Registration number: 1630491

Hitachi Capital (UK) PLC

Annual Report and Consolidated Financial Statements

for the Year Ended 31 March 2021

Hitachi Capital (UK) PLC

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Hitachi Capital (UK) PLC

Company Information

In September 2020, Hitachi Capital Corporation, the Group's ultimate parent, announced that it would be merging with Mitsubishi UFJ Lease and Finance Company Ltd. The merger was completed as planned and a newly merged entity, Mitsubishi HC Capital Inc. was formed, effective from 1 April 2021.

Mitsubishi HC Capital Inc., 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 Mitsubishi HC Capital Inc (formerly Hitachi Capital Corporation) can be obtained from its registered office: 5-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo, 100-6525, Japan.

Chairman	G. Munnoch
Chief executive Officer	R. Gordon
Directors	H. Fukuro A. Hughes A. Whitaker
Company secretary	J.N.M. Sims
Registered office	Hitachi Capital House Thorpe Road Staines-upon-Thames Surrey TW18 3HP
Auditors	Ernst & Young LLP 2 St. Peter's Square Manchester M2 3EY

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

Registered offices

Hitachi Capital (UK) PLC
Hitachi Capital House, Thorpe Road, Staines-upon-Thames, Surrey, TW18 3HP
Hitachi Capital Vehicle Solutions Ltd ("Vehicle Solutions")
Kiln House, Kiln Road, Newbury, Berkshire, RG14 2NU, Tel: 0344 463 2900
Hitachi Capital European Vendor Solutions B.V.
The Netherlands - WTC Amsterdam H Toren 4de verdieping, Zuidplein 36, 1077 XV Amsterdam, Tel.: 0031 (0)207 997 601
Gridserve Holdings Ltd
Thorney Weir House, Thorney Mill Lane, Iver, SL0 9AQ

Hitachi Capital (UK) PLC

Company Information (continued)

Business addresses (where different from above)
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
Hakuba House, White Horse Business Park, Trowbridge, Wiltshire, BA14 0FL, Tel: 01225 777 710
European Vendor Solutions (UK business)
UK - Hitachi Capital House, Thorpe Road, Staines-upon-Thames, TW18 3HP, Tel: 01784 227 322

Hitachi Capital (UK) PLC

Overview

Beginning on page 5, the Directors present their strategic report for Hitachi Capital (UK) PLC ("the Company"), its subsidiaries and affiliates (together, "the Group") for the year ended 31 March 2021. The Group financial statements, starting on page 77, 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 a UK based non-bank financial services company, authorised and regulated by the Financial Conduct Authority (FCA). We have over 1,500 employees, £5.9bn of Net Earning Assets (Net Earning Assets ("NEA") represent the loans, receivables, finance, and operating lease contracts with customers net of initial direct costs) and over 1.3 million customers across five business divisions; Consumer Finance, Vehicle Solutions, Business Finance, Invoice Finance and European Vendor Solutions providing innovative finance solutions to enable consumers and businesses to grow and prosper.

For nearly 40 years, Hitachi Capital (UK) PLC has led the way in providing finance to enable of consumers and businesses to achieve their ambitions. We work with consumers and small to medium enterprises (SMEs) as well as corporate multinationals in the UK and mainland Europe.

From 1 April 2021 we became a wholly owned subsidiary of Mitsubishi HC Capital Inc. This followed the merger of Hitachi Capital Corporation (our previous parent company) with Mitsubishi UFJ Lease and Finance (MUL), strengthening our relationship with one of the world's largest and most diversified financial groups.

Our vision, mission and values
Our vision remains consistent, 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 "Harmony", "Sincerity" and "Pioneering Spirit" reflect our culture and the way we do business. Working in partnership with our customers and each other to constantly look to add value, improve what we do and deliver on our promises.

Consumer Finance
Hitachi Capital Consumer Finance provides retail point of sale finance, lending over £1.1 billion during the year through more than 3,200 high street and online retail partners. Over the past 12 months, as our retail business responded to demand for digital point of sale products, we increased our volume of lending via e-commerce channels by nearly 90%. Our personal loans business, Hitachi Personal Finance is one of the top 10 providers of personal loans in the UK, serving over 1.3 million UK customers. Despite suppressed consumer lending during the financial year, we achieved £648m in new business and gained market share. Hitachi Capital Consumer Finance processed unprecedented volumes of rescheduling requests caused by COVID-19 and maintained a strong brand reputation for providing outstanding customer experiences, outperforming industry benchmarks. Hitachi Capital Consumer Finance continued investing in a digital servicing transformation, improving efficiencies across the business.

Vehicle Solutions
Hitachi Capital Vehicle Solutions is one of the UK's leading vehicle finance companies, operating over 95,000 assets, from cars, vans and HGVs to plant and machinery. By increasing its overall fleet by 17% during the year ended 31 March 2021 despite a 29% decline in new car registrations during 2020/21, the business has demonstrated strong growth in a challenging market and consolidated its standing as one of the UK's largest vehicle leasing companies, recording the largest percentage growth of the Fleet News FN50 top 10 providers. Our decarbonisation strategy in partnership with Hitachi Europe is delivering cost and environmental efficiencies for fleets of all complexities as they transition to electric vehicles. Hitachi Capital Vehicle Solutions is supporting many of the UK's largest operators transition from traditional fleets to a greener fleet mix, securing some of the most sought-after contracts to go to tender over the past 12 months including DEFRA (Department for Environment, Food & Rural Affairs) to manage their fleet of 4,500 cars. Hitachi Capital Vehicle Solutions has kept mission critical fleet operators mobile during the pandemic to ensure they could continue to serve their customers.

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 £1.4 billion. Across a wide range of industries, Hitachi Capital Business Finance provides financial solutions for businesses through brokers, distributors and manufacturers as well as directly. Our products include hire purchase, finance lease solutions, stocking and block discounting. Hitachi Capital Business Finance outperformed the sector to achieve new business volume of £758m, 6% up on last year's £714m despite a 23% contraction in the overall market. It was the first asset finance provider in the UK to be accredited to offer the British Business Bank's Coronavirus Business Interruption Loan Scheme (CBILS). In the year ended 31 March 2021, Hitachi Capital Business Finance paid out £138.3m of funding through the CBILS scheme and also launched CBILS Hire Purchase to support UK SMEs during the coronavirus pandemic.

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. Despite direct competition from the UK Government's Bounce Back Loan Scheme (BBLS) which suppressed new business lending volumes across the invoice finance industry, Hitachi Capital Invoice Finance achieved record new business volumes in the fourth quarter as the business diversified to provide funding for larger corporate customers. Hitachi Capital Invoice Finance is primed for growth when the UK economy emerges from the COVID-19 pandemic, capitalising on strong lead generation and conversion opportunities.

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 throughout the product lifecycle, including stocking, demonstration equipment, end user and second hand equipment finance. In the year ended 31 March 2021, Hitachi Capital European Vendor Solutions' profit before tax grew by 8% from £2.6m to £2.8m as the business increased cross-border lending, including within two new territories - Czech Republic and Lithuania. The business is now active in 22 countries and has expanded its presence beyond London, Amsterdam and Dublin with new operations in Finland and Belgium. In response to COVID-19, the business provided over £39m of Government backed funding via CBILS in the UK to support the business recovery of existing customers. By continuing to increase cross-border lending transactions in new European territories, Hitachi Capital European Vendor Solutions is leading the expansion of the Group internationally.

Hitachi Capital (UK) PLC

Group Strategic Report

Chairman's statement

Results

Navigating a clear path through 2020 for the Group in an environment of heightened uncertainty with the global pandemic, Brexit, lockdowns, unprecedented increase in regulation, merger of the parent company with Mitsubishi UFJ Lease and Finance Company Ltd and the untimely deaths of two inspirational leaders within the team has been a daunting task. Despite these challenges, the executive team has achieved extraordinary results. One year ago, it would have been hard to imagine the team would be so productive and land so many major projects and business wins without setting foot in the office or visiting customers - indeed, a unique period in our history.

It is the first time in twelve years that the Group has reported a decline in profit before tax, earning £104m in the year ended 31 March 2021. This represented a decrease of 20% over the prior year and a reduction in the compounded annual growth rate for the past ten years to 18.86% (2020 ten-year growth rate of 21.3%). The Group has, however, maintained the level of assets despite GDP declining 9.9% during the calendar year with an estimated 10.7% decrease in investment in the UK.

Operating a business in a global pandemic requires leadership, engagement, organisational dexterity, agile strategic planning and rapid implementation of technology. It was impressive how well the team acted together and I am delighted that the Group has not furloughed a single employee as it put the team and customers first to adapt to increased demand for communication and support.

Our contribution to society is more than financial performance. Social value creation has been focused in five key areas: corporate governance, customers, colleagues, communities and climate. Strategic objectives to tackle climate change through sustainable energy projects, early adoption of Electric Vehicles in major maintenance fleets in the UK and the financing of EV charging infrastructure were substantial projects and developments for the business in a year when there were immediate issues unfolding on a daily basis. To implement major projects in the midst of a crisis demonstrates true focus and commitment and provides further evidence that our strategy, corporate values and ESG initiatives align with the United Nations Sustainable Development Goals (SDGs).

Outlook

The business is well diversified across commercial and consumer sectors with relatively small exposures to sectors of the economy that have been unable to operate due to the lockdowns. We believe the demand for asset finance and retail point of sale finance will remain strong over the coming year and continue to accelerate as the restrictions are slowly lifted. 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 been achieved despite Brexit due to the detailed planning and careful protection of the relationships we have built through our subsidiary company in the Netherlands.

The merger with Mitsubishi UFJ Lease and Finance Company Ltd will yield significant opportunities as we will now be part of a larger group which does not have any other presence in asset or consumer finance in the UK. Continued growth of Hitachi Capital (UK) PLC is an important factor in the merger, and we are already being presented with opportunities to develop with other Mitsubishi companies.

Chairman's statement (continued)

Governance

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

Dividend

No Interim dividends were paid during the year (2020: £15.4m) as the Directors took the prudent action to suspend the dividend programme in June 2020 to preserve capital due to the sharp economic downturn in the UK economy. The Directors have, however, recommended a Final dividend amounting to £25m, 5.65p per share to be paid in June (2020: £nil) on the basis that the Group made a return on equity greater than 10% for the financial year; the gearing ratio post dividend would be 6.72 which is lower than the gearing ratio of the prior year (2020: 7.4); the Group did not directly receive any subsidies from the Government; and, importantly, the Bank of England forecasts a strong recovery of the economy in 2021.

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 Group for their contribution in what has proved to be a very difficult trading environment in which significant strategic objectives were executed with energy, flair and precision. The team has demonstrated outstanding leadership and commitment and their experience and success during the crisis will further build trust, forging deeper bonds which I know will strengthen Hitachi Capital in future years.

Guy Munnoch
Chairman of the Board
7 June 2021

Chief Executive Officer's review

2020 was an extraordinary year. It was an extreme test of our resilience. We commenced the financial year with a high level of uncertainty, in the grip of a global pandemic. The first lockdown in the United Kingdom resulted in a dramatic loss of freedom and significant change in our lifestyle as we faced the greatest public health crisis in the last one hundred years. Our ability to adapt to the environment quickly was crucial to cope with the high level of uncertainty and extreme negativity of predicted mortality and contraction of the economy. The threat of COVID-19 was a grim reality for the team as it struck swiftly in April 2020 with the sad loss of Kim Brien, our Chief Information Officer. Kim had successfully planned, led and implemented the migration to the home office environment in March 2020. The skilled execution of that project by Kim left a legacy for the Group as it gave us a strong platform to launch our recovery.

