MITSUBISHI HC CAPITAL UK PLC

Annual Report and Consolidated Financial Statements
Year Ended 31 March 2022


Novuna®

Contents

Mitsubishi HC Capital UK PLC 2021/22 highlights

Financial Results

£130.0m
Profit before tax

25%
Rise in profit compared to 2020/21

£6.5bn
Net Earning Assets

£4.1bn
Volume of new business

2.1%
Pre-Tax Return on APE

11.1%
Post-tax Return on Equity

Our Wider Business

1,600 employees
We employ 1,600 people across five UK offices and in three European countries

85% employee engagement
In our October 2021 Insights Survey, 85% of colleagues said they would recommend MHCUK as a great place to work

13 Graduates recruited
We launched our first company-wide Graduate scheme with 13 young people joining the two-year programme

International
Active in 22 European Countries

£0.3m
We donated over £274,000 to charity via match funding and corporate donations

4.9/5.0
Novuna Personal Finance has a consistent Feefo rating of 4.9 and above out of 5 from over 4,000 reviews

94/100
Consumer Finance scored 94.0 out of 100 for customer satisfaction – above the average for banks and building societies of 80.2

11th
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 4.5 out of 5

% share of total Net Earning Assets and Profit Before Tax

Business Cash Flow
2%
£1.7m

European Vendor Finance
5%
£3.1m

Business Finance
24%
£25.0m

Consumer Finance
46%
£58.6m

Vehicle Solutions
23%
£54.2m

Corporate
(£12.6m)

Our Awards

MHCUK Group

- Ranked 11th Best Place to Work in The UK
  Glassdoor Employee's Choice Awards 2022
- Gold EcoVadis Sustainability Rating
  (July 2021 – July 2022)
- Bronze - Best Execution
  Corporate Engagement awards 2021
- Group - Award for People Development
  The Learning awards 2022
- Company Award for Sustainability
  Credit Awards 2021
- 40th Most Inclusive Employer
  Inclusive Top 50 UK Employers 2021/22

Business Finance

- Best Response to Covid-19
  Asset Finance Connect Awards 2021
- Best Business Motor Finance Provider
  Business Moneyfacts Awards 2021
- Best Service from an Asset Based Finance Provider
  Business Moneyfacts Awards 2021
- Sustainability Challenge
  Leasing World Gold Awards 2021

Business Cash Flow

- Best Invoice Finance Provider
  Lending Awards 2021
- Best Service from an Invoice Finance Provider
  Business Moneyfacts Award 2022 (Two years in a row)
- SME Lender of the Year
  Credit Today Awards 2021

Consumer Finance

- Best Personal Loan Provider
  YourMoney.com Personal Finance Awards (eighth year running)
- Gold - Best Flexible Working Approach
  European Customer Contact Centre Awards 2021
- Best Vulnerable Customer Support
  Credit Strategy Vulnerability Gala 2021
- Best Personal Loans Lender
  Personal Finance Awards 2021/22 (eighth year running)
- Platinum Trusted Service
  Feefo Awards 2022
- Bronze - Heroes in a Pandemic
  UK Business Awards 2021

Vehicle Solutions

- Leasing Company of the Year (20,000+ vehicles)
  Fleet News Awards 2022 (four years running)
- Service Maintenance and Repair
  Company Car Today Innovation Awards 2021
- Green Initiative Award
  Business Car Awards 2021
- Leasing Company of the Year (25,000+ vehicles)
  Business Car Awards 2021
- Sustainable Customer Service Award
  UK Customer Satisfaction Awards 2021 (The Institute of Customer Service)

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 2022. The Group financial statements, starting on page 100, comprise the consolidated financial statements of the Company, including its subsidiaries as defined by international accounting standards as 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 1,600 employees, £7.1bn of total assets and nearly 1.3 million customers across five business divisions; Consumer Finance, Vehicle Solutions, Business Finance, Business Cash Flow and European Vendor Finance providing innovative finance solutions to enable consumers and businesses to grow and prosper.

Following the merger of Mitsubishi UFJ Lease and Finance Company Limited and Hitachi Capital Corporation in 2021, we are now part of Mitsubishi HC Capital Inc., 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 Capital (UK) PLC, the Company has led the way in providing finance to enable consumers and businesses to achieve their ambitions. From 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 2021/22. Mitsubishi HC Capital UK PLC achieved record profit before tax of £130.0m, a 25% year-on-year increase, along with a 19.6% increase in new business volumes to £4.1bn.

Novuna Consumer Finance ("NCF") is one of the UK's leading consumer lending providers of retail point of sale finance and award-winning personal loans. In the year ended 31 March 2022, Consumer Finance generated a profit before tax of £58.6m. Our retail finance business increased lending by 18% to over £1.3 billion during the year through more than 3,000 high street and online retail partners. Over the past 12 months, as our retail business responded to demand for digital point of sale products and flexible repayment terms, we increased our volume of lending via e-commerce channels by over 34% and implemented a soft search (a type of search that leaves no trace on customers' credit reports) product providing tailored offers for applicants. Our personal loans business, Novuna Personal Finance is one of the top 10 providers of personal loans in the UK, serving over 1.2 million UK customers. Despite suppressed consumer lending during the financial year, we achieved £900m in new business and maintained our market share. The business continued investing in new digital technologies to provide levels of service, outperforming industry benchmarks; in the latest Institute of Customer Service Independent survey, we achieved an outstanding rating for customer satisfaction, above the average for banks and building societies.

Novuna Vehicle Solutions

Novuna Vehicle Solutions ("NVS") is one of the UK's leading vehicle finance companies, operating over 98,000 assets, from cars, vans and HGVs to plant and machinery. By increasing its revenues in the contract hire fleet, supported by the unprecedented strength of the used vehicle market, the business recorded a 175% increase in profit before tax from £19.7m to £54.2m during the year ended 31 March 2022. By leveraging our multi-asset proposition to generate new customer acquisitions, Novuna Vehicle Solutions consolidated its standing as one of the UK's largest vehicles leasing companies, recording the largest percentage growth of the Fleet News FN50 top 10 providers. Our end-to-end decarbonisation strategy is delivering cost and environmental efficiencies for fleets of all complexities as they transition to electric vehicles from vehicle leasing and management to infrastructure and energy storage. Named by Fleet News as Leasing Company of the Year (more than 20,000 vehicles) for the fourth consecutive year running, Novuna Vehicle Solutions is supporting many of the UK's largest operators transition from traditional fleets to a greener fleet mix.

Novuna Business Finance

Novuna Business Finance ("NBF") is the fifth largest provider of asset finance to SMEs and larger corporations in the UK, with total assets of £1.6 billion. Across a wide range of industries, Novuna Business Finance provides financial solutions for businesses through brokers, distributors and manufacturers. Our products include hire purchase, finance lease solutions, stocking finance and block discounting. Supported by new digitally led application processes providing better credit decisions for brokers and vendors, Novuna Business Finance achieved new business volume of £820m, 8% up on last year's £758m. In the year ended 31 March 2022, Novuna Business Finance launched a block discounting facility at favourable rates for sustainable technologies, supporting the Group's sustainability targets.

Novuna Business Cash Flow ("NBCF") 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. Our business has continued to remain at the forefront of the cash flow industry, providing innovative underwriting solutions and incorporating market-leading digital processes throughout the agreement journey to help SMEs maintain liquidity. Providing clients with a proposition which includes 24hr onboarding and flexible contracts, Novuna Business Cash Flow generated a 162% increase in new funding transactions with new clients in the year ended 31 March 2022 and achieved profit before tax of £1.7m from the previous loss-making year.

"From 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."

European Vendor Finance ("EVF") provides bespoke end-to-end finance solutions for specialist assets throughout the whole product lifecycle. Working with our parent company in Japan, we support the sales and distribution channels for Mitsubishi and Hitachi Group companies, as well as key Group and global accounts, with financial solutions for funding stock, demonstration equipment, end user and second-hand equipment. In the year ended 31 March 2022, European Vendor Finance's profit before tax grew by 12% from £2.8m to £3.1m and we increased our volume of business by 22%. Our European business division continues to be active in 22 countries having a direct presence in London, Amsterdam, Dublin, Helsinki and a transactional capability in Belgium. By expanding the range of vendors we support and market sectors we operate in, European Vendor Finance continues leading the expansion of the Group internationally.

Chairman's Statement

Guy Munnoch
Chairman of the Board

Results

We commenced the year with hope that the worst of the pandemic was behind us, and the wider economy would rapidly recover to pre-pandemic levels of economic activity. In reality, however, the road to recovery is never smooth.

The transition from lockdown to growth has stuttered and stalled in the last year and we have been beset by events that would have been considered highly unlikely at the beginning of the financial year. The success of the vaccination programme and falling unemployment have been remarkable achievements, but they have been overshadowed by the invasion of Ukraine, the energy crisis, prolonged shortages of labour, goods and services and high inflation. All these factors are having a seismic effect, threatening the road to recovery.

On 1 April 2021, the business integration of our former parent company Hitachi Capital Corporation and Mitsubishi UFJ Lease and Finance Company Inc. was implemented to form the new integrated company, Mitsubishi HC Capital Inc., incorporated in Japan; our new ultimate parent company. In the UK, we did not merge our operation with other global subsidiaries as Mitsubishi UFJ Lease and Finance Company Inc. did not have any operations in Great Britain. The merger has resulted in a change of name for the company and the adoption of the Novuna and Mitsubishi HC Capital trading styles from 14 February 2022. A change of name and trading style is not an insignificant event as the brand collateral and systems that were established over the past forty years were built upon the strong global brand. The project to change the name and brand was meticulously planned and executed over the year and significant integration costs of £7.8m (Note 10) were incurred. The project was well executed and the new trading styles have been well received.

Despite the continued high level of uncertainty as the year unfolded, the Group recorded a record profit before tax and integration cost of £137.8m (£130m after integration costs) for the year ended 31 March 2022. The record performance represented an increase of 29.5% over the prior year (25% after integration costs). The Group was able to increase net earning assets by 9.2% and new business volume by 21.6%, which was well above the growth in the UK economy for the year of approximately 7.4%, which was predominately in the second quarter of 2021.

Outlook

The business is well diversified across commercial and consumer sectors with relatively small exposures to sectors of the economy that have been unable to operate due to the lockdowns. Supply chain issues have plagued most businesses during the past year, but the demand for asset finance and retail point of sale finance was strong and accelerated as the restrictions were slowly lifted in 2021. Again, we have strong demand for our products and extensive order books, which will be fulfilled as assets are constructed. We believe that leasing and additional forms of promotional finance help businesses and consumers to spread the cost of purchasing assets in fixed, affordable instalments over the period during which the benefits of those assets are derived. As we are in a rising interest rate and inflationary economy, affordable fixed rate finance helps make investment and major purchases a realistic opportunity and our growth in the prior year is evidence of the strong demand for our services.

The merger with Mitsubishi UFJ Lease and Finance Company Ltd has already brought new opportunities to the Group and we need to expand our pan European presence over the next five years to become an important financing partner for Mitsubishi companies in Europe.

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.

Dividend

No interim dividends were paid during the year (2021: £nil). The Directors have recommended a final dividend amounting to £41.6m, approximately 9.4p per share to be paid in June 2022. (2021: £25m, 2020 £nil). The dividend represents 40.5% of the Group's profit after tax and has been set at a level to maintain a gearing ratio consistent with our parent company at a conservative level of 6.0 (2021: 6.5). The Group will retain 59.5% of profit after tax to support growth plans in 2022 and maintain a consistent gearing with the parent company. It is our intention to maintain our gearing consistent with our parent company and growth expectations for the forthcoming year.

I would like to thank our parent company and my fellow Board members for their support during the year. It is Anne Whitaker's and my intention to retire in 2022 after our successors are approved and appointed to the Board. We would like to thank the employees and my fellow Board members for a very enjoyable appointment as we have overseen the company navigate a successful path through some interesting and challenging times. The team has always demonstrated outstanding leadership, strong management and above all developed a culture across the whole company which drives them to seeking good outcomes for their customers and remarkable financial performance. I look forward to following the progress of the team in the future and wish them all the success they deserve.

Guy Munnoch
Chairman of the Board
9 June 2022

> "The business is well diversified across commercial and consumer sectors with relatively small exposures to sectors of the economy that have been unable to operate due to the lockdowns."

Chief Executive Officer's Review

R. Gordon
Chief Executive Officer

2021 was a year of great promise as we emerged from the pandemic on the back of a successful vaccination programme. We commenced the financial year in the third lockdown of the pandemic, with economic activity still 8.7% behind pre-Covid-19 levels of GDP. We were still living with a high level of uncertainty, but there was an expectation for a return to growth in the wider economy. Due to the nature of our business and the development of our systems, our teams had fortunately adapted well to the lockdowns of the pandemic. We had managed to maintain a high level of staff engagement and customer service during the pandemic, so we did not spend the year continually planning to gear up and stand down a full-scale return to the office environment. Our focus remained upon maintaining a high level of employee safety, retention, and engagement, leading to delivering a high level of customer satisfaction and growth.

Our concerns in the early part of the financial year, which led to heightened uncertainty, were summarised as follows:

- Will the vaccination programme continue to be successful with emerging variants?
- Will there be disruption and unemployment as the Government withdraws support in 2021?
- Supply chain issues and unfilled job vacancies were rapidly rising, will this be a short-term issue?
- Increased price competition.
- Dramatic increase in used car prices due to lack of supply.
- Will we ever emerge from lockdowns?
- The medium-term impact of Brexit.

Unfortunately, many of those concerns were not short-term. Supply chain issues have not been resolved, shortages of labour and unfilled vacancies have doubled, inflation is expected to rise to double digits, interest rates are at their highest level for over 13 years, and we have an energy crisis and more recently a war in Europe.

On a positive side, the vaccination programme in the UK was very successful. We have emerged from lockdowns. The withdrawal of Government support did not cause widespread unemployment and our credit impairment losses were lower than expected. Unemployment in the UK fell from 4.9% at the beginning of the year to 3.7% at the end of the year despite furlough schemes ending in September 2021, which supported approximately 11.7 million jobs from 1.3 million employers over the pandemic.

It was a very unusual year as we emerged from the pandemic and the lockdowns with the economy initially growing at the fastest rate in 80 years and then grinding to a slowdown in growth in the last quarter of the year. As a team we managed to increase our new business volumes by 21.6% over the prior year to £4.1 billion, which was a very strong performance by an engaged team continually providing exceptional customer service.

> “It was a very unusual year as we emerged from the pandemic and the lockdowns with the economy initially growing at the fastest rate in 80 years and then grinding to a slowdown in growth.”

We had learned in the prior year that operating in a very uncertain economic environment required a clear vision to determine the key strategic actions to enable the Group to emerge from the pandemic successfully. The basic bedrocks of the business, being the mission, vision and values of the Group, are more than ever the foundation of the plan in very uncertain periods of trading to guide actions during the year. To deliver our mission of "exceptional people providing outstanding customer experiences today", we again needed a healthy, safe and engaged team. Our investment in people and systems were again not paused, as we continued to accelerate improved communication and digital enhancement with ever-increasing information security. We continued our plans for delivering on major system enhancements and implementations. We continued with our apprentice, graduate, and recruitment programmes and increased our workforce by 4%. We continued to supplement our financial key performance indicators with 90-day plans measuring:

- Employee Safety and Retention
- Employee Engagement
- Customer Satisfaction
- Liquidity
- Portfolio Quality
- Society's Expectations - Regulation, Reputation

Employee Safety and Retention

As a team, we adjusted well to the lockdown environment due to our investment in systems and communication in prior years. In the current financial year, we made no predictions to staff of a "big return to the office". We observed that bold announcements often had to be cancelled and adjusted as lockdowns were protracted and social distancing rules were not relaxed for most of the year. The "pingdemic" was very disruptive and the rules became very complex as people were not sure of the boundaries. To navigate a widespread return to the office would have been disruptive in 2021. We did have a core team throughout the year to perform essential activities that could only be performed from our network of offices, which was compliant with the Government Coronavirus Guidelines.

We were fortunate not to suffer any outbreaks or incidences in the offices and appreciate the efforts of the teams maintaining safety and the dedication of the office-based teams. Employee turnover from voluntary leavers has risen to 12.5% (2021: 6.3%), as employee mobility has improved over the year and we have not been immune to staff seeking a change in career after the pandemic.

Employee Engagement

To provide outstanding customer experiences it is essential to have an engaged team. 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 virtual team social events. We have found that the online communication has been invaluable to maintaining 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 11 in the UK for the Glassdoor Employees' Choice Awards - Best Places to Work in January 2022.

Customer Satisfaction

An engaged team generally provides outstanding customer experiences, which is reflected in our voice of the customer surveys across the business as well as in industry awards and significant gains in market share which occurred across all sectors, measured by the various trade associations for which we maintain active membership. The divisional highlight reports detail the various indexes used in each market sector. The tangible benefit is reflected in the volume of new business, which grew by 21.6% to £4.1 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 on our borrowings, nor utilise standby facilities or borrowing from our parent company. We did not seek or use Government supported borrowing 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 eliminate currency and mitigate interest rate risks. Analysis of borrowings and derivative financial instruments are summarised in notes to the financial statements. Our gearing has improved to 6.0 times (2021: 6.5 times) and is well within the limit of 25 times equity set out in the Company's Articles of Association.

In November 2021, the Group successfully issued a €325m Public Green Bond for exclusively financing eligible projects under the Green Financing Framework. In January 2022, the Group successfully issued a €350m Public Bond. The public bonds diversify the borrowing base and we will continue with this strategy in the coming year. The level of support we received during the year from our investors has again been outstanding 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 there be a severe downturn in the economy in 2022.

Improving Portfolio Quality

The Group's charge for bad debt impairment was £27.9m (2021: £41.9m). This represents a reduction of £14m primarily due to the success of the vaccination programme, Government Furlough Schemes and economic growth achieved as the economy recovered to pre-Covid levels of economic activity. Despite the improved performance, the Group has set aside a £5.0m Post Model Adjustment ("PMA") reflecting the heightened credit risk from the current cost of living and affordability crisis driven by high energy prices and global supply chain issues. This replaced the PMA of £4.1m which was in place last year to cover potential defaults arising from payment holidays.

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 2021 and 2022 reflects the stability in the credit quality of our portfolios during brief economic recession and subsequent period of growth.

Society's Expectations - Regulation, Reputation

We continue to strengthen our compliance, monitoring and quality 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 was a significant amount of new guidance from the Financial Conduct Authority and regulatory compliance continued to be a focus throughout the period.

We did not participate in the Government's furlough schemes, principally as we expected to trade profitably in 2020 and 2021. We did not participate in the Government Bounce Back Loan schemes as we perceived a high level of fraud risk. We did, however, offer loans under the Coronavirus Business Interruption Loans Scheme ("CBILS") and Recovery Loan Scheme ("RLS") in order to support our customers during the current and prior periods (note 16).

We have achieved exceptional growth in our Electric Vehicles Fleet with growth of EVs over the year of 155%. Our company car fleet policy is now 100% Ultra Low Emission Vehicles as we phase out the last 14% of diesel and petrol vehicles. New business levels for our alternative energy division were constrained due to supply chain issues and temporary unattractive investment returns. We expect these issues to be resolved in the coming year.

The Key Performance Indicators (KPIs).

	2022	2021
Statutory metrics		
Revenue	£883.9m	£744.4m
Gross profit	£349.8m	£290.1m
Profit before tax ("PBT")	£130.0m	£104.0m
Bad debt charge (i)	£27.9m	£41.9m
Net assets	£921.7m	£789.8m
Total assets	£7,117.8m	£6,514.9m
Number of employees	1,612	1,550
PBT growth	25.0%	(19.7%)
Pre-tax return on total assets	1.8%	1.6%
Bad debt charge as a percentage of total assets	0.4%	0.6%
Cost / gross profit ratio (ii)	50.5%	49.2%
Effective tax rate	21.0%	20.4%
Post-tax return on equity	11.1%	10.5%
Alternative performance measures ("APMs")		
Net income excluding disposal result	£318.8m	£287.4m
New business volume (iii)	£4,056.4m	£3,337.0m
Net Earning Assets ("NEA") (iv)	£6,469.7m	£5,925.5m
Average Principal Employed ("APE") (v)	£6,175.2m	£5,760.0m
Pre-tax return on APE	2.1%	1.8%
Gearing (vi)	6.0	6.5
Non-financial measures		
Percentage of battery powered electric vehicles on fleet	9.9%	3.9%
US Dollar Green Bond Issuance	-	$40m
Euro Green Bond Issuance	€325m	-
Employee Satisfaction Score (Score out of 5)	4.33	4.27
Charitable donations	£0.3m	£0.2m

(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 reflects 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.

Reconciliation of statutory gross profit to net income excluding disposal results

	2022 £m	2021 £m
Gross profit	**349.8**	**290.1**
Sale of operating leased assets	(186.7)	(121.7)
Disposal of operating leased assets	155.7	119.0
Net income excluding disposals	**318.8**	**287.4**

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 Group has been operating for nearly 40 years and reported the highest level of profit in the past year despite variable growth in the UK economy. Profit before tax increased by £26.0m, a 25% increase over the prior year. Our net income excluding disposal result was enhanced by growth in our assets (£31.4m increase over the prior year). Record profits were generated on the disposal of used vehicles over the previous year of £28.3m, 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 £14.0m. We did however incur additional costs of £5.4m over the previous year for the change in company name, trading style and associated IT expenses due to the integration of our parent company in Japan. Administration costs increased by £33.4m when compared to the previous year due to the increase in staffing, salaries and bonuses and an increase in IT depreciation as we have maintained and developed our systems. The Group has continued to review salaries and bonuses in line with the market and performance of individual employees throughout the pandemic and we have increased staffing levels to adjust to the increased workload with increased customer contact and rapid rise in new business volumes. Continuing to invest in systems and communication has enabled us to adapt to the changing environment and is key to our success. During the year, the carrying value of our investment in Gridserve, accounted for under the equity method, reduced by £8.5m as we recognised our share of losses incurred by the business. Gridserve are expected to record losses in the first five years of operations as the business builds capacity rapidly to meet the expected significant increase in demand for Electric Vehicle charging in the future.

The effective tax rate was increased to 21.0% (2021: 20.4%). as 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% (2021: 10.5%). No interim dividend was paid during the year (2021: £nil). The Directors have recommended a final dividend of £41.6m, 9.4p per share (2021: £25.0m) which represents 40.5% of the Group's profit after tax.

During the year, the Group continued to sell tranches of instalment finance receivables to a special purpose entity under the SOCA securitisation programme (note 33). These transactions resulted in full de-recognition of the financial assets from the Group's statement of financial position.

Performance Summary

I am proud of the team for their dedication and collegiate approach, which has enabled us to continue to provide our customers with a high level of service. I am also delighted with the support we have received from investors and banks around the world, which has enabled us to maintain a high level of liquidity. Lastly, I am delighted with our customers for their loyalty and patience to enable us to work with them to provide financial solutions as we all emerged from the pandemic conditions.

Business Continuity

The pandemic was a significant test for the business. Our ability to adapt and change has strengthened the business for the future. The continuous improvements in functionality and communication have made us a stronger and more flexible business.

We have stress-tested our portfolio to understand 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 13.6% and GDP to fall by 20% before the bad debt levels would results in zero profit in the 2022/23 financial year.

Brexit

The ongoing uncertainty of Brexit reduced the propensity for investment and has dampened economic growth in the UK over the past few years. The event was overshadowed by the global pandemic, but the impact of Brexit upon supply chains continues and is evidenced in the uneven nature of an economic recovery. Brexit also challenged us in how we would protect our pan-European business, leading to incorporation of our Dutch subsidiary several years ago, which has continued to grow profitably during the last year, diversifying our source of growth. We have continued to expand our European network, operating profitably across 22 European countries, providing vendor finance solutions to Hitachi, Mitsubishi Group companies and utilising the dealer network for other equipment manufacturers to gain access to Europe. We have continued to expand and trade profitably in a very difficult environment in 2021, which is a significant achievement for a new operation coping with travel restrictions in a business where relationships are key.

Merger with Mitsubishi UFJ Lease and Finance Company Ltd

In September 2020, Hitachi Capital Corporation (HCC), the Group's ultimate parent, announced that it would be merging with Mitsubishi UFJ Lease and Finance Company Ltd (MUL). The merger was completed effective on 1 April 2021 with HC being merged into MUL and MUL being renamed Mitsubishi HC Capital Inc ("MHC").

On 14 February 2022 we changed our name and adopted new trading styles in the UK and Europe. We incurred integration costs of £7.8m in the year (2021 £2.4m). We expect to incur future costs in the coming year in the region of £3.0m.

›

Outlook

We sincerely hope that the uncertainty created by the global pandemic is behind us and the successful vaccination programme has created some stability.

Our performance since 31 March 2022 has again been strong, with volume of business in April 2022 14% above the level of the previous year. The economy is still forecast to grow over the coming year however the supply chain issues are unlikely to clear for some time. The outbreak of War in Ukraine in February 2022 was a dreadful event and, again, it is difficult to foresee an early close. The conflict will have an impact in lower growth and increasing inflation, but forces were already acting in the wider economy to dampen growth and increase inflation. The conflict has added to uncertainty and increased pressure. Whilst we do not have any direct investment or exposure in the region, the conflict, sanctions, supply chain issues, and potential energy shortage is having a negative impact on UK growth and hence our growth expectations in 2022/23. We are also closely monitoring arrears and credit performance, however given our well-diversified portfolio and strong credit quality we are well positioned to manage the expected economic downturn.

Our people are vital to our success and it is important that all staff feel part of the Group. We appreciate and value differences and strive to create an engaging environment for everyone to contribute to the success of the Group. It has been invigorating developing new trading styles for the Group and we have used the events to reinforce our connection with staff and customers, which has been well received.

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 have continued to expand our mentoring and apprenticeship programmes throughout the past year.

Conclusion

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 and uncertain trading environment in 2021/22. The outlook for 2022/23 is still cautious optimism as the vaccination programme has enabled us to enjoy more freedoms, but we are constrained by many unresolved issues such as the supply chain, rising inflation and invasion of Ukraine. We remain committed to delivering good customer outcomes as well as continually improving the end-to-end customer experience, underpinned by targeted investment in our IT infrastructure and people.

A key part of our strategy is to work with, and deepen our relationships with, Hitachi group companies and Mitsubishi companies for the mutual benefit of all parties.

The Netherlands subsidiary provides us with a base to protect the European business we have built over the past few years and to enable further expansion into Europe.

On behalf of myself and the Board, I would like to take this opportunity to thank employees across Mitsubishi HC Capital UK PLC for their continued hard work and dedication in a great recovery and return to growth.

By order of the Board.

R. Gordon
Chief Executive Officer
9 June 2022

Divisional Review
Novuna Consumer Finance

Highlights

£58.6m
Profit before tax
(2021: £60.2m)

£2.3bn
Total new business volumes
(2021: £1.8bn)

£3.0bn
Total assets
(2021: £3.0bn)

£3.0 bn
Net Earning Assets
(2021: £3.0bn)

£22.2m
Bad debt charge
(2021: £30.7m)

0.7%
Bad debt charge as a percentage of total assets
(2021: 1.0%)

1.2m
UK customers

34%
Increase in lending volumes via e-commerce channels

Results and strategy

In a volatile market continuing to be impacted by the pandemic and significant supply chain issues, NCF maintained its standing over the past 12 months as one of the UK's leading providers of retail point of sale finance and personal loans, serving more than one million customers.

During the year, NCF generated profit before tax of £58.6m - a 2.5% decrease in profit from the previous year (2021: £60.2m). Despite enduring difficult trading conditions created by Covid-19 affecting consumer lending portfolios, we achieved new business volumes of £2.3 billion, an increase in new lending of £0.5bn up from last year's figure of £1.8 billion.

Successive lockdowns and social distancing restrictions impacted footfall for our high street retail partners during 2021/22. However, the gradual easing of social restrictions and increase in demand during the past 12 months led to consumer confidence slowly recovering, resulting in buoyant growth in sales across our key specialist retail sectors including furniture, electrical and home improvements.

Our focus is firmly on providing point of sale finance solutions for larger ticket items, as opposed to low-value, short-term credit. During 2021/22, we saw demand for store credit impacted by household savings accrued during lockdown, with consumers having greater disposable income to self-fund higher value products and services.

Covid-19 also continued to impact the unsecured lending credit landscape over the past 12 months with subdued demand for personal loans resulting in the market performing at around 75% of its size compared to pre-pandemic levels.

Despite the uncertainties over the last 12 months, we continued to invest in our people, products and systems to support the growth of our business, focussing on our five pillars: our employee proposition to retain and attract the best people to deliver our products; defend/grow our core retail and personal lending business; enhance our customer experience by investing in new technology and our people; actively manage risks and be compliant in a heavily regulated market; optimise our financial performance by effectively managing our cost base, margins and pricing.

