Company Registration No: 03773673

Advantage Finance Limited

Annual Report and Financial Statements

For the year ended 31 January 2019

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 (Resigned 1 May 2018)
S Wilkinson
M Walker
D Sandiford
D Vessey (Appointed 6 February 2019)
N Greensides (Appointed 6 February 2019)
W Taylor (Appointed 6 February 2019)

COMPANY SECRETARY

C H Redford

REGISTERED OFFICE

2 Stratford Court
Cranmore Boulevard
Solihull
Birmingham
B90 4QT

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 1,010,000 mainly received through its broker network. This enabled us to write 21,000 new agreements, albeit a 14% decrease on the previous year with the company aiming to improve the quality of the loan book and an increase in competition within the market place. Advantage's customers now number over 59,000 a rise of 9% against 54,000 last year. This has resulted in net receivables increasing 3% to £258.8m (2018: £251.2m). Meanwhile collections increased this year by 18% in line with customer numbers to a record £181.5m (2018: £153.3m).

The size, quality and profitability of Advantage is reward for the hard work and stewardship of the over 150 people who work there. Advantage now has a remarkable achievement of 19 years of record profits since its launch in 1999. 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.

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

The Company's profit on ordinary activities after tax was £27.3m (2018: £24.4m). Interim ordinary dividends of £10.5m (2018: £8.2m) were paid during the year, leaving retained profits of £16.8m (2018: £16.2m) to be transferred to reserves. No further dividends are proposed for the year ended 31 January 2019 (2018: £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 2019 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 Group 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 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

D W Vessey

Director 18 April 2019

Advantage Finance Limited

DIRECTORS' REPORT

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

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, S Wilkinson, M Walker and D Sandiford.
H Wilkinson resigned as a director on 1 May 2018.
D Vessey, N Greensides and W Taylor were appointed as directors on 6 February 2019.

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 £10,500,000 (2018: £8,200,000) 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.

INFORMATION PROVIDED TO THE AUDITOR'S

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

DW Vessey

Director

18 April 2019

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

DW Vessey

Director

18 April 2019

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 of Advantage Finance Ltd (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 January 2019 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 which comprise:

- the Income Statement;
- the Balance Sheet;
- the Statement of Changes in Equity;
- the Cash Flow Statement;
- the statement of accounting policies; and
- the related notes 1 to 23

The financial reporting framework that has been applied in their preparation is applicable law and 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 Financial Reporting Council's (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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

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.

Use of our report

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

Kieren Cooper (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Birmingham, United Kingdom

18 April 2019

ADVANTAGE FINANCE LIMITED
INCOME STATEMENT
For the year ended 31 January 2019

	Note	2019 £000	2018 £000
Revenue		86,372	78,882
Cost of sales	3	(38,277)	(36,410)
Gross profit		48,095	42,472
Administrative expenses		(7,915)	(6,954)
Operating profit	5	40,180	35,518
Finance costs	6	(6,539)	(5,307)
Profit before tax		33,641	30,211
Taxation	7	(6,379)	(5,753)
Profit for the year		27,262	24,458

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 2019

	Note	2019 £000	2018 £000
ASSETS			
Non Current Assets			
Property, plant and equipment	9	1,781	1,759
Right to use asset		46	-
Investments	10	-	-
Amounts receivable from customers	11	182,310	178,597
Deferred tax assets	15	367	424
		184,504	180,780
Current Assets			
Amounts receivable from customers	11	76,500	72,618
Trade and other receivables	12	960	574
Cash and cash equivalents		-	-
		77,460	73,192
Total Assets		261,964	253,972
LIABILITIES			
Current liabilities			
Bank overdrafts	13	(31)	(1,399)
Trade and other payables	14	(1,911)	(2,482)
Tax liabilities		(3,616)	(3,387)
Provision for liabilities		(12)	(279)
Accruals and deferred income		(469)	(356)
Total current liabilities		(6,039)	(7,903)
Non current liabilities			
Trade and other payables	14	(166,000)	(170,500)
Total non current liabilities		(166,000)	(170,500)
Total liabilities		(172,039)	(178,403)
NET ASSETS		89,925	75,569
Equity			
Called up share capital	16	1	1
Profit and loss account		89,924	75,568
Total equity		89,925	75,569

The financial statements for Advantage Finance Limited (company registered no. 03773673) were approved by the Board of Directors on 18 April 2019.