The volume of new business written in the month of April 2020 was 65% below the prior year. It was very apparent that our optimistic financial plans for growth in 2020 would not be achieved as the lockdown extended in the first half of the year. The financial plans we had prepared prior to the pandemic required revision as a guide to measure performance and inform the correct action in a crisis. As a team we went back to the very basics of managing a business, to create a vision of the Group emerging from the pandemic. That defined the strategic actions we would need to take to achieve that vision. The basic bedrocks of the business, being the mission, vision and values of the Group, sharply brought into focus a very basic plan to guide us through the year. To deliver our mission of "exceptional people providing outstanding customer experiences today", we needed a healthy, safe and engaged team. Our investment in people and systems were not paused, rather the pandemic accelerated the need for communication and digital enhancement with ever-increasing security. We continued delivering on major system enhancements and implementation. We did not participate in furlough programmes or lobbying for Government support. We continued with our apprentice, graduate, and recruitment programmes as the intensity of work and communications with our customers increased. Our financial key performance indicators were supplemented with 90-day plans measuring:

- Employee Safety and Retention
- Employee Engagement
- Customer Satisfaction
- Liquidity
- Improving Portfolio Quality
- Society's Expectations - Regulation, Reputation
- New Business Volume Recovery
- 90 day Profit Forecasts - building back to annual KPIs

Employee Safety and Retention:
We fortunately adapted quickly to operating our business from home offices due to the extensive investments we had made in previous years in communications, automated workflow and digital transformation of processes and interactions with our customers. In a crisis, decision making is focused. The Crisis Management Team, which consisted of all the senior executives in the Group, took action to solve issues quickly. Over 95% of the team were set up and working from home before the first lockdown commenced on 23 March 2020 due to exceptional tasks performed by the Business Continuity Team and Group IT. We did have a core team throughout the year to perform essential activities that could only be performed from our network of offices, which was compliant with the Government Coronavirus Guidelines. We were fortunate not to suffer any outbreaks or incidences in the offices and appreciate the efforts of the teams maintaining safety and the dedication of the office-based teams. Employee turnover from voluntary leavers fell to 6.3% (2020: 12.1%), which was in part due to reduced mobility in a recession but also a result of high employee engagement levels.

Employee Engagement:
To provide outstanding customer experiences it is essential to have an engaged team. Frequent informative internal communication with all staff from weekly CEO blogs, weekly managers briefings, all staff team meetings, to team social events and online yoga sessions for staff, were all essential to communicate our plans, thoughts, and successes during the year to maintain the culture and team spirit throughout this difficult period. Regular pulse surveys and our annual Insights survey revealed improvements across all measurable scores over the prior year. I was very pleased to note that positive responses to questions regarding communication with managers were consistently high throughout the period and this communication was highly valued by staff participating in the surveys.

Customer Satisfaction:
An engaged team generally provides outstanding customer experiences, which is reflected in our voice of the customer surveys across the business as well as in industry awards and significant gains in market share which occurred across all sectors, measured by the various trade associations for which we maintain active membership. The divisional highlight reports detail the various indexes used in each market sector. The tangible benefit is reflected in the volume of new business, which is included later in the report.

Liquidity:
The Group has a central Treasury function, which manages the Group's borrowings in accordance with agreed policies and procedures. Despite the events of the year we did not record a single default, nor utilise standby facilities or borrowing from our parent company. We did not seek or use Government supported facilities or restrict our business activities due to lack of funding. Debt was raised considering each Business Unit's funding requirements and portfolio maturity profile. We raised multi-currency fixed and floating rate debt in the major global markets. Derivatives were utilised to eliminate currency and mitigate interest rate risks. Analysis of borrowings and derivative financial instruments are summarised in notes to the financial statements. After reflecting the effect of currency risk hedging, gearing has improved to 6.5 times (2020: 7.4 times) and is well within the limit of 25 times equity set out in the Company's Articles of Association.

In March 2021, the Group successfully issued a $40m Green Bond for exclusively financing eligible projects under the Green Financing Framework, which has diversified our borrowing base. The level of support we received during the year from our investors, has been outstanding and we appreciate their support. With a strong equity base and access to global lines of credit, we believe we have sufficient capital to trade throughout the expected downturn in the economy.

Improving Portfolio Quality:
The Group's charge for bad debt impairment was £41.9m (2020: £30.9m) 0.71% of closing net earning assets (2020: 0.52%). Whilst the loss rate is still low, it represents an £11m increase over the previous year, primarily due to a £4.1m post model adjustment for customers who have taken a payment holiday, a £1.9m increase in impairment charge for assets in sectors that have experienced long closures during the lockdowns and an increase in loss rates during the recession. The IFRS 9 macro-economic overlay was reduced to £1.6m (2020: £5.0m) reflecting a positive economic outlook relative to last year following successful roll-out of the vaccination programme in the UK and the government being on track for gradual easing of restrictions from April 2021. Despite this optimistic outlook, the Group has set aside a further £4.1m post model adjustment to account for a potential increase in defaults, particularly for the customers who have had payment holidays, once the furlough scheme and other government measures expire. The combined impact of macro-economic overlay and post model adjustment was £5.7m (2020: £5.0m), 14% increase against prior year.

Chief Executive Officer's review (continued)

Overall, the quality of the portfolio has improved, as detailed in note 33, when compared to the previous year given that we ceased underwriting unsecured consumer car loans in March 2019 and continued to review and update credit underwriting, restricting higher risk categories of business during the downturn. The mix of the portfolio, when viewed on an asset secured and unsecured basis, has moved over the year from 40:60 to 50:50 which has contributed towards improving our credit quality as historical loss rates for secured commercial lending are lower than unsecured consumer debt. The provision for bad and doubtful accounts was increased by 14% during the year to £55.8m whilst our Net Earning Assets remained at a constant £5.9bn. The Group recognises expected credit losses in accordance with IFRS 9 and the key judgements and estimates are detailed in note 33. Given that there is still a significant level of uncertainty, we used a weighted average of three separate economic scenarios of which the base case does not expect GDP to return to its pre-2019 levels until March 2022. The relatively low charge for bad debts for the year reflects stability in the credit quality of our portfolios in a severe economic recession. In general, the outlook at 31 March 2021 is probably more favourable than 31 March 2020 given the vaccination programme and the favourable expectations of economic recovery in 2021.

Society's Expectations - Regulation, Reputation:
We continue to strengthen our compliance, monitoring and quality assurance functions, to ensure we have the appropriate level of governance and control arrangements in place to ensure we deliver fair outcomes to our customers. This is central to our mission and we recognise that this is a theme of continuous improvement. There was a significant amount of new guidance from the Financial Conduct Authority and regulatory compliance continued to be a focus throughout the period.

Payment holidays were provided during the year to support our customers across 64,801 agreements, with a balance outstanding of £795.3m (13.4% of the Net Earning Assets). Of these only 4,769 agreements, with a balance outstanding of £36.7m, were still on payment holiday as at 31 March 2021. The announcement of guidance to bring in payment holidays caused a 700% spike in call volumes for several months, significant modifications to systems to enable payment holidays resulting in a loss to the Group estimated to be more than £8.5m (The income impairment required at 31 March 2021 was £3.6m and the post model adjustment for ECL provision was £4.1m).

We did not participate in the Government's furlough schemes, principally as we expected to trade profitably in 2020 and the intensity of customer contact due to guidance such as payment holidays was generating significant work. We recruited 233 new permanent team members during the year.

Our Electric Vehicle strategy was incomplete without a sustainable energy programme and support for the Electric Vehicle charging network. During the year we funded £137m for Electric Vehicles and Ultra Low Emissions Vehicles and purchased a 19.63% interest in Gridserve Holdings Ltd ("Gridserve") to partner in the delivery of sustainable energy and EV charging solutions (note 4). In the year we made facilities available for sustainable energy projects and Electric Vehicle charging of £78.6m. This was an area of significant growth for the Group as we worked as a team across Business Units to develop business initiatives to tackle climate change.

New Business Volume Recovery Strategies:
New business in the first six months of the year recovered to 69% of the prior years' level as we adjusted to the pandemic conditions and accelerated our digital capabilities. By focusing upon customer service, we gained market share and, in the second six months of the year, new business volume was at 99.7% of the prior year, despite two further lockdowns. Consumer Finance retail point of sale, particularly for home improvements, achieved sales volumes consistent with the prior year despite the recession as lockdown conditions and homeworking created a surge in demand. Our vehicle leasing division experienced strong demand for commercial vehicles, particularly for home delivery vehicles as the demand for this service in lockdown changed the way consumers shop. Our focus upon electrification of vehicle fleets and decarbonisation, reinforced by our participation in Optimise Prime (the world's biggest EV trial) and funding of Gridserve for the UK's first Electric Forecourt in Braintree Essex, enabled us to launch unique propositions for customers reducing costs and improving environmental efficiencies. We grew our fleet by 17% in a year where new car registrations fell by 29%, to the lowest level since 1992. Our Business Finance division was the first asset finance provider to be accredited by the British Business Bank to provide CBILS facilities for our customers. We have utilised our £250 million scheme limit to help our SME customers in the UK access this important source of liquidity. Providing a fast, efficient and reliable service throughout the year enabled us to win market share in funding agricultural assets, sustainable energy projects and various essential business assets. Despite Brexit we continued to expand our European Vendor Solutions business, operating across 22 countries in Europe, opening a branch of our Netherlands subsidiary in Finland and an operation in Belgium.

A two-tier economy was emerging during the year and our exposure to segments which were unable to trade effectively in lockdown, such as travel, entertaining and leisure, was minimal. We did experience a significant fall in unsecured consumer lending as the volume of new business fell to £648m, down 36% on the previous year. During the pandemic the propensity to save and reduce consumer debt was well reported in Government statistics and is a direct result of the pandemic and lockdown conditions. We did not participate in the BBLS as we believed the limited information required from potential customers was not sufficient to enable us to make reliable credit decisions. This directly impacted the performance of our Invoice Finance division; however, we were able to gain an increasing share of the contracted market, diversify income streams and win strategic accounts, which will build a stronger business in the future.

I believe our recovery in business volumes is mainly due to our service levels but is also, in part, due to the financial products we supply, which are predominantly based around fixed interest rate and instalments or fixed rentals for a specified period. In the commercial sector the facilities are secured by assets. Affordable instalment credit finance gives businesses and consumers clarity in the financing 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 increasingly moving to a society which is becoming more accepting of rental for use rather than asset ownership. Leasing products are designed to accommodate retaining many of the ownership risks by leasing companies, which are well equipped to manage asset risk.

90-day profit forecasts - building back to annual KPIs
Given the level of uncertainty during the last year, we forecasted profit on a rolling 90-day basis to set achievable financial and non-financial targets to continually adjust and improve our performance. On a quarterly basis the forecast improved to achieve the results for the year as detailed below:

Key Financial Results:

	2021	2020
Profit before tax (PBT)	£104.0m	£129.4m
PBT growth	(19.7%)	5.1%
New Business Volume	£3,337.0m	£3,961.3m
Net Earning Assets	£5,925.5m	£5,936.8m
Pre-tax Return on Net Earnings Assets	1.8%	2.2%
Bad Debt ratio	0.9%	0.8%
Cost / income ratio	49.2%	46.3%
Number of employees	1,550	1,425
Effective tax rate	20.4%	20.4%
Post-tax return on equity	10.5%	14.4%

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

I am delighted with how Hitachi Capital (UK) PLC has responded to the challenges of the past year and continued to trade profitably. Our profit is down 19.7% on the prior year, but volume of business recovery in the second half of the year ensured that we maintained the level of Net Earning Assets, which is key to our future profitable growth.

We have indirectly 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 and also note that the unprecedented levels of public sector intervention have been required to prevent a severe financial crisis and permanent deep scarring to the economy.

