

Company Registration No: 03773673

Advantage Finance Limited

Annual Report and Financial Statements

For the year ended 31 January 2020



Advantage Finance Limited

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Advantage Finance Limited

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

B A Burton
K Charlton
A M V Coombs
G D C Coombs
J Murdoch
C H Redford
A Tuplin
S Wilkinson
M Walker
D Sandiford
D Vessey
N Greensides
W Taylor
G Wheeler

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

It is now twenty years since Advantage was founded offering Hire Purchase products for used car purchases in the non-prime market place. This year Advantage yet again produced record results with Profit before tax (PBT) reaching £34.0m (2019: £33.6m). Customer numbers reached 64,200 (2019: 59,000) and amounts receivable from customers were at £280.8m (2019: £258.9m), an increase of 8.5% on last year. The business has achieved a Return on Capital Employed before cost of funds exceeding 15% which is in line with the prior year. There were no changes to accounting policies during the year except for a change in revenue recognition, which did not affect Profit or Net Assets. Details of this change are in Note 1.3 of the financial statements.

This was achieved against a background of unparalleled economic and political uncertainty and a lack of consumer confidence in the motor markets generally. Thus, for the second successive year, the new car market contracted by 2.4% to 2.3m million registrations. Happily, the much larger used car market in which Advantage exclusively operates, remained stable at 7.9m transactions. Moreover, according to Motor Finance Magazine and the Finance Leasing Association, both used car values (up 6% on the year) and car finance to pay for them (up 4%) showed increases on 2018.

Just under a third of used car purchases, at 2.5m vehicles are purchased on finance. Of this, Advantage provided facilities on 23,334 vehicles last year (an increase of 11% on 2019) which gave a measure of the significant potential for expansion of this market. Whilst recession resistant markets will always attract competition, Advantage's record of responsible service to its customers and its long-term credibility with its broker partners attracted a record 1.3 million finance applications last year (2019: 1.0m).

Tighter and cautious underwriting, which is continuously refined in our scorecard – together with healthy competition – of course whittled these applications down; it also under-pins Advantage's strong debt quality. Thus, this year saw average amounts receivable from customers during the year increase by 5% to £270.7m (2019: £258.5m) while total collections increased by 8% to £196.5m (2019: £181.5m). Early evidence of improving quality was buttressed by an increase in Advantage's risk adjusted yield from 24.6% last year to 25.5% this year.

Of course, Advantage's long-term and consistent profitability record has always rested upon the quality of its organisation, processes and above all its people – quite as much as upon the health of the market it serves. In terms of leadership, this year saw the passing of the baton from Guy Thompson, Advantage's founder MD, and inspiration for the past twenty years, to Graham Wheeler, an equally iconic figure in the motor finance industry and the driving force behind the expansion of Volkswagen motor finance in the UK a decade ago. The transition has, as expected, been smooth and seamless, and, irrespective of the current market disruption, promises still more of the continuous improvement in customer service and sensitivity to the market it serves that has characterised Advantage's history. Future developments planned include further investment in technology and analytics to support both the front and back ends of the business, continued refinement of our underwriting and preparing for the recovery in post Covid 19 market conditions.

Dividends of £12,600,000 (2019: £10,500,000) were paid during the year. No final dividend is proposed.

COVID-19 - Actions

The extent of the impact of the Covid-19 pandemic and its effect on the life of the nation only became fully apparent on the week-end of 14th/15th March 2020. The Government mandated "lockdown" began the following week and has tightened since.

Advantage Finance staff were withdrawn from offices and are now able to operate from home. Within the businesses TCF and forbearance, as well as commercial wisdom, have dictated that some staff be re-assigned to liaise with existing customers, as opposed to the welcoming of a dwindling number of new ones.

Advantage Finance Limited

STRATEGIC REPORT (CONTINUED)

COVID-19 – Actions (continued)

Weekly management information has been maintained remotely, daily reports on both sales and collections activity are now circulated amongst senior management. This enables the business to track the nature and circumstances of any new customers we take on. It also allows us to quickly identify customers who may be struggling with their payments to enable us to encourage, re-assure and, where appropriate, re-schedule.