Continued investment in our people is critical to our success and delivering on our brand promises. We have continued to recruit, increasing our headcount over the last 12 months. In January, we welcomed three graduates onto our first ever graduate apprenticeship scheme focusing on early career development to provide succession planning opportunities and to support the growth of the business. The two-year programme will provide a critical learning experience with each graduate spending time in different areas of our business, developing their skills and knowledge.

We also maintained exceptionally high levels of staff engagement whilst creating an environment of personal and professional development that ensures our people have the opportunity to fulfil their potential.

We've continued to leverage new technologies to further streamline the frictionless journey our customers expect which is a key priority for the business. Our digital service transformation responding to increased demand for self-service is pivotal to enhancing our proposition and meeting the needs and expectations of our retail partners and customers in the consumer lending market. We improved our underwriting and on-boarding experiences for both our retail and personal loans products with significant investment in both our front and back end systems.

Managing risk is vital, both for our customers, our partners and our long-term business performance. We have strengthened our capabilities in particular in financial crime management and introduced a number of measures in response to rising levels of fraud in the consumer lending market. This included integrating real time I.D. verification into our retail finance application process, transforming credit decisioning for retailers. To ensure we proactively address changes observed and anticipated in the economic environment we have a dedicated Risk team responsible for the management of the credit risks associated with both the Consumer customers and Retail partners. The team is responsible for the full life cycle management, from the credit assessment of new customer and retailers through to the collection's strategies and insolvency activities.

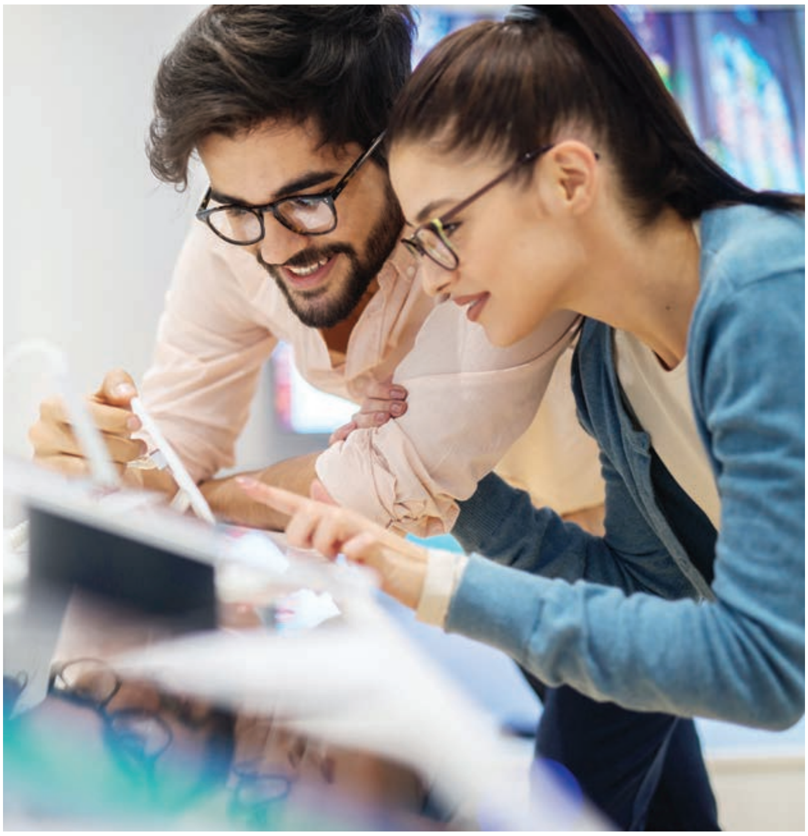
Retail point of sale

NCF is one of the UK's leading consumer lending businesses, providing retail point of sale finance and personal loans within the UK market. Over the last financial year, we supported over 3,500 retail partners from high street brand names to niche online ecommerce stores, providing fast, flexible finance solutions tailored to each retailer's needs that integrate into all channels.

> “We improved our underwriting and on-boarding experiences for both our retail and personal loans products with significant investment in both our front and back end systems.”

Despite challenging trading conditions exaggerated by supply chain pressures and volatility in consumer confidence, the retail finance market continues to grow. Driven in part by pent up demand amongst shoppers returning to the high street as lockdown restrictions eased in April 2021, our retail point of sale business lent more than £1.3 billion this year, up from £1.1 billion in 2020/21.

In line with changing consumer shopping behaviour accelerated by the pandemic, we continued to grow our ecommerce channel, onboarding and integrating on average two new retailers every week, lending over £200m, up 34% from the previous year. Working in partnership with our existing retail partners, we are helping them improve visibility and functionality of their ecommerce platforms to drive online sales conversions.



❮ We continued to invest in our customer experience and underwriting capabilities to support our retail partners migrating our retailers onto our new point of sale credit application decisioning system, CreditMaster3, providing a significant improvement to the on-boarding experience. Following an initial launch in the prior year, we migrated over 1,700 retailers to the new platform this year, with functionality which provides a faster, more streamlined customer journey for retail partners to maximise sales opportunities.

This year, we introduced new functionality to the retail market. In response to the cost of living pressures impacting some of our retail partners and customers' ability to afford the full credit amount applied for, we implemented a soft search product enabling improved credit decisioning with flexible repayment terms, turning initial application declines into accepts. This functionality allows our retail partners to provide tailored offers for applicants to suit their disposable income, facilitating extended loan terms with lower monthly repayments or reduced loan amounts.

Over the past twelve months we have also expanded our offering into sectors aligned with our Group strategy, increasing lending in the sustainable energy sector via funding for electric vehicle home charging points with plans to escalate our proposition in the renewable energy market in the year ahead.

Personal loans

The personal loans market continued to be impacted by the pandemic and successive lockdowns during much of 2021/22, limiting spending opportunities and dampening demand as the market continued to perform below pre-Covid levels. However, as restrictions eased and spending opportunities returned, CACI data confirms we maintained our market share this year in a competitive market where rates remain at low levels despite the increases in the Bank of England base rates over the past few months.

Despite the suppressed market remaining below pre Covid-19 levels, Novuna Personal Finance performed well in the market and lent over £940m, up from £648m in 2020/21 - a 45% increase in business volume, well above the market growth rate in personal lending to cement our position as one of the top 10 providers of personal loans in the UK.

Enhancing our proposition and reputation in a crowded market is a strategic priority for the business. This year, the strong growth in lending balances was achieved by improving new business process efficiency, leveraging our new CreditMaster3 platform. This year, we also launched a new underwriting process via aggregators and brokers based on soft search to pre-approve customers for a loan and guarantee the interest rate they will pay.

We provide loans of between £1,000 and £35,000 to a prime lending market via website, phone, aggregators and brokers remain the same following the rebrand to our new trading style, Novuna, during the fourth quarter which was accompanied with a £1 million media campaign. To coincide with the rebrand, we launched the new Novuna Personal Finance mobile app alongside a new, improved website, supporting our direct channel.

Customer service recognition

Improving customer experiences for partners and consumers is a cornerstone of our business success in a competitive market. Supporting the digitalisation of our business, customers can now manage all their finance agreements in one place, with a quick and easy log-in, real-time balance and the ability to settle an agreement quickly.

Our customers consistently rate us as one of the best financial services providers for customer service and product innovation. The commitment of NCF to provide outstanding levels of service and fair outcomes for customers is demonstrated by our customer satisfaction performance which significantly outperforms industry benchmarks. In the latest Institute of Customer Service Independent survey, we achieved 94.0 for customer satisfaction - above both the average for banks and building societies (80.2) and the all sector UK average (78.4).

Novuna Personal Finance was awarded the Feefo Platinum Trusted Service Award in 2022 for the third consecutive year with a consistent Feefo customer satisfaction rating of 4.9 and above from over 4,000 reviews after two years of winning the Gold Award prior to that. Reflecting the value of our customer first ethos, our engagement scores from Rant & Rave customer service satisfaction ratings were 4.9 out of 5.

We retained our position as the UK's Best Personal Loan Provider, awarded to us by Your Money for eight consecutive years and were awarded Best Personal Loans Lender for the eighth year running in The Personal Finance Awards.

Providing value added support to our customers underpins our reputation for providing excellent levels of service for customers and is a key priority for Consumer Finance. At this year's Credit Strategy Vulnerability Gala, our specialist support team received the Best Vulnerable Customer Support Award in recognition of our assistance to ensure we are identifying, recording and supporting our potentially vulnerable customers in the most appropriate way to match their circumstances and deliver fair outcomes in line with the FCA principles.

Building on our long track record of strong performance, NCF continued to deliver against our strategic priorities during 2021/22. Looking forward to the year ahead, we recognise the challenges of external factors particularly with respect to weakening consumer confidence, the cost of living crisis and on-going supply chain issues which may lead to an increase in arrears and lower business volumes. However, we remain focused on our core pillars particularly with respect to responsible lending and delivering exceptional levels of servicethroughout the customer lifecycle which in turn will enable us to retain our position in the market as one the UK's leading providers of consumer credit.

Divisional Review
Novuna Vehicle Solutions

Highlights

£54.2m
Profit before tax
(2021: £19.7m)

£658m
Total new business volumes
(2021: £614m)

£1.7bn
Total assets
(2021: £1.4bn)

£1.5bn
Net Earning Assets
(2021: £1.2bn)

£1.1m
Bad debt charge
(2021: £2.2m)

0.1%
Bad debt charge as a percentage of total assets
(2021: 0.2%)

98,734
Assets, representing a 4% Fleet increase year-on-year

Leasing Company of the Year (Fleet News) for four consecutive years

Results and strategy

During the year, Novuna Vehicle Solutions generated profit before tax of £54.2m, a 175% increase in profit from the previous year (2021: £19.7m). This was mainly due to increased revenues from an 8% growth (over 6,000 vehicles) in the contract hire fleet, and the unprecedented strength of the used vehicle market across the year. Since the start of the pandemic, global supply chains have slowed and the shortage of microchips integral to the build of new cars has led to a lengthening of delivery times. As such, new vehicles have been in short supply driving up the values of the second-hand market. Improvements have been made in bad debt charges and maintenance cost, to pre-pandemic levels.

Total assets have increased by 18.7% to £1,679.6bn with total net earning assets increasing by 21% to £1.5bn. The operating fleet consists of more than 53,000 cars, 39,000 vans and 6,000 HGVs and specialist vehicles.

Novuna Vehicle Solutions has almost 30 years' experience in providing bespoke fleet finance and fleet management services for businesses across the UK, supporting customers across every stage of the vehicle life cycle. Core services include fleet policy and strategy, engineering services (such as design specification and asset build), legal asset compliance, cost control and management, asset utilisation and asset disposal. Our operational strength, flexibility and multi-asset capability is built on our Customer First culture, putting the customer at the heart of everything we do. From reducing short-term hire spend to removing unnecessary authorisation layers or expanding our service network for specific customer needs, our focus is to drive commercial and operational benefits for our customers.

We continued to make substantial investments in our IT framework during the year, as we strengthened our proposition which enhanced our personal leasing offering, delivering growth of 12% in the past year, now comprising over 43,000 vehicles which are marketed both directly and via a network of valued Associates and Dealers. Our online platform features automated underwriting, digital documentation and e-signature capabilities, providing users with a frictionless end-to-end process combined with competitive pricing.

Novuna Vehicle Solutions has maintained its standing as the 7th largest UK leasing company, whilst recording the largest percentage growth of the Fleet News FN50 top 10 providers during the year. The leveraging of our multi-asset proposition has generated new customer acquisitions in a time when the overall FN10 fleet size saw a decline by 1.9%.

Leading the corporate market

Five years of company car market contraction is now levelling out, driven by favourable taxable benefits for customers with electric vehicles. This has also given significant impetus to Ultra Low Emission Vehicle ("ULEV") Salary Sacrifice schemes. Novuna Vehicle Solutions predicted these trends in 2020 and, as a result of investing in EV focused solutions, developing one of the most flexible Salary Sacrifice schemes on the market, have secured a large number of new customers for whom decarbonisation is key.

Road to zero emissions

Novuna Vehicle Solutions has a clear and bold decarbonisation strategy which will deliver environmental and cost efficiencies and help the UK to meet its carbon reduction targets. As a business, a clear commitment has been made to electrify 100% of our car & small van fleet (3.5 tonne and under), and

50% of our funded van fleet (vehicles over 3.5 tonne) by 2030.

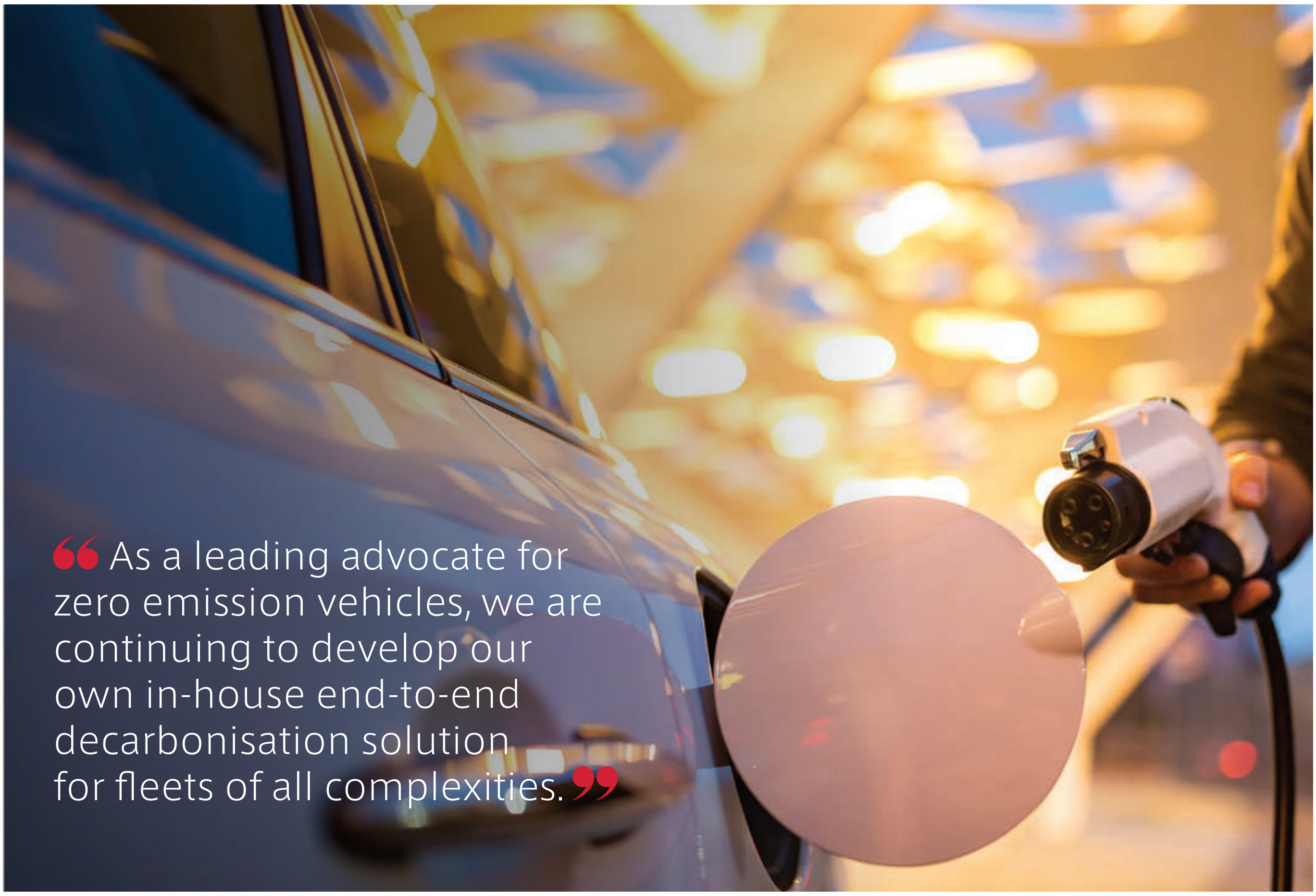
With our decarbonisation strategy being at the front and centre of our business, we are continuing to adapt, drive and embrace the changes in the market environment to support and guide our customers. Within the past year there have been significant changes in the marketplace which signify the increased pace and awareness for drivers, fleets and customers to decarbonise their fleets. We continue to look at future fuels in line with Government transport policy to be at the forefront of research into Hydrogen HGVs and plant. Our alternative fuels proposition includes depot charging infrastructure for electric vans through to Biomethane Gas for HGVs.

As a leading advocate for zero emission vehicles, we are continuing to develop our own in-house end-to-end decarbonisation solution for fleets of all complexities. Novuna Vehicle Solutions is working directly with customers and partners to assess, design and deploy their own workplace and network charging capacity directly with distribution network operators and solar energy partners. By managing the entire end-to-end solution, this greatly reduces complexity for fleet operators and enables them to have the complete transition handled by a trusted partner. This is an innovative infrastructural engineering activity for a UK leasing company and we are firmly placed to offer a total turnkey solution to directly address the decarbonisation challenge faced by UK fleet operators.

Providing value added support for customers as they transition to electric vehicles is a priority for Novuna Vehicle Solutions. In 2020/21, our EV Hub was launched, providing an easy-to-use online platform for drivers supported by our EV-Academy accredited team. It provides our customers with the detail they need to make the transition to EVs with confidence. This tool supports both company car and Salary Sacrifice drivers to make informed decisions on their Battery Electric or Plug in Electric vehicle requirements. The EV hub is now live and in use with multiple customers, surpassing expectation.

Over the past twelve months we have continued to develop our partnership with Gridserve to evolve their electric vehicle leasing proposition and develop more in-house expertise. The Gridserve team are now a fully operational associate, operating as a credit broker and introducing business to us via our in-direct sales channel and gaining more momentum with Novuna and the other funding partners they work with.

MHCUK has partially funded the build of the Gridserve Braintree site and have a 19.63% shareholding in the organisation with plans to continue to fund the expansion of other forecourt sites and solar farms. This demonstrates the Group's commitment to helping customers to decarbonise their vehicles beyond just the corporate sector.



Being early EV adopters, at Mitsubishi HC Capital UK PLC we have an attractive company car policy for ultra-low emission vehicles. Our Novuna company car fleet is now 86% ULEV and 51% pure battery electric (up from 31%) and our goal is to have no petrol/diesel vehicles on the Novuna fleet by the end of our next financial year.

The decarbonisation of both our own fleet and those of our customers is integral to all our activities. The funded customer fleet has seen alternative fuelled vehicles grow from 11% to 19% across all asset types, with the overall pure EV fleet growing 173% across the year. We support all customers to make the switch to electric; from promoting individual EV personal leasing right through to powering huge fleets with complex depot charging. Managing fleets across all vehicle types remains at the core of what we do, and alongside this we are working with customers to ensure we help them on their decarbonisation journeys.

Tailored service proposition

With our Total Asset Solutions, designed to increase the operating efficiency of our customers' fleets, we provide a proposition above and beyond that of our competitors; our sophisticated systems support customers with real-time insights that can drive improved cost and environmental efficiencies across their fleets.

Unlike our competitors in the market, we have the ability to fund, build and manage any asset type across all specialisms, extending our proposition beyond cars and vans to cover every kind of mobile asset, including large trucks, plant, machinery and manual handling equipment.

Customer service recognition

We consistently achieve outstanding customer service due to our Customer First culture where everything starts and ends with our customer. We are accredited with the Institute of Customer Service ("ICS") and won their Sustainable Customer Service award in October 2021. Our service and innovation levels have also been recognised as industry leading, with multiple awards won; four time Fleet News Leasing Company of the Year winners in 2019, 2020, 2021 and 2022; Business Car Awards 2021 Leasing Company of the Year and Green Initiative Award. Reflecting the value of our Customer First ethos, our Rant & Rave engagement scores for customer service satisfaction ratings were 90% at the end of 2021 and we have been recognised as Feefo Gold Trusted Service winners. In addition, our employees scored our customer service 86.07 in 2021 compared to a UK average score of 75.09, demonstrating our belief and pride in our Customer First strategy.

Despite unprecedented market conditions continuing through 2021/22, Novuna Vehicle Solutions has grown and transitioned more of our fleet to alternative fuels, leading the way in depot charging for complex fleet requirements.

Looking to the year ahead market conditions remain challenging, particularly with respect to supply chain issues impacting new vehicle delivery times and inflation impacting fleet operating costs. However, we remain confident in the outlook for our Vehicle Solutions business; with expertise across every vehicle type, from small cars to complex HGVs. We are ideally placed in the year ahead to sustain and build on our reputation as one of the UK's leading vehicle leasing companies supported by our recognised customer service, as fleet decarbonisation gathers momentum to meet zero emission targets.

Divisional Review Novuna Business Finance

Highlights

£25.0m
Profit before tax
(2021: £20.1m)

£820m
Total new business volumes
(2021: £758m)

£1.6bn
Total assets
(2021: £1.5bn)

£1.6bn
Net Earning Assets
(2021: £1.4bn)

£4.0m
Bad debt charge
(2021: £8.4m)

0.3%
Bad debt charge as a percentage of total assets
(2021: 0.6%)

Market share grown to
2.4%
versus 2.0% pre-pandemic

Results and strategy

In 2021/22, Novuna Business Finance generated profit before tax of £25.0m, up 24% on last year. Total assets increased by 10.0% to £1.6bn of which our asset portfolio consisting predominantly of hard assets financed under hire purchase agreements grew by 11% to £1.6bn accounting for 24.4% of the Group's business assets.

The asset finance market continued to recover from the impact of Covid-19, 16% up on the previous year but still 7% down on pre-pandemic levels. New business volumes of £820m achieved by Novuna Business Finance over the past 12 months represented an 8% improvement on last year. Market share grew from 2.0% pre-pandemic to 2.4% this year based on statistics from the Finance & Leasing Association.

Of the 5.5 million SMEs in the UK, one third use asset finance products in a £100 billion market, with half accessing solutions through brokers and vendors (dealers and manufacturers at point of sale). Novuna Business Finance has an established reputation in these channels as the fifth largest asset finance provider in the UK, delivering real choice to SMEs outside of having to go to their bank for finance.

Systems infrastructure

Providing innovative solutions to respond to evolving customer expectations and enable the business to achieve its ambitious growth strategy is a priority for Novuna Business Finance. November 2021 marked the launch of the biggest systems overhaul we have seen and the largest ever investment made by the division. Three interconnecting projects focused on delivering operational efficiencies to futureproof Novuna Business Finance and transform customer experiences, including credit automation for faster decisioning.

The launch of the new Alfa operating system with greater digitally-led functionality followed a rigorous testing programme and has been fully integrated with Mercury, our new customer application and management portal for brokers and vendors. Developed based on customer feedback, Mercury enables introducers to manage the full lifecycle of their application, alongside a whole host of value added services and capabilities including partial save, multiple asset line entry and full mobile optimisation.

A Credit Automation project ran alongside our core system and front-end infrastructure solutions. Compatible with Alfa, this provides the businesses with a cutting-edge decision management solution. The system works in partnership with credit reference agencies to provide new integrations which ensure the most advanced data is utilised for decisioning and underwriting.

Gridserve

Novuna Business Finance is committed towards developing the UK's electric vehicle charging infrastructure. Our innovative partnership with Gridserve providing £76m of facilities is being used to help tackle climate change by providing clean renewable energy to power electric vehicles. Our investment at Braintree delivered the world's first electric vehicle forecourt last year. This year, Gridserve's purchase of the Electric Highway Company has enabled us to partner with Gridserve to upgrade the nationwide charging infrastructure located across the UK's motorway service stations.

Sustainable project finance

As the UK moves towards its target of carbon neutrality by 2050 there is an increased need to provide funding support to companies developing sustainable energy and green infrastructure. To ensure that we meet this need and build on the established relationship and business experience

Gridserve has given us, we recruited a new Head of Sustainable Energy in May 2021 with the remit of developing a project finance offering to the sustainable energy and green infrastructure market.

Our new Sustainable Energy team offer finance on various types of projects, starting with proven core technologies in electricity generation, storage and supply such as solar PV, onshore wind, battery storage and EV charging. The team will gradually add to our proposition to finance these initial technologies successfully at scale. The team enters the business at a tipping point in terms of markets, policies and technologies as businesses move quickly from planning to delivering projects that will help to deliver the UK's net zero target ambitions.

Block discounting for sustainable technologies

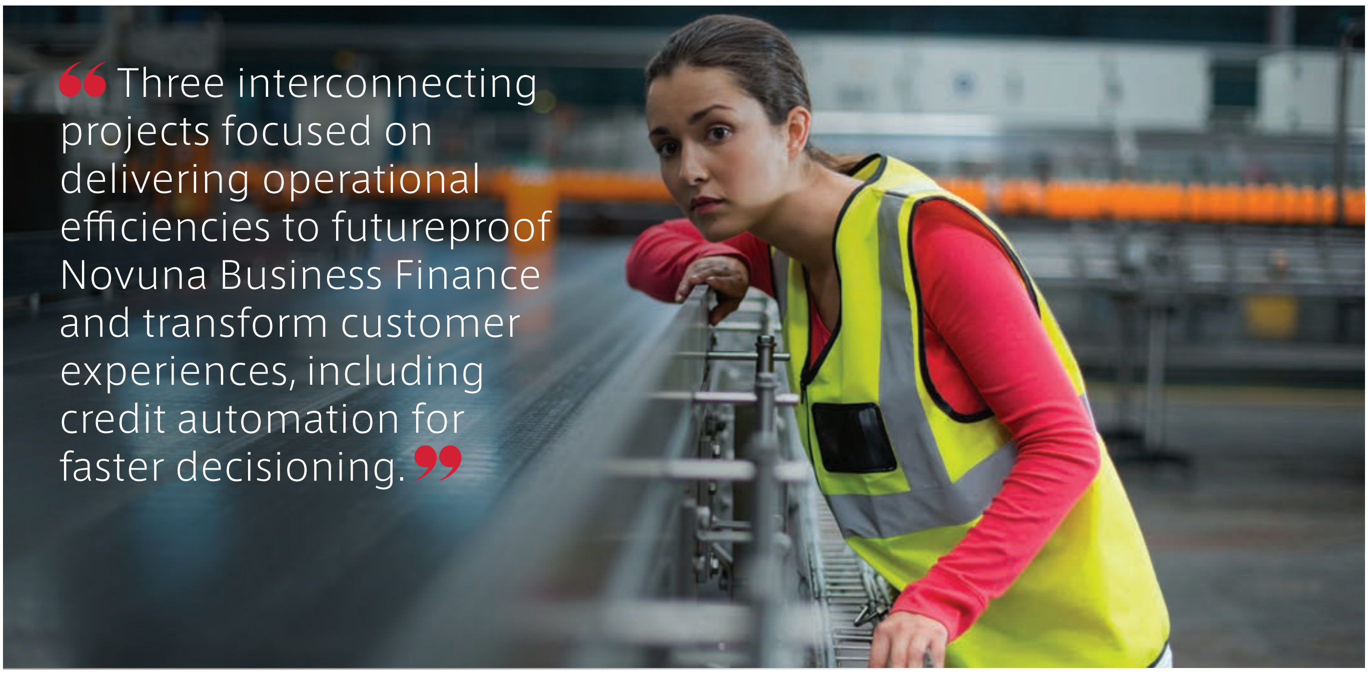
Building on our commitment to sustainable funding, this year we launched a new block discounting facility focusing on assets which demonstrate a nature of sustainability. This new product is offered at favourable rates and facility sizes from £0.5 million to £30 million. The product is suitable for existing block customers along with new customers looking to expand into this sector. Reflecting the average finance period in this market, sustainable blocks are offered up to seven years. The facility reflects our commitment to giving customers a platform to realise their own sustainability goals and deliver finance that fits the developing needs of UK SMEs.

Sustainable finance asset guides and specialised rates

Over the past 12 months, to encourage our business introducers to focus more on sustainable technologies and to showcase our commitment to green financing we created a detailed information guide outlining asset types and terms alongside a specialised subsidised rate card.

Value added proposition

Providing an exceptional service for our customers in a regulated market with value added support remains a key strategic aim for Novuna Business Finance. To further



"Three interconnecting projects focused on delivering operational efficiencies to futureproof Novuna Business Finance and transform customer experiences, including credit automation for faster decisioning."

enhance the learning of our intermediaries we are providing all our brokers with access to key training courses which will help them complete and evidence their compliance requirements. Course content includes vital topics such as fraud awareness, data protection, anti-money laundering and information security.

Over the past 12 months, specialised credit clinics were made available to our brokers to give direct access to senior members of our credit team. The sessions presented an opportunity for introducers to understand more about our credit appetite and provide introducers with an improved understanding of the type and size of deals we can assist with, leading to increased volumes being written of larger value deals and those with a more diverse asset type.

