Registration number: 1630491

Hitachi Capital (UK) PLC

Annual Report and Consolidated Financial Statements

for the Year Ended 31 March 2020

Hitachi Capital (UK) PLC

Contents

Hitachi Capital (UK) PLC

Company Information

Hitachi Capital Corporation, a company incorporated in Japan, is the parent undertaking of the smallest and the largest group to consolidate the financial statements of Hitachi Capital (UK) PLC ("HCUK"). Copies of the financial statements of Hitachi Capital Corporation can be obtained from its registered office: No 3-1, Nishi Shimbashi, 1 Chome, Minato-ku, Tokyo 105-0003, Japan.

Chairman	G. Munnoch
Chief executive Officer	R. Gordon
Directors	H. Fukuro R. Gordon A. Hughes G. Munnoch A. Whitaker
Company secretary	J.N.M. Sims
Registered office	Hitachi Capital House Thorpe Road Staines-upon-Thames Surrey TW18 3HP
Auditors	Ernst & Young LLP 25 Churchill Place London E14 5EY

Hitachi Capital (UK) PLC and its subsidiaries (together, "the Group") offer the following finance solutions from the locations shown below.

Consumer Finance

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

Business Finance

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

Invoice Finance

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

Vehicle Solutions

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

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

European Vendor Solutions

UK - Hitachi Capital House, Thorpe Road, Staines-upon-Thames, TW18 3HP, Tel: 01784 227 322

The Netherlands - WTC Amsterdam H Toren 4de verdieping, Zuidplein 36, 1077 XV Amsterdam, Tel.: 0031 (0)207 997 601

Overview

Beginning on page 4, the Directors present their strategic report for Hitachi Capital (UK) PLC ("the Company") and its subsidiaries (together, "the Group") for the year ended 31 March 2020. The Group financial statements, starting on page 69, comprise the consolidated financial statements of the Company, including its subsidiaries as defined by International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Who we are
Hitachi Capital (UK) PLC is one of the UK's leading financial services companies, providing innovative finance solutions to enable consumers and businesses to grow and prosper.

We are a wholly-owned subsidiary of Hitachi Capital Corporation, one of Japan's largest non-bank financial institutions and an affiliate of both Hitachi Limited, a world leader for manufacturing and technology, and Mitsubishi UFJ Financial Group Inc. The Company is authorised and regulated by the Financial Conduct Authority ("FCA").

Our vision, mission and values
Our vision is to be the trusted brand of financial services in the UK and across Europe, with a mission of exceptional people providing outstanding customer experiences. Our values are the same as the founding values at Hitachi Limited, being "Harmony", "Sincerity" and "Pioneering Spirit".

What we do
The Group has Net Earning Assets of £5.9 billion with over 1,400 employees serving consumers and small to medium-sized enterprises ("SMEs") as well as corporate multinationals in the UK and Europe. We focus on markets where we can provide innovative solutions which require high service levels and commitment to customer care. We are committed to supporting sustainable development by providing access to fair, transparent financing which can bring positive change within society.

Consumer Finance
Hitachi Capital Consumer Finance is the UK's leading retail point of sale finance provider, working with over 3,200 high street and online retail partners. The business also has a significant presence in the personal loans sector, serving over 1.4 million UK customers with £2.61 billion of consumer lending during the year ended 31 March 2020.

Vehicle Solutions
Hitachi Capital Vehicle Solutions is one of the UK's leading vehicle finance companies, operating over 81,000 assets, from cars, vans and HGVs to plant and machinery. By increasing its overall fleet by 19% during the year ended 31 March 2020, the business has demonstrated strong growth in a challenging market and consolidated its standing as one of the top ten vehicle leasing companies in the UK. Our expertise is helping commercial fleets switch to electric vehicles and accelerate the transition to low carbon transport.

Overview (continued)

Business Finance
Hitachi Capital Business Finance is a leading provider of business asset finance to SMEs and larger corporations in the UK, with an asset portfolio of £1.3 billion. Across a wide range of industries, Hitachi Capital Business Finance provides financial solutions for businesses to help them grow, through brokers, distributors and manufacturers as well as directly. Our products include hire purchase, finance lease solutions, stocking and block discounting. With the introduction of flexible repayment plans, harnessing new technology and the launch of a unique input- finance product for the agricultural sector during the year ended 31 March 2020, the business unit continues to offer innovative solutions for SMEs. Hitachi Capital Business Finance was also amongst the first asset finance providers to join the Coronavirus Business Interruption Loan Scheme.

Invoice Finance
Hitachi Capital Invoice Finance provides cash flow solutions to clients across a wide range of sectors in the UK. By incorporating market-leading digital processes throughout the agreement process to help SMEs maintain liquidity, the business provides clients with a unique proposition. In the year ended 31 March 2020, Hitachi Capital Invoice Finance generated record new transaction levels and continues to offer innovative credit underwriting solutions at the forefront of the invoice finance sector, which will ensure that we are well placed for growth when the UK economy recovers from the COVID-19 pandemic.

European Vendor Solutions
Hitachi Capital European Vendor Solutions provides bespoke end-to-end vendor and channel finance solutions for the end users of Hitachi and Mitsubishi group companies and their distribution networks. By achieving domestic growth and by increasing cross-border lending transactions within Europe since its inception, Hitachi Capital European Vendor Solutions is leading the expansion of the Group internationally.

Hitachi Capital (UK) PLC

Group Strategic Report

Chairman's statement

Results

It will be difficult to remember this period for any other reason than the heightened sense of uncertainty created by the events of Brexit and the COVID-19 pandemic. Financial reports will be dominated by analysis and economic outlooks, which at present are very negative and do not always appreciate people's resilience and the ability to adapt and change. For the eleventh consecutive year, the Group reported an increase in profit before tax, earning £129.4m in the year ended 31 March 2020. This represented an increase of 5% over the prior year and a compounded annual growth rate for the past ten years of 21%. The Group has achieved sustained growth in assets and profit during a period of relatively low growth in the wider economy.

The last quarter of the current financial year was a real test for the Group as great determination was required to implement rapid change. The business continuity plan was put into action, which required leadership, communication, organisation and rapid implementation of technology. All staff were able to work from home when the lock down was implemented by the Government and we experienced an unprecedented need from our customers to speak to us and seek reassurance. The Group has not furloughed a single employee as we have adapted to increased demand for communication and assistance. The transformation of call centres to home offices across the country was a remarkable achievement for our technology team and sadly we lost our Chief Information Officer, Kim Brien, to COVID-19 after he had made the safety of all our employees his number one priority. We are indebted to Kim for his leadership and talent in engaging the team to achieve extraordinary performance to prepare us for the pandemic and lockdown.

Our contribution to society is more than financial performance. Social value creation has been focussed in five key areas: corporate governance, customers, colleagues, communities and climate. An overview is provided in the Corporate Social Responsibility (CSR) report with Environmental, Social and Governance (ESG) metrics. We seek to align our strategy, corporate values and ESG initiatives with the United Nations Sustainable Development Goals (SDGs).

Outlook

The COVID-19 pandemic and lock down has had an impact upon the demand for finance and our level of new business has contracted accordingly. With a well-diversified business across commercial and consumer sectors, we believe the demand for asset finance and retail point of sale finance will recover quickly along with economic activity once the restrictions are slowly lifted. The demand for asset finance has traditionally been strong in periods of recession, as leasing and additional forms of promotional finance help businesses and consumers to spread the cost of purchasing assets in fixed, affordable instalments over the period during which the benefits of those assets are derived. Growth of our European Vendor Solutions business has again exceeded our expectations and our European business is making a strong contribution to the Group.

Without significant investment in technology and communication in the past few years, our migration to home working would not have been achievable. The pandemic has reinforced how critical a strong e-commerce platform is to our future success. We have made good progress with our upgrade programmes for core legacy systems, already delivering benefits of improved efficiencies and customer experience, which is evidenced in our continued growth. We have continued to invest in our people, conducting mentoring programmes, training and development, which has resulted in industry and customer recognition in the quality of customer service.

Governance

The Group has adopted the Wates Corporate Governance Principles and takes into account the principles and provisions of the UK Corporate Governance Code to the extent the Board considers them to be relevant. The Group adopts a prudent risk appetite and has a clear focus on market conduct to provide fair outcomes for all its customers.

Chairman's statement (continued)

Dividend

Interim dividends amounting to £15m, 3.4p per share were paid during the year (2019: £40m, 9p per share). The Directors are not proposing a final dividend (2019: £nil) and they have suspended the dividend programme until there is greater certainty of recovery in the UK economy.

I would like to thank our parent company and my fellow Board members for their support during the year. I would also like to thank the employees of the Company for their contribution to the success we have achieved in this financial year and their outstanding commitment during the pandemic, which I am sure will strengthen Hitachi Capital in future years.

Guy Munnoch,
Chairman of the Board
8 June 2020

Chief Executive Officer's review

The past year has been nothing short of eventful as we have had to adapt to significant events and unprecedented demand for our services. I am delighted how Hitachi Capital (UK) PLC has responded to these challenges and continued to grow profitably. I am proud of the team for their dedication and collegiate approach, which has enabled us to continue to provide our customers with a high level of service. I am also delighted with the support we have received from investors and banks around the world, which has enabled us to maintain a high level of liquidity. Lastly, I am delighted with our customers for their loyalty and patience to enable us to work with them to provide financial solutions.

Three main events in the reporting year stand out as issues that have generated significant uncertainty and risk for the business. The COVID-19 pandemic, internal funding restrictions in the first six months of the year and the ongoing process of Brexit. COVID-19 is the greatest public health crisis we have faced in the UK in the last one hundred years. The lockdown, which commenced on 23 March 2020, resulted in a rapid contraction of GDP and unprecedented levels of public sector intervention to prevent a severe financial crisis and permanent deep scarring to the economy.

The postponement in 2019 of the announcement of the consolidated earnings of our parent company, Hitachi Capital Corporation, due to an investigation of a fraud at Hitachi Capital Factoring (China) Co Ltd, impacted the UK operation for nearly six months, as we were not able to issue commercial paper and medium term notes guaranteed by our parent company. Lastly the ongoing uncertainty of Brexit reduced the propensity for investment and dampened economic growth in the UK.

Each event has been a significant test for the business. Our ability to adapt and change will strengthen the business in the future. The lockdown has been the most challenging business continuity test the Group has faced. The information technology team is to be commended for making working from 1,425 home offices a reality. The improvements in functionality and communication will make the business more flexible in the future. The funding restrictions in the first half of the year prepared us for the tightening of the financial markets due to COVID-19 as we increased bank facilities and securitisations, tightened credit appetite and restricted high- cash- utilisation financial products. It was again a challenging business continuity test to ensure that the cash flow from the existing portfolio was able to support the funding for new business and service loan repayments. Brexit has been an ongoing challenge for many years, as we could not rely upon growth in the general economy or in UK investment to push our own growth. Our continued success and strong growth can be attributed to a keen focus upon ensuring that our customers have an outstanding experience and that we provide fair outcomes to consumers and businesses alike. Brexit also challenged how we would protect our pan-European business, leading to incorporation of our Dutch subsidiary, which has grown profitably during the last year, diversifying our source of growth.

I believe we have been successful in the past year because our products are predominantly based around fixed interest rate and instalments or fixed rentals for a specified period - in the commercial sector secured by assets. The average age of our unsecured finance customer is 46 and they generally have greater cash reserves to withstand economic shocks for a longer period. Affordable instalment credit finance gives businesses and consumers clarity in the investment process and does not exhaust cash reserves or existing financing facilities, which need to be conserved in uncertain times. We do not provide banking products such as credit cards, overdrafts or mortgages secured upon land and buildings.

In the United Kingdom, we are moving to a society which is becoming more accepting of rental for use rather than asset ownership, as asset finance products enjoy annual double digit growth whilst total investment in assets remains flat. Leasing products are designed to accommodate a transfer of many of the ownership risks to leasing companies, which are more able to manage them.

Chief Executive Officer's review (continued)

We have continued with our programme of investment in transformation of our core and front end systems to ensure that we have strong foundations to realise our growth ambitions, and to continue to deliver fair customer outcomes and manage risk effectively. The transformation programmes have been essential in enabling us to continue to write new business during the lockdown. However, significant development is still in phased implementation over the next five years as we have expanded the scope of change and systems since the reliance upon technology as an enabling tool for business has been amplified during the COVID-19 crisis.

Key Financial Results:

	2020	**2019**
Profit before tax (PBT)	£129.4m	£123.1m
PBT growth	5.1%	5.8%
New Business Volume	£3,961.3m	£3,884.8m
Net Earning Assets	£5,936.8m	£5,570.3m
Pre-tax Return on Net Earnings Assets	2.2%	2.2%
Bad Debt ratio	0.8%	0.7%
Cost / income ratio	46.3%	47.4%
Number of employees	1,425	1,365
Effective tax rate	20.4%	19.0%
Post-tax return on equity	14.4%	15.7%

Net Earning Assets (NEA) represent the loans, receivables, finance and operating lease contracts with customers net of initial direct costs.

Our high level of service has been valued by our customers and has resulted in new business growth in the year of 2% (2019: 15%). This in turn drove a 6% growth in Net Earning Assets. Our margins have continued to decline over the year as the risk premium in market rates increased and we again experienced increased costs of writing regulated business. Due to competitive pressures, these cost increases were not reflected in interest rate and rental increases to customers, and we sought to maintain margins by improving efficiency, which is evidenced by an improvement in our cost / income ratio.

The Group's charge for bad debt impairment was still low at £30.9m, less than 0.52% of closing earning assets. The charge represents an increase of £4.3m over the previous year, primarily due to the impact of economic overlay for the uncertainty around the COVID-19 pandemic (£3m) and the downturn in the economy prior to the pandemic (£2m). At the commencement of the pandemic, it was estimated that between 20,000 and 250,000 lives could be lost in the UK. The lock down commencing on 23 March 2020 for an estimated 12 weeks was bound to cause a rapid down turn in the economy, but the long-term effect is dependent upon many future unknown variables, including:
• the length of the lock down
• the phasing and time taken for the lifting of the lock down
• the effectiveness of the unprecedented level of public sector intervention
• the speed of testing, levels of immunity and the release of an effective vaccine
• the scarring in terms of persistent unemployment, company failure and re-organisation of resources
• the confidence to spend and make investment post COVID-19.

Chief Executive Officer's review (continued)

Given the huge level of uncertainty, we used a weighted average of three separate economic scenarios detailed in note 32 of the financial statements, to determine the additional bad debt impairment provision from the impact of COVID-19 to be £3.0m as at 31 March 2020.

Since 31 March 2020, events to date would indicate that, in the UK, the peak of the current pandemic has passed and the level of Government support has been extensive with the Coronavirus Job Retention Scheme supporting over 7 million furloughed employees. The financial support programmes, such as Term Funding schemes, Bounce Back Loans, Coronavirus Business Interruption Loan Scheme (CBILS) and Covid Corporate Finance Facility, have been similarly effective. Hitachi Capital is a non-bank financial services company and is ineligible for support. However, we were one of the first non-banks to be accredited by the British Business Bank to provide CBILS facilities for our customers, under which we have financed approximately £38m (about 300 agreements) since the year end. We understand that the large regulated banks are the most effective distribution method and have been the focus for providing support. We also understand that the level of support is temporarily creating an unlevel playing field, but the need to take action to create financial stability is much greater in a crisis. We have benefited from the level of quantitative easing that has had a stabilising effect on financial markets, which in turn has enabled us to continue to issue medium term notes, but we note that the credit risk premium has widened with tight financial markets.

The low charge for bad debts for the year reflects stability in the credit quality of our portfolios, which again is highlighted in note 32 to the financial statements and reveals that the level of risk has remained low and stable over the past year.

Administration expenses before goodwill impairment increased by £3.3m to £138.4m. During the year we invested significantly in our employees with nearly 4% more staff in relation to our major IT projects, compliance and internal control.

The effective tax rate increased to 20.4% (2019: 19.0%). It is expected that the effective tax rate will be stable for the coming year.

The post-tax return on equity reduced to 14.4% (2019: 15.7%). Interim dividends totalling £15m were paid during the year: however, further dividends have been suspended for the foreseeable future as a prudent measure to conserve capital.

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 from the Group's statement of financial position. Further details are contained in note 32 to the financial statements.

Funding
The Group has a central treasury function, which manages the Group's borrowings in accordance with agreed policies and procedures. Debt is raised taking into account each business unit's requirements and portfolio maturity profile. We raise multi-currency fixed and floating rate debt in the major global markets. Derivatives are utilised to eliminate currency and mitigate interest rate risks. Analysis of borrowings is detailed in note 16 and derivative financial instruments are summarised in note 15 to the financial statements. Gearing, after reflecting the effect of currency risk hedging, is 7.4 times (2019: 7.8 times) and is well within the limit of 25 times equity set out in the Company's Articles of Association.

Chief Executive Officer's review (continued)

In November 2019, the Group successfully completed a €350m issue of guaranteed public bonds, which has diversified our borrowing base. The level of support from the Japanese banks based in London, and Japanese investors, has been outstanding during the current COVID-19 crisis. Whilst we have seen an increase across the market for the credit risk premium, we have been successfully issuing medium term notes to meet our funding requirements. Payment holidays have been provided to support our customers across approximately 40,000 agreements resulting in a reduction in our cash-flow by £30m per month for the duration of the three month holidays, which is incorporated into our funding plans and stress tested accordingly. With a strong equity base and access to global lines of credit, we believe we have sufficient capital to trade throughout the expected downturn in the economy.

Regulation

We continue to strengthen our compliance, monitoring and quality assurance functions, to ensure we have the appropriate level of governance and control arrangements in place to support our ambitious growth plans and our operations within a highly regulated environment. Ensuring we deliver fair outcomes to our customers is central to our mission and we recognise that this is a theme of continuous improvement. The level of guidance from the Financial Conduct Authority and scope of regulation continues to increase and we have seen an acceleration of guidance during the COVID-19 pandemic.

We continue to invest heavily in our IT infrastructure across all of our business units to continually improve security and efficiency and to enhance the experience for our customers. Data protection is a continuous project of review and investment.

We now have operations across 20 European countries, connecting more businesses to Hitachi Ltd's pioneering technology. The Dutch subsidiary was incorporated in March 2019, to provide vendor finance solutions to Hitachi and Mitsubishi group companies and customers in Europe, and has continued to expand and trade profitably, which is a great achievement for a new operation.

Our people are vital to our success and it is important that all our staff feel part of Hitachi Capital (UK) PLC. 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 Company.

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

Conclusion and Outlook

Our strategy of offering value added financial products and excellent customer service in our chosen markets has continued to deliver profitable growth successfully. The outlook for 2020/21 is concerning as the COVID-19 pandemic is not behind us, but events since 31 March 2020 have been within our stress testing limits. We remain focused on aligning our business to the Sustainable Development Goals as defined by the United Nations. We remain committed to delivering fair customer outcomes as well as continually improving the end-to-end customer experience, underpinned by targeted investment in our IT infrastructure and people.

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

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

Chief Executive Officer's review (continued)

We have stress-tested our portfolio to see how much the UK economy would have to deteriorate before the Company ceases to be profitable. We projected that bad debt levels would need to increase to 3.4 times the levels experienced during the last recession before the Company would make a loss. As a business, we are well capitalised and the projected repayment of the receivables is well in excess of the projected cost of debt servicing throughout the life of the existing assets.

On behalf of myself and the Board, I would like to take this opportunity to thank employees across Hitachi Capital (UK) PLC for the success we have had as a team in an extraordinary year and in particular to remember the inspiration and dedication provided by Kim Brien, whom we lost so early to COVID-19. In 2020/21 it will be even more important to continue to provide our customers with outstanding customer experiences, which we are confident will help us to generate sustainable profitable growth.

By order of the Board.

R. Gordon
Chief Executive Officer
8 June 2020

Divisional Highlights

Consumer Finance

Highlights
- Profit before tax £76.0m
- Total new business volumes £2.6bn
- 20% market share in retail point of sale (POS)
- 11% increase in personal loans lending to over £1bn
- Your Money "Best Direct Loan Provider" for sixth year running

Results and Strategy
It's been a challenging year for retailers and consumers. With more cautious spending, triggered by economic uncertainty around Brexit and the coronavirus pandemic in the fourth quarter impacting consumer confidence and flattening demand. Despite adverse trading conditions, Hitachi Capital Consumer Finance recorded a profit before tax of £76.0m, a slight decrease in profit from 2018/19 (£79.7m) due to additional bad debt provisions to account for the impact of COVID-19.

During the year ended 31 March 2020, Hitachi Capital Consumer Finance lent more than £2.6 billion to over 1.4 million customers.

Retail point of sale continues to underpin Consumer Finance's sustained growth, with a 20% market share in the retail point of sale sector in the UK. Over half of our business volume in Hitachi Capital Consumer Finance is through retail point of sale; however, this year we have seen significant growth in our direct personal loans business, lending over £1 billion for the first time in a 12 month period, accounting for 38% of our Consumer Finance new business volume.

We continually review our product and channel portfolio to ensure the business is meeting the needs of consumers and businesses, whilst delivering strong sustainable, commercial performance. As a result we made the commercial decision to exit the motor broker/dealer introduced point-of-sale finance market from 31 January 2020, and focused on meeting the growing consumer demand for motor finance through significant growth in our personal loans channels and at Hitachi Capital Vehicle Solutions.

Investing in areas of growth, which includes our multi-million pound digital transformation strategy, has increased efficiencies across the business, optimising the customer journey and adding value to our retail partners. We are deploying new technology to enhance customer experiences from on-boarding to collections, adding value and driving customer satisfaction.

As set out within the Corporate Social Responsibility section of the Group Strategic Report, we continue to maintain high levels of staff engagement across the division, as well as attracting top talents on a continuous basis. This relentless focus on our people is key to our success now and in the future.

Retail Point of Sale
Hitachi Capital Consumer Finance supports over 3,200 retail partners in the UK, providing point of sale finance across all channels, from bricks and mortar to online, across a broad range of sectors in the industry. Working in partnership with our retailers, our technology integration and finance products enable them to stand out in a crowded market, reduce operating costs and deliver a true frictionless journey, regardless of how consumers shop.

Divisional Highlights

Over the last 12 months, we have revolutionised our on-boarding platforms, focussing on digital channels to transform our retailer relationships, creating the best customer experiences in the market and streamlining operations within our business. Our Open Banking initiative, launched earlier this year, was a key pillar in this journey, providing a more seamless customer journey, offering greater customer insight, and enabling us to diversify our customer base.

We have continued to deliver the strategy outlined last year around the three pillars of Transform, Protect/Grow and Diversify. Significant investment in increasing levels of automation, artificial intelligence and technology has enabled us to lead the market. For example, we are providing one of the fastest integrations with retail POS systems, via e-commerce plug-ins, driving efficiencies and adding value for customers. This investment and digital transformation will ensure that we are well placed to assist in our retail partners' recovery plans as the economic conditions improve within the UK.

Personal Loans
Our personal loans business, Hitachi Personal Finance, continues to deliver significant growth, cementing our position as one of the top 10 providers of personal loans in the UK. During the year, we lent in excess of £1 billion, up from £876m in 2018/19 - an 11% increase in business volume and well above the market growth rate in personal lending.

This success is based on our strong customer proposition, which combines fast decision-making and application processing backed with excellent customer service. On average, Hitachi Personal Finance processes a loan application every 60 seconds, with 95% of decisions made within 10 seconds.

As we continue to grow our business, the challenge is to find more effective ways to get our brand in front of a wider audience. Our #MakeItHappen campaign, launched in the first quarter, was designed to do just that and marked a significant marketing investment in a 15-week advertising campaign. This tested new channels to market and successfully engaged with new audiences, providing the foundations for the significant growth in our personal loans channel, achieving an annual billion pound lending milestone for the first time.

Providing a frictionless customer experience is a priority for our business and this year we launched the MyHPF mobile app with a biometric log-in, enabling customers to manage their accounts online. By providing excellent customer service, across all channels, we are providing customers with quicker accessibility and more customer touchpoints.

Outstanding customer service recognition
We are continuing to enhance our customer experiences to be the best in the market, using real-time customer reviews to analyse and enhance our performance. Hitachi Capital Consumer Finance won the official Feefo Platinum Trusted Service Award for 2020, after two consecutive years of winning the Gold Award, reflecting a consistent Feefo rating of 4.5 and above from over 7,500 reviews. Our customers also highly recommend us to their peers. We have a Net Promoter Score of 83, higher than many high street banks, lenders and major household name retailers, and we retained our position as the UK's Best Direct Loan Provider, awarded to us by Your Money, for six consecutive years.

Despite challenging market conditions, we remain confident in the outlook for our Consumer Finance business. Through our strong brand reputation and digital transformation, we are committed to creating the best customer experiences in the market and we're well-placed to sustain our reputation as one of the UK's leading consumer finance companies.

Divisional Highlights

Vehicle Solutions

Highlights
- Profit before tax £25.7m
- 81,438 assets (19% increase)
- 20% fleet increase with largest % fleet growth in past 3 years against top 10 providers
- Net earning assets £999m
- 15% of Hitachi Capital (UK) PLC's business assets
- Unique Total Asset Solutions service proposition
- Fleet News "Leasing Company of the Year" for the second year running

Results and Strategy
In 2019/20, Hitachi Capital Vehicle Solutions generated profit before tax of £25.7m - a 4% increase in profit from the previous year (£24.8m). We are continuing to grow in a competitive market, having increased our fleet significantly to more than 81,000 vehicles, valued at £999m, a 19% year on year increase in net earning assets. Our comprehensive range of assets is unique in the market; we operate more than 44,000 cars, 32,000 vans and 5,500 HGV and specialist vehicles.

Hitachi Capital Vehicle Solutions has more than 25 years' experience in providing bespoke fleet finance and fleet management services for businesses across the UK, supporting our customers across every stage of the vehicle life cycle. Our core services include fleet policy and strategy, engineering services (such as design specification and asset build), legal asset compliance, cost control and management, asset utilisation and asset disposal.

Our market leading personal leasing offering has grown by 20% in the past year, comprising over 26,000 vehicles which are marketed both directly and via a network of valued brokers and dealers. Our online platform features automated underwriting, digital documentation and e-signature capabilities, providing users with a frictionless end-to-end process combined with competitive pricing.

Over the past twelve months we have consolidated our standing as one of the UK's largest leasing companies, recording the second largest growth of the top 10 providers during the year; and moving from 8th to 7th in the Fleet News FN50 ranking of the UK's biggest vehicle leasing companies. Leveraging our multi-asset proposition to the market has generated new customer acquisitions.

In May 2019, we were awarded a £136m contract with Network Rail, one of the UK's 10 largest fleets. We are working in partnership with Network Rail to provide our integrated leasing and fleet management model, overseeing their entire owned and leased road fleet, and sourcing and supplying 8,000 lease vehicles.

Our continued growth, retaining existing customers and winning new customers reflects our defined growth strategy around three pillars: Leaders in Alternative Fuel Vehicles (AFVs); Differentiation via a multi-asset proposition; Adopting a Customer First approach. This year, we have continued to make a significant investment in new technology and IT infrastructure, improving our customer experiences and shaping our business for future growth. We have created a new core platform and a number of customer-facing digital solutions, including a driver risk management system and fleet utilisation portal created in partnership with Hitachi SIB (Social Innovation Business) to deliver unique fleet solutions.

Divisional Highlights

Pioneering the transition to Alternative Fuel Vehicles (AFVs) and adapting to the rapidly changing market is pivotal to our long term strategy; we have increased our Electric Vehicle (EV) fleet by 137% in the past 12 months. As at 31 March 2020, the EV fleet was 1% of our total funded fleet which is significantly higher than the market. We are using insight and digital solutions to navigate fleets through the transition from traditional fleets to a greener fleet mix; using our market leading fleet diagnostics, we are ensuring that our customers have the right vehicle with the optimum fuel type.

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

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

Hitachi Capital Vehicle Solutions adopts a partnership approach and we treat each customer's fleet as a unique project which requires a bespoke solution. For example, through our blended funding scheme, we provide solutions to future-proof our customers' fleets (from diesel through to EVs) within one fleet policy.

No other leasing company can provide the level of expertise and experience in specialist vehicle compliance, and apply that expertise for the benefit of all drivers and all types of vehicles, increasing safety and operational control across the board.

Road to zero emissions
We have a clear strategy to be leaders in the emergence of alternatively fuelled vehicles (AFVs), delivering cost and environmental efficiencies, and helping the UK to meet its carbon reduction targets. As a business, we have made a clear commitment to electrify 100% of the 62,500+ funded car & small van fleet (3.5tonne and under), and 50% of our funded van fleet (vehicles over 3.5 tonne) by 2030.