Whilst treading very carefully, we are still open for business. Our mutual loyalty and interest between brokers, introducer partners and our loyal staff demand this. That will long live in the memories of our customers and partners when Covid-19 has receded into history.

We also track our response to the crisis against our customers reactions. Three weeks into lockdown, Advantages Trust Pilot reviews are “excellent” with 87% at that level and 5% at “great.”

REVIEW OF PRINCIPAL RISKS AND UNCERTAINTIES

There have been no material changes in the principal risks and uncertainties in the last reported year. After the year-end, the onset of the Covid-19 virus and the speculation surrounding it pose challenges for consumers in the UK. It is also a principal risk for Advantage Finance Ltd, which has strategies in place and the skills, resilience and experience to meet those challenges. But they are unprecedented and the effect on the economy is unknown – reliable estimates of both scale and timing do not exist.

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.

Both the recent Brexit and the General Election events have reduced potential for adverse economic conditions and higher levels of unemployment leading to more repayment delinquency. Further, recent UK employment figures continue strong and Advantage historically has been resilient through adverse macro economic conditions. We therefore believe the risks currently posed to the Company by Brexit are limited.

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 2020 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.

Advantage Finance Limited

STRATEGIC REPORT (CONTINUED)

REVIEW OF PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

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.

Overall, our ability to ultimately emerge from the Covid-19 crisis stronger will depend upon our financial strength and traditionally conservative management and, more than anything on our relations with our loyal customers.

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. The S&U group have committed to continue to support the company. In assessing the appropriateness 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, liquidity risk and economic risk including Covid-19 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.

SECTION 172 STATEMENT

The Directors confirm they have considered their obligations under S172 of the Companies Act 2006 including their duty to promote the success of the company and how they have engaged with the following key stakeholders in the business:

Our Customers

Advantage focuses on making the customer the heart of our business; and having respect for every customer and always treating customers fairly.

Advantage offers simple hire purchase ("HP") products, repaid over an average of just over four years and ranging in loan size from £2,000 to £15,000 with an average of £6,500. The increasing quality of the used cars Advantage finances gives customers the reliability they need to get to work and to provide family transport. Advantage's success in serving this demographic group has rested on three pillars. The first is the stability of the used car market in which it operates. Latest figures from the SMMT showed the used car market in the UK last year comprised 7.9 million sales, amongst the highest since SMMT monitoring began in 2001. Around 1.5 million vehicles are bought on finance, a market worth around £17bn a year. Two-thirds or 1,000,000 vehicles are financed on HP, a simple and transparent product suited to Advantage's demographic, which remains resistant to more complex personal contract lease plans.

Advantage Finance Limited

STRATEGIC REPORT (CONTINUED)

Our Customers (continued)

The second pillar of Advantage's success relates to its own commitment to excellence. The quality of our relationship with introducing brokers, dealers and our customers is based upon a continuous and relentless search for product and service improvement. As Guy Thompson, Advantage's founder always held, good business is the result of a thousand small improvements rather than a very few revolutionary ones. Whilst recognising the importance of its statutory obligations and relationship with the FCA in ensuring that customers are treated fairly, Advantage's care for its customers has historically been central to its success. Thus, this year saw continued refinement of its underwriting scoring and affordability processes. It is now establishing a new Customer Services Department which, together with its further development of customer communications and an updated customer website, will further enhance customers' experience.

The third pillar of Advantage's success depends upon its proven ability to adapt to a changing economy and labour market and the impact they may have on our customers. Non-prime finance customers may have less income flexibility than others, and may have payment records marred by unemployment or other difficulties. As mentioned above, Advantage's under-writing model is constantly refined in the light of over 20 years of customer service. We appreciate that the customers life journey evolves over their loan term. This demands that responsible lenders continually analyse repayment behaviour, and then use it, within the collections department, in dealing with and supporting our 64,000 customers.

The outcomes of this customer engagement are reflected in high customer satisfaction ratings, low levels of complaints and above all the Company's success over the last two decades.

