MITSUBISHI HC CAPITAL UK PLC

Annual Report and Consolidated Financial Statements
Year Ended 31 March 2023

Contents

Mitsubishi HC Capital UK PLC 2022/23 highlights

Financial Results

£160.8m
Profit before tax

23.7%
Rise in profit compared to 2021/22

£7.6bn
Net Earning Assets

£4.5bn
Volume of new business

2.1%
Pre-Tax Return on total assets

11.1%
Post-Tax Return on Equity

Our Wider Business

2,248 employees
We employ 2,248 people across six business divisions in the UK and Europe

1.3m
We have nearly 1.3 million customers, providing innovative finance solutions to enable consumers and businesses to grow and prosper

96% electric/hybrid company car fleet
Electric/hybrid vehicles account for 96% of our company car fleet

International
Active in 22 European Countries

£340,000
We donated £340,000 to charity via match funding and corporate donations

4.5/5.0
Across three of our business divisions which use Feefo, we have an average rating of 4.5 out of 5

91.2% employee engagement
In our 2022/23 Insights Survey, 91.2% of colleagues said they would recommend MHCUK as a great place to work

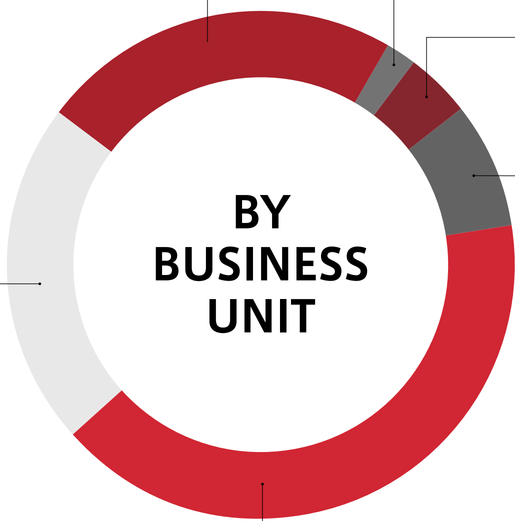
15th
Our ranking in Glassdoor's Best Places to Work Top 50 as the UK's best finance company to work for with an overall rating of 4.6 out of 5

% share of total Net Earning Assets and Profit Before Tax

Business Cash Flow
2%
£2.9m

Business Finance
23%
£66.2m

European Vendor Finance
4%
£2.1m



Corporate
(£4.1m)

Mobility
8%
£13.1m

Vehicle Solutions
22%
£68.0m

Consumer Finance
41%
£12.6m

Group Strategic Report

The Directors present their strategic report for Mitsubishi HC Capital UK PLC ("the Company"), its subsidiaries and affiliates (together, "the Group") for the year ended 31 March 2023. The Group financial statements, starting on page 81, comprise the consolidated financial statements of the Company, including its subsidiaries as defined by international accounting standards adopted by the United Kingdom.

Who we are

Mitsubishi HC Capital UK PLC is a UK based non-bank financial services company, authorised and regulated by the Financial Conduct Authority ("FCA"). We have over 2,200 employees, £7.8bn of total assets and nearly 1.3 million customers across six business divisions; Consumer Finance, Vehicle Solutions, Business Finance, Business Cash Flow, European Vendor Finance and Mobility Europe providing innovative finance solutions to enable consumers and businesses to grow and prosper.

“Despite significant headwinds faced by the Company over the past 12 months impacting our customers and the markets we operate in, we delivered an excellent performance during the year.”

We are a subsidiary of Mitsubishi HC Capital Inc. and hence part of one of the world's largest and most diversified financial groups. We work with consumers and small to medium enterprises ("SME"s) as well as corporate multinationals in the UK and mainland Europe.

For over 40 years, formerly as Hitachi Credit and Hitachi Capital, the Company has provided finance to enable consumers and businesses to achieve their ambitions. On 14 February 2022 we formally changed our name from Hitachi Capital (UK) PLC to Mitsubishi HC Capital UK PLC, and launched a new trading style in the market - Novuna - which is the primary brand used across the business. The exception is our European division, which trades under the Mitsubishi brand in both the UK and European markets, reflecting the partnership with our parent company.

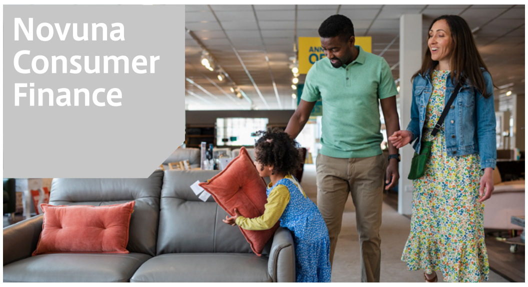
Our vision and values

Our vision is to be one of the most trusted financial services brands in the UK and Europe, embodied in our brand promise: to unlock the potential of individuals, businesses and society by delivering innovative solutions and providing outstanding customer experiences. Our values "Harmony", "Sincerity" and "Pioneering Spirit" reflect our culture and the way we do business. Working in partnership with our customers and each other, we constantly look to add value, improve what we do and deliver on our promises.

Results

Despite significant headwinds faced by the Company over the past 12 months impacting our customers and the markets we operate in, we delivered an excellent performance during the year. Mitsubishi HC Capital UK PLC achieved profit before tax ("PBT") of £160.8m, a 24% year on year increase, along with a 10.4% increase in new business volumes to £4.5bn. This year's PBT benefitted from a gain on our investment in Gridserve of £44.1m as we transitioned from equity accounting to fair value accounting when we diluted our ownership from 19.63% to 8.53% with the introduction of new equity partners.

The Company has five main commercial business units. Details of each business unit are set out below.



Novuna Consumer Finance

Novuna Consumer Finance is a UK provider of retail point of sale finance and personal loans with over 40 years operating in the unsecured lending market.

Novuna Consumer Finance provides a national coverage of consumer finance products through well known high street retail outlets and via an online application process. Novuna Consumer Finance offers a variety of financing options including interest free credit, interest bearing credit and buy now pay later. Novuna Consumer Finance works with over 3,000 online and high street retailers across a number of retail sectors including home improvements, furniture, electricals, leisure, healthcare and jewellery. Contracts with our large retailers are typically for 2 to 3 years with agreements for retail point of sale customers having a 3 to 5 year typical life.

Novuna Consumer Finance has diversified from retail point of sale finance and offers flexible personal loans of between £1,000 and £35,000, which have a typical life of 2 to 5 years.

Novuna Consumer Finance is careful in its selection of both its retail partners and consumers to maintain a consistent, balanced portfolio and constantly monitors sector concentrations and consumer demographics and performance. Novuna Consumer Finance is focused on delivering excellent levels of customer experience and, through leveraging digital enhancements, making the customer journey frictionless.

Novuna Vehicle Solutions

Novuna Vehicle Solutions has been delivering vehicle leasing and fleet management services for over 30 years. NVS provides solutions for small, large or complex fleets, operating over 100,000 assets, from cars, vans and heavy goods vehicles to plant and machinery. Novuna Vehicle Solution works with companies in a broad range of industries including utilities, construction, food transportation, waste and recycling, public sector and bulk liquids.

Novuna Vehicle Solutions offers a variety of products including long-term contract hire including maintenance and breakdown to corporates, fleet management, personal contract hire, salary sacrifice and sale and leaseback. Contract duration for cars are typically 3 to 5 years and up to 7 years for specialist vehicles. Novuna Vehicle Solutions also provides flexibles, short term vehicles rental through a specialist partner.

Novuna Vehicle Solutions offers end-to-end decarbonisation solutions to help businesses of all sizes transition to new, lower carbon technologies. This includes the transition to electric vehicles along with developing and delivering charging infrastructure, energy storage and data analysis solutions.

Novuna Business Finance

Novuna Business Finance provides asset finance to SMEs along with larger corporations in the UK across a wide range of industries. Novuna Business Finance has a number of routes to market including through brokers (including those serving the commercial and farming markets), manufacturers and dealers, franchisees and franchisors as well as direct.

Novuna Business Finance offers a variety of products including hire purchase, finance lease solutions, business loans, stocking finance and block discounting. Novuna Business Finance funds a variety of assets including equipment, green assets and technology. Agreement length is typically 4 to 5 years, with block discounting typically 3 years and stock finance less than 6 months.

Novuna Business Finance leads the Group's strategic partnership with Gridserve, supporting the funding of electric vehicle charging infrastructure and hybrid solar farms.

Novuna Business Cash Flow

Novuna Business Cash Flow provides invoice factoring, invoice discounting, debt factoring and payroll finance solutions to SMEs and larger corporate customers across a wide range of sectors in the UK.

Novuna Business Cash Flow provides innovative underwriting solutions and incorporates digital processes throughout the agreement journey to provide clients with fast on-boarding and flexible contracts.

European Vendor Finance

European Vendor Finance provides bespoke end-to-end finance solutions for specialist assets throughout the whole product lifecycle. Working with our parent company in Japan, European Vendor Finance supports the sales and distribution channels for Mitsubishi and Hitachi Group companies, as well as key Group and global accounts.

European Vendor Finance provides financial solutions for funding stock, demonstration equipment, end user and second-hand equipment across a broad range of industries and asset types including construction and heavy plant machinery, manufacturing/industrial equipment, healthcare technology, materials handling, sustainable and green solutions and heating/cooling systems. Agreement length for vendor business is typically 4 to 5 years.

European Vendor Finance operates in 22 countries having a direct presence in London, Amsterdam, Dublin, Helsinki and a transactional capability in Belgium.

MHC Mobility

On 1 August 2022, the Group incorporated a 100% owned subsidiary, MHC Mobility Europe B.V., which acquired the MHC Mobility subsidiaries from the Group's parent company, Mitsubishi HC Capital Inc. MHC Mobility Europe B.V. and its subsidiaries ("MHC Mobility") offer fully integrated, innovative mobility solutions which include leasing, decarbonisation and consulting to customers in Netherlands, Belgium, Germany, Austria, Poland, Hungary, Czech Republic and Slovakia.

Chairman's Statement

Alan Hughes
Chairman of the Board

Results

After-tax earnings attributable to shareholders in the year rose to £119.9 million, an increase of 16.7% on the prior year. A one off gain came from our investment in Gridserve, a company owning an electronic vehicle charging network, which contributed £33.1 million post-tax. The underlying earnings of £86.8 million included our acquisition from Mitsubishi HC Capital Inc. of its European operations, MHC Mobility. These contributed £10.4 million of the post-tax earnings.

Dividend

The Directors recommend a final dividend of £46.0 million, being 38.4% of after-tax earnings. This aligns with our parent company's dividend policy. Profit retained will support business growth, the strategic development of UK and EU businesses, with gearing consistent with that of our parent company, and expectations of our financial markets and regulators.

Performance

Despite the UK having the lowest Gross Domestic Product ("GDP") growth in the G20 developed nations, the UK has not stumbled into a recession. There has been sudden high inflation, particularly high in basics of food and energy, accompanied by a rapid rise in interest rates and widespread industrial action. Uncertainty has dampened businesses' propensity to invest. The UK suffers continuing post-Brexit supply chain issues. Against this background, our record year of performance is a significant achievement. The Executives and staff are to be congratulated. Brand awareness of 'Novuna' has been good, the transfer of the European Mobility companies from our parent company to form a European mobility division has been completed satisfactorily, and the team's success in realising multiple gains on sales of assets and valuations of strategic investments made in prior years has been outstanding.

Outlook

Our business is diversified across commercial and consumer sectors. We will continue to focus on growth and recovery sectors of the economy, particularly renewables and decarbonisation. This will help us to maintain a strong growth rate and contribute to our parent company's strategic goals. Our services and products suit the UK's current economic conditions. We enable customers to gear finance to levels of trade and offer added-value services that benefit their efficiency. These are attractive in a rising interest rate and inflationary economy. Affordable fixed-rate finance geared in this way helps businesses to make investment and major purchases a realistic opportunity. We expect this to continue. Our previous parent company's merger with Mitsubishi UFJ Lease and Finance Company Ltd to form Mitsubishi HC Capital Inc has brought new opportunities, notably in Europe. We expect these relationships to develop into significant financing programmes over the medium term.

> "Our business is diversified across commercial and consumer sectors. We will continue to focus on growth and recovery sectors of the economy, particularly renewables and decarbonisation."

Governance

The Group adheres to the Wates Corporate Governance Principles whilst embracing the principles and provisions of the UK Corporate Governance Code to the extent that the Board considers them to be relevant. The Group adopts a prudent risk appetite and has a clear focus on market conduct to provide good outcomes for all its customers. The Company is on schedule to implement the new Consumer Duty introduced by the FCA by 31 July 2023.

In September 2022, long- serving Board members Anne Whitaker and Guy Munnoch (Chair) retired, and in May 2023 Hiro Fukuro retired and returned to Japan. I want to record our deep gratitude to them for their contributions to the success of MHCUK. I am delighted that Sian Herbert joined the Board in August 2022 as our Audit and Risk Committee Chair, and Masaki Mizutani joined in May 2023 to succeed Hiro.
We warmly welcome them both. We all look forward to meeting the opportunities and challenges of economic recovery.

The Board has enjoyed working with the Executive team who demonstrate traditional leadership, management and, above all, a respect for developing a common culture across the whole Company, one that drives good outcomes for customers and sustainable financial performance for the Group.

Conclusion

It was an exceptional year for the Group. We weathered economic volatility and produced excellent results. I would like to thank our parent company and my fellow Board members for their outstanding support during the year.

Alan Hughes
Chairman of the Board
7 June 2023

Chief Executive Officer's Review

R. Gordon
Chief Executive Officer

If 2021 was a year of great promise for economic growth in the UK after the pandemic, 2022 was the year of great frustration. Supply chain issues were not resolved; shortages of labour were still a concern, with the Office for National Statistics reporting a record number of 1.2 million unfilled vacancies in July 2022; inflation reached double digits and interest rates reached 2008 levels with the energy crisis and war in Ukraine a constant concern.

A rising interest rate market does not provide ideal trading conditions for non-bank finance companies. Whilst we hedge for interest rate risk on the existing portfolio, we fund new fixed rate business by raising funds issuing commercial paper and medium-term notes at current market rates. The last year was no exception in that market pricing to consumers and businesses generally lags well behind movements in bank base rates and swap rates, partly due to the expectations that inflation would not be systemic and the relative stability of interest rates on deposits. It was not until September 2022, when we had the six increases in the Bank of England Base Rate for the year and major banks withdrew 321 mortgage products overnight for re-pricing, that there was greater realisation that interest rates were rising.

For most of 2022 we therefore suffered a squeeze on our interest rate margin in a bid to remain competitive with our pricing for the service levels we provide with our peers. Interest rate margins were gradually restored in the last six months of the year; however, we expect it will take nearly two years for margins to return to pre-2022 levels as inflationary pressure is reduced, and interest rates slowly stabilise.

Despite the unfavourable trading conditions, we were able to generate profit before tax of £160.8m, representing growth of 23.7% over the prior year. This growth was achieved by taking actions during the year to enhance our profitability and actively dispose of assets in a market when values were rapidly rising due to ongoing supply chain issues. These actions were:

- Increased new business volumes by 10.4% to £4.5 billion.
- Increased our operating leasing portfolio by 49% to £2.3 billion.
- Generated significant gains on disposal of assets off lease of £55.0 million.
- Recorded a gain on our investment in Gridserve of £44.1m as we transitioned from equity accounting to fair value accounting as we diluted our ownership from 19.63% to 8.53% with the introduction of new equity partners.
- In August 2022, we acquired the European mobility group of companies from our immediate parent company, with leased assets of £453.8 million, earning us an additional profit of £13.1 million for the year.

We obviously would not have been able to achieve the growth in assets and profit over the last year without a creative and engaged team. To compete successfully we need to provide a high level of service and deliver a high level of customer satisfaction. That is not possible without an engaged team who are focussed upon solving real issues for our partners and customers, such as planning and implementing the electrification of a vehicle fleet, designing promotion finance to increase retail sales, and providing essential stock finance to dealer networks to enable them to secure scarce trading assets. It was a challenging year, but fortunately our diversified business was focussed upon sectors that needed our assistance to strengthen their businesses or provide the necessary finance to purchase essential assets.

Employee safety and retention

The adoption of hybrid working has not been a straightforward exercise. With the onset of the Covid-19 pandemic, the goal of evacuation with a core team to perform essential activities in the office was clear and the implementation was planned and

executed accordingly. There are enduring benefits to preserve from this period such as the improved communications tools, which make fast collaboration between teams all over the country possible without the need for extensive travelling with the associated loss of productive time and increase in our carbon footprint. The technology has also enabled us to improve our call centres with greater peak workflow planning and retention of skilled staff who need more flexible working patterns.

The return to the office has not been a mandatory process, rather it has been designed with managers throughout the team. Over the past twelve months, our headcount has expanded from 1,612 to 2,249 employees as we have continued to grow the business, and the need to meet in the office environment has returned naturally as we have enjoyed interacting and realising that many tasks are easier to perform together as a team in the same room. Generally, team members under hybrid working now spend 60% of their week in the office environment and plan their numerous "screen meetings" from the home office environment. We will continue to work with the team to adapt and modify our working practices and support those members who are finding it more difficult to adapt. It has not been an easy process and it takes additional management, resources and compromise from all parties to adjust to the hybrid approach. However, the benefits in terms of staff engagement and customer satisfaction indicate that our inclusive approach is appreciated. Employee turnover from voluntary leavers has risen slightly to 12.7% (2022: 12.5%), as employee mobility is high with skills shortages across many sectors in the economy.

Employee engagement

To provide outstanding customer experiences, it is essential to have an engaged team. Our hybrid working approach and small frequent programmes of financial support to staff to assist with the energy crisis have been appreciated. We have continued with the programme developed in the prior year of frequent, informative, internal communication with all staff from weekly CEO blogs, weekly managers briefings, all staff team meetings, to team social events. We continued with the mix of online communication and in person meetings which has reinforced the culture and team spirit. Regular pulse surveys and our annual Insights survey, again, revealed improvements across all measurable scores over the prior year. We were delighted that we achieved number 15 (2022: 11) in the UK for the Glassdoor Employees' Choice Awards - Best Places to Work in January 2023.

Customer satisfaction

An engaged team generally provides higher quality customer experiences, which is reflected in our customer surveys across the business as well as in industry awards and maintaining a strong market position. The tangible benefit is reflected in the volume of new business, which grew by 10.4% to £4.5 billion.

Liquidity

The Group has a central Treasury function which manages the Group's borrowings in accordance with agreed policies and procedures. We did not record a default, nor utilise standby facilities or borrowings from our parent company. We did not seek or use Government supported facilities or restrict our business activities due to lack of funding. Debt was raised considering each Business Unit's funding requirements and portfolio maturity profile. We raised multi-currency fixed and floating rate debt in the major global markets. Derivatives were utilised to manage currency and interest rate risks. Analysis of borrowings and derivative financial instruments are summarised in notes 17 and 18 to the financial statements. After reflecting the effect of currency risk hedging, gearing (defined on page 14) has been maintained at 6.0 times equity (2022: 6 times) and is well within the limit of 25 times equity set out in the Company's Articles of Association.

We have found that during the year the premium required by investors for term funding in a rising interest rate environment has been high given the unpredictability of rates, and inflation in the UK has regularly exceeded forecasts and expectations. The war in Ukraine has created considerable uncertainty and has also impacted the risk premium. As a result of market conditions, the Group achieved more competitive funding via the Private Placement MTN market during the financial year and hence avoided the need to approach the European public bond market. Given the relative maturity of our portfolio, we were able to change the mix of our funding and focus upon a greater proportion of shorter-term debt, which investors seem to have greater propensity to invest. The maturity of our debt has therefore contracted to 48.3% non current, compared to 67% at March 2022. We do not view this change as a liquidity risk as the repayment profile of debt closely tracks the cashflow maturity of the portfolio. In 2023 it is our intention to return to the public market as this action diversifies the borrowing base. The level of support we have received during the year from our traditional investors has, again, been significant, and we appreciate their support. With a strong equity base and access to global lines of credit, we believe we have sufficient capital to trade should we decide not to access public markets and should there be a severe downturn in the economy for the remainder of 2023 and the following year.

Improving portfolio quality

The Group's charge for bad debt impairment was £22.4m (2022: £27.9m). This represents a reduction of £5.5m over the previous year, which was already low due to the level of Government support provided in the wider economy under the various Covid-19 support programmes. Despite the continued improvement in performance, the Group bad debt provision has increased to £66.0m (2022: £56.3m). This provision includes a £4.8m post model adjustment (2022: £5.0m) for a potential increase in defaults with the risk of recession, inflation and interest rate rises affecting customers with variable rate mortgages.

> “The relatively low charge for bad debts for the last few years reflects the stability in the credit quality of our portfolios in a severe economic recession, and better performance in a period of low growth.”

Overall, the quality of the portfolio has improved, as detailed in note 34, when compared to the previous year as we continued to review and update credit underwriting, continuing to restrict the higher risk categories of business. The relatively low charge for bad debts for the last few years reflects the stability in the credit quality of our portfolios in a severe economic recession, and better performance in a period of low growth.

Society's expectations - regulation and reputation

We continue to strengthen our oversight and assurance functions, to ensure we have the appropriate level of governance and control arrangements in place to ensure we deliver good outcomes to our customers. This is central to our mission, and we recognise that this is a theme of continuous improvement. There continues to be a significant amount of new guidance from the Financial Conduct Authority and regulatory compliance continued to be a focus throughout the period.

There has been some criticism in recent years of the activities of Claims Management Companies for their aggressive stance on generating claims to replace their Payment Protection Insurance claims business, and the Financial Ombudsman Service ("FOS") for the timeliness and consistency of decisions. Section 75 of the Consumer Credit Act of 1974 has been increasingly utilised for very minor technical points to generate refunds and fees. Fortunately, we seek to resolve issues for our customers on a timely basis where a complaint is made; however, we have made a provision of £16.2m in the year to cover customer claims on certain financial products.

We have achieved strong growth in our Electric Vehicles Fleet with growth of EVs over the year of 69%. Our company car fleet policy is 100% Ultra Low Emission Vehicles as we phase out the last 5% of diesel and petrol vehicles. New business levels for our alternative energy division were limited due to supply chain problems and low-level investment returns as the expected long-term incremental cost of energy is expected to fall in the future. We do not fund large scale infrastructure projects; however, we are starting to see a flow of transactions for smaller projects as concern for climate change is slowly rising up the agenda.

The Key Performance Indicators (KPIs).

	2023	2022
Statutory metrics		
Revenue	£1,228.5m	£883.9m
Gross profit	£368.1m	£349.8m
Profit before tax ("PBT")	£160.8m	£130.0m
Bad debt charge (i)	£22.4m	£27.9m
Net assets	£1,081.7m	£921.7m
Total assets	£8,472.8m	£7,117.8m
Number of employees	2,249	1,612
PBT growth	23.7%	25.0%
Pre-tax return on total assets	2.1%	1.8%
Bad debt charge as a percentage of total assets	0.26%	0.4%
Cost / gross profit ratio (ii)	61.3%	50.5%
Effective tax rate	25.5%	21.0%
Post-tax return on equity	11.1%	11.1%
Alternative performance measures ("APMs")		
Gross profit excluding disposal result (vii)	£313.1m	£318.8m
New business volume (iii)	£4,479.4m	£4,056.4m
Net Earning Assets ("NEA") (iv)	£7,586.1m	£6,469.7m
Average Principal Employed ("APE") (v)	£7,249.6m	£6,175.2m
Pre-tax return on APE	2.2%	2.1%
Gearing (vi)	6.0	6.0
Non-financial measures		
Percentage of battery powered electric vehicles on fleet	16.6%	9.9%
Employee Satisfaction Score (Score out of 5)	4.28	4.33
Charitable donations	£0.3m	£0.3m

(i) Bad debt charge is the same as 'Impairment losses on credit exposures' per the Consolidated Income Statement.

(ii) Cost / gross profit ratio is calculated by taking administrative expenses as a percentage of gross profit as per the Consolidated Income Statement.

(iii) New business volumes reflect gross loans advanced during the year.

(iv) NEA is the most significant measure being reported to the chief operating decision maker and is used in the measurement of key ratios. NEA represent the loans, receivables, finance, and operating lease contracts with customers net of initial direct costs. A reconciliation of total assets to NEA can be found in note 3.

(v) APE represents the average NEA during the year.

(vi) Gearing is calculated as interest bearing borrowings divided by total equity.

(vii) Reconciliation of statutory gross profit to gross profit excluding disposal results.

Reconciliation of statutory gross profit to gross profit excluding disposal results.

	2023 £m	2022 £m
Gross profit	**368.1**	**349.8**
Sale of operating leased assets	(276.2)	(186.7)
Disposal of operating leased assets	221.2	155.7
Gross profit excluding disposals	**313.1**	**318.8**

Sale of operating leased assets represent the proceeds received on sale of assets under operating leases. Disposal of operating leased assets is the net book value of the associated operating leased assets sold.

The Company has been operating for 41 years and reported the highest level of profit in its history despite the difficult trading conditions caused by rapidly rising cost of funds and relatively stable rental and instalment charges for debt. Profit before tax increased by £30.8m (23.7% over prior year), primarily due to the gain on discontinuation of equity method of our investment in Gridserve. Our income was enhanced by growth in our assets and profits being generated on the disposal of used vehicles off lease, over the previous year of £27.7m in the UK and £24.1m in the European Mobility Group, as the demand for vehicles exceeded the supply of new and used cars. The improved quality of our portfolio reduced the bad debt impairment charge by £5.5m. We continued to incur costs of integration of £2.4m relating to the change in the company name, trading style and associated IT expenses due to the integration of our parent company in Japan. Administration costs increased by £49.6m when compared to the previous year due to the acquisition of the European Mobility Group (£29.0m increase in staffing, salaries and bonuses, and an increase in IT depreciation and Software as a Service development costs of £5.8m that have been expensed in the year, which would have been previously capitalised). The Group has continued to review salaries and bonuses in line with the market and performance of individual employees throughout the pandemic and the recovery period and we have increased staffing levels to adjust to the increased workload.

The effective tax rate has increased to 25.5% (2022: 21%) a result of the impact of the change in the Corporation Tax rate to 25% from 1 April 2023 on the deferred tax calculation.

The post-tax return on equity increased to 11.1% (2022: 11.1%). No interim dividend was paid during the year (2022: £nil). The Directors have recommended a final dividend of £46.0m, 9.9p per share (2022: £41.6m) which represents 38.4% of the Group's profit after tax.

During the year, the Group continued to sell tranches of instalment finance receivables to special purpose entities under two programmes. These transactions resulted in full de-recognition of the financial assets concerned from the Group's statement of financial position. Further details are contained in note 33 to the financial statements.

Performance summary

The results for the year reflect our continued dedication to providing good outcomes for our customers as our new business levels were strong, despite a low propensity to invest and continued supply chain delays. A greater proportion of our profit was generated from disposal gains this year, but that reflects the quality of the assets purchased and good asset management throughout the life of the assets. The acquisition of the European Mobility Companies should, in the medium term, give us the opportunity to provide a consistent service to our companies across Europe on an ongoing basis as we develop a common strategy.

Business continuity

We have stress-tested our portfolio to see how much the UK economy would have to deteriorate before the Group ceases to be profitable. We projected that UK unemployment would need to rise to 9.1% and GDP fall by 7.2% before the bad debt levels would result in zero profit in the 2023/24 financial year.

Brexit

We have continued to grow our European Vendor Finance business during the year, with 67% of the new business volume of £253 million being originated in the European Union. We protected our pan-European business, several years ago with the incorporation of a Dutch subsidiary. In the past year our focus was not on geographical expansion but upon developing our relationships with Mitsubishi companies operating in Europe. Obviously trading conditions were not ideal with a war in Europe and continuing supply chain difficulties. Rising interest rates also impacted the operation. With greater presence in Europe with the purchase of the European Mobility Group, we should continue to grow our European presence rather than contract.

Outlook

Our performance since 31 March 2023 has again been promising with good volumes of business in April and May and the return of a few major accounts that briefly departed but value and require our service levels. Inflation is expected to decline, and the market consensus is that interest rates are nearing the peak. If there is moderate to low growth in the UK and the EU in 2023 and interest rates stabilise, we expect to gradually recover our margins. Our results will still be supplemented by profit on disposal of assets off lease and our performance to date has, again, been very strong as we manage our quality asset base.

Our people are vital to our success, and it is important that all our staff feel part of the Group. We appreciate and value differences and we strive to create an engaging environment for everyone to be able to contribute to the success of the Group. It has been very pleasing to see our new trading styles for the Group being accepted in the market and the change has reinforced our connection with staff and customers, and the overall brand recognition has increased.

Investing in our people to help them fulfil their potential is a crucial element of our vision to be the trusted brand of financial services in the UK and Europe, with our mission of exceptional people providing outstanding customer experiences. As part of our commitment to developing the talent of the future, we continued to expand our mentoring and apprenticeship programmes throughout the past year.

Conclusion and outlook

Our strategy of offering value added financial products and excellent customer service in our chosen markets has continued to deliver success and enabled us to grow consistently in a variable, uncertain trading environment in 2022/23. Whilst the outlook remains uncertain, we are cautiously optimistic that we can continue to build upon the success we have had in the past few years, providing good outcomes to our customers and continuing to develop our engaged team at the Group.

On behalf of myself and the Board, I would like to take this opportunity to thank employees across the Group for the resilient and innovative business plans in generating significant acquisitions of new business and producing a very strong profit result in a year of difficult trading.

By order of the Board.

R. Gordon
Chief Executive Officer
7 June 2023

Financial Review
Novuna Consumer Finance

Key metrics

£12.6m
Profit before tax
(2022: £58.6m)

£2.3bn
Total new business volumes
(2022: £2.3bn)

£3.1bn
Total assets
(2022: £3.0bn)

£3.1 bn
Net Earning Assets
(2022: £3.0bn)

£15.7m
Bad debt charge
(2022: £22.2m)

0.50%
Bad debt charge as a percentage of total assets
(2022: 0.74%)

Results

Novuna Consumer Finance delivered £12.6m of profit this year, a £46.0m reduction on the prior year. Profit before tax as a percentage of total assets also reduced significantly to 0.41% (2022: 1.96%). The reduction was predominantly driven by the increase in cost of funds and the resulting depression in new business margins.

Rising funding costs

Underlying results were impacted by rising interest costs which increased £39.0m year on year from £28.5m to £67.5m. The business was therefore only able to maintain business volumes by accepting a temporary reduction in new business margins. Current forecasts are that it will take until March 2024 to restore margins to a sustainable level.

New business levels

New business for the year was £2.3bn, down by 0.8% on the prior year. This is primarily recorded within Loans and advances to customers on the Consolidated Statement of Financial Position. The business operates two different channels to the consumer finance market. Retail point of sale finance (incorporating in-store, off-trade and on-line) continues to be the largest channel for new business volume at £1.36bn (2022: £1.34bn), i.e. 60% of total volume. Retail volumes have been impacted by global supply chain issues and stock shortages for many of our retailers, however, this is now slowly starting to improve. Personal lending (incorporating direct lending and broker/aggregator channels) achieved £0.9bn (2022: £0.9bn) of new business volumes, i.e. 40% of total volume. Given the continued high levels of new business, Novuna Consumer Finance's portfolio grew 4.9% to £3.1bn this year. We have also increased the number of live customer accounts to 1.2m which represents an increase of 3% from the prior year.

Low bad debt

Novuna Consumer Finance's approach has always been to maintain a high quality portfolio. This is reflected in the reduction in the bad debt charge from £22.2m to £15.7m or 0.74% to 0.50% of total assets. Underlying default levels remain low, however, due to the negative economic outlook, we have increased our bad debt provision levels under IFRS9 by £4,9m. Novuna Consumer Finance's arrears increased in the second half of the year compared to previous years, bringing delinquency to levels similar to pre pandemic. This was driven by a business mix and a slight increase delinquency rate on 'core' business. This continues to be monitored closely.

> “Given the continued high levels of new business, Novuna Consumer Finance's portfolio grew 4.9% to £3.1bn this year.”

Financial Review
Novuna Vehicle Solutions

Key metrics

£68.0m
Profit before tax
(2022: £54.2m)

£705.4m
Total new business volumes
(2022: £658m)

£1.9bn
Total assets
(2022: £1.7bn)

£1.7bn
Net Earning Assets
(2022: £1.5bn)

£1.2m
Bad debt charge
(2022: £1.1m)

0.1%
Bad debt charge as a percentage of total assets
(2022: 0.1%)

103,736
Units, total fleet size
(2022: 98,734 units)

Results

During the year, Novuna Vehicle Solutions generated profit before tax of £68.0m, representing a 25% increase in profit from the prior year of £54.2m.

Revenues increased by £124.6m (21.4%) year on year, from £582.0m to £706.6m. This comprised of improved operating lease rental income which increased by £64.7m (18.6%) year on year from £348.0m to £412.7m, due to the growth in our funded fleet (over 5,000 vehicles) and increased rates connected with rising funded capital costs and rising cost of funds. Additionally, operating lease maintenance income increased by £15.8m (37.4%) year on year from £42.3m to £58.1m, due to the growth in our maintained fleet (over 4,600 vehicles), increased rates connected with rising costs and an increased penetration of specialist assets. Profit before tax as a percentage of total assets increased from 3.2% to 3.6%.

There was also an increase in the sale of operating assets which increased by £42.3m year on year (23.1%), from £183.1m to £225.4m. Due to increases in interest rates and the size of the asset portfolio, finance costs increased from £16.4m to £31.9m representing a 94.5% increase from the prior year.

Disposals

Novuna Vehicle Solutions experienced a continuation of a strong used vehicle market over the year. Global supply chains continue to be adversely impacted by the shortage of computer chips integral to the build of new vehicles. This has resulted in stock shortages and the consequential increased delivery times by the major manufacturers. As a result, new vehicles continue to be in short supply, leading to strong used vehicle sales prices. Used vehicle sales profits post prospective depreciation reversal, reduced by £1.7m year on year from £29.4m (6.1%) to £27.7m. This represents a return on sales of 12.2%.

	2023 £m	2022 £m
Sales of operating lease assets	225.5	183.1
Disposal of operating lease assets	(197.8)	(153.7)
Profit	**27.7**	**29.4**

The strong used vehicle market, has also resulted in a favourable prospective depreciation benefit to our performance. This increased by £67.2m year on year, from £51.9m to £119.1m. This however has been dampened by an increase in the Impairment charge by £38.2m year on year, from £44.3m to £82.5m. This was caused by an increase in the Weighted Average Cost of Capital ("WACC") and the expectation that the used vehicle market will weaken in the mid-term.

Low bad debts

Novuna Vehicle Solutions has performed strongly during the year despite many challenges caused by the instability of the UK economy. These challenges include record breaking inflation, with CPI peaking for October 2022 at 11.1% and rising funding costs, which increased £15.4m year on year, from £16.4m (1.2%) to £31.8m (2.0%). Despite challenging market conditions, bad debt charges remain well controlled at £1.2m, 0.1% of total assets. This represents a £0.1m increase on the prior year but remains constant at 0.1% of total assets.

Expanding operations

Total new business volumes have increased by 7.2% on the prior year, from £658.0m to £705.4m. This was favourably influenced by the delivery of two successful transactions during the year, including asset purchases from BNP Paribas Rental Solutions Limited and Ryder Limited. New business performance has resulted total assets increasing by £170m to £1.87bn and in net earning assets increasing by 14.0%, to £1.71bn.

The operating fleet continues to grow to more than 103,000 vehicles, incorporating 53,000 cars, 41,500 vans and 8,500 HGV's and specialist vehicles. This is very encouraging, considering the new vehicle supply challenges, and the wider economic situation. The diversity of our portfolio across multiple markets, together with our capability to support complex specialist assets, provides a strong mitigation against macro-economic challenges.

Continued growth coupled with investment in our teams, has increased our headcount by 29% to 540 full time equivalents. This demonstrates our commitment to our valued teams, and customers during economic uncertainty.

Arrears

Due to the slowing economy and cost of living crisis, total arrears increased gradually throughout this financial year to £870k (1.57% of monthly invoices). This compares to the previous financial year when total arrears reduced quickly post the Covid-19 pandemic finishing at a record low of £409k (0.81% of monthly invoices) for the year.

Financial Review
Novuna Business Finance

Key metrics

£66.2m
Profit before tax
(2022: £25.0m)

£999.3m
Total new business volumes
(2022: £820m)

£1.8bn
Total assets
(2022: £1.6bn)

£1.7bn
Net Earning Assets
(2022: £1.6bn)

£5.6m
Bad debt charge
(2022: £4.0m)

0.3%
Bad debt charge as a percentage of total assets
(2022: 0.3%)

Results

Novuna Business Finance generated £66.2m of profit before tax this year which represented a 165% increase on the previous year. Profit before tax as a percentage of total assets increased to 3.6% from 1.6% last year. The improvement was driven by the £44.1m gain on our investment in Gridserve. Excluding the gain on Gridserve, NBF reported a year on year reduction in gross profit of £1.8m which was driven by increased funding costs which increased by £21.2m, from £15.2m (1.0%) last year to £36.4m (2.2%). This additional cost was largely absorbed by the additional margin generated by an increase in new business levels.

Record new business levels

New business levels for the year sit at £999m and are up 22% on last year's £820m which is primarily booked within 'Loans and advances to customers' on the Statement of Financial Position. The business operates three routes to market: Broker, Direct and Manufacturer and Dealer. Broker introduced business is our biggest route to market making up 53% of new business. We approach the broker market through two avenues, Farm and Commercial, with a focus on hard assets financed though Hire Purchase contracts.

Manufacturer and Dealer makes up 27% of new business. Our focus is on retail business finance in the agricultural sector together with inventory finance for both motor and agriculture. Manufacturer and Dealer volume has grown the most this year driven by motor inventory finance. Our customers include a £100m facility for Pendragon PLC together with a £75m facility for Sytner Group.

The Direct channel makes up 20% of new business volume, half of which is attributable to our long-established Block Discounting product. We also operate a Structured Finance and Project Finance offering within Direct. Our Project Finance proposition focuses on sustainability initiatives. We currently have a £76m facility and a strategic partnership with Gridserve Holdings Ltd under this offering to fund the delivery of electric vehicle charging infrastructure.

Despite the negative economic environment, default levels have remained low and stable across all routes to market. Over the past 12 months we have completed a re-structure within the collections department which led to us recruiting some key skilled collectors who have played a key role in maintaining our performance.

> “New business levels for the year sit at £999m and are up 22% on last year's £820m.”

Third biggest asset finance provider in the UK

We have continued to deliver growth and at £1.7bn, our portfolio is now eight times bigger than it was ten years ago. In July, combined with Novuna Vehicle Solutions, we were announced by Asset Finance Policy and Asset Finance Connect as the third biggest asset finance provider in the UK behind Lombard and HSBC Holdings PLC.

Going forward, our business plan is centred around building on our success through our three routes to market and driving growth through our new sales channels of Project Finance and Direct Asset Finance. This will enable us to take advantage of wider market opportunities and embed sustainability. We will continue to focus on utilising digitalisation to achieve efficiencies and create a frictionless journey for our customers continually improving our processes and systems to deliver real business results.

Financial Review
Novuna Business Cash Flow

Key metrics

£2.9m
Profit before tax
(2022: £1.7m)

£305m
Total assets
(2022: £277m)

£123.8.m
Net Earning Assets
(2022: £122.5m)

£0.3m
Bad debt charge
(2022: £0.5m)

0.10%
Bad debt charge as a percentage of total assets
(2022: 0.18%)

Results

During the year, Novuna Business Cash Flow generated profit before tax of £2.9m, building on the success of the previous year and representing an increase of £1.2m. The business unit increased gross profit as a percentage of total assets from 0.61% to 0.95%.

The pandemic had a significant impact on the industry with many businesses opting for Government intervention schemes rather than invoice finance. Invoice finance lending remains significantly behind previous industry highs and SMEs are using alternative products to invoice finance compared to pre pandemic with the impact of Government loans driving businesses to seek out alternatives; business loan usage has risen dramatically under the Recovery Loan Scheme and cash flow finance is a key driver for borrowing.

Novuna Business Cash Flow continues to show growth in a smaller market, increasing its quantum of lending by targeting larger corporate businesses which is shown by this segment now representing 42% of our book. We also continue to focus on the smaller core clients that make up the lower end of our book which as well as being more profitable, demonstrate the social value we are creating by assisting around 15% of our core micro business clients to become larger entities.

We have seen some benefits to the current economic situation with clients increasing pricing to tackle inflation and higher overhead costs, resulting in increased client invoice assignments. Our margins have remained stable despite funding costs increasing, as our discount base rate tracks bank rate, together with the short-term lending that's characteristic of invoice finance.

We continue to drive non lending income and saw increases in the performance on our 3rd party lead driven revenue and clients using our invoice generator product. We also invested in a new credit control platform during the year which provides not only better functionality and great reporting capability to our clients which aids factoring client retention, it drives efficiency savings through previously manual administrative tasks.

Bad debt as a percentage of assets has reduced when compared to the previous year and the bad debt charge has remained consistent with previous years. This demonstrates the focus and expertise that the business unit has in terms of portfolio management and recoveries over a volatile period.

Overall this financial year, our total current account closed at nearly £125m, an increase of 1% compared to the prior year and a record performance for the business.

Financial Review
European Vendor Finance

Key metrics

£2.1m
Profit before tax
(2022: £3.1m)

£253m
Total new business volumes
(2022: £216m), split 33% UK 67% Europe

£317m
Total assets
(2022: £325m)

£309m
Net Earning Assets
(2022: £295m)

£0.1m
Bad debt charge
(2022: £0.1m)

0.04%
Bad debt charge as a percentage of total assets
(2022: 0.04%)

Results

This has been a year of transformation for European Vendor Finance as we embedded our new brand, Mitsubishi HC Capital, and moved from a captive to a more diversified European vendor business. EVF had another year of record gross earnings which were up 10% on the prior year and was profitable in all of the five countries (UK, Ireland, Netherlands, Finland and Belgium) where we have a direct presence. EVF made a profit of £2.1m in the year, down from £3.1m last year, with profits adversely impacted by rising funding costs over the year. Borrowing costs as a percentage of Total Assets increased from 0.74% to 1.42% and against average Net Earning Assets (NEA) increased from 0.87% in the prior year to 1.53%, resulting in the Interest Expense charge increasing by 90% from £2.3m to £4.4m.

> “During the year we have further strengthened our onsite presence across Europe, increasing our number of employees outside of the UK to 21% of our workforce.”

Against a backdrop of continued supply chain disruptions and instability across Europe from the war in Ukraine EVF continued to grow its business, achieving direct volume growth of 17% in the year and increasing the size of our total assets and NEA by 5%. This was achieved by diversifying our vendor base and deepening our relationships with our fellow Mitsubishi Group companies, while continuing to support Hitachi group companies as well as key Group and global accounts. Our Extended Invoice Term Finance (“ETF”) proposition for funding stock has prospered, resulting in £50m growth in ETF business volumes in the year, and enabling us to complete our first transaction in Serbia which further increased the number of countries that we have transacted in to 23.

With trading conditions in the UK remaining challenging, EVF has grown its business across mainland Europe achieving a 64% increase in direct European volumes, and now delivering 67% of our total direct volumes through Europe. This included double digit growth in both volumes and NEAs in all of the counties in Continental Europe that we have a direct presence in (Netherlands, Finland and Belgium). During the year we have further strengthened our onsite presence across Europe, increasing our number of employees outside of the UK to 21% of our workforce, establishing premises in Ireland and upgrading our office space in the Netherlands.

While our NEA have grown across Europe, we have continued to maintain the quality of our portfolio backed by high quality vendors and global assets. This is reflected in a bad debt charge as a percentage of total assets of just 0.04%. Arrears are closely managed, with our Arrears Delinquency Ratio held within risk appetite throughout the year and ending at 0.1% in March 2023 in line with March 2022.

Financial Review MHC Mobility

Key metrics

(for the eight month period 1 August 2022 through 31 March 2023)

£13.1m
Profit before tax

£202.7m
Total new business volumes

£677.1m
Total assets

£591.2m
Net Earning Assets

£0.5m
Release of bad debt provision

0.1%
Annualised bad debt credit as a percentage of total assets

Results

The above metrics are based upon activity following the acquisition by the Group on 1 August 2022 and explains why no prior year metrics are available.

MHC Mobility recorded a profit before tax of £13.1m for the period 1 August 2022 until 31 March 2023. Disposal result (sale of leased vehicles after the end of their contract) continued to contribute positively resulting from a strong second hand car market in mainland Europe.

The net income from leases is slightly impacted by the increased funding costs and the increasing prices for maintenance and damage repairs resulting from higher inflation.

New business volume amounted to £202.7m and is still suffering from long delivery times of new vehicles. The number of outstanding backorders has increased by 37% to over 6,500 orders.

