MITSUBISHI HC CAPITAL UK PLC

Annual Report and Consolidated Financial Statements
Year Ended 31 March 2024

Contents

Mitsubishi HC Capital UK PLC 2023/24 highlights

Financial Results

£126.0m
Profit before tax

8%
Rise in profit before tax compared to 2022/23*

£8.2bn
Net Earning Assets

£4.5bn
Volume of new business

1.4%
Pre-Tax Return on total assets

8.6%
Post-Tax Return on Equity

Our Wider Business

2,286 employees
We employ 2,286 people across six business divisions in the UK and Europe

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

83% EV company car fleet
Electric Vehicles represent 83% of our company car fleet

£218,000
We donated £218,000 to charity via match funding and corporate donations

33% gender diversity
We are proactively supporting gender diversity with 33% of leadership roles filled by women versus a target of 35% by December 2025

9.7% green assets
Green assets funded now represent almost a tenth of our net earning assets as we explore ways to reduce reliance upon fossil fuels

*Excluding the one-off PBT gain of £44.1m relating to Mitsubishi HC Capital UK PLC's investment in GRIDSERVE Holdings Limited.

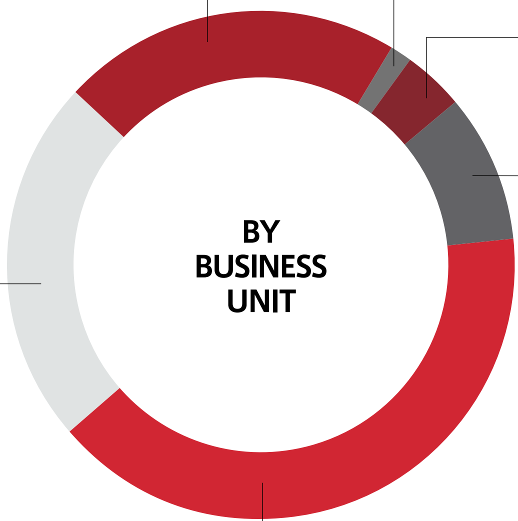
Back to contents

% share of total Net Earning Assets and Profit Before Tax

Business Cash Flow
1.6%
£3.6m

Business Finance
21.6%
£23.4m

European Vendor Finance
3.9%
£0.5m



Corporate
(£4.0m)

Mobility
9.2%
£10.3m

Vehicle Solutions
23.3%
£62.8m

Consumer Finance
40.4%
£29.4m

Group Strategic Report

The Directors present their strategic report for Mitsubishi HC Capital UK PLC, its subsidiaries and affiliates for the year ended 31 March 2024. The Group financial statements, starting on page 103, comprise the consolidated financial statements of the Company, including its subsidiaries as defined by international accounting standards adopted by the United Kingdom.

Who we are

Mitsubishi HC Capital UK PLC is a UK based non-bank financial services company, authorised and regulated by the Financial Conduct Authority ("FCA"). We have over 2,250 employees, £8.8bn of total assets and nearly 1.3 million customers across six business divisions; Consumer Finance, Vehicle Solutions, Business Finance, Business Cash Flow, European Vendor Finance and MHC Mobility Europe providing innovative finance solutions to enable consumers and businesses to grow and prosper.

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

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

Mitsubishi HC Capital UK PLC has a predominant 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.

Our vision and values

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

Results

Despite significant headwinds faced by the Company over the past 12 months impacting our customers and the markets we operate in, we delivered an excellent performance during the year. Mitsubishi HC Capital UK PLC achieved profit before tax ("PBT") of £126.0m, representing an underlying 8% year on year increase after excluding last year's one-off PBT gain of £44.1m relating to our investment in Gridserve. Despite challenging trading conditions new business volumes increased 1.0% year on year to £4.5bn.

The Group has six main commercial business units. Details of each business unit are set out below.

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

Novuna Consumer Finance provides a national coverage of consumer finance products through well-known high street retail outlets and via an online application process. Novuna Consumer Finance offers a variety of financing options including interest free credit, interest bearing credit and buy now pay later. Novuna Consumer Finance works with over 3,500 online and high street retailers across a number of retail sectors including home improvements, furniture, electricals, leisure, healthcare and jewellery. Contracts with our large retailers are typically for 2 to 3 years with agreements for retail point of sale customers having a 3 to 5 year typical life.

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

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

Novuna Vehicle Solutions has been delivering vehicle leasing and fleet management services for over 30 years, providing solutions for small, large or complex fleets, operating over 109,000 assets, from cars, vans and heavy goods vehicles to plant and machinery. The division works with companies in a broad range of industries including utilities, construction, food transportation, waste and recycling, public sector and bulk liquids.

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

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

Novuna Business Finance

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

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

Novuna Business Finance provides end-to-end finance solutions to support projects relating to sustainable energy technologies (including onshore wind, solar PV, Battery Energy Storage Systems, green hydrogen, air and ground source heat pumps, solar-thermal) and sustainable transport technologies (EV charging infrastructure).

European Vendor Finance

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

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

European Vendor Finance operates in 24 countries having a direct presence in London, Amsterdam, Dublin, Helsinki and a transactional capability in Belgium.

Novuna Business Cash Flow

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

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

MHC Mobility

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

Chairman's Statement

Alan Hughes
Chairman of the Board

Results

After-tax earnings attributable to shareholders in the year were £92.6m, a decrease of 22.8% on the prior year. Underlying post-tax earnings increased by 6.7% after adjusting for the prior year's results one off gain of £33.1m post-tax from our investment in Gridserve. The after-tax earnings of the European MHC Mobility group acquired from our parent company in 2022 declined 76% to £2.5m principally due to realising asset values in the Polish subsidiary. The local management have been replaced and we are confident that the plan to return the business back to profitability will be successful in 2024.

Dividend

The Directors recommend a final dividend of £37.2 million, being approximately 40% of after-tax earnings. This aligns with our parent company's dividend policy. Profit retained will support business growth, the strategic development of UK and EU businesses, with gearing consistent with that of our parent company, and expectations of our financial markets and regulators.

Performance

The UK economy has been very flat with minimal growth in Gross Domestic Product at 0.1%. Inflation declined and interest rates stabilised towards the end of the year and thereby the benefit may only be realised in future years. Despite a very shallow recession, gross profit continued to grow at 7.7% and the Group increased total assets by 4.1% and net earning assets (page 140) by 7.5%, which is a significant achievement. The regulatory landscape continues to become more complex, and the Company implemented new Consumer Duty standards and principles in July 2023.

Outlook

Our business continues to be diversified across commercial and consumer sectors, which reduces volatility of our overall results as we do not have concentrated risk in any one customer or sector. Our growth in renewables and decarbonisation was strong in the transport sector; however, the focus upon climate action in the wider economy has paused as global conflict, inflation, and lack of economic growth have diverted attention from the road to net zero. Our services and products will continue to benefit customers in the economic recovery as affordable fixed rate finance assists customers make investment and major purchases an affordable reality. The development of relationships with Mitsubishi companies in Europe is progressing well and we expect the European Mobility companies to make a substantial contribution in the future as we develop pan European relationships with our customer base. Two public debt issues in the year have increased the profile of the company and diversified the funding base and we expect greater frequency of public debt issues in the medium term.

“Our business continues to be diversified across commercial and consumer sectors, which reduces volatility of our overall results as we do not have concentrated risk in any one customer or sector.”

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.

In May 2023, Hiroyuki Fukuro retired and returned to Japan and Masaki Mizutani joined the Board to succeed him as a non-executive director. The Board has enjoyed working with the Executive team who demonstrate traditional leadership, management and, above all, a respect for developing a common culture across the whole Company, one that drives good outcomes for customers and sustainable financial performance for the Group.

Conclusion

It was another exceptional year for the Group as we grew the underlying profit and net assets in an environment which was not accommodating for consumer expenditure or business investment.
I would like to thank our parent company and my fellow Board members for their outstanding support during the year.

Alan Hughes
Chairman of the Board
11 June 2024

Chief Executive Officer's Review

R. Gordon
Chief Executive Officer

The UK economy was remarkably flat in 2023 as economic policy was focussed on reducing inflation through monetary policy directed by the Bank of England. Interest rates continued to rise in the first half of the year, inflation slowly fell, but the cost-of-living crisis continued. The number of corporate insolvencies in England and Wales reached a 30 year high in 2023, up 9.6% on the previous year. Fortunately, the unemployment rate has remained relatively static at around 4%; however, the economic conditions are not encouraging or favourable for growth.

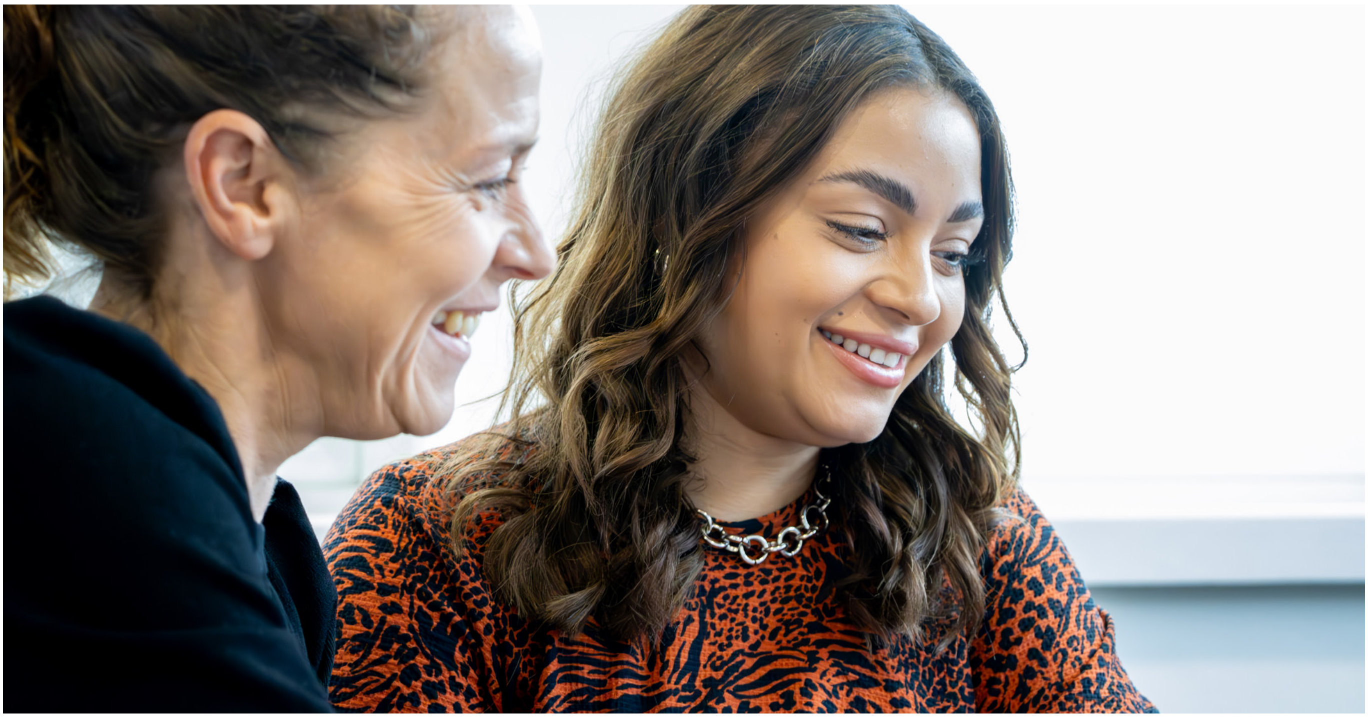
Rising interest rates and an increase in corporate insolvencies are not attractive trading conditions for a non-bank finance company providing fixed rate affordable instalment finance. We do not maintain a low interest rate stable deposit base to fund our new business volumes, rather we are exposed to rising swap rates by raising funds through bank facilities and the issuing of commercial paper and medium-term notes and hedging our interest rate risk at the prevailing market rates. Over the last few years, we have suffered a squeeze in our interest rate margin in a bid to remain competitive with our pricing for the service levels we provide. Despite these adverse conditions, we have remained profitable and continued to grow our business because of a detailed orchestration of many actions undertaken. We consistently enhance our systems to provide a seamless digital journey for our customers, continuously improving our credit and affordability assessments to reduce our exposure to credit losses and control our administration expenses.

Our business is well diversified across commercial and consumer financing facilities, with no concentration upon any one customer or sector, which reduces the volatility of our results. Similarly, we have continued to diversify our funding, with benchmark public issues in Australia and Europe, attracting new funders to the Group. We plan to increase the frequency of public issues over the medium term.

Despite the flat trading conditions, we were able to generate profit before tax of £126.0m, representing growth of 8% over the prior year after adjusting the prior year's results for the one-off fair value gain on our investment in Gridserve (PBT £160.8m - £44.1m). We achieved this growth, by providing our customers with affordable fixed rate instalment finance to purchase essential business assets or significant asset purchases for consumers. We enhanced our profitability by taking the following actions:

- Maintain our new business volumes at a level consistent with the prior year at £4.5bn, resulting in an increase in total assets of 4.2% and net earning assets of 7.5% (page 140).
- Increased our operating leasing portfolio by 14.8% to £2.7bn.
- Generated significant gains on disposal of assets off lease £51.1m consistent with the prior year of £55.0m.
- Maintain the UK bad debt ratio at 0.36%, which was comparable with the previous year of 0.34% despite a significant increase in UK corporate insolvencies.
- Controlled UK administration cost, through cost review programmes, limiting the increase in cost over the prior year to 1.5% and retaining staffing levels consistent with the prior year (0.6% increase).

To compete successfully our mission is to provide a high level of service and deliver a high level of customer satisfaction. That is not possible without an engaged team who are focussed upon solving real issues for our partners and customers, such as planning and implementing the electrification of a vehicle fleet, planning and designing EV charging facilities for company fleets, designing promotional finance to increase retail sales, and providing essential stock finance to dealer networks to enable them to secure scarce trading assets.



Employee safety and retention

Hybrid working has continued to be in practice and our Group provides a flexible work experience for employees. It is a practice that has required real change in our behaviour but has definitely been beneficial as we maintain 21 offices over Europe. Face to face collaborative meetings are vital; however, there are enduring benefits to preserve from hybrid working such as the improved communications tools, which make fast collaboration between teams all over the country possible without the need for extensive travelling and the associated loss of productive time and increase of our carbon footprint. The technology has also enabled us to continually improve our call centres with greater peak workflow planning and retention of skilled staff who need more flexible working patterns.

The return to the office since Covid-19, has not been a mandatory process, rather it has been designed with managers throughout the team. Generally, team members under hybrid working now spend 60% of their week in the office environment and plan their numerous "screen meetings" from the home office environment. We will continue to work with the team to adapt and modify our working practices and support those members who are finding it more difficult to adapt.

It has not been an easy process and it takes additional management, resources and compromise from all parties to adjust to the hybrid approach. However, the benefits in terms of staff engagement and customer satisfaction indicate that our inclusive approach is appreciated. Employee turnover from voluntary leavers has fallen slightly to 10.2% (2023: 12.7%), during a period of high employee mobility due to skills shortages across many sectors in the economy.

Employee engagement

To provide outstanding customer experiences, it is essential to have an engaged team. Our hybrid working approach and consistent pay reviews and strong financial performance triggering bonus awards has been appreciated. We have continued with the programme developed in the prior year of frequent, informative, internal communication with all staff from weekly CEO blogs, weekly managers briefings, all staff team meetings, to team social events. We continued with the mix of online communication and in person meetings which has reinforced the culture and team spirit. Regular pulse surveys and our annual engagement survey, again, revealed consistency across all measurable scores with the year.

Customer satisfaction

An engaged team generally provides higher quality customer experiences, which is reflected in our customer surveys across the business as well as in industry awards and maintaining a strong market position. The tangible benefit is reflected in maintaining the high volume of new business of £4.5bn, which is consistent with the prior year despite 0.1% growth in UK Gross Domestic Product in the calendar year.

> “We expect to continue our public bond issues in Europe and Australia with multiple issues planned for 2024.”

Liquidity

The Group has a central Treasury function which manages the Group’s borrowings in accordance with agreed policies and procedures. We did not record a default, nor utilise standby facilities or borrowings from our parent company. 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, with two successful benchmark public issues completed in the year. Derivatives were utilised to manage currency and interest rate risks. Analysis of borrowings and derivative financial instruments are summarised in notes 17 and 18 to the financial statements. After reflecting the effect of currency risk hedging, gearing (defined on page 14) has been maintained at 6.3 times equity (2023: 6 times) and is well within the limit of 25 times equity set out in the Company’s Articles of Association.

The return to the public markets this year was required to diversify our funding base and we found that investors propensity to invest for term funding has improved given the relative stabilisation of interest rates in the second half of the year and the expectation for interest rates to decline slowly over 2024. We expect to continue our public bond issues in Europe and Australia with multiple issues planned for 2024.

The mix of our funding has returned to more normal levels of maturity as investors have greater appetite to invest for the medium term. The maturity of our debt has therefore increased to 54.3% non-current compared to 48.3% at March 2023 and 67% at March 2022. We continue to track liquidity risk and match the repayment profile of debt to the cashflow maturity of the portfolio. The level of support we have received during the year from our traditional investors and interest from investors in new markets has, again, been significant, and we appreciate their support. With a strong equity base and access to global lines of credit, we believe we have sufficient capital to trade should there be a severe downturn in the economy for the remainder of 2024 and the following year.

Maintaining portfolio quality

The Group’s charge for bad debt impairment was £26.3m (2023: £22.4m, 2022: £27.9m) which was an outstanding achievement considering the rise in corporate failures and another year of the cost of living crisis. The Group bad debt provision decreased to £56.6m (2023: £66m, 2022: £56.3m). At 31 March 2024, the Group recognised post model adjustments (“PMA”) of £2.3m (2023: £4.8m) to reflect the potential increase in defaults with the risk of recession, inflation and interest rate rises affecting customers with variable rate mortgages which has not been evidenced in our portfolio and the UK escaped with a mild recession in 2023/24. The Group also recognised a macro-economic overlay of £1.5m (2023: £7.1m). The reduction in PMA of £2.5m along with a £5.6m reduction in macro-economic overlay reflects the improvement in the economic outlook relative to prior year. We note the Bank of England countercyclical capital buffer has been reduced from 3.5% in March 2023 to 2% as at March 2024 reflecting the more optimistic outlook in 2024. Overall, the quality of the portfolio has remained very consistent with the prior year, as detailed in note 34. We continued to review and update credit underwriting, and systems to improve the quality and breadth of data for credit decisioning and continuing to restrict the higher risk categories of business.
The relatively low charge for bad debts for the last few years reflects the stability in the credit quality of our portfolios and performance in a period of low growth.

Society's expectations - regulation and reputation

We continue to strengthen our oversight and assurance functions, to ensure we have the appropriate level of governance and control arrangements in place to ensure we deliver good outcomes to our customers and we have implemented the Consumer Duty introduced by the FCA in July 2023. Consumer duty and good outcomes for all customers is central to our mission, and we recognise that this is a theme of continuous improvement. Following the announcement from FCA conducting a review into motor commission claims, we have considered the financial reporting implications and these are set out in note 35.

The provision for Section 75 of the Consumer Credit Act of 1974 has been increasingly utilised as we seek to resolve complaints for our customers on a timely basis. The provision decreased by £6.4m during the year as claims were paid out or not upheld. (2023: increase of £16.2m).

We have achieved strong growth in Electric Vehicles on our company car fleet with EVs now representing 83% (2023: 69%) of all company cars. Our company car fleet policy remains at 100% Ultra Low Emission Vehicles as we phase out the last 17% (2023: 31%) of diesel and petrol vehicles.

New business levels for our alternative energy division were limited due to supply chain problems and low-level investment returns as the expected long-term incremental cost of energy is expected to fall in the future. We do not fund large scale infrastructure projects; however, we have funded an increasing flow of transactions for smaller projects amounting to a total of £41.4m. We hope that the concern for climate change in Europe rises back up the agenda as the cost of living crisis abates in 2024.

The Key Performance Indicators (KPIs).

	2024	2023
Statutory metrics		
Revenue	£1,605.2m	£1,228.5m
Gross profit	£396.5m	£368.1m
Profit before tax ("PBT")	£126.0m	£160.8m
Bad debt charge (i)	£26.3m	£22.4m
Net assets	£1,072.4m	£1,081.7m
Total assets	£8,825.1m	£8,472.8m
Number of employees	2,286	2,249
PBT growth	(21.6%)	23.7%
Pre-tax return on total assets	1.4%	2.1%
Bad debt charge as a percentage of total assets	0.30%	0.26%
Cost / gross profit ratio (ii)	61.0%	61.3%
Effective tax rate	26.5%	25.5%
Post-tax return on equity	8.6%	11.1%
Alternative performance measures ("APMs")		
Gross profit excluding disposal result (vii)	£345.4m	£313.1m
New business volume (iii)	£4,523.8m	£4,479.4m
Net Earning Assets ("NEA") (iv)	£8,153.3m	£7,586.1m
Average Principal Employed ("APE") (v)	£7,801.7m	£7,249.6m
Pre-tax return on APE	1.6%	2.2%
Gearing (vi)	6.3	6.0
Non-financial measures		
Percentage of battery powered electric vehicles on fleet	20.5%	16.6%
Employee Satisfaction Score (Score out of 5)	4.13	4.28
Charitable donations	£0.2m	£0.3m

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

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

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

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

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

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

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

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

	2024 £m	2023 £m
Gross profit	**396.5**	**368.1**
Sale of operating leased assets	(385.9)	(276.2)
Disposal of operating leased assets	334.8	221.2
Gross profit excluding disposals	**345.4**	**313.1**

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 effective tax rate has increased to 26.5% (2023: 25.5%) primarily because of recognition of deferred tax liabilities relating to prior year incurred in MHC Mobility Poland.

The post-tax return on equity decreased to 8.6% (2023: 11.1%). No interim dividend was paid during the year (2023: £nil). The Directors have recommended a final dividend of £37.2m, 8p per share (2023: £46.0m, 9.9p per share) which represents 40% of the Group's profit after tax.

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

> “The results for the year reflect our continued dedication to providing good outcomes for our customers as our new business levels were strong.”

Performance summary

The results for the year reflect our continued dedication to providing good outcomes for our customers as our new business levels were strong, credit quality was high, administration costs were well controlled and strong profits were realised on asset disposals.

Business continuity

We have stress-tested our portfolio to see how much the UK economy would have to deteriorate before the Group ceases to be profitable. We projected that UK unemployment would need to rise to 11.6% (2023: 9.1%) and GDP fall by 5.8% (2023: 7.2%) before the bad debt levels would result in zero profit in the 2024/25 financial year.

Outlook

Our performance since 31 March 2024 has again been promising with good volumes of business in April and May and very competitively priced private placements being completed. Inflation continues to slowly decline, and the market consensus is that interest rates will decline slowly from June 2024. If there is moderate to low growth in the UK and the EU in 2024 and interest rates continue to decline, we expect to gradually recover our margins. Our results will still be supplemented by profit on disposal of assets off lease and our performance to date has been pleasing as we manage our quality asset base.

Our people are vital to our success, and it is important that all our staff feel part of the Group. We appreciate and value differences and we strive to create an engaging environment for everyone to be able to contribute to the success of the Group. It has been very pleasing to see our trading styles for the Group gaining wide acceptance and recognition.

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

Conclusion

Our strategy of offering value added financial products and excellent customer service in our chosen markets is continuing to deliver success, enabling us to grow and remain consistently profitable in a subdued trading environment. With inflation falling and interest rates stabilising, we are optimistic that trading conditions are slowly improving, and we can continue to build upon our solid platform that achieves good outcomes for our customers, delivered by an engaged team.

On behalf of myself and the Board, I would like to thank employees across the Group for their ability to adapt to an ever-changing environment, generating significant new business opportunities and producing yet again a strong profit result in a very difficult year.

By order of the Board.

R. Gordon
Chief Executive Officer
11 June 2024

Financial Review Novuna Consumer Finance

Key metrics

£29.4m
Profit before tax
(2023: £12.6m)

£2.3bn
Total new business volumes
(2023: £2.3bn)

£3.3bn
Total assets
(2023: £3.1bn)

£3.3bn
Net Earning Assets
(2023: £3.1bn)

£20.4m
Bad debt charge
(2023: £15.7m)

0.60%
Bad debt charge as a percentage of total assets
(2023: 0.50%)

Results

Novuna Consumer Finance delivered £29.4m of profit this year, a £16.8m increase on the prior year. Profit before tax as a percentage of total assets also increased significantly to 0.88% (2023: 0.41%). The increase was predominantly driven by the recovery of new business margins, despite the continuing increase in cost of funds and the continuing focus on portfolio quality and low levels of bad debts.

Rising funding costs

Underlying results continue to be impacted by rising interest costs which increased £59.4m year on year from £67.5m to £126.9m. The business has maintained business volumes whilst improving new business margins, although still short of those margins seen 2022. Revenues were improved by £62.7m to £251.5m to recoup the increasing funding costs incurred.

New business levels

New business for the year was £2.3bn, consistent with the prior year. This is primarily recorded within Loans and advances to customers on the Consolidated Statement of Financial Position.

The business operates two different channels to the consumer finance market. Retail point of sale finance (incorporating in-store, off-trade and on-line) continues to be the largest channel for new business volume at £1.51bn (2023: £1.36bn), i.e. 64% of total volume. Retail volumes have improved as global supply chain issues and stock shortages for many of our retailers seen in 22/23 have improved. Personal lending (incorporating direct lending and broker/aggregator channels) achieved £0.83bn (2023: £0.9bn) of new business volumes, i.e. 36% of total volume. High levels of competition and reduced demand for personal loans has impacted on the volumes in this channel.

Given the continued high levels of new business, Novuna Consumer Finance's portfolio grew 5.7% to £3.3bn this year. We have also increased the number of live customer accounts to 1.3m which represents an increase of 5% from the prior year.

Low bad debt

Novuna Consumer Finance's approach has always been to maintain a high quality portfolio. This is reflected in the continuing low bad debt charge of only 0.6% of total assets (2023: 0.5%). The charge increased from £15.7m to £20.4m due to the asset size growth and the impacts of the current cost of living crisis.

Underlying default levels remain low. However, due to the likely further impact of increased mortgage rates on customers rolling off fixed term mortgages, we have increased our bad debt provision levels under IFRS9 by £2.8m. Novuna Consumer Finance's arrears increased during the first half of the financial year but have stabilised in recent months. This increase was driven by business mix and the impact of the cost of living crisis, particularly on increasing mortgage payments. This continues to be monitored closely.

> “Given the continued high levels of new business, Novuna Consumer Finance's portfolio grew 5.7% to £3.3bn this year.”

Financial Review
Novuna Vehicle Solutions

Key metrics

£62.8m
Profit before tax
(2023: £68.0m)

£848m
Total new business volumes
(2023: £705.4m)

£2.1bn
Total assets
(2023: £1.9bn)

£1.9bn
Net Earning Assets
(2023: £1.7bn)

£2.5m
Bad debt charge
(2023: £1.2m)

0.1%
Bad debt charge as a percentage of total assets
(2023: 0.1%)

109,641
Units, total fleet size
(2023: 103,736 units)

Results

During the year, Novuna Vehicle Solutions generated profit before tax of £62.8m, representing a 7.6% decrease in profit from the prior year (£68.0m).

Revenues increased by £124.8m (17.7%) year on year, from £706.6m to £831.4m. This comprised of Operating lease rental income which increased by £56.9m (13.8%) year on year from £412.7m to £469.6m, due to the growth in our funded fleet (over 4,100 vehicles) and increased rates connected with rising funded capital costs and rising cost of funds. Additionally, Operating lease maintenance income increased by £5.4m (9.2%) year on year from £58.1m to £63.5m, due to the growth in our maintained fleet (over 5,200 vehicles), increased rates connected with rising costs and an increased penetration of specialist assets.

There was also an increase in sale of operating assets which increased by £54.5m year on year (24.2%), from £225.5m to £280.0m.

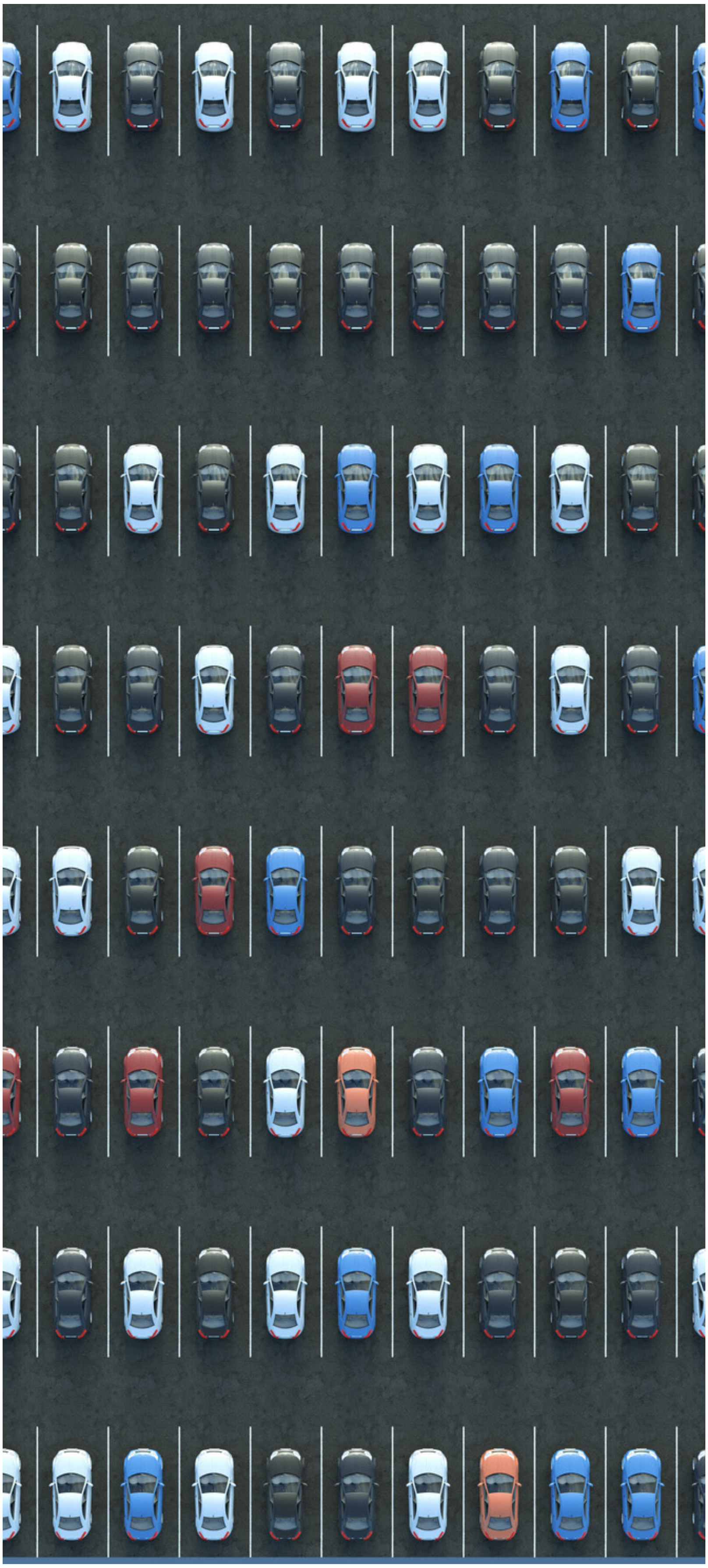
Novuna Vehicle Solutions has performed strongly during the year despite many challenges caused by the continued instability of the UK economy. These challenges include CPI more than doubling the Bank of England target rate of 2.0% and rising funding costs, which increased £25.2m year on year, from £31.9m (2.0%) to £57.1m (3.2%). Despite challenging economic conditions, bad debt charges remain well controlled at £2.5m, 0.1% of total assets. This represents a £1.3m increase on the prior year but remains low at 0.1% of total assets.

Disposals

The used vehicle market declined over the year as global supply chain issues eased due to increases in new vehicle supply. New UK car registrations increased by 10.4% on the prior year, from 494,260 to 545,548, with new UK light commercial vehicles ("LCV") registrations increasing by 8.6% on the prior year from 87,212 to 94,812. Used vehicle disposal profits post prospective depreciation reversal, increased by £3.7m (13.0%) year on year from £27.7m to £31.4m. This represents a return on sales of 11.2%. This increase was driven by the increase in disposal units of 19.6%, with disposal profits per unit falling by 27.8%. Despite the deterioration in used vehicle values, the market remains strong compared to pre-Covid-19 levels.

	2024 £m	2023 £m
Sales of operating lease assets	280.0	225.5
Disposal of operating lease assets	(248.6)	(197.8)
Profit	**31.4**	**27.7**

The weaker used vehicle market reduced the favourable prospective depreciation booking to our performance, by £93.3m, year on year, from £119.1m to £25.8m. This impact was mitigated by a decrease in the impairment charge by £85.6m year on year, from £89.6m to £4.0m resulting from the assumption that the used vehicle market will stabilise in the mid-term.



Expanding operations

Total new business volumes have increased by 20.2% on the prior year from £705.4m to £848.2m. This increase was achieved by organic growth, through new customer wins and an increased share of our existing customers' fleet. New business performance has resulted in net earning assets increasing by 11.0% to £1.9bn.

The operating fleet has grown by 5.7% on the prior year, to more than 109,000 vehicles, incorporating 55,500 cars, 44,500 vans and 9,000 HGVs and specialist vehicles. This remains encouraging, considering the challenges connected with the UK economy. The diversity of our portfolio across multiple markets, together with our capability to support complex specialist assets, and providing decarbonisation solutions to our customers, has helped mitigate continued macro-economic challenges.

Headcount increased by 1.1% to 546 full time equivalents. This demonstrates that we are committed to delivering sustained productivity improvements, coupled with supporting our teams and customers during continued economic challenges.

"Total new business volumes have increased by 20.2% on the prior year from £705.4m to £848.2m."

Financial Review
Novuna Business Finance

Key metrics

£23.4m
Profit before tax
(2023: £66.2m)

£nil
Revaluation gain
(2023: £44.1m)

£23.4m
Underlying PBT
(2023: £22.1m (excluding gain on revaluation of £44.1m))

£860m
Total new business volumes
(2023: £999.3m)

£1.8bn
Total assets
(2023: £1.8bn)

£1.8bn
Net Earning Assets
(2023: £1.7bn)

£2.4m
Bad debt charge
(2023: £5.6m)

0.13%
Bad debt charge as a percentage of total assets
(2023: 0.3%)

Results

Novuna Business Finance's underlying PBT increased 5.9% this year from £22.1 to £23.4m when excluding the one-off £44.1m revaluation gain relating to our investment in Gridserve from the prior year results.

Rising funding costs

The biggest movement in the income statement this year is the acceleration in funding costs from £36.4m last year to £65.6m adding £29.2m to our cost base. The business has focused on protecting margins by implementing pricing increases on new business. Higher yields on new business helped contribute towards a 23.1% increase in revenue levels from £111.9m to £137.7m generating an additional £25.8m of revenue. Despite the increase in new business pricing, we were unable to fully match the increase in borrowing costs and ended the year with a £3.6m decrease in gross profit.

Stable costs

Despite heightened levels of inflation, overheads reduced by £0.1m from £38.7m to £38.6m. People costs make up the majority of our cost base followed by investment in IT. We invested in IT this year on a portfolio of change projects designed to increase efficiency and improve our service offering. We also held our headcount flat demonstrating our commitment to our valued teams and customers during this period of economic uncertainty.

Decrease in bad debt

Our portfolio is predominantly broker introduced hire purchase agreements for hard assets financed for SME customers. Our book has proven to be resilient during what has been a challenging economic environment. Prudent risk management and additional resourcing in our Collections Team has resulted in low default levels and a drop in bad debt from £5.6m last year to £2.4m this year.

Emerging business channels driving business volume

Through our strategy of business diversification, we have successfully grown our non-core channels. The emergence of our new Project Finance sales channel focusing on sustainable energy has been a big success with over £100m of facilities approved. This has been our fastest growing sales channel and delivers towards our sustainability goals. Our direct channel has seen business volumes increase by 20% and is showing strong customer retention. We continue to attract new manufactures and dealers with excellent portfolio growth of 21% in our stocking channel and 6% growth in our B2B finance new business volume.

“The emergence of our new Project Finance sales channel focusing on sustainable energy has been a big success with over £100m of facilities approved.”

Our Broker channel however remains our largest route to market and saw business volumes of £422m. This business is driven by long standing relationships and a strong focus on service across both Farm and Commercial channels.

Net earning assets

Our portfolio finished the year at £1.8bn which is £27.1m (1.6%) up on last year. Our average portfolio showed higher growth of 3.3% adding £2.2m to gross profit. Whilst our broker introduced portfolio has marginally declined, emerging channels have delivered growth. In particular, stocking finance which is focused on the motor, agriculture and leisure sectors, grew considerably in the final quarter benefitting from new customers and increased utilisation.

Financial Review
Novuna Business Cash Flow

Key metrics

£3.6m
Profit before tax
(2023: £2.9m)

£308m
Total assets
(2023: £305m)

£130m
Net Earning Assets
(2023: £124m)

£0.3m
Bad debt charge
(2023: £0.3m)

0.1%
Bad debt charge as a percentage of total assets
(2023: 0.1%)

Results and strategy

In 2023/24, Novuna Business Cash Flow generated profit before tax of £3.6m, building on the success of the previous year and representing an increase of £0.7m. The business unit generated profit as a percentage of total assets of 1%.

The industry continues to see the impact of the Government Covid-19 intervention funding with elevated SME liquidity impacting lending. Insolvencies have not been a large factor in our bad debt management and recovery activity this year as portfolio client failures have not risen; we expect this to change going into the new financial year as SME liquidity reduces.

SMEs continue to seek alternative products to invoice finance due to the prevalence of Government recovery schemes. Business loan usage has increased which together with other substitute cash flow finance solutions continue to affect demand for invoice finance. Cash flow finance remains a key driver for borrowing.

> “Our total current account closed at nearly £132m, an increase of 5% versus 2022/23 and a record performance for the business.”

Novuna Business Cash Flow shows growth in a smaller market, increasing its quantum of lending by targeting larger corporate businesses which is shown by this segment now representing 49% of our book. Funding line increases have closed at record levels in the period illustrating the trend of book growth. Our margins remain stable despite funding costs increasing, as our discount base rate tracks bank rate, together with the short-term lending that's characteristic of invoice finance.

We continue to drive non lending income and saw further increases in the performance on our 3rd party lead driven revenue and clients using our invoice generator product.

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

Overall this financial year, our total current account closed at nearly £132m, an increase of 5% versus 2022/23 and a record performance for the business.