Our Employees

Advantage maintains a family ethos for all those who work within it. We pride ourselves on the centrality of the customer – staff relationships. We therefore ensure that all staff receive appropriate initial training and regular re-training in the field and in areas of specialism. We encourage employees to gain professional qualifications where appropriate and external management training is also undertaken. As required by legislation, we confirm that as an organisation, we respect and recognise human rights in all aspects of our business.

The FCA Regulatory regime is centred on our Treating Customers Fairly. All employees are required to demonstrate appropriate knowledge and skills. Annual appraisals highlight areas of training needs for all employees and Advantage Finance is an accredited investor in people. We also encourage staff to make suggestions for constructive change within the Advantage Finance.

Formal reviews of performance take place at least annually.

The outcomes of this employee engagement are reflected in a streamlined management structure, high staff retention rates, high skill levels, positive reward and recognition and a strong culture of continuous improvement.

Our Business Partners

Advantage Finance continuously seeks to nurture and improve key business relationships with our key introducing brokers, dealers and key suppliers.

Key actions taken demonstrating how we do this are set out in our strategic report above. The outcomes of these key actions are reflected in the positive feedback and high retention rates for our partners and in the steady, sustainable and successful growth of Advantage Finance in the past two decades.

Our Investors and Funding Partners

We are 100% owned by our parent company S&U plc and funding is organised on a group basis. S&U's significant family management shareholdings means an identity of interest between shareholders and the management of the group and together with help from trusted advisers, the group maintains close relationships with investors, analysts and also with long term funding partners. The outcomes of this funder engagement help the strong balance sheet and treasury position of the Group and Advantage.

Advantage Finance Limited

STRATEGIC REPORT (CONTINUED)

Our regulators and other statutory bodies

Advantage Finance has a strong compliance culture which is overseen by management and the audit committee with help from our internal auditors RSM.

During the year, RSM have continued to provide internal audit services for Advantage Finance. An agreement, overseen by the Audit Committee, has now been entered into with RSM who will be responsible for regular internal audits of Advantage's Regulatory Controls, Customer Compliance, Risk Management and Governance Policy and Procedures.

The outcomes of these actions has led to positive feedback from regulatory bodies of which Advantage is proud.

Our Community and Our Environment

Advantage Finance does not exist in a vacuum and prides itself on supporting the wider community and looking after its environment.

In July 2019 the Financial Reporting Council issued a joint statement with other regulators on how companies should report on the effect of their activities on climate change. This follows the Government's publication of its Green Finance Strategy which anticipates mandatory disclosures by 2022.

Advantage Finance is directly involved with the motor sector and the emissions it inevitably creates. Both for commercial and climate change reasons, we monitor the type and age of the vehicles Advantage finances. However, it has no direct control, nor should it have, over the customer's choice of vehicle and the view on economy, efficiency and the environment this choice implies. Currently about half of customers opt for diesel vehicles, whilst the proportion of fully electric vehicles, principally on the grounds of their significant cost, is at present negligible.

Our success depends upon our understanding the customers we serve. Where this may not be the case, we have well established policies for any who may wish to complain, routed to our Complainants Department. Our records demonstrate we enjoy high levels of customer satisfaction and 68 of only 92 complaints which reached the Financial Ombudsman Service in the year were decided in the Advantage's favour (2019: 63 of 94 complaints were decided in the our favour). In the year to 31 January 2020 71% of complaints which reached the Financial Ombudsman Service were related to the satisfactory quality of the vehicle (2019: 77%) and therefore not related to operational issues within Advantage.

In assessing the Advantage Finance engagements within our 6 stakeholder areas above, the directors have also ensured such engagements reflect Advantage's values, business model, key performance indicators and principal risks as set out in the strategic report above.

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



DW Vessey

Director

28 April 2020

Advantage Finance Limited

DIRECTORS' REPORT

The directors present their Annual Report and the audited financial statements for the year ended 31 January 2020.

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.

JG Thompson resigned as a director on 31 January 2020.

D Vessey, N Greensides and W Taylor were appointed as directors on 6 February 2019.