Pre-tax return on Net Earning Assets has declined due to the recession as bad debt levels increased, residual values of motor vehicles declined, and our IT and telephony costs increased by 40% to respond to the remote working and heightened information security risk. We have continued with our programme of investment in transformation of our core systems, front-end systems and information security 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 lockdowns. Significant transformations were delivered during the lockdown as we continued with the programmes unabated by the pandemic. Significant developments are still in phased implementation over the next five years as we have continued to expand 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.

During the year we invested significantly in our employees with nearly 9% more staff, meeting the increasing customer contact, collections and regulatory changes.

The effective tax rate was maintained at 20.4% (2020: 20.4%). It is expected that the effective tax rate will alter in the future as a result of the impact of the change in the Corporation Tax rate to 25% from 1 April 2023 on the deferred tax calculation.

Chief Executive Officer's review (continued)

The post-tax return on equity reduced to 10.5% (2020: 14.4%). No interim dividend was paid during the year (2020: £15m, 3.4p per share). The Directors have recommended a final dividend of £25.0m, 5.6p per share (2020: £nil) which represents 30% of the Group's profit after tax.

During the year, the Group continued to sell tranches of instalment finance receivables to special purpose entities under two programmes. These transactions resulted in full de-recognition of the financial assets from the Group's statement of financial position. Further details are contained in note 32 to the financial statements.

Performance Summary:
I am proud of the team for their dedication and collegiate approach, which has enabled us to continue to provide our customers with a high level of service. I am also delighted with the support we have received from investors and banks around the world, which has enabled us to maintain a high level of liquidity. Lastly, I am delighted with our customers for their loyalty and patience to enable us to work with them to provide financial solutions. It has not been smooth running for the whole period as the level of customer contact was unprecedented during the first lockdown. The ability of many staff to adapt and help answer customer enquiries during this period was appreciated and the flexibility we have gained with the remote office call centre solutions should give us greater flexibility and resilience in the future.

Business Continuity:
The pandemic has been a significant test for the business. Our ability to adapt and change has strengthened the business for the future. The lockdowns have been the most challenging business continuity test the Group has faced. The Information Technology team and Information Security team are to be commended for making working from 1,500 home offices a productive reality. The improvements in functionality and communication we have made need to be continually improved to make the business more flexible in the future.

The market conditions in 2019 had prepared us well for the tightening of the financial markets due to COVID-19 as we had already increased bank facilities and securitisations, tightened credit appetite and restricted high-cash- utilisation financial products. 2020 was again a challenging business continuity test to ensure that the cash flow from the existing portfolio was sufficient, including the effect of payment holidays to support the funding for new business and service loan repayments.

We have stress-tested our portfolio to see how much the UK economy would have to deteriorate before the Group ceases to be profitable. We projected that bad debt levels would need to increase to 2.48 times the levels experienced last year before the Group 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.

Brexit:
The ongoing uncertainty of Brexit in 2019 and 2020 reduced the propensity for investment and dampened economic growth in the UK. The event was overshadowed by the global pandemic, but the impact of Brexit upon supply chains will also be exacerbated by the uneven nature of an economic recovery. Brexit also challenged us in how we would protect our pan-European business, leading to incorporation of our Dutch subsidiary several years ago, which has continued to grow profitably during the last year, diversifying our source of growth. We have continued to expand our European network, operating profitably across 22 European countries, providing vendor finance solutions to Hitachi, Mitsubishi Group companies and utilising the dealer network for other equipment manufacturers to gain access to Europe. We have continued to expand and trade profitably in a very difficult environment in 2020, which is a significant achievement for a new operation coping with travel restrictions in a relationship business.

Chief Executive Officer's review (continued)

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

In the UK we will continue to trade as Hitachi Capital (UK) PLC using the Hitachi Brand under licence for the next 12 months as we prepare for a rebranding. In the last financial year, we incurred integration costs of £2.4m which are separately disclosed on the face of the income statement and detailed in note 9. We expect to incur future costs in the coming year in the region of £11m as we prepare for the rebranding. Since the date of the merger, we have been working with the MHC team to explore new business activities in Europe, which we are excited to develop over the coming years. Hitachi Ltd will continue to be a key strategic partner for the Group and we are continuing to work with Hitachi Europe on a number of strategic projects.

HCUK Post COVID-19
The uncertainty created by the Global pandemic is by no means over, but we need to plan for the future. The level of Government intervention in the UK economy has been nothing short of extensive with the Coronavirus Job Retention Scheme, financial support programmes such as Term Funding schemes, BBLS, CBILS and Covid Corporate Finance Facility, have all been designed to create financial stability and alleviate deep scarring of the economy.

Our performance since 31 March 2021 has been strong, with the volume of business in April 2021 being nearly three times the level of the equivalent month of the previous year. The economy shrank in the first quarter of 2021 by 1.5%; but confidence is growing. The economy is still down 8.7% compared to pre-Covid levels, but the expectations for the year are very positive as the vaccination programme is reducing infection and mortality. The Bank of England has revised growth expectations for 2021 to 7.25%, which should see the economy returning to almost pre-pandemic levels. Recovery is not all smooth as there is definitely pent-up demand causing supply issues in many sectors. Brexit is frustrating the free movement of goods in many areas; however, the effect is secondary to COVID. The furlough programme is still in place and the effect of its withdrawal may impact unemployment if some sectors of the economy do not receive extended support. We have had a good start to the year, and we remain cautiously optimistic.

The Office Environment:
The return to the office environment has been more difficult to plan than the original evacuation in March 2020. We had no option with the lockdown. There were many essential office-based tasks that could not be migrated to the home environment but, in general I believe we have all been pleasantly surprised with just how productive working in our bubbles at home has been. We have built trust and discipline without the need to be present and communicated widely and effectively with our teams. We need to preserve the skills and benefits we have learned over the past year, but also acknowledge some loss of collaboration, learning behaviours, culture and social interactions. The individual is at the heart of all the principles we have developed for hybrid working. It is not for everyone, but neither are blanket rules. Trust is also at the heart of the principles, and we continue to rely and trust each other to work as a team, no matter what environment we choose to work in. Hybrid working will require some time to adjust - it will not be perfect from the start - we need to continue to be agile - the first answer will not be the last. The offices will need some re-design to focus upon collaboration and learning as there is little point in everyone coming into the office to sit at a desk to do repeatedly what we have proved can be effectively done from home.

Our people are vital to our success and it is important that all our staff feel part of the Group. We appreciate and value differences, and we strive to create an engaging environment for everyone to be able to contribute to the success of the Group.

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

Conclusion and Outlook
Our strategy of offering value added financial products and excellent customer service in our chosen markets has continued to deliver success and enabled us to bounce back in a very difficult trading environment in 2020/21. The outlook for 2021/22 is slowly turning to cautious optimism as the vaccination programme may enable us to enjoy more freedoms. We have used the last year to continue to align 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 companies for the mutual benefit of all parties.

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

On behalf of myself and the Board, I would like to take this opportunity to thank employees across Hitachi Capital (UK) PLC for their hard work and dedication in an extraordinary year. Many of us have lost relatives and friends during the pandemic, which has been very personally challenging. As a team we were deeply saddened by the loss of Gavin Wraith-Carter and Kim Brien who were inspirational leaders in the business. The year was very difficult and we expect to return to growth in profit and assets in the coming year.

By order of the Board.

R. Gordon
Chief Executive Officer
7 June 2021

Divisional review

Consumer Finance

Key metrics
• Profit before tax £60.2m
• Total new business volumes £1.7bn
• Net Earning Assets £2.9bn
• 1.3 million UK customers
• 87% increase in lending volumes via e-commerce channels

Results and Strategy
Despite facing significant challenges this year, Hitachi Capital Consumer Finance ("Consumer Finance") continued to provide outstanding service to support our customers and retail partners impacted by the pandemic. By taking the necessary action to implement operational changes, process payment holidays and continue to invest in technology, we delivered against our strategic priorities. Performance of our retail point of sale finance business exceeded the wider market; we retained the majority of our biggest retail partners whilst achieving strong growth in our e-commerce channel to deliver notable results in a competitive market. At the same time, we continued to gain market share in the unsecured loans market, despite the volatility created by the lockdown measures.

The impact of the pandemic was felt across both our retail and consumer lending portfolios. As market conditions pushed consumer credit to an all-time low, we introduced measures to minimise our risk exposure, whilst protecting our customers. This resulted in a significant reduction in new lending, from a record high last year of £2.6 billion to £1.7 billion in 2020/21. Despite the reduction in new business written, our continued investment in our IT infrastructure, our people and our commitment to customer service meant we still delivered a strong profit of £60.2m and the business is well positioned to grow in 2021/22.

The first UK-wide lockdown created a considerable number of forbearance requests as the business responded to unprecedented inbound customer call volumes. We experienced a 700% increase in inbound customer calls with emails and digital contacts also increasing markedly. We took significant steps to relieve financial pressure for our customers, simultaneously overcoming operational challenges as the business pivoted to remote working in order to protect the safety and wellbeing of our staff. During the year, we provided ongoing support for our customers throughout the pandemic, incurring additional costs from responding to payment holiday requests in line with FCA guidance.

In order to support our customers through the financial impact of COVID-19, Consumer Finance granted payment holidays which allowed our customers to take a temporary break from making repayments if they were experiencing, or were reasonably expected to experience payment difficulties, due solely to the impact of COVID-19.

Consumer Finance granted a total of 48,322 payment holidays with a maximum balance outstanding of £294.6m. Of these, 4,376 payment holidays with a balance outstanding of £25.4m were still in force as at 31 March 2021.

Over the last 12 months, Expected Credit Loss (ECL) provisions have increased significantly due to the downturn in the economy caused by the pandemic. Once the government support schemes come to an end, we expect an increase in insolvencies and bankruptcies which is likely to result in an increase in defaults in the short term. With the increase in ECL provision during the year and improving credit quality over the last 12 months, the business is well provided against further defaults as it navigates through the pandemic.

Divisional review

In order to provide extra support to meet our customers' needs, we accelerated our digital servicing transformation. Our immediate operational response included proactively contacting our 1.3 million customers with signposting to additional digital channels enabling them to self-service their accounts online. We also added Virtual Hold technology to our systems, replacing call holding queues with automated callbacks to improve customer experiences.

We have continued to deliver against our strategic priorities around the three pillars of Transform, Defend/Grow and Diversify. Despite facing significant challenges during a turbulent year, the business invested in our ongoing digital transformation programme, improving efficiencies across the business to meet the needs of consumers and businesses.

Investing in technology to provide a frictionless customer experience for customers is a priority for our business. As customer expectations evolved with increased demand for self-service across digital channels, we deployed new front and back end systems with increasing levels of automation to enhance the customer experience and reduce operating costs, including undertaking improvements to our MyHPF mobile app.

We review our product and channel portfolio on an ongoing basis to ensure the business is meeting and exceeding customer expectations. By gathering feedback from several customer touchpoints, we continually seek to improve the end to end customer journey. This year, in order to undertake performance measurement in real-time, we integrated our Rant and Rave platform within our digital customer platforms.

Retail Point of Sale
Hitachi Capital Consumer Finance supports over 3,200 retail partners in the UK from high street brand names to niche online ecommerce retailers, providing fast, flexible finance solutions that integrate into all channels. Despite the challenges of the pandemic and late Brexit deal faced by our retail partners which led to widespread uncertainty for customers, our retail business has delivered a robust performance.

Accounting for over half of Hitachi Capital Consumer Finance's business volume, retail point of sale lent more than £1.1 billion this year. As one of the UK's leading retail finance providers, with a 15% market share, our retail business has responded to a rapidly changing sector severely impacted by the pandemic, which has seen increased demand for retail point of sale finance products in digital channels.