Financial Review
European Vendor Finance

Key metrics

£0.5m
Profit before tax
(2023: £2.1m)

£123m
Total new business volumes
(2023: £129m), split 51% UK 49% Europe

£335m
Total assets
(2023: £317m)

£321m
Net Earning Assets
(2023: £309m)

£0.0m
Bad debt charge
(2023: £0.1m)

0.02%
Bad debt charge as a percentage of total assets
(2023: 0.04%)

Results

European Vendor Finance has continued to transform its business this year with our second full year of trading under our new brand, Mitsubishi HC Capital in Europe. We have moved from a captive to a more diversified European vendor business and have made good progress in diversifying our portfolio. During the year, European Vendor Finance generated profit before tax of £0.5m, down from £2.1m last year. This reduction was primarily driven by rising funding costs, with interest expense increasing by £3.6m year on year from £4.4m (1.4% of net earning assets) to £8.0m (2.5% of net earning assets), and a resulting squeeze in new business volumes and margins.

> "While developing new relationships, we have still maintained our key focus of servicing our shareholder entities."

Diversified portfolio

Our portfolio is diversified both by country and programme. By country, almost a half of our portfolio is outside of the UK, with Net Earning Assets split as follows:

UK - 59%
Netherlands - 21%
Republic of Ireland - 11%
Finland - 8%
Belgium - 1%

By programme our portfolio is more diversified as we move away from being a captive business. Before the re-brand, two thirds of the portfolio was through a single vendor programme. This has now decreased to one third with two thirds of our portfolio made up of new and developing programmes.

While developing new relationships, we have still maintained our key focus of servicing our shareholder entities, with 50% of lending in our portfolio derived through group programmes.

New business

Conditions for new business this year were challenging in the primary industry sectors that we finance, construction and materials handling. A slowdown in demand, combined with volatile interest rates, resulted in intense competition on pricing. Against that backdrop, we generated new direct business of £123m in the year, down £6m year on year, primarily recorded within Loans and advances to customers on the Consolidated Statement of Financial Position. We achieved this by focusing on developing and deepening our relationships with key Group and Global accounts teams within our parent company as well as with our sister entity in North America, Mitsubishi HC Capital America. Together we are looking to build more flow business and integrated programmes with our key vendors.

We continued to extend our geographical presence, adding Denmark to our cross-border lending portfolio during the year, increasing the number of countries that we have transacted in to 24. We signed with two new indirect funding partners this year covering Turkey, Italy and Central and Eastern Europe, which will allow us to further extend our reach across Europe going forward.

> “We continued to extend our geographical presence, adding Denmark to our cross-border lending portfolio.”

New products and offerings

We have developed new product offerings and diversified our product base to better meet our customers’ needs. We launched a new end-user extended term finance product which allow the vendors and dealers we work with to extend credit terms they offer while receiving payment from us on their standard terms, and the product was successfully used for large ticket transactions in the year. We have also taken the first steps in our new strategy to hold more residual value risk on our book by providing an operating lease product in the Netherlands.

Portfolio quality

Despite the challenging economic environment, we have continued to maintain the quality of our portfolio backed by high quality vendors and global assets. This is reflected in our bad debt charge as a percentage of total assets which is negligible at 0.02% compared to 0.04% last year. Arrears remain tightly controlled, with the percentage of instalments due in arrears tracking at below 1.5% of all instalments due throughout the year.

Financial Review MHC Mobility

Key metrics

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

£10.3m
Profit before tax
(2023: £13.1m)

45,800
Units, total fleet size
(2023: 40,609)

£363.0m
Total new business volumes
(2023: £202.7m)

£833.5m
Total assets
(2023: £677.1m)

£749.1m
Net Earning Assets
(2023: £591.2m)

£0.7m
Release of bad debt provision
(2023: £0.5m)

0.1%
Bad debt credit as a percentage of total assets
(2023: 0.1%)

Results

This year full year results are reported for the above metrics following the acquisition by the Group on 1 August 2022, prior year covers the eight month period 1 August 2022 through 31 March 2023. During the financial year, the fleet grew by 5,191 units (almost 13%) to 45,800 units. However, profit before tax fell 21.4% compared to the prior year primarily due to impairments realised in Poland. The local management team, have been replaced and we are confident that Poland will return to profitability during the following year. Profit after tax was impacted by additional corporate income tax charges in Poland, mainly related to adjustments of the deferred tax position.

> "New business volume amounted to £363m, which was a 35% increase compared to prior year."

Disposal results (sale of leased vehicles after the end of their contract) continued to contribute positively resulting from a strong used vehicle market in mainland Europe, although towards the end of the financial year a downward trend is visible, especially for electric vehicles. Annual revenues developed in line with the fleet growth and admin expenses decreased slightly compared to prior year despite the high inflation and the additional costs of implementing the Risk Management Framework of MHCUK.

New business volume amounted to £363m, which was a 35% increase compared to prior year (12 months). This was partly caused by the improved delivery times of new vehicles. The number of outstanding backorders has decreased by more than 1,500 to just above 5,000 orders.

Arrears are well under control within MHC Mobility with bad debt charges just below 0.1% of total assets. No major losses were reported in this financial year.

Non-Financial Information

This section of the strategic report constitutes the Company'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.

Climate related disclosures found within the Environmental, Social and Governance ("ESG") section

Section	Description	Starting page
414CB(2A)(a)	A description of the Company's governance arrangements in relation to assessing and managing climate-related risks and opportunities	Page 34
414CB(2A)(b)	A description of how the Company identifies, assesses, and manages climate-related risks and opportunities	Page 35
414CB(2A)(c)	A description of how processes for identifying, assessing, and managing climate-related risks are integrated into the Company's overall risk management process	Page 35
414CB(2A)(d)	A description of:(i) the principal climate-related risks and opportunities arising in connection with the Company's operations, and (ii) the time periods by reference to which those risks and opportunities are assessed	Page 36
414CB(2A)(e)	A description of the actual and potential impacts of the principal climate-related risks and opportunities on the Company's business model and strategy	Page 36
414CB(2A)(f)	An analysis of the resilience of the Company's business model and strategy, taking into consideration different climate-related scenarios	Page 47
414CB(2A)(g)	A description of the targets used by the Company to manage climate-related risks and to realise climate-related opportunities and of performance against those targets	Page 49
414CB(2A)(h)	A description of the key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and of the calculations on which those key performance indicators are based	Page 49

Environmental matters

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

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

- Streamlined Energy and Carbon Report, starting on page 52
- Section 172(1) Statement (The impact of the Company's operations on the community and environment), starting on page 86
- ESG summary (Environmental, Carbon reduction, Charity and volunteering), starting on page 30
- The Mitsubishi HC Capital Group Environmental Policy: https://www.mitsubishihccapital.co.uk/media/imoalwzh/the-mhc-group-environmental-policy.pdf

Employees

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

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

- Section 172(1) Statement (The interests of the Company's employees), page 87
- Directors' Report (Employees), starting on page 70
- ESG summary (Colleagues and culture), page 31
- Corporate Governance Statement (Diversity and Inclusion), page 85

Social matters

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

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

- Directors' Report (Stakeholder Engagement), page 72
- Section 172(1) Statement (The impact of the Company's operations on the community and environment; the need to foster the Company's business relationships with suppliers, customers and others), page 88
- ESG summary (Society), page 31

Respect for human rights

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

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

- Section 172(1) Statement (The desirability of the Company maintaining a reputation for high standards of business conduct (e.g. anti- slavery, Real Living Wage employer), page 89 Directors' Report (Employees), pages 70 and 71
- Corporate Governance Statement (Diversity and Inclusion), page 85
- Inclusion and diversity performance: https://www.novuna.co.uk/who-we-are/inclusion-and-diversity/
- ESG summary (Society), page 31
- Anti-Slavery and Human Trafficking Statement 2023: https://www.mitsubishihccapital.

co.uk/media/mfddmxxa/2023-mhcuk-anti-slavery-statement.pdf
- The Mitsubishi HC Capital Group Human Rights Policy: https://www.mitsubishihccapital.co.uk/media/0uup42bp/the-mhc-group-human-rights-policy.pdf

Anti-corruption and anti-bribery matters

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

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

- Section 172(1) Statement (The desirability of the Company maintaining a reputation for high standards of business conduct (e.g. prevention of financial crime)), page 89
- The Mitsubishi HC Capital Group Code of Ethics and Code of Conduct: https://www.mitsubishihccapital.co.uk/media/uoscmx25/ethics.pdf

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

Where principal risks in relation to any of the matters listed in the table above have been identified as arising in connection with the Group's operations, these can be found on pages 59 to 65, including (to the extent relevant) a description of the business relationships, products and services which are likely to cause adverse impacts in those areas of risk and a description of how the principal risks are managed.

Non-financial key performance indicators:

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

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

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

- Key performance indicators, page 14
- Group Strategic Report starting on page 5
- ESG summary, starting on page 30
- Inclusion and Diversity at Novuna: https://www.novuna.co.uk/who-we-are/inclusion-and-diversity/

ESG Review

ESG Summary

Overview of Environmental and Social activities at MHCUK in FY2023/24 with reference to time targets and metrics included where relevant:

MHCUK (the Company)'s purpose continues to be unlocking the potential of individuals, businesses and society by delivering innovative solutions and outstanding customer experiences. The Company remains committed to its sustainability strategies and aspirations.

Environmental

The Company is committed to implementing various strategies and initiatives to transform our business and continue the journey to net zero. The strategic objectives, frameworks, climate-related opportunities, climate-related risks, targets and metrics which form part of this journey are covered through the climate-related financial disclosures later in this ESG Review.

Our focus upon funding green assets is growing, predominantly around electrification of vehicles and sustainable project finance, where we believe we can make a significant impact. Green assets funded now represent 9.5% of our net earning assets as we explore new opportunities with new and existing customers to reduce reliance upon fossil fuels.

> “Our focus upon funding green assets is growing, predominantly around electrification of vehicles and sustainable project finance.”

The Vehicle Solutions division continues to focus on electrifying the car and small van fleet by 2030, and exploring alternative fuel solutions for HGVs and specialist equipment by taking part in a hydrogen vehicle trial. The division also completed construction of a purpose-built electric vehicle charging forecourt in the Trowbridge site during the financial year, which enables a proportion of the energy consumed for charging to be generated by a solar canopy.

Deployment of charging infrastructure is vital to the success of vehicle electrification. The Business Finance division continues to work with Gridserve, one of the UK's leading developers and operators of vehicle charging infrastructure and in which the Company holds an 8.53% equity interest, to support the growth of its portfolio of electric vehicle "Hub" and "Electric Forecourt" sites. The Company is now also supporting another of the UK's leading charge point operators in growing its portfolio of rapid and ultra rapid EV charging sites. Meanwhile the division is financing the construction of a large solar PV ground mounted project, which when completed, will generate enough renewable electricity to provide the equivalent of the annual electrical needs of over 9,500 average homes. The division is also looking to financing opportunities within a range of different project technology types including onshore wind, solar PV, and battery energy storage system (BESS).

The Company has completed the annual renewal of both its Carbon Reduction Plan and its Environmental Statement. These have now been published in the Sustainability section of the Company's website. The Company continues to be a signatory of the Partnership for Carbon Accounting Financials (PCAF) to leverage the harmonised approach to disclosing GHG emissions associated with loans and investments.

Society

We have continued to focus on the ways in which we engage and build relationships with customers, colleagues, suppliers, and the community.

The ESG Social and Human Committee was formed during the year to have a greater focus on various Social and Human areas of ESG. The scope of the committee includes culture and overall employee engagement, diversity, equality and inclusion, human rights and charitable activities, including volunteering.
In order to provide further support to the local communities, we have partnered with three community fridge projects located near our office sites, which help the local community to share food and combat food waste.

Customers

There has been continued investment in our systems across the Company that support our ongoing focus on a customer first approach to keep improving customer journey and service. This includes improved first contact resolution within our Consumer Finance division through the investment in new customer service software. Changes within the Vehicle Solutions division to discontinue legacy systems and use a main Interactive Voice Response telephone system are ensuring customers reach the correct destination first time when they contact us.

Training was rolled-out to all employees on the FCA's Consumer Duty, emphasising the significance of the core principles of the Duty, and re-affirming the importance to the Company of delivering good outcomes to our customers. In addition to this, updates have been made within our business processes and customer journey points that align to the Consumer Duty principles.

Colleagues and culture

This year we revisited and embedded a new Diversity and Inclusion strategy that is driven by the ESG Social and Human Committee and Diversity Leadership Council ("DLC"). This work is underpinned by our commitment to employee wellbeing.

The Company has made steady progress towards the commitments made through the Race at Work Charter, Women in Finance Charter, and Disability Confident Employer Scheme. We are proactively supporting gender diversity, with 33% of leadership roles filled by women vs a target of 35% by December 2025.

Our latest Gender pay gap report shows a marginal decrease in both our mean and median gender pay gap by 0.9% and 3.5% respectively. Primary drivers for the marginal reduction in the mean pay gap was as a result of changes to our annual salary review in 2023. Slight shifts in demographics also had an impact as the female population grew, which also saw a higher number of females in our higher grades compared to previous years. The median pay gap reduction can also be attributed to higher pay increase rates proportionally of females compare to males at higher grades over the past 12 months. The full 2023 Gender Pay Gap Report is published on our website.

For the fourth consecutive year the Company placed in the Inclusive Top 50 Employers index, named the UK's 14th most inclusive employer in 2023 (2022: 37th place). Through this year's MHC Group-wide survey (completion rate 75%) 91.9% of colleagues responded positively to the question 'You are proud of working for your company'.

Suppliers

The Company's Group Procurement Team continues to ensure all suppliers include relevant clauses within their contracts in relation to modern slavery and human trafficking and are required to adhere to our Supplier Code of Conduct. A gap analysis will be undertaken in 2024 to review the Company's approach to modern slavery, through our new partnership with Unseen, the national anti-slavery charity.

Charity and volunteering

Our commitment to partner with charitable organisations that are aligned to the Company vision and values, whilst representing the ongoing commitment to the UN SDGs, remains a priority. To continue the adoption of a climate- focused culture, Hubbub, a climate action charity, remained the headline partner for the Company this year. Our partnerships with The Wildlife Trusts, Young Enterprise and Crisis and our long- standing relationships with Fareshare and Macmillan also continued.

Our corporate employee communities are set up to promote inclusion and diversity so that colleagues feel represented and that they have a voice. Each community has formed a partnership with a charitable organisation aligned to the vision of the community itself, with total donations of £55,000 being made across eight charities.

This year in total the Company donated £218k (2023: £340k, 2022: £275k) to 48 charities and a total of 1,375 volunteering hours were used by colleagues. The donation total is lower than prior year due to a review and restructure of the charity relationships and activities across the Company during the year, updating our processes and ensuring activity timing is aligned.

Governance

For details of ESG governance of the Company, including climate-related governance, please see the section 'Governance' of this ESG Review. For details of overall governance matters please see the Corporate Governance statement starting on page 79.

Climate-related financial disclosure key achievements

Key achievements - Governance	Future focus areas
• Climate added to the Board and Executive Committee Terms of Reference as well as their sub committees. • ESG environmental Committee and ESG Social Committee formed at executive level and meeting quarterly. • Climate awareness sessions and workshops held across the Group at all levels.	• MHCUK Group wide framework for Sustainability Regulatory Compliance and Reporting. • Integration of European Mobility companies into the detailed climate risk process. • Continued climate awareness sessions across the Group.

Key achievements - Risk management	Future focus areas
• Climate risk integrated into Enterprise Risk Framework. • Climate risks identified in detailed bottom up process across MHCUK. • Climate formally identified as a top Group risk. • Quarterly climate MI report produced providing regular analysis and risks of opportunities to ESG Environmental Committee. • Climate risk appetite statement agreed by Risk Committee.	• Climate risks identification, monitoring and control testing across the Group at least annually. • Climate opportunities identification to be incorporated into annual strategy review. • Refine Climate Risk MI report further.

Key achievements - Strategy	Future focus areas
• Time horizons assigned to all climate risks and key opportunities. • Climate opportunities identified which are aligned to MHCUK strategy and emissions reduction aspirations. • Qualitative scenario analysis as a first assessment.	• Continue to grow our portfolio of assets which contribute to climate action. • Continue electrifying the funded car and van fleet, and participate hydrogen trial for HGVs. • Continued focus on funding charging infrastructure, solar PV, onshore wind and battery storage. • Evolve scenario analysis to quantitative outputs and analysis.

Key achievements - Metrics and targets	Future focus areas
• The Company continues to progress green assets funding for climate action and electric vehicles and monitor through MI reporting. • Climate KPIs identified and monitored from the second half of financial year.	• Incorporate European Mobility businesses into GHG accounting for the Group. • Review and finalise emissions targets. • Refine and evolve sustainability MI reporting.

Governance

A description of the Company's governance arrangements in relation to assessing and managing climate-related risks and opportunities:

Board oversight

The Company's Board Terms of Reference now include climate-related matters with specific responsibility for:

- Oversight and approval of climate-related disclosures.
- Annual review and approval of climate-related objectives as part of the strategic and financial planning process.
- Review of risk and control reports for climate risk identification and prevention.
- Review of progress reports on climate-related objectives, targets and KPIs.

The Board sub-committees for risk and audit, the Risk Committee and the Audit Committee, also now have climate-related matters in their Terms of Reference. For the Risk Committee, this centres around the monitoring of climate risks, and review of the Company's climate-related risk appetite, as well as advising the Board on current climate-related risk exposures and the future risk strategies. The Audit Committee's responsibilities include review of the climate-related financial disclosures.

Executive Committee's role

The Executive Committee's ("ExCo") Terms of Reference now include climate-related matters with specific responsibility for the review and oversight of risks and opportunities associated with the Company's climate-related strategy and relevant reporting and disclosures.

For details of how risks relating climate change are identified, considered and managed please refer to the Risk Management section below. Climate-related opportunities are identified by the business units as part of the annual strategy review process, covered in the Strategy section below. ExCo responsibility for oversight of climate-related risks is through a sub-committee, the Executive Risk Committee, in line with the Enterprise Risk Management Framework described below.

The ESG Environmental Committee was formed in the year, as part of the restructure of the previous CSR Committee, in order to have a greater focus on environmental and climate matters. The Committee is chaired by the Chief Executive Officer ("CEO") and joined by relevant ExCo members. The Committee meets quarterly, and climate-related risks and opportunities are reviewed and discussed every quarter.

The Committee's scope includes (but is not limited to) matters such as;

- Ensuring Environmental/Climate business strategies and opportunities are identified and implemented across the Company.
- Ensuring the Company's carbon reduction journey is in line with the set targets, through monitoring progress and KPIs.

From the second half of the financial year, the Committee received quarterly reports covering climate risk, progress against metrics and KPI and monitoring, emissions analysis and qualitative scenario analysis.

Raising climate awareness across the Company

The success of the Company's environmental journey also lies with colleagues and the adoption of a climate-focused culture. To support this, the Company held various climate-related sessions for the Board, ExCo (through the ESG Environmental Committee), the Senior Leadership Teams across the Company, and for all colleagues. There were various awareness sessions held for all levels of employees, focusing on sustainable business activity and inspiring personal change.

Climate-related teams & committees across the Company

In addition to the sub-committees of the Board and ExCo with climate-related responsibilities, The Company continues to enhance dedicated teams working on climate matters, including the Group Sustainability Function, Novuna Vehicle Solutions division's Decarbonisation team, Innovation and Strategy Team, as well as the Decarbonisation Operational Team, and Novuna Business Finance's Sustainable Energy Team. The Net Zero working group continues project work that advances our progress towards achieving our net zero aspirations.

Risk management

A description of how the Company identifies, assesses, and manages climate related risks and opportunities, and a description of how processes for identifying, assessing, and managing climate related risks are integrated into the Company's overall risk management process.

Enterprise Risk Management Framework

Climate risk has been incorporated into the Company's Group Enterprise Risk Management Framework ("ERMF"). Climate Risk is now included as a risk type within Strategy Risk. Risks which are not directly considered a 'climate risk' can also be flagged as having climate as a possible cause. As a part of the ERMF, all climate-related risks are reviewed, and controls are tested, at least annually following the Risk Identification and Management Policy Standard.

We have articulated climate risk appetite statement in line with the ERMF, which was reviewed and approved by the Executive Risk Committee and the ESG Environmental Committee, and reported to the Board Risk Committee.

For greater detail on risk management and Top Company Risks of the Company please see the 'Risk Review' section of this 2024 Annual Report.

Climate risk identification project

The Company has carried out workshops with risk colleagues and representatives of all business units and Group functions. Workshops focused on identifying the climate risks associated with each area. Following review, the climate risks identified were articulated, scored and mitigations/controls identified.

Type	Description	Categorisations
Transition risk	Risks faced by MHCUK as part of transitioning to a lower-carbon economy.	Policy & Legal Risk Technology Risk Market Risk Reputation Risk
Physical risk	Risks faced by MHCUK as a result of changes in the environment.	Acute Risk Chronic Risk

Future focus areas include the European Mobility businesses which carry out similar activities to Novuna Vehicle Solutions in the UK. These businesses are relatively new to the Group, having been acquired on 1 August 2022, and are in the process of embedding the Company's ERMF. Initial activity has focused on considering whether Novuna Vehicle Solutions' climate risk can be applied to the European Mobility businesses and if there are any further material risks based on geographical location or market. From next financial year onwards, climate risk will be assessed by all the Mobility businesses using a similar bottom-up process under the Company's ERMF.

Horizon- scanning

Monthly horizon- scanning is routinely carried out across the Company. The process is owned by the Group Compliance function and fed into by all relevant teams. This horizon- scanning process now includes regulatory climate risk.

Environmental, Economic, Social and Governance ("EESG") Strategy

The Company follows the principles of the Environmental, Social and Governance Framework to achieve its sustainability aspirations. As a leading financial services company in the UK, the Company recognises that it has an important role to play in the long-term economic growth of the countries where we operate in, while contributing to environmental and social sustainability. As a result, the ESG framework has been enhanced internally to include Economic Sustainability and comprises EESG as the four key pillars on which the Company's sustainability strategy is based.

Climate timescales

The Company has evaluated climate risk timescales from a variety of standpoints including: the identified climate risks and opportunities, emissions reduction aspiration timescales, the Company and the MHC Group overarching strategy and financial planning cycles, average funding periods for assets, enterprise risk framework likelihood guidance, and industry comparisons.

From this analysis, climate risk time periods have been defined as:
Short timescale - 3 years
Medium timescale - 3 to 10 years
Long timescale - 10 years +

The short time horizon reflects the average term of funded contracts being between 3 to 5 years, particularly those for the green assets we currently have on our portfolio.

The Company has chosen a broader time period for defining medium time horizon for climate risks and opportunities when compared to the MHC Group's 'medium-term financial planning cycle' timeframe of 3 year. The reason for this is that opportunities in new markets or technologies may need over 3 years to have a material effect, and to ensure a longer-term viewpoint is always considered when evaluating climate risks and opportunities.

The long timescale therefore falls at over 10 years to factor in the following considerations:

- Longer- term strategic planning needed to reach net zero.
- The longest funding terms of the Company's assets.
- Consideration of customer preference shifts and technological barriers which must be worked through to achieve some climate strategies.
- Acknowledgement that many of the more severe climate- related risks, such as the chronic physical impacts of climate change, could start in this timeframe if action is not taken.

Material climate related opportunities

The Company has had climate action as a key strategic goal for over 5 years, being an early adopter of funding electric vehicles through a trial programme with strategic partners in 2014 and pioneering charging infrastructure by investing in Gridserve in 2020. The Company's overarching approach to making a material impact on the road transport sector is via the decarbonisation of fleets through electric or hydrogen alternatives, and project finance for charging infrastructure solutions.

The Company identifies and monitors key climate- related opportunities as part of the annual strategic review process at ExCo level. Opportunities are identified and owned by each business unit, with the managing director of each business unit taking accountability for implementing actions and monitoring progress.

It is important to note that the Company continues to explore and provide funds to climate-related opportunities which align with our strategies, even when market conditions may be difficult. By sticking to our strong sustainability strategy, this is generating customer wins and forging partnerships.

While all the opportunities in the table below have been given a timescale as required for climate-related financial disclosures, it is important to note that work has already begun on all areas and timescales here relate to when a significant impact can be made in each area.

Opportunities – Resource efficiency	**Impacts**
• Efficient and flexible working practice such as hybrid working and utilising video conferencing. • Reducing business travels to business-critical matters. • Continue with Electric vehicles only Company car policy. • Enhancement of recycling solutions at all offices. Timescale - short	• Reduction in operating costs through efficiency gains and cost reduction. • Reputational benefit of leading electrification of own company car fleet early increases new business and customers, resulting in increased revenue. • Reduced commuting emissions and enhancement of employee engagement from hybrid working, more meetings held remotely to reduce business travel, resulting in lower costs. Potential Financial Impact • Volume of New Business: Stable • Net Earning Assets: Stable • Revenue: Stable • PBT: Increasing

Opportunities – Energy source	**Impacts**
• Improve our operational energy efficiency through changes to LED lights of our sites. • All electricity at MHCUK offices where we directly procure on renewable tariffs, looking to shift to green when supply is more consistent. • Vehicle chargers at all MHCUK sites to promote Electric vehicles across the group. Timescale - short, medium and long	• Reduction in operating costs through energy efficiency. • Reduced exposure to fossil fuel price increases through use of renewable electricity tariffs and prepared for potential fossil fuel price increases, resulting operational costs reduction in the future. Potential Financial Impact • Volume of New Business: Stable • Net Earning Assets: Stable • Revenue: Stable • PBT: Increasing

Opportunities – Products and services	**Impacts**
• Pioneering the provision of financial solutions and services to industry leading charging infrastructure solutions, electric vehicles and hydrogen vehicles. • Seeking provision of project finance opportunities in the sustainable energy sector such as solar, onshore wind and battery storage, and be recognised as a leader in lower emission products and services. • Building knowledge base of what further actions could be taken in place to increase green assets over time. Timescale - short, medium and long	• Reducing MHCUK scope 3 financed emissions, and helping to reduce overall transport industry emissions. • Reputational benefit of funding lower emission assets, leading to new business wins resulting in increase of revenue. Potential Financial Impact • Volume of New Business: Increasing • Net Earning Assets: Increasing • Revenue: Increasing • PBT: Increasing

Opportunities – Markets	**Impacts**
• Better competitive position providing support and insights to customers' transition to greener assets and lowering their emissions. • Gaining a greater understanding of the market and technology barriers to greener assets and how we can work with our customers, suppliers and value chain to provide solutions. • Opportunity to further issue Green bonds. Timescale - short, medium and long	• Increased diversification of greener financed assets and reputational benefits leading to new business wins and increased revenue and stronger financial position. • Better competitive position reflecting shifting customer preferences, increasing revenue over time. • Actively working with partners in the value chain to find green solutions strengthens resilience and ability to deliver new technology solutions. • Overtime, green bonds to become more attractive to investors, resulting in lower costs of funds. Potential Financial Impact • Volume of New Business: Increasing • Net Earning Assets: Increasing • Revenue: Increasing • PBT: Increasing

Opportunities – Resilience	Impacts
• Working with partners such as Gridserve to help pioneer green charging infrastructure solutions and Sustainable energy. • Participation in pioneering schemes such as hydrogen vehicle trials. Timescale - short, medium and long	• Increase revenue through working with new partners. • Pioneering the funding of infrastructure solutions and green energy, resulting in increase in revenue. Potential Financial Impact • Volume of New Business: Increasing • Net Earning Assets: Increasing • Revenue: Increasing • PBT: Increasing

Material climate-related risks

The Company has assessed the climate-related risks in the following table to be material.

Notably the Top Company Risk, which is 'We fail to adequately take account of climate change risks in developing our business model and strategy', is not included in the table below. This is because it is an overarching risk covering all aspects of climate impacts on the Company's business model and strategy, therefore sits over the material risks in the table. For more information on the climate Top Company Risks please see the 'Risk Review' section of this 2024 Annual Report.

Physical climate-related risks are covered in the table below as appropriate to the material risks identified and how they sit within the Company's value chain. Country-specific risks relating to the Company's operations have been explored in the climate risks identification project described above. With operations in the UK and Northern Europe, the risk of flooding poses the greatest direct impact on the Company operations and funded assets.

Strategic risks

Material risks identified	Impacts
• Legislation: Risk that legislation/policy changes discourage the procurement of low emission vehicles. Timescale - short & medium	• Transition: Policy & Legal, Reputation, Market: › Impact on MHCUK of not achieving 2030 electrification targets › Impact on wider transport market if demand for ICE vehicles remains high in years just before legislation introduced • Physical: Acute and Chronic: › Climate impact of delayed move to lower emission vehicles, potentially causing acute or chronic weather events or natural disasters, affecting MHCUK operations, customers and suppliers • Potential ERM* and Financial Impact › ERM Impact: Moderate › Volume of New Business: Stable › Net Earning Assets: Stable › Revenue: Increasing › PBT: Increasing • Mitigations In Place or Planned › Horizon scanning on a monthly basis › Working with organisations such as the BVRLA/FLA to contribute to industry-wide thought leadership

Material risks identified	Impacts
• Technology: Time it will take for technological change enabling MHCUK to build up diversification of green asset types in the funding portfolio. Timescale - medium	• Transition: Policy & Legal, Reputation, Market: › Financial impact of being an early investor in new technology, with returns lower while risk is higher in early years › The initial costs and time to build product offerings and markets in new greener asset types › Customer appetite for new technology may take longer to increase until it is proven and widely available › Availability of infrastructure often needs to match asset ability to encourage customer demand • Physical: Acute and Chronic: › Climate impact of delayed move to lower carbon economy, potentially causing acute or chronic weather events or natural disasters, affecting MHCUK operations, customers and suppliers • Potential ERM* and Financial Impact › ERM Impact: Moderate › Volume of New Business: Decreasing › Net Earning Assets: Decreasing › Revenue: Decreasing › PBT: Decreasing • Mitigations In Place or Planned › Partnering with sustainable energy & infrastructure companies. › Involvement in alternative fuel trials such as hydrogen. › Constantly evaluating and evolving our approach in response to technology and market changes.

Material risks identified	Impacts
• Market: Risk of fluctuating customer demand for greener products. Timescale - short & medium	• Transition: Policy & Legal, Technology, Reputation, Market: › Financial impact of reduced demand for greener products due to economic and social changes or opinion shifts • Physical: Acute and Chronic: › Climate impact of delayed move to lower carbon economy, potentially causing acute or chronic weather events or natural disasters, affecting MHCUK operations, customers and suppliers • Potential ERM* and Financial Impact › ERM Impact: Moderate › Volume of New Business: Decreasing › Net Earning Assets: Decreasing › Revenue: Decreasing › PBT: Decreasing • Mitigations In Place or Planned › MHCUK to evaluate this area further in next steps

Financial risks

Material risks identified	Impacts
• Credit Risk: The risk that our customers are financially disadvantaged by climate change from transitional or physical impacts, and therefore unable to repay any finance we have provided. Timescale - medium & long	• Transition: Policy & Legal, Technology, Reputation, Market: › Financial impact on MHCUK of bad debts from the transition and physical climate risks affecting customers who are not prepared • Potential ERM* and Financial Impact › ERM Impact: Moderate › Volume of New Business: Decreasing › Net Earning Assets: Decreasing › Revenue: Decreasing › PBT: Decreasing • Mitigations In Place or Planned › Mitigations include climate risk considerations in the underwriting process for larger customers

Material risks identified	Impacts
• Funding: The disruption to financial markets (where we source funds), creating price instability due to climate events. Timescale - long	• Transition: Policy & Legal, Market: • Physical: Acute and Chronic: › Financial impact on MHCUK of higher cost of funds due to the physical and transition effects of climate risk on the global economy › Financial impact on MHCUK of whether cost of fund increases can be passed on to customers fully in order to maintain demand for asset funding • Potential ERM* and Financial Impact › ERM Impact: Moderate › Volume of New Business: Decreasing › Net Earning Assets: Decreasing › Revenue: Decreasing › PBT: Decreasing • Mitigations In Place or Planned › MHCUK to evaluate this area further in next steps

Material risks identified	Impacts
• Resale Values: Both the risk that climate-change impacts the residual value of assets adversely, and of financing 'greener' assets where the secondary market is unknown or fluctuating so asset values cannot be realised. Timescale - short	• Transition: Technology, Market: › Financial impact on MHCUK of residual values causing end of contract losses, particularly for vehicles, due to appetite for second-hand electric vehicles and other 'greener assets'. • Potential ERM* and Financial Impact › ERM Impact: Critical › Volume of New Business: Decreasing › Net Earning Assets: Decreasing › Revenue: Decreasing › PBT: Decreasing • Mitigations In Place or Planned › Continue with residual value risk assessment on all vehicles including electric, with prospective depreciation and impairment.

Material risks identified	**Impacts**
• Stranded Assets: Stranded assets due to transition risk low demand for higher emission assets or technology which is superseded to age or customer preferences. Also physically stranded assets due to flooding and the resulting damage leading to losses. Timescale - medium & long	• Transition: Policy & Legal, Technology, Reputation, Market: › Financial impact of funding significant volumes of any assets which may be either in low demand at the point of resale or considered so during the funding term • Physical: Acute and Chronic: › Financial impact on MHCUK of from flooding at customer or supplier sites resulting in damaged vehicles • Potential ERM* and Financial Impact › ERM Impact: Moderate › Volume of New Business: Decreasing › Net Earning Assets: Decreasing › Revenue: Decreasing › PBT: Decreasing • Mitigations In Place or Planned › Mitigation can be achieved to a certain degree by continued research and analysis of climate-related risks and scenario analysis › Requirement for comprehensive insurance for customers and suppliers

Conduct risks

Material risks identified	Impacts
• Reputation: Ensuring MHCUK does not overpromise the extent to which we are delivering in the sustainability agenda, accurately describes products and services relating to 'green' products, and actively avoids 'greenwashing'. Timescale - short	• Transition: Policy & Legal, Technology, Reputation, Market: › Financial impact of lost business from detriment to reputation or penalties › The Group's ability to recruit and retain in future › Customer detriment from a lack of fair, clear and transparent communication • Potential ERM* and Financial Impact › ERM Impact: Minor › Volume of New Business: Decreasing › Net Earning Assets: Decreasing › Revenue: Decreasing › PBT: Decreasing • Mitigations In Place or Planned › Continue to review anti-Greenwashing guidance and regulation as it evolves and will action as appropriate › Continue to review and research green assets credentials, accurately define green assets on our book

Operational risks

Material risks identified	Impacts
• Regulatory: The risk that MHCUK does not meet regulators/authorities expectations and/or regulations in respect of climate change. Timescale - short	• Transition: Policy & Legal, Reputation: › Reputational and legal implications if expectations not met • Potential ERM* and Financial Impact › ERM Impact: Moderate › Volume of New Business: Decreasing › Net Earning Assets: Decreasing › Revenue: Decreasing › PBT: Decreasing • Mitigations In Place or Planned › Dedicated resource on climate and sustainability, cross group working on disclosure projects › Environmental committee and ExCo review, internal audit review and external audit review

Material risks identified	Impacts
• Suppliers: Disruption to global supply chains which impacts asset availability, and key suppliers opting out of doing business in our industry due to the cost to them of having to comply with any prevailing regulations or legislation. Timescale - medium	• Transition: Policy & Legal, Technology, Reputation, Market: › Financial impact of supply chain disruption due to climate-related risks faced by MHUCK suppliers › Supply chain impact leading to issues for MHCUK delivering on sustainability strategy • Physical: Acute and Chronic: › Climate impact of delayed move to lower carbon economy, potentially causing acute or chronic weather events or natural disasters, affecting MHCUK operations, customers and suppliers • Potential ERM* and Financial Impact › ERM Impact: Moderate › Volume of New Business: Decreasing › Net Earning Assets: Decreasing › Revenue: Decreasing › PBT: Decreasing • Mitigations In Place or Planned › MHCUK ongoing journey to understand where larger suppliers are on their climate journey

An analysis of the resilience of the company's business model and strategy, taking into account consideration of different climate-related scenarios:

Scenario analysis

The Company concluded the first climate related scenario analysis in February 2024. The methodology we selected is the Bank of England's Climate Biennial Exploratory Scenarios (CBES). We chose this methodology because data and commentary provided for CBES aligns with the key areas of our business and strategy such as EV, renewable energy, retail and construction. We decided upon a qualitative approach for our initial scenario analysis with aspirations to expand to a quantitative analysis in the near future. CBES narrative allows us to conduct qualitative analysis as well as support future plans for quantitative analysis.

The following 3 CBES scenarios were used to evaluate the resilience of the Company's business model and strategy by identifying possible future risks under each scenario and the impacts these risks could have.

Early action:

- The transition to a Net Zero economy started in 2021. Carbon taxes and policies intensify gradually. Reduction in GHG emissions occurs gradually across multiple sectors. Energy supply decarbonises, electrification is accelerated, and there is a switch to low carbon fuels in industry, transport, and buildings. Net Zero is achieved by 2050 and global warming is limited to 1.8C by 2050.

Late action:

- The transition to a Net Zero economy is delayed until 2031. From 2031, there is a sharp increase in the intensity of climate policy and carbon pricing. The transition is disorderly and requires urgent and unexpected behavioural changes for households and businesses. Negative impacts on businesses due to a sharp transition include stranded assets and inflationary pressures. Net Zero emissions are achieved by 2050. Global warming is limited to 1.8°C by 2050.

No additional action:

- No new climate policies are introduced beyond those already implemented. Net Zero is not achieved by 2050. Global warming reaches 3.3°C by 2050.

Outcome of the assessment - Potential Key Risks for the Company and their impact:

Early Action:

- Lack of diversification of green assets, not meeting customers' expectations therefore business and revenue model impacted negatively.
- Reputational impact from not meeting regulators' and authorities' requirements in respect of climate change.
- The risk that technological developments to make 'greener assets and infrastructure' available may not be at exactly the same pace as customer appetite or emissions reduction needs.
- Government policy changes, especially a reversal of, or delay in, commitment or lack of clarity, could adversely impact on customers' appetite and speed of transition.

Late action:

- The risk that the Company's strategy cannot progress faster than demand for greener assets. Delayed governmental policy cut-off dates on non-sustainable assets, such as ICE vehicles, could increase the lag time for customers to move to greener options.
- Availability of raw materials could also be under pressure if the whole market is delayed and suddenly has to shift rapidly. This could impact on the supply chain of our assets.
- Negative impacts on the income statement could arise from greater fluctuations in asset residual value, or fluctuations in the cost of funding through financial markets.
- Sudden higher costs borne by consumers and end-users, such as energy and household bills, could cause credit losses and a reduction in new business.

No additional action:

- Increased magnitude and frequency of physical climate events, both acute and chronic, could impact global supply and value chain potentially causing damaged assets, credit losses or the failure of some customers or suppliers who are not prepared. The cost of insurance to all would increase, with a possible increase in suppliers invoking force majeure.
- Global physical climate effects increase uncertainty in international financial markets, therefore influencing the price and availability of funding, negatively impacting on cost of funds.
- If no climate action is taken then the markets for 'greener assets' may cease to exist, impacting the Company's strategy and ability to achieve business and emissions targets.
- Physical risk of more climate events could also impact on our property strategy as some of our sites are next to, or close to, rivers.

Next phase of Scenario analysis:
In phase 2 scenario analysis will be expanded into business unit by business unit level on a qualitative basis and will look to identify potential mitigating actions. In the near future, as phase 3, we will start building a model that will enable us to conduct quantitative analysis.

Metrics and targets

A description of the targets used by the company to manage climate-related risks and to realise climate-related opportunities and of performance against those targets.