Our partnerships with innovative companies are accelerating the transition to vehicle electrification. This year, in collaboration with Hitachi Capital Business Finance, we have formed a partnership with Gridserve Sustainable Energy Ltd, an innovative firm that is building hybrid solar farms and, over the next five years, more than 100 electric forecourts for electric vehicle charging. Our expertise will create the infrastructure required for electric vehicle adoption on a large scale, using sustainable energy.

We are the only leasing company in the industry to partner in the world's biggest EV trial, Optimise Prime, a three-year innovation project led by Hitachi Vantara and UK Power Networks, which is designed to address how the UK can manage a mass adoption of EV's between now and 2030. During 2020/21, our Trowbridge Office will become a centre of AFV excellence as part of the Optimise Prime project.

Customer service recognition
We achieve consistently outstanding customer service by adopting a Customer First strategy where everything starts and ends with our customer. Our service and innovation levels have also been recognised as industry leading, with multiple awards won including Leasing Company of the Year in 2020 (for the second year running) and Truck Leasing Company of the Year at the Commercial Fleet Awards 2019.

Divisional Highlights

In December 2019 we were awarded the Service Mark Accreditation and Hitachi Capital Vehicle Solutions is now officially accredited by the Institute of Customer Service (ICS). We have also seen customer engagement scores increase from 80% to 92% in the past year.

Despite challenging market conditions, with the COVID-19 pandemic in the fourth quarter impacting the car industry, we remain confident in the outlook for our Vehicle Solutions business. With expertise across every vehicle type, from small cars to complex HGVs, we are ideally placed in the year ahead to sustain our reputation as one of the UK's leading vehicle leasing companies.

Divisional Highlights

Business Finance

Highlights
- Asset portfolio grew 7% to £1.3bn
- Profit of £24.6m delivered, up 19% on last year's £20.7m
- Treble the growth delivered versus the market
- Stocking portfolio grew to £100m
- New technology channel launched
- We have helped 30,000 SMEs grow their business.

Results and Strategy
Hitachi Capital Business Finance delivered a profit of £24.6m this year, up nearly 20% on last year's £20.7m whilst growing the portfolio by 7% to £1.3bn. Business Finance now makes up 22% of Hitachi Capital (UK) PLC's business assets. Our motor inventory finance proposition, launched in 2018/19 has helped to deliver a £100m portfolio with a presence in our three routes to market of Motor (50%), Agriculture (40%) and Leisure (10%).

We have an established reputation for providing businesses with innovative solutions to support their growth aspirations. This year, we launched our smart funding flexible payment plan to help thousands of small business owners secure growth funding without disrupting their cash flow. The flexible repayment plan allows small businesses to create their own bespoke repayment schedule for finance that reflects their cash flow forecast and the seasonality of their business. One in four online applications now take advantage of our seasonal payment plan calculator.

We finance mainly hard assets on Hire Purchase agreements to SME clients with strong creditworthiness. This year we strengthened our reach by launching our new Technology Broker channel to complement our core routes to market of Commercial and Farm Broker. We continue to demonstrate strong credit experience and judgement with low levels of bad debt at 0.31% this financial year.

The business has continued to fund UK SMEs through the Enterprise Finance Guarantee (EFG) scheme from the British Business Bank (BBB) and over the year financed £11.7m of assets for businesses that may not otherwise have secured finance for their development and growth. Hitachi Capital Business Finance partnered with the BBB to offer the Coronavirus Business Interruption Loan Scheme (CBILS) the day after its announcement on 23 March 2020, helping to provide vital finance to UK SMEs during the coronavirus pandemic. We were the first asset finance provider to join the scheme in order to help our customers alleviate the impact of COVID-19 on their businesses and support the UK economy.

Divisional Highlights

Providing an outstanding experience for customers is at the heart of our business and in the last 12 months that has been recognised by our industry peers. The business unit was awarded Lessor of the Year, Broker Champion and Top Supply Chain Funder at the Leasing World Awards 2019, Alternative SME Lender of the Year (£250,000+) and Best Asset Finance Provider (Large) at the Credit Strategy Lending Awards 2019 and Best Product or Service in Equipment Finance at the International Asset Finance Network Awards. Our Franchise Finance team was awarded the Customer Service Award and the Team of the Year Award at the British Finance Association's Affiliate & Supplier Conference 2019 and Service Partner of the Year for Subway 2019, presented by IPC Europe.

The expertise and dedication to exceptional service we provide to businesses is reflected in the engagement levels of our people. A survey of our employees undertaken during the year showed that 93% are proud to work for Hitachi Capital Business Finance, an increase of 3% on last year. This was reflected through our Institute of Customer Service 'Service Mark' accreditation, with an increase in customer satisfaction score to 86.9%.

Looking to the future, we are partnering with Gridserve Sustainable Energy Ltd., an innovative firm that is building hybrid solar farms and over 100 electric forecourts over the next 5 years for electric vehicle charging. Our multi-million pound loan facility will create the infrastructure required for electric vehicle adoption on a large scale, using sustainable energy.

Divisional Highlights

Invoice Finance

Highlights
- New business fee income up by 49% on previous year
- FLi digital on-boarding platform - the fastest deal completed in 17.5 hours (from an average of 61 days)
- 94% reduction in the time taken to pay-out this year
- January 2020 saw our best ever January with lending at £10.8 million up on the same month the previous year
- All 800 plus clients successfully migrated on to new Aquarius platform
- New customer proposition with reorganised sales team focusing on value-added offering of core, growth and corporate levels of service.

Results and Strategy
Due to our investment into developing FLi, our innovative onboarding solution, we are able to offer clients a much quicker onboarding process, giving businesses speedy access to funds with digital signature and improved data security. All personal and sensitive information is provided digitally and stored in one safe and secure place. FLi has proved to be extremely successful for HCIF; we have seen average onboarding times significantly reduce from 117 days to just 20 days in the smaller SME- focussed core team, which is a huge achievement.

All of our clients are now benefiting from our new self-serve web app giving them access to MI in real time, 24 hours a day. Our AI powered fund allocation and intelligent credit control technological advances have seen a 94% increase in speed of payout this year. The new Aquarius platform was launched this year: this, alongside our 70% cash automation and historic suspense account lows, permits the fastest cash repatriation in the industry.

The year also saw HCIF launch a new and innovative sales process to offer SMEs a core, growth or corporate level of service depending on the size of their business. This allows us to provide greater support for those SMEs in the corporate and growth tiers, through our specialist team of Relationship Managers. Our SMEs in the core tier tend to be much smaller or new starts who require a simple and fast set-up process with initial face-to-face support but don't require the same level of service once they are onboarded. The new tiered approach allows us to be more strategic with the time and support we dedicate to each client.

Providing excellent customer service is always a priority for Hitachi Capital Invoice Finance. We hold a rating of 4.7 out of 5 stars for our customer experience rating on independent customer feedback platform, Feefo.

The reputation the Invoice Finance team have forged for providing market leading solutions sees the business continue to receive industry recognition. We won several awards in 2019/20 including "Best Factoring and Invoice Discounting Provider" at the 2019 Business Moneyfacts Awards, Business Money's "Innovation in Marketing Development" 2019 and a special Hitachi Capital President's award in the Business Transformation category for the launch of FLi.

Our technologically advanced proposition has ensured we have maintained full operational capability and combined with our award winning client service and transparent pricing, will enable us to continue to support our clients, both existing and new, through economic recovery and beyond.

Divisional Highlights

European Vendor Solutions

Highlights
- £235m volume of business
- 42% PBT growth year on year
- Active in 20 European countries
- Doubling the funding available to support the distribution channels of our key programmes
- Rapid growth of the Mitsubishi Caterpillar Forklift Europe (MCFE) programme.

Results and Strategy
During the year, European Vendor Solutions transacted £235m across the division's three locations, writing business in 20 countries, including four new territories. This year the business unit's profit before tax grew by 42% from £1.9m in 2018/19 to £2.6m in 2019/20.

Our Netherlands branch was incorporated into a separate subsidiary, to act as a hub for future European expansion and has contributed £26m of new business in its second year of operation. To support the expansion further, a new branch was also set up in the Republic of Ireland to service the growing customer base in this market.

European Vendor Solutions' main business provides end-to-end vendor finance solutions, addressing the requirements of manufacturers and their distribution networks throughout the whole product lifecycle, including stocking, demonstration equipment, end user, second hand equipment and, for the first time this year, financing of spare parts within our largest sector - construction. We support the manufacturing businesses within the Hitachi Group and affiliated companies and also provide finance to independent manufacturers looking to offer financing solutions to their distribution network and customers.

Increasing our cross-border lending capabilities in Europe is key to the growth strategy for our business. We have seen particular growth in our channel finance proposition, doubling the provision of funding available to non-rail businesses, enabling dealers to optimise stock levels and attract new customers, whilst improving cash flow. We are forging new business relationships across Europe by supporting dealers and distribution networks with finance products that allow them to modify stock, meeting local regulatory requirements before a sale is transacted.

We have also expanded our vendor finance footprint in Europe. Medical equipment was funded in both Greece and Croatia for the first time; our channel financing product saw our first transactions in Slovenia; and the Hitachi Construction Machinery programme was extended to include Finland and Estonia.

During 2019/20, we achieved a significant increase in business volumes within the construction equipment and materials handling markets, where we have seen rapid growth. This includes the Mitsubishi Caterpillar Forklift Europe (MCFE) programme, for which we are one of the leading funders in the Netherlands, Ireland and the UK. We have expanded our operation to include financing mobile cranes, with the addition of Tadano Cranes as a new vendor partner and continued to fund more Sumitomo crawler cranes in the Netherlands.

Financing energy efficiency projects including LED lighting, heating and cooling systems still remains a strong focus for our business. Significant projects included a Combined Heat and Power (CHP) installation at a pharmaceutical laboratory in excess of £650k and a £900k transaction for a LED lighting refurbishment project for a large UK retail distribution warehouse. Funding in this area actively supports the environmental and social innovation strategy of the Group.

Since the formation of Hitachi Capital European Vendor Solutions as a separate division in April 2019, we have strengthened our team of asset finance professionals, doubling our headcount from 20 to 40 across our three office locations - London, Amsterdam and Dublin - in just 12 months.

Providing tailored financial solutions to a growing number of vendors and their distribution networks across continental Europe has further enhanced our reputation. Our recent customer satisfaction survey confirmed the value of our competitive and innovative finance proposition, with 87% of customers stating their expectations were either met or exceeded. 8 out 10 surveyed said that our service levels have remained consistently high or shown improvement within the last year.

Our strategic approach to capitalise on our strong performance and direct presence in Europe is focused on diversification across Europe by expanding direct funding and developing relationships with Japanese key accounts and OEMs within Shareholder Group companies.

Principal risks & uncertainties

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

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

Financial Risk - The risk that the Group does not deliver its business plan and profit target whilst maintaining the Group's bad debt charge and funding within agreed levels.

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

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

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

Strategic Risk

Risk	Mitigants
We are unable to keep pace with market change or our products become too costly in comparison to competitors, reducing our market share.	• We make significant ongoing investment in the quality of our systems and products. • We regularly review our prices to ensure that they remain competitive. • We have a Board approved product governance process which considers any key risks and necessary mitigations in respect of new products and requires periodic consideration of the risk profile of existing products. • Our horizon-scanning activities consider a broad range of factors, including: evolving market developments; regulatory, legal and tax requirements; and emerging environmental, social and political developments in the UK and globally.

Principal risks & uncertainties

Financial Risks

Risk	Mitigants
We are unable to access funding for the business or can only access it at excessive cost.	• We raise funding from a well-diversified set of sources. This includes both public issuance and private placements from a Medium Term Note programme, bi-lateral term borrowing from banks, securitisation, commercial paper and short term bank facilities - all in multiple currencies swapped into Sterling. This enables HCUK 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 hedging strategies or through counterparty failure.	• We have set a range of fixed treasury risk appetite limits and set monthly hedging strategies within those limits. Actual performance against those strategies is continually monitored. This includes 100% elimination of exposure to changes in foreign exchange rates. • We deploy effective interest rate hedging through derivative financial instruments and fixed rate borrowings. • We manage the effectiveness of hedging activity through regular Treasury Committee meetings at which the tenor of interest rate fixings of borrowing costs is matched against the tenor of the fixed rate assets held by the Group.

Principal risks & uncertainties

Risk	Mitigants
We face significant unexpected credit losses, arrears, increased bad debts and defaults.	• 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.

Principal risks & uncertainties

Risk	Mitigants
We are subject to an unexpected drop in residual values.	• 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 periodically adjust fixed asset depreciation rates correctly to reflect and absorb updated assessments of prospective future values, relative to the value assumed and booked at the inception of the lease.
We are subject to a significant, sudden and unexpected reduction in demand for our products and services	• 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.

Principal risks & uncertainties

Conduct Risks

Risk	Mitigants
We fail to deliver fair outcomes to our customers	• In addition to our risk management governance, we monitor the delivery of fair customer outcomes through a dedicated Customer Experience Committee. • We conduct root cause analysis on customer complaints. • We have control testing, oversight and assurance plans across all three lines of defence to address key conduct risks. • We have in place an organisation-wide programme of compulsory training. • We undertake regular and focussed training of our customer-facing colleagues. • We operate a Quality Assurance programme within our customer-facing business areas.
We do not comply with either relevant current or emerging regulation and rules, including consumer credit and privacy regulation.	• We employ experienced and skilled regulatory risk professionals. • We have processes for review and assessment of new and emerging rules, regulations and industry best practices. • We undertake regular 2nd line risk-based monitoring reviews in line with our "three lines of defence" model outlined later in this statement. • We operate a Quality Assurance programme within our customer business areas. • We have open and transparent dialogue with our regulators.

Principal risks & uncertainties

Operational Risks

Risk	Mitigants
We are subject to a major systems failure.	• We have in place real-time system monitoring to detect performance issues. • We have in place perimeter firewalls and security controls. • We employ a dedicated and suitably skilled IT support team. • We undertake formal change management processes that include robust testing. • We have robust Business Continuity Planning and IT Disaster Recovery plans in place. • We undertake regular audits of IT controls.
We are subject to significant fraud losses, including cybercrime.	• 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 deploy dedicated device identification software and fraud detection rules. • 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.

Principal risks & uncertainties

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

Key elements of that framework include:

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

Relevant management information designed to allow for the effective management of risks within their remit is supplied to the various committees. A description of the composition and operation of the Board and its committees can be found within the Corporate Governance Statement starting on page 40.

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).

Risk Culture, Awareness and Training - A range of mechanisms is in place to promote and reinforce the importance of risk management and the maintenance of high quality customer outcomes throughout HCUK.

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

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

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

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

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

Impact of COVID-19

The key current uncertainty, in common with the rest of the global economy, is the longer-term impact that the ongoing COVID-19 pandemic will have on our customers, staff and business model. At this point, it is unclear what depth and duration the consequent economic downturn that has already commenced will have. It will largely by determined by the success or extent of governmental interventions either to mitigate the economic impact of the pandemic or to facilitate the treatment or prevention of further spread of the virus. We have implemented the FCA's guidance announced in April 2020 requiring consumers to be offered three month payment holidays on loans and hire agreements. It is currently unclear whether the FCA will require further payment holidays to be granted or require those payment holidays currently in place to be extended.

We do not believe that the key risks the business is exposed to are materially changed by the onset of the crisis nor that any significant changes are required to the mitigants we already have in place to address those risks. It is our view, having previously undertaken both stress testing on a range of scenarios and a going concern assessment, that - for the foreseeable future - our business model will remain resilient and the mitigants identified above will continue to be effective to manage the risks the business faces. While COVID-19 may heighten certain risks in future, it may also present opportunities.

Brexit

A further uncertainty is the impact that the UK's departure from the European Union on 31 January 2020 will have on the Group's business in the UK and Europe, particularly following the transition period currently scheduled to end on 31 December 2020. The Group's business is predominantly UK-based and we have assessed Brexit to have a relatively low impact on our operating capabilities. Many of our business customers in particular may be more significantly affected if the UK is unsuccessful in putting in place satisfactory arrangements for the continuance and growth of trading relationships beyond the end of the transition period and we will be mindful of the impact Brexit may have on them and their needs.

The Group continues to monitor developments in the negotiations between the UK Government and both the European Union and other leading global powers and considers it too early to determine the full impact that the post-transition period environment will have on our business model. While some uncertainty currently exists, our monitoring and planning will continue to both seek to identify opportunities and mitigate any risks that may arise.

Section 172(1) Statement

This statement describes how the Directors have had regard to the matters set out in section 172(1) of the Companies Act 2006 when performing their duty under section 172 to promote the success of the Company throughout the year ended 31 March 2020.

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 40 of the Annual Report. Successful delivery of the Group's strategic plans relies on key inputs from, and positive relationships with, a wide range of stakeholders. Information about the Company's interactions with stakeholders is set out below and in the Directors' Report, starting on page 47 of the Annual Report.

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

- Purpose and Leadership;
- Board Composition;
- Director Responsibilities;
- Opportunity and Risk;
- Remuneration; and
- Stakeholder Relationships and Engagement.

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

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

Section 172(1) Statement

Section 172(1)	Decisions / interactions
a) The likely consequence of any decision in the long term.	The Board annually approves a medium-term (three-year) plan on a rolling basis and oversees its implementation throughout the year by way of detailed reports from executive management on the Group's operating and financial performance. This includes monitoring progress against key strategic programmes (both short-term and long-term) as well as considering the allocation of capital to support the rolling medium-term plan. In approving the plan, the Directors also consider external factors such as competitor behaviour, the performance of the financial services sector, and the evolving economic, political and market conditions. The Board has approved a risk management framework, which is managed by a team led by the Chief Risk Officer, who provides regular reports to the Audit & Risk Committee and, on matters of material significance to the Group, to the Board itself. The Company's central treasury function, in conjunction with the Treasury Committee, continues to arrange funding to meet the short-term, medium-term and long-term needs of the business. As explained in the Directors' Report, in the light of the economic circumstances resulting from the COVID-19 pandemic, the Board resolved to recommend no final dividend in respect of the year ended 31 March 2020 and to suspend its policy of paying dividends to the shareholder, as part of its commitment to ensuring that the Company is able to continue to meet the needs of its customers (and other stakeholders) for the foreseeable future.
b) The interests of the Company's employees.	The Directors understand the importance of the Group's employees to the long-term success of the business. The health (including mental health) and safety of employees remains the Group's main priority, particularly during the continuing COVID-19 pandemic. Information about the ways in which the Board and executive management have communicated and engaged with employees during the year are included in the Directors' Report, which starts on page 47. Details of the various initiatives which have been introduced to support the wellbeing and development of employees, and to promote diversity and inclusion in the workforce, are set out in the Corporate Social Responsibility section of the Group Strategic Report.

Section 172(1) Statement

Section 172(1)	Decisions / interactions
c) The need to foster the Company's business relationships with suppliers, customers and others.	The Board regularly reviews how the Group maintains positive relationships with its stakeholders, including suppliers, customers and others. The Group maintains a strategic relationship management programme, overseen by the Group Procurement team, for all suppliers considered to be "critical" or "strategic" to the business. This programme requires the business "owner" of the relationship with each supplier to hold regular review meetings, at least quarterly with "strategic" suppliers and every month with "critical" suppliers. In addition, annual due diligence reviews of each significant supplier are undertaken. The Board receives regular reports in respect of important suppliers, including any material operations which are outsourced to a third party. With effect from 1 April 2020, HCUK has introduced a Supplier Code of Conduct, which all suppliers to the Group will be required to adopt and follow. 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, and the evidence of their effectiveness, are set out in the Corporate Social Responsibility section of the Group Strategic Report, starting on page 34. The statement of the Group's principal risks and uncertainties in the Group Strategic Report sets out risks that can impact the medium-term and long-term success of the Group, taking account of how these risks may impact upon the Company's relationships with its stakeholders. The Directors actively seek information on the interaction with stakeholders to ensure that they have sufficient information to make appropriate decisions about the risks faced by the Group and how these are reflected within its medium-term and long-term plans.

Section 172(1) Statement

Section 172(1)	Decisions / interactions
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 Corporate Social Responsibility policy and is embedded in the Group's culture, which aligns with the fundamental philosophies of the Hitachi Capital Group worldwide. "Communities" and "Sustainability" are two of the five key indicators which form part of our Environmental, Social and Governance (ESG) reporting. Further information, including detail of the activities of staff and initiatives undertaken by the Company, is provided in the Corporate Social Responsibility section of the Group Strategic Report.

Section 172(1) Statement

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. The Company adheres to the Hitachi Capital Group Code of Conduct, which provides 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. HCUK is committed to preventing, deterring, and detecting all forms of financial crime such as money laundering, fraud, terrorist financing, bribery & corruption and market abuse. The Board has approved a Financial Crime Policy Statement and ensures that the Group Financial Crime Prevention Team within the Risk & Compliance function is fully resourced. The Board remains determined to ensure that the Company meets, or exceeds, its legal obligations to ensure that neither modern slavery nor human trafficking occur in its business or in its supply chains. This year HCUK has become accredited as a "Real" Living Wage Employer by the Living Wage Foundation.
f) The need to act fairly as between members of the Company.	Hitachi Capital (UK) PLC has only one shareholder, Hitachi Capital Corporation. There is therefore no possibility of a conflict of interests arising between members of the Company in the foreseeable future. However, in order to ensure that the Company and its shareholder continue to act in a manner which respects the legal, regulatory and cultural expectations in the UK and Japan respectively, the directors of each company endeavour to make sure that the two organisations operate within a written framework designed to promote appropriate levels of co-operation and consultation.

Corporate Social Responsibility

Hitachi Capital (UK) PLC's Corporate Social Responsibility (CSR) policy is underlined by our commitment to make a positive difference to the society and the environment in which we work, whilst achieving sustainable growth.

Social responsibility is intrinsic to our corporate culture and established values of harmony, sincerity and pioneering spirit. Our Corporate Social Responsibility policy is based on the three key CSR philosophies of the Hitachi Capital Group - sustainable growth, respect for human dignity and implementation of corporate ethics.

We aim to be a social values creating company and evidence our contribution to society and the environment by focussing on five key indicators as part of our ESG reporting - corporate governance, customers, colleagues, communities and sustainability. The progress we have made in our contribution during the year in each of these key indicators is detailed in the following sections.

As a leading financial services company, we have sought to align our corporate values and ESG initiatives with the United Nations' Sustainable Development Goals (SDGs) - 17 indicators adopted by all member states that span the breadth of ESG metrics. Our ESG report, measuring our performance is available to read on our website: https://www.hitachicapital.co.uk/about-us/corporate-social-responsibility/

Corporate Governance
Effective and robust corporate governance is critical to the smooth running of our business, and ensuring we operate in line with all regulations and laws.

We have adopted the code published by our parent company, the Hitachi Capital Group Code of Conduct (Code of Conduct), which outlines our ethical principles and assists employees in delivering on Hitachi Capital (UK) PLC's corporate mission. Our corporate mission derives from three values that are embedded within the Code of Conduct; achieving sustainable growth, respect for humanity and practising corporate ethics. The Code of Conduct is published on our parent company's website and can be found here:

https://www.hitachi-capital.co.jp/hcc/english/company/pdf/csr_policy03.pdf

We also apply the Wates Corporate Governance Principles as part of our corporate governance structure. Established by the Financial Reporting Council in December 2018, the Principles are a corporate governance reporting framework for large businesses that are not publicly listed.

Our corporate governance reporting also covers critical business policies, such as supporting whistleblowing and processes to prevent financial crimes. During the year we updated our whistleblowing policies and procedures, implemented a new external service for staff to make confidential reports and undertook an intranet and poster based campaign to raise whistleblowing awareness. Our whistleblowing policy encourages an open and transparent working culture where everyone can feel comfortable in reporting their concerns within Hitachi Capital (UK) PLC.

During the fourth quarter, we expanded our remote working capability to ensure all of our employees could work safely and effectively from home in response to the COVID-19 pandemic. This involved a significant mobilisation exercise across all our office locations and implementation of an expanded remote working plan in a phased approach co-ordinated by our IT, Business Continuity and Facilities teams.

Corporate Social Responsibility

Our systems have been successfully migrated to the home office environment, with all our sites remaining open to handle critical incidents and undertake a small number of essential activities that cannot be carried out remotely.

Throughout the transition to remote working, we remain vigilant to the increasing threat posed by cybercrime and our Information Security Team is continually identifying and mitigating against potential risks to our business, ensuring our systems remain secure.

We are adapting our business where necessary to respond to COVID-19, addressing the needs of all our stakeholders. The demand from our customer base to communicate with us has been phenomenal. Staff in traditional back office roles have supported customer-facing colleagues, ensuring we continue to provide outstanding customer service despite experiencing a significant increase in inbound customer contacts.

Customers
Hitachi Capital (UK) PLC aims to be the trusted brand of financial services in the UK and Europe by providing outstanding experiences for over 1.4 million customers. As a company, we are committed to providing excellent customer service performance on a consistent basis.

Our commitment to providing outstanding customer experiences consistently is demonstrated by our customer satisfaction performance, which exceeds industry benchmarks.

During the year, three of our Business Units made either a new or a renewal application for the Institute of Customer Service's (ICS's) ServiceMark accreditation and all three of the applications were successful with customer satisfaction scores ranging between 76.1 and 95.3. This national standard recognises our commitment to customer service in everything we do. A further testament to our focus on customer service is the consistent Feefo rating of 4.5 and above out of 5 from over 7,500 reviews by customers in our Consumer Finance division.

We're always striving to improve the delivery of fair outcomes for our customers and enhance their experience. Following the successful introduction of the "Voice of the Customer" platform in our Vehicle Solutions division over the last couple of years, we expanded this platform to customers in our Consumer Finance division this year.

Through this platform, we have made it easier and quicker for our customers to give us their feedback. The real-time analysis of customer feedback, including their qualitative comments, helps us gain actionable insights on a continuous and consistent basis. We use these insights to drive improvements that make a positive difference to customer journeys and experiences

Our customers consistently rate us above 4.5 out of 5 which demonstrates that we are doing a lot of things right to deliver value creation for our customers.

Through our Language of Service and Tone of Voice projects, we ensure that all of our communications with customers reflect our Hitachi Capital brand which is clear, honest and professional, while also being friendly and supportive. To ensure that this consistency is carried through in the interactions with our customers, we're rolling out Brand Ambassador training to all customer-facing colleagues across the Group, to help them provide outstanding customer experiences.

Corporate Social Responsibility

We are also reviewing our written communications to ensure we apply our new simple Tone of Voice, and are updating our customer charter to make it easier to understand, providing clarity for our teams and a great experience for our customers.

We market to customers depending on their situation and are conscious to take into account their vulnerabilities in any decisions that are made. Vulnerable customers are those who, due to their personal circumstances, are more likely to be impacted negatively unless we take extra care.

During 2019/20, we implemented a Vulnerable Customer project to ensure that we are identifying, recording and supporting our potentially vulnerable customers in the most appropriate way to match their circumstances and thus deliver fair customer outcomes in line with the FCA's principles.

We have introduced a Vulnerable Customer Toolkit as well as a desk aid to support our Customer Experience teams when handling calls with a potentially vulnerable customer.

Colleagues
With over 1,400 employees, we are committed to investing in our people and rewarding their passion and enthusiasm. It is our exceptional people who provide outstanding customer experiences, enabling us to record strong financial performance year after year.

We regularly measure employee engagement, listening and responding to the views of our employees. A survey of all employees undertaken during the year showed that 81.8% would recommend Hitachi Capital (UK) PLC as a great place to work.

Everybody in our business is treated with dignity and respect, whilst having access to the required training and support. We are proud to be an inclusive place to work and we are committed to developing our people.
We operate an equal opportunities policy and oppose all forms of unlawful discrimination on the grounds of sex, marriage or civil partnership, sexual orientation, disability, race, religion or belief, age, gender reassignment, or pregnancy or maternity.

In October 2019, we reported a mean gender pay gap in hourly pay of 31.9% and a median gender pay gap in hourly pay of 37.9%. This reflected the underlying workforce demographics of the Company, which are consistent with many organisations in the financial services sector. Gender pay gap reporting is acting as a useful tool to measure the progress we are making in promoting greater gender balance and building a more diverse workforce.

The Gender Pay Gap Report published in October 2019 shows that we have made progress since the previous year in bringing greater gender balance to our business - our mean and median pay gap have reduced by 3.1% and 2% respectively. A number of initiatives and policies are being undertaken to reduce our gender pay gap further.