G Wheeler was appointed as director on 1 October 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 £12,600,000 (2019: £10,500,000) were paid during the year. No final dividend is proposed.

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/she ought to have taken as a director to make him/herself 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.

After the Year End, the onset of the Covid-19 virus and the speculation and restrictions around it pose challenges for consumers in the UK. This has been considered in the Going Concern statement in the Strategic Report above.

POST BALANCE SHEET EVENTS

After the yearend, the onset of the Covid-19 virus and the speculation and restrictions surrounding it pose challenges for consumers in the UK. This has been considered in the going concern disclosures in the strategic report above. Advantage Finance Ltd has strategies in place and the skills, resilience and experience to meet those challenges. But they are unprecedented and the full effect on the economy is unknown – fully reliable estimates of both scale and timing do not exist.

Advantage Finance Limited

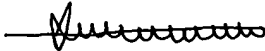
DIRECTORS' REPORT (CONTINUED)

INFORMATION PRESENTED IN OTHER SECTIONS

Certain information required to be included in the Director's Report can be found in other sections of the Annual Report and financial statements or in the Group Annual Report as described below. All the information presented in these sections is incorporated by reference into this Director's Report 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.
- The business review and going concern statement are also set out in the Strategic Report
- Information on employee engagement and business relationships are also set out in the Strategic Report

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



DW Vessey

Director

28 April 2020

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

28 April 2020

Advantage Finance Limited

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 2020 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; 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.

Advantage Finance Limited

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.

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.

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 FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Birmingham, United Kingdom

28 April 2020

ADVANTAGE FINANCE LIMITED
INCOME STATEMENT
For the year ended 31 January 2020

	Note	2020 £000	2019 £000 restated
Revenue		85,466	80,127
Cost of sales	3	(35,747)	(32,032)
Gross profit		49,719	48,095
Administrative expenses		(9,095)	(7,915)
Operating profit	5	40,624	40,180
Finance costs	6	(6,597)	(6,539)
Profit before tax		34,027	33,641
Taxation	7	(6,030)	(6,379)
Profit for the year		27,997	27,262

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.

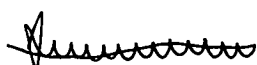
2019 comparatives have been restated for a change in recognition of revenue on credit impaired receivables which has resulted in a reduction in Income and Cost of Sales but has no impact on Profit. See note 1.3 in the Financial Statements.

BALANCE SHEET
As at 31 January 2020

	Note	2020 £000	2019 £000
ASSETS			
Non Current Assets			
Property, plant and equipment	9	1,688	1,781
Right to use asset		35	46
Investments	10	-	-
Amounts receivable from customers	11	195,603	182,310
Deferred tax assets	15	60	367
		<u>197,386</u>	<u>184,504</u>
Current Assets			
Amounts receivable from customers	11	85,154	76,500
Trade and other receivables	12	1,234	960
Cash and cash equivalents		-	-
		<u>86,388</u>	<u>77,460</u>
Total Assets		<u>283,774</u>	<u>261,964</u>
LIABILITIES			
Current liabilities			
Bank overdrafts	13	(145)	(31)
Trade and other payables	14	(2,936)	(1,911)
Tax liabilities		(3,391)	(3,616)
Provision for liabilities		(33)	(12)
Accruals and deferred income		(329)	(469)
Total current liabilities		<u>(6,834)</u>	<u>(6,039)</u>
Non current liabilities			
Trade and other payables	14	(172,000)	(166,000)
Total non current liabilities		<u>(172,000)</u>	<u>(166,000)</u>
Total liabilities		<u>(178,834)</u>	<u>(172,039)</u>
NET ASSETS		<u>104,940</u>	<u>89,925</u>
Equity			
Called up share capital	16	1	1
Profit and loss account		104,939	89,924
Total equity		<u>104,940</u>	<u>89,925</u>

The financial statements for Advantage Finance Limited (company registered no. 03773673) were approved by the Board of Directors on 28 April 2020.