The key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and a description of the calculations on which those key performance indicators are based.

The Company's current emission reduction targets cover the UK business only. Since the Company integrated the European Mobility businesses in August 2022, the Company aims to review existing targets and make consolidated targets for European and UK businesses. For this, our Company Sustainability Team is planning to work with all areas of the business to understand GHG emissions and set revised targets accordingly.

The Company's current targets and KPIs are:

Target / aspiration	Linked to material risks
MHCUK aims to have 20% of our assets directly connected to climate action and affordable clean energy by March 2025.	• Time it will take for technological change enabling MHCUK to build up diversification of green assets types in the funding portfolio. • Risk of fluctuating customer demand for greener products. Linked to KPIs • Green Assets NEA & Green Assets percentage of portfolio.

KPI / metric	Mar-20 (base year)	Mar-23 (prior year)	Mar-24 (current year)
NEA Green assets (£m)	84	637	718

Target / aspiration	Linked to material risks
MHCUK commits to continue providing project finance in the power sector for only renewable electricity, through 2030.	• Time it will take for technological change enabling MHCUK to build up diversification of green asset types in the funding portfolio. • Risk of fluctuating customer demand for greener products. Linked to KPIs • Green Assets NEA & green assets percentage of portfolio.

KPI / metric	Mar-20 (base year)	Mar-23 (prior year)	Mar-24 (current year)
Green assets percentage	1.4%	9.1%	9.7%

Target / aspiration	Linked to material risks
MHCUK has committed to electrify 100% of its car and small van (3.5 tonne and under) fleet, and 50% of its larger van fleet by 2030 to support the UK goal of banning the sale of petrol and diesel cars by 2030 and hybrid cars by 2035.	• Risk that legislation/policy changes discourage the procurement of low emission vehicles. Linked to KPIs • Vehicle electrification percentages

KPI / metric	Mar-20 (base year)	Mar-23 (prior year)	Mar-24 (current year)
Percentage of VS car & small van fleet electric	n/a	18%	22%
Percentage of VS car fleet electric	18%	25%	31%

Target / aspiration	Linked to material risks
MHCUK commits to reduce absolute Scope 1 and 2 GHG emissions by 50% by 2030 from a FY2019/20 base year and commits to continue to annually source 100% renewable electricity by year end 2030.	• All emissions reduction aspirations are linked directly or indirection to all material risks and opportunities and KPIs.

KPI / metric	Mar-20 (base year)	Mar-23 (prior year)	Mar-24 (current year)
Scope 1 & 2 Emissions (tC02e)	1,035	530	581
Emissions Intensity*: Scope 1 & 2 per FTE	0.73	0.29	0.32
Operational Emissions: Electricity Consumption (tC02e)	546	363	376
Operational Emissions: Gas Consumption (tC02e)	16	13	9

*Emissions Intensity KPI excludes any scope 3 emissions and therefore differs to that reported in the Streamlined Energy and Carbon Report.

Target / aspiration	Linked to material risks
MHCUK commits to reduce absolute scope 3 emissions from business travel, employee commuting, and waste by 30% by 2030 from a FY2019/20 base year. MHCUK commits to reduce absolute scope 3 GHG emissions from downstream leased assets by 30% by 2030 from a FY2019/20 base year.	• Scope 3 upstream and downstream emissions are being monitored internally by MHCUK as we investigate the possibility of customer and supplier data which will allow moving away from monetary emissions factors in our emission calculations. As our data quality and availability are enhanced, then meaningful KPIs linking action taken to emissions impact can be established.

The Company uses a variety of climate-related metrics to monitor progress against strategies, targets and opportunities and to manage risks. Metrics have been considered based on the business model and strategy and in consideration of climate disclosure recommendations.

Notably the Company calculates Scope 3 emissions also as part of its GHG accounting, but with targets currently under review and a project about to begin to calculate emissions for the European Mobility businesses, the Company has decided to monitor Scope 3 metrics internally until the project is completed and emissions are analysed.

For details of what is included in 'green assets' and description of the KPI calculations, please refer to the KPI Calculation Methodology section below. KPIs are shown as current year progress against prior year and the emissions base year (FY2019/20).

The proportion of NEA which are green assets has grown significantly over the past 5 years, now totalling 9.7% and £718m. While this is noticeably short of the 2025 target of 20%, it is worth noting that the target was set before funding in Gridserve reduced due to their expansion of investors. Despite this, green asset funding has continued to grow for electric vehicles which now comprises 71% of the £718m green asset NEA.

Vehicle electrification continues to significantly grow year-on-year, with 31% of the funded car fleet now electric, and 22% of the car and small van fleet electric.

Operational emissions from electricity and gas consumption decreased sharply during the pandemic and rose again in the recovery period but have since been reduced back down to 376 tC02e and 9 tCO2e respectively through actions taken. For further analysis of scope 1 and scope 2 emissions please see the Energy and Carbon Report below.

The Company continues to invest in improvements that increase site energy efficiency in addition to already maintaining a 100% renewable energy tariff at sites where the Company procures its own energy.

Energy audits were carried out in our Trowbridge office in 2022, and in both our Staines and Leeds offices in 2023, in line with the Energy Savings Opportunity Scheme ("ESOS"). The Vehicle Solutions division continues to hold ISO14001 Environmental accreditations for both its sites.

Emissions analysis and emissions intensity analysis is covered in the Energy and Carbon Report below.

KPI calculation methodology

The Company uses the GHG Protocol methodology for calculating emissions. For Scope 1 and 2 emissions KPI the calculations are:

- Units of energy consumed x Emissions Factor = Total GHG Emissions (tC02e).
- Miles travelled x Emissions Factor = Total GHG Emissions (tC02e).

The chosen intensity measurement ratio is total gross emissions in metric tonnes CO2e per Full Time Equivalent ("FTE"), the recommended ratio for the sector.

Electrification percentages for cars and small vans are calculated using the number of vehicles which are Battery Electric Vehicles ("BEV") divided by either the total number of funded cars, or the total number of funded cars and vans, depending on the KPI.

Regarding what is included in 'green assets'; the definition of what makes a truly green asset is something the Company is actively working on to ensure we are transparent regarding our impact on climate change. A detailed study is currently in progress to re-define what credentials a green asset must possess to ensure it meets the 'green assets' criteria set out in the established and accepted methodologies. The green assets at the end of March 2024 reported below are those considered green based on the Company's current information and include:

- Battery Electric Vehicles.
- Hybrid ULEV vehicles with under 50g CO2 per per-km.
- Green energy funding in the form of loans for solar energy generation and/or the supply of solar energy for electric vehicle charging.
- LED lighting.
- Recycling equipment.

Streamlined Energy and Carbon Report

The Company is committed to reducing its energy consumption and carbon footprint and complying with environmental laws.

The scope of this report is limited to the Company's UK operations (excluding European operations) greenhouse gas and energy use data for the year ending 31 March 2024 in line with the UK Government Environmental Reporting Guidelines (March 2019), which the Company 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 a summary of associated energy and carbon emissions. Set out below are the direct and indirect emissions of the Company.

UK and offshore kWh and CO2e

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

Scope 1 emissions (*direct)

Energy type	Definition	Total volume (kWh)	Calculated emissions (Tonnes of CO2e)
2024			
Gas	Emissions from combustion of gas	49,852	9
Transport	Emissions from combustion of fuel for transport purposes	858,404	197
Total		**908,256**	**206**
2023			
Gas	Emissions from combustion of gas	70,281	13
Transport	Emissions from combustion of fuel for transport purposes	651,113	154
Total		**721,394**	**167**

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

Scope 2 emissions (*energy indirect)

Energy type	Definition	Total volume (kWh)	Calculated emissions (Tonnes of CO2e)
2024			
Electricity	Emissions from purchased electricity	1,814,475	376
Total		**1,814,475**	**376**
2023			
Electricity	Emissions from purchased electricity	1,875,580	363
Total		**1,875,580**	**363**

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

Scope 3 emissions (*other indirect)

Energy type	Definition	Total volume (kWh)	Calculated emissions (Tonnes of CO2e)
2024			
Transport	Emissions from business travel in rental cars or employee owned vehicles where the company is responsible for purchasing the fuel	104,013	25
Total		**104,013**	**25**
2023			
Transport	Emissions from business travel in rental cars or employee owned vehicles where the company is responsible for purchasing the fuel	61,168	15
Total		**61,168**	**15**

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

Total emission scope summary

	2024		2023	
Emission type	**Total volume (kWh)**	**Calculated emissions (Tonnes of CO2e)**	**Total volume (kWh)**	**Calculated emissions (Tonnes of CO2e)**
Scope 1 (direct)	908,256	205.6	721,394	166.8
Scope 2 (indirect)	1,814,475	375.7	1,875,580	362.7
Scope 3 (indirect)	104,013	25.1	61,168	15.0
Total	**2,826,743**	**606.4**	**2,658,142**	**544.5**

Intensity ratio*

Intensity measurement	Number of FTE for the period	Intensity Ratio (tCO2e / No. of FTE)
2024		
Number of FTE	1,800	0.34
2023		
Number of FTE	1,800	0.30

*The chosen intensity measurement ratio is total gross emissions in metric tonnes CO2e per Full Time Equivalent, the recommended ratio for the sector.

Quantification and reporting methodology

The Company has taken guidance from the UK Government Environmental Reporting Guidelines (March 2019), the GHG Reporting Protocol - Corporate Standard, and from the 2023 UK Government's Conversion Factors for Company Reporting document for calculating GHG emissions. Since 2021/22 the report has been prepared internally.

Energy efficiency action and analytical review

The Company's gas consumption decreased year on year by 29%, both in kWh and in tCO2e. This was because of office relocation during the last financial year which meant the Company had one fewer site using gas in that financial year. There was also a slight increase in gas conversion rate which impacted the tCO2e result.

Although the Company's electricity consumption reduced by 3% in kWh, the result in tCO2e increased by 4%. This is because the electricity conversion factor increased by 7%, attributed to a rise in natural gas usage, coupled with a decline in the use of renewable energy sources in the UK grid compared to the previous year.

Business mileage in company car increased 1.6 times year-on-year which resulted in a 32% increase in kWh and 28% in tCO2e. Similarly, business mileage in employee-owned cars was 1.8 times higher than previous year, which resulted in a 70% increase in kWh and 67% increase in tCO2e.

Electric vehicles made up 83% of the total company car fleet, which is a 13% increase from last year as miles covered by EVs went up from 32% to 50% of total vehicle miles with all fuel types.

The conversion factors for battery electric vehicles have gone up by 5-10% depending on the vehicle size. This is due to the above mentioned changes in the UK electricity generation factors. Some market segments are showing even larger increases because newly registered vehicles are more energy-intensive (i.e., they consume more watt-hours per kilometre).

Overall, the Company 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 (over 3.5 tonne) by 2030. 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 accredited with ISO14001 energy management system, which is continuously providing insights and enhancing business practices that increase environmental performance and compliance.

Risk Review

Executive summary

During the year the business has continued to trade profitability within risk appetite against a challenging macro-economic and geo-political backdrop. There has been increasing worldwide unrest; the war in Ukraine has continued into its second year and the escalation of hostilities in the Middle East has the potential to exacerbate existing inflationary pressures and economic uncertainty. Closer to home, inflation has been on a downward trend in the UK, but interest rates have remained higher than those experienced in the last decade, and the UK economy has continued to show little near term growth potential in part due to the impact of the cost of living crisis being felt by much of the UK population.

It is anticipated that interest rates will remain higher in the short and medium term than most consumers and small businesses have become accustomed to in recent years.

One key area in which the sustained period of high inflation and high interest rates has impacted the Group has been in the cost of funding. As a non-bank lender with no access to a retail deposit base, the Group has been more exposed to increases in wholesale funding costs than banking competitors in our core markets. This risk has been a primary area of focus for management during the course of the year, and the Group has maintained a diversified funding base, managed the term of debt to match net earning assets (page 140) and spread maturities to minimise roll-over risk. Identifying alternative low cost funding solutions remains a key focus. To illustrate this, the Group undertook a successful bond offering in Australia in the second half of the year. Nevertheless, high funding rates continued to have a negative pressure on margins. In recognition of this, during the year the Group recognised the impact of interest rates causing margin compression as the Group's greatest residual risk replacing credit risk.

The risk of margin compression was managed through a combination of targeted rate increases, a focus on serving our core markets and a continued emphasis on delivering good outcomes for our customers. The concentration on these fundamental aspects of our business model has enabled us to remain profitable and withstand the macro-economic headwinds into which the industry has faced during the year.

Interest rate hedging has been a further area of significant management focus and a requirement made more challenging by repeated increases in base rates. We have continued to be well hedged throughout the year and in line with our Risk Appetite, with strong oversight by the Group Treasury Committee.

Conditions continue to be challenging with strong competition persisting in all of our key markets. Recent stabilisation in interest rates should assist us in recovering margins in the long-term, however margin pressure will remain a dominant theme into the next financial year.

The period of continued high inflation combined with higher interest rates has impacted segments of our loan book. During the first two quarters of the financial year, customer arrears increased marginally, particularly affecting a small sub-section of our consumer and SME customer base. Higher credit losses for the year were anticipated given the market conditions outlined above. Throughout the year the Group implemented changes to our acceptance criteria and adapted processes in our Collections departments, increasing the assistance we provide to our customers who have been facing increased financial pressures. As a result, whilst the Group experienced increases in credit losses, these losses remained in line with budgeted levels.

The Group has always placed a high level of importance on delivering good outcomes for customers and the failure to deliver good customer outcomes has long been recognised as a top risk within the company. This objective has been the subject of increased emphasis and management oversight during the year as a result of the impact of the cost of living crisis on UK consumers, whilst the recently introduced new FCA rules on the Consumer Duty have also stressed the importance of firms delivering good outcomes to customers.

During the year we have taken a number of steps to ensure we are able to support customers during the continuing cost of living crisis; these have included enhancements to our affordability framework, our support to vulnerable customers and our communications to customers. We have seen a modest increase in contact from customers who may be in financial difficulty and we have invested in training to our customer-facing staff and our systems and tools to support customers during these difficult conversations.

We place a strong reliance on the Group's Quality Assurance oversight to ensure that we are continuing to provide support to our customers, and to communicate with them clearly and fairly. Conduct Risk and customer treatment metrics have remained strong during the year, and these are kept under constant review by senior management as part of the work of the Group's Customer Experience Committee.

Like many other lenders in the market, we have seen an increase in Claims Management Company activity generating complaints during the year. There has been a notable rise in Motor Commission related complaints in particular. The financial reporting implications have been considered in note 35. Complaint volumes are kept under regular review by management, with appropriate learnings taken from complaints as part of a process of continual improvement to our processes to deliver good customer outcomes.

Sanctions compliance has remained a key risk since the Russian invasion of Ukraine and also recently as a result of conflict in the Middle East. The Group deploys a comprehensive customer screening tool which can detect sanctions and any other high risk customers in a timely and efficient manner. With our current screening capability, the Group has not been subject to providing products or services to any sanctioned individual or entity. A new customer screening tool has been deployed within the Group's Consumer division which provides an automated decision upon application as part of the customer journey and provides account monitoring on an on-going basis. The Group will determine if other parts of the business can integrate and automate their screening capabilities during 2024.

The volume of fraud has increased generally within the UK and accounts for an estimated 41% of all crime experienced. Combatting fraud is therefore critical in the overall fight against financial crime. The Group has invested in new fraud prevention tools and staff and, as a result, despite the prevailing trends in the UK, the number of fraudulent applications identified and prevented (as a percentage of overall fraudulent applications) has increased, and the Group's fraud losses are below budget for the year. The Group will continue to be vigilant and make further investment in preventative capabilities where necessary.

Across the industry, cyber-security breach trends in 2023 remained consistent with previous years. Phishing attacks and lost or stolen user credentials remain by far the most likely and costly type of breaches seen in the industry. The cost of a data breach also remained consistent, with industry statistics on the average cost per record only increasing 2.5% since 2021. Financial services remained the second most costly sector, with an average breach costing £4.65m. Ransomware attacks accounted for almost a quarter of cyber security incidents in the year, with a 13% increase in cost to the affected companies.

In recognition of the continued high cyber risks both within the UK and, specifically, the financial services sector, during the year the Group has continued to invest in developing information security people and processes as well as in industry-leading technologies. During the year the Group successfully maintained the UK Government recognised Cyber Essentials certification, as well as transitioning our ISO27001:2013 accreditation to ISO27001:2022. The Group also attained compliance to the Payment Card Industry Data Security Standards ("PCI-DSS") during the year. In 2023, there was a robust programme of phishing exercises and education, with additional targeted exercises on potentially higher-risk staff members. We have enhanced our access management suite, cloud access security and automated a number of high volume tasks to enable greater focus on high value activity. Vulnerability management and penetration testing programmes have continued to operate across the entire estate, alongside continuous security logging, monitoring, alerting and remediation.

In an increasingly digital business environment, we recognise that operational resilience is an important element of ensuring that we are able to continue to operate efficiently, and provide the services expected by our customers. As such, our operational resilience framework has been an area of significant investment during the year, with work undertaken to identify our important business services, define tolerances for acceptable outage of services, and building our resilience framework to safeguard our ability to stay within those tolerances. Business Continuity Planning has also been refreshed, with testing taking place across all divisions during the year.

We also recognise an increasing reliance on third parties in delivering our activities. Whilst the targeted and efficient use of third party services can make use of specialised skills that we do not have in-house, we understand the associated risk of that reliance in terms of the quality and continuity of the provision of our services. We have therefore undertaken work to understand where our key third party dependencies are across the business and are in the process of documenting our contingencies and recovery plans in the event of service outages or that any of these third parties are unable to continue to provide services.

Risk management framework

In order to manage the risks we face, MHCUK has a clearly defined risk management framework, maintained and developed by the Second Line of Defence Risk and Compliance team, led by the Chief Risk Officer, who reports to the Chief Executive Officer and is a member of the executive management team. The risk management framework is overseen by the Board with certain responsibilities delegated to the Group 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 Group Risk Committee. Additional oversight of risks takes place at the following 2nd Line Committees, which also report to the Executive Risk Committee - for Conduct and Operational Risks: the Operational Risk and Compliance Committee; for Financial Risks: the Credit Risk Committee and Treasury Committee; and for Information Security and Cyber Risk, the Group Information Security Committee.

Relevant management information designed to allow for the effective management of risks within their remit is supplied to the various committees. A description of the composition and operation of the Board and its committees can be found within the Corporate Governance Statement starting on page 79.

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

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

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

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

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

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

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

Principal risks and uncertainties

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

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

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

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

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

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

Strategic risk

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

Financial risks

Risk - changes in risk during the year	Mitigants
We are unable to access funding for the business or can only access it at excessive cost. • This risk has, over the course of the year, **remained unchanged.** Earlier in the year the risk appeared heightened but successful debt raising in the final quarter has brought that risk back to a comparable level to the previous year end. Whilst base rates have now stabilised, we expect rates to remain higher for longer.	• We raise funding from a well-diversified set of sources. This includes both public issuance and private placements from a successful 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 has enabled 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.
We incur losses through ineffective interest rate risk or foreign exchange risk hedging strategies or through derivative counterparty failure. • This risk **Increased** during the year due to interest rate volatility, but has steadied recently in line with the stabilisation base rates.	• We have set a range of fixed treasury risk appetite limits and set monthly hedging strategies within those limits. Actual performance against those strategies is continually monitored. This includes 100% elimination of exposure to changes in foreign exchange rates. • We mitigate interest rate risk by hedging through derivative financial instruments and fixed rate borrowings. • We manage the effectiveness of hedging activity through regular Treasury Committee meetings at which the tenor of interest rate fixings of borrowing costs is matched against the tenor of the fixed rate assets held by the Group. • We have recruited additional resources into our Treasury Team to supplement resources and reduce key person dependency. • 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.

Risk - changes in risk during the year	**Mitigants**
We face significant unexpected credit losses, arrears, increased bad debts and defaults. • This risk **Increased** during the year as rising costs fuelled by inflation and rising interest rates impacted UK consumers and businesses alike. Despite these external factors, bad debts saw only a modest increase from last year and were within budget during the year.	• We use internal and external data, internally developed scorecards and other analytical tools to assess customer creditworthiness, affordability and debt service capacity. • We focus our lending activities in segments and products where we have clear and proven expertise. • We limit concentration of lending by size, segment and customer type. • Where appropriate, especially in commercial lending, we obtain appropriate levels of collateral or security cover. • We maintain detailed lending and credit policies for each business unit. • We regularly review portfolio performance against risk appetite. • We regularly re-grade or re-score customers to re-assess the default risk. • We regularly review retailers, vendors and other business introducers in order to assess and manage contingent liabilities for the Group associated with those relationships including considerations arising from consumer protection provisions of the Consumer Credit Act.
We are subject to an unexpected drop in residual values. • This risk has **Increased** during the year primarily due to a softening in the resale values being realised for battery electric vehicles.	• We regularly review and re-set residual values in respect of new leasing quotes and contracts using macro-economic modelling techniques. • We limit concentration of residual values by manufacturer, model, type, and contractual lease maturity. • We utilise a variety of disposal routes to optimise remarketing proceeds. • We regularly assess the expected residual values against those set at the inception of the lease and if necessary, adjust future depreciation rates to reflect the expected residual values. • We carry out an impairment assessment, at least annually, to ensure that the assets' carrying values do not exceed the discounted present value of future expected cashflows over the remaining lease term.
We are subject to a significant, sudden and unexpected reduction in demand for our products and services. • **No significant** change in this risk arose during the year.	• We undertake periodic stress tests to ensure that our business model can withstand a range of severe but plausible shocks from both a capital and liquidity perspective. • We regularly review our strategic plans to ensure that the business is alert to rapidly changing external factors, reacting accordingly to protect our financial position. • We invest in and monitor the position and success of our brands in the market place.

Conduct risks

Risk - changes in risk during the year	Mitigants
We fail to deliver good outcomes to our customers. • This risk has **Increased** over the year as: a) the changing economic position has meant that certain customer segments may have heightened levels of vulnerability due to sudden increases in the cost of living; and b) FOS's stance on various legacy business issues has evolved during the year; most recently in relation to motor finance commission.	• In addition to our risk management governance, we monitor the delivery of good customer outcomes through a dedicated Customer Experience Committee. • We conduct root cause analysis on customer complaints and claims in respect of retailer intermediaries. • We have control testing, oversight and assurance plans across all three lines of defence to address key conduct risks. • We have in place an organisation-wide programme of compulsory conduct risk training. • We undertake regular and focused training of our customer-facing colleagues. • We monitor our customer interactions for early signs of customer vulnerability and have processes in place to help support them with their individual circumstances. • We operate a Quality Assurance programme within our customer-facing business areas which has a major focus of ensuring good outcomes are achieved for customers. • We maintain a team of experienced complaint and claim handlers whose competence is assessed on an ongoing basis through our quality assurance framework. • We monitor the performance of third parties relied upon to provide services to our customers. • We have implemented the FCA's Consumer Duty requirements across all relevant areas of our business with focus on our controls to prevent poor customer outcomes arising. We have reviewed and enhanced our customer journeys and communications to deliver good customer outcomes.

Risk - changes in risk during the year	Mitigants
We do not comply with either relevant current or emerging regulation and rules, including consumer credit and privacy regulation. • **No significant change** in this risk arose during the year.	• We employ experienced and skilled regulatory risk professionals. • We have processes for review and assessment of new and emerging rules, regulations and industry best practices. • We undertake regular 2nd line risk-based monitoring reviews in line with our "three lines of defence" model outlined earlier in this statement. • We operate a Quality Assurance programme within our customer-facing business areas. • We have open and transparent dialogue with our regulators. • We have implemented the FCA's Consumer Duty requirements and are to undertake internal testing in relation to Operational Resilience performance.

Operational risks

Risk - changes in risk during the year	Mitigants
We are subject to a major systems failure including those arising as a consequence of malicious attack. • **No significant change** in this risk arose during the year.	• We have in place real-time system monitoring to detect performance and security 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 and are testing our Operational Resilience in line with FCA requirements. • We undertake regular 2nd and 3rd line reviews of IT controls. • We have robust access control processes and technologies in place. • We have a rolling programme of information security monitoring of key third parties on whom we place reliance for the provision of services to our customers.

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

Risk profile and performance review

Strategic risk

During the year we have continued to work closely with our parent company, Mitsubishi HC Capital Inc. We have a shared vision about the role that MHCUK plays within the wider group and how we can contribute to the overall MHC Inc strategic objectives.

During the year we have also continued to expand the Group's European operation to develop a pan European offering for global customers. Integration continued with the European Mobility businesses, which offer various vehicle finance and leasing solutions over much of Non-Scandinavian Northern and Central Europe. The Group is working towards a proportionate implementation of MHCUK's Risk Management Framework, with positive steps being taken in sharing best practices across Enterprise Risk Management, Financial Crime, and Information Security in particular. It is anticipated that this integration will complete over the course of 2024/25. Already we have seen strengthening of the European risk management capabilities, improvement in oversight systems and various process efficiencies arising from the integration.

The Group's commitment to initiatives supporting the firm's pledge to tackle climate change has continued during the year, with 'sustainable finance' now being a core part of the Group's strategic vision and product offering. The Group's Vehicle Solutions division has maintained its commitment to decarbonisation; 20% of the division's car fleet is already electric, with a further 40% of the order book being electric vehicles, and a market-leading battery electric vehicle proposition already being deployed. The division has an aspiration to electrify 100% of the funded car and small van fleet, and 50% of the funded larger van fleet, by 2030. In addition, the Group's Business Finance division launched a 'Project Finance' proposition during the year, which will be used to provide funding to projects linked to the reduction of carbon emissions. All propositions are being delivered within the Group's existing risk framework, with the MHCUK Product Governance framework ensuring that propositions are aligned to the MHCUK strategic objectives whilst recognising and managing associated risks.

Financial risk

Market conditions remained testing during the year, with persistently high inflation and interest rates both continuing to contribute to margin challenges across the Group. The availability and cost of funding has been impacted by economic conditions and funding costs remain higher than those experienced during the period following the Global Financial Crisis up until the latter stages of the Covid crisis.

There has been significant management attention on new business margins, which have largely been managed successfully despite the macro-economic environment:

- Margins were controlled through a combination of targeted price increases, a focus on operational efficiencies, and an emphasis on our core values of delivering outstanding service to customers.
- Funding costs were kept under continual review and management, and regular Treasury Committee meetings were held to assess market developments, ensure we remained within risk appetite and continued to make effective plans for potential scenarios that could arise.
- The Group maintained a diverse funding strategy throughout the year, assessing the term of debt to those of earning assets, and spread maturities.
- Credit risk is monitored and assessed at Risk Committees held in each business unit with significant matters escalated to a Group Credit Risk Committee the Executive Risk Committee and the Board's Risk Committee.
- Other Financial Risk is monitored at the Treasury Committee with matters escalated to the Executive Risk Committee and Board's Risk Committee.

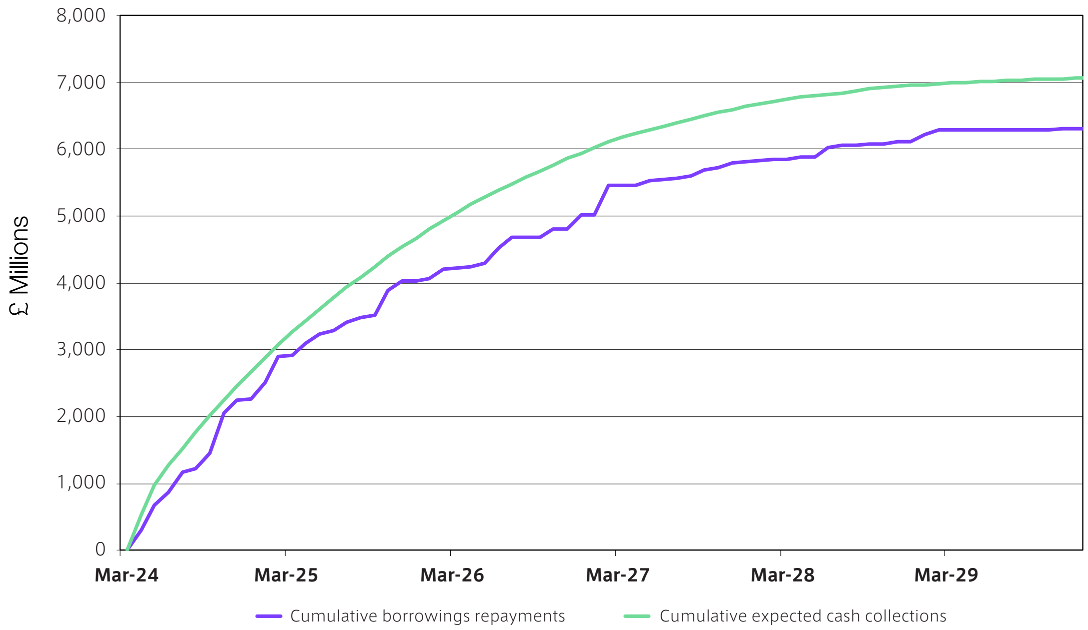
As a result of the impact of the macro-economic environment on consumers there have been signs of increasing stresses in certain consumers' ability to pay, and an increase in the rate of corporate customer insolvencies. These factors have resulted in bad debts showing an increase from the previous year (which, it should be noted, were a 20-year low), however the rate of increase has remained within budgetary expectations. The Group has continued to operate a prudent risk appetite for both credit risk and asset risk.

Credit risk parameters and affordability frameworks have been kept under constant review across all divisions, with appropriate adjustments being made throughout the year in order to account for the tightening credit conditions in the UK economy, with oversight provided by the Group Credit Risk Committee.

The Group's annual stress testing exercise continues to confirm that the company retains the financial strength to withstand significant shocks to the UK economy.

The chart below outlines the Company's expected cash collections and repayment of liabilities funding the asset portfolio assuming no new business is written. The Company is expected to have sufficient expected cash collections from its asset portfolio to service its financing obligations without the requirement to drawdown on any facilities or undertake further borrowing. The amounts represented in the chart exclude revaluations on foreign currency borrowings.

Cumulative expected cash collection of capital and borrowings principal repayment



It is a positive affirmation of the Group's diversified business model, sound risk management, and a commitment to delivering the company's core values across all areas of the business that we have continued to remain profitable, with a strong capital base, and high-quality loan portfolios in spite of the considerable economic challenges during the year.

Conduct risk

The Group has continued to invest in its controls to mitigate conduct risk. These include maintaining well-resourced Customer Experience teams in its first line of defence and Compliance and Quality Assurance teams in the second line.

Each of the Group's divisions monitors and assesses Conduct Risks and customer outcomes within their local Customer Experience Committee, with Executive-level oversight being delivered through the Group Customer Experience Committee. The composition of the Group Customer Experience Committee has been expanded during the year to now include representation from the Group's IT function in order to assess the impact of IT incidents on customer outcomes. Key issues are escalated to the Executive Risk Committee, with significant matters escalated to the Board's Risk Committee.

During the year, following a Group-wide project involving all those business divisions which write regulated business, the Company implemented the FCA's new Consumer Duty rules to ensure that we can demonstrate that our customers are receiving good outcomes in all relevant areas. The requirements incumbent on firms in these new rules are very much aligned with the Group's core values to deliver exceptional customer outcomes, and significant investment had already taken place over recent years to deliver on these values. We have reviewed all areas of the business and made any enhancements as appropriate to align with the requirements under this initiative.

As a result of the on-going cost of living crisis many of the Group's divisions have seen an increase in the volume of contact from customers concerned about their ability to continue to meet repayments on their agreements, and a greater number of customers in vulnerable circumstances. The Group understands that for any customer experiencing financial difficulty it can be a highly concerning and stressful time, and there has been significant management focus on making sure that we are able to support customers through these challenges.

In addition to investment in systems the company has invested in the training provided to front-line staff to ensure that they are equipped with the skills, knowledge, and confidence to support customers and agree appropriate and sustainable forbearance solutions.

The Group has also implemented a number of measures to help support the mental health of our front-line staff so that they are in the best position to support our customers.

Encouragingly the Group's conduct metrics, including the results from our Quality Assurance oversight, remain strong overall and indicate that we are supporting our customers with appropriate outcomes being achieved. These results are echoed in our customer satisfaction metrics.

With the increased level of customer contact during the year, call handling metrics have been kept under regular review by divisional management teams. All divisions have invested in additional resources during the year in order to ensure that customers are able to contact us, and we have continued to invest in our telephony system. The Consumer Finance division, being most heavily impacted by the increase in customer contact, has developed their multi-channel customer contact strategy, enabling customers to contact us via a number of different channels.

The efficient and fair resolution of customer complaints remains an area of focus. The increase in Claims Management Company ("CMC") driven complaint activity has been noted by management as an area of increased risk during the year. Complaint levels are reviewed regularly by divisional management. We have noted a significant rise in the number of complaints received about legacy motor commission arrangements and are ensuring that those are being dealt with in accordance with the FCA's revised rules that came into effect on 11 January 2024. We are awaiting the outcome of the FCA's related review, anticipated in the Autumn of 2024.

Operational risk

The Group's operational risk management framework has been further developed during the year with a particular focus of ensuring it is capable of capturing and assessing climate related risks including those of both a physical and transitional nature.

The recent trend of investing in tools and systems to combat information security risks has also continued. The programme of regular staff training on information security risks has continued, with quarterly modules being released to all staff for mandatory completion with a particular focus on training staff to identify phishing attempts.

We have experienced no major IT or cybersecurity issues although there have been some short-term temporary outages which originated with third party suppliers. All of these incidents were subject to review by our IT and Information Security teams in order to understand the root cause of the incident and to propose any system or control enhancements which can be implemented to minimise the risk of future occurrences and / or mitigate the impact of those occurrences.

The increased levels of financial crime within the UK financial services sector have been noted, however due to a significant amount of investment in financial crime systems, tools, resources, and training, the Group has seen an overall improvement in the volume of fraudulent applications identified and prevented. Fraud levels have remained within budget and risk appetite.

The Group's Risk Management Framework continues to operate effectively, with the regular assessment of risks, the quality of periodic testing of key controls, and the effective identification and management of incidents all demonstrating a strong level of risk awareness across the company. Operational incidents have remained stable, despite an increase in the size and complexity of the Group's IT estate.

During the year the Group also welcomed a new non-executive Director of Internal Audit as part of its continued commitment to a strong 3-Lines of Defence model.

The initiative started in the previous year to move our IT estate from on-premise infrastructure to the Cloud continues, and it is anticipated that this will continue beyond 2024/25 as a multi-year project, and is the Group's key IT strategic objective in the near-to-medium term.

Following the publication of the FCA's rules on Operational Resilience in 2021, work was undertaken in previous years in order to identify the Group's important business services and defining tolerances for acceptable outage of services. With the overarching framework in place, during 2023/24 the Group focussed on the design of business continuity plans and testing of those plans in order to assess the ability of the various divisions to continue to operate in the event of a major incident. Further testing will be taking place ahead of the March 2025 final implementation deadline of the rules to ensure that we are able to operate within the defined acceptable tolerances in the event of service outages.

Operational risk matters continue to be considered at 1st Line Business Unit risk committees, the Operational and Compliance Risk Committee, the Group Information Security Committee, the Executive Risk Committee and, ultimately, the Group Risk Committee.

Approved by the Board and signed on its behalf by:

R. Gordon
Chief Executive Officer
11 June 2024

Directors' Report

The Board of Directors of Mitsubishi HC Capital UK PLC (registered company number 1630491) present the annual report and audited financial statements for the year ended 31 March 2024 for the Company and its subsidiaries.

Results and dividends

The profit of the Group for the year ended 31 March 2024 is set out in the Consolidated Income Statement on page 103. No interim dividend was paid during the year (2023: £nil). The Directors have recommended a final dividend of £37.2m, 8.0p per share (2023: £46.0m, 9.9p per share) which represents 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 to the Financial Statements. The Company has one class of ordinary shares which carries no right to fixed income.

Employees

The Group is committed to creating and maintaining a healthy culture, recognising that a business is only as good as the people within it. The Group's success is enabled by its employees and there is an ongoing commitment to focus on attracting, developing and retaining the right employees to bring to life our brand promise and core values of Harmony, Sincerity and Pioneering Spirit (which align to the vision and management philosophy of the parent company). Our policies and processes are constantly updated to reflect changes in legal and regulatory requirements along with specific elements to encourage a sense of inclusion, belonging, engagement and trust. The Group is committed to the personal development of all its employees and sees this as a key element in retention of talent within the business, which is reflected in an ever- increasing ratio of promotions compared to new hires at management level and above.

The Group continues to focus on regular and timely communication to employees, recognising that providing good insight and information on matters of concern to them is important to maintain a supportive and committed workforce. Communication is carried out in multiple ways to ensure that messages are effectively shared with employees; these include both oral briefings (though meetings, conferences etc) and digital communications, often including FAQs. The Group's intranet acts as the main reference point in the provision of a wide variety of information to employees. Employees are pointed to the intranet through group-wide communications so that they are aware when important new messages are on the site. The CEO produces a weekly blog to share both business and personal insight, be that on business successes and challenges or external events and how they impact the Company. In addition, the CEO conducts quarterly 'team talk live' ('town hall') meetings in person at each of the Company's offices in turn. All these meetings are streamed live on-line and are recorded so that all employees can access them if they are not able to attend in person. The heads of each Business Unit and Function in the Group also conduct regular employee meetings and communications in their own areas. The Company also produces a monthly Team Talk magazine for all employees which provides news, updates and insight on a wide range of Company-related topics.

The Group completes an annual employee survey covering a broad range of issues, including communication, line management support and work/life balance. Our employees continue to provide positive feedback and over 88% said they would recommend the Company as a great place to work. Areas on which we need to focus include compensation and we continue to look for ways to support our people in the current economic climate. This year we have also taken part in the global employee survey conducted by our parent company. The Company recognises that an annual survey is not always sufficient to find out the current views of employees and therefore has introduced a quarterly pulse survey and continues to use My Voice, a real-time employee feedback tool, to gauge employees' opinions on particular issues and as a general feedback tool. The feedback is shared with all employees.

The Group continues to encourage inclusion though active participation in employee communities, which enable individuals to come together to maximise their involvement, lead on events and help to implement ideas which keep the wider employee population updated and engaged. Each community has executive sponsors, who form the Company's Diversity Council, which shares and develops inclusion and diversity plans and initiatives. The Group's focus on employee wellbeing (physical, mental, financial and social) is an important component in employee engagement. Further details on engagement with employees are set out in the "Stakeholder Engagement" section below.

The Group operates an annual bonus scheme for all employees, where a proportion of bonus potential is based on the Group's financial performance and achievement of its other core objectives (including the delivery of good 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 protected characteristics listed in the Equality Act will form the basis of employment decisions, and the Group will make reasonable adjustments to its standard working practice to overcome barriers to recruitment, training, career development and promotion caused by disability. This includes retraining employees who become disabled whilst in the employment of the Group. The Company has become a Disability Confident Committed employer, aiming to ensure that colleagues with disabilities feel included and that any barriers to participation in everything the Group has to offer are removed.