Working in partnership with our existing retail partners, we have provided ongoing support during the pandemic, quickly implementing point of sale finance integrations to drive online and mail order sales conversions. Over the past 12 months, we have also experienced strong growth in our e-commerce channel, onboarding more retailers than ever before. Integrations increased by 34% leading to significant growth in new business. In turn, we have seen an 86% increase in lending volumes via e-commerce channels as we continue to assist our retail partners integrating point of sale finance solutions within their omnichannel retail strategy.

As we strive to be the leading retail finance provider in the market by providing a frictionless credit application journey, we launched an improved retail point of sale credit application decisioning system in July 2020 with new functionality to support our retail partners. CreditMaster3, our enhanced PaybyFinance online system, provides a faster, more streamlined customer journey allowing both in-store and online retailers to maximise sales opportunities. Migration of all our existing portfolio of retailers to CreditMaster3 will be complete in the first half of 2021/22. This investment will ensure we are well placed to assist in our partners' recovery plans as economic conditions improve within the UK.

The business also experienced growth in new sectors over the last 12 months. For example, through our golf membership finance proposition in conjunction with Hitachi Capital Business Finance, we are providing one of the most comprehensive products in the market with ambitious plans to be the provider of choice for this sector.

Divisional review

Personal Loans
Lending balances were significantly impacted by the pandemic this year. However, our personal loans business, Hitachi Personal Finance, continued to gain market share in a competitive market where rates remain at historic low levels, cementing our position as one of the top 10 providers of personal loans in the UK.

Subdued demand for unsecured lending led to a 36% decrease in business volume; over the last 12 months, we lent over £648m, down from £1 billion in 2019/20. Despite challenging market conditions, Hitachi Personal Finance performed relatively well in the market over the last 12 months supported by our strong customer proposition, which combines fast decision-making and application processing backed with excellent customer service and competitive pricing. On average, Hitachi Personal Finance processes a loan application every 60 seconds, with 95% of decisions made within 10 seconds.

As we continue to make enhancements to our proposition in order to drive new business volumes, we have made improvements to our direct personal loans channel. The launch of our new HPF website provides a superior user experience with easier navigation and interaction across all touchpoints. On our My HPF mobile app, which provides quick access to enable customers to check their balance and make payments, we have improved the customer journey by introducing a biometric login, provided online access to finance agreement documentation and facilitated real-time customer feedback capability.

Customer service recognition during pandemic
Despite a very challenging year in the UK consumer credit market and the operational pressures caused by COVID-19 as our business processed unprecedented volumes of payment rescheduling requests, Hitachi Capital Consumer Finance has maintained a strong brand reputation for providing outstanding customer experiences.

Our commitment to provide outstanding levels of service and fair outcomes for customers is demonstrated by our customer satisfaction performance during the pandemic, which significantly outperforms industry benchmarks. In the latest Institute of Customer Service independent survey, we achieved 94.7 for customer satisfaction - above both the average for banks and building societies (79.1) and the all sector UK average (77.0). Our Net Promoter Score of 79, is also higher than the financial services sector average (77.8).

Hitachi Personal Finance was awarded the Feefo Platinum Trusted Service Award in 2021 for the third consecutive year with a consistent Feefo customer satisfaction rating of 4.5 and above from over 40,000 reviews. We retained our position as the UK's Best Direct Loan Provider, awarded to us by Your Money for seven consecutive years and were awarded Best Personal Loans Lender for the seventh year running in The Money Pages Personal Finance Awards.

Competing against contact centres from 26 countries across Europe, Hitachi Capital Consumer Finance also received the Gold award for Responding in a Crisis (supporting colleagues) and the Silver award for Responding in a Crisis (supporting customers) in the European Contact Centre & Customer Service Awards.

The business continued to deliver against our strategic priorities during 2020/21 and we remain confident in the outlook for our Consumer Finance division despite volatile market conditions and increased regulation. Most payment holidays taken out by our customers during the 12-month period have matured with the vast majority of customers returning to monthly payments or settling in full.

Looking to the future, we expect to see a strong recovery in consumer spending. With an established reputation as one of the UK's leading consumer finance companies, backed by significant technology investments, our business is primed for sustained growth when demand for consumer credit is expected to return to pre-crisis levels during 2021/22.

Hitachi Capital (UK) PLC

Group Strategic Report (continued)

Divisional review

Vehicle Solutions

Key metrics
• Profit before tax £19.7m
• 95,016 assets, representing a 17% Fleet increase (during year of lowest new car registrations since 1992)
• Net Earning Assets £1.2bn

Results and Strategy
During the year, Hitachi Capital Vehicle Solutions generated profit before tax of £19.7m - a 24% decrease in profit from the previous year (£25.8m). This was mainly due to the impact of COVID-19 leading to an increase in maintenance costs, lower fee income (particularly short term hires and excess mileage income) and increase in bad debt impairment charges together with investment in IT systems driving higher depreciation charges. Despite these challenges, 2020/21 was a record year of growth for Vehicle Solutions where our funded fleet grew by 17% (over 14,000 vehicles) against the backdrop of an unpredictable and changeable period during which, the UK new car registrations declined by 29%. The total net earning assets was increased by 24% to £1.2bn. The operating fleet consists of more than 52,000 cars, 37,000 vans and 5,500 HGVs and specialist vehicles, with this comprehensive range of assets being unique position in the marketplace.

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 customers across every stage of the vehicle life cycle. Core services include fleet policy and strategy, engineering services (such as design specification and asset build), legal asset compliance, cost control and management, asset utilisation and asset disposal.

Our personal leasing offering has seen growth of 22% in the past year, now comprising over 38,000 vehicles which are marketed both directly and via a network of valued brokers and dealers. The online platform features automated underwriting, digital documentation and e-signature capabilities, providing users with a frictionless end-to-end process combined with competitive pricing.

Hitachi Capital Vehicle Solutions has maintained its standing as the 7th largest UK leasing company, whilst recording the largest percentage growth of the Fleet News FN50 top 10 providers during the year. The leveraging of our multi-asset proposition has generated new customer acquisitions in a time when the overall FN50 fleet saw a decline by 2.5%.

Our 17% fleet growth, despite the pandemic, has demonstrated that the broad customer base and breadth of proposition across all asset types has not been hindered by unprecedented market change. The ability to support customers and their bespoke requirements enabled Hitachi Capital Vehicle Solutions to contribute to keeping mission critical and essential fleets mobile during the pandemic processing orders for customers at the forefront of the COVID-19 response including the NHS, online food and delivery retailers, utility, power and transport operators.

This year a new core platform has been remotely implemented, the system will enable the delivery of improved vehicle compliance visibility and brings the fleet management system in line with the latest technology enabling digital capability for future growth.

Divisional review

In September 2020, Hitachi Capital Vehicle Solutions were awarded one of the most sought-after contracts to go to tender in 2020 and were selected as the chosen partner by DEFRA (Department for Environment, Food & Rural Affairs) to manage their fleet of 4,500 cars. DEFRA have an ambitious electric vehicle transition programme that will see their entire fleet shift into electric variant models over the next four years. DEFRA have recognised that our decarbonisation strategies and ambitions are closely aligned and that we have the agility and capability to deliver for them.

Road to zero emissions
Hitachi Capital Vehicle Solutions has a clear and bold Decarbonisation strategy which will deliver environmental and cost efficiencies and help the UK to meet its carbon reduction targets. As a business, a clear commitment has been made to electrify 100% of our car & small van fleet (3.5 tonne and under), and 50% of our funded van fleet (vehicles over 3.5 tonne) by 2030.

With our Decarbonisation strategy being at the front and centre of our business, we are continuing to adapt, drive and embrace the changes in the market environment to support and guide our customers. Within the past year there have been significant changes in the marketplace which signify the increased pace and awareness for drivers, fleets and customers to decarbonise their fleets.

Hitachi Capital Vehicle Solutions have partnered with Hitachi Europe on a unique end-to-end, turnkey capability that offers a true decarbonisation solution for fleets of all complexities. We are working directly with customers and partners to assess, design and deploy their own workplace and network charging capacity, with direct collaboration with distribution network operators and solar energy partners. By managing the entire assessment and infrastructure implementation, this reduces complexity for fleet operators and enables them to have the complete transition handled by one trusted contracting party.

Within our Intelligent Decarbonisation team, we are developing capabilities to install battery storage and renewable energy technologies. We will be able to manage these technologies with direct and controlled support from Hitachi Europe and Hitachi ABB PowerGrids who have significant capabilities in this area. This is ground-breaking infrastructural engineering activity for a UK leasing company and we are uniquely placed to offer a total turnkey solution to directly address the decarbonisation challenge faced by UK fleet operators.

In 2020/21, our EV Hub was launched, it is the starting point for all new vehicle orders and links directly to our quoting platform. It provides our customers' drivers with the detail they need to make the transition to EVs with confidence. This tool is unique and supports both company car and Salary Sacrifice drivers to make informed decisions on their Battery Electric or Plug in Electric vehicle requirements.

This year, we partnered with Gridserve to provide an electric vehicle leasing proposition that includes 100% renewable energy available from the Gridserve forecourt in Braintree, Essex and a commitment to plant 100 trees for each vehicle lease to help offset the carbon produced in the vehicle manufacturing. We are the sole funder for the leasing proposition and have worked with several OEMs to forward purchase EVs exclusively for Gridserve customers. We have taken Gridserve through the process of transitioning from a green energy company to an operational credit broker with and exclusive proposition in the market.

Divisional review

Hitachi Capital (UK) PLC have partially funded the build of the Braintree site and have a 19.63% shareholding in the organisation with plans to continue to fund the expansion of other forecourt sites and solar farms. This demonstrates the Group's commitment to helping customers to decarbonise their vehicles beyond just the Corporate sector.

Hitachi Capital Vehicle Solutions are the only vehicle leasing company to partner in the world's biggest EV trial, Optimise Prime, a three-year innovation project led by Hitachi Vantara and UK Power Networks, designed to address how the UK can manage a mass adoption of EVs between now and 2030. During 2021/22, our Trowbridge Office will become a centre of Alternative Fuel Vehicle excellence as part of the Optimise Prime project.

Being early EV adopters, at Hitachi Capital (UK) PLC we have an attractive company car policy for ultra-low emission vehicles. The fleet has grown by 20% in 2020 and the percentage of pure battery electric vehicles has grown from 9% to 31% in 12 months. Only one third of the company car fleet is now petrol or diesel, with the remaining two thirds being battery electric or plug in hybrid.

The decarbonisation of both our own fleet and those of our customers is integral to all our activities. The funded customer fleet has seen alternative fuelled vehicles grow from 6% to 11% across all asset types, with the overall pure EV fleet growing 368% in 1 year. We are involved in standard vehicle leases right through to powering huge fleets with complex depot charging. Managing fleets across all vehicle types remains at the core of what we do, and alongside this we are working with customers to ensure we help them on their decarbonisation journeys.

Unique service proposition

With our Total Asset Solutions, 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.

We adopt 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.

Hitachi Capital Vehicle Solutions is at the forefront of providing the level of expertise and experience in specialist vehicle compliance for the benefit of all drivers, across all asset and fuel types, increasing safety and operational control across the board.

Divisional review

Customer service recognition
We consistently achieve 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 2019 and 2020. 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). Reflecting the value of our customer first ethos during the height of the pandemic, our engagement scores from Rant & Rave customer service satisfaction ratings were 93% at the end of 2020.

Despite challenging market conditions during 2020/21, HCVS have grown and transitioned more of our fleet to alternative fuels and we are leading the way in depot charging for complex fleet requirements. 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 review

Business Finance

Key metrics

- £20.1m profit before tax
- Asset portfolio grew 13% to £1.4bn
- £138.3m CBILS loan funding supporting SMEs
- Supporting over 12,000 customers through payment holidays

Results and Strategy

In 2020/21, Hitachi Capital Business Finance ("Business Finance") generated profit before tax of £20.1m and achieved asset portfolio growth of 13% to £1.4bn. In difficult trading conditions, we outperformed the sector to achieve new business volume of £758m, 6% up on last year's £714m despite a 20% contraction in the overall market.