Arrears are well under control within MHC Mobility. The arrears in Poland and Czech Republic identified at acquisition were closely monitored and due to collection efforts in the last quarter of the financial year part of the original bad debt provisions could be released to the Income Statement resulting in a credit of £0.5m.

> “MHC Mobility continued to contribute positively resulting from a strong second hand car market in mainland Europe.”

ESG Review

ESG summary

MHCUK's purpose is to unlock the potential of individuals, businesses, and society by delivering innovative solutions and outstanding customer experiences. To achieve this, the Group continues to look at new ways to operate more sustainably. As a profitable business, we contribute to long-term, steady economic growth and can leverage our resources to deliver on our ESG objectives.

EESG framework

This year MHCUK grew its dedicated Sustainability Team within the Group CEO Office to strengthen support for the sustainability strategy, comprising four key pillars: Environmental, Economic, Social, and Governance ("EESG"). The EESG framework is aligned with the United Nations Sustainable Development Goals ("UN SDG"s).

Environmental

The Group is committed to implementing a robust Net Zero Strategy, aligned with the Paris Agreement's central aim of strengthening the global response to climate change.

A Net Zero Working Group has been established with a wide-ranging remit. This includes supporting the development of the sustainability strategy framework and climate-related governance structures alongside delivering regulatory disclosures. The Working Group will also promote Company-wide awareness of the Net Zero journey and support the business in identifying climate-related risks and opportunities.

MHCUK is not yet required to comply with the Department for Business, Energy and Industrial Strategy ("BEIS") requirements for reporting climate-related financial disclosures. Work has started to ensure that the Group appropriately aligns with the Task Force on Climate-Related Financial Disclosures ("TCFD") framework for the year ended 31 March 2024, with ongoing development from that point forward.

This will also enable the Group to provide mandatory climate-related financial disclosures that will be required by the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 in our next Annual Report.

Governance

Enhancing governance for sustainability has been a focus for the Group this year, with two new committees agreed to provide greater focus on the effectiveness of our progress towards net zero targets and contributions to the UN SDGs.

The ESG Environmental Committee will be chaired by the CEO and will focus on climate strategy and opportunities. The ESG Social and Human Committee will be chaired by the General Manager CEO Office and Corporate Social Responsibility ("CSR") and will focus on Human Rights and inclusion and diversity, supporting the UN SDGs and the Group's wider contribution to society, including charity and volunteering. These two new committees will replace the current CSR committee in the year starting 1 April 2023, reporting to the Executive Committee and providing relevant updates to the Board.

The Executive Risk Committee will continue to manage climate-related risk, working closely with the ESG Environmental committee responsible for escalating relevant climate risk matters to the Audit and Risk Committee.

For a detailed overview of the Company's Governance strategy, see the Corporate Governance statement, starting on page 60.

> "Enhancing governance for sustainability has been a focus for the Group this year, with two new committees agreed to provide greater focus on the effectiveness of our progress towards net zero targets and contributions to the UN SDGs."

Risk management

Climate related risks are being identified across the Group and are managed through the Enterprise Risk Management framework. This activity is supported by the existing CSR Committee and will transition to the new ESG Environmental Committee next year.

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The consideration of strategic level climate risk ensures the Group considers climate risks and opportunities when developing its business model and strategy. This was introduced for the strategic planning process this year and supported by a series of workshops across the business. The risks and mitigants identified by the strategic level risk assessment are shown in the table on (page 44) and include one principal climate risk. Operational climate risks are in the process of being identified across the Group. This exercise will be completed in the next financial year and covered in detail in the next annual report.

At an operational level, all business units and functions are evaluating their areas for specific climate change risks (both physical and transitional) and assessing existing risks for climate change as a cause. Regulatory horizon scanning is also in place to identify legislative updates concerning climate risk.

Climate risks across the business are recorded on the enterprise risk platform. As each risk is identified so too are the controls to help mitigate the risks to an acceptable level. Control testing schedules are put in place and actions identified to further mitigate where relevant. New risks can be raised by any department and will be reviewed at a minimum of once a year, following the Risk Identification and Management policy standard.

Climate related opportunities are identified by the Executive Committee as part of the annual group-wide business strategy setting process and are reported to the Board.

Opportunities are also discussed at business unit quarterly review meetings where key Executive Committee members attend. Going forward, identification of climate related business opportunities will be supported by the new ESG Environmental Committee.

MHCUK's key climate related opportunities are the funding of green assets, predominantly in the area of vehicle electrification in the Vehicle Solutions division fleet. Development of the charging infrastructure is vital to the success of vehicle electrification and pioneering the change to UK transport. The Business Finance division funds this transition through companies and organisations who provide enabling infrastructure. The Group's investment in Gridserve has been a significant part of this development.

Carbon reduction

In accordance with the Paris Agreement, interim science-based emission reduction targets for 2030 have been set for scope 1, 2 and 3a upstream business emissions and 3b downstream financed emissions, with a long-term aspiration to reach net zero by 2050. These targets are under review by the Science Based Targets initiative ("SBTi").

Metrics and targets

MHCUK has been producing metrics as part of its Streamlined Energy and Carbon Reporting ("SECR") disclosures and other mandatory reporting requirements and using this information to monitor operational emissions. Current Scope 1, 2 and 3 upstream emissions under SECR reporting are 544.5 tonnes C02 equivalent (tC02e). For further detail see the full SECR report starting on page 37 of this report.

The Group is working to develop a full suite of metrics and KPIs to assess climate-related risks, opportunities and progress against targets. These metrics will form part of the broader reporting and oversight by the ESG Environmental Committee and will be identified and implemented by March 2024.

Society

For MHCUK, Social and Human sustainability means focusing on how we engage and build relationships with customers, colleagues, suppliers and the community.

Customers

MHCUK is a customer centric organisation and continues to launch initiatives that enhance the customer experience. Examples across the Group include upgrading the contact centre platform in the Consumer Finance division and upgrading the Business Finance broker platform functionality to offer more flexibility. Additionally, the Vehicle Solutions division has launched a sustainability initiative to customers including advice and benefits of switching to electric vehicles.

MHCUK encourage customers to use the impartial, verified platform Feefo to share their feedback. Three business divisions use Feefo and in all cases in the year, the average feedback was 4.5 out of 5 and above.

Colleagues and culture

Diversity, equity and inclusion remained our focus. In May 2022, the Diversity Leadership Council ("DLC") was established, made up of four Executive Committee member sponsors for our corporate communities. In addition, we signed up to two Charters - Race at Work Charter and Women in Finance Charter. A key target is to have 35% of women in leadership roles by 2025 (31% as at 31 March 2023).

MHCUK also joined the Disability Confident employer scheme in March 2023.

Employee engagement remains a high priority. This year, for the second year running, MHCUK were placed in the top 20 'Best Places to Work in the UK' by Glassdoor, ranked 15th with a rating of 4.6 out of 5. This was supported by 91.2% of colleagues who confirmed in this year's company-wide survey (completion rate 90%) they would recommend MHCUK as a great place to work.

Our latest Gender Pay Gap reports a marginal 0.4% decrease in the mean gender pay gap to 29.1%. The median gender pay gap rose by 2.4% to 36.5% compared to April 2021. More males receive higher salary grades than females, therefore the demographics of the company and the wider financial services industry continue to be the primary factors for the gender pay gap. MHCUK has initiatives in place to close the gap, these are published in the 2022 Gender Pay Gap report on our website.

Suppliers

This year 100% of MHCUK Group Procurement managed suppliers had the MHCUK Supplier Code of Conduct (or equivalent) in their contracts. This requires suppliers to comply with the Modern Slavery Act specifically and/or with all applicable UK legislation. All contracts managed via Group Procurement continue to include relevant clauses in relation to modern slavery, human trafficking and ensuring that the Real Living Wage is being paid. Additionally, suppliers are asked to provide evidence as appropriate with regards to their environmental credentials and policies.

Charity and volunteering

The Group continued to focus on its partnership strategy with charitable organisations who are aligned to the company vision and values and represent the ongoing commitment to the UN SDGs. This year, the Group partnered with two new national charities, Hubbub, a climate action charity and Mind, a prominent UK mental health charity in support of colleague's wellbeing.

The company partnerships with Wildlife Trust, Young Enterprise and Crisis also continued for a third year.

This year in total MHCUK donated £340k (2022: £275k) to over 50 charities and a total of 518 volunteering hours were used by colleagues.

Further ESG information

MHCUK will publish an ESG report on its website to accompany the annual report, which will provide more in-depth information on the areas covered above.

Non-Financial Information

This section of the strategic report constitutes Mitsubishi HC Capital UK PLC's Non-Financial Information Statement, produced to comply with sections 414CA and 414CB of the Companies Act. The information listed is incorporated by cross-reference.

Environmental matters

Policies that govern our approach*	Due diligence processes
Business Strategy Policy - The policy is designed to devise and implement a business strategy based upon our vision, brand promise and values that achieves our corporate objectives and is aligned to the Mitsubishi HC Capital Group medium-term strategy.	● Ensuring we take account of climate change risks, and potential opportunities, in developing our business model and strategy; ● Subjecting our strategic plans to rigorous Board, Group and Executive review, challenge and risk assessment; ● Adopting Policy Standards that support adherence to the principles of the Policy: › Corporate Social Responsibility Policy Standard › Strategic Planning Policy Standard

Where to find further information necessary to understand our business and its impacts, including outcomes of our activities:

- Streamlined Energy and Carbon Report, starting on page 37
- Section 172(1) Statement (The impact of the Company's operations on the community and environment), page 35
- ESG summary (Environmental, Carbon reduction, Charity and volunteering), starting on page 25
- The Mitsubishi HC Capital Group Environmental Policy: www.mitsubishihccapital.co.uk/media/imoalwzh/the-mhc-group-environmental-policy.pdf

Employees

Policies that govern our approach*	Due diligence processes
People Policy - The policy is designed to support the long-term vision of the Company, to be 'one of the most trusted financial services brands in the UK and Europe', with a brand promise to unlock the potential of individuals, businesses and society, by delivering innovative solutions and outstanding customer experiences.	● Ensuring that this Policy is implemented effectively across the Company through our HR leadership team, engagement with business stakeholders via our Business Partnering model, and oversight by the relevant governance Committees. ● Adopting Policy Standards that support adherence to the principles of the Policy: › Health and Safety Policy Standard › Performance Management Policy Standard › Recruitment and Selection Policy Standard › Remuneration Policy Standard › Training and Competence Policy Standard

Where to find further information necessary to understand our business and its impacts, including outcomes of our activities:

- Section 172(1) Statement (The interests of the Company's employees), page 34
- Directors' Report (Employees), starting on page 55
- ESG summary (Colleagues and culture), page 27
- Corporate Governance Statement (Diversity and Inclusion), page 66

Social matters

Policies that govern our approach*	Due diligence processes
Business Strategy Policy - The policy is designed to devise and implement a business strategy based upon our vision, brand promise and values that achieves our corporate objectives and is aligned to the Mitsubishi HC Capital Group medium-term strategy.	• Strategically and diligently pursue only those activities that support our culture and core values of Harmony, Sincerity and Pioneering Spirit and to avoid generating non-sustainable profits and the risk of failing to treat our customers fairly or inconsistently with our core values; • Take account of climate change risks, and potential opportunities, in developing our business model and strategy; • Adopting Policy Standards that support adherence to the principles of the Policy: › Corporate Social Responsibility Policy Standard

Where to find further information necessary to understand our business and its impacts, including outcomes of our activities:

- Directors' Report/Stakeholder Engagement, page 53
- (Section 172(1) Statement (The impact of the Company's operations on the community and environment; the need to foster the Company's business relationships with suppliers, customers and others), page 35
- ESG summary (Society), page 27

Respect for human rights

Policies that govern our approach*	Due diligence processes
Business Strategy Policy - The policy is designed to devise and implement a business strategy based upon our vision, brand promise and values that achieves our corporate objectives and is aligned to the Mitsubishi HC Capital Group medium-term strategy.	• Promote, oversee and support business activities to ensure that the risk of modern slavery and human trafficking in our business and supply chains is eliminated to the maximum possible extent; • Adopting Policy Standards that support adherence to the principles of the Policy: › Anti-Slavery and Human Trafficking Policy Standard; › Corporate Social Responsibility Policy Standard

Where to find further information necessary to understand our business and its impacts, including outcomes of our activities:

- Section 172(1) Statement (The desirability of the Company maintaining a reputation for high standards of business conduct (e.g. anti- slavery, Real Living Wage employer), page 36
- Directors' Report (Employees), pages 52 to 53
- Corporate Governance Statement (Diversity and Inclusion), page 66
- Inclusion and diversity performance www.novuna.co.uk/who-we-are/inclusion-and-diversity/
- ESG summary (Society), page 27
- Anti-Slavery and Human Trafficking Statement 2022: www.mhcuk-anti-slavery-statement-2022.pdf
- The Mitsubishi HC Capital Group Human Rights Policy: www.mitsubishihccapital.co.uk/media/0uup42bp/the-mhc-group-human-rights-policy.pdf

Anti-corruption and anti-bribery matters

Policies that govern our approach*	Due diligence processes
Financial Crime Policy - The Company's policy is to deter and detect all forms of financial crime through robust systems and controls by means of detailed Policy Standards, processes and procedures covering the key stages of financial crime identification and prevention, handbooks and guidance notes that are made available to the staff implementing these procedures and processes and a programme of mandatory financial crime training made available to all relevant staff.	• Periodic assessment of the operational effectiveness of our financial crime controls; • Adopting Policy Standards that support adherence to the principles of the Policy: › Anti-Bribery and Anti-Corruption Policy Standard

Where to find further information necessary to understand our business and its impacts, including outcomes of our activities:

- Section 172(1) Statement (The desirability of the Company maintaining a reputation for high standards of business conduct (e.g. prevention of financial crime), page 36
- the Mitsubishi HC Capital Group Code of Ethics and Code of Conduct: www.mitsubishihccapital.co.uk/media/uoscmx25/ethics.pdf

*Certain Group Policies, internal standards and guidelines are not published externally.

Where principal risks in relation to any of the matters listed in the table above have been identified as arising in connection with the Group's operations, these can be found on pages 41 to 51, including (to the extent relevant) a description of the business relationships, products and services which are likely to cause adverse impacts in those areas of risk and a description of how the principal risks are managed.

Non-financial key performance indicators:

Non-financial key performance indicators can be found on page 14 of the CEO's Review.

Business model and strategy:

Through the use of global funding facilities, we endeavour to keep our cost of borrowing at the lowest possible level as well as maintaining a high-quality portfolio with low bad debts and arrears.

The business model in each of our chosen markets directs us towards writing prime business with customers who require a high level of service. The customer experience is thus vital for us to be able to generate revenue. Treating customers fairly must be real for the business to ensure we maintain our reputation, transact repeat business and attract new customers. Our reputation is integral to the business model. Factors by which the development, non-financial performance or position of the Company's business, or the impact of the Company's activity, can be measured effectively are described on the following pages of the Group Strategic Report or in the documents referred to below:

- Key performance indicators, page 14
- Group Strategic Report starting on page 5
- ESG summary, page 25
- Inclusion and Diversity at Novuna
  www.novuna.co.uk/who-we-are/inclusion-and-diversity/

Section 172(1) Statement

This statement describes how, throughout the year ended 31 March 2023, the Directors have had regard to the matters set out in section 172(1) of the Companies Act 2006 when performing their duty under section 172 to promote the success of the Company.

Role of the Board

The Board's primary responsibility is to promote the long-term success of the Group by creating and delivering sustainable shareholder value, whilst contributing to wider society. Details of the role and operation of the Board are set out in the Corporate Governance Statement, which starts on page 60 of the Annual Report. Successful delivery of the Group's strategic plans relies on key inputs from, and positive relationships with, a wide range of stakeholders. The section of the Directors' Report headed "Stakeholder engagement", starting on page 53, explains how the Board has engaged with the Group's key stakeholders (including the shareholder and investors, employees, government and regulators, customers and suppliers). Further detail is provided below on how the directors have considered employee interests, the need to foster business relationships with suppliers, customers and others, and the effects of those considerations, including on the principal decisions taken during the financial year.

Governance

The Company has applied the Wates Corporate Governance Principles since 1 April 2019. These principles provide a code of corporate governance for large private companies and unquoted public companies to raise awareness of good practice and to help to improve standards of corporate governance. They also support the Directors in meeting the requirements of Section 172 of the Companies Act 2006 by providing guidance on the following areas:

- Purpose and leadership;
- Board composition;
- Director responsibilities;
- Opportunity and risk;
- Remuneration; and
- Stakeholder relationships and engagement.

The Corporate Governance Statement includes an explanation of how the Company has applied the Wates Principles during the year.

Activities of the Board during the year

Engaging with stakeholders to deliver long term success is a key area of focus for the Board and all decisions take into account their impact on stakeholders. Views of stakeholders are gathered in Board papers and inform the decisions made in Board meetings. The Company Secretary has published guidance to management which encourages those preparing Board papers to explain, where applicable, how the matters set out in section 172(1) of the Companies Act 2006 have been taken into account. The various different categories of stakeholder can be impacted by, or benefitted from, decisions made by the Board in different ways. However, the Board is committed to ensuring that the Directors have acted (both individually and collectively) in the way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its shareholders and have regard (amongst other matters) to the matters set out in paragraphs (a)-(f) of Section 172(1) of the Companies Act 2006, as set out below:

Section 172(1)	**Decisions / interactions**
a) The likely consequence of any decision in the long term.	The Board annually approves a three-year medium-term plan on a rolling basis and oversees its implementation throughout the year by way of detailed reports from executive management on the Group's operating and financial performance. This includes monitoring progress against key strategic programmes as well as considering the allocation of capital to support the rolling medium-term plan. In approving the plan, the Directors also consider external factors such as competitor behaviour, the performance of the financial services sector, and the evolving economic, political and market conditions. The Company has an established risk management framework, which is managed by a team led by the Chief Risk Officer, who provides regular reports to the Audit and Risk Committee and, on matters of material significance to the Group, to the Board itself. The Company's central treasury function, in conjunction with the Treasury Committee, continues to arrange funding to meet the short-term, medium-term and long-term needs of the business. In its consideration of any proposals to declare dividends, the Board takes account of the likely long-term consequences, including the potential impact on the Company's defined benefit pension scheme.
b) The interests of the Company's employees.	The Directors understand the importance of the Group's employees to the long-term success of the business. The health (including mental health), safety and welfare of employees remains a major priority for the Group. It became a matter of particular focus during the Covid-19 pandemic and remains a key factor in the Board's decision-making, especially in a time of increased cost of living due to rising energy costs and inflation. Since the pandemic, the Company has moved towards a hybrid way of working. Information about the ways in which the Board and executive management have communicated and engaged with employees during the year are included in the Directors' Report, which starts on page 52. Details of the various initiatives which are in place to support the wellbeing and development of employees, and to promote diversity and inclusion in the workforce, are set out in the ESG Summary in the Group Strategic Report and the Stakeholder Engagement section of the Directors' Report. The Board is responsible for overseeing the Company's progress in closing the gender pay gap and publishes each year a Gender Pay Gap report. Details from the latest report can be found in the Colleagues and Culture section of the ESG Summary.

Section 172(1)	**Decisions / interactions**
c) The need to foster the Company's business relationships with suppliers, customers and others.	The Board regularly reviews how the Group maintains positive relationships with its stakeholders, including suppliers, customers and others. The Group maintains a strategic relationship management programme, overseen by the Group Procurement team, for all suppliers considered to be "critical" or "strategic" to the business. This programme requires the business "owner" of the relationship with each supplier to hold regular review meetings with "strategic" suppliers and "critical" suppliers. In addition, annual due diligence reviews of each significant supplier are undertaken. The Board receives regular reports in respect of important suppliers, including any material operations which are outsourced to a third party. The Company has a Supplier Code of Conduct, which all suppliers to the Group are required to adopt and follow (unless they follow a code of their own which commits them to demonstrate equally high standards of conduct). Similar arrangements are maintained with business introducers, such as brokers, retailers and aggregators. The Company is committed to providing outstanding customer experiences on a consistent basis. Details of the steps taken during the year to deliver this commitment are set out in the ESG Summary in the Group Strategic Report, starting on page 25. The statement of the Group's principal risks and uncertainties in the Group Strategic Report sets out risks that can impact the medium-term and long-term success of the Group, taking account of how these risks may impact upon the Company's relationships with its stakeholders. The Directors receive regular reports from the Chief Executive Officer, Finance Director, Chief Risk Officer and Director of Operations to ensure that they have sufficient information to make appropriate decisions about the risks faced by the Group and how these are reflected within its medium-term and long-term plans.
d) The impact of the Company's operations on the community and environment.	The Board and the Company are fully committed to making a valuable contribution to society and the environment in which the Group operates. This commitment is encapsulated in the Group's Corporate Social Responsibility Policy Standard and is embedded in its culture, which aligns with the fundamental philosophies of the Company's shareholder and its associated companies. As a subsidiary of Mitsubishi HC Capital Inc, the Company has adopted both the Human Rights Policy and the Environmental Policy of the Mitsubishi HC Capital Group, which set out principles of conducting business with the utmost respect for human rights and in harmony with the environment and society. "Communities" and "Sustainability" are two of the five key elements which form part of our ESG reporting. The Company continues to work towards a cleaner, healthier, and more sustainable future. In 2022, the Board set targets to reach net-zero greenhouse gas emissions by 2050 and it continues to align the business to the UN Sustainable Development Goals by investing in employees and future talent and through supporting society and the communities in which we live and work. Further information, including detail of the activities of staff and initiatives undertaken by the Company, is provided in the ESG Summary in the Group Strategic Report.

Section 172(1)	**Decisions / interactions**
e) The desirability of the Company maintaining a reputation for high standards of business conduct.	The Directors take the reputation of the Group very seriously and this is not limited to operational and financial performance. As a subsidiary of Mitsubishi HC Capital Inc, the Company has adopted the Mitsubishi HC Capital Group Code of Ethics and Code of Conduct, which provide comprehensive guidance on how to conduct business in an ethical manner. The Board is committed to high standards of corporate governance. The Company not only applies the Wates Principles of Corporate Governance but also takes into account the principles and provisions of the UK Corporate Governance Code to the extent that the Board considers them to be proportionate and relevant to the Company. The Company is committed to preventing, deterring, and detecting all forms of financial crime such as money laundering, fraud, terrorist financing, bribery and corruption and market abuse. The Board ensures that the Group Financial Crime Prevention Team remains fully resourced and continues to provide regular reports to the Audit and Risk Committee in line with the Company's Financial Crime Policy Statement. The Board remains determined to ensure that the Company meets, or exceeds, its legal obligations to ensure that neither modern slavery nor human trafficking occur in its business or in its supply chains. The Company continues to be accredited as a "Real" Living Wage Employer by the Living Wage Foundation.
f) The need to act fairly as between members of the Company.	The Company has only one shareholder, Mitsubishi HC Capital Inc. There is therefore no possibility of a conflict of interests arising between members of the Company in the foreseeable future. However, in order to ensure that the Company and its shareholder continue to act in a manner which respects the legal, regulatory and cultural expectations in the UK and Japan respectively, the directors and management of both companies devoted a significant amount of time and effort during the year under review to updating and implementing a revised framework designed to promote appropriate levels of co-operation, consultation and exchange of information between the Company and its shareholder. Work on the revised framework continues and is expected to complete by 2024.

Streamlined Energy and Carbon Report

The Group is committed to reducing its energy consumption and carbon footprint and complying with environmental laws. Our sustainability strategy and the principal measures taken to increase energy efficiency are set out in our ESG report, available on our website.

This report sets out the Group's greenhouse gas and energy use data for the year ending 31 March 2023, which the Group is required to provide in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended by the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

These regulations require companies to disclose in their Annual Reports (for accounting periods beginning on or after 1 April 2019) a summary of associated energy and carbon emissions. Set out below are the direct and indirect emissions of the Group:

UK and offshore kWh and CO2e

The Group reports GHG emissions in accordance with the operational control approach, to define our boundary of responsibility. In line with our Environmental Reporting Criteria, the Group reports on all significant sources of GHG emissions from our business that are under our operational control.

Scope 1 emissions (*direct)

Energy type	Definition	Total volume (kWh)	Calculated emissions (Tonnes of CO2e)
2023			
Gas	Emissions from combustion of gas	70,281	13
Transport	Emissions from combustion of fuel for transport purposes	651,113	154
Total		**721,394**	**167**
2022			
Gas	Emissions from combustion of gas	75,880	14
Transport	Emissions from combustion of fuel for transport purposes*	231,143	56
Total		**307,023**	**70**

* Direct emissions include activities owned or controlled by the Group that release emissions into the atmosphere.

Scope 2 emissions (*energy indirect)

Energy type	Definition	Total volume (kWh)	Calculated emissions (Tonnes of CO2e)
2023			
Electricity	Emissions from purchased electricity	1,875,580	363
Total		**1,875,580**	**363**
2022			
Electricity	Emissions from purchased electricity	2,135,260	453
Total		**2,135,260**	**453**

* Energy indirect emissions released into the atmosphere associated with consumption of purchased electricity, heat, steam and cooling.

Scope 3 emissions (*other indirect)

Energy type	Definition	Total volume (kWh)	Calculated emissions (Tonnes of CO2e)
2023			
Transport	Emissions from business travel in rental cars or employee owned vehicles where the company is responsible for purchasing the fuel	61,168	15
Total		**61,168**	**15**
2022			
Transport	Emissions from business travel in rental cars or employee owned vehicles where the company is responsible for purchasing the fuel	16,226	4.0
Total		**16,226**	**4.0**

* Other indirect emissions that are a consequence of the Group's actions, which occur at sources not owned or controlled by the Group and which are not classed as Scope 2 emissions.

Total emission scope summary

	2023		2022	
Emission type	**Total volume (kWh)**	**Calculated emissions (Tonnes of CO2e)**	**Total volume (kWh)**	**Calculated emissions (Tonnes of CO2e)**
Scope 1 (direct)	721,394	166.8	307,023	70.0
Scope 2 (indirect)	1,875,580	362.7	2,135,260	453.0
Scope 3 (indirect)	61,168	15.0	16,226	3.9
Total	**2,658,142**	**544.5**	**2,458,549**	**526.9**

Intensity ratio

Intensity measurement	Number of FTE for the period	Intensity Ratio (tCO_2e / No. of FTE)
2023		
Number of FTE	1,804	0.30
2022		
Number of FTE	1,612	0.33

*The chosen intensity measurement ratio is total gross emissions in metric tonnes CO_2e per Full Time Equivalent ("FTE"), the recommended ratio for the sector.

*FTE is a unit to measure employees in a way that makes them comparable although they may work a different number of hours per week. The calculation of FTE is an employee's scheduled hours divided by the number of hours of a full-time worker in a particular Business Unit / Group Function. A full-time person is therefore counted as one FTE, while a part-time worker gets a score in proportion to the hours worked per week.

Quantification and reporting methodology

The Group has taken guidance from the UK Government Environmental Reporting Guidelines (March 2019), the GHG Reporting Protocol - Corporate Standard, and from the 2022 UK Government's Conversion Factors for Company Reporting document for calculating GHG emissions. Since 2021/22 the report has been prepared internally.

Energy efficiency action

The Company's gas consumption decreased year on year by 7% in kWh and 8% in tCO_2e. This was driven by a specific office relocation during the year along with the impact of a change in official government conversion factors.

Our electricity consumption reduced by 20% tCO_2e year on year driven by a change in government conversion factors due to a higher mix of renewable electricity across the UK grid.

Company car mileage across the group increased by 3.2 times year on year which drove an increase of 182% in kWh and 175% in tCO_2e as a result of an increase in the company car fleet and as travel patterns normalised following the pandemic. Similarly, total mileage in employee-owned cars was 3.7 times higher than the previous year, driving a 272% increase in kWh and 275% increase in tCO_2e.

Overall, MCHUK is continuing to commit to electrifying 100% of its car and small van (3.5 tonne and under) fleet and 50% of its larger van fleet (vehicles over 3.5 tonne) by 2030. The MHCUK company car scheme now only offers fully electric vehicles for employees. In addition, smart charging points are included within the car allowance so that employees can have a home charging point installed.

The company car fleet is now 96% electric/hybrid, and whilst MCHUK's company car fleet size has increased by 74% since 2020, the average CO_2 per vehicle has reduced by 70 g/km during this period. This has resulted in an average CO_2 of 16 g/km per vehicle. As a comparison to the vehicle leasing market, in Q4 of 2022, the British Vehicle Rental and Leasing Association ("BVRLA"s) fleet of 1,383,038 cars had an average CO_2 of 95.6g/km (source: BVRLA Leasing Outlook April 2023).

The Company's Vehicle Solutions division is also accredited with ISO14001 energy management system which is continuously providing insights and enhancing business practices that increase environmental performance and compliance.

Risk Review

Executive summary

Throughout a year of significant global economic upheaval where the spectre of war has returned to Europe, the Group has continued to manage risk in accordance with its risk management framework and with reference to its risk appetite statement. Adherence to these fundamentals of our risk governance has contributed to year on year reduction in fraud losses, significant progress in the delivery of our cybersecurity strategy, continued interest rate hedging of our longer term debt and customer conduct quality metrics that have remained within appetite. Our Treasury team continued to seek and maintain adequate funding from a diverse range of sources and undertook careful forecasting of liquidity requirements throughout the year. Interest rate and foreign exchange risk hedging has remained within our stated risk appetite as has the level of bad debts incurred.

Inflation, partly from the indirect consequences of the war in Ukraine, consequent increases in central banks base rates and low economic growth have increased both affordability risk for some consumers and the risk of business failure. We have seen modest increases in numbers of customers in arrears and continue to monitor both new lending and the existing portfolio carefully.

Second hand vehicles sales proceeds have been strong throughout the year. Residual value risk is not considered to have changed significantly during the period although some fluctuations have been experienced particularly in respect of electric vehicles.

One of the strategic risks that we face is that our products become too costly in relation to competitors. As a non-bank lender without the ability to rely on price insensitive deposits in periods of rising interest rates, this risk is heightened. During the first half of the financial year, the Group experienced some crystallisation of this risk as margins were compressed in order to maintain some of our key longer term commercial relationships as interest rates rose. Through effective management of customer and intermediary relationships, regular review of pricing and careful treasury management, margins improved during the second half of the year.

Certain segments of our customer base have experienced increased levels of vulnerability over the course of the year as economic conditions have become more challenging for some households due to the rapid increase in the cost of living as indicated by a modest increase in the volume of accounts requiring collections support. We recognise this and have remained focused on delivering fair outcomes and monitoring key metrics including those associated with conduct quality.

While evidence exists that at an industry level financial crime in financial services is a growing issue, our investment in new financial crime prevention systems and hiring of specialist staff has contributed to fraud losses reducing in our business year on year. We have enhanced our cyber security controls through a programme of continual reduction in system vulnerabilities, further investment in security tools and enhancing staff awareness through regular phishing and security incident simulations. We are mindful not just of security risks relating to our in-house operations but also those of third parties on whom we have a reliance. During the year we have been successful in achieving the UK Government recognised Cyberessentials certification for certain of our systems and processes. We have continued to monitor the performance of our third party relationships throughout the year from both a cybersecurity and overall operational resilience perspective.

Recognising the global threat posed by a warming planet, we have taken steps to embed climate risk within our risk management framework during the year and will continue to develop our approach to this important area of risk as market best practices evolve. While the tangible impact of this risk crystalising may not be felt significantly for some time, we believe that it is important that we take steps now to mitigate its longer term impact on our business model. We have formally introduced new products within Novuna Business Finance to support the finance of sustainability projects. Within our Novuna Vehicle Solutions business, our teams actively support their customers with innovative solutions to help achieve their climate risk mitigation goals.

Meeting our regulatory and legal obligations and seeking to ensure that our customers receive good outcomes is a key focus of our risk management approach. We have continued to monitor customer experience and the quality of outcomes through our Customer Experience Committee and our various first, second line and Board level Risk Committees. All areas of the business have supported our project to implement the FCA's new Consumer Duty and believe that we are on track with our implementation to meet the timelines expected by the Regulator.

Consumer credit legislation and the nature of our consumer lending products mean that we are exposed to the risk of claims in respect of perceived failures by retailers and other intermediaries where we have had lending relationships. Where we consider a claim to be justifiable and reasonable, we will ensure that it is met by either the intermediary or the Group. Where the claim is not considered justifiable or reasonable, we will reject it. During the year we have made provisions for claims in respect of legacy business written taking account of legal advice received. The Financial Ombudsman Service ("FOS") continues to evolve its view on various segments of the consumer lending market. We continue to support and liaise with the FOS as it updates its stance on various issues affecting consumers.

During the year, the European Mobility businesses were transferred to the ownership of the Group by our parent company. We are in the course of a proportionate implementation of our risk management framework in respect of these businesses who have been receptive and engaged with our approach.

The business has continued to invest in risk management staff throughout the year including recruiting several new risk graduates and apprentices. We have also welcomed an experienced new Chair of our Audit and Risk Committee who has taken a close interest in our risk governance and actively provided guidance and support to risk colleagues across the Group.

Risk management framework

In order to manage the risks we face, MHCUK has a clearly defined risk management framework, maintained and developed by the Second Line of Defence Risk and Compliance team, led by the Chief Risk Officer, who reports to the Chief Executive Officer and is a member of the executive management team. The risk management framework is overseen by the Board with certain responsibilities delegated to the Board's Audit and Risk Committee, which is chaired by an appropriately skilled and experienced independent non-executive director.

Key elements of that framework include:

Risk governance - A clear model for effective Board and executive level governance of the reporting, escalation and management of risk. In line with our "three lines of defence" model outlined below, each 1st Line Business Unit and Central Function has a Risk Committee (or equivalent forum) reporting to the Executive Risk Committee (the most senior executive level risk committee), which in turn reports to the Board's Audit and Risk Committee. Additional oversight of risks takes place at the following 2nd Line Committees, which also report to the Executive Risk Committee - for Conduct and Operational Risks: the Operational Risk and Compliance Committee; for Financial Risks: the Credit Risk Committee and Treasury Committee; and for Information Security and Cyber Risk, the Group Information Security Committee.

Relevant management information designed to allow for the effective management of risks within their remit is supplied to the various committees. A description of the composition and operation of the Board and its committees can be found within the Corporate Governance Statement starting on page 60.

A 'three lines of defence' model providing clear segregation of responsibilities between the 1st Line of Defence (Business Units and Central Functions, with the primary responsibility for identifying, assessing and mitigating risks within their sphere of responsibility and the maintenance of quality); the 2nd Line of Defence (whose primary responsibility is the development and maintenance of the Risk Management Framework and the provision of oversight, advice and challenge to 1st Line areas); and the 3rd Line of Defence (Internal Audit, which is tasked with providing assurance to the Board on the overall effectiveness of the 1st and 2nd Lines of Defence and the overall robustness of internal controls throughout the organisation). The principles of the three lines of defence model are applied to our J-SOX control framework. The 1st Line of Defence tests their controls, the 2nd Line of Defence manages the J-SOX process and provides oversight over the 1st Line's testing of controls and the 3rd Line provides an assurance opinion to the Board and parent over the overall effectiveness of the approach and its performance.

Risk culture, awareness and training - A range of mechanisms to promote and reinforce the importance of risk management and the maintenance of high quality customer outcomes throughout MHCUK.

Policy framework - A clear set of policy statements, standards and supporting processes and procedures to articulate to staff and other stakeholders how we manage risks across our risk categories.

Risk appetite framework - Formalised quantitative and qualitative statements and measures approved by the Board designed to articulate the risks that the Group will and will not accept in achieving its strategy.

Risk categories - A library defining the hierarchy from high level categories down to more granular risk types that the Group is exposed to.

Risk processes - Processes designed to document and manage key risks that may arise using consistent risk assessment and evaluation techniques, including Incident Management Protocols and Disaster Recovery and Business Continuity Plans.

Assurance and oversight plans - Each 1st Line of Defence Business Unit and Central Function undertakes various control and assurance activity. The Risk and Compliance team (2nd Line of Defence) has a Risk Oversight and Compliance Monitoring Plan approved by the Audit and Risk Committee. The Internal Audit function (3rd Line of Defence) also has an Audit and Risk Committee approved Assurance Plan.

Principal risks and uncertainties

The Group's risks are managed within the four categories set out below:

Strategic risk - The risk that the Group does not devise and implement a business strategy that is based upon its Vision, Mission and Values and/or that is not aligned to the Mitsubishi HC Capital Group Medium Term Strategy.

Financial risk - The risk that the Group does not achieve its business plan or profit target and that the bad debt charge and funding do not remain within agreed levels.

Conduct risk - The risk that the Group does not behave ethically or deliver fair outcomes for its customers, whilst operating in accordance with both the letter and spirit of applicable legislation and regulation, including the FCA Principles for Business.

Operational risk - The risk that the Group does not adequately and effectively manage its people, processes and systems to deliver MHCUK's strategic objectives.

With reference to these categories, the principal risks that the Group considers it currently faces are as follows:

Strategic risk

Risk - changes in risk during the year	Mitigants
We are unable to keep pace with market change or our products become too costly in comparison to competitors, reducing our market share. • This risk **Increased** during the year as banking competitors did not pass on rising rates to customers particularly in the first half of the year.	• We make significant ongoing investment in the quality of our systems with a particular focus on enhancing fraud prevention capabilities. • We make significant investment in new products. • We regularly review our prices to ensure that they remain competitive. • We have a Board approved product governance process which considers any key risks and necessary mitigations in respect of new products and requires periodic consideration of the risk profile of existing products. • Our horizon-scanning activities consider a broad range of factors, including: evolving market developments; regulatory, legal and tax requirements (including those relating to the taxation of company cars); and emerging environmental, social and political developments in the UK and globally.

Financial risks

Risk - changes in risk during the year	Mitigants
We are unable to access funding for the business or can only access it at excessive cost. • This risk **Increased** during the year as market interest rates rose leading to margin compression particularly in the first half of the year.	• We raise funding from a well-diversified set of sources. This includes both public issuance and private placements from a Medium Term Note programme, bi-lateral term borrowing from banks, securitisation, commercial paper and short term bank facilities - all in multiple currencies swapped into Sterling. This enables MHCUK to attract investors from multiple regions including Japan, mainland Europe, and Asia Pacific in addition to the UK. • We maintain borrowings that exceed the expected term of our assets at all times. • We ensure that we are able to draw on funding sources to meet forecast new asset creation through frequent, regular planning and review by a committee appointed by the Board of Directors (the Treasury Committee). • We ensure new business pricing reflects current funding costs, in order to maintain an appropriate margin above borrowing cost at all times.

Risk - changes in risk during the year	Mitigants
We incur losses through ineffective interest rate risk or foreign exchange risk hedging strategies or through derivative counterparty failure. • **No significant change** in this risk occurred during the year.	• We have set a range of fixed treasury risk appetite limits and set monthly hedging strategies within those limits. Actual performance against those strategies is continually monitored. This includes 100% elimination of exposure to changes in foreign exchange rates. • We mitigate interest rate risk by hedging through derivative financial instruments and fixed rate borrowings. • We manage the effectiveness of hedging activity through regular Treasury Committee meetings at which the tenor of interest rate fixings of borrowing costs is matched against the tenor of the fixed rate assets held by the Group. • We regularly monitor each counterparty's creditworthiness through assessment of their long and short term stability of credit rating. The Group seeks minimum of Standard's & Poor's long term credit rating of at least BBB+ and short term credit rating of A-2 and the lower an entity is in the BBB+ to AAA range, the lower the policy exposure limit.
We face significant unexpected credit losses, arrears, increased bad debts and defaults. • **No significant change** in this risk arose during the year.	• We use internal and external data, internally developed scorecards and other analytical tools to assess customer creditworthiness, affordability and debt service capacity. • We focus our lending activities in segments and products where we have clear and proven expertise. • We limit concentration of lending by size, segment and customer type. • Where appropriate, especially in commercial lending, we obtain appropriate levels of collateral or security cover. • We maintain detailed lending and credit policies for each business unit. • We regularly review portfolio performance against risk appetite. • We regularly re-grade or re-score customers to re-assess the default risk. • We regularly review retailers, vendors and other business introducers in order to assess and manage contingent liabilities for the Group associated with those relationships including considerations arising from consumer protection provisions of the Consumer Credit Act.

Risk - changes in risk during the year	Mitigants
We are subject to an unexpected drop in residual values. • **No significant change** in this risk arose during the year.	• We regularly review and re-set residual values in respect of new leasing quotes and contracts using macro-economic modelling techniques. • We limit concentration of residual values by manufacturer, model, type, and contractual lease maturity. • We utilise a variety of disposal routes to optimise remarketing proceeds. • We regularly assess the expected residual values against those set at the inception of the lease and if necessary, adjust future depreciation rates to reflect the expected residual values. • We carry out an impairment assessment, at least annually, to ensure that the assets' carrying values do not exceed the discounted present value of future expected cashflows over the remaining lease term.
We are subject to a significant, sudden and unexpected reduction in demand for our products and services. • **No significant change** in this risk arose during the year.	• We undertake periodic stress tests to ensure that our business model can withstand a range of severe but plausible shocks from both a capital and liquidity perspective. • We regularly review our strategic plans to ensure that the business is alert to rapidly changing external factors, reacting accordingly to protect our financial position. • We invest in and monitor the position and success of our brands in the market place.

Conduct risks

Risk - changes in risk during the year	Mitigants
We fail to deliver fair outcomes to our customers. • This risk has **Increased** over the year as: a) the changing economic position has meant that certain customer segments may have heightened levels of vulnerability due to sudden increases in the cost of living; and b) FOS's stance on various legacy business issues has evolved during the year.	• In addition to our risk management governance, we monitor the delivery of fair customer outcomes through a dedicated Customer Experience Committee. • We conduct root cause analysis on customer complaints and claims in respect of retailer intermediaries. • We have control testing, oversight and assurance plans across all three lines of defence to address key conduct risks. • We have in place an organisation-wide programme of compulsory conduct risk training. • We undertake regular and focused training of our customer-facing colleagues. • We monitor our customer interactions for early signs of customer vulnerability and have processes in place to help support them with their individual circumstances. • We operate a Quality Assurance programme within our customer-facing business areas which has a major focus of ensuring fair outcomes are achieved for customers. • We maintain a team of experienced complaint and claim handlers whose competence is assessed on an ongoing basis through our quality assurance framework. • We monitor the performance of third parties relied upon to provide services to our customers. • We have a formal project underway currently implementing the FCA's Consumer Duty requirements across all relevant areas of our business with focus on our controls to prevent poor customer outcomes arising.
We do not comply with either relevant current or emerging regulation and rules, including consumer credit and privacy regulation. • **No significant change** in this risk arose during the year.	• We employ experienced and skilled regulatory risk professionals. • We have processes for review and assessment of new and emerging rules, regulations and industry best practices. • We undertake regular 2nd line risk-based monitoring reviews in line with our "three lines of defence" model outlined later in this statement. • We operate a Quality Assurance programme within our customer-facing business areas. • We have open and transparent dialogue with our regulators. • Our project to implement the FCA's Consumer Duty requirements is proceeding on track.

Operational risks

Risk - changes in risk during the year	Mitigants
We are subject to a major systems failure including those arising as a consequence of malicious attack. • **No significant change** in this risk arose during the year.	• We have in place real-time system monitoring to detect performance issues. • We have in place perimeter firewalls and security controls. • We employ dedicated and suitably skilled Information Technology and Information Security teams. • We undertake formal change management processes that include robust testing. • We regularly monitor our systems and infrastructure for vulnerabilities remediating weaknesses identified. • We employ experts to attempt to penetrate our perimeter identifying potential vulnerabilities which are remediated. • We run anti-virus software on our computer systems. • We have robust Business Continuity Planning and IT Disaster Recovery plans in place. • We undertake regular 2nd and 3rd line reviews of IT controls. • We have a rolling programme of information security monitoring of key third parties on whom we place reliance for the provision of services to our customers.
We are subject to significant fraud losses, including cybercrime. • This risk has **Reduced** during the year due to our ongoing investment in financial crime systems and experienced staff.	• We have in place real-time system monitoring to detect system compromises. • We operate perimeter firewalls and have security controls in place. • We deploy strict identity validation checks. • We complete periodic asset inspections. • We deploy dedicated device identification software and fraud detection rules. • We monitor our systems and perimeter for suspicious activity. • We employ dedicated and suitably skilled Information Security and Financial Crime Prevention support teams. • We have control testing, assurance and oversight plans across all three lines of defence to address key financial crime risks.

Risk - changes in risk during the year	Mitigants
We fail to adequately take account of climate change risks in developing our business model and strategy. • **No significant change** in this risk arose during the year.	• We explicitly recognise climate change risk in our corporate governance and enterprise risk management frameworks. • We set carbon reduction targets and monitor performance against them. • We monitor the stance that third parties that we have relationships with take on climate change reduction. • We avoid lending to fossil fuel extraction activities. • We have set and monitor targets to reduce the carbon footprint of our operational activities. • We have products designed to support the finance of sustainability projects.
We are unable to continue to operate effectively due to an inadequate level of service from third parties. • **No significant change** in this risk arose during the year.	• We operate robust Supplier governance including policies, periodic MI review and adherence to FCA material outsourcing oversight. • We review the performance and strength of our key suppliers including their operational resilience, financial position and cyber security posture. • We undertake review meetings to monitor service levels and for signs of deteriorating financial and operational health.