All employees and other workers have access to the Group's whistleblowing framework, including a hotline operated in partnership with Safecall, through which any suspected wrongdoing can be reported anonymously.

Stakeholder engagement

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

Government and regulators

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

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

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

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

During the year, the Group implemented the FCA's new Consumer Duty rules in respect of its regulated business, following a Group-wide project involving all relevant business units and central functions, which included a comprehensive review of our processes and customer journeys. Whilst certain changes were made in order to align with the principles and rules of the Consumer Duty, these were not extensive due to the fact that the core objectives of the Consumer Duty are aligned to the Group's vision and values and our policy of treating customers fairly. Consequently, our trading operations and the frameworks by which we seek to engage with customers were already informed by the need to ensure good outcomes for customers. The Board looks forward to receiving the Annual Consumer Duty Report from 2024 onwards in order to assess how the Group is delivering good outcomes for customers and to understand whether there are areas where we can improve our processes to achieve such outcomes.

Shareholder

The Company continues to work with its shareholder, Mitsubishi HC Capital Inc., to optimise mechanisms and channels of communication in order to ensure efficient exchanges of information between the business and the parent company. Close engagement with the shareholder supports the pursuit of a shared mission and aligned strategies and ensures that the Company can respond to the interests of its own stakeholders and an evolving regulatory context. Directors and managers of the Company exchange visits with representatives of the shareholder to strengthen in person this collaborative approach.

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

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

Investors

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

- We communicate with banks and debt investors through media releases, publication of financial results, through intermediaries such as dealer brokers and directly with investors through conference calls, face-to-face meetings and investor roadshows.
- We continue to respond to interest from investors on ESG matters, including the UN's SDGs, climate change and human rights. The Company reports the allocation of funds raised from Green Bond issuance against eligible assets in its annual ESG Report, which is published separately from the Annual Report and financial statements.

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

Customers

Our continued success can be attributed to a strong focus upon ensuring that our customers have an outstanding experience and we strive to provide good 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 dedicated significant time and effort to the delivery of our Consumer Duty implementation project, not just because this is a regulatory requirement but also because we recognise the importance of constantly challenging ourselves to deliver good outcomes for customers.
- We operate a Product Governance Framework which enables the business to assess the risk, reward, and value of all new products, whilst also periodically assessing those same aspects for existing products. This ensures that the Company continues to offer products which address a tangible need of customers in the market, whilst addressing any risks (to both customers and the business) in the design and operation of those products.
- We recognise the impact of the continuing cost of living pressures on many people in the UK and the importance of supporting our customers during difficult times. A customer-first approach has always been a key aspect of our business model, and one of our core principles is exceptional customer service. Throughout 2023/24 we have continued to keep the customer lifecycle under review to ensure that the support we provide remains appropriate and that we make adjustments as necessary to support customers who may be struggling.

Suppliers

We are committed to establishing long-term, open and fair relationships with our suppliers. We work with over 5,000 suppliers across the Group, of which approximately 1,000 supply goods and services which enable the business to operate and over 4,000 provide services which allow us to meet the needs of our customers, including vehicle servicing/maintenance and breakdown assistance. We continue to adhere to our key principles and processes when engaging with suppliers, to ensure that they provide the right goods and services for our business. During the sourcing process we ensure that our suppliers are able to demonstrate they can meet our requirements, including our ethical standards. Our aim is to build strong, collaborative relationships with our suppliers so they can understand the environment in which we operate and thus meet our, and our customers' needs.

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

We require all our suppliers to agree to the Company's Supplier Code of Conduct or have in place an equivalent of it. The Code of Conduct, which is reviewed regularly, includes requirements consistent with the Company's obligations as a Real Living Wage Employer, a Disability Confident Committed employer, and a signatory to the Race at Work Charter.

Employees

The Company is committed to creating an inclusive and diverse work environment, in which all colleagues are treated equally supported and have the opportunity to be successful and achieve their potential and aspirations.

The Diversity Council meets quarterly to review progress and the Board receives regular reports on diversity and inclusion from the Human Resources function, including updates in the people section of the monthly finance report.

Employee communities ensure that employees' views are taken into account in making decisions. In the past year the Company became a Disability Confident Committed employer and has seen an improvement in its gender pay gap, along with on-track progress to meet the Company's aspiration to increase the number of females in senior roles, as outlined in its submission to the HM Treasury Women in Finance Charter. The Company is signed up to, and working on, initiatives for the Race at Work charter. 'Early Careers' plays an active part of the Human Resources plan, and we have graduate and apprenticeships schemes in place through various cohorts across the business.

The Company has now appeared in the Inclusive Companies Top 50 UK Employers listing for the fourth year running, providing recognition for our many inclusive initiatives and actions. The Company is proud to say it is 14th in the 2023 listing, demonstrating significant progress against commitments.

Feedback from our employees resulted in the Company achieving 4.3 rating for 2022/23 (Oct-Oct) placing us just outside Glassdoor's Top 50 Best Places to Work in the UK. Whilst this was slightly below our 2021/22 rating of 4.6, the Company's lifetime rating is 4.4 and the CEO's rating is an outstanding 99%.

Our mentoring programme has now successfully delivered over the past eight years and we now have over 100 trained mentors undertaking mentoring across the Company.

Our externally accredited programme for aspiring leaders/managers is now in its third year, with nearly 200 employees completing, or in progress on, the programme.

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

Communities and environment

Information on how the directors have had regard to the need to foster the Company's business relationships with other communities, and its effect on the environment, is provided in the ESG Summary, starting on page 30, and in the Streamlined Energy and Carbon Report, starting on page 52.

Directors of the Group

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

A. Hughes
H. Fukuro - retired 17 May 2023
R. Gordon
S. Herbert
M. Mizutani - appointed 17 May 2023

In accordance with the Company's Articles of Association, each of the Directors will retire by rotation at the 2024 AGM and, being eligible to be re-appointed, will offer themselves for re-appointment at that meeting.

Disclosure of information to the auditor

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

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

Statement of Director's 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 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 company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that year. In preparing these financial statements the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

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

Directors' liabilities

By virtue of Article 85 of the Articles of Association of the Company, qualifying indemnity provision (within the meaning given by sections 234 and 235 of the Companies Act 2006) is in force at the date of this report in respect of each Director of the Company (and each director of its subsidiaries) and was in force throughout the year ended 31 March 2024 in respect of each person who was a Director of the Company (or one of its subsidiaries) at any time during that year.

Section 172(1) Statement

Section 172(1) of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. A statement describing how the Directors have had regard to the matters set out in section 172 of the Act when discharging their duties under that section is included in the Group Strategic Report starting on page 86.

Going concern

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

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

The Group has access to the following funding sources:

- Euro medium term note and commercial paper programmes for which Mitsubishi HC Capital Inc. acts as guarantor.
- Securitisation facilities, which management renegotiates on an annual basis.
- A committed back up facility in Sterling in the form of a fixed share of a global Mitsubishi HC Capital Group committed facility, and additional shared facility, from the three largest Japanese commercial banks (not utilised).
- Potential group loan facilities available from Mitsubishi HC Capital Inc (not utilised).
- Short term uncommitted bank borrowing facilities.

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

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

The Directors have also considered reverse stress testing scenarios for both equity and current year profit. Under these scenarios the bad debt charge would need to increase to approximately 25 times the level of 2024 and maintain that level for the next three years to exhaust the current capital base. We have stress-tested our portfolio to see how much the UK economy would have to deteriorate before the Group ceases to be profitable. We projected that UK unemployment would need to rise to 11.6% (2023: 9.1%) and GDP fall by 5.8% (2023: 7.2%) before the bad debt levels would result in zero profit in the 2024/25 financial year.

Although, the Group's Consolidated Statement of Financial Position shows net current liabilities of £1,005.5m (2023: £1,248.9m) at year-end based on contractual maturity profile, the expected cash collections from the run-off of existing receivables and committed funding available to the Group are well matched with the maturity profile of the borrowings and would be sufficient to settle obligations without the need to utilise cash from our parent company. In addition, with the level of committed and uncommitted facilities with large banks and its parent company, available to the Group, the Directors are confident of meeting the Group's short-term and long-term obligations.

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

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

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

Branches
The Company has a branch registered in the Republic of Ireland, which is currently dormant. The Company's two main subsidiaries, Mitsubishi HC Capital Europe B.V. and MHC Mobility Europe B.V., operate branches across Europe as described in the Company Information section, starting on page 208.

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 79 to 85 forms part of this report. It includes a description of the main features of the Group's internal control and risk management systems in relation to the financial reporting process.

Streamlined Energy and Carbon Report
The information which the Company is required to provide about the Group's greenhouse gas emissions, energy consumption and energy efficiency action is set out in the Streamlined Energy and Carbon Report starting on page 52.

Likely future developments

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

Post-balance sheet events

As stated above, the Directors recommend a final dividend of £37.2 m (8.0p per share), relating to the year ended 31 March 2024. There were no other important events after the reporting period ended 31 March 2024.

Approved by the Board and signed on its behalf by

J.N.M. Sims
Company Secretary
11 June 2024

Corporate Governance Statement

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

Corporate Governance Policy

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

Application of the Wates Corporate Governance Principles

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

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

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

Further information on how the Board has regard to the interests of employees and engagement with the workforce is set out in the ESG summary on page 31 and the Directors' Report on pages 70 to 72.

Principle 2 - Board composition:
The Board includes a separate Chair and Chief Executive Officer to ensure that the balance of responsibilities, accountabilities and decision-making across the Group is effectively maintained. The other members of the Board are both non-executive directors, one who is considered to be independent and one who is a secondee from the sole shareholder. The Chair and the independent non-executive director bring with them a variety of skills, backgrounds and knowledge, including experience in leadership, financial services and audit, in addition to perspectives and challenge from both inside and outside the sectors in which the Group operates. The Board considers that its size and composition is appropriate for a business of the scale and complexity of the Company. However, the Board intends to increase its size and breadth of skills during the year beginning 1 April 2024 and is actively seeking to appoint two additional non-executive directors, one who would be independent and another who would be seconded from the shareholder. The Board has delegated specific functions to its Group Audit Committee, Group Risk Committee, Nomination Committee and Remuneration Committee respectively.

The Board conducts a formal effectiveness review of itself and its committees every year. The Board's policy is to have such reviews facilitated by an independent external advisor on a regular basis. The Board has decided that the next externally-facilitated assessment should be commissioned once the additional non-executive directors have been appointed and have joined the Board.

Principle 3 - Director responsibilities:
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 86.

As the most senior officers of a company whose business is regulated by the FCA, the Directors are also acutely aware of their individual and collective responsibilities under the FCA's Senior Managers and Certification Regime (SMCR).

The responsibilities of each Director are set out in a role profile (in the case of the Chief Executive Officer) or in appointment letters (in the case of non-executive directors) and (in respect of the SMCR) in their respective Statements of Responsibility. A separate document sets out the division of responsibilities between the Chair of the Board and the Chief Executive Officer.

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

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

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

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

To promote clarity, and to minimise the risk of breaching regulatory requirements in the countries in which the Company operates or in Japan, the apportionment of accountabilities and responsibilities between the Company and its sole shareholder are set out in a document pursuant to the shareholder's global oversight requirements. A revised and updated version of this document was agreed during the year under review.

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

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

Day to day risk management is addressed within the Group's enterprise risk management framework, which has been approved by the Board. The Chief Risk Officer is accountable for the maintenance of that framework and reports on a regular basis to the Executive Committee, the Group 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 enterprise risk management framework, are set out in the section of the Group Strategic Report starting on page 56.

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

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

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

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

The Company published its 2023 annual statutory Gender Pay Gap Report by the required deadline. The report highlights a small improvement in the Gender Pay Gap and specific actions which the Company continues to pursue to improve its Gender Pay Gap position. These actions include an inclusive recruitment process, internal progression and a target for 35% of leadership roles to be held by women by 2025 (which is the Company's stated commitment towards the HM Treasury Women in Finance Charter). Good progress is being made towards this target and the Company reported this in September 2023 as part of its annual submission as a signatory to the HM Treasury Women in Finance Charter.

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

An explanation of how the Board, and the Company as a whole, engaged with its stakeholders (including the workforce) during the year is included in the Directors' Report, which starts on page 70.

As reported under Principle 3 above, during the year the Company and its shareholder agreed a document setting out the apportionment of accountabilities and responsibilities between the Company and its sole shareholder. This document strikes an appropriate balance between, on the one hand, the statutory duties of the Directors and the legal and regulatory obligations of the Company and, on the other hand, the expectation of regulators and investors in Japan that Mitsubishi HC Capital Inc will exercise adequate oversight of its subsidiaries. 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

The Board comprises four directors, being the Chair, two other non-executive directors and the Chief Executive Officer. The names of the directors who served during the year and/or to the date of this report are set out under the heading 'Directors of the Group' in the Directors' Report on page 74.

As reported in the 2023 Annual Report, in May 2023 Hiroyuki Fukuro retired as a non-executive director of the Company after seven years of service. Masaki Mizutani, who replaced Mr. Fukuro as a director in May 2023, is an employee of the Company's sole shareholder, Mitsubishi HC Capital Inc.

Excluding the Chair, the Board therefore has one non-executive director, Ms. Herbert, who is determined by the Board to be independent. The Board is actively seeking to appoint another independent non-executive director, as well as an additional non-executive director seconded by the shareholder, before the end of the current financial year.

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

Board Committees

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

Executive Committee

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

Audit and Risk Committee

Until February 2024, the Board had a combined Audit and Risk Committee, chaired by Sian Herbert. Sian is a Chartered Accountant and a former partner at PricewaterhouseCoopers LLP. She previously held a position as a non-executive director and chair of the Audit Committee of HBL Bank UK Limited. Since October 2020 she has served on the Board of Equals Group Plc, a payments services Fintech, as chair of the Audit Committee and chair of the Risk Committee. The Board considers Sian to be independent and to have competence in both accounting and auditing as required by the FCA's Disclosure Guidance and Transparency Rules. The other members of the Committee were Alan Hughes, Hiroyuki Fukuro (until May 2023) and Masaki Mizutani (after May 2023).

In February 2024, the Audit and Risk Committee was split into two separate committees: the Group Audit Committee and the Group Risk Committee.

(i) Group Audit Committee
The Group Audit Committee comprises Sian Herbert (Chair), Alan Hughes and Masaki Mizutani.

The Board considers that the Committee as a whole has competence relevant to the sector in which it is operating. The current membership of the Committee includes one independent non-executive director and the Board has granted a temporary waiver of the requirement of the terms of reference of the Committee to have at least two independent non-executive directors as members, pending the appointment of an additional independent non-executive director. As reported above, subject to identifying and approving a candidate with the requisite knowledge, skills and experience, the Board intends to have appointed an additional independent non-executive director by the end of the current financial year. The Board ensures that the Committee carries out the functions required by rule 7.1.3 of the Disclosure Guidance and Transparency Rules.

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

The Committee's responsibilities are set out in its terms of reference, which include monitoring the financial reporting process and the statutory audit of the annual consolidated financial statements and reviewing the Company's internal control, information security and risk management arrangements, including the effectiveness of the Company's "three lines of defence" structure. 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 the Company's internal audit plan and compliance with certain aspects of Japan's Financial Instruments and Exchange Law (J-SOX).

(ii) Group Risk Committee
The Group Risk Committee comprises Sian Herbert (Chair), Alan Hughes and Masaki Mizutani.

The current membership of the Committee includes one independent non-executive director. The Board has granted a temporary waiver of the requirement of the terms of reference of the Committee to have at least two independent non-executive directors as members, pending the appointment of an additional independent non-executive director. Following the resumption of its search for an additional independent non-executive director who meets the short-term and long-term needs of the Board in terms of skills, industry knowledge and expertise, the Board hopes to make such an appointment during the course of the current financial year.

The Committee normally meets in advance of each Board meeting. The Chief Executive Officer and the heads of relevant central functions, such as the Group Director of Finance, the Chief Risk Officer, the Group Director of Operations, the Group Head of Compliance and the Group Director of Internal Audit attend meetings by invitation.

The Committee assists the Board in fulfilling its risk governance and oversight responsibilities. The Committee's responsibilities are set out in its terms of reference and include review of the Company's risk appetites (including credit risk appetite and climate-related risk appetite), review of, and recommendations to the Board on, policy statements relating to risk management, keeping under review the internal control, and risk management systems and controls, and receiving regular reports from the Chief Risk Officer, Group Credit Risk function and Group Compliance function (including reports on compliance with FCA principles and rules and other conduct risk). The Committee also oversees, and advises the Board on, the Company's risk exposures and risk strategy.

Remuneration Committee

The Remuneration Committee is chaired by Alan Hughes. Its other members are Sian Herbert and Masaki Mizutani. The Board has granted a temporary waiver of the requirement of the terms of reference of the Committee that the Chair of the Board should not chair the Remuneration Committee, pending the appointment of an additional independent non-executive director.

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

Nomination Committee

The Nomination Committee is chaired by Alan Hughes. Its other members are Sian Herbert, Masaki Mizutani and Robert Gordon. The purpose of the Committee is to regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and make recommendations to the Board with regard to any changes, as well as to ensure that there is a formal, rigorous and transparent procedure for the appointment of new directors. The Committee makes recommendations to the Board on various matters, including succession plans, re-appointment of directors and membership of committees. In carrying out its duties, the Committee consults other committees of the Board, and the shareholder, as appropriate, and obtains professional advice to the extent it considers necessary.

Executive Risk Committee

The Executive Risk Committee is an executive level committee accountable to the Board. Its purpose is to ensure the effective management of all risks so that the Company's strategy and compliance objectives are achieved, escalating issues by exception to the Group 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 2024 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 Group Risk Committee, supported by the Executive Risk Committee, is responsible for coordinating this process and for making recommendations to the Board. Further information about the Group's risk management framework is set out in the Group Strategic Report, under the heading Risk Review on page 56.

The Group has a 2nd line Risk and Compliance function and 3rd line Internal Audit function which provide oversight and assurance in respect of the overall effectiveness of the governance of the Group, including the risk management framework.

The Board, through the Group Audit Committee and the Group 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 Group Audit 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 2024, 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 inclusion and diversity, within a workplace that welcomes everyone. The Group's aim is to create an environment that ensures that recruitment is a fully inclusive process and that all our people have the opportunity to benefit from sustainable and achievable career paths and to fulfil their potential. The Group is a Living Wage Employer and signatory to various diversity charters. Through our Diversity Leadership Council, the Group has executive sponsorship for its diversity communities, which consist of employees from across the Group who focus on initiatives to progress the inclusion agenda. The Group's progress has been recognised externally by being placed 14th in the 2023 Inclusive Company index, being the fourth year in a row that the Group has appeared in the top 50 listing. The Group is committed to set challenging targets to increase diversity in the business and will utilise the forthcoming FCA requirements to report and monitor continued progress.

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
11 June 2024

Section 172(1) Statement

This statement describes how, throughout the year ended 31 March 2024, the Directors have had regard to the matters set out in section 172(1) of the Companies Act 2006 when performing their duty under section 172 to promote the success of the Company.

Role of the Board

The Board's primary responsibility is to promote the long-term success of the Group by creating and delivering sustainable shareholder value, whilst contributing to wider society. Details of the role and operation of the Board are set out in the Corporate Governance Statement, which starts on page 79 of the Annual Report. Successful delivery of the Group's strategic plans relies on key inputs from, and positive relationships with, a wide range of stakeholders. The section of the Directors' Report headed "Stakeholder engagement" starting on page 72, explains how the Board has engaged with the Group's key stakeholders (including the shareholder and investors, employees, government and regulators, customers and suppliers). Further detail is provided below on how the directors have considered employee interests, the need to foster business relationships with suppliers, customers and others, and the effects of those considerations, including on the principal decisions taken during the financial year.

Governance

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

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

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

Activities of the Board during the year

Engaging with stakeholders to deliver long term success is a key area of focus for the Board and all decisions take into account their impact on stakeholders. Views of stakeholders are gathered in Board papers and inform the decisions made in Board meetings. Agenda items include reports from the Chief Executive Officer, the Group Finance Director and each Board committee. Other updates throughout the year came from various businesses units and key functions, including Treasury, Operations and Human Resources, as well as the Company Secretary.

During the year, non-executive directors conducted site visits. The visits were designed to provide directors with a deeper insight into certain business operations.

The various different categories of stakeholder can be impacted by, or benefitted from, decisions made by the Board in different ways. However, the Board is committed to ensuring that the Directors have acted (both individually and collectively) in the way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its shareholders and have regard (amongst other matters) to the matters set out in paragraphs (a)-(f) of Section 172(1) of the Companies Act 2006, as set out below:

Section 172(1)	**Decisions / interactions**
a) The likely consequence of any decision in the long term.	The Board annually approves a three-year medium-term plan on a rolling basis and oversees its implementation throughout the year by way of detailed reports from executive management on the Group's operating and financial performance. This includes monitoring progress against key strategic programmes as well as considering the allocation of capital to support the rolling medium-term plan. In approving the plan, the Directors also consider external factors such as competitor behaviour, the performance of the financial services sector, and the evolving economic, political and market conditions. The Company has an established risk management framework, which is managed by a team led by the Chief Risk Officer, who provides regular reports to the Group Risk Committee and, on matters of material significance to the Group, to the Board itself. The Company's central treasury function, in conjunction with the Treasury Committee, continues to arrange funding to meet the short-term, medium-term and long-term needs of the business. In its consideration of any proposals to declare dividends, the Board takes account of the likely long-term consequences, including the potential impact on the Company's defined benefit pension scheme.
b) The interests of the Company's employees.	The Directors understand the importance of the Group's employees to the long-term success of the business. The health (including mental health), safety and welfare of employees remains a major priority for the Group. It became a matter of particular focus during the Covid-19 pandemic and remains a key factor in the Board's decision-making, especially in a time of increased cost of living due to rising energy costs and inflation. Since the pandemic, the Company has moved towards a hybrid way of working. Information about the ways in which the Board and executive management have communicated and engaged with employees during the year are included in the Directors' Report, which starts on page 70. Details of the various initiatives which are in place to support the wellbeing and development of employees, and to promote diversity and inclusion in the workforce, are set out in the ESG Summary in the Group Strategic Report and the Stakeholder Engagement section of the Directors' Report. In 2023, the Company became a Disability Confident Committed employer, which means it has committed to ensuring its recruitment practices are inclusive and accessible. The Board is responsible for overseeing the Company's progress in closing the gender pay gap and publishes each year a Gender Pay Gap report. Details from the latest report can be found in the Colleagues and Culture section of the ESG Summary.

Section 172(1)	Decisions / interactions
c) The need to foster the Company's business relationships with suppliers, customers and others.	The Board regularly reviews how the Group maintains positive relationships with its stakeholders, including suppliers, customers and others. The Group maintains a strategic relationship management programme, overseen by the Group Procurement team, for all suppliers considered to be "critical" or "strategic" to the business. This programme requires the business "owner" of the relationship with each supplier to hold regular review meetings with "strategic" suppliers and "critical" suppliers. In addition, annual due diligence reviews of each significant supplier are undertaken and a monthly critical supplier risk review is circulated to business owners. The Board receives regular reports in respect of important suppliers, including any material operations which are outsourced to a third party. The Company has a Supplier Code of Conduct, which all suppliers to the Group are required to adopt and follow (unless they follow a code of their own which commits them to demonstrate equally high standards of conduct). Similar arrangements are maintained with business introducers, such as brokers, retailers and aggregators. The Company is committed to providing outstanding customer experiences on a consistent basis. Details of the steps taken during the year to deliver this commitment are set out in the ESG Summary in the Group Strategic Report, starting on page 30. During the year, the Company successfully implemented the FCA's new Consumer Duty rules in respect of its regulated business. The statement of the Group's principal risks and uncertainties in the Group Strategic Report sets out risks that can impact the medium-term and long-term success of the Group, taking account of how these risks may impact upon the Company's relationships with its stakeholders. The Directors receive regular reports from the Chief Executive Officer, Group Finance Director, Chief Risk Officer and Director of Operations to ensure that they have sufficient information to make appropriate decisions about the risks faced by the Group and how these are reflected within its medium-term and long-term plans.
d) The impact of the Company's operations on the community and environment.	The Board and the Company are fully committed to making a valuable contribution to society and the environment in which the Group operates. This commitment is encapsulated in the Group's Corporate Social Responsibility Policy Standard and is embedded in its culture, which aligns with the fundamental philosophies of the Company's shareholder and its associated companies. As a subsidiary of Mitsubishi HC Capital Inc, the Company has adopted both the Human Rights Policy and the Environmental Policy of the Mitsubishi HC Capital Group, which set out principles of conducting business with the utmost respect for human rights and in harmony with the environment and society. "Communities" and "Sustainability" are two of the five key elements which form part of our ESG reporting. The Company continues to work towards a cleaner, healthier, and more sustainable future. The Board has set a target to reach net-zero greenhouse gas emissions by 2050 and it continues to align the business to the UN Sustainable Development Goals by investing in employees and future talent and through supporting society and the communities in which we live and work. Further information, including detail of the activities of staff and initiatives undertaken by the Company, is provided in the ESG Summary in the Group Strategic Report.

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

Independent Auditor's Report

FOR THE YEAR ENDED 31 MARCH 2024

1. Opinion

In our opinion:

- The financial statements of Mitsubishi HC Capital UK PLC (the 'parent company' or the 'Company') and its subsidiaries (the 'Group' or 'Novuna') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2024 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 company statements of financial position;
- The consolidated and company statements of changes in equity;
- The consolidated and company statements 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.

2. Basis for opinion

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

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and parent company for the year are disclosed in note 9 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the parent company.

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

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Valuation of expected credit losses in Novuna Consumer Finance. • Valuation of impairment losses on the lease assets held in Novuna Vehicle Solutions. • Judgement in relation to whether a provision should be recognised for motor dealer commission. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	• The materiality that we used for the Group financial statements was £12.7m (2023: £12.9m) which was determined on the basis of net assets (2023: net assets).
Scoping	• Our Group audit scope focused primarily on the parent company which accounts for over 78% of the Group's revenue (2023: 84%), over 90% of profit before tax (2023: 91%), and over 91% of the Group's total net assets (2023: 98%). • The parent company was the only significant component and was subject to a full scope audit, consistent with the prior year audit. In addition, in the current year, we have tested specified account balances in one non-significant component to obtain sufficient appropriate audit evidence on which to base our Group audit opinion.
Significant changes in our approach	• In the prior year, we included a key audit matter related to the initial valuation of Gridserve as a result of a transaction in that year, which resulted in a fair value gain of £44.1m being recognised. This was a one-off transaction in the prior year, and therefore we have determined that this is no longer a key audit matter. • The recent developments in relation to historical motor vehicle finance, specifically around historical discretionary interest commission arrangements with dealers, contribute to the subjectivity and complexity of the judgement of whether a provision or contingent liability should be recognised, in line with the requirements of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"). The degree of subjectivity and judgement as to whether a provision or contingent liability should be recognised, along with increased regulatory scrutiny by the Financial Conduct Authority ('FCA') over historical motor vehicle finance arrangements means that we have determined this to be a new key audit matter.

4. Conclusions relating to going concern

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

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

- We obtained and read the director's going concern assessment, which included consideration of the Group's operational resilience and strategic plans, to understand, assess and evidence the key judgements made by management;
- We obtained an understanding of relevant controls in relation to the Board's going concern assessment;
- We obtained the Board approved income statement, balance sheet and cash flow forecasts for the going concern period and assessed key assumptions and their projected impact on the Group under different scenarios;
- In particular, as the Group is in a net current liability position of £1,005.7m as at 31 March 2024, we challenged the assumptions used to determine the forecast expected cash inflows and outflows over the going concern assessment period. This included confirming the existence, terms and adequacy of funding facilities available to the Group to cover potential cash shortfalls and to meet scheduled debt repayments and evaluating management's intention and ability to carry out future planned actions in relation to the Group's funding and liquidity plans;
- Supported by our regulatory specialists, we assessed the results of the directors' reverse stress testing and downside sensitivity analysis and assessed key assumptions with a focus on the liquidity and funding requirements that management assume that the Group will require;
- We tested the mathematical accuracy of the forecasts used in the going concern assessment;
- We compared the historical budgeted financial information with historical actual results to assess the historical accuracy of forecasts prepared by management;
- Using our knowledge of the Group and parent company, the financial services industry and the general economic environment we independently assessed factors and risks that may indicate events or conditions that may cast significant doubt on the Group and parent company's ability to continue as a going concern; and
- We reviewed the going concern disclosures included in the Annual Report and financial statements to assess that the disclosures were appropriate and in conformity with the reporting standards.

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

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

5. Key audit matters

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

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

5.1 Valuation of expected credit losses in Novuna Consumer Finance

Refer to the judgements in applying accounting policies and critical accounting estimates in note 2.4 on pages 130 and 126 and note 34 on pages 193 - 201.

Key audit matter description

IFRS 9 Financial Instruments ("IFRS 9") requires loan impairment provisions to be recognised on an expected credit loss ("ECL") basis. At 31 March 2024, the ECL relating to Novuna Consumer Finance ("NCF") forms the most significant part of the Company's ECL provision of £54m (2023: £62m). The Company's ECL provision constitutes 95% (2023: 95%) of the Group's ECL provision. The ECL provision in NCF requires management to make significant judgements and estimates and we therefore consider the valuation of the ECL to be a key audit matter due to the risk of fraud or error.

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

- Significant increases in credit risk ("SICR") and staging: There is a risk that the criteria used to classify loans into stage 1, 2 or 3 and the calculation of behavioural scores that translate into probabilities of default ("PDs") used in the staging assessment do not appropriately identify whether there has been a significant increase in credit risk between the date of origination of the exposure and 31 March 2024; 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 NCF. With involvement of our IT specialists, we tested general IT controls over the relevant underlying lending systems.

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

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

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

- Understood the nature of the lending portfolio and considered whether historical loss data was an appropriate basis to estimate future losses.
- Supported by our credit risk modelling specialist team, we
  - › understood and assessed the 12-month and lifetime loss rate models used in the ECL calculation, including a review of the code script and methodology; and
  - › independently recalculated loss rates and reperformed the application of the loss rates within the ECL calculation.
- On a sample basis, we assessed the accuracy and completeness of data used in the loss rate models, including write-off data.
- Performed a stand-back assessment to assess whether the loss rates applied were appropriate and the overall ECL was reasonable.

Key observations

We determined that the Group's ECL provision for NCF as at 31 March 2024 was reasonable, in compliance with IFRS 9 and therefore appropriately stated.

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

Refer to the judgements in applying accounting policies and critical accounting estimates in note 2.4 on page 131 and note 12 on page 150 to 153.

Key audit matter description

As at 31 March 2024, the operating lease assets in Novuna Vehicle Solutions ("NVS") make up substantially all of the Company's operating lease assets which amount to £1,948m (2023: £1,762m). The Company's operating lease assets constitutes 72% (2023: 75%) of the Group's operating lease assets. For the year-ended 31 March 2024, the Company reported an impairment charge of £4m (2023: £90m) relating to operating lease assets in NVS. The residual values used to determine the impairment charge for the year-ended 31 March 2024, are set at the present value of the future cash flows expected to be derived from the asset. There is a risk due to either fraud or error that the residual values are not appropriate and therefore the impairment charge recognised in the income statement for the year-ended 31 March 2024, and the carrying value of the operating lease assets in NVS as at 31 March 2024, are not appropriately stated.

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

- Residual values used in the impairment assessment: The residual value is a key estimate in calculating future cashflows. The estimate is impacted by vehicle values and the anticipated decline of the valuation over the vehicles' lifetime. There is significant estimation uncertainty in determining residual values, given the current volatile used car market conditions and persistent new car supply side shortages.
- Discount rates used for the calculation of present value of the cashflows in the impairment assessment: The valuation of impairment losses is highly sensitive to changes in the discount rate. In the current year, the prevailing high interest rate environment has increased the complexity of determining the appropriate discount rate to be used in the impairment assessment.

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

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

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

- Challenged the appropriateness of significant judgements used in management's residual value model, particularly with reference to the data used by management to determine the overlays and adjustments.
- Obtained an understanding of and assessed the different approach taken by management to determining adjustments to residual values.
- 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 CAP (automotive industry pricing source) and market consensus data and determined a reasonable range for residual values to assess whether management's valuations were appropriate.
- Assessed the completeness of management's adjustments and overlays using our own knowledge of the industry, current trends in market performance against industry data predictions, views on the impact of emerging risks and known limitations of the models.

To challenge the discount rate used in the impairment assessment of operating lease assets, we:

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

Key observations

We determined that the Group's residual values for operating lease assets in NVS as well as the discount rates used in the impairment calculations were reasonable. We therefore determined that the impairment charge and carrying value of the operating lease assets are appropriately stated.

5.3 Judgement in relation to whether a provision should be recognised for motor dealer commission

Refer to the judgements in applying accounting policies and critical accounting estimates in note 2.4 on page 130 and note 35 on page 207.

Key audit matter description

Historically, the Group has advanced motor dealer loans across NCF and Novuna Business Finance ("NBF") divisions, which included loans with discretionary commission arrangements ("DCA") until 2019. In January 2024, the Financial Ombudsman Service ("FOS") decided two cases against vehicle finance providers with DCA arrangements, leading to the initiation of an industry wide skilled persons review by the FCA.

These recent developments contribute to the subjectivity and complexity involved in the judgement of whether a provision or contingent liability should be recognised. Management has disclosed a contingent liability as at 31 March 2024 on the following basis:

- No legal or constructive obligation currently exists that would require a provision, and the probability of any outflow is, in management's view, possible rather than probable. This is because no industry-wide consumer redress scheme has been imposed by the FCA to date and because the Group operated within the regulatory rules at the time of underwriting through DCA arrangements; and
- Significant uncertainty exists over the outcome of the review, so the Group is unable to make a reliable estimate.

We recognise that there is a significant degree of management judgement required to assess whether the provisioning requirements of IAS 37 have been met in relation to historical DCA arrangements. The judgment is influenced by a combination of market and entity-specific factors, and the industry has observed varying practices regarding provision recognition.

The judgement is significant and material and therefore we consider this to be a key audit matter.

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

We obtained an understanding of the relevant controls in the determination of the judgement and accounting considerations as to whether a provision should be recognised for motor dealer commission.

To evaluate whether management is correctly accounting for contingent liability of motor dealer commission and to challenge whether a provision should be recognised, we:

- Engaged in continued dialogue with the senior leadership and Audit Committee of the Group to challenge whether a provision should be recognised, in line with the requirements of IAS 37;
- With the involvement of internal industry specialists we evaluated the appropriateness of management's judgements regarding:
  - the absence of any legal or constructive obligation that would necessitate the recognition of a provision;
  - the determination that the probability of an outflow is possible rather than probable; and
  - the inability to provide a reliable estimate due to the significant uncertainty surrounding the outcome of the FCA's review;
- Evaluated the underlying information used in management's judgement which includes review of historical complaints, county court case rulings, FOS rulings, FCA correspondence directly to Novuna and public statements on this matter, and Board and other committee minutes including consideration of whether any of the evidence obtained was potentially contradictory to management's judgement; and
- Evaluated additional relevant evidence that emerged up to the date of signing of the financial statements that could potentially warrant recognition of a provision.
- Assessed the reasonableness of the disclosure in line with the requirements of IAS 37.

Key observations

We concluded that management's judgement that a contingent liability was required and that the circumstances that would require a provision to be made were not present, was reasonable as at 31 March 2024.

6. Our application of materiality

6.1 Materiality

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

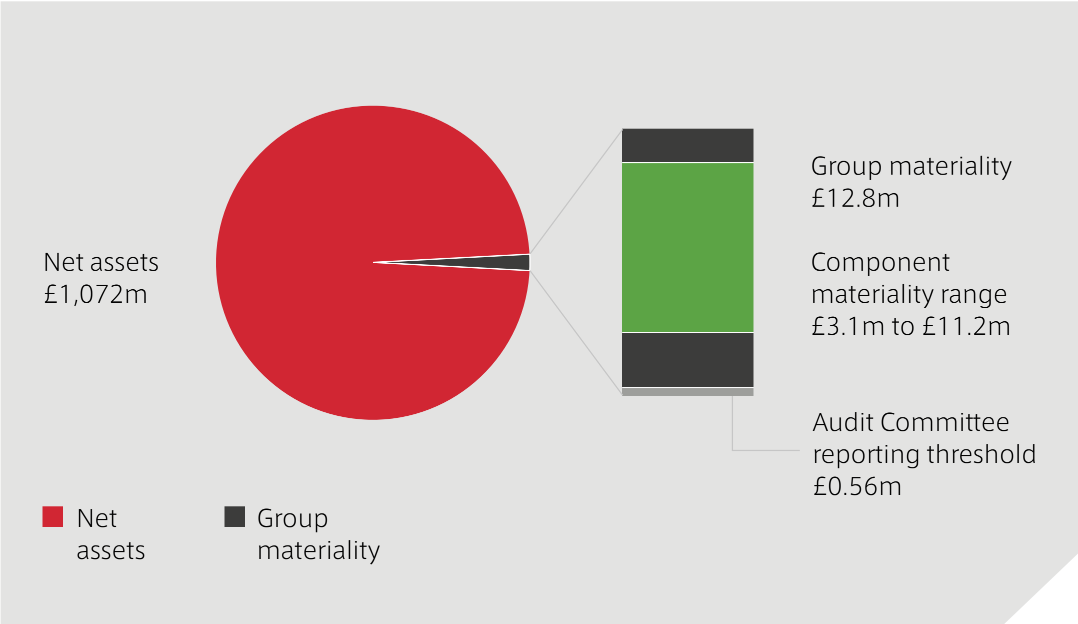
Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group financial statements

Materiality	£12.7 million (2023: £12.9 million)
Basis for determining materiality	Group materiality was based on 1.2% of year-end net assets as of 31 March 2024 (2023: 1.2% of year-end net assets).
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 and the recent economic and market conditions, we determined year-end net assets to be the most appropriate and stable benchmark to determine materiality.

Parent company financial statements

Materiality	£11.2 million (2023: £12.2 million)
Basis for determining materiality	Parent company materiality was based on 1.2% of parent company year-end net assets as of 31 March 2024 (2023: 1.2% of year-end net assets) capped at 90% (2023: 90%) of the group materiality.
Rationale for the benchmark applied	We considered year-end net assets to be the most appropriate and stable benchmark to determine materiality in line with the rationale for the Group materiality.



6.2 Performance materiality

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

	Group financial statements	Parent company financial statements
Performance materiality	70% (2023: 70%) of Group materiality	70% (2023: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: • Mitsubishi HC Capital UK PLC is a wholly owned subsidiary and the primary user of the financial statements is the ultimate parent, Mitsubishi HC Capital Inc; • Whilst the Company has listed debt, a significant portion of the external debt is guaranteed by Mitsubishi HC Capital Inc; • The quality of the control environment and that we were able to rely on controls where we planned to; • The degree of centralisation and commonality of controls and processes; and • The nature, volume and size of uncorrected misstatements that were identified in the prior year audit.	