Signed on behalf of the Board of Directors



D W Vessey

Advantage Finance Limited

STATEMENT OF CHANGES IN EQUITY **For the year ended 31 January 2020**

	Called up share capital £000	Profit and loss account £000	Total equity £000
At 1 February 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)
IFRS 9 receivables adjustment	-	(3,050)	(3,050)
Tax charge on equity item	-	580	580
At 31 January 2019	1	89,924	89,925
Total comprehensive income for year	-	27,997	27,997
Cost of future share based payments	-	19	19
Tax charge on equity items	-	(401)	(401)
Dividends	-	(12,600)	(12,600)
At 31 January 2020	1	104,939	104,940

CASH FLOW STATEMENT **For the year ended 31 January 2020**

	Note	2020 £000	2019 £000
Net cash inflow from operating activities	17	12,718	12,241
Cash flows from investing activities			
Proceeds on disposal of property, plant and equipment		44	45
Purchases of property, plant and equipment		(271)	(367)
Purchases of right to use asset		(5)	(51)
Net cash used in investing activities		(232)	(373)
Cash flows from financing activities			
Dividends paid		(12,600)	(10,500)
Net (decrease)/increase in overdraft		114	(1,368)
Net cash used in financing activities		(12,486)	(11,868)
Net decrease in cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of year		-	-
Cash and cash equivalents at the end of year		-	-

Advantage Finance Limited

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 January 2020

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.

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. In arriving at this reasonable expectation, the directors have considered the current situation in respect of Covid-19 and, in particular, the potential for increased customer repayment difficulties and temporary challenges with asset recovery and realisation at potentially lower residual values as well as operational challenges. Increased repayment difficulties relate to potentially worse customer employment and/or health situations, potentially mitigated by government support and movement restrictions which lower customer outgoings, as well as being potentially mitigated by the forbearance and experience of our skilled staff. Asset recovery and realisation challenges relate mainly to government movement restrictions. Operational challenges relate to the need to mobilise and support staff working from home, which has already been significantly mitigated by staff support and technology. The directors also considered the ongoing support of the Group and the strong balance sheets of both the Group and Advantage. The directors concluded that they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

There are no new standards which have been adopted this year which have a material impact on the financial statements of the Company. This follows the adoption of IFRS 9 and IFRS 16 in our accounts last year.

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.

1.3 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 IFRS 16, 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.

Changes to revenue recognition in 2020

In preparing the 2020 financial statements, the company has changed how they account for revenue in relation to revenue recognition for lease agreements which are classified as credit impaired (i.e. stage 3 assets under IFRS 9). In 2019, the company recognised revenue on credit impaired receivables 'gross' of the impairment provision and impaired this additional revenue through the impairment charge resulting in a gross-up in the income statement. On reviewing its accounting policies in preparing the 2020 financial statements, the company has determined that revenue should be recognised 'net' of the impairment provision to align the accounting treatment under IFRS 16 with the requirements of IFRS 9.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 January 2020

1. ACCOUNTING POLICIES (CONTINUED)

1.3 Revenue recognition (continued)

The company has concluded that the change in accounting on the 2019 financial statements represents a material change and accordingly has restated the 2019 income statement balances in the 2020 financial statements. The restatement results in a reduction in Advantage's revenue and impairment in 2019 of £6.3m with no impact on profit before tax, earnings per share, retained earnings or the balance sheet.

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 IFRS 9, 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 IFRS 9 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 IFRS 9 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 IFRS 9. 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 loan falls one month or more in contractual arrears then this is deemed credit impaired and included in IFRS 9 Stage 3. There are some 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 January 2020

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 macroeconomic overlay assessments for 31 January 2020 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 2020 and those used at 1 February 2019.

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 in subsidiaries 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 non IFRS 16 leases are charged to the income statement on a straight-line basis.

Advantage Finance Limited

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 January 2020

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 2020.