Signed on behalf of the Board of Directors

D W Vessey

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 January 2019

	Called up share capital £000	Profit and loss account £000	Total equity £000
At 1 February 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
Total comprehensive income for year	-	27,262	27,262
Cost of future share based payments	-	121	121
Tax charge on equity items	-	(57)	(57)
Dividends	-	(10,500)	(10,500)
Prior year adjustment IFRS 9	-	(3,050)	(3,050)
Tax charge on equity item	-	580	580
At 31 January 2019	1	89,924	89,925

CASH FLOW STATEMENT
For the year ended 31 January 2019

	Note	2019 £000	2018 £000
Net cash inflow from operating activities	17	12,241	8,768
Cash flows from investing activities			
Proceeds on disposal of property, plant and equipment		45	27
Purchases of property, plant and equipment		(367)	(998)
Purchases of right to use asset		(51)	-
Net cash used in investing activities		(373)	(971)
Cash flows from financing activities			
Dividends paid		(10,500)	(8,200)
Net (decrease)/increase in overdraft		(1,368)	400
Net cash used in financing activities		(11,868)	(7,800)
Net decrease in cash and cash equivalents		-	(3)
Cash and cash equivalents at the beginning of year		-	3
Cash and cash equivalents at the end of year		-	-

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

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

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

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

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

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

1.4 Impairment and measurement of amounts receivable from customers

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

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

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

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

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

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

Stage 3: Credit impaired

For all loans in stages 2 and 3 a provision equal to the lifetime expected credit loss is taken. In addition and in accordance with the provisions of IFRS9 a collective provision for 12 months expected credit losses ("ECL") is recognised for the remainder of the loan book. 12 month ECL is the portion of lifetime ECL that results from default events on a financial asset that are possible within 12 months after the reporting date.
All loans 1 month or more in contractual arrears are deemed credit impaired and are therefore included in IFRS9 stage 3. The expected credit loss ("ECL") is the probability weighted estimate of credit losses.

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

1. ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

1.6 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

Depreciation is charged on right to use assets to the income statement on a straight-line basis over the contractual life of the asset.

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

1. ACCOUNTING POLICIES (CONTINUED)

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 2019.

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.

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

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.

3. COST OF SALES

	2019 £000	2018 £000
Loan loss provisioning charge	22,979	19,434
Other cost of sales	15,298	16,976
	38,277	36,410

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2019	2018
Directors' emoluments	**£000**	**£000**
Salary	1,506	1,669
Pension and salary supplement in lieu	103	109
Social security	350	261
	1,959	2,039

4. ACCOUNTING POLICIES (CONTINUED)

The emoluments of the highest paid director are £760,486 for the year (2018: £1,068,067) including benefits received and receivable under long term incentive schemes of £127,320 (2018: £412,920), and the Company paid pension contributions on his behalf and salary supplement in lieu of £51,315 (2018: £60,000). Nine of the directors exercised share options under long term incentive schemes during the year (2018: 9) and the highest paid director exercised £Nil share options under long term incentive schemes during the year (2018: 2,950). Three of the directors are paid by other S&U plc Group companies and received no remuneration for their services to this company.

	2019	2018
Number of directors who are members of a defined contribution pension scheme	9	9
Average number of persons employed		
Management and administration	148	129

Staff costs during the year (including directors):	**£000**	**£000**
Wages and salaries	5,324	5,024
Social security costs	440	420
Other pension costs	221	190
	5,985	5,634

5. OPERATING PROFIT

	2019 £000	2018 £000
Operating profit is stated after charging:		
Depreciation and amortisation:		
Owned assets	307	251
Right to use asset	4	-
Staff Costs	5,985	5,634
(Profit)/Loss on sale of fixed assets	(5)	5

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	85	58
Total audit fees	**85**	**58**
Audit related assurance services	20	25
Total non audit fees	**20**	**25**
Total	**105**	**83**

6. FINANCE COSTS

	2019 £000	2018 £000
Interest payable	6,539	5,307

7. TAX

	2019 £000	2018 £000
Corporation tax at 19.00% (2018: 19.17%) based on the profit for the year	6,379	5,776
Deferred tax (note 15)	-	(23)
	6,379	5,753

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.