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.56m (2023: £0.60m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1 Identification and scoping of components

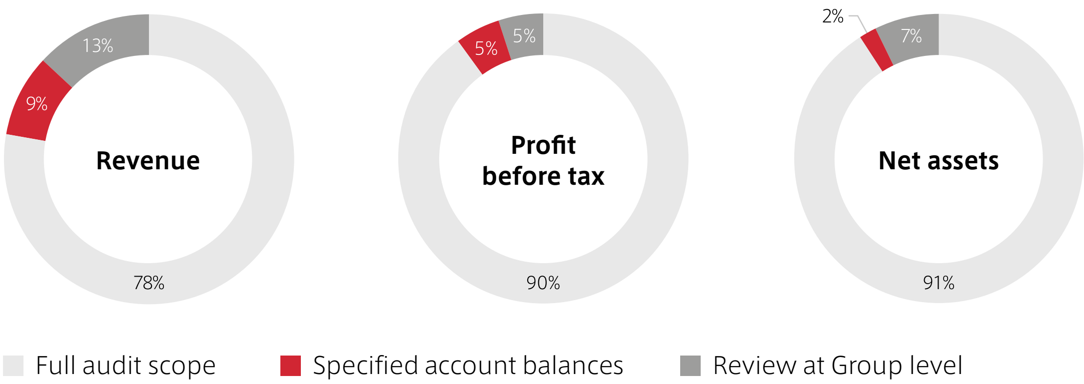
Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls and assessing the risks of material misstatement at the Group level.

Our Group audit scope focused primarily on the parent company which accounts for over 78% of the Group's revenue (2023: 84%), over 90% of profit before tax (2023: 91%), and over 91% of the Group's total net assets (2023: 98%). The parent company was the only significant component and was subject to a full scope audit, consistent with the prior year audit.

In addition, in the current year we engaged a component audit team to perform procedures over specified account balances in one non-significant component to obtain sufficient appropriate audit evidence on which to base our Group audit opinion. We used a component materiality of £3.1 million to test the specified account balances.

The group audit team met regularly and was in active dialogue with the component audit team throughout the audit to ensure appropriate oversight over audit activities performed. Oversight activities included determining whether the audit work was performed in accordance with the overall Group audit strategy and in line with the Group audit instructions provided to the component auditor. Our oversight and supervision included videoconferencing, direct reviews of work and through attending planning and concluding meetings with the component audit team.

We tested the Group's consolidation process and carried out analytical procedures to assess whether there were any potential significant risks of material misstatement in the aggregated financial information of the remaining non-significant subsidiaries not subject to a full scope audit or specified account balances testing.



7.2 Our consideration of the control environment

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

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

7.3 Our consideration of climate-related risks

In planning our audit, we have considered the impact of climate change on the Group's operations and impact on its financial statements. As set out in the Group's principal risks on pages 39 to 46, management has identified that there is a risk that the Group does not adequately take account of climate change risks in developing the business model and strategy. The Strategic Report also contains information on several commitments and strategic priorities in relation to climate change, including that the Group has set interim science-based emissions reduction targets for 2030 which are currently under review by the Science Based Targets initiative, with a long-term aspiration to reach net zero by 2050, and the Group's ongoing strategic investment in Gridserve Holdings Ltd, a provider of sustainable energy solutions, which is held as an investment.

As set out in note 2.4 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. Accordingly, the Group has determined that there is no significant risk of material adjustment to the carrying amount of assets and liabilities within the next financial year as a result of climate change.

We have held discussions with Group management 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.

Supported by our environmental social and governance ("ESG") specialists, we have:

- Challenged the completeness of the physical and transition risks identified, which included peer benchmarking and consideration of 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
- Assessed the disclosures in the Annual Report and in note 2.4 of the financial statements and challenging the consistency between the financial statements and the remainder of the Annual Report.

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

8. Other information

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

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

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

10. Auditor's responsibilities for the audit of the financial statements

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

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

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

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

11.1 Identifying and assessing potential risks related to irregularities

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

- The nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- Results of our enquiries of management, internal audit, the directors and the Audit Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the Group's sector;
- 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, analytics and modelling, ESG and regulatory 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: the valuation of ECL in Novuna Consumer Finance; the valuation of impairment losses on the lease assets held in Novuna Vehicle Solutions; and the judgement in relation to whether a provision should be recognised for motor dealer commission. 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, Listing Rules, the Consumer Credit Act and tax legislation.

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

11.2 Audit response to risks identified

As a result of performing the above, we identified the valuation of ECL in Novuna Consumer Finance; the valuation of impairment losses on the lease assets held in Novuna Vehicle Solutions; and the judgement in relation to whether a provision should be recognised for motor dealer commission 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 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 FCA; and
- In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- The information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

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

13.1 Adequacy of explanations received and accounting records

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

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

- The parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2 Directors' remuneration

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

We have nothing to report in respect of this matter.

14. Other matters which we are required to address

14.1 Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by 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 three years, covering the years ending 31 March 2022 to 31 March 2024.

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

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

15. Use of our report

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

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule ("DTR") 4.1.15R - DTR 4.1.18R, these financial statements form part of the Electronic Format Annual Financial Report filed on the National Storage Mechanism of the FCA in accordance with DTR 4.1.15R - DTR 4.1.18R. This auditor's report provides no assurance over whether the Electronic Format Annual Financial Report has been prepared in compliance with DTR 4.1.15R - DTR 4.1.18R.

Zahir Bokhari FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
11 June 2024

Consolidated Income Statement

FOR THE YEAR ENDED 31 MARCH 2024

	Note	2024 £m	2023 £m
Interest income	5	293.8	219.3
Finance lease income		89.2	72.4
Operating lease rental income		633.3	512.7
Operating lease maintenance income		130.6	94.6
Sale of operating leased assets		385.9	276.2
Other operating income	6	72.4	53.3
Revenue		**1,605.2**	**1,228.5**
Finance costs	7	(289.4)	(152.7)
Depreciation and impairment of operating leased assets	12	(433.1)	(348.2)
Maintenance expense on operating leased vehicles		(105.1)	(91.6)
Disposal of operating leased assets		(334.8)	(221.2)
Other cost of sales	8	(46.3)	(46.7)
Cost of sales		**(1,208.7)**	**(860.4)**
Gross profit		**396.5**	**368.1**
Impairment losses on credit exposures	15	(26.3)	(22.4)
Administrative expenses	9	(241.9)	(225.7)
Operating profit		**128.3**	**120.0**
Fair value (loss)/gain on derivative financial instruments	17	(2.3)	0.7
Parent integration costs	10	-	(2.4)
Share of loss of investments accounted for under the equity method	4	-	(1.6)
Gain on discontinuation of equity method	4	-	44.1
Profit before tax		**126.0**	**160.8**
Income tax expense	11	(33.4)	(40.9)
Profit after tax		**92.6**	**119.9**

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MARCH 2024

	Note	2024 £m	2023 £m
Profit after tax for the year		**92.6**	**119.9**
Other comprehensive income to be reclassified to profit or loss in subsequent period			
(Loss)/gain taken to cash flow hedge and cost of hedging reserve		(68.7)	70.3
Income tax effect	11	16.6	(19.8)
Fair value changes on financial instruments measured as fair value through other comprehensive income		(2.8)	(3.4)
Income tax effect		0.7	0.9
	26	**(54.2)**	**48.0**
Foreign currency translation gains or losses	26	(0.6)	1.6
Net other comprehensive income to be reclassified to profit or loss in subsequent period		**(54.8)**	**49.6**
Items that will not be reclassified subsequently to profit or loss			
Re-measurement of defined benefit pension scheme		(0.4)	(9.0)
Income tax effect	11	0.1	2.3
	26	**(0.3)**	**(6.7)**
Net other comprehensive income not to be reclassified to profit or loss in subsequent period		**(0.3)**	**(6.7)**
Other comprehensive income for the year, net of tax		(55.1)	42.9
Total comprehensive income for the year, net of tax		**37.5**	**162.8**
Attributable to:			
Equity holders of the parent		37.5	162.8
Total comprehensive income for the year, net of tax		**37.5**	**162.8**

Consolidated Statement of Financial Position

AS AT 31 MARCH 2024

	Note	Group 31 March 2024 £m	Group 31 March 2023 £m
Non-current assets			
Intangible assets	14	59.6	65.6
Investment accounted for under the equity method		0.1	-
Property, plant and equipment under operating lease	12	2,689.5	2,343.2
Other property, plant, equipment and right of use assets	13	31.8	28.6
Loans and advances to customers	16	3,185.2	3,095.5
Financial instruments at fair value through profit or loss	19	66.3	74.7
Equity instruments at fair value through other comprehensive income	19	37.9	40.7
Derivative financial instruments	17	48.9	95.6
Deferred tax assets	11	-	3.7
Retirement benefit asset	29	5.4	1.0
		6,124.7	**5,748.6**
Current assets			
Loans and advances to customers	16	2,395.3	2,260.3
Derivative financial instruments	17	24.4	43.8
Inventories	20	35.9	32.9
Current tax asset		1.6	18.3
Trade and other receivables	21	183.9	187.6
Cash and cash equivalents	24	59.3	181.3
		2,700.4	**2,724.2**
Total assets		**8,825.1**	**8,472.8**

	Note	Group 31 March 2024 £m	Group 31 March 2023 £m
Equity and liabilities			
Equity			
Share capital	25	116.2	116.2
Share premium	25	43.6	43.6
Retained earnings		890.0	843.8
Other reserves		22.6	77.9
Equity attributable to owners of the company		**1,072.4**	**1,081.5**
Non-controlling interests		-	0.2
Total equity		**1,072.4**	**1,081.7**
Non-current liabilities			
Interest bearing borrowings	18	3,674.1	3,145.8
Derivative financial instruments	17	207.5	85.3
Trade and other payables	27	119.4	128.0
Provisions	23	1.3	2.5
Deferred tax liability	11	44.5	56.4
		4,046.8	**3,418.0**
Current liabilities			
Bank overdrafts	24	19.4	14.7
Interest bearing borrowings	18	3,097.2	3,362.1
Derivative financial instruments	17	128.1	156.1
Current tax liability		11.0	4.6
Trade and other payables	27	439.4	418.5
Provisions	23	10.8	17.1
		3,705.9	**3,973.1**
Total liabilities		**7,752.7**	**7,391.1**
Total equity and liabilities		**8,825.1**	**8,472.8**

Company Statement of Financial Position

AS AT 31 MARCH 2024

	Note	Company 31 March 2024 £m	Company 31 March 2023 £m
Non-current assets			
Intangible assets	14	54.5	60.8
Investments in subsidiaries	4	45.8	41.2
Property, plant and equipment under operating lease	12	1,948.3	1,762.1
Other property, plant, equipment and right of use assets	13	17.2	18.0
Loans and advances to customers	16	3,104.7	3,007.0
Financial instruments at fair value through profit or loss	19	66.3	74.7
Equity instruments at fair value through other comprehensive income	19	37.9	40.7
Derivative financial instruments	17	48.9	95.6
Trade and other receivables	21	60.7	62.6
Retirement benefit asset	29	5.4	1.0
		5,389.7	**5,163.7**
Current assets			
Loans and advances to customers	16	2,338.7	2,180.7
Derivative financial instruments	17	24.4	43.8
Inventories	20	27.0	22.3
Current tax asset		-	18.2
Trade and other receivables	21	210.9	244.5
Cash and cash equivalents	24	40.6	159.8
		2,641.6	**2,669.3**
Total assets		**8,031.3**	**7,833.0**

	Note	Company 31 March 2024 £m	Company 31 March 2023 £m
Equity and liabilities			
Equity			
Share capital	25	116.2	116.2
Share premium	25	43.6	43.6
Retained earnings		877.0	832.7
Other reserves		16.7	70.1
Equity attributable to owners of the company		**1,053.5**	**1,062.6**
Non-current liabilities			
Interest bearing borrowings	18	3,242.4	2,825.1
Derivative financial instruments	17	207.5	85.3
Trade and other payables	27	114.0	116.7
Provisions	23	1.3	2.5
Deferred tax liability	11	37.7	51.7
		3,602.9	**3,081.3**
Current liabilities			
Bank overdrafts	24	7.8	13.6
Interest bearing borrowings	18	2,831.2	3,123.2
Derivative financial instruments	17	128.1	156.1
Current tax liability		6.5	-
Trade and other payables	27	390.8	379.3
Provisions	23	10.5	16.9
		3,374.9	**3,689.1**
Total liabilities		**6,977.8**	**6,770.4**
Total equity and liabilities		**8,031.3**	**7,833.0**

Company profit for the year was £90.0m (2023; £109.0m)

The financial statements were approved by the board, authorised for issue on 11 June 2024 and signed on its behalf by:

R. Gordon
Chief Executive Officer

Consolidated Statement of Changes in Equity

AS AT 31 MARCH 2024

Group	Note	Share capital £m	Share premium £m	Retained earnings £m	Other reserves £m	Non Controlling Interest £m	Total £m
At 31 March 2022		**110.7**	**15.6**	**765.5**	**29.9**	**-**	**921.7**
Profit for the year		-	-	119.9	-	0.2	120.1
Other comprehensive income	26	-	-	-	42.9	-	42.9
Total comprehensive Income for the year		**-**	**-**	**119.9**	**42.9**	**0.2**	**163.0**
Dividends paid	22	-	-	(41.6)	-	-	(41.6)
Issue of share capital		5.5	28.0	-	-	-	33.5
Acquisition of subsidiary		-	-	-	5.1	-	5.1
At 31 March 2023		**116.2**	**43.6**	**843.8**	**77.9**	**0.2**	**1,081.7**
Profit for the year		-	-	92.6	-	-	92.6
Other comprehensive income	26	-	-	-	(55.1)	-	(55.1)
Total comprehensive Income/ (expense) for the year		**-**	**-**	**92.6**	**(55.1)**	**-**	**37.5**
Dividends paid	22	-	-	(46.0)	-	-	(46.0)
Acquisition of non-controlling interest, increase or decrease in equity		-	-	-	-	(0.2)	(0.2)
Other movements		-	-	(0.4)	(0.2)	-	(0.6)
At 31 March 2024		**116.2**	**43.6**	**890.0**	**22.6**	**-**	**1072.4**

Statement of Changes in Equity

FOR THE YEAR ENDED 31 MARCH 2024

Company	Note	Share capital £m	Share premium £m	Retained earnings £m	Other reserves £m	Total £m
At 31 March 2022		**110.7**	**15.6**	**765.3**	**30.0**	**921.6**
Profit for the year		-	-	109.0	-	109.0
Other comprehensive income	26	-	-	-	40.1	40.1
Total comprehensive Income for the year		**-**	**-**	**109.0**	**40.1**	**149.1**
Dividends paid	22	-	-	(41.6)	-	(41.6)
Issue of share capital		5.5	28.0	-	-	33.5
At 31 March 2023		**116.2**	**43.6**	**832.7**	**70.1**	**1,062.6**
Profit for the year		-	-	90.0	-	90.0
Other comprehensive income	26	-	-	-	(53.2)	(53.2)
Total comprehensive Income/(expense) for the year		**-**	**-**	**90.0**	**(53.2)**	**36.8**
Dividends paid	22	-	-	(46.0)	-	(46.0)
Other movements		-	-	0.3	(0.2)	0.1
At 31 March 2024		**116.2**	**43.6**	**877.0**	**16.7**	**1,053.5**

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2024

	Note	Group 2024 £m	Group 2023 Restated £m
Profit before tax		126.0	160.8
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	433.1	348.2
Depreciation and impairment of other property, plant, equipment and right of use assets	13	5.9	4.9
Amortisation and impairment of intangible assets	14	10.3	14.0
Impairment losses on credit exposures	15	26.3	22.4
Net charge in respect of provisions	23	(3.3)	(18.6)
Finance cost on borrowings	7	289.4	152.7
Net gain on disposal of operating lease assets		(51.1)	(55.0)
Net (gain)/loss on disposal of property plant and equipment		(0.1)	0.1
Net loss on disposal of intangible assets		0.5	11.3
Fair value loss/(gain) on derivative financial instruments	17	2.3	(0.7)
Defined benefit pension scheme Income	29	(0.2)	(0.3)
Share of loss of investments accounted for under the equity method		-	1.6
Gain on discontinuation of equity method		-	(44.1)
Fair value loss on non-derivative financial instruments		(0.1)	18.4
		839.0	**615.7**
Working capital adjustments			
Increase in loans and advances to customers		(246.2)	(348.7)
Increase in trade and other receivables		(8.1)	(57.0)
Increase in payables & provisions		26.7	104.2
Increase in inventories		(3.0)	(10.7)
Cash contributions to defined benefit pension scheme	29	(4.6)	-
Purchase of operating leased assets		(1,129.5)	(855.9)
Proceeds from sale of operating leased assets		385.9	276.2
Cash outflow from operations		**(139.8)**	**(276.2)**
Income taxes received/(paid)	11	0.6	(12.1)
Interest paid		(267.5)	(137.2)
Net cash outflow from operating activities		**(406.7)**	**(425.5)**

	Note	Group 2024 £m	Group 2023 Restated £m
Investing activities			
Cash acquired from subsidiaries		-	29.0
Purchase of property, plant and equipment (non-operating leases)	13	(11.4)	(6.3)
Purchase of intangible assets	14	(4.5)	(5.1)
Net investment in debt instruments		8.4	(6.6)
Net cash outflow from investing activities		**(7.5)**	**11.0**
Financing activities			
Receipt of long term borrowings		4,915.6	3,953.0
Repayments of long term borrowings		(4,555.8)	(3,379.6)
Decrease other in short term borrowings		(20.1)	(35.4)
Dividends paid		(46.0)	(41.6)
Repayment of principal portion of lease liabilities		(8.2)	(1.6)
Net cash inflow from financing activities		**285.5**	**494.8**
Net (decrease)/increase in cash and bank overdrafts		(128.7)	80.3
Net foreign exchange difference		2.0	(0.3)
Cash and bank overdrafts at beginning of the year	24	166.6	86.6
Cash and bank overdrafts at end of the year	24	**39.9**	**166.6**
Current assets - cash	24	59.3	181.3
Current liabilities - bank overdrafts	24	(19.4)	(14.7)
Cash and bank overdrafts at end of the year		**39.9**	**166.6**

Company Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2024

	Note	Company 2024 £m	Company 2023 Restated £m
Profit before tax		115.6	146.8
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	330.0	285.6
Depreciation and impairment of other property, plant, equipment and right of use assets	13	2.8	2.6
Amortisation and impairment of intangible assets	14	9.9	10.8
Impairment losses on credit exposures	15	25.3	22.6
Net charge in respect of provisions	23	(3.4)	(18.6)
Finance cost on borrowings	7	261.1	142.3
Net gain on disposal of operating lease assets		(35.5)	(51.8)
Net gain on disposal of property plant and equipment		(0.3)	-
Net loss on disposal of intangible assets		0.4	11.3
Fair value loss/(gain) on derivative financial instruments	17	2.3	(0.7)
Defined benefit pension scheme Income	29	(0.2)	(0.3)
Share of loss of investments accounted for under the equity method		-	1.6
Gain on discontinuation of equity method		-	(44.1)
Fair value loss on non-derivative financial instruments		(0.1)	18.4
		707.9	**526.5**
Working capital adjustments			
Increase in loans and advances to customers		(277.7)	(316.0)
Decrease/(increase) in trade and other receivables		24.0	(83.5)
Increase in payables and provisions		21.4	99.0
Increase in inventories		(4.8)	(2.7)
Cash contributions to defined benefit pension scheme	29	(4.6)	-
Purchase of operating leased assets		(777.7)	(650.6)
Proceeds from sale of operating leased assets		285.9	230.6
Cash outflow from operations		**(25.6)**	**(196.7)**
Income taxes received/(paid)	11	2.3	(12.1)
Interest paid		(239.6)	(126.7)
Net cash (outflow) from operating activities		**(262.9)**	**(335.5)**

	Note	Company 2024 £m	Company 2023 Restated £m
Investing activities			
Purchase of property, plant and equipment (non-operating leases)	13	(1.8)	(3.1)
Purchase of intangible assets	14	(4.2)	(5.1)
Net investment in debt instruments		8.4	(6.6)
Capital injection in subsidiary		(4.6)	-
Net cash outflow from investing activities		**(2.2)**	**(14.8)**
Financing activities			
Receipt of long term borrowings		4,568.1	3,899.1
Repayments of long term borrowings		(4,374.9)	(3,379.0)
Decrease other in short term borrowings		8.8	(63.5)
Dividends paid		(46.0)	(41.6)
Repayment of principal portion of lease liabilities		(5.6)	(1.6)
Net cash inflow from financing activities		**150.4**	**413.4**
Net (decrease)/increase in cash and bank overdrafts		(114.7)	63.1
Net foreign exchange difference		1.3	(1.0)
Cash and bank overdrafts at beginning of the year	24	146.2	84.1
Cash and bank overdrafts at end of the year	24	**32.8**	**146.2**
Current assets - cash	24	40.6	159.8
Current liabilities - bank overdrafts	24	(7.8)	(13.6)
Cash and bank overdrafts at end of the year		**32.8**	**146.2**

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2024

1. CORPORATE INFORMATION

The consolidated financial statements of the Group for the year ended 31 March 2024 were authorised for issue by the directors on 11 June 2024. Mitsubishi HC Capital UK PLC is a public limited company incorporated in the United Kingdom. The address of the registered office is given at the beginning of this report as is information on the ultimate parent undertaking. The principal activities of the Group are described in note 3.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

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

Use of estimates, assumptions and judgements

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

Restatement of prior year comparatives

Reclassification of cash flow from financing activities

The Group has restated 2023 amounts related to receipts and payments of long term borrowings in its Cash Flow Statement to exclude non-cash items that were included incorrectly. The impact of the restatement is to reduce receipts of long term borrowings for the Group and the Company by £1,209.0m with a corresponding reduction in payments of long term borrowings in the Group's and Company's Cash Flow Statement. The restatement did not impact the Group's or the Company's net cash flows from financing activities.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Group Strategic Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Group Strategic Report, the financial statements, and the notes to the financial statements. In addition, the notes to the financial statements include the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to market risk, credit risk and liquidity risk. As part of the Directors' ongoing assessment of going concern, they have considered the forecasts for the Group as well as cash flow projections for at least 12 months from the date of approval of the financial statements. The Directors expect that the Group will remain profitable in its chosen financial markets in the coming year. A central treasury function provides funding for the Group's operations and manages treasury risks in accordance with policy limits approved by the Board and the Treasury Committee.

The Group has access to the following sources of funding:

- A Euro medium term note programme for which Mitsubishi HC Capital Inc. acts as guarantor.
- Bi-lateral term borrowings from relationship banks.
- Securitisation facilities, which Management renegotiates on an annual basis.
- A Euro-commercial paper programme, also guaranteed by Mitsubishi HC Capital Inc.
- A committed back-up facility in Sterling in the form of a fixed share of a global Mitsubishi HC Capital Group committed facility, and additional shared facility, from the three largest Japanese commercial banks (not utilised).
- Potential group loan facilities available from Mitsubishi HC Capital Inc (not utilised).
- Short term uncommitted bank borrowing facilities.

It is the Directors' intention to continue to utilise existing facilities and seek additional funding as required to meet the funding needs of the business.

The Directors are satisfied that the Group has sufficient appropriate funding facilities and capacity to borrow both currently and for the foreseeable future. Liquidity risk and funding management issues are covered in more detail within note 34 of the Notes to the Financial Statements.

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

The Directors have also considered reverse stress testing scenarios for both equity and current year profit. Under these scenarios the bad debt charge would need to increase to approximately 25 times the level of 2024 and maintain that level for the next three years to exhaust the current capital base. The portfolio has beenstress-tested to determine by how much the UK economy would have to deteriorate before the Group ceased to be profitable. It is projected that UK unemployment would need to rise to 11.6% and GDP fall by 5.8% before the bad debt levels would reduce the profit in the 2024/25 financial year to nil.

Although, the Group's Consolidated Statement of Financial Position shows net current liabilities of £1,005.5m (2023:£1,248.9m) at year-end based on contractual maturity profile, the expected cash collections from the run-off of existing receivables and committed funding available to the Group are well matched with the maturity profile of the borrowings and would be sufficient to settle obligations without the need to utilise cash from our parent company. In addition, with the level of committed and uncommitted facilities with large banks and its parent company, available to the Group, the Directors are confident of meeting the Group's short- term and long-term obligations.

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

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

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 March 2024. 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 material accounting policy information

(a) Business combinations and goodwill

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

Acquisition related costs are expensed as incurred and included in administrative expenses.

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

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

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

(b) Investments in associates and joint ventures

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

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

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

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

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

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

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

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

(c) Foreign currency transactions and balances

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

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

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

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

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

(d) Revenue from contracts with customers

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

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

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

Operating lease maintenance income

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

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

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

Sale of operating lease assets

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

Other operating income

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

(e) Leases

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

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

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

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

Group as a lessor - operating leases

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

Contingent rents are recognised as revenue in the period in which they are earned.

Group as a lessor - finance leases

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

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

Group as a lessee

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

Initial recognition and measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sub leases
If an underlying asset is re-leased by the Group to a third party and the Group retains the primary obligation under the original lease, the transaction is deemed to be a sublease. The Group continues to account for

the original lease (the head lease) as a lessee and accounts for the sublease as a lessor (intermediate lessor). When the head lease is a short term lease, the sublease is classified as an operating lease. Otherwise, the sublease is classified using the classification criteria applicable to "Lessor Accounting" in IFRS 16 by reference to the right-of-use asset in the head lease (and not the underlying asset of the head lease). After classification lessor accounting is applied to the sublease.

(f) Taxes

Current Income Tax

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

Deferred Tax

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

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

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

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

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

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

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

Right-of-use assets are presented together with property and equipment in the Statement of Financial Position - refer to the accounting policy in note 2.3(e) Leases. Right-of-use assets are depreciated on a straight-line basis over the lease term.

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

- Land and buildings - 50 years
- Right of use assets - Property leases - lease term
- Furniture, fittings and equipment
- 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.

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

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

(h) Investment in subsidiaries

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

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

(i) Intangible assets

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

Capitalised software

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

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

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

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

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

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

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

Other intangible assets and goodwill

These are acquired through business combinations and other than goodwill, 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.

Goodwill acquired in business combination is held at historical cost and tested for indicators of impairment on an annual basis (note 2.3(a)).

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.

The Group's portfolio consists of instalment finance, hire purchase, finance lease, stock finance, invoice finance receivables. These receivables have fixed or determinable payments and therefore in accordance with IFRS 9 Financial Instruments, they 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).

The Group recognises trade receivables in respect of its operating lease contracts and these are also measured at amortised cost in accordance with IFRS 9 Financial instruments and reported within Trade and other receivables in the Group's statement of financial position.

Financial assets at fair value through other comprehensive income

A financial asset is measured at FVTOCI only if it is a debt instrument and meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

Financial assets at fair value through the profit or loss

Financial assets not otherwise classified above are classified and measured as FVTPL. If a financial asset meets the amortised cost or FVTOCI criteria, the Group may choose to designate the financial asset at FVTPL. Such an election is irrevocable and applicable only if the FVTPL classification significantly reduces a measurement or recognition inconsistency.

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

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

Financial liabilities

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

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

Financial liabilities at amortised cost

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

The Group classifies the following financial liabilities at amortised cost.

Interest bearing borrowings

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

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

Retailer liability

The retailer liability arises through contractual terms with certain retailers whereby a portion of the cash flows financed are deferred and held by the Group to cover possible future credit losses. These deferred amounts are therefore recorded as liabilities by the Group, as they remain the property of the retailer until either losses arise or each vintage of financing agreements matures. The vintage refers to a group of agreements incepted in a given period. As credit losses arise on finance agreements which are subject to these contractual terms, the associated amount of deferral is released to the extent necessary to cover credit losses on each finance agreement and is set off against the associated bad debt charge in accordance with the contractual terms established with the retailer.

As a result, credit losses arising from agreements which are subject to these contractual terms have no effect on the Group's Consolidated Income Statement unless the amount of credit loss recorded is greater than the amount of deferred retailer cash held by the Group. In the event that the retailer liability is not consumed by losses before the end of the maturity of the last agreement in the vintage, the balance is returned to the retailer upon final maturity of each annual vintage of agreements. Retailer liability is recorded within trade and other payables on the statement of financial position.

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

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

(k) Derecognition of financial assets and financial liabilities

Financial assets
The Group derecognises a financial asset when;

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

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

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

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

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

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

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

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

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

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

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

(l) Modification of financial assets and financial liabilities

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

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

Financial liabilities
If the terms of a financial liability are modified, the

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

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

(m) Measurement of expected credit losses (impairment of financial assets)
The Group recognises loss allowances for expected credit losses on financial instruments that are not measured at FVTPL, namely:
- Loans and advances to customers;
- Trade and other receivables;
- Financial guarantee contracts issued; and
- Loan commitments issued.

Simplified approach
The Group measures ECL based on the simplified approach for some of its short term trade receivables. This approach 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
The Group's Consumer Finance and Business Finance divisions measures ECL based on the general approach which requires financial assets to be classified into stage 1, stage 2 or stage 3, based on the impairment methodology, described below:

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

Stage 2: ECL allowance based on lifetime loss where there has been a significant increase in credit risk ("SICR") since initial recognition or the receivables are 30 days past due or two missed payments, if shorter. A lifetime ECL is the loss resulting from default events that are probable within the expected life of a financial instrument from the reporting date.

Stage 3: ECL allowance based on lifetime loss for credit-impaired financial assets.

Provisions for credit-impairment are recognised in the Consolidated Income Statement and are reflected in accumulated provision balances against each relevant financial instruments balance.

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

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

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

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

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

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

During the year, the Group's Business Finance division adopted general approach (previously simplified approach) for determining ECL provision on its hire purchase, finance lease and other short term receivables. The prior year impact to ECL of this change was immaterial and therefore prior year comparatives have not been restated.

(n) Hedge accounting

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

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

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

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

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

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

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

The Group's hedging relationships are discussed below.

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

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

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

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

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

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

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

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

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

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

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

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

(r) Securitisation transactions

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

(s) Impairment of non-financial assets

Operating leased property, plant and equipment

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

Other assets (including right of use assets)

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

(t) Pension benefits

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

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

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

(u) Contingent liabilities recognised in a business combination

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

(v) Financial guarantee contracts

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

(w) Interest and similar income

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

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

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

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

Interest income

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

Finance lease income

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

Operating lease rental income

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

(x) Integration costs

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

(y) Balances due to invoice financing clients

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

2.4 Significant accounting judgements, estimates and assumptions

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

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

As set out in our risk section of the ESG review on pages 39 to 46, there is a risk that the Group does not adequately take account of climate change risks in developing our business model and strategy climate change. Therefore, in preparing the financial statements, the Group has considered the impact of climate-related risks on its financial position and performance, including the impact on used vehicle prices (note 12). While the effects of climate change represent a source of uncertainty, the Group does not consider there to be a material impact on its judgements and estimates from the physical or transition climate change risks in the short to medium term. Accordingly, there is no significant risk of material adjustment to the carrying amount of assets and liabilities within the next financial year as a result of climate change.

Judgements

The Group has made following key judgements in the application of material accounting policy information.

(a) Measurement of expected credit losses

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

(b) Securitisation entities

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

(c) Customer claims provision and contingent liabilities

The Group recognises provisions in respect of present obligations arising from past events where it is probable that outflows of resources will be required to settle the obligations and they can be reliably estimated. Management's approach and key assumptions surrounding the provision is included within note 23.

The Group assesses possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are deemed remote. Management's approach and key assumptions surrounding the contingent liability is included within note 35.

Estimates

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

(d) Measurement of expected credit losses

ECL provision is subject to estimation uncertainties regarding the amount and the timing of future cash flows as well as incorporation of forward-looking information macro-economic scenarios. The ECL provision also include post model adjustments in order to take account of specific groups of customers with heightened credit risk not factored into the modelled provision. Key estimation uncertainties in the measurement of ECL are outlined in measurement of expected credit losses section starting on page 195. The Group's receivables under the general approach are sensitive to changes in macro-economic scenarios and therefore, outlined in note 34 page 197 is sensitivity analysis of the impact of applying 100% weighting to each scenario.

(e) Residual values and discount rates 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 values and discount rates are 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.

(f) Customer claims provision and contingent liability

The Group recognises a customer claims provision, where the Group is jointly and severally liable to customers who have claims against retailers or the Group for misrepresentation, breach of contract or customer redress, in accordance with the accounting policy stated in note 2.3(p). Key assumptions along with the sensitivity analysis surrounding the provision is included within note 23.

The Group also discloses a contingent liability (note 35) where it is either note probable or impracticable to make a reliable estimate of future obligations.

(g) Fair value measurement of equity instruments through other comprehensive income

The Group's investment in Gridserve Holdings Ltd (note 4.2) was initially measured at fair value through profit or loss. The initial valuation was based on the equity funding from Chariot (BidCo) Limited (also known as Infracapital) in August 2022. Subsequently, the Group has elected to recognised fair value changes through other comprehensive income. The fair valuation is subject to estimation uncertainties surrounding cashflow forecasts from Gridserve management taking into account the expected levels of capital expenditure, funding, debt repayment and forecast profitability. The Group does not consider that there is significant risk of material adjustments to the carrying amount of its investment in the next financial year.

2.5 New and amended International Financial Reporting Standards (IFRSs) 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 2023. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

(a) IFRSs issued and effective for the annual periods beginning on or after 1 April 2023

Amendments to IFRS 17 Insurance contracts

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

In December 2021, the IASB issued Initial Application of IFRS 17 and IFRS 9-Comparative Information (Amendment to IFRS 17) to address implementation challenges that were identified after IFRS 17 was published. The amendment addresses challenges in the presentation of comparative information. The amendments did not have any impact on the 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 of the primary users of the 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 were adopted by the Group in the current year and have not had any material impact on the Group's consolidated financial statements.

Amendments to IAS 8 Definition of accounting estimates

In February 2021, the Board issued amendments to IAS 8, in which it introduces a new definition of 'accounting estimates'.

The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

The previous definition of a change in accounting estimate specified that changes in accounting estimates may result from new information or new developments. Therefore, such changes are not corrections of errors. This aspect of the definition was retained by the Board.

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 were adopted by the Group in the current year and have not had any 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 were adopted by the Group in the current year and have not had any material impact on the Group's consolidated financial statements.

Amendments to IAS 12 Income taxes - International Tax Reform, Pillar Two Model Rules

The amendments to IAS 12 have been introduced in response to the OECD's BEPS Pillar Two rules and include:

- A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

The use of the mandatory temporary exception is to be applied immediately. The remaining disclosure requirements apply for annual reporting periods beginning on or after 1 January 2023.

The amendment impacts the Group's Income Tax disclosure outlined in note 11. This amendment does not impact the Group's consolidated income statement or statement of financial position.

(b) IFRSs issued but not yet effective

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 and non-current liabilities with covenants

There were two amendments to IAS 1, published in January 2020 and October 2022, affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify the following:

- The classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period and that the classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability.
- The covenants with which an entity must comply after the reporting period do not affect classification of a liability as current or non-current at the reporting date.
- The definition of 'settlement' is introduced to clarify that the settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The effective date for the amendments were deferred (previously 1 January 2023), with the amendments applied retrospectively for annual periods beginning on or after 1 January 2024, with early application permitted. The IASB is currently considering further amendments to the requirements in IAS 1 on classification of liabilities as current or non-current, including deferring the application of the January 2020 amendments.

This amendment is not expected to have any impact on the consolidated financial statements for the Group.

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

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

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

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

Amendments to IAS 7 and IFRS 7 Supplier Finance arrangements

On 25 May 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures.

The disclosure requirements in the amendments enhance the current requirements and are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on the Group's liabilities, cash flows and exposure to liquidity risk.

The amendments clarify the characteristics of supplier finance arrangements. In these arrangements, the Group pay amounts to its customers' suppliers. The customers agree to settle those amounts with the Group according to the terms and conditions of the arrangements, either at the same date or at a later date than that on which the Group pay the customers' suppliers. As a result, supplier finance arrangements provide the customer with extended payment terms, or the customers' suppliers with early payment terms, compared to the original payment due dates.

The amendments require the Group to provide information about the impact of supplier finance arrangements on liabilities and cash flows, including:

- Terms and conditions of the arrangement
- Following information as at the beginning and end of the reporting period:
  - The carrying amounts of supplier finance arrangement financial liabilities and the line items in which those liabilities are presented
  - The carrying amounts of financial liabilities and the line items, for which the Group have already settled the corresponding trade payables
  - The range of payment due dates for financial liabilities owed to the Group and for comparable trade payables that are not part of those arrangements
  - The type and effect of non-cash changes in the carrying amounts of supplier finance arrangement financial liabilities, which prevent the carrying amounts of the financial liabilities from being comparable

The amendments require the Group to aggregate information about its supplier finance arrangements. However, the Group must disaggregate information about unusual or unique terms and conditions of individual arrangements when they are dissimilar. Explanatory information about payment due dates, when those payment due date ranges are wide, must also be disaggregated.

In the context of quantitative liquidity risk disclosures in IFRS 7, supplier finance arrangements are included as an example of other factors that might be relevant to disclose.

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

Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates, lack of exchangeability

On 15 August 2023, the IASB issued amendments to IAS 21 the effects of changes in foreign exchange rates, Lack of Exchangeability.

The amendments require companies to apply a consistent approach in assessing whether a currency is exchangeable into another currency. When a currency is not exchangeable, an estimation should be made of the spot exchange rate.

Disclosure requirements must be provided to investors to understand the financial statement effects of a currency not being exchangeable into another currency.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2025, with early application permitted. These amendments will be adopted by the Group on 1 April 2025 and are not expected to have any impact on the Group's consolidated financial statements.

3 OPERATING SEGMENT INFORMATION

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

The Group offers finance solutions to a range of customers and its operations are split into seven operating segments 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. For each of the reportable segments, the Board, which is the Chief Operating Decision Maker, reviewed internal management reports on a monthly basis. Segmental performance is evaluated based on the segmental gross profit, profit before tax and net earning assets (NEA) which represent the loans, receivables, finance and operating lease contracts with customers net of initial direct costs. A reconciliation between NEA and total asset is included at the end of this note.

No revenues earned from transactions with a single external customer amount to 10% or more of the Group's revenues in either the 2024 or 2023 reporting periods. Revenue from the Group's European operations is earned through EVF EUR and MHC Mobility and therefore, geographical analysis is not presented separately. Inter segment sales are charged at prevailing market rates.

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

The principal activities of each business unit are as follows:

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

The administration costs relating to the group's support functions such as Finance, Treasury, IT, Risk and Human Resources are allocated to each segment on a reasonable basis, consistent with previous years. The Group Treasury function is responsible for arranging finance on behalf of the Group and as such the funding costs are allocated to each segment based on their respective borrowing requirements.