Market reputation

Providing an exceptional experience for customers is at the heart of our business proposition, consistently recognised by our customers and our industry peers.

In the latest Institute of Customer Service independent survey, we achieved 89.8 for customer satisfaction - putting Novuna Business Finance well above the UK national average (77.7).

Our reputation in the market as a leading asset finance provider has also been recognised by our industry peers. We were awarded 'Best Business Motor Finance provider' for the second year running and 'Best Service from an Asset based Finance provider' at the Business Moneyfacts Awards. The Leasing World Gold awards recognised our commitment to sustainability through the 'Sustainability Challenge Award' and Asset Finance Connect awarded us 'Best response to Covid-19'.

Looking ahead

Moving into the new financial year we recognise significant external challenges, particularly with respect to on-going supply chain delays and the potential impact of high inflation, particularly energy, on our customers. We may see an increase in insolvencies and bankruptcies which is likely to result in an increase in defaults in the short term. Our dedicated, experienced credit teams will continue to monitor trends, identifying any sectors that are impacted more than others and continuing to proactively provide support to our customers. We therefore believe our key strategic goals remain appropriate to continue to build a sustainable business.

We are focused on growing our core broker business through further digitalising our processes and investing in our people to deliver an exceptional customer experience. We will build on our new systems infrastructure and harness our data to improve performance visibility and identify opportunities for development and improvement.

> “Increased new lending through sustainable project finance, with a focus on sustainable technologies, will support the growth and development of Novuna Business Finance in the year ahead.”

The business will continue to diversify to take advantage of wider market opportunities in manufacturer and dealer finance and create new products to grow our share of the block discounting market. Through the creation of a middle ticket sales channel, we are focused on increasing penetration in areas of the FLA market outside of broker.

Our overarching commitment is to build a sustainable business. We are confident that increased new lending through sustainable project finance, with a focus on sustainable technologies, will support the growth and development of Novuna Business Finance in the year ahead.

Divisional Review
Novuna Business Cash Flow

Highlights

£1.7m
Profit / (loss) before tax
(2021: (£1.5m))

£277m
Total assets
(2021: £168m)

£122.5m
Net Earning Assets
(2021: £61.1m)

£0.5m
Bad debt charge
(2021: £0.2m)

0.6%
Bad debt charge as a percentage of total assets
(2021: 0.4%)

Total facility limit up
93%

Third party income up
212%
year on year

Results and strategy

In 2021/22, Novuna Business Cash Flow generated profit before tax of £1.7m, equating to a £3.2m increase from the previous loss-making year and achieved a 0.6% profit as a percentage of total assets and 1.8% profit as a percentage of APE.

Despite prevailing challenges in the market, with the legacy of Government intervention support impacting lending volumes which remain below historic averages, our income diversification strategy led to record gross earnings up by £7m from last year. Over the last 12 months, we have continued to grow our business in new markets by developing our differentiated corporate funding lines and new lead generation avenues supported by our innovative digital onboarding proposition and continued to support UK SMEs recovery and growth by providing £30m using Government backed funding via Coronavirus Business Interruption Loans Scheme (CBILS) and the Recovery Loan Scheme (RLS).

Overall, this financial year our total current account closed at nearly £123m, an increase of 100% versus 2020/21 and a record performance for the business which 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. The increase on the average current account per client is 86% year-on-year, supporting the growth and return to profitability for Novuna Business Cash Flow which is a huge achievement.

New business success

Our digital onboarding process, which provides an instantaneous cash flow injection to SMEs and larger corporates with flexible contract terms continues to be market leading within the invoice finance industry, providing a competitive advantage for the business and supporting our income diversification strategy. The ability of Novuna Business Cash Flow to boost the liquidity of businesses across a wide range of sectors within 24 hours underpins our proposition in the market compared to the traditional paper-based processes still adopted by many of our competitors.

Developing a differentiated corporate proposition through funding lines above £1m to businesses with a turnover of up to £50m is a key priority for Novuna Business Cash Flow to expand our lending portfolio and income growth. Over the past 12 months we have supported 15 M&A transactions and onboarded the largest ever deal in the Business Cash Flow division, providing a £10m funding line to a strong corporate entity.

The implementation of our corporate team to focus on the larger SMEs has been very successful in 2021/22, proven by the onboarding of this record deal and the average increase in funding line by 19% on the previous year.

Diversifying our income base by successfully implementing a third-party revenue stream is a strategic objective for our business. This year saw an uplift in the number of deals paid out by a third party by 212% and an increase in revenue by 1030% year-on-year.

Our digital marketing activity delivered strong results in new business over the past 12 months. We improved our visibility and new business online, with a 92% increase in leads, and 162% increase in deals, whilst reducing acquisition costs on our organic rankings, reducing the cost whilst increasing traffic to site and therefore leads.

Outstanding client satisfaction

Providing excellent customer service is a priority for Novuna Business Cash Flow. Our recent team restructure of the Relationship Managers and Assistant Relationship

"Our digital onboarding process continues to be market leading within the invoice finance industry, providing a competitive advantage for the business."

Managers is proving to be successful. Our number of clients is up 8% year-on-year, retaining our clients an average of 5.2 years, a 31% increase over the last 2 years.

We continue to review and monitor how we contact our clients and have recently embedded a new contact management strategy utilising Salesforce to give us the ability to closely track contact with clients. We can record how clients want to be contacted, by what method and frequency of contact to ensure the client is receiving a personalised contact strategy based on their requirements. This year, we have implemented a successful Teams call roll out to manage client relationships remotely without requiring the need for face to face interaction.

By deploying faster cash and payment processing utilising AI technology, we've improved auto-allocation by 8% from 65% to 73% year-on-year. This means that in most cases, our clients have immediate access to cash typically 3-4 days faster than our competitors which will result in interest saving for our clients.

Our commitment to provide outstanding levels of service for clients is a priority for Novuna Business Cash Flow. This year we maintained a rating of 4.8 out of 5, with more 5 star ratings given by clients than ever before.

The reputation we have forged in the market for providing cash flow solutions sees the business continue to receive industry recognition. We won SME Lender of the Year at the 2021 Credit Today Awards and Best Invoice Finance Provider at the 2021 Lending Awards.

The significant growth of our Business Cash Flow division and return to profitability over the last 12 months has provided us with a solid platform to grow our business as Government intervention scheme support dissipates in the market.

Looking to the future, we are confident in the outlook for Novuna Business Cash Flow. Despite current macro economic challenges, we expect to see on-going recovery in business confidence among SMEs and larger corporates after two years of unprecedented uncertainty from Covid-19 with demand for borrowing in the invoice finance market returning to pre pandemic levels. By leveraging our digitally led funding capability, the business is primed for continued growth supporting a wider range of SMEs and corporate customers in the year ahead.

Divisional Review European Vendor Finance

Highlights

£3.1m
Profit before tax
(2021: £2.8m)

£249m
Total new business volumes
(2021: £202m)

£325m
Total assets
(2021: £282m)

£294.7m
Net Earning Assets
(2021: £244m)

£0.1m
Bad debt charge
(2021: £0.4m)

0%
Bad debt charge as a percentage of total assets
(2021: 0.2%)

Strengthening ties with Mitsubishi companies following the rebrand

Direct presence in
5
countries, active in
22
European countries

Results and strategy

In difficult trading conditions, European Vendor Finance generated profit before tax of £3.1m in 2021/22, up 12% from last year and increased our volume of business over the last 12 months by 23% reaching £249m. Total assets increased by 15.2% to £325m.

The growth of our business over the last 12 months demonstrates our resilience despite the knock-on effects of the global pandemic. Equipment production and supply chain issues were seen throughout the year resulting in most equipment having significantly longer lead times, reinforcing the need for our supply chain products in supporting our vendor channel. Adding to this disruption, we saw rises in interest rates as well as inflation to levels not seen in recent years compounded by changes in the macroeconomic environment, all contributing to economic uncertainty. Despite these challenges, we continued to maintain a diverse portfolio with a strong focus on managing arrears and bad debt.

We are one of the leading providers of bespoke end-to-end finance solutions for specialist assets throughout the whole product lifecycle. European Vendor Finance works closely with our global parent company in Japan, trading under the Mitsubishi brand in the market, providing financial solutions for funding stock, demonstration equipment, end user and second-hand equipment.

Being a part of one of the world's largest and most diversified financial institutions has enabled us to reach a wide range of European vendor markets. Supporting the sales and distribution channels for Mitsubishi and Hitachi Group companies, well as key Group and global accounts has increased transactions via Mitsubishi Group business, contributing 4.6% of volume.

Expanding our reach

European Vendor Finance's main business is to provide end-to-end vendor finance solutions, addressing the requirements of manufacturers and their distribution networks throughout the whole asset lifecycle, including stocking, demonstration equipment, spare parts, end user, second-hand equipment. We now have the opportunity to support many more of the manufacturing businesses within the wider Mitsubishi group, as well as providing finance to a much broader range of independent manufacturers looking to offer financing solutions to their distribution network and customers, which in turn will allow more diversification of our portfolio.

A significant number of new vendor and dealer relationships have been signed over this year, helping us not only establish our presence in Finland, but also allowing us to diversify our product portfolio range within the construction, waste management, industrial and digital print sectors.

The business has continued to support customers through the Covid-19 crisis using Government backed funding via CBILS and RLS in the UK and the BMKB-C in the Netherlands.

European Vendor Finance has led the European expansion of the Group, supporting key partners with increasing capabilities and direct coverage. During 2021/22, we saw growing volumes from our European offices; the percentage of European business written grew from 42% to 57% during 2021/22, and our Netherlands subsidiary contributed £145m of new business in its fourth year of operation.

During 2021/22, our channel finance proposition has been an area of growth to expand our European presence, with new and rekindled relationships enabling us to write business in new countries. Providing solutions which help the entire sales and distribution network in Europe has become more important as the supply chain has been disrupted. We have grown the provision of funding for the channel by 99% over the last year, enabling dealers to optimise stock levels and attract new customers whilst improving their cash flow. We have forged new business relationships across Europe by supporting dealers and distribution networks with finance products that allow them to modify stock, meeting local regulatory requirements before a sale is transacted.

Energy efficiency projects remain strategically important for the business as a whole and European Vendor Finance is continuing to write business in this arena supporting companies to implement an energy efficiency strategy by installing a range of energy efficient LED lighting, heating and cooling systems.

Tailored solutions driving customer satisfaction

This year, we invested heavily in a new lease management system to help us improve our customer experience and operational efficiency, and we continued to invest in our people across all locations. New operational roles were created to give us a truly international team, strengthening our local presence within the branches and an Asset Management team was formed to provide support for the wider range of vendors we now work with. Our headcount now exceeds 40 staff across our five locations and is set to grow further still with our European expansion plans.

Providing tailored financial solutions to a growing number of vendors and their distribution networks across continental Europe continues to enhance our reputation. Our annual customer satisfaction

survey carried out across all UK and European vendor and dealer partners confirmed the value of offering a competitive and innovative end-to-end vendor finance proposition for manufacturers and their distribution networks. 95% of our vendor and dealer partners agreed that we met our aim of delivering competitive and innovative finance solutions based on customers' needs. All of our partners rated us as providing the same or better level of service when compared to our competitors, and 27% said that service levels had improved over the year. Flexibility was rated as the most important factor that was required from a funding partner for which 89% said we were the same or better than our competitors.

A geographically diversified and wider vendor base has created a well-managed portfolio along with conservative provisioning and underwriting enabling sustained growth for our European division despite the on-going headwinds of supply chain delays and rising inflation.

Our strategic approach is to capitalise on our strong performance and direct and partner-based presence in Europe. By focusing on diversification and developing relationships with Japanese key accounts and Original Equipment Manufacturers ("OEM"s) within shareholder group companies, our European Vendor Finance business is well placed for further growth in the years ahead.

Corporate Social Responsibility

Mitsubishi HC Capital UK PLC Corporate Social Responsibility ("CSR") policy and strategy reflects our commitment to make a positive and sustainable difference to society.

We provide innovative solutions which contribute towards meeting the UN Sustainable Development Goals ("SDG"s) in order to make a positive and sustainable difference to the communities in which we live and operate. Over the last few years, we have also been enhancing our activities which contribute towards carbon neutrality.

Social responsibility is intrinsic to our corporate culture and established values of harmony, sincerity and pioneering spirit. Our Corporate Social Responsibility policy standard aims to ensure that the Company's consideration towards governance, human rights as well as social and environmental impacts, underpins everything we do as a business.

We aim to understand and address the challenges faced by all our stakeholders; designing and providing solutions is the core part of our strategy and evidences our contribution to society and addressing climate agendas by focusing on five key indicators as part of our Environmental Social and Governance ("ESG") reporting - corporate governance, customers, colleagues, communities and sustainability.

As a leading financial services company, we have sought to align our corporate values and ESG initiatives with the UN SDGs. Our ESG report details the progress of our performance and our contribution during the year against each of the 17 interlinked global goals.

Our ESG report is available to read on our website:

www.mitsubishihccapital.co.uk/sustainability/

Corporate governance

Effective and robust corporate governance is critical to the smooth running of our business, and for ensuring we operate in line with all regulations and laws in order to address the expectations of all of our stakeholders.

We aim to maintain a culture of openness, honesty and integrity, which seeks to create an atmosphere of trust and collaboration across the organisation.

During the year, we successfully rebranded the Company under the new trading style of Novuna and aligned our Group corporate governance and policy framework to Mitsubishi HC Capital UK PLC ("MHCUK"). We have maintained and embedded our culture, vision and values effectively through the transition through shared vision and values with our parent company.

A key element of our culture is Mitsubishi HC Capital's Code of Ethics and Conduct. The Code outlines our ethical principles and assists employees in delivering on MHCUK's corporate mission and vision. Our corporate mission derives from three values (harmony, sincerity and pioneering spirit) that are closely aligned with the Code of Ethics and Conduct's 5 key pillars; building trust, customer focus, strict compliance, respect for Human Rights & the Environment and preventing financial crime and anti-social elements from the business.

Since April 2019, we have applied the Wates Corporate Governance Principles ("the Wates Principles"), which are designed as a framework for companies whose shares are not listed to comply with corporate governance reporting requirements. Nevertheless, the Board continues to take the principles and provisions of the UK Corporate Governance Code into account to the extent that it considers them to be relevant to the Company.

Our corporate governance reporting also covers critical business policies, such as supporting whistleblowing and processes to prevent financial crimes. Our Whistleblowing Policy and processes support staff so that they feel comfortable to raise concerns without worrying that doing so could harm their careers within MHCUK. Staff can make contact via three routes including to the Whistleblowing Champion (a nominated Independent Non-Executive Director), to an appointed senior individual internally or to an external organisation skilled in this area in complete confidence with their anonymity protected if required.

During the year, our sanctions compliance controls have ensured that, due to the conflict in Ukraine, we have undertaken no business with Russian and Belarusian individuals and entities subject to sanctions and embargoes. We have also remained vigilant to the increasing threat posed by on-line fraud throughout the pandemic. We responded and addressed the potential risks to our business by implementing many enhancements including automation of some customer on-boarding and screening processes, development of new internal processes to provide fraud victims with a fair outcome and invested in enhanced financial crime tools. All staff have received annual training in the prevention of fraud, money laundering and bribery and corruption.

We take information security, data protection and privacy very seriously and invest in people, processes and technology to ensure our customers, employees and corporate sensitive information is appropriately protected against any cyber security breaches. We have robust strategies including multiple layers of securities on › all systems, security testing, due diligence on key providers, proactive monitoring and mandatory, high-level training for all employees and contractors, with tailored training for those completing specific or higher risk activities.

> "Throughout 2021/22, we provided ongoing support for our customers impacted by the Covid-19 pandemic."

We implemented key changes to our corporate governance structure during the year through the programme of financial reporting key control testing. The responsibility for coordinating Japanese Sox ("JSOX") testing and reporting to our parent company was transferred to the Enterprise Risk team within the second line Risk & Compliance team which better aligns with the three lines of defence model in place within MHCUK.

We continue to ensure appropriate focus is given to human rights. We implemented specific reporting processes during the year to monitor the effectiveness of our actions to prevent modern slavery within the business and its supply chains. This report is reviewed on a quarterly basis by our CSR committee, tracking key metrics as well as monitoring key actions taken.

Customers

Our vision is to be one of the most trusted financial services brands in the UK and Europe by providing outstanding experiences for our customers. We are committed to providing excellent customer service performance on a consistent basis across the Group.

Following our rebrand in February, we announced our Brand promise "To unlock the potential of individuals, businesses and society, by delivering innovative solutions and outstanding customer experiences".

The transition project included workstreams deployed from across the Company including IT, marketing and governance supported by business unit readiness teams. Our effective collaboration ensured key operations, systems and websites were successfully switched over for the rebrand, providing a smooth transition with minimal disruption for our customers.

Throughout 2021/22, we provided ongoing support for our customers impacted by the Covid-19 pandemic. In April 2021, our Business Finance, Business Cash Flow and European Vendor Finance divisions became part of the RLS, supporting access to finance

for UK businesses as they look beyond the pandemic and return to growth.

Putting the customer at the heart of everything we do defines the way we work together, and we measure our success on whether we're delivering on our brand promise. Independent reviews from the Institute of Customer Service, Feefo and industry awards are testament to our commitment in this area and our promise to continue to innovate. Investing in technology to deliver innovative solutions for customers and provide a frictionless customer experience is a key strategic priority for MHCUK. Our digital servicing transformation is pivotal to meeting the needs and expectations of consumers and businesses which have evolved during the Covid-19 pandemic.

In 2021/22, Novuna Consumer Finance deployed new features on our Interactive Voice Response ("IVR") technology. This included automated identification of customers which reduced average call handling times by 11% and ensures customers get through to the right team, first time. Improvements made to our automated self-serve account platform are now enabling over 500 customers a week to access the information they want faster, delivering cost and operational efficiencies across the business, and a better customer experience.

We are always striving to address the evolving needs and expectations of our customers. This included developing a bespoke in-house decarbonisation solution in Novuna Vehicle solutions to help fleets transition to electric vehicles.

Reviewing how we contact our clients and embedding a new contact management strategy in our Business Finance division enables us to personalise our contact strategy based on their requirements. Novuna Business Cash Flow also continued with its digital enhancement, deploying faster cash and payment processing utilising AI technology.

Colleagues

With over 1,600 employees, we are committed to investing in our people and rewarding their passion and enthusiasm. It is our exceptional people who provide outstanding customer experiences, enabling us to record strong financial performance year after year.

Throughout the pandemic we have continuously focused on the health and wellbeing of our employees as a key priority for MHCUK. During the year, we provided flexible and agile working arrangements with enhanced home working technology as we moved further towards a formal hybrid working arrangement.

Employee engagement has always been integral to the success of MHCUK. Throughout the pandemic, we maintained our focus on ensuring our employees remained connected and supported both remotely and across each of our offices. Our CEO continued his weekly blogs and vlogs throughout the year and held 4 live online communication sessions "teamtalk live" during the year, attended by over 800 employees whilst many more watched recorded sessions.

The value and impact of our Employee First culture and the initiatives we have implemented have been recognised by our staff. Determined entirely based on employee feedback, we were awarded 11th place in the annual Glassdoor Employees' Choice Awards, a list of the Best Places to Work in 2022 with an overall score of 4.5 out of 5. We were the highest ranked finance company on the list, making us the UK's Best Place to Work in the finance sector.

We regularly measure employee engagement, listening and responding to the views of our employees through various platform and surveys. The My Voice platform we launched last year allows employees to provide their feedback at any time and we have also been using the platform to host Ad Hoc Surveys after specific events and milestones to gather feedback.

We also relaunched our Employee Forum as Voice Forums across the Group to act as a communication channel for collaboration between our employees to implement new people-led initiatives.

In total we have received over 1,000 items of feedback from My Voice and Glassdoor, with 91% of employees taking part in our Insights survey to help us understand what is important to them, resulting in 85% of employees feeling engaged.

We are cultivating a continuous learning environment where everyone has the opportunity to enhance their professional and personal development. This year, we launched "myLearning", a new online self-guided learning platform. Employees can choose from over 500 pre-created channels, including thousands of videos, audiobooks and books. Employees can learn at their own pace, in their own time mapped to the competencies that matter most to MHCUK.

During the year, we relaunched our mentoring programme under three pillars, comprising face to face mentoring, group mentoring and reverse mentoring where a junior employee mentors a senior management member.

We aim to treat everybody in our business with dignity and respect, whilst providing access to the required training and support. We are proud to be an inclusive place to work and we are committed to support our people. We continued our Multicultural Community activities to increase awareness and understanding of different religions and cultures and encourage discussions through Group wide and local events and initiatives. On International Women's Day, we relaunched the Women's Inclusion Network from the We Mean Business community, to cultivate a culture of inclusion that removes barriers and supports the development, empowerment, and growth of females at MHCUK. Our corporate communities now include PRISM - LGBTQ+ Community, Multicultural Community, Wellbeing Community, Charity and Volunteering Community and the Women's Inclusion Network. These communities have been paramount in delivering many of our people initiatives.

Following the success of the Group wide apprenticeship scheme named "Gamechangers" last year, we have launched our first company-wide Graduate scheme focussing on early career development following the rise in youth unemployment triggered by the pandemic and in January 2022, we welcomed 13 graduates onto this two-year programme providing a critical learning experience to each graduate.

Our latest gender pay gap report reflects our position at 5 April 2021. MHCUK has seen a 0.1% increase in the mean gender pay gap to 29.5% compared to 29.4% the previous year and a 2.4% increase in median gender pay sgap in hourly pay to 34.1% compared with 31.7% last year. These increases were driven by our demographics and influence of our bonus advance paid in April 2020. Our headcount saw increases in a higher proportion of females joining us in traditional entry level roles thus average female pay increased less than average male pay at lower salary grades. The bonus advance did however impact our gender pay gap as without this we would have seen a 0.7% decrease in our mean gender pay gap and only a 1.2% increase in our median gender pay gap.

Our full Gender Pay Gap report is available to read on our website:

https://www.mitsubishihccapital.co.uk/media/qrfpb5p2/hitachi-capital-uk-gender-pay-gap-report-2021.pdf

Communities

We are committed to making a positive and sustainable difference to the society and communities in which we live and work, to address sustainability issues and deliver change through both our business and charitable activities. During the year, we have supported a number of charities and donated over £274k.

During the year, we maintained Fareshare as our headline charity partner as well as our SDG 2 Zero Hunger Partner. Our donation of £23,379 supported Fareshare's emergency response to Covid-19 and its ability to feed hundreds of thousands of people that turned to the voluntary sector for help. The donation we made enabled Fareshare to redistribute the equivalent of 100,716 meals.

We also continued to provide three fully maintained delivery vans free of charge to FareShare during the year. The three vans helped to redistribute food to charities

across Liverpool and East Anglia, which weighed over 547 tonnes and equated to over 1.3 million meals.

Our partnership with Young Enterprise as our SDG 4 Quality Education partner during the year has had two key areas of focus; volunteering engagement and the Company Programme EPQ project. Our annual donation of £20.0k funded 1,000 students to participate in the Fiver programme and 500 students to access Young Enterprise Digital Day Programme during the year. Our past year's support of five schools taking part in Young Enterprise's company programme, continued into 2021/22, with 150 students taking part between September 2020 and June 2021. We also continued with e-mentoring to support the Young Enterprise Company Programme; 6 volunteer mentors participated in the programme within the year.

We continued to support Crisis for a second year as our SDG 10 reduced inequality partner and made an annual donation of £20.0k during 2021/22. Our donation was equivalent to sponsoring 50% of a full-time structured coach at Crisis Skylight London who works with around 50 people experiencing homelessness to help them rebuild their lives through employment, housing and wellbeing support. We also continued with Crisis Christmas campaign support. 106 colleagues across MHCUK donated to the initiative alongside the Company's matched funding, which raised £10.2k towards supporting 352 people during the festive season.

We also continued to maintain our relationship with Macmillan as our SDG 3 Health and Wellbeing Partner and made an annual donation of £20.0k. In addition, we have donated a further £9.9k through fundraising events including the Macmillan Coffee Morning and a series of employee challenges. Our donation totalling £29.9k is equivalent to funding a Macmillan support worker for 11 months who works alongside registered practitioners to improve care for people with cancer.

Our support for The Wildlife Trusts as our SDG 15 Life on Land Partner was also maintained this year. We made an annual donation of £20.0k to support existing conservation projects at nature reserves close to our office locations. Although Covid-19 restrictions were relaxed, we continued to prioritise employees' health and safety and therefore our "wild work" volunteering activities were limited to Christmas employee engagement volunteering at regional Wildlife Trust sites close to our 5 office locations. In order to maintain social distancing and adhere to safety guidelines, we needed to reduce the numbers of volunteers, however 73 colleagues participated at 6 different sites over 8 days. As a part of our partnership with The Wildlife Trusts, the Surrey Wildlife Trust used our donations towards hiring a recent graduate intern who spent 6 months with the Trusts, with a special focus on helping children engage with nature.

In response to the War in Ukraine and growing humanitarian crisis, we made donations of £5.0k to the British-Ukrainian Aid and £7.0k to the Disaster Emergency Council ("DEC")'s Ukraine Humanitarian Appeal and matched funded donations made by our colleagues.

Sustainability

Providing innovative solutions to support sustainability initiatives is vitally important to our business strategy. We continue to take bold steps to tackle climate change by delivering sustainable products and initiatives and we have set a target for 20% of our assets to be directly connected to climate action and affordable clean energy by the financial year ending in March 2025.

During the year, we formed climate focused teams across the company in order to accelerate the provision of funding towards sectors of the economy which help to reduce greenhouse gas emissions. At Group level, we formed the Group sustainability team within the CEO office, headed by the General Manager CEO Office and CSR, which launched the Net Zero project, delivering Group level strategic initiatives. Novuna Business Finance recruited a Head of Sustainable Energy and formed the Sustainable Energy Project team to drive green project finance initiatives. Novuna Vehicle Solutions set up the Decarbonisation team accelerating the electrification of fleets and providing expert advice to its customer base.

In 2021/22, Novuna Vehicle Solutions enhanced its End-to-End Decarbonisation offering, taking full accountability for our customers' zero emission vehicles transition. Our own fleet size has increased by 25% however the overall average CO_2 has reduced by 54.36g/km since this time 2 years ago resulting in an average CO_2 of 32.74g/km against the UK average CO_2 of 92.9g/km. From 1 March 2022, our company car scheme only offered MHCUK employees fully electric vehicles and now 85% of the own employees' fleet have moved across to Electric and Hybrid cars. In 2021 it was only 66%.

Novuna Vehicle Solutions commenced its EV Academy, giving all employees an overview of the electric vehicle market and helping them to understand all about EVs, including new Government rules, different types of vehicles, how to charge vehicles, how to overcome objections to EVs and more on MHCUK's green agenda.

Over the course of 2021/22, we financed over £76m in Gridserve Sustainable Energy Ltd to help them delivermultiple projects (see page 82 in the Energy and Carbon Report).

Novuna Business Finance is committed to continually providing the right support to the UK agricultural industry to assist the sector with their sustainability goals including providing finance for Biomass, Solar and Wind installations, anaerobic digesters, gasification and irrigation systems. Part of this lending sits alongside government grants for environmental schemes such as the move to green fertilizers.

We are committed to the funding of green projects including the provision of leases for electric vehicles, hybrid solar farms and electric vehicle charging points. Issuance of the Group's first green bond in the prior year (March 2021) underlines our vision of financially supporting clean transportation and renewable energy projects. We placed a 3-year $40 million senior unsecured Medium Term Note with a single investor, Dai-ichi Frontier Life Insurance Co. Ltd.

Under our Green Financing Framework, we issue green debt instruments to demonstrate to investors our commitment and intentions around meeting our sustainability goals and accelerating the transition to low carbon transport. Following a private placement earlier in 2021, in October 2021, we issued our first syndicated public green bond, a 3-year EUR325 million green bond with Natwest, HSBC, SMBC Nikko and Standard Chartered.

Our Green Financing Framework is available to read on our website:

https://www.mitsubishihccapital.co.uk/media/pvkl4srm/green-financing-framework-2021.pdf

In November 2021, we launched our Net Zero project to establish our over-arching Group level sustainability strategic initiatives and accelerate the delivery within our business strategy. By 31 March 2022, we completed baseline emissions footprint calculations in line with the Green House Gasses ("GHG") protocol and following the Partnership for Carbon Accounting Financials ("PCAF") methodology. We are currently working with Science Based Target Initiatives ("SBTi") to evaluate our targets. The targets will be announced and published with our carbon reduction plan on our website once approved by the SBTi.

By order of the Board.

R. Gordon
Chief Executive Officer
9 June 2022

Non-Financial Information Statement

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

Business strategy policy

The policy is designed to devise and implement a business strategy based upon our vision, mission and values that achieves our corporate objectives and is aligned to the Mitsubishi HC Capital Group medium-term strategy.