Our full Gender Pay Gap report is available to read on our website:
https://www.hitachicapital.co.uk/media/3011/gender-pay-gap-report-2019.pdf.

As a business, we ensure that our pay reviews are fair and equitable by conducting detailed and comprehensive benchmarking, including a deliberate focus on gender pay difference and ensuring the right balance between pay and incentives.

Corporate Social Responsibility

We recognise that role models play an important role in inspiring future leaders. We are proud that we have a number of females in senior leadership positions in the Company. We promote their profiles internally and organise small group discussions where employees across all genders meet and discuss ways to overcome gender-based challenges arising in the workplace. In addition, we also hold events where we invite speakers and participants from our wider ecosystem of suppliers, charity partners and employee networks to learn and share continuously how we can contribute to addressing the imbalances in society.

This year, we have developed a Company-wide framework to retain our talent and enable our colleagues to grow and develop whilst also improving performance and productivity. The framework covers continuation of our existing programmes such as technical certifications, professional qualifications and the leadership programme in partnership with the University of Warwick. We have also launched ASPIRE, an ILM endorsed leadership programme specifically focussed on next generation people leaders.

We provide agile and flexible working options to enable our colleagues to achieve the right work-life balance. We have introduced Maternity and Paternity Champions who support expecting and returning parents in the Group and we offer new working patterns for returning talent.

At Hitachi Capital (UK) PLC, we continually strive to build a workplace which is more inclusive and better equipped to support our colleagues, customers and clients. Towards this goal, we have established Hands Up Forums and Corporate Communities across the Group.

Our Hands Up Forums are locally based and act as the platform for our employees in each location to share ideas and highlight areas of improvement that will make our colleagues' lives better. Ideas initiated from these forums and subsequently implemented include introduction of additional holidays in the form of a 'Me Day', and 'Long Service Awards', as well as a shift to an informal dress code.

Our Corporate Communities span the Group and are based on focus areas identified by our colleagues. These include our We Mean Business Community, which focusses on gender-based challenges in the workplace, PRISM Community, which focusses on raising awareness of issues faced by our LGBTQ colleagues and Wellbeing Community, which focusses on the physical, mental and emotional wellbeing of our colleagues.

This year, for the first time, we've featured in the Inclusive Companies Top 50 UK employers list, reflecting our commitment to promoting a comprehensive culture of equity, inclusion and diversity.

Our Mentoring Circles programme, which has now been in place for four years, has delivered over 5,000 hours of mentoring, with 12% of employees having taken part. 26% of our mentors have previously been mentees. More than 60% of participants who subsequently achieved promotion or a role change stated that their participation in the programme had a positive impact on their career and performance.

Communities

We are passionate about making a positive difference to the communities in which we live and work, to address sustainability issues and deliver change through both our business and charitable activities. During the year, we have supported a number of charities and paid over £250,000 in donations.

We continued to support FareShare as our National Charity Partner. This organisation provides innovative solutions to save food from going to waste by redistributing it to charities and community groups across the UK, thus contributing to SDG #1 No Poverty.

Corporate Social Responsibility

Many of our staff volunteered at FareShare distribution centres during the last 12 months, gaining a greater insight into the charity's day-to-day activities.

To assist with the coronavirus relief effort, we increased our donation by a further £15,000 to FareShare to support each of the five distribution centres in close proximity to our office locations.

In total we donated just over £18,450 to Fare Share, with our staff volunteering 262 hours, in turn helping them provide 136,962 meals for vulnerable people.

We also continued our partnership with Young Enterprise, the UK's largest business, enterprise and financial education charity.

Through our involvement, we donated £20,000 of annual funding and 17 staff volunteered 137 hours to support the charity's efforts to educate young people in the fields of business, career skills and managing their personal finances.

The Group's financial support of Young Enterprise for the past two years has enabled the charity to support the programme participation of 2500 students to date, focusing on improving students' financial literacy and employability and contributing to SDG #4 Quality Education.

During 2019/20, we formed a new partnership with The Wildlife Trusts, the third largest voluntary sector land owners in the UK, who preserve and maintain 2,300 nature reserves across 100,000 hectares.

Our work with The Wildlife Trusts supports our commitment to become a socially innovative business and contributes to SDG #15 Life on Land, aimed at protecting, restoring and promoting the sustainable use of ecosystems.

We donated £20,000 to The Wildlife Trusts plus £15,500 to Surrey Wildlife Trust, with our staff volunteering 336 hours of 'Wild Work' to help manage habitats and green spaces.

We continue to support Macmillan Cancer Support: with coffee mornings at every site we donated £40,609 between January 2019 and December 2019, which has enabled approximately 120 grants to support people affected by cancer.

This year, we supported the Ancient Mariners' transatlantic four-man crew skippered by the Chairman of our Board, sponsoring their "Grey Escape" vessel. The team successfully completed the 2019 Talisker Whisky Atlantic Challenge, rowing 3,000 miles in 49 days while raising more than £30,000 for their chosen charities, Open Arms Malawi and Blind Veterans UK. We also donated £5,000 to Blind Veterans UK.

In addition to the support we provide to charities through our corporate partnerships and activities, we also support our employees' various charitable activities.

We encourage all of our employees to support the causes most important to them through a paid volunteer day each year.

The past year has seen our staff volunteer 1,493 hours to a wide range of charities of their choice, including the Shropshire Star STEM challenge, St. Gemma's Hospice, Scouting UK and Crisis.

Corporate Social Responsibility

Sustainability

Providing innovative solutions to support sustainability initiatives is vitally important to our business strategy. We continue to take bold steps to tackle climate change by delivering sustainable products and initiatives. Our strategic focus is on sectors that have a positive impact on people and their lives, including environment, energy, infrastructure and agriculture.

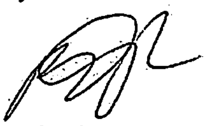
Through our involvement in vehicle electrification, we are leading the way to deliver "road to zero" emission strategies for fleets. This year, we've seen our electric vehicle fleet increase by 137%. By 2030, our Vehicle Solutions division aims to electrify 100% of the 62,500+ funded car & small van fleet (3.5t and under), and 50% of the funded van fleet (vehicles over 3.5t).

We are already leading the way with longer term solutions to infrastructure and range by being a key player in Optimise Prime, the world's biggest commercial electric vehicle project. Led by Hitachi Vantara and UK Power Networks, we are working alongside SSE, Centrica, Royal Mail Group and Uber to conduct a trial of 3,000 electric vehicles.

This year, we have formed a strategic partnership with Gridserve Sustainable Energy Ltd. Our multi-million pound loan facility will create the infrastructure required for electric vehicle adoption on a large scale, using sustainable energy. Together we are developing technically advanced hybrid solar farms, in conjunction with a new network of over 100 solar powered electric forecourts across the UK to provide ultra-fast charging for electric vehicles.

During 2019/20, our Business Finance division provided more than £15 million of funding to farmers to invest in green energy projects such as biomass, solar panels and heat pumps. By funding these initiatives we are enabling businesses to minimise their carbon footprint whilst reducing their overall cost-base.

By order of the Board.



R. Gordon
Chief Executive Officer
8 June 2020

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. Prior to the commencement of the year under review, the Board resolved to adopt the Wates Corporate Governance Principles ("Wates Principles"), published by the Financial Reporting Council, as the corporate governance code which the Company would apply with effect from 1 April 2019. Throughout the year ended 31 March 2020 the Company applied the Wates Principles, taking into account the principles and provisions of the UK Corporate Governance Code to the extent that the Board considered 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 faced.

During the year, the Company continued to review and refine its corporate governance structure as it worked towards implementation of the FCA's Senior Managers & Certification Regime, which became applicable to the Company from December 2019.

Application of the Wates Corporate Governance Principles

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

Principle 1 - Purpose and leadership:

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

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

An important contribution to maintaining that culture is the Group's annual leadership conference which is designed around themes corresponding to the Company's vision, mission and/or values. The key messages are cascaded throughout the Group, by means of divisional management and team meetings, down to the level of one-to-one conversations.

During the year ended 31 March 2020, the Chief Executive Officer launched his own home page on the Company's intranet ("the Hub") and issued regular "blogs", which became daily updates of information and morale-boosting support for staff as the country went into lockdown because of the COVID-19 pandemic. Until the lockdown, the CEO toured the Group's various sites around the UK and the Netherlands, presenting a "TeamTalk Live" roadshow, which supplemented and brought to life the monthly staff newsletter, TeamTalk.

The HR function continued to support the embedding and refreshing of the Company's culture and values through a thorough induction process for new joiners and various coaching and training initiatives, including the launch of "Mastery of Management", an online learning resource for people leaders.

The effectiveness of these initiatives was evidenced by the results of this year's annual "Insights" survey of staff, which is carried out in conjunction with our parent company:

- 88.5% of employees said they had a clear understanding of the Group's vision, mission and values;
- 85.9% could see a clear link between their work and the Company's objectives; and
- 72.7% said that senior management were modelling the organisation's values.

Although each of these scores were higher than in the previous year, the Board and executive management are working on a variety of targeted actions with a view to improving the ratings even further next year.

Corporate Governance Statement
(continued)

Principle 2 - Board Composition:
The Board includes a separate Director in the Chair (chairman) and Chief Executive Officer to ensure that the balance of responsibilities, accountabilities and decision-making across the Group is effectively maintained. The other members of the Board are non-executive directors, comprising two who are considered to be independent and one who was nominated by the Company's sole shareholder. Accordingly, half of the Board (excluding the Director in the Chair) comprises independent directors, in line with the UK Corporate Governance Code. The Board considers that its size and composition is appropriate for a business of the scale and complexity of the Company. The Board has delegated specific functions to its Audit & Risk Committee, Nomination Committee and Remuneration Committee respectively.

The Director in the Chair and the independent non-executive Directors bring with them a variety of skills, backgrounds and knowledge, including experience in leadership, financial services and audit, in addition to perspectives and challenge from both inside and outside the sectors in which the Group operates.

The Board conducts a formal effectiveness review of itself and its committees every year. Although the Board's policy is to have such reviews facilitated by an independent external advisor every three years, the Board decided that (in the unusual circumstances prevailing in 2020) the externally-facilitated assessment should be postponed until 2021. The review conducted this year concluded that the Board and its committees continued to operate effectively. A separate review, conducted by the Senior Independent Director without the involvement of the Director in the Chair, found that the Director in the Chair continued to lead the Board in an effective way. The review of the Board highlighted the fact that succession planning for the Board is not as robust as it is for the other areas of the Group. This is an issue which the Board plans to address proactively over the next twelve months.

In addition, although one of the five Directors is female, the Board is conscious that the composition of the Board is not entirely consistent with the Company's policy on diversity and inclusion. This is another matter which the Board intends to address in the short to medium term.

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

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

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

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

To promote clarity, and to minimise the risk of breaching regulatory requirements in the countries in which the Company operates or in Japan, the apportionment of accountabilities and responsibilities between the Company and its sole shareholder are set out in a document which is reviewed periodically, the latest review being conducted in 2019 when several members of the Board visited the shareholder's directors in Tokyo.

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 29.

Principle 4 - Opportunity and Risk:
The Board seeks out opportunity whilst mitigating risk appropriately.

"Profitable growth" is the first of the four key pillars which form the basis of the agenda for each scheduled Board meeting.

The Board reviews, and considers whether to approve major projects (as determined by their value and risk profile). All proposed projects above a defined threshold value must be submitted to the Change Governance Committee, which is chaired by the Director of Operations, who ensures that all major projects are brought to the Board for consideration.

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

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

Details of the Group's principal risks and uncertainties, and the operation of the risk management framework, are set out in the section of the Group Strategic Report starting on page 21.

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

The main purpose of the Committee is to ensure that the Company has a remuneration policy which is designed to attract, retain and motivate executive management of the quality required to run the Company successfully without paying more than is necessary, having regard to the views of the shareholder and other stakeholders. The Committee has regard to the risk appetite of the Company and aims to ensure that remuneration is aligned to the Company's long term vision, mission and values and to corporate and individual performance, in order to promote the long-term, sustainable success of the Company.

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

In 2019, the Company published its statutory Gender Pay Reporting for the second time, as set out in Corporate Social Responsibilities starting on page 34. This highlighted some specific areas of focus, which the Remuneration Committee has mandated the HR Director to address over a realistic timeframe.

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

Corporate Governance Statement
(continued)

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 47.

Board of Directors
During the year under review, the Board was chaired by Guy Munnoch (defined as the "Director in the Chair" under the Company's Articles of Association) and comprised the Deputy Chair and Senior Independent Director, Alan Hughes, three other non-executive directors (Anne Whitaker, Yoshikazu Ohashi and Hiroyuki Fukuro) and the Chief Executive Officer, Robert Gordon. Mr. Ohashi retired as a Director of the Company on 31 March 2020.

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

The Board has an oversight role, delegating day to day responsibility for managing the Group's business to the Executive Committee (described below) and holding the Chief Executive Officer to account.

The Board has a written Schedule of Matters Reserved, which specifies all matters which must be escalated to the Board for consideration and decision. This schedule is reviewed annually.

The Board sets its agendas according to an agreed annual cycle, which is also reviewed annually, structured around four core pillars of profitable growth, corporate governance, operational excellence and customer-centricity.

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

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

Audit and Risk Committee
The Audit and Risk Committee is chaired by Anne Whitaker, who is a Chartered Accountant, a former audit partner at Ernst & Young, and Chair of the Financial Reporting Council's Audit Quality Review Committee. Ms. Whitaker was appointed as chair of the committee by the Board, which considers her to be independent and to have competence in both accounting and auditing as required by the Disclosure and Transparency Rules.

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

The Board therefore also considers that a majority of members of the committee are independent and that the committee as a whole has competence relevant to the sector in which it is operating.

The Board ensures that the committee carries out the functions required by rule 7.1.3 of the Disclosure and Transparency Rules.

The committee normally meets in advance of each Board meeting, including on key dates in the financial reporting and audit cycle, and otherwise as necessary. The 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, managing directors of business units and the heads of relevant central functions, such as the Group Director of Finance, Chief Risk Officer, the Group Director of Operations, the Group Head of Compliance and the Head of Internal Audit, also attend meetings at the invitation of the committee. The committee meets separately with the statutory auditor at least once per year.

The committee's responsibilities are set out in its terms of reference, which include monitoring the financial reporting process and the statutory audit of the annual consolidated financial statements, and reviewing the effectiveness of the Group's internal control and risk management systems and the work of its internal audit function. The committee reviews the findings of the Group's statutory auditor, keeps under review its independence and objectivity, the value for money of the audit, and the appropriateness and cost-effectiveness of any non-audit services it provides. 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, and compliance with, certain aspects of Japan's Financial Instruments and Exchange Law (J-SOX) in order, for example, to assure itself that the Group continues to satisfy its parent company that it remains compliant with the legislation.

Remuneration Committee
The Remuneration Committee is chaired by Alan Hughes. Its other members are Guy Munnoch, Anne Whitaker and Hiroyuki Fukuro, who was appointed as a member of the committee with effect from 1 April 2020 to replace Yoshikazu Ohashi upon his retirement as a 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 Guy Munnoch, its other members being Robert Gordon, Alan Hughes, Anne Whitaker and Hiroyuki Fukuro, who was appointed as a member of the committee with effect from 1 April 2020 to replace Yoshikazu Ohashi upon his retirement as a Director. The purpose of the committee is to review regularly the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and make recommendations to the Board with regard to any changes, as well as to ensure that there is a formal, rigorous and transparent procedure for the appointment of new directors. The committee makes recommendations to the Board on various matters, including succession plans, re-appointment of directors and membership of committees. In carrying out its duties, the committee consults other committees of the Board, and the shareholder, as appropriate, and obtains professional advice to the extent it considers necessary.

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

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

The Board confirms that there is an appropriate ongoing process, as part of the Group's risk framework, for identifying, evaluating and managing the significant risks faced by the Group which has been in place throughout the year ended 31 March 2020 and up to the date of approval by the Board of the Annual Report and Consolidated Financial Statements.

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

Systems and procedures are in place to identify, control and report on the major risks facing the Group. The Audit and Risk Committee, supported by the Executive Risk Committee, is responsible for coordinating this process and for making recommendations to the Board. Further information about the Group's risk management framework is set out in the Group Strategic Report under the heading Principal Risks and Uncertainties on page 21.

The Group has a fully resourced Internal Audit function which provides assurance in respect of the overall effectiveness of the governance of the Group, including the risk and control framework. In addition, there are regular reviews of key areas of risk by the internal audit teams of Hitachi Capital Corporation and Hitachi Limited respectively.

The Board, through the Audit and Risk Committee, has reviewed the effectiveness of the system of internal control, including financial, operational and compliance controls and risk management, through representations from management and the independent monitoring undertaken by the Internal Audit function. In addition, the Group's statutory auditor presented to the Audit and Risk Committee reports that include details of any significant internal control matters which it had identified. Weaknesses identified during the course of these reviews have been incorporated into action plans. None of the weaknesses have given rise to material loss, contingency or uncertainty requiring disclosure in the annual accounts.

Throughout the year ended 31 March 2020, the Group complied with the 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 Hitachi Limited being listed on the Tokyo Stock Exchange.

Corporate Governance Statement
(continued)

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

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

https://www.hitachicapital.co.uk/about-us/corporate-social-responsibility/

By order of the Board.

Company Secretary
8 June 2020

Directors' Report

The Board of Directors present their annual report and audited financial statements for the year ended 31 March 2020 for Hitachi Capital (UK) PLC (registered company number 1630491).

Results and Dividends
The results of the Group for the year ended 31 March 2020 are set out in the consolidated income statement on page 69. Interim dividends of £5.0m, 1.2p per share and £10.0m, 2.2p per share were paid during the year (2019: £40.0m, 9p per share). Further details regarding the dividend are set out in note 20 to the financial statements. In the light of the COVID-19 pandemic and in order to ensure that the Company will continue to have adequate resources to support all of its customers, the Board has resolved that the Company's dividend policy should be suspended for the foreseeable future, with the effect that no dividends will be declared or paid until the Board agrees that financial markets are operating and that UK economic recovery is under way. The Directors are therefore proposing no final dividend in respect of the year ended 31 March 2020 (2019: nil).

Share capital
The Group's issued share capital, together with the movement during the year, is detailed in note 23 of the financial statements.

Outlook
The Group's future outlook is detailed in the Group Strategic Report on starting on page 4.

Employees
The Board is conscious that the Group's ability to succeed is driven by the need to attract, develop and retain the right employees. Our employee relations policy is designed to encourage an atmosphere of trust and to reinforce our core values of Harmony, Sincerity and Pioneering Spirit across the organisation. The Group is committed to the personal development of all its employees.

The Group is committed to regular and timely communication to staff of information on matters of concern to them as employees, including both briefings and written communications. The Group has an intranet site which acts as the main reference point in the provision of a wide variety of information to employees. The Chief Executive Officer holds regular 'town hall' meetings across the various sites, which are frequently filmed and featured on the intranet for ease of access to the employee community, and regular team and one to one meetings are encouraged.

During the year, the Group has maintained the arrangements aimed at ensuring that employees' views can be taken into account in making decisions which are likely to affect their interests. During the year, the Group continued employee 'pulse' surveys to measure engagement across the Group. Analysis was available after each survey and was shared with the Executive Committee and the Board. Employee representatives are elected as and when necessary to meet the Group's consultation requirements. The Group has established employee communities, which enable individuals to come together in order to maximise employee involvement, lead on events and help to implement ideas which keep the wider employee population updated and engaged. Further details on engagement with employees are set out in the "Stakeholder Engagement" section below.

The Group operates an annual bonus scheme for all staff levels, where a large proportion of bonus potential is based on the Group's financial performance and achievement of its other core objectives, thereby encouraging the involvement of all employees in the Group's performance. During the year, the Group updated all employee roles to clearly link the overall Group objectives with the core accountabilities of each job role. Regular updates ensure that all employees are aware of the financial and economic factors affecting the Group's performance.

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

The Group's policy and practice is that neither disability nor any of the other nine protected characteristics will form the basis of employment decisions, and the Group will make reasonable adjustments to its standard working practice to overcome barriers to recruitment, training, career development and promotion caused by disability. This includes retraining employees who become disabled whilst in the employment of the Group. The Group launched a number of initiatives during the year to support a more inclusive workforce.

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

Government and regulators:
The Board and senior management recognise that the Group is subject to both legislative requirements and principles-based regulation. We embrace both the letter 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.

Investors:
Engagement with our sole shareholder and with institutional investors is a continuous process. We connect with them through one-to-one and group meetings, conference calls and roadshows.
- The Company's shareholder, Hitachi Capital Corporation, has a representative on the Board and on its Audit & Risk Committee, Nomination Committee and Remuneration Committee.
- The Directors engage with the shareholder on various elements of remuneration, including long term incentive plan (LTIP) arrangements and bonus and commission schemes operated by the Group.
- We hold a management roadshow for our shareholder annually, providing an opportunity to engage with the senior leadership team. The shareholder's views are fed back to the Board at subsequent Board meetings.
- We communicate with private investors through media releases and financial results and engage directly through calls, face-to-face meetings and investor roadshows.
- We continue to respond to the growing interest from mainstream investors on Environmental, Social and Governance (ESG) matters, including the UN's Sustainable Development Goals (SDGs), climate change and human rights.
- The Board is regularly kept up to date on feedback from the market and the sentiments of investors in general.

Customers:
Our continued success and strong growth can be attributed to a strong focus upon ensuring that our customers have an outstanding experience and we strive to provide fair outcomes to consumers and businesses alike.
- We develop strong relationships with customers built on trust;
- We innovate and develop products and offer high levels of service that meet customers' needs, which allows us to retain existing customers and win new customers;
- Ongoing interaction with customers, 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.

Suppliers:
We work with over 5,000 suppliers across the Group, of which approximately 1,000 supply goods and services which enable the business to operate and over 4,000 provide services which allow us to meet the needs of our customers. We adhere to the following key principles and processes when engaging with suppliers, in order to ensure that they provide the right goods and services for our business:
- Act fairly and professionally during the sourcing process;
- Build strong, collaborative relationships with our suppliers so they can understand the environment in which we operate and thus meet our, and our customers', needs;
- Maintain a Strategic Relationship Management programme for all critical and strategic suppliers to enable collaborative working;
- We have introduced a supplier code of conduct for all our suppliers, including any potential new suppliers to the Group.
- We are committed to establishing long-term, open and fair relationships with our suppliers. The Board receives regular updates on supplier relationship management.

Employees:
We promote and maintain a diverse and inclusive workforce in which all colleagues are treated equally and have the opportunity to be successful and achieve their potential.
- The Board receives regular reports on diversity and inclusion from the Human Resources function and the Customer & Employee Engagement team.
- We have established various employee communities to ensure that employees' views are taken into account in making decisions which are likely to affect their engagement;
- A comprehensive annual employee engagement survey is conducted to measure engagement across the Group and the results are reported to the Board;
- Our mentoring circles programme has now successfully delivered over 5000 hours of mentoring over the past four years;
- During the year, a new programme on reverse mentoring was introduced, in which senior employees were mentored by a more junior member of staff, to help both individuals to gain mutual insight and different perspectives;
- We have set up employee communities, including Hands Up, Wellbeing, PRISM - LGBTQ, and We Mean Business forums, which promote a healthy, open and connected culture in the workplace;
- We maintain Company-wide communication via the intranet and regular newsletters.

Communities and Environment:
The Group is passionate about making a positive difference to the communities in which we live, work and serve, be it by helping small businesses to grow, education or through charitable donations of both time and money.
- During the year, we supported a number of charities (including FareShare, Young Enterprise and Macmillan Cancer) and gave over £250,000 in donations.
- Our staff volunteered over 1000 hours to a wide range of charities of their choice, including local hospices, Scouting UK and Crisis and, through Group initiatives, made donations of over £55,000 from their own pockets.
- This year we also formed an innovative partnership with The Wildlife Trusts, whose mission is to conserve the natural environment and help people to experience, understand and value the natural world.
- More details of our contribution to society, social value creation and a sustainable environment are provided in the Corporate Social Responsibility (CSR) report starting on page 34.

Directors of the Group
The Directors who served during the year and to the date of this report were as follows:
H. Fukuro
R. Gordon
A. Hughes
G. Munnoch
Y. Ohashi (retired on 31 March 2020)
A. Whitaker

In accordance with the Company's Articles of Association, each of the Directors serving at the date of this report will retire by rotation at the 2020 AGM and, being eligible to be re-appointed, will offer themselves for re-appointment at that meeting.

Disclosure of information to the auditor
The Directors who were members of the Board at the time of approving the Directors' Report are listed above. Having made enquiries of fellow Directors and of the Group's auditor, each of these Directors confirms that:
• to the best of each Director's knowledge and belief, there is no information relevant to the preparation of the Directors' report of which the Group's auditor is unaware; and
• each Director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Group's auditor is aware of that information.

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and applicable law and they have elected to prepare the parent company financial statements on the same basis. 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;
• 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; and
• state that the Group and Company have complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's 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 Group Strategic Report, Directors' Report and Corporate Governance Statement that comply with that law and those regulations.

Directors' liabilities
By virtue of Article 85 of the Articles of Association of the Company, qualifying indemnity provision (within the meaning given by sections 234 and 235 of the Companies Act 2006) is in force at the date of this report in respect of each Director of the Company (and each director of its subsidiaries) and was in force throughout the year ended 31 March 2020 in respect of each person who was a Director of the Company (or one of its subsidiaries) at any time during that year.

Section 172(1) Statement
Section 172(1) of the Companies Act 2006 requires a director of a company to act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. A statement describing how the Directors have had regard to the matters set out in section 172 of the Act when discharging their duties under that section is included in the Group Strategic Report starting on page 29.

Going concern
The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Group Strategic Report starting on page 4. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Group Strategic Report, the financial statements starting on page 69 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 consolidate its assets base and remain profitable in its chosen financial markets in the coming year.

The Directors' have also considered reverse stress testing scenarios for both equity and liquidity. Under these scenarios the bad debt charge would need to increase to approximately 24 times the level of 2020 to exhaust the current capital base. A reverse liquidity stress test is difficult to model as the Directors' have several mitigations to apply in a liquidity restricted scenario. The Group have committed and uncommitted facilities with large banks and our parent company, Hitachi Capital Corporation, which are available to draw down if required.

The Directors have also performed an extreme reverse stress scenario to assess the resilience of the business under liquidity stress. Under this scenario, it can be demonstrated that cash collections from the run-off of existing receivables would be sufficient to settle obligations without the need to utilise cash from our parent company or existing short-term facilities.

The statement of financial position shows a net current liability of £470m at year-end as management held some short-term borrowings for a period prior to year-end, whilst consideration was given to further expand the utilisation of the securitisation programmes. With the level of committed facilities available to the Group, the Directors are confident of meeting its short and long-term obligations.

As part of this year's going concern assessment, the Directors paid particular attention to the potential risks arising from the COVID-19 pandemic. The Directors are satisfied that the Company has effective business continuity plans in place (as explained in note 2.2 to the financial statements), and that it has conducted adequate stress testing of the possible economic scenarios resulting from the pandemic (as detailed in note 32).

The Directors are satisfied that the Group's key risks and mitigants have not been materially altered by the COVID-19 crisis, as outlined in the Principal Risks and Uncertainties section of the Group Strategic Report. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors are satisfied that the Group has sufficient appropriate funding facilities and capacity to borrow both currently and for the foreseeable future. A central treasury function provides funding for the Group's operations and manages treasury risks in accordance with policy limits approved by the Board and the Treasury Committee. The Group has access to the following funding sources:

- Euro medium term note and commercial paper programmes for which Hitachi Capital Corporation acts as guarantor;
- Securitisation facilities, which management renegotiates on an annual basis;
- A committed back up facility in Sterling in the form of a fixed share of a global Hitachi Capital Group committed facility, and additional shared facility, from the three largest Japanese commercial banks;
- Group loan facilities available from Hitachi Capital Corporation;
- 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. Liquidity risk and funding management issues are covered in more detail within note 32 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. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Financial instruments
The Group uses financial instruments to mitigate risk. These are detailed above and in note 32 to the financial statements.

Branches
Confirmation of the Company's branches outside the UK is included in the Group Strategic Report starting on page 4.

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

Corporate Governance Statement
The corporate governance statement is on pages 40 to 46 of this annual report. It includes a description of the main features of the Group's internal control and risk management systems in relation to the financial reporting process.

Energy and Carbon Report
The information which the Company is required to provide about the Group's greenhouse gas emissions, energy consumption and energy efficiency action is set out in the Energy and Carbon Report starting on page 54.