Company

Year ended 31 March 2024	NCF £m	NVS £m	NBF £m	NBCF £m	EVF UK £m	Corporate £m	Company £m
Interest Income	236.9	-	30.5	24.9	2.3	(1.2)	293.4
Finance lease income	-	2.1	74.5	-	6.2	-	82.8
Operating lease rental income	-	469.6	7.5	-	-	(5.0)	472.1
Operating lease maintenance income	-	63.5	-	-	-	-	63.5
Sale of operating leased assets	-	280.0	5.9	-	-	-	285.9
Other operating income	14.6	16.2	19.3	(0.2)	0.4	0.5	50.8
Revenue	**251.5**	**831.4**	**137.7**	**24.7**	**8.9**	**(5.7)**	**1,248.5**
Finance costs	(126.9)	(57.1)	(65.6)	(6.5)	(4.9)	-	(261.0)
Depreciation & impairment of operating lease assets	-	(324.2)	(5.9)	-	-	-	(330.1)
Maintenance expense on operating leased assets	-	(60.6)	-	-	-	-	(60.6)
Disposal of operating leased assets	-	(248.6)	(1.7)	-	-	-	(250.3)
Other cost of sales	1.9	(10.5)	(0.1)	(1.4)	-	-	(10.1)
Cost of sales	**(125.0)**	**(701.0)**	**(73.3)**	**(7.9)**	**(4.9)**	**-**	**(912.1)**
Gross Profit	**126.5**	**130.4**	**64.4**	**16.8**	**4.0**	**(5.7)**	**336.4**
Impairment losses on credit exposures	(20.4)	(2.5)	(2.4)	(0.3)	0.2	-	(25.4)
Administrative expenses	(76.7)	(65.1)	(38.6)	(12.9)	(3.9)	4.0	(193.2)
Operating Profit	**29.4**	**62.8**	**23.4**	**3.6**	**0.3**	**(1.7)**	**117.8**
Fair value loss on derivative financial instruments	-	-	-	-	-	(2.3)	(2.3)
Profit before tax	**29.4**	**62.8**	**23.4**	**3.6**	**0.3**	**(4.0)**	**115.5**
Income tax	(7.7)	(16.3)	(6.1)	(0.9)	(0.1)	5.6	(25.5)
Profit/(loss) after tax	**21.7**	**46.5**	**17.3**	**2.7**	**0.2**	**1.6**	**90.0**
Total Assets	**3,321.4**	**2,100.4**	**1,819.0**	**307.6**	**200.1**	**282.8**	**8,031.3**
Total Liabilities	**2,740.5**	**1,859.2**	**1,611.3**	**296.5**	**177.4**	**292.9**	**6,977.8**
Net earning assets	**3,298.0**	**1,902.3**	**1,757.5**	**130.4**	**190.1**	**-**	**7,278.3**

Group

Year ended 31 March 2024	Company £m	EVF EUR £m	MHC Mobility £m	Corporate £m	Group £m
Interest Income	293.4	0.3	0.1	-	293.8
Finance lease income	82.8	6.5	1.2	(1.3)	89.2
Operating lease rental income	472.1	-	161.1	0.1	633.3
Operating lease maintenance income	63.5	-	67.1	-	130.6
Sale of operating leased assets	285.9	-	100.0	-	385.9
Other operating income	50.8	0.3	21.3	-	72.4
Revenue	**1,248.5**	**7.1**	**350.8**	**(1.2)**	**1,605.2**
Finance costs	(261.0)	(3.1)	(26.5)	1.2	(289.4)
Depreciation & impairment of operating lease assets	(330.1)	-	(103.0)	-	(433.1)
Maintenance expense on operating leased assets	(60.6)	-	(44.5)	-	(105.1)
Disposal of operating leased assets	(250.3)	-	(84.5)	-	(334.8)
Other cost of sales	(10.1)	-	(36.2)	-	(46.3)
Cost of sales	**(912.1)**	**(3.1)**	**(294.7)**	**1.2**	**(1,208.7)**
Gross Profit	**336.4**	**4.0**	**56.1**	**-**	**396.5**
Impairment losses on credit exposures	(25.4)	(0.2)	(0.7)	-	(26.3)
Administrative expenses	(193.2)	(3.6)	(45.1)	-	(241.9)
Operating Profit	**117.8**	**0.2**	**10.3**	**-**	**128.3**
Fair value loss on derivative financial instruments	(2.3)	-	-	-	(2.3)
Profit before tax	**115.5**	**0.2**	**10.3**	**-**	**126.0**
Income tax	(25.5)	-	(7.8)	(0.1)	(33.4)
Profit/(loss) after tax	**90.0**	**0.2**	**2.5**	**(0.1)**	**92.6**
Total Assets	**8,031.3**	**135.1**	**833.5**	**(174.8)**	**8,825.1**
Total Liabilities	**6,977.8**	**128.0**	**777.1**	**(130.2)**	**7,752.7**
Net earning assets	**7,278.3**	**131.2**	**749.1**	**(5.3)**	**8,153.3**

Company

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

Group

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

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

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

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

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

	2024 £m	2023 £m
Total assets	**8,825.1**	**8,472.8**
Assets not included in NEA		
Intangible assets	(59.6)	(65.6)
Investment accounted for under the equity method	(0.1)	-
Other property, plant and equipment	(31.8)	(28.6)
Derivative Financial Instruments	(73.3)	(139.4)
Deferred tax assets	-	(3.7)
Retirement benefit asset	(5.4)	(1.0)
Inventories	(35.9)	(32.9)
Current tax asset	(1.6)	(18.3)
Trade and other receivables	(183.9)	(187.6)
Cash and cash equivalents	(59.3)	(181.3)
Equity instruments at Fair Value through Other Comprehensive Income	(37.9)	(40.7)
Other assets	(6.1)	(8.4)
Liabilities included in NEA		
Balances due to invoice financing clients	(142.7)	(145.5)
Rentals in advance	(34.2)	(33.7)
Net Earning Assets	**8,153.3**	**7,586.1**

4. INVESTMENTS

4.1 Investment in Subsidiaries (Company)

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

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

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

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

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

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

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

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

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

MHC Mobility contributed £189.9m revenue and £13.1m to the Group's profit before tax for the period between the date of acquisition and 31 March 2023 (note 3).

If the acquisition of MHC Mobility had been completed on 1 April 2022, Group revenues for the year ended 31 March 2023 would have been £1,322.1m and Group profit before tax would have been £165.8m.

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

In May 2023, MHC Mobility Europe B.V sold its 100% shareholding in Mobility Mixx B.V. for £1.5m which resulted in a net loss on disposal of £0.7m to the Group which has been recognised within other operating income in the Group's income statement.

On 3 October 2023, the Group acquired the remaining 0.47% share capital in MHC Mobility Holdings B.V. in exchange for a cash consideration of £266,570 from Veenstra Klazienaveen Holding B.V., a private company incorporated in the Netherlands. Following the acquisition, the Group now holds 100% shareholding in MHC Mobility Holdings B.V.

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

	Hitachi Capital Vehicle Solutions Ltd £m	Mitsubishi HC Capital Europe B.V. £m	MHC Mobility B.V. £m	Total £m
At 31 March 2022	**1.7**	**6.0**	**-**	**7.7**
Acquisition during the year	-	-	33.5	33.5
At 31 March 2023	**1.7**	**6.0**	**33.5**	**41.2**
Acquisition during the year	-	-	4.6	4.6
At 31 March 2024	**1.7**	**6.0**	**38.1**	**45.8**

Hitachi Capital Vehicle Solutions Ltd is a dormant entity.

The subsidiary companies, Mitsubishi HC Capital Europe B.V. (73824917) and MHC Mobility Europe B.V. (86993577), have claimed exemption from audit given they qualify as small entities under the Dutch Civil Code.

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

4.2 Equity investments

As at 1 April 2022, the Group held a 19.63% interest in Gridserve Holdings Ltd, a company incorporated in England and Wales specialising in provision of sustainable energy solutions. The Group concluded that it exerted significant influence over Gridserve Holdings Ltd through this investment and the provision of debt facilities through Novuna's Business Finance division. As such, the investment was accounted for using the equity method in the Group's consolidated financial statements.

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

The following table outlines the movement in the Group's interest in Gridserve Holdings Ltd for the year ended March 2023.

	Gridserve Holdings Ltd £m
At 31 March 2022	**1.6**
Share of loss in the year	(1.6)
At 31 March 2023 and 31 March 2024	**-**

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

Following the transaction, the Group's share in Gridserve Holdings Ltd is diluted to 8.53% ordinary shares and therefore the Group is deemed to have lost significant influence over Gridserve Holdings Ltd. As such, the Group discontinued equity accounting for its share in Gridserve and recognised its remaining investment, initially, at fair value through profit or loss resulting in a £44.1m gain which was recognised through the income statement in the year ended 31 March 2023.

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

In accordance with IFRS 9 and the Group's accounting policy in note 2.3(j), the Group has elected to recognise subsequent measurement of fair value gains and losses through Other Comprehensive Income (note 26).

Outlined below is a summary of initial measurement of the investment through the Group's Consolidated Income Statement for the year ended 31 March 2023.

	2023 **£m**
Carrying amount of investment in Gridserve Holdings Ltd on 3 August 2022	-
Fair value of retained interest in Gridserve Holdings Ltd (8.53%)	44.1
Gain on discontinuation of equity method on 3 August 2022	**44.1**

There were no gains or losses in the year ended 31 March 2024.

5. INTEREST INCOME

	2024 **£m**	**2023** **£m**
At amortised cost		
Loans and advances to customers at amortised cost	292.8	227.8
Financial instruments held at amortised cost	-	0.6
Total	**292.8**	**228.4**
At fair value through profit or loss		
Financial instruments held at fair value through profit or loss	1.0	(9.1)
Total interest income	**293.8**	**219.3**

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

6. OTHER OPERATING INCOME

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

	2024 **£m**	**2023** **£m**
Fleet management and other services	32.1	8.6
Administration fee income	24.8	19.9
Gain/(Loss) on disposal of finance lease assets	0.4	(0.1)
Other income	15.1	24.9
Total revenue	**72.4**	**53.3**

Other operating income presented above has been disaggregated to provide income amounts for material categories of products and services provided by the Group, in accordance with the disclosure requirements of IFRS 15 'Revenues from contracts with customers'.

Other income predominately relates to early settlement income on instalment finance receivables and sundry fee income on operating lease contracts.

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 £0.9m (2023 £0.5m) 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

	2024 £m	2023 £m
At amortised cost		
Finance costs on loans and borrowings	288.8	152.4
Finance costs on right of use land and buildings	0.6	0.3
Total finance costs	**289.4**	**152.7**

During the year, the Group's finance costs on loans and borrowings have increased due to a significant increase in interest rates together with growth in business.

8. OTHER COST OF SALES

	Note	2024 £m	2023 £m
Commission expense		11.8	17.6
Customer claim charges and provisions	23	(2.5)	18.6
Insurance expense		29.4	8.4
Other expenses		7.6	2.1
Total other cost of sales		**46.3**	**46.7**

In 2023, Customer claim charges and provisions included £16.2m provision in respect of certain finance products sold by the Company up until December 2020 (note 23).

9. ADMINISTRATIVE EXPENSES AND AUDITOR’S REMUNERATION

	2024 £m	2023 £m
Wages and salaries	105.6	92.3
Social security costs	14.8	12.8
Pension and other post-employment benefit costs	6.9	5.8
Other employee expense	27.0	26.5
Premises and office	20.9	20.2
IT and telephony	37.2	45.0
Marketing	9.0	5.9
Professional services and other	18.4	13.4
Impairment of goodwill	-	1.8
Auditor’s remuneration		
Fees paid for the audit of the Company	1.7	1.6
Fees paid for the audit of subsidiaries	0.4	0.4
Total auditor's remuneration	**2.1**	**2.0**
Total administrative expenses	**241.9**	**225.7**

The fees paid for the audit of the Company include £80,729 (2023: £52,662) relating to non-audit services provided by the auditors during the year.

In 2023, IT and telephony included the impact from the implementation of Software As a Service guidance (note 2.3(i)) whereby internal resource costs of £5.8m have been expensed to the income statement.

The number of full-time equivalent (“FTE”) employees at 31 March 2024 was 2,286 (2023: 2,248), which included permanent and temporary staff as well as those on fixed term contracts. Of this, the Company had 1,800 (2023: 1,800).

The Group employed an average of 2,269 (2023: 2,033) FTE employees during the year. Of this, the Company had 1,798 (2023: 1,728).

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.

In 2023, the Group incurred directly attributable integration costs amounting to £2.4m. These are one-off in nature and therefore, in accordance with IAS 1 Presentation of Financial Statements, the Group has elected to disclose them separately on the face of the income statement.

11. INCOME TAX

	2024 £m	2023 £m
Current income tax		
Charge for the year	26.8	15.5
UK corporation tax adjustment to prior periods	(2.9)	(2.0)
	23.9	**13.5**
Deferred taxation		
Origination and reversal of temporary differences in the current year	7.4	22.2
Adjustment in respect of prior years	2.1	5.2
Total	**9.5**	**27.4**
Tax charge on profit	**33.4**	**40.9**

The effective tax rate on profit before tax for the year was 26.5% (2023: 25.5%) compared to the standard rate of corporation tax of 25.0% (2023: 19.0%).

The differences are reconciled below:

Group	2024 £m	2023 £m
Profit before tax	**126.0**	**160.8**
Tax on profit at UK corporation tax rate of 25% (2023: 19%)	31.5	30.5
Increase in current and deferred tax from adjustment for prior periods	(0.7)	3.3
Increase from effect of expenses not deductible in determining taxable profit	2.6	7.2
Impact of rate change on net deferred tax liabilities	-	(0.1)
Tax charge	**33.4**	**40.9**

The UK rate of Corporation Tax is currently 25% and has been in place since 1 April 2023. As a result, deferred tax carried forward as at 31 March 2024 has been recognised at the 25% tax rate.

During the year, the Group recognised a net tax receipts of £0.6m which included a £17.5m repayment from HMRC in respect of overpaid tax in prior years.

Amounts recognised in other comprehensive income:

	Gain or loss on cash flow hedges £m	Remeasurements of post employment benefit obligations £m	Gain or loss on Equity instruments at FVTOCI £m
2023			
Before tax	70.2	(9.0)	(3.4)
Tax expense	(19.8)	2.3	0.9
Net of tax	**50.4**	**(6.7)**	**(2.6)**
2024			
Before tax	(68.7)	(0.4)	(2.8)
Tax (expense) / benefit	16.6	0.1	0.7
Net of tax	**(52.1)**	**(0.3)**	**(2.1)**

International Tax Reform - Pillar Two Model Rules (Amendments to IAS 12)

On 23 May 2023, amendments to IAS 12 were published and adopted from that date. These amendments introduced a temporary mandatory relief from accounting for deferred taxes arising from the jurisdictional implementation of the Organisation for Economic Co-operation and Development (OECD)/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) Pillar Two Model Rules (Pillar Two or Pillar Two income taxes). On 20 June 2023, the UK Government substantively enacted the Pillar Two framework. The adoption of Pillar Two by the jurisdictions in which the Group operates is not expected to have a significant impact. As required by the amendments to IAS 12, the Group has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

Deferred tax

Deferred tax is calculated on all temporary differences under the liability method. There are no temporary differences in respect of which deferred tax has not been recognised.

The deferred assets and liabilities within the same jurisdiction have been offset in the Group's Statement of Financial Position in accordance with its accounting policy note 2.3(f).

Deferred tax movement:

	Accelerated tax depreciation £m	Pension benefit obligations £m	Revaluation of cash flow hedges £m	Other items £m	Total £m
Group					
As at 01 April 2022	(0.5)	(1.9)	(7.2)	1.8	(7.8)
Acquisition of subsidiary	(0.6)	-	-	0.2	(0.4)
Recognised in income	(19.7)	-	-	(7.6)	(27.3)
Recognised in other comprehensive income	-	1.7	(19.9)	1.0	(17.2)
As at 31 March 2023	**(20.8)**	**(0.2)**	**(27.1)**	**(4.6)**	**(52.7)**
Recognised in income	(9.8)	-	-	0.3	(9.5)
Recognised in other comprehensive income	-	0.1	16.6	0.7	17.4
Other movements	-	-	-	0.3	0.3
As at 31 March 2024	**(30.6)**	**(0.1)**	**(10.5)**	**(3.3)**	**(44.5)**

	Accelerated tax depreciation £m	Pension benefit obligations £m	Revaluation of cash flow hedges £m	Other items £m	Total £m
Company					
As at 01 April 2022	(0.7)	(1.9)	(7.2)	1.9	(7.9)
Recognised in income	(15.8)	-	-	(10.8)	(26.6)
Recognised in other comprehensive income	-	1.7	(19.9)	1.0	(17.2)
As at 31 March 2023	**(16.5)**	**(0.2)**	**(27.1)**	**(7.9)**	**(51.7)**
Recognised in income	(5.4)	-	-	2.2	(3.2)
Recognised in other comprehensive income	-	-	16.5	0.7	17.2
As at 31 March 2024	**(21.9)**	**(0.2)**	**(10.6)**	**(5.0)**	**(37.7)**

12. PROPERTY, PLANT AND EQUIPMENT UNDER OPERATING LEASES

Group

The group reviews residual values on its operating lease contracts, at least annually, and prospectively adjusts future depreciation such the assets are depreciated to the expected amount that the Group would currently obtain from the disposal of the asset, if the asset was already of the age and conditions expected at the end of the assets' useful life.

The Group tests annually for any impairment on operating leased asset residual values. As part of the assessment, the group considers both internal and external factors to determine the recoverable amount, as measured by the value in use, of each asset or a cash generating unit. The value in use is the present value of future cash flows expected to be derived from an individual asset or a group of assets at a customer level. The key assumptions used in determining the value in use are the discount rate and estimated residual values less costs of disposal at the end of the lease term. If the carrying amount of an asset or a cash generating unit is greater than the value in use, an impairment loss is recognised to the within cost of sales in the income statement. If there has been a change in estimates used in determining the recoverable amount, any impairment loss is reversed only to the extent of the asset's carrying amount before any impairment loss was recognised.

The Group's impairment of operating leased assets comprises the UK, the Netherlands, Germany, Poland and Hungary. Outlined below are the Group's pre-tax discount rate, as calculated by the Weighted Average Cost of Capital, for each country.

	2024	2023
The United Kingdom	6.76%	6.77%
The Netherlands	5.22%	5.66%
Germany	5.22%	5.64%
Poland	7.04%	8.02%
Hungary	8.86%	13.82%
Slovakia	5.56%	-
Czech Republic	6.42%	-

Estimated future residual values and discount rate remain the Group's key sources of estimation uncertainty in respect of property, plant and equipment under operating leases. Outlined below is the Group's sensitivity analysis of these key variables in reasonable scenarios, based on historical performance, in order to assess their impact on the Group's impairment provision.

Increase in residual values and decrease in discount rate	**Impairment charge/(release) 2024 £m**	**Impairment charge/(release) 2023 £m**
2.5% increase in residual values	(21.5)	(12.8)
1% decrease in discount rate	(23.2)	(18.1)

Decrease in residual values and increase in discount rate	**Impairment charge/(release) 2024 £m**	**Impairment charge/(release) 2023 £m**
2.5% decrease in residual values	23.0	14.5
1% increase in discount rate	25.7	19.5

The group benefits from a well-diversified range of vehicles and sales channels so the impact of changes in used vehicle prices or discount rate would not have a linear relationship with the amount of impairment.

The operating lease asset depreciation and impairment charge for the Group was £433.1m and the Company was £330.1m (2023: Group £348.2m and Company £285.6m).

The table below outlines the impact of prospective depreciation and impairment on the total depreciation and impairment charge for the year. These are included within the cost of sales in the Group's Income Statement.

	Group		Company	
	2024 £m	**2023 £m**	**2024 £m**	**2023 £m**
Revaluation of residual values included within depreciation and impairment charge for the year				
Prospective depreciation credit (i)	(57.4)	(122.9)	(25.8)	(119.1)
Impairment charge (ii)	30.2	94.9	4.0	89.6
Net credit for the year	**(27.2)**	**(28.0)**	**(21.8)**	**(29.5)**
Reversal of prospective depreciation and impairment included within disposal of operating leased assets				
Prospective depreciation reversal charge	59.0	37.4	44.4	36.8
Impairment reversal credit	(16.7)	(7.7)	(14.5)	(7.1)
Net charge for the year	**42.3**	**29.7**	**29.9**	**29.7**
Net charge in respect of prospective depreciation and impairment adjustments	**15.1**	**1.7**	**8.1**	**0.2**

(i) The prospective depreciation credit above reflects the current used vehicle prices being higher than those estimated at the inception of the lease contracts. The reduction in adjustment during the year reflects the slowdown in the used vehicle market as supply chain pressures eased and used vehicle prices slowly returned back towards historical long term average.

(ii) The impairment charge above relates to the operating leased assets where it was deemed that the assets' carrying values were greater than the value in use which include future expectations of the assets' residual values at the end of the lease term. The reduction in impairment charge reflects the used vehicle market stabilising following exceptionally high prices in the last three years.

At 31 March 2024, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £335.1m (2023: £378.9m), being assets to be leased to customers under operating lease contracts. Management has determined that the necessary funding will be available from existing facilities to cover these commitments.

Operating leased assets, outlined in the table below, represent vehicles leased to customers on operating lease contracts and assets held for use in operating leases.

	Operating leased assets £m	Assets held for use in operating leases £m	Total £m
Cost			
At 1 April 2022	**2,182.6**	**19.8**	**2,202.4**
Additions	846.2	14.4	860.6
Disposals	(417.7)	-	(417.7)
Transfers	0.8	-	0.8
Foreign exchange movements	34.4	-	34.4
Acquisition of subsidiary	650.3	0.2	650.5
At 31 March 2023	**3,296.6**	**34.4**	**3,331.0**
Additions	1,093.9	24.3	1,118.2
Disposals	(638.0)	(0.2)	(638.2)
Transfers	(0.1)	-	(0.1)
Foreign exchange movements	(6.7)	-	(6.7)
At 31 March 2024	**3,745.7**	**58.5**	**3,804.2**
Accumulated depreciation and impairment			
At 1 April 2022	**628.6**	-	**628.6**
Transfers	0.7	-	0.7
Charge for year	253.3	-	253.3
Disposals	(196.5)	-	(196.5)
Impairment charge	94.9	-	94.9
Foreign exchange movements	10.3	-	10.3
Acquisition of subsidiary	196.5	-	196.5
At 31 March 2023	**987.8**	**-**	**987.8**
Charge for the year	402.9	-	402.9
Disposals	(303.3)	-	(303.3)
Impairment charge	30.2	-	30.2
Transfers	0.2	-	0.2
Foreign exchange movements	(3.1)	-	(3.1)
At 31 March 2024	**1,114.7**	-	**1,114.7**
Carrying amount			
At 31 March 2023	**2,308.8**	**34.4**	**2,343.2**
At 31 March 2024	**2,631.0**	**58.5**	**2,689.5**

Company

	Operating leased assets £m	Assets held for use in operating leases £m	Total £m
Cost			
At 1 April 2022	**2,179.6**	**19.8**	**2,199.4**
Additions	640.9	14.4	655.3
Disposals	(328.2)	-	(328.2)
Transfers	0.6	-	0.6
At 31 March 2023	**2,492.9**	**34.2**	**2,527.1**
Additions	751.5	15.1	766.6
Disposals	(466.9)	-	(466.9)
At 31 March 2024	**2,777.5**	**49.3**	**2,826.8**
Accumulated depreciation and impairment			
At 1 April 2022	**628.2**	-	**628.2**
Charge for the year	196.0	-	196.0
Disposals	(149.4)	-	(149.4)
Impairment charge	89.6	-	89.6
Transfers	0.6	-	0.6
At 31 March 2023	**765.0**	**-**	**765.0**
Charge for the year	326.1	-	326.1
Disposals	(216.6)	-	(216.6)
Impairment charge	4.0	-	4.0
At 31 March 2024	**878.5**	-	**878.5**
Carrying amount			
At 31 March 2023	**1,727.9**	**34.2**	**1,762.1**
At 31 March 2024	**1,899.0**	**49.3**	**1,948.3**

13 OTHER PROPERTY, PLANT, EQUIPMENT & RIGHT OF USE ASSETS

Group

	Land and buildings £m	Right of use assets - Property leases £m	Furniture, fittings and equipment £m	Motor vehicles £m	Total £m
Cost					
At 1 April 2022	**5.9**	**20.2**	**19.1**	**-**	**45.2**
Additions	-	1.9	6.3	-	8.2
Acquisition of subsidiary	0.1	19.0	9.0	-	28.1
Disposals	-	(3.2)	(2.2)	-	(5.4)
Transfers	-	-	(0.4)	-	(0.4)
Foreign exchange movements	-	1.0	0.5	-	1.5
At 31 March 2023	**6.0**	**38.9**	**32.3**	**-**	**77.2**
Additions	1.0	4.3	3.4	2.7	11.4
Disposals	-	(15.5)	(3.7)	(0.8)	(20.0)
Transfers	-	-	0.1	-	0.1
Foreign exchange movements	-	(0.4)	(0.3)	-	(0.7)
At 31 March 2024	**7.0**	**27.3**	**31.8**	**1.9**	**68.0**
Accumulated depreciation and impairment					
At 1 April 2022	**0.6**	**10.3**	**16.8**	**-**	**27.7**
Charge for year	0.1	3.0	1.8	-	4.9
Eliminated on disposal	-	(3.0)	(2.3)	-	(5.3)
Transfers	-	-	(0.1)	-	(0.1)
Acquisition of subsidiary	-	15.3	5.0	-	20.3
Foreign exchange movements	-	0.8	0.3	-	1.1
At 31 March 2023	**0.7**	**26.4**	**21.5**	**-**	**48.6**
Charge for the year	0.1	3.3	2.5	-	5.9
Eliminated on disposal	-	(15.7)	(2.3)	0.4	(17.6)
Transfers	-	-	(0.2)	-	(0.2)
Foreign exchange movements	-	(0.4)	(0.1)	-	(0.5)
At 31 March 2024	**0.8**	**13.6**	**21.4**	**0.4**	**36.2**
Carrying amount					
At 31 March 2023	**5.3**	**12.5**	**10.8**	**-**	**28.6**
At 31 March 2024	**6.2**	**13.7**	**10.4**	**1.5**	**31.8**

Company

	Land and buildings £m	Right of use assets - Property leases £m	Furniture, fittings and equipment £m	Total £m
Cost				
At 1 April 2022	**5.9**	**20.2**	**19.1**	**45.2**
Additions	-	-	3.0	3.0
Disposals	-	(2.5)	(1.6)	(4.1)
At 31 March 2023	**5.9**	**17.7**	**20.5**	**44.1**
Additions	-	-	1.7	1.7
Disposals	-	(3.2)	(0.2)	(3.4)
At 31 March 2024	**5.9**	**14.5**	**22.0**	**42.4**
Accumulated depreciation and impairment				
At 1 April 2022	**0.6**	**10.3**	**16.8**	**27.7**
Charge for year	0.1	1.5	1.0	2.6
Eliminated on disposal	-	(2.4)	(1.8)	(4.2)
At 31 March 2023	**0.7**	**9.4**	**16.0**	**26.1**
Charge for the year	0.1	1.5	1.2	2.8
Eliminated on disposal	-	(3.4)	(0.3)	(3.7)
At 31 March 2024	**0.8**	**7.5**	**16.9**	**25.2**
Carrying amount				
At 31 March 2023	**5.2**	**8.3**	**4.5**	**18.0**
At 31 March 2024	**5.1**	**7.0**	**5.1**	**17.2**

Depreciation expense relating to the Group's other property, plant and equipment (including right of use assets) of £5.9m (2023: £4.9m) 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.

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 2022	**92.0**	**1.0**	**17.7**	**110.7**
Additions	5.1	-	-	5.1
Disposals	(14.7)	-	-	(14.7)
Transfers	0.2	-	-	0.2
Acquisition of subsidiary	3.6	2.3	4.3	10.2
Foreign exchange movements	0.2	0.1	0.4	0.7
At 31 March 2023	**86.4**	**3.4**	**22.4**	**112.2**
Additions	4.5	-	-	4.5
Disposals	(1.0)	-	-	(1.0)
Foreign exchange movements	(0.1)	0.2	0.2	0.3
At 31 March 2024	**89.8**	**3.6**	**22.6**	**116.0**
Amortisation				
At 1 April 2022	**29.5**	**0.4**	**3.0**	**32.9**
Charge for year	10.9	1.4	-	12.3
Eliminated on disposal	(3.4)	-	-	(3.4)
Impairment	-	-	1.7	1.7
Transfers	0.2	-	-	0.2
Acquisition of subsidiary	3.0	-	-	3.0
Foreign exchange movements	(0.1)	-	-	(0.1)
At 31 March 2023	**40.1**	**1.8**	**4.7**	**46.6**
Charge for year	10.2	0.1	-	10.3
Eliminated on disposal	(0.6)	-	-	(0.6)
Foreign exchange movements	(0.1)	0.1	0.1	0.1
At 31 March 2024	**49.6**	**2.0**	**4.8**	**56.4**
Carrying amount				
At 31 March 2023	**46.3**	**1.6**	**17.7**	**65.6**
At 31 March 2024	**40.2**	**1.6**	**17.8**	**59.6**

Company

	Capitalised software £m	Other intangible assets £m	Goodwill £m	Total £m
Cost or valuation				
At 1 April 2022	**92.0**	**1.0**	**17.7**	**110.7**
Additions	5.1	-	-	5.1
Disposals	(14.7)	-	-	(14.7)
At 31 March 2023	**82.4**	**1.0**	**17.7**	**101.1**
Additions	4.2	-	-	4.2
Disposals	(1.0)	-	-	(1.0)
At 31 March 2024	**85.6**	**1.0**	**17.7**	**104.3**
Amortisation				
At 1 April 2022	**29.5**	**0.4**	**3.0**	**32.9**
Charge for year	10.7	0.1	-	10.8
Eliminated on disposal	(3.4)	-	-	(3.4)
At 31 March 2023	**36.8**	**0.5**	**3.0**	**40.3**
Charge for year	9.9	0.1	-	10.0
Eliminated on disposal	(0.5)	-	-	(0.5)
At 31 March 2024	**46.2**	**0.6**	**3.0**	**49.8**
Carrying amount				
At 31 March 2023	**45.6**	**0.5**	**14.7**	**60.8**
At 31 March 2024	**39.4**	**0.4**	**14.7**	**54.5**

Capitalised software includes £2.7m (2023: £5.4m) relating to capitalisation of development expenditure for assets which are not yet ready for use. The remainder relates to development expenditure for assets which have been deployed into production and therefore are being amortised in line with the Group accounting policy 2.3 (i). The remaining amortisation period for assets which have been deployed into production is an average of 2.4 years (2023: 2.5 years).

During the year, £2.2m (2023: £2.4m) of internal resource costs have been expensed to the Income Statement in respect SaaS project that did not meet the criteria for capitalisation set out in the Group's accounting note 2.3 (i).

In March 2023, disposal of capitalised software included the impact from the implementation of Software As a Service guidance (note 2.3(i)) whereby internal resource costs (£5.8m) have been expensed to the income statement (note 9) and implementation costs (£6.3m) which are not distinct from the access to SaaS application have been prepaid over the term of the arrangement (note 21).

The amortisation charge relating to capitalised software and other intangibles is included in the administrative expense line of the income statement. The title to intangible assets is not restricted and these assets are not pledged as security for liabilities.

At 31 March 2023, neither the Group nor the Company had any contractual commitments for the acquisition of intangible assets (2023: None).

Goodwill acquired through business combinations has been allocated to individual cash-generating units, which are also reportable business segments, for impairment testing. The recoverable amount for each cash generating unit has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a four year period. The pre-tax discount rates, represented by cost of equity, were applied to cash flow projections for each business segment to goodwill was allocated. Cash flows beyond the four year period were extrapolated using a range of growth rates between 2% and 10% (2023: 2% and 10%) depending on the nature of the business segments. Outlined below are carrying amount of goodwill and the pre-tax discount rates used for goodwill impairment assessment.

Carrying amount of goodwill	2024 £m	2023 £m
Novuna Business Cash Flow	4.9	4.9
Novuna Vehicle Solutions - SME channel	4.1	4.1
Novuna Vehicle Solutions - Specialist channel	1.7	1.7
Novuna Business Finance	4.0	4.0
Eurofleet Zrt.	3.1	3.0
Total	**17.8**	**17.7**

Goodwill in Eurofleet Zrt, a company incorporated in Hungary, was acquired as part of acquisition of MHC Mobility sp. z.o.o. (note 4.1). All other business segments are based in the United Kingdom.

Pre-tax discount rates, represented by cost of equity, used in Goodwill assessments are 13.05% (2023: 13.98%) for UK business segments and 17.57% (2023: 20.69%) for Eurofleet Zrt.

The key assumptions used in the calculation of value in use were budget assumptions to which an estimate of growth rate was used to extrapolate cash flows beyond the budget period and a discount rate was then applied. The budgets for each cash generating unit are representative of operational and financial aspects that relate to that unit and include past experience, default rates, impairment implications and market conditions prevailing at the time. As a result, management have used their current asset base and new sales opportunities to derive the revenue and profitability expectations for the operating unit. These budgets are approved by senior management and the parent company. The growth rate used to extrapolate cash flows beyond the budget period has been based on the long term growth rate of the economy. An internal rate of return method was used in the calculation of value in use, which resulted in returns in excess of the parent company's minimum expectations.

Sensitivity analysis was performed to evaluate the impact of changes in cash flows, growth rates and discount rate on the amount of goodwill. In addition, management carried out a goodwill assessment against reasonably possible scenarios impacting future cashflows and discount rates of each business segment and concluded that these changes, either individually or in combination, would not result in impairment of goodwill.

15. IMPAIRMENT LOSSES ON CREDIT EXPOSURES

Movements in provision for expected credit losses

	2024 £m	2023 £m
Group		
At 1 April	66.0	56.3
Amounts written off	(40.9)	(28.2)
Recoveries	5.7	11.9
Charge to the income statement	26.3	22.4
Acquisition of subsidiary	-	2.8
Other adjustments	(0.5)	0.8
Total as at 31 March	**56.6**	**66.0**

The Group's total expected credit loss provision consists of loans and advances to customers of £51.5m (2023: £62.2m) and trade receivables £5.1m (2023: £3.8m). Further details can be found in note 34 and note 21, respectively.

	2024 £m	2023 £m
Company		
At 1 April	62.4	55.6
Amounts written off	(39.0)	(27.9)
Recoveries	5.1	11.8
Charge to the income statement	25.3	22.6
Other adjustments	-	0.3
Total at 31 March	**53.8**	**62.4**

16. LOANS AND ADVANCEMENTS TO CUSTOMERS

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

	2024 £m	%	2023 £m	%
Group				
Finance lease receivables	201.7	6.8	201.0	6.4
Hire Purchase agreements	1,089.2	7.2	1,130.2	6.1
Instalment finance agreements	3,700.8	6.9	3,492.8	6.9
Other loans and advances	588.8	7.2	531.8	-
Total	**5,580.5**	**7.0**	**5,355.8**	**6.8**

	2024 £m	%	2023 £m	%
Company				
Finance lease receivables	147.4	7.5	146.7	7.4
Hire Purchase agreements	1,020.6	7.4	1,065.6	6.1
Instalment finance agreements	3,694.0	6.9	3,489.6	6.9
Other loans and advances	581.4	7.2	485.8	-
Total	**5,443.4**	**7.1**	**5,187.7**	**6.6**

The Group's maximum exposure to credit risk include undrawn loan commitments of £52.8m in respect of instalment finance receivables.

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 2024 (31 March 2023: 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 2024, the net carrying amount of encumbered receivables included in loans and advances to customers was £819.2m (2023: £777.9m).