Due diligence processes

- 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:

- Energy and Carbon Report, pages 82-87
- Vehicle Solutions: Road to zero emissions, pages 26-27
- The impact of the Company's operations on the community and environment, page 64
- ESG Report 2021 https://www.novuna.co.uk/media/pqsjl1lq/hitachi-capital-uk-plc-esg-report-2021-6.pdf (pp.10, 36)
- The Mitsubishi HC Capital Group Code of Ethics and Code of Conduct https://www.mitsubishi-hc-capital.com/pdf/english/sustainability/various_policies/ethics.pdf

Employees

People policy

The policy is designed to support the long-term vision of the Company, to be the 'Trusted brand of financial services in the UK and Europe', with a mission of 'Exceptional People, providing outstanding customer experiences today'.

Due diligence processes

- 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 63
- Directors' report (Employees), pages 74-75
- Corporate Social Responsibility (Colleagues), pages 41-43
- Corporate Governance Statement (Diversity and Inclusion), page 72

Social matters

Business strategy policy

The policy is designed to devise and implement a business strategy based upon our vision, mission and values that achieves our corporate objectives and is aligned to the Mitsubishi HC Capital Group medium-term strategy.

Due diligence processes

- 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 (Communities and Environment) , page 78
- Corporate Social Responsibility (Communities), pages 43-45
- Section 172(1) Statement (The impact of the Company's operations on the community and environment, page 64
- ESG Report 2021 https://www.novuna.co.uk/media/pqsjl1lq/hitachi-capital-uk plc-esg-report-2021-6.pdf (pp.10, 36)

Respect for human rights

Business strategy policy

The policy is designed to devise and implement a business strategy based upon our vision, mission and values that achieves our corporate objectives and is aligned to the Mitsubishi HC Capital Group medium-term strategy.

Due diligence processes

- 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 (modern slavery, real wage employer, The interests of the Company's employees), page 63
- Directors' report (Employees), pages 74-75
- Corporate Social Responsibility (Colleagues), pages 41-43
- Corporate Governance Statement (Diversity and Inclusion), page 72
- Inclusion and diversity performance https://www.novuna.co.uk/who-we-are/inclusion-and-diversity/
- ESG Report 2021 https://www.novunaco.uk/media/pqsjl1lq/hitachi-capital-uk-plc-esg-report-2021-6.pdf (pp.10, 36)
- Anti-Slavery and Human Trafficking Statement 2021https://www.novuna.co.uk/media/anjb3esw/anti-slavery-statement-2021.pdf
- The Mitsubishi HC Capital Group Code of Ethics and Code of Conduct

❮ Anti-corruption and anti-bribery matters

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.

Due diligence processes

- 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 (bribery & corruption), page 65
- ESG Report 2021 https://www.novuna.co.uk/media/pqsjl1lq/hitachi-capital-uk-plc-esg-report-2021-6.pdf (p.35)

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 in the principal risks and uncertainties, starting on page 52, 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

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 that 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 strategic report or in the documents referred to below:

- Key performance indicators, page 16
- Group Strategic Report starting on page 6
- ESG Report 2021 https://www.novuna.co.uk/media/pqsjl1lq/hitachi-capital-uk-plc-esg-report-2021-6.pdf
- Inclusion and Diversity at Novuna https://www.novuna.co.uk/who-we-are/inclusion-and-diversity/

Principal risks & 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. • Covid-19 and other market developments has led to an increase in the pace of the digitisation of consumer credit markets and to an associated trend in non-face to face impersonation fraud.	• We make significant ongoing investment in the quality of our systems and products with a particular focus on enhancing fraud prevention capabilities. • 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. • Whilst borrowing margins increased in credit markets in general in the early part of the financial year, credit spreads and funding risks have now returned to pre-pandemic levels. MHCUK maintained funding to all its business units throughout the year without interruption.	• 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 hedging strategies or through counterparty failure. • Effective hedging has been maintained in line with our policy and therefore there has been no change in the risk of ineffective hedging during the year. • Counterparty risk increased slightly early in the year but it has now returned to pre-pandemic levels.	• 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 deploy effective interest rate 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. • The UK economy has remained resilient over the period of the Covid-19 pandemic. The anticipated recovery has been dealt a significant shock by the onset of the War in Ukraine. The impact on energy prices and other raw materials of supply constraints is creating inflationary pressures, presenting affordability challenges for consumers and exposing businesses to instability and potential for margin compression. This in turn could lead to credit losses. We have updated our affordability models, revised our risk appetite for credit and enhanced our economic forecasts as a consequence.	• 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

Risk / Changes in risk during the year	Mitigants
We are subject to an unexpected drop in residual values. • During the early stages of the pandemic, markets for second-hand vehicles were largely closed. Since reopening of markets, sales proceeds have been consistently strong. Residual value risk is not considered to have changed significantly 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. • New business levels have recovered well from the height of the Covid-19 pandemic. Demand for lending and leasing services has not yet been adversely impacted by the economic consequences of the War in Ukraine and recent rapid increases in the rate of inflation although we continue to monitor and review the position. • We invested significantly in the new Novuna brand launched in February 2022.	• 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. • Certain segments of our customer base have experienced increased levels of vulnerability associated with the pandemic. We have recognised this and continued to focus on delivering fair outcomes and monitoring key metrics including those associated with conduct quality. • 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 including Timeshare finance agreements (see note 35, Contingent liabilities).	• 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. • 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 training. • We undertake regular and focused training of our customer-facing colleagues. • We operate a Quality Assurance programme within our customer-facing business areas. • We monitor the performance of third parties relied upon to provide services to our customers.
We do not comply with either relevant current or emerging regulation and rules, including consumer credit and privacy regulation. • There has been no significant change in the level of this principal risk during the period. • We are planning for the introduction of the FCA's new Consumer Duty.	• 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.

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. • Both the Covid-19 pandemic and the onset of the War in Ukraine have led to an increase in world-wide cyber-attacks and threats. We have further enhanced our threat detection and prevention capabilities 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 are subject to significant fraud losses, including cybercrime. • Rapid changes in working practice with a move to non-face to face activity has led to increased opportunities for cybercrime and other non-face to face fraud in the financial services sector. This trend has continued during the year. • Recognising this increased inherent risk, we have enhanced relevant controls. Consequently, there has been no significant change in the level of this principal risk during the period.	• 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. • During the year we have formally recognised climate change risk as a new strategic category in our enterprise risk management framework. We have also invested in climate change reporting capabilities and enhanced our environmental governance framework to address this growing risk. • We have recognised transitional climate change risks in respect of the risk of failure to: meet stakeholders' expectations regarding the management and reporting of climate change risks, including associated reputational risks; build models to capture and measure climate change risk's impact on our business; and adequately build climate change risk into our pricing governance.	• 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 are unable to continue to operate effectively due to an inadequate level of service from third parties. • We recognise that the economic shock arising from recent world-wide events has affected the cost base and business model of some of our suppliers increasing the risk of their failure or of inadequate service provision. During the year, we have implemented the FCA's new requirements in respect of Operational Resilience.	• 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.

Impact of Covid-19 and the War in Ukraine

Over the course of the Covid-19 pandemic we have operated an enhanced level of oversight with more frequent meetings of the Executive and a range of other additional governance arrangements to monitor the evolving associated impact and risks to our business, our customers and our colleagues. This has continued albeit at a reduced level since the height of the crisis as the UK and world economies have learnt to live with Covid-19. More recently, the Chinese government's approach to management of the country's Omicron outbreak is recognised as adding further to supply constraints and potential increases in global prices.

As the worst of the pandemic passed and as evidence of recovery was emerging, the War in Ukraine has created a further global shock at a time when many world economies were in an unusually exposed position. The War is already adding to existing supply constraints and rising prices being faced by consumers and businesses, most notably initially in energy markets. The consequent inflationary pressures are likely to lead to further interest rate rises, cost of living challenges for households and cost increases and potential supply chain issues and dampened demand for firms. The War has also led to an increase in cyber-attacks. We have been monitoring these developments carefully. While the review we have undertaken indicates that our business has no direct reliance on Russia, Belarus or Ukraine, and we are not aware of our customers, key suppliers and intermediaries having any reliance on these countries, it is clear that the wider economic consequences could have significant indirect impacts.

Steps that we have taken to date include increasing assumed cost of living expenses in our affordability models and setting aside £5.0m Post Model Adjustment (PMA) within our Expected Credit Loss (ECL) provision; focusing in particular on receivables from industry sectors we consider to carry increased levels of risk; continuing to carefully monitor our interest rate hedging and funding plans; monitoring suppliers considered at increased risk; and further strengthening our cyber security controls including reducing our attack surface.

The longer term economic impact of the War in Ukraine is currently unpredictable including its duration and the risk of escalation. We will continue to monitor its impact on our risk profile through our corporate governance and enterprise risk management frameworks and take mitigating steps including making any further amendments to our risk appetite framework and controls as are considered necessary.

Risk management framework

In order to manage the risks we face, including these principal risks and uncertainties, MHCUK has a clearly defined risk management framework, maintained and developed by the Second Line of Defence Risk & 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 & 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 & Risk Committee. Additional oversight of risks takes place at the following 2nd Line Committees, which also report to the Executive Risk Committee - for Conduct &

Operational Risks: the Operational Risk and Compliance Committee; for Financial Risks: the Credit Risk Committee and Treasury 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 66.

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). As noted earlier, during the year, steps have been taken to fully align our JSOX testing and reporting arrangements with our three lines of defence model.

Risk culture, awareness and training - A range of mechanisms is in place 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 & Compliance team (2nd Line of Defence) has a Risk Oversight & Compliance Monitoring Plan approved by the Audit & Risk Committee. The Internal Audit function (3rd Line of Defence) has an Audit & Risk Committee approved Assurance Plan.

Section 172(1) Statement

This statement describes how 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 throughout the year ended 31 March 2022.

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 66 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. Information about the Company's interactions with stakeholders is set out below and in the Directors' Report, starting on page 74 of the Annual Report.

Governance

The Company has applied the Wates 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 benefit 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 medium-term (three-year) 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 (both short-term and long-term) 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 Board has approved a risk management framework, which is managed by a team led by the Chief Risk Officer, who provides regular reports to the Audit & 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 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) and safety of employees remains a major priority for the Group and has been a matter of particular focus since the beginning of the continuing Covid-19 pandemic. 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 74. Details of the various initiatives which have been introduced to support the wellbeing and development of employees, and to promote diversity and inclusion in the workforce, are set out in the Corporate Social Responsibility section of the Group Strategic Report.

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, at least quarterly with "strategic" suppliers and every month with "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. Group Procurement is working with the business in relation to the Group's Net Zero Carbon goals and how they flow through to our supply chain. 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, and the evidence of their effectiveness, are set out in the Corporate Social Responsibility section of the Group Strategic Report, starting on page 38. 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 actively seek information on the interaction with stakeholders 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. "Communities" and "Sustainability" are two of the five key elements which form part of our ESG reporting. Further information, including detail of the activities of staff and initiatives undertaken by the Company, is provided in the Corporate Social Responsibility section of 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. During the year, the Company commenced a comprehensive corporate governance review, the progress of which is described in the Corporate Governance Statement. The Company is committed to preventing, deterring, and detecting all forms of financial crime such as money laundering, fraud, terrorist financing, bribery & corruption and market abuse. The Board has approved a Financial Crime Policy Statement and ensures that the Group Financial Crime Prevention Team within the Risk & Compliance function is fully resourced. 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. Since 2020, the Company has been 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 of each company endeavour to make sure that the two organisations operate within a written framework designed to promote appropriate levels of co-operation and consultation.

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. Since 1 April 2019 the Board has applied the Wates Principles published by the Financial Reporting Council as the most appropriate corporate governance framework for the Company. However, the Board continues to have regard to the principles and provisions of the UK Corporate Governance Code ('the 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 vision, mission 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 Corporate Social Responsibility section on page 38 and the Directors Report on page 74.

Principle 2 - Board composition

The Board includes a separate Director in the Chair (chairman) 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 non-executive directors, comprising two who are considered to be independent and one who is an employee of the sole shareholder. Accordingly, half of the Board (excluding the Director in the Chair) comprises independent directors, in line with the UK Corporate Governance Code. The Board considers that its size and composition is appropriate for a business of the scale and complexity of the Company. The Board has delegated specific functions to its Audit & Risk Committee, Nomination Committee and Remuneration Committee respectively.

The Director in the Chair and the independent non-executive Directors 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 conducts a formal effectiveness review of itself and its committees every year. Although the Board's policy is to have such reviews facilitated by an independent external advisor every three years, the Board decided that (in the unusual circumstances prevailing during the Covid pandemic) the externally-facilitated assessment should be postponed. In view of the continuing restrictions imposed on the UK population in order to counter the spread of the Covid-19 virus, the Board has resolved to revisit the matter of evaluation in 2022.

During the year, the Board - in conjunction with the Nomination Committee - has made further progress in formulating a succession plan for the Board and a strategy designed to promote diversity and inclusion amongst its membership.

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. The agenda for each scheduled Board meeting is structured around four pillars, one of which is corporate governance.

Under the Company's Risk Management Framework, the Board approves all Group policy statements, with subordinate 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 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, supported by KPIs.

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 on 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 has been reviewed periodically.

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 62.

Principle 4 - Opportunity and risk

The Board seeks out opportunity whilst mitigating risk appropriately. "Profitable growth" is the first of the four key pillars which form the basis of the agenda for each scheduled Board meeting.

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, and for the maintenance of which the Chief Risk Officer is accountable. The Chief Risk Officer reports on a regular basis to the Executive Committee, the Board's Audit & 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 52.

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, mission 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.

In early 2022, the Company published its fourth annual statutory Gender Pay Gap Report. The latest report highlights progress despite a slight reverse in the Gender Pay Gap and also specific areas of focus and actions, which the Remuneration Committee mandated the Group HR Director and the business to continue in order to achieve further positive impact on the Gender Pay Gap position.

Principle 6 - Stakeholders

The Board is acutely aware that effective engagement with stakeholders is essential to deliver the Group's vision and mission 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 74.

Following the merger on 1 April 2021 of Mitsubishi UFJ Lease and Finance Company Limited with Hitachi Capital Corporation to form Mitsubishi HC Capital Inc, the Company's new parent company and sole shareholder, the Board agreed that a full review of the Company's corporate governance structure should be carried out, 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 the review, including the establishment of a new Board Terms of Reference document, have been substantially completed. 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

During the year under review, the Board was chaired by Guy Munnoch (defined as the "Director in the Chair" under the Company's Articles of Association) and comprised the Deputy Chair and Senior Independent Director, Alan Hughes, two other non-executive directors (Anne Whitaker and Hiroyuki Fukuro) and the Chief Executive Officer, Robert Gordon. Mr. Munnoch has indicated his intention to retire as a director of the Company before the end of 2022. The Board has resolved that Mr. Hughes should succeed Mr.Munnoch as Director in the Chair upon his retirement.

Mr. Fukuro is an employee of the Company's sole shareholder, Mitsubishi HC Capital Inc. Excluding the Director in the Chair, the Board therefore has two non-executive directors, Ms. Whitaker and Mr. Hughes, who are determined by the Board to be independent.

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, structured around four core pillars of profitable growth, corporate governance, operational excellence and customer-centricity.

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, mission, 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, mission and strategy in line with the Group's agreed values.

Audit and Risk Committee

During the year under review, the Audit and Risk Committee was chaired by Anne Whitaker, who is a Chartered Accountant, a former audit partner at Ernst & Young, and Senior Advisor at the Financial Reporting Council.

Ms. Whitaker was appointed as chair of the Audit and Risk Committee by the Board, which considers her to be independent and to have competence in both accounting and auditing as required by the Disclosure and Transparency Rules. Ms Whitaker has outlined her intention to retire as a director of the Company before the end of 2022 although she has agreed to remain in post until a successor is appointed and in place.

The other members of the committee are Alan Hughes, Guy Munnoch and Hiroyuki Fukuro. Although Mr. Munnoch is the Director in the Chair, 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. Munnoch is a member of the Audit and Risk Committee.

The Board therefore also considers that a majority of members of the committee are independent and that the committee as a whole has competence relevant to the sector in which it is operating. The Board ensures that the committee carries out the functions required by rule 7.1.3 of the Disclosure 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 normally 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, Chief Risk Officer, the Group Director of Operations, the Group Head of Compliance and the Head of Internal Audit, also attend meetings at the invitation of the committee. 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.

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 our internal audit plan, and compliance with, certain aspects of Japan's Financial Instruments and Exchange Law (J-SOX) in order, for example, to assure itself that the Group continues to satisfy its parent company that it remains compliant with the legislation.

Remuneration Committee

During the year under review, the Remuneration Committee was chaired by Alan Hughes. Its other members are Guy

Munnoch, Anne Whitaker and Hiroyuki Fukuro. 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

During the year under review, the Nomination Committee was chaired by Guy Munnoch, its other members being Robert Gordon, Alan Hughes, Anne Whitaker and Hiroyuki Fukuro. 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. Both Guy Munnoch and Anne Whitaker have outlined their intentions to retire as directors of the Company before the end of 2022, although each has agreed to remain until a successor is in place. In conjunction with the Group HR Director, the committee has therefore devoted a substantial part of the year to recruiting such successors, including briefing external agencies, interviewing candidates and formulating recommendations to the Board.

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 2022 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 Principal Risks and Uncertainties on page 52.

The Group has a 2nd Line Risk & 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, which are expected to continue post-merger.

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 2022, 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:

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

By order of the Board.

J.N.M.Sims
Company Secretary
9 June 2022


Novuna

Directors' Report

The Board of Directors of Mitsubishi HC Capital UK PLC (registered company number 1630491) ("the Company") presents the annual report and audited financial statements for the year ended 31 March 2022 for the Company and its subsidiaries ("the Group").

Results and Dividends

The results of the Group for the year ended 31 March 2022 are set out in the consolidated income statement on page 100. No interim dividend was paid during the year (2021: £nil). The Directors have recommended a final dividend of £41.6m, 9.4p per share (2021: £25.0m, 5.65p per share) which represents approximately 40% 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 of the financial statements.

Outlook

The Group's outlook and likely future developments in the Group's business are detailed in the Group Strategic Report on pages 6 to 65.

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 relations policy is designed to encourage an atmosphere of trust and to reinforce our core values of Harmony, Sincerity and Pioneering Spirit across the organisation. The Group is committed to the personal development of all its employees.

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. The Group has an intranet site which acts as the main reference point in the provision of a wide variety of information to employees.

During the pandemic, the CEO 'town hall' meetings have taken place online and are also recorded so all employees can access them if they are not able to attend. Over the last year, the CEO continued to publish his weekly blog to ensure key information is communicated. Microsoft Teams implementation meant that regular team and face to face meetings were able to continue.

During the year, the Group has maintained arrangements aimed at ensuring that employees' views can be taken into account in making decisions that are likely to affect their interests. In addition to the annual engagement survey, the Group conducted several employee 'pulse' surveys (on topics including future working arrangements and working at home) and wellbeing surveys, to measure engagement across the Group. The Group also continued to use a real time employee feedback tool (My Voice) to gauge employees' feedback around employee lifecycle events and as a general feedback tool. Analysis is available in real time and is shared with the Executive Committee every month. Monthly summaries from My Voice are shared on the intranet for all employees to read. Employee representatives are in place at each location and meet regularly to meet the Group's consultation requirements. The Group continues to encourage active involvement in employee communities, which enable individuals to come together to maximise employee involvement, lead on events and help to implement ideas that keep the wider employee population updated and engaged. 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. In April 2022, the Colleague Ability Network (CAN), a new employee community to support existing and future employees, was set up. The aim of CAN is to make sure colleagues with disabilities feel safe 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 principles-based regulation. 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.

Shareholder

- On 1 April 2021, Hitachi Capital Corporation merged with Mitsubishi UFJ Lease and Finance Company Limited to form Mitsubishi HC Capital Inc, the Company's new sole shareholder.
- An employee of the shareholder continues to sit on the Board as a non-executive Director and to serve as a member of the Audit & 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 and commission 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. During the year the Company continued to issue 'Green' Bonds inaccordance with its Green Financing Framework.

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 and strong growth 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 that 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 stakeholders in the market, whilst addressing any risks (to both customers and the business) in the design and operation of those products.

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. We adhere to the following key principles and processes when engaging with suppliers, in order to ensure that they provide the right goods and services for our business:

- Act fairly and professionally during the sourcing process.
- 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.
- Maintain a Strategic Relationship Management programme for all critical and strategic suppliers to enable collaborative working.
- We have a supplier code of conduct for our suppliers, including any potential new suppliers to the Group.

We are committed to establishing long-term, open and fair relationships with our suppliers. The Board receives regular updates on supplier relationship management.

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.
- A comprehensive annual employee engagement survey is conducted to measure engagement across the Group and the results are reported to the Board.

Feedback from our employees resulted in the Company achieving 11th place on Glassdoor's Best Places to Work in the UK 2022 list and we actively encourage the provision of feedback on social media platforms to enable us to make changes and improvements.

- Our mentoring circles programme has now successfully delivered over the past six years and remained in place virtually for 2021/22.
- In 2021/22, 4 cohorts of participants completed our externally accredited programme for aspiring leaders/managers.

›

- We maintain Company-wide communication via the intranet and regular newsletters.
- 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

The Group is committed to making a positive difference to the communities in which we live, work and serve, be it by helping small businesses to grow, education or through charitable donations of both time and money. We are enhancing our focus on addressing the climate change agenda by investing in, and supporting, sustainable energy and the EV and infrastructure industry.

It has been another very challenging year for the Company. However, we maintained our commitment to making sustainable difference by aligning our business to the UN Sustainable Development Goals.

Some of key achievements during the year are set out below:

- We supported a number of charities, including FareShare, Young Enterprise, Macmillan, Crisis and The Wildlife Trusts, total donations for the year approaching £275,000.
- We also tried to ensure that we are making a difference in our local communities. We made donations of £1,500 to local charities based on employee nominations on a quarterly basis at each of our 5 business locations.
- In January 2022, we welcomed 13 graduates onto our first Company-wide graduate scheme, focusing on early career development following the rise in youth unemployment mainly triggered by the pandemic.
- Throughout the year, we have encouraged take-up of lower emission cars. In March 2022, we updated our Company's car scheme to offer only fully electric vehicles. Since then, 85% of our fleet has seen a shift to being electric or electric hybrid.
- More details of our contribution to society, social value creation and a sustainable environment are provided in the CSR report starting on page 38.

Directors of the Group

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

H. Fukuro
R. Gordon
A. Hughes
G. Munnoch
A. Whitaker

In accordance with the Company's Articles of Association, each of the Directors will retire by rotation at the 2022 AGM and, being eligible to be re-appointed, will offer themselves for re-appointment at that meeting. Mr Munnoch and Ms Whitaker have outlined their intention to retire as directors of the Company following the AGM but have agreed to remain on the Board until appropriate successors have been appointed.

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:

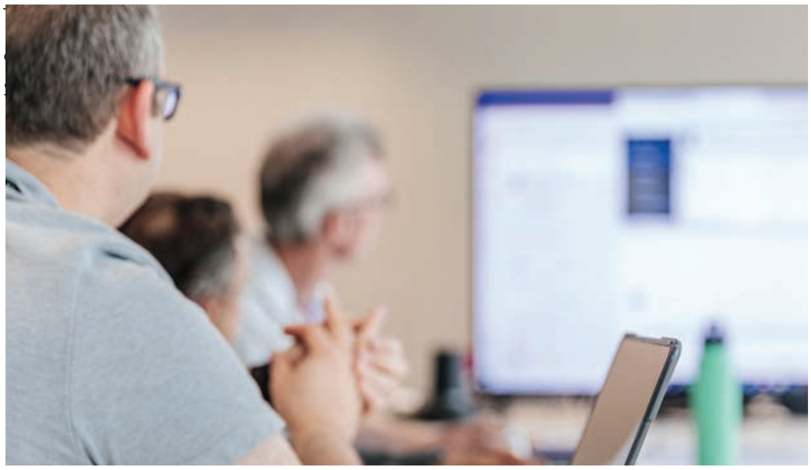
- To the best of each Director's knowledge and belief, there is no information relevant to the preparation of the Directors' report of which the Group's auditor is unaware; and
- Each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit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

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 2022 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 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 62.

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 starting on page 6. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Group Strategic Report, the financial statements starting on page 100 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. In making the assessment, the Directors have considered reverse stress testing scenarios as well as all principal and emerging risks, including climate risk where the risk is likely to emerge outside of the going concern assessment horizon.

The Directors are satisfied that the Group has sufficient appropriate funding facilities and capacity to borrow both currently and for the foreseeable future. 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.

- Euro medium term note and commercial paper programmes for which Mitsubishi HC Capital Inc (formerly Hitachi Capital Corporation) 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 Inc (formerly Hitachi Capital Corporation) committed facility, and additional shared facility, from the three largest Japanese commercial banks.
- Group loan facilities available from Mitsubishi HC Capital Inc (formerly Hitachi Capital Corporation).
- Short-term uncommitted bank borrowing facilities.

It is the Directors' intention to continue to utilise existing facilities to meet the funding needs of the business. The Group's funding sources and facility utilisation is set out in more detail within the liquidity risk and funding management section in note 34 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.

Stress testing

The Directors have also considered reverse stress testing scenarios for both equity and liquidity. Under these scenarios the bad debt charge would need to increase to approximately 14 times the level of 2021 to exhaust the current capital base within three years.

The Directors have also performed an extreme reverse stress scenario to assess the resilience of the business under liquidity stress. Under this scenario, it can be demonstrated that cash collections from the run-off of existing receivables would be sufficient to settle obligations without the need to utilise cash from our parent company or existing short-term facilities. The Group have committed and uncommitted facilities with large banks and its parent company, Mitsubishi HC Capital Inc., which are available to draw down if required.

The statement of financial position shows a net current asset of £193m at year-end based on contractual maturity profile. This demonstrates that the Group is well positioned to meet its existing short-term obligations through expected collections. With the level of committed facilities available to the Group, the Directors are confident of meeting its short 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 aftermath of Covid-19 pandemic 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 pandemic (as detailed in note 34).

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 section of 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 an overseas branch in the Republic of Ireland.

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 66 to 72 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.

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 Energy and Carbon Report starting on page 82.

Post-balance sheet events

There have been no important events affecting the Company since the end of the financial year.

By order of the Board.

J.N.M.Sims
Company Secretary
9 June 2022

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 2022, 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 & 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)

Direct emissions include activities owned or controlled by the Group that release emissions into the atmosphere. This includes emissions from combustion in owned or controlled boilers and company owned vehicles used by employees.

Energy type	Definition	Total volume (kWh)	Calculated emissions (Tonnes of CO2e)
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**
2021			
Gas	Emissions from combustion of gas.	74,334	14
Transport	Emissions from combustion of fuel for transport purposes*.	43,394	10
Total		**117,728**	**24**

*Includes mileage from unsubmitted claims filed in financial year 2021/22 from travel during financial year 2020/21.

Scope 2 Emissions (Indirect)

Indirect emissions released into the atmosphere associated with consumption of purchased electricity, heat, steam and cooling. Indirect emissions are a consequence of the Group's activities but occur at sources not controlled or owned by the Group.

Energy type	Definition	Total volume (kWh)	Calculated emissions (Tonnes of CO2e)
2022			
Electricity	Emissions from purchased electricity.	2,135,260	453
Total		**2,135,260**	**453**
2021			
Electricity	Emissions from purchased electricity.	1,764,718	411
Total		**1,764,718**	**411**

Scope 3 Emissions (Indirect)

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. Examples of Scope 3 emissions are business travel by means not owned or controlled by the Group (e.g. grey fleet and rental cars).

Energy type	Definition	Total volume (kWh)	Calculated emissions (Tonnes of CO2e)
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**
2021			
Transport	Emissions from business travel in rental cars or employee owned vehicles where the company is responsible for purchasing the fuel.	1,872	0.5
Total		**1,872**	**0.5**

Total Emission Scope Summary

	2022		2021	
Emission type	**Total volume (kWh)**	**Calculated emissions (Tonnes of CO2e)**	**Total volume (kWh)**	**Calculated emissions (Tonnes of CO2e)**
Scope 1 (direct)	307,023	70.0	117,728	24.0
Scope 2 (indirect)	2,135,260	453.0	1,764,718	411.0
Scope 3 (indirect)	16,226	3.9	1,872	0.5
Total	**2,458,549**	**526.9**	**1,884,318**	**435.5**

Out of Scope

Scope 1 Emissions (Direct)

All fuels with biogenic content (such as 'diesel and petrol (average biofuel blend)') should have the 'outside of scopes' emissions reported to ensure a complete picture of an organisation's emissions is created. However, these are not required to be included in the Group's emissions total.