By order of the Board,

J.N.M. Sims
Company Secretary
8 June 2020

Hitachi Capital (UK) PLC

Energy and Carbon Report

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

This report sets out the Group's greenhouse gas ('GHG') and energy use data for the year ending 31 March 2020, which the Group is required to provide in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended by the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

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

UK and Offshore kWh & CO2e

Scope 1 Emissions (Direct)
Direct Emissions include activities owned or controlled by the Group that release emissions into the atmosphere. This includes emissions from combustion in owned or controlled boilers and company owned vehicles used by employees.

Energy type	Definition	Total volume (kWh)	Calculated emissions (Tonnes of CO2e)
Gas	Emissions from combustion of gas	87,381	16
Transport	Emissions from combustion of fuel for transport purposes	2,064,230	493
Total		**2,151,611**	**509**

Scope 2 Emissions (Indirect)
Indirect emissions released into the atmosphere associated with consumption of purchased electricity, heat, steam and cooling. Indirect emissions are a consequence of the Group's activities, but occur at sources not controlled or owned by the Group.

Energy type	Definition	Total volume (kWh)	Calculated emissions (Tonnes of CO2e)
Electricity	Emissions from purchased electricity	2,056,225	526
Total		**2,056,225**	**526**

Scope 3 Emissions (Indirect)
Indirect emissions that are a consequence of the Group's actions, which occur at sources not owned or controlled by the Group and which are not classed as Scope 2 emissions. Examples of Scope 3 emissions are business travel by means not owned or controlled by the Group (e.g. grey fleet and rental cars).

Energy and Carbon Report
(continued)

Energy type	Definition	Total volume (kWh)	Calculated emissions (Tonnes of CO2e)
Transport	Emissions from business travel in rental cars or employee owned vehicles where company is responsible for purchasing the fuel	149,134	35
Total		**149,134**	**35**

Total Emission Scope Summary

Emission type	Total volume (kWh)	Calculated emissions (Tonnes of CO2e)
Scope 1 (direct)	2,151,611	509
Scope 2 (indirect)	2,056,225	526
Scope 3 (indirect)	149,134	35
Total	**4,356,970**	**1,070**

Out of Scope

Scope 1 Emissions (Direct)
All fuels with biogenic content (such as 'Diesel and petrol (average biofuel blend)') should have the 'outside of scopes' emissions reported to ensure a complete picture of an organisation's emissions is created. However, these are not required to be included in the Group's emissions total.

Emission type	Total volume (kWh)	Calculated emissions (Tonnes of CO2e)
Transport	-	18
Total		**18**

Intensity Ratio

Intensity measurement	Number of FTE for the period	Intensity Ratio (tCO2e / No. of FTE)
Number of FTE	1,425	0.73

Energy and Carbon Report
(continued)

Quantification and Reporting Methodology
The Group has taken guidance from the UK Government Environmental Reporting Guidelines (March 2019), the GHG Reporting Protocol - Corporate Standard, and from the UK Government GHG Conversion Factors for Company Reporting document for calculating carbon emissions. Energy usage information (gas and electricity) has been obtained directly from our energy suppliers and HH data, where applicable, for the HH supplies (there was no estimation profiling required). Transport mileage data was provided for our company cars and grey fleet. CO2e emissions were calculated using the appropriate emission factors from the UK Government GHG conversion information.

Energy Efficiency Action
During the year the Group carried out a full review of its company car scheme and in January 2020 launched a new Ultra-Low Emission Vehicle (ULEV) scheme (including a higher allowance for ULEV vehicles) to encourage take-up of lower emission cars. The Group has already seen a shift to ULEVs in the orders submitted by staff since the scheme went live.

Independent Auditor's Report
for the Year Ended 31 March 2020

Opinion

We have audited the financial statements of Hitachi Capital (UK) Plc (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 March 2020. In our opinion:

• Hitachi Capital (UK) Plc's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2020 and of the Group's profit for the year then ended;

• the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

• the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

• The financial statements comprise:

Group	Company
Consolidated statement of financial position as at 31 March 2020	Statement of financial position as at 31 March 2020
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Statement of cash flows for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 34 to the financial statements including a summary of significant accounting policies
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 34 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and; as regards to the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

• the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

• the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	• The impact of the Coronavirus global pandemic (COVID-19) on the financial performance of the Group and its ability to continue as a going concern • Valuation of the allowance for expected credit losses in the Consumer Finance business segment • Determination of the residual value of operating lease assets that could result in misstatements in the measurement of depreciation and impairment of leased assets in the Vehicle Solutions business segment • Risk of fraud in the recognition of revenue on loss pooled agreements in the Consumer Finance business segment • Completeness of CCA compliance provisions in the Consumer Finance business segment
Audit scope	• We performed an audit of the complete financial information of the Group and Company.
Materiality	• Overall Group and Company materiality of £6.5m (2019: £6.2m) which represents 5% (2019: 5%) of Group profit before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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 our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report
for the Year Ended 31 March 2020 (continued)

Risk	Our response to the risk
The impact of the Coronavirus global pandemic (COVID-19) on the financial performance of the Group and its ability to continue as a going concern Please refer to the Accounting policies (pages 77 to 78) and the Non-adjusting events after the financial period note 34 (page 177) of the Consolidated Financial Statements. The global outbreak of COVID-19 presents operational, market and financial risks to the Group, with a consequent impact on the directors' assessment of going concern. There is a risk that the Directors have drawn inappropriate conclusions regarding the going concern basis and that the disclosures in the financial statements are inadequate or inappropriate.	We performed the following procedures to evaluate the directors' assessment of going concern and consider whether any events or conditions exist that may cast significant doubt on the Group or Company's ability to continue as a going concern: - We obtained the Group's forecast and discussed the key assumptions, including changes to key assumptions to reflect the potential impact of COVID-19 and the reasonableness of the forecasted balance sheet and income growth over the going concern period of 12 months from the date of approval of this Annual Report and Consolidated Financial Statements; - We assessed the Group's liquidity forecast over the going concern period, including the updates made to these to consider the impact of COVID-19; - We assessed the stress testing performed, to confirm the directors had considered a set of severe but plausible downside scenarios, in particular including a reverse stress test, i.e. identifying the changes in assumptions which would be required to result in the Group running out of cash and/or result in negative equity. - We tested the financial covenant requirements impacting the going concern, which includes reviewing facility documents and testing covenant calculations; - We assessed the current trading performance by inspecting April and May period end management accounts showing information such as new business volumes and cashflows and challenged management as to whether this was consistent with the assumptions made in forecasts in these areas; and - We considered whether there were any additional matters not evaluated by the Directors that are relevant to the assessment of going concern. We assessed the operational challenges arising from COVID-19 on the Group and Company, and their ability to remain in operation over the lockdown period. We also assessed the actions management can take to reduce the impact of COVID-19 on the business and whether those actions are reasonable based on our understanding of the business We assessed the extent of their disclosures relating to the impact of COVID-19, particularly in relation to the directors' assessment of going concern, the sensitivity of key assumptions used, and the sufficiency of the disclosures of non-adjusting events that have occurred subsequent to the year end.

Key observations communicated to the Audit and Risk Committee

We concluded to the Audit and Risk Committee that the Directors had a reasonable basis on which to conclude that COVID-19 does not give rise to a material uncertainty in respect of going concern and therefore to prepare the 2020 Annual Report and Consolidated Financial Statements on a going concern basis. We also concluded that the Group's disclosures relating to COVID-19 were sufficient and adequate.

Risk	Our response to the risk
Valuation of the allowance for expected credit losses in the Consumer Finance business segment Please refer to the Accounting policies (pages 96 to 98) and Note 13 of the Consolidated Financial Statements (page 131). At 31 March 2020, the Group reported total gross loans in the Consumer Finance business segment of £3,323.9m (2019: £3,231.1m) and an allowance for expected credit loss of £40.0m (2019: £31.4m). Although Management apply the loss rate approach to calculating the allowance for expected credit losses, as permitted under IFRS 9, the determination of expected credit losses (ECL) remains highly subjective and judgemental. Key judgements and estimates in respect of the timing and measurement of ECL include: - The appropriateness of staging criteria selected by Management to determine whether a significant increase in credit risk (SICR) has arisen; - Accounting interpretations and modelling assumptions used to build the models that calculate the ECL; - Inputs and assumptions used to estimate the impact of multiple economic scenarios; - Accuracy and adequacy of financial statement disclosures. The level of judgement and estimation has increased in the year as a result of COVID-19, leading to greater uncertainty in forecasting future economic scenarios, the weightings to be applied to these scenarios, and the determination of SICR.	We understood and evaluated the adequacy of the design effectiveness of key controls over the process relevant to the ECL and tested the operating effectiveness of the controls we intended to rely on for our audit. We assessed the methodology for determining the SICR criteria and independently tested the staging allocation by reperforming this for a sample of agreements, with reference to the SICR thresholds and cure periods. With the support of EY modelling specialists, we risk rated the ECL models. We then tested the assumptions, inputs and formulas within these models. This included assessing the appropriateness of model design and formulas used, and recalculating the provision for a sample of agreements. We also performed testing over the integrity of the data used within the Group's IFRS 9 models. We also tested the completeness and accuracy of this data. With the support of EY economics specialists, we assessed the base case and alternative economic scenarios, including challenging probability weightings and comparing to other scenarios from a variety of other sources. We assessed whether the unemployment rates and debt/income ratio variables were appropriate. We considered the impact that COVID-19 could have on the future economic scenarios, including the rate and shape of expected recovery, and how this impacts the ECL calculation. We assessed the adequacy and appropriateness of disclosures made within the financial statements for compliance with IFRS 9.

Key observations communicated to the Audit and Risk Committee

We communicated to the Audit and Risk Committee that the Group applied the loss rate approach to calculating the allowance for expected credit loss at 31 March 2020, and that we concluded the resulting ECL was reasonable and in compliance with the requirements of IFRS 9. We were satisfied that the allowance for expected credit loss was a reasonable estimation.

We considered the multiple economic scenarios and associated weightings incorporated in the IFRS 9 models to be reasonable.

Risk	Our response to the risk
Determination of the residual value of operating lease assets that could result in misstatements in the measurement of depreciation and impairment of leased assets in the Vehicle Solutions business segment Please refer to the Accounting policies (page 88) and Note 4 and 10 of the Consolidated Financial Statements (pages 114 to 115 and 123 to 125). At 31 March 2020, the Group reported depreciation and impairment of £178.5m (2019: £156.6m) relating to operating lease assets in the Vehicle Solutions business segment. Depreciation and impairment of operating lease assets is calculated with reference to the residual value of these assets. Management apply judgement and assumptions in calculating the residual value, with the most significant being: - Estimation of the proceeds received from the sale of vehicles, and comparison of these to observed market rates; and - The anticipated reduction in vehicle values over their lifetime, as a result of the vehicle being used, and newer models being released. The estimation uncertainty of the residual value calculations has increased as a result of COVID-19, which has resulted in a lack of liquidity in the used car market, leading to additional complexity and uncertainty in calculating fair values, obtaining prices and forming expectations of supply and demand going forward.	We understood and evaluated the adequacy of the design of key controls over the calculation of residual values and tested the operating effectiveness of the controls we intended to rely on for our audit. We examined the logic of the model calculations, the accuracy of data inputs, including the consideration of externally available prices, and the appropriateness of key assumptions used in the model. We tested the adjustments and assumptions made by Management in determining the useful life and rate of depreciation of the leased assets. In evaluating Management's assumptions, we performed back testing of assumptions and validated profits/losses made on sale to assess the accuracy of past assessments. We also looked at recent sales data to validate forecast residual values for similar vehicles at the year end. We assessed Management's pricing analysis that was performed subsequent to the year end, and compared this to our understanding of industry pricing trends. We have also assessed the reasonableness of the assumptions applied in calculating the residual value, by benchmarking with the current industry trends.

Key observations communicated to the Audit and Risk Committee

We communicated to the Audit and Risk Committee that the residual values calculated in respect of operating leased assets in the Vehicle Solutions business segment were reasonable as at 31 March 2020, in the context of the lease portfolio and current market values. We noted that as a result, the related adjustments to depreciation were recorded in line with IFRS.

We also concluded that no adjustments were required in respect of impairment of the operating lease assets.

We communicated that we were satisfied with Management's assessment that the impact of COVID-19 was immaterial to the residual value of operating lease assets at 31 March 2020. We highlighted that the potential impact of COVID-19 on used car prices may lead to an increase in depreciation and/or impairment expense in future periods.

Risk	Our response to the risk
Risk of fraud in the recognition of revenue on loss pooled agreements in the Consumer Finance business segment Please refer to the Accounting policies (pages 81 and 93) and Notes 4 and 25 of the Consolidated Financial Statements (pages 114, 115 and 149). At 31 March 2020, the Group held funds of £74.6m in the retailer liability loss pool account (2019: £68.2m), and £65.1m as Deferred subsidy income (2019: £67.4m) in the Consumer Finance business segment. The Group enters into agreements with retailers which include the receipt of subsidy income. Rather than recognise the full amount as revenue, the Group withhold a proportion of the subsidy income to establish a pool of funds which can be utilised in the event of loan losses incurred on the underlying customers for that retailer, and in turn reduce the Group's bad debt charge. Any funds that remain in the loss pool at the end of the loss pool agreement are reimbursed to the retailer. There is therefore judgement applied by Management in calculating the portion of subsidy income for each retailer with which the Group has a loss pool agreement that should be withheld in the loss pool, rather than recognised as revenue.	We understood and evaluated the adequacy of the design of key controls over the loss pool process, and tested the operating effectiveness of the controls we intended to rely on for our audit. We assessed Management's accuracy in calculating the portion of subsidy income that is withheld in the loss pool, rather than recognised as revenue, by completing an independent assessment of the extent to which loss pools were found to be under-reserved, resulting in additional bad debt charges being incurred, or where funds withheld in the loss pool were not fully utilised and were returned to the retailer. We also performed sensitivity analysis over the loss pool percentages applied by Management to determine whether this would result in a materially different proportion of subsidy income being withheld in the loss pool. We also assessed the clerical accuracy of Management's calculations, and tested that the subsidy income received had been apportioned between the loss pool and deferred subsidy income in line with the approved loss pool rates. In addition, we tested, for a sample of loss pools that were not fully utilised, that remaining funds had been reimbursed to the retailer, and not recognised as revenue by the Group. We also examined the appropriateness of the additional provision raised against those loss pools that were found to be under-reserved.

Key observations communicated to the Audit and Risk Committee

We communicated to the Audit and Risk Committee that the models, assumptions and calculations underpinning the loss pool calculation as at 31 March 2020, were appropriate and reasonable in the context of current observable information. Furthermore, the model calculation resulted in a split of subsidy income between revenue and the loss pool that was appropriately derived.

Risk	Our response to the risk
Completeness of Consumer Credit Act (CCA) compliance provisions in the Consumer Finance business segment Please refer to the Accounting policies (page 106) and Note 21 of the Consolidated Financial Statements (pages 145 and 146). At 31 March 2020, the Group held £2.8m of provisions for customer claims under the Consumer Credit Act (2019: £5.2m) in the Consumer Finance business segment. As the Group provides finance for retailers, under Section 75 of the CCA, the Group can become liable for any subsequent claims made by customers against these retailers. This is most prevalent in instances where the retailer is unable to satisfy the liabilities arising from claims, or may have ceased trading. Judgement is applied in assessing the present obligation for customer redress, due to the subjective assumptions used in determining the estimate. Assumptions are required to be made by Management in relation to the expectation of the quantum of future redress payments, and the number of customers who will require remediation. Following the COVID-19 pandemic, and the impact of this on the UK economy, there is also an increased risk of retailers failing, leaving the Group exposed to further customer claims.	We tested the completeness and accuracy of data within the key models used in estimating Group's CCA provisions. We assessed the appropriateness of key model assumptions, which included expectations on future claim volumes and average redress rates, with reference to the Group's historic experience. We modelled the impact of reasonably possible alternative assumptions on the Group's material provisions and developed an independent range of outcomes to evaluate and challenge Management's provision assumptions around future redress rates and claim volumes. With the support of our conduct risk specialists, we also discussed broader and emerging conduct risk events with Management, and considered whether, in our view, the Group should be providing for any of these events at 31 March 2020. We performed an independent assessment of the Group's retailer portfolio to identify if any of the retailers to which the Group have provided finance have ceased trading, and so leave the Group exposed to additional claims, that have not been identified by Management. We also tested the utilisation of the provision throughout the year, and assessed the appropriateness of Management's decision to release provisions over the period.

Key observations communicated to the Audit and Risk Committee

We communicated to the Audit and Risk Committee that the Group's CCA compliance provisions as at 31 March 2020 were within our independently determined range of reasonable outcomes and were compliant with the requirements of IFRS.

We noted to the Audit and Risk Committee that the provision remains uncertain, as the Group's exposure to such claims is largely driven by retailer failure, over which the Group has no control. This uncertainty is increased as a result of COVID-19, with the full impact of this on the Group's retailer portfolio currently unknown.

An overview of the scope of our audit

Tailoring the scope
Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed.

The Group has business segments in Staines, Leeds, Newbury, Trowbridge and Telford. The Company also had three subsidiaries throughout the year and at the year end, Hitachi Capital European Vendor Solutions B.V., Old FF Ltd (formerly Franchise Finance Ltd) and Hitachi Capital Vehicle Solutions Ltd., which are also managed in London. All work performed for the purposes of the audit was undertaken by the Group audit team.

The UK lockdown has impacted the performance of our audit procedures. We were required to complete the audit under social distancing rules and work remotely from Management. We implemented additional quality control procedures to mitigate the risks associated with performing the audit.

Our application of materiality
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group and Company to be £6.5m (2019: £6.2m), which is 5% (2019: 5%) of Group profit before tax. We believe that profit before tax provides us with the most appropriate basis for determining materiality as the Group is a profitable organisation, with the decisions made by the users of the financial statements being most affected by the profitability of the Group.

During the course of our audit, we reassessed initial materiality that had been calculated on the Group's forecasted year end profit. We recalculated this at the year end based on the reported profit before tax balance. We also re-assessed the basis of our materiality calculation as a result of COVID-19, and concluded that profit before tax remained the appropriate metric on which materiality should be based.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2019: 75%) of our planning materiality, namely £4.8m (2019: £4.6m). We have set performance materiality at this percentage due to the strength of the control environment and a lower expectation of material misstatements in the financial statements.

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit and Risk Committee that we would report to them all uncorrected audit differences in excess of £0.3m (2019: £0.3m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information
The other information comprises the information included in the Annual Report and Consolidated Financial Statements set out on pages 1 to 56, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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 directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Group and the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
• adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
• the Company financial statements are not in agreement with the accounting records and returns; or
• certain disclosures of directors' remuneration specified by law are not made; or
• we have not received all the information and explanations we require for our audit

Independent Auditor's Report
for the Year Ended 31 March 2020 (continued)

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on pages 50 to 51, 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 and 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 Company or to cease operations, or have no realistic alternative but to do so.

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud
The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

• We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are:
o Companies Act 2006
o Financial Reporting Council (FRC) rules and guidance
o Financial Conduct Authority (FCA) regulations, license conditions and supervisory requirements
o Tax Legislations (governed by HM Revenue and Customs)

• We understood how the Group is complying with those frameworks by making enquiries of the directors, senior management, internal audit, and those responsible for legal and compliance matters. We also attended the Audit and Risk Committee, and reviewed minutes and reports from other relevant committees. In addition, we reviewed correspondence between the Group and UK regulatory bodies.

• We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by considering the controls that the Group has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered performance and incentive plan targets and their potential to influence the directors or other management to manage earnings or influence the perceptions of investors. We also held discussions with senior management, internal audit, and the Audit and Risk Committee.

• Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiring of key management, including legal counsel, reviewing the key policies and reports on the aforementioned legal and regulatory frameworks, as well as reviewing the correspondence exchanged with the Regulators.

• The Group operates in a regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

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

Other matters we are required to address

• We were appointed by the Company in 2006 to audit the financial statements of the Group and Company for the year ending 31 March 2007 and subsequent financial periods. Following a competitive tender process, we were reappointed as auditor for the Group and Company for the year ending 31 March 2018 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is 14 years, covering the years ending 31 March 2007 to 31 March 2020.

• The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company and we remain independent of the Group and the Company in conducting the audit.

• The audit opinion is consistent with the additional report to the Audit and Risk Committee.

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.

Ernst & Young LLP

Helen Joseph (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
8 June 2020

Notes:

1. The maintenance and integrity of the Hitachi Capital (UK) PLC web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Hitachi Capital (UK) PLC

Consolidated Income Statement for the Year Ended 31 March 2020

	Note	2020 £m	2019 £m
Interest income		205.0	185.2
Finance lease income		66.1	58.1
Operating lease rental income		243.1	221.0
Operating lease maintenance income		34.6	34.9
Sale of operating leased assets		120.3	173.1
Other operating income	5	44.5	39.0
Revenue		713.6	711.3
Finance costs	6	(77.5)	(67.7)
Depreciation and impairment of operating leased assets	10	(185.1)	(163.2)
Maintenance expense on operating leased vehicles		(32.4)	(31.6)
Disposal of operating leased assets		(115.3)	(170.6)
Other cost of sales	7	(4.3)	6.7
Cost of sales		(414.6)	(426.4)
Gross profit		299.0	284.9
Impairment losses on credit exposures	13	(30.9)	(26.6)
Administrative expenses	8	(138.4)	(135.1)
Operating profit		129.7	123.2
Fair value loss on derivative financial instruments	15	(0.3)	(0.1)
Profit before tax		129.4	123.1
Income tax expense	9	(26.3)	(23.4)
Profit after tax		103.1	99.7

The notes on pages 77 to 177 form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income for the Year Ended 31 March 2020

	Note	2020 £m	2019 £m
Profit for the year		103.1	99.7
Other comprehensive income to be reclassified to profit or loss in subsequent period			
Loss on cash flow hedges taken to cash flow hedge reserve		(10.4)	(8.3)
Income tax effect	9	2.0	1.5
		(8.4)	(6.8)
Net other comprehensive income to be reclassified to profit or loss in subsequent period		(8.4)	(6.8)
Items that will not be reclassified subsequently to profit or loss			
Re-measurement of defined benefit pension scheme	27	6.6	(2.4)
Income tax effect	9	(1.3)	0.5
		5.3	(1.9)
Net other comprehensive income not to be reclassified to profit or loss in subsequent period		5.3	(1.9)
Other comprehensive income for the year, net of tax		(3.1)	(8.7)
Total comprehensive income for the year, net of tax		100.0	91.0
Attributable to:			
Equity holders of the parent		100.0	91.0
Total comprehensive income for the year, net of tax		100.0	91.0

Statement of Financial Position - Consolidated and Company as at 31 March 2020

	Note	31 March Group 2020 £m	31 March Group 2019 £m	31 March Company 2020 £m	31 March Company 2019 £m
Non-current assets					
Intangible assets	12	55.4	38.3	55.4	38.3
Investments in subsidiaries	3	-	-	7.7	1.7
Property, plant and equipment under operating lease	10	1,041.9	869.7	1,041.3	869.7
Other property, plant, equipment and right of use assets	11	19.7	8.6	19.7	8.6
Loans and advances to customers	14	3,083.9	2,929.2	3,068.9	2,929.2
Other financial instruments at amortised cost	31	44.1	39.7	44.1	39.7
Financial instruments at fair value through profit or loss	31	45.1	11.2	45.1	11.2
Derivative financial instruments	15	78.5	28.0	78.5	28.0
Deferred tax assets	9	9.4	13.8	9.4	13.8
Retirement benefit asset	27	7.1	0.6	7.1	0.6
		4,385.1	3,939.1	4,377.2	3,940.8
Current assets					
Loans and advances to customers	14	1,840.7	1,827.5	1,824.7	1,827.5
Derivative financial instruments	15	57.9	15.5	57.9	15.5
Inventories	18	26.7	14.0	26.7	14.0
Current tax asset		12.4	-	12.4	-
Trade and other receivables	19	86.4	71.3	86.5	71.1
Cash and cash equivalents	22	21.1	53.4	17.5	53.4
		2,045.2	1,981.7	2,025.7	1,981.5
Total assets		6,430.3	5,920.8	6,402.9	5,922.3
Equity and liabilities					
Equity					
Share capital	23	110.7	110.7	110.7	110.7
Share premium		15.6	15.6	15.6	15.6
Retained earnings		605.1	517.7	605.5	518.0
Other reserves		(13.3)	(10.2)	(13.5)	(10.2)
Equity attributable to owners of the company		718.1	633.8	718.3	634.1

The notes on pages 77 to 177 form an integral part of these financial statements.

Statement of Financial Position - Consolidated and Company as at 31 March 2020 (continued)

	Note	31 March Group 2020 £m	31 March Group 2019 £m	31 March Company 2020 £m	31 March Company 2019 £m
Non-current liabilities					
Interest bearing borrowings	16	3,079.9	3,100.5	3,052.4	3,102.0
Derivative financial instruments	15	25.6	25.0	25.6	25.0
Trade and other payables	25	90.5	70.6	90.5	70.6
Provisions	21	1.2	1.1	1.2	1.1
		3,197.2	3,197.2	3,169.7	3,198.7
Current liabilities					
Interest bearing borrowings	16	2,268.4	1,810.7	2,268.4	1,810.7
Derivative financial instruments	15	6.8	32.7	6.8	32.7
Current tax liability		-	11.5	-	11.5
Trade and other payables	25	236.8	228.4	236.7	228.1
Provisions	21	3.0	6.5	3.0	6.5
		2,515.0	2,089.8	2,514.9	2,089.5
Total liabilities		5,712.2	5,287.0	5,684.6	5,288.2
Total equity and liabilities		6,430.3	5,920.8	6,402.9	5,922.3

The Company profit for the year was £103.2m (2019: £99.9m)

The financial statements were approved by the board, authorised for issue on 8 June 2020 and signed on its behalf by:

R. Gordon
Chief Executive Officer

Hitachi Capital (UK) PLC

Consolidated Statement of Changes in Equity for the Year Ended 31 March 2020

Group	Note	Share capital £m	Share premium £m	Retained earnings £m	Other reserves £m	Total equity £m
At 31 March 2018		110.7	15.6	465.8	(1.5)	590.6
Adoption of IFRS 9		-	-	(7.8)	-	(7.8)
Profit for the year		-	-	99.7	-	99.7
Other comprehensive income		-	-	-	(8.7)	(8.7)
Dividends paid	20	-	-	(40.0)	-	(40.0)
At 31 March 2019		110.7	15.6	517.7	(10.2)	633.8
Adoption of IFRS 16		-	-	(0.7)	-	(0.7)
Profit for the year		-	-	103.1	-	103.1
Other comprehensive income		-	-	-	(3.1)	(3.1)
Dividends paid	20	-	-	(15.0)	-	(15.0)
At 31 March 2020		110.7	15.6	605.1	(13.3)	718.1

Statement of Changes in Equity for the Year Ended 31 March 2020

Company	Note	Share capital £m	Share premium £m	Retained earnings £m	Other reserves £m	Total £m
At 31 March 2018		110.7	15.6	465.9	(1.5)	590.7
Adoption of IFRS 9		-	-	(7.8)	-	(7.8)
Profit for the year		-	-	99.9	-	99.9
Other comprehensive income		-	-	-	(8.7)	(8.7)
Dividends paid	20	-	-	(40.0)	-	(40.0)
At 31 March 2019		110.7	15.6	518.0	(10.2)	634.1
Adoption of IFRS 16		-	-	(0.7)	-	(0.7)
Profit for the year		-	-	103.2	-	103.2
Other comprehensive income		-	-	-	(3.3)	(3.3)
Dividends paid	20	-	-	(15.0)	-	(15.0)
At 31 March 2020		110.7	15.6	605.5	(13.5)	718.3

The notes on pages 77 to 177 form an integral part of these financial statements.