The asset finance market was severely impacted by COVID-19 in the first quarter. However, from July onwards, new business volumes gained momentum with 6 out of 9 months delivering record volumes versus prior years culminating in an outstanding March 2021, up 30% on last year. Business Finance increased market share, up from 1.9% to 2.4% accounting for 24.1% of the Group's business assets.

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

As the COVID pandemic hit, the business was quick to cement the reputation we have in this introducer led market by ensuring we implemented digital alternatives to the usual face to face relationships which provide us with our primary defence against fraud and impersonation. We immediately accelerated our trial of a digital ID checker to go live in just 24 hours to provide a digital way to validate identity and complete 'know your customer' checks whist maintaining social distancing.

Over half of the employed population work for an SME. Ensuring their survival and success with fair funding is critical to the lives of people and families across the UK. We finance mainly hard assets on Hire Purchase agreements to SMEs with strong creditworthiness. Finding a way to continue with low risk funding to our core market sectors of manufacturing, commercial vehicles, agriculture and construction at the start of the pandemic was imperative to maintain our strategic goals.

Hitachi Capital Business Finance was the first asset finance provider in the UK to be accredited to offer the British Business Bank's, CBILS, in March 2020. It was imperative that we got the British Business Bank scheme up and running as quickly as possible - enabling our existing customers to make use of the funding within 48 hours of its launch by the BBB. Since introducing CBILS we have been providing funding to UK SMEs that have been affected by COVID-19.

Divisional review

Over the past 12 months the Business Finance block discounting team have also supported existing and new blockers through a variety of unique innovations. In May we launched CBILS Hire Purchase and ran it alongside the loan scheme to help UK SMEs to focus on having the right assets in place to develop and grow their businesses, post-lockdown. This included our block starter pack to help prospective own book lenders make the leap into developing their own book. The unique support provided by our block team simplified the process resulting in a number of new lenders entering under served markets, bringing much needed liquidity which is vital in these sectors.

By deploying secured and unsecured CBILS lending into the channel, we also ensured our existing Block customers had access to discounted funds at a time when capital had become scarce. Our CBILS innovations, bespoke to the block channel have supported numerous blockers and provided them with much needed working capital to trade out of COVID-19 and stimulated blockers' lending activities in their chosen specialist markets, to be support our UK SMEs.

In order to support the UK SMEs through the financial impact of COVID-19, Business Finance granted payment holidays which allowed our customers to take a temporary break from making repayments if they were experiencing, or were reasonably expected to experience payment difficulties, due solely to the impact of COVID-19.

Business Finance granted a total of 13,011 payment holidays with a maximum balance outstanding of £360.0m. Of these, only 344 payment holidays with a balance outstanding of £10.7m were still in force as at 31 March 2021.

Over the last 12 months, Expected Credit Loss (ECL) provisions have increased significantly due to the downturn in the economy caused by the pandemic. Once the government support schemes come to an end, we expect an increase in insolvencies and bankruptcies which is likely to result in an increase in defaults in the short term. With the increase in ECL provision during the year and improving credit quality over the last 12 months, the business is well provided against further defaults as it navigates through the pandemic.

Sustainability
Sustainability remains a core focus for our business. During 2020/21, we purchased a £10m equity share in Gridserve Holdings Ltd, the parent company of Gridserve Sustainable Energy Ltd. We also funded over £47.6m in Gridserve to help deliver multiple sustainable energy projects including solar farms and completion of the first electric vehicle forecourt in Braintree, Essex. This, and future sites will provide the infrastructure required for wide scale adoption of electric vehicles powered by clean and affordable, sustainable energy. This supports our decarbonisation strategy led by our Vehicle Solutions business which is providing an exclusive electric vehicle leasing proposition for Gridserve's customers.

Value added proposition
Providing valued added support for SMEs during the pandemic has been a key strategic aim for our business. We partnered with Be the Business, a not for profit organisation to help small business owners access a 12-week Rapid Response Mentoring programme free of charge. Through the scheme, our experienced mentors are helping businesses navigate the impacts of the pandemic. We have shared full details of the programme directly to our customers and highlighted the benefits to all our Brokers, so they are also able to refer their eligible customers. We have also run a series of 'Sparks' workshops in collaboration with Be the Business, which has been designed to help business leaders feel more confident about their financial management.

Divisional review

Over the past twelve months we have also created a SMART Planning programme to help businesses develop a robust business plan. The programme consists of a series of practical guides, highlighting areas for growth, ways to measure success, opportunities to seize and threats to mitigate. It provides structure for a small business to build a strategy and a road map to achieve their goals, especially throughout a time of uncertainty.

Market reputation

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 customers and our industry peers.

Our customer reviews on Feefo rate us 4.8 stars (out of a maximum 5), describing us as 'easy to deal with', 'understanding', 'quick, efficient, friendly and helpful'. Following an Institute of Customer Service survey, we received a business benchmarking score of 89.8 points out of 100 - putting Hitachi Capital Business Finance well above the UK national average of 77.7.

Our reputation in the market as a leading asset finance provider has also been recognised by our industry peers. We were awarded Lessor of the Year, Excellence in Sustainability and Excellence in Adversity at the Leasing World Awards 2020. At the Credit Strategy Lending Awards 2020, we won Best Support for SMEs and Customer Service Excellence Award. At the International Asset Finance Network Awards, the business won Best Product or Service in Equipment Finance. Finally, at the Business Moneyfacts Awards 2021, we won Best Service from an Asset Based Lender and Best Motor Finance Provider.

Looking ahead

Going forward, we are focused on supporting businesses via our broker, vendor and direct channels and enhancing our proposition through investment in new technology. Key projects include upgrading our core operating system, coupled with launching a new introducer front end platform and an updated credit automation system - driving competitor advantage and reducing risk.

This new technology will enable us to expand further into the vendor space, disrupting the finance/asset supply chain and extending our reach into the technology and soft asset sector.

We are confident that the customer centric approach and consistency of service we demonstrated throughout the last 12 months has provided us with a solid platform to grow our business as the economy continues to recover.

Divisional review

Invoice Finance

Key metrics
• Loss before tax £1.5m
• Record new business volumes in Q4

Results and Strategy
In 2020/21, demand for Hitachi Capital Invoice Finance's core proposition was significantly compromised by the UK Government's intervention to support UK SMEs impacted by the pandemic. Direct competition from BBLS resulted in subdued new business lending volumes for cashflow finance providers, notably during the first quarter of the year.

Despite significant market distortion, we achieved record new business volumes in the fourth quarter having identified new income streams which delivered strong lead generation and conversion opportunities.

We accelerated our income diversification strategy this year in response to reduced demand for funding via our existing channels. Over the past twelve months we have focused our offering to include finance provision for larger corporate customers (funding lines above £1m), expanding our corporate team to target larger SMEs. In turn, we have seen an increase of 108% in new business funding to this market segment over the past twelve months where continued demand during the pandemic remained strong. As a result, our average annual minimum fee income has increased by 35% this year. The team is already securing business with corporate customers, focusing on larger SME's with turnover up to £50 million.

During the first quarter, we identified the opportunity to acquire some lead generation channels from our competitors and negotiate reduced rates. Using FLi our digital on-boarding platform, we were able to process a large number of these applications quickly and easily to write new business and bring clients on board. In April 2020, we also launched a new revenue stream whereby we would earn a fee for referring new business leads to another funding provider who might be better placed to support these clients.

Our innovative digital onboarding solution continues to be market leading within the invoice finance industry, providing a significant competitive advantage for our business. During lockdown, many providers were unable to support and secure new clients, however, we were still able to acquire new business remotely due to our digital capabilities - the digital onboarding combined with digital signature. Our digital innovation alongside our award-winning client service meant that our existing and new clients received comprehensive support during each of the lockdown periods.

Divisional review

This year, we have enhanced our brand visibility online in order to reach a wider audience and increase new business leads. We are now exceeding all of our key competitors online. Our Invoice Finance website is now ranked number one on Google for key search terms for the first time generating more traffic to our website than ever before. Investment in our online marketing channel has led to a 50% increase in online new business this year.

Providing excellent customer service is a priority for Hitachi Capital Invoice Finance. The satisfaction of our clients is proven by our rating on independent customer feedback platform, Feefo which has increased this year to 4.8 out of 5 stars with more 5 star ratings than ever before.

We won Best Service from Invoice Finance Provider and were highly commended in the Best Factoring and Discounting Provider category at the 2021 Business Moneyfacts Awards. This is testament to our hard work in continuing to deliver exceptional service to all clients over the past 12 months.

As Government financial support for SMEs during the pandemic dissipates, we remain confident in the long-term outlook for our Invoice Finance business, building on the strong, record-breaking new business revenue achieved in the fourth quarter. As a well-funded, digitally enabled provider with a proven track record in the cashflow finance market, the business is primed for growth when business confidence amongst SMEs is forecast to improve during 2021/22.

Divisional review

European Vendor Solutions

Key metrics
• PBT at £2.8m with £0.2m/8% growth year on year
• £216m volume of business
• Net Earning Assets £243.5
• Active in 22 European countries - transacting business in the Czech Republic and Lithuania for the first time
• European expansion with new branch office in Finland and operations in Belgium

Results and Strategy
Despite the challenging conditions created by COVID-19, European Vendor Solutions transacted £216m during 2020/21 and continued to expand its customer base, operating across 22 countries. Over the last 12 months, European Vendor Solutions' profit before tax grew by 8% from £2.6m to £2.8m as the business increased cross-border lending, including within two new territories - the Czech Republic and Lithuania.

We supported our customers through the pandemic, providing payment holidays to 20% of our portfolio and ensured that those customers transitioned back to full payment plans as their activity levels returned to normal. The business provided over £39m of Government backed funding via the Coronavirus Business Interruption Loan Scheme (CBILS) in the UK to support the business recovery of existing customers.

Our Netherlands subsidiary contributed £35m of new business in its third year of operation, an increase of 35% on the previous year, and further European expansion saw the opening of a new branch office in Helsinki, Finland as well as an operation in Belgium to support shareholder group companies and to service and expand the customer base in these markets. European transactions accounted for over 42% of transactions last year; the operation in Belgium will help increase our cross-border lending capabilities and is key to the growth strategy for our business.

European Vendor Solutions' main business is providing end-to-end vendor finance solutions, addressing the requirements of manufacturers and their distribution networks throughout the whole asset lifecycle, including stocking, demonstration equipment, spare parts, end user, second-hand equipment. We support the manufacturing businesses within the shareholder group (Hitachi and Mitsubishi group companies) and affiliated companies as well as providing finance to independent manufacturers looking to offer financing solutions to their distribution network and customers.

During 2020/21, our channel finance proposition has been an area of growth, almost doubling the provision of funding available to our vendor network, enabling dealers to optimise stock levels and attract new customers, whilst improving cash flow. We have forged new business relationships across Europe by supporting dealers and distribution networks with finance products that allow them to modify stock, meeting local regulatory requirements before a sale is transacted.

This year, we have expanded our channel finance footprint in Europe, with our first medical equipment transactions in the Czech Republic and Lithuania supporting dealers with finance solutions. The construction sector also remains one of our primary markets; despite significant headwinds, we have seen volumes in construction increase by 18% this year which was achieved by increasing business with existing dealers and also working with new vendors in this sector. Our vendor partner base also continues to grow and diversify with new agreements being signed with vendors to provide end user finance for equipment including mobile cranes and piling rigs, compressed air units, medical equipment and printing presses.