	2022		2021	
Emission type	**Total volume (kWh)**	**Calculated emissions (Tonnes of CO2e)**	**Total volume (kWh)**	**Calculated emissions (Tonnes of CO2e)**
Transport	-	2.24	-	0.39
Total	**-**	**2.24**	**-**	**0.39**

Intensity Ratio

Intensity measurement	Number of FTE for the period	Intensity Ratio (tCO2e / No. of FTE)
2022		
Number of FTE	1,612	0.33
2021		
Number of FTE	1,550	0.28

*The chosen intensity measurement ratio is total gross emissions in metric tonnes CO2e per Full Time Equivalent ("FTE"), the recommended ratio for the sector. Our intensity measurement has risen this year as company employees started hybrid working which affected higher energy consumption in comparison with previous year.

*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 2021 UK Government GHG Conversion Factors for Company Reporting document for calculating carbon emissions. Energy usage information (gas and electricity) has been obtained directly from our energy suppliers, through monthly site invoices, and half hourly (HH) meter reading data, where applicable, for the HH supplies. Where there were no monthly site invoices or HH data available, an estimation technique - comparison with

›

another comparable time period (pre-pandemic time) by calculating ratio of missing months out of total data within comparable period to apply same ratio for this reporting year's data for each respective site to complete the annual consumption. Transport mileage data was obtained from expense claims submitted for our company cars and grey fleet. Unsubmitted claims for the reporting period 2020/21 are being included for the reporting period 2021/22 as they were not accounted for in the previous year's report. We will be including unsubmitted claims going forwards to ensure all relevant emissions are accounted for. This report was prepared and delivered by the CEO office Sustainability Team. The previous reports for 2019/20 and 2021/22 reporting period prepared by an external consultancy. The Group constantly reviews its expenses policy with focus on prompt claim submission. CO2e emissions were calculated using the appropriate emission factors from the UK Government GHG conversion information.

Energy efficiency action

MHCUK 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 Company's ULEV scheme, which was re-designed in 2020 to encourage take-up of lower emission cars, has seen a shift from 30% of the fleet being electric and hybrid to 85% since the scheme went live. While MHCUK's overall fleet size has increased by 25% since FY2019, the overall average CO2 has reduced by 54.36 g/km since this time 2 years ago, resulting in an average CO2 of 32.74 g/km. The UK average CO2 is 92.0 g/km.

The company car scheme 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'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.

The Company's Business Finance division has partnered with Gridserve, providing £76m of facilities that are being used to help tackle climate change by providing clean renewable energy to power electric vehicles. This year, Gridserve's purchase of the Electric Highway Company has enabled them to upgrade the nationwide charging infrastructure located across the UK's motorway service stations. A total 538,944 kWh of energy was supplied via EV charging at Braintree between April 2021 to March 2022 with an overall energy being supplied of 12,327,390 kWh to EV's on the Electric Highway during that same timeline. Moreover, Gridserve's Clayhill solar farm delivered 9,591,707 kWh of solar energy between April 2021 and March 2022.

In October 2021 MHCUK successfully issued a 3-year €325 Million Green Bond with NatWest, HSBC, SMBC Nikko and Standard Chartered. This is in addition to the already in place $40 million Green bond issued in March of 2021, which included the provision of leases for battery electric vehicles, hybrid solar farms and electric vehicle charging points.

Continued implementation of remote working by leveraging virtual meeting platforms/video conferencing, limiting the need for travel to and between sites.

The Company is currently on 100% renewable energy tariff for all its UK operating office buildings.


M&S FOOD
COSTA
WHSmith
GRIDSERVE
NO ENTRY

Independent Auditor's Report

FOR THE YEAR ENDED 31 MARCH 2022

Opinion

In our opinion:

- The financial statements of Mitsubishi HC Capital UK PLC (the 'parent 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 2022 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 36.

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.

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.

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. • Residual value of operating lease assets in Novuna Vehicle Solutions.
Materiality	• The materiality that we used for the Group financial statements was £8.3m which was determined on the basis of net assets.
Scoping	• Our Group audit scope focused on the parent company which was subject to a full scope audit. The parent company accounts for over 99% of the Group's total net assets, revenue and profit before tax.

Conclusions related 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, to understand, challenge and evidence the key judgements made 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;
- We obtained the Board approved income statement, balance sheet and cash flow forecasts for the going concern period and challenged key assumptions and their projected impact on the Group under different scenarios;

- Supported by our regulatory specialists, we assessed the results of the directors' reverse stress testing and downside sensitivity analysis and challenged 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; 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.

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.

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 130 and note 34 on page 187.

Key audit matter description

IFRS 9 requires loan impairment provisions to be recognised on an expected credit loss ("ECL") basis. At 31 March 2022, the Group reported an ECL of £56.3m (2021: £55.8m). Of the total provision, £38.6m (2021:£40.6m) relates to Novuna Consumer Finance which represented 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"): 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 2022; 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. This included involving our IT specialist to test 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;
- Involved our credit risk modelling specialist team to:
  - assess the application of SICR in the ECL calculation, including a review of the code script and methodology;
  - understand and challenge the behavioural scorecard model methodology which is used to calculate PDs used in the SICR assessment; and
  - recalculate PDs and independently reperform management's staging assessment, to test whether the staging criteria were applied correctly;
- Performed testing of 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; and
- 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 two before moving to stage three.

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;
- Involved our credit risk modelling specialist team to:
  -understand and challenge the 12-month and lifetime loss rate models used in the ECL calculation, including a review of the code script and methodology; and
  -independently recalculate loss rates and to reperform the application of tshe loss rates within the ECL calculation;
- Tested the accuracy and completeness of data used in the loss rate models, including write-off data; and
- Performed a stand-back assessment to assess whether the loss rates applied were appropriate and the overall ECL was reasonable.

Key observations

Overall, we determined that the Group's ECL provision for Novuna Consumer Finance as at 31 March 2022 was reasonable and in compliance with IFRS 9. We therefore determined that the ECL provision for Novuna Consumer Finance is appropriately stated.

Residual value of operating lease assets in Novuna Vehicle Solutions

Refer to the judgements in applying accounting policies and critical accounting estimates in note 2.4 on page 130 and note 12 on page 146.

Key audit matter description

Total operating lease assets in Novuna Vehicle Solutions were £1,547.9m as at 31 March 2022 (2021:£1,284.2m). For the year-ended 31 March 2022, the Group reported depreciation and impairment of £260.2m (2021: £212.3m) relating to operating lease assets in Novuna Vehicle Solutions. Depreciation and impairment of operating lease assets are calculated with reference to the residual value of these assets. Management apply judgement and ❯

judgement and assumptions in determining residual values.

The residual values used to determine the depreciation charge for the year-end 31 March 2022 in accordance with IAS 16 are set at the amount the asset would be worth in the market at today's date, only adjusted for the age and condition of the asset at the end of its useful life.

However, the residual values used to determine the impairment charge for the year-ended 31 March 2022 in accordance with IAS 36, are set at the present value of the future cash flows expected to be derived from the asset. In the current market environment, the residual values used in the impairment assessment therefore include downward adjustments to reflect the expected future normalisation of vehicle prices; these are currently high following the current supplier shortage issues and other lifecycle adjustments. There is a risk that the residual values are not appropriate and therefore the impairment charge recognised in the income statement for the year-ended 31 March 2022, and the carrying value of the operating lease assets in Novuna Vehicle Solutions as at 31 March 2022, are not appropriately stated.

Given the significant estimation uncertainty in determining residual values used in the impairment assessment, we therefore consider these to be a key audit matter due to the risk of fraud or error.

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 used in the impairment assessment for operating lease assets in Novuna Vehicle Solutions. This included involving our IT specialist to test general IT controls over the relevant underlying leasing system.

To challenge the residual values of operating lease assets, we:

- Assessed the appropriateness of significant judgements used in management's residual value model, including comparing the residual value output from management's model to independent valuations from market data sources.
- 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 competitors 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.

We also tested the mathematical accuracy of the residual value impairment model, tested forecast rental income to contractual data and developed an independent expectation of the appropriate discount rate.

Key observations

We determined that the Group's residual values for operating lease assets in Novuna Vehicle Solutions were reasonable and in compliance with IAS 36. We therefore determined that the impairment charge and carrying value of the operating lease assets are appropriately stated.

Our application of materiality

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	£8.3m
Basis for determining materiality	Group materiality was based on 1% of forecast net assets and represents 0.9% of Group net assets as of 31 March 2022.
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, we determined forecast net assets to be the most appropriate and stable benchmark to determine materiality.

Parent company financial statements

Materiality	£8.2m
Basis for determining materiality	Parent company materiality was based on 1% of parent company forecast net assets and equates to 0.9% of parent company net assets as of 31 March 2022, which is capped at 99% of Group materiality.
Rationale for the benchmark applied	We considered forecast net assets to the most appropriate and stable benchmark to determine materiality in line with the rationale for the Group materiality.

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	65% of Group materiality	65% of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: • The current financial year is Deloitte LLP's first year auditing the Group and parent company financial statements; • The quality of the control environment and that we were able to rely on controls; • The degree of centralisation and commonality of controls and processes; and • The nature, volume and size of uncorrected misstatements that were identified by the predecessor auditor in the prior year audit.	

Error reporting threshold

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £0.4m, 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.

An overview of the scope of our audit

First year audit transition

This is the first year we have been appointed as auditors to the Group and parent company. We undertook a number of transitional procedures to prepare for the audit including establishing our independence from the Group. From 13 May 2021, we attended all Audit and Risk Committee meetings, initially in an observer capacity, and met regularly with Group management. We worked alongside the former auditor, reviewed their working papers and shadowed some of their meetings to gain an understanding of the Group, their audit risk assessment and the work performed for the purposes of issuing their audit opinion.

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. Our Group audit scope focused on the parent company which accounts for over 99% of the Group's total net assets, revenue and profit before tax. The parent company was the only significant component and was subject to a full scope audit. All audit 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 two non-significant subsidiaries not subject to a full scope audit or specified audit procedures.

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 we involved our IT specialists to perform 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.

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 a target for 20% of the Group's assets to be directly connected to climate action and affordable clean energy by the financial year ending in March 2025 and the Group's ongoing strategic investment in Gridserve Holdings Ltd, a provider of sustainable energy solutions, which is equity accounted for.

As set out in note 2.4 page 130, 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. 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 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.

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.

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.

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.

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.

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 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 and the determination of residual values of operating lease assets in Novuna Vehicle Solutions. 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.

Audit response to risks identified

As a result of performing the above, we identified the valuation of expected credit losses ("ECL") in Novuna Consumer Finance and the determination of the residual value of operating lease assets in Novuna Vehicle Solutions 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

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.

Matters on which we are required to report by exception

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.

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 this matter.

Other matters which we are required to address

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 one year, covering the year ended 31 March 2022.

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).

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.

Zahir Bokhari FCA
(Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
9 June 2022

Consolidated Income Statement

FOR THE YEAR ENDED 31 MARCH 2022

	Note	2022 £m	2021 £m
Interest income	5	192.5	191.0
Finance lease income		74.5	70.2
Operating lease rental income		353.4	287.9
Operating lease maintenance income		42.3	36.9
Sale of operating leased assets		186.7	121.7
Other operating income	6	34.5	36.7
Revenue		**883.9**	**744.4**
Finance costs	7	(62.8)	(66.7)
Depreciation and impairment of operating leased assets	12	(266.8)	(219.0)
Maintenance expense on operating leased vehicles		(37.7)	(38.2)
Disposal of operating leased assets		(155.7)	(119.0)
Other cost of sales	8	(11.1)	(11.4)
Cost of sales		**(534.1)**	**(454.3)**
Gross profit		**349.8**	**290.1**
Impairment losses on credit exposures	15	(27.9)	(41.9)
Administrative expenses	9	(176.1)	(142.7)
Operating profit		**145.8**	**105.5**
Fair value gain on derivative financial instruments	17	0.5	0.9
Parent integration costs	10	(7.8)	(2.4)
Share of loss of investments accounted for under the equity method	4	(8.5)	-
Profit before tax		**130.0**	**104.0**
Income tax expense	11	(27.3)	(21.3)
Profit after tax		**102.7**	**82.7**

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MARCH 2022

	Note	2022 £m	2021 £m
Profit for the year		**102.7**	**82.7**
Other comprehensive income to be reclassified to profit or loss in subsequent period			
Gain/(loss) taken to cash flow hedge and cost of hedging reserve	26	59.6	(6.0)
Income tax effect	11	(11.4)	1.1
		48.2	(4.9)
Net other comprehensive income to be reclassified to profit or loss in subsequent period		**48.2**	**(4.9)**
Items that will not be reclassified subsequently to profit or loss			
Re-measurement of defined benefit pension scheme	29	8.0	(7.6)
Income tax effect	11	(2.0)	1.5
		6.0	(6.1)
Net other comprehensive income not to be reclassified to profit or loss in subsequent period		**6.0**	**(6.1)**
Other comprehensive income for the year, net of tax		54.2	(11.0)
Total comprehensive income for the year, net of tax		**156.9**	**71.7**
Attributable to:			
Equity holders of the parent		156.9	71.7
Total comprehensive income for the year, net of tax		156.9	71.7

Consolidated Statement of Financial Position

AS AT 31 MARCH 2022

	Note	Group 31 March 2022 £m	Group 31 March 2021 Restated £m	Group 1 April 2020 Restated £m
Non-current assets				
Intangible assets	14	77.8	70.9	55.4
Investment accounted for under the equity method	4	1.6	10.1	-
Property, plant and equipment under operating lease	12	1,574.0	1,311.0	1,053.5
Other property, plant, equipment and right of use assets	13	17.5	19.1	19.7
Loans and advances to customers	16	2,888.2	2,873.0	3,067.4
Other financial instruments at amortised cost	33	41.1	38.6	44.1
Financial instruments at fair value through profit or loss	33	45.5	62.1	61.5
Derivative financial instruments	17	60.7	8.8	78.5
Deferred tax assets	11	0.1	18.2	9.4
Retirement benefit asset	29	9.7	1.7	7.1
		4,716.2	**4,413.5**	**4,396.6**
Current assets				
Loans and advances to customers	16	2,112.0	1,791.4	1,840.8
Derivative financial instruments	17	5.5	1.9	57.9
Inventories	20	19.6	12.7	15.1
Current tax asset		16.8	0.5	12.4
Trade and other receivables	21	112.2	109.5	86.5
Cash and cash equivalents	24	135.5	185.4	142.8
		2,401.6	**2,101.4**	**2,155.5**
Total assets		**7,117.8**	**6,514.9**	**6,552.1**

	Note	Group 31 March 2022 £m	Group 31 March 2021 Restated £m	Group 1 April 2020 Restated £m
Equity and liabilities				
Equity				
Share capital	25	110.7	110.7	110.7
Share premium		15.6	15.6	15.6
Retained earnings		765.5	687.8	605.2
Other reserves		29.9	(24.3)	(13.3)
Equity attributable to owners of the company		**921.7**	**789.8**	**718.2**
Non-current liabilities				
Interest bearing borrowings	18	3,667.6	3,182.5	3,079.9
Derivative financial instruments	17	210.8	139.4	25.6
Trade and other payables	27	95.8	81.0	90.5
Provisions	23	2.1	1.3	1.2
Deferred tax liability	11	7.9	-	-
		3,984.2	**3,404.2**	**3,197.2**
Current liabilities				
Bank overdrafts	24	48.9	40.6	121.6
Interest bearing borrowings	18	1,812.3	1,973.6	2,276.3
Derivative financial instruments	17	10.9	46.3	6.8
Current tax liability		0.3	-	-
Trade and other payables	27	338.1	257.6	229.0
Provisions	23	1.4	2.8	3.0
		2,211.9	**2,320.9**	**2,636.7**
Total liabilities		**6,196.1**	**5,725.1**	**5,833.9**
Total equity and liabilities		**7,117.8**	**6,514.9**	**6,552.1**

Company Statement of Financial Position

AS AT 31 MARCH 2022

	Note	Company 31 March 2022 £m	Company 31 March 2021 Restated £m	Company 1 April 2020 Restated £m
Non-current assets				
Intangible assets	14	77.8	70.9	55.4
Investments in subsidiaries	4	7.7	7.7	7.7
Investment accounted for under the equity method	4	1.6	10.1	-
Property, plant and equipment under operating lease	12	1,571.2	1,309.9	1,052.9
Other property, plant, equipment and right of use assets	13	17.5	19.1	19.7
Loans and advances to customers	16	2,840.2	2,858.4	3,052.4
Other financial instruments at amortised cost	33	41.1	38.6	44.1
Financial instruments at fair value through profit or loss	33	45.5	62.1	61.5
Derivative financial instruments	17	60.7	8.8	78.5
Deferred tax assets	11	-	18.2	9.4
Retirement benefit asset	29	9.7	1.7	7.1
		4,673.0	**4,405.5**	**4,388.7**
Current assets				
Loans and advances to customers	16	2,053.7	1,775.9	1,824.8
Derivative financial instruments	17	5.5	1.9	57.9
Inventories	20	19.6	12.7	15.1
Current tax asset		16.8	0.5	12.4
Trade and other receivables	21	112.2	109.1	86.6
Cash and cash equivalents	24	133.0	183.9	139.1
		2,340.8	**2,084.0**	**2,135.9**
Total assets		**7,013.8**	**6,489.5**	**6,524.6**

	Note	Company 31 March 2022 £m	Company 31 March 2021 Restated £m	Company 1 April 2020 Restated £m
Equity and liabilites				
Equity				
Share capital	25	110.7	110.7	110.7
Share premium		15.6	15.6	15.6
Retained earnings		765.3	688.0	605.5
Other reserves		30.0	(24.3)	(13.5)
Equity attributable to owners of the company		**921.6**	**790.0**	**718.3**
Non-current liabilities				
Interest bearing borrowings	18	3,563.7	3,157.6	3,052.4
Derivative financial instruments	17	210.8	139.4	25.6
Trade and other payables	27	95.8	81.0	90.5
Provisions	23	2.1	1.3	1.2
Deferred tax liability	11	7.9	-	-
		3,880.3	**3,379.3**	**3,169.7**
Current liabilities				
Bank overdrafts	24	48.9	40.6	121.6
Interest bearing borrowings	18	1,812.3	1,973.6	2,276.3
Derivative financial instruments	17	10.9	46.3	6.8
Trade and other payables	27	338.4	256.9	228.9
Provisions	23	1.4	2.8	3.0
		2,211.9	**2,320.2**	**2,636.6**
Total liabilities		**6,092.2**	**5,699.5**	**5,806.3**
Total equity and liabilities		**7,013.8**	**6,489.5**	**6,524.6**

The Company profit for the year was £102.3m (2021; £82.5m)

The financial statements were approved by the board, authorised for issue on 9 June 2022 and signed on its behalf by:

R. Gordon
Chief Executive Officer

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 MARCH 2022

Group	Note	Share capital £m	Share premium £m	Retained earnings £m	Other reserves £m	Total equity £m
At 31 March 2020		**110.7**	**15.6**	**605.1**	**(13.3)**	**718.1**
Profit for the year		-	-	82.7	-	82.7
Other comprehensive income		-	-	-	(11.0)	(11.0)
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
Dividends paid	22	-	-	(25.0)	-	(25.0)
At 31 March 2022		**110.7**	**15.6**	**765.5**	**29.9**	**921.7**

Statement of Changes in Equity

FOR THE YEAR ENDED 31 MARCH 2022

Company	Note	Share capital £m	Share premium £m	Retained earnings £m	Other reserves £m	Total £m
At 31 March 2020		**110.7**	**15.6**	**605.5**	**(13.5)**	**718.3**
Profit for the year		-	-	82.5	-	82.5
Other comprehensive income		-	-	-	(10.8)	(10.8)
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
Dividends paid	22	-	-	(25.0)	-	(25.0)
At 31 March 2022		**110.7**	**15.6**	**765.3**	**30.0**	**921.6**

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2022

	Note	Group 2022 £m	Group 2021 £m
Profit before tax		130.0	104.0
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	266.8	219.1
Depreciation and impairment of other property, plant, equipment and right of use assets	13	2.6	2.8
Amortisation and impairment of intangible assets	14	12.4	6.3
Impairment losses on credit exposures		27.9	41.9
Increase in customer claims provision		3.1	(5.4)
Finance cost on borrowings		62.8	66.7
Net gain on disposal of operating lease assets		(64.2)	(14.6)
Net loss on disposal of property plant and equipment		0.8	-
Net loss on disposal of intangible assets		0.5	0.1
Fair value gain on derivative financial instruments	17	(0.5)	(0.9)
Defined benefit pension scheme charge to income statement	29	-	0.3
Share of loss of investments accounted for under the equity method		8.5	-
		450.7	**420.3**
Working capital adjustments			
(Increase)/decrease in loans and advances to customers		(363.0)	203.1
Increase in trade and other receivables		(3.8)	(24.1)
Increase in payables & provisions		84.5	33.8
(Increase)/decrease in inventories		(6.9)	2.4
Cash contributions to defined benefit pension scheme	29	-	(2.1)
Purchase of operating leased assets		(645.6)	(593.3)
Proceeds from sale of operating leased assets		186.7	121.7
Cash inflow / (outflow) from operations		**(297.4)**	**161.8**
Income taxes paid		(30.7)	(15.5)
Interest paid		(61.8)	(67.5)
Net cash inflow / (outflow) from operating activities		**(389.9)**	**78.8**

	Note	Group 2022 £m	Group 2021 £m
Investing activities			
Purchase of property, plant and equipment (non-operating leases)	13	(0.4)	(2.2)
Purchase of intangible assets	14	(18.4)	(21.9)
Net investment in debt instruments		14.3	4.9
Investment in joint venture	4	-	(10.1)
Net cash outflow from investing activities		**(4.5)**	**(29.3)**
Financing activities			
Receipt of long-term borrowings		3,728.5	3,088.9
Repayments of long-term borrowings		(3,341.9)	(3,155.0)
Decrease other in short-term borrowings		(23.4)	142.0
Dividends paid		(25.0)	-
Payments of lease liabilities		(2.0)	(1.7)
Net cash inflow from financing activities		**336.2**	**74.2**
Net (decrease)/increase in cash and bank overdrafts		(58.2)	123.7
Cash and bank overdrafts at beginning of the year	24	144.8	21.1
Cash and bank overdrafts at end of the year	24	**86.6**	**144.8**
Current assets - cash	24	135.5	185.4
Current liabilities - bank overdrafts	24	(48.9)	(40.6)
Cash and bank overdrafts at end of the year		**86.6**	**144.8**

Company Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2022

	Note	Company 2022 £m	Company 2021 £m
Profit before tax		129.5	103.7
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	266.6	218.9
Depreciation and impairment of other property, plant, equipment and right of use assets	13	2.6	2.8
Amortisation and impairment of intangible assets	14	12.4	6.3
Impairment losses on credit exposures		27.8	41.9
Increase in customer claims provision		3.1	(5.4)
Finance cost on borrowings		62.5	62.5
Net gain on disposal of operating lease assets		(64.2)	(14.7)
Net loss on disposal of property, plant, and equipment		0.8	-
Net loss on disposal of intangible assets		0.5	0.1
Fair value gain on derivative financial instruments	17	(0.5)	(0.9)
Defined benefit pension scheme charge to income statement	29	-	0.3
Share of loss of investments accounted for under the equity method		8.5	-
		449.6	**415.5**
Working capital adjustments			
(Increase)/decrease in loans and advances to customers		(287.1)	195.7
Increase in trade and other receivables		(3.6)	(24.2)
Increase in payables & provisions		85.7	40.6
(Increase)/decrease in inventories		(6.9)	2.4
Cash contributions to defined benefit pension scheme	29	-	(2.1)
Purchase of operating leased assets		(643.8)	(592.5)
Proceeds from sale of operating leased assets		186.7	121.6
Cash inflow / (outflow) from operations		**(219.4)**	**157.0**
Income taxes paid		(30.9)	(15.5)
Interest paid		(61.5)	63.3
Net cash inflow / (outflow) from operating activities		**(311.8)**	**78.2**

	Note	Company 2022 £m	Company 2021 £m
Investing activities			
Purchase of property, plant and equipment (non-operating leases)	13	(0.4)	(2.2)
Purchase of intangible assets	14	(18.4)	(21.9)
Net investment in debt instruments		14.3	4.9
Investment in joint venture	4	-	(10.1)
Net cash outflow from investing activities		**(4.5)**	**(29.3)**
Financing activities			
Receipt of long-term borrowings		3,728.5	3,088.9
Repayments of long-term borrowings		(3,341.9)	(3,155.0)
Decrease other in short-term borrowings		(102.5)	144.7
Dividends paid		(25.0)	-
Payments of lease liabilities		(2.0)	(1.7)
Net cash inflow from financing activities		**257.1**	**76.9**
Net (decrease) / increase in cash and bank overdrafts		(59.2)	125.8
Cash and bank overdrafts at beginning of the year	24	143.3	17.5
Cash and bank overdrafts at end of the year	24	**84.1**	**143.3**
Current assets - cash	24	133.0	183.9
Current liabilities - bank overdrafts	24	(48.9)	(40.6)
Cash and bank overdrafts at end of the year		**84.1**	**143.3**

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2022

1. CORPORATE INFORMATION

The consolidated financial statements of the Group for the year ended 31 March 2022 were authorised for issue by the directors on 9 June 2022. Mitsubishi HC Capital UK PLC (formerly Hitachi 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 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 inventories in the statement of financial position

Assets held for use in operating leases which were previously reported within inventories in the Statement of Financial Position have been reclassified to "Property, plant and equipment under operating leases". These consist of specialist leasing assets under construction or purchase of new vehicles with an intention of leasing to customers in the near future. In accordance with IAS 16 Property, Plant and Equipment, these assets are recognised at cost and not depreciated until they are ready for use. The impact of the reclassification was to increase Property, plant and equipment under operating leases by £19.2m as at 31 March 2021 and £11.6m as at 1 April 2020 (note 12) with a corresponding reduction in inventories (note 20). The reclassification did not impact the Group's net assets or equity. Assets held for use in operating leases as at 31 March 2022 were £19.8m (note 12).

Reclassification of accrued interest payable in the statement of financial position

Accrued interest payable on interest bearing borrowings which was previously reported within Trade and other payables in the financial statement has been reclassified to "Interest bearing borrowings". The impact of the reclassification was to increase interest bearing borrowings by £7.0m as at 31 March 2021 and £7.9m as at 1 April 2020 (note 18) with a corresponding reduction in Trade and other payables (note 27). The reclassification did not impact the Group's net assets or equity. The equivalent figure as at 31 March 2022 was £8.1m which is included in interest bearing borrowings (note 18).

Offsetting cash and bank overdrafts

All bank overdrafts were previously offset against cash and cash equivalents within the Group's statement of financial position. These overdraft balances did not meet the offset criteria set out under IAS 32 Financial Instruments: Presentation and therefore have been reclassified to current liabilities within the Group's statement of financial position. The impact of the reclassification was to increase bank overdrafts by £40.6m as at 31 March 2021 and £30.4m as at 1 April 2020 with a corresponding reduction in cash and cash equivalents (note 24). The reclassification did not impact the Group's net cash position, net assets or equity. Bank overdrafts as at 31 March 2022 was £48.9m (note 24).

Reclassification of instalment finance agreements from loans and advances to customers to financial instruments at fair value through profit or loss.
Receivables originated with the intention of being sold into the SOCA securitisation programme were previously reported within loans and advances to customers. These receivables are classified as held for sale into SOCA and therefore reclassified to financial instruments at fair value through profit or loss. The impact of the reclassification was to increase Financial instruments at fair value through profit or loss by £19.8m as at 31 March 2021 and £16.4m as at 1 April 2020 with a corresponding reduction in loans and advances to customers (note 16). The reclassification did not impact the Group's net assets or equity. Receivables held-for-sale into SOCA as at 31 March 2022 was £16.0m (note 32).

Reclassification of stock finance agreements from hire purchase agreements to other loans and advances "Loans and advances to customers"
Due to system limitations, receivables relating to stock finance were previously reported within hire purchase agreements. Following new system implementation, these receivables were reclassified to other loans and advances (note 16). The impact of the reclassification was to increase other loans and advances by £80.9m as at 31 March 2021 with a corresponding reduction in hire purchase agreements. The reclassification did not impact the total loans and advances to customers reported within the Group's statement of financial position. The equivalent figure, included within other loans and advances, as at 31 March 2022 was £128.7m (note 16).

Reclassification of loan agreements from hire purchase agreements to instalment finance agreements "Loans and advances to customers"
Due to system limitations, receivables relating to loan agreements were previously reported within hire purchase agreements. Following new system implementation, these receivables were reclassified to instalment finance agreements (note 16). The impact of the reclassification was to increase instalment finance agreements by £203.1m as at 31 March 2021 with a corresponding reduction in hire purchase agreements. The reclassification did not impact the total loans and advances to customers reported within the Group's statement of financial position. The equivalent figure, included within instalment finance agreements, as at 31 March 2022 was £354.1m (note 16).