Hitachi Capital (UK) PLC

Consolidated Statement of Cash Flows for the Year Ended 31 March 2020

	Note	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Profit before tax		129.4	123.1	129.5	123.3
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	10	185.1	163.2	184.9	163.2
Depreciation and impairment of other property, plant, equipment and right of use assets	11	2.8	1.8	2.8	1.8
Amortisation and impairment of intangible assets	12	2.5	1.9	2.5	1.9
Net gain on disposal of operating lease assets		(13.8)	(12.6)	(13.8)	(12.6)
Net loss on disposal of intangible assets		-	0.5	-	0.5
Fair value loss on derivative financial instruments	15	0.3	0.1	0.3	0.1
Defined benefit pension scheme charge to income statement	27	0.3	0.6	0.3	0.6
		306.6	278.6	306.5	278.8
Working capital adjustments					
Increase in receivables		(221.6)	(723.6)	(190.8)	(723.6)
Increase in payables & provisions		9.7	28.8	10.0	28.6
(Increase)/decrease in inventories		(12.7)	6.2	(12.7)	6.2
Purchase of operating leased assets	10	(463.8)	(375.1)	(463.0)	(375.1)
Proceeds from sale of operating leased assets		120.3	173.1	120.3	173.1
Cash outflow from operations		(261.5)	(612.0)	(229.7)	(612.0)
Income taxes paid		(44.3)	(29.7)	(44.3)	(29.7)
Net cash outflow from operating activities		(305.8)	(641.7)	(274.0)	(641.7)
Investing activities					
Acquisition of subsidiary		-	-	-	(4.9)
Purchase of property, plant and equipment (non-operating leases)	11	(1.2)	(1.5)	(1.2)	(1.5)
Purchase of intangible assets	12	(19.6)	(15.5)	(19.6)	(10.6)
Dividends received		-	-	(0.2)	-
Net cash outflow from investing activities		(20.8)	(17.0)	(21.0)	(17.0)

The notes on pages 77 to 177 form an integral part of these financial statements.

Consolidated Statement of Cash Flows for the Year Ended 31 March 2020 (continued)

	Note	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Financing activities					
Funding received		1,137.6	1,387.4	1,131.4	1,387.4
Funding paid		(828.3)	(634.3)	(857.3)	(634.3)
Dividends paid		(15.0)	(40.0)	(15.0)	(40.0)
Net cash inflow from financing activities		294.3	713.1	259.1	713.1
Net (decrease)/increase in cash and bank overdrafts		(32.3)	54.4	(35.9)	54.4
Cash and bank overdrafts at beginning of the year	22	53.4	(1.0)	53.4	(1.0)
Cash and bank overdrafts at end of the year	22	21.1	53.4	17.5	53.4
Current assets - cash	22	21.1	53.4	17.5	53.4

The notes on pages 77 to 177 form an integral part of these financial statements.

1 Corporate information

The consolidated financial statements of the Group for the year ended 31 March 2020 were authorised for issue by the directors on 8 June 2020. Hitachi Capital (UK) PLC is a public limited company incorporated in the United Kingdom. The address of the registered office is given at the beginning of this report as is information on the ultimate parent undertaking. The principal activities of the Group are described in note 4.

2 Accounting policies

2.1 Statement of compliance

The Group financial statements have been prepared in accordance with International Financial Reporting Standards and their interpretations adopted by the EU ("adopted IFRSs").

2.2 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB), as adopted by the European Union, and applied in accordance with the Companies Act 2006. Under section 408 (3) of the Companies Act 2006, the Company has not included its own income statement or statement of comprehensive income.

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

Going concern

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and therefore believe that the Group is well placed to manage its business risks successfully. Accordingly, the financial statements have been prepared in accordance with the going concern principle under the historical cost basis, except for derivative financial instruments which are measured at fair value.

In making the assessment, the Directors have considered the Group's business activities, together with the factors likely to affect its future performance and liquidity position. The Directors' have also considered reverse stress testing scenarios for both equity and liquidity. Under these scenarios the bad debt charge would need to increase to c.24 times the level of 2020 to exhaust the current capital base. A reverse liquidity stress test is difficult to model as the Directors' have several mitigations to apply in a liquidity restricted scenario. The Group have committed and uncommitted facilities with large banks and our parent company, Hitachi Capital Corporation, which are available to draw down if required.

2 Accounting policies (continued)

2.2 Basis of preparation (continued)

The Directors have also performed an extreme reverse stress scenario to assess the resilience of the business under liquidity stress. Under this scenario, it can be demonstrated that cash collections from the run off of existing receivables would be sufficient to settle obligations without the need to utilise cash from our parent company or existing short-term facilities.

The statement of financial position shows a net current liability of £470m at year end as management held some short-term borrowings for a period prior to year-end whilst consideration was given to further expand the utilisation of the securitisation programmes. With the level of committed facilities available to the Group, the Directors are confident of meeting its short and long-term obligations.

The Group's financial risk management objectives, policies and processes for liquidity and funding management can be found in the Financial Risk management section of this report (note 32).

In relation to the recent COVID-19 outbreak, our business continuity plans are working well. The Directors are mindful of the risks associated with COVID-19 and have a plan in place to ensure the continuation of the Group's operations during COVID-19 and we have no reason to believe, at this stage, it will impact the going concern of the Group.

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 March 2020. 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.

2 Accounting policies (continued)

2.4 Summary of significant accounting policies

(a) Business combinations & 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 with changes in fair value recognised either in profit or loss or as a change to Other Comprehensive Income ("OCI"). If the contingent consideration is not within the scope of IFRS 9, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

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

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

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(b) Foreign currency transactions and balances

The presentational currency of the Group and the Company is pound sterling. The functional currency of the Company is pound sterling, which is the currency of the primary environment in which the Group operates. The functional currency of the Group's subsidiary, Hitachi Capital European Vendor Solutions B.V, is Euro which is translated to pound sterling upon consolidation. The cumulative translation gains or losses arising from this are reported and presented as part of the Group's OCI.

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. 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 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 profit or loss are also recognised in other comprehensive income or profit or loss, 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 1.4(o).

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(c) Interest and similar income

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

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

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

When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3' as per staging criteria set out in note 2.4 (n), 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.

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(d) Revenue from contracts with customers

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

Below income streams have been aligned to the disaggregated categories of services provided to the Group's customers as disclosed in the Group's income statement and related notes.

Operating lease maintenance income
Maintenance income on operating leases is recognised over the contractual term of the lease. The allocation of income over the term is based on the normal repair and maintenance cost profile supported by historical statistics and expected service costs. The difference between the amounts charged to clients 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.

Sale of operating lease assets
Revenue from the sale of operating lease assets is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on transfer of the physical goods.

Other operating income
The Group earns income and incurs related expenses from its customers and suppliers in relation to a diverse range of services it provides to its customers. These are recognised either at the point in time or over the period in which its performance obligations to customers for services are satisfied.

(e) Leases

IAS 16 Leases (Policy applicable before 1 April 2019)
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Group as a Lessor
Lease and hire purchase agreements are classified as finance leases whenever the terms of the agreement transfer substantially all the risks and benefits of ownership to the lessee. All other leases are classified as operating leases.

The initial recognition of a finance lease includes all initial direct costs of the lease and the present value of the minimum lease payments under the lease terms. Assets leased under operating leases are included in property, plant and equipment and depreciated over their estimated useful lives. The basis for recognition of finance lease income and rental income is outlined in note 2.4 (c) above.

Group as a Lessee
Operating lease payments are recognised as an administrative expense in the income statement on a straight line basis over the lease term.

(f) Adoption of IFRS 16 Leases (applicable after 1 April 2019)

On 1 April 2019, the Group adopted IFRS 16 Leases which replaced IAS 17 Leases. Transition impact on Group's statement of financial position is set out in note 2.6.

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.

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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 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 2.4(h) 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 tested for impairment in accordance with IAS 36 Impairment of assets as disclosed in 2.4(t) Impairment of non-financial assets.

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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 profit or loss 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 profit or loss.

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 income statement.

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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.

Group as a Lessor
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 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 to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets
The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within note 11 Property, plant, equipment and right-of-use assets and are subject to impairment in line with the Group's policy as described in Note 2.4(t) Impairment of non-financial assets.

Lease liabilities
At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term, discounted using the Group's incremental borrowing rate.

The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(g) 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 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 income statement are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

The deferred tax assets and liabilities have been offset for reporting purposes on the basis that deferred tax predominantly arises in respect of items taxable within the same jurisdiction (UK) and it is expected that a right of set-off will exist when the items reverse, in accordance with IAS 12.

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(h) Property, plant, equipment & right of use assets

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

Right-of-use assets are presented together with property and equipment in the statement of financial position - refer to the accounting policy in note 2.4(f) Leases. Right-of-use assets are depreciated on a straight-line basis over the lease term.

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

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

Depreciation of operating leased assets is calculated over the term of the lease on a straight line basis.

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

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

(i) 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 2.4 (t).

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(j) 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.

An internally generated intangible asset arising from the Group's software development projects is recognised only if all of the following conditions are met:
• An asset is created that can be identified;
• It is probable that the asset created will generate future economic benefits; and,
• The development cost of the asset can be reliably measured.

Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period.

Intangible assets are amortised on a straight line basis over the useful economic life (between 2 to 10 years) and assessed for impairment at least annually. The amortisation expense is recognised in the income statement within administrative expenses.

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 income statement within administrative expenses.

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(k) Classification and measurement of financial assets and liabilities

The Group's financial assets and financial liabilities comprise all assets and liabilities reflected in the statement of financial position, although excluding property, plant and equipment under operating lease, other property, plant and equipment, investment properties, intangible assets, deferred tax assets, accruals, prepayments, provisions, tax liabilities, lease liabilities, investment in subsidiaries and retirement benefit assets.

The Group recognises financial assets and financial liabilities in the statement of financial position when, and only when, the Group becomes party to the contractual provisions of the financial instrument.

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

Financial assets are classified into one of the following three categories:-
· 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).

Financial liabilities are classified into one of the following two categories:-
· financial liabilities at amortised cost; or
· financial liabilities at fair value through the profit or loss (FVTPL).

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.

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:-

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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 instrument 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 (FVOCI 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 fair value through profit or loss.

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.

If either of the above two criteria is not met, the financial assets are classified and measured at fair value through the profit or loss (FVTPL) unless the financial asset has been classified as FVOCI.

If a financial asset meets the amortised cost 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.

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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

These receivables are measured using the effective interest rate method less impairment. Interest income is recognised by applying the effective interest rate, except for short term receivables when the recognition of interest would be immaterial.

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.

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

On initial recognition of an equity investment that is not held for trading, 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 statement of income.

The group does not hold any financial assets that are measured at FVTOCI.

Financial assets at fair value through the profit or loss (FVTPL)
Financial assets not otherwise classified above are classified and measured as FVTPL.

The Group classifies the junior notes held in a special purpose entity under its securitisation programme as financial assets at FVTPL. 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 income statement.

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.

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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 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 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 related loan period, the balance is returned to the retailer upon final maturity of each annual vintage of agreements. Retailer liability is recorded within other liabilities 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 2.4(o).

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(l) 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 profit or loss.

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. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

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 or a portion of them. 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.

Financial liabilities

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

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(m) 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 statement of income.

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 income statement.

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(n) Measurement of Expected Credit Losses (Impairment of financial assets)

The Group recognises loss allowances for expected credit losses (ECL) on financial instruments that are not measured at FVTPL, namely:

- Financial assets that are debt instruments
- Accounts and other receivables
- Financial guarantee contracts issued; and
- Loan commitments issued.

Simplified approach

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

For performing receivables, the allowance for impairment losses 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. The loss rates used in calculating ECL are assessed with reference to the expected future cash flows on the loan arrangements, including considering estimates of security value (internal or professional valuation) as well as capacity for payment and timing of recoveries.

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

General approach

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

Stage 1: for financial instruments where there has not been a significant increase in credit risk (SICR) since initial recognition and that are not credit-impaired on origination, the Group recognises an allowance based on the 12-month ECL.

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: for financial instruments where there has been a significant increase in credit risk since initial recognition or they are 30 days past due but they are not credit-impaired, the Group recognises an allowance for the lifetime ECL.

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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: for credit-impaired financial instruments, the Group recognises the lifetime ECL.

Provisions for credit-impairment are recognised in the statement of income 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;
- 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.

For consumer finance agreements, which comprise large numbers of small homogenous assets with similar risk characteristics, allowance for impairment losses is supplemented by statistical techniques used to calculate impairment allowance on a portfolio basis.

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, 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.

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

IFRS 9 requires management to make estimates and judgements that affect the allowance for expected credit losses (ECL). 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 32.

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(o) Hedge accounting

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

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

Derivative financial instruments are recognised in the statement of financial position at fair value. Fair values are derived from prevailing market prices, discounted cash flow models or option pricing models as appropriate.

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

The Group designates certain derivatives held for risk management, as well as certain non-derivative financial instruments 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.

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

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

The Group has early adopted 'Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7' as outlined in the accounting policies note 2.6 of the accounting policies. The amendments provide temporary reliefs which enable the Group's hedge accounting to continue during the period of uncertainty, before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate.

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 statement of profit or loss 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 profit or loss 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 profit or loss. The amount recognised in OCI is reclassified to profit or loss 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 statement of profit or loss 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.

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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 profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign investment.

Derivative financial instruments are initially recorded at fair value at the time the derivative contract is entered into. After initial recognition they are re-measured to their fair value at each reporting date. The resulting gains or losses are taken to the income statement immediately unless the derivative is within a designated cash flow hedging relationship, in which event, the timing of the recognition in profit or loss depends on the nature of the underlying hedged item.

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

(p) 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 or have been purchased for lease to customers. Net realisable value takes into account prevailing market values and cost of sales.

(q) 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.

(r) 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 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.

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(s) Securitisation Transactions

This is an arrangement where the Group has entered into funding arrangements with lenders or investors in order to finance specific loans and advances to customers rather than the group as a whole. All the financial assets concerned and a liability for the proceeds from the funding transaction will be held on the 'Group Statement of Financial Position', unless one of the following applies:

• Substantially all of the risks and rewards associated with the financial assets have been transferred, in which case the assets are derecognised in full;
• The assets are also derecognised in their entirety where a significant portion but not all of the risks and rewards have been transferred and the transferee has control of the financial assets;
• Where a significant portion but not substantially all of the risks and rewards have been transferred and the transferee does not have control of the assets then the assets are recognised in the Group's statement of financial position, but only to the extent of the Group's continuing involvement

Where any of the above applies to a proportion of the assets or specifically identified cash flows then the relevant accounting treatment is applied to that portion.

(t) Impairment of Non-Financial Assets

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

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

2 Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

(u) 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.

(v) 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.

(w) 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.

2 Accounting policies (continued)

2.5 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.

Measurement of expected credit losses (impairment of financial assets)
In determining impairment of financial assets, judgement is required in the estimation of the amount and timing of future cash flows as well as an assessment of whether the credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL. The details of specific judgements and estimates can be found in note 32.

Expected life
The key assumption in the effective interest rate calculation is the expected life of the loans and advances to customers. For lease receivables and other loans and advances to its business finance customers, the Group considers contractual life to be the expected life.

For unsecured loans and advances to its consumer finance customers, the Group assesses expected behaviour life of the receivables. The Group reviews the expected lives on a segmental basis, whereby products of a similar nature are grouped into cohorts that exhibit homogenous behavioural attributes. The expected life behaviours are subject to changes in internal and external factors that may result in adjustments to the carrying amount of the loans which must be recognised in the income statement.

Impairment of Non-Financial Assets
Key judgment & assumptions are set out in note 10 and the accounting policies in note 2.4(t).

Residual values for operating leased assets
Key judgment & assumptions are set out in note 2.4(h).

Fair value of financial assets and liabilities
Where the fair value of financial assets and liabilities cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is derived from observable markets where available but, where this is not feasible, a degree of judgement is required in determining assumptions used in the models. Changes in assumptions used in the models could affect the reported fair value of financial assets and liabilities.

2 Accounting policies (continued)

2.5 Significant Accounting Judgements, Estimates and Assumptions (continued)

Some financial instruments, such as all derivatives and certain borrowings in fair value hedge relationships are measured and shown on the statement of financial position at their fair value determined at each statement of financial position date. Other financial instruments are measured at amortised cost on the statement of financial position and their fair values disclosed in Note 15.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based upon the presumption that the transaction to sell the asset or transfer the liability takes place in either:

- The principal market for the asset or liability;
- In the absence of a principal market, in the most advantageous market for the asset or liability; or,
- The principal or the most advantageous market being one that is accessible to the Group.

The fair value of an asset or a liability is measured, as near as practically possible, using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. Any fair value measurements of a non-financial asset take into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable market inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value and measurement is directly observable
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value and measurement is unobservable

At the end of each reporting period the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Retirement Benefit Obligation

The cost of the defined benefit scheme and obligation is determined using actuarial valuations. This involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Further details are provided in note 27.

2 Accounting policies (continued)

2.5 Significant Accounting Judgements, Estimates and Assumptions (continued)

In determining the appropriate discount rate, management considers the interest rates of corporate bonds with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates.

Provision for Customer Claims
The Group recognises a customer claims provision, where the Group is jointly and severally liable to customers who have claims against retailers or the Group for misrepresentation, breach of contract or customer redress, in accordance with the accounting policy stated in 2.4(q). The Group also recognises customer redress provision for legal or regulatory proceedings. Further details are included in note 21.

The Group evaluates possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. These are disclosed as contingent liabilities (note 33) but not recognised in the Group's statement of financial position.

2 Accounting policies (continued)

2.6 Changes to Standards and Interpretations

The following new standards and amendments to existing standards were issued during the year.

Standards and amendments which were issued and came into effect during the year

IFRS 16 Leases

This standard was issued in January 2016 and it replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases-Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and has resulted in most leases for lessees being brought on to the balance sheet under a single lease model, removing the distinction between finance and operating leases. It requires a lessee to recognise a 'right-of-use' asset and a lease liability on its statement of financial position.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group accounting policies are set out in 2.4 (f) Leases.

Transition approach and use of practical expedients
The Group has elected to apply the practical expedient to grandfather the assessment of which transactions are leases. As a result, the Group has applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 will not be reassessed. Therefore, the definition of a lease under IFRS 16 will only be applied to contracts entered into or changed on or after 1 April 2019.

The Group also elected to apply the recognition exemptions for short-term and low value item leases under £5,000 as specified under IFRS 16. The impact of applying the exemption is immaterial for the Group.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 April 2019 and comparatives are not restated. Under the modified approach, lease liabilities are measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 April 2019.

2 Accounting policies (continued)

2.6 Changes to Standards and Interpretations (continued)

For the purposes of applying the modified retrospective approach, the Group elected to:

measure the right-of-use asset as if it had applied IFRS 16 at the commencement date using its incremental borrowing rate at the date of initial application for its property leases.
use hindsight when determining lease term if the contract contains options to extend or terminate the lease;
apply the practical expedient to exclude initial direct costs from measuring the right-of-use asset at the date of initial application;
apply the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term; and
apply the practical expedient to rely on its assessment whether the lease was onerous under IAS 37 and therefore adjust the right-of-use asset at the date of initial application by the onerous lease provision rather than conduct an impairment test.

Key accounting judgements
The Group undertook a technical assessment of IFRS 16. The two key accounting judgements in relation to IFRS 16 are determining the discount rates and lease term.

When measuring the lease liability, lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate is used for the discount rate. Under the modified retrospective approach, the Group used its incremental borrowing rate at the date of initial application as the discount rate. Judgement was required to determine an appropriate incremental borrowing rate which was derived from the Group's cost of borrowings.

When determining lease term, an assessment is required of whether an extension or termination option will be exercised. This is reassessed if there is a significant event or significant change in circumstances within the Group's control. Judgement is required when making this assessment. However, currently, the Group has very few leases which include extension or termination options.

Impact of transition to IFRS 16
The Group has developed an IFRS 16 model for each property lease to calculate the lease liabilities and right-of-use assets.

On transition to IFRS 16 as at 1 April 2019, the Group recognised:

• Right-of-use assets of £12.5m which were recognised and presented in the statement of financial position within "Other property, plant, equipment and right of use assets".
• Lease liabilities of £14.7m. The Group will not restate comparative periods, as the impact will be recognised through opening reserves.
• The adoption of IFRS 16 impacted the Group's retained earnings by £0.7m as set out below:

2 Accounting policies (continued)

2.6 Changes to Standards and Interpretations (continued)

	£m
Right of use assets	12.5
Lease liabilities	(14.7)
Release of accrued rent	1.5
Retained earnings impact as at 1 April 2019	(0.7)

The lease liabilities as at 1 April 2019 can be reconciled to the operating lease commitments as of 31 March 2019, as follows:

	£m
Operating lease commitments as at 31 March 2019	16.9
Impact of discounting at weighted average incremental borrowing rate	2.2
Lease liabilities as at 1 April 2019	14.7

Group's weighted average borrowing rate as at April 2019 was 2.84%.

2 Accounting policies (continued)

2.6 Changes to Standards and Interpretations (continued)

Standards issued but not yet effective

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7
In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 Financial Instruments: Disclosures, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR).

The amendments to IFRS 9
The amendments include a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

Application of the reliefs is mandatory. The first three reliefs provide for:

• The assessment of whether a forecast transaction (or component thereof) is highly probable
• Assessing when to reclassify the amount in the cash flow hedge reserve to profit and loss
• The assessment of the economic relationship between the hedged item and the hedging instrument

For each of these reliefs, it is assumed that the benchmark on which the hedged cash flows are based (whether or not contractually specified) and/or, for relief three, the benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of IBOR reform.

A fourth relief provides that, for a benchmark component of interest rate risk that is affected by IBOR reform, the requirement that the risk component is separately identifiable need be met only at the inception of the hedging relationship. Where hedging instruments and hedged items may be added to or removed from an open portfolio in a continuous hedging strategy, the separately identifiable requirement need only be met when hedged items are initially designated within the hedging relationship.

To the extent that a hedging instrument is altered so that its cash flows are based on an RFR, but the hedged item is still based on IBOR (or vice versa), there is no relief from measuring and recording any ineffectiveness that arises due to differences in their changes in fair value.

The reliefs continue indefinitely in the absence of any of the events described in the amendments. When an entity designates a group of items as the hedged item, the requirements for when the reliefs cease are applied separately to each individual item within the designated group of items. The amendments also introduce specific disclosure requirements for hedging relationships to which the reliefs are applied.

IAS 39 amendments do not apply to the Group as it has adopted IFRS 9 for hedge accounting. These amendments are not expected to significantly impact the Group's consolidated financial statements.

2 Accounting policies (continued)

2.6 Changes to Standards and Interpretations (continued)

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

The Group has early adopted 'Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7'. The amendments provide temporary reliefs which enable the Group's hedge accounting to continue during the period of uncertainty, before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment
IFRIC 23 (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019) provides a framework and specific guidance to consider, recognise and measure the accounting impact of tax uncertainties that was not included in IAS 12. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates. Under IFRIC 23, an entity shall assume that a taxation authority will examine amounts which it has a right to examine and have full knowledge of all related information when making those examination.

The Group determined that it is probable that the tax treatments adopted by the Group will be accepted by the tax authorities. This interpretation did not have an impact on the Group's consolidated financial statements.

Amendments to IFRS 9: Prepayment Features with Negative Compensation
Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the 'SPPI' criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. Early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract.

These amendments had no impact on the consolidated financial statements of the Group.

Other changes
The following other changes that became effective from periods beginning on or after 1 January 2019 do not have any significant impact on the Group's consolidated financial statements.
Amendments to IAS 28 'Long term interests in Associates and Joint Ventures' (issued on 12 October 2017).
Amendments to IAS 19 'Employee Benefits': Plan Amendment, Curtailment or Settlement (issued on 7 February 2018).
Annual improvements cycle 2015 - 2017
o Amendments to IFRS 3 'Business Combinations'
o IFRS 11 'Joint Arrangements'
o IAS 12 'Income Taxes', IAS 23 'Borrowing Costs' (issued on 12 December 2017)

2 Accounting policies (continued)

2.6 Changes to Standards and Interpretations (continued)

Standards issued but not yet effective

A number of new and revised standards issued by the International Accounting Standards Board have not yet come into effect. Below are those which are relevant to the Group.

Amendments to IFRS 3: Definition of a Business
In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material
In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

3 Investment in Subsidiaries (Company)

	Hitachi Capital Vehicle Solutions Ltd £m	Old FF Ltd (formerly called Franchise Finance Ltd) £m	Hitachi Capital European Vendor Solutions B.V. £m	Total £m
At 31 March 2018	1.7	-	-	1.7
Acquisition	-	5.0	-	5.0
De-recognition of investment on transfer of business	-	(5.0)	-	(5.0)
At 31 March 2019	1.7	-	-	1.7
Acquisition	-	-	6.0	6.0
At 31 March 2020	1.7	-	6.0	7.7

On 1 April 2019, the Group converted its Netherlands branch into a subsidiary, Hitachi Capital European Vendor Solutions B.V. incorporated in the Netherlands. The new subsidiary will continue to provide vendor finance solutions supporting Hitachi and Mitsubishi products across Europe.

On 31 March 2020 Old FF Limited (formerly Franchise Finance Ltd) was voluntarily struck off the Companies Register and was dissolved on 7 April 2020.

On 26 June 2018, the Company acquired 100% of the issued share capital of Franchise Finance Ltd, obtaining control of its net assets amounting to £41,121. On 31 March 2019 the trade and assets of Franchise Finance Ltd were transferred to Hitachi Capital (UK) PLC. The goodwill arising on the acquisition has been transferred to the Company.

The subsidiary company, Old FF Ltd (formerly Franchise Finance Ltd), claimed exemption from audit under section 479A of the Companies Act 2006.

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

Hitachi Capital (UK) PLC gave a guarantee under section 479C of the Companies Act 2006 in respect of Old FF Ltd and Hitachi Capital European Vendor Solutions B.V.

All subsidiaries are wholly owned and directly held by the Company. The registered addresses can be found within the Company Information section of this report.

4 Operating segment information

For management purposes, the Group is organised into a corporate centre and five business units based on their products and services. This split is the basis on which the Group reports its primary segment information and is in accordance with the measures reported to decision makers for the purpose of allocating resources to the segments and assessing their performance. Segment performance is evaluated based on profit before tax.

The principal activities of each business unit are as follows:

Business segment	Principal activities
Consumer Finance (HCCF)	Retail point of sale and personal finance
Vehicle Solutions (HCVS)	Vehicle management solutions and fleet management services
Business Finance (HCBF)	Provider of asset finance, block discounting and stock finance solutions
Invoice Finance (HCIF)	Factoring, invoice discounting, and accounts payable financing
European Vendor Solutions (EVS)	Vendor finance solutions for Hitachi and Mitsubishi companies
Corporate	Head office including group treasury activities

No revenues earned from transactions with a single external customer amount to 10% or more of the Group's revenues in either the 2020 or 2019 reporting periods. As the activities of the Group are predominantly carried out in the UK no geographical analysis is presented. Inter segment sales are charged at prevailing market rates.

Year ended 31 March 2020	HCCF £m	HCVS £m	HCBF £m	HCIF £m	EVS £m	Corporate £m	Group £m
Revenue	205.8	405.3	81.1	12.6	10.7	(1.9)	713.6
Finance costs	(45.2)	(13.0)	(17.4)	(1.0)	(2.4)	1.5	(77.5)
Depreciation & impairment of operating lease assets	-	(178.5)	(6.0)	-	(0.6)	-	(185.1)
Maintenance expense on operating leased assets	-	(32.4)	-	-	-	-	(32.4)
Disposal of operating leased assets	-	(112.6)	(2.7)	-	-	-	(115.3)
Other cost of sales	(0.2)	(3.9)	(0.1)	(0.6)	-	0.5	(4.3)
Cost of sales	(45.4)	(340.4)	(26.2)	(1.6)	(3.0)	2.0	(414.6)
Gross Profit	160.4	64.9	54.9	11.0	7.7	0.1	299.0
Impairment losses on credit exposures	(25.7)	(0.7)	(3.8)	(0.3)	(0.4)	-	(30.9)
Administrative expenses	(58.7)	(38.5)	(26.5)	(11.4)	(4.7)	1.4	(138.4)
Operating Profit	76.0	25.7	24.6	(0.7)	2.6	1.5	129.7
Fair value loss on derivative financial instruments	-	-	-	-	-	(0.3)	(0.3)
Profit before tax	76.0	25.7	24.6	(0.7)	2.6	1.2	129.4

4 Operating segment information (continued)

Year ended 31 March 2020	HCCF £m	HCVS £m	HCBF £m	HCIF £m	EVS £m	Corporate £m	Group £m
Income tax	(15.0)	(4.9)	(4.5)	0.1	(0.5)	(1.5)	(26.3)
Profit/(loss) after tax	61.0	20.8	20.1	(0.6)	2.1	(0.3)	103.1
Net earning assets	3,343.0	999.2	1,283.0	74.9	236.7	-	5,936.8

Year ended 31 March 2019	HCCF £m	HCVS £m	HCBF £m	HCIF £m	EVS £m	Corporate £m	Group £m
Revenue	185.5	436.6	71.4	10.8	9.4	(2.4)	711.3
Finance costs	(36.2)	(11.7)	(16.6)	(0.8)	(2.3)	(0.1)	(67.7)
Depreciation & impairment of operating lease assets	-	(156.6)	(6.1)	-	(0.5)	-	(163.2)
Maintenance expense on operating leased assets	-	(31.6)	-	-	-	-	(31.6)
Disposal of operating leased assets	-	(168.7)	(1.9)	-	-	-	(170.6)
Other cost of sales	10.5	(3.4)	(0.2)	(0.5)	(0.3)	-	6.7
Cost of sales	(25.7)	(372.0)	(24.8)	(1.3)	(2.5)	(0.1)	(426.4)
Gross Profit	159.8	64.6	46.6	9.5	6.9	(2.5)	284.9
Impairment losses on credit exposures	(24.1)	(0.9)	(0.5)	(0.3)	(0.8)	-	(26.6)
Administrative expenses	(56.0)	(38.9)	(24.6)	(10.2)	(4.2)	(1.2)	(135.1)
Operating Profit	79.7	24.8	21.5	(1.0)	1.9	(3.7)	123.2
Fair value gain on derivative financial instruments	-	-	-	-	-	(0.1)	(0.1)
Profit before tax	79.7	24.8	21.5	(1.0)	1.9	(3.8)	123.1
Income tax	(16.4)	(5.1)	(4.4)	0.2	(0.4)	2.7	(23.4)
Profit/(loss) after tax	63.3	19.7	17.1	(0.8)	1.5	(1.1)	99.7
Net earning assets	3,222.1	827.7	1,197.8	71.1	251.6	-	5,570.3

Net earning assets is the only balance sheet measure reported to the chief operating decision maker of each segment. Therefore, the Group has elected to report Net earning assets instead of assets and liabilities for each segment.