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 company'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

	2020 £000	2019 £000
Loan loss provisioning charge	16,507	16,734
Other cost of sales	19,240	15,298
	<u>35,747</u>	<u>32,032</u>

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2020 £000	2019 £000
Directors' emoluments		
Salary	2,002	1,506
Pension and salary supplement in lieu	122	103
Social security	650	350
	<u>2,774</u>	<u>1,959</u>

Advantage Finance Limited

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 January 2020

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

The emoluments of the highest paid director are £806,458 for the year (2019: £760,486) including benefits received and receivable under long term incentive schemes of £210,400 (2019: £127,320), and the Company paid pension contributions on his behalf and salary supplement in lieu of £52,630 (2019: £51,315). Six of the directors exercised share options under long term incentive schemes during the year (2019: 9) and the highest paid director exercised £90,000 share options under long term incentive schemes during the year (2019: £Nil). Three of the directors are paid by other S&U plc Group companies and received no remuneration for their services to this company.

	2020	2019
Number of directors who are members of a defined contribution pension scheme	12	9
Average number of persons employed		
Management and administration	153	148
Staff costs during the year (including directors):	£000	£000
Wages and salaries	6,084	5,324
Social security costs	503	440
Other pension costs	272	221
	6,859	5,985

5. OPERATING PROFIT

	2020 £000	2019 £000
Operating profit is stated after charging:		
Depreciation and amortisation:		
Owned assets	320	307
Right to use asset	17	4
Staff Costs	6,859	5,985
(Profit)/Loss on sale of fixed assets	-	(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	75	85
Total audit fees	75	85
Audit related assurance services	21	20
Total non audit fees	21	20
Total	96	105

6. FINANCE COSTS

	2020 £000	2019 £000
Interest payable	6,597	6,539

Advantage Finance Limited

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 January 2020

7. TAX

	2020 £000	2019 £000
Corporation tax at 19.00% (2019: 19.00%) based on the profit for the year	6,124	6,379
Deferred tax (note 15)	(94)	-
	<u>6,030</u>	<u>6,379</u>

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

	2020 £000	2019 £000
Profit on ordinary activities before tax	34,027	33,641
Tax on profit on ordinary activities at standard rate of 19.00% (2019: 19.00%)	6,465	6,392
<i>Factors affecting charge for the period:</i>		
Expenses not deductible for tax purposes	4	16
Effects of other tax rates and timing differences	(430)	(25)
Adjustment in respect of prior years	(9)	(4)
Total tax charge for the year	<u>6,030</u>	<u>6,379</u>

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% (2019: 19.00%).

In the budget announcement on 11th March 2020 the government indicated that 19% will also now be the rate of corporation tax moving forward.

8. DIVIDENDS

	2020 £000	2019 £000
Ordinary dividend paid in the year of £12,600 per share (2019: £10,500 per share)	<u>12,600</u>	<u>10,500</u>

Advantage Finance Limited

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 January 2020

9. PROPERTY, PLANT AND EQUIPMENT

	Leasehold Buildings £000	Motor vehicles £000	Fixtures and Fittings £000	Total £000
Cost or valuation				
At 1 February 2018	1,166	336	1,088	2,590
Additions	64	162	141	367
Disposals	(3)	(87)	(69)	(159)
At 1 February 2019	1,227	411	1,160	2,798
Additions	33	103	135	271
Disposals	(4)	(127)	(34)	(165)
As at 31 January 2020	1,256	387	1,261	2,904
Accumulated depreciation				
At 1 February 2018	94	159	578	831
Charge for the year	45	75	187	307
Eliminated on disposals	(3)	(50)	(68)	(121)
At 1 February 2019	136	184	697	1,017
Charge for the year	51	72	197	320
Eliminated on disposals	(1)	(87)	(33)	(121)
As at 31 January 2020	186	169	861	1,216
Net book value				
At 31 January 2020	1,070	218	400	1,688
At 31 January 2019	1,091	227	463	1,781