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 starting on page 6. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Group Strategic Report, the financial statements starting on page 100 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. In making the assessment, the Directors have considered reverse stress testing scenarios as well as all principal and emerging risks, including climate risk, where the risk is likely to emerge outside of the going concern assessment horizon.

The Directors are satisfied that the Group has sufficient appropriate funding facilities and capacity to borrow both currently and for the foreseeable future. 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 (formerly Hitachi Capital Corporation) 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 Inc committed facility, and additional shared facility, from Japanese commercial banks.

- Group loan facilities available from Mitsubishi HC Inc.
- Short-term uncommitted bank borrowing facilities.

It is the Directors' intention to continue to utilise existing facilities to meet the funding needs of the business. The Group's funding sources and facility utilisation is set out in more detail within the liquidity risk and funding management section in note 34 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.

Stress testing

The Directors have also considered reverse stress testing scenarios for both equity and liquidity. Under these scenarios the bad debt charge would need to increase to approximately 14 times the level of 2021 to exhaust the current capital base within three years.

The Directors have also performed an extreme reverse stress scenario to assess the resilience of the business under liquidity stress. Under this scenario, it can be demonstrated that cash collections from the run-off of existing receivables would be sufficient to settle obligations without the need to utilise cash from our parent company or existing short-term facilities. The Group has committed and uncommitted facilities with large banks and its parent company, Mitsubishi HC Capital Inc., which are available to draw down if required.

The Statement of Financial Position shows a net current asset of £193m at year-end based on contractual maturity profile. This demonstrates that the Group is well positioned to meet its existing short-term obligations through expected collections. With the level of committed facilities available to the Group, the Directors are confident of meeting its short 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 Russia-Ukraine crisis, the aftermath of COVID-19 pandemic and global supply chain disruptions. The Directors are satisfied that the Group has effective business continuity plans in place and that it has conducted adequate stress testing of the possible economic scenarios resulting from the pandemic as detailed in note 34.

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 section of 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 2022. 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 (FVTPL). 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 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 Group's investment in Gridserve Holdings Ltd is accounted for using the equity method (note 4.2).

Under the equity method, the investment in an associate or a joint venture 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 functional currency of the Group's subsidiary, Hitachi Capital European Vendor Solutions B.V, is Euro which is 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 OCI.

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 IFRS 15.

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 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 & 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.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Consolidated Income Statement when the asset is derecognised.

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.

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 ("FVTOCI"); or
- Financial assets at fair value through the profit or loss ("FVTPL").

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 (FVTOCI)
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 does not hold any financial assets that are measured at FVTOCI.

Financial assets at fair value through the profit or loss (FVTPL)
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 32). 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 ("ECL") on financial instruments that are not measured at FVTPL, namely:
- Loans and advances to customers;
- Trade and other receivable;
- 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 opposite:

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 recognised in the Statement of Financial Position at fair value. 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 certain 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.

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.

For derivatives where hedge accounting is not applied, the fair value movement is recorded in the Consolidated Income Statement as fair value movement on derivative financial instruments. Interest accrued on derivatives that are not part of a hedging relationship is included in fair value gains and losses in the Consolidated Income Statement.

As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate ("RFR"). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

The Group has adopted 'Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 ("IBOR Reform Phase 1")'. The amendments include a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective. IBOR reform Phase 1 provides reliefs which require the Group to assume that hedging relationships are unaffected by the uncertainties caused by IBOR reform. This includes assuming that hedged cash flows are not altered as a result of IBOR reform. Also, the reliefs allow the Group to not discontinue hedging relationships as a result of retrospective or prospective ineffectiveness. IBOR Reform Phase 1 also requires additional disclosures in relation to those hedging relationships to which the reliefs are applied.

In the current year, the Group has adopted 'Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases' which was issued in August 2020. These amendments enable the Group to reflect the effects of transitioning from interbank offered rates (IBOR) to alternative benchmark interest rates (also referred to as 'risk free rates' or RFRs) without giving rise to accounting impacts that would not provide useful information to users of financial statements. The Group has not restated the prior period. Instead, the amendments have been applied retrospectively with any adjustments recognised in the appropriate components of equity as at 31 March 2022.

Both the Phase 1 and Phase 2 amendments are relevant to the Group because it applies hedge accounting to its interest rate benchmark exposures, and in the current period modifications in response to the reform have been made to some (but not all) of the Group's derivative and non-derivative financial instruments that mature post March 2022 (the date by which the reform is expected to be implemented).

The amendments are relevant for the following types of hedging relationships and financial instruments of the Group, all of which extend beyond March 2022, the date by which the reform is expected to be implemented by:

- Fair value hedges where IBOR-linked derivatives are designated as a fair value hedge of fixed rate debt in respect of the IBOR risk component (in GBP and USD);
- Cash flow hedges where IBOR-linked derivatives are designated as a cash flow hedge of IBOR-linked cash flows (in USD and JPY).

The application of the amendments impacts the Group's accounting in the following ways.

- Hedge accounting relationships will continue despite the following:
- For cash flow hedges of IBOR cash flows, there is uncertainty about the timing and amount of the hedged cash flows due to the interest rate benchmark reform;
- For IBOR fair value hedges, the benchmark interest rate component may not be separately identifiable.

When changes are made to the hedging instruments, hedged item and hedged risk as a result of the interest rate benchmark reform, the Group updates the hedge documentation, where necessary, without discontinuing the hedging relationship.

(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. Net realisable value is the estimated selling price 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 (SPVs). 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)

The Group assesses at least annually whether there is any indication that a non-financial asset, e.g. goodwill, may be impaired. 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 (EIR) 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 are those items of income or expense that do not relate to the Group's core operating activities, are not expected to recur and are material in the context of the Group's performance. These items 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 principal risks on page 52, 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.

Measurement of expected credit losses (impairment of financial assets)
In determining impairment of financial assets, judgement is required in the estimation of the amount and timing of future cash flows as well as an assessment of whether the credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of Expected Credit Losses (ECL). Key judgements and estimates, outlined in note 34, are Significant Increase In Credit Risk (SICR) and assessment of loss rates respectively.

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.

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.

Contingent liabilities
The Group evaluates possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. These are disclosed as contingent liabilities (note 35) but not recognised in the Group's statement of financial position.

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 2021. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IFRS 16 Covid-19 Related Rent Concessions beyond 30 June 2021

In the prior year, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

In May 2021, the IASB issued Covid-19 Related Rent Concessions beyond 30 June 2021 that extends the practical expedient to apply to reductions in lease payments originally due on or before 30 June 2022. This amendment had no impact on the consolidated financial statements of the Group.

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. 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 affect the presentation of the current and non-current display of both assets and liabilities in the statement of financial position but does not affect the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed for those items. The classification is based on the rights that are in existence at the end of the reporting period.

Amendments are applied retrospectively for periods beginning on or after 1 January 2023. 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 3 Business Combination - Reference to Conceptual Framework

The IFRS 3 amendments include the referral to the 2018 Conceptual Framework as opposed to the 1989 Framework. In addition, for obligations that fall within the scope of IAS 37, an acquirer is now required to apply IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. Finally, the amendments add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The amendments are effective for business combinations for which the date of acquisition in on or after the beginning of the first annual period beginning on or after 1 January 2022, early application is permitted. The Group will be adopting this amendment from 1 April 2022 and it is not expected to have any material impact on the consolidated financial statements of the Group.

Amendments to IAS 16 Property, Plant and Equipment - Proceeds before Intended Use
The amendments prohibit deducting the cost of an item of property, plant and equipment any proceeds from selling items produced before the asset is available for use. An entity should therefore recognise those sales proceeds and related costs in the profit or loss. The cost of those items should be measured in accordance with IAS 2 Inventories. Clarification has also been included around 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 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 in the statement of comprehensive income includes such proceeds and cost.

The amendments are applied retrospectively and are effective for the annual periods beginning on or after 1 January 2022, with early application permitted. These amendments will be adopted by the Group from 1 April 2022 and they are not expected to have material impact on the Group's consolidated financial statements.

Amendments to IAS 37 Onerous Contracts - Cost of Fulfilling a Contract
The amendments to IAS 37 specify that the cost of fulfilling a contract comprises the 'costs that relate directly to the contract'. These consist of both the incremental costs of fulfilling the contract and an allocation of other costs that relate directly to fulfilling contracts. The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting in which the entity first applies the amendments.

The amendments are effective for the annual periods beginning on or after 1 January 2022, with early application permitted. These amendments will be adopted by the Group from 1 April 2022 and they are not expected to have material impact on the Group's consolidated financial statements.

Annual improvements to IFRS Standards 2018-2020 Cycle Amendments to IFRS 1 First-time Adoption of International Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Lease, and IAS 41 Agriculture
The amendment to IFRS 1 provides additional relief to a subsidiary which becomes a first time adopter later than its parent in respect of accounting for cumulative translation differences.

The amendment to IFRS 9 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 and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

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

The amendment to IFRS 41 removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring at fair value.

IFRS 1, IFRS 9 and IFRS 41 amendments are all effective for the annual periods beginning on or after 1 January 2022, with early adoption permitted. The IFRS 16 amendment is only in regard to an illustrative example, therefore no effective date is stated. These amendments will be adopted by the Group from 1 April 2022 and they are not expected to have material impact on the Group's consolidated financial statements.

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.

3. OPERATING SEGMENT INFORMATION

The Group offers finance solutions to a range of customers and its operations are split into six 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
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
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 2022 or 2021 reporting periods. Revenue from the Group's European operations are not very significant and therefore, geographical analysis is not presented. Inter segment sales are charged at prevailing market rates.

Year ended 31 March 2022	NCF £m	NVS £m	NBF £m	NBCF £m	EVF UK £m	EVF EUR £m	Corporate £m	Group £m
Interest Income	166.8	-	7.8	16.2	1.7	-	-	192.5
Finance lease income	-	-	65.4	-	7.1	2.0	-	74.5
Operating lease rental income	-	348.0	7.6	-	0.2	0.3	(2.7)	353.4
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	0.5	-	34.5
Revenue	**182.7**	**582.0**	**93.1**	**16.0**	**10.0**	**2.8**	**(2.7)**	**883.9**
Finance costs	(28.5)	(16.4)	(15.2)	(0.3)	(2.1)	(0.3)	-	(62.8)
Depreciation & impairment of operating lease assets	-	(260.2)	(6.3)	-	(0.1)	(0.2)	-	(266.8)
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)**	**(0.5)**	**-**	**(534.1)**
Gross Profit	**150.8**	**108.1**	**69.8**	**14.1**	**7.4**	**2.3**	**(2.7)**	**349.8**
Impairment losses on credit exposures	(22.2)	(1.1)	(4.0)	(0.5)	0.1	(0.2)	-	(27.9)
Administrative expenses	(70.0)	(52.8)	(32.3)	(11.9)	(4.9)	(1.6)	(2.6)	(176.1)
Operating Profit	**58.6**	**54.2**	**33.5**	**1.7**	**2.6**	**0.5**	**(5.3)**	**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	-	-	(8.5)	-	-	-	-	(8.5)
Profit before tax	**58.6**	**54.2**	**25.0**	**1.7**	**2.6**	**0.5**	**(12.6)**	**130.0**
Income tax	(11.1)	(10.3)	(4.7)	(0.3)	(0.5)	(0.1)	(0.3)	(27.3)
Profit/(loss) after tax	**47.5**	**43.9**	**20.3**	**1.4**	**2.1**	**0.4**	**(12.9)**	**102.7**
Total Assets	**2,996.9**	**1,679.6**	**1,607.8**	**277.0**	**213.2**	**111.5**	**231.8**	**7,117.8**
Total Liabilities	**2,448.1**	**1,539.9**	**1,474.7**	**271.1**	**191.7**	**105.1**	**165.5**	**6,196.1**
Net earning assets	**2,969.9**	**1,500.8**	**1,581.8**	**122.5**	**185.5**	**109.2**	**-**	**6,469.7**

Year ended 31 March 2021	NCF £m	NVS £m	NBF £m	NBCF £m	EVF UK £m	EVF EUR £m	Corporate £m	Group £m
Interest Income	178.6	-	-	10.3	2.0	-	0.1	191.0
Finance lease income	-	-	62.6	-	6.6	1.0	-	70.2
Operating lease rental income	-	281.9	7.5	-	0.5	0.2	(2.2)	287.9
Operating lease maintenance income	-	36.9	-	-	-	-	-	36.9
Sale of operating leased assets	-	119.5	1.7	-	0.5	-	-	121.7
Other operating income	13.2	13.9	8.7	(0.1)	0.7	0.3	-	36.7
Revenue	**191.8**	**452.2**	**80.5**	**10.2**	**10.3**	**1.5**	**(2.1)**	**744.4**
Finance costs	(34.3)	(15.1)	(15.7)	(0.3)	(2.1)	(0.2)	1.0	(66.7)
Depreciation & impairment of operating lease assets	-	(212.3)	(6.1)	-	(0.4)	(0.2)	-	(219.0)
Maintenance expense on operating leased assets	-	(38.2)	-	-	-	-	-	(38.2)
Disposal of operating leased assets	-	(116.8)	(1.8)	-	(0.4)	-	-	(119.0)
Other cost of sales	(5.1)	(5.5)	(0.1)	(0.6)	(0.1)	-	-	(11.4)
Cost of sales	**(39.4)**	**(387.9)**	**(23.7)**	**(0.9)**	**(3.0)**	**(0.4)**	**1.0**	**(454.3)**
Gross Profit	**152.4**	**64.3**	**56.8**	**9.3**	**7.3**	**1.1**	**(1.1)**	**290.1**
Impairment losses on credit exposures	(30.7)	(2.2)	(8.4)	(0.2)	(0.4)	-	-	(41.9)
Administrative expenses	(61.5)	(42.4)	(28.3)	(10.6)	(4.3)	(0.9)	5.3	(142.7)
Operating Profit	**60.2**	**19.7**	**20.1**	**(1.5)**	**2.6**	**0.2**	**4.2**	**105.5**
Fair value gain on derivative financial instruments	-	-	-	-	-	-	0.9	0.9
Parent integration costs	-	-	-	-	-	-	(2.4)	(2.4)
Income tax	(11.4)	(3.7)	(3.9)	0.3	(0.5)	(0.1)	(2.0)	(21.3)
Profit/(loss) after tax	**48.8**	**16.0**	**16.2**	**(1.2)**	**2.1**	**0.1**	**0.7**	**82.7**
Total Assets	**2,975.1**	**1,414.6**	**1,462.7**	**168.2**	**249.5**	**32.9**	**211.9**	**6,514.9**
Total Liabilities	**2,473.8**	**1,318.9**	**1,349.8**	**163.7**	**230.0**	**26.8**	**162.1**	**5,725.1**
Net earning assets	**2,950.0**	**1,243.4**	**1,427.5**	**61.1**	**212.0**	**31.5**	**-**	**5,925.5**

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 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 NEA to the total assets disclosed in the Group's consolidated statement of financial position.

	2022 £m	2021 £m
Total assets	**7,117.8**	**6,514.9**
Assets not included in NEA		
Intangible assets	(77.8)	(70.9)
Other property, plant and equipment	(17.5)	(19.1)
Derivative Financial Instruments	(66.2)	(10.7)
Deferred tax assets	(0.1)	(18.2)
Retirement benefit asset	(9.7)	(1.7)
Inventories	(19.6)	(12.7)
Current tax asset	(16.8)	(0.5)
Trade and other receivables	(112.2)	(109.5)
Cash and cash equivalents	(135.5)	(185.4)
Assets held for use in operating leases	(19.8)	(19.2)
Other assets	(9.9)	(15.8)
Liabilities included in NEA		
Balances due to invoice financing clients	(129.5)	(92.2)
Rentals in advance	(33.5)	(33.5)
Net Earning Assets (NEA)	**6,469.7**	**5,925.5**

4. INVESTMENTS

4.1 Investment in Subsidiaries (Company)

	Hitachi Capital Vehicle Solutions Ltd £m	Mitsubishi HC Capital Europe B.V. £m	Total £m
At 31 March 2020	1.7	6.0	7.7
At 31 March 2021	1.7	6.0	7.7
At 31 March 2022	1.7	6.0	7.7

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

Hitachi Capital Vehicle Solutions Ltd is a dormant entity.

Mitsubishi HC Capital UK PLC (formerly Hitachi Capital (UK) PLC) gave a guarantee under section 479C of the Companies Act 2006 in respect of Hitachi Capital European Vendor Solutions 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 33).

4.2 Investments accounted for under the equity method

The Group owns a 19.63% interest in Gridserve Holdings Ltd, a company incorporated in England and Wales specialising in provision of sustainable energy solutions. This investment is fully aligned to the Group's wider vision of financially supporting projects that go towards delivering a net zero carbon economy.

The Group has concluded that it exerts significant influence over Gridserve Holdings Ltd through this investment and the provision of debt facilities through Novuna Business Finance division. As such, the investment is accounted for using the equity method in the Group's consolidated financial statements. 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 2020	**-**
Acquisition during the year	10.1
At 31 March 2021	**10.1**
Share of loss	(8.5)
At 31 March 2022	**1.6**

The joint venture had no other contingent liabilities or commitments as at 31 March 2022.

The summarised financial information for Gridserve Holdings Ltd is set out below. The information does not represent proportionate share of the Group but the actual amounts included in Gridserve Holdings Ltd's financial statements.

Summarised balance sheet at 31 March 2022.

	2022 £m	2021 £m
Non-current assets	156.1	40.1
Current assets	11.0	19.7
Current liabilities	(16.3)	(5.8)
Non-current liabilities	(189.3)	(42.4)
Net (liabilities)/assets	**(38.5)**	**11.7**

Income statement for year ended 31 March 2022.

	2022 £m	2021 £m
Revenue	37.2	7.9
Cost of sales	(28.8)	(5.0)
Gross profit	**8.4**	**2.9**
Administrative expenses	(17.9)	(2.7)
Operating profit / (loss)	(9.5)	0.2
Other gains / (losses)	(0.1)	0.1
EBITDA	**(9.6)**	**0.3**
Interest and tax	(30.9)	(0.3)
Depreciation	(2.0)	-
Profit / (Loss) after tax	**(42.5)**	**-**

5. INTEREST INCOME

	2022 £m	2021 £m
Loans and advances to customers at amortised cost	190.7	186.2
Financial instruments at amortised cost	0.4	0.4
Financial instruments at fair value through profit or loss	1.4	4.4
Total interest income	**192.5**	**191.0**

6. OTHER OPERATING INCOME

	2022 £m	2021 £m
Fleet management and other services	7.9	13.5
Administration fee income	12.9	11.2
Gain or loss on disposal of finance lease assets	0.6	2.4
Other income	13.1	9.6
Total revenue	**34.5**	**36.7**

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.

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 £0.7m 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

	2022 £m	2021 £m
Finance costs on loans & borrowings	62.8	66.3
Finance costs on right of use land & buildings	-	0.4
Total finance costs	**62.8**	**66.7**

Included in the finance cost on right of use land and buildings, is a £0.3m (2021: £nil) one-off benefit relating to early termination of one of the property leases. The underlying finance cost for the year was £0.3m (2021:£0.4m).

8. OTHER COST OF SALES

	Note	2022 £m	2021 £m
Commission expense		6.5	5.6
Customer claim charges and provisions	23	2.1	5.1
Other expenses		2.5	0.7
Total other cost of sales		**11.1**	**11.4**

9. ADMINISTRATIVE EXPENSES AND AUDITOR'S REMUNERATION

	2022 £m	2021 £m
Wages and salaries	72.3	65.9
Social security costs	9.9	8.3
Pension and other post-employment benefit costs	5.0	4.3
Other employee expense	21.2	11.2
Premises and office	12.6	11.0
IT and telephony	32.4	23.5
Marketing	12.4	9.8
Professional services and other	9.1	7.6
Auditor's remuneration		
Audit of the financial statements	1.2	1.0
Other assurance services	-	0.1
Total administration expenses	**176.1**	**142.7**

The number of full time equivalent employees at 31 March 2022 was 1,612 (2021: 1,550), which included permanent and temporary staff as well as those on fixed term contracts. Of this, the Company had 1,608 (2021: 1,546).

The Group employed an average of 1,589 (2021: 1,507) employees during the year. Of this, the Company had 1,585 (2021: 1,502).

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, which are material and 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.

	2022 £m	2021 £m
Fees paid to bondholders for change of guarantor	-	1.2
Legal and professional services	1.4	1.2
Marketing	2.5	-
Information technology	3.9	-
Total parent integration costs	**7.8**	**2.4**

11. INCOME TAX

	2022 £m	2021 £m
Current income tax		
Charge for the year	22.4	26.2
UK corporation tax adjustment to prior periods	(7.7)	1.2
	14.7	**27.4**
Deferred taxation		
Origination and reversal of temporary differences in the current year	3.5	(4.1)
Adjustment in respect of prior years	9.1	(2.0)
Total	**12.6**	**(6.1)**
Tax charge on profit	**27.3**	**21.3**

The effective tax rate on profit before tax for the year was 21.0% (2021: 20.4%) compared to the standard rate of corporation tax of 19.0% (2021: 19.0%).

The differences are reconciled below:

	2022 £m	2021 £m
Profit before tax	**130.0**	**104.0**
Tax on profit at UK corporation tax rate of 19% (2021: 19%)	24.7	19.8
Increase/(decrease) in current and deferred tax from adjustment for prior periods	1.5	(0.8)
Increase from effect of expenses not deductible in determining taxable profit	1.1	2.3
Tax charge	**27.3**	**21.3**

The UK rate of Corporation Tax is currently 19% and has been in place since 1 April 2017. Deferred tax carried forward as at 31 March 2022 has been recognised at both the 19% tax rate (for differences that unwind prior to 1 April 2023) and the 25% tax rate which has been substantially enacted and comes into force from 1 April 2023 (for items that unwind post 1 April 2023). As a result, for the financial year ended 31 March 2023 all temporary differences on which deferred tax has been provided will unwind in periods subject to the 25% rate.

Amounts recognised in other comprehensive income

2022			
	Before tax £m	**Tax (expense)/ benefit £m**	**Net of tax £m**
Gain or loss on cash flow hedges	59.6	(11.4)	48.2
Remeasurements of post employment benefit obligations	8.0	(2.0)	6.0
	67.6	**(13.4)**	**54.2**

2021			
	Before tax £m	**Tax (expense)/ benefit £m**	**Net of tax £m**
Gain or loss on cash flow hedges	(6.0)	1.1	(4.9)
Remeasurements of post employment benefit obligations	(7.6)	1.5	(6.1)
	(13.6)	**2.6**	**(11.0)**

Deferred tax

Deferred taxes are 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).

Group

Deferred tax movement during the year:

	At 1 April 2021 £m	**Recognised in income £m**	**Recognised in other comprehensive income £m**	**At 31 March 2022 £m**
Accelerated tax depreciation	11.9	(12.4)	-	(0.5)
Pension benefit obligations	0.1	-	(2.0)	(1.9)
Revaluation of cash flow hedges	4.2	-	(11.4)	(7.2)
Other items	2.0	(0.2)	-	1.8
Net tax assets/(liabilities)	**18.2**	**(12.6)**	**(13.4)**	**(7.8)**

Deferred tax movement during the prior year:

	At 1 April 2020 £m	Recognised in income £m	Recognised in other comprehensive income £m	At 31 March 2021 £m
Accelerated tax depreciation	5.3	6.6	-	11.9
Pension benefit obligations	(1.0)	(0.4)	1.5	0.1
Revaluation of cash flow hedges	3.0	-	1.2	4.2
Other items	2.1	(0.1)	-	2.0
Net tax assets/(liabilities)	**9.4**	**6.1**	**2.7**	**18.2**

Company

Deferred tax movement during the year:

	At 1 April 2021 £m	Recognised in income £m	Recognised in other comprehensive income £m	At 31 March 2022 £m
Accelerated tax depreciation	11.8	(12.5)	-	(0.7)
Pension benefit obligations	0.1	-	(2.0)	(1.9)
Revaluation of cash flow hedges	4.2	-	(11.4)	(7.2)
Other items	2.1	(0.2)	-	1.9
Net tax assets/(liabilities)	**18.2**	**(12.7)**	**(13.4)**	**(7.9)**

Deferred tax movement during the prior year:

	At 1 April 2020 £m	Recognised in income £m	Recognised in other comprehensive income £m	At 31 March 2021 £m
Accelerated tax depreciation	5.2	6.6	-	11.8
Pension benefit obligations	(1.0)	(0.4)	1.5	0.1
Revaluation of cash flow hedges	3.0	-	1.2	4.2
Other items	2.2	(0.1)	-	2.1
Net tax assets/(liabilities)	**9.4**	**6.1**	**2.7**	**18.2**

12. PROPERTY, PLANT AND EQUIPMENT UNDER OPERATING LEASES

Group

At 31 March 2022, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £376.3m (2021: £228.2m), 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 cashflows 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. As the UK moves closer towards the ban on sale of new petrol or diesel vehicles in 2030, the management are expecting the demand for petrol or diesel vehicles to gradually decline as consumers switch to alternative fuel vehicles such as pure electric or hybrid. As such the management has applied 2% downward adjustment to petrol or diesel vehicles returning after January 2025.

The discount rate, as calculated by the Weighted Average Cost of Capital (WACC) was 4.32% (2021: 3.89%).

The sensitivity of a 1% decline in used vehicle prices would result in an additional £4.0m impairment loss. The group benefits from a well-diversified range of vehicles and sales channels so the impact of 1% decline in used vehicle prices would not have a linear relationship with the impairment assessment.

Operating leased assets, outlined in the table below, represent vehicles leased to customers on operating lease contracts.

The operating lease asset depreciation expense for the Group of £222.5m (2021: £218.3m) was included in cost of sales. A further impairment charge of £44.3m (2021: charge of £0.7m) relating to operating leased assets was also included in cost of sales.

Assets held for use in operating leases which were previously reported within inventories have been reclassified to "Property, plant and equipment under operating leases" . These consist of specialist leasing assets under construction or purchase of new vehicles with an intention of leasing to customers in the near future. Prior year comparatives have been restated.

	Operating leased assets £m	Assets held for use in operating leases £m	Total £m
Cost			
At 1 April 2020	**1,449.8**	**11.6**	**1,461.4**
Additions	576.0	7.6	583.6
Disposals	(208.8)	-	(208.8)
At 31 March 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	**2,182.8**	**19.8**	**2,202.6**
Accumulated depreciation and impairment			
At 1 April 2020	**407.9**	-	**407.9**
Charge for the year	218.3	-	218.3
Disposals	(101.7)	-	(101.7)
Impairment charge	0.7	-	0.7
At 31 March 2021	**525.2**	**-**	**525.2**
Charge for the year	222.5	-	222.5
Disposals	(163.4)	-	(163.4)
Impairment charge	44.3	-	44.3
At 31 March 2022	**628.6**	-	**628.6**
Carrying amount			
At 31 March 2021	**1,291.8**	**19.2**	**1,311.0**
At 31 March 2022	**1,554.2**	**19.8**	**1,574.0**

Company

	Operating leased assets £m	Assets held for use in operating leases £m	Total £m
Cost			
At 1 April 2020	**1,449.1**	**11.6**	**1,460.7**
Additions	575.2	7.6	582.8
Disposals	(208.6)	-	(208.6)
At 31 March 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**
Accumulated depreciation and impairment			
At 1 April 2020	**407.8**	**-**	**407.8**
Charge for the year	218.2	-	218.2
Disposals	(101.7)	-	(101.7)
Impairment charge	0.7	-	0.7
At 31 March 2021	**525.0**	**-**	**525.0**
Charge for the year	222.3	-	222.3
Disposals	(163.4)	-	(163.4)
Impairment charge	44.3	-	44.3
At 31 March 2022	**628.2**	-	**628.2**
Carrying amount			
At 31 March 2021	**1,290.7**	**19.2**	**1,309.9**
At 31 March 2022	**1,551.4**	**19.8**	**1,571.2**

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 2020	**5.9**	**18.4**	**17.9**	**42.2**
Additions	-	2.2	-	2.2
At 31 March 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**
Accumulated depreciation and impairment				
At 1 April 2020	**0.4**	**15.4**	**6.7**	**22.5**
Charge for the year	0.1	1.2	1.5	2.8
At 31 March 2021	**0.5**	**16.6**	**8.2**	**25.3**
Charge for the year	0.1	0.9	1.6	2.6
Disposals	-	(0.7)	0.5	(0.2)
At 31 March 2022	**0.6**	**16.8**	**10.3**	**27.7**
Carrying amount				
At 31 March 2021	**5.4**	**4.0**	**9.7**	**19.1**
At 31 March 2022	**5.3**	**2.3**	**9.9**	**17.5**

Company

	Land and buildings £m	Furniture, fittings and equipment £m	Right of use assets - Property leases £m	Total £m
Cost				
At 1 April 2020	**5.9**	**18.4**	**17.9**	**42.2**
Additions	-	2.2	-	2.2
At 31 March 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**
Accumulated depreciation and impairment				
At 1 April 2020	**0.4**	**15.4**	**6.7**	**22.5**
Charge for the year	0.1	1.2	1.5	2.8
At 31 March 2021	**0.5**	**16.6**	**8.2**	**25.3**
Charge for the year	0.1	0.9	1.6	2.6
Disposals	-	(0.7)	0.5	(0.2)
At 31 March 2022	**0.6**	**16.8**	**10.3**	**27.7**
Carrying amount				
At 31 March 2021	**5.4**	**4.0**	**9.7**	**19.1**
At 31 March 2022	**5.3**	**2.3**	**9.9**	**17.5**

Depreciation expense relating to the Group's other property, plant and equipment (including right of use assets) of £2.6m (2021: £2.8m) 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.

