
Operating profit is stated after charging:		
Depreciation and amortisation:		
Owned assets	251	216
Staff Costs	5,634	4,906
Rentals under operating leases:		
Other operating leases	21	56
Loss on sale of fixed assets	5	8
The analysis of auditor's remuneration is as follows;		
Fees payable to the Company's Auditor for the audit of the Company's annual financial statements	58	49
Total audit fees	**58**	**49**
Audit related assurance services	25	21
Total non audit fees	**25**	**21**
Total	**83**	**70**

6. FINANCE COSTS

	2018 £000	2017 £000
Interest payable	5,307	4,330

7. TAX

	2018 £000	2017 £000
Corporation tax at 19.17% (2017: 20.00%) based on the profit for the year	5,776	5,041
Current tax adjustment in respect of prior years	-	(49)
Deferred tax (note 15)	(23)	20
	5,753	5,012

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.

	2018 £000	2017 £000
Profit on ordinary activities before tax	30,211	25,186
Tax on profit on ordinary activities at standard rate of 19.17% (2017: 20.00%)	5,791	5,037
Factors affecting charge for the period:		
Expenses not deductible for tax purposes	18	14
Effects of change in tax rate	(56)	10
Adjustment in respect of prior years	-	(49)
Total tax charge for the year	5,753	5,012

The main rate of corporation tax was reduced from 20% to 19% with effect from 1 April 2017, therefore the tax rate applicable to the current period is a rate of 19.17% (2017: 20%).

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

8. DIVIDENDS

	2018 £000	2017 £000
Ordinary dividend paid in the year of £8,200 per share (2017: £6,100 per share)	8,200	6,100

9. PROPERTY, PLANT AND EQUIPMENT

	Leasehold Buildings £000	Motor vehicles £000	Fixtures and Fittings £000	Total £000
Cost or valuation				
At 1 February 2016	535	252	1,103	1,890
Additions	1	118	167	286
Disposals	-	(89)	(139)	(228)
At 1 February 2017	536	281	1,131	1,948
Additions	691	91	216	998
Disposals	(61)	(36)	(259)	(356)
As at 31 January 2018	1,166	336	1,088	2,590
Accumulated depreciation				
At 1 February 2016	109	99	657	865
Charge for the year	19	55	142	216
Eliminated on disposals	-	(39)	(138)	(177)
At 1 February 2017	128	115	661	904
Charge for the year	26	59	166	251
Eliminated on disposals	(60)	(15)	(249)	(324)
As at 31 January 2018	94	159	578	831
Net book value				
At 31 January 2018	1,072	177	510	1,759
At 31 January 2017	408	166	470	1,044

10. INVESTMENTS

	2018 £	2017 £
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 (03773678)	Dormant
Communitas Finance Limited (05344125)	Dormant

The Company has not prepared consolidated financial statements 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. This exemption has been taken in accordance with section 405 of the Companies Act 2006.

11. AMOUNTS RECEIVABLE FROM CUSTOMERS

	2018 £000	2017 £000
Credit receivables	295,677	224,283
Less: Loan loss provision	(44,462)	(30,754)
Amounts receivable from customers	251,215	193,529
Analysed by future date due		
- due within one year	72,618	57,156
- due in more than one year	178,597	136,373
Amounts receivable from customers	251,215	193,529
Analysis of security		
Loans secured on vehicles under hire purchase agreements	247,994	191,316
Other loans	3,221	2,213
Amounts receivable from customers	251,215	193,529
Analysis of overdue		
Not impaired		
Neither past due nor impaired	219,153	170,683
Past due up to 3 months but not impaired	-	-
Impaired		
Past due up to 3 months	24,192	17,254
Past due up to 6 months	2,894	2,182
Past due over 6 months or default	4,976	3,410
Amounts receivable from customers	251,215	193,529

The credit risk inherent in amounts receivable from customers is reviewed under impairment as per note 1.4 and under this review the credit quality of assets which are neither past due nor impaired was considered to be good. The above analysis of when loans are due is based upon original contractual terms which are not rescheduled – the carrying amount of amounts receivable from customers whose terms have been renegotiated that would otherwise be past due or impaired is therefore £nil (2017: £nil).

Analysis of movements on loan loss provisions	£000
At 1 February 2016	24,279
Charge for year	12,194
Amounts written off during year	(3,012)
Unwind of discount	(2,707)
At 31 January 2017	30,754
Charge for year	19,434
Amounts written off during year	(3,298)
Unwind of discount	(2,428)
At 31 January 2018	44,462

There has been no material change in the average discount rate used during the years to 31 January 2017 and 31 January 2018.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 January 2018

12. TRADE AND OTHER RECEIVABLES

	2018 £000	2017 £000
Other debtors	12	14
Prepayments and accrued income	562	363
	574	377

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

	2018 £000	2017 £000
Bank overdrafts – due within one year	1,399	999

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

	2018 £000	2017 £000
Trade creditors	338	284
Amounts owed to other group undertakings	170,528	128,996
Other creditors	2,116	1,549
	172,982	130,829

Other than £115m of intercompany payables due after more than one year (2017: £70m) the amounts owed to group undertakings have no fixed maturity date. Within 2018 and 2017 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 £000	Share Based Payments £000	Total £000
At 1 February 2016	(39)	384	345
(Debit) to income	(6)	(14)	(20)
Credit to equity	-	55	55
At 1 February 2017	(45)	425	380
(Debit)/credit to income	(17)	40	23
Credit to equity	-	21	21
At 31 January 2018	(62)	486	424

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.