Divisional review

Energy efficiency projects continue to grow in importance, and Hitachi Capital European Vendor Solutions is providing end user finance solutions to help drive cost and energy efficiency through installations such as LED lighting, heating and cooling systems. Supporting this approach, this year we created new vendor partnerships to help to deliver energy efficiency projects to schools and commercial customers. For example, during 2020/21, we signed with new vendor partner E-Light and refinanced LED lighting for NCP car parks.

Since the formation of Hitachi Capital European Vendor Solutions as a separate division in April 2018, we have continued to strengthen our team of asset finance professionals. Our headcount now exceeds 40 staff across five locations in London, Amsterdam, Dublin, Helsinki and cross border into Belgium.

Providing tailored financial solutions to a growing number of vendors and their distribution networks across continental Europe has further enhanced our reputation. A recent customer satisfaction survey confirmed the value of offering a competitive and innovative finance proposition, with 94% of customers stating their expectations were either met or exceeded, and 95% of those surveyed said that service levels have remained consistent or shown improvement within the last year despite the impact of COVID-19.

As we continue to provide cross-border solutions in new territories, our strategic approach is to capitalise on our strong performance and direct and partner-based presence in Europe. By focusing on diversification and developing relationships with Japanese key accounts and OEMs within shareholder group companies, our European Vendor Solutions business is primed for further growth in the year ahead.

Corporate Social Responsibility

Hitachi Capital (UK) PLC's Corporate Social Responsibility (CSR) policy is underlined by our commitment to make a positive and sustainable difference to the society and community in which we live and 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 our parent company - sustainable growth, respect for human dignity and implementation of corporate ethics.

Social value creation is a core part of our business strategy and evidences our contribution to society and addressing climate agendas by focusing on five key indicators as part of our Environmental Social and Governance (ESG) reporting - corporate governance, customers, colleagues, communities and sustainability. 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 aim to maintain a culture of openness, honesty and integrity, which seeks to create an atmosphere of trust and collaboration across the organisation. A key element of our culture is Hitachi Capital's Code of Conduct. The Code 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.

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. Our whistleblowing policy and process encourages an open and transparent working culture where everyone can feel comfortable in reporting their concerns via three different routes including to the Whistleblowing Champion (a nominated Non-Executive Director), to an appointed senior individual internally or to an external hotline.

We have adapted our business where necessary to respond to the COVID-19 pandemic, addressing the needs of all our stakeholders, and expanded our remote working capability to ensure all of our employees could work safely and effectively from home. Our systems have been successfully migrated to the home office environment and we also created COVID-19 safe offices in order to continue to undertake a small number of essential activities that cannot be carried out remotely.

Throughout the pandemic, we have remained 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 and data is protected.

Corporate Social Responsibility

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 1.3 million customers. We are committed to providing excellent customer service performance on a consistent basis across the Group.

We are always striving to improve the delivery of fair outcomes for our customers and to enhance their experience. The demand from our customer base to communicate with us increased significantly during the year due to the COVID-19 pandemic. We responded promptly to payment holidays requests in line with FCA guidance with flexible payment terms for struggling businesses and individuals. We implemented operational changes with automated callbacks, and sign-posting online to help our customers and increased the number of employees in customer service teams across the Group to ensure that we continued to provide outstanding customer service despite a significant increase in inbound customer contacts. This is demonstrated by our customer satisfaction performance, which exceeds industry benchmarks.

During the year, Consumer Finance and Business Finance renewed their customer satisfaction survey with the Institute of Customer Service (ICS) and achieved 94.7 and 89.8 customer satisfaction scores both above the all sector UK average of 77.0. Both Consumer Finance and Invoice Finance maintained high customer experience ratings on Feefo with average ratings of 4.5 and 4.8 and Vehicle Solutions increased their Rant & Rave customer satisfaction rating from 4.55 (out of 5) in 2019 to 4.65 (out of 5) in 2020.

We have also continued to invest in technology during the period to ensure the provision of frictionless, accessible, and engaging customer journeys and experiences. Customer expectations evolved during the pandemic with increased demand for self-service across digital channels; we deployed new front and back end systems with increasing levels of automation to enhance the customer experience for individuals and businesses and reduce operational costs.

We were the first asset finance provider to join the Coronavirus Business Interruption Loan Scheme (CBILS) in March 2020 to support UK SMEs affected by COVID-19 and continued to provide funding through the scheme throughout 2020/21 to support the business recovery of existing customers.

Our Vehicle Solutions division ensured mission critical fleet operators were mobile during the pandemic, able to continue to serve their customers most in need, including hospitals and care homes.

Colleagues
With over 1,500 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.

During the pandemic, the safety and wellbeing of our employees and their families has been a key priority. We adapted to a homeworking policy, supporting the vast majority of staff undertaking remote working during the year. We also created COVID-safe offices to enable a small minority of staff to continue to work from our offices for essential business or personal wellbeing reasons.

Following the COVID-19 outbreak, we have taken steps to maintain the physical and mental health and wellbeing of our people by implementing a coronavirus support programme providing a range of initiatives for all our colleagues. Our Wellbeing Champions hosted regular live chatrooms in a safe and non-judgmental environment, we provided free access to a mental wellbeing app and introduced Ashtanga yoga classes for our staff, delivered remotely on a weekly basis with at least 40 colleagues regularly taking part.

Corporate Social Responsibility

Employee engagement has always been integral to the success of HCUK. Over the past 12 months, a significant focus has been on ensuring our staff remained connected and supported remotely; we introduced Microsoft Teams in response to the changing environment and to continue to achieve effective interaction and collaboration across the Group with frequent communications from our CEO and senior leadership team via weekly blogs and vlogs.

We regularly measure employee engagement, listening and responding to the views of our employees. We launched My Voice, a new real-time listening post platform inviting colleagues across the business to provide anonymously feedback to the company. An annual survey of all employees undertaken in October 2020 showed that 89.2% would recommend Hitachi Capital (UK) PLC as a great place to work, up 7.4% from last year.

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.

In October 2020, to coincide with National Inclusion Week, we launched HCUK's new inclusion and diversity strategy which sets out our approach to making a positive impact under four key pillars - Gender, Ability, LGBTQ+ and BAME.

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.

Reflecting our position at 5 April 2020, our latest gender pay gap report shows further indications of progress: we achieved reductions in both our mean and median gender pay gap by 2.5% and 6.2% respectively. We reported a mean gender pay gap in hourly pay of 29.4% and a median gender pay gap in hourly pay of 31.7%. 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/4747/hitachi-capital-uk-gender-pay-gap-report-2020.pdf .

Communities

We are passionate about making a positive and sustainable difference to the society and communities in which we live and work, to address sustainability issues and deliver change through both our business and charitable activities. During the year, we have supported a number of charities and paid over £249k in donations.

During 2020/21, we expanded our support to our national charity partner FareShare. This year was especially challenging with COVID-19 leading to unprecedented demand for FareShare's food redistribution services - increasing from 1 million to 3 million meals per week. Our donation of £20k, along with fundraising initiated by our staff, meant in total we donated £25.6k which helped provide an equivalent of 102,464 meals. We also provided three brand new refrigerated delivery vans to help redistribute surplus food and ease warehouse demand. The vehicles made 3,738 deliveries which equates to delivery of 1,204,786 meals for frontline charities and community groups.

Corporate Social Responsibility

We also continued our partnership with Young Enterprise, the UK's largest business, enterprise and financial education charity. Our total donation of £45k during 2020/21 supported two key projects for Young Enterprise - the Extended Project Qualification (EPQ) Pilot and Digital Skills Audit. Through the EPQ programme, our donation enabled up to 150 students to take part. 14 staff have volunteered to be Business Mentors and have been trained to mentor company programme students. The Digital Skills Audit's findings will inform new programme developments with long-term impact for Young Enterprise and Beneficiaries.

In April 2020, we officially formed a partnership with Crisis, who became our social equality partner. We brought forward our annual donation of £20k to April 2020, to support their emergency campaign "In This Together" which supported rough sleepers who were especially vulnerable during the pandemic, as well as keeping their core homelessness support services running. We made a further donation of £30k for the Christmas services run by Crisis to help provide accommodation, companionship and essential support to people who otherwise would have spent Christmas homeless and alone. Combined with staff donations with matched funding which raised £11.7k, we supported 1,414 guests during the festive season.

We are in our second year partnering with The Wildlife Trusts. This year we were unable to offer 'Wild Work' volunteering opportunities to staff due to the national lockdown. However, our £20k donation will support existing conservation projects at nature reserves surrounding our 5 office locations in which we live and work.

We continue to support Macmillan as our wellbeing partner; we donated £22.6k during 2020/21 which included our staff charity activities such as a virtual coffee morning, a half marathon challenge as well as HCUK's annual donation. The donation was used towards the Macmillan Grants which is a one-off payment of £350 to an individual cancer patient. Our support funded 65 Macmillan Grants helping with the extra costs that living with cancer can bring.

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

We launched an apprenticeship programme named "Gamechangers" in partnership with Visionpath in September 2019. The programme was designed to unlock career pathways in financial services for school leavers from diverse social backgrounds whilst completing their studies as an effective way of contributing to our local communities and addressing social mobility challenges.

Over the course of the 12 month programme, we visited 51 schools in close proximity to our 5 office locations, running engagement sessions with over 1,000 sixth form and college students, and received applications from 255 students. 53 exceptional candidates joined the mentoring programme in January 2020 and were provided with individual volunteer mentors from HCUK who provided e-mentoring sessions during the lockdown. At the end of the programme, 10 apprentices joined HCUK in permanent positions in October 2020 working across IT, Customer Experience, Credit Operations, Quality Assurance & Business Change roles.

Our total volunteering hours declined in 2020/21 as a result of an inability to run in-person volunteering due to the need to prioritise employee safety during the COVID-19 pandemic. Instead, the Group introduced e-mentoring sessions to facilitate our support through the Gamechangers and Young Enterprise programmes. 21 mentors provided a total of 461.25 hours of mentoring support within the Gamechangers programme and 8 employees provided 16.5 hours of mentoring for students as part of the Young Enterprise programme.

Corporate Social Responsibility

This year, Hitachi Capital Business Finance partnered with Be The Business, a not for profit organisation helping small business owners based in the UK access a 12-week Rapid Response Mentoring programme free of charge. Through the scheme, our experienced mentors are helping businesses navigate the impacts of the pandemic.

Sustainability
Providing innovative solutions to support sustainability initiatives is vitally important to our business strategy. We continue to take bold steps to tackle climate change by delivering sustainable products and initiatives and we have set a target for 20% of our assets to be directly connected to climate action and affordable clean energy within the next 5 years.

In 2019/20, we made a clear commitment to electrify 100% of our car & small van fleet (3.5 tonne and under), and 50% of our funded van fleet (vehicles over 3.5 tonne) by 2030. Over the past 12 months, we grew our leasing fleet of Battery-powered Electric Vehicles (BEV) and Hybrid fleet including both plug-in (PHEV) and self-charging vehicles (HEV), with an additional 3,059 cars and vans.

Over the course of 2020/21, HCUK financed over £47.6m in Gridserve Sustainable Energy Ltd to help deliver multiple projects including construction of the Braintree Electric Forecourt® which opened in December 2020 and clean energy production at the Clayhill hybrid solar farm.

From 7 December 2020 to March 2021, the Braintree site delivered 88 MWh of energy to power the equivalent of 309,000 electric vehicle miles, saving 95 tonnes CO2 and 189 kg NO2 From August 2020 to March 2021, Clayhill delivered 4261 MWh of energy to power the equivalent of 14.9 million electric vehicle miles, saving 1,003 tonnes CO2.

We strengthened our partnership with a £10m investment in Gridserve Holdings Limited, the parent company of Gridserve Sustainable Energy Ltd. and provided funding to support Gridserve's partnership with Ecotricity which will upgrade existing charging points to provide faster charging facilities across the UK road network.