10. INVESTMENTS

	2020 £	2019 £
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

Advantage Finance Limited

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 January 2020

10. INVESTMENTS (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

	2020 £000	2019 £000
Credit receivables	344,131	316,655
Less: Loan loss provision	(63,374)	(57,845)
Amounts receivable from customers	<u>280,757</u>	<u>258,810</u>
Analysed by future date due		
- due within one year	85,154	76,500
- due in more than one year	<u>195,603</u>	<u>182,310</u>
Amounts receivable from customers	<u>280,757</u>	<u>258,810</u>
Analysis of security		
Loans secured on vehicles under hire purchase agreements	275,744	254,742
Other loans	<u>5,013</u>	<u>4,068</u>
Amounts receivable from customers	<u>280,757</u>	<u>258,810</u>
Analysis of overdue		
<u>Not impaired</u>		
Neither past due nor impaired	234,481	216,991
Past due up to 3 months but not impaired	-	-
<u>Impaired</u>		
Past due up to 3 months	34,106	30,810
Past due up to 6 months	4,173	4,088
Past due over 6 months or default	<u>7,997</u>	<u>6,921</u>
Amounts receivable from customers	<u>280,757</u>	<u>258,810</u>

The credit risk inherent in amounts receivable from customers is reviewed under impairment as per note 1.4 and under this review the credit quality of assets which are neither past due nor impaired was considered to be good. The above analysis of when loans are due is based upon original 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 (2019: £nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 January 2020

11. AMOUNTS RECEIVABLE FROM CUSTOMERS (CONTINUED)

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

	Not Credit Impaired			Credit Impaired	
As at 31 January 2020	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	(13,375)	(51)	(49,948)	(63,374)	344,131

	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

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 IFRS 9	12,331	122	35,059	47,512
Net transfers and changes in credit risk	(4,656)	(55)	9,868	5,157
Restated				
New loans originated	5,217	29	6,331	11,577
Total impairment charge to income	561	(26)	16,199	16,734
statement restated				
Amounts netted off against revenue for	-	-	6,245	6,245
stage 3 assets				
Utilised provision on write-offs	(207)	(25)	(12,414)	(12,646)
At 31 January 2019 IFRS 9	12,685	71	45,089	57,845

Advantage Finance Limited

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 January 2020

11. AMOUNTS RECEIVABLE FROM CUSTOMERS (CONTINUED)

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 19 IFRS9	12,685	71	45,089	57,845
Net transfers and changes in credit risk	(5,333)	(42)	7,709	2,334
New loans originated	6,248	30	7,895	14,173
Total impairment charge to income statement	915	(12)	15,604	16,507
Amounts netted off against revenue for stage 3 assets	-	-	7,292	7,292
Utilised provision on write-offs	(225)	(8)	(18,037)	(18,270)
At 31 January 2020 IFRS9	<u>13,375</u>	<u>51</u>	<u>49,948</u>	<u>63,374</u>

12. TRADE AND OTHER RECEIVABLES

	2020 £000	2019 £000
Other debtors	490	477
Prepayments and accrued income	744	483
	<u>1,234</u>	<u>960</u>

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

13. BANK OVERDRAFTS

	2020 £000	2019 £000
Bank overdrafts – due within one year	<u>145</u>	<u>31</u>

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).

Advantage Finance Limited

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 January 2020

14. TRADE AND OTHER PAYABLES

	2020	2019
	£000	£000
Trade creditors	335	408
Amounts owed to other group undertakings	171,984	166,020
Other creditors	2,617	1,483
	<u>174,936</u>	<u>167,911</u>

Other than £160m of intercompany payables due after more than one year (2019: £135m) the amounts owed to group undertakings have no fixed maturity date. Within 2020 and 2019 provisions for liabilities are an estimation of potential future costs arising as a result of certain product sales. As permitted by IAS 37 paragraph 92, certain disclosures required by that standard have not been provided.

15. DEFERRED TAX

	Accelerated tax depreciation	Share Based Payments	Total
	£000	£000	£000
At 1 February 2018	(62)	486	424
(Debit)/credit to income	(23)	23	-
Credit to equity	-	(57)	(57)
	<u>(85)</u>	<u>452</u>	<u>367</u>
At 1 February 2019	9	85	94
(Debit)/credit to income	-	(401)	(401)
Debit to equity	<u>(76)</u>	<u>136</u>	<u>60</u>
At 31 January 2020	<u>(76)</u>	<u>136</u>	<u>60</u>