	2019 £000	2018 £000
Profit on ordinary activities before tax	33,641	30,211
Tax on profit on ordinary activities at standard rate of 19.00% (2018: 19.17%)	6,392	5,791
Factors affecting charge for the period:		
Expenses not deductible for tax purposes	16	18
Effects of change in tax rate	(25)	(56)
Adjustment in respect of prior years	(4)	-
Total tax charge for the year	6,379	5,753

The main rate of corporation tax was 19% with effect from 1 April 2017, therefore the tax rate applicable to the current period is a rate of 19.00% (2018: 19.17%).

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

	2019 £000	2018 £000
Ordinary dividend paid in the year of £10,500 per share (2018: £8,200 per share)	10,500	8,200

9. PROPERTY, PLANT AND EQUIPMENT

	Leasehold Buildings £000	Motor vehicles £000	Fixtures and Fittings £000	Total £000
Cost or valuation				
At 1 February 2017	536	281	1,131	1,948
Additions	691	91	216	998
Disposals	(61)	(36)	(259)	(356)
At 1 February 2018	1,166	336	1,088	2,590
Additions	64	162	141	367
Disposals	(3)	(87)	(69)	(159)
As at 31 January 2019	1,227	411	1,160	2,798
Accumulated depreciation				
At 1 February 2017	128	115	661	904
Charge for the year	26	59	166	251
Eliminated on disposals	(60)	(15)	(249)	(324)
At 1 February 2018	94	159	578	831
Charge for the year	45	75	187	307
Eliminated on disposals	(3)	(50)	(68)	(121)
As at 31 January 2019	136	184	697	1,017
Net book value				
At 31 January 2019	1,091	227	463	1,781
At 31 January 2018	1,072	177	510	1,759

10. INVESTMENTS

	2019 £	2018 £
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

10. ACCOUNTING POLICIES (CONTINUED)

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

	2019 £000	2018 £000
Credit receivables	316,655	295,677
Less: Loan loss provision	(57,845)	(44,462)
Amounts receivable from customers	258,810	251,215
Analysed by future date due		
- due within one year	76,500	72,618
- due in more than one year	182,310	178,597
Amounts receivable from customers	258,810	251,215
Analysis of security		
Loans secured on vehicles under hire purchase agreements	254,742	247,994
Other loans	4,068	3,221
Amounts receivable from customers	258,810	251,215
Analysis of overdue		
Not impaired		
Neither past due nor impaired	216,991	219,153
Past due up to 3 months but not impaired	-	-
Impaired		
Past due up to 3 months	30,810	24,192
Past due up to 6 months	4,088	2,894
Past due over 6 months or default	6,921	4,976
Amounts receivable from customers	258,810	251,215

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 (2018: £nil).

11. ACCOUNTING POLICIES (CONTINUED)

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

	Not Credit Impaired		Credit Impaired		
As at 31 January 2019	**Stage 1: Subject to 12 months ECL £'000**	**Stage 2: Subject to lifetime ECL £'000**	**Stage 3: Subject to lifetime ECL £'000**	**Total Provision £'000**	**Amounts Receivable £'000**
Credit receivables	(12,685)	(71)	(45,089)	(57,845)	316,655

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

The above tables are prepared on an IFRS9 basis. In accordance with the transitional provisions of the standard comparatives have not been restated. Closing total loan loss provisions of £44.46m under IAS39 as at 31 January 2018 were carried forward as opening total loan loss provisions of £47.51m under IFRS9 at 1 February 2018 requiring an adjustment to opening equity before taxation of £3.05m as shown in the statement of changes in equity above.

Loan loss provisions	**Stage 1: Subject to 12 months ECL £'000**	**Stage 2: Subject to lifetime ECL £'000**	**Stage 3: Subject to lifetime ECL £'000**	**Total Provision £'000**
At 1 February 18 IAS39				44,462
Impact of IFRS9 adoption				3,050
At 1 February 18 IFRS9	12,331	122	35,059	47,512
Net transfers and changes in credit risk	(4,656)	(55)	16,113	11,402
New loans originated	5,217	29	6,331	11,577
Total impairment charge to income statement	**561**	**(26)**	**22,444**	**22,979**
Utilised provision on write-offs	(207)	(25)	(12,414)	(12,646)
At 31 January 2019 IFRS9	12,685	71	45,089	57,845