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 2024					
Finance leases - gross	79.0	100.0	43.6	6.6	**229.2**
Deferred revenue	(10.1)	(12.6)	(3.4)	(0.3)	**(26.4)**
Impairment	(0.4)	(0.5)	(0.2)	-	**(1.1)**
Total	**68.5**	**86.9**	**40.0**	**6.3**	**201.7**
Finance lease receivables at 31 March 2023					
Finance leases - gross	78.1	102.2	40.8	6.5	**227.6**
Deferred revenue	(8.9)	(10.3)	(2.6)	(0.3)	**(22.1)**
Impairment	(2.0)	(2.0)	(0.5)	-	**(4.5)**
Total	**67.2**	**89.9**	**37.7**	**6.2**	**201.0**
Hire purchase agreements at 31 March 2024					
Hire purchase agreements - gross	460.2	598.7	171.2	8.2	**1,238.3**
Deferred revenue	(59.3)	(69.1)	(12.1)	(0.5)	**(141.0)**
Impairment	(3.0)	(3.9)	(1.1)	(0.1)	**(8.1)**
Total	**397.9**	**525.7**	**158.0**	**7.6**	**1,089.2**
Hire purchase agreements at 31 March 2023					
Hire purchase agreements - gross	450.1	601.7	199.6	14.6	**1,266.0**
Deferred revenue	(51.0)	(63.2)	(12.6)	(0.8)	**(127.6)**
Impairment	(2.9)	(3.9)	(1.3)	(0.1)	**(8.2)**
Total	**396.2**	**534.6**	**185.7**	**13.7**	**1,130.2**
Instalment finance at 31 March 2024					
Instalment finance - gross	1,629.3	1,822.4	670.7	363.5	**4,485.9**
Deferred revenue	(274.0)	(295.2)	(109.6)	(65.9)	**(744.7)**
Impairment	(14.7)	(16.4)	(6.1)	(3.2)	**(40.4)**
Total	**1,340.6**	**1,510.8**	**555.0**	**294.4**	**3,700.8**

Group	< 1 yr £m	1-3 yrs £m	3-5 yrs £m	>5 yrs £m	Total £m
Instalment finance at 31 March 2023					
Instalment finance - gross	1,513.0	1,666.9	626.0	372.9	**4,178.8**
Deferred revenue	(229.7)	(246.2)	(96.0)	(66.7)	**(638.6)**
Impairment	(17.0)	(19.0)	(7.2)	(4.2)	**(47.4)**
Total	**1,266.3**	**1,401.7**	**522.8**	**302.0**	**3,492.8**
Other loans and advances at 31 March 2024					
Other loans - gross	590.0	0.5	-	-	**590.5**
Deferred revenue	0.2	-	-	-	**0.2**
Impairment	(1.9)	-	-	-	**(1.9)**
Total	**588.3**	**0.5**	**-**	**-**	**588.8**
Other loans and advances at 31 March 2023					
Other loans - gross	532.4	1.2	-	-	**533.6**
Deferred revenue	0.2	-	-	-	**0.2**
Impairment	(2.0)	-	-	-	**(2.0)**
Total	**530.6**	**1.2**	**-**	**-**	**531.8**
Total loans and receivables, net of impairment - at 31 March 2024	**2,395.3**	**2,123.9**	**753.0**	**308.3**	**5,580.5**
Total loans and receivables, net of impairment - at 31 March 2023	**2,260.3**	**2,027.4**	**746.2**	**321.9**	**5,355.8**

Company	**< 1 yr £m**	**1-3 yrs £m**	**3-5 yrs £m**	**>5 yrs £m**	**Total £m**
Finance lease receivables at 31 March 2024					
Finance leases - gross	61.0	77.0	28.5	2.7	**169.2**
Deferred revenue	(8.1)	(10.1)	(2.3)	(0.2)	**(20.7)**
Impairment	(0.4)	(0.5)	(0.2)	-	**(1.1)**
Total	**52.5**	**66.4**	**26.0**	**2.5**	**147.4**
Finance lease receivables at 31 March 2023					
Finance leases - gross	61.7	76.8	25.9	2.4	**166.8**
Deferred revenue	(7.0)	(8.1)	(1.7)	(0.1)	**(16.9)**
Impairment	(1.2)	(1.5)	(0.5)	-	**(3.2)**
Total	**53.5**	**67.2**	**23.7**	**2.3**	**146.7**
Hire purchase agreements at 31 March 2024					
Hire purchase agreements - gross	424.2	563.8	163.7	8.1	**1,159.8**
Deferred revenue	(54.6)	(65.4)	(11.6)	(0.5)	**(132.1)**
Impairment	(2.6)	(3.5)	(1.0)	-	**(7.1)**
Total	**367.0**	**494.9**	**151.1**	**7.6**	**1,020.6**
Hire purchase agreements at 31 March 2023					
Hire purchase agreements - gross	428.1	570.9	185.2	9.7	**1,193.9**
Deferred revenue	(48.6)	(60.2)	(11.6)	(0.6)	**(121.0)**
Impairment	(2.6)	(3.5)	(1.1)	(0.1)	**(7.3)**
Total	**376.9**	**507.2**	**172.5**	**9.0**	**1,065.6**
Instalment finance at 31 March 2024					
Instalment finance - gross	1,626.5	1,818.6	669.7	363.5	**4,478.3**
Deferred revenue	(273.5)	(294.9)	(109.6)	(65.9)	**(743.9)**
Impairment	(14.7)	(16.4)	(6.1)	(3.2)	**(40.4)**
Total	**1,338.3**	**1,507.3**	**554.0**	**294.4**	**3,694.0**

Company (continued)	< 1 yr £m	1-3 yrs £m	3-5 yrs £m	>5 yrs £m	Total £m
Instalment finance at 31 March 2023					
Instalment finance - gross	1,511.6	1,664.8	625.4	372.9	**4,174.7**
Deferred revenue	(228.9)	(246.1)	(96.0)	(66.7)	**(637.7)**
Impairment	(17.0)	(19.0)	(7.2)	(4.2)	**(47.4)**
Total	**1,265.7**	**1,399.7**	**522.2**	**302.0**	**3,489.6**
Other loans and advances at 31 March 2024					
Other loans - gross	582.6	0.5	-	-	**583.1**
Deferred revenue	0.2	-	-	-	**0.2**
Impairment	(1.9)	-	-	-	**(1.9)**
Total	**580.9**	**0.5**	**-**	**-**	**581.4**
Other loans and advances at 31 March 2023					
Other loans - gross	486.4	1.2	-	-	**487.6**
Deferred revenue	0.2	-	-	-	**0.2**
Impairment	(2.0)	-	-	-	**(2.0)**
Total	**484.6**	**1.2**	**-**	**-**	**485.8**
Total loans and receivables, net of impairment - at 31 March 2024	**2,338.7**	**2,069.1**	**731.1**	**304.5**	**5,443.4**
Total loans and receivables, net of impairment - at 31 March 2023	**2,180.7**	**1,975.3**	**718.4**	**313.3**	**5,187.7**

17. DERIVATIVE FINANCIAL INSTRUMENTS

The detail of the derivative financial instruments stated in the Group and Company Statement of Financial Position at fair value is as follows:

	Cross currency swap contracts						
2024	**JPY £m**	**EUR £m**	**USD £m**	**Other £m**	**Total £m**	**Interest rate swap £m**	**Total £m**
Assets							
Less than 1 year	-	0.2	3.0	2.6	5.8	18.6	**24.4**
1 to 2 years	-	-	0.1	(0.1)	-	13.8	**13.8**
2 to 3 years	-	-	0.2	0.2	0.4	13.2	**13.6**
3 to 4 years	-	-	-	-	-	12.2	**12.2**
4 to 5 years	-	-	0.3	-	0.3	5.7	**6.0**
5 to 6 years	-	-	-	-	-	3.3	**3.3**
6 to 7 years	-	-	-	-	-	-	**-**
Total	**-**	**0.2**	**3.6**	**2.7**	**6.5**	**66.8**	**73.3**
Liabilities							
Less than 1 year	(103.1)	(19.9)	(2.2)	0.4	(124.8)	(3.3)	**(128.1)**
1 to 2 years	(76.8)	(1.6)	(1.3)	-	(79.7)	(0.9)	**(80.6)**
2 to 3 years	(38.5)	(3.9)	-	1.4	(41.0)	(5.6)	**(46.6)**
3 to 4 years	(30.3)	(1.2)	(8.8)	-	(40.3)	-	**(40.3)**
4 to 5 years	(19.9)	(4.9)	(8.0)	-	(32.8)	(3.0)	**(35.8)**
5 to 6 years	-	-	-	(3.8)	(3.8)	-	**(3.8)**
6 to 7 years	(0.2)	-	-	-	(0.2)	(0.2)	**(0.4)**
Total	**(268.8)**	**(31.5)**	**(20.3)**	**(2.0)**	**(322.6)**	**(13.0)**	**(335.6)**
	(268.8)	**(31.3)**	**(16.7)**	**0.7**	**(316.1)**	**53.8**	**(262.3)**
Of Which,							
Designated as fair value hedges	(151.2)	(21.5)	(8.6)	(1.2)	(182.5)	(2.1)	**(184.6)**
Designated as cash flow hedges	(117.6)	(9.8)	(8.1)	1.9	(133.6)	55.9	**(77.7)**

	Cross currency swap contracts						
2023	**JPY £m**	**EUR £m**	**USD £m**	**Other £m**	**Total £m**	**Interest rate swap £m**	**Total £m**
Assets							
Less than 1 year	3.3	6.1	8.1	2.4	19.9	23.9	**43.8**
1 to 2 years	0.8	0.1	2.5	0.1	3.5	36.2	**39.7**
2 to 3 years	0.6	-	0.2	0.2	1.0	17.0	**18.0**
3 to 4 years	-	-	0.2	0.9	1.1	15.4	**16.5**
4 to 5 years	0.1	-	0.1	-	0.2	12.1	**12.3**
5 to 6 years	-	-	-	-	-	5.6	**5.6**
6 to 7 years	-	-	-	-	-	3.5	**3.5**
Total	**4.8**	**6.2**	**11.1**	**3.6**	**25.7**	**113.7**	**139.4**
Liabilities							
Less than 1 year	(148.1)	(3.0)	(0.6)	(2.0)	(153.7)	(2.4)	**(156.1)**
1 to 2 years	(29.4)	(9.3)	(0.4)	-	(39.1)	(7.1)	**(46.2)**
2 to 3 years	(16.9)	(0.1)	(0.4)	-	(17.4)	-	**(17.4)**
3 to 4 years	(0.5)	-	-	-	(0.5)	-	**(0.5)**
4 to 5 years	(2.8)	(1.1)	(6.3)	-	(10.2)	(0.1)	**(10.3)**
5 to 6 years	-	(5.0)	(2.9)	-	(7.9)	-	**(7.9)**
6 to 7 years	-	-	-	(3.0)	(3.0)	-	**(3.0)**
Total	**(197.7)**	**(18.5)**	**(10.6)**	**(5.0)**	**(231.8)**	**(9.6)**	**(241.4)**
	(192.9)	**(12.3)**	**0.5**	**(1.4)**	**(206.1)**	**104.1**	**(102.0)**
Of Which,							
Designated as fair value hedges	(131.1)	(15.6)	4.1	(0.8)	(143.4)	(7.9)	**(151.3)**
Designated as cash flow hedges	(61.8)	3.3	(3.6)	(0.6)	(62.7)	112.0	**49.3**

During the year, the derivative financial instruments aggregate net liability increased by £160.2m from £102.1m to £262.3m. With 100% matched hedging against foreign currency borrowings, this movement was partially offset by a £82.5m revaluation in foreign currency borrowings. The remaining movement of £77.7m principally represents the effect of the movement of fixed Sterling interest rates on the value of the portfolio of float to fixed interest rate swaps that were taken out to match underlying floating funding.

Cash flows from derivative financial instruments will affect Other Comprehensive Income and Income Statement in the periods up to February 2031 (2023: November 2029) for cross currency swaps and to February 2031 (2023: November 2029) for interest rate swaps. Descriptions of the hedges are covered in material accounting policy information note 2.3(n).

A description of the risks being hedged for fair value and cash flow hedges is disclosed in note 34.

2024	Notional Amount of Hedging Instrument	Carrying value of instrument		Changes in Fair Value
	£m	Asset £m	Liability £m	£m
Cash Flow Hedges				
Foreign Exchange Risk - Cross Currency Swaps and FX Swaps	1,898.4	1.3	(134.8)	-
Interest Rate Risk - Interest Rate Swaps	3,587.4	66.2	(10.4)	-
	5,485.8	**67.5**	**(145.2)**	**-**
Fair Value Hedges				
Foreign Exchange Risk - Cross Currency Swaps and FX Swaps	2,503.6	5.3	(187.8)	-
Interest Rate Risk - Interest Rate Swaps	359.0	0.5	(2.6)	-
	2,862.6	**5.8**	**(190.4)**	**-**
Total	**8,348.4**	**73.3**	**(335.6)**	**-**

2023	Notional Amount of Hedging Instrument	Carrying value of instrument		Changes in Fair Value
	£m	Asset £m	Liability £m	£m
Cash Flow Hedges				
Foreign Exchange Risk - Cross Currency Swaps and FX Swaps	1,840.9	11.6	(74.4)	-
Interest Rate Risk - Interest Rate Swaps	4,161.5	112.3	(0.2)	0.1
	6,002.4	**123.9**	**(74.6)**	**0.1**
Fair Value Hedges				
Foreign Exchange Risk - Cross Currency Swaps and FX Swaps	2,427.0	14.0	(157.4)	-
Interest Rate Risk - Interest Rate Swaps	545.0	1.5	(9.4)	-
	2,972.0	**15.5**	**(166.8)**	**-**
Total	**8,974.4**	**139.4**	**(241.4)**	**0.1**

Mark to market of derivative financial instruments is presented in derivative assets and liabilities in the Group statement of financial position.

The hedged items are presented in interest bearing borrowings in the Group statement of financial position.

2024	Carrying amount of hedged item		Net accumulated adjustment to value of hedged item	Change in Fair value used for calculating ineffectiveness	Cumulative Cost of Hedge and Cash Flow Hedge Reserve
	Assets £m	Liabilities £m	£m	£m	£m
Cash Flow Hedges					
Foreign Exchange Risk - Cross Currency Swaps and FX Swaps	-	1,895.6	123.4	-	(1.8)
Interest Rate Risk - Interest Rate Swaps	-	447.5	-	-	(42.9)
Total	**-**	**2,343.1**	**123.4**	**-**	**(44.7)**
Fair Value Hedges					
Foreign Exchange Risk - Cross Currency Swaps and FX Swaps	-	2,485.9	162.8	-	4.7
Interest Rate Risk - Interest Rate Swaps	-	357.7	0.8	-	-
	-	**2,843.6**	**163.6**	**-**	**4.7**
Total	**-**	**5,186.7**	**287.0**	**-**	**(40.0)**

2023	Carrying amount of hedged item		Net accumulated adjustment to value of hedged item	Change in Fair value used for calculating ineffectiveness	Cumulative Cost of Hedge and Cash Flow Hedge Reserve
	Assets £m	Liabilities £m	£m	£m	£m
Cash Flow Hedges					
Foreign Exchange Risk - Cross Currency Swaps and FX Swaps	-	1,784.2	56.7	-	(24.3)
Interest Rate Risk - Interest Rate Swaps	-	4,161.5	-	0.1	(82.6)
Total	**-**	**5,945.7**	**56.7**	**0.1**	**(106.9)**
Fair Value Hedges					
Foreign Exchange Risk - Cross Currency Swaps and FX Swaps	-	2,345.1	139.8	-	(1.1)
Interest Rate Risk - Interest Rate Swaps	-	537.0	8.0	-	-
	-	**2,882.1**	**147.8**	**-**	**(1.1)**
Total	**-**	**8,827.8**	**204.5**	**0.1**	**(108.0)**

2024	Change in Hedging Instrument OCI £m	Amount reclassified from cash flow hedge reserve to P&L £m	Ineffectiveness recognised in P&L for period £m	P&L for period £m
Cash Flow Hedges				
Foreign Exchange Risk - Cross Currency Swaps and FX Swaps	(62.8)	0.5	-	0.5
Fair Value Hedges				
Foreign Exchange Risk - Cross Currency Swaps and FX Swaps	-	-	1.8	1.8
Total	**62.8**	**(0.5)**	**(1.8)**	**(2.3)**

2023	Change in Hedging Instrument OCI £m	Amount reclassified from cash flow hedge reserve to P&L £m	Ineffectiveness recognised in P&L for period £m	P&L for period £m
Cash Flow Hedges				
Foreign Exchange Risk - Cross Currency Swaps and FX Swaps	0.1	-	-	-
Fair Value Hedges				
Total	**(0.1)**	**-**	**-**	**-**

The ineffective portion of hedge relationships is presented in fair value gains / losses in financial instruments within the Group's income statement.

18. INTEREST BEARING BORROWINGS

The Group has 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	2024 £m	2024 %	2023 £m	2023 %
Bank borrowings	2,268.7	5.1	1,869.8	3.1
Commercial Paper	275.5	5.5	553.5	2.8
Funding from securitised receivables	601.0	5.5	600.9	2.7
Medium term notes	3,626.1	5.9	3,483.7	3.0
Total	**6,771.3**	**5.6**	**6,507.9**	**3.0**

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

Company	2024 £m	2024 %	2023 £m	2023 %
Bank borrowings	1,571.0	5.5	1,310.2	2.9
Commercial Paper	275.5	5.5	553.5	2.8
Funding from securitised receivables	601.0	5.5	600.9	2.7
Medium term notes	3,626.1	5.9	3,483.7	3.0
Total	**6,073.6**	**5.7**	**5,948.3**	**2.9**

The Group mainly raises funding under its Euro Medium Term Note programme for terms of one to five years. Borrowings from this source are unsecured although they benefit from a guarantee from Mitsubishi HC Capital Inc.

Other committed and uncommitted term borrowing facilities are available to the Group from banks and other sources. These are outlined within funding sources section of note 34 page 205.

The Group utilises two securitisation facilities: under the first it sells consumer receivables to SOFA II Ltd, a securitisation SPV. Under the second, receivables from SME are sold to Fleetbank Funding Limited as part of the British Business Bank's 'Enable Funding' programme ('SME Securitisation') (see note 32). These assets are not derecognised from the financial statements since the majority of the risks and rewards are retained by the Group. In both arrangements if the facilities were, for whatever reason, to be run down, then the Group would be entitled to receive the return of surplus cash collections after fees, and principal and interest of the secured borrowings are repaid. Interest on funding from the securitisation programmes are at a margin over daily compounded SONIA, payable monthly in arrears. For the Company disclosure above, funding from securitised receivables includes £500.0m (2023: £500.0m) relating to amounts owed to Securitisation of Financial Assets II Ltd, a special purpose vehicle (note 32).

Borrowings under the Group's Euro commercial paper programmes can be issued for periods of between one day and 364 days. Borrowings under the programme are also guaranteed by Mitsubishi HC Capital Inc.

The borrowings are repayable as follows:

Group	Fixed 2024 £m	Floating 2024 £m	Total 2024 £m	Fixed 2023 £m	Floating 2023 £m	Total 2023 £m
Current Liabilities						
On demand or within 1 year	2,343.2	754.0	3,097.2	2,442.4	919.7	3,362.1
Non-Current Liabilities						
1-2 years	840.9	585.2	1,426.1	1,601.5	320.8	1,922.3
2-3 years	1,164.1	203.8	1,367.9	633.0	85.8	718.8
3-4 years	287.4	145.8	433.2	59.1	28.0	87.1
4-5 years	318.9	101.7	420.6	187.0	78.0	265.0
5-6 years	20.5	0.5	21.0	131.2	0.3	131.5
6-7 years	5.2	0.1	5.3	21.1	-	21.1
	2,637.0	**1,037.1**	**3,674.1**	**2,632.9**	**512.9**	**3,145.8**
	4,980.2	**1,791.1**	**6,771.3**	**5,075.3**	**1,432.6**	**6,507.9**

There were no defaults of either principal or interest and no breaches of loan agreement terms that would permit the lender to demand accelerated payment on any loans payable during the reporting periods ending 31 March 2023 or 31 March 2024.

Company	**Fixed 2024 £m**	**Floating 2024 £m**	**Total 2024 £m**	**Fixed 2023 £m**	**Floating 2023 £m**	**Total 2023 £m**
Current Liabilities						
On demand or within 1 year	2,078.0	753.2	2,831.2	2,204.4	918.8	3,123.2
Non-Current Liabilities						
1-2 years	653.0	585.2	1,238.2	1,460.6	320.0	1,780.6
2-3 years	1,012.2	203.8	1,216.0	454.0	85.9	539.9
3-4 years	198.0	145.8	343.8	59.1	28.0	87.1
4-5 years	316.8	101.7	418.5	186.9	78.0	264.9
5-6 years	20.1	0.5	20.6	131.3	0.2	131.5
6-7 years	5.2	0.1	5.3	21.1	-	21.1
	2,205.3	**1,037.1**	**3,242.4**	**2,313.0**	**512.1**	**2,825.1**
	4,283.3	**1,790.3**	**6,073.6**	**4,517.4**	**1,430.9**	**5,948.3**

An analysis of borrowings by currency is as follows:

	Sterling £m	**Euro £m**	**Yen £m**	**US Dollar £m**	**PLN Zloty £m**	**Other £m**	**Total £m**
Group							
31 March 2024	1,923.3	2,186.4	1,573.8	499.6	129.3	458.9	6,771.3
31 March 2023	1,848.1	1,885.4	1,915.4	521.4	85.0	252.6	6,507.9

	Sterling £m	**Euro £m**	**Yen £m**	**US Dollar £m**	**Other £m**	**Total £m**
Company						
31 March 2024	1,923.3	1,673.4	1,573.7	499.6	403.6	6,073.6
31 March 2023	1,848.1	1,455.8	1,915.4	521.4	207.6	5,948.3

19. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

		Carrying amount		Fair value		
Group	**Note**	**2024 £m**	**2023 £m**	**2024 £m**	**2023 £m**	**Fair Value Hierarchy**
Financial assets measured mandatorily at fair value:						
Derivative financial instruments	17	73.3	139.4	73.3	139.4	2
Financial instruments at fair value through profit or loss	33	66.3	74.7	66.3	74.7	3
		139.6	**214.1**	**139.6**	**214.1**	
Financial assets measured at fair value through other comprehensive income (FVTOCI)						
Equity instruments at designated at fair value though other comprehensive income		37.9	40.7	37.9	40.7	3
Financial assets measured at amortised cost						
Cash and cash equivalents	24	59.3	181.3	59.3	181.3	1
Trade and other receivables		109.8	88.9	109.8	88.9	3
Loans and advances to customers	16	5,580.5	5,355.7	5,450.6	5,116.9	3
Amounts due from subsidiary undertakings	21	-	-	-	-	3
Total financial assets		**5,927.1**	**5,880.7**	**5,797.2**	**5,641.9**	
Financial liabilities measured mandatorily at fair value						
Derivative financial instruments	17	335.6	241.4	335.6	241.4	2
Financial liabilities measured at amortised cost						
Bank overdrafts	24	19.4	14.7	19.4	14.7	1
Interest bearing borrowings	18	6,771.3	6,507.9	6,776.4	6,532.2	2
Other liabilities		258.2	355.5	258.2	355.5	3
Total financial liabilities		**7,384.5**	**7,119.5**	**7,389.6**	**7,143.8**	

Company	Note	Carrying amount 2024 £m	Carrying amount 2023 £m	Fair value 2024 £m	Fair value 2023 £m	Fair Value Hierarchy
Financial assets measured mandatorily at fair value						
Derivative financial instruments	17	73.3	139.4	73.3	139.4	2
Financial instruments at fair value through profit or loss	33	66.3	74.7	66.3	74.7	3
		139.6	**214.1**	**139.6**	**214.1**	
Financial assets measured at fair value through other comprehensive income (FVTOCI)						
Equity instruments at designated at fair value though other comprehensive income		37.9	40.7	37.9	40.7	3
Financial assets measured at amortised cost						
Cash and cash equivalents	24	40.6	159.8	40.6	159.8	1
Trade and other receivables		96.2	73.7	96.2	73.7	3
Loans and advances to customers	16	5,443.4	5,187.8	5,315.3	5,103.3	3
Amounts due from subsidiary undertakings	21	124.0	-	124.0	-	3
Total financial assets		**5,881.7**	**5,676.1**	**5,753.6**	**5,591.6**	
Financial liabilities measured mandatorily at fair value						
Derivative financial instruments	17	335.6	241.4	335.6	241.4	2
Financial liabilities measured at amortised cost						
Bank overdrafts	24	7.7	13.6	7.7	13.6	1
Interest bearing borrowings	18	6,073.6	5,948.3	6,083.9	5,971.7	2
Other liabilities		258.2	323.5	258.2	323.5	3
Total financial liabilities		**6,675.1**	**6,526.8**	**6,685.4**	**6,550.2**	

Outlined below is the movement in financial instruments at FVTPL and financial instruments at FVTOCI:

	FVTPL £m	FVTOCI £m
At 1 April 2022	**45.5**	**-**
(Losses) / gains recognised to Income Statement	(9.1)	44.1
Losses recognised to other comprehensive income	-	(3.4)
Net additions	38.3	-
At 31 March 2023	**74.7**	**40.7**
Gains recognised to income statement	0.9	-
Losses recognised to other comprehensive income	-	(2.8)
Net disposals	(9.3)	-
As at 31 March 2024	**66.3**	**37.9**

Financial instruments at FVTPL represent junior notes held in SOCA securitisation programme (note 33).

Equity instruments at FVTOCI represent investment in Gridserve Holdings Ltd (note 4.2).

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 and bank overdrafts which the Group had at the balance sheet date where fair value is considered to be the carrying value.
- **Interest bearing borrowings not in fair value hedge relationships**
  The borrowings not in fair value hedge relationships are held per the historic cost model and subsequently fair value is considered to be the carrying values.
- **Securitisation Programmes**
  It is assumed the fair value of the senior notes is the same as 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. Where there is an embedded option in a derivative, for example a floor aligning the derivative cashflows with the underlying debt, the option portion has 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. Funding Value Adjustment is also applied to the fair value of derivatives.
- **Interest bearing borrowings in fair value hedge relationships**
  The fair value of borrowings in the table above has been determined using discounted cash flow models using observable market inputs in the form of yield curves in each relevant currency and spot foreign currency exchange rates to convert values to Sterling.

Level 3:
Fair values are based on valuation techniques for which the lowest level input that is significant to the fair value and measurement is unobservable. Outlined below are the descriptions of financial assets and liabilities classified as level 3 in the fair value hierarchy.

- **Financial instruments measured at fair value through profit or loss**
  These relate to the junior and mezzanine notes held in the Group's SOCA securitisation programme outlined in note 33. Discounted cash flow is the valuation technique used to measure the carrying amount recognised in the Group's statement of financial position. The key unobservable inputs are the expected level of early settlements and write-offs which drive the expected cash collections through to maturity. An increase in expected levels of early settlements or write-offs would result in a lower fair value measurement.

- **Equity instruments measured at fair value through other comprehensive income**
  This relates to an equity investment in Gridserve Holdings Ltd (note 4.2). The valuation technique used to measure the total equity value of Gridserve Holdings Ltd is a discounted cashflow method. The Group has then applied its proportion of shareholding in order to determine its share of the total valuation of Gridserve Holdings Ltd. Key unobservable inputs are the cash flow forecasts from Gridserve management taking into account the expected levels of capital expenditure, funding, debt repayment and forecast profitability. The initial fair value measurement was based on implied pricing arising from a third party equity funding round that took place in August 2022.
- **Loans and advances to customers**
  The fair value of loans and receivables has been determined by using a model that uses as input the observable market interest rate for the relevant tenor of each asset, and its change from the time of inception of the asset to the statement of financial position date. Further adjustment to take account of customer credit risk uses unobservable inputs.
- **Trade and other receivables**
  These represent amounts due from customers during normal course of business with maturity of less than 12 months where fair value is considered to be the carrying value.
- **Other liabilities**
  These relate to amounts due to invoice financing clients and other short term payables for which fair value is considered to be the carrying value.

There were no transfers between levels 1, 2 and 3 during the year. There were also no changes in valuation techniques during the year.

20. INVENTORIES

	Group		Company	
	31 March 2024 £m	31 March 2023 £m	31 March 2024 £m	31 March 2023 £m
Motor vehicles for resale	35.9	32.9	27.0	22.3

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

21. TRADE AND OTHER RECEIVABLES

	Group		Company	
Non-current	31 March 2024 £m	31 March 2023 £m	31 March 2024 £m	31 March 2023 £m
Amounts due from subsidiary undertakings	-	-	60.7	62.6

	Group		Company	
Current	31 March 2024 £m	31 March 2023 £m	31 March 2024 £m	31 March 2023 £m
Trade receivables	109.5	92.7	94.6	76.3
Provision for impairment of trade receivables	(5.1)	(3.8)	(3.3)	(2.6)
Net trade receivables	**104.4**	**88.9**	**91.3**	**73.7**
Amounts due from subsidiary undertakings	-	-	63.3	90.2
Prepayments and other receivables	79.5	98.7	56.3	80.6
	183.9	**187.6**	**210.9**	**244.5**

In 2023, prepayments and other receivables included SaaS implementation costs amounting to £6.3m which are not distinct from the access to SaaS application (note 14). These have been prepaid over the term of the SaaS arrangement.

In 2023, prepayments and other receivables included £8.0m relating to prepayments on derivative financial instruments, previously reported within other reserves (note 26).

22. DIVIDENDS PAID

A final dividend of £46.0m (9.9p per share), relating to year ended 31 March 2023 was paid during the year. The Directors recommend a final dividend of £37.2m (8.0p per share), relating to year ended 31 March 2024.

23. OTHER PROVISIONS - GROUP AND COMPANY

	Customer claims £m	Dilapidations £m	Other provisions £m	Total £m
At 1 April 2022	**1.4**	**2.1**	**-**	**3.5**
Charge to the Income Statement	18.6	0.4	0.2	19.2
Provisions utilised	(3.1)	-	-	(3.1)
At 31 March 2023	**16.9**	**2.5**	**0.2**	**19.6**
Non-current liabilities	-	2.5	-	2.5
Current liabilities	16.9	-	0.2	17.1

	Customer claims £m	Dilapidations £m	Other provisions £m	Total £m
At 1 April 2023	**16.9**	**2.5**	**0.2**	**19.6**
Credit to the Income Statement	(2.5)	(0.8)	-	(3.3)
Provisions utilised	(3.9)	(0.3)	-	(4.2)
At 31 March 2024	**10.5**	**1.4**	**0.2**	**12.1**
Non-current liabilities	-	1.3	-	1.3
Current liabilities	10.5	0.1	0.2	10.8

Customer claims

In certain situations, the Group is jointly and severally liable to customers who have claims against suppliers for misrepresentation or breach of contract, in respect of certain types of regulated agreements. This risk is minimised by the Group through regular due diligence reviews of the suppliers through which financed products are sold and termination of business where there is higher potential risk of default recognised.

In determining the provision, management has considered the likely population of eligible claims and an estimate of the complaint rate, remediation rate and remediation cost per claim. The provision represents the Group's best estimate of the likely future redress cost. However, the timing and amount of any payments are uncertain and the provision is subject to regular review.

The decrease in the year relates primarily to the adjustment of the customer claims provision to reflect the latest information in respect of complaint, remediation rate and remediation cost.

The Group has performed sensitivity analysis below to assess the impact of reasonable changes in key assumptions used in determining the provision.

- For every 10% increase in projected customer complaints on the eligible population, the provision would increase by £2.2m (2023: £4.2m).
- For every 10% increase in the remediation rate, the provision would increase by £2.8m (2023: £2.8m).
- For every 10% increase in the remediation cost, the provision would increase by £0.9m (2023: £1.7m).

Dilapidations

The Group holds dilapidation provisions relating to its leased sites at Staines, Leeds, Newbury and Telford. The provision represents an estimate of the work required to bring it back to its original state at the end of the contract. The estimated outflow of this provision is expected to be £nil (2023: £nil) due within one year, £2.1m (2023: £2.1m) due after one year but less than ten years and £nil (2023: £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 6.25% (2023: 5.25%) 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 2024:

	Group		Company	
	31 March 2024 £m	**31 March 2023 £m**	**31 March 2024 £m**	**31 March 2023 £m**
Cash at bank	59.3	64.9	40.6	43.4
Short-term deposits	-	116.4	-	116.4
	59.3	**181.3**	**40.6**	**159.8**
Bank overdrafts	(19.4)	(14.7)	(7.8)	(13.6)
Cash and cash equivalents in statement of cash flows	39.9	166.6	32.8	146.2

25. SHARE CAPITAL

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

	2024			2023		
	Number of shares No.	**Nominal value £m**	**Share premium £m**	**Number of shares No.**	**Nominal value £m**	**Share premium £m**
Issued and fully paid share capital						
Ordinary shares	464,674,511	116.2	43.6	464,674,511	116.2	43.6

In 2023, the Company acquired MHC Mobility Europe B.V. for a consideration of £33.5m of which £5.5m was share capital (22,000,000 ordinary shares at 25p each) and £28.1m was share premium (note 4.1).

26. OTHER RESERVES

Group	Cash flow hedging reserve £m	Cost of hedging reserve £m	Fair Value through OCI £m	Retirement benefit obligation £m	Foreign currency translation £m	Integration reserve £m	Total other reserves £m
At 31 March 2022	**19.1**	**11.8**	**-**	**(1.0)**	**-**	**-**	**29.9**
Other comprehensive income for the year	60.4	(9.9)	(2.5)	(6.7)	1.6	-	42.9
Acquisition of subsidiary	-	-	-	-	-	5.1	5.1
At 31 March 2023	**79.5**	**1.9**	**(2.5)**	**(7.7)**	**1.6**	**5.1**	**77.9**
Other comprehensive income for the year	(44.4)	(7.7)	(2.1)	(0.3)	(0.6)	-	(55.1)
Other movements	-	-	(0.1)	(0.1)	-	-	(0.2)
At 31 March 2024	**35.1**	**(5.8)**	**(4.7)**	**(8.1)**	**1.0**	**5.1**	**22.6**

Company	Cash flow hedging reserve £m	Cost of hedging reserve £m	Fair Value through OCI £m	Retirement benefit obligation £m	Foreign currency translation £m	Total other reserves £m
At 31 March 2022	**19.1**	**11.8**	**-**	**(1.0)**	**0.1**	**30.0**
Other comprehensive income for the year	60.4	(9.9)	(2.5)	(6.7)	(1.2)	40.1
At 31 March 2023	**79.5**	**1.9**	**(2.5)**	**(7.7)**	**(1.1)**	**70.1**
Other comprehensive income for the year	(44.4)	(7.7)	(2.1)	(0.3)	1.3	(53.2)
Other movements	-	-	(0.1)	(0.1)	-	(0.2)
At 31 March 2024	**35.1**	**(5.8)**	**(4.7)**	**(8.1)**	**0.2**	**16.7**

The integration reserve relates to the acquisition of MHC Mobility (note 4.1).

In 2023, other comprehensive income for the year included the reclassification of prepayments on derivative financial instruments which have been reclassified to trade and other receivables (note 21).

27. TRADE AND OTHER PAYABLES

Trade and other payables - current

	Group		Company	
	31 March 2024 £m	31 March 2023 £m	31 March 2024 £m	31 March 2023 £m
Balances due to invoice financing clients	142.7	145.5	142.7	145.5
Rentals in advance	33.7	33.7	31.3	30.8
Deferred maintenance and other income	41.5	29.3	30.4	25.0
Trade creditors and accruals	148.6	164.7	125.9	143.7
Other creditors	65.4	45.3	56.3	34.3
Lease liabilities	7.5	-	4.2	-
	439.4	**418.5**	**390.8**	**379.3**

Deferred maintenance and other income represent contract liabilities in relation to service and maintenance obligations on operating lease contracts. The Group has a contractual obligations to provide maintenance services for the duration of the lease contract in exchange for a fixed amount of monthly instalments received from the customers. The remaining performance obligations will be satisfied in the future periods and, the corresponding contract liabilities will also be recognised in the future periods.

In 2023, the Group acquired MHC Mobility (note 4.1) and therefore the contract liabilities included those resulting from the business combination. There were no other significant changes in the contract liabilities during the year.

Operating lease maintenance income recognised in the Group's income statement represent the performance obligations being satisfied during the year.

The amount of revenues recognised in the reporting period relating to performance obligations satisfied in previous periods was not material.

Trade and other payables - non-current

	Group		Company	
	31 March 2024 £m	31 March 2023 £m	31 March 2024 £m	31 March 2023 £m
Retailer liability	104.3	106.6	104.3	106.6
Lease liabilities	15.1	21.4	9.7	10.1
	119.4	**128.0**	**114.0**	**116.7**

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	2024 £m	2023 £m
As at 1 April	**4.1**	**21.4**	**11.8**
Acquisition of subsidiaries			11.5
New leases		8.9	-
Lease repayments		(8.3)	(1.6)
Finance costs	7	0.6	(0.3)
At 31 March		**22.6**	**21.4**

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 (2023: £nil) in relation to short-term leases and nil (2023: nil) in relation to low-value assets.

Rentals in advance relate to monthly lease instalments received from customers to cover lease expenses in subsequent period(s).

Deferred maintenance and other income represent future contract liabilities in relation to service, maintenance and repairs for operating leases. The Group's maintenance income recognition policy is outlined in accounting policies section 2.3(d).

A maturity analysis of lease liabilities based on discounted gross cash flow is reported in the table below:

	Group		Company	
	31 March 2024 £m	31 March 2023 £m	31 March 2024 £m	31 March 2023 £m
Less than one year	7.5	5.9	4.2	1.7
1-2 years	5.7	5.5	4.1	1.8
2-3 years	3.4	3.8	2.4	1.8
3-4 years	2.2	2.5	1.4	1.7
4-5 years	1.3	1.8	0.9	1.3
Over 5 years	2.5	1.9	0.9	1.7
Total lease liabilities	**22.6**	**21.4**	**13.9**	**10.0**

A maturity analysis of lease liabilities based on undiscounted gross cash flow is reported in the table below:

	Group		Company	
	31 March 2024 £m	31 March 2023 £m	31 March 2024 £m	31 March 2023 £m
Less than one year	8.3	6.6	5.5	2.0
1-2 years	6.1	5.9	4.9	2.0
2-3 years	3.7	4.1	2.9	2.0
3-4 years	2.4	2.6	1.5	1.8
4-5 years	1.4	1.9	1.0	1.4
Over 5 years	2.2	2.2	0.3	2.0
Total	**24.1**	**23.3**	**16.1**	**11.1**

28. OPERATING AND FINANCE LEASE CONTRACTS – AS A LESSOR

Group as a lessor - operating leases

Operating lease rental income on vehicles and other assets forms a significant part of the Group's business and during the year amounted to £633.3m (2023: £512.7m).

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

Group

	31 March 2024 £m	31 March 2023 £m
Less than 1 year	630.6	542.0
1-2 years	479.3	400.2
2-3 years	313.7	265.0
3-4 years	164.6	132.6
4-5 years	72.8	58.0
More than 5 years	46.1	42.4
Total	**1,707.1**	**1,440.2**

Company

	31 March 2024 £m	31 March 2023 £m
Less than 1 year	482.0	416.3
1-2 years	375.9	312.5
2-3 years	242.8	207.8
3-4 years	128.0	105.1
4-5 years	61.7	49.5
More than 5 years	44.5	40.8
Total	**1,334.9**	**1,132.0**

Group as a lessor - finance leases

Assets leased to customers under finance lease and hire purchase agreements are secured against gross receivable from the customer and the Group provides no residual value guarantees in order to mitigate risk. For Hire purchase agreements, legal title to the assets remain with the Group until the final instalment and the option to purchase fee has been paid by the lessee. For Finance lease agreements, the title remains with the Group until the asset has been sold to the third party.

Details of the Group's finance lease and hire purchase receivables are set out in note 16. This includes a maturity analysis showing the gross investment in the lease (the undiscounted lease payments receivable) and a reconciliation to the net investment in the lease (loans and advances to customers).

Finance income recognised during the year on finance lease and hire purchase receivables is included in interest income (note 5).

29. RETIREMENT BENEFIT PENSION SCHEMES

Defined contribution pension scheme

The Group operates a defined contribution retirement benefit scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The total cost charged as an administrative expense to the Consolidated Income Statement of £6.4m (2023: £6.0m) represents contributions payable to the scheme at rates specified in the rules of the scheme. There were no unpaid contributions at either 31 March 2024 or 31 March 2023.

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. 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 2024, the pension scheme's assets were invested in a diversified portfolio that consisted primarily of equities, corporate bonds and gilts. The Trustee is responsible for deciding the investment strategy for the Schemes' assets, although changes in investment policies require consultation with the Group. The assets are invested in different classes with the aim of hedging against unfavourable movements in the funding obligation. When selecting the mix of assets to hold, and considering their related risks and expected returns, the Trustee will weigh up the variability of returns against the target long-term rate of return on the overall portfolio. During the period the Trustees in consultation with the Group transitioned out of liability driven investment (LDI) products replacing the investment with gilts.

The pension scheme's formal actuarial valuation is completed every three years. The most recent valuation was completed as at 31 March 2022.

The accounting valuation of the present value of the defined benefit obligation was carried out as at 31 March 2024 by Lane Clark & Peacock LLP, an independent qualified actuary, the calculations for which were based on the membership data used for the scheme's latest formal actuarial valuation as at 31 March 2022 projected to the accounting date. The present value of the defined benefit obligation was measured using the projected unit credit method.

On 26 October 2018, the High Court ruled on the Lloyds Bank Guaranteed Minimum Pensions Inequalities case, which is expected to affect the Scheme, as well as most other UK pension plans. Guaranteed Minimum Pensions are unequal between men and women. The court judgement confirmed that pension schemes need to adjust scheme benefits to remove these inequalities and pay equal benefits to men and women. At this stage, the scheme actuary has estimated the costs at £50k.

Contributions payable to the pension scheme at the end of the year were £4.6m (2023: £nil). 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 2024 £m	31 March 2023 £m
Fair value of scheme assets	40.0	36.6
Present value of scheme liabilities	(34.6)	(35.6)
Defined benefit pension scheme surplus	**5.4**	**1.0**

The increase in surplus is largely due to contributions of £4.6m into the Scheme as well as an increase in the discount rate and a decrease in assumed future inflation, both of which resulted in a decrease in pensions obligations. This was partially offset by lower than assumed investment return on assets.

Scheme assets

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

	31 March 2024 £m	31 March 2023 £m
Fair value at start of year	**36.6**	**59.3**
Interest income	1.8	1.7
Return on plan assets, excluding amounts included in interest income/(expense)	(1.6)	(23.5)
Employer contributions	4.6	-
Benefits paid	(1.4)	(0.9)
Fair value at end of year	**40.0**	**36.6**

Total administrative expenses relating to the scheme were £0.4m (2023: £0.4m).