Net Earning Assets (NEA) represent the loans, receivables, finance and operating lease contracts with customers net of initial direct costs.

4 Operating segment information (continued)

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

	2020 £ m	2019 £ m
Net Earning Assets (NEA)	5,936.8	5,570.3
Assets not included within NEA		
Intangible assets	55.4	38.3
Other property, plant and equipment	19.7	8.6
Derivative Financial Instruments	136.4	43.5
Deferred tax assets	9.4	13.8
Retirement benefit asset	7.1	0.6
Inventories	26.7	14.0
Current tax asset	12.4	-
Trade and other receivables	86.4	71.2
Cash and cash equivalents	21.1	53.4
Other assets	8.0	6.9
Liabilities deducted from NEA added back:		
Balances due to invoice financing clients	78.9	66.8
Rentals in advance	32.0	33.2
Total assets	6,430.3	5,920.6

5 Other operating income

	2020 £m	2019 £m
Fleet management and other services	16.5	17.0
Administration fee income	14.3	11.4
Gain or loss on disposal of finance lease assets	4.4	3.0
Other income	9.3	7.6
Total revenue	44.5	39.0

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'.

6 Finance costs

	2020 £m	2019 £m
Finance costs on loans & borrowings	77.1	67.7
Finance costs on right of use land & buildings	0.4	-
Total finance costs	77.5	67.7

On 1 April 2019, the Group adopted IFRS 16 Leases which resulted in finance costs relating to the Group's lease obligations on its leasehold properties.

7 Other cost of sales

	Note	2020 £m	2019 £m
Commission expense		3.8	3.5
Customer claim charges and provisions	21	(0.3)	(10.5)
Other expenses		0.8	0.3
Total other cost of sales		4.3	(6.7)

In 2019, there was a net reduction in customer claims provision due to progression of the remediation plan during the year.

8 Administrative expenses and Auditor's remuneration

	2020 £m	2019 £m
Wages and salaries	59.1	52.4
Social security costs	7.8	7.1
Pension and other post-employment benefit costs	4.1	3.5
Other employee expense	14.8	18.5
Premises and office	10.7	10.1
IT and telephony	16.7	13.3
Marketing	12.4	13.0
Professional services and other	11.8	16.2
Auditor's remuneration		
Audit of the financial statements	1.0	0.9
Other assurance services	-	0.1
Total administration expenses	138.4	135.1

The number of full time equivalent employees at 31 March 2020 was 1,425 (2019: 1,365), which included permanent and temporary staff as well as those on fixed term contracts. Of this, the Company had 1,419 (2019: 1,365).

The Group employed an average of 1,418 (2019: 1,327) employees during the year. Of this, the Company had 1,414 (2019: 1,327).

On 1 April 2019, the Group adopted IFRS 16 Leases which resulted in right of use asset depreciation, included within Premises and office, and finance charge included within finance cost (note 6) relating to the Group leasehold properties. These charges replaced the operating lease expenses previously reported within the same category.

9 Income tax

	2020 £m	2019 £m
Current income tax		
Charge for the year	25.7	27.2
UK corporation tax adjustment to prior periods	(4.7)	(1.3)
	21.0	25.9
Deferred taxation		
Origination and reversal of temporary differences in the current year	(0.8)	(3.4)
Adjustment in respect of prior years	6.1	0.9
Total	5.3	(2.5)
Tax charge on profit	26.3	23.4

The effective tax rate on profit before tax for the year was 20.4% (2019: 19.0%) compared to the standard rate of corporation tax of 19.0% (2019: 19.0%). The increase of the total effective tax rate of 1.4% is primarily driven by the prior year adjustment arising on accelerated capital allowances.

The differences are reconciled below:

	2020 £m	2019 £m
Profit before tax	129.4	123.1
Tax on profit at UK corporation tax rate of 19% (2019: 19%)	24.6	23.4
Increase (decrease) in current tax from adjustment for prior periods	1.4	(0.4)
Increase (decrease) from effect of expenses not deductible in determining taxable profit (tax loss)	1.1	(0.4)
Deferred tax expense (credit) relating to changes in tax rates or laws	(0.7)	0.8
Tax charge	26.4	23.4

The UK rate of corporation tax reduced from 20% to 19% from 1 April 2017. The previously enacted reduction of the 19% rate to 17% was substantively withdrawn by a resolution under the Provisional Collection of Taxes Act 1968 on 17 March 2020. Deferred tax has been provided at 19% at 31 March 2020.

9 Income tax (continued)

Amounts recognised in other comprehensive income

	2020		
	Before tax £m	Tax (expense) benefit £m	Net of tax £m
Gain/(loss) on cash flow hedges (net)	(10.4)	2.0	(8.4)
Remeasurements of post employment benefit obligations (net)	6.6	(1.3)	5.3
	(3.8)	0.7	(3.1)

	2019		
	Before tax £m	Tax (expense) benefit £m	Net of tax £m
Gain/(loss) on cash flow hedges (net)	(8.3)	1.5	(6.8)
Remeasurements of post employment benefit obligations (net)	(2.4)	0.5	(1.9)
	(10.7)	2.0	(8.7)

9 Income tax (continued)

Deferred tax

Deferred taxes are calculated on all temporary differences under the liability method. There are no temporary differences in respect of which deferred tax has not been recognised.

The deferred tax assets and liabilities have been offset for reporting purposes on the basis that deferred tax predominantly arises in respect of items taxable within the same jurisdiction (UK) and it is expected that a right of set-off will exist when the items reverse.

Group

Deferred tax movement during the prior year:

	At 1 April 2018 £m	Recognised in income £m	Recognised in other comprehensive income £m	Recognised in equity £m	At 31 March 2019 £m
Accelerated tax depreciation	7.6	2.9	-	-	10.5
Pension benefit obligations	(0.3)	0.1	0.5	-	0.3
Revaluation of cash flow hedges	(0.6)	-	1.5	-	0.9
Other items	0.8	(0.5)	-	1.8	2.1
Net tax assets/(liabilities)	7.5	2.5	2.0	1.8	13.8

Deferred tax movement during the year:

	At 1 April 2019 £m	Recognised in income £m	Recognised in other comprehensive income £m	Recognised in equity £m	At 31 March 2020 £m
Accelerated tax depreciation	10.5	(5.2)	-	-	5.3
Pension benefit obligations	0.3	-	(1.3)	-	(1.0)
Revaluation of cash flow hedges	0.9	-	2.1	-	3.0
Other items	2.1	(0.2)	-	0.2	2.1
Net tax assets/(liabilities)	13.8	(5.4)	0.8	0.2	9.4

9 Income tax (continued)

Company

Deferred tax movement during the prior year:

	At 1 April 2018 £m	Recognised in income £m	Recognised in other comprehensive income £m	Recognised in equity £m	At 31 March 2019 £m
Accelerated tax depreciation	7.5	2.9	-	-	10.4
Pension benefit obligations	(0.3)	0.1	0.5	-	0.3
Revaluation of cash flow hedges	(0.6)	-	1.5	-	0.9
Other items	0.9	(0.5)	-	1.8	2.2
Net tax assets/(liabilities)	7.5	2.5	2.0	1.8	13.8

Deferred tax movement during the year:

	At 1 April 2019 £m	Recognised in income £m	Recognised in other comprehensive income £m	Recognised in equity £m	At 31 March 2020 £m
Accelerated tax depreciation	10.4	(5.2)	-	-	5.2
Pension benefit obligations	0.3	-	(1.3)	-	(1.0)
Revaluation of cash flow hedges	0.9	-	2.1	-	3.0
Other items	2.2	(0.2)	-	0.2	2.2
Net tax assets/(liabilities)	13.8	(5.4)	0.8	0.2	9.4

10 Property, plant and equipment under operating lease

Group

At 31 March 2020, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £164.6m (2019: £99.6m), being assets to be leased to customers under operating leases. Management has determined that the necessary funding will be available from existing facilities to cover these commitments.

Operating lease asset depreciation expense for the Group of £185.1m (2019: £163.9m) was included in cost of sales. A further impairment release of £nil (2019: release of £0.7m) relating to operating leased assets was also included in cost of sales.

Depreciation expense relating to the remainder of the Group's property, plant and equipment of £2.8m (2019: £1.8m) was included in administrative expenses. This included £1.5m (2019: £nil) depreciation charges relating to right of use assets following adoption of IFRS 16 Leases.

The Company tests annually for any impairment on operating leased asset residual values. Any impairment loss/gain is calculated by reference to the value in use of the operating leased assets. The key assumptions used in determining the value in use are the discount rate, disposal performance over market guides and costs of disposal. The weighted average discount rate used was 3.83% (2019: 3.86%).

10 Property, plant and equipment under operating lease (continued)

	Operating leased assets £m
Cost	
At 1 April 2018	1,172.3
Additions	375.1
Disposals	(324.4)
Transfers	(1.8)
At 31 March 2019	1,221.2
Additions	463.8
Disposals	(235.2)
At 31 March 2020	1,449.8
Accumulated depreciation and impairment	
At 1 April 2018	354.0
Transfers	(1.8)
Charge for year	163.9
Disposals	(163.9)
Impairment release	(0.7)
At 31 March 2019	351.5
Charge for the year	184.8
Disposals	(128.7)
Impairment charge	0.3
At 31 March 2020	407.9
Carrying amount	
At 31 March 2019	869.7
At 31 March 2020	1,041.9

10 Property, plant and equipment under operating lease (continued)

Company

	Operating leased assets £m
Cost	
At 1 April 2018	1,172.3
Additions	375.1
Disposals	(324.4)
Transfers	(1.8)
At 31 March 2019	1,221.2
Additions	463.0
Disposals	(235.1)
At 31 March 2020	1,449.1
Accumulated depreciation and impairment	
At 1 April 2018	354.0
Charge for the year	163.9
Disposals	(163.9)
Impairment release	(0.7)
Transfers	(1.8)
At 31 March 2019	351.5
Charge for the year	184.6
Disposals	(128.6)
Impairment charge	0.3
At 31 March 2020	407.8
Carrying amount	
At 31 March 2019	869.7
At 31 March 2020	1,041.3

11 Other property, plant, equipment & right of use assets

Group

	Land and buildings £m	Furniture, fittings and equipment £m	Right of use assets £m	Total £m
Cost				
At 1 April 2018	5.9	15.7	-	21.6
Additions	-	1.5	-	1.5
At 31 March 2019	5.9	17.2	-	23.1
Adoption of IFRS 16	-	-	17.9	17.9
Additions	-	1.2	-	1.2
At 31 March 2020	5.9	18.4	17.9	42.2
Accumulated depreciation and impairment				
At 1 April 2018	0.2	12.5	-	12.7
Charge for year	0.1	1.7	-	1.8
At 31 March 2019	0.3	14.2	-	14.5
Adoption of IFRS 16	-	-	5.2	5.2
Charge for the year	0.1	1.2	1.5	2.8
At 31 March 2020	0.4	15.4	6.7	22.5
Carrying amount				
At 31 March 2019	5.6	3.0	-	8.6
At 31 March 2020	5.5	3.0	11.2	19.7

11 Other property, plant, equipment & right of use assets (continued)

Company

	Land and buildings £m	Furniture, fittings and equipment £m	Right of use assets £m	Total £m
Cost				
At 1 April 2018	5.9	15.7	-	21.6
Additions	-	1.5	-	1.5
At 31 March 2019	5.9	17.2	-	23.1
Adoption of IFRS 16	-	-	17.9	17.9
Additions	-	1.2	-	1.2
At 31 March 2020	5.9	18.4	17.9	42.2
Accumulated depreciation and impairment				
At 1 April 2018	0.2	12.5	-	12.7
Charge for the year	0.1	1.7	-	1.8
At 31 March 2019	0.3	14.2	-	14.5
Adoption of IFRS 16	-	-	5.2	5.2
Charge for the year	0.1	1.2	1.5	2.8
At 31 March 2020	0.4	15.4	6.7	22.5
Carrying amount				
At 31 March 2019	5.6	3.0	-	8.6
At 31 March 2020	5.5	3.0	11.2	19.7

On 1 April 2019, the Group adopted IFRS 16 Leases which resulted in recognition of right of use assets and associated lease liabilities (note 32). The right of use assets relate to the Group's leasehold properties.

For maturity analysis of undiscounted contractual cash flow of lease liabilities refer to liquidity funding and management in note 32.

12 Intangible assets

Group

	Capitalised software £m	Intangibles £m	Goodwill £m	Total £m
Cost or valuation				
At 1 April 2018	22.0	-	13.7	35.7
Additions	10.6	-	-	10.6
Disposals	(0.7)	-	-	(0.7)
Acquisition of subsidiary	-	0.9	4.0	4.9
At 31 March 2019	31.9	0.9	17.7	50.5
Additions	19.6	-	-	19.6
Transfer	-	0.1	-	0.1
At 31 March 2020	51.5	1.0	17.7	70.2
Amortisation and impairment				
At 1 April 2018	7.5	-	3.0	10.5
Amortisation charge	1.9	-	-	1.9
Amortisation eliminated on disposals	(0.2)	-	-	(0.2)
At 31 March 2019	9.2	-	3.0	12.2
Amortisation charge	2.4	0.1	-	2.5
Transfer	-	0.1	-	0.1
At 31 March 2020	11.6	0.2	3.0	14.8
Carrying amount				
At 31 March 2019	22.7	0.9	14.7	38.3
At 31 March 2020	39.9	0.8	14.7	55.4

12 Intangible assets (continued)

Company

	Capitalised software £m	Intangibles £m	Goodwill £m	Total £m
Cost or valuation				
At 1 April 2018	22.0	-	13.7	35.7
Additions	10.6	-	-	10.6
Disposals	(0.7)	-	-	(0.7)
Acquisition of subsidiary	-	0.9	4.0	4.9
At 31 March 2019	31.9	0.9	17.7	50.5
Additions	19.6	-	-	19.6
Transfer	-	0.1	-	0.1
At 31 March 2020	51.5	1.0	17.7	70.2
Amortisation				
At 1 April 2018	7.5	-	3.0	10.5
Amortisation charge	1.9	-	-	1.9
Amortisation eliminated on disposals	(0.2)	-	-	(0.2)
At 31 March 2019	9.2	-	3.0	12.2
Amortisation charge	2.4	0.1	-	2.5
Transfer	-	0.1	-	0.1
At 31 March 2020	11.6	0.2	3.0	14.8
Carrying amount				
At 31 March 2019	22.7	0.9	14.7	38.3
At 31 March 2020	39.9	0.8	14.7	55.4

The amortisation charge relating to capitalised software and other intangibles is included in the administrative expense line of the income statement.

At 31 March 2020, neither the Group nor the Company had any contractual commitments for the acquisition of intangible assets (2019: None).

On 26 June 2018, the Group acquired 100% of the issued share capital of Franchise Finance Ltd, obtaining control.

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

12 Intangible assets (continued)

Carrying amount of goodwill	**2020 £ m**	**2019 £ m**
Invoice Finance	4.9	4.9
Driving Instructor Solutions	4.1	4.1
Commercial Vehicle Solutions	1.7	1.7
Franchise Finance	4.0	4.0
Total	14.7	14.7

The recoverable amount for each cash generating unit has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a four year period. The pre-tax discount rates of 11.0% (2019: 11.0%) were applied to cash flow projections and cash flows beyond the four year period were extrapolated using a range of growth rates between 2% and 10% (2019: 2% and 10%) depending on the nature of the business segments.

The key assumptions used in the calculation of value in use were budget assumptions to which an estimate of growth rate was used to extrapolate cash flows beyond the budget period and a discount rate was then applied. The budgets for each cash generating unit are representative of operational and financial aspects that relate to that unit and include past experience, default rates, impairment implications and market conditions prevailing at the time. As a result, management have used their current asset base and new sales opportunities to derive the revenue and profitability expectations for the operating unit. These budgets are approved by senior management and the parent company. The growth rate used to extrapolate cash flows beyond the budget period has been based on the long term growth rate of the economy. An internal rate of return method was used in the calculation of value in use, which resulted in returns in excess of the parent company's minimum expectations.

Sensitivity analysis was performed to assess the impact of reasonable changes in cash flows, growth rate and the discount rate on the outcome of impairment testing. Amid economic uncertainty following outbreak of Covid-19 pandemic, the management carried out a goodwill assessment against a range of downturn scenarios impacting future cashflows of each business segment and concluded that the goodwill would not be impaired.

13 Impairment losses on credit exposures

Movements in provision for expected credit losses

	2020 £ m	2019 £ m
Group and Company		
At 1 April	39.5	19.6
Adoption of IFRS 9	-	9.7
Restated balance at 1 April	39.5	29.3
Amounts written off	(32.2)	(20.0)
Recoveries	10.7	3.6
Charge to the income statement	30.9	26.6
Total as at 31 March	**48.9**	**39.5**

On 1 April 2019, the Group adopted IFRS 9 Financial Instruments which resulted in £9.7m increase in provision for Expected Credit Losses (ECL).

14 Loans and advances to customers

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

	2020 £ m	%	2019 £ m	%
Group				
Finance lease receivables	158.7	5.3	139.2	5.6
Hire Purchase agreements	1,285.3	4.6	1,201.5	5.0
Instalment finance agreements	3,283.9	5.3	3,199.7	4.6
Other loans and advances	196.7	-	216.3	-
Total	4,924.6	4.9	4,756.7	4.5

	2020 £ m	%	2019 £ m	%
Company				
Finance lease receivables	158.7	5.3	139.2	5.6
Hire Purchase agreements	1,263.7	4.6	1,201.5	5.0
Instalment finance agreements	3,283.9	5.3	3,199.7	4.6
Other loans and advances	187.3	-	216.3	-
Total	4,893.6	4.9	4,756.7	4.5

14 Loans and advances to customers (continued)

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 2020					
Finance leases - gross	58.1	81.1	33.1	3.0	**175.3**
Deferred revenue	(7.2)	(7.1)	(1.4)	(0.1)	**(15.8)**
Impairment	(0.3)	(0.4)	(0.1)	-	**(0.8)**
Total	50.6	73.6	31.6	2.9	**158.7**
Finance lease receivables at 31 March 2019					
Finance leases - gross	52.8	72.2	26.7	2.2	**153.9**
Deferred revenue	(6.5)	(6.3)	(1.3)	(0.1)	**(14.2)**
Impairment	(0.2)	(0.2)	(0.1)	-	**(0.5)**
Total	46.1	65.7	25.3	2.1	**139.2**
Hire Purchase agreements at 31 March 2020					
Hire purchase agreements - gross	476.2	653.2	238.6	34.4	**1,402.4**
Deferred revenue	(50.2)	(49.1)	(9.6)	(2.6)	**(111.5)**
Impairment	(1.9)	(2.6)	(1.0)	(0.1)	**(5.6)**
Total	424.1	601.5	228.0	31.7	**1,285.3**
Hire Purchase agreements at 31 March 2019					
Hire purchase agreements - gross	448.5	603.0	223.4	33.9	**1,308.8**
Deferred revenue	(46.6)	(43.8)	(8.8)	(2.9)	**(102.1)**
Impairment	(1.8)	(2.4)	(0.9)	(0.1)	**(5.2)**
Total	400.1	556.8	213.7	30.9	**1,201.5**
Instalment Finance at 31 March 2020					
Instalment finance - gross	1,401.8	1,657.4	595.8	293.0	**3,948.0**
Deferred revenue	(218.3)	(231.9)	(90.7)	(83.2)	**(624.1)**
Impairment	(14.2)	(16.8)	(6.0)	(3.0)	**(40.0)**
Total	1,169.3	1,408.7	499.1	206.8	**3,283.9**

14 Loans and advances to customers (continued)

Group	<1 yr £m	1-3 yrs £m	3-5 yrs £m	>5 yrs £m	Total £m
Instalment Finance at 31 March 2019					
Instalment finance - gross	1,362.8	1,620.1	555.9	185.5	**3,724.3**
Deferred revenue	(186.1)	(191.7)	(64.9)	(50.5)	**(493.2)**
Impairment	(11.7)	(13.4)	(4.7)	(1.6)	**(31.4)**
Total	1,165.0	1,415.0	486.3	133.4	**3,199.7**
Other Loans and Advances at 31 March 2020					
Other loans - gross	197.7	-	-	-	**197.7**
Deferred revenue	0.1	-	-	-	**0.1**
Impairment	(1.1)	-	-	-	**(1.1)**
Total	196.7	-	-	-	**196.7**
Other Loans and Advances at 31 March 2019					
Other loans - gross	217.4	-	-	-	**217.4**
Deferred revenue	(0.3)	-	-	-	**(0.3)**
Impairment	(0.8)	-	-	-	**(0.8)**
Total	216.3	-	-	-	**216.3**
Total loans and receivables, net of impairment - as at 31 March 2020	1,840.7	2,083.8	758.7	241.4	**4,924.6**
Total loans and receivables, net of impairment - as at 31 March 2019	1,827.5	2,037.5	725.3	166.4	**4,756.7**

14 Loans and advances to customers (continued)

Company	<1 yr £m	1-3 yrs £m	3-5 yrs £m	>5 yrs £m	Total £m
Finance lease receivables at 31 March 2020					
Finance leases - gross	58.1	81.1	33.1	3.0	**175.3**
Deferred revenue	(7.2)	(7.1)	(1.4)	(0.1)	**(15.8)**
Impairment	(0.3)	(0.4)	(0.1)	-	**(0.8)**
Total	50.6	73.6	31.6	2.9	**158.7**
Finance lease receivables at 31 March 2019					
Finance leases - gross	52.8	72.2	26.7	2.2	**153.9**
Deferred revenue	(6.5)	(6.3)	(1.3)	(0.1)	**(14.2)**
Impairment	(0.2)	(0.2)	(0.1)	-	**(0.5)**
Total	46.1	65.7	25.3	2.1	**139.2**
Hire Purchase agreements at 31 March 2020					
Hire purchase agreements - gross	469.3	642.6	234.0	33.6	**1,379.5**
Deferred revenue	(49.9)	(48.5)	(9.4)	(2.5)	**(110.3)**
Impairment	(1.9)	(2.6)	(0.9)	(0.1)	**(5.5)**
Total	417.5	591.5	223.7	31.0	**1,263.7**
Hire Purchase agreements at 31 March 2019					
Hire purchase agreements - gross	448.5	603.0	223.4	33.9	**1,308.8**
Deferred revenue	(46.6)	(43.8)	(8.8)	(2.9)	**(102.1)**
Impairment	(1.8)	(2.4)	(0.9)	(0.1)	**(5.2)**
Total	400.1	556.8	213.7	30.9	**1,201.5**
Instalment Finance at 31 March 2020					
Instalment finance - gross	1,401.8	1,657.4	595.8	293.0	**3,948.0**
Deferred revenue	(218.3)	(231.9)	(90.7)	(83.2)	**(624.1)**
Impairment	(14.2)	(16.8)	(6.0)	(3.0)	**(40.0)**
Total	1,169.3	1,408.7	499.1	206.8	**3,283.9**
Instalment Finance at 31 March 2019					
Instalment finance - gross	1,362.8	1,620.1	555.9	185.5	**3,724.3**
Deferred revenue	(186.1)	(191.7)	(64.9)	(50.5)	**(493.2)**
Impairment	(11.7)	(13.4)	(4.7)	(1.6)	**(31.4)**

14 Loans and advances to customers (continued)

Company	<1 yr £m	1-3 yrs £m	3-5 yrs £m	>5 yrs £m	Total £m
Total	1,165.0	1,415.0	486.3	133.4	**3,199.7**
Other Loans and Advances at 31 March 2020					
Other loans - gross	188.3	-	-	-	**188.3**
Deferred revenue	0.1	-	-	-	**0.1**
Impairment	(1.1)	-	-	-	**(1.1)**
Total	187.3	-	-	-	**187.3**
Other Loans and Advances at 31 March 2019					
Other loans - gross	217.4	-	-	-	**217.4**
Deferred revenue	(0.3)	-	-	-	**(0.3)**
Impairment	(0.8)	-	-	-	**(0.8)**
Total	216.3	-	-	-	**216.3**
Total loans and receivables, net of impairment - as at 31 March 2020	1,824.7	2,073.8	754.4	240.7	**4,893.6**
Total loans and receivables, net of impairment - as at 31 March 2019	1,827.5	2,037.5	725.3	166.4	**4,756.7**

15 Derivative Financial Instruments

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

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

	Notional Amount £m	Average maturity (years)
Interest rate Swaps		
LIBOR GBP (1 months)	163.0	2.9
LIBOR GBP (3 months)	884.1	2.9
	1,047.1	
Cross currency Swaps		
USD LIBOR to GBP LIBOR (3 month)	66.0	2.4
EURIBOR to GBP LIBOR (3 month)	21.7	1.8
	87.7	
Total	1,134.8	

15 Derivative Financial Instruments (continued)

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

	Cross currency swap contracts						
2020	**USD £ m**	**HKD £ m**	**Yen £ m**	**Other £ m**	**Total £m**	**Interest rate swap £m**	**Total £ m**
Assets							
Less than 1 year	18.3	-	21.4	18.2	57.9	-	57.9
1 to 2 years	6.3	-	19.0	9.3	34.6	0.1	34.7
2 to 5 years	2.6	2.8	-	12.9	18.3	3.1	21.4
Over 5 year	20.0	-	-	2.4	22.4	-	22.4
Total	47.2	2.8	40.4	42.8	133.2	3.2	136.4
Liabilities							
Less than 1 year	-	-	-	(5.0)	(5.0)	(1.8)	(6.8)
1 to 2 years	-	-	(2.7)	(1.1)	(3.8)	(7.9)	(11.7)
2 to 5 years	-	-	-	(0.7)	(0.7)	(8.6)	(9.3)
Over 5 years	-	-	-	(3.8)	(3.8)	(0.8)	(4.6)
Total	-	-	(2.7)	(10.6)	(13.3)	(19.1)	(32.4)
	47.2	2.8	37.7	32.2	119.9	(15.9)	104.0
Of Which,							
Designated as fair value hedges	-	-	-	43.2	43.2	3.2	46.4
Designated as cash flow hedges	47.2	2.8	37.7	(11.0)	76.7	(19.1)	57.6

15 Derivative Financial Instruments (continued)

	Cross currency swap contracts						
2019	**USD £ m**	**HKD £ m**	**Yen £ m**	**Other £ m**	**Total £m**	**Interest rate swap £m**	**Total £ m**
Assets							
Less than 1 year	4.2	-	7.3	3.7	15.2	0.3	15.5
1 to 2 years	9.3	-	1.6	1.8	12.7	0.3	13.0
2 to 5 years	3.0	-	2.5	8.2	13.7	0.3	14.0
Over 5 year	0.8	-	-	0.2	1.0	-	1.0
Total	17.3	-	11.4	13.9	42.6	0.9	43.5
Liabilities							
Less than 1 year	(1.5)	(0.1)	(1.1)	(29.7)	(32.4)	(0.3)	(32.7)
1 to 2 years	-	-	(2.7)	(7.8)	(10.5)	(1.5)	(12.0)
2 to 5 years	(0.7)	(1.1)	(0.3)	(0.9)	(3.0)	(6.0)	(9.0)
Over 5 years	(2.5)	-	-	(1.2)	(3.7)	(0.3)	(4.0)
Total	(4.7)	(1.2)	(4.1)	(39.6)	(49.6)	(8.1)	(57.7)
	12.6	(1.2)	7.3	(25.7)	(7.0)	(7.2)	(14.2)
Of Which,							
Designated as fair value hedges	-	-	-		(7.7)	(1.1)	(8.8)
Designated as cash flow hedges					0.7	(6.1)	(5.4)

	2020 £ m	**2019 £ m**
Gain on fair value hedging instruments	55.2	8.4
Loss on the hedged item attributable to the hedged risk in FV hedges	(55.5)	(8.5)
Total loss recognised in the income statement	(0.3)	(0.1)

The hedged cash flows are expected to occur and affect Other Comprehensive Income in the periods up to November 2029 (2019: July 2026) for cross currency swaps and to June 2028 (2019: June 2023) for interest rate swaps. Descriptions of the hedges are covered in significant accounting policies note 2.4(o).