12. TRADE AND OTHER RECEIVABLES

	2019 £000	2018 £000
Other debtors	477	12
Prepayments and accrued income	483	562
	960	574

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

	2019 £000	2018 £000
Bank overdrafts – due within one year	31	1,399

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

	2019 £000	2018 £000
Trade creditors	408	338
Amounts owed to other group undertakings	166,020	170,528
Other creditors	1,483	2,116
	167,911	172,982

Other than £135m of intercompany payables due after more than one year (2018: £115m) the amounts owed to group undertakings have no fixed maturity date. Within 2019 and 2018 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 2017	(45)	425	380
(Debit)/credit to income	(17)	40	23
Credit to equity	-	21	21
At 1 February 2018	(62)	486	424
(Debit)/credit to income	(23)	23	0
Debit to equity	-	(57)	(57)
At 31 January 2019	(85)	452	367

15. ACCOUNTING POLICIES (CONTINUED)

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

	2019 £000	2018 £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

	2019 £000	2018 £000
Profit before tax	33,641	30,211
Opening reserves adjustment	(3,050)	-
Tax paid	(5,571)	(5,343)
Depreciation on property, plant and equipment	307	251
Depreciation on right to use asset	4	-
(Profit)/loss on disposal of property, plant and equipment	(5)	5
Increase in amounts receivable from customers	(7,595)	(57,686)
(Increase)/decrease in trade and other receivables	(386)	(197)
(Decrease)/increase in trade and other payables	(5,071)	42,153
Decrease in accruals, deferred income and provisions for liabilities	(154)	(843)
Cost of future share based payments	121	217
Net cash inflow from operating activities	12,241	8,768

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 2019 was £108,008,000 (2018: £104,000,000).

19. RELATED PARTY TRANSACTIONS

The Company paid dividends to its parent company S&U Plc of £10,500,000 (2018: £8,200,000). 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 2019 the Company owed £166,019,837 (2018: £170,527,657) to other group undertakings and was owed £nil by other group undertakings (2018: £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 2 Stratford Court, Cranmore Boulevard, Solihull B90 4QT.

21. FINANCIAL COMMITMENTS

Capital commitments

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

22. PENSION SCHEMES

The Company made contributions of £230,954 (2018: £190,120) to a defined contribution pension scheme and there are £20,103 of outstanding contributions at 31 January 2019 (31 January 2018: £17,358).

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 2019 was estimated to be 30% (2018: 31%). The average effective interest rate on financial liabilities of the Company at 31 January 2019 was estimated to be 4% (2018: 4%).

Currency and credit risk

The 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 2019 would decrease by £0.5million (2018: decrease by £0.4million). This is mainly attributable to the Company's exposure on its variable rate borrowings.

- total equity would decrease by £0.4million (2018: decrease by £0.3million). 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 2019 would decrease by £1.0million (2018: decrease by £0.7million). This is mainly attributable to the Group's exposure on its variable rate borrowings.

- total equity would decrease by £0.8million (2018: decrease by £0.6million). 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 2019 the Group gearing level was 65% (2018: 69%) 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.

	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
At 31 January 2019	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Financial assets	76,500	56,431	125,879	-	-	258,810
Other assets	-	-	-	-	3,154	3,154
Total assets	76,500	56,431	125,879	-	3,157	261,964
Shareholder's funds	-	-	-	-	(89,925)	(89,925)
Bank overdrafts and loans	(31)	-	-	-	-	(31)
Other liabilities	-	-	(58,000)	(108,000)	(6,008)	(172,008)
Total liabilities and shareholder's funds	(31)	-	(58,000)	(108,000)	(95,933)	(261,964)
Cumulative gap	76,469	132,900	200,779	92,779	-	-

	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
At 31 January 2018	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'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	-	-

Advantage Finance Limited

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 January 2019

23. FINANCIAL INSTRUMENTS (CONTINUED)

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

At 31 January 2019	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	31	-	-	-	-	31
Trade and other payables	-	1,911	-	-	-	1,911
Tax liabilities	-	3,616	-	-	-	3,616
Accruals and deferred income	-	481	-	-	-	481
Intercompany loans	-	-	58,000	108,000	-	166,000
At 31 January 2019	31	6,008	58,000	108,000	-	172,039

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