During the year, 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 2020	**51.5**	**1.0**	**17.7**	**70.2**
Additions	21.9	-	-	21.9
Disposals	(0.1)	-	-	(0.1)
At 31 March 2021	**73.3**	**1.0**	**17.7**	**92.0**
Additions	18.4	-	-	18.4
Disposals	(1.1)	-	-	(1.1)
Transfer	1.4	-	-	1.4
At 31 March 2022	**92.0**	**1.0**	**17.7**	**110.7**
Amortisation and impairment				
At 1 April 2020	**11.6**	**0.2**	**3.0**	**14.8**
Amortisation charge	6.2	0.1	-	6.3
At 31 March 2021	**17.8**	**0.3**	**3.0**	**21.1**
Amortisation charge	12.3	0.1	-	12.4
Amortisation eliminated on disposals	(0.6)	-	-	(0.6)
At 31 March 2022	**29.5**	**0.4**	**3.0**	**32.9**
Carrying amount				
At 31 March 2021	**55.5**	**0.7**	**14.7**	**70.9**
At 31 March 2022	**62.5**	**0.6**	**14.7**	**77.8**

Company

	Capitalised software £m	Other intangible assets £m	Goodwill £m	Total £m
Cost or valuation				
At 1 April 2020	**51.5**	**1.0**	**17.7**	**70.2**
Additions	21.9	-	-	21.9
Disposals	(0.1)	-	-	(0.1)
At 31 March 2021	**73.3**	**1.0**	**17.7**	**92.0**
Additions	18.4	-	-	18.4
Disposals	(1.1)	-	-	(1.1)
Transfer	1.4	-	-	1.4
At 31 March 2022	**92.0**	**1.0**	**17.7**	**110.7**
Amortisation				
At 1 April 2020	**11.6**	**0.2**	**3.0**	**14.8**
Amortisation charge	6.2	0.1	-	6.3
At 31 March 2021	**17.8**	**0.3**	**3.0**	**21.1**
Amortisation charge	12.3	0.1	-	12.4
Amortisation eliminated on disposals	(0.6)	-	-	(0.6)
At 31 March 2022	**29.5**	**0.4**	**3.0**	**32.9**
Carrying amount				
At 31 March 2021	**55.5**	**0.7**	**14.7**	**70.9**
At 31 March 2022	**62.5**	**0.6**	**14.7**	**77.8**

Capitalised software includes £7.0m (2021: £15.0m) 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 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 (2021: 2.2 years).

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 2022, neither the Group nor the Company had any contractual commitments for the acquisition of intangible assets (2021: None).

Goodwill acquired through business combinations has been allocated to individual cash-generating units, which are also reportable business segments, for impairment testing, as follows:

Carrying amount of goodwill	2022 £m	2021 £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
Franchise Finance	4.0	4.0
Total	**14.7**	**14.7**

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 of 11.0% (2021: 11.0%) were applied to cash flow projections and cash flows beyond the four year period were extrapolated using a range of growth rates between 2% and 10% (2021: 2% and 10%) depending on the nature of the business segments.

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, the management carried out a goodwill assessment against a range of downturn scenarios impacting future cashflows 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

	2022 £m	2021 £m
Group and Company		
At 1 April	55.8	48.9
Amounts written off	(33.6)	(39.0)
Recoveries	5.9	4.0
Charge to the income statement	27.9	41.9
Other adjustments	0.3	-
Total as at 31 March	**56.3**	**55.8**

The Group's total ECL provision consists of loans and advances to customers £53.5m (2021: £53.4m) and trade receivables £2.8m (2021: £2.4m). Further details can be found in note 34 & note 21 respectively.

16. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances, net of impairment, together with weighted average effective interest rates, are analysed further below.

Group	2022 £m	%	2021 £m	%
Finance lease receivables	174.4	6.0	169.7	4.5
Hire Purchase agreements	1,126.4	5.7	1,160.6	4.4
Instalment finance agreements	3,262.4	5.7	3,079.0	5.3
Other loans and advances	437.0	-	255.1	-
Total	**5,000.2**	**5.2**	**4,664.4**	**5.0**

Company	2022 £m	%	2021 £m	%
Finance lease receivables	153.3	6.0	169.7	4.5
Hire Purchase agreements	1,080.2	5.7	1,137.8	4.4
Instalment finance agreements	3,261.3	5.7	3,079.0	5.3
Other loans and advances	399.1	-	247.8	-
Total	**4,893.9**	**5.2**	**4,634.3**	**5.0**

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 2022 (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 2022, the net carrying amount of encumbered receivables included in loans and advances to customers was £794.5m (2021: £793.6m).

During the year, the Group reclassified receivables held for sale into SOCA securitisation programme to financial instruments at fair value through profit or loss (note 32). The impact of this re-classification was to reduce instalment finance agreements by £16.0m (at 31 March 2022), £19.8m (at 31 March 2021) and £16.4m (at 1 April 2020).

In addition, the Group reclassified the following receivables between the product categories. The reclassifications had no impact on the total loans and advances to customers.

- Stock finance receivables from hire purchase agreements to other loans and advances. The impact of the reclassification was to increase other loans and advances by £128.7m (at 31 March 2022) and £80.9m (at 31 March 2021) with a corresponding reduction to hire purchase agreements.
- Loan agreements from hire purchase agreements to instalment finance receivables. The impact of the reclassification was to increase instalment finance receivables by £354.1m (at 31 March 2022) and £203.1m (at 31 March 2021) with a corresponding reduction in hire purchase agreements.

Government support scheme

The CBILS ended for new applications at the end of March 2021. This was replaced with the RLS which the Group had offered to its existing customers until 31 March 2022 when it had ceased accepting new applications. The gross carrying amount under both schemes was £173.6m (2021: £155.6m). Under the terms of the schemes, the UK Government has provided a guarantee to protect 80% of any post recovery losses in the event of default.

IBOR Transition

Novuna Business Finance transitioned two facilities with reference to GBP LIBOR to three month Term SONIA. The Group has no further IBOR linked lending as at March 2022.

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 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**
Finance lease receivables at 31 March 2021					
Finance leases - gross	63.4	89.7	33.8	4.3	**191.2**
Deferred revenue	(5.5)	(9.9)	(2.8)	(0.8)	**(19.0)**
Impairment	(0.9)	(1.2)	(0.4)	-	**(2.5)**
Total	**57.0**	**78.6**	**30.6**	**3.5**	**169.7**
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**
Hire Purchase agreements at 31 March 2021					
Hire purchase agreements - gross	368.6	633.9	235.2	32.7	**1,270.4**
Deferred revenue	(28.6)	(57.3)	(13.2)	(2.9)	**(102.0)**
Impairment	(2.6)	(3.7)	(1.3)	(0.2)	**(7.8)**
Total	**337.4**	**572.9**	**220.7**	**29.6**	**1,160.6**
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**

Group (continued)	< 1 yr £m	1-3 yrs £m	3-5 yrs £m	> 5 yrs £m	Total £m
Instalment Finance at 31 March 2021					
Instalment finance - gross	1,360.3	1,526.4	510.8	282.6	**3,680.1**
Deferred revenue	(199.8)	(209.7)	(79.6)	(70.0)	**(559.1)**
Impairment	(15.5)	(17.4)	(5.9)	(3.2)	**(42.0)**
Total	**1,145.0**	**1,299.3**	**425.3**	**209.4**	**3,079.0**
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**
Other Loans and Advances at 31 March 2021					
Other loans - gross	253.0	1.6	1.5	-	**256.1**
Deferred revenue	0.2	-	-	-	**0.2**
Impairment	(1.2)	-	-	-	**(1.2)**
Total	**252.0**	**1.6**	**1.5**	**-**	**255.1**
Total loans and receivables, net of impairment - as at 31 March 2022	**2,112.0**	**1,950.7**	**682.7**	**254.8**	**5000.2**
Total loans and receivables, net of impairment - as at 31 March 2021	**1,791.4**	**1,952.4**	**678.1**	**242.5**	**4,664.4**

Company	< 1 yr £m	1-3 yrs £m	3-5 yrs £m	> 5 yrs £m	Total £m
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**
Finance lease receivables at 31 March 2021					
Finance leases - gross	63.4	89.7	33.8	4.3	**191.2**
Deferred revenue	(5.5)	(9.9)	(2.8)	(0.8)	**(19.0)**
Impairment	(0.9)	(1.2)	(0.4)	-	**(2.5)**
Total	**57.0**	**78.6**	**30.6**	**3.5**	**169.7**
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**

Company (continued)	< 1 yr £m	1-3 yrs £m	3-5 yrs £m	> 5 yrs £m	Total £m
Hire Purchase agreements at 31 March 2021					
Hire purchase agreements - gross	359.7	622.5	232.0	32.1	**1,246.3**
Deferred revenue	(28.1)	(56.8)	(13.1)	(2.9)	**(100.9)**
Impairment	(2.5)	(3.6)	(1.3)	(0.2)	**(7.6)**
Total	**329.1**	**562.1**	**217.6**	**29.0**	**1,137.8**
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**
Instalment Finance at 31 March 2021					
Instalment finance - gross	1,360.3	1,526.4	510.8	282.6	**3,680.1**
Deferred revenue	(199.8)	(209.7)	(79.6)	(70.0)	**(559.1)**
Impairment	(15.5)	(17.4)	(5.9)	(3.2)	**(42.0)**
Total	**1,145.0**	**1,299.3**	**425.3**	**209.4**	**3,079.0**
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**
Other Loans and Advances at 31 March 2021					
Other loans - gross	245.7	1.5	1.5	-	**248.7**
Deferred revenue	0.2	-	-	-	**0.2**
Impairment	(1.1)	-	-	-	**(1.1)**
Total	**244.8**	**1.5**	**1.5**	**-**	**247.8**
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**
Total loans and receivables, net of impairment - as at 31 March 2021	**1,775.9**	**1,941.5**	**675.0**	**241.9**	**4,634.3**

17. DERIVATIVE FINANCIAL INSTRUMENTS

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Group will be managing the transition for any of its derivative contracts that are affected by the reform.

The table below indicates the nominal amount and weighted average maturity of derivatives in hedging relationships that will be affected by IBOR reform, analysed by interest rate basis. The derivative hedging instruments provide a close approximation to the extent of the risk exposure the Group manages through hedging relationships.

The Group transitioned its GBP LIBOR derivatives, loans and Medium Term Notes to SONIA plus a Credit Adjustment Spread where applicable. We have signed agreements with our counterparties, investors and lenders to agree the new benchmark rate.

During the year, the Group had transitioned its GBP hedge relationships to Sterling Overnight Index Average Rate (SONIA). Outlined below is the remaining derivative exposed to USD LIBOR maturing after June 2023. We will look to transition to Secured Overnight Financing Rate ("SOFR") or an alternative benchmark in the same manner as the GBP LIBOR transition.

	2022		2021	
	Notional Amount £m	**Average maturity (years)**	**Notional Amount £m**	**Average maturity (years)**
Interest rate Swaps				
LIBOR GBP (1 months)	-		213.0	3.1
LIBOR GBP (3 months)	-		1,747.6	3.4
	-		**1,960.6**	
Cross currency Swaps				
USD LIBOR to GBP LIBOR (3 month)	-		82.2	1.9
EURIBOR to GBP LIBOR (3 month)	-		21.7	0.8
Fixed rate or other currencies to GBP LIBOR	-		384.5	4.5
USD LIBOR (3 month) to GBP SONIA *maturing after June 2023	16.2	3.1	-	
	16.2		**488.4**	
Total	**16.2**		**2,449.0**	

Derivative financial instruments have been disclosed in the Group and Company statement of financial position as follows:

	Cross currency swap contracts						
2022	**USD £m**	**HKD £m**	**JPY £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	(1.0)	-	(132.9)	(4.7)	(138.6)	(3.1)	**(141.7)**
2 to 5 years	(1.5)	(1.6)	(35.2)	(14.8)	(53.1)	(5.9)	**(59.0)**
Over 5 years	(4.2)	-	-	(5.9)	(10.1)	-	**(10.1)**
Total	**(8.1)**	**(3.0)**	**(168.1)**	**(33.1)**	**(212.3)**	**(9.4)**	**(221.7)**
	(6.7)	**(3.0)**	**(168.1)**	**(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	(6.7)	(3.0)	(168.1)	116.3	(61.5)	59.0	**(2.5)**

	Cross currency swap contracts						
2021	**USD £m**	**HKD £m**	**JPY £m**	**Other £m**	**Total £m**	**Interest rate swap £m**	**Total £m**
Assets							
Less than 1 year	1.3	-	-	0.5	1.8	0.1	**1.9**
1 to 2 years	-	-	-	0.1	0.1	0.6	**0.7**
2 to 5 years	-	-	-	0.3	0.3	6.8	**7.1**
Over 5 years	-	-	-	0.9	0.9	0.1	**1.0**
Total	**1.3**	**-**	**-**	**1.8**	**3.1**	**7.6**	**10.7**
Liabilities							
Less than 1 year	(2.4)	-	(30.8)	(10.1)	(43.3)	(3.0)	**(46.3)**
1 to 2 years	(5.0)	(2.7)	-	(2.7)	(10.4)	(4.6)	**(15.0)**
2 to 5 years	(3.7)	(1.1)	(110.6)	(1.8)	(117.2)	(4.2)	**(121.4)**
Over 5 years	(2.1)	-	-	(0.4)	(2.5)	(0.5)	**(3.0)**
Total	**(13.2)**	**(3.8)**	**(141.4)**	**(15.0)**	**(173.4)**	**(12.3)**	**(185.7)**
	(11.9)	**(3.8)**	**(141.4)**	**(13.2)**	**(170.3)**	**(4.7)**	**(175.0)**

2021 (continued)	Cross currency swap contracts USD £m	HKD £m	JPY £m	Other £m	Total £m	Interest rate swap £m	Total £m
Of Which,							
Designated as fair value hedges	-	-	-	(104.9)	(104.9)	2.0	**(102.9)**
Designated as cash flow hedges	(11.9)	(3.8)	(141.4)	91.7	(65.4)	(6.7)	**(72.1)**

During the year, the value of derivative financial instruments in aggregate decreased by £19.4m from a net liability of £175.0m to a net liability of £155.6m. Being 100% matched hedges against foreign currency borrowings, this movement offset the decrease in borrowings revaluation of £40.8m. Both movements primarily reflect a strengthening in Sterling in the foreign exchange market versus the Japanese Yen, the USD and other currency denominations. Being hedges that qualify for hedge accounting, the difference is almost entirely deferred in the cash-flow hedge reserve.

	2022 £m	2021 £m
Loss on fair value hedging instruments	(50.2)	(149.2)
Gain on the hedged item attributable to the hedged risk in FV hedges	50.7	150.1
Total gain recognised in the income statement	**0.5**	**0.9**

The hedged cash flows are expected to occur and affect Other Comprehensive Income in the periods up to November 2029 (2021: November 2029) for cross currency swaps and to November 2029 (2021: June 2028) 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.

	Notional Amount of Hedging Instrument	Mark to Market of instrument		Changes in Fair Value
	2022 £m	Asset £m	Liability £m	2022 £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.

	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	2022 £m	2022 £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)

	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	2022 £m	2022 £m
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)	-

	Change in Hedging Instrument OCI 2022 £m	P&L for period 2022 £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)	-	-

	Ineffectiveness recognised in P&L for period 2022 £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	2022 £m	2022 %	2021 £m	2021 %
Bank borrowings	1,464.3	1.1	1,739.4	1.1
Commercial Paper	379.9	0.3	-	-
Funding from securitised receivables	600.2	0.8	561.8	0.8
Medium term notes	3,035.5	1.1	2,854.9	1.1
Total	**5,479.9**	**1.2**	**5,156.1**	**1.1**

For Group disclosure above, funding from securitised receivables related to amounts owed to senior note holders (note 32).

Company	2022 £m	2022 %	2021 £m	2021 %
Bank borrowings	1,360.4	1.1	1,714.5	1.1
Commercial Paper	379.9	0.6	-	-
Funding from securitised receivables	600.2	0.8	561.8	0.8
Medium term notes	3,035.5	1.1	2,854.9	1.1
Total	**5,376.0**	**1.2**	**5,131.2**	**1.1**

For Company disclosure above, funding from securitised receivables include £500.0m (2021: £461.6m) relating to amounts owed to Securitisation of Financial Assets II (SOFA II) Ltd, a special purpose vehicle (note 32).

Interest bearing borrowings above include accrued interest payable which were previously reported within Trade and other payables. The impact of the reclassification was to increase interest bearing borrowings by £8.1m (at 31 March 2022), £7.0m (at 31 March 2021) and £7.9m (at 1 April 2020) with a corresponding reduction in Trade and other payables (note 27). The reclassification did not impact the Group's net assets or equity.

Other uncommitted borrowing facilities are available to the Group from banks and other sources.

There was one MTN maturing after June 2023 that is impacted by IBOR reform as at 31st March 2022. The principal amount of this MTN was $20m (£16.2m equivalent) and the coupon is linked to USD LIBOR. The remaining weighted average maturity was 3.1 years for this note.

The Group raises funding under its Euro Medium Term Note ("EMTN") 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 (formerly Hitachi Capital Corporation).

Borrowings under the Group's two commercial paper programmes are typically raised for periods of between one month and 364 days. Borrowings under these programmes are also guaranteed by Mitsubishi HC Capital Inc (formerly Hitachi Capital corporation).

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 34). 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 2022 £m	Floating 2022 £m	Total 2022 £m	Fixed 2021 £m	Floating 2021 £m	Total 2021 £m
Current Liabilities						
On demand or within 1 year	916.9	895.4	1,812.3	859.7	1,113.9	1,973.6
Non-Current Liabilities						
More than 1 year but less than 2	1,218.5	686.5	1,905.0	495.8	562.7	1,058.5
More than 2 years but less than 7	1,493.6	269.0	1,762.6	1,627.7	496.3	2,124.0
	2,712.1	**955.5**	**3,667.6**	**2,123.5**	**1,059.0**	**3,182.5**
	3,629.0	**1,850.9**	**5,479.9**	**2,983.2**	**2,172.9**	**5,156.1**

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 March 2022 or 2021.

Company	Fixed 2022 £m	Floating 2022 £m	Total 2022 £m	Fixed 2021 £m	Floating 2021 £m	Total 2021 £m
Current Liabilities						
On demand or within 1 year	916.9	895.4	1,812.3	859.7	1,113.9	1,973.6
Non-Current Liabilities						
More than 1 year but less than 2	1,218.5	686.5	1,905.0	495.8	562.7	1,058.5
More than 2 years but less than 7	1,389.7	269.0	1,658.7	1,602.8	496.3	2,099.1
	2,608.2	**955.5**	**3,563.7**	**2,098.6**	**1,059.0**	**3,157.6**
	3,525.1	**1,850.9**	**5,376.0**	**2,958.3**	**2,172.9**	**5,131.2**

An analysis of borrowings by currency is as follows:

	Sterling £m	Euro £m	Yen £m	US Dollar £m	Other £m	Total £m
Group						
31 March 2022	2,109.2	1,620.0	1,174.5	353.4	222.8	5,479.9
31 March 2021	2,664.9	721.4	1,164.7	318.0	287.1	5,156.1

	Sterling £m	Euro £m	Yen £m	US Dollar £m	Other £m	Total £m
Company						
31 March 2022	2,109.3	1,516.0	1,174.5	353.4	222.8	5,376.0
31 March 2021	2,664.9	696.5	1,164.7	318.0	287.1	5,131.2

19. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

		Carrying amount		Fair value		
Group	**Note**	**2022 £m**	**2021 £m**	**2022 £m**	**2021 £m**	**Fair Value Hierarchy**
Financial assets measured at fair value:						
Derivative financial instruments	17	66.2	10.7	66.2	10.7	2
Financial instruments at fair value through profit or loss	33	45.5	62.1	45.5	62.1	3
Financial assets not measured at fair value:						
Cash and cash equivalents		135.5	185.4	135.5	185.4	1
Trade and other receivables	21	68.7	54.8	68.7	54.8	3
Loans and advances to customers		5,000.2	4,684.2	4,928.4	4,651.7	3
Other financial instruments at amortised cost	33	41.1	38.6	41.1	38.6	3
Total financial assets		**5,357.2**	**5,035.8**	**5,285.4**	**5,003.3**	
Financial liabilities measured at fair value:						
Derivative financial instruments	17	221.7	185.7	221.7	185.7	2
Financial liabilities not measured at fair value:						
Bank overdrafts		48.9	40.6	48.9	40.6	1
Trade creditors and accruals, including balances due to invoice financing clients	27	281.3	217.3	281.3	217.3	3
Interest bearing borrowings		5,479.9	5,156.1	5,495.1	5,222.5	2
Total financial liabilities		**6,031.8**	**5,599.7**	**6,047.0**	**5,666.1**	

		Carrying amount		Fair value		
Company	**Note**	**2022 £m**	**2021 £m**	**2022 £m**	**2021 £m**	**Fair value hierarchy**
Financial assets measured at fair value:						
Derivative financial instruments	17	66.2	10.7	66.2	10.7	2
Financial instruments at fair value through profit or loss	33	45.5	62.1	45.5	62.1	3
Financial assets not measured at fair value:						
Cash and cash equivalents		133.0	183.9	133.0	183.9	1
Trade and other receivables	21	68.7	54.8	68.7	54.8	3
Loans and advances to customers		4,894.0	4,634.2	4,821.9	4,651.7	3
Other financial instruments at amortised cost	33	41.1	38.6	41.1	38.6	3
Total financial assets		**5,248.5**	**4,984.3**	**5,176.4**	**5,001.8**	
Financial liabilities measured at fair value:						
Derivative financial instruments	17	221.7	185.7	221.7	185.7	2
Financial liabilities not measured at fair value:						
Bank Overdrafts		48.9	40.6	48.9	40.6	1
Trade creditors and accruals, including balances due to invoice financing clients	27	281.6	216.6	281.6	216.6	3
Interest bearing borrowings		5,376.0	5,124.2	5,391.2	5,197.7	2
Total financial liabilities		**5,928.2**	**5,567.1**	**5,943.4**	**5,640.6**	

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 notes held in the Group's SOCA securitisation programmes outlined in note 32. 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.
- **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 32. The fair value is estimated by discounting future cash flows at the current market interest rates.
- **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		
		Restated			Restated	
	31 March 2022 £m	31 March 2021 £m	1 April 2020 £m	31 March 2022 £m	31 March 2021 £m	1 April 2020 £m
Motor vehicles for resale	19.6	12.7	15.1	19.6	12.7	15.1

The title to inventories is not restricted and these assets are not pledged as security for liabilities.

Assets held for use in operating leases which were previously reported within inventories have been reclassified to "Property, plant and equipment under operating leases". These consist of specialist leasing assets under construction or purchase of new vehicles with an intention of leasing to customers in the near future. Prior year comparatives have been restated. Please refer to note 12 property, plant and equipment under operating leases for more details.

21. TRADE AND OTHER RECEIVABLES

	Group		Company	
	31 March 2022 £m	31 March 2021 £m	31 March 2022 £m	31 March 2021 £m
Trade receivables	70.1	57.2	70.2	57.2
Provision for impairment of trade receivables	(2.8)	(2.4)	(2.8)	(2.4)
Net trade receivables	**67.3**	**54.8**	**67.4**	**54.8**
Prepayments and other receivables	44.9	54.7	44.8	54.3
Total current trade and other receivables	**112.2**	**109.5**	**112.2**	**109.1**

22. DIVIDENDS PAID

Final dividend of £25.0m (5.6p per share), relating to year ended 31 March 2021 was paid during the year. The Directors recommend a final dividend of £41.6m (9.4p per share), relating to year ended 31 March 2022.

23. OTHER PROVISIONS - GROUP AND COMPANY

	Customer claims £m	Dilapidations £m	Total £m
At 1 April 2020	**2.8**	**1.4**	**4.2**
Additional provisions	5.3	0.1	5.4
Provisions used	(5.4)	-	(5.4)
Unused provision reversed	(0.1)	-	(0.1)
At 31 March 2021	**2.6**	**1.5**	**4.1**
Non-current liabilities	-	1.3	1.3
Current liabilities	2.6	0.2	2.8

	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

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. The provision is recognised based on current information and key assumptions regarding the expected level of claims relating to suppliers experiencing difficulties and historical costs incurred to date in respect of claims. The key assumptions take into account the number of potential claimants, the amounts financed and any other compensation claim as a result of the suppliers failing to satisfy their obligations. These claims have been classified as current which is consistent with our legal obligations for current and prior year presentation.

The Group has considered the impact of climate related risks on customer claims provision through assessment of the top 20 retailer relationships generating a total of 58% of new business volumes. The directors are satisfied that the Group does not have significant exposure to customer claims arising from climate related risks.

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 (2021: £0.2m) due within one year, £2.1m (2021: £1.3m) due after one year but less than ten years and £nil (2021 £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 1.75% (2021: 1.10%) 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 2022.

	Group			Company		
		Restated			Restated	
	31 March 2022 £m	31 March 2021 £m	1 April 2020 £m	31 March 2022 £m	31 March 2021 £m	1 April 2020 £m
Cash at bank	61.2	55.6	138.8	58.7	54.1	135.1
Short-term deposits	74.3	129.8	4.0	74.3	129.8	4.0
	135.5	**185.4**	**142.8**	**133.0**	**183.9**	**139.1**
Bank overdrafts	(48.9)	(40.6)	(121.6)	(48.9)	(40.6)	(121.6)
Cash and cash equivalents in statement of cash flows	86.6	144.8	21.2	84.1	143.3	17.5

All bank overdrafts were previously offset against cash and cash equivalents within the Group's statement of financial position. These overdraft balances did not meet the offset criteria set out under IAS 32 Financial Instruments: Presentation and therefore have been reclassified to current liabilities within the Group's statement of financial position. The impact of the reclassification was to increase bank overdrafts by £48.9m (at 31 March 2022), £40.6m (at 31 March 2021) and £121.6m (at 1 April 2020) with a corresponding reduction in cash and cash equivalents. The reclassification did not impact the Group's net cash position, net assets or equity.

25. SHARE CAPITAL

The Company has one class of ordinary shares, which carry no right to fixed income. The share capital is analysed below.

	2022 £m	No.	2021 £m	No.
Issued and fully paid share capital				
Ordinary shares	110.7	442,674,511	110.7	442,674,511

26. OTHER RESERVES

Group	Cash flow hedge and cost of hedging reserve £m	Retirement benefit obligation £m	Total other reserves £m
At 31 March 2020	**(12.4)**	**(0.9)**	**(13.3)**
Other comprehensive income for the year	(4.9)	(6.1)	(11.0)
At 31 March 2021	**(17.3)**	**(7.0)**	**(24.3)**
Other comprehensive income for the year	48.2	6.0	54.2
At 31 March 2022	**30.9**	**(1.0)**	**29.9**

Company	Cash flow hedge and cost of hedging reserve £m	Retirement benefit obligation £m	Foreign currency translation £m	Total other reserves £m
At 31 March 2020	**(12.4)**	**(0.9)**	**(0.2)**	**(13.5)**
Other comprehensive income for the year	(4.9)	(6.1)	0.2	(10.8)
At 31 March 2021	**(17.3)**	**(7.0)**	**-**	**(24.3)**
Other comprehensive income for the year	48.2	6.0	0.1	54.3
At 31 March 2022	**30.9**	**(1.0)**	**0.1**	**30.0**

The above reserves include £11.8m reduction to equity (2021: £13.0m reduction to equity) representing the cumulative impact of the cost of hedging in respect of the Group's fair value hedge relationships.