We are also the only leasing company in the industry to partner in the world's biggest commercial electric vehicle 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 EVs between now and 2030. During 2021/22, our Trowbridge Office will become a centre of Alternative Fuel Vehicle excellence as part of the Optimise Prime project.

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

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

https://www.hitachicapital.co.uk/media/4693/hitachi-capital-uk-green-financing-framework-2021.pdf

Corporate Social Responsibility

During 2020/21, our Business Finance division supported the agricultural sector by writing £24m of Farm loans, with over £12m of the loans being used directly by British farmers to invest in green energy energy projects, ranging from Biomass, Solar and Wind installations to anaerobic digesters, gasification and irrigation systems. A number of these projects work alongside government grants for environmental schemes. Funding in this sector is vital to future proof agricultural businesses whilst contributing to environmental goals.

By order of the Board.

R. Gordon
Chief Executive Officer
7 June 2021

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 2021.

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 48 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 55 of the Annual Report.

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

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

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

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

Section 172(1) 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, the Board resolved to recommend a final dividend of £25.0m, 5.6p per share in respect of the year ended 31 March 2021.
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 55. 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, the Company 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 29. 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 Company's shareholder and its associated companies. "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. As the Company continues to use the "Hitachi" name and brand, it 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. The Company is committed to preventing, deterring, and detecting all forms of financial crime such as money laundering, fraud, terrorist financing, bribery & corruption and market abuse. The Board has approved a Financial Crime Policy Statement and ensures that the Group Financial Crime Prevention Team within the Risk & Compliance function is fully resourced. The Board remains determined to ensure that the Company meets, or exceeds, its legal obligations to ensure that neither modern slavery nor human trafficking occur in its business or in its supply chains. Since 2020, the Company has been accredited as a "Real" Living Wage Employer by the Living Wage Foundation.
f) The need to act fairly as between members of the Company.	Hitachi Capital (UK) PLC has only one shareholder, Mitsubishi HC Capital Inc. There is therefore no possibility of a conflict of interests arising between members of the Company in the foreseeable future. However, in order to ensure that the Company and its shareholder continue to act in a manner which respects the legal, regulatory and cultural expectations in the UK and Japan respectively, the directors of each company endeavour to make sure that the two organisations operate within a written framework designed to promote appropriate levels of co-operation and consultation.

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 / Changes in risk during the year	Mitigants
We are unable to keep pace with market change or our products become too costly in comparison to competitors, reducing our market share. • This risk has not been significantly affected either by Covid-19 or other factors over the course of 2020/21.	• 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 (including those relating to the taxation of company cars); and emerging environmental, social and political developments in the UK and globally.

Principal risks & uncertainties

Financial Risks

Risk / Changes in risk during the year	Mitigants
We are unable to access funding for the business or can only access it at excessive cost. • Whilst borrowing margins increased in credit markets in general in the early part of the financial year, credit spreads and funding risks have now returned to pre-pandemic levels. HCUK maintained funding to all its business units throughout the year without interruption.	• We raise funding from a well-diversified set of sources. This includes both public issuance and private placements from a Medium Term Note programme, bi-lateral term borrowing from banks, securitisation, commercial paper and short term bank facilities - all in multiple currencies swapped into Sterling. This enables 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. • Effective hedging has been maintained in line with our policy and therefore there has been no change in the risk of ineffective hedging during the year. • Counterparty risk increased slightly early in the year but it has now returned to pre-pandemic levels.	• We have set a range of fixed treasury risk appetite limits and set monthly hedging strategies within those limits. Actual performance against those strategies is continually monitored. This includes 100% elimination of exposure to changes in foreign exchange rates. • We deploy effective interest rate hedging through derivative financial instruments and fixed rate borrowings. • We manage the effectiveness of hedging activity through regular Treasury Committee meetings at which the tenor of interest rate fixings of borrowing costs is matched against the tenor of the fixed rate assets held by the Group. • We regularly monitor each counterparty's creditworthiness through assessment of their long and short term stability of credit rating. The Group seeks minimum of Standard's & Poor's long term credit rating of at least BBB+ and short term credit rating of A-2 and the lower an entity is in the BBB+ to AAA range, the lower the policy exposure limit.

Principal risks & uncertainties

Risk / Changes in risk during the year	Mitigants
We face significant unexpected credit losses, arrears, increased bad debts and defaults. • The rapid deterioration in the UK economy in the early months of the financial year due to the pandemic and the requirement to offer customers payment holidays led to the inherent risk of credit losses increasing over the course of the year. Prompt modifications to our appetite for new businesses, amendments to our collection processes and continued monitoring of underwriting quality and various government support schemes have mitigated the majority of the increased risk which we consider has reduced towards the end of the year.	• We use internal and external data, internally developed scorecards and other analytical tools to assess customer creditworthiness, affordability and debt service capacity. • We focus our lending activities in segments and products where we have clear and proven expertise. • We limit concentration of lending by size, segment and customer type. • Where appropriate, especially in commercial lending, we obtain appropriate levels of collateral or security cover. • We maintain detailed lending and credit policies for each business unit. • We regularly review portfolio performance against risk appetite. • We regularly re-grade or re-score customers to re-assess the default risk. • We regularly review retailers, vendors and other business introducers in order to assess and manage contingent liabilities for the Group associated with those relationships including considerations arising from consumer protection provisions of the Consumer Credit Act.

Principal risks & uncertainties

Risk / Changes in risk during the year	Mitigants
We are subject to an unexpected drop in residual values. • During the early stages of the pandemic, markets for secondhand vehicles were largely closed. Since reopening of markets, sales proceeds have been strong. Residual value risk is not considered to have changed significantly during the year.	• We regularly review and re-set residual values in respect of new leasing quotes and contracts using macro-economic modelling techniques. • We limit concentration of residual values by manufacturer, model, type, and contractual lease maturity. • We utilise a variety of disposal routes to optimise remarketing proceeds. • We 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. • At the height of the pandemic many of our core markets either ceased to operate completely or continued at significantly reduced levels. Since then there has since been a strong recovery in new business levels in the second half of the year. For these reasons, the level of risk increased during the year but has returned to previous levels. We are planning carefully for the future rebranding of the business following the merger of our parent to mitigate potential risks to revenue generation.	• We undertake periodic stress tests to ensure that our business model can withstand a range of severe but plausible shocks from both a capital and liquidity perspective. • We regularly review our strategic plans to ensure that the business is alert to rapidly changing external factors, reacting accordingly to protect our financial position. • We will ensure that our rebranding and renaming exercise is undertaken with care to ensure it does not harm our reputation or adversely affect new business opportunities.

Principal risks & uncertainties

Conduct Risks

Risk / Changes in risk during the year	Mitigants
We fail to deliver fair outcomes to our customers • Certain segments of our customer base have experienced increased levels of vulnerability associated with the pandemic. We have recognised this and continued to focus on delivering fair outcomes and monitoring key metrics including those associated with conduct quality throughout the period of the pandemic. Consequently, there has been no significant change in the level of this principal risk during the period.	• In addition to our risk management governance, we monitor the delivery of fair customer outcomes through a dedicated Customer Experience Committee.. • We conduct root cause analysis on customer complaints. • We have control testing, oversight and assurance plans across all three lines of defence to address key conduct risks. • We have in place an organisation-wide programme of compulsory training. • We undertake regular and focused training of our customer-facing colleagues. • We operate a Quality Assurance programme within our customer-facing business areas. • We monitor the performance of third parties relied upon to provide services to our customers
We do not comply with either relevant current or emerging regulation and rules, including consumer credit and privacy regulation. • There has been no significant change in the level of this principal risk during the period.	• We employ experienced and skilled regulatory risk professionals. • We have processes for review and assessment of new and emerging rules, regulations and industry best practices. • We undertake regular 2nd line risk-based monitoring reviews in line with our "three lines of defence" model outlined later in this statement. • We operate a Quality Assurance programme within our customer-facing business areas. • We have open and transparent dialogue with our regulators.

Principal risks & uncertainties

Operational Risks

Risk / Changes in risk during the year	Mitigants
We are subject to a major systems failure including those arising as a consequence of malicious attack. • The rapid move to non-face to face working globally during the pandemic has created increased burden on IT teams increasing the inherent risk of major systems failure. Recognising this increased inherent risk, we have enhanced relevant controls. Consequently, there has been no significant change in the level of this principal risk during the period.	• We have in place real-time system monitoring to detect performance issues. • We have in place perimeter firewalls and security controls. • We employ dedicated and suitably skilled Information Technology and Information Security teams. • We undertake formal change management processes that include robust testing. • We regularly monitor our systems and infrastructure for vulnerabilities remediating weaknesses identified, • We employ experts to attempt to penetrate our perimeter identifying potential vulnerabilities which are remediated. • We run anti-virus software on our computer systems. • We have robust Business Continuity Planning and IT Disaster Recovery plans in place. • We undertake regular 2nd and 3rd line reviews of IT controls.
We are subject to significant fraud losses, including cybercrime. • Rapid changes in working practice with a move to non-face to face activity has led to increased opportunities for cybercrime and other non-face to face fraud in the financial services sector. • Recognising this increased inherent risk, we have enhanced relevant controls. Consequently, there has been no significant change in the level of this principal risk during the period.	• We have in place real-time system monitoring to detect system compromises. • We operate perimeter firewalls and have security controls in place. • We deploy strict identity validation checks. • We deploy dedicated device identification software and fraud detection rules. • We monitor our systems and perimeter for suspicious activity. • We employ dedicated and suitably skilled Information Security and Financial Crime Prevention support teams. • We have control testing, assurance and oversight plans across all three lines of defence to address key financial crime risks.

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 48.

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
During the course of the COVID-19 pandemic we have continued to operate our Risk Management Framework successfully identifying and mitigating risks that have arisen. We have invoked and continued to refine our Business Continuity Plans ensuring that: customers' needs have continued to be met; both our staff and our data have remained safe and secure; and our third party suppliers have continued to operate effectively. We have managed the requirements of the FCA's guidance on payment holiday and met customer needs for forbearance. There has been continued focus on our Quality Assurance and Risk Appetite Frameworks to ensure that we have continued to deliver strong customer outcomes during the crisis.

While new business volumes have fallen short of and credit losses exceeded original plan as a consequence of the pandemic, results as reported later in the financial statements have been well within the parameters of the survivable stress tests that we have modelled and we continue to trade profitably. There is continuing uncertainty regarding the future course of the pandemic and we continue to monitor developments closely through our governance arrangements. Based upon our experience of the pandemic to date, refinements that we have made to our business model in the period and the conclusions of our most recent testing of severe but plausible stress scenarios, we believe that our business model will continue to remain resilient for the foreseeable future.

HCUK has maintained uninterrupted funding of its lending activity during the year under review. There was a market increase in borrowing margins in the early part of the financial year. Credit spreads and funding risks have now reverted to levels broadly comparable to those at the beginning of the year.

Brexit
The UK left the European Union (EU) on 31 January 2020. As the Group's business is predominantly UK-based, we previously assessed that Brexit would have a relatively low impact on our operating capabilities. Our experience to date has validated our previous assumptions in that respect. We anticipated that some of our business customers may be adversely affected should the UK be unsuccessful in putting in place satisfactory arrangements for the continuance and growth of trading relationships. Some of our business customers have experienced adverse trading conditions in the short term however it is unclear the extent to which these are a consequence of Brexit because of the ongoing impact of the COVID-19 pandemic and partly because the UK government continues to negotiate with the EU on improving outcomes for industry sectors that seem to have experienced an adverse outcome in the short term. The overall impact, whether COVID-19 related or Brexit related, has not had a significant impact on our post January 2021 business performance, We continue to monitor developments but do not believe that Brexit will have a significant adverse outcome on our business in the foreseeable future.