Analysis of assets

The major categories of the pension scheme assets are as follows:

	31 March 2024 £m	31 March 2023 £m
Equity instruments	9.0	4.0
Real estate	0.5	8.8
Liability driven investments	-	12.2
Gilts	22.3	-
Corporate bonds	6.6	-
Cash and net current assets	1.6	10.6
Diversified growth fund (DGF)	-	1.0
	40.0	**36.6**

Actual return on scheme's assets

	31 March 2024 £m	31 March 2023 £m
Actual return on scheme assets	0.2	(21.9)

The Company's pension scheme assets are invested in pooled funds which are largely invested in assets with quoted market values with the exception of Real estate. There may be a small portion of unquoted assets within LDI and DGF.

The allocation above is the pension scheme's investment strategy as recorded in the latest Statement of Investment Principles dated October 2023.

The pension scheme does not invest directly in property occupied by the Group or in financial securities issued by the Group. All of the pension scheme's investments, other than the real estate funds, are classified as Level 2 using the Fair Value Determination hierarchy. Level 2 inputs are those which are either directly (i.e. as prices) or indirectly (i.e. derived from prices) observable for a particular asset or liability. The pension scheme's real estate funds are classified as Level 3 using the Fair Value Determination hierarchy. Level 3 inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

Pension scheme liabilities

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

	31 March 2024 £m	31 March 2023 £m
Present value at start of year	**35.6**	**49.6**
Actuarial gains and losses arising from changes in demographic assumptions	(0.3)	-
Actuarial gains and losses arising from changes in financial assumptions	(1.4)	(16.7)
Actuarial gains and losses arising from experience adjustments	0.5	2.2
Interest cost	1.6	1.4
Benefits paid	(1.4)	(0.9)
Present value at end of year	**34.6**	**35.6**

Principal actuarial assumptions

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the statement of financial position date are as follows:

	31 March 2024 %	31 March 2023 %
Retail price inflation	3.1	3.3
Consumer price inflation	2.5	2.6
Discount rate	4.8	4.7
Pension increases in payment (5% or RPI if less)	3.0	3.2
Pension increases in payment (3% or CPI if less)	2.0	2.2
Pension increases in payment (2.5% or RPI if less)	2.0	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 2024 Years	31 March 2023 Years
Male currently aged 65	21.8	22.1
Female currently aged 65	24.4	24.7
Male aged 65 in 20 years' time	23.1	23.3
Female aged 65 in 20 years' time	25.8	26.0

Amounts recognised in the income statement

	31 March 2024 £m	31 March 2023 £m
Recognised in arriving at operating profit	-	-
Interest income	(0.2)	(0.3)
Total recognised in the income statement	**(0.2)**	**(0.3)**

As with previous years, the Company agreed to pay the administrative expenses of the pension scheme directly and therefore, included above are the total administrative expenses paid by the Group. The total amount recognised in the income statement has been included in the Administrative expenses for the Group.

Amounts taken to the Statement of Comprehensive Income

	31 March 2024 £m	31 March 2023 £m
Actuarial gains and losses arising from changes in demographic assumptions	0.3	-
Actuarial gains and losses arising from changes in financial assumptions	1.4	16.7
Actuarial gains and losses arising from experience adjustments	(0.5)	(2.2)
Return on plan assets, excluding amounts included in interest income/(expense)	(1.6)	(23.5)
Amounts recognised in the Statement of Comprehensive Income	**(0.4)**	**(9.0)**

Sensitivity analysis

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, expected rate of inflation and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

	31 March 2024	31 March 2023
Adjustment to discount rate	**- 0.1% £m**	**- 0.1% £m**
Present value of total obligation	0.6	0.6
Fair value of pension scheme assets	0.6	0.5
Net Retirement benefit asset / (obligations)	-	(0.1)
Adjustment to rate of inflation	**+ 0.1% £m**	**+ 0.1% £m**
Present value of total obligation	0.4	0.5
Fair value of pension scheme assets	0.4	0.3
Adjustment to mortality age rating assumption	**+ 1 Year £m**	**+ 1 Year £m**
Present value of total obligation	1.2	1.2
Net Retirement benefit asset / obligations	1.2	1.2

If the assumption were decreased rather than increased, then the impact would have the opposite sign and broadly be of the same magnitude. Each assumption has been varied individually and a combination of changes in assumptions could produce a different result. For consistency, the value of the pension scheme's holding of bonds has been varied consistently with the change in the discount rate and inflation assumptions.

There were no changes in the methods and assumptions used in preparing the sensitivity analysis during the year or in the prior year.

The weighted average duration of the defined benefit obligation is 17 years (2023: 17 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 2023 £m	Financing cash flows £m	Foreign exchange movements £m	Fair value changes £m	At 31 March 2024 £m
Interest bearing borrowings - current	3,362.1	(302.4)	(22.0)	59.5	3,097.2
Interest bearing borrowings - non current	3,145.8	642.1	(45.5)	(68.3)	3,674.1
	6,507.9	**339.7**	**(67.5)**	**(8.8)**	**6,771.3**

	At 1 April 2022 £m	Financing cash flows £m	Acquisitions £m	Foreign exchange movements £m	Fair value changes £m	At 31 March 2023 £m
Interest bearing borrowings - current	1,812.3	1,213.9	220.1	32.6	83.2	3,362.1
Interest bearing borrowings - non current	3,667.6	(675.9)	271.5	(31.1)	(86.3)	3,145.8
	5,479.9	**538.0**	**491.6**	**1.5**	**(3.1)**	**6,507.9**

Company

	At 1 April 2023 £m	Financing cash flows £m	Foreign exchange movements £m	Fair value changes £m	At 31 March 2024 £m
Interest bearing borrowings - current	3,123.2	(325.3)	(25.1)	58.4	2,831.2
Interest bearing borrowings - non current	2,825.1	527.3	(41.6)	(68.4)	3,242.4
	5,948.3	**202.0**	**(66.7)**	**(10.0)**	**6,073.6**

	At 1 April 2022 £m	Financing cash flows £m	Foreign exchange movements £m	Fair value changes £m	At 31 March 2023 £m
Interest bearing borrowings - current	1,812.3	1,077.8	32.6	200.5	3,123.2
Interest bearing borrowings - non current	3,563.7	(621.2)	(31.1)	(86.3)	2,825.1
	5,376.0	**456.6**	**1.5**	**114.2**	**5,948.3**

31. RELATED PARTY DISCLOSURES

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. All related party transactions are made on terms equivalent to those that prevail in arm's length transactions.

During the year Group companies entered into the following transactions with immediate parent undertakings and related companies who are not members of the Group:

31.1 Transactions with immediate parent undertakings

The Group entered into transactions with its immediate parent company, Mitsubishi HC Capital Inc. The following tables show outstanding amounts and corresponding income and expenses recognised during the year.

	2024 £m	2023 £m
Payments for administration charges	1.5	0.4

	2024 £m	2023 £m
Amounts owed to Mitsubishi HC Capital Inc	0.6	0.6
Amounts owed by Mitsubishi HC Capital Inc	0.2	0.2

31.2 Transactions with other related parties

The Group entered into transactions with Mitsubishi companies that have significant influence over it. All transactions are unsecured and made on terms equivalent to those that prevail in arm's length transactions. The following tables show outstanding amounts and corresponding income and expenses recognised during the year.

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

Group

	2024 £m	2023 £m
Interest paid to Mitsubishi companies	56.0	23.0
Interest received from Mitsubishi companies	12.2	4.3
Amounts received from Mitsubishi HC Capital America	-	0.1

	2024 £m	2023 £m
Amounts due to Mitsubishi companies in respect of borrowings	797.6	891.9
Accrued interest expense owed to Mitsubishi companies	6.3	4.1

Company

	2024 £m	2023 £m
Interest paid to Mitsubishi companies	50.9	23.0
Interest received from Mitsubishi companies	12.2	4.3
Interest income from Mitsubishi HC Capital Europe B.V.	3.5	-
Administration fees from Mitsubishi HC Capital Europe B.V.	1.8	0.7
Amounts received from Mitsubishi HC Capital America	-	0.1
Interest paid to MHC Mobility Europe B.V.	1.2	-
Interest income from MHC Mobility Europe B.V.	-	1.6
Administration fees from MHC Mobility Europe B.V.	2.1	1.3

	2024 £m	2023 £m
Amounts due to Mitsubishi companies in respect of borrowings	619.3	891.9
Accrued interest expense owed to Mitsubishi companies	6.3	4.1
Amounts due from Mitsubishi HC Capital Europe B.V.	126.6	148.6
Amounts due from MHC Mobility Europe B.V.	2.3	5.5
Amounts due to MHC Mobility Europe B.V.	4.9	-

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 2024 £m	31 March 2023 £m
Salaries and other short term employee benefits	5.9	5.6
Post-employment benefits	0.1	0.1
Other long-term benefits	2.0	1.6
	8.0	**7.3**

No Directors (2023: nil) were accruing retirement benefits in respect of qualifying services under a defined benefit scheme or a money purchase scheme.

The aggregate amount of remuneration paid to Directors was £2.2m (2023: £2.2m). The highest paid Director's remuneration in the year was £1.6m (2023: £1.6m).

32. TRANSFERRED FINANCIAL ASSETS THAT ARE NOT DERECOGNISED BY THE GROUP

The Group operates two Securitisation programmes that are shown on the Group's Statement of Financial Position because, as of the reporting date, the majority of the risks and rewards on the transferred assets are retained by the Group, as set out in the basis of consolidation note 2.2 and accounting policies note 2.3(r).

Consumer Securitisation programme

In accordance with the terms and conditions, the Group had transferred instalment finance receivables to a Special Purpose Vehicle 'Securitisation of Financial Assets II Ltd', a company incorporated in England and Wales with registered office at 10th Floor, 5 Churchill Place, London, E14 5HU.

As at 31 March 2024, the carrying value of securitised receivables was £647.4m (2023: £661.1m) and the corresponding amount owed to senior lenders was £500.0m (2023: £500.0m). The fair value of receivables at balance sheet date was £598.7m (2023: £641.7m).

The Group continues to manage the transferred receivables and it is exposed to the credit risk in respect of collectability of the contractual cashflows. As such, the Group has concluded that it has retained substantially all of the risks and rewards of the transferred assets. The Group has the power to control the relevant activities that most significantly impact the returns of the Special Purpose Vehicle and therefore, Securitisation of Financial Assets II Ltd is consolidated into the Group.

SME Securitisation programme

As at 31 March 2024 the Company had transferred £121.9m (2023: £106.0m) of its hire purchase and finance lease receivables, with a fair value of £118.9m (2023: £98.8m) to the Special Purpose Vehicle of the British Business Bank Enable Funding Programme "Fleetbank Funding Ltd". Fleetbank Funding Ltd is incorporated in England and Wales with registered office at 1 Bartholomew Lane, London, EC2N 2AX.

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 private securitisation programme whereby multiple originators are able to sell into a single, shared, SPV which the Group has no power to control or determine its relevant activities. As a result, the Group does not consolidate the Special Purpose Vehicle but continues to recognise the full carrying amount of the receivables and the face amount of its share of the Senior Funding to the SPV on its Statement of Financial Position.

As at 31 March 2024, the Consolidated Financial Statement of the Group included £121.2m (2023: £106.0m) of carrying value receivables sold to the SPV and £100.0m (2023: £100.0m) of amounts owed to SPV's senior lenders.

33. TRANSFERRED FINANCIAL ASSETS THAT ARE DERECOGNISED BY THE GROUP

During the year, the Group operated a Securitisation programme whereby tranches unsecured of consumer loans were sold to the Special Purpose Vehicle, 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 a sufficient amount of the risks and rewards of ownership. The Group has surrendered control over the transferred assets and the relevant activities of the SPV and therefore the entity is not consolidated into the Group.

Securitisation Of Consumer Agreements (SOCA)

During the year, the Company continued to transfer instalment finance receivables to the Special Purpose Vehicle SOCA. The initial transfer of receivables resulted in a loss of £0.2m (2023: £0.5m) during the year, which has been included within the other operating income in the consolidated income statement.

Following the transfer, the Group continued to act as a servicer of the transferred assets, with a servicing fee of 0.8% (2023: 0.8%) of outstanding capital balance paid on a monthly basis. As at 31 March 2024, the amortised cost of receivables sold into SOCA amounted to £264.6m (2023: £322.3m).

The undiscounted estimated cash flows and the related contractual maturities of receivables that had been transferred to SOCA as of the balance sheet date are outlined in the table below.

	2024 £m	**2023 £m**
Less than 1 year	149.6	176.8
1 - 3 years	118.2	144.0
3 - 5 years	16.2	22.1
> 5 years	-	-
Total	**284.0**	**342.9**

The Group originated further receivables with a carrying value of £11.6m (2023: £11.8m) which have been classified as financial instruments measured at fair value through profit or loss in the Group's statement of financial position with the intention of selling into SOCA securitisation programme.

Prior to the March 2023 balance sheet date, the SOCA securitisation programme was re-structured. Under the terms of the re-structure, mezzanine notes are subject to a nil return whilst they continue to be held by the Group. The junior notes continue to be held by the Group and they continue to be subject to variable returns which are payable once all other more Senior claims have been paid. As mezzanine notes are no longer subject to fixed contractual cashflows representing solely payments of principal and interest, they are derecognised at amortised cost and recognised at fair value through profit or loss, outlined below.

Mezzanine notes are well protected against credit losses under the securitisation structure as junior notes absorb first losses. As such, the Group concluded that there was no difference between carrying value of mezzanine notes at amortised cost and fair value through profit or loss and therefore no gain or loss was recognised upon derecognition.

The following tables summarise the maximum exposure and carrying values of the subordinated debt held in the SOCA securitisation programme. 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.

Financial instruments measured at fair value through profit or loss

	2024 £m	2023 £m
Junior notes held in SOCA	54.7	31.6
Mezzanine notes held SOCA	-	31.3
Receivables held-for-sale into SOCA	11.6	11.8
Total	**66.3**	**74.7**

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

	2024 £m	2023 £m
Interest income / (expense)	0.9	(9.1)
Other income	2.2	2.4
Total	**3.1**	**(6.7)**

Following increases in the Bank of England Bank Rate during the year, there has been significant increase in discount rates and future expected funding costs of the programme. This has led to a reduction in fair value of the notes, resulting in a net charge to the interest income within the income statement.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial assets are loans and receivables, trade and other receivables, derivative financial instruments and cash and cash equivalents.

The Group's credit risk is primarily attributable to its loans and advances to customers. The amounts presented in the statement of financial position are net of allowances for impairment losses. The carrying amounts of loans and receivables represent the Group's maximum exposure to credit risk and are set out in loans and advances to customers (note 16) and trade receivables (note 21). The Group also bears credit risk associated with the rental payments due from customers related to operating lease assets, the outstanding portion of which is included within trade receivables set out in note 21. The risk exposure to operating leases is however reduced significantly by the company's ability to re-market the vehicles and other assets concerned into the second-hand market.

The Group has guaranteed £0.4m (2023: £1.2m) of lease payments due from customers in France, Poland, Portugal and Spain 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 approved by the CRC.

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.

Credit Policies are maintained that specify such factors as maximum loan amounts and funding period, requirement for down payments or deposits, any deferral periods and authorisation limits. Customer scorecards are used extensively 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 level 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.

Apart from those designated in Fair Value hedge relationships, the Group does not have any financial liabilities designated at fair value through profit or loss. As a result therefore, there has been no revaluation of financial liabilities for own credit risk. This includes financial liabilities in hedge relationships. The changes in the fair value of financial liabilities recognised in the income statement are principally due to changes in foreign exchange and interest rates for those borrowings designated in Fair Value hedge relationships.

Asset 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 2024 deferred cash flows amounted to £104.3m (2023: £106.3m), against related gross loans and receivables of £2,318.6m (2023: £2,110.3m). There was no such deferred cash collateral held against gross loans and receivables amounting to £970.4m (2023: £1,000.2m).

(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 £5.9m (2023: £2.8m), 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, £185.0m (2023: £155.5m) 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 £1,748.6m (2023: £1,724.4m), £7.2m was individually impaired (2023: £5.0m).

(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 £130.4m (2023: £123.8m) are primarily collateralised by trade receivables purchased from factoring clients which had a gross value of £273.1m (2023: £269.4m), and, in certain cases, by directors' or principals' personal guarantees and/or indemnities as additional security for shortfalls on collect outs due to disputes or breach of contract for which the guarantor is liable. Clients are subject to a rigorous programme of continuous verifications, reviews and audits.

Credit quality

Categories of credit risk quality are determined at an agreement or facility level using both internal risk management inputs and external inputs from credit risk rating agencies and bureaux. The inputs used are specific to the business unit in which the exposure exists, but common categories of credit risk have been determined to monitor portfolio credit quality across the Group. The categories are based primarily on aligning estimated ranges of probability of default but also on management judgement.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 16.

Measurement of expected credit losses

The Group recognises ECL provision in accordance with IFRS 9 Financial instruments, as set out in the Group accounting policies outlined in note 2.3(m). The measurement of ECL under the IFRS 9 is complex and requires a high level of judgement. Outlined below are the key judgements, estimates and input into IFRS 9 models used by the Group in measurement of ECL.

ECL model changes during the year

Novuna Business Finance (NBF) have adopted general approach for determining ECL provision on its hire purchase, finance lease and other short term receivables. As a result, NBF have grouped its receivables into stages 1, 2 and 3 in line with the staging criteria outlined in accounting policy note 2.3(m). Lifetime and 12-month loss rate are determined in line with the methodology outlined above.

Loss rate percentage

The loss rate is a key component of the calculation of ECL. The loss rate incorporates the likelihood of default occurring (i.e., Probability of Default (PD)) as well as the expected amount of the resulting loss (Loss Given Default (LGD)) taking into account expected recoveries post default. The loss rate is expressed as a percentage and it represents the amount written off as a proportion of capital balancing outstanding over a given period of time.

Novuna Consumer Finance

The loss rates are refreshed on a monthly basis, using actual 12-month performance from a given reporting period. The actual 12-month loss rates are smoothed to remove any seasonal variations before being applied to the model as a basis for projecting the future 12-month losses. Within the calculation, financial assets are grouped with those sharing similar credit risk characteristics and which are expected to behave in uniform ways. This process enables 12 month and lifetime ECL calculation through Markov chain extrapolation of 12 month loss rates for each financial asset and a total undiscounted ECL for that group. The undiscounted ECL is then discounted to the present value at the reporting date to create a total ECL for instalment finance receivables. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

Novuna Business Finance

The loss rates are refreshed on six monthly basis and they are determined through analysis of historical defaults. In order to determine lifetime loss rates for stage 2 and stage 3 ECL, the defaults are grouped into delinquency bands and asset types which are considered to represent similar credit risk characteristics. In order to determine 12-month loss rate for stage 1 ECL, NBF have analysed the receivable balance from 12 month ago and calculated the loss rate in the last 12 months corresponding to those receivables, grouped by product.

ECL is calculated by applying the average loss rate (12-month or lifetime) for each asset type and delinquency group to the corresponding gross exposure at the balance sheet date.

Significant increase in credit risk (“SICR”) (movement to stage 2)

A significant increase in credit risk is not a defined term, it is determined by criteria set by management based on past experience and judgement.

Novuna Consumer Finance

In order to assess whether a financial asset has significantly increased in credit risk since origination, the Group has developed a set of quantitative staging criteria as well as using the back stop (30 days past due or two missed payments, if shorter) specified in IFRS 9. These are set out below:

- Credit risk of the customer, as measured by behaviour score, since origination has deteriorated to at least double the origination PD AND The latest PD is greater than 2% OR
- the latest PD is at least 5% greater than the origination PD OR
- The customer has receivables which are more than 30 days past due, or two missed payments if shorter.

PD is an estimate of the likelihood of default occurring over a 12 month period calculated at account level. Management have used historical data and assumptions of future conditions to model PD over a period of time.

Novuna Business Finance

The Group transfers receivables to stage 2 when they are more than 30 days past due or earlier subject to management judgment being applied on a case-by-case basis.

The customer will move back to stage 1 only when the above SICR criteria is no longer triggered.

Definition of default (movement to stage 3)

The Group applies a range of criteria to determine when a financial asset meets the definition of default and should therefore be transferred to stage 3 or credit impaired. The Group defines a financial asset to be in default if it meets one or more of the criteria set out below:

- Arrears greater than 90 days or missed three payments, if shorter.
- Insolvency or bankruptcy.
- Account holder is deceased.

The customer will move out of stage 2 when their credit improves such that it no longer meets the above criteria at which point, they will move to stage 1 or stage 2 depending on whether they meet SICR criteria.

Write-offs

Uncollectable loans and receivables are written off against the related allowance for loan impairment on completion of the Group's internal processes and when all reasonably expected recoverable amounts have been collected. Subsequent recoveries of amounts previously written off are credited to the income statement. The timing and extent of write-offs may involve some element of subjective judgement. Nevertheless, a write-off will often be prompted by a specific event, such as the inception of insolvency proceedings or other formal recovery action, which makes it possible to establish that some or the entire advance is beyond realistic prospect of recovery.

Expected life

ECL is calculated either over the contractual life of the financial asset or the period over which the Group is exposed to credit risk. For lease receivables and other secured loans, this is the contractual life and for unsecured loans and advances, the lifetime is the behavioural life of the financial asset.

Origination date

This is the date at which the origination credit risk score of the asset is determined and this is referenced at each reporting period when assessing significant increase in credit risk.

Forward looking macro-economic assumptions

The Group has developed an in-house macro-economic model to establish the correlation between historical default rates and a set of macroeconomic variables over a period of time. The model provides an estimate of the impact to ECL arising from a movement in a set of macroeconomic variables and those with the most significant correlation are selected as inputs to the ECL provision model.

The Group has engaged with a third party to obtain macro-economic forecasts for UK unemployment rate, real household disposal income, average weekly earnings and total UK consumer debt and UK GDP growth under four scenarios (base, upside, downside and severe downside). As with any economic forecasts, the projections and likelihood of occurrence are subject to a high degree of subjectivity and uncertainty therefore the actual outcomes may be significantly different to those projected.

The Group has identified UK unemployment rate, real household disposal income, average weekly earnings, total UK consumer debt and UK GDP growth as the key variables with the strongest correlation with expected loss rates and therefore the most significant inputs for IFRS 9 ECL models. The macroeconomic data is assessed and reviewed on a quarterly basis to ensure appropriateness and relevance to the ECL calculation, with more frequent updates provided as and when the circumstances require them.

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

31 March 2024

	UK unemployment rate	Average weekly earnings	Total UK consumer debt (£tn)	Weighting
Upside	4.20%	£698	£1.83tn	30%
Base case	4.51%	£687	£1.85tn	40%
Downside	5.63%	£676	£1.86tn	25%
Severe downside	7.20%	£665	£1.88tn	5%

	Real Household disposable income (£bn)	UK GDP growth	Weighting
Upside	£372.1bn	1.9%	30%
Base case	£361.8bn	0.8%	40%
Downside	£353.2bn	(0.3%)	25%
Severe downside	£345.7bn	(1.4%)	5%

31 March 2023

	UK unemployment rate	Average weekly earnings	Total UK consumer debt	Weighting
Upside	3.87%	£698	£1.89tn	30%
Base case	4.37%	£680	£1.93tn	40%
Downside	5.28%	£661	£1.97tn	25%
Severe downside	7.05%	£631	£1.95tn	5%

	Real Household disposable income (£bn)	UK GDP growth	Weighting
Upside	£364.2bn	5.98%	30%
Base case	£349.3bn	3.16%	40%
Downside	£335.2bn	0.32%	25%
Severe downside	£324.5bn	(5.48%)	5%

The calculation of the Group's ECL provision under general approach is sensitive to changes in the chosen weightings as highlighted above. The effect on the closing modelled provision of each portfolio as a result of applying a 100% weighting to each of the selected scenarios is shown below:

	Mar-24 £m	Mar-23 £m
Probability weighted modelled ECL provision	48.5	38.7
Upside	44.8	36.7
Base	46.5	38.4
Downside	54.3	40.8
Severe downside	78.2	45.5

The Group's ECL provision on general approach is sensitive to changes to the loss rate %. The effect of a 15% increase in loss rate would result in £20.6m increase (2023: £11.5m increase) in ECL provision. Conversely, the effect of 15% decrease in loss rate would result in £17.8m reduction (2023: £10.9m 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 £2.3m (2023: £4.8m) to its receivables under the general approach. The reduction is a reflection of the ECL models being much better indicator of future defaults as actual defaults resulting from the cost of living and affordability crisis in the last twelve months are incorporated into the ECL models.

Simplified approach

For trade and factoring receivables, the Group measures ECL based on simplified approach, as set out in its accounting policy in note 2.3(m).

The portfolio consists of short-term trade and Factoring receivables, largely secured against physical assets or underlying debtor balances assigned to the Group. The Group's ECL allowance under the simplified approach consists of the modelled allowance of £8.3m (2023: £18.4m) and forward looking macro-economic overlay of £nil (2023: £3.9m). The modelled provision excludes £8.0m relating to Novuna Business Finance, now included under the general approach.

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

	2024 £m	2023 £m
Very low risk	329.5	946.3
Low risk	109.0	293.4
Moderate risk	113.4	461.9
High risk	11.6	48.2
Ungraded	29.0	121.6
Individually impaired	2.2	5.7
Gross carrying amount	**594.7**	**1,877.1**
Trade receivables	109.3	76.7
Gross Exposure	**704.0**	**1,953.8**

The reduction is ECL allowance and gross loans and advances under simplified approach above is due to Novuna Business Finance, adopting general approach which is covered later in this note.

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 2024	31 March 2023
Gross exposure (£m)	704.0	1,953.8
ECL allowance (£m)	8.3	18.4
Coverage ratio	1.2%	0.9%

The reduction is ECL allowance and gross loans and advances under simplified approach above is due to Novuna Business Finance, adopting general approach which is covered below.

General approach

Novuna Consumer Finance and Novuna Business measure 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 £45.5m (2023: £40.3m) and Post Model Adjustment £2.3m (2023: £4.8m). The modelled provision includes £8.0m relating to Novuna Business Finance, previously provided under the simplified approach.

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

As at 31 March 2024	Stage 1	Stage 2	Stage 3	Total
Gross exposure (£m)	4,804.5	146.5	86.5	5,037.5
ECL allowance (£m)	18.0	14.8	15.5	48.3
Coverage ratio	0.4%	10.1%	17.9%	1.0%

As at 31 March 2023	Stage 1	Stage 2	Stage 3	Total
Gross exposure (£m)	3,233.7	195.6	96.0	3,525.3
ECL allowance (£m)	12.1	16.9	16.1	45.1
Coverage ratio	0.3%	8.7%	16.8%	1.3%

The following table sets out the Group's receivables under the general approach by credit risk category:

	Stage 1 £m	Stage 2 £m	Stage 3 £m	2024 £m	2023 £m
Very low risk	1,173.6	0.5	1.7	1,175.8	768.0
Low risk	2,175.6	1.5	24.1	2,201.2	1,765.5
Moderate risk	1,151.8	32.9	20.2	1,204.9	615.8
High risk	193.5	104.9	12.7	311.1	246.5
Ungraded	110.0	0.5	-	110.5	98.4
Individually impaired	-	6.2	27.8	34.0	31.1
Gross carrying amount	**4,804.5**	**146.5**	**86.5**	**5,037.5**	**3,525.3**

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 the Group's receivables and related ECL provision under general approach:

Gross loans and advances to customers

	Stage 1 £m	Stage 2 £m	Stage 3 £m	2024 £m	2023 £m
Balance at 1 April 2023	3,233.7	195.6	96.0	3,525.3	3,324.3
Stage transfers	(198.1)	7.6	111.8	(78.7)	(60.9)
New business	2,512.1	0.1	0.1	2,512.3	2,458.7
Receivables repaid or written-off	(2,030.9)	(60.0)	(117.1)	(2,208.0)	(2,196.6)
Changes to models/risk parameters	1,062.8	3.2	5.2	1,071.2	-
Other movements	224.9	-	(9.5)	215.4	-
Balance at 31 March 2024	**4,804.5**	**146.5**	**86.5**	**5,037.5**	**3,525.5**

ECL allowance

	Stage 1 £m	Stage 2 £m	Stage 3 £m	2024 £m	2023 £m
Balance at 1 April 2023	12.0	16.9	16.1	45.0	41.3
Stage transfers	(0.1)	(11.8)	12.5	0.6	0.3
New business	9.3	0.2	0.7	10.2	6.8
Receivables repaid or written-off	(3.7)	(1.7)	(16.1)	(21.5)	(3.1)
Changes to models/risk parameters	0.2	12.8	2.3	15.3	-
Other movements	0.3	(1.6)	-	(1.3)	(0.2)
Balance at 31 March 2024	**18.0**	**14.8**	**15.5**	**48.3**	**45.1**

During the year, Novuna Business Finance adopted general approach for its receivables which were previously under simplified approach. The total impact of the transfer was to increase gross loans and advances to customers by £1,296.1m and ECL allowance by £8.0m.

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 that in aggregate match or exceed the duration of the Group's assets. The term of each borrowing is determined by considering the market conditions of each of the Group's debt instruments, funding cost and correlation with the Group's receivables. Included under funding sources below, is a list of undrawn facilities that the Group has at its disposal. In addition, the Group has committed and uncommitted money market and overdraft facilities to provide short term financing.

The table below summarises the gross contractual maturity profile of the Group's borrowings, net derivative assets and liabilities along with other financial liabilities which include amounts due to invoice financing clients and retailer liability (note 27). All derivatives used for hedging purposes are shown by maturity, based on their contractual undiscounted repayment obligations and include future interest receipts and payments.

The table below represents future cash outflows as negative and inflows as positive.

	< 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 2024								
Non derivative financial liabilities:								
Foreign currency denominated borrowings	(2,202.1)	(836.7)	(1,231.5)	(376.9)	(363.0)	(24.4)	(13.3)	(5,047.9)
Sterling borrowings	(633.3)	(511.7)	(124.3)	(54.6)	(66.0)	-	-	(1,389.9)
Securitisation	(363.2)	(176.8)	(76.9)	(23.2)	(4.4)	(0.5)	(0.1)	(645.1)
Other liabilities	(156.9)	(1.8)	(4.1)	(3.3)	(12.5)	(9.9)	(69.7)	(258.2)
	(3,355.5)	**(1,527.0)**	**(1,436.8)**	**(458.0)**	**(445.9)**	**(34.8)**	**(83.1)**	**(7,341.1)**
Derivative financial liabilities:								
Foreign currency receipts relating to FX swaps	269.3	-	-	-	-	-	-	269.3
Sterling payments relating to FX swaps	(321.0)	-	-	-	-	-	-	(321.0)
Foreign currency receipts relating to cross currency swaps	1,674.7	648.9	1,079.5	287.5	360.7	24.1	13.3	4,088.7
Payments relating to interest rate swaps	(111.6)	(72.1)	(38.7)	(17.2)	(5.8)	(0.7)	(0.5)	(246.6)
Receipts relating to interest rate swaps	158.9	80.9	39.6	17.9	6.3	1.0	0.4	305.0
Sterling payments relating to cross currency swaps	(1,899.2)	(775.6)	(1,135.5)	(335.6)	(380.5)	(25.2)	(13.9)	(4,565.5)
	(228.9)	**(117.9)**	**(55.1)**	**(47.4)**	**(19.3)**	**(0.8)**	**(0.7)**	**(470.1)**

	< 1 yr £m	1-2 yrs £m	2-3 yrs £m	3-4 yrs £m	4-5 yrs £m	5-6 yrs £m	> 6 yrs £m	Total £m
At 31 March 2023								
Non derivative financial liabilities:								
Foreign currency denominated borrowings	(2,294.2)	(1,321.5)	(581.7)	(145.4)	(272.0)	(145.3)	(25.0)	(4,785.1)
Sterling borrowings	(752.8)	(508.2)	(10.4)	(5.2)	-	-	-	(1,276.6)
Securitisation	(364.1)	(182.0)	(73.4)	(24.0)	(2.7)	(0.3)	-	(646.5)
Lease liabilities	(6.6)	(5.9)	(4.1)	(2.6)	(1.9)	(1.2)	(1.0)	(23.3)
Trade payables	(418.5)	-	-	-	-	-	-	(418.5)
Financial guarantees	(1.2)	-	-	-	-	-	-	(1.2)
	(3,837.4)	**(2,017.6)**	**(669.6)**	**(177.2)**	**(276.6)**	**(146.8)**	**(26.0)**	**(7,151.2)**
Derivative financial liabilities:								
Foreign currency receipts relating to FX swaps	548.1	-	-	-	-	-	-	548.1
Foreign currency receipts relating to cross currency swaps	1,502.5	1,179.8	478.2	70.2	271.9	145.2	24.9	3,672.7
Payments relating to interest rate swaps	(85.0)	(39.4)	(19.0)	(13.3)	(6.9)	(0.6)	(0.2)	(164.4)
Receipts relating to interest rate swaps	151.5	71.8	30.5	18.1	8.8	1.9	0.5	283.1
Sterling payments relating to cross currency swaps	(1,752.6)	(1,245.8)	(511.8)	(78.8)	(285.9)	(143.8)	(24.5)	(4,043.2)
	364.5	**(33.6)**	**(22.1)**	**(3.8)**	**(12.1)**	**2.7**	**0.7**	**296.3**

Where derivatives are used to hedge an underlying exposure, the cashflows of the derivative instrument are tailored to match those of the underlying hedged item and are both held to maturity. As a result, sources of hedge ineffectiveness affecting the Profit and Loss account are reduced to a minimum.

The Group has a central treasury function which provides funding 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 Group Treasurer, the Finance Director and Chief Risk Officer. 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 Medium Term Note programme, bi-lateral bank borrowings, three securitisation programmes, a European commercial paper programme, uncommitted short bank facilities and a additionally potentially has access to borrowings from the Mitsubishi Group of companies (not drawn during the year). 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 rates linked to SONIA 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 interest risk management in accordance with the Group's risk management policies. As a result, a high proportion of the floating rate borrowings are fixed by entering into float-to-fixed 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 rates, liquidity, and the profile of the assets being funded are considered.

The Group's core funding programmes and facilities are as follows:

- A Euro medium term note programme supported by a guarantee from Mitsubishi HC Capital Inc and rated 'A' by Standard & Poors.
- Bi-lateral term borrowings from relationship banks.
- Securitisation facilities, which Management renegotiates on an annual basis.
- A Euro-commercial paper programme, also guaranteed by Mitsubishi HC Capital Inc and rated 'A2' by Standard & Poors.
- A committed back-up facility in Sterling in the form of a fixed share of a global Mitsubishi HC Capital Group committed facility, and additional shared facility amounts, from the three largest Japanese commercial banks (not utilised).
- Potential group loan facilities available from Mitsubishi HC Capital Inc (not utilised).
- Short term uncommitted bank borrowing facilities.

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 2024 £m	Capacity available 2024 %	Amount drawn 2023 £m	Capacity available 2023 %
European medium term note programme	3,626.1	26.0	3,483.8	16.0
European commercial paper programme	275.5	73.8	553.5	48.0
Committed securitisation programme	601.0	-	600.4	-
Uncommitted short term facilities from relationship bank	78.9	92.6	79.3	86.0
Uncommitted long term facilities from relationship bank	1,492.1	35.4	1,231.3	30.0
Other loans from banks	697.3	27.9	559.6	-
Total borrowings	**6,771.0**	**-**	**6,507.9**	**-**

'Other loans from banks' in the table above relate wholly to borrowings drawn by the Group's subsidiary undertakings.

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 rates. 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 assumed funding costs that were used to price the assets at the time of origination. The risk of potential mis-match of interest rate is managed by duration, matching the fixed rate receivables and operating lease portfolio against the combination of fixed rate debt and rate fixings from the portfolio of interest rate derivatives.

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). Agreed targets for this ratio are set by the Treasury Committee each month and reported to the Board on a quarterly basis. It is kept within a policy range of a minimum of 50% and a maximum of 120%.

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 from debt issuance and borrowings 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 2024 and 31 March 2023, all currency exposures on non-sterling debt were 100% hedged. This risk is also monitored monthly.

Market Risk Mitigation

The Group enters into a variety of derivative financial instruments to manage its exposure to these risks, including;

- Interest rate swaps to mitigate the risk of rising interest rates, and
- Cross currency swaps and short term FX swaps to mitigate the exchange rate risk arising on issuance of debt in foreign currency.

Interest rate swap ("IRS") contracts

Under interest rate swap contracts, the Group agrees to pay or receive the difference between variable and fixed interest rates calculated on an agreed notional principal amount. Such contracts allow the Group to mitigate the risk of changing interest rates on the cash flows of issued variable rate debt held and to a lesser extent the fair value of fixed rate debt held. The fair value of IRSs at the year-end have been determined by discounting the future cash flows for each contract using the yield curve as at the end of the year and the credit risk inherent in the contract.

Interest swaps settle on a monthly, quarterly, or semi-annual basis and use SONIA 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 £15.0m (2023: debited by £10.5m). This is mainly attributable to the Group's exposure to interest rates on variable rate borrowings.
- Other equity reserves would be credited by £64.3m (2023: credited by £59.6m) mainly as a result of the change in mark to market valuation of interest rate swaps in designated hedging relationships.

A 10bp decrease in interest rate, reflected evenly across the yield curve, would result in Net profit being credited by £1.5m (2023: credited by £1.0m) and other equity reserves debited by £6.4m (2023: debited by £6.0m) 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 shareholders, comprising issued capital, reserves and retained earnings as disclosed in note 25 and the Consolidated Statement of Changes in Equity on page 109. The Board of Directors review 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

The FCA has initiated a review of historical commission arrangements between motor finance firms and dealers which is not expected to conclude until at the earliest until September 2024. In line with the FCA's announcement, the Company has paused the response to customer complaints until the FCA shares the final conclusions from its review. While it is possible that certain charges may be incurred in relation to existing or future County Court claims and Financial Ombudsman Service complaints, it is not considered that a legal or constructive obligation has been incurred in relation to these matters that would require a provision to be recognised as at the reporting date. The resolution of such matters is not possible to predict with any certainty and there remain significant inherent uncertainties regarding the existence, scope and timing of any possible outflow which make it, currently, impracticable to disclose the extent of any potential financial impact.

36 NON ADJUSTING EVENTS AFTER THE FINANCIAL PERIOD

The Directors recommend a final dividend of £37.2m (8.0p per share), relating to year ended 31 March 2024. There were no other subsequent events after the reporting period ended 31 March 2024.

Company Information

Mitsubishi HC Capital UK PLC is a public company limited by shares, registered in England & Wales under number 1630491. Mitsubishi HC Capital Inc., a company incorporated in Japan, is the ultimate parent undertaking and the ultimate controlling party of the smallest and the largest group to consolidate the financial statements of Mitsubishi HC Capital UK PLC. Copies of the financial statements of Mitsubishi HC Capital Inc can be obtained from its registered office: 5-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo, 100-6525, Japan.

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A.Hughes

Chief executive officer
R. Gordon

Other directors
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M Mizutani

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J.N.M. Sims

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

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MITSUBISHI HC CAPITAL UK PLC