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

16. CALLED UP SHARE CAPITAL

	2020	2019
	£000	£000
Authorised, called up, allotted and fully paid		
1,000 Ordinary shares of £1 each	<u>1</u>	<u>1</u>

Advantage Finance Limited

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 January 2020

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

	2020 £000	2019 £000
Profit before tax	34,027	33,641
Opening reserves adjustment	-	(3,050)
Tax paid	(6,350)	(5,571)
Depreciation on property, plant and equipment	320	307
Depreciation on right to use asset	17	4
Loss on disposal of property, plant and equipment	-	(5)
Increase in amounts receivable from customers	(21,947)	(7,595)
Increase in trade and other receivables	(274)	(386)
Increase/(decrease) in trade and other payables	7,025	(5,071)
Decrease in accruals, deferred income and provisions for liabilities	(119)	(154)
Cost of future share based payments	19	121
Net cash inflow from operating activities	12,718	12,241

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 2020 was £118,500,000 (2019: £108,008,000).

19. RELATED PARTY TRANSACTIONS

The Company paid dividends to its parent company S&U Plc of £12,600,000 (2019: £10,500,000). 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 2020 the Company owed £171,984,207 (2019: £166,019,837) to other group undertakings and was owed £nil by other group undertakings (2019: £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 2020 and 31 January 2019 the Company had no capital commitments contracted but not provided for.

22. PENSION SCHEMES

The Company made contributions of £263,140 (2019: £230,954) to a defined contribution pension scheme and there are £22,128 of outstanding contributions at 31 January 2020 (31 January 2019: £20,103).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 January 2020

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 2020 was estimated to be 28% (2019: 28%). The average effective interest rate on financial liabilities of the Company at 31 January 2020 was estimated to be 4% (2019: 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.

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 2020 would decrease by £0.6million (2019: decrease by £0.5million). This is mainly attributable to the Company's exposure on its variable rate borrowings.

- total equity would decrease by £0.5million (2019: decrease by £0.4million). 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 2020 would decrease by £1.2million (2019: decrease by £1.0million). This is mainly attributable to the Group's exposure on its variable rate borrowings.

- total equity would decrease by £1.0million (2019: decrease by £0.8million). 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 2020 the Group gearing level was 66% (2019: 65%) which the directors consider to have met their objective.

Advantage Finance Limited

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 January 2020

23. FINANCIAL INSTRUMENTS (CONTINUED)

Capital risk management (continued)

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.

Liquidity risk

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

	Less than 1 year	More than 1 year but not more than 2 years	More than 2 years but not more than 5 years	More than 5 years	Non interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 31 January 2020						
Financial assets	85,154	59,487	136,116	-	-	280,757
Other assets	-	-	-	-	3,017	3,017
Total assets	85,154	59,487	136,116	-	3,017	283,774
Shareholder's funds	-	-	-	-	(104,940)	(104,940)
Bank overdrafts and loans	(145)	-	-	-	-	(145)
Other liabilities	-	-	(69,000)	(103,000)	(6,689)	(178,689)
Total liabilities and shareholder's funds	(145)	-	(69,000)	(103,000)	(111,629)	(283,774)
Cumulative gap	85,009	144,496	211,612	108,612	-	-
	Less than 1 year	More than 1 year but not more than 2 years	More than 2 years but not more than 5 years	More than 5 years	Non interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 31 January 2019						
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	-	-

Advantage Finance Limited

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 January 2020

23. FINANCIAL INSTRUMENTS (CONTINUED)

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

	Repayable on Demand	Less than 1 year	More than 1 year but not more than 2 years	More than 2 years but not more than 5 years	More than 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 31 January 2020						
Bank overdrafts and loans	145	-	-	-	-	145
Trade and other payables	-	2,936	-	-	-	2,936
Tax liabilities	-	3,391	-	-	-	3,391
Accruals and deferred income	-	362	-	-	-	362
Intercompany loans	-	-	69,000	103,000	-	172,000
At 31 January 2020	145	6,689	69,000	103,000	-	178,834

	Repayable on Demand	Less than 1 year	More than 1 year but not more than 2 years	More than 2 years but not more than 5 years	More than 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 31 January 2019						
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