Hitachi Capital (UK) PLC

Corporate Governance Statement

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

Corporate Governance Policy
The Board remains committed to high standards of corporate governance. Since 1 April 2019 the Board has applied the Wates Corporate Governance Principles ("Wates Principles") published by the Financial Reporting Council as the most appropriate corporate governance framework for the Company. However, the Board continues to have regard to the principles and provisions of the UK Corporate Governance Code ('the Code') to the extent that the Board considers them to be proportionate and relevant to the Company, bearing in mind the size and complexity of the Company and the nature of the risks and challenges it faces.

During the year, the Company completed its implementation of the FCA's Senior Managers & Certification Regime.

Application of the Wates Corporate Governance Principles
A review conducted by the Company's Internal Audit function in February 2021 found that the Company had followed the Wates Principles in all material respects. Set out below is an explanation of how the Company applied the six principles during the year.

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

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

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.

Throughout the year, the Chief Executive Officer continued to publish his weekly "blog" on the Company's intranet ("the Hub"), which provided updates of information and morale-boosting support for staff whilst they were required to work from home because of the COVID-19 pandemic. During this time, the CEO also presented a regular "TeamTalk Live" roadshow, which supplemented and brought to life the monthly staff newsletter, TeamTalk.

The effectiveness of various 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:
• 92.7% of employees said they had a clear understanding of the Group's vision, mission and values;
• 88.9% could see a clear link between their work and the Company's objectives; and
• 81% said that senior management were modelling the organisation's values; and
• 89.2% said that they would recommend the Group as a great place to work.

Each of these scores were higher than in the previous year. However, the Board and executive management remain committed to, and are working on, a variety of targeted actions with a view to maintaining and improving these positive ratings next year.

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 represents 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. In view of the continuing restrictions imposed on the UK population in order to counter the spread of the Covid-19 virus, the Board has resolved to revisit the matter of evaluation in September 2021.

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

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

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

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

The Directors are mindful of their statutory duties under the Companies Act 2006. The factors which they considered during the year in carrying out their statutory duty to promote the success of the Company are described in the Section 172(1) Statement, which forms part of the Group Strategic Report and starts on page 40.

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

The work of these committees is described later in this Corporate Governance Statement.
Details of the Group's principal risks and uncertainties, and the operation of the risk management framework, are set out in the section of the Group Strategic Report starting on page 40.

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 2021, the Company published its third annual statutory Gender Pay Gap Report, as set out in that part of the Group Strategic Report headed "Corporate Social Responsibility" starting on page 29. The latest report highlights further positive progress and also specific areas of focus, which the Remuneration Committee has mandated the Group 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.

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 55.

Following the merger on 1 April 2021 of Mitsubishi UFJ Lease and Finance Company Limited with Hitachi Capital Corporation to form Mitsubishi HC Capital Inc, the Company's new parent company and sole shareholder, the Board has agreed that a full review of the Company's corporate governance structure should be carried out, in order to ensure that the Board, the business, the parent company and all other relevant stakeholders continue to interact effectively.

Board of Directors

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

Mr. Fukuro is an employee of the Company's sole shareholder, Mitsubishi HC Capital Inc (formerly 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 Senior Advisor at the Financial Reporting Council.

Ms. Whitaker was appointed as chair of the Audit and Risk Committee by the Board, which considers her to be independent and to have competence in both accounting and auditing as required by the Disclosure and Transparency Rules.

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

The Board therefore also considers that a majority of members of the committee are independent and that the committee as a whole has competence relevant to the sector in which it is operating. The Board ensures that the committee carries out the functions required by rule 7.1.3 of the Disclosure and Transparency Rules.

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

The committee's responsibilities are set out in its terms of reference, which include monitoring the financial reporting process and the statutory audit of the annual consolidated financial statements, and reviewing the effectiveness of the Group's internal control and risk management systems and the work of its internal audit function. The committee reviews the findings of the Group's statutory auditor, keeps under review its independence and objectivity, the value for money of the audit, and the appropriateness and cost-effectiveness of any non-audit services provided by the statutory auditor. The committee satisfies itself that any safeguards required by ethical guidance regarding the provision of non-audit services are implemented.

The committee reports to the Board on the outcome of the statutory audit and explains how the statutory auditor and the committee contribute to the process. The committee is responsible for the procedure for selecting the statutory auditor and for making recommendations on its appointment. This year, following a formal tender process, the committee recommended to the Board that it propose the appointment of Deloitte LLP as statutory auditor of the Company and, having accepted that recommendation, the Board has included an appropriate resolution in the agenda for the 2021 Annual General Meeting.

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. 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. 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 2021 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

The Group has a fully resourced 2nd Line Risk & Compliance function and 3rd Line Internal Audit function which provide, respectively, oversight and assurance in respect of the overall effectiveness of the governance of the Group, including the risk and control framework. In addition, there have been regular reviews of key areas of risk by the internal audit teams of the parent company, which are expected to continue post-merger.

The Board, through the Audit and Risk Committee, has reviewed the effectiveness of the system of internal control, including financial, operational and compliance controls and risk management, through representations from management and the independent monitoring undertaken by the Internal Audit function. In addition, the Group's statutory auditor presented to the Audit and Risk Committee reports that include details of any significant internal control matters which it had identified. Weaknesses identified during the course of these reviews have been incorporated into action plans. 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 2021, 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 the parent company being listed on the Tokyo Stock Exchange.

Diversity and Inclusion

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

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

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

By order of the Board.

J.N.M.Sims
Company Secretary
7 June 2021

Hitachi Capital (UK) PLC

Directors' Report

The Board of Directors of Hitachi Capital (UK) PLC (registered company number 1630491) ("the Company") presents the annual report and audited financial statements for the year ended 31 March 2021 for the Company and its subsidiaries ("the Group").

Results and Dividends
The results of the Group for the year ended 31 March 2021 are set out in the consolidated income statement on page 77. No interim dividend was paid during the year (2020: £15m, 3.4p per share). The Directors have recommended a final dividend of £25.0m, 5.6p per share (2020: £nil) which represents 30% of the Group's profit after tax.

Share capital
The Group's issued share capital, together with the movement during the year, is detailed in note 24 of the financial statements.

Outlook
The Group's outlook and likely future developments in the Group's business are detailed in the Group Strategic Report on pages 5 to 47.

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. During the pandemic the CEO 'town hall' meetings have taken place online and are also recorded so all employees can access if they are not able to attend. Over the last year, the CEO has also introduced a blog, daily in the early days of the pandemic and weekly later on, to ensure key information is communicated. Microsoft Teams implementation meant that regular team and one-to-one meetings were able to continue.

During the year, the Group has maintained arrangements aimed at ensuring that employees' views can be taken into account in making decisions which are likely to affect their interests. On top of the annual engagement survey this year the Group instigated several employee 'pulse' surveys, including working at home and wellbeing surveys, to measure engagement across the Group. The Group has also launched a real time employee feedback tool (My Voice) to gauge employees' feedback around employee lifecycle events and as a general feedback tool. Analysis is available after each survey and is shared with the Executive Committee and the Board. Monthly summaries from My Voice are shared on the intranet for all employees to read. Employee representatives are in place at each location and meet regularly to meet the Group's consultation requirements. The Group continues to encourage active involvement in employee communities, which enable individuals to come together to maximise employee involvement, lead on events and help to implement ideas 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 launched a "Measures of Success" matrix and shared these measures so that all employees were fully aware of the core Group objectives during the pandemic and the link to their role.. Regular updates on performance ensure that all employees are aware of the financial and economic factors affecting the Group's performance.

The Group operates an equal opportunities policy and opposes all forms of unlawful discrimination. The Group's selection criteria and procedures will 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 form and the spirit of applicable requirements and are committed to ensuring that we maintain an understanding of - and can demonstrate compliance with - all of the rules, principles, and guidelines relevant to the Group.
• We engage with our regulators in an open, constructive, and transparent manner, including our input into regulatory-driven thematic reviews and market studies.
• The Board receives regular updates on regulatory developments, regulatory interaction and key areas of regulatory focus.
• Regular horizon scanning is conducted and fed back to the business for awareness in order to ensure that senior management is aware of upcoming regulatory changes and that plans are put in place to deliver these in a timely manner.

Shareholder:
• The sole shareholder continues to have a non-executive representative on the Board and on the Audit & Risk Committee, Nomination Committee and Remuneration Committee.
• The Directors engage with the shareholder on various elements of remuneration, including long term incentive plan (LTIP) arrangements and bonus and commission schemes operated by the Group.
• On 1 April 2021, Hitachi Capital Corporation merged with Mitsubishi Lease and Finance Co Ltd to form Mitsubishi HC Capital Inc, the Company's new sole shareholder.

Hitachi Capital (UK) PLC

Directors' Report
(continued)

Investors:
Engagement with debt investors is a continuous process. We connect with them as follows:
• We communicate with banks and debt investors through media releases, publication of financial results, through intermediaries such as dealer brokers and directly with investors through conference calls, face-to-face meetings and investor roadshows.
• We continue to respond to the growing interest from mainstream investors on Environmental, Social and Governance (ESG) matters, including the UN's Sustainable Development Goals (SDGs), climate change and human rights. During the year the Company published a framework of principles under which it will issue 'Green' Bonds and confirm the appropriateness of application of funds raised, and subsequently made its first green bond issue. The Board is regularly kept up to date on financial market conditions and investor sentiment by reports from the Treasury Committee.

Customers:
Our continued success and strong growth can be attributed to a strong focus upon ensuring that our customers have an outstanding experience and we strive to provide fair outcomes to consumers and businesses alike.
• We develop strong relationships with customers built on trust;
• We innovate and develop products and offer high levels of service that meet customers' needs, which allows us to retain existing customers and win new customers;
• Ongoing interaction with customers, including meetings and customer site visits, is managed by the Group's business units;
• We have a customer feedback process, designed to ensure customer satisfaction. The Board receives regular updates from the Customer Experience Committee on such feedback and on the metrics we have in place to measure the quality of our customer service;
• We operate a Product Governance Framework which enables the business to assess the risk, reward, and value of all new products, whilst also periodically assessing those same aspects for existing products. This ensures that the Company continues to offer products which address a tangible need of stakeholders in the market, whilst addressing any risks (to both customers and the business) in the design and operation of those products.

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

Employees:
We promote and maintain a diverse and inclusive workforce in which all colleagues are treated equally and have the opportunity to be successful and achieve their potential.
• The Board receives regular reports on diversity and inclusion from the Human Resources function and updates are included in the monthly Finance Report which is provided to the Board.
• Our employee communities ensure that employees' views are taken into account in making decisions which are likely to affect their engagement.
• A comprehensive annual employee engagement survey is conducted to measure engagement across the Group and the results are reported to the Board.

Directors' Report
(continued)

• Our mentoring circles programme has now successfully delivered over the past four years and remained in place virtually for 2020/21.
• During the year, a new programme for aspiring leaders/managers has been launched and this programme has been externally accredited.
• We maintain Company-wide communication via the intranet and regular newsletters.
• In addition to local HR representatives, we have Mental Health Champions and representatives in all locations who work with our wellbeing community in order to support all employees.

Communities and Environment:
The Group is 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.

Despite the challenging environment due to the COVID-19 pandemic, we continued and expanded our commitment to making sustainable difference by aligning our business to the UN Sustainable Development Goals.

Some of key achievements during the year are set out below:
• We supported a number of charities, including FareShare, Young Enterprise, Macmillan, Crisis and The Wildlife Trusts, total donations for the year exceeding £249,000.
• We successfully completed "Gamechangers" , our creative apprenticeship programme, designed to provide career pathways in financial services for school leavers from diverse backgrounds. Over the