16. CALLED UP SHARE CAPITAL

	2018 £000	2017 £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

	2018 £000	2017 £000
Profit before tax	30,211	25,186
Tax paid	(5,343)	(4,551)
Depreciation on property, plant and equipment	251	216
Loss on disposal of property, plant and equipment	5	8
Increase in amounts receivable from customers	(57,686)	(48,388)
(Increase)/decrease in trade and other receivables	(197)	42
Increase in trade and other payables	42,153	35,949
Decrease in accruals and deferred income	(843)	(574)
Cost of future share based payments	217	266
Net cash inflow from operating activities	8,768	8,154

18. CONTINGENT LIABILITIES

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 2018 was £104,000,000 (2017: £48,172,000).

19. RELATED PARTY TRANSACTIONS

The Company paid dividends to its parent company S&U Plc of £8,200,000 (2017: £6,100,000). During the current and preceding years the Company was recharged by other group undertakings for various administrative expenses incurred on behalf of Advantage Finance Limited. At 31 January 2018 the Company owed £170,527,657 (2017: £128,996,180) to other group undertakings and was owed £nil by other group undertakings (2017: £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 financial statements of S&U Plc may be obtained from its registered office at 6 The Quadrangle, Cranmore Avenue, Solihull B90 4LE.

21. FINANCIAL COMMITMENTS

Capital commitments

At 31 January 2018 and 31 January 2017 the Company had no capital commitments contracted but not provided for.

Operating lease commitments

At 31 January 2018 and 31 January 2017, the Company had outstanding commitments under non-cancellable operating leases which fall due as follows:

	2018 £000	2017 £000
Within one year	19	48
In the second to fifth years inclusive	-	25
After five years	-	-
	19	73

22. PENSION SCHEMES

The Company made contributions of £190,120 (2017: £164,490) to a defined contribution pension scheme and there are £17,358 of outstanding contributions at 31 January 2018 (31 January 2017: £15,177).

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 financed vehicle.

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 at 31 January 2018 was estimated to be 31% (2017: 31%). The average effective interest rate on financial liabilities of the Company at 31 January 2018 was estimated to be 4% (2017: 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 per confirmations 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.

23. FINANCIAL INSTRUMENTS (CONTINUED)

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 Group financial statements. There is considered to be no material interest rate risk in cash, trade and other receivables and trade and other payables.

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

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

- profit for the year ended 31 January 2018 would decrease by £0.4million (2017: decrease by £0.2million). This is mainly attributable to the Company's exposure on its variable rate borrowings.

- total equity would decrease by £0.3million (2017: decrease by £0.2million). 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 2018 would decrease by £0.7million (2017: decrease by £0.4million). This is mainly attributable to the Group's exposure on its variable rate borrowings.

- total equity would decrease by £0.6million (2017: decrease by £0.4million). 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 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 2018 the Group gearing level was 69% (2017: 35%) 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.

23. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk

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

At 31 January 2018	Less than 1 year £'000	More than 1 year but not more than 2 years £'000	More than 2 years but not more than 5 years £'000	More than 5 years £'000	Non interest bearing £'000	Total £'000
Financial assets	72,618	54,732	123,865	-	-	251,215
Other assets	-	-	-	-	2,757	2,757
Total assets	72,618	54,732	123,865	-	2,757	253,972
Shareholder's funds	-	-	-	-	(75,569)	(75,569)
Bank overdrafts and loans	(1,399)	-	-	-	-	(1,399)
Other liabilities	-	-	(66,500)	(104,000)	(6,504)	(177,004)
Total liabilities and shareholder's funds	(1,399)	-	(66,500)	(104,000)	(82,073)	(253,972)
Cumulative gap	71,219	125,951	183,316	79,316	-	-

At 31 January 2017	Less than 1 year £'000	More than 1 year but not more than 2 years £'000	More than 2 years but not more than 5 years £'000	More than 5 years £'000	Non interest bearing £'000	Total £'000
Financial assets	57,156	42,860	93,513	-	-	193,529
Other assets	-	-	-	-	1,804	1,804
Total assets	57,156	42,860	93,513	-	1,804	195,333
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)
Total liabilities and shareholder's funds	(15,999)	(44,000)	(55,000)	(15,000)	(65,334)	(195,333)
Cumulative gap	41,157	40,017	78,530	63,530	-	-

23. FINANCIAL INSTRUMENTS (CONTINUED)

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

At 31 January 2018	Repayable on Demand £'000	Less than 1 year £'000	More than 1 year but not more than 2 years £'000	More than 2 years but not more than 5 years £'000	More than 5 years £'000	Total £'000
Bank overdrafts and loans	1,399	-	-	-	-	1,399
Trade and other payables	-	2,482	-	-	-	2,482
Tax liabilities	-	3,387	-	-	-	3,387
Accruals and deferred income	-	635	-	-	-	635
Intercompany loans	-	-	66,500	104,000	-	170,500
At 31 January 2018	1,399	6,504	66,500	104,000	-	178,403

At 31 January 2017	Repayable on Demand £'000	Less than 1 year £'000	More than 1 year but not more than 2 years £'000	More than 2 years but not more than 5 years £'000	More than 5 years £'000	Total £'000
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
At 31 January 2017	999	21,261	44,000	55,000	15,000	136,260