A description of the risks being hedged for fair value and cash flow hedges is disclosed in note 32.

16 Interest Bearing Borrowings

The Group provides a central treasury function that is responsible for all external funding activities. The carrying values and weighted average effective interest rates of borrowings are as follows:

	Group				Company			
	2020 £m	2020 %	2019 £m	2019 %	2020 £m	2020 %	2019 £m	2019 %
Bank and group borrowings	1,623.2	1.4	1,344.9	1.5	1,595.7	1.4	1,346.4	1.5
Commercial Paper	332.5	1.1	283.2	1.0	332.5	1.1	283.2	1.0
Funding from securitised receivables	600.0	1.4	600.0	1.3	600.0	1.4	600.0	1.3
Medium term notes	2,792.6	1.5	2,683.1	1.5	2,792.6	1.5	2,683.1	1.2
Total	5,348.3	1.5	4,911.2	1.4	5,320.8	1.5	4,912.7	1.4

Bank overdrafts are repayable on demand and secured by the right of set-off against cash balances held by certain Group companies with the same bank (refer note 22). The average effective rate on overdraft balances for the year was 1.10% (2019: 1.75%) and is based on the Bank of England's official rate plus an agreed margin. Other uncommitted borrowing facilities are available to the Group from banks and other sources.

The Group raises funding under its Euro Medium Term Note ("EMTN") programme mainly for terms of one to five years. Borrowings from this source are unsecured although they benefit from a guarantee from Hitachi Capital Corporation.

Borrowings under the Group's two commercial paper programmes are typically raised for periods of between one month and 364 days. Borrowings under these programmes are also guaranteed by Hitachi Capital Corporation.

Proceeds from the securitisation of certain receivables are at a floating rate of interest, typically fixing for a period of between one and three months at each monthly interest payment date.

The Group utilises two securitisation facilities: under the first it sells consumer receivables to The Royal Bank of Scotland plc, acting as trustee ('Consumer Securitisation'). Under the second, receivables from Small to Medium Enterprises (SME) are sold to Fleetbank Funding Limited as part of the British Business Bank's 'Enable Funding' programme ('SME Securitisation') (see note 32). These assets are not derecognised from the financial statements since the majority of the risks and rewards are retained by the Group. In both arrangements if the facilities were, for whatever reason, to be run down, then the Group would be entitled to receive the return of surplus cash collections after fees, and principal and interest of the secured borrowings would be repaid.

16 Interest Bearing Borrowings (continued)

The borrowings are repayable as follows:

Group	Fixed 2020 £m	Floating 2020 £m	Total 2020 £m	Fixed 2019 £m	Floating 2019 £m	Total 2019 £m
Current Liabilities						
On demand or within 1 year	902.0	1,366.4	2,268.4	823.2	987.5	1,810.7
Non-Current Liabilities						
More than 1 year but less than 2	691.1	923.6	1,614.7	485.8	908.9	1,394.7
More than 2 years but less than 7	880.3	584.9	1,465.2	950.2	755.6	1,705.8
	1,571.4	1,508.5	3,079.9	1,436.0	1,664.5	3,100.5
	2,473.4	2,874.9	5,348.3	2,259.2	2,652.0	4,911.2

There were no defaults of either principal or interest and no unremediated breaches of loan agreement terms that would permit the lender to demand accelerated payment on any loans payable during the reporting periods ending March 2020 or 2019.

Company	Fixed 2020 £m	Floating 2020 £m	Total 2020 £m	Fixed 2019 £m	Floating 2019 £m	Total 2019 £m
Current Liabilities						
On demand or within 1 year	902.0	1,366.4	2,268.4	823.2	987.5	1,810.7
Non-Current Liabilities						
More than 1 year but less than 2	691.1	923.6	1,614.7	485.8	908.9	1,394.7
More than 2 years but less than 7	852.8	584.9	1,437.7	951.7	755.6	1,707.3
	1,543.9	1,508.5	3,052.4	1,437.5	1,664.5	3,102.0
	2,445.9	2,874.9	5,320.8	2,260.7	2,652.0	4,912.7

16 Interest Bearing Borrowings (continued)

An analysis of borrowings by currency is as follows:

Group	Sterling £m	Euro £m	Yen £m	US Dollar £m	Other £m	Total £m
31 March 2020	2,488.7	1,405.8	634.8	472.0	347.0	5,348.3
31 March 2019	2,237.2	1,234.5	563.4	526.5	349.6	4,911.2

Company	Sterling £m	Euro £m	Yen £m	US Dollar £m	Other £m	Total £m
31 March 2020	2,488.7	1,378.3	634.8	472.0	347.0	5,320.8
31 March 2019	2,238.7	1,234.5	563.4	526.5	349.6	4,912.7

17 Fair Value of Financial Assets and Financial Liabilities

		Carrying amount		Fair value		Fair Value Hierarchy
Group:	**Note**	**2020 £ m**	**2019 £ m**	**2020 £ m**	**2019 £ m**	
Financial assets measured at fair value:						
Derivative financial instruments	15	136.4	43.5	136.4	43.5	2
Financial instruments at fair value through profit or loss		45.1	11.2	45.1	11.2	3
Financial assets not measured at fair value:						
Cash and cash equivalents		21.1	53.4	21.1	53.4	1
Trade and other receivables		55.0	40.0	55.0	40.0	3
Loans and advances to customers		4,924.6	4,756.8	4,997.3	4,785.9	3
Other financial instruments at amortised cost		44.1	39.7	44.1	40.3	3
Total financial assets		5,226.3	4,944.6	5,299.0	4,974.3	
Financial liabilities measured at fair value:						
Derivative financial instruments	15	32.4	57.7	32.4	57.7	2
Financial liabilities not measured at fair value:						
Trade creditors and accruals, including balances due to invoice financing clients		192.7	182.9	192.7	182.9	3
Interest bearing borrowings		5,348.3	4,911.2	5,401.3	4,941.3	3
Total financial liabilities		5,573.4	5,151.8	5,626.4	5,181.9	

17 Fair Value of Financial Assets and Financial Liabilities (continued)

Company:	Note	Carrying amount 2020 £ m	Carrying amount 2019 £ m	Fair value 2020 £ m	Fair value 2019 £ m	Fair Value Hierarchy
Financial assets measured at fair value:						
Derivative financial instruments	15	136.4	43.5	136.4	43.5	2
Financial instruments at fair value through profit or loss		45.1	11.2	45.1	11.2	3
Financial assets not measured at fair value:						
Cash and cash equivalents		17.5	53.4	17.5	53.4	1
Trade and other receivables		55.0	40.0	55.0	40.0	3
Loans and advances to customers		4,893.6	4,756.8	4,966.4	4,785.9	3
Other financial instruments at amortised cost		44.1	39.7	44.1	40.3	3
Total financial assets		5,191.7	4,944.6	5,264.5	4,974.3	
Financial liabilities measured at fair value:						
Derivative financial instruments	15	32.4	57.7	32.4	57.7	2
Financial liabilities not measured at fair value:						
Trade creditors and accruals, including balances due to invoice financing clients		192.5	182.6	192.5	182.6	3
Interest bearing borrowings		5,320.8	4,912.7	5,373.8	4,941.3	3
Total financial liabilities		5,545.7	5,153.0	5,598.7	5,181.6	

17 Fair Value of Financial Assets and Financial Liabilities (continued)

• Level 1:
The fair value of financial assets and financial liabilities with standard terms and conditions and traded on an active liquid market, determined by reference to quoted market prices.

• Level 2:
The fair value of derivatives in the disclosure above has been determined using discounted cash flow models using observable market inputs in the form of yield curves in each relevant currency and spot foreign currency exchange rates to convert values to sterling. This excludes any option derivatives, which have been valued using option pricing models based on observable market inputs such as volatility, discount rates and foreign exchange rates. The fair value of derivatives is further adjusted by taking account of both the Group's counterparties and its own credit spreads applied to cash flows owed to and from the Group. These credit spreads were derived from observable market prices of credit default swaps and other market based credit spreads.

• Level 3:
a) 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.

b) The fair value of own borrowings in the table above has been determined using discounted cash flow models using observable market inputs in the form of yield curves in each relevant currency and spot foreign currency exchange rates to convert values to Sterling. Further adjustment to take account of the Group's own credit risk uses unobservable market inputs.

There were no transfers between levels 1, 2 and 3 during the year. There were also no changes in valuation techniques during the year.

18 Inventories

	Group		Company	
	31 March 2020 £m	31 March 2019 £m	31 March 2020 £m	31 March 2019 £m
Motor vehicles for resale	15.1	9.8	15.1	9.8
Vehicles not yet in leasing agreement	11.6	4.2	11.6	4.2
	26.7	14.0	26.7	14.0

19 Trade and Other Receivables

	Group		Company	
	31 March 2020 £m	31 March 2019 £m	31 March 2020 £m	31 March 2019 £m
Trade receivables	56.2	41.6	56.2	41.6
Provision for impairment of trade receivables	(1.2)	(1.6)	(1.2)	(1.6)
Net trade receivables	55.0	40.0	55.0	40.0
Prepayments and other receivables	31.4	31.3	31.5	31.1
Total current trade and other receivables	86.4	71.3	86.5	71.1

20 Dividends Paid

An interim dividend of £15m, 3.4p per share (2019: £40.0m, 9p per share), was paid during the year.

21 Other provisions - Group and Company

	Customer claims £m	Dilapidations £m	Other provisions £m	Total £m
At 1 April 2018	19.6	1.1	0.2	20.9
Additional provisions	2.3	0.2	0.5	3.0
Provisions used	(3.2)	-	-	(3.2)
Unused provision reversed	(12.8)	-	(0.3)	(13.1)
At 31 March 2019	5.9	1.3	0.4	7.6
Non-current liabilities	-	1.1	-	1.1
Current liabilities	5.9	0.2	0.4	6.5

21 Other provisions - Group and Company (continued)

	Customer claims £m	Dilapidations £m	Other provisions £m	Total £m
At 1 April 2019	5.9	1.3	0.4	7.6
Additional provisions	3.3	0.1	-	3.4
Provisions used	(2.8)	-	(0.4)	(3.2)
Unused provision reversed	(3.6)	-	-	(3.6)
At 31 March 2020	2.8	1.4	-	4.2
Non-current liabilities	-	1.2	-	1.2
Current liabilities	2.8	0.2	-	3.0

Customer Claims

In certain situations, the Group is jointly and severally liable to customers who have claims against suppliers for misrepresentation or breach of contract, in respect of certain types of regulated agreements. This risk is minimised by the Group through regular due diligence reviews of the suppliers through which financed products are sold and termination of business where there is higher potential risk of default recognised. The provision is recognised based on current information and key assumptions regarding the expected level of claims relating to suppliers experiencing difficulties and historical costs incurred to date in respect of claims. The key assumptions take into account the number of potential claimants, the amounts financed and any other compensation claim as a result of the suppliers failing to satisfy their obligations. These claims have been classified as current which is consistent with our legal obligations for current and prior year presentation.

During the year, there was a reduction in customer claims provision due to progression of the remediation plan.

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 £0.2m (2019: £0.2m) due within one year, £1.2m (2019: £0.6m) due after one year but less than ten years and £nil (2019 £0.3m) due after ten years.

22 Cash and cash equivalents

Cash and overdrafts held by the Group all have an original maturity of three months or less.

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following at 31 March 2020:

	Group		Company	
	31 March 2020 £m	31 March 2019 £m	31 March 2020 £m	31 March 2019 £m
Cash at bank	17.1	(0.6)	13.5	(0.6)
Short-term deposits	4.0	54.0	4.0	54.0
	21.1	53.4	17.5	53.4

23 Share capital

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

	2020 £m	No.	2019 £m	No.
Issued and fully paid share capital				
Ordinary Shares	110.7	442,674,511	110.7	442,674,511

24 Reserves

Group

The changes to each component of equity resulting from items of other comprehensive income for the current year were as follows:

2020	**Other reserves £m**
Loss on cash flow hedges (net)	(8.4)
Remeasurements of post employment benefit obligations (net)	5.3
	(3.1)

24 Reserves (continued)

The changes to each component of equity resulting from items of other comprehensive income for the prior year were as follows:

2019	Other reserves £m
Loss on cash flow hedges (net)	(6.8)
Remeasurements of post employment benefit obligations (net)	(1.9)
	(8.7)

Company

The changes to each component of equity resulting from items of other comprehensive income for the current year were as follows:

2020	Other reserves £m
Loss on cash flow hedges (net)	(8.4)
Foreign currency translation losses	(0.2)
Remeasurements of post employment benefit obligations (net)	5.3
	(3.3)

The changes to each component of equity resulting from items of other comprehensive income for the prior year were as follows:

2019	Other reserves £m
Loss on cash flow hedges (net)	(6.8)
Remeasurements of post employment benefit obligations (net)	(1.9)
	(8.7)

25 Trade and other payables

Trade and other payables - current

	Group 31 March 2020 £m	31 March 2019 £m	Company 31 March 2020 £m	31 March 2019 £m
Balances due to invoice financing clients	78.9	66.8	78.9	66.8
Rentals in advance - current	32.0	33.2	32.0	33.2
Deferred maintenance and other income - current	12.2	12.3	12.2	12.3
Trade creditors and accruals	94.2	81.5	94.0	81.5
Other creditors	19.5	34.6	19.6	34.3
	236.8	228.4	236.7	228.1

Trade and other payables - non current

	Group 31 March 2020 £m	31 March 2019 £m	Company 31 March 2020 £m	31 March 2019 £m
Deferred maintenance and other income - non current	2.4	2.4	2.4	2.4
Retailer liability	74.6	68.2	74.6	68.2
Lease liabilities	13.5	-	13.5	-
	90.5	70.6	90.5	70.6

On 1 April 2019, the Group adopted IFRS 16 Leases which resulted in recognition of right of use assets (note 11) and associated lease liabilities.

26 Receivables under Operating lease contracts

Lessor Activities

The Group, through Vehicle Solutions and Business Finance, acts as a lessor of vehicles and other assets, the leases for which are generally for terms between three and five years. Operating lease rental income on vehicles and other assets forms a significant part of the Group's business and during the year amounted to £277.7m (2019: £245.3m).

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

26 Receivables under Operating lease contracts (continued)

	2020 £ m	2019 £ m
Within 1 year	245.8	212.4
More than 1 year but less than 5 years	383.4	334.8
Over 5 years	19.3	17.9
	648.5	565.1

27 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 £3.5m (2019 - £3.5m) represents contributions payable to the scheme at rates specified in the rules of the scheme. There were no unpaid contributions at either 31 March 2020 or 31 March 2019.

Defined benefit pension schemes

The Group operates a funded pension scheme providing benefits based on final pensionable earnings, which has been closed to employees joining since 2002. From 5 April 2018, the scheme was closed to future accrual with active members becoming deferred members from that date. The scheme is set up under a trust, with the assets held separately from the Group and managed by an independent set of trustees. The trustees are required by law to act in the best interests of the scheme participants and are responsible for setting the scheme's investment and governance policies and paying benefits. The scheme is registered with HMRC for tax purposes. No other post-retirement benefits are provided.

Under the UK's pension plan funding requirements, the trustees and the Group together agree a funding strategy and contribution schedule for the scheme every three years.

As with the vast majority of similar arrangements, the Group ultimately underwrites the risks relating to the scheme. These risks include investment risks and demographic risks, such as the risk of members living longer than expected. The scheme holds a significant proportion of its assets in equity, corporate and government bonds, property and diversified growth fund investments. Strong future returns on these assets would be expected to reduce the Group's future cash contributions (and vice versa). If the contributions currently agreed are insufficient to pay the benefits due, the Group will need to make further contributions to the scheme. The Group is not exposed to any unusual, entity specific or plan specific risks.

The valuation of the present value of the defined benefit obligation was carried out as at 31 March 2020 by Lane Clark & Peacock LLP, an independent qualified actuary, the calculations for which were based on the membership data used for the scheme's latest formal actuarial valuation as at 31 March 2019 projected to the accounting date. The present value of the defined benefit obligation was measured using the projected unit credit method.

On 26 October 2018, the High Court ruled on the Lloyds Bank GMP Inequalities case, which is expected to affect the Scheme, as well as most other UK pension plans. Guaranteed Minimum Pensions (GMPs) are unequal between men and women. The court judgement confirmed that pension schemes need to adjust scheme benefits to remove these inequalities and pay equal benefits to men and women. At this stage, the Group has estimated the costs at £0.1m. The ultimate cost will not be known for some time and could be significantly higher or lower.

Contributions payable to the pension scheme at the end of the year are £nil (2019 - £nil).

The expected contributions towards the administrative expenses of the scheme for the next reporting period are £0.2m.

27 Retirement Benefit Pension Schemes (continued)

The scheme was most recently valued on 31 March 2019.

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 2020 £m	31 March 2019 £m
Fair value of scheme assets	52.9	55.2
Present value of scheme liabilities	(45.8)	(54.6)
Defined benefit pension scheme surplus	7.1	0.6

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

Scheme assets

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

	31 March 2020 £m	31 March 2019 £m
Fair value at start of year	55.2	57.6
Interest income	1.4	1.5
Return on plan assets, excluding amounts included in interest income/(expense)	(2.6)	1.5
Employer contributions	0.2	0.2
Benefits paid	(1.0)	(5.1)
Administrative expenses paid	(0.3)	(0.5)
Fair value at end of year	52.9	55.2

Analysis of assets

The major categories of scheme assets are as follows:

	31 March 2020 £m	31 March 2019 £m
Equity instruments	14.5	17.0
Real estate	8.1	8.0
Liability driven investments	16.6	11.1
Cash and net current assets	4.9	9.0
Diversified growth fund	8.8	10.1
	52.9	55.2

27 Retirement Benefit Pension Schemes (continued)

Actual return on scheme's assets

	31 March 2020 £m	31 March 2019 £m
Actual return on scheme assets	(1.2)	3.0

The scheme's assets are invested in a diversified range of asset classes. As at 31 March 2020 the target allocation was to invest 40% of the scheme's assets in liability matching assets and 60% in a return-seeking portfolio. The scheme's trustees plan to increase the proportion invested in liability matching assets linearly until the scheme's assets are 100% invested in liability matching assets in 2066.

The scheme does not invest directly in property occupied by the Group or in financial securities issued by the Group. Each of the asset classes have prices quoted in an active market except for the diversified growth fund. Diversified growth funds invest in a range of underlying asset classes and derivatives: typically equities, bonds (including high yield and emerging market debt), hedge funds, commodities, infrastructure and property, and vary their allocations to these markets tactically. They aim to achieve long term returns that are broadly in line with long term equity returns, but with lower volatility and an element of capital preservation.

Scheme liabilities

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

	31 March 2020 £m	31 March 2019 £m
Present value at start of year	54.6	54.2
Past service cost	-	0.2
Actuarial gains and losses arising from changes in demographic assumptions	(1.0)	-
Actuarial gains and losses arising from changes in financial assumptions	(7.2)	3.9
Actuarial gains and losses arising from experience adjustments	(1.0)	-
Interest cost	1.4	1.4
Benefits paid	(1.0)	(5.1)
Present value at end of year	45.8	54.6

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:

27 Retirement Benefit Pension Schemes (continued)

	31 March 2020 %	31 March 2019 %
Retail price inflation	2.5	3.3
Consumer price inflation	1.7	2.2
Discount rate	2.6	2.5
Pension increases in payment (5% or RPI if less)	2.5	3.1
Pension increases in payment (3% or CPI if less)	1.6	1.9
Pension increases in payment (2.5% or RPI if less)	1.8	2.1

27 Retirement Benefit Pension Schemes (continued)

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 2020 Years	31 March 2019 Years
Current UK pensioners at retirement age - male	22.2	22.6
Current UK pensioners at retirement age - female	24.5	24.6
Future UK pensioners at retirement age - male	23.5	24.0
Future UK pensioners at retirement age - female	25.9	26.1

Amounts recognised in the income statement

	31 March 2020 £m	31 March 2019 £m
Amounts recognised in operating profit		
Past service cost	-	0.2
Administrative expenses paid	0.3	0.5
Recognised in arriving at operating profit	0.3	0.7
Amounts recognised in finance income or costs		
Net interest	-	(0.1)
Total recognised in the income statement	0.3	0.6

The total amount recognised in the income statement has been included in Administrative expenses.

Amounts taken to the Statement of Comprehensive Income

	31 March 2020 £m	31 March 2019 £m
Actuarial gains and losses arising from changes in demographic assumptions	1.0	-
Actuarial gains and losses arising from changes in financial assumptions	7.2	(3.9)
Actuarial gains and losses arising from experience adjustments	1.0	-
Return on plan assets, excluding amounts included in interest income/(expense)	(2.6)	1.5
Amounts recognised in the Statement of Comprehensive Income	6.6	(2.4)

27. Retirement Benefit Pension Schemes (continued)

Sensitivity analysis

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

	31 March 2020 - 0.1%	31 March 2019 - 0.1%
Adjustment to discount rate	**£m**	**£m**
Present value of total obligation	1.0	1.3
Fair value of scheme assets	1.1	0.6
Net Retirement benefit asset / obligations	(0.1)	0.7

	31 March 2020 + 0.1%	31 March 2019 + 0.1%
Adjustment to rate of inflation	**£m**	**£m**
Present value of total obligation	0.8	1.0
Fair value of scheme assets	0.8	0.5
Net Retirement benefit asset / obligations	-	0.5

	31 March 2020 + 1 Year	31 March 2019 + 1 Year
Adjustment to mortality age rating assumption	**£m**	**£m**
Present value of total obligation	1.7	2.4
Net Retirement benefit asset / obligations	1.7	2.4

If the assumption were decreased rather than increased, then the impact would have the opposite sign and broadly be of the same magnitude. Each assumption has been varied individually and a combination of changes in assumptions could produce a different result. For consistency, the value of the scheme's holding of bonds has been varied consistently with the change in the discount rate and inflation assumptions.

The weighted average duration of the defined benefit obligation is 21 years (2019: 23 years), and most of the benefit payments are linked to future levels of inflation.

28 Reconciliation of liabilities arising from financing activities

Group

	At 1 April 2019 £m	Financing cash flows £m	Foreign exchange movements £m	Fair value changes £m	At 31 March 2020 £m
Interest bearing borrowings - current	1,810.7	389.0	51.9	16.8	2,268.4
Interest bearing borrowings - non current	3,100.5	(79.6)	21.1	37.9	3,079.9
	4,911.2	309.4	73.0	54.7	5,348.3

	At 1 April 2018 £m	Financing cash flows £m	Foreign exchange movements £m	Fair value changes £m	At 31 March 2019 £m
Interest bearing borrowings - current	1,392.0	438.2	(24.8)	5.3	1,810.7
Interest bearing borrowings - non current	2,761.6	314.9	16.4	7.6	3,100.5
	4,153.6	753.1	(8.4)	12.9	4,911.2

Company

	At 1 April 2019 £m	Financing cash flows £m	Foreign exchange movements £m	Fair value changes £m	At 31 March 2020 £m
Interest bearing borrowings - current	1,810.7	395.4	45.5	16.8	2,268.4
Interest bearing borrowings - non current	3,102.0	(121.3)	21.1	50.6	3,052.4
	4,912.7	274.1	66.6	67.4	5,320.8

	At 1 April 2018 £m	Financing cash flows £m	Foreign exchange movements £m	Fair value changes £m	At 31 March 2019 £m
Interest bearing borrowings - current	1,392.0	438.2	(24.8)	5.3	1,810.7
Interest bearing borrowings - non current	2,761.6	314.9	17.9	7.6	3,102.0
	4,153.6	753.1	(6.9)	12.9	4,912.7

29 Related Party Disclosures

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

During the year Group companies entered into the following transactions with related Hitachi companies who are not members of the Group:

29.1 Transactions with immediate parent undertakings

The Group entered into transactions with its immediate parent company, Hitachi Capital Corporation. The following tables show outstanding amounts and corresponding income and expenses recognised during the year.

	2020 £ m	2019 £ m
Payments for administration charges HCC	7.7	6.5

	2020 £ m	2019 £ m
Amounts owed to Hitachi Capital Corporation	3.8	3.6
Amounts owed by Hitachi Capital Corporation	0.3	0.3

29.2 Transactions with other related parties

The Group entered into transactions with Hitachi and Mitsubishi companies that have significant influence over it. The following tables show outstanding amounts and corresponding income and expenses recognised during the year.

Group

	2020 £ m	2019 £ m
Payments for administration charges to Hitachi companies	1.6	0.7
Interest paid to Mitsubishi companies	13.6	11.7
Interest received from Mitsubishi companies	0.3	-
Receipts for administration charges from Hitachi companies	0.1	0.5
Interest income from Hitachi companies	0.9	0.7
Lease income from Hitachi companies	1.1	0.5

29 Related Party Disclosures (continued)

	2020 £ m	2019 £ m
Amounts due to Hitachi companies	30.8	76.2
Amounts due to Mitsubishi companies in respect of borrowings	1,047.9	757.0
Accrued interest expense owed to Mitsubishi companies	1.6	1.1
Amounts due from Hitachi companies	2.5	2.4
Amounts due from Hitachi companies in respect of leases	-	0.5

Company

	2020 £ m	2019 £ m
Payments for administration charges to Hitachi companies	1.6	0.7
Interest paid to Mitsubishi companies	13.6	11.7
Interest received from Mitsubishi companies	0.3	-
Receipts for administration charges from Hitachi companies	0.1	0.5
Interest income from Hitachi companies	0.9	0.7
Lease income from Hitachi companies	0.2	0.5
Administration fees from Hitachi Capital Vendor Solutions B.V.	0.2	-

	2020 £ m	2019 £ m
Amounts due to Hitachi companies	30.8	76.2
Amounts due to Mitsubishi companies in respect of borrowings	1,047.9	757.0
Accrued interest expense owed to Mitsubishi companies	1.6	1.1
Amounts due from Hitachi companies	-	2.4
Amounts due from Hitachi companies in respect of leases	-	0.5
Amounts due from Hitachi Capital Vendor Solutions B.V.	34.5	-

Remuneration of Key Management Personnel

	31 March 2020 £m	31 March 2019 £m
Salaries and other short term employee benefits	3.9	3.3
Post-employment benefits	0.2	0.1
Other long-term benefits	2.3	1.0
	6.4	4.4

Key management personnel comprise Directors of the Group and members of the Executive Committee.

29 Related Party Disclosures (continued)

No Directors (2019: nil) were accruing retirement benefits in respect of qualifying services under a defined benefit scheme or a money purchase scheme.

The aggregate amount of remuneration paid to Directors was £1.7m (2019 £1.4m). The highest paid Director's remuneration in the year was £1.1m (2019 £1.0m).

30 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 accounting policies note 2.4(s).

Consumer Securitisation programme
In accordance with the terms and conditions, as at 31 March 2020 the Group (and the Company) had transferred £668.3m (2019: £658.7m) of its instalment finance agreements, with a fair value of £661.6m (2019: £652.7m) to The Royal Bank of Scotland plc, which acts as a trustee.

The Group continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as borrowings on the Group's statement of financial position - being a total of £500m (2019: £500m), with a fair value of £500m (2019: £500m) as at the reporting date.

SME Securitisation programme
In accordance with the terms and conditions, as at 31 March 2020 the Group (and the Company) had transferred £131.5m (2019: £131.5m) of its hire purchase and finance lease receivables, with a fair value of £131.0m (2019: £131.0m) to a SPV named "Fleetbank Funding Ltd", in which Citibank acts as a trustee, agent and cash manager.