Risk profile and performance review

Monitoring and addressing developments in world events

The war in Ukraine created a significant shock to the global economy during the spring and summer of 2022 just as western economies were starting to recover from the worst of the Covid-19 Pandemic crisis. Supply of energy, and key raw materials was restricted creating global inflationary pressures which in turn led central banks to sharply increase interest rates for the first time in over a decade. The prolonged impact of Covid-19 prevention measures in China served to further restrict supply for the rest of 2022. Political unrest and concerns over the UK government's fiscal stance during the autumn months, possibly augmented by the growing realisation of the longer term impact of the UK's enactment of Brexit, has meant that most commentators consider the prospects for the UK economy to be relatively poorer in the short and medium term than for most developed economies.

MHCUK has continued to monitor developments closely and has ensured both that its conservative risk appetite for bad debt has remained in place with longer term interest rate exposures continuing to be significantly hedged.

While a slight deterioration in collections rates has been experienced and a small increase in bad debts observed, the portfolio continues to perform well. We are mindful that some segments of our customer base may be vulnerable to the sharp rise in the costs of living. We continue to refine our affordability models and remain vigilant to customers showing early signs of vulnerability. Where vulnerability is identified, we have a range of tools that we further developed with experience gained over the period of the Covid-19 crisis.

Strategic risk

During the year we have worked closely with our parent company, to understand its evolving global stance on strategic risk matters and to benchmark our existing suite of MHCUK policies with any new Group policies that have been created or modified. Significant positive outcomes from this work are, firstly, that our parent has consulted us on the development of new policy and sought our feedback. Secondly, new policy formation has been highly consistent with our own existing policies and no significant differences have been identified.

As noted previously, we have further enhanced our climate risk approach during the year seeking specialist advice on the steps taken.

The other significant strategic development during the year is the restructuring of our parent company's investments in its European Mobility businesses which offer various vehicle finance and leasing solutions over much of Non-Scandinavian Northern and Central Europe. On 1 August 2022 these businesses became subsidiaries of MHCUK. Agreement has been reached that a proportionate implementation of MHCUK's Risk Management Framework would be undertaken commencing in the year. The implementation will compete during the following year. The European Mobility businesses have already seen benefits from leveraging MHCUK's risk capabilities including prompter underwriting turn around times for significant exposures that would previously have had to be forwarded to Group Risk in Japan for approval and the opportunity to provide mobility services to UK clients in jurisdictions served by our new European subsidiaries.

Financial risk

Market interest rates saw rapid rises during the year creating conditions not seen for several decades. Our approach of hedging a high proportion of longer term lending has helped mitigate some of the impact of higher funding costs on our lending book's profitability. For much of the year the increase in rates led to margin compression particularly as many of our competitors are banks who were able to withstand increasing rates on new business as they were able to rely on deposit funding that was initially unresponsive to rising market rates. This pressure has eased as competitors have over time felt the need to increase the rates offered to their depositors. We continue to hold regular Treasury Committee meetings to assess market developments, ensure we remained within risk appetite and continued to make effective plans for potential scenarios that could arise. Credit risk is monitored and assessed at Risk Committees held in each business unit with significant matters escalated to a Group Credit Risk Committee the Executive Risk Committee and the Board's Risk and Audit Committee. Other Financial Risk is monitored at the Treasury Committee with matters escalated to the Executive Risk Committee and Board's Audit and Risk Committee.

During the year, the Group built a new macro-economic model for its consumer finance portfolio to better reflect Expected Credit Losses ("ECL") using the correlation between the historical defaults and a set of macro-economic variables. The macro-economic variables identified as having the most significant impact on historical defaults are UK unemployment rate, real household disposable income, average weekly earnings and total UK consumer debt. For these macro-economic variables, the Group has determined corelation coefficients representing the extent to which ECL is likely to be impacted by changes in these macro-economic variables. The correlation coefficients are then applied to four possible scenarios with the corresponding probability weightings, in order to determine a probability weighted ECL provision.

Conduct risk

MHCUK has continued to invest in its controls to mitigate conduct risk. These include maintaining well resourced Customer Experience teams in its first line of defence and Compliance and Quality Assurance teams in the second line. A formal business project is in progress to deliver the requirements of the FCA's new Consumer Duty rules to ensure that we can demonstrate that our customers receive good outcomes in all relevant areas. We have made enhancements to our systems for handling customer complaints and for effectively managing customers' ability to interact with us through communications channels convenient to them.

Each business unit that undertakes activity that is regulated by the FCA for conduct purposes monitors and assesses conduct risk mattes at dedicated Customer Experience Committee and Risk Committees. Key issues are escalated to both the Executive Risk Committee and Group Customer Experience Committee with significant matters escalated to the Board's Audit and Risk Committee.

Where the FOS's evolving stance gives rise to the need for review of legacy issues, reasonable provision is made for potential compensation due as set out in Note 23 to the Financial Statements.

Operational risk

Further staff resource has been allocated to operational risk management during the year. In particular there has been investment in both additional staff to combat financial crime and enhanced systems to manage financial crime and information security and cybers security. While there continues to be increasing industry levels of financial crime, particularly synthetic identity fraud, MHCUK's enhanced controls have prevented unprecedently high levels of potential fraud occurring.

Recognising the evolving digital strategies of our business units and our strategic plan to continue to move our IT estate from on premise infrastructure to the Cloud, we have continued to make further investment and refine our information security controls. This has included investment in product owner roles to ensure that we best leverage our information security toolsets. We have successfully achieved a limited scope Cyberessentials accreditation for our Novuna Vehicle Solutions business during the year and our current ISO27001 scope achieved a successful three year external audit. We have experienced no major IT or cybersecurity issues although some short term temporary outages have occurred due to failures in our extended supply chains. All of these incidents have had prompt assessment and additional preventative and detective controls put in place to prevent recurrence. There has also been enhancement to third party risk assessment processes.

Operational risk matters are considered at 1st Line Business Unit risk committees, the Group Operational and Compliance Risk Committee, the Group Information Security Committee, the Executive Risk Committee and the Board's Audit and Risk Committee.

Approved by the Board and signed on its behalf by:

R. Gordon
Chief Executive Officer
7 June 2023

Directors' Report

The Board of Directors of Mitsubishi HC Capital UK PLC (registered company number 1630491) present the annual report and audited financial statements for the year ended 31 March 2023 for the Company and its subsidiaries.

Results and dividends

The profit of the Group for the year ended 31 March 2023 is set out in the Consolidated Income Statement on page 81. No interim dividend was paid during the year (2022: £nil). The Directors have recommended a final dividend of £46.0m, 9.9p per share (2022: £41.6m, 9.4p per share) which represents 38.4% of the Group's profit after tax.

Share capital

The Group's issued share capital, together with the movement during the year, is detailed in note 25 to the Financial Statements. The Company has one class of ordinary shares which carries no right to fixed income.

Outlook

The Group's outlook and an indication of likely future developments in the Group's business are detailed in the Group Strategic Report on pages 5 to 51.

Employees

The Board is conscious that the Group's ability to succeed is driven by the need to attract, develop and retain the right employees. Our employee-related policies and guides are designed to encourage an atmosphere of trust and engagement with the Company, its objectives and its core values of Harmony, Sincerity and Pioneering Spirit across the organisation. The Group is committed to the personal development of all its employees and sees this as a key element in retention of talent within the business.

The Group is committed to regular and timely communication to staff of information on matters of concern to them as employees, including both oral briefings and written communications, often including FAQs.

The Group has an intranet site which acts as the main reference point in the provision of a wide variety of information to employees. In addition, the CEO conducts quarterly 'team talk live' ('town hall') meetings either in person or online. All such meetings are recorded so that all employees can access them if they are not able to attend. The CEO also issues a weekly blog, sharing insights into business success and challenges as well as commenting on external events and their impact on our business.

The Company completes an annual employee survey ('Insights') covering a broad range of issues. The feedback is shared with all employees. The output from the survey forms part of local or Company-wide people plans. In addition to the annual engagement survey, the Group has continued to use My Voice, a real-time employee feedback tool, to gauge the staff's responses around employee lifecycle events and as a general feedback tool. Sentiment analysis is available in real time and is shared with the Executive Committee. The Company continues to encourage active participation in employee communities, which enable individuals to come together to maximise their involvement, lead on events and help to implement ideas which keep the wider employee population updated and engaged. Executive sponsors for each community are now in place and these sponsors form our Diversity Council, which shares and develops inclusive and diversity plans and initiatives. The Company is focused on employee wellbeing (physical, mental, financial and social) and sees this as an important component in employee engagement. Further details on engagement with employees are set out in the "Stakeholder Engagement" section below.

The Group operates an annual bonus scheme for all staff levels, where a large proportion of bonus potential is based on the Group's financial performance and achievement of its other core objectives (including the delivery of fair customer outcomes), thereby encouraging the involvement of all employees in the Group's performance. Regular updates on performance ensure that all employees are aware of the financial and economic factors affecting the Group's performance.

The Group operates an equal opportunities policy and opposes all forms of unlawful discrimination. The Group's selection criteria and procedures ensure that individuals are assessed on their skills, attributes, knowledge and potential, in order to enable all employees to have equal opportunity to progress within the Group.

The Group's policy and practice is that neither disability nor any of the other nine protected characteristics will form the basis of employment decisions, and the Group will make reasonable adjustments to its standard working practice to overcome barriers to recruitment, training, career development and promotion caused by disability. This includes retraining employees who become disabled whilst in the employment of the Group. The aim of Colleague Ability Network is to make sure that colleagues with disabilities feel included and seen and to remove any unnecessary barriers to participation in everything the Group has to offer.

Stakeholder engagement

Constructive dialogue with stakeholders is fundamental to ensure the success of the Group and to secure its place in the community. Maintaining robust lines of communication between stakeholders builds trust and confidence, promotes participation and influence, and ensures that stakeholder considerations are included in the decision making process.

Government and regulators

The Board and senior management recognise that the Group is subject to both legislative requirements and Financial Conduct Authority ("FCA") regulation which is, in part, principles-based. We embrace both the form and the spirit of applicable requirements and are committed to ensuring that we maintain an understanding of, and can demonstrate compliance with, all of the rules, principles, and guidelines relevant to the Group.

We engage with our regulators in an open, constructive, and transparent manner, including our input into regulatory-driven thematic reviews and market studies.

The Board receives regular updates on regulatory developments, regulatory interaction and key areas of regulatory focus.

Regular horizon scanning is conducted and fed back to the business for awareness in order to ensure that senior management is aware of upcoming regulatory changes and that plans are put in place to deliver these in a timely manner.

During the year, the Board has noted the FCA's proposed new Consumer Duty rules which have the intention of raising the standards for financial services firms when dealing with retail customers and driving firms to achieve 'good outcomes' for customers more consistently. We understand the significance of this initiative and consider that these regulations, although new to the market, align with our vision and values and our policy of treating customers fairly. The Board approved the Company's Consumer Duty Implementation Plan in 2022 and continues to receive updates on the progress of the work completed under that project.

The Directors are confident that the project will deliver implementation by the deadline of 31 July 2023.

Shareholder
Following the merger of Hitachi Capital Corporation with Mitsubishi UFJ Leasing and Finance Company Limited to form Mitsubishi HC Capital Inc in April 2021, the Company continued to work with the shareholder under its 2-year integration programme to optimise mechanisms and channels of communication in order to ensure efficient exchanges of information between the business and the parent company.

An employee of the shareholder, Mitsubishi HC Capital Inc, continues to sit on the Board as a non-executive Director and to serve as a member of the Audit and Risk Committee, Nomination Committee and Remuneration Committee.

The Directors engage with the shareholder on various elements of remuneration, including Long Term Incentive Plan ("LTIP") arrangements and bonus schemes operated by the Group.

Investors
Engagement with debt investors is a continuous process. We connect with them as follows:

- We communicate with banks and debt investors through media releases, publication of financial results, through intermediaries such as dealer brokers and directly with investors through conference calls, face-to-face meetings and investor roadshows.
- We continue to respond to the growing interest from mainstream investors on ESG matters, including the UN's SDGs, climate change and human rights. The Company has issued Green Bonds (in accordance with its Green Financing Framework) and continues to report the allocation of these funds against eligible projects in its Green Bond Impact Report.

The Board is regularly kept up to date on financial market conditions and investor sentiment by reports from the Treasury Committee.

Customers
Our continued success can be attributed to a strong focus upon ensuring that our customers have an outstanding experience and we strive to provide fair outcomes to consumers and businesses alike.

- We develop strong relationships with customers built on trust;
- We innovate and develop products and offer high levels of service that meet customers' needs, which allows us to retain existing customers and win new customers;
- Ongoing interaction with customers and their representatives, including meetings and customer site visits, is managed by the Group's business units;
- We have a customer feedback process, designed to ensure customer satisfaction. The Board receives regular updates from the Customer Experience Committee on such feedback and on the metrics we have in place to measure the quality of our customer service;
- We operate a Product Governance Framework which enables the business to assess the risk, reward, and value of all new products, whilst also periodically assessing those same aspects for existing products. This ensures that the Company

continues to offer products which address a tangible need of customers in the market, whilst addressing any risks (to both customers and the business) in the design and operation of those products.
- We recognise the impact of the current cost of living crisis on many people in the UK and the importance of supporting our customers during these difficult times. A customer-first approach has always been a key aspect of our business model, and one of our core principles is exceptional customer service. In recognition of the current economic situation, we have made a number of changes across the customer lifecycle to help support customers who may be struggling. We will continue to keep this under review to ensure that the support remains appropriate.

Suppliers
We work with over 5,000 suppliers across the Group, of which approximately 1,000 supply goods and services which enable the business to operate and over 4,000 provide services which allow us to meet the needs of our customers, including vehicle servicing/maintenance and breakdown assistance. We continue to adhere to our key principles and processes when engaging with suppliers, to ensure that they provide the right goods and services for our business. We continue to act professionally during the sourcing process and build strong, collaborative relationships with our suppliers so they can understand the environment in which we operate and thus meet our, and our customers' needs.

A further key component of our approach is continuing to manage and monitor our supplier base in light of economic, political and social changes, including alignment with Environmental, Social and Governance developments, with a particular focus on our critical and strategic suppliers.

We have a supplier Code of Conduct which all critical and strategic suppliers, including any potential new suppliers to the Group, are required to follow. We are committed to establishing long-term, open and fair relationships with our suppliers.

Employees
We promote and maintain a diverse and inclusive workforce in which all colleagues are treated equally and have the opportunity to be successful and achieve their potential.

The Board receives regular reports on diversity and inclusion from the Human Resources function and updates are included in a monthly report which is provided to the Board.

Our employee communities ensure that employees' views are taken into account in making decisions which are likely to affect their engagement and sense of belonging within the Company. In 2022, we appointed executive sponsors of each of our diversity communities to support and provide guidance in the development of diversity initiatives.

The Company has now appeared in the Inclusive Companies Top 50 UK Employers listing for the third year running, providing recognition for the inclusive initiatives and actions.

Feedback from our employees resulted in the Company achieving 15th place on Glassdoor's Best Places to Work in the UK. This is our second year running in the top 20 of this listing and we are the highest listed financial services organisation with a UK head office and in the top 3 financial services companies overall. We actively encourage the provision of feedback on social media platforms to enable us to make changes and improvements.

Our mentoring programme has now successfully delivered over the past seven years and has been enhanced with over 60 mentors undertaking additional training in the year ended 31 March 2023.

Our externally accredited programme for aspiring leaders/managers is now in its second year with nine cohorts completing, or in progress on, the programme.

In addition to local HR representatives, we have Mental Health Champions and representatives in all locations who work with our wellbeing community in order to support all employees.

Communities and environment

Information on how the directors have had regard to the need to foster the Company's business relationships with other communities, and its effect on the environment, is provided in the ESG Summary, starting on page 25, and in the Streamlined Energy and Carbon Report, starting on page 37.

Directors of the Group

The Directors who served during the year and/ or to the date of this report were as follows:

A. Hughes - Chair from 1 August 2022
H. Fukuro - retired 17 May 2023
R. Gordon
S. Herbert - appointed 1 August 2022
M.Mizutani - appointed 17 May 2023
G. Munnoch - Chair until 31 July 2022, retired 28 September 2022
A. Whitaker - retired 28 September 2022

In accordance with the Company's Articles of Association, each of the Directors will retire by rotation at the 2023 AGM and, being eligible to be re-appointed, will offer themselves for re-appointment at that meeting.

Disclosure of information to the auditor

The Directors who were members of the Board at the time of approving the Directors' Report are listed above. Having made enquiries of fellow Directors and of the Group's auditor, each of these Directors confirms that:

- To the best of each Director's knowledge and belief, there is no information relevant to the preparation of the Directors' report of which the Group's auditor is unaware; and
- Each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Group's auditor is aware of that information.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international accounting standards as adopted by the United Kingdom. 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 Group and Company and of the profit or loss of the Group and Company for that year. In preparing these financial statements the Directors are required to:

- Select suitable accounting policies in accordance with International Accounting Standard (IAS) 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- 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 of IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the financial performance;
- State that the Group and Company have complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is appropriate to presume that the Company and/ or the Group will not continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and 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 Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, the Directors' Report, a Non-Financial Information Statement and a Corporate Governance Statement that comply with that law and those regulations.

To the best of the knowledge of each of the Directors:

- The financial statements, prepared in accordance with International Accounting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; 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 position and performance, business model and strategy; and
- The Group Strategic Report and the Directors' Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Directors' liabilities

By virtue of Article 85 of the Articles of Association of the Company, qualifying indemnity provision (within the meaning given by sections 234 and 235 of the Companies Act 2006) is in force at the date of this report in respect of each Director of the Company (and each director of its subsidiaries) and was in force throughout the year ended 31 March 2023 in respect of each person who was a Director of the Company (or one of its subsidiaries) at any time during that year.

Section 172(1) Statement

Section 172(1) of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. A statement describing how the Directors have had regard to the matters set out in section 172 of the Act when discharging their duties under that section is included in the Group Strategic Report starting on page 33.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Group Strategic Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Group Strategic Report, the financial statements, and the notes to the financial statements. In addition, the notes to the financial statements include the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to market risk, credit risk and liquidity risk.

As part of the Directors' ongoing assessment of going concern, they have considered the forecasts for the Group as well as cash flow projections for at least 12 months from the date of approval of the financial statements. The Directors expect that the Group will remain profitable in its chosen financial markets in the coming year. A central treasury function provides funding for the Group's operations and manages treasury risks in accordance with policy limits approved by the Board and the Treasury Committee.

The Group has access to the following funding sources:

- Euro medium term note and commercial paper programmes for which Mitsubishi HC Capital Inc. acts as guarantor.
- Securitisation facilities, which Management renegotiates on an annual basis.
- A committed back up facility in Sterling in the form of a fixed share of a global Mitsubishi HC Capital Group committed facility, and additional shared facility, from the three largest Japanese commercial banks.
- Group loan facilities available from Mitsubishi HC Capital Inc.
- Short term uncommitted bank borrowing facilities.

It is the Directors' intention to continue to utilise existing facilities and seek additional funding as required to meet the funding needs of the business. The Directors are satisfied that the Group has sufficient appropriate funding facilities and capacity to borrow both currently and for the foreseeable future. Liquidity risk and funding management issues are covered in more detail within note 34 of the Notes to the Financial Statements.

The Directors, based on latest forecasts, stress testing and available funding, have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future (which has been taken as 12 months from the date of approval of the financial statements) and that there are no material uncertainties to disclose. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

The Directors' have also considered reverse stress testing scenarios for both equity and current year profit. Under these scenarios the bad debt charge would need to increase to approximately 30 times the level of 2023 and maintain that level for the next three years to exhaust the current capital base. We have stress-tested our portfolio to see how much the UK economy would have to deteriorate before the Group ceases to be profitable. We projected that UK unemployment would need to rise to 9.1% and GDP fall by 7.2% before the bad debt levels would result in zero profit in the 2023/24 financial year.

Although, the Group's Consolidated Statement of Financial Position shows net current liabilities of £1,249m at year-end based on contractual maturity profile, the expected cash collections from the run-off of existing receivables and committed funding available to the Group are well matched with the maturity profile of the borrowings and would be sufficient to settle obligations without the need to utilise cash from our parent company. In addition, with the level of committed and uncommitted facilities with large banks and its parent company, available to the Group, the Directors are confident of meeting the Group's short-term and long-term obligations.

As part of this year's going concern assessment, the Directors paid particular attention to the potential risks arising from the war in Ukraine, the increase in the likelihood of recession and global supply chain disruption. The Directors are satisfied that the Company has effective business continuity plans in place and that it has conducted adequate stress testing of the possible economic scenarios resulting from the increase in interest rates and cost of living crisis as detailed in note 34 of the Notes to the Financial Statements.

The Directors are satisfied that, despite the current uncertain economic outlook, the Group is well placed to manage its business risks (including climate related risks), as outlined in the principal risks and uncertainties included in the Risk Review within the Group Strategic Report.

Financial instruments
The Group uses financial instruments to mitigate risk. These are detailed in note 34 to the Financial Statements.

Branches
The Company has no branches outside the United Kingdom although the MHC Mobility division operates branches across Europe as described in the Company Information section, starting on page 182.

Political expenditure
The Company made no political donations or contributions during the year.

Auditors
In accordance with section 485 of the Companies Act 2006, a resolution for the re-appointment of Deloitte LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

Corporate Governance Statement
The Corporate Governance Statement on pages 60 to 66 forms part of this report. It includes a description of the main features of the Group's internal control and risk management systems in relation to the financial reporting process.

Streamlined Energy and Carbon Report
The information which the Company is required to provide about the Group's greenhouse gas emissions, energy consumption and energy efficiency action is set out in the Streamlined Energy and Carbon Report starting on page 37.

Likely future developments
An indication of likely future developments in the business of the Company is provided in the Group Strategic Report starting on page 5.

Post-balance sheet events
As stated above, the Directors recommend a final dividend of £46.0m (9.9p per share), relating to year ended 31 March 2023. There were no other important events after the reporting period ended 31 March 2023.

Approved by the Board and signed on its behalf by

J.N.M. Sims
Company Secretary
7 June 2023

Corporate Governance Statement

This corporate governance statement describes the Company's corporate governance structure and the main features of its internal control and risk management systems in relation to the financial reporting process.

Corporate Governance Policy

The Board remains committed to high standards of corporate governance. The Board applies the Wates Corporate Governance Principles published by the Financial Reporting Council as the most appropriate corporate governance framework for the Company. However, the Board also has regard to the principles and provisions of the UK Corporate Governance Code to the extent that the Board considers them to be proportionate and relevant to the Company, bearing in mind the size and complexity of the Company and the nature of the risks and challenges it faces.

Application of the Wates Corporate Governance Principles

Set out below is an explanation of how the Company applied the six principles during the year.

Principle 1 - Purpose and leadership:
The Board and executive management believe that a clear understanding of, and commitment to, the Group's brand promise, vision, and values by the whole workforce is core to the continued success of the Company and to the delivery of long-term value to its shareholder and other stakeholders, including society as a whole.

Led by the Chief Executive Officer, the executive management devotes a considerable proportion of its time, budgets and energy to continually communicating, reinforcing and supporting the "tone from the top" to ensure that the Company's healthy culture is maintained.

Further information on how the Board has regard to the interests of employees and engagement with the workforce is set out in the ESG summary on page 25 and the Directors Report on pages 52 to 59.

Principle 2 - Board composition:
The Board includes a separate Chair and Chief Executive Officer to ensure that the balance of responsibilities, accountabilities and decision-making across the Group is effectively maintained. The other members of the Board are both non-executive directors, one who is considered to be independent and one who is a secondee from the sole shareholder. The Chair and the independent non-executive director bring with them a variety of skills, backgrounds and knowledge, including experience in leadership, financial services and audit, in addition to perspectives and challenge from both inside and outside the sectors in which the Group operates. The Board considers that its size and composition is appropriate for a business of the scale and complexity of the Company. However, the Board intends to appoint an additional independent non-executive director during the year ending 31 March 2024 so that half the Board (excluding the Chair) will comprise independent directors, in line with the UK Corporate Governance Code. The Board has delegated specific functions to its Audit and Risk Committee, Nomination Committee and Remuneration Committee respectively.

The Board conducts a formal effectiveness review of itself and its committees every year. The Board's policy is to have such reviews facilitated by an independent external advisor on a regular basis. Given the changes to the Board in 2022 (including the appointment of a new Chair and a new independent non-executive director following the retirement of two other directors) and the appointment of a new non-executive director in May 2023, and the Group's ongoing corporate governance review, the Board decided that no externally-facilitated assessment would be commissioned this year and that the matter should be revisited in the second half of the financial year ending 31 March 2024.

Principle 3 - Director responsibilities:
The Board has a programme of five scheduled meetings every year, plus specific days dedicated to strategic planning. The Board also held ad hoc meetings during the course of the year in order to deal with various matters presenting risks and/or opportunities which needed to be addressed before the date of the next scheduled meeting.

Under the Company's Risk Management Framework, the Board approves all Group policy statements, with subordinate policy standards being approved by the Executive Risk Committee and detailed processes and procedures being the responsibility of the relevant business units.

The Board receives regular and timely information (supported by KPIs) on all key aspects of the business, including strategy, risks and opportunities, the financial performance of the business, operational matters, customer outcomes, regulatory issues, market conditions, and sustainability.

More information on the operation of the Board and its Committees, and on the Company's internal control and risk management, is set out later in this Corporate Governance statement.

To promote clarity, and to minimise the risk of breaching regulatory requirements in the countries in which the Company operates or in Japan, the apportionment of accountabilities and responsibilities between the Company and its sole shareholder are set out in a document which is currently under review as part of the Group's wider corporate governance review described under Principle 6-Stakeholders below.

The Directors are mindful of their statutory duties under the Companies Act 2006. The factors which they considered during the year in carrying out their statutory duty to promote the success of the Company are described in the Section 172(1) Statement, which forms part of the Group Strategic Report and starts on page 33.

Principle 4 - Opportunity and risk:
The Board seeks out opportunity whilst mitigating risk appropriately. The Board receives and reviews reports on any proposal or decision likely to have an impact on the Company or the Group, which the Board considers to be material (from any perspective, including, but not limited to, financial, operational, strategic or reputational).

All proposed projects above a defined threshold value must be submitted to the Change Governance Committee, which is chaired by the Director of Operations, who ensures that all major projects are brought to the Board for consideration.

Day to day risk management is addressed within the Group's risk management framework, which has been approved by the Board. The Chief Risk Officer is accountable for the maintenance of that framework and reports on a regular basis to the Executive Committee, the Audit and Risk Committee and the Board itself.

The work of these committees is described later in this Corporate Governance Statement.

Details of the Group's principal risks and uncertainties, and the operation of the risk management framework, are set out in the section of the Group Strategic Report starting on page 43.

Principle 5 - Remuneration:
The Board has delegated to its Remuneration Committee responsibility for overseeing implementation of the Group's remuneration policy and making recommendations to the Board on significant matters such as pay structures and benefit schemes.

The main purpose of the Committee is to ensure that the Company has a remuneration policy which is designed to attract, retain and motivate executive management of the quality required to run the Company successfully without paying more than is necessary, having regard to the views of the shareholder and other stakeholders.

The Committee has regard to the risk appetite of the Company and aims to ensure that remuneration is aligned to the Company's long-term vision, brand promise and values and to corporate and individual performance, in order to promote the long-term, sustainable success of the Company.

The Committee also has regard to pay and employment conditions across the Group and to the alignment of incentives and rewards with its culture.

The Company published its 2022 annual statutory Gender Pay Gap Report by the required deadline. The report highlights progress despite small movements in both the mean and the median Gender Pay Gap and acknowledges specific areas of focus and actions which the Company is taking to achieve further positive impact on the Gender Pay Gap position. These areas and actions include a more inclusive recruitment process, a target for 35% of leadership roles to be held by women by 2025, a comprehensive review of the Group's parental policies and gender-focused pay reviews. The Company also signed up to the HM Treasury Women in Finance Charter, aiming to improve a gender balance in senior roles by 2025.

Principle 6 - Stakeholders:
The Board is acutely aware that effective engagement with stakeholders is essential to deliver the Group's vision and brand promise and to protect the Company's brand, reputation and relationships with all its stakeholders, including the shareholder, customers, employees, suppliers and the local communities in which the Group operates.

An explanation of how the Board, and the Company as a whole, engaged with its stakeholders (including the workforce) during the year is included in the Directors' Report, which starts on page 52.

As reported in the 2022 Annual Report, following the merger of Mitsubishi UFJ Lease and Finance Company Limited with Hitachi Capital Corporation to form Mitsubishi HC Capital Inc, the Company's parent company and sole shareholder, the Company commenced a full review of its corporate governance structure, in order to ensure that the Board, the business, the parent company and all other relevant stakeholders continue to interact effectively. The internal elements of that review were completed during the year. Work continues on the optimisation of mechanisms and channels of communication to ensure efficient communication between the business and the parent company.

Board of Directors

On 1 August 2022 Guy Munnoch stepped down as Chair of the Board and as chair of the Nomination Committee and was succeeded in those roles by Alan Hughes. On the same date, Sian Herbert joined the Board as a non-executive director and took on the role of chair of the Audit and Risk Committee in place of Anne Whitaker. Guy and Anne retired as non-executive directors of the Company on 28 September 2022 after five years of service and six years of service respectively. In May 2023 Hiroyuki Fukuro retired as a non-executive director of the Company after seven years of service. They each made significant contributions to the Board during their tenure and left with the Company's thanks and best wishes.

Masaki Muzitani, who replaced Mr.Fukuro as a director in May 2023, is an employee of the Company's sole shareholder, Mitsubishi HC Capital Inc. Excluding the Chair, the Board therefore has one non-executive director, Ms. Herbert, who is determined by the Board to be independent. The Board has resolved to recommence recruitment for another independent non-executive director in October 2023, so that half of the Board (excluding the Chair) will consist of independent non-executive directors thereafter.

The Board has an oversight role, delegating day to day responsibility for managing the Group's business to the Executive Committee (described below) and holding the Chief Executive Officer to account. The Board has a written Schedule of Matters Reserved, which specifies all matters which must be escalated to the Board for consideration and decision. This schedule forms part of the Board Terms of Reference and is reviewed annually. The Board sets its agendas according to an agreed annual cycle, which is also reviewed annually.

Board Committees
The Board delegates certain defined responsibilities to committees which are summarised below. Each of these Committees has formal terms of reference which are reviewed annually.

Executive Committee
The Executive Committee is responsible for leading the day-to-day management of the Group. It provides the forum for the executive team to shape and agree the vision, brand promise, strategy and values, in alignment with those of the shareholder, for recommendation to the Board for approval. The committee, through the Chief Executive Officer, is then accountable to the Board for delivering the approved vision, brand promise and strategy in line with the Group's agreed values.

Audit and Risk Committee
The composition of the Committee changed during the year as a result of new appointments and role changes:

- Sian Herbert joined the Board as a non-executive director on 1 August 2022 and was appointed chair of the Audit and Risk Committee with immediate effect, taking over from Anne Whitaker, who stepped down as chair of the Committee. Sian is a Chartered Accountant and a former partner at PricewaterhouseCoopers LLP. She previously held a position as a non-executive director and chair of the Audit Committee of HBL Bank UK Limited. In October 2020 she was appointed to the Board of Equals Group Plc, a payments services Fintech, as chair of the Audit Committee and chair of the Risk Committee. The Board considers Sian to be independent and to have competence in both accounting and auditing as required by the FCA's Disclosure Guidance and Transparency Rules.
- Anne Whitaker and Guy Munnoch ceased to be members of the Committee upon their retirement as directors on 28 September 2022.

The other members of the committee are Alan Hughes and Masaki Muzitani. Although Mr. Hughes is the Chair of the Board, taking into account the size of the Company, his experience in the regulated financial services sector and the fact that the Board considers that he was independent on appointment (and continues to be independent), the Board believes it to be appropriate that Mr. Hughes is a member of the Audit and Risk Committee.

The current membership of the Committee therefore includes one independent non-executive director. The Board considers that the Committee as a whole has competence relevant to the sector in which it is operating and has granted a temporary waiver of the requirement of the terms of reference of the Committee to have at least two independent non-executive directors as members, pending the appointment of an additional independent non-executive director. As the search for an additional independent non-executive director who meets the short-term and long-term needs of the Board in terms of skills, industry knowledge and expertise has proved unsuccessful to date, the Board has resolved to re-commence the recruitment process in October 2023. The Board ensures that the Committee carries out the functions required by rule 7.1.3 of the Disclosure Guidance and Transparency Rules.

The Committee normally meets in advance of each Board meeting, including on key dates in the financial reporting and audit cycle, and otherwise as necessary. The first part of each meeting focuses on audit matters (both internal and external), whereas the second part concentrates on risk issues. The statutory auditor normally attends the first part of each meeting by invitation in order to ensure that all the information required by the committee is available for it to operate effectively. The Chief Executive Officer and the heads of relevant central functions, such as the Group Director of Finance, the Chief Risk Officer, the Group Director of Operations, the Group Head of Compliance and the Head of Internal Audit, also attend meetings by invitation. The Committee meets separately with the statutory auditor at least once per year.

The Committee's responsibilities are set out in its terms of reference, which include monitoring the financial reporting process and the statutory audit of the annual consolidated financial statements and reviewing the effectiveness of the Group's internal control and risk management systems and the work of its internal audit function. The Committee reviews the findings of the Group's statutory auditor, keeps under review its independence and objectivity, the value for money of the audit, and the appropriateness and cost-effectiveness of any non-audit services provided by the statutory auditor. The Committee satisfies itself that any safeguards required by ethical guidance regarding the provision of non-audit services are implemented. This year the Committee expanded the scope of its terms of reference to include the approval of any non-audit services to be provided to the Company, its parent company or any other member of the Group by the external auditor (or by any other member firm in the external auditor's group) and recently amended the terms of reference to include monitoring and oversight of the Company's climate-related risk appetite and exposures and the review of climate-related financial disclosures.

The Committee reports to the Board on the outcome of the statutory audit and explains how the statutory auditor and the Committee contribute to the process. The Committee is responsible for the procedure for selecting the statutory auditor and for making recommendations on its appointment.

The Committee also receives regular updates on the implementation of the Company's internal audit plan and compliance with certain aspects of Japan's Financial Instruments and Exchange Law (J-SOX).

Remuneration Committee

During the year under review, the Remuneration Committee was chaired by Alan Hughes, who was appointed as Chair of the Board on 1 August 2022. Its other members are Sian Herbert, who joined the Committee on 1 August 2022, and Masaki Mizutani, who joined the Board on 17 May 2023. Anne Whitaker and Guy Munnoch ceased to be members of the Committee upon their retirement as directors on 28 September 2022. The Board has granted a temporary waiver of the requirement of the terms of reference of the Committee that the Chair of the Board should not chair the Remuneration Committee, pending the appointment of an additional independent non-executive director.

The role of the Committee includes agreeing the policy for remuneration of the executive management and approving their individual remuneration packages (above a specified threshold), ensuring that appropriate incentives exist at all levels and overseeing any major changes in employee benefit structures across the Group. The Committee also reviews, for approval by the Board and the shareholder, the design of long-term incentive plans, bonus schemes and commission schemes operated by the Group. In carrying out its duties, the Committee consults other committees of the Board, and the shareholder, as appropriate, and obtains professional advice to the extent it considers necessary.

Nomination Committee

The composition of the Committee changed during the year as a result of new appointments and role changes:

- Guy Munnoch stepped down as chair of the Committee on 1 August 2022 and was succeeded in this role by Alan Hughes.
- Sian Herbert joined the Committee as a member on 1 August 2022.
- Anne Whitaker and Guy Munnoch ceased to be members of the Committee upon their retirement as directors on 28 September 2022.

The Committee's other members are Robert Gordon and Masaki Mizutani, who replaced Hiroyuki Fukuro as a member of the Committee upon his appointment in May 2023. The purpose of the Committee is to regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and make recommendations to the Board with regard to any changes, as well as to ensure that there is a formal, rigorous and transparent procedure for the appointment of new directors. The Committee makes recommendations to the Board on various matters, including succession plans, re-appointment of directors and membership of committees. In carrying out its duties, the Committee consults other committees of the Board, and the shareholder, as appropriate, and obtains professional advice to the extent it considers necessary.

Executive Risk Committee

The Executive Risk Committee is an executive level committee accountable to the Board. Its purpose is to ensure the effective management of all risks so that the Company's strategy and compliance objectives are achieved, escalating issues by exception to the Audit and Risk Committee. The Committee supports the Chief Executive Officer in identifying and addressing material risks and issues. The Committee is chaired by the Chief Risk Officer and its membership includes the Chief Executive Officer, the Group Director of Operations, the managing directors of each business division, the directors of relevant central functions, the Group Head of Compliance and the Group Treasurer.

Internal control and risk management

The Board is ultimately responsible for the Group's system of internal control and risk management and for reviewing its effectiveness. In relation to the financial reporting process, the system of internal control and risk management includes controls designed to safeguard assets against unauthorised use, to maintain proper accounting records and to ensure the reliability of financial information. The system of internal control and risk management is designed to manage, but not eliminate, the risk of failure to achieve business objectives and can provide only reasonable, rather than absolute assurance against material misstatement, loss or fraud.

The Board confirms that there is an appropriate ongoing process, as part of the Group's risk management framework, for identifying, evaluating and managing the significant risks faced by the Group which has been in place throughout the year ended 31 March 2023 and up to the date of approval by the Board of the Annual Report and Consolidated Financial Statements.

The key elements of the internal control system include: a clearly defined Board and Board committee structure, with terms of reference setting out membership, roles and responsibilities. Detailed annual budgets aligned with the corporate strategy are reviewed and approved by the Board. Regular progress reports and results are reviewed by the Board, or one of its committees, and actions are taken as appropriate. Organisational structures are in place which allow clear delegation of authority and responsibility throughout the Group.

Systems and procedures are in place to identify, control and report on the major risks facing the Group. The Audit and Risk Committee, supported by the Executive Risk Committee, is responsible for coordinating this process and for making recommendations to the Board. Further information about the Group's risk management framework is set out in the Group Strategic Report under the heading Risk Review on page 41.

The Group has a 2nd line Risk and Compliance function and 3rd line Internal Audit function which provide, respectively, oversight and assurance in respect of the overall effectiveness of the governance of the Group, including the risk management framework. In addition, there have been regular reviews of key areas of risk by the internal audit teams of the parent company.

The Board, through the Audit and Risk Committee, has reviewed the effectiveness of the system of internal control, including financial, operational and compliance controls and risk management, through representations from management and the independent monitoring undertaken by the Internal Audit function. In addition, the Group's statutory auditor presented to the Audit and Risk Committee reports that include details of any significant internal control matters which it had identified. Weaknesses identified during the course of these reviews have been incorporated into action plans.

Throughout the year ended 31 March 2023, the Group complied with the Japanese J-SOX legislation to the extent it was relevant to the Group, as a subsidiary of its parent, using the COSO framework, as a consequence of the parent company being listed on the Tokyo Stock Exchange.

Diversity and inclusion

The Directors believe that, as a leading financial services business, the Group has a role in society to encourage greater inclusion and diversity, within a workplace that welcomes everyone. The Group's aim is to create an environment that ensures that all our people have the opportunity to benefit from a sustainable and achievable career path and to fulfil their potential.

Details of the Group's diversity and inclusion policy, and the initiatives undertaken in the past year, are available on the Company's website:

www.novuna.co.uk/who-we-are/inclusion-and-diversity/

By order of the Board.

J.N.M.Sims
Company Secretary
7 June 2023

Independent Auditor's Report

FOR THE YEAR ENDED 31 MARCH 2023

1. Opinion

In our opinion:

- The financial statements of Mitsubishi HC Capital UK PLC (the 'parent company' or the 'Company') and its subsidiaries (the 'Group' or 'Novuna') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2023 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- The parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- The consolidated income statement;
- The consolidated statement of comprehensive income;
- The consolidated and parent company statement of financial position;
- The consolidated and parent company statements of changes in equity;
- The consolidated statement of cash flows; and
- The related notes 1 to 35.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

2. 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 Group and the parent 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 as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Valuation of expected credit losses in Novuna Consumer Finance. • Valuation of impairment losses on the lease assets held in Novuna Vehicle Solutions. • Valuation of the investment in Gridserve Holdings Ltd ("Gridserve"). Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	• The materiality that we used for the Group financial statements was £12.9m which was determined on the basis of net assets.
Scoping	• Our Group audit scope focused primarily on the parent company which accounts for over 98% of the Group's total net assets (2022: 99%), over 91% of profit before tax (2022: 99%), and over 84% of the Group's revenue (2022: 99%). • The parent company was the only significant component and was subject to a full scope audit, consistent with the prior year audit. In addition, in the current year, we have tested specified account balances in one non-significant component to obtain sufficient appropriate audit evidence on which to base our Group audit opinion.
Significant changes in our approach	• The valuation of the investment in Gridserve is a newly identified key audit matter in the year as a result of the Group discontinuing equity accounting for its share in Gridserve and recognising its remaining investment at fair value through profit or loss. This resulted in a £44.1m gain recognised in the consolidated income statement in the year-ended 31 March 2023.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and parent company's ability to continue to adopt the going concern basis of accounting included the following:

- We obtained and read the director's going concern assessment, which included consideration of the Group's operational resilience and strategic plans, to understand, assess and evidence the key judgements made by management;
- We obtained an understanding of relevant controls in relation to the Board's going concern assessment;
- We obtained the Board approved income statement, balance sheet and cash flow forecasts for the going concern period and assessed key assumptions and their projected impact on the Group under different scenarios;
- In particular, as the Group is in a net current liability position of £1,248.9m as at 31 March 2023, we challenged the assumptions used to determine the forecast expected cash inflows and outflows over the going concern assessment period. This included confirming the existence, terms and adequacy of funding facilities available to the Group to cover potential cash shortfalls and to meet scheduled debt repayments and evaluating management's intention and ability to carry out future planned actions in relation to the Group's funding and liquidity plans;
- Supported by our regulatory specialists, we assessed the results of the directors' reverse stress testing and downside sensitivity analysis and assessed key assumptions with a focus on the liquidity and funding requirements that management assume that the Group will require;
- We tested the mathematical accuracy of the forecasts used in the going concern assessment;
- We compared the historical budgeted financial information with historical actual results to assess the historical accuracy of forecasts prepared by management;
- Using our knowledge of the Group and parent company, the financial services industry and the general economic environment we independently assessed factors and risks that may indicate events or conditions that may cast significant doubt on the Group and parent company's ability to continue as a going concern; and
- We reviewed the going concern disclosures included in the Annual Report and financial statements to assess that the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and parent company's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1 Valuation of expected credit losses in Novuna Consumer Finance

Refer to the judgements in applying accounting policies and critical accounting estimates in note 2.4 on page 108 and note 34 on page 171.

Key audit matter description

IFRS 9 Financial Instruments requires loan impairment provisions to be recognised on an expected credit loss ("ECL") basis. At 31 March 2023, the Group reported an ECL of £66.0m (2022: £56.3m). Of the total provision, £43.0m (2022: £38.6m) relates to Novuna Consumer Finance which represented 1.4% (2022: 1.3%) of loans and advances to customers in Novuna Consumer Finance. The ECL provision in Novuna Consumer Finance requires management to make significant judgements and estimates and we therefore consider the valuation of the ECL to be a key audit matter due to the risk of fraud or error.

We identified two specific areas that require significant management judgement or relate to assumptions to which the ECL provision is particularly sensitive:

- Significant increases in credit risk ("SICR") and staging: There is a risk that the criteria used to classify loans into stage 1, 2 or 3 and the calculation of behavioural scores that translate into probabilities of default ("PDs") used in the staging assessment do not appropriately identify whether there has been a significant increase in credit risk between the date of origination of the exposure and 31 March 2023; and
- Loss rates: The Group applies a loss rate approach to calculating the ECL provision, as permitted under IFRS 9. The determination of loss rates is subjective and judgemental. There is a risk that the loss rates used in the ECL model are not appropriate.

How the scope of our audit responded to the key audit matter

We obtained an understanding of the relevant financial controls in the determination of the ECL provision in Novuna Consumer Finance. With involvement of our IT specialists, we tested general IT controls over the relevant underlying lending systems.

To challenge the Group's SICR criteria and staging assessment, we:

- Performed an accounting assessment of the SICR criteria to challenge whether the criteria were appropriate in accordance with IFRS 9.
- Supported by our credit risk modelling specialist team, we:
  - assessed the application of SICR in the ECL calculation, including a review of the code script and methodology;
  - understood and assessed the behavioural scorecard model methodology which is used to calculate PDs used in the SICR assessment; and
  - recalculated PDs and independently reperformed management's staging assessment, to test whether the staging criteria were applied correctly.
- Assessed the stage allocation by testing a sample of loans in stage 1, 2 and 3 and challenged whether they were in the appropriate stage by assessing the financial performance of the loan and with reference to the SICR criteria.
- Tested the accuracy and completeness of data used in the SICR and staging analysis, including data used in behavioural scores, arrears data and default flags.
- Performed a composition analysis to assess the appropriateness of management's definition of SICR by reference to certain validation metrics, including the proportion of loans transferred to stage 2 that were driven solely by being 30 days past due and assessed the proportion of loans that spent little or no time in stage 2 before transitioning to stage 3.

To challenge the Group's loss rates used in the ECL model, we:

- Understood the nature of the lending portfolio and considered whether historic loss data was an appropriate basis to estimate future losses.
- Supported by our credit risk modelling specialist team, we
  - understood and assessed the 12-month and lifetime loss rate models used in the ECL calculation, including a review of the code script and methodology; and
  - independently recalculated loss rates and reperformed the application of the loss rates within the ECL calculation.

- Tested the accuracy and completeness of data used in the loss rate models, including write-off data.
- Performed a stand-back assessment to assess whether the loss rates applied were appropriate and the overall ECL was reasonable.

Key observations

We determined that the Group's ECL provision for Novuna Consumer Finance as at 31 March 2023 was reasonable, in compliance with IFRS 9 and therefore appropriately stated.

5.2 Valuation of impairment losses on the lease assets held in Novuna Vehicle Solutions

Refer to the judgements in applying accounting policies and critical accounting estimates in note 2.4 on page 108 and note 12 on page 126.

Key audit matter description

Total operating lease assets in Novuna Vehicle Solutions were £1,740.3m as at 31 March 2023 (2022: £1,547.9m). For the year-ended 31 March 2023, the Group reported an impairment charge of £89m (2022: £44m) relating to operating lease assets in Novuna Vehicle Solutions.

The residual values used to determine the impairment charge for the year-ended 31 March 2023, are set at the present value of the future cash flows expected to be derived from the asset. There is a risk due to either fraud or error that the residual values are not appropriate and therefore the impairment charge recognised in the income statement for the year-ended 31 March 2023, and the carrying value of the operating lease assets in Novuna Vehicle Solutions as at 31 March 2023, are not appropriately stated.

We identified two key estimates used in the impairment assessment to which the impairment charge is particularly sensitive:

- Residual values used in the impairment assessment: The residual value is a key estimate in calculating future cashflows. The estimate is impacted by vehicle values and the anticipated decline of the valuation over the vehicles' lifetime. There is significant estimation uncertainty in determining residual values, given the current volatile used car market conditions and persistent new car supply side shortages.
- Discount rates used for the calculation of present value of the cashflows in the impairment assessment: The valuation of impairment losses is highly sensitive to changes in the discount rate. In the current year, the ongoing cost-of-living crisis and rising inflation, has resulted in significant increases in the Bank of England base interest rate which has impacted the Group's cost of funds. There is therefore higher uncertainty in determining the appropriate discount rates to be used in the impairment assessment.

How the scope of our audit responded to the key audit matter

We obtained an understanding of the relevant financial controls in the determination of the residual values and discount rate used in the impairment assessment for operating lease assets in Novuna Vehicle Solutions. With involvement of our IT specialists, we tested general IT controls over the relevant underlying leasing system.

To challenge the residual values used in the impairment assessment of operating lease assets, we:

- Assessed the appropriateness of significant judgements used in management's residual value model, particularly with reference to the data used by management to determine the overlays and adjustments, including comparing the residual value output to independent valuations from third parties and considered recent sales data and compared it with the residual value estimate.
- Understood and assessed the different approach taken by management to determining adjustments to residual values for internal combustion engine vehicles compared to electric vehicles given the differing market trends between the two types of vehicles.
- Corroborated the nature and value of management's adjustments and overlays to internal information and external information where possible, considering contradictory evidence. In particular, we

compared management's residual value data with industry data and determined a reasonable range for residual values to assess whether management's valuations were appropriate.
- Assessed the completeness of management's adjustments and overlays using our own knowledge of the industry, current trends in market performance against industry data predictions, views on the impact of emerging risks and known limitations of the models.

To challenge the discount rate used in the impairment assessment of operating lease assets, we:
- Involved our valuation specialists to support us in independently deriving an appropriate range of discount rates and compared management's discount rate to our independent range to challenge the rate applied by management in their impairment assessment.

Key observations

We determined that the Group's residual values for operating lease assets in Novuna Vehicle Solutions were reasonable. We therefore determined that the impairment charge and carrying value of the operating lease assets are appropriately stated.

5.3 Valuation of the investment in Gridserve

Refer to the judgements in applying accounting policies and critical accounting estimates in note 2.4 on page 109 and note 4.2 on page 120.

Key audit matter description

As at 31 March 2022, the Group held a 19.63% interest in Gridserve, a company incorporated in England and Wales specialising in the provision of sustainable energy solutions. As at 31 March 2022, the Group concluded that it exerted significant influence over Gridserve and the investment was accounted for using the equity method in the Group's consolidated statement of financial position. In August 2022, a new investor purchased of preference shares in Gridserve which diluted the Group's shareholding to 8.53%.

Following the transaction, management reassessed the accounting treatment for its interest in Gridserve and concluded that the equity method should be discontinued as the Group was deemed to have lost significant influence over Gridserve, and the remaining investment should be accounted for as an investment in equity instruments measured at fair value through other comprehensive income. The change in accounting treatment resulted in a fair value gain of £44.1m recognised in the consolidated income statement as a result of derecognising the equity accounted investment and recognising the remaining investment at fair value ("the initial fair value"). Whilst this initial fair value gain was recognised in the consolidated income statement, management made an irrevocable election to present subsequent changes in fair value in other comprehensive income.

Management engaged an external expert to support them in determining the initial fair value of the Group's Gridserve investment. The investment is considered to be a level 3 fair value investment as the inputs used to value the investment are unobservable. Determining the fair value of a level 3 investment involves significant judgements and assumptions. We identified an elevated risk of fraud or error on the initial valuation given this resulted in a recognised gain of £44.1m being recognised in the income statement, whereas subsequent movements in the valuation are recognised in reserves. We therefore identified a key audit matter in relation to the initial fair value and focused our audit procedures on the gain of £44.1m.

How the scope of our audit responded to the key audit matter

We obtained an understanding of the relevant financial controls in the determination of the initial fair value of Gridserve and the resulting fair value gain recognised in the income statement.

To challenge the initial fair value of the Gridserve investment, we:
- Obtained and read the valuation analysis provided by management's external expert, including supporting schedules and related narrative information.
- Evaluated the competence, capabilities and objectivity of management's expert.

- Supported by our valuation specialists, reviewed and assessed the appropriateness of the valuation methodology and valuation assumptions in determining the initial fair value.
- In conjunction with our valuation specialists, evaluated whether the valuation method was appropriate in the context of the applicable financial reporting framework and that the valuation method was appropriately applied.
- Assessed the reasonableness of the valuation inputs, business assumptions and key accounting assumptions used in the valuation analysis.
- Tested whether calculations were applied in accordance with the valuation method and were mathematically accurate.

Key observations

We determined that the Group's initial valuation for the Gridserve investment was reasonable. We, therefore, determined that the fair value gain of £44.1m recognised in the consolidated income statement is appropriately stated.

6. Our application of materiality

6.1 Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

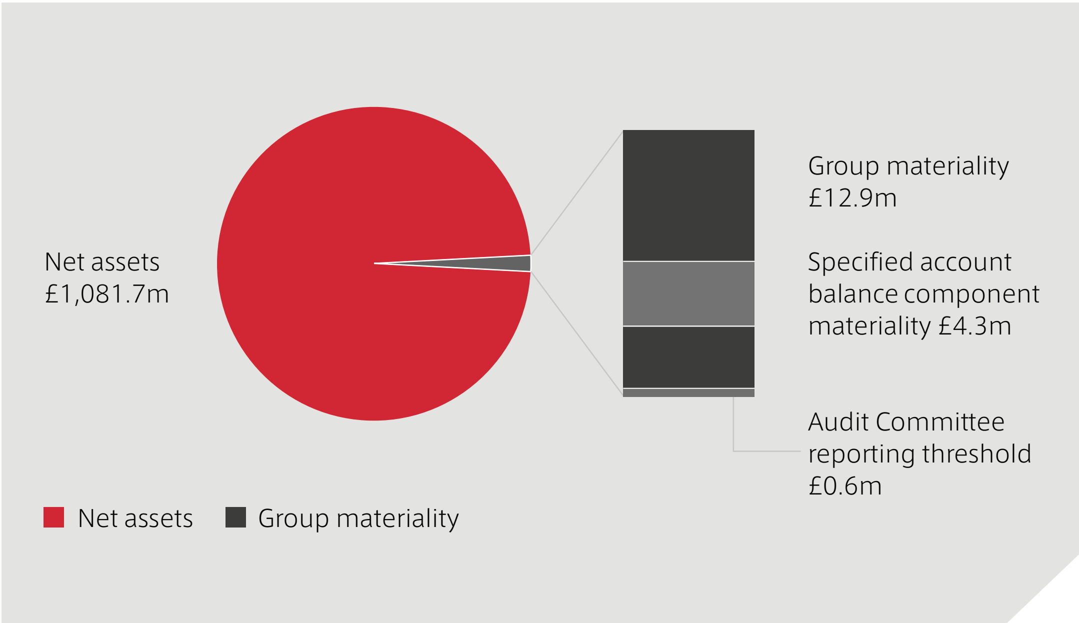
Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group financial statements

Materiality	£12.9m (2022: £8.3m)
Basis for determining materiality	Group materiality was based on 1.2% of year-end net assets as of 31 March 2023 (2022: 1.0% of forecast net assets which represented 0.9% of net assets as at 31 March 2022). Group planning materiality has increased from prior year due to an increase in net assets from £921.7m to £1,081.7m, and an increase in the benchmark percentage from 1.0% to 1.2%.
Rationale for the benchmark applied	In determining our benchmark for materiality, we considered the metrics used by investors and other users of the financial statements. Given the nature of the Group, the importance of strong capital and liquidity ratios and the potential volatility of profits since the Covid-19 pandemic and recent economic events, we determined year-end net assets to be the most appropriate and stable benchmark to determine materiality.

Parent company financial statements

Materiality	£12.2m (2022: £8.2m)
Basis for determining materiality	Parent company materiality was based on 1.2% of parent company year-end net assets as of 31 March 2023 (2022: 1.0% of forecast net assets which represented 0.9% of net assets as at 31 March 2022), which is capped at 95% of Group materiality.
Rationale for the benchmark applied	We considered year-end net assets to be the most appropriate and stable benchmark to determine materiality in line with the rationale for the Group materiality.



6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	70% (2022: 65%) of Group materiality	70% (2022: 65%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: • Mitsubishi HC Capital UK PLC is a wholly owned subsidiary and the primary user of the financial statements is the ultimate parent, Mitsubishi HC Capital Inc; • Whilst the Company has listed debt, a significant portion of the external debt is guaranteed by Mitsubishi HC Capital Inc; • The quality of the control environment and that we were able to rely on controls where we planned to; • The degree of centralisation and commonality of controls and processes; and • The nature, volume and size of uncorrected misstatements that were identified in the prior year audit.	

6.3 Error reporting threshold

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £0.6m (2022: £0.4m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

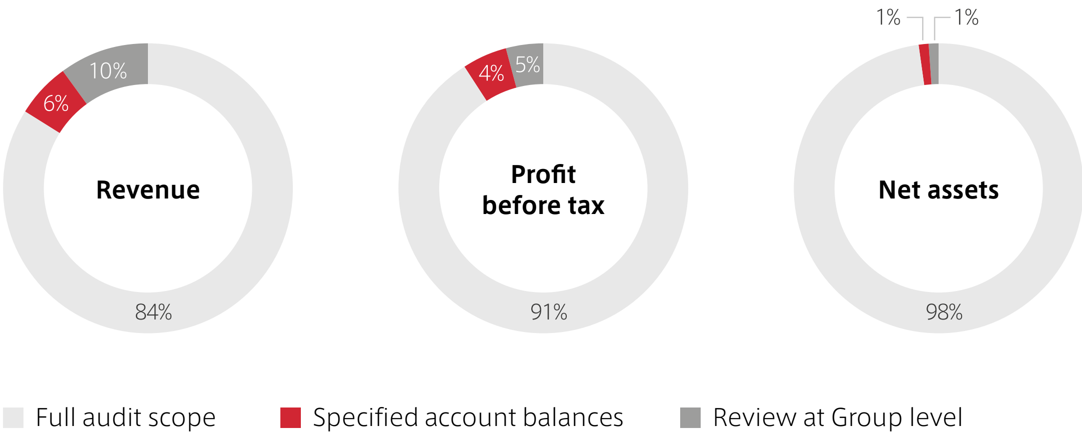
7.1 Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls and assessing the risks of material misstatement at the Group level.

On 1 August 2022, the Group acquired MHC Mobility Europe B.V and its subsidiaries from Mitsubishi HC Capital Inc, in a share for share exchange. The companies specialise in providing vehicle leasing and fleet management services in Europe, similar to the business model of Novuna Vehicle Solutions. As a result of the intra-group transfer, the Group has a number of new subsidiaries which are consolidated in the current year financial information. These subsidiaries were included within our scoping assessment of the Group and in determining our planned audit procedures.

Our Group audit scope focused primarily on the parent company which accounts for over 98% of the Group's total net assets (2022: 99%), over 91% of profit before tax (2022: 99%), and over 84% of the Group's revenue (2022: 99%). The parent company was the only significant component and was subject to a full scope audit, consistent with the prior year audit. In addition, in the current year we have tested specified account balances in one non-significant component to obtain sufficient appropriate audit evidence on which to base our Group audit opinion. We used a component materiality of £4.3m to test the specified account balances.

All work performed for the purposes of the audit was undertaken by the Group audit team. We tested the Group's consolidation process and carried out analytical procedures to confirm that there were no significant risks of material misstatement in the aggregated financial information of the remaining non-significant subsidiaries not subject to a full scope audit or specified account balances testing.



7.2 Our consideration of the control environment

We identified the key IT systems relevant to the audit to be those used in the Group's financial reporting and those used in Novuna Consumer Finance lending, Novuna Vehicle Solutions leasing and Novuna Business Finance leasing. For these systems, with the involvement of our IT specialists, we performed testing over the general IT controls, including testing of user access and change management systems.

In the current year we relied on controls for some of the lending and leasing businesses and related revenue. For the areas where we relied on controls, we performed walkthroughs with management to understand the process and controls and identified and tested relevant controls that address risks of material misstatement in financial reporting.

7.3 Our consideration of climate-related risks

In planning our audit, we have considered the impact of climate change on the Group's operations and impact on its financial statements. As set out in the Group's principal risks, management has identified that there is a risk that the Group does not adequately take account of climate change risks in developing the business model and strategy. The Strategic Report also contains information on several commitments and strategic priorities in relation to climate change, including that the Group has set interim science-based emissions reduction targets for 2030 which are currently under review by the Science Based Targets initiative, with a long-term aspiration to reach net zero by 2050, and the Group's ongoing strategic investment in Gridserve Holdings Ltd, a provider of sustainable energy solutions, which is held as an investment.

As set out in note 2.4 on page 108, the Group has considered the impact of climate-related matters on its financial position and performance and does not consider there to be a material impact on its judgements and estimates from the physical or transition risks associated with climate change in the short to medium term. Accordingly, the Group has determined that there is no significant risk of material adjustment to the carrying amount of assets and liabilities within the next financial year as a result of climate change.

We have held discussions with the Group to understand:

- The process for identifying affected operations, including the governance and controls over this process, and the subsequent effect on the financial reporting for the Group; and
- The long-term strategy to respond to climate change risks as they evolve.

Our audit work has involved:

- Challenging the completeness of the physical and transition risks identified, which included considering the Group's climate risk assessment and the conclusion that there is no material impact of climate change risk on current year financial reporting; and
- Assessing disclosures in the Annual Report and in note 2.4 of the financial statements and challenging the consistency between the financial statements and the remainder of the Annual Report.

We have not been engaged to provide assurance over the accuracy of climate change disclosures or targets. As part of our audit procedures we are required to read these disclosures to consider whether they are materially inconsistent with the financial statements or knowledge obtained in the audit and we did not identify any material inconsistencies as a result of these procedures.

8. Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the Annual Report.

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

9. 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 Group's and the parent 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 Group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. 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.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1 Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- The nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- Results of our enquiries of management, internal audit and the Audit and Risk Committee about their own identification and assessment of the risks of irregularities;
- Any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - Identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - Detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - The internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- The matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, pensions, IT, credit risk, regulatory and analytics and modelling specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: valuation of expected credit losses in Novuna Consumer Finance, the valuation of impairment losses on the lease assets held in Novuna Vehicle Solutions and the valuation of the investment in Gridserve. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, the Consumer Credit Act and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the Group's capital, liquidity and conduct requirements.

11.2 Audit response to risks identified

As a result of performing the above, we identified valuation of expected credit losses in Novuna Consumer Finance, the valuation of impairment losses on the lease assets held in Novuna Vehicle Solutions and the valuation of the investment in Gridserve as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- Reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- Enquiring of management, the Audit and Risk Committee and in-house and external legal counsel concerning actual and potential litigation and claims;
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- Reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and the Financial Conduct Authority; and
- In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. 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 Group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Matters on which we are required to report by exception

13.1 Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- We have not received all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2 Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of these matters.

14. Other matters which we are required to address

14.1 Auditor tenure

Following the recommendation of the Audit and Risk Committee, we were appointed by the Board of Directors on 7 June 2021 to audit the financial statements for the year ending 31 March 2022 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is two years, covering the years ending 31 March 2022 to 31 March 2023.

14.2 Consistency of the audit report with the additional report to the Audit and Risk Committee

Our audit opinion is consistent with the additional report to the Audit and Risk Committee we are required to provide in accordance with ISAs (UK).

15. 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.

S.Law

Sarah Law, ACA (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
7 June 2023

Consolidated Income Statement

FOR THE YEAR ENDED 31 MARCH 2023

	Note	2023 £m	2022 £m
Interest income	5	219.3	192.5
Finance lease income		72.4	74.5
Operating lease rental income		512.7	353.4
Operating lease maintenance income		94.6	42.3
Sale of operating leased assets		276.2	186.7
Other operating income	6	53.3	34.5
Revenue		**1,228.5**	**883.9**
Finance costs	7	(152.7)	(62.8)
Depreciation and impairment of operating leased assets	12	(348.2)	(266.8)
Maintenance expense on operating leased vehicles		(91.6)	(37.7)
Disposal of operating leased assets		(221.2)	(155.7)
Other cost of sales	8	(46.7)	(11.1)
Cost of sales		**(860.4)**	**(534.1)**
Gross profit		**368.1**	**349.8**
Impairment losses on credit exposures	15	(22.4)	(27.9)
Administrative expenses	9	(225.7)	(176.1)
Operating profit		**120.0**	**145.8**
Fair value gain on derivative financial instruments	17	0.7	0.5
Parent integration costs	10	(2.4)	(7.8)
Share of loss of investments accounted for under the equity method	4	(1.6)	(8.5)
Gain on discontinuation of equity method	4	44.1	-
Profit before tax		**160.8**	**130.0**
Income tax expense	11	(40.9)	(27.3)
Profit after tax		**119.9**	**102.7**

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MARCH 2023

	Note	2023 £m	2022 £m
Profit after tax for the year		**119.9**	**102.7**
Other comprehensive income ("OCI") to be reclassified to profit or loss in subsequent period			
Gain taken to cash flow hedge and cost of hedging reserve	26	70.3	59.6
Income tax effect	11	(19.8)	(11.4)
Fair value changes on financial instruments measured as fair value through other comprehensive income (FVTOCI)	26	(3.4)	-
Income tax effect		0.9	-
		48.0	**48.2**
Foreign currency translation gains or losses		1.6	-
Net other comprehensive income to be reclassified to profit or loss in subsequent period		**49.6**	**48.2**
Items that will not be reclassified subsequently to profit or loss			
Re-measurement of defined benefit pension scheme	29	(9.0)	8.0
Income tax effect	11	2.3	(2.0)
		(6.7)	**6.0**
Net other comprehensive income not to be reclassified to profit or loss in subsequent period		**(6.7)**	**6.0**
Other comprehensive income for the year, net of tax		42.9	54.2
Total comprehensive income for the year, net of tax		**162.8**	**156.9**
Attributable to:			
Equity holders of the parent		162.8	156.9
Total comprehensive income for the year, net of tax		**162.8**	**156.9**

Consolidated Statement of Financial Position

FOR THE YEAR ENDED 31 MARCH 2023

	Note	Group 31 March 2023 £m	Group 31 March 2022 £m
Non-current assets			
Intangible assets	14	65.6	77.8
Investment accounted for under the equity method	4	-	1.6
Property, plant and equipment under operating lease	12	2,343.2	1,574.0
Other property, plant, equipment and right of use assets	13	28.6	17.5
Loans and advances to customers	16	3,095.5	2,888.2
Other financial instruments at amortised cost	33	-	41.1
Financial instruments at fair value through profit or loss	33	74.7	45.5
Equity instruments at Fair Value through Other Comprehensive Income	19	40.7	-
Derivative financial instruments	17	95.6	60.7
Deferred tax assets	11	3.7	0.1
Retirement benefit asset	29	1.0	9.7
		5,748.6	**4,716.2**
Current assets			
Loans and advances to customers	16	2,260.3	2,112.0
Derivative financial instruments	17	43.8	5.5
Inventories	20	32.9	19.6
Current tax asset		18.3	16.8
Trade and other receivables	21	187.6	112.2
Cash and cash equivalents	24	181.3	135.5
		2,724.2	**2,401.6**
Total assets		**8,472.8**	**7,117.8**

	Note	Group 31 March 2023 £m	Group 31 March 2022 £m
Equity and liabilities			
Equity			
Share capital	25	116.2	110.7
Share premium	25	43.6	15.6
Retained earnings		843.8	765.5
Other reserves		77.9	29.9
Equity attributable to owners of the company		**1,081.5**	**921.7**
Non-controlling interests		0.2	-
Total equity		**1,081.7**	**921.7**
Non-current liabilities			
Interest bearing borrowings	18	3,145.8	3,667.6
Derivative financial instruments	17	85.3	210.8
Trade and other payables	27	128.0	95.8
Provisions	23	2.5	2.1
Deferred tax liability	11	56.4	7.9
		3,418.0	**3,984.2**
Current liabilities			
Bank overdrafts	24	14.7	48.9
Interest bearing borrowings	18	3,362.1	1,812.3
Derivative financial instruments	17	156.1	10.9
Current tax liability		4.6	0.3
Trade and other payables	27	418.5	338.1
Provisions	23	17.1	1.4
		3,973.1	**2,211.9**
Total liabilities		**7,391.1**	**6,196.1**
Total equity and liabilities		**8,472.8**	**7,117.8**

Company Statement of Financial Position

AS AT 31 MARCH 2023

	Note	Company 31 March 2023 £m	Company 31 March 2022 Restated £m	Company 1 April 2021 Restated £m
Non-current assets				
Intangible assets	14	60.8	77.8	70.9
Investments in subsidiaries	4	41.2	7.7	7.7
Investment accounted for under the equity method	4	-	1.6	10.1
Property, plant and equipment under operating lease	12	1,762.1	1,571.2	1,309.9
Other property, plant, equipment and right of use assets	13	18.0	17.5	19.1
Loans and advances to customers	16	3,007.0	2,840.2	2,858.4
Other financial instruments at amortised cost	33	-	41.1	38.6
Financial instruments at fair value through profit or loss	33	74.7	45.5	62.1
Equity instruments at Fair Value through Other Comprehensive Income	19	40.7	-	-
Derivative financial instruments	17	95.6	60.7	8.8
Deferred tax assets	11	-	-	18.2
Trade and other receivables	21	62.6	-	-
Retirement benefit asset	29	1.0	9.7	1.7
		5,163.7	**4,673.0**	**4,405.5**
Current assets				
Loans and advances to customers	16	2,180.7	2,053.7	1,775.9
Derivative financial instruments	17	43.8	5.5	1.9
Inventories	20	22.3	19.6	12.7
Current tax asset		18.2	16.8	0.5
Trade and other receivables	21	244.5	216.1	134.0
Cash and cash equivalents	24	159.8	133.0	183.9
		2,669.3	**2,444.7**	**2,108.9**
Total assets		**7,833.0**	**7,117.7**	**6,514.4**

	Note	Company 31 March 2023 £m	Company 31 March 2022 Restated £m	Company 1 April 2021 Restated £m
Equity and liabilities				
Equity				
Share capital	25	116.2	110.7	110.7
Share premium	25	43.6	15.6	15.6
Retained earnings		832.7	765.3	688.0
Other reserves		70.1	30.0	(24.3)
Equity attributable to owners of the company		**1,062.6**	**921.6**	**790.0**
Non-current liabilities				
Interest bearing borrowings	18	2,825.1	3,667.6	3,182.5
Derivative financial instruments	17	85.3	210.8	139.4
Trade and other payables	27	116.7	95.8	81.0
Provisions	23	2.5	2.1	1.3
Deferred tax liability	11	51.7	7.9	-
		3,081.3	**3,984.2**	**3,404.2**
Current liabilities				
Bank overdrafts	24	13.6	48.9	40.6
Interest bearing borrowings	18	3,123.2	1,812.3	1,973.6
Derivative financial instruments	17	156.1	10.9	46.3
Trade and other payables	27	379.3	338.4	256.9
Provisions	23	16.9	1.4	2.8
		3,689.1	**2,211.9**	**2,320.2**
Total liabilities		**6,770.4**	**6,196.1**	**5,724.4**
Total equity and liabilities		**7,833.0**	**7,117.7**	**6,514.4**

Company profit for the year was £109.0m (2022; £102.3m)

The financial statements were approved by the board, authorised for issue on 7 June 2023 and signed on its behalf by:

R. Gordon
Chief Executive Officer

Consolidated Statement of Changes in Equity

AS AT 31 MARCH 2023

Group	Note	Share capital £m	Share premium £m	Retained earnings £m	Other reserves £m	Non Controlling Interest £m	Total £m
At 31 March 2021		**110.7**	**15.6**	**687.8**	**(24.3)**	**-**	**789.8**
Profit for the year		-	-	102.7	-	-	102.7
Other comprehensive income		-	-	-	54.2	-	54.2
Total comprehensive Income for the year		**-**	**-**	**102.7**	**54.2**	**-**	**156.9**
Dividends paid		-	-	(25.0)	-	-	(25.0)
At 31 March 2022		**110.7**	**15.6**	**765.5**	**29.9**	**-**	**921.7**
Profit for the year		-	-	119.9	-	0.2	120.1
Other comprehensive income		-	-	-	42.9	-	42.9
Total comprehensive Income for the year		**-**	**-**	**119.9**	**42.9**	**0.2**	**163.0**
Dividends paid		-	-	(41.6)	-	-	(41.6)
Issue of share capital	25	5.5	28.0	-	-	-	33.5
Acquisition of subsidiary		-	-	-	5.1	-	5.1
At 31 March 2023		**116.2**	**43.6**	**843.8**	**77.9**	**0.2**	**1,081.7**

Statement of Changes in Equity

FOR THE YEAR ENDED 31 MARCH 2023

Company	**Note**	**Share capital £m**	**Share premium £m**	**Retained earnings £m**	**Other reserves £m**	**Total £m**
At 31 March 2021		**110.7**	**15.6**	**688.0**	**(24.3)**	**790.0**
Profit for the year		-	-	102.3	-	102.3
Other comprehensive income		-	-	-	54.3	54.3
Total comprehensive Income for the year		**-**	**-**	**102.3**	**54.3**	**156.6**
Dividends paid		-	-	(25.0)	-	(25.0)
At 31 March 2022		**110.7**	**15.6**	**765.3**	**30.0**	**921.6**
Profit for the year		-	-	109.0	-	109.0
Other comprehensive income		-	-	-	40.1	40.1
Total comprehensive Income for the year		**-**	**-**	**109.0**	**40.1**	**149.1**
Dividends paid		-	-	(41.6)	-	(41.6)
Issue of share capital	25	5.5	28.0	-	-	33.5
At 31 March 2023		**116.2**	**43.6**	**832.7**	**70.1**	**1,062.6**

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2023

	Note	Group 2023 £m	Group 2022 £m
Profit before tax		160.8	130.0
Operating activities:			
Non cash adjustment to reconcile profit before tax to net cash flows:			
Depreciation and impairment of property, plant and equipment under operating lease	12	348.2	266.8
Depreciation and impairment of other property, plant, equipment and right of use assets	13	4.9	2.6
Amortisation and impairment of intangible assets	14	14.0	12.4
Impairment losses on credit exposures		22.4	27.9
(Increase)/decrease in customer claims provision		(18.6)	3.1
Finance cost on borrowings		152.7	62.8
Net gain on disposal of operating lease assets		(55.0)	(64.2)
Net loss on disposal of property plant and equipment		0.1	0.8
Net loss on disposal of intangible assets		11.3	0.5
Fair value gain on derivative financial instruments	17	(0.7)	(0.5)
Defined benefit pension scheme Income	29	(0.3)	-
Share of loss of investments accounted for under the equity method		1.6	8.5
Gain on discontinuation of equity method		(44.1)	-
Fair value loss on financial instruments measured at FVTPL		18.4	-
		615.7	**450.7**
Working capital adjustments			
Increase in loans and advances to customers		(348.7)	(363.0)
Increase in trade and other receivables		(57.0)	(3.8)
Increase in payables & provisions		104.2	84.5
Increase in inventories		(10.7)	(6.9)
Purchase of operating leased assets		(855.9)	(645.6)
Proceeds from sale of operating leased assets		276.2	186.7
Cash inflow / (outflow) from operations		**(276.2)**	**(297.4)**
Income taxes paid		(12.1)	(30.7)
Interest paid		(137.2)	(61.8)
Net cash inflow / (outflow) from operating activities		**(425.5)**	**(389.9)**

	Note	Group 2023 £m	Group 2022 £m
Investing activities			
Cash acquired from subsidiaries		29.0	-
Purchase of property, plant and equipment (non-operating leases)	13	(6.3)	(0.4)
Purchase of intangible assets	14	(5.1)	(18.4)
Net investment in debt instruments		(6.6)	14.3
Net cash outflow from investing activities		**11.0**	**(4.5)**
Financing activities			
Receipt of long term borrowings		5,162.1	3,728.5
Repayments of long term borrowings		(4,588.7)	(3,341.9)
Decrease other in short term borrowings		(35.4)	(23.4)
Dividends paid		(41.6)	(25.0)
Payments of lease liabilities		(1.6)	(2.0)
Net cash inflow from financing activities		**494.8**	**336.2**
Net increase/(decrease) in cash and bank overdrafts		80.3	(58.2)
Net foreign exchange difference		(0.3)	-
Cash and bank overdrafts at beginning of the year	24	86.6	144.8
Cash and bank overdrafts at end of the year	**24**	**166.6**	**86.6**
Current assets - cash	24	181.3	135.5
Current liabilities - bank overdrafts	24	(14.7)	(48.9)
Cash and bank overdrafts at end of the year		**166.6**	**86.6**

Company Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2023

	Note	Company 2023 £m	Company 2022 £m
Profit before tax		146.8	129.5
Operating activities:			
Non cash adjustment to reconcile profit before tax to net cash flows:			
Depreciation and impairment of property, plant and equipment under operating lease	12	285.6	266.6
Depreciation and impairment of other property, plant, equipment and right of use assets	13	2.6	2.6
Amortisation and impairment of intangible assets	14	10.8	12.4
Impairment losses on credit exposures		22.6	27.8
(Increase)/decrease in customer claims provision		(18.6)	3.1
Finance cost on borrowings		142.3	62.5
Net gain on disposal of operating lease assets		(51.8)	(64.2)
Net loss on disposal of property plant and equipment		-	0.8
Net loss on disposal of intangible assets		11.3	0.5
Fair value gain on derivative financial instruments	17	(0.7)	(0.5)
Defined benefit pension scheme Income	29	(0.3)	-
Share of loss of investments accounted for under the equity method		1.6	8.5
Gain on discontinuation of equity method		(44.1)	-
Fair value loss on financial instruments measured at FVTPL		18.4	-
		526.5	**449.6**
Working capital adjustments			
Increase in loans and advances to customers		(316.0)	(287.1)
Increase in trade and other receivables		(83.5)	(3.6)
Increase in payables & provisions		99.0	85.7
Increase in inventories		(2.7)	(6.9)
Purchase of operating leased assets		(650.6)	(643.8)
Proceeds from sale of operating leased assets		230.6	186.7
Cash inflow / (outflow) from operations		**(196.7)**	**(219.4)**
Income taxes paid		(12.1)	(30.9)
Interest paid		(126.7)	(61.5)
Net cash inflow / (outflow) from operating activities		**(335.5)**	**(311.8)**

	Note	Company 2023 £m	Company 2022 £m
Investing activities			
Purchase of property, plant and equipment (non-operating leases)	13	(3.1)	(0.4)
Purchase of intangible assets	14	(5.1)	(18.4)
Net investment in debt instruments		(6.6)	14.3
Net cash outflow from investing activities		**(14.8)**	**(4.5)**
Financing activities			
Receipt of long term borrowings		5,108.1	3,728.5
Repayments of long term borrowings		(4,588.0)	(3,341.9)
Decrease other in short term borrowings		(63.5)	(102.5)
Dividends paid		(41.6)	(25.0)
Payments of lease liabilities		(1.6)	(2.0)
Net cash inflow from financing activities		**413.4**	**257.1**
Net increase/(decrease) in cash and bank overdrafts		63.1	(59.2)
Net foreign exchange difference		(1.0)	-
Cash and bank overdrafts at beginning of the year	24	84.1	143.3
Cash and bank overdrafts at end of the year	24	**146.2**	**84.1**
Current assets - cash	24	159.8	133.0
Current liabilities - bank overdrafts	24	(13.6)	(48.9)
Cash and bank overdrafts at end of the year		**146.2**	**84.1**

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2023

1. CORPORATE INFORMATION

The consolidated financial statements of the Group for the year ended 31 March 2023 were authorised for issue by the directors on 7 June 2023. Mitsubishi HC Capital UK PLC is a public limited company incorporated in the United Kingdom. The address of the registered office is given at the beginning of this report as is information on the ultimate parent undertaking. The principal activities of the Group are described in note 3.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements are prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international accounting standards as adopted by the United Kingdom. Under section 408 (3) of the Companies Act 2006, the Company has not included its own income statement or statement of comprehensive income.

The financial statements have been prepared on a historical cost convention, as modified by financial instruments recognised at fair value.

The financial statements are presented in pound sterling and all values are rounded to the nearest hundred thousand, except when otherwise indicated.

Use of estimates, assumptions and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that the management consider to be reasonable, the results of which form the basis of making the judgements about carrying values of assets and liabilities. Further information can be found in note 2.4 on significant accounting judgements, estimates and assumptions.

Restatement of prior year comparatives

Reclassification of amounts due from subsidiary undertakings

These relate to inter-company funding provided to Mitsubishi HC Capital Europe B.V., wholly owned subsidiary of the Group (note 4). This amount was previously reported within interest bearing borrowings.

The impact of the reclassification is to increase trade and other receivables (note 21) for the Company by £152.8m (at 31 March 2023), £103.9m (at 31 March 2022) and £24.8m (at 1 April 2021) with a corresponding increase in interest bearing borrowings (note 18). The reclassification did not impact net assets or equity of the Group or Company. This amount was previously incorrectly offset against interest bearing borrowings.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Group Strategic Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Group Strategic Report, the financial statements, and the notes to the financial statements. In addition, the notes to the financial statements include the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to market risk, credit risk and liquidity risk.

As part of the Directors' ongoing assessment of going concern, they have considered the forecasts for the Group as well as cash flow projections for at least 12 months from the date of approval of the financial statements. The Directors expect that the Group will remain profitable in its chosen financial markets in the coming year. A central treasury function provides funding for the Group's operations and manages treasury risks in accordance with policy limits approved by the Board and the Treasury Committee.

The Group has access to the following funding sources:

- Euro medium term note and commercial paper programmes for which Mitsubishi HC Capital Inc. acts as guarantor.
- Securitisation facilities, which Management renegotiates on an annual basis.
- A committed back up facility in Sterling in the form of a fixed share of a global Mitsubishi HC Capital Group committed facility, and additional shared facility, from the three largest Japanese commercial banks.
- Group loan facilities available from Mitsubishi HC Capital Inc.
- Short term uncommitted bank borrowing facilities.

It is the Directors' intention to continue to utilise existing facilities and seek additional funding as required to meet the funding needs of the business. The Directors are satisfied that the Group has sufficient appropriate funding facilities and capacity to borrow both currently and for the foreseeable future. Liquidity risk and funding management issues are covered in more detail within note 34 of the Notes to the Financial Statements.

The Directors, based on latest forecasts, stress testing and available funding, have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future (which has been taken as 12 months from the date of approval of the financial statements) and that there are no material uncertainties to disclose. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

The Directors' have also considered reverse stress testing scenarios for both equity and current year profit. Under these scenarios the bad debt charge would need to increase to approximately 30 times the level of 2023 and maintain that level for the next three years to exhaust the current capital base. We have stress-tested our portfolio to see how much the UK economy would have to deteriorate before the Group ceases to be profitable. We projected that UK unemployment would need to rise to 9.1% and GDP fall by 7.2% before the bad debt levels would result in zero profit in the 2023/24 financial year.

Although, the Group's Consolidated Statement of Financial Position shows net current liabilities of £1,249m at year-end based on contractual maturity profile, the expected cash collections from the run-off of existing receivables and committed funding available to the Group are well matched with the maturity profile of the borrowings and would be sufficient to settle obligations without the need to utilise cash from our parent company. In addition, with the level of committed and uncommitted facilities with large banks and its parent company, available to the Group, the Directors are confident of meeting the Group's short- term and long-term obligations.

As part of this year's going concern assessment, the Directors paid particular attention to the potential risks arising from the war in Ukraine, the increase in the likelihood of recession and global supply chain disruption. The Directors are satisfied that the Company has effective business continuity plans in place and that it has conducted adequate stress testing of the possible economic scenarios resulting from the increase in interest rates and cost of living crisis as detailed in note 34 of the Notes to the Financial Statements.

The Directors are satisfied that, despite the current uncertain economic outlook, the Group is well placed to manage its business risks (including climate related risks), as outlined in the principal risks and uncertainties included in the Risk Review within the Group Strategic Report.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 March 2023. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra Group balances, transactions and dividends are eliminated in full.

Subsidiaries are those entities, including securitisation entities, over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. The Group has power over an entity when it has existing rights that give it the current ability to direct the relevant activities that most significantly affect the entity's returns. Power may be determined on the basis of voting rights or, in the case of securitisation entities, other contractual arrangements.

Where the Group does not retain a direct ownership interest in a securitisation entity, but the Directors have determined that the Group controls those entities, they are treated as subsidiaries and are consolidated. Control is determined to exist if the Group has the power to direct the relevant activities that most significantly affect the securitisation entity's returns and the Group is exposed to a variable return. Securitisation structures that do not meet these criteria are not treated as subsidiaries and are excluded from the consolidated accounts and instead specific assets and liabilities to the extent of the Group's continuing involvement are recognised to the Group's Statement of Financial Position. Significant judgements on securitisation entities can be found in note 2.4.

2.3 Summary of significant accounting policies

(a) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and included in administrative expenses.

Any contingent consideration to be transferred by the Group will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments: Recognition and Measurement, is measured at fair value through profit or loss. If the contingent consideration is not within the scope of IFRS 9, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill on acquisition is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the fair value of the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units ("CGU") that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

(b) Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The investment in associate or joint venture is accounted under the equity method whereby, the investment is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately. The carrying amount of investment in an associate or a joint venture is recognised under 'Investment accounted for under the equity method' within the Group's statement of financial position.

The Consolidated Income Statement reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the Statement of Changes in Equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of associates and a joint ventures is shown on the face of the Consolidated Income Statement outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and the carrying value, and then recognises the loss within 'Share of profit or loss of investment accounted for under the equity method' in the consolidated income statement.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the Consolidated Income Statement.

(c) Foreign currency transactions and balances

The presentational currency of the Group and the Company is pound sterling. The functional currency of the Company is pound sterling, which is the currency of the primary environment in which the Group operates. The Euro is the functional currency of the Group subsidiaries with the exception of Poland and its subsidiaries that report in Polish Zloty. These are translated to pound sterling upon consolidation. The cumulative translation gains or losses arising from this are reported and presented as part of the Group's Other Comprehensive Income.

Transactions in foreign currencies are initially recorded in the functional currency at the spot rate of exchange ruling at the date of the transaction. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the Consolidated Income Statement for the period.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or Consolidated Income Statement are also recognised in Other Comprehensive Income or Consolidated Income Statement, respectively).

Goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

In order to hedge its exposure to foreign exchange risks, the Group mostly enters into cross currency swaps, the accounting policies of which are set out in note 2.3(n).

(d) Revenue from contracts with customers

In accordance with IFRS 15 Revenue from contracts with customers, the Group recognises revenues at the point in time or over the period in which its performance obligations to customers for services are satisfied.

When the Group concludes that it has control over the provided good or service before that good or service is transferred to the customer, the Group acts as principal, and revenues for satisfying the performance obligations are recognised on a gross basis (before deduction of directly attributable costs). Otherwise, revenues are recognised on a net basis.

Disclosed in the Group's income statement are Operating lease maintenance income, sale of operating leased assets and other operating income are the revenue streams which represent the categories of revenue recognised in accordance with IFRS 15.

Operating lease maintenance income

This income relates to maintenance services on assets leased to customers on operating leases. The Group satisfies performance obligations when maintenance and repairs are performed on vehicles and the transaction price represent to total amount of maintenance rental income receivable over the lease term.

The transaction price is allocated as the performance obligations are satisfied over the contractual term of the lease. The allocation is based on historical analysis as well as other available information to enable the Group to forecast maintenance cost profile over the lease term. The difference between the amounts charged to customers and amounts recognised as income is accounted for as deferred maintenance income. Cost profiles are reviewed periodically to ensure they remain a fair representation of historical repair and maintenance expenditures, adjusted for reasonable expectations of changes in cost profiles.

Deferred maintenance income represents contract liabilities for unsatisfied or partially satisfied performance obligations in relation to service, maintenance and repair services. Deferred revenue also materially represents the transaction price that is allocated to future performance obligations.

Sale of operating lease assets

This income relates to disposal of operating leased assets when they are returned by the lessee. The Group satisfies performance obligations when the assets are sold and the buyer has obtained control of the assets. The transaction price, recognised at a point in time when performance obligation is satisfied, represents the sale proceeds net of commission paid to the intermediaries. The revenue includes proceeds from the sale of vehicles, net of directly attributable costs of disposal and end of contract fees chargeable to customers. The revenue is presented as sale of operating leased assets within the Group's Consolidated Income Statement and the related net book value is presented as disposal of operating leased assets within cost of sales.

Other operating income

The Group earns fleet management, contract administration and early settlement fees in relation to operating lease, finance lease and instalment finance contracts. Fleet management and contract administration fees are recognised on a monthly basis as the performance obligation is satisfied over the contract term. Early settlement fees are recognised at a point in time when the customer has obtained control of the asset or agreed to settle their loan.

(e) Leases

A lease is a contract, or a part of a contract, that conveys the right to use an asset or a physically distinct part of an asset ("the underlying asset") for a period of time in exchange for consideration. Further, the contract must convey the right to the Group to control the asset or a physically distinct portion thereof. A contract is deemed to convey the right to control the underlying asset if, throughout the period of use, the Group has the right to:

- Obtain substantially all the economic benefits from the use of the underlying asset, and;
- Direct the use of the underlying asset (e.g. direct how and for what purpose the asset is used).

Where contracts contain a lease coupled with an agreement to purchase or sell other goods or services (i.e., non-lease components), the non-lease components are identified and accounted for separately from the lease component. The consideration in the contract is allocated to the lease and non-lease components on a relative standalone price basis using the principles in IFRS15.

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessor - operating leases

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Group as a lessor - finance leases

Leases where substantially all the risks and rewards incidental to ownership of an asset are transferred to the lessee are classified as finance leases or hire purchase contracts. The Group as a lessor records a finance lease or hire purchase receivable at the amount of its net investment which equals the present value of the future minimum lease payments receivable (including any guaranteed residual value by the lessee) and the unguaranteed residual value accruing to the Group, after any accumulated impairment losses. Unearned finance income is the difference between the gross investment in the lease and the net investment in the lease.

Over the lease term, the instalments charged to clients are apportioned between a reduction in the net investment in the lease and finance lease income. The finance lease income is calculated using the effective interest method to achieve a constant rate of return over the lease term.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities, included within trade and other payables (note 27) to make lease payments and right-of-use assets (note 13) representing the right to use the underlying assets.

Initial recognition and measurement

The Group initially recognises a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term.

The lease liability is measured at the present value of the lease payments to be made over the lease term, discounted using the Group's incremental borrowing rate. The lease payments include fixed payments, purchase options at exercise price (where payment is reasonably certain), expected amount of residual value guarantees, termination option penalties (where payment is considered reasonably certain) and variable lease payments that depend on an index or rate.

The right-of-use asset is initially measured at the amount of the lease liability, adjusted for lease prepayments, lease incentives received, the Group's initial direct costs (e.g. commissions) and an estimate of restoration, removal and dismantling costs.

Subsequent measurement

After the commencement date, the Group measures the lease liability by:
(a) Increasing the carrying amount to reflect interest on the lease liability;
(b) Reducing the carrying amount to reflect the lease payments made; and
(c) Re-measuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in substance fixed lease payments or on the occurrence of other specific events.

Interest on the lease liability in each period during the lease term is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. Interest charges are included within finance cost in the Consolidated Income Statement, unless the costs are included in the carrying amount of another asset applying other applicable standards.

Variable lease payments not included in the measurement of the lease liability, are included in operating expenses in the period in which the event or condition that triggers them arises.

The related right-of-use asset is accounted for using the "Cost model" in IAS 16 and depreciated and charged in accordance with the depreciation requirements of IAS 16 Property, Plant and Equipment as disclosed in 2.3(g) Property, plant and equipment & right of use assets. Adjustments are made to the carrying value of the right of use asset where the lease liability is re-measured in accordance with the above.

Right of use assets are presented within note 13 Other property, plant, equipment and right-of-use assets. They are tested for impairment in accordance with IAS 36 Impairment of assets as disclosed in 2.3(s) Impairment of non-financial assets.

Lease modifications

If a lease is modified, the modified contract is evaluated to determine whether it is or contains a lease. If a lease continues to exist, the lease modification will result in either a separate lease or a change in the accounting for the existing lease.

The modification is accounted for as a separate lease if both:
(a) The modification increases the scope of the lease by adding the right to use one or more underlying assets; and
(b) The consideration for the lease increases by an amount commensurate with the stand alone price for the increase in scope and any appropriate adjustments to that stand alone price to reflect the circumstances of the particular contract.

If both of these conditions are met, the lease modification results in two separate leases, the unmodified original lease and a separate lease. The Group then accounts for these in line with the accounting policy for new leases.

If either of the conditions are not met, the modified lease is not accounted for as a separate lease and the consideration is allocated to the contract and the lease liability is re-measured using the lease term of the modified lease and the discount rate as determined at the effective date of the modification.

For a modification that fully or partially decreases the scope of the lease (e.g., reduces the square footage of leased space), IFRS 16 requires a lessee to decrease the carrying amount of the right-of-use asset to reflect partial or full termination of the lease. Any difference between those adjustments is recognised in the Consolidated Income Statement at the effective date of the modification.

For all other lease modifications which are not accounted for as a separate lease, IFRS 16 requires the lessee to recognise the amount of the re-measurement of the lease liability as an adjustment to the corresponding right-of-use asset without affecting the Consolidated Income Statement.

Short term and low value leases

The Group has made an accounting policy election, by class of underlying asset, not to recognise lease assets and lease liabilities for leases with a lease term of 12 months or less (i.e., short-term leases).

The Group has made an accounting policy election on a lease-by-lease basis, not to recognise lease assets on leases for which the underlying asset cost is less than £5,000 (i.e. low value leases).

Lease payments on short term and low value leases are accounted for on a straight line basis over the term of the lease or other systematic basis if considered more appropriate. Short term and low value lease payments are included in "operating expenses" in the Consolidated Income Statement.

Sub leases

If an underlying asset is re-leased by the Group to a third party and the Group retains the primary obligation under the original lease, the transaction is deemed to be a sublease. The Group continues to account for the original lease (the head lease) as a lessee and accounts for the sublease as a lessor (intermediate lessor). When the head lease is a short term lease, the sublease is classified as an operating lease. Otherwise, the sublease is classified using the classification criteria applicable to "Lessor Accounting" in IFRS 16 by reference to the right-of-use asset in the head lease (and not the underlying asset of the head lease). After classification lessor accounting is applied to the sublease.

(f) Taxes

Current Income Tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the Consolidated Income Statement.

Deferred Tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available, against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside the Consolidated Income Statement are recognised in correlation to the underlying transaction either in Other Comprehensive Income or directly in Equity.

The Group has legally enforceable right to set-off and it intends to settle the deferred tax assets and liabilities within the same jurisdiction on the net basis, in accordance with IAS 12. As such, the deferred assets and liabilities within the same jurisdiction have been offset in the Group's statement of financial position.

(g) Property, plant, equipment and right of use assets

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes expenditure directly attributable to the acquisition of property and equipment. Subsequent cost is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Group and the cost can be measured reliably. Maintenance and repairs, which do not meet these criteria, are charged against income as incurred.

Right-of-use assets are presented together with property and equipment in the Statement of Financial Position - refer to the accounting policy in note 2.3(e) Leases.

Right-of-use assets are depreciated on a straight-line basis over the lease term.

Depreciation of owned assets is calculated on a straight line basis over the estimated useful lives of the assets as follows:

- Freehold buildings - 50 years.
- Leasehold improvements - remaining expected term of the lease.
- Fixtures, fittings and computer equipment - 4 years.
- Motor vehicles - 3 to 6 years.

Depreciation of operating leased assets is calculated over the useful life of the asset on a straight line basis. Lease term is expected to be the useful life of the asset.

Assets held for use in operating leases consist of specialist leasing assets under construction or purchase of new vehicles with an intention of leasing to customers in the near future. These are not depreciated until the assets are ready for use.

The assets' residual values, useful lives and methods of depreciation are reviewed by comparing their carrying value with their value in use, at least annually and adjusted prospectively, if appropriate. Where the Group has an interest in the residual value of certain operating leased assets, these values are reviewed on a regular basis and, where necessary, any reduction in value is recognised by the Group and charged or credited to the Consolidated Income Statement over the remaining lives of the operating leases of the assets concerned.

(h) Investment in subsidiaries

Investments in subsidiaries are initially and subsequently measured at cost. These are assessed for impairment in line with the accounting policy detailed in note 2.3(s).

The investments, recognised in the company financial statements, are eliminated on consolidation as the subsidiaries' assets and liabilities are consolidated into the Group.

(i) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Purchased software and costs directly associated with the development of computer software are capitalised as intangible assets where the software is a clearly identifiable asset controlled by the Group and will generate future economic benefits. The Group only recognises internally generated intangible assets if all of the following conditions are met:

- The technical feasibility study has been completed so that the intangible asset will be available for use or sale.
- The Group intends to complete the intangible asset and use or sell it.
- The Group has the ability to use or sell the intangible asset.
- The intangible asset will generate probable future economic benefits. Among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- Adequate technical, financial and other resources are available to complete the development and to use or sell the intangible asset.
- Ability to measure reliably the expenditure attributable to the intangible asset during its development.

Costs to establish technological feasibility or to maintain existing levels of performance are recognised as an expense. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period.

Software-as-a-service (SaaS), is an arrangement that provides the Group with the right to receive access to the supplier's application software in the future which is treated as a service contract, rather than a software lease or the acquisition of a software intangible asset.

An intangible asset is only recognised if:

- The Group has the contractual right to take possession of the software during the hosting period without significant penalty; and
- It is feasible for the Group to run the software on its own hardware or contract with a party unrelated to the supplier to host the software.

The costs of configuring or customising supplier application software in a SaaS arrangement that is determined to be a service contract is recognised as an expense or prepayment. Where the configuration and customisation services are not distinct from the right to receive access to the software, then the costs are recognised as an expense over the term of the arrangement.

Capitalised software includes purchased and internally generated intangible assets which are amortised on a straight line basis over the useful economic life (between 2 to 10 years). The useful economic lives are assessed for each asset based on the asset's expected future economic benefits as well as historical performance of similar assets.

Other intangible assets are acquired through business combinations and they are amortised on a straight line basis over the useful economic life (between 2 to 10 years). The useful economic lives are assessed for each asset based on the asset's expected future economic benefits as well as historical performance of similar assets.

The amortisation expense is recognised in the Consolidated Income Statement within "administrative expenses". For development costs that are under construction, no amortisation will be applied until the asset is available for use.

The Group reviews the amortisation period on an annual basis. If the expected useful life of assets is different from previous assessments, the amortisation period is changed accordingly.

At each reporting date, the Group reviews the carrying amount of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Irrespective of whether there is any indication of impairment, the Group also tests the recoverable amount of intangible assets not yet available for use at least annually.

Any difference between recoverable amount and carrying value of the intangible asset is recognised as an impairment loss in the Consolidated Income Statement within "administrative expenses".

(j) Classification and measurement of financial assets and liabilities

The Group's financial assets and financial liabilities comprise loans and advances to customers, other financial instruments at amortised cost, financial instruments at fair value through profit or loss, trade and other receivables, cash and cash equivalents, interest bearing borrowings, derivative financial instruments and trade and other payables.

The Group recognises financial assets and financial liabilities in the Statement of Financial Position on the settlement date which is when the Group becomes party to the contractual provisions of the financial instrument.

Financial assets are initially recognised at fair value. Financial liabilities are initially recognised at fair value, representing the proceeds received net of premiums, discounts and transaction costs that are directly attributable to the financial liability. Subsequent to initial measurement, financial assets and financial liabilities are measured at either amortised cost or fair value.

Financial assets
Financial assets are classified at inception into one of the following three categories, which then determine the subsequent measurement methodology:-
- Financial assets at amortised cost;
- Financial assets at fair value through other comprehensive income; or
- Financial assets at fair value through the profit or loss.

The classification and the basis for measurement are subject to the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as detailed below.

The business model reflects how the Group manages the assets in order to generate cash flows. One of the following business models is identified for each financial asset depending on how the risks are managed, past experience with the financial asset and how performance is measured and reported:
- Hold to collect: it is intended to collect the contractual cash flows from the assets (amortised cost).
- Hold to collect and sell: it is intended to collect both the contractual cash flows and cash flows arising from the sale of the asset (FVTOCI classification): or
- Hold to sell: it is intended to sell the financial asset in the short to medium term, or the asset is designated FVTPL to minimise an accounting mismatch (FVTPL classification).

Where the business model is 'hold to collect' or 'hold to collect and to sell' the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Financial assets at amortised cost
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:-
- The assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

In accordance with IFRS 9 Financial Instruments, instalment finance, finance lease, hire purchase, trade and other receivables that have fixed or determinable payments are measured at amortised cost and reported as loans and advances to customers.

These receivables are measured using the effective interest rate method less impairment. Interest income is recognised by applying the effective interest rate method.

The effective interest rate discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount of the financial asset.

Amounts included in the Statement of Financial Position under "loans and advances to customers" that represent amounts due from lessees under finance lease agreements are recognised in accordance with the Group's accounting policy on leases set out in note 2.3(e).

Financial assets at fair value through other comprehensive income
A financial asset is measured at FVTOCI only if it is a debt instrument and meets both of the following conditions and is not designated as at FVTPL:-
- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading nor contingent consideration is recognised by the acquirer in a business combination to which IFRS 3 applies, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

If an equity investment is designated as FVTOCI, all gains and losses, except for dividend income, are recognised in Other Comprehensive Income and are not subsequently included in the Consolidated Income Statement.

The Group's investment in Gridserve Holdings Ltd is designated at FVTOCI (note 4.2).

Financial assets at fair value through the profit or loss
Financial assets not otherwise classified above are classified and measured as FVTPL. If a financial asset meets the amortised cost or FVTOCI criteria, the

Group may choose to designate the financial asset at FVTPL. Such an election is irrevocable and applicable only if the FVTPL classification significantly reduces a measurement or recognition inconsistency.

The Group classifies the junior notes held in a special purpose entity under its SOCA securitisation programme as financial assets at FVTPL (note 33). Any gain or loss on the asset measured at FVTPL, which is not part of the hedging relationship, is recognised within "interest income" in the Consolidated Income Statement.

Accounting policies relating to derivative financial instruments measured at FVTPL can be found in note 2.3(n).

Financial liabilities
Financial liabilities are classified at inception into one of the following two categories, which then determine the subsequent measurement methodology:-

- Financial liabilities at amortised cost; or
- Financial liabilities at fair value through the profit or loss.

Financial liabilities at amortised cost
All financial liabilities, other than those classified as financial liabilities at FVTPL, are measured at amortised cost using the effective interest rate method.

The Group classifies the following financial liabilities at amortised cost.

Interest bearing borrowings
Borrowings are normally measured at amortised cost using the effective interest rate method, with interest expense measured on an effective yield basis. However, where the borrowings are in a fair value hedging relationship they are recorded at fair value, net of transaction costs.

The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate at which estimated future cash payments are discounted to the net carrying amount of the financial liability over the expected life (or a shorter period, where appropriate) of the financial liability. The corresponding interest expense is presented within "Finance cost" in the Consolidated Income Statement for the period.

Retailer liability
The retailer liability arises through contractual terms with certain retailers whereby a portion of the cash flows financed are deferred and held by the Group to cover possible future credit losses. These deferred amounts are therefore recorded as liabilities by the Group, as they remain the property of the retailer until either losses arise or each vintage of financing agreements matures. The vintage refers to a group of agreements incepted in a given period. As credit losses arise on finance agreements which are subject to these contractual terms, the associated amount of deferral is released to the extent necessary to cover credit losses on each finance agreement and is set off against the associated bad debt charge in accordance with the contractual terms established with the retailer. As a result, credit losses arising from agreements which are subject to these contractual terms have no effect on the Group's Consolidated Income Statement unless the amount of credit loss recorded is greater than the amount of deferred retailer cash held by the Group. In the event that the retailer liability is not consumed by losses before the end of the maturity of the last agreement in the vintage, the balance is returned to the retailer upon final maturity of each annual vintage of agreements. Retailer liability is recorded within trade and other payables on the statement of financial position.

Financial liabilities at fair value through the profit or loss
Financial liabilities not measured at amortised cost are classified and measured at FVTPL. This classification includes derivative liabilities.

The Group does not hold financial liabilities at FVTPL, except for the derivative financial instruments which are designated for hedge accounting under IFRS 9 as set out in 2.3(n).

(k) Derecognition of financial assets and financial liabilities

Financial assets
The Group derecognises a financial asset when;

- The contractual rights to the cash flows from the financial asset expire,
- It transfers the right to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred; or
- The Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of the consideration received is recognised as a gain or loss in the Consolidated Income Statement.

Any cumulative gain or loss recognised in OCI in respect of equity investment securities designated as FVTOCI is not recognised in profit or loss on derecognition of such securities.

The Group enters into transactions whereby it transfers assets recognised on its Statement of Financial Position but retains either all or substantially all of risks and rewards of the transferred assets. In such cases, the transferred assets are not derecognised.

When the Group derecognises transferred financial assets in their entirety but has continuing involvement in them then the Group discloses for each type of continuing involvement at the reporting date:

(a) The carrying amount of the assets and liabilities that are recognised in the Group's Statement of Financial Position and represent the Group's continuing involvement in the derecognised financial assets, and the line items in which those assets and liabilities are recognised.

(b) The fair value of the assets and liabilities that represent the Group's continuing involvement in the derecognised financial assets.

(c) The amount that best represents the Group's maximum exposure to loss from its continuing involvement in the derecognised financial assets, and how the maximum exposure to loss is determined.

(d) The undiscounted cash outflows that would or may be required to repurchase the derecognised financial assets or other amounts payable to the transferee for the transferred assets.

The Group recognises a separate asset or liability representing any residual interest in transferred financial assets. The Group did not have any transactions of continuing involvement during the year.

Financial liabilities
The Group derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

(l) Modification of financial assets and financial liabilities

Financial assets
If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to the cash flows from the original financial asset are deemed to expire. In this case the original financial asset is derecognised and a new financial asset is recognised at either amortised cost or fair value.

If the cash flows are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the Consolidated Income Statement.

Financial liabilities
If the terms of a financial liability are modified, the Group evaluates whether the cash flows of the modified liability are substantially different. If the cash flows are substantially different, then the contractual obligations from the cash flows from the original financial liability are deemed to expire. In this case the original financial liability is derecognised and a new financial liability is recognised at either amortised cost or fair value.

If the cash flows are not substantially different, then the modification does not result in derecognition of the financial liability. In this case, the Group recalculates the gross carrying amount of the financial liability and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the Consolidated Income Statement.

(m) Measurement of expected credit losses (impairment of financial assets)
The Group recognises loss allowances for expected credit losses on financial instruments that are not measured at FVTPL, namely:

- Loans and advances to customers;
- Trade and other receivables;
- Financial guarantee contracts issued; and
- Loan commitments issued.

Simplified approach
For "trade and lease receivables", the Group measures ECL based on the simplified approach which does not require staging to be applied and therefore expected lifetime losses are recognised from initial recognition of the receivables, including those that are past due. To measure the expected credit losses, receivables have been grouped based on shared credit risk characteristics and the days past due.

For performing receivables, the ECL provision is determined based on historical loss rates experienced within a specified period of time. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

For credit impaired receivables, the ECL provision is determined on an individual basis by reference to past default experience and other recoverability information relating to the specific loan or other receivable.

Management assesses each impairment on a case by case basis where evidence of impairment exists and calculations of incurred loss are performed by considering current facts and circumstances of the exposure. Recoverable amounts are assessed with reference to the expected future cash flows on the trade and lease receivables, including consideration of estimates of security value (internal or professional valuation) as well as capacity for payment and timing of recoveries.

General approach

For instalment finance receivables, the Group measures ECL based on the general approach which requires financial assets to be classified into stage 1, stage 2 or stage 3, based on the impairment methodology, described below:

Stage 1: ECL allowance based on 12-month loss where the receivables are up-to date and not credit impaired. A 12-month ECL is the portion of the ECL that results from default events on a financial instrument that are probable within 12 months from the reporting date.

Stage 2: ECL allowance based on lifetime loss where there has been a significant increase in credit risk ("SICR") since initial recognition or the receivables are 30 days past due or two missed payments, if shorter.

A lifetime ECL is the loss resulting from default events that are probable within the expected life of a financial instrument from the reporting date.

Stage 3: ECL allowance based on lifetime loss for credit-impaired financial assets.
Provisions for credit-impairment are recognised in the Consolidated Income Statement and are reflected in accumulated provision balances against each relevant financial instruments balance.

Evidence that the financial asset is credit-impaired include the following;

- Significant financial difficulties of the borrower or issuer;
- A breach of contract such as default or the receivables are greater than 90 days past due or missed three payments, if shorter;
- The restructuring of the loan or advance by the Group on terms that the Group would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for the security because of financial difficulties; or
- There is other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or economic conditions that correlate with defaults.

Agreements which are known to be credit-impaired, such as when a default event has happened or receivables are greater than 90 days in arrears or missed three payments, if shorter, are transferred to stage 3 and the ECL allowance is calculated on a lifetime basis.

All other agreements are held in stage 1 or 2 depending on the movement in credit risk of the counterparty since origination of the instrument. ECL allowances are calculated in line with the criteria set out above. Likelihood of customer default and losses incurred are estimated regularly and these estimates are modelled on historical experience, which factors in past behaviours together with current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables to determine loss rates. The portfolio is segmented by current payment status and incurred loss is calculated using the probabilities applied against payment data.

Amounts charged to the allowance account are written off against the carrying amount of the impaired financial asset when all avenues to recover the asset have been fully utilised and management deems further recovery remote.

The Group does not renegotiate the terms of financial assets as a matter of course. However, when the terms of financial assets that are past due or impaired are renegotiated (by exception only), the income statement is charged with the write down of the asset to its revised carrying value and credited with any previous provision made against the asset.

IFRS 9 requires management to make estimates and judgements that affect the allowance for expected credit losses. Estimates and judgements are based on historical experience and Management's knowledge. Measurement of ECL requires the use of complex models and significant assumptions around the expected future economic conditions and the credit behaviour of the customers (e.g. likelihood of customers defaulting and the resulting losses). The methodology and assumptions, including any forecasts of future economic conditions, are reviewed regularly by Management and included in the credit risk and impairment section of note 34.

(n) Hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets and liabilities.

Derivative financial instruments are contracts, the value of which is derived from one or more underlying financial instruments or indices, and include futures, forwards, swaps and options in the interest rate, foreign exchange, equity and credit markets.

Derivative financial instruments are initially recorded at fair value at the time the derivative contract is entered into. After initial recognition they are re-measured to their fair value at each reporting date. The resulting gains or losses are taken to the Consolidated Income Statement immediately unless the derivative is within a designated cash flow hedging relationship, in which event, the timing of the recognition in the Consolidated Income Statement depends on the nature of the underlying hedged item. Fair values are derived from prevailing market prices, discounted cash flow models or option pricing models as appropriate.

In the Statement of Financial Position, derivative financial instruments with positive fair values (unrealised gains) are included as assets and derivative financial instruments with negative fair values (unrealised losses) are included as liabilities.

The Group designates derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated.

The Group enters into a variety of derivative financial instruments to hedge its exposure to variation in interest and foreign exchange rates including cross currency swaps and interest rate swaps. The Group does not use derivative financial instruments for speculative purposes.

Wherever possible the Group designates derivatives as either hedges of the fair value of recognised assets or liabilities (fair value hedges) or hedges of foreign currency and/or interest rate risk of firm commitments and recognised liabilities (cash flow hedges). The Group may also from time to time employ hedges that do not satisfy the strict eligibility requirements for hedge accounting contained within IFRS 9 and are, as a result, 'non designated' for hedge accounting purposes but which nevertheless make an effective hedge against a particular financial risk in accordance with the principles of risk management.

The Group's hedging relationships are discussed below.

Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss, together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the Consolidated Income Statement and OCI as the hedged item).

If hedging derivatives expire or are sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central clearing counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered expired or terminated.

Any adjustment up to the point of discontinuation of a hedged item for which the effective interest method is used is amortised to Consolidated Income Statement as part of the recalculated effective interest rate of the item over its remaining life.

Cash flow hedges

The Group makes an assessment for a cash flow hedge of a forecast transaction of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect profit or loss, then the effective portion of changes in the fair value of the derivative is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the Consolidated Income Statement. The amount recognised in OCI is reclassified to the Consolidated Income Statement as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the Consolidated Income Statement and OCI.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central clearing counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered expired or terminated.

Hedges of a net investment in a foreign operation

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a foreign investment, the effective portion of changes in the fair value of the hedging instrument is recognised in OCI and presented as a separate reserve within equity.

Any ineffective portion of the changes in the fair value of the hedge instrument is recognised immediately in Consolidated Income Statement. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign investment.

IBOR (Interest Rate Benchmark Reform) amendments

As outlined in note 17, the Group has one hedge relationship to be transitioned to the alternative Risk Free Rate ("RFR"). All other hedge relationships have been transitioned to alternative RFR.

(o) Inventories

Inventories are valued at the lower of cost and net realisable value. Inventories represent assets that have come off a lease arrangement pending disposal. Cost represents the depreciated net book value of the assets at the end of the operating lease contracts. Net realisable value is the estimated selling price of the assets in the ordinary course of business, less cost of disposal.

(p) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

(q) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and on hand and short term deposits with a maturity of three months or less.

For the purposes of the consolidated statement of cash flows, the Group has included bank overdrafts within cash and cash equivalents as they are considered an integral part of the Group's cash management.

(r) Securitisation transactions

The Group enters into funding arrangements with lenders or investors to sell specific receivables into special purpose vehicles. For each SPV, the Group applies judgement to determine whether the SPVs meet the consolidation criteria outlined in basis of consolidation note 2.2. If the consolidation criteria is met, the Group consolidates the SPVs into its consolidated financial statement, otherwise it derecognises the underlying receivables in line with accounting policy note 2.3(k) and then separately recognises new assets and liabilities to the extent of its continuing involvement in the SPVs.

(s) Impairment of non-financial assets

Operating leased property, plant and equipment

Residual value exposure occurs due to the uncertain nature of the value of an asset at the end of an agreement. Throughout the life of an asset, its residual value will fluctuate because of the uncertainty of the future market for that asset as well as general economic conditions. Residual values are set at the commencement of the lease based upon Management's expectation of future sale proceeds. During the course of the lease, residual values are monitored so as to identify any impairment required. The monitoring takes account of the Group's past history for residual values and projections of the likely future market for each group of assets. Any impairment in the residual value of each group of assets is immediately charged to the income statement.

Other assets (including right of use assets)

Annually, the Group assesses whether there is any indication of impairment to the carrying value of a non-financial asset. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of value in use and fair value less costs of disposal and is determined for an individual asset or cash generating unit ("CGU"), unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The Group bases its impairment calculation on detailed budget calculations, which are prepared separately for each of the Group's CGU's. These budgets generally cover a period of four years; for longer periods, a long term growth rate is calculated and applied to project future cash flows after the fourth year. Impairment losses are recognised in the Income Statement.

(t) Pension benefits

The Group operates a defined benefit pension scheme and a defined contribution pension scheme. The pension cost relating to the defined benefit scheme is assessed in accordance with the advice of independent qualified actuaries using the projected unit credit method which attributes entitlements to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations).

Actuarial gains and losses are recognised, in full, in the statement of comprehensive income in the periods in which they arise. The Group's contributions to the defined contribution scheme are charged to the income statement in the period to which the contributions relate.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly, less actuarial losses not yet recognised. The value of any asset is the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

(u) Contingent liabilities recognised in a business combination

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of the amount that would be recognised in accordance with the requirements for provisions above or the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the requirements for revenue recognition.

(v) Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make lease payments when due in accordance with the terms of a lease agreement. The Group receives a fee for these services which is recognised over the contractual life of the agreement.

(w) Interest and similar income

In accordance with IFRS 9 financial instruments, interest income is recorded using the effective interest rate method for all financial instruments measured at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Group recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loans and receivables.

Interest and Finance lease income earned on instalment finance, finance leases, hire purchase and other loans and receivables is calculated by applying EIR to the gross carrying amount of financial assets other than credit impaired assets.

When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3' as per staging criteria set out in note 2.4 (m), interest and Finance lease income is calculated by applying the effective interest rate to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the calculation is reverted back to gross carrying amount of financial assets and any difference is taken as a credit to the impairment charge.

Interest income

Interest and other similar income and charges earned on instalment finance and other loan agreements are credited to the income statement over the life of the agreement using the effective interest rate method such that a constant rate of return is earned in proportion to the capital balances outstanding. Initial direct costs are recognised over the life of the agreement, on the same basis as revenues.

Finance lease income

Amounts due from lessees under finance lease or hire purchase agreements are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Operating lease rental income

Rental income from operating leases is recognised on a straight line basis over the contractual term of the lease.

(x) Integration costs

Integration costs related to the activities which resulted from the merger of Group's ultimate parent company with Mitsubishi UFJ Lease and Finance Company Ltd in September 2020. These costs do not relate to the Group's core operating activities and they are not expected to recur and therefore they are disclosed separately within the Consolidated Income Statement and the Notes to the Consolidated Financial Statements.

(y) Balances due to invoice financing clients

These are deferred assignment consideration owed to invoice finance clients where there is not a full right of recourse. Amounts payable are classified as current liabilities as the Group does not have an unconditional right, at the end of the reporting period, to defer settlement beyond 12 months after the reporting date.

2.4 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires Management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

As set out in our Risk review starting on page 41, there is a risk that the Group does not adequately take account of climate change risks in developing our business model and strategy climate change. Therefore, in preparing the financial statements, the Group has considered the impact of climate-related risks on its financial position and performance, including the impact on used vehicle prices (note 12). While the effects of climate change represent a source of uncertainty, the Group does not consider there to be a material impact on its judgements and estimates from the physical or transition climate change risks in the short to medium term. Accordingly, there is no significant risk of material adjustment to the carrying amount of assets and liabilities within the next financial year as a result of climate change.

Judgements

The Group has made following key judgements in the application of significant accounting policies.

(a) Measurement of expected credit losses

Significant increase in credit risk

The Group's stage 2 ECL provision is based on SICR criteria, set out in note 34. The SICR criteria requires judgement on whether there is evidence of significant increase in credit risk of customers since origination of the contracts. The assessment takes into account significant deterioration in customers' internal credit behaviour scores as well as significant increase in probability of default since origination.

(b) Securitisation entities

Determining whether the Group has control of a securitisation entity involves judgement around the Group's power over the relevant activities to significantly influence the securitisation entity's returns. The Group also considers the design, purpose of the entity and the extent to which it has transferred or retained variability in returns. Key judgements are set out in note 32 and 33 along with the basis of consolidation note 2.2.

Estimates

The Group has made the following estimates in the application of significant accounting policies that have a significant risk of material misstatement of the carrying amount of assets and liabilities within the next financial year.

(c) Measurement of expected credit losses

ECL provision is subject to estimation uncertainties regarding the amount and the timing of future cash flows as well as incorporation of forward-looking information macro-economic scenarios. The ECL provision also include post model adjustments in order to take account of specific groups of customers with heightened credit risk not factored into the modelled provision. Key estimation uncertainties in the measurement of ECL are outlined in measurement of expected credit losses section starting on page 171. The Groups consumer finance portfolio is sensitive to changes in macro-economic scenarios and therefore, outlined in note 34 (pages 172 to 173), is sensitivity analysis of the impact of applying 100% weighting to each scenario.

(d) Residual values for operating leased assets

Depreciation and impairment of operating leases assets is based on the expected residual values at the end of the contract. The nature of the assumptions, estimation uncertainties and methods used to determine residual values are set out in accounting policy 2.3(g).

The Group's operating leased assets together with key assumptions surrounding assessment of residual value is set out in note 12. This note also includes sensitivity analysis outlining the impact of change in used vehicle prices on the Group's income statement.

(e) Customer claims provision

The Group recognises a customer claims provision, where the Group is jointly and severally liable to customers who have claims against retailers or the

Group for misrepresentation, breach of contract or customer redress, in accordance with the accounting policy stated in 2.3(p). Key assumptions along with the sensitivity analysis surrounding the provision is included within note 23.

(f) Fair value measurement of equity instruments through other comprehensive income
The Group's investment in Gridserve Holdings Ltd (note 4.2) was initially measured at fair value through profit or loss. The initial valuation was based on the equity funding from Chariot (BidCo) Limited (also known as Infracapital) in August 2022. Subsequently, the Group has elected to recognised fair value changes through other comprehensive income. The Group does not consider that there is significant risk of material adjustments to the carrying amount of its investment in the next financial year.

2.5 New and amended standards and interpretations

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 April 2022. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IFRS 3 Reference to the Conceptual Framework
The Group has adopted the amendments to IFRS 3 Business Combinations for the first time in the current year. The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. This amendment did not have any impact on the consolidated financial statements for the Group.

Amendments to IAS 16 property, plant and equipment - proceeds before intended use
The Group has adopted the amendments to IAS 16 for the first time in the current year. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 Inventories.

The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

If not presented separately in the Statement of Comprehensive Income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

This amendment did not have any impact on the consolidated financial statements of the Group.

Amendments to IAS 37 Onerous contracts - cost of fulfilling a contract
The Group has adopted the amendments to IAS 37 for the first time in the current year. The amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). This amendment did not have any impact on the consolidated financial statements of the Group.

Annual improvements to IFRS accounting standards 2018-2020 Cycle
The Group has adopted the amendments included in the Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle for the first time in the current year. The Annual Improvements include amendments to four standards. This amendment did not have any impact on the consolidated financial statements of the Group.

IFRS 1 First-time adoption of international Financial Reporting Standards
The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary

that uses the exemption in IFRS 1:D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS Accounting Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in IFRS 1:D16(a).

IFRS 9 Financial instruments
The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

IFRS 16 Leases
The amendment removes the illustration of the reimbursement of leasehold improvements.

IAS 41 Agriculture
The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in IAS 41 with the requirements of IFRS 13 Fair Value Measurement to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pre-tax or post-tax cash flows and discount rates for the most appropriate fair value measurement.

Amendments to IFRS 17 Insurance contracts
In May 2017, the IASB issued IFRS 17 Insurance Contracts covering recognition and measurement, which once effective replaced IFRS 4 Insurance Contracts previously issued in 2005. In June 2020, the IASB published amendments to address challenges that were identified once the standard was published. The amendments defer the date of initial application of IFRS 17 to annual reporting periods beginning on or after 1 January 2023. In addition, an extension of the temporary exemption from applying IFRS 9 that extends the date of the temporary exemption from applying IFRS 9 in IFRS 4 to annual reporting periods beginning on or after 1 January 2023. IFRS 17 must be applied retrospectively unless impractical.

In December 2021, the IASB issued Initial Application of IFRS 17 and IFRS 9-Comparative Information (Amendment to IFRS 17) to address implementation challenges that were identified after IFRS 17 was published. The amendment addresses challenges in the presentation of comparative information. This amendment is not expected to have any impact on the consolidated financial statements for the Group.

Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associates or joint venture
The amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or joint venture that is accounted for using the equity method are recognised in the parent's profit or loss only to the extent of the unrelated investors' interest in that associate or joint venture. Gains or losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interest in the new associate or joint venture. The effective date of the amendments has not yet been set, however early application is permitted. This amendment is not expected to have any material impact on the consolidated financial statements of the Group.

Amendments to IAS 1 Classification of liabilities as current or non-current
The amendments to IAS 1, published in January 2020, affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.
The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted. The IASB is currently considering further amendments to the requirements in IAS 1 on classification of liabilities as current or non-current, including deferring the application of the January 2020 amendments. This amendment is not expected to have any impact on the consolidated financial statements for the Group.

Amendments to IAS 1 and IFRS Practice statement 2 disclosure of accounting policies
The requirements in IAS 1 have been amended with regard to disclosure of accounting policies. All instances of the term 'significant accounting policies' shall be replaced with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included

in an entity's financial statements, it can be reasonably expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. There are further amendments to the supporting paragraphs to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed.

Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. In addition, there is further guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted and are applied prospectively. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements. These amendments will be adopted by the Group from 1 April 2023 and they are not expected to have material impact on the Group's consolidated financial statements.

Amendments to IAS 8 Definition of accounting estimates

The definition of a change in accounting estimates has been replaced with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

The definition of a change in accounting estimates was deleted. However, the IASB retained the concept of changes in accounting estimates in the Standard with the following clarifications:

- A change in accounting estimate that results from new information or new developments is not the correction of an error; and
- The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.

The amendments are effective for annual periods beginning on or after 1 January 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted. These amendments will be adopted by the Group from 1 April 2023 and they are not expected to have material impact on the Group's consolidated financial statements.

Amendments to IAS 12 Deferred tax related to assets and liabilities arising from a single transaction

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying IFRS 16 at the commencement date of a lease.

Following the amendments to IAS 12, an entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12. The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period an entity recognises:

- A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with:
  - › Right-of-use assets and lease liabilities
  - › Decommissioning, restoration and similar liabilities and the corresponding amounts recognised as part of the cost of the related asset;
- The cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted. These amendments will be adopted by the Group from 1 April 2023 and they are not expected to have material impact on the Group's consolidated financial statements.

Amendments to IFRS 16 leases to add subsequent measurement requirements for lease liabilities arising from sale and leaseback transactions

The amendments add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in IFRS 15 Revenue from Contracts with Customers to be accounted for as a sale. The amendments require the seller-lessee to determine 'lease payments' or 'revised lease payments' such that the seller-lessee does not recognise a gain or loss that relates to the right of use retained by the seller-lessee, after the commencement date.

The amendments do not affect the gain or loss recognised by the seller-lessee relating to the partial or full termination of a lease. Without these new requirements, a seller-lessee may have recognised a gain on the right of use it retains solely because of a remeasurement of the lease liability (for example, following a lease modification or change in the lease term) applying the general requirements in IFRS 16. This could have been particularly the case in a leaseback that includes variable lease payments that do not depend on an index or rate.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2024, with early application permitted. These amendments will be adopted by the Group on 1 April 2024 and are not expected to have any impact on the Group's consolidated financial statements.

3. OPERATING SEGMENT INFORMATION

On 1 August 2022, the Group acquired MHC Mobility Europe B.V, a company incorporated in The Netherlands, from its parent company Mitsubishi HC Capital Inc. The company specialises in providing vehicle leasing and fleet management services in Europe operating predominately in the Netherlands, Germany, Poland and Hungary. The acquired company is represented as a single business segment comprising the consolidated financial performance across all of its operations in Europe. Further details of the acquisition are set out in note 4.

The Group offers finance solutions to a range of customers and its operations are split into seven business units and a corporate function. The segmentation is based on the nature of products and services being offered and it is aligned with the measures reported to decision makers for the purpose of allocating resources to the segments and assessing their performance. Segment performance is evaluated based on profit before tax.

The principal activities of each business unit are as follows:

Business segment	Principal activities
Novuna Consumer Finance (NCF)	Retail point of sale and personal finance
Novuna Vehicle Solutions (NVS)	Vehicle management solutions and fleet management services in the UK
Novuna Business Finance (NBF)	Provider of asset finance, block discounting and stock finance solutions
Novuna Business Cash Flow (NBCF)	Factoring, invoice discounting, and accounts payable financing
European Vendor Finance (EVF UK)	Vendor finance solutions for Mitsubishi companies in the UK
European Vendor Finance Europe (EVF EUR)	Vendor finance solutions for Mitsubishi companies in Europe
MHC Mobility	Vehicle leasing and fleet management services in Europe
Corporate	Head office including group treasury activities

No revenues earned from transactions with a single external customer amount to 10% or more of the Group's revenues in either the 2023 or 2022 reporting periods. Revenue from the Group's European operations is earned through EVF EUR and MHC Mobility and therefore, geographical analysis is not presented separately. Inter segment sales are charged at prevailing market rates.

The accounting policies of the reportable segments, except the newly acquired MHC Mobility, are the same as the Group's accounting policies described in note 2. Accounting policies for MHC Mobility follow local country GAAP requirements which are then aligned to IFRS for group reporting. Segment profit represents the profit earned by each segment including allocation of central administration costs and finance costs. This is the measure reported to the Group's Chief Executive for the purpose of resource allocation and assessment of segment performance.

Company

Year ended 31 March 2023	NCF £m	NVS £m	NBF £m	NBCF £m	EVF UK £m	Corporate £m	Company £m
Interest Income	171.8	-	24.0	21.8	1.7	-	219.3
Finance lease income	-	-	62.0	-	6.0	-	68.0
Operating lease rental income	-	412.7	7.4	-	0.1	(3.8)	416.4
Operating lease maintenance income	-	58.1	-	-	-	-	58.1
Sale of operating leased assets	-	225.5	4.9	-	0.2	-	230.6
Other operating income	17.0	10.3	13.6	(0.1)	0.9	0.1	41.8
Revenue	**188.8**	**706.6**	**111.9**	**21.7**	**8.9**	**(3.7)**	**1,034.2**
Finance costs	(67.5)	(31.9)	(36.4)	(3.6)	(2.9)	-	(142.3)
Depreciation & impairment of operating lease assets	-	(279.7)	(5.8)	-	-	-	(285.5)
Maintenance expense on operating leased assets	-	(56.9)	-	-	-	-	(56.9)
Disposal of operating leased assets	-	(197.8)	(1.7)	-	(0.2)	-	(199.7)
Other cost of sales	(19.5)	(9.5)	-	(1.8)	-	-	(30.8)
Cost of sales	**(87.0)**	**(575.8)**	**(43.9)**	**(5.4)**	**(3.1)**	**-**	**(715.2)**
Gross Profit	**101.8**	**130.8**	**68.0**	**16.3**	**5.8**	**(3.7)**	**319.0**
Impairment losses on credit exposures	(15.7)	(1.2)	(5.6)	(0.3)	0.2	-	(22.6)
Administrative expenses	(73.5)	(61.6)	(38.7)	(13.1)	(4.7)	1.3	(190.3)
Operating Profit	**12.6**	**68.0**	**23.7**	**2.9**	**1.3**	**(2.4)**	**106.1**
Fair value loss on derivative financial instruments	-	-	-	-	-	0.7	0.7
Parent integration costs	-	-	-	-	-	(2.4)	(2.4)
Share of loss of investments accounted for under the equity method	-	-	(1.6)	-	-	-	(1.6)
Gain on discontinuation of equity method	-	-	44.1	-	-	-	44.1
Profit before tax	**12.6**	**68.0**	**66.2**	**2.9**	**1.3**	**(4.1)**	**146.9**
Income tax	(2.4)	(12.9)	(15.3)	(0.6)	(0.2)	(6.5)	(37.9)
Profit/(loss) after tax	**10.2**	**55.1**	**50.9**	**2.3**	**1.1**	**(10.6)**	**109.0**
Total Assets	**3,148.4**	**1,871.7**	**1,825.7**	**305.3**	**161.1**	**520.8**	**7,833.0**
Total Liabilities	**2,589.4**	**1,676.9**	**1,633.2**	**297.0**	**138.8**	**435.1**	**6,770.4**
Net earning assets	**3,119.7**	**1,712.4**	**1,730.5**	**123.8**	**154.3**	**-**	**6,840.7**

Group

Year ended 31 March 2023	Company £m	EVF EUR £m	MHC Mobility £m	Corporate £m	Group £m
Interest Income	219.3	0.1	(0.1)	-	219.3
Finance lease income	68.0	4.4	-	-	72.4
Operating lease rental income	416.4	-	96.3	-	512.7
Operating lease maintenance income	58.1	-	36.5	-	94.6
Sale of operating leased assets	230.6	-	45.6	-	276.2
Other operating income	41.8	0.6	11.6	(0.7)	53.3
Revenue	**1,034.2**	**5.1**	**189.9**	**(0.7)**	**1,228.5**
Finance costs	(142.3)	(1.6)	(8.8)	-	(152.7)
Depreciation & impairment of operating lease assets	(285.5)	-	(62.7)	-	(348.2)
Maintenance expense on operating leased assets	(56.9)	-	(34.7)	-	(91.6)
Disposal of operating leased assets	(199.7)	-	(21.5)	-	(221.2)
Other cost of sales	(30.8)	-	(15.9)	-	(46.7)
Cost of sales	**(715.2)**	**(1.6)**	**(143.6)**	**-**	**(860.4)**
Gross Profit	**319.0**	**3.5**	**46.3**	**(0.7)**	**368.1**
Impairment losses on credit exposures	(22.6)	(0.3)	0.5	-	(22.4)
Administrative expenses	(190.3)	(2.4)	(33.7)	0.7	(225.7)
Operating Profit	**106.1**	**0.8**	**13.1**	**-**	**120.0**
Fair value loss on derivative financial instruments	0.7	-	-	-	0.7
Parent integration costs	(2.4)	-	-	-	(2.4)
Share of loss of investments accounted for under the equity method	(1.6)	-	-	-	(1.6)
Gain on discontinuation of equity method	44.1	-	-	-	44.1
Profit before tax	**146.9**	**0.8**	**13.1**	**-**	**160.8**
Income tax	(37.9)	(0.3)	(2.7)	-	(40.9)
Profit/(loss) after tax	**109.0**	**0.5**	**10.4**	**-**	**119.9**
Total Assets	**7,833.0**	**156.2**	**677.1**	**(193.5)**	**8,472.8**
Total Liabilities	**6,770.4**	**148.9**	**625.9**	**(154.1)**	**7,391.1**
Net earning assets	**6,840.7**	**154.2**	**591.2**	**-**	**7,586.1**

Company

Year ended 31 March 2022	**NCF £m**	**NVS £m**	**NBF £m**	**NBCF £m**	**EVF UK £m**	**Corporate £m**	**Company £m**
Interest Income	166.8	-	7.8	16.2	1.7	-	192.5
Finance lease income	-	-	65.4	-	7.1	-	72.5
Operating lease rental income	-	348.0	7.6	-	0.2	(2.7)	353.1
Operating lease maintenance income	-	42.3	-	-	-	-	42.3
Sale of operating leased assets	-	183.1	3.1	-	0.5	-	186.7
Other operating income	15.9	8.6	9.2	(0.2)	0.5	-	34.0
Revenue	**182.7**	**582.0**	**93.1**	**16.0**	**10.0**	**(2.7)**	**881.1**
Finance costs	(28.5)	(16.4)	(15.2)	(0.3)	(2.1)	-	(62.5)
Depreciation & impairment of operating lease assets	-	(260.2)	(6.3)	-	(0.1)	-	(266.6)
Maintenance expense on operating leased assets	-	(37.7)	-	-	-	-	(37.7)
Disposal of operating leased assets	-	(153.7)	(1.6)	-	(0.4)	-	(155.7)
Other cost of sales	(3.4)	(5.9)	(0.2)	(1.6)	-	-	(11.1)
Cost of sales	**(31.9)**	**(473.9)**	**(23.3)**	**(1.9)**	**(2.6)**	**-**	**(533.6)**
Gross Profit	**150.8**	**108.1**	**69.8**	**14.1**	**7.4**	**(2.7)**	**347.5**
Impairment losses on credit exposures	(22.2)	(1.1)	(4.0)	(0.5)	0.1	-	(27.7)
Administrative expenses	(70.0)	(52.8)	(32.3)	(11.9)	(4.9)	(2.6)	(174.5)
Operating Profit	**58.6**	**54.2**	**33.5**	**1.7**	**2.6**	**(5.3)**	**145.3**
Fair value loss on derivative financial instruments	-	-	-	-	-	0.5	0.5
Parent integration costs	-	-	-	-	-	(7.8)	(7.8)
Share of loss of investments accounted for under the equity method	-	-	(8.5)	-	-	-	(8.5)
Profit before tax	**58.6**	**54.2**	**25.0**	**1.7**	**2.6**	**(12.6)**	**129.5**
Income tax	(11.1)	(10.3)	(4.7)	(0.3)	(0.5)	(0.3)	(27.2)
Profit/(loss) after tax	**47.5**	**43.9**	**20.3**	**1.4**	**2.1**	**(12.9)**	**102.3**
Total Assets	**2,996.9**	**1,679.6**	**1,607.8**	**277.0**	**213.2**	**343.2**	**7,117.7**
Total Liabilities	**2,448.1**	**1,539.9**	**1,474.7**	**271.1**	**191.7**	**270.6**	**6,196.1**
Net earning assets	**2,969.9**	**1,500.8**	**1,581.8**	**122.5**	**185.5**	**-**	**6,360.5**

Group

Year ended 31 March 2022	Company £m	EVF EUR £m	Corporate £m	Group £m
Interest Income	192.5	-	-	192.5
Finance lease income	72.5	2.0	-	74.5
Operating lease rental income	353.1	0.3	-	353.4
Operating lease maintenance income	42.3	-	-	42.3
Sale of operating leased assets	186.7	-	-	186.7
Other operating income	34.0	0.5	-	34.5
Revenue	**881.1**	**2.8**	**-**	**883.9**
Finance costs	(62.5)	(0.3)	-	(62.8)
Depreciation & impairment of operating lease assets	(266.6)	(0.2)	-	(266.8)
Maintenance expense on operating leased assets	(37.7)	-	-	(37.7)
Disposal of operating leased assets	(155.7)	-	-	(155.7)
Other cost of sales	(11.1)	-	-	(11.1)
Cost of sales	**(533.6)**	**(0.5)**	**-**	**(534.1)**
Gross Profit	**347.5**	**2.3**	**-**	**349.8**
Impairment losses on credit exposures	(27.7)	(0.2)	-	(27.9)
Administrative expenses	(174.5)	(1.6)	-	(176.1)
Operating Profit	**145.3**	**0.5**	**-**	**145.8**
Fair value loss on derivative financial instruments	0.5	-	-	0.5
Parent integration costs	(7.8)	-	-	(7.8)
Share of loss of investments accounted for under the equity method	(8.5)	-	-	(8.5)
Profit before tax	**129.5**	**0.5**	**-**	**130.0**
Income tax	(27.2)	(0.1)	-	(27.3)
Profit/(loss) after tax	**102.3**	**0.4**	**-**	**102.7**
Total Assets	**7,117.7**	**111.5**	**(111.4)**	**7,117.8**
Total Liabilities	**6,196.1**	**105.1**	**(105.1)**	**6,196.1**
Net earning assets	**6,360.5**	**109.2**	**-**	**6,469.7**

The Group has elected to include net earning assets within segmental reporting above as it is the most significant measure being reported to the chief operating decision maker and used in the measurement of key ratios for each segment.

Total assets and liabilities for the Corporate segment include mainly goodwill and intangibles, cash and cash equivalents, bank overdrafts, derivative assets/liabilities, borrowings revaluations, trade receivables and trade payables.

Net earning assets represent the loans, receivables, finance and operating lease contracts with customers net of initial direct costs.

Below is the reconciliation of net earning assets to the total assets disclosed in the Group's Consolidated Statement of Financial Position.

	2023 £m	2022 £m
Total assets	**8,472.8**	**7,117.8**
Assets not included in NEA		
Intangible assets	(65.6)	(77.8)
Other property, plant and equipment	(28.6)	(17.5)
Derivative Financial Instruments	(139.4)	(66.2)
Deferred tax assets	(3.7)	(0.1)
Retirement benefit asset	(1.0)	(9.7)
Inventories	(32.9)	(19.6)
Current tax asset	(18.3)	(16.8)
Trade and other receivables	(187.6)	(112.2)
Cash and cash equivalents	(181.3)	(135.5)
Assets held for use in operating leases	-	(19.8)
Equity instruments at Fair Value through Other Comprehensive Income	(40.7)	-
Other assets	(8.4)	(9.9)
Liabilities included in NEA:		
Balances due to invoice financing clients	(145.5)	(129.5)
Rentals in advance	(33.7)	(33.5)
Net Earning Assets (NEA)	**7,586.1**	**6,469.7**

4. INVESTMENTS

4.1 Investment in Subsidiaries (Company)

The Group consists of a parent company, Mitsubishi HC Capital UK PLC, incorporated in the United Kingdom and a number of subsidiaries held directly and indirectly by the Group, which operate and are incorporated around the United Kingdom and mainland Europe.

On 1 August 2022, the Group acquired the following legal entities from its immediate parent company, Mitsubishi HC Capital Inc., in a share for share exchange. The companies specialise in providing vehicle leasing and fleet management services in Europe operating predominately in the Netherlands, Germany, Poland and Hungary. The acquisition was strategically aligned with the Group's ambition of being a trusted vehicle leasing and fleet management services provider across UK and Europe.

- MHC Mobility Holdings B.V. (99.07% shareholding), a company incorporated in the Netherlands. This entity owns 100% of MHC Mobility Netherlands which also operates a branch in Belgium.
- MHC Mobility GmbH (100% shareholding), a company incorporated in Germany. This entity also owns a 100% subsidiary in Austria.
- MHC Mobility sp. z.o.o. (100% shareholding), a company incorporated in Poland. This entity also owns a 100% of Eurofleet Zrt., a company incorporated in Hungary, as well as branches in Slovakia, Czech republic and Hungary.
- Mobility Mixx B.V. (100% shareholding), a company incorporated in the Netherlands.

The Group incorporated a new holding company, MHC Mobility Europe B.V., based in the Netherlands, and transferred the shares in the above legal entities to the newly incorporated company.

The acquisition qualifies as a business combination under common control which is outside the scope of IFRS 3 Business Combinations and therefore the Group has applied "pooling of interests" method of accounting. Under this method, the assets and liabilities of MHC Mobility Europe B.V. and its subsidiaries are recognised at their carrying amounts in Mitsubishi HC Capital Inc's consolidated financial statements. No adjustments are made to reflect the fair values of acquired assets and liabilities and no new goodwill is created upon acquisition. Under the "pooling of interests" method, the Group has elected not to restate prior period comparatives and account for the combination prospectively from the acquisition date.

Any difference between the consideration transferred and the acquired net assets is recognised through integration reserve (note 26).

Acquisition-related costs (included in administrative expenses) amount to £0.4m.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below.

	£m
Assets	
Fixed assets	7.7
Goodwill and intangible assets	7.9
Leased assets	453.8
Other assets	45.8
Cash	29.0
Total Assets	**544.2**
Liabilities	
Borrowings	(459.5)
Other liabilities	(45.9)
Total liabilities	(505.4)
Non-controlling interests	(0.2)
Net assets acquired	**38.6**
Consideration transferred	(33.5)
Integration reserve (note 26)	5.1

MHC Mobility contributed £189.9m revenue and £13.1m to the Group's profit before tax for the period between the date of acquisition and the reporting date (note 3).

If the acquisition of MHC Mobility had been completed on the first day of the financial year, Group revenues for the year would have been £1,322.1m and Group profit before tax would have been £165.8m.

On 20 December 2022, the Group acquired a further 0.46% share capital in MHC Mobility Holdings B.V. in exchange for a cash consideration of £230,120 from Veenstra Klazienaveen Holding B.V., a private company incorporated in the Netherlands. Following the acquisition, the Group held 99.53% shareholding in MHC Mobility Holdings B.V. with the remaining 0.47% shares held by Veenstra Klazienaveen Holding B.V. holding as non-controlling interests.

In May 2023, MHC Mobility Europe B.V sold its 100% shareholding in Mobility Mixx B.V. for £1.5m which resulted in a net loss on disposal of £0.9m to the Group.

Outlined below is a table of legal entities owned directly by the company:

	Hitachi Capital Vehicle Solutions Ltd £m	Mitsubishi HC Capital Europe B.V. £m	MHC Mobility B.V. £m	Total £m
At 31 March 2021	**1.7**	**6.0**	**-**	**7.7**
At 31 March 2022	**1.7**	**6.0**	**-**	**7.7**
Acquisition during the year	-	-	33.5	33.5
At 31 March 2023	**1.7**	**6.0**	**33.5**	**41.2**

Hitachi Capital Vehicle Solutions Ltd is a dormant entity.

The subsidiaries company, Mitsubishi HC Capital Europe B.V. (73824917) and MHC Mobility B.V. (86993577), have claimed exemption from audit in accordance with the provision of article 2:403 paragraph 1 under b of the Dutch Civil Code.

Mitsubishi HC Capital UK PLC gave a guarantee under section 479C of the Companies Act 2006 in respect of Mitsubishi HC Capital Europe B.V.

All subsidiaries are wholly owned and directly held by the Company. The registered addresses can be found within the Company Information section of this report. The Company controls Securitisation of Financial Assets II Ltd, a special purpose vehicle, which is also treated as a subsidiary for accounting purposes (note 32).

4.2 Equity investments

As at 31 March 2022, the Group held a 19.63% interest in Gridserve Holdings Ltd, a company incorporated in England and Wales specialising in provision of sustainable energy solutions. The Group concluded that it exerted significant influence over Gridserve Holdings Ltd through this investment and the provision of debt facilities through Novuna's Business Finance division. As such, the investment was accounted for using the equity method in the Group's consolidated financial statements.

This investment is fully aligned to the Group's wider vision of financially supporting projects that go towards delivering a net zero carbon economy. Gridserve Holdings Ltd's financial reporting period runs from 1 January to 31 December.

The following table outlines the movement in the Group's interest in Gridserve Holdings Ltd.

	Gridserve Holdings Ltd £m
At 31 March 2021	**10.1**
Share of loss in the year	(8.5)
At 31 March 2022	**1.6**
Share of loss in the year	(1.6)
At 31 March 2023	**-**

On 3 August 2022, Gridserve Holdings Ltd issued 10,174,008 preference shares to Chariot (BidCo) Limited ("Infracapital") at the initial subscription price of £20.8935 per share. Infracapital initially paid-up £84.5m to acquire 4,044,330 shares with a further £128.1m commitment under the shareholder agreement to acquire 6,129,678 shares within the commitment period of 30 months.

Following the transaction, the Group's share in Gridserve Holdings Ltd is diluted to 8.53% ordinary shares and therefore the Group is deemed to have lost significant influence over Gridserve Holdings Ltd. As such, the Group discontinued equity accounting for its share in Gridserve and recognised its remaining investment, initially, at fair value through profit or loss resulting in a £44.1m gain which has been recognised through the income statement.

The initial fair value of the Group's share was derived from an observable input with reference to the implied pricing arising from acquisition of preference shares by Infracapital in August 2022. The valuation also took into account some unobservable inputs to assess the respective rights of preference and ordinary shareholders.

The Group has elected to recognise subsequent measurement of fair value gains and losses through Other Comprehensive Income (note 26).

Outlined below is a summary of initial measurement of the investment through the Group's income statement.

	£m
Carrying amount of investment in Gridserve Holdings Ltd on 3 August 2022	-
Fair value of retained interest in Gridserve Holdings Ltd (8.53%)	44.1
Gain on discontinuation of equity method on 3 August 2022	**44.1**

5. INTEREST INCOME

	2023 £m	2022 £m
At amortised cost		
Loans and advances to customers at amortised cost	227.8	190.7
Financial instruments held at amortised cost	0.6	0.4
Total	**228.4**	**191.1**
At fair value through profit or loss (FVTPL)		
Financial instruments held at fair value through profit or loss	(9.1)	1.4
Total interest income	**219.3**	**192.5**

Financial instruments held at FVTPL above relate to SOCA securitisation programme (note 33). Following increase in Bank of England base rates during the year, we have seen significant increase in discount rates and future expected funding costs of the programme which has resulted in a net interest charge.

6. OTHER OPERATING INCOME

The analysis of the group's revenue for the year from continuing operations is as follows:

	2023 £m	2022 £m
Fleet management and other services	8.6	7.9
Administration fee income	19.9	12.9
(Loss)/gain on disposal of finance lease assets	(0.1)	0.6
Other income	24.9	13.1
Total revenue	**53.3**	**34.5**

Other operating income presented above has been disaggregated to provide income amounts for material categories of products and services provided by the Group, in accordance with the disclosure requirements of IFRS 15 'Revenues from contracts with customers'.

Other income predominately relates to early settlement income on instalment finance receivables and sundry fee income on operating lease contracts. The increase in income is mainly driven by acquisition of MHC Mobility (note 4.1).

During the year, the Group entered into a structured finance transaction involving high value assets financed by the Group sold under various forms to investment grade rated counterparties. The Group has no rights to the risk and rewards, or control, of the assets and associated liabilities of this transaction, resulting in full derecognition from the Group's Statement of Financial Position.

The Group received £0.2m up-front fees as a consideration for holding bare legal title to the assets. The fees are recognised to the income statement and reported within other income above.

7. FINANCE COSTS

	2023 £m	2022 £m
At amortised cost		
Finance costs on loans and borrowings	152.4	62.8
Finance costs on right of use land and buildings	0.3	-
Total finance costs	**152.7**	**62.8**

During the year, the Group's finance costs on loans and borrowings have increased due to a significant increase in interest rates, an increase in borrowings to fund asset growth and an acquisition of MHC Mobility (note 4.1).

In 2022, the net finance cost on right of use land and buildings was £nil as the underlying finance charge (£0.3m) was offset by a one-off benefit (£0.3m) from early termination of one of the property leases.

8. OTHER COST OF SALES

	Note	2023 £m	2022 £m
Commission expense		17.6	6.5
Customer claim charges and provisions	23	18.6	2.1
Insurance expense		8.4	-
Other expenses		2.1	2.5
Total other cost of sales		**46.7**	**11.1**

Customer claim charges and provisions include £16.2m provision in respect of certain finance products sold by the Company up until December 2020 (note 23).

Commission and insurance expenses have increased in the year mainly due to acquisition of MHC Mobility (note 4.1).

9. ADMINISTRATIVE EXPENSES AND AUDITOR'S REMUNERATION

	2023 £m	2022 £m
Wages and salaries	92.3	72.3
Social security costs	12.8	9.9
Pension and other post-employment benefit costs	5.8	5.0
Other employee expense	26.5	21.2
Premises and office	20.2	12.6
IT and telephony	45.0	32.4
Marketing	5.9	12.4
Professional services and other	13.4	9.1
Impairment of goodwill	1.8	-
Auditor's remuneration		
Fees paid for the audit of the Company	1.6	1.2
Fees paid for the audit of subsidiaries	0.4	-
Total auditor's remuneration	**2.0**	**1.2**
Total administrative expenses	**225.7**	**176.1**

The Group's total administrative expenses have increased in the year due to acquisition of MHC Mobility (note 4.1).

The fees paid for the audit of the Company include £52,662 relating to non-audit services provided by the auditors during the year.

Included in IT and telephony is the impact from the implementation of Software As a Service guidance (note 2.3(i)) whereby internal resource costs of £5.8m have been expensed to the income statement.

The number of full-time equivalent ("FTE") employees at 31 March 2023 was 2,248 (2022: 1,612), which included permanent and temporary staff as well as those on fixed term contracts. Of this, the Company had 1,800 (2022: 1,608).

The Group employed an average of 2,033 (2022: 1,589) FTE employees during the year. Of this, the Company had 1,728 (2022: 1,585). The increase in the number of employees in the Group was due to acquisition of MHC Mobility (note 4.1).

10. PARENT INTEGRATION COSTS

In September 2020, Hitachi Capital Corporation, the Group's ultimate parent at the time, announced that it would be merging with Mitsubishi UFJ Lease and Finance Company Ltd. The merger was completed as planned and a newly merged entity, Mitsubishi HC Capital Inc. was formed, effective from 1 April 2021.

The Group incurred directly attributable integration costs, outlined below, are one-off in nature and therefore, in accordance with IAS 1 Presentation of Financial Statements, the Group has elected to disclose them separately on the face of the income statement.

	2023 £m	2022 £m
Legal and professional services	1.8	1.4
Marketing	0.3	2.5
Information technology	0.3	3.9
Total parent integration costs	**2.4**	**7.8**

11. INCOME TAX

	2023 £m	2022 £m
Current income tax		
Charge for the year	15.5	22.4
UK corporation tax adjustment to prior periods	(2.0)	(7.7)
	13.5	**14.7**
Deferred taxation		
Origination and reversal of temporary differences in the current year	22.2	3.5
Adjustment in respect of prior years	5.2	9.1
Total	**27.4**	**12.6**
Tax charge on profit	**40.9**	**27.3**

The effective tax rate on profit before tax for the year was 25.5% (2022: 21.0%) compared to the standard rate of corporation tax of 19.0% (2022: 19.0%).

The differences are reconciled below:

Group	2023 £m	2022 £m
Profit before tax	**160.8**	**130.0**
Tax on profit at UK corporation tax rate of 19% (2022: 19%)	30.5	24.7
Increase in current and deferred tax from adjustment for prior periods	3.3	1.5
Increase from effect of expenses not deductible in determining taxable profit	7.2	1.1
Impact of rate change on net deferred tax liabilities	(0.1)	-
Tax charge	**40.9**	**27.3**

The UK rate of Corporation Tax is currently 19% and has been in place since 1 April 2017, with effect from 1 April 2023 a new substantially enacted rate of 25% comes into force. As a result, deferred tax carried forward as at 31 March 2022 has been recognised at the 25% tax rate and, for the financial year ended 31 March 2023 all temporary differences on which deferred tax has been provided have also been calculated at the 25% rate.

Amounts recognised in other comprehensive income:

	Gain or loss on cash flow hedges £m	Remeasurements of post employment benefit obligations £m	Gain or loss on Equity instruments at FVTOCI £m
2022			
Before tax	59.6	8.0	-
Tax expense	(11.4)	(2.0)	-
Net of tax	**48.2**	**6.0**	**-**
2023			
Before tax	70.2	(9.0)	(3.4)
Tax (expense) / benefit	(19.8)	2.3	0.9
Net of tax	**50.4**	**(6.7)**	**(2.6)**

Deferred tax

Deferred tax is calculated on all temporary differences under the liability method. There are no temporary differences in respect of which deferred tax has not been recognised.

The deferred assets and liabilities within the same jurisdiction have been offset in the Group's Statement of Financial Position in accordance with its accounting policy note 2.3(f).

Deferred tax movement:

	Accelerated tax depreciation £m	Pension benefit obligations £m	Revaluation of cash flow hedges £m	Other items £m	Total £m
Group					
As at 01 April 2021	11.9	0.1	4.2	2.0	18.2
Recognised in income	(12.4)	-	-	(0.2)	(12.6)
Recognised in other comprehensive income	-	(2.0)	(11.4)	-	(13.4)
As at 31 March 2022	**(0.5)**	**(1.9)**	**(7.2)**	**1.8**	**(7.8)**
Acquisition of subsidiary	(0.6)	-	-	0.2	(0.4)
Recognised in income	(19.7)	-	-	(7.6)	(27.3)
Recognised in other comprehensive income	-	1.7	(19.9)	1.0	(17.2)
As at 31 March 2023	**(20.8)**	**(0.2)**	**(27.1)**	**(4.6)**	**(52.7)**

	Accelerated tax depreciation £m	Pension benefit obligations £m	Revaluation of cash flow hedges £m	Other items £m	Total £m
Company					
As at 01 April 2021	11.8	0.1	4.2	2.1	18.2
Recognised in income	(12.5)	-	-	(0.2)	(12.7)
Recognised in other comprehensive income	-	(2.0)	(11.4)	-	(13.4)
As at 31 March 2022	**(0.7)**	**(1.9)**	**(7.2)**	**1.9**	**(7.9)**
Recognised in income	(15.8)	-	-	(10.8)	(26.6)
Recognised in other comprehensive income	-	1.7	(19.9)	1.0	(17.2)
As at 31 March 2023	**(16.5)**	**(0.2)**	**(27.1)**	**(7.9)**	**(51.7)**

12. PROPERTY, PLANT AND EQUIPMENT UNDER OPERATING LEASES

Group

The operating lease asset depreciation expense for the Group of £253.3m (2022: £222.5m) was included in cost of sales. A further impairment charge of £94.9m (2022: £44.3m) relating to operating leased assets was also included in cost of sales.

At 31 March 2023, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £378.9m (2022: £376.3m), being assets to be leased to customers under operating leases. Management has determined that the necessary funding will be available from existing facilities to cover these commitments.

The Group tests annually for any impairment on operating leased asset residual values. As part of the assessment, the group considers both internal and external factors to determine the recoverable amount, as measured by the value in use, of each asset or a cash generating unit. The value in use is the present value of future cash flows expected to be derived from an individual asset or a group of assets at a customer level. The key assumptions used in determining the value in use are the discount rate and estimated residual values less costs of disposal at the end of the lease term. If the carrying amount of an asset or a cash generating unit is greater than the value in use, an impairment loss is recognised to the within cost of sales in the income statement. If there has been a change in estimates used in determining the recoverable amount, any impairment loss is reversed only to the extent of the asset's carrying amount before any impairment loss was recognised.

Following the acquisition of MHC Mobility, the Group's impairment of operating leased assets comprises the UK, the Netherlands, Germany, Poland and Hungary. Outlined below are the Group's pre-tax discount rate, as calculated by the Weighted Average Cost of Capital, for each country.

	2023	2022
The United Kingdom	6.77%	4.32%
The Netherlands	5.66%	-
Germany	5.64%	-
Poland	8.02%	-
Hungary	13.82%	-

Estimated future residual values and discount rate remain the Group's key sources of estimation uncertainty in respect of property, plant and equipment under operating leases. Outlined below is the Group's sensitivity analysis of these key variables in reasonable scenarios, based on historical performance, in order to assess their impact on the Group's impairment provision.

Increase in residual values and decrease in discount rate	Impairment charge/(release) £m
2.5% increase in residual values	(12.8)
1% decrease in discount rate	(18.1)

Decrease in residual values and increase in discount rate	Impairment charge/(release) £m
2.5% decrease in residual values	14.5
1% increase in discount rate	19.5

In 2022, the Group performed sensitivity analysis of a 1% decline in used vehicle prices which would have resulted in an additional £4.0m impairment loss.

The group benefits from a well-diversified range of vehicles and sales channels so the impact of changes in used vehicle prices or discount rate would not have a linear relationship with the amount of impairment.

Operating leased assets, outlined in the table below, represent vehicles leased to customers on operating lease contracts and assets held for use in operating leases.

	Operating leased assets £m	Assets held for use in operating leases £m	Total £m
Cost			
At 1 April 2021	**1,817.0**	**19.2**	**1,836.2**
Additions	650.9	1.4	652.3
Disposals	(285.9)	-	(285.9)
Transfers	0.8	(0.8)	-
At 31 March 2022	**2,182.6**	**19.8**	**2,202.4**
Additions	846.2	14.4	860.6
Disposals	(417.7)	-	(417.7)
Transfers	0.8	-	0.8
Foreign exchange movements	34.4	-	34.4
Acquisition of subsidiary	650.3	0.2	650.5
At 31 March 2023	**3,296.6**	**34.4**	**3,331.0**
Accumulated depreciation and impairment			
At 1 April 2021	**525.2**	-	**525.2**
Charge for year	222.5	-	222.5
Disposals	(163.4)	-	(163.4)
Impairment charge	44.3	-	44.3
At 31 March 2022	**628.6**	**-**	**628.6**
Charge for the year	253.3	-	253.3
Disposals	(196.5)	-	(196.5)
Impairment charge	94.9	-	94.9
Transfers	0.7	-	0.7
Foreign exchange movements	10.3	-	10.3
Acquisition of subsidiary	196.5	-	196.5
At 31 March 2023	**987.8**	-	**987.8**
Carrying amount			
At 31 March 2022	**1,554.2**	**19.8**	**1,574.0**
At 31 March 2023	**2,308.8**	**34.4**	**2,343.2**

Company

	Operating leased assets £m	Assets held for use in operating leases £m	Total £m
Cost			
At 1 April 2021	**1,815.7**	**19.2**	**1,834.9**
Additions	649.0	1.4	650.4
Disposals	(285.9)	-	(285.9)
Transfers	0.8	(0.8)	-
At 31 March 2022	**2,179.6**	**19.8**	**2,199.4**
Additions	640.9	14.4	655.3
Disposals	(328.2)	-	(328.2)
Transfers	0.6	-	0.6
At 31 March 2023	**2,492.9**	**34.2**	**2,527.1**
Accumulated depreciation and impairment			
At 1 April 2021	**525.0**	-	**525.0**
Charge for year	222.3	-	222.3
Disposals	(163.4)	-	(163.4)
Impairment charge	44.3	-	44.3
At 31 March 2022	**628.2**	**-**	**628.2**
Charge for the year	196.0	-	196.0
Disposals	(149.4)	-	(149.4)
Impairment charge	89.6	-	89.6
Transfers	0.6	-	0.6
At 31 March 2023	**765.0**	-	**765.0**
Carrying amount			
At 31 March 2022	**1,551.4**	**19.8**	**1,571.2**
At 31 March 2023	**1,727.9**	**34.2**	**1,762.1**

13. OTHER PROPERTY, PLANT, EQUIPMENT & RIGHT OF USE ASSETS

Group

	Land and buildings £m	Furniture, fittings and equipment £m	Right of use assets - Property leases £m	Total £m
Cost				
At 1 April 2021	**5.9**	**20.6**	**17.9**	**44.4**
Additions	-	0.4	2.7	3.1
Disposals	-	(0.5)	(0.4)	(0.9)
Transfers	-	(1.4)	-	(1.4)
At 31 March 2022	**5.9**	**19.1**	**20.2**	**45.2**
Additions	-	6.3	1.9	8.2
Disposals	-	(2.2)	(3.2)	(5.4)
Transfers	-	(0.4)	-	(0.4)
Acquisition of subsidiary	0.1	9.0	19.0	28.1
Foreign exchange movements	-	0.5	1.0	1.5
At 31 March 2023	**6.0**	**32.3**	**38.9**	**77.2**
Accumulated depreciation and impairment				
At 1 April 2021	**0.5**	**16.6**	**8.2**	**25.3**
Charge for year	0.1	0.9	1.6	2.6
Eliminated on disposal	-	(0.7)	0.5	(0.2)
At 31 March 2022	**0.6**	**16.8**	**10.3**	**27.7**
Charge for the year	0.1	1.8	3.0	4.9
Eliminated on disposal	-	(2.3)	(3.0)	(5.3)
Transfers	-	(0.1)	-	(0.1)
Foreign exchange movements	-	0.3	0.8	1.1
Acquisition of subsidiary	-	5.0	15.3	20.3
At 31 March 2023	**0.7**	**21.5**	**26.4**	**48.6**
Carrying amount				
At 31 March 2022	**5.3**	**2.3**	**9.9**	**17.5**
At 31 March 2023	**5.3**	**10.8**	**12.5**	**28.6**

Company

	Land and buildings £m	Furniture, fittings and equipment £m	Right of use assets - Property leases £m	Total £m
Cost				
At 1 April 2021	**5.9**	**20.6**	**17.9**	**44.4**
Additions	-	0.4	2.7	3.1
Disposals	-	(0.5)	(0.4)	(0.9)
Transfers	-	(1.4)	-	(1.4)
At 31 March 2022	**5.9**	**19.1**	**20.2**	**45.2**
Additions	-	3.0	-	3.0
Disposals	-	(1.6)	(2.5)	(4.1)
At 31 March 2023	**5.9**	**20.5**	**17.7**	**44.1**
Accumulated depreciation and impairment				
At 1 April 2021	**0.5**	**16.6**	**8.2**	**25.3**
Charge for year	0.1	0.9	1.6	2.6
Eliminated on disposal	-	(0.7)	0.5	(0.2)
At 31 March 2022	**0.6**	**16.8**	**10.3**	**27.7**
Charge for the year	0.1	1.0	1.5	2.6
Eliminated on disposal	-	(1.8)	(2.4)	(4.2)
At 31 March 2023	**0.7**	**16.0**	**9.4**	**26.1**
Carrying amount				
At 31 March 2022	**5.3**	**2.3**	**9.9**	**17.5**
At 31 March 2023	**5.2**	**4.5**	**8.3**	**18.0**

Depreciation expense relating to the Group's other property, plant and equipment (including right of use assets) of £4.9m (2022: £2.6m) was included in administrative expenses.

The title to the other property and equipment is not restricted and these assets are not pledged as security for liabilities.

In 2021/22, assets were transferred from furniture, fittings and equipment to capitalised software (note 14).

Right of use assets represent Group's leasehold office buildings. The related lease obligations are included within trade and other payables (note 27). For maturity analysis of undiscounted contractual cash flow of lease liabilities refer to liquidity risk funding and management in note 34.

14. INTANGIBLE ASSETS

Group

	Capitalised software £m	Other intangible assets £m	Goodwill £m	Total £m
Cost or valuation				
At 1 April 2021	**73.3**	**1.0**	**17.7**	**92.0**
Additions	18.4	-	-	18.4
Disposals	(1.1)	-	-	(1.1)
Transfers	1.4	-	-	1.4
At 31 March 2022	**92.0**	**1.0**	**17.7**	**110.7**
Additions	5.1	-	-	5.1
Disposals	(14.7)	-	-	(14.7)
Transfers	0.2	-	-	0.2
Acquisition of subsidiary	3.6	2.3	4.3	10.2
Foreign exchange movements	0.2	0.1	0.4	0.7
At 31 March 2023	**86.4**	**3.4**	**22.4**	**112.2**
Amortisation				
At 1 April 2021	**17.8**	**0.3**	**3.0**	**21.1**
Charge for year	12.3	0.1	-	12.4
Eliminated on disposal	(0.6)	-	-	(0.6)
At 31 March 2022	**29.5**	**0.4**	**3.0**	**32.9**
Charge for year	10.9	1.4	-	12.3
Eliminated on disposal	(3.4)	-	-	(3.4)
Impairment	-	-	1.7	1.7
Foreign exchange movements	(0.1)	-	-	(0.1)
Transfers	0.2	-	-	0.2
Acquisition of subsidiary	3.0	-	-	3.0
At 31 March 2023	**40.1**	**1.8**	**4.7**	**46.6**
Carrying amount				
At 31 March 2022	**62.5**	**0.6**	**14.7**	**77.8**
At 31 March 2023	**46.3**	**1.6**	**17.7**	**65.6**

Company

	Capitalised software £m	Other intangible assets £m	Goodwill £m	Total £m
Cost or valuation				
At 1 April 2021	**73.3**	**1.0**	**17.7**	**92.0**
Additions	18.4	-	-	18.4
Disposals	(1.1)	-	-	(1.1)
Transfers	1.4	-	-	1.4
At 31 March 2022	**92.0**	**1.0**	**17.7**	**110.7**
Additions	5.1	-	-	5.1
Disposals	(14.7)	-	-	(14.7)
At 31 March 2023	**82.4**	**1.0**	**17.7**	**101.1**
Amortisation				
At 1 April 2021	**17.8**	**0.3**	**3.0**	**21.1**
Charge for year	12.3	0.1	-	12.4
Eliminated on disposal	(0.6)	-	-	(0.6)
At 31 March 2022	**29.5**	**0.4**	**3.0**	**32.9**
Charge for year	10.7	0.1	-	10.8
Eliminated on disposal	(3.4)	-	-	(3.4)
At 31 March 2023	**36.8**	**0.5**	**3.0**	**40.3**
Carrying amount				
At 31 March 2022	**62.5**	**0.6**	**14.7**	**77.8**
At 31 March 2023	**45.6**	**0.5**	**14.7**	**60.8**

Capitalised software includes £5.4m (2022: £7.0m) relating to capitalisation of development expenditure for assets which are not yet ready for use. The remainder relates to development expenditure for assets which have been deployed into production and therefore are being amortised in line with the Group accounting policy 2.3 (i). The remaining amortisation period for assets which have been deployed into production is an average of 2.5 years (2022: 2.5 years).

Included in disposal of capitalised software is the impact from the implementation of Software As a Service guidance (note 2.3(i)) whereby internal resource costs (£5.8m) have been expensed to the income statement (note 9) and implementation costs (£6.3m) which are not distinct from the access to SaaS application have been prepaid over the term of the arrangement (note 21).

The amortisation charge relating to capitalised software and other intangibles is included in the administrative expense line of the income statement. The title to intangible assets is not restricted and these assets are not pledged as security for liabilities.

At 31 March 2023, neither the Group nor the Company had any contractual commitments for the acquisition of intangible assets (2022: None).

Goodwill acquired through business combinations has been allocated to individual cash-generating units, which are also reportable business segments, for impairment testing. The recoverable amount for each cash generating unit has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a four year period. The pre-tax discount rates, represented by cost of equity, were applied to cash flow projections for each business segment to goodwill was allocated. Cash flows beyond the four year period were extrapolated using a range of growth rates between 2% and 10% (2022: 2% and 10%) depending on the nature of the business segments. Outlined below are carrying amount of goodwill and the pre-tax discount rates used for goodwill impairment assessment.

Carrying amount of goodwill	**2023 £m**	**2022 £m**
Novuna Business Cash Flow	4.9	4.9
Novuna Vehicle Solutions - SME channel	4.1	4.1
Novuna Vehicle Solutions - Specialist channel	1.7	1.7
Novuna Business Finance	4.0	4.0
Eurofleet Zrt.	3.0	-
Total	**17.7**	**14.7**

Goodwill in Eurofleet Zrt, a company incorporated in Hungary, was acquired as part of acquisition of MHC Mobility sp. z.o.o. (note 4.1). All other business segments are based in the United Kingdom.

Pre-tax discount rates used in Goodwill assessments are 13.98% (2022: 11.0%) for UK business segments and 20.69% for Eurofleet Zrt.

The key assumptions used in the calculation of value in use were budget assumptions to which an estimate of growth rate was used to extrapolate cash flows beyond the budget period and a discount rate was then applied. The budgets for each cash generating unit are representative of operational and financial aspects that relate to that unit and include past experience, default rates, impairment implications and market conditions prevailing at the time. As a result, management have used their current asset base and new sales opportunities to derive the revenue and profitability expectations for the operating unit. These budgets are approved by senior management and the parent company. The growth rate used to extrapolate cash flows beyond the budget period has been based on the long term growth rate of the economy. An internal rate of return method was used in the calculation of value in use, which resulted in returns in excess of the parent company's minimum expectations.

Sensitivity analysis was performed to evaluate the impact of changes in cash flows, growth rates and discount rate on the amount of goodwill. In addition, management carried out a goodwill assessment against reasonably possible scenarios impacting future cashflows and discount rates of each business segment and concluded that these changes, either individually or in combination, would not result in impairment of goodwill.

15. IMPAIRMENT LOSSES ON CREDIT EXPOSURES

Movements in provision for expected credit losses

	2023 £m	2022 £m
Group		
At 1 April	56.3	55.8
Amounts written off	(28.2)	(33.6)
Recoveries	11.9	5.9
Charge to the income statement	22.4	27.9
Acquisition of subsidiary	2.8	-
Other adjustments	0.8	0.3
Total as at 31 March	**66.0**	**56.3**

The Group's total expected credit loss provision consists of loans and advances to customers of £62.2m (2022: £53.5m) and trade receivables £3.8m (2022: £2.8m). Further details can be found in note 34 and note 21, respectively.

	2023 £m	2022 £m
Company		
At 1 April	55.6	55.6
Amounts written off	(27.9)	(33.6)
Recoveries	11.8	5.9
Charge to the income statement	22.6	27.7
Other adjustments	0.3	-
Total at 31 March	**62.4**	**55.6**

16. LOANS AND ADVANCEMENTS TO CUSTOMERS

Loans and advances to customers, net of impairment, together with weighted average effective interest rates, are analysed further below.

	2023 £m	%	2022 £m	%
Group				
Finance lease receivables	201.0	6.4	174.4	6.0
Hire Purchase agreements	1,130.2	6.1	1,126.4	5.7
Instalment finance agreements	3,492.8	6.9	3,262.4	5.7
Other loans and advances	531.8	-	437.0	-
Total	**5,355.8**	**6.8**	**5,000.2**	**5.2**

	2023 £m	%	2022 £m	%
Company				
Finance lease receivables	146.7	7.4	153.3	6.0
Hire Purchase agreements	1,065.6	6.1	1,080.2	5.7
Instalment finance agreements	3,489.6	6.9	3,261.3	5.7
Other loans and advances	485.8	-	399.1	-
Total	**5,187.7**	**6.6**	**4,893.9**	**5.2**

The Group enters into finance lease and hire purchase arrangements with customers in a wide range of sectors including plant and machinery, cars and commercial vehicles. There are no unguaranteed residual values in relation to the finance leases at 31 March 2023 (31 March 2022: no unguaranteed residual values).

The Group's securitisation programmes through SOFA II & Fleetbank Funding Ltd (note 32) result in receivables being encumbered as collateral against the related borrowings. As at 31 March 2023, the net carrying amount of encumbered receivables included in loans and advances to customers was £777.9m (2022: £794.5m).

The amortised present values of the loans and receivables, analysed by residual maturity:

Group	< 1 yr £m	1-3 yrs £m	3-5 yrs £m	>5 yrs £m	Total £m
Finance lease receivables at 31 March 2023					
Finance leases - gross	78.1	102.2	40.8	6.5	**227.6**
Deferred revenue	(8.9)	(10.3)	(2.6)	(0.3)	**(22.1)**
Impairment	(2.0)	(2.0)	(0.5)	-	**(4.5)**
Total	**67.2**	**89.9**	**37.7**	**6.2**	**201.0**
Finance lease receivables at 31 March 2022					
Finance leases - gross	66.9	93.1	30.2	4.0	**194.2**
Deferred revenue	(7.1)	(8.3)	(1.6)	(0.1)	**(17.1)**
Impairment	(1.0)	(1.3)	(0.4)	-	**(2.7)**
Total	**58.8**	**83.5**	**28.2**	**3.9**	**174.4**
Hire Purchase agreements at 31 March 2023					
Hire purchase agreements - gross	450.1	601.7	199.6	14.6	**1,266.0**
Deferred revenue	(51.0)	(63.2)	(12.6)	(0.8)	**(127.6)**
Impairment	(2.9)	(3.9)	(1.3)	(0.1)	**(8.2)**
Total	**396.2**	**534.6**	**185.7**	**13.7**	**1,130.2**
Hire Purchase agreements at 31 March 2022					
Hire purchase agreements - gross	481.0	558.3	188.7	9.3	**1,237.3**
Deferred revenue	(43.8)	(50.4)	(9.1)	(0.4)	**(103.7)**
Impairment	(2.7)	(3.3)	(1.1)	(0.1)	**(7.2)**
Total	**434.5**	**504.6**	**178.5**	**8.8**	**1,126.4**
Instalment Finance at 31 March 2023					
Instalment finance - gross	1,513.0	1,666.9	626.0	372.9	**4,178.8**
Deferred revenue	(229.7)	(246.2)	(96.0)	(66.7)	**(638.6)**
Impairment	(17.0)	(19.0)	(7.2)	(4.2)	**(47.4)**
Total	**1,266.3**	**1,401.7**	**522.8**	**302.0**	**3,492.8**

Group (continued)	**< 1 yr £m**	**1-3 yrs £m**	**3-5 yrs £m**	**> 5 yrs £m**	**Total £m**
Instalment Finance at 31 March 2022					
Instalment finance - gross	1,389.0	1,578.4	557.6	303.8	**3,828.8**
Deferred revenue	(192.0)	(198.8)	(75.6)	(58.4)	**(524.8)**
Impairment	(15.3)	(17.0)	(6.0)	(3.3)	**(41.6)**
Total	**1,181.7**	**1,362.6**	**476.0**	**242.1**	**3,262.4**
Other Loans and Advances at 31 March 2023					
Other loans - gross	532.4	1.2	-	-	**533.6**
Deferred revenue	0.2	-	-	-	**0.2**
Impairment	(2.0)	-	-	-	**(2.0)**
Total	**530.6**	**1.2**	**-**	**-**	**531.8**
Other Loans and Advances at 31 March 2022					
Other loans - gross	438.5	-	-	-	**438.5**
Deferred revenue	0.4	-	-	-	**0.4**
Impairment	(1.9)	-	-	-	**(1.9)**
Total	**437.0**	**-**	**-**	**-**	**437.0**
Total loans and receivables, net of impairment - as at 31 March 2023	**2,260.3**	**2,027.4**	**746.2**	**321.9**	**5,355.8**
Total loans and receivables, net of impairment - as at 31 March 2022	**2,112.0**	**1,950.7**	**682.7**	**254.8**	**5,000.2**

Company	**< 1 yr £m**	**1-3 yrs £m**	**3-5 yrs £m**	**> 5 yrs £m**	**Total £m**
Finance lease receivables at 31 March 2023					
Finance leases - gross	61.7	76.8	25.9	2.4	**166.8**
Deferred revenue	(7.0)	(8.1)	(1.7)	(0.1)	**(16.9)**
Impairment	(1.2)	(1.5)	(0.5)	-	**(3.2)**
Total	**53.5**	**67.2**	**23.7**	**2.3**	**146.7**
Finance lease receivables at 31 March 2022					
Finance leases - gross	61.8	82.1	24.7	2.5	**171.1**
Deferred revenue	(6.4)	(7.2)	(1.4)	(0.1)	**(15.1)**
Impairment	(1.0)	(1.3)	(0.4)	-	**(2.7)**
Total	**54.4**	**73.6**	**22.9**	**2.4**	**153.3**
Hire Purchase agreements at 31 March 2023					
Hire purchase agreements - gross	428.1	570.9	185.2	9.7	**1,193.9**
Deferred revenue	(48.6)	(60.2)	(11.6)	(0.6)	**(121.0)**
Impairment	(2.6)	(3.5)	(1.1)	(0.1)	**(7.3)**
Total	**376.9**	**507.2**	**172.5**	**9.0**	**1,065.6**

Company (continued)	< 1 yr £m	1-3 yrs £m	3-5 yrs £m	> 5 yrs £m	Total £m
Hire Purchase agreements at 31 March 2022					
Hire purchase agreements - gross	463.9	535.4	181.2	7.0	**1,187.5**
Deferred revenue	(42.5)	(49.1)	(8.8)	(0.4)	**(100.8)**
Impairment	(2.5)	(3.0)	(1.0)	-	**(6.5)**
Total	**418.9**	**483.3**	**171.4**	**6.6**	**1,080.2**
Instalment Finance at 31 March 2023					
Instalment finance - gross	1,511.6	1,664.8	625.4	372.9	**4,174.7**
Deferred revenue	(228.9)	(246.1)	(96.0)	(66.7)	**(637.7)**
Impairment	(17.0)	(19.0)	(7.2)	(4.2)	**(47.4)**
Total	**1,265.7**	**1,399.7**	**522.2**	**302.0**	**3,489.6**
Instalment Finance at 31 March 2022					
Instalment finance - gross	1,388.4	1,577.7	557.4	303.8	**3,827.3**
Deferred revenue	(191.8)	(198.6)	(75.5)	(58.5)	**(524.4)**
Impairment	(15.3)	(17.0)	(6.0)	(3.3)	**(41.6)**
Total	**1,181.3**	**1,362.1**	**475.9**	**242.0**	**3,261.3**
Other Loans and Advances at 31 March 2023					
Other loans - gross	486.4	1.2	-	-	**487.6**
Deferred revenue	0.2	-	-	-	**0.2**
Impairment	(2.0)	-	-	-	**(2.0)**
Total	**484.6**	**1.2**	**-**	**-**	**485.8**
Other Loans and Advances at 31 March 2022					
Other loans - gross	400.6	-	-	-	**400.6**
Deferred revenue	0.4	-	-	-	**0.4**
Impairment	(1.9)	-	-	-	**(1.9)**
Total	**399.1**	**-**	**-**	**-**	**399.1**
Total loans and receivables, net of impairment - as at 31 March 2023	**2,180.7**	**1,975.3**	**718.4**	**313.3**	**5,187.7**
Total loans and receivables, net of impairment - as at 31 March 2022	**2,053.7**	**1,919.0**	**670.2**	**251.0**	**4,893.9**

17. DERIVATIVE FINANCIAL INSTRUMENTS

Following the decision by global regulators to phase out IBORs and replace them with alternative risk-free reference rates, the Group has transitioned its derivative contracts that are affected by the reform with the exception of the one hedge relationship outlined below.

The table below indicates the nominal amount and weighted average maturity of derivatives in hedging relationships that will be maturing after June 2023 when USD LIBOR will be discontinued. The derivative hedging instruments provide a close approximation to the extent of the risk exposure the Group manages through hedging relationships. The Group will look to transition the derivative to match the outstanding note by switching both to Secured Overnight Financing Rate.

	2023		2022	
	Notional Amount £m	**Average maturity (years)**	**Notional Amount £m**	**Average maturity (years)**
Interest rate Swaps				
	-		-	
Cross currency Swaps				
USD LIBOR (3 month) to GBP SONIA *maturing after June 2023	16.2	2.1	16.2	2.1
Total	**16.2**		**16.2**	

Derivative financial instruments have been disclosed in the Group and Company Statement of Financial Position as follows:

	Cross currency swap contracts						
2023	**JPY £m**	**EUR £m**	**USD £m**	**Other £m**	**Total £m**	**Interest rate swap £m**	**Total £m**
Assets							
Less than 1 year	3.3	6.1	8.1	2.4	19.9	23.9	**43.8**
1 to 2 years	0.8	0.1	2.5	0.1	3.5	36.2	**39.7**
2 to 5 years	0.7	-	0.5	1.1	2.3	44.5	**46.8**
Over 5 years	-	-	-	-	-	9.1	**9.1**
Total	**4.8**	**6.2**	**11.1**	**3.6**	**25.7**	**113.7**	**139.4**
Liabilities							
Less than 1 year	(148.1)	(3.0)	(0.6)	(2.0)	(153.7)	(2.4)	**(156.1)**
1 to 2 years	(29.4)	(9.3)	(0.4)	-	(39.1)	(7.1)	**(46.2)**
2 to 5 years	(20.2)	(1.2)	(6.7)	-	(28.1)	(0.1)	**(28.2)**
Over 5 years	-	(5.0)	(2.9)	(3.0)	(10.9)	-	**(10.9)**
Total	**(197.7)**	**(18.5)**	**(10.6)**	**(5.0)**	**(231.8)**	**(9.6)**	**(241.4)**
	(192.9)	**(12.3)**	**0.5**	**(1.4)**	**(206.1)**	**104.1**	**(102.0)**
Of Which,							
Designated as fair value hedges	(131.1)	(15.6)	4.1	(0.8)	(143.4)	(7.9)	**(151.3)**
Designated as cash flow hedges	(61.8)	3.3	(3.6)	(0.6)	(62.7)	112.0	**49.3**

	Cross currency swap contracts						
2022	**JPY £m**	**HKD £m**	**USD £m**	**Other £m**	**Total £m**	**Interest rate swap £m**	**Total £m**
Assets							
Less than 1 year	-	-	0.1	3.7	3.8	1.7	**5.5**
1 to 2 years	-	-	1.1	0.8	1.9	24.1	**26.0**
2 to 5 years	-	-	0.2	1.2	1.4	28.1	**29.5**
Over 5 years	-	-	-	-	-	5.2	**5.2**
Total	**-**	**-**	**1.4**	**5.7**	**7.1**	**59.1**	**66.2**
Liabilities							
Less than 1 year	-	(1.4)	(1.4)	(7.7)	(10.5)	(0.4)	**(10.9)**
1 to 2 years	(132.9)	-	(1.0)	(4.7)	(138.6)	(3.1)	**(141.7)**
2 to 5 years	(35.2)	(1.6)	(1.5)	(14.8)	(53.1)	(5.9)	**(59.0)**
Over 5 years	-	-	(4.2)	(5.9)	(10.1)	-	**(10.1)**
Total	**(168.1)**	**(3.0)**	**(8.1)**	**(33.1)**	**(212.3)**	**(9.4)**	**(221.7)**
	(168.1)	**(3.0)**	**(6.7)**	**(27.4)**	**(205.2)**	**49.7**	**(155.5)**
Of Which,							
Designated as fair value hedges	-	-	-	(143.7)	(143.7)	(9.3)	**(153.0)**
Designated as cash flow hedges	(168.1)	(3.0)	(6.7)	116.3	(61.5)	59.0	**(2.5)**

During the year, the value of derivative financial instruments in aggregate reduced by £53.4m from a net liability of £155.5m to a net liability of £102.1m. With 100% matched hedging against foreign currency borrowings, this movement is partially offset by a 9.5m revaluation in foreign currency borrowings. The remaining movement of £43.9m principally represents the effect of the movement of fixed Sterling market interest rates on the value of the portfolio of float to fixed interest rate swaps that were taken out to match underlying floating funding.

	2023 £m	**2022 £m**
Gain/(loss) on fair value hedging instruments	1.7	(50.2)
(Loss)/gain on the hedged item attributable to the hedged risk in FV hedges	(1.0)	50.7
Total gain recognised in the income statement	**0.7**	**0.5**

The hedged cash flows are expected to occur and affect Other Comprehensive Income in the periods up to November 2029 (2022: November 2029) for cross currency swaps and to November 2029 (2022: November 2029) for interest rate swaps. Descriptions of the hedges are covered in significant accounting policies note 2.3(n).

A description of the risks being hedged for fair value and cash flow hedges is disclosed in note 34.

2023	Notional Amount of Hedging Instrument £m	Mark to Market of instrument Asset £m	Liability £m	Changes in Fair Value £m
Cash Flow Hedges				
Foreign Exchange Risk - Cross Currency Swaps and FX Swaps	1,840.9	11.6	(74.4)	-
Interest Rate Risk - Interest Rate Swaps	4,161.5	112.3	(0.2)	0.1
Fair Value Hedges				
Foreign Exchange Risk - Cross Currency Swaps and FX Swaps	2,427.0	14.0	(157.4)	-
Interest Rate Risk - Interest Rate Swaps	545.0	1.5	(9.4)	-

2022	Notional Amount of Hedging Instrument £m	Mark to Market of instrument Asset £m	Liability £m	Changes in Fair Value £m
Cash Flow Hedges				
Foreign Exchange Risk - Cross Currency Swaps and FX Swaps	1,428.0	3.3	(64.9)	3.7
Interest Rate Risk - Interest Rate Swaps	2,579.4	59.1	-	65.9
Fair Value Hedges				
Foreign Exchange Risk - Cross Currency Swaps and FX Swaps	2,117.4	3.7	(147.4)	(38.8)
Interest Rate Risk - Interest Rate Swaps	395.0	-	(9.3)	(11.4)

Mark to market instruments are presented in derivative assets and liabilities in the Group statement of financial position.

2023	Carrying amount of hedged item		Accumulated adjustment to value of hedged item		Change in Fair value used for calculating ineffectiveness	Cumulative Cash Flow Hedge Reserve
	Assets £m	Liabilities £m	Assets £m	Liabilities £m	£m	£m
Cash Flow Hedges						
Foreign Exchange Risk - Cross Currency Swaps and FX Swaps	-	1,784.2	-	56.7	-	(24.3)
Interest Rate Risk - Interest Rate Swaps	-	4,161.5	-	-	0.1	(82.6)
Fair Value Hedges						
Foreign Exchange Risk - Cross Currency Swaps and FX Swaps	-	2,345.1	-	139.8	-	(1.1)
Interest Rate Risk - Interest Rate Swaps	-	537.0	-	8.0	-	-

2022	Carrying amount of hedged item		Accumulated adjustment to value of hedged item		Change in Fair value used for calculating ineffectiveness	Cumulative Cost of Hedge and Cash Flow Hedge Reserve
	Assets £m	Liabilities £m	Assets £m	Liabilities £m	£m	£m
Cash Flow Hedges						
Foreign Exchange Risk - Cross Currency Swaps and FX Swaps	-	1,372.9	-	55.1	3.7	(1.2)
Interest Rate Risk - Interest Rate Swaps	-	2,579.4	-	-	65.9	(51.3)
Fair Value Hedges						
Foreign Exchange Risk - Cross Currency Swaps and FX Swaps	-	1,986.9	-	130.5	(38.8)	14.3
Interest Rate Risk - Interest Rate Swaps	-	385.6	-	9.4	(11.4)	-

2023	Change in Hedging Instrument OCI £m	P&L for period £m	Amount reclassified from cash flow hedge reserve to P&L £m
Cash Flow Hedges			
Foreign Exchange Risk - Cross Currency Swaps and FX Swaps	0.1	-	-

2022	Change in Hedging Instrument OCI £m	P&L for period £m	Amount reclassified from cash flow hedge reserve to P&L £m
Cash Flow Hedges			
Foreign Exchange Risk - Cross Currency Swaps and FX Swaps	(61.7)	-	-

2023	Ineffectiveness recognised in P&L for period £m
Fair Value Hedges	
Foreign Exchange Risk - Cross Currency Swaps and FX Swaps	-

2022	Ineffectiveness recognised in P&L for period £m
Fair Value Hedges	
Foreign Exchange Risk - Cross Currency Swaps and FX Swaps	(0.5)

The ineffective portion is presented in fair value gains / losses in financial instruments within the Group's income statement.

18. INTEREST BEARING BORROWINGS

The Group provides a central treasury function that is responsible for all external funding activities. The carrying values and weighted average effective interest rates of borrowings are as follows:

Group	2023 £m	2023 %	2022 £m	2022 %
Bank borrowings	1,869.8	3.1	1,464.3	1.1
Commercial Paper	553.5	2.8	379.9	0.3
Funding from securitised receivables	600.9	2.7	600.2	0.8
Medium term notes	3,483.7	3.0	3,035.5	1.1
Total	**6,507.9**	**3.0**	**5,479.9**	**1.2**

During the year, the Group's borrowings have increased by £559.6m due to acquisition of MHC Mobility (note 4.1).

For Group disclosure above, funding from securitised receivables related to amounts owed to senior note holders (note 32).

Company	2023 £m	2023 %	2022 £m	2022 %
Bank borrowings	1,310.2	2.9	1,464.3	1.1
Commercial Paper	553.5	2.8	379.9	0.6
Funding from securitised receivables	600.9	2.7	600.2	0.8
Medium term notes	3,483.7	3.0	3,035.5	1.1
Total	**5,948.3**	**2.9**	**5,479.9**	**1.2**

Amounts due from subsidiary undertakings, previously reported within interest bearing borrowings, has been reclassified to trade and other receivables (note 21). The impact of the reclassification is to increase trade and other receivables (note 21) for the Company by £152.8m (at 31 March 2023), £109.4m (at 31 March 2022) and £24.8m (at 1 April 2021) with a corresponding increase in interest bearing borrowings. The reclassification did not impact net assets or equity of the Group or Company.

For Company disclosure above, funding from securitised receivables include £500.0m (2022: £500.0m) relating to amounts owed to Securitisation of Financial Assets II Ltd, a special purpose vehicle (note 32).

Other committed and uncommitted borrowing facilities are available to the Group from banks and other sources. These are outlined within funding sources section of note 34 page 179.

The Group has one floating rate USD LIBOR linked note that matures after June 2023 when USD Libor will be discontinued. The principal amount of the note is $20m (£16.2m equivalent) with a remaining life to maturity of 2.1 years.

The Group raises funding under its Euro Medium Term Note programme mainly for terms of one to five years. Borrowings from this source are unsecured although they benefit from a guarantee from Mitsubishi HC Capital Inc.

Borrowings under the Group's one commercial paper programmes are typically raised for periods of between one month and 364 days. Borrowings under the programme is guaranteed by Mitsubishi HC Capital Inc.

Proceeds from the securitisation of certain receivables are at a floating rate of interest, typically fixing for a period of between one and three months at each monthly interest payment date.

The Group utilises two securitisation facilities: under the first it sells consumer receivables to SOFA II Ltd, a securitisation SPV. Under the second, receivables from SME are sold to Fleetbank Funding Limited as part of the British Business Bank's 'Enable Funding' programme ('SME Securitisation') (see note 32). These assets are not derecognised from the financial statements since the majority of the risks and rewards are retained by the Group. In both arrangements if the facilities were, for whatever reason, to be run down, then the Group would be entitled to receive the return of surplus cash collections after fees, and principal and interest of the secured borrowings would be repaid.

The borrowings are repayable as follows:

Group	Fixed 2023 £m	Floating 2023 £m	Total 2023 £m	Fixed 2022 £m	Floating 2022 £m	Total 2022 £m
Current Liabilities						
On demand or within 1 year	2,442.4	919.7	3,362.1	916.9	895.4	1,812.3
Non-Current Liabilities						
More than 1 year but less than 2	1,601.5	320.8	1,922.3	1,218.5	686.5	1,905.0
More than 2 years but less than 7	1,031.4	192.1	1,223.5	1,493.6	269.0	1,762.6
	2,632.9	**512.9**	**3,145.8**	**2,712.1**	**955.5**	**3,667.6**
	5,075.3	**1,432.6**	**6,507.9**	**3,629.0**	**1,850.9**	**5,479.9**

There were no defaults of either principal or interest and no breaches of loan agreement terms that would permit the lender to demand accelerated payment on any loans payable during the reporting periods ending 31 March 2022 or 31 March 2023.

Company	Fixed 2023 £m	Floating 2023 £m	Total 2023 £m	Fixed 2022 £m	Floating 2022 £m	Total 2022 £m
Current Liabilities						
On demand or within 1 year	2,204.4	918.8	3,123.2	916.9	895.4	1,812.3
Non-Current Liabilities						
More than 1 year but less than 2	1,460.6	320.0	1,780.6	1,218.5	686.5	1,905.0
More than 2 years but less than 7	852.4	192.1	1,044.5	1,493.6	269.0	1,762.6
	2,313.0	**512.1**	**2,825.1**	**2,712.1**	**955.5**	**3,667.6**
	4,517.4	**1,430.9**	**5,948.3**	**3,629.0**	**1,850.9**	**5,479.9**

An analysis of borrowings by currency is as follows:

	Sterling £m	Euro £m	Yen £m	US Dollar £m	PLN Zloty £m	Other £m	Total £m
Group							
31 March 2023	1,848.1	1,885.4	1,915.4	521.4	85.0	252.6	6,507.9
31 March 2022	2,109.2	1,620.0	1,174.5	353.4	-	222.8	5,479.9

The Group's borrowings have increased significantly due to acquisition of MHC Mobility (note 4.1).

	Sterling £m	Euro £m	Yen £m	US Dollar £m	Other £m	Total £m
Company						
31 March 2023	1,848.1	1,455.8	1,915.4	521.4	207.6	5,948.3
31 March 2022	2,109.2	1,620.0	1,174.5	353.4	222.8	5,479.9

19. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

		Carrying amount		Fair value		
Group	**Note**	**2023 £m**	**2022 £m**	**2023 £m**	**2022 £m**	**Fair Value Hierarchy**
Financial assets measured mandatorily at fair value:						
Derivative financial instruments	17	139.4	66.2	139.4	66.2	2
Financial instruments at fair value through profit or loss (FVTPL)	33	74.7	45.5	74.7	45.5	3
		214.1	**111.7**	**214.1**	**111.7**	
Financial assets measured at fair value through other comprehensive income (FVTOCI):						
Equity instruments at designated at fair value though other comprehensive income (FVTOCI)		40.7	-	40.7	-	3
Financial assets measured at amortised cost:						
Cash and cash equivalents		181.3	135.5	181.3	135.5	1
Trade and other receivables	21	88.9	68.7	88.9	68.7	3
Loans and advances to customers		5,355.7	5,000.2	5,116.9	4,928.4	3
Other financial instruments at amortised cost	33	-	41.1	-	41.1	3
Total financial assets		**5,880.7**	**5,357.2**	**5,641.9**	**5,285.4**	
Financial liabilities measured mandatorily at fair value:						
Derivative financial instruments	17	241.4	221.7	241.4	221.7	2
Financial liabilities measured at amortised cost:						
Bank overdrafts		14.7	48.9	14.7	48.9	1
Trade creditors and accruals, including balances due to invoice financing clients	27	355.5	281.3	355.5	281.3	3
Interest bearing borrowings		6,507.9	5,479.9	6,532.2	5,495.1	2
Total financial liabilities		**7,119.5**	**6,031.8**	**7,143.8**	**6,047.0**	

The Group's financial liabilities have increased significantly due to acquisition of MHC Mobility (note 4.1).

		Carrying amount		Fair value		
Company:	**Note**	**2023 £m**	**2022 £m**	**2023 £m**	**2022 £m**	**Fair Value Hierarchy**
Financial assets measured mandatorily at fair value:						
Derivative financial instruments	17	139.4	66.2	139.4	66.2	2
Financial instruments at fair value through profit or loss (FVTPL)	33	74.7	45.5	74.7	45.5	3
		214.1	**111.7**	**214.1**	**111.7**	
Financial assets measured at fair value through other comprehensive income (FVTOCI):						
Equity instruments at designated at fair value though other comprehensive income (FVTOCI)		40.7	-	40.7	-	3
Financial assets measured at amortised cost:						
Cash and cash equivalents		159.8	133.0	159.8	133.0	1
Trade and other receivables	21	73.7	68.7	73.7	68.7	3
Loans and advances to customers		5,187.8	4,894.0	5,103.3	4,821.9	3
Other financial instruments at amortised cost	33	-	41.1	-	41.1	3
Total financial assets		**5,676.1**	**5,248.5**	**5,591.6**	**5,176.4**	
Financial liabilities measured mandatorily at fair value:						
Derivative financial instruments	17	241.4	221.7	241.4	221.7	2
Financial liabilities measured at amortised cost:						
Bank overdrafts		13.6	48.9	13.6	48.9	1
Trade creditors and accruals, including balances due to invoice financing clients	27	323.5	281.6	323.5	281.6	3
Interest bearing borrowings		5,948.3	5,479.9	5,971.7	5,495.1	2
Total financial liabilities		**6,526.8**	**6,032.1**	**6,550.2**	**6,047.3**	

Outlined below is the movement in financial instruments at fair value through profit or loss (FVTPL) and financial instruments at fair value through other comprehensive income (FVTOCI):

	FVTPL £m	FVTOCI £m
At 1 April 2021	**62.1**	**-**
Gains recognised to income statement	0.9	-
Net additions and disposals during the year	(17.5)	-
At 31 March 2022	**45.5**	**-**
(Losses)/gains recognised to income statement	(9.1)	44.1
Losses recognised to other comprehensive income	-	(3.4)
Net additions and disposals during the year	38.3	-
At 31 March 2023	**74.7**	**40.7**

Financial instruments at FVTPL represent junior notes held in SOCA securitisation programme (note 33).

Equity instruments at FVTOCI represent investment in Gridserve Holdings Ltd (note 4.1).

Level 1:
The fair values are based on quoted (unadjusted) market prices in active markets for identical assets or liabilities. Outlined below are the descriptions of financial assets and liabilities classified as level 1 in the fair value hierarchy.

- **Cash and cash equivalents and bank overdrafts**
  This represents the physical cash, short-term deposits or bank overdrafts which the Group had at the balance sheet date where fair value is considered to be the carrying value.

Level 2:
Fair values are based on valuation techniques for which the lowest level input that is significant to the fair value and measurement is directly observable. Outlined below are the descriptions of financial assets and liabilities classified as level 2 in the fair value hierarchy.

- **Derivative financial instruments**
  The fair value of derivatives in the disclosure above has been determined using discounted cash flow models using observable market inputs in the form of yield curves in each relevant currency and spot foreign currency exchange rates to convert values to sterling. This excludes any option derivatives, which have been valued using option pricing models based on observable market inputs such as volatility, discount rates and foreign exchange rates. The fair value of derivatives is further adjusted by taking account of both the Group's counterparties and its own credit spreads applied to cash flows owed to and from the Group. These credit spreads were derived from observable market prices of credit default swaps and other market based credit spreads.
- **Interest bearing borrowings**
  The fair value of own borrowings in the table above has been determined using discounted cash flow models using observable market inputs in the form of yield curves in each relevant currency and spot foreign currency exchange rates to convert values to Sterling.

Level 3:
Fair values are based on valuation techniques for which the lowest level input that is significant to the fair value and measurement is unobservable. Outlined below are the descriptions of financial assets and liabilities classified as level 3 in the fair value hierarchy.

- **Financial instruments measured at fair value through profit or loss**
  These relate to the junior and mezzanine notes held in the Group's SOCA securitisation programmes outlined in note 33. Discounted cash flow is the valuation technique used to measure the carrying amount recognised in the Group's statement of financial position. The key unobservable inputs are the expected level of early settlements and write-offs which drive the expected cash collections through to maturity. An increase in expected levels of early settlements or write-offs would result in a lower fair value measurement.

- **Equity instruments measured at fair value through other comprehensive income**
  This relates to an equity investment in Gridserve Holdings Ltd (note 4.1). The valuation technique used to measure the total equity value of Gridserve Holdings Ltd is a discounted cashflow method. The Group has then applied its proportion of shareholding in order to determine its share of the total valuation of Gridserve Holdings Ltd. Key unobservable inputs are the cash flow forecasts from Gridserve management taking into account the expected levels of capital expenditure, funding, debt repayment and forecast profitability. The initial fair value measurement was based on implied pricing arising from a third party equity funding round that took place in August 2022.
- **Loans and advances to customers**
  The fair value of loans and receivables has been determined by using a model that uses as input the observable market interest rate for the relevant tenor of each asset, and its change from the time of inception of the asset to the statement of financial position date. Further adjustment to take account of customer credit risk uses unobservable inputs.
- **Trade and other receivables**
  These represent amounts due from customers during normal course of business and prepaid expenses with maturity of less than 12 months where fair value is considered to be the carrying value.
- **Other financial instruments measured at amortised cost**
  These relate to mezzanine notes held in SOCA securitisation programme outlined in note 33. The fair value is estimated by discounting future cash flows at the current market interest rates. Following SOCA re-structure during the year (note 33), these have been transferred to Financial instruments measured at fair value through profit or loss.
- **Trade creditors, accruals and balances due to invoice financing clients**
  These relate to short-term trade payables, accruals and amounts due to invoice financing clients during the normal course of business for which fair value is considered to be the carrying value.

There were no transfers between levels 1, 2 and 3 during the year. There were also no changes in valuation techniques during the year.

20. INVENTORIES

	Group		Company	
	31 March 2023 £m	31 March 2022 £m	31 March 2023 £m	31 March 2022 £m
Motor vehicles for resale	32.9	19.6	22.3	19.6

The Group's inventories have increased significantly due to acquisition of MHC Mobility (note 4.1).

The title to inventories is not restricted and these assets are not pledged as security for liabilities.

21. TRADE AND OTHER RECEIVABLES

	Group		Company	
Non-current	31 March 2023 £m	31 March 2022 £m	31 March 2023 £m	31 March 2022 £m
Amounts due from subsidiary undertakings	-	-	62.6	-

	Group		Company	
Current	31 March 2023 £m	31 March 2022 £m	31 March 2023 £m	31 March 2022 £m
Trade receivables	92.7	70.1	76.3	70.2
Provision for impairment of trade receivables	(3.8)	(2.8)	(2.6)	(2.8)
Net trade receivables	**88.9**	**67.3**	**73.7**	**67.4**
Amounts due from subsidiary undertakings	-	-	90.2	103.9
Prepayments and other receivables	98.7	44.9	80.6	44.8
	187.6	**112.2**	**244.5**	**216.1**

The Group's trade and other receivables have increased due to the acquisition of MHC Mobility (note 4.1).

Included in prepayments and other receivables above are the implementation costs amounting to £6.3m which are not distinct from the access to SaaS application (note 14). These have been prepaid over the term of the SaaS arrangement.

Amounts due from subsidiary undertakings above relate to inter-company funding provided to Mitsubishi HC Capital Europe B.V., wholly owned subsidiary of the Group (note 4). This amount was previously reported within interest bearing borrowings. The impact of the reclassification is to increase trade and other receivables for the Company by £152.8m (at 31 March 2023), £103.9m (at 31 March 2022) and £24.8m (at 1 April 2021) with a corresponding increase in interest bearing borrowings (note 18). The reclassification did not impact net assets or equity of the Group or Company.

Included within prepayments and other receivables is £8.0m relating to prepayments on derivative financial instruments, previously reported within other reserves (note 26).

22. DIVIDENDS PAID

A final dividend of £41.6m (9.4p per share), relating to year ended 31 March 2022 was paid during the year. The Directors recommend a final dividend of £46.0m (9.9p per share), relating to year ended 31 March 2023.

23. OTHER PROVISIONS - GROUP AND COMPANY

	Customer claims £m	Dilapidations £m	Total £m
At 1 April 2021	**2.6**	**1.5**	**4.1**
Additional provisions	2.2	0.8	3.0
Provisions used	(3.3)	-	(3.3)
Unused provision reversed	(0.1)	(0.2)	(0.3)
At 31 March 2022	**1.4**	**2.1**	**3.5**
Non-current liabilities	-	2.1	2.1
Current liabilities	1.4	-	1.4

	Customer claims £m	Dilapidations £m	Other provisions £m	Total £m
At 1 April 2022	**1.4**	**2.1**	**-**	**3.5**
Additional provisions	18.6	0.4	0.2	19.2
Provisions used	(3.1)	-	-	(3.1)
At 31 March 2023	**16.9**	**2.5**	**0.2**	**19.6**
Non-current liabilities	-	2.5	-	2.5
Current liabilities	16.9	-	0.2	17.1

Customer claims

In certain situations, the Group is jointly and severally liable to customers who have claims against suppliers for misrepresentation or breach of contract, in respect of certain types of regulated agreements. This risk is minimised by the Group through regular due diligence reviews of the suppliers through which financed products are sold and termination of business where there is higher potential risk of default recognised.

In determining the provision, Management has considered the likely population of eligible claims and an estimate of the complaint rate, remediation rate and remediation cost per claim. The provision represents the Group's best estimate of the likely future redress cost. However, the timing and amount of any payments are uncertain and the provision is subject to regular review.

The increase in the year relates primarily to the recognition of a provision in respect of certain products financed by the company until December 2020, which was disclosed as a contingent liability in the prior year.

For every 10% increase/decrease in customer complaints on the eligible claim population, the provision would increase/decrease by £4.2m; for every 10% increase/decrease in the remediation rate, the provision would increase/decrease by £2.8m; and for every 10% increase/decrease in the remediation cost, the provision would increase/decrease by £1.7m.

Dilapidations

The Group holds dilapidation provisions relating to its leased sites at Staines, Leeds, Newbury and Telford. The provision represents an estimate of the work required to bring it back to its original state at the end of the contract. The estimated outflow of this provision is expected to be £nil (2022: £nil) due within one year, £2.1m (2022: £2.1m) due after one year but less than ten years and £nil (2022 £nil) due after ten years.

24. CASH AND CASH EQUIVALENTS

Cash, short term deposits and bank overdrafts held by the Group all have an original maturity of three months or less.

Bank overdrafts and cash balances held by the Group with the same counterparty and currency have a right to set-off as they fall under the interest offset arrangement such that interest is only payable on the net balances. Net bank overdrafts are repayable on demand and the average effective interest rate for the year was 5.25% (2022: 1.75%) and is based on the Bank of England base rate plus an agreed margin.

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise the following at 31 March 2023:

	Group		Company	
	31 March 2023 £m	**31 March 2022 £m**	**31 March 2023 £m**	**31 March 2022 £m**
Cash at bank	64.9	61.2	43.4	58.7
Short-term deposits	116.4	74.3	116.4	74.3
	181.3	**135.5**	**159.8**	**133.0**
Bank overdrafts	(14.7)	(48.9)	(13.6)	(48.9)
Cash and cash equivalents in statement of cash flows	166.6	86.6	146.2	84.1

25. SHARE CAPITAL

The Company has one class of ordinary shares, which carry no right to fixed income. The share capital is analysed below.

	2023			2022		
	Number of shares No.	**Nominal value £m**	**Share premium £m**	**Number of shares No.**	**Nominal value £m**	**Share premium £m**
Issued and fully paid share capital						
Ordinary shares	464,674,511	116.2	43.6	442,674,511	110.7	15.6

During the year, the Company acquired MHC Mobility Europe B.V. for a consideration of £33.5m of which £5.5m was share capital (22,000,000 ordinary shares at 25p each) and £28.1m was share premium (note 4.1).

26. OTHER RESERVES

Group	Cash flow hedging reserve £m	Cost of hedging reserve £m	Fair Value through OCI £m	Retirement benefit obligation £m	Foreign currency translation £m	Integration reserve £m	Total other reserves £m
At 31 March 2021	**(30.3)**	**13.0**	**-**	**(7.0)**	**-**	**-**	**(24.3)**
Other comprehensive income for the year	49.4	(1.2)	-	6.0	-	-	54.2
At 31 March 2022	**19.1**	**11.8**	**-**	**(1.0)**	**-**	**-**	**29.9**
Other comprehensive income for the year	60.4	(9.9)	(2.5)	(6.7)	1.6	-	42.9
Acquisition of subsidiary	-	-	-	-	-	5.1	5.1
At 31 March 2023	**79.5**	**1.9**	**(2.5)**	**(7.7)**	**1.6**	**5.1**	**77.9**

Company	Cash flow hedging reserve £m	Cost of hedging reserve £m	Fair Value through OCI £m	Retirement benefit obligation £m	Foreign currency translation £m	Total other reserves £m
At 31 March 2021	**(30.3)**	**13.0**	**-**	**(7.0)**	**-**	**(24.3)**
Other comprehensive income for the year	49.4	(1.2)	-	6.0	0.1	54.3
At 31 March 2022	**19.1**	**11.8**	**-**	**(1.0)**	**0.1**	**30.0**
Other comprehensive income for the year	60.4	(9.9)	(2.5)	(6.7)	(1.2)	40.1
At 31 March 2023	**79.5**	**1.9**	**(2.5)**	**(7.7)**	**(1.1)**	**70.1**

The integration reserve relates to the acquisition of MHC Mobility (note 4.1).

Included within other comprehensive income for the year is the reclassification of prepayments on derivative financial instruments which have been reclassified to trade and other receivables (note 21).

27. TRADE AND OTHER PAYABLES

Trade and other payables - current

	Group		Company	
	31 March 2023 £m	31 March 2022 £m	31 March 2023 £m	31 March 2022 £m
Balances due to invoice financing clients	145.5	129.5	145.5	129.5
Rentals in advance - current	33.7	33.5	30.8	33.5
Deferred maintenance and other income	29.3	23.3	25.0	23.3
Trade creditors and accruals	164.7	115.9	143.7	115.6
Other creditors	45.3	35.9	34.3	36.5
	418.5	**338.1**	**379.3**	**338.4**

The Group's deferred maintenance and other income as at 1 April 2021 was £16.6m.

Deferred maintenance and other income represent contract liabilities in relation to service and maintenance obligations on operating lease contracts. The Group has a contractual obligations to provide maintenance services for the duration of the lease contract in exchange for a fixed amount of monthly instalments received from the customers. The remaining performance obligations will be satisfied in the future periods and, the corresponding contract liabilities will also be recognised in the future periods.

During the year, the Group acquired MHC Mobility (note 4.1) and therefore the contract liabilities include those resulting from the business combination. There were no other significant changes in the contract liabilities during the year.

Operating lease maintenance income recognised in the Group's income statement represent the performance obligations being satisfied during the year.

The amount of revenues recognised in the reporting period relating to performance obligations satisfied in previous periods was not material.

Trade and other payables - non-current

	Group		Company	
	31 March 2023 £m	31 March 2022 £m	31 March 2023 £m	31 March 2022 £m
Retailer liability	106.6	84.0	106.6	84.0
Lease liabilities	21.4	11.8	10.1	11.8
	128.0	**95.8**	**116.7**	**95.8**

Lease liabilities relate to the right of use assets (note 13) in respect of the Group's leasehold buildings. Outlined below is the movement in lease liabilities during the year.

	Note	2023 £m	2022 £m
As at 1 April	**4.1**	**11.8**	**12.2**
Acquisition of subsidiaries		11.5	-
New leases		-	2.5
Lease terminated		-	(0.9)
Lease repayments		(1.6)	(2.0)
Finance costs	7	(0.3)	-
At 31 March		**21.4**	**11.8**

A maturity analysis of lease liabilities based on discounted gross cash flow is reported in the table below:

	Group		Company	
	31 March 2023 £m	31 March 2022 £m	31 March 2023 £m	31 March 2022 £m
Less than one year	5.9	1.7	1.7	1.7
1-2 years	5.5	1.7	1.8	1.7
2-3 years	3.8	1.8	1.8	1.8
3-4 years	2.5	1.8	1.7	1.8
4-5 years	1.8	1.7	1.3	1.7
Over 5 years	1.9	3.1	1.7	3.0
Total lease liabilities	**21.4**	**11.8**	**10.0**	**11.7**

For maturity analysis of undiscounted contractual cash flow of lease liabilities refer to liquidity risk funding and management in note 34.

During the year, the Group incurred expenses of £nil (2022: £nil) in relation to short-term leases and nil (2022: nil) in relation to low-value assets.

Rentals in advance relate to monthly lease instalments received from customers to cover lease expenses in subsequent period(s).

Deferred maintenance and other income represent future contract liabilities in relation to service, maintenance and repairs for operating leases. The Group's maintenance income recognition policy is outlined in accounting policies section 2.3(d).

28. OPERATING AND FINANCE LEASE CONTRACTS – AS A LESSOR

The Group, through Vehicle Solutions and Business Finance, acts as a lessor of vehicles and other assets, the leases for which are generally for terms between three and five years.

Group as a lessor - operating leases

Operating lease rental income on vehicles and other assets forms a significant part of the Group's business and during the year amounted to £512.7m (2022: £353.4m).

Future minimum lease rentals receivable under non-cancellable operating leases at year end.

Group

	31 March 2023 £m	31 March 2022 £m
Less than one year	542.0	356.4
1-2 years	400.2	265.8
2-3 years	265.0	175.6
3-4 years	132.6	99.5
4-5 years	58.0	40.7
Over 5 years	42.4	29.9
Total	**1,440.2**	**967.9**

Company

	31 March 2023 £m	31 March 2022 £m
Less than one year	416.3	354.3
1-2 years	312.5	265.1
2-3 years	207.8	175.6
3-4 years	105.1	99.5
4-5 years	49.5	40.7
Over 5 years	40.8	29.9
Total	**1,132.0**	**965.1**

Group as a lessor - finance leases

Assets leased to customers under finance lease and hire purchase agreements are secured against gross receivable from the customer and the Group provides no residual value guarantees in order to mitigate risk. For Hire purchase agreements, legal title to the assets remain with the Group until the final instalment and the option to purchase fee has been paid by the lessee. For Finance lease agreements, the title remains with the Group until the asset has been sold to the third party.

Details of the Group's finance lease and hire purchase receivables are set out in note 16. This includes a maturity analysis showing the gross investment in the lease (the undiscounted lease payments receivable) and a reconciliation to the net investment in the lease (loans and advances to customers).

Finance income recognised during the year on finance lease and hire purchase receivables is included in interest income (note 5).

29. RETIREMENT BENEFIT PENSION SCHEMES

Defined contribution pension scheme

The Group operates a defined contribution retirement benefit scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The total cost charged as an administrative expense to the Consolidated Income Statement of £6.0m (2022: £5.0m) represents contributions payable to the scheme at rates specified in the rules of the scheme. There were no unpaid contributions at either 31 March 2023 or 31 March 2022.

Defined benefit pension schemes

The Group operates a funded pension scheme providing benefits based on final pensionable earnings, which has been closed to employees joining since 2002. From 5 April 2018, the scheme was closed to future accrual with active members becoming deferred members from that date. The scheme is set up under a trust, with the assets held separately from the Group and managed by an independent set of trustees. The trustees are required by law to act in the best interests of the scheme participants and are responsible for setting the scheme's investment and governance policies and paying benefits. The scheme is registered with HMRC for tax purposes. No other post-retirement benefits are provided.

Under the UK's pension plan funding requirements, the trustees and the Group together agree a funding strategy and contribution schedule for the scheme every three years.

As with the vast majority of similar arrangements, the Group ultimately underwrites the risks relating to the scheme. These risks include investment risks and demographic risks, such as the risk of members living longer than expected. The scheme holds a significant proportion of its assets in equity, corporate and government bonds, property and diversified growth fund investments. Strong future returns on these assets would be expected to reduce the Group's future cash contributions (and vice versa). If the contributions currently agreed are insufficient to pay the benefits due, the Group will need to make further contributions to the scheme. The Group is not exposed to any unusual, entity specific or plan specific risks.

At 31 March 2023, the pension scheme's assets were invested in a diversified portfolio that consisted primarily of equities, liability-driven investments, property and a diversified growth fund. The Trustee is responsible for deciding the investment strategy for the Schemes' assets, although changes in investment policies require consultation with the Group. The assets are invested in different classes with the aim of hedging against unfavourable movements in the funding obligation. When selecting the mix of assets to hold, and considering their related risks and expected returns, the Trustee will weigh up the variability of returns against the target long-term rate of return on the overall portfolio.

The pension scheme's formal actuarial valuation is completed every three years. The most recent valuation as at 31 March 2022 is in the process of being completed.

The accounting valuation of the present value of the defined benefit obligation was carried out as at 31 March 2023 by Lane Clark & Peacock LLP, an independent qualified actuary, the calculations for which were based on the membership data used for the scheme's latest formal actuarial valuation as at 31 March 2022 projected to the accounting date. The present value of the defined benefit obligation was measured using the projected unit credit method.

On 26 October 2018, the High Court ruled on the Lloyds Bank Guaranteed Minimum Pensions Inequalities case, which is expected to affect the Scheme, as well as most other UK pension plans. Guaranteed Minimum Pensions are unequal between men and women. The court judgement confirmed that pension schemes need to adjust scheme benefits to remove these inequalities and pay equal benefits to men and women. At this stage, the Group has estimated the costs at £0.1m. The ultimate cost will not be known for some time and could be significantly higher or lower.

Contributions payable to the pension scheme at the end of the year were £nil (2022: £nil) and it is expected to be £nil in future years as the scheme is closed for new entrants and future accruals.

IFRIC 14 has no impact on the figures in this note because the Company has an unconditional right to a refund of any surplus in the scheme once the last member's liabilities have been settled.

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the Statement of Financial Position are as follows:

	31 March 2023 £m	31 March 2022 £m
Fair value of scheme assets	36.6	59.3
Present value of scheme liabilities	(35.6)	(49.6)
Defined benefit pension scheme surplus	**1.0**	**9.7**

The decrease in surplus is largely due to lower than assumed investment returns on the assets due to extreme market movements particularly around September last year. This was partially offset by an increase in the discount rate and a decrease in assumed future inflation, both of which resulted in a decrease in pension obligations.

Scheme assets

Changes in the fair value of the pension scheme assets are as follows:

	31 March 2023 £m	31 March 2022 £m
Fair value at start of year	**59.3**	**56.1**
Interest income	1.7	1.2
Return on plan assets, excluding amounts included in interest income/(expense)	(23.5)	3.9
Benefits paid	(0.9)	(1.9)
Fair value at end of year	**36.6**	**59.3**

Total administrative expenses relating to the scheme were £0.4m (2022: £0.6m).

Analysis of assets

The major categories of the pension scheme assets are as follows:

	31 March 2023 £m	31 March 2022 £m
Equity instruments	4.0	17.6
Infrastructure funds	-	5.7
Real estate	8.8	10.1
Liability driven investments (LDI)	12.2	17.3
Cash and net current assets	10.6	2.3
Diversified growth fund (DGF)	1.0	6.3
	36.6	**59.3**

Actual return on scheme's assets

	31 March 2023 £m	31 March 2022 £m
Actual return on scheme assets	(21.9)	5.1

The Group's pension scheme assets are invested in pooled funds which are largely invested in assets with quoted market values with the exception of Real estate. There may be a small portion of unquoted assets within LDI and DGF.

The allocation above is the pension scheme's investment strategy as recorded in the latest Statement of Investment Principles dated March 2021. However, in response to the significant gilt market volatility in 2022, assets were moved including terminating some mandates, such that the pension scheme's current asset allocation has deviated from the target allocation within the current Statement of Investment Principles. The Plan's investment strategy remains under review as at 31 March 2023 and the Statement of Investment Principles will be updated once the revised strategy has been agreed.

The pension scheme does not invest directly in property occupied by the Group or in financial securities issued by the Group. All of the pension scheme's investments, other than the real estate funds, are classified as Level 2 using the Fair Value Determination hierarchy. Level 2 inputs are those which are either directly (i.e. as prices) or indirectly (i.e. derived from prices) observable for a particular asset or liability. The pension scheme's real estate funds are classified as Level 3 using the Fair Value Determination hierarchy. Level 3 inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

Pension scheme liabilities

Changes in the present value of the pension scheme liabilities are as follows:

	31 March 2023 £m	31 March 2022 £m
Present value at start of year	**49.6**	**54.4**
Actuarial gains and losses arising from changes in demographic assumptions	-	(0.5)
Actuarial gains and losses arising from changes in financial assumptions	(16.7)	(5.2)
Actuarial gains and losses arising from experience adjustments	2.2	1.7
Interest cost	1.4	1.1
Benefits paid	(0.9)	(1.9)
Present value at end of year	**35.6**	**49.6**

Principal actuarial assumptions

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the statement of financial position date are as follows:

	31 March 2023 %	31 March 2022 %
Retail price inflation	3.3	3.5
Consumer price inflation	2.6	2.8
Discount rate	4.7	2.8
Pension increases in payment (5% or RPI if less)	3.2	3.4
Pension increases in payment (3% or CPI if less)	2.2	2.3
Pension increases in payment (2.5% or RPI if less)	2.2	2.3

As the scheme is now closed to future accrual, members' future salary increases no longer affect the defined benefit obligation.

Post retirement mortality assumptions

	31 March 2023 Years	31 March 2022 Years
Male currently aged 65	22.1	22.1
Female currently aged 65	24.7	24.6
Male aged 65 in 20 years' time	23.3	23.4
Female aged 65 in 20 years' time	26.0	26.0

Amounts recognised in the income statement

	31 March 2023 £m	31 March 2022 £m
Recognised in arriving at operating profit	-	-
Interest expense / (income)	(0.3)	(0.1)
Total recognised in the income statement	**(0.3)**	**(0.1)**

From July 2020, the Group agreed to pay the administrative expenses of the pension scheme directly and therefore, included above are the total administrative expenses paid by the Group. The total amount recognised in the income statement has been included in the Administrative expenses for the Group.

Amounts taken to the Statement of Comprehensive Income

	31 March 2023 £m	31 March 2022 £m
Actuarial gains and losses arising from changes in demographic assumptions	-	0.5
Actuarial gains and losses arising from changes in financial assumptions	16.7	5.3
Actuarial gains and losses arising from experience adjustments	(2.2)	(1.7)
Return on plan assets, excluding amounts included in interest income/(expense)	(23.5)	3.9
Amounts recognised in the Statement of Comprehensive Income	**(9.0)**	**8.0**

Sensitivity analysis

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, expected rate of inflation and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

	31 March 2023	31 March 2022
Adjustment to discount rate	**- 0.1% £m**	**- 0.1% £m**
Present value of total obligation	0.6	1.0
Fair value of pension scheme assets	0.5	1.1
Net Retirement benefit asset / (obligations)	(0.1)	0.1
Adjustment to rate of inflation	**+ 0.1% £m**	**+ 0.1% £m**
Present value of total obligation	0.5	0.7
Fair value of pension scheme assets	0.3	0.8
Adjustment to mortality age rating assumption	**+ 1 Year £m**	**+ 1 Year £m**
Present value of total obligation	1.2	2.1
Net Retirement benefit asset / obligations	1.2	2.1

If the assumption were decreased rather than increased, then the impact would have the opposite sign and broadly be of the same magnitude. Each assumption has been varied individually and a combination of changes in assumptions could produce a different result. For consistency, the value of the pension scheme's holding of bonds has been varied consistently with the change in the discount rate and inflation assumptions.

There were no changes in the methods and assumptions used in preparing the sensitivity analysis during the year or in the prior year.

The weighted average duration of the defined benefit obligation is 17 years (2022: 21 years), and most of the benefit payments are linked to future levels of inflation.

30. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

Group

	At 1 April 2022 £m	Financing cash flows £m	Acquisition of subsidiary £m	Foreign exchange movements £m	Fair value changes £m	At 31 March 2023 £m
Interest bearing borrowings - current	1,812.3	1,213.9	220.1	32.6	83.2	3,362.1
Interest bearing borrowings - non current	3,667.6	(675.9)	271.5	(31.1)	(86.3)	3,145.8
	5,479.9	**538.0**	**491.6**	**1.5**	**(3.1)**	**6,507.9**

	At 1 April 2021 £m	Financing cash flows £m	Foreign exchange movements £m	Fair value changes £m	At 31 March 2022 £m
Interest bearing borrowings - current	1,973.7	(197.8)	20.0	16.4	1,812.3
Interest bearing borrowings - non current	3,182.5	561.0	(12.2)	(63.7)	3,667.6
	5,156.2	**363.2**	**7.8**	**(47.3)**	**5,479.9**

Company

	At 1 April 2022 £m	Financing cash flows £m	Foreign exchange movements £m	Fair value changes £m	At 31 March 2023 £m
Interest bearing borrowings - current	1,812.3	1,077.8	32.6	200.5	3,123.2
Interest bearing borrowings - non current	3,563.7	(621.2)	(31.1)	(86.3)	2,825.1
	5,376.0	**456.6**	**1.5**	**114.2**	**5,948.3**

	At 1 April 2021 £m	Financing cash flows £m	Foreign exchange movements £m	Fair value changes £m	At 31 March 2022 £m
Interest bearing borrowings - current	1,973.6	(197.9)	20.0	16.6	1,812.3
Interest bearing borrowings - non current	3,157.6	482.0	(12.2)	(63.7)	3,563.7
	5,131.2	**284.1**	**7.8**	**(47.1)**	**5,376.0**

31. RELATED PARTY DISCLOSURES

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. All related party transactions are made on terms equivalent to those that prevail in arm's length transactions.

During the year Group companies entered into the following transactions with immediate parent undertakings and related companies who are not members of the Group:

31.1 Transactions with immediate parent undertakings

The Group entered into transactions with its immediate parent company, Mitsubishi HC Capital Inc. The following tables show outstanding amounts and corresponding income and expenses recognised during the year.

	2023 £m	2022 £m
Payments for administration charges	0.4	5.0

	2023 £m	2022 £m
Amounts owed to Mitsubishi HC Capital Inc	0.6	4.4
Amounts owed by Mitsubishi HC Capital Inc	0.2	0.1

31.2 Transactions with other related parties

The Group entered into transactions with Mitsubishi companies that have significant influence over it. All transactions are unsecured and made on terms equivalent to those that prevail in arm's length transactions. The following tables show outstanding amounts and corresponding income and expenses recognised during the year.

In 2022, Gridserve Holdings Ltd was a related party with whom the Group held an investment accounted for under the equity method. All transactions with Gridserve Holdings Ltd were on terms equivalent to those that prevail in arm's length transactions. The related Expected Credit Loss (ECL) provision amounted to £1.6m which was included within the Group's Expected Credit Loss provision (note 15).

Following the Group's loss of significant influence in Gridserve Holdings Ltd (note 4.2), Gridserve are no longer considered to be related party to the Group.

The Group entered into transactions with Securitisation of Financial Assets II Ltd, a special purpose vehicle, which is consolidated into the Group. Details of the related party transactions with Securitisation of Financial Assets II Ltd can be found in note 32.

The Company's related party transactions include those with MHC Mobility following the acquisition of MHC Mobility during the year (note 4.1). All transactions with MHC Mobility are made on terms equivalent to those prevail in arm's length transactions.

Group

	2023 £m	2022 £m
Interest paid to Mitsubishi companies	23.0	5.5
Interest received from Mitsubishi companies	4.3	-
Income from Gridserve Holdings Ltd	-	2.1
Amounts received from Mitsubishi HC Capital America	0.1	-

	2023 £m	2022 £m
Amounts due to Mitsubishi companies in respect of borrowings	891.9	971.4
Amounts held with Mitsubishi companies in respect of deposits	-	49.0
Fair value of derivative financial instruments with Mitsubishi companies	-	24.0
Accrued interest expense owed to Mitsubishi companies	4.1	-
Amounts due from Gridserve Holdings Ltd	-	70.7

Company

	2023 £m	2022 £m
Interest paid to Mitsubishi companies	23.0	5.5
Interest received from Mitsubishi companies	4.3	-
Interest income from Mitsubishi HC Capital Europe B.V.	-	0.3
Administration fees from Mitsubishi HC Capital Europe B.V.	0.7	0.6
Income from Gridserve Holdings Ltd	-	2.1
Amounts received from Mitsubishi HC Capital America	0.1	-
Interest income from MHC Mobility Europe B.V.	1.6	-
Administration fees from MHC Mobility Europe B.V.	1.3	-

	2023 £m	2022 £m
Amounts due to Mitsubishi companies in respect of borrowings	891.9	971.4
Amounts held with Mitsubishi companies in respect of deposits	-	49.0
Fair value of derivative financial instruments with Mitsubishi companies	-	24.0
Accrued interest expense owed to Mitsubishi companies	4.1	-
Amounts due from Mitsubishi HC Capital Europe B.V.	5.5	111.1
Amounts due from Gridserve Holdings Ltd	-	70.7
Amounts due from MHC Mobility B.V.	148.6	-

Remuneration of key management personnel
Key management personnel comprise Directors of the Group and members of the Executive Committee.

During the year there were no related party transactions between the key management personnel and the Group other than those described below.

	31 March 2023 £m	31 March 2022 £m
Salaries and other short term employee benefits	5.6	4.9
Post-employment benefits	0.1	0.2
Other long-term benefits	1.6	1.0
	7.3	**6.1**

No Directors (2022: nil) were accruing retirement benefits in respect of qualifying services under a defined benefit scheme or a money purchase scheme.

The aggregate amount of remuneration paid to Directors was £2.2m (2022: £1.8m). The highest paid Director's remuneration in the year was £1.6m (2022: £1.3m).

32. TRANSFERRED FINANCIAL ASSETS THAT ARE NOT DERECOGNISED BY THE GROUP

The Group operates two Securitisation programmes that are shown on the Group's Statement of Financial Position because, as of the reporting date, the majority of the risks and rewards on the transferred assets are retained by the Group, as set out in the basis of consolidation note 2.2 and accounting policies note 2.3(r).

Consumer Securitisation programme
In accordance with the terms and conditions, the Group had transferred instalment finance receivables to a Special Purpose Vehicle 'Securitisation of Financial Assets II Ltd', a company incorporated in England and Wales with registered office at Level 37, 25 Canada Square, London, E14 5LQ.

As at 31 March 2023 the carrying value of securitised receivables was £661.1m (2022: £668.8m) and the corresponding amount owed to senior lenders was £500.0m (2022: £500.0m). The fair value of receivables at balance sheet date was £641.7m (2022: £661.4m).

The Group continues to manage the transferred receivables and it is exposed to the credit risk in respect of collectability of the contractual cashflows. As such, the Group has concluded that it has retained substantially all of the risks and rewards of the transferred assets. The Group has the power to control the relevant activities that most significantly impact the returns of the Special Purpose Vehicle and therefore, Securitisation of Financial Assets II Ltd is consolidated into the Group.

SME Securitisation programme
In accordance with the terms and conditions, as at 31 March 2023 both the Group and the Company had transferred £106.0m (2022: £125.7m) of its hire purchase and finance lease receivables, with a fair value of £98.8m (2022: £125.7m) to a Special Purpose Vehicle named "Fleetbank Funding Ltd", a company incorporated in England and Wales with registered office at 35 Great St. Helen's London EC3A 6AP.

The Group continues to manage the receivables and it is exposed to the credit risk in respect of collectability of the contractual cashflows. This is a warehouse facility whereby multiple originators sell into the Special Purpose Vehicle and therefore the Group does not have the power to control the relevant activities of the Special Purpose Vehicle. As such, the Group does not consolidate the Special Purpose Vehicle and continues to recognise the full carrying amount of the receivables on its Statement of Financial Position.

As at 31 March 2023, the Consolidated Financial Statement of the Group included carrying value of securitised receivables amounting to £106.0m (2022: £125.7m) and amounts owed to senior lenders £100.0m (2022: £100.0m).

33. TRANSFERRED FINANCIAL ASSETS THAT ARE DERECOGNISED BY THE GROUP

During the year, the Group operated a Securitisation programme whereby tranches of instalment finance receivables were sold to Special Purpose Vehicles, outlined below. The transactions resulted in full derecognition of the financial assets from the Group's Statement of Financial Position on the basis that the Group had transferred sufficient risks and rewards. The Group have surrendered control over the transferred assets and the relevant activities of the SPV and therefore the entity is not consolidated into the Group.

Securitisation Of Consumer Agreements (SOCA)

During the year, both the Group and the Company had continued to transfer instalment finance receivables to SOCA securitisation Special Purpose Vehicle. The initial transfer of receivables resulted in a loss of £0.5m (2022: £0.8m) which has been included within the other operating income in the consolidated income statement.

Following the transfer, the Group continued to act as a servicer of the transferred assets, with a servicing fee of 0.8% (2022: 0.8%) of outstanding capital balance paid on a monthly basis. As at 31 March 2023, the amortised cost of receivables sold into SOCA amounted to £322.3m (2022: £376.9m).

The undiscounted estimated cash flows and the related contractual maturities of receivables that had already been transferred to SOCA are outlined in the table below.

	2023 £m	2022 £m
Less than 1 year	176.8	191.9
1 - 3 years	144.0	162.5
3 - 5 years	22.1	28.2
> 5 years	-	0.2
Total	**342.9**	**382.8**

The Group have originated further receivables with a carrying value of £11.8m (2022: £16.0m) with the intention of selling into SOCA securitisation programme which have been classified as financial instruments measured at fair value through profit or loss in the Group's statement of financial position.

The following tables summarise the maximum exposure and carrying values of subordinated debt and junior notes held in SOCA securitisation programmes. The Group's maximum exposure to credit risk is represented by the carrying values of the notes held in securitisation programmes. The maximum exposure is determined by the level of first loss which is likely to be absorbed by each investee in accordance with the agreed priority of payments.

Other financial instruments measured at amortised cost

	2023 £m	2022 £m
Mezzanine notes held in SOCA	-	41.1

During the year, SOCA securitisation programme was re-structured. Under the terms of the re-structure, mezzanine notes are subject to a nil return whilst they continue to be held by the Group. As with prior year, junior notes are also held by the Group and they continue to be subject to variable returns which are payable once all other parties have been paid. As mezzanine notes are no longer subject to fixed contractual cashflows representing solely payments of principal and interest, they are derecognised at amortised cost and recognised at fair value through profit or loss, outlined below.

Mezzanine notes are well protected against credit losses under the securitisation structure as junior notes absorb first losses. As such, the Group concluded that there was no difference between carrying value of mezzanine notes at amortised cost and fair value through profit or loss and therefore no gain or loss was recognised upon derecognition.

Financial instruments measured at fair value through profit or loss

	2023 £m	2022 £m
Junior notes held in SOCA	31.6	29.5
Mezzanine notes held SOCA	31.3	-
Receivables held-for-sale into SOCA	11.8	16.0
Total	**74.7**	**45.5**

The following table summarises the income relating to the Group's continuous involvement in SOCA securitisation programmes.

	2023 £m	2022 £m
Interest (expense) / income	(9.1)	1.7
Other income	2.4	2.3
Total	**(6.7)**	**4.0**

Following the increases in the Bank of England base rates during the year, there has been significant increase in discount rates and future expected funding costs of the programme. This has led to a reduction in fair value of the notes resulting in a net charge to the interest income within the income statement.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial assets are cash and cash equivalents, loans and receivables, trade and other receivables, and derivative financial instruments.

The Group's credit risk is primarily attributable to its loans and advances to customers. The amounts presented in the statement of financial position are net of allowances for impairment losses. The carrying amounts of loans and receivables represent the Group's maximum exposure to credit risk and are set out in loans and advances to customers (note 16) and trade receivables (note 21). The Group also bears credit risk associated with the rental payments due from customers related to operating lease assets, the outstanding portion of which is included within trade receivables set out in note 21.

The Group has guaranteed £1.2m (2022: £1.5m) of lease payments due from businesses in France, Italy, Poland, Portugal, Spain, Switzerland and Turkey to third party lessors and receives a fee for these services.

The Group has a Credit Risk Committee ("CRC") that provides a key element of oversight to the credit approval and portfolio risk management functions within the Group's business units. The CRC maintains the Group's risk appetite and oversees the adherence of individual business units to their respective risk appetite policies.

Credit risk is managed to minimise losses, maximise recoveries and prevent fraud. The credit policy requires consideration to be given to the financial and credit status of the customer, dealer, supplier and/or vendor (including retailers and brokers), the quality of any collateral taken or of the asset being financed and the terms and conditions which are applied to the financing.

Procedures are maintained that stipulate such factors as maximum loan amounts and funding periods, requirements for down payments or deposits, deferral periods and authorisation limits. Customer scorecards are extensively used throughout the retail and small-ticket commercial businesses. Detailed credit files are maintained for larger commercial transactions and significant relationships. Material changes to credit risk appetite, and significant facility limits and extensions of credit typically require director or senior executive approval. The Group's credit risk exposures are spread over a large number of counterparties and customers.

Where the exposure to any one counterparty exceeds certain levels, annual reviews are performed to ensure that the credit quality has not deteriorated.

Credit risk arising from balances held with banks and financial institutions is managed by Group Treasury in accordance with the Group's counterparty risk management policy outlined below. Investments of surplus funds are made only with approved counterparties.

The credit risk exposure from any cash deposits and derivative financial instruments is regularly measured by counterparty and monitored relative to individual counterparty limits in accordance with the Board approved Treasury policy. Counterparties are selected and assessed on their prospects for long term stability of credit rating for which the Group seeks a minimum long term credit rating by Standard & Poor's of at least 'BBB+' (and a short term rating of 'A-2'). Swap counterparty creditworthiness is also monitored on a regular basis using any other available indicators such as standard 5 year credit default swap prices.

The Group has exposure to a limited number of banking counterparties through depositing cash in time deposits. Cash balances and deposits by the Group are generally maintained at nil or insignificant levels. When the Group has cash to deposit, these deposits are split between three to four different UK regulated banks with a minimum credit rating of 'BBB+'.

The Group does not have any financial liabilities designated at fair value through profit or loss, and therefore there has been no revaluation of financial liabilities for own credit risk. This includes financial liabilities in hedge relationships as the Group does not hedge credit risk. The changes in the fair value of financial liabilities recognised in the income statement are principally due to changes in market foreign exchange rates and interest rates for those instruments in designated hedge relationships.

Collateral

The Group maintains procedures setting out acceptable collateral and other criteria to be considered when reviewing a loan application. The decision as to whether collateral is required will be based upon the nature of the transaction and the creditworthiness of the customer. The provision of collateral will not necessarily determine the outcome of a credit application. The fundamental business proposition must evidence the ability of the obligor to generate funds from normal operations or business sources to repay debt. The extent to which collateral values are actively managed or monitored will depend on the credit quality and other circumstances of the obligor.

Although lending decisions are primarily based on expected cash flows and debt service ability, any collateral provided may influence the pricing and other terms of a loan or facility granted; this may have a financial impact on the amount of net interest income recognised and on internal estimates of loss given default that contribute to the determination of asset quality. The Group believes that this approach is appropriate. The value of collateral is reassessed if there is observable evidence of distress of the obligor. Unimpaired lending, including any associated collateral, is managed on a customer by customer basis rather than a portfolio basis.

A general description of collateral held as security in respect of loans and receivables in each business unit is provided below.

(a) Novuna Consumer Finance

Most lending is unsecured and therefore no collateral is held. However, for certain retailers, a portion of the cash flows financed are deferred and held by the Group to cover possible future credit losses, see note 2.3(j). At the year end 31 March 2023 deferred cash flows amounted to £106.3m (2022: £84.0m), against related gross loans and receivables of £2,110.3m (2022: £1,967.0m). There was no such deferred cash collateral held against gross loans and receivables amounting to £1,000.2m (2022: £970.0m).

(b) Novuna Vehicle Solutions

Credit facilities are quantified and established for business and private customers based on the higher of a) the gross value of receivables calculated to be invoiced over the life of the lease contract or fleet management facility, or b) the current exposure to the customer plus the capital value of expected new vehicle orders. Vehicle Solutions had gross loans and receivables outstanding amounting to £2.8m (2022: £6.1m), which related to finance leases. Payments due from customers under operating leases are included under trade receivables. The facilities and any customer exposures thereunder are secured on the passenger cars and commercial vehicles leased to customers under the contracts.

(c) Novuna Business Finance

Lending decisions for asset finance transactions are primarily based on an obligor's ability to repay the debt from normal business operations, rather than reliance on the disposal of any security provided. Nevertheless, the original cost and expected collateral values of financed assets are rigorously assessed at the time of loan origination in line with the credit risk policy above. Assets considered eligible for financing include but are not limited to vehicles, plant, manufacturing equipment, agricultural machinery, and other moveable fixed assets. Collateral values are revisited after origination in the event of changes in the performance of the loans, e.g. customer default, or in respect of significant customer exposures, at the time of annual review or facility renewals.

Certain extensions of credit within the Business Finance unit are made under block discounting agreements, the collateral for which consists of receivables under loans and leases originated by the borrower, which are sold to the Company in return for the advance. Of the total gross loans and receivables, £155.5m (2022: £110.1m) related to block discounting agreements. Collateral coverage for block discounting agreements is verified regularly by a field audit team. Business Finance also provides financing of stock for equipment and vehicle dealers, which is subject to a regular programme of field audits and automated controls.

Of the total gross loans and advances to customers amounting to £1,724.4m (2022: £1,572.7m), £5.0m was individually impaired (2022: £2.9m).

(d) Novuna Business Cash Flow

Credit facilities are established by reference to the expected levels of drawings made by clients against the value of invoices assigned. The net loans and receivables for invoice finance, of £123.8m (2022: £122.5m) are primarily collateralised by trade receivables purchased from factoring clients which had a gross value of £269.4m (2022: £252.1m), and, in certain cases, by directors' or principals' personal guarantees and/or indemnities as additional security for shortfalls on collect outs due to disputes or breach of contract for which the guarantor is liable. Clients are subject to a rigorous programme of continuous verifications, reviews and audits.

Credit quality

Categories of credit risk quality are determined at an agreement or facility level using both internal risk management inputs and external inputs from credit risk rating agencies and bureaux. The inputs used are specific to the business unit in which the exposure exists, but common categories of credit risk have been determined to monitor portfolio credit quality across the Group. The categories are based primarily on aligning estimated ranges of probability of default but also on management judgement.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 16.

Measurement of expected credit losses

The Group recognises ECL provision in accordance with IFRS 9 Financial instruments, as set out in the Group accounting policies outlined in note 2.3(m). The measurement of ECL under the IFRS 9 is complex and requires a high level of judgement. Outlined below are the key judgements, estimates and input into IFRS 9 models used by the Group in measurement of ECL.

Loss rate percentage

The loss rate is a key component of the calculation of ECL. The loss rate incorporates the likelihood of default occurring (i.e., Probability of Default (PD)) as well as the expected amount of the resulting loss (Loss Given Default (LGD)) taking into account expected recoveries post default. The loss rate is expressed as a percentage and it represents the amount written off as a proportion of capital balancing outstanding over a given period of time.

The loss rates are refreshed on a monthly basis, using actual 12-month performance from a given reporting period. The actual 12-month loss rates are smoothed to remove any seasonal variations before being applied to the model as a basis for projecting the future 12-month losses. Within the calculation, financial assets are grouped with those sharing similar credit risk characteristics and which are expected to behave in uniform ways. This process enables 12 month and lifetime ECL calculation through Markov chain extrapolation of 12 month loss rates for each financial asset and a total undiscounted ECL for that group. The undiscounted ECL is then discounted to the present value at the reporting date to create a total ECL for instalment finance receivables. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

Significant increase in credit risk (“SICR”) (movement to stage 2)

A significant increase in credit risk is not a defined term, it is determined by criteria set by management based on past experience and judgement. In order to assess whether a financial asset has significantly increased in credit risk since origination, the Group has developed a set of quantitative staging criteria as well as using the back stop (30 days past due or two missed payments, if shorter) specified in IFRS 9. These are set out below:

- Credit risk of the customer, as measured by behaviour score, since origination has deteriorated to at least double the origination PD AND The latest PD is greater than 3% OR
- The latest PD is at least 8% greater than the origination PD OR
- The customer has receivables which are more than 30 days past due, or two missed payments if shorter.

PD is an estimate of the likelihood of default occurring over a 12 month period calculated at account level. Management have used historical data and assumptions of future conditions to model PD over a period of time.

The customer will move back to stage 1 only when the above SICR criteria is no longer triggered.

Definition of default (movement to stage 3)

The Group applies a range of criteria to determine when a financial asset meets the definition of default and should therefore be transferred to stage 3 or credit impaired. The Group defines a financial asset to be in default if it meets one or more of the criteria set out below:

- Arrears greater than 90 days or missed three payments, if shorter.
- Insolvency or bankruptcy.
- Account holder is deceased.

The customer will move out of stage 2 when their credit improves such that it no longer meets the above criteria at which point, they will move to stage 1 or stage 2 depending on whether they meet SICR criteria.

Write-offs

Uncollectable loans and receivables are written off against the related allowance for loan impairment on completion of the Group’s internal processes and when all reasonably expected recoverable amounts have been collected. Subsequent recoveries of amounts previously written off are credited to the income statement. The timing and extent of write-offs may involve some element of subjective judgement. Nevertheless, a write-off will often be prompted by a specific event, such as the inception of insolvency proceedings or other formal recovery action, which makes it possible to establish that some or the entire advance is beyond realistic prospect of recovery.

Expected life
ECL is calculated either over the contractual life of the financial asset or the period over which the Group is exposed to credit risk. For lease receivables and other secured loans, this is the contractual life and for unsecured loans and advances, the lifetime is the behavioural life of the financial asset.

Origination date
This is the date at which the origination credit risk score of the asset is determined and this is referenced at each reporting period when assessing significant increase in credit risk.

ECL model changes during the year
During the year, the Group built a new macro-economic model for its consumer finance portfolio to better reflect ECL using the correlation between the historical defaults and a set of macro-economic variables. The macro-economic variables identified as having the most significant impact on historical defaults are UK unemployment rate, real household disposable income, average weekly earnings and total UK consumer debt. For these macro-economic variables, the Group has determined corelation coefficients representing the extent to which ECL is likely to be impacted by changes in these macro-economic variables. The correlation coefficients are then applied to four possible scenarios with the corresponding probability weightings, outlined below, in order to determine a probability weighted ECL provision.

The net impact of this change was £5.1m increase in ECL provision during the year.

Forward looking macro-economic assumptions
The Group has developed an in-house macro-economic model to establish the correlation between historical default rates and a set of macroeconomic variables over a period of time. The model provides an estimate of the impact to ECL arising from a movement in a set of macroeconomic variables and those with the most significant correlation are selected as inputs to the ECL provision model.

The Group has engaged with a third party to obtain macro-economic forecasts for UK unemployment rate, real household disposal income, average weekly earnings and total UK consumer debt and UK GDP growth under four scenarios (base, upside, downside and severe downside). As with any economic forecasts, the projections and likelihood of occurrence are subject to a high degree of subjectivity and uncertainty therefore the actual outcomes may be significantly different to those projected.

The Group has identified UK unemployment rate, real household disposal income, average weekly earnings, total UK consumer debt and UK GDP growth as the key variables with the strongest correlation with expected loss rates and therefore the most significant inputs for IFRS 9 ECL models. The macroeconomic data is assessed and reviewed on a quarterly basis to ensure appropriateness and relevance to the ECL calculation, with more frequent updates provided as and when the circumstances require them.

During the year, the Group ran an additional scenario to take into account the increased risk of a banking contagion following the collapse of Silicon Valley Bank. This scenario replaced the standard banking contagion scenario used last year with the same probability weighting of 5%.

Outlined below are the three year forward looking averages for key macroeconomic variables used in the ECL models, along with the chosen scenarios and the associated probability weightings.

31 March 2023

	UK unemployment rate	Average weekly earnings	Total UK consumer debt (£tn)	Weighting
Upside	3.87%	£698	£1.89tn	30%
Base case	4.37%	£680	£1.93tn	40%
Downside	5.28%	£661	£1.97tn	25%
Severe downside	7.05%	£631	£1.95tn	5%

	Real Household disposable income (£bn)	UK GDP growth	Weighting
Upside	£364.2bn	5.98%	30%
Base case	£349.3bn	3.16%	40%
Downside	£335.2bn	0.32%	25%
Severe downside	£324.5bn	(5.48%)	5%

31 March 2022

	UK unemployment rate	Debt to income ratio	GDP growth	Weighting
Upside	3.97%	1.117	4.46%	30%
Base case	4.43%	1.170	2.85%	40%
Downside	4.96%	1.228	1.33%	25%
Severe downside	6.32%	1.300	(0.90%)	5%

The calculation of the Group's ECL provision on consumer finance receivables is sensitive to changes in the chosen weightings as highlighted above. The effect on the closing modelled provision of each portfolio as a result of applying a 100% weighting to each of the selected scenarios is shown below:

	Mar-23 £m	Mar-22 £m
Probability weighted modelled ECL provision	38.7	33.6
Upside	36.7	31.9
Base	38.4	33.5
Downside	40.8	35.6
Severe downside	45.5	39.2

The Group's ECL provision on consumer finance receivables is also sensitive to changes to the loss rate %. The effect of a 15% increase in loss rate would result in £11.5m increase (2022: £8.6m increase) in ECL provision. Conversely, the effect of 15% decrease in loss rate would result in £10.9m reduction (2022: £9.5m decrease) in ECL provision.

Post Model Adjustments ("PMAs")

PMAs supplement modelled ECL provision when it is considered that not all the risks identified in a portfolio have been accurately reflected within the models or for other situations where it is not possible to provide a modelled outcome.

During the year, the Group applied PMAs amounting to £4.8m (2022: £5.0m) to its consumer finance receivables. This reflects heightened credit risk from the current cost of living and affordability crisis driven by high energy prices and global supply chain issues.

Simplified approach

For trade and lease receivables, the Group measures ECL based on the simplified approach, as set out in its accounting policy in note 2.3(m).

The portfolio consists of hire purchase, finance lease and other short-term receivables, largely secured on physical assets that can be repossessed and sold in the event of default. The Group's ECL provision under the simplified approach consists of the modelled provision of £18.4m (2022: £15.0m) and forward looking macro-economic overlay of £3.9m (2022: £1.3m).

The following table sets out the Group's gross loans and receivables by credit risk category under the simplified approach.

Gross loans and advances to customers - Simplified approach

	2023 £m	2022 £m
Very low risk	946.3	626.5
Low risk	293.4	506.9
Moderate risk	461.9	373.1
High risk	48.2	86.5
Ungraded	121.6	132.7
Individually impaired	5.7	4.0
Gross carrying amount	**1,877.1**	**1,729.7**
Trade receivables	76.7	70.0
Gross Exposure	**1,953.8**	**1,799.7**

Those categories that are 'ungraded' have not been specifically rated by the business for various reasons such as a lack of relevant or comparable information, or the fact that they are short term in nature and are perceived to be low in inherent risk.

'Individually impaired' represent agreements which meet the Group's default definition and therefore subject to specific ECL allowance calculated on a case-by-case basis.

The following table sets out the Group's ECL allowance and coverage ratio under the simplified approach.

ECL allowance and coverage ratio - Simplified approach

	31 March 2023	31 March 2022
Gross exposure (£m)	1,953.8	1,799.7
ECL allowance (£m)	18.4	15.0
Coverage ratio	0.9%	0.8%

General approach

For instalment finance receivables, the Group measures ECL based on the general approach, as set out in its accounting policy in 2.3(m). The portfolio is categorised into three stages for the purpose of assessing ECL allowance, as outlined below.

Credit risk categorisation	Expected credit loss (ECL) calculation period	Description
Stage 1	12 months	Receivables that are not credit-impaired on initial recognition and have not experienced a significant increase in credit risk.
Stage 2	Lifetime	Significant increase in credit risk has occurred since initial recognition or the receivables are more than 30 days past due or missed two payments, if shorter.
Stage 3	Lifetime	Receivables are credit-impaired (i.e., in default or subject to special collections strategy) or more than 90 days past due or missed three payments if shorter.

The Group's ECL provision under the general approach consists of modelled provision, including macro-economic adjustments, amounting to £40.3m (2022: £36.3m) and Post Model Adjustment £4.8m (2022: £5.0m).

The following table sets out the gross credit risk exposures by IFRS 9 stage allocation (general approach):

As at 31 March 2023	Stage 1	Stage 2	Stage 3	Total
Gross Exposure (£m)	3,233.7	195.6	96.0	3,525.3
ECL Allowance (£m)	12.1	16.9	16.1	45.1
Coverage ratio	0.3%	8.7%	16.8%	1.3%

As at 31 March 2022	Stage 1	Stage 2	Stage 3	Total
Gross Exposure (£m)	3,011.9	217.9	94.6	3,324.4
ECL Allowance (£m)	10.2	18.9	12.2	41.3
Coverage ratio	0.3%	9.7%	14.4%	1.2%

The following table sets out the Group's instalment finance receivables by credit risk category (general approach):

	Stage 1 £m	Stage 2 £m	Stage 3 £m	2023 £m	2022 £m
Very low risk	765.8	0.2	2.0	768.0	725.3
Low risk	1,734.1	0.3	31.1	1,765.5	1,729.5
Moderate risk	523.6	70.1	22.1	615.8	614.7
High risk	112.1	118.9	15.5	246.5	207.1
Ungraded	98.1	0.3	-	98.4	11.9
Individually impaired	-	5.8	25.3	31.1	35.9
Gross carrying amount	**3,233.7**	**195.6**	**96.0**	**3,525.3**	**3,324.4**

During the year, the Group replaced external credit scores with internal behaviour scores for assessing credit quality for IFRS 9 ECL measurement. The impact of this change was to re-classify receivables from "very low risk" to "low risk".

The following table sets out the reconciliation of movements in instalment finance receivables and related ECL provision (general approach):

Gross loans and advances to customers

	Stage 1 £m	Stage 2 £m	Stage 3 £m	2023 £m	2022 £m
Balance at 1 April 2022	3,011.9	217.8	94.6	3,324.3	2,936.4
Stage transfers	(182.1)	55.6	65.6	(60.9)	0.2
New business	2,458.5	0.2	-	2,458.7	2,233.0
Receivables repaid or written-off	(2,054.4)	(78.0)	(64.2)	(2,196.6)	(2,222.5)
Changes to models/risk parameters	-	-	-	-	377.3
Balance at 31 March 2023	**3,233.9**	**195.6**	**96.0**	**3,525.5**	**3,324.4**

ECL allowance

	Stage 1 £m	Stage 2 £m	Stage 3 £m	2023 £m	2022 £m
Balance at 1 April 2022	10.2	18.9	12.2	41.3	40.7
Stage transfers	-	(10.6)	10.9	0.3	-
New business	6.8	-	-	6.8	8.0
Receivables repaid or written-off	(4.9)	8.8	(7.0)	(3.1)	(10.9)
Changes to models/risk parameters	-	-	-	-	2.6
Other movements	(0.1)	(0.1)	-	(0.2)	0.9
Balance at 31 March 2023	**12.0**	**17.0**	**16.1**	**45.1**	**41.3**

Liquidity Risk and Funding Management

Liquidity risk is managed by the Treasury Committee and reviewed regularly. The Group's objective is to maintain a balance between continuity of funding, flexibility and cost through the use of borrowings with a range of maturities. The term of each borrowing is determined by considering the market conditions of each of the Group's debt instruments, funding cost and correlation with the Group's receivables. Included under funding sources below, is a list of undrawn facilities that the Group has at its disposal. In addition, the Group has committed and uncommitted money market and overdraft facilities to provide short term financing.

Over the past few years there has been increased focus on Green Financing and MHCUK is carefully considering its impact on the environment and ways to make the business more sustainable and help customers to reduce their GHG emissions. More details on this can be found in MHCUK's annual ESG report.

MHCUK has, recently, published a Green Financing Framework and it has obtained a Second Party Opinion from Sustainalytics, ESG data and research company. This opinion has been pivotal in MHCUK issuing two green bonds in 2021/22 for the value of $40m (maturing April 2024) and EUR 325m (maturing October 2024). At the balance sheet date, the directors do not anticipate significant impact from climate related risks on MHCUK's existing debt financing, but MHCUK is moving towards more sustainable debt financing to mitigate against this risk in the future.

The table below summarises the gross contractual maturity profile of the Group's financial liabilities. All derivatives used for hedging purposes are shown by maturity, based on their contractual undiscounted repayment obligations.

	< 1 yr £m	**1-2 yrs £m**	**2-3 yrs £m**	**3-4 yrs £m**	**4-5 yrs £m**	**5-6 yrs £m**	**> 6 yrs £m**	**Total £m**
At 31 March 2023								
Non derivative financial liabilities:								
Foreign currency denominated borrowings	(2,294.2)	(1,321.5)	(581.7)	(145.4)	(272.0)	(145.3)	(25.0)	(4,785.1)
Sterling borrowings	(752.8)	(508.2)	(10.4)	(5.2)	-	-	-	(1,276.6)
Securitisation	(364.1)	(182.0)	(73.4)	(24.0)	(2.7)	(0.3)	-	(646.5)
Lease liabilities	(6.6)	(5.9)	(4.1)	(2.6)	(1.9)	(1.2)	(1.0)	(23.3)
Trade payables	(418.5)	-	-	-	-	-	-	(418.5)
Financial Guarantees	(1.2)	-	-	-	-	-	-	(1.2)
	(3,837.4)	**(2,017.6)**	**(669.6)**	**(177.2)**	**(276.6)**	**(146.8)**	**(26.0)**	**(7,151.2)**
Derivative financial liabilities:								
Foreign currency receipts relating to FX swaps	548.1	-	-	-	-	-	-	548.1
Foreign currency receipts relating to cross currency swaps	1,502.5	1,179.8	478.2	70.2	271.9	145.2	24.9	3,672.7
Payments relating to interest rate swaps	(85.0)	(39.4)	(19.0)	(13.3)	(6.9)	(0.6)	(0.2)	(164.4)
Receipts relating to interest rate swaps	151.5	71.8	30.5	18.1	8.8	1.9	0.5	283.1
Sterling payments relating to cross currency swaps	(1,752.6)	(1,245.8)	(511.8)	(78.8)	(285.9)	(143.8)	(24.5)	(4,043.2)
	364.5	**(33.6)**	**(22.1)**	**(3.8)**	**(12.1)**	**2.7**	**0.7**	**296.3**

	< 1 yr £m	1-2 yrs £m	2-3 yrs £m	3-4 yrs £m	4-5 yrs £m	5-6 yrs £m	> 6 yrs £m	Total £m
At 31 March 2022								
Non derivative financial liabilities:								
Foreign currency denominated borrowings	(1,443.3)	(509.4)	(869.3)	(101.3)	(74.5)	(32.8)	(170.8)	(3,201.4)
Sterling borrowings	(476.2)	(629.0)	(297.8)	(10.3)	(5.1)	-	-	(1,418.4)
Securitisation	(343.3)	(175.1)	(73.5)	(23.0)	(4.6)	(0.5)	(0.1)	(620.1)
Lease liabilities	(2.1)	(2.0)	(2.0)	(2.0)	(1.8)	(1.4)	(1.9)	(13.2)
Trade payables	(338.0)	-	-	-	-	-	-	(338.0)
Financial Guarantees	(1.5)	-	-	-	-	-	-	(1.5)
	(2,604.4)	**(1,315.5)**	**(1,242.6)**	**(136.6)**	**(86.0)**	**(34.7)**	**(172.8)**	**(5,592.6)**
Derivative financial liabilities:								
Foreign currency receipts relating to FX swaps	(379.6)	-	-	-	-	-	-	(379.6)
Foreign currency receipts relating to cross currency swaps	(1,058.9)	(509.4)	(869.3)	(101.3)	(74.5)	(32.8)	(170.8)	(2,817.0)
Sterling payments relating to cross currency swaps	834.9	527.0	969.0	105.7	79.2	32.1	177.8	2,725.7
	(603.6)	**17.6**	**99.7**	**4.4**	**4.7**	**(0.7)**	**7.0**	**(470.9)**

Where derivatives are used to hedge an underlying exposure, the cashflows of the derivative instrument exactly match those of the underlying hedged item and are all held to maturity so that the only significant expected source of hedge ineffectiveness under hedge accounting standard is due to value adjustments to derivatives in fair value hedge relationships.

The Group has a central treasury function which provides finance for the Group's operations and manages treasury risks in accordance with policies approved by the Board and Treasury Committee. The Treasury Committee consists of the CEO, the Finance Director and the Group Treasurer. The major risks to the Group are liquidity, movement in foreign exchange rates, interest rate movements and counterparty credit risk.

The Group's principal sources of funding are European medium term notes, a securitisation programme, two commercial paper programmes, uncommitted bank facilities and a certain amount of borrowings from the Mitsubishi Group of companies. Rate risks on these funding sources are managed using derivative financial instruments.

The Group accesses a variety of markets to raise finance and issues both fixed and floating rate debt in a number of different currencies. All foreign currency borrowings are swapped into Sterling upon issuance to either floating interest rate linked to sterling LIBOR or at a fixed rate in sterling. The exception being the foreign currency borrowings used to fund foreign currency assets.

All interest bearing borrowings are subject to risk management in accordance with the Group's risk management policies on interest rate risk management. As a result, a certain proportion of the floating rate borrowings will be fixed by entering into Sterling interest rate swaps.

Funding sources

The Group has a number of funding options and regularly reviews alternative sources of financing. In selecting the most appropriate source of funding at any point in time, factors such as market conditions, interest rate levels, liquidity and the profile of the assets being funded are considered.

The Group's core funding programmes and facilities are as follows:

The European medium term note programme and both commercial paper programmes are supported by a guarantee from Mitsubishi HC Capital Inc and consequently are rated 'A-/A2' by Standard & Poor's.

The uncommitted facilities from relationship banks consist of unsecured short term money market and overdraft facilities. Drawings under these facilities are generally for periods of between one day and three months.

	Amount drawn 2023 £ m	Capacity available 2023 %	Amount drawn 2022 £ m	Capacity available 2022 %
European medium-term note programme	3,483.8	16.0	3,350.4	11.0
European commercial paper programme	553.5	48.0	379.6	58.0
Committed securitisation programme	600.4	-	599.1	6.0
Uncommitted short-term facilities from relationship bank	79.3	86.0	142.8	72.0
Uncommitted long-term facilities from relationship bank	1,231.3	30.0	699.7	59.0
Other loans from banks	559.6	-	-	-
Committed JPY 43bn multi-currency joint MHC Group Global facility	-	100.0	-	-
Total Borrowings	**6,507.9**	**-**	**5,171.6**	**-**

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Financial instruments affected by market price risk include loans and receivables, interest bearing borrowings and derivative financial instruments.

The Group's particular activities expose it to the risk of changes in foreign currency exchange rates and sterling interest rates.

Interest rate risk

Most of the Group's assets are at a fixed rate of interest so there is a risk of financial loss if the actual funding cost for these assets rises above the rate at which they were priced when originated. This risk is managed using interest rate derivative financial instruments, specifically interest rate swaps. Interest rate exposure is managed by duration, matching the fixed rate receivables and operating lease portfolio against the combination of fixed rate debt and the interest rate derivatives portfolio.

Borrowings arranged at fixed interest rates expose the Group to fair value interest rate risk and those arranged at floating rates have cash flow interest rate risk.

The Group's policy is to hedge its exposure to variations in sterling interest rates. The degree to which borrowings are rate fixed, as compared to the size of the Group's underlying fixed rate assets, is expressed as a target ratio (calculated using interest rate sensitivity analysis on the assets and liabilities) which is set by the Treasury Committee and reported to the Board on a quarterly basis and is generally within a range of between 50% and

120%. The maturity profile of fixed borrowings versus assets is reviewed at least monthly to monitor compliance to the set policy target.

Foreign exchange risk

This is the risk that the value of the Group's foreign currency denominated assets and liabilities are adversely impacted by changes in exchange rates. The Group's currency risk mainly arises from foreign currency borrowings. The carrying amount of the Group's foreign currency denominated monetary liabilities at the reporting date is set out in note 18.

The Group policy is to eliminate all foreign currency risk on borrowings by entering into cross currency swaps which convert non-sterling obligations under the debt issuance into sterling obligations. Currency debt raised under the medium term note and commercial paper programmes is 100% hedged at the time of drawdown unless foreign currency proceeds are required to fund foreign currency denominated assets. Currency rate risk will therefore only arise in the unlikely event of a swap counterparty defaulting on its non-sterling obligations. As at 31 March 2023 and 31 March 2022, all currency exposures on non-sterling debt were 100% hedged. This risk is also monitored monthly.

Market Risk Mitigation

The Group enters into a variety of derivative financial instruments to manage its exposure to these risks, including;

- Interest rate swaps to mitigate the risk of rising interest rates, and
- Cross currency swaps and short term FX swaps to mitigate the exchange rate risk arising on issuance of debt in foreign currency.

Interest rate swap ("IRS") contracts

Under interest rate swap contracts, the Group agrees to pay or receive the difference between variable and fixed interest rates calculated on an agreed notional principal amount. Such contracts allow the Group to mitigate the risk of changing interest rates on the cash flows of issued variable rate debt held and to a lesser extent the fair value of fixed rate debt held. The fair value of IRSs at the year-end have been determined by discounting the future cash flows for each contract using the yield curve as at the end of the year and the credit risk inherent in the contract.

Interest swaps settle on a monthly, quarterly, or semi-annual basis and use LIBOR reference rates on the floating side of the swap. The Group settles on the difference between the fixed and floating interest rate on a net basis and, therefore, the Group recognises net derivative assets and liabilities based on overall exposure to individual counterparties.

Floating to fixed IRSs, where the Group pay fixed and receive floating interest, are designated for accounting purposes as cash flow hedges to reduce the variability of charges to the Group's income statement. In some cases, although the IRSs economically hedge the Group's cash flow exposure, they cannot be designated as cash flow hedges under IFRS 9 instead they are classified as fair value hedges.

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates as at the reporting date and the stipulated change taking place at the end of the current financial year and persisting for the coming financial year. A 100 basis points change is used when reporting interest rate risk internally to key management personnel and represents management's assessment of a reasonably possible change in interest rates.

At the reporting date, if interest rates had been 100 basis points higher and all other variables were held constant:

- Net profit would be debited by £10.5m (2022: debited by £10.2m). This is mainly attributable to the Group's exposure to interest rates on variable rate borrowings.
- Other equity reserves would be credited by £59.6m (2022: credited by £54.9m) mainly as a result of the change in mark to market valuation of interest rate swaps in designated hedging relationships.

The evaluation of a decrease of 100bp in Sterling interest rates is uncertain as this currently would imply a negative 3 month GBP Libor rate which may or may not be reflected in the remainder of the Sterling interest rate yield curve. However, a 10bp decrease in interest rate, reflected evenly across the yield curve, would result in Net profit being credited by £1.0m (2022: credited by £1.0m) and other equity reserves debited by £6.0m (2022: debited by £5.5m) approximately.

Cross currency swap contracts
The Group utilises cross currency swaps and short term FX swaps to hedge against the foreign currency exposure that arises from the issuance of debt in foreign currency. The contracts are for the full amount of the foreign currency debt raised unless currency proceeds are required to fund currency denominated assets.

Foreign currency sensitivity
The Group's sensitivity to any reasonable depreciation or appreciation of GBP against foreign currencies would have no material impact on the Group as all foreign currency debt is hedged using derivative instruments.

Information concerning the Group's cross currency swaps is included in note 17.

Fair value hedges
Fair value hedges are used by the Group to protect it against changes in the fair value of financial assets and financial liabilities due to movements in foreign currency exchange and interest rates. The hedged items include foreign currency borrowings and both listed and unlisted debt instruments. The Group uses cross currency swaps to hedge against specifically identified foreign currency and interest rate risks.

Cash flow hedges
The Group is exposed to variability in future interest cash flows on non-trading assets and liabilities which bear interest at a variable rate. The Group uses interest rate swaps as cash flow hedges of these interest rate risks. Also, because of firm commitments in foreign currencies, such as foreign currency debt, the Group is exposed to foreign exchange and interest rate risks which are hedged with cross currency interest rate swaps.

Capital risk management
The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes borrowings disclosed in note 18, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in note 25 and the statement of changes in equity on page 87. The Board of Directors reviews the capital structure on a semi-annual basis. As a part of this review the Board considers the cost of capital and risks associated with each source of funds. The Group will balance its overall capital structure through the payment of dividends to or capital injection from the parent company.

35 NON ADJUSTING EVENTS AFTER THE FINANCIAL PERIOD

The Directors recommend a final dividend of £46.0m (9.9p per share), relating to year ended 31 March 2023. There were no other subsequent events after the reporting period ended 31 March 2023.

Company Information

Mitsubishi HC Capital UK PLC is a public company limited by shares, registered in England & Wales under number 1630491. Mitsubishi HC Capital Inc., a company incorporated in Japan, is the ultimate parent undertaking and the ultimate controlling party of the smallest and the largest group to consolidate the financial statements of Mitsubishi HC Capital UK PLC. Copies of the financial statements of Mitsubishi HC Capital Inc can be obtained from its registered office: 5-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo, 100-6525, Japan.

Chairman
A.Hughes

Chief executive officer
R. Gordon

Other directors
S. Herbert
M Mizutani

Company secretary
J.N.M. Sims

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Surrey
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Auditors
Deloitte LLP
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Registered offices and business addresses for Mitsubishi HC Capital UK PLC, its subsidiaries and its affiliates (together, "the Group") are shown below.

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