27. TRADE AND OTHER PAYABLES

Trade and other payables - current

	Group			Company		
		Restated			Restated	
	31 March 2022 £m	31 March 2021 £m	1 April 2020 £m	31 March 2022 £m	31 March 2021 £m	1 April 2020 £m
Balances due to invoice financing clients	129.5	92.2	78.9	129.5	92.2	78.9
Rentals in advance - current	33.5	33.5	32.0	33.5	33.5	32.0
Deferred maintenance and other income	23.3	13.8	12.2	23.3	13.8	12.2
Trade creditors and accruals	115.9	91.7	86.4	115.6	91.6	86.2
Other creditors	35.9	26.4	19.5	36.5	25.8	19.6
	338.1	**257.6**	**229.0**	**338.4**	**256.9**	**228.9**

Accrued interest payable on interest bearing borrowings which were previously reported within Trade and other payables in the financial statement have been reclassified to Interest bearing borrowings (note 18). Prior year comparatives have been restated.

Deferred maintenance and other income represent contract liabilities in relation to service and maintenance obligations on operating lease contracts. 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 2022 £m	**31 March 2021 £m**	**31 March 2022 £m**	**31 March 2021 £m**
Deferred maintenance and other income - non current	-	2.8	-	2.8
Retailer liability	84.0	66.0	84.0	66.0
Lease liabilities	11.8	12.2	11.8	12.2
	95.8	**81.0**	**95.8**	**81.0**

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).

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	2022 £m	2021 £m
As at April		12.2	13.5
New leases		2.5	-
Lease terminated		(0.9)	-
Lease repayments		(2.0)	(1.7)
Finance costs	7	-	0.4
At 31 March		**11.8**	**12.2**

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 (2021: £nil) in relation to short-term leases and nil (2021: nil) in relation to low-value assets.

28. LEASE RECEIVABLES UNDER OPERATING 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. Operating lease rental income on vehicles and other assets forms a significant part of the Group's business and during the year amounted to £353.4m (2021: £287.9m).

Future minimum lease rentals receivable under non-cancellable operating leases year end.

	2022 £m	2021 £m
Within 1 year	355.2	301.5
More than 1 year but less than 5 years	582.8	486.5
Over 5 years	29.9	21.1
	967.9	**809.1**

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 £5.0m (2021: £4.5m) represents contributions payable to the scheme at rates specified in the rules of the scheme. There were no unpaid contributions at either 31 March 2022 or 31 March 2021.

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 2022, the Schemes' assets were invested in a diversified portfolio that consisted primarily of equities, debt securities, infrastructure, property and diversified growth funds. The Trustees are 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 to hedge against unfavourable movements in the funding obligation. When selecting the mix of assets to hold, and considering their related risks and returns, the Trustee will weigh up the variability of returns against the target long-term rate of return on the overall portfolio.

The scheme's formal actuarial valuation is completed every three years. The last valuation was completed as at 31 March 2019.

The accounting valuation of the present value of the defined benefit obligation was carried out as at 31 March 2022 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 2019 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 GMP Inequalities case, which is expected to affect the Scheme, as well as most other UK pension plans. Guaranteed Minimum Pensions (GMPs) 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.

Contributions payable to the pension scheme at the end of the year were £nil (2021: £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 2022 £m	31 March 2021 £m
Fair value of scheme assets	59.3	56.1
Present value of scheme liabilities	(49.6)	(54.4)
Defined benefit pension scheme surplus	**9.7**	**1.7**

The increase in surplus is largely due to an increase in the discount rate and higher than assumed investment returns on the assets during the year, both of which resulted in a decrease in pension obligations. This was partially offset by an increase in assumed future inflation.

Scheme assets

Changes in the fair value of scheme assets are as follows:

	31 March 2022 £m	31 March 2021 £m
Fair value at start of year	**56.1**	**52.9**
Interest income	1.2	1.4
Return on plan assets, excluding amounts included in interest income/(expense)	3.9	3.2
Employer contributions	-	2.1
Benefits paid	(1.9)	(3.4)
Administrative expenses paid by the scheme	-	(0.1)
Fair value at end of year	**59.3**	**56.1**

From July 2020, the Group agreed to pay the administrative expenses of the scheme and therefore these were recognised directly in the Group's income statement. Total administrative expenses relating to the scheme were £0.6m (2021: £0.1m).

Analysis of assets

The major categories of scheme assets are as follows:

	31 March 2022 £m	31 March 2021 £m
Equity instruments	17.6	17.2
Infrastructure funds	5.7	5.8
Real estate	10.1	8.3
Liability driven investments	17.3	17.7
Cash and net current assets	2.3	0.8
Diversified growth fund	6.3	6.3
Actual return on scheme's assets	**59.3**	**56.1**

Actual return on scheme's assets

	31 March 2022 £m	31 March 2021 £m
Actual return on scheme assets	5.1	4.6

The scheme's assets are invested in a diversified range of asset classes. As at 31 March 2022, the target allocation was to invest 35% of the scheme's assets in a portfolio of matching assets and 65% in a return-seeking portfolio. As the Scheme matures over time, the Trustees will seek to de-risk the investment strategy in line with the change in the liability profile of the Scheme. This means that the investment strategy may gradually target a higher allocation of lower risk assets as the Scheme matures.

The scheme does not invest directly in property occupied by the Group or in financial securities issued by the Group. All of the Scheme's investments, other than the infrastructure 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 Scheme's infrastructure and 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.

Scheme liabilities

Changes in the present value of scheme liabilities are as follows:

	31 March 2022 £m	31 March 2021 £m
Present value at start of year	**54.4**	**45.8**
Actuarial gains and losses arising from changes in demographic assumptions	(0.5)	(0.2)
Actuarial gains and losses arising from changes in financial assumptions	(5.2)	11.2
Actuarial gains and losses arising from experience adjustments	1.7	(0.2)
Interest cost	1.1	1.2
Benefits paid	(1.9)	(3.4)
Present value at end of year	**49.6**	**54.4**

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 2022 %	31 March 2021 %
Retail price inflation	3.5	3.2
Consumer price inflation	2.8	2.5
Discount rate	2.8	2.1
Pension increases in payment (5% or RPI if less)	3.4	3.1
Pension increases in payment (3% or CPI if less)	2.3	2.1
Pension increases in payment (2.5% or RPI if less)	2.3	2.2

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 2022 Years	31 March 2021 Years
Male currently aged 65	22.1	22.3
Female currently aged 65	24.6	24.7
Male aged 65 in 20 years time	23.4	23.6
Female aged 65 in 20 years time	26.0	26.1

Amounts recognised in the income statement

	31 March 2022 £m	31 March 2021 £m
Administrative expenses paid	-	0.3
Interest expense / (income)	(0.1)	(0.2)
Total recognised in the income statement	**(0.1)**	**0.1**

From July 2020, the Group agreed to pay the administrative expenses of the 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 2022 £m	31 March 2021 £m
Actuarial gains and losses arising from changes in demographic assumptions	0.5	0.2
Actuarial gains and losses arising from changes in financial assumptions	5.3	(11.2)
Actuarial gains and losses arising from experience adjustments	(1.7)	0.2
Return on plan assets, excluding amounts included in interest income/ (expense)	3.9	3.2
Amounts recognised in the Statement of Comprehensive Income	**8.0**	**(7.6)**

Sensitivity analysis

A sensitivity analysis for the principal assumptions used to measure scheme liabilities is set out below:

	31 March 2022	31 March 2021
Adjustment to discount rate	**- 0.1% £m**	**- 0.1% £m**
Present value of total obligation	1.0	1.2
Fair value of scheme assets	1.1	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	0.7	0.9
Fair value of scheme assets	0.8	0.8
Adjustment to mortality age rating assumption	**+ 1 Year £m**	**+ 1 Year £m**
Present value of total obligation	2.1	2.3
Net Retirement benefit asset / obligations	2.1	2.3

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 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 21 years (2021: 22 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 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**

	At 1 April 2020 £m	Financing cash flows £m	Foreign exchange movements £m	Fair value changes £m	At 31 March 2021 £m
Interest bearing borrowings - current	2,268.4	(207.8)	(63.3)	(23.7)	1,973.6
Interest bearing borrowings - non current	3,079.9	283.7	(69.1)	(112.0)	3,182.5
	5,348.3	**75.9**	**(132.4)**	**(135.7)**	**5,156.1**

Company

	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**

	At 1 April 2020 £m	Financing cash flows £m	Foreign exchange movements £m	Fair value changes £m	At 31 March 2021 £m
Interest bearing borrowings - current	2,268.4	(207.8)	(63.3)	(23.7)	1,973.6
Interest bearing borrowings - non current	3,052.4	286.5	(69.1)	(112.2)	3,157.6
	5,320.8	**78.7**	**(132.4)**	**(135.9)**	**5,131.2**

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 (formerly Hitachi Capital Corporation). 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.

	2022 £m	2021 £m
Payments for administration charges	5.0	6.6

	2022 £m	2021 £m
Amounts owed to Mitsubishi HC Capital Inc (formerly Hitachi Capital Corporation)	4.4	3.6
Amounts owed by Mitsubishi HC Capital Inc	0.1	0.1

31.2 Transactions with other related parties

The Group entered into transactions with Hitachi and 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.

Gridserve Holdings Ltd is a related party with whom the Group holds investments accounted for under the equity method. All transactions with Gridserve Holdings Ltd are made on terms equivalent to those that prevail in arm's length transactions. The related Expected Credit Loss (ECL) provision amounting to £1.6m (2021: £nil) is included within the Group's ECL provision (note 15).

The Group entered into transactions with Securitisation of Financial Assets II (SOFA II) Ltd, a special purpose vehicle, which is consolidated into the Group. Details of the related party transactions with SOFA II Ltd can be found in note 32.

Group

	2022 £m	2021 £m
Interest paid to Mitsubishi companies	5.5	12.6
Interest received from Mitsubishi companies	-	1.5
Receipts for administration charges from Hitachi companies	-	0.1
Lease income from Hitachi companies	-	0.3
Income from Gridserve Holdings Ltd	2.1	0.9

	2022 £m	2021 £m
Amounts due to Hitachi companies	-	9.8
Amounts due to Mitsubishi companies in respect of borrowings	971.4	1,059.7
Amounts held with Mitsubishi companies in respect of deposits	49.0	-
Fair value of derivative financial instruments with Mitsubishi companies	24.0	14.5
Accrued interest expense owed to Mitsubishi companies	-	0.7
Amounts due from Hitachi companies	-	1.5
Amounts due from Mitsubishi HC Capital America (formerly Hitachi Capital America)	-	0.1
Amounts due from Gridserve Holdings Ltd	70.7	42.4

Company

	2022 £m	2021 £m
Interest paid to Mitsubishi companies	5.5	12.6
Interest received from Mitsubishi companies	-	1.5
Receipts for administration charges from Hitachi companies	-	0.1
Lease income from Hitachi companies	-	0.3
Interest income from Hitachi Capital Vendor Solutions B.V.	0.3	0.2
Administration fees from Hitachi Capital Vendor Solutions B.V.	0.6	0.2
Income from Gridserve Holdings Ltd	2.1	0.9

	2022 £m	2021 £m
Amounts due to Hitachi companies	-	9.7
Amounts due to Mitsubishi companies in respect of borrowings	971.4	1,059.7
Amounts held with Mitsubishi companies in respect of deposits	49.0	-
Fair value of derivative financial instruments with Mitsubishi companies	24.0	14.5
Accrued interest expense owed to Mitsubishi companies	-	0.7
Amounts due from Hitachi companies	-	0.1
Amounts due from Hitachi Capital Vendor Solutions B.V.	111.1	32.1
Amounts due from Mitsubishi HC Capital America (formerly Hitachi Capital America	-	0.9
Amounts due from Gridserve Holdings Ltd	70.7	42.4

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 2022 £m	31 March 2021 £m
Salaries and other short-term employee benefits	4.9	4.9
Post-employment benefits	0.2	0.2
Other long-term benefits	1.0	1.1
	6.1	**6.2**

No Directors (2021: 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 £1.8m (2021: £1.8m). The highest paid Director's remuneration in the year was £1.3m (2021: £1.2m).

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 (SPV) '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 2022 the carrying value of securitised receivables was £668.8m (2021: £661.4m) and the corresponding amount owed to senior lenders was £500.0m (2021: £461.6m). The fair value of receivables at balance sheet date was £661.4m (2021: £611.5m).

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 SPV and therefore, Securitisation of Financial Assets II (SOFA II) Ltd is consolidated into the Group.

SME Securitisation programme

In accordance with the terms and conditions, as at 31 March 2022 the Group (and the Company) had transferred £125.7m (2021: £132.2m) of its hire purchase and finance lease receivables, with a fair value of £125.7m (2021: £132.2m) to a SPV 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 SPV and therefore the Group does not have the power to control the relevant activities of the SPV. As such, the Group does not consolidate the SPV and continues to recognise the full carrying amount of the receivables on its statement of financial position.

As at 31 March 2022, the consolidated financial statement of the Group included carrying value of securitised receivables amounting to £125.7m (2021: £132.2m) and amounts owed to senior lenders £100.0m (2021: £100.0m).

33. TRANSFERRED FINANCIAL ASSETS THAT ARE DERECOGNISED BY THE GROUP

During the year, the Group operated two Securitisation programmes whereby tranches of instalment finance receivables were sold to Special Purpose Vehicles (SPVs), 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 SPVs and therefore these entities are not consolidated into the Group.

Securitisation Of Consumer Agreements (SOCA)

During the year, the Group (and the Company) had continued to transfer instalment finance receivables to SOCA securitisation SPV. Following the transfer, the Group continued to act as a servicer of the transferred assets, with a servicing fee of 0.8% (2021: 0.8%) of outstanding capital balance paid on a monthly basis. As at 31 March 2022, the amortised cost of receivables sold into SOCA amounted to £376.9m (2021: £354.4m).

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.

	2022 £m	2021 £m
Less than 1 year	191.9	198.0
1 - 3 years	162.5	150.6
3 - 5 years	28.2	21.8
> 5 years	0.2	-
Total	**382.8**	**370.4**

The Group have originated further receivables with a carrying value of £16.0m (2021: £19.8m) with the intention of selling into SOCA securitisation programme which have been classified as financial instruments measured at FVTPL in the Group's statement of financial position.

Securitisation Of Unsecured Loans DAC (SOULDAC)

In October 2021, the Group had acquired the remaining junior notes from Varde partners Inc and the senior funding was fully repaid. Following the acquisition, the Group became the sole funding partner in SOULDAC SPV and therefore acquire control over SOULDAC which was dissolved soon after the acquisition and the underlying receivables were legally transferred to the Group. As at 31 March 2022, the receivables were recognised on the Group's statement of financial position and they were measured at amortised cost in accordance with IFRS 9 financial instruments.

The following tables summarise the maximum exposure and carrying values of subordinated debt and junior notes held in SOCA and SOULDAC 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

	2022 £m	2021 £m
Mezzanine notes held in SOCA	41.1	38.6

Financial instruments measured at fair value through profit or loss

	2022 £m	Restated 2021 £m	Restated 2020 £m
Junior notes held in SOCA	29.5	32.4	35.2
Junior notes held in SOULDAC	-	9.9	9.9
Receivables held-for-sale into SOCA	16.0	19.8	16.4
Total	**45.5**	**62.1**	**61.5**

During the year, the Group reclassified receivables held for sale into SOCA securitisation programme from loans and advances to customers (note 16).

Below is the reconciliation of opening and closing balances relating to financial instruments measured at fair value through profit or loss.

The following table summarises the income relating to the Group's continuous involvement in SOCA and SOULDAC securitisation programmes.

	2022 £m	2021 £m
Interest income	1.7	4.9
Other income	2.3	2.8
Total	**4.0**	**7.7**

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 note 16. 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 £1.5m (2021: £2.4m) 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 2022 deferred cash flows amounted to £84.0m (2021: £66.0m), against related gross loans and receivables of £1,967.0m (2021: £2,005.0m). There was no such deferred cash collateral held against gross loans and receivables amounting to £970.0m (2021: £923.4m).

(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 £6.1m (2021: £11.6m), 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, £110.1m (2021: £88.8m) 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 £1,572.7m (2021: £1,413.7m), £2.9m was individually impaired (2021: £7.2m).

(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 £122.5m (2021: £61.1m) are primarily collateralised by trade receivables purchased from factoring clients which had a gross value of £252.1m (2021: £153.3m), 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 (ECL)

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 %

The loss rate is a key component of the calculation of ECL and transition from stage 1 to stage 2. ECL 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 over the 12 month or lifetime basis. The loss rate is expressed as a % and it represents the amount written off as a proportion of capital balancing outstanding over a given period of time.

The loss rates are projected for each future month on a portfolio basis, whereby financial assets are grouped with those sharing similar credit risk characteristics and which are expected to behave in uniform ways. This process enables ECL calculation 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)

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 which take into account forward looking macro-economic factors 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 or the lifetime of the financial asset. Management have used historical data and assumptions of future conditions to model PD over a period of time.

Definition of default

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
- Receivables subject to special collections strategy

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 made some enhancements to its ECL models to better reflect credit risk and the corresponding ECL estimation of its consumer finance portfolio.

Replacing 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" as outlined in credit risk categorisation for general approach on page 192.

Changing the SICR criteria for assessing receivables which have significantly deteriorated in credit risk since origination. The key changes were to incorporate the internal behaviour scores, introduce a 3% minimum PD threshold and reduce the trigger from three times the original PD to double the original PD for triggering SICR criteria. The Group also introduced a relative threshold of 8% since origination for moving receivables to stage 2. The impact of this change was to re-classify receivables from stage 1 (measured at 12 month ECL) to stage 2 (measured at lifetime ECL).

The net impact of the above changes was to transfer receivables from Stage 1 to Stage 2 with no incremental impact to ECL provision.

Forward looking macro-economic assumptions

The Group has developed statistical models to perform an analysis on how changes in a range of macro-economic variables have impacted historical loss rates over a period of time. The macro-economic variables with the strongest correlation with historical loss rates have been identified and selected for assessment of ECL.

During the year, the Group had run a severe downside scenario with a 5% weighting in order to incorporate the impact of the War in Ukraine and cost of living crisis on the Group's ECL provision.

The Group has identified UK unemployment rate, Debt to income ratio and 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 macro-economic 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.

Forward looking information

Partnering with a third party, the Group has developed an econometric model to establish the correlation between historical default rates and a set of macro-economic variables over a period of time. The econometric model provides an estimate of the impact to ECL arising from a movement in a set of macro-economic 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 debt to income ratio, UK unemployment rate 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.

Outlined below are the three year forward looking averages for key macro-economic variables used in the ECL models, along with the chosen scenarios and the associated probability weightings.

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%

31 March 2021

	UK unemployment rate	Debt to income ratio	Weighting
Upside	4.88%	1.127	30%
Base case	5.41%	1.145	40%
Downside	5.87%	1.157	30%

The calculation of the Group's ECL provision 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:

	March 2022 £m	March 2021 £m
Probability weighted modelled ECL provision	33.6	36.5
Upside	31.9	35.5
Base	33.5	36.4
Downside	35.6	37.7
Severe downside	39.2	N/A

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 £8.6m increase in ECL provision. Conversely, the effect of 15% decrease in loss rate would result in £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 £5.0m (2021: £4.1m) 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 modelled provision of £15.0m (2021: £15.0m) and forward looking macro-economic overlay of £1.3m (2021: £0.2m).

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

	2022 £m	2021 £m
Very low risk	626.5	619.5
Low risk	506.9	369.4
Moderate risk	373.1	597.1
High risk	86.5	103.9
Ungraded	132.7	103.5
Individually impaired	4.0	8.1
Gross carrying amount	**1,729.7**	**1,801.5**
Trade receivables	70.0	57.2
Gross exposure	**1,799.7**	**1,858.7**

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 2022	31 March 2021
Gross Exposure (£m)	1,799.7	1,858.7
ECL Allowance (£m)	15.0	15.2
Coverage ratio	0.8%	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 £36.3m (2021: £36.5m) and Post Model Adjustment £5.0m (2021: £4.1m).

The following table sets out the gross credit risk exposures by IFRS 9 stage allocation (general approach):

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%

As at 31 March 2021	Stage 1	Stage 2	Stage 3	Total
Gross Exposure (£m)	2,770.6	73.8	92.0	2,936.4
ECL Allowance (£m)	11.3	10.4	18.9	40.6
Coverage ratio	0.4%	14.1%	20.6%	1.4%

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	2022 £m	2021 £m
Very low risk	718.0	0.7	6.6	725.3	1,868.5
Low risk	1,705.1	4.0	20.4	1,729.5	710.7
Moderate risk	492.1	104.4	18.2	614.7	187.5
High risk	85.4	104.3	17.4	207.1	132.7
Ungraded	11.3	0.6	-	11.9	-
Individually impaired	-	3.9	32.0	35.9	37.0
Gross carrying amount	**3,011.9**	**217.9**	**94.6**	**3,324.4**	**2,936.4**

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	2022 £m	2021 £m
Balance at 1 April 2021	2,770.2	74.2	92.0	2,936.4	3,323.9
Stage transfers	(251.2)	190.8	60.6	0.2	-
New business	2,233.0	-	-	2,233.0	1,676.3
Receivables repaid or written-off	(2,113.4)	(50.6)	(58.5)	(2,222.5)	(2,063.8)
Changes to models/risk parameters	373.3	3.5	0.5	377.3	-
Balance at 31 March 2022	**3,011.9**	**217.9**	**94.6**	**3,324.4**	**2,936.4**

ECL Allowance

	Stage 1 £m	Stage 2 £m	Stage 3 £m	2022 £m	2021 £m
Balance at 1 April 2021	11.3	10.4	19.0	40.7	40.0
Stage transfers	(3.6)	(3.5)	7.1	-	(0.1)
New business	8.0	-	-	8.0	6.7
Receivables repaid or written-off	(9.7)	13.1	(14.3)	(10.9)	(10.2)
Changes to models/risk parameters	2.1	0.1	0.4	2.6	-
Other movements	2.1	(1.2)	-	0.9	4.1
Balance at 31 March 2022	**10.2**	**18.9**	**12.2**	**41.3**	**40.5**

* The amounts represent adoption of general approach for loans portfolio relating to Novuna Business Finance division.

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 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 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 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 cross currency swaps	(379.6)	-	-	-	-	-	-	(379.6)
Sterling payment relating to interest rate 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)**
At 31 March 2021								
Non derivative financial liabilities:								
Foreign currency denominated borrowings	(793.5)	(509.4)	(869.3)	(101.3)	(74.5)	(32.8)	(170.8)	(2,551.6)
Sterling borrowings	(732.8)	(417.2)	(621.9)	(201.1)	(10.1)	-	-	(1,983.1)
Securitisation	(334.0)	(158.6)	(57.9)	(16.2)	(3.4)	(0.5)	(0.1)	(570.7)
Lease liabilities	(2.0)	(1.9)	(1.9)	(1.9)	(1.9)	(1.7)	(1.9)	(13.2)
Trade payables	(257.6)	-	-	-	-	-	-	(257.6)
Financial guarantees	(2.4)	-	-	-	-	-	-	(2.4)
	(2,122.3)	**(1,087.1)**	**(1,551.0)**	**(320.5)**	**(89.9)**	**(35.0)**	**(172.8)**	**(5,378.6)**

	< 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 2021								
Derivative financial liabilities:								
Foreign currency receipts relating to cross currency swaps	(790.3)	(509.4)	(869.3)	(101.3)	(74.5)	(32.8)	(170.8)	(2,548.4)
Sterling payment relating to interest rate swaps	14.2	8.4	4.3	1.0	0.2	0.2	0.2	28.5
Sterling receipts relating to interest rate swaps	(6.3)	(7.9)	(6.0)	(1.7)	(0.3)	(0.2)	(0.2)	(22.6)
Sterling payments relating to cross currency swaps	834.9	527.0	969.0	105.7	79.2	32.1	177.8	2,725.7
	52.5	**18.1**	**98.0**	**3.7**	**4.6**	**(0.7)**	**7.0**	**183.2**

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 Hitachi Limited and 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 (formerly Hitachi Capital Corporation) 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 2022 £ m	Capacity available 2022 %	Amount drawn 2021 £ m	Capacity available 2021 %
European medium-term note programme	3,350.4	11.0	2,805.2	29.0
European commercial paper programme	379.6	58.0	-	-
Committed securitisation programme	599.1	6.0	561.1	6.0
Uncommitted short-term facilities from relationship bank	142.8	72.0	138.2	73.0
Uncommitted long-term facilities from relationship bank	699.7	59.0	1,644.6	24.0
Total Borrowings	**5,171.6**	**-**	**5,149.1**	**-**

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 2021 and 31 March 2020, 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 Contracts

Under interest rate swap (IRS) 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 £10.2m (2021: debited by £8.7m). This is mainly attributable to the Group's exposure to interest rates on variable rate borrowings.
- Other equity reserves would be credited by £54.9m (2021: credited by £42.3m) 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 (2021: credited by £0.9m) and other equity reserves debited by £5.5m (2021: debited by £4.2m) 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 106. 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. CONTINGENT LIABILITY

During the year the Company provided its responses to a number of investigator preliminary views issued by the Financial Ombudsman Service ("FOS") in relation to complaints made in connection with certain timeshare retailers that had introduced customers to the Company prior to the Company ceasing to provide new timeshare finance in December 2020. At the date of approval of the financial statements the significant majority of complaints decided by FOS were found in favour of the Company and were not upheld, of the remaining c.650 open complaints 594 have been referred to FOS by the customer. In October and November 2021, the Ombudsman issued final decisions on two cases with other providers of timeshare finance, who subsequently commenced legal challenge by way of judicial review. On 16 May 2022, the judicial review was granted in respect of one provider and is expected to be heard later in financial year ending 31 March 2023. The Company has been given permission to join this judicial review as an interested party, although has not received a final decision from the Ombudsman on any case. In total, the Company advanced loans of c.£160 million to customers relating to timeshare financing. However, the amounts advanced in relation to open complaints is much smaller, totalling £7.5m. If the judicial review is not successful, there is a risk of possible substantial redress being required. As there is only a possible obligation arising in respect of this matter the Group therefore discloses a contingent liability. Whilst any potential redress is expected to be significantly less than the total exposure, a reliable estimate of the potential remediation cost cannot be made at this time due to the uncertainty in respect of claim rates, level of appropriate redress and benefits received during ownership period.

36. NON ADJUSTING EVENTS AFTER THE FINANCIAL PERIOD

The Directors recommend a final dividend of £41.6m (9.4p per share), relating to year ended 31 March 2022. There were no other subsequent events after the reporting period ended 31 March 2022.

Company Information

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 (formerly Hitachi 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

G. Munnoch

Chief executive officer

R. Gordon

Directors

H. Fukuro
A. Hughes
A. Whitaker

Company secretary

J.N.M. Sims

Registered office

Novuna House
Thorpe Road
Staines-upon-Thames
Surrey
TW18 3HP

Auditors

Deloitte LLP
2 New Street Square
London, EC4A 3BZ

Registered offices and business addresses for Mitsubishi HC Capital UK PLC (formerly Hitachi Capital (UK) PLC), its subsidiaries and its affiliates (together, "the Group") are shown below.

Mitsubishi HC Capital UK PLC (formerly Hitachi Capital (UK) PLC)
Novuna House, Thorpe Road,
Staines-upon-Thames,
Surrey, TW18 3HP

Mitsubishi HC Capital Europe B.V. (formerly Hitachi Capital European Vendor Solutions B.V.)
The Netherlands - WTC Amsterdam
H Toren 4de verdieping, Zuidplein 36,
1077 XV Amsterdam,
Tel: 0031(0)207 997 601

Gridserve Holdings Ltd
Thorney Weir House,
Thorney Mill Lane,
Iver, SL0 9AQ

Business addresses (where different to opposite)

Novuna Consumer Finance
2 Apex View, and Interchange House,
Leeds, West Yorkshire, LS11 9BH,
Tel: 0344 375 5500

Novuna Business Finance
Pinetrees, Thorpe Road,
Staines-upon-Thames, TW18 3HR
Tel: 01784 227 322

Novuna Business Cash Flow
5 Hollinswood Court, Stafford Park 1,
Telford, Shropshire, TF3 3DE
Tel: 01952 213 300

Novuna Vehicle Solutions
Kiln House, Kiln Road, Newbury,
Berkshire, RG14 2NU,
Tel: 0344 463 2900

Hakuba House,
White Horse Business Park, Trowbridge,
Wiltshire, BA14 0FL
Tel: 01225 777 710

European Vendor Finance
UK - Novuna House, Thorpe Road,
Staines-upon-Thames, TW18 3HP,
Tel: 01784 227 322

CARBON BALANCED PAPER
WORLD LAND TRUST™
www.carbonbalancedpaper.com
CBP002643

This report was printed using vegetable oil-based inks, FSC Certified papers and is carbon balanced by the World Land Trust.