The Group continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as borrowings on the Group's statement of financial position - being a total of £100.0m (2019: £100.0m), with a fair value of £100.0m (2019: £100.0m) as at the reporting date.

31 Transferred financial assets that are derecognised by the Group

The Group operates two Securitisation programmes whereby tranches of instalment finance receivables are sold to special purpose entities, Securitisation Of Consumer Agreements (SOCA) and Securitisation Of Unsecured Loans DAC (SOUL DAC). The transactions have resulted in full derecognition of the financial assets from the Group's statement of Financial Position on the basis that the Group has transferred sufficient risks and rewards and had surrendered control over the transferred assets.

Securitisation Of Consumer Agreements (SOCA)
As at 31 March 2020, the Group (and the Company) had transferred £401.0m (2019: £136.1m) of its instalment finance agreements to SOCA. Following the transfer, the Group continues to act as a servicer of the transferred assets, with a servicing fee of 0.8% (2019: 0.8%) of outstanding capital balance paid on a monthly basis. The Group has also provided a subordinated debt with a carrying amount and fair value of £44.1m (2019: £26.1m).

31 Transferred financial assets that are derecognised by the Group (continued)

Securitisation Of Unsecured Loans DAC (SOULDAC)
As at 31 March 2020, the Group (and the Company) had transferred £75.2m (2019: £145.3m) of its instalment finance agreements to SOULDAC. Following the transfer, the Group continues to act as a servicer of the transferred assets, with a servicing fee of 0.9% (2019: 1.5%) of outstanding capital balance paid on a monthly basis. The Group has also provided subordinated debt with a carrying amount of £nil (2019: £24.8m).

During the year, the Group re-financed the SOULDAC securitisation programme which resulted in redemption of the mezzanine notes, measured at amortised cost, amounting to £15.7m. As part of the transaction, the Group acquired a 50% share in junior notes, measured at fair value through profit or loss account (FTVPL), valued at £9.9m at the balance sheet date. The Group continued to act as a servicer of the transferred assets and continued to derecognise the assets from its statement of financial position.

The following tables summarise the Group's statement of financial position under SOCA and SOULDAC securitisation programmes.

Other financial instruments measured at amortised cost

	2020 £ m	2019 £ m
Mezzanine notes held in SOCA	44.1	14.9
Mezzanine notes held in SOULDAC	-	24.8
Total	44.1	39.7

Financial instruments measured at fair value through profit or loss

	2020 £ m	2019 £ m
Junior notes held in SOCA	35.2	11.2
Junior notes held in SOULDAC	9.9	-
Total	45.1	11.2

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

	2020 £ m	2019 £ m
Interest income	6.5	4.0
Other income	4.2	4.4
Total	10.7	8.4

32 Financial risk management objectives and policies

Credit risk and impairment

The Group's principal financial assets are cash and bank balances, loans and receivables, trade and other receivables, and derivative financial instruments.

The Group's credit risk is primarily attributable to its loans and receivables. The amounts presented in the statement of financial position are net of allowances for impairment losses. The gross amounts of loans and receivables represent the Group's maximum exposure to credit risk and are set out in note 14. 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 19.

The Group has guaranteed £3.8m (2019: £4.8m) of lease payments due from businesses in France, Italy, Poland, Portugal, Spain, Switzerland and Turkey to third party lessors and receives a fee for these services.

The Group has a Credit Risk Committee ("CRC") that provides a key element of oversight to the credit approval and portfolio risk management functions within the Group's business units. The CRC maintains the Group's risk appetite and oversees the adherence of individual business units to their respective risk appetite policies.

Credit risk is managed to minimise losses, maximise recoveries and prevent fraud. Credit policy requires consideration to be given to the financial and credit status of the customer, dealer, supplier and/or vendor (including retailers and brokers), the quality of any collateral taken or of the asset being financed and the terms and conditions which are applied to the financing.

Procedures are maintained that stipulate such factors as maximum loan amounts and funding periods, requirements for down payments or deposits, deferral periods and authorisation limits. Customer scorecards are extensively used throughout the retail and small-ticket commercial businesses. Detailed credit files are maintained for larger commercial transactions and significant relationships. Material changes to credit risk appetite, and significant facility limits and extensions of credit typically require director or senior executive approval. The Group's credit risk exposures are spread over a large number of counterparties and customers.

Where the exposure to any one counterparty exceeds certain levels, annual reviews are performed to ensure that the credit quality has not deteriorated.

Credit risk arising from balances held with banks and financial institutions is managed by Group Treasury in accordance with the Group's counterparty risk management policy outlined below. Investments of surplus funds are made only with approved counterparties.

The credit risk exposure from any cash deposits and derivative financial instruments is constantly 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 'A-' (and a short term rating of 'A-1'). Swap counterparty creditworthiness is also monitored on a regular basis using any other available indicators such as standard 5 year credit default swap prices.

32 Financial risk management objectives and policies (continued)

The Group has exposure to a limited number of banking counterparties through depositing cash in time deposits. Cash balances and deposits by the Group are generally maintained at nil or insignificant levels. When the Group has cash to deposit, these deposits are split between three to four different UK regulated banks with a minimum credit rating of 'BBB+'.

The Group does not have any financial liabilities designated at fair value through profit or loss, and therefore there has been no revaluation of financial liabilities for own credit risk. This includes financial liabilities in hedge relationships as the Group does not hedge credit risk. The changes in the fair value of financial liabilities recognised in the income statement are principally due to changes in market foreign exchange rates and interest rates for those instruments in designated hedge relationships.

Measurement of Expected Credit Losses (ECL)

The Group recognises ECL provision in accordance with IFRS 9 Financial instruments, as set out in the Group accounting policies outlined in note 2.4(m).

Outlined below are the key judgements and estimates made by management as part of the methodology surrounding measurement of ECL.

Significant increase in credit risk (SICR)
A significant increase in credit risk is not a defined term, it is determined by criteria set by management based on past experience and judgement. In order to assess whether a financial asset has significantly increased in credit risk since origination, the Group has developed a set of quantitative staging criteria which take into account forward looking macro-economic factors as well as using the back stop (30 days past due) specified in IFRS 9. These are set out below:

• Credit risk of the customer, as measured by external credit score, since origination has deteriorated to a level where their application would no longer be within the Group's credit risk appetite OR
• Expected 12 month loss rate has deteriorated threefold since origination AND it is greater than specified loss rate threshold agreed by management OR
• The customer has receivables which are more than 30 days past due.

Loss rate %
The loss rate is a key component of the calculation of ECL and transition from stage 1 to stage 2. ECL incorporates likelihood of default occurring (i.e., Probability of Default) as well as the expected amount of the resulting loss (Loss Given Default) taking into account expected recoveries over the 12 month or lifetime basis. The loss rate is expressed as a % and it represents the amount written off as a proportion of exposure at default (EAD) over a given period of time.

The loss rates are projected for each future month on a portfolio basis whereby financial assets are grouped by those with similar credit risk characteristics and are expected to behave in uniform ways. This process enables ECL calculation for each financial asset and a total undiscounted ECL for the group.

For instalment finance receivables, a macro-economic factor is then applied to the undiscounted ECL in order to calculate total undiscounted ECL. The macro-economic factor takes into account the forward-looking macro-economic scenarios detailed below. The undiscounted ECL is then discounted to the present value at 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.

32 Financial risk management objectives and policies (continued)

For lease and other loan receivables (including financial guarantee contracts), as detailed below, a macro-economic factor cannot be determined due to low levels of historical default data and therefore no overlay has been applied to the undiscounted ECL. Furthermore, impact of discounting ECL for these receivables is not significant to the overall group ECL provision and therefore discounting has not been performed.

Probability of Default (PD) is an estimate of the likelihood of default occurring over a 12 month or lifetime of the financial asset. Management have used historical data, assumptions of future conditions to model PD over a period of time.

Loss Given Default (LGD) represents the difference between contractual cash flows and the actual cash flows expected to be recovered taking into account estimated value of the collateral and any other cash recoveries (eg. through debt sale arrangements) after deducting any associated recovery costs.

Exposure at default (EAD)
EAD is the principal balance outstanding at the point at which the customer goes into default.

Definition of default
Default definition is used to determine actual loss rates and transition of financial assets to stage 3 (i.e., credit impaired). The Group define a financial asset to be in default if it meets one or more of the criteria set out below:

• Arrears greater than 90 days
• Insolvency or bankruptcy
• Receivables subject to special collections strategy

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.

Macro-economic scenarios
Use of unbiased probability weighted macro-economic scenarios in determining ECL is a key requirement of IFRS 9. The Group does not have an in-house economic function and therefore it has engaged with a third party to develop a model to perform a statistical analysis on how the changes in a set of macro-economic variables have impacted historical loss rates over a period of time.

For the Group's business finance portfolio, consisting of lease and other loan receivables, due to low levels of defaults over a long period of time it has not been possible to conclude any material correlation between macro-economic scenarios and historical loss rates.

For the Group's consumer finance portfolio, the macro-economic variables with the most significant impact to historical loss rates have been found to be debt to income ratio and unemployment rate. For these variables, the third party has provided coefficients which represent the extent to which the ECL is likely to be impacted based upon probability weighted scenarios covering at least three possible outcomes (base, upside and downside).

32 Financial risk management objectives and policies (continued)

The COVID-19 pandemic has introduced an unprecedented economic uncertainty. Due to the evolving estimates of the severity and duration of the economic impact, the Group engaged with the third party to run specific COVID-19 scenarios (base, upside and downside). The scenarios took into account a number of factors, including:

- How long it takes to bring the virus under control
- How successful government measures are to mitigate economic impact on households and businesses
- Timing and speed of the recovery.
- Level of output which can be recovered or lost forever.
- Global impact on trade, supply chain, financial markets and credit conditions

Base case (45%)
Longer containment period with numbers of infections taking longer to drop and government containment measures do not fully unwind until end of September 2020. Ongoing partial containment leads to very gradual recovery in September 2020, with a stronger rebound postponed until December 2020. The impact of government mitigation policies has a fair amount of success, but due to the longer containment period, there are more job losses and business insolvencies resulting in 80% of output being recovered.

Upside (20%)
Severe but successful containment of the virus with the number of infections reducing rapidly by the end of June 2020, leading to a swift rebound in investor, business and consumer confidence. The mitigation efforts by the government preventing large scale job losses and business insolvencies, which enables financial markets and Sterling recovering quickly. This, in turn, would lead to business activities and investments recovering relatively swiftly resulting in 90% of output being recovered.

Downside (35%)
Containment takes longer and measures don't fully unwind until the end of June 2021. Economic activity remains weak through this period. Confidence hit deeper and longer, leading to more pronounced losses in consumer spending and business investment. Government mitigation efforts are less successful leading to much greater increase in unemployment and business insolvencies. Slow and extended period of recession before recovery can begin and business activities return to pre-shock base. This would result in much greater damage to the economy with only 60% of output being recovered.

The Group's ECL provision reflects three COVID-19 economic scenarios together with the associated probability weightings applied to each scenario, as set out above. As at 31 March 2020, the Group applied greater weighting to its downside scenario and lower weighting to its upside scenario compared to last year.

In adopting this approach, the Group has reviewed the statements and guidance issued by the PRA, FCA, IASB and other regulators released towards the end of March 2020 to help guide banks and the financial services industry in assessing the impact of COVID-19 on IFRS 9 ECL requirements.

In addition, the approach reflects the significant mitigating measures that have been introduced by the UK and Scottish Governments and the Group, along with the wider industry, to support individuals and businesses, which have also been considered in estimating the Group's ECLs.

The overall impact of COVID-19 over the longer term is subject to a great deal of uncertainty. In the period since social distancing lockdown measures were introduced in the UK there has been a substantial impact on businesses and individuals.

The Group's ECL provision on its consumer finance portfolio increased by £3.0m due to the impact of COVID-19 scenarios.

32 Financial risk management objectives and policies (continued)

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 simple forward-looking two-year averages for the key model inputs used in the ECL calculations are as follows:

31 March 2020

	UK unemployment rate	Debt to income ratio	Weighting
Upside	4.26%	1.196	20%
Base case	4.73%	1.202	45%
Downside	5.54%	1.217	35%

1 April 2019

	UK unemployment rate	Debt to income ratio	Weighting
Upside	4.10%	1.181	30%
Base case	4.14%	1.192	40%
Downside	4.21%	1.212	30%

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 estimates of probability of default but also on management judgement.

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' leases and loans include agreements that are performing as agreed and are not past due, but where regular re-scoring or other review of the obligor has detected an apparent increase in the risk of default when compared to the basis on which the extension of credit was originally underwritten, resulting in an impairment provision to be applied. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 13.

32 Financial risk management objectives and policies (continued)

A three stage categorisation is used for assessing impairment under IFRS 9, as outlined in the table 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.
Stage 3	Lifetime	Receivables are credit-impaired (i.e., in default or subject to special collections strategy) or more than 90 days past due.

For trade and lease receivables, the Group measures ECL based on the simplified approach, as set out in its accounting policy in 2.4(n).

The following table sets out gross receivables and ECL provision under the simplified approach.

Gross loans and advances to customers - Simplified approach

	2020 £m	2019 £m
Very low risk	562.2	565.2
Low risk	287.3	265.9
Moderate risk	559.4	459.0
High risk	106.0	94.6
Ungraded	131.3	177.2
Individually impaired	2.0	1.6
Gross carrying amount	1,648.2	1,563.5
Trade receivables	56.2	41.6
Gross Exposure	1,704.4	1,605.1

32 Financial risk management objectives and policies (continued)

The following table sets out the Group's instalment finance receivables by credit risk category (general approach):

	Stage 1 £m	Stage 2 £m	Stage 3 £m	2020 £m	2019 £m
Very low risk	1,990.4	9.2	2.0	2,001.6	1,946.4
Low risk	844.8	11.5	4.1	860.4	824.7
Moderate risk	216.2	11.3	7.0	234.5	248.6
High risk	79.7	84.3	16.6	180.6	184.2
Individually impaired	0.1	6.3	40.4	46.8	27.2
Gross carrying amount	3,131.2	122.6	70.1	3,323.9	3,231.1

The following table sets out the reconciliation of movements in instalment finance receivables and related ECL provision (general approach):

Gross loans and advances to customers

	Stage 1 £m	Stage 2 £m	Stage 3 £m	2020 £m
Balance at 1 April 2019	3,083.8	107.3	40.0	3,231.1
Stage transfers	(51.0)	26.8	24.2	-
New business	2,415.9	-	-	2,415.9
Receivables repaid or written-off	(2,317.5)	(11.5)	5.9	(2,323.1)
Balance at 31 March 2020	3,131.2	122.6	70.1	3,323.9

ECL Allowance

	Stage 1 £m	Stage 2 £m	Stage 3 £m	2020 £m
Balance at 1 April 2019	10.5	12.1	8.8	31.4
Stage transfers	(0.9)	(10.0)	10.9	-
New business	7.9	-	-	7.9
Receivables repaid or written-off	(2.7)	8.7	(5.3)	0.7
Balance at 31 March 2020	14.8	10.8	14.4	40.0

32 Financial risk management objectives and policies (continued)

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

General approach

As at 31 March 2020	Stage 1	Stage 2	Stage 3	Total
Gross Exposure (£m)	3,131.2	122.6	70.1	3,323.9
ECL allowance (£m)	14.8	10.8	14.4	40.0
Coverage ratio	0.5%	8.8%	20.6%	1.2%

As at 31 March 2019	Stage 1	Stage 2	Stage 3	Total
Gross Exposure (£m)	3,083.8	107.3	40.0	3,231.1
ECL allowance (£m)	10.5	12.1	8.8	31.4
Coverage ratio	0.3%	11.3%	22.0%	1.0%

Simplified approach

	31 March 2020	31 March 2019
Gross Exposure (£m)	1,704.6	1,605.1
ECL Allowance (£m)	8.9	8.1
Coverage ratio	0.5%	0.5%

32 Financial risk management objectives and policies (continued)

Collateral

The Group maintains policies setting out acceptable collateral and other criteria to be considered when reviewing a loan application. The decision as to whether or not 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 income 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) 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 2.4(k). At the year end 31 March 2020 deferred cash flows amounted to £74.6m (2019: £68.2m), against related gross loans and receivables of £2,319.6m (2019: £2,263.4m). There was no such deferred cash collateral held against gross loans and receivables amounting to £997.3m (2019: £967.6m). The total impairment by stage on total gross loans and advances is shown in the table above.

(b) 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 £16.4m (2019: £15.4m), 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 car and commercial vehicles leased to the customers under the contracts.

32 Financial risk management objectives and policies (continued)

(c) 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 for 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, £82.6m (2019: £97.4m) 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 £1,264.5m (2019: £1,314.2m), £2.6m was individually impaired (2019: £1.9m).

(d) Invoice Finance

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 £76.0m (2019: £71.9m) are primarily collateralised by trade receivables purchased from factoring clients which had a gross value of £154.8m (2019: £138.7m), 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.

Liquidity Risk and Funding Management

Liquidity risk is managed by the Treasury Committee and reviewed regularly. The Group's objective is to maintain a balance between continuity of funding, flexibility and cost through the use of borrowings with a range of maturities. The term of each borrowing is determined by considering the market conditions of each of the Group's debt instruments, funding cost and correlation with the Group's receivables. Included under funding sources below, is a list of undrawn facilities that the Group has at its disposal. In addition, the Group has uncommitted money market and overdraft facilities to provide short term financing.

The table below summarises the gross contractual maturity profile of the Group's financial liabilities. All derivatives used for hedging purposes are shown by maturity, based on their contractual undiscounted repayment obligations.

32 Financial risk management objectives and policies (continued)

	<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 2020								
Non derivative financial liabilities:								
Foreign currency denominated borrowings	(1,380.4)	(792.8)	(476.2)	(44.3)	(5.5)	(5.5)	(211.2)	(2,915.9)
Sterling borrowings	(585.8)	(679.2)	(153.1)	(403.9)	(100.6)	(10.1)	-	(1,932.7)
Securitisation	(355.8)	(173.3)	(62.2)	(16.4)	(3.2)	(0.6)	(0.1)	(611.6)
Lease liabilities	(1.9)	(1.9)	(1.9)	(1.9)	(1.9)	(1.9)	(3.6)	(15.0)
Trade payables	(236.8)	-	-	-	-	-	-	(236.8)
Financial Guarantees	(3.8)	-	-	-	-	-	-	(3.8)
	(2,564.5)	(1,647.2)	(693.4)	(466.5)	(111.2)	(18.1)	(214.9)	(5,715.8)
Derivative financial liabilities:								
Foreign currency receipts relating to cross currency swaps	(1,024.8)	(792.8)	(476.2)	(44.3)	(5.5)	(5.5)	(211.2)	(2,560.3)
Sterling payment relating to interest rate swaps	20.5	12.9	6.5	2.0	0.3	0.2	0.3	42.7
Sterling receipts relating to interest rate swaps	(12.5)	(7.5)	(5.5)	(1.5)	(0.2)	(0.1)	(0.2)	(27.5)
Sterling payments relating to cross currency swaps	982.7	765.0	458.0	42.3	3.1	3.2	206.5	2,460.8
	(34.1)	(22.4)	(17.2)	(1.5)	(2.3)	(2.2)	(4.6)	(84.3)
At 31 March 2019								
Non derivative financial liabilities:								
Foreign currency denominated borrowings	(1,146.1)	(880.3)	(404.2)	(118.7)	(32.3)	(4.9)	(187.6)	(2,774.1)
Sterling borrowings	(377.0)	(382.7)	(576.9)	(95.5)	(252.0)	(0.3)	(10.1)	(1,694.5)
Securitisation	(347.2)	(177.4)	(69.0)	(16.6)	(3.3)	(0.5)	(0.1)	(614.1)
Lease liabilities	(1.5)	(1.9)	(2.0)	(1.9)	(1.9)	(1.9)	(5.5)	(16.6)
Trade payables	(228.2)	-	-	-	-	-	-	(228.2)
Financial Guarantees	(4.8)	-	-	-	-	-	-	(4.8)
	(2,104.8)	(1,442.3)	(1,052.1)	(232.7)	(289.5)	(7.6)	(203.3)	(5,332.3)

32 Financial risk management objectives and policies (continued)

	<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
Derivative financial liabilities:								
Foreign currency receipts relating to cross currency swaps	(824.3)	(880.3)	(404.2)	(118.7)	(32.3)	(4.9)	(187.6)	(2,452.3)
Sterling payment relating to interest rate swaps	20.4	16.5	9.9	4.9	1.6	0.2	0.4	53.9
Sterling receipts relating to interest rate swaps	(17.5)	(13.8)	(8.7)	(4.4)	(1.4)	(0.1)	(0.4)	(46.3)
Sterling payments relating to cross currency swaps	832.3	873.3	392.2	116.5	31.4	3.8	188.3	2,437.8
	10.9	(4.3)	(10.8)	(1.7)	(0.7)	(1.0)	0.7	(6.9)

The Group has a central treasury function which provides finance for the Group's operations and manages treasury risks in accordance with policies approved by the Board and Treasury Committee. The Treasury Committee consists of the CEO, the Finance Director and the Group Treasurer. The major risks to the Group are liquidity, movement in foreign exchange rates, interest rate movements and counterparty credit risk.

The Group's principal sources of funding are European medium term notes, a securitisation programme, two commercial paper programmes, uncommitted bank facilities and a certain amount of borrowings from the Hitachi Limited and Mitsubishi Group of companies. Rate risks on these funding sources are managed using derivative financial instruments.

The Group accesses a variety of markets to raise finance and issues both fixed and floating rate debt in a number of different currencies. All foreign currency borrowings are swapped into Sterling upon issuance to either floating interest rate linked to sterling LIBOR or at a fixed rate in sterling. The exception being, foreign currency borrowings used to fund foreign currency assets.

All interest bearing borrowings are subject to risk management in accordance with the Group's risk management policies on interest rate risk management. As a result, a certain proportion of the floating rate borrowings will be fixed by entering into Sterling interest rate swaps.

Funding Sources

The Group has a number of funding options and regularly reviews alternative sources of financing. In selecting the most appropriate source of funding at any point in time, factors such as market conditions, interest rate levels, liquidity and the profile of the assets being funded are considered.

The Group's core funding programmes and facilities are as follows:

32 Financial risk management objectives and policies (continued)

The European medium term note programme and both commercial paper programmes are supported by a guarantee from Hitachi Capital Corporation and consequently are rated 'A-/A2' by Standard & Poor's.

The uncommitted facilities from relationship banks consist of unsecured short term money market and overdraft facilities. Drawings under these facilities are generally for periods of between one day and three months.

	Amount drawn 2020 £ m	Capacity available 2020 %	Amount drawn 2019 £ m	Capacity available 2019 %
European medium term note programme	2,770.4	38.0	2,694.9	36.0
European commercial paper programme	331.3	45.0	120.4	69.0
Belgian domestic commercial paper programme	-	-	162.8	25.0
Committed securitisation programme	599.3	-	599.6	-
Uncommitted Short Term facilities from relationship bank	24.3	96.0	41.5	90.0
Uncommitted Long Term facilities from relationship bank	1,623.0	31.0	1,292.1	27.0
Total Borrowings	5,348.3	-	4,911.3	-

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Financial instruments affected by market price risk include loans and receivables, interest bearing borrowings and derivative financial instruments.

The Group's particular activities expose it to the risk of changes in foreign currency exchange rates and sterling interest rates.

Interest rate risk

Most of the Group's assets are at a fixed rate of interest so there is a risk of financial loss if the actual funding cost for these assets rises above the rate at which they were priced when originated. This risk is managed by the use of interest rate derivative financial instruments, specifically interest rate swaps. Interest rate exposure is managed by duration, matching the fixed rate receivables and operating lease portfolio against the combination of fixed rate debt and the interest rate derivatives portfolio.

Borrowings arranged at fixed interest rates expose the Group to fair value interest rate risk and those arranged at floating rates have cash flow interest rate risk.

The Group's policy is to hedge its exposure to variations in sterling interest rates. The degree to which borrowings are rate fixed, as compared to the size of the Group's underlying fixed rate assets, is expressed as a target ratio (calculated using interest rate sensitivity analysis on the assets and liabilities) which is set by the Treasury Committee and reported to the Board on a monthly basis and is generally within a range of between 50% and 120%. The maturity profile of fixed borrowings versus assets is reviewed at least monthly to monitor compliance to the set policy target.

32 Financial risk management objectives and policies (continued)

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 16.

The Group policy is to eliminate all foreign currency risk on borrowings by entering into cross currency swaps which convert non-sterling obligations under the debt issuance into sterling obligations. Currency debt raised under the medium term note and commercial paper programmes is 100% hedged at the time of drawdown unless foreign currency proceeds are required to fund foreign currency denominated assets. Currency rate risk will therefore only arise in the unlikely event of a swap counterparty defaulting on its non-sterling obligations. As at 31 March 2020 and 31 March 2019, all currency exposures on non-sterling debt were 100% hedged. This risk is also monitored monthly.

Market Risk Mitigation

The Group enters into a variety of derivative financial instruments to manage its exposure to these risks, including;
• Interest rate swaps to mitigate the risk of rising interest rates, and
• Cross currency swaps and short term FX swaps to mitigate the exchange rate risk arising on issuance of debt in foreign currency.

Interest Rate Swap Contracts
Under interest rate swap (IRS) contracts, the Group agrees to pay or receive the difference between variable and fixed interest rates calculated on an agreed notional principal amount. Such contracts allow the Group to mitigate the risk of changing interest rates on the cash flows of issued variable rate debt held and to a lesser extent the fair value of fixed rate debt held. The fair value of IRSs at the year-end have been determined by discounting the future cash flows for each contract using the yield curve as at the end of the year and the credit risk inherent in the contract.

Interest swaps settle on a monthly, quarterly or semi-annual basis and use LIBOR reference rates on the floating side of the swap. The Group settles on the difference between the fixed and floating interest rate on a net basis and, therefore, the Group recognises net derivative assets and liabilities based on overall exposure to individual counterparties.

Floating to fixed IRSs, where the Group pay fixed and receive floating interest, are designated for accounting purposes as cash flow hedges in order 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.

32 Financial risk management objectives and policies (continued)

Interest Rate Sensitivity
The sensitivity analysis below has been determined based on the exposure to interest rates as at the reporting date and the stipulated change taking place at the end of the current financial year and persisting for the coming financial year. A 100 basis points change is used when reporting interest rate risk internally to key management personnel and represents management's assessment of a reasonably possible change in interest rates.

At the reporting date, if interest rates had been 100 basis points higher and all other variables were held constant:
• Net profit would be debited by £10.5m (2019: debited by £11.4m). This is mainly attributable to the Group's exposure to interest rates on variable rate borrowings.
• Other equity reserves would be credited by £40.1m (2019: credited by £36.8m) mainly as a result of the change in mark to market valuation of interest rate swaps in designated hedging relationships.

The evaluation of a decrease of 100bp in Sterling interest rates is uncertain as this currently would imply a negative 3 month GBP Libor rate which may or may not be reflected in the remainder of the Sterling interest rate yield curve. However, a 10bp decrease in interest rate, reflected evenly across the yield curve, would result in Net profit being credited by £1.0m (2019: credited by £1.1m) and other equity reserves debited by £4.0m (2019: debited by £3.7m) 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 15.

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, as a result 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.

32 Financial risk management objectives and policies (continued)

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 16, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in note 23 and the statement of changes in equity on page 73. The Board of Directors reviews the capital structure on a semi-annual basis. As a part of this review the Board considers the cost of capital and risks associated with each source of funds. The Group will balance its overall capital structure through the payment of dividends to or capital injection from the parent company.

33 Contingent liability

The Company is currently preparing its responses to a small number of investigator preliminary views issued by the Financial Ombudsman Service in relation to complaints made in connection with a particular retailer which introduces its customers to the Company. If the investigators cannot resolve the complaints, it is likely that they will be referred to an Ombudsman. The Directors consider that there is only a possible obligation arising and the information usually required by IAS 37 is not disclosed on the grounds that it may seriously prejudice the position of the Company in any relating dispute with other parties.

34 Non adjusting events after the financial period

The COVID-19 outbreak has been labelled as a global pandemic and there is still plenty of uncertainty around its long term impact on the global economy. The Group's immediate focus has been to support the well-being of its customers, colleagues and wider communities at this very challenging time. Other than the events already recognised or disclosed in this Annual Report, the Group does not have any other material changes or additional disclosures to its financial statements as at 31 March 2020. The Group's significant judgements, estimates and assumptions can be found in Accounting policies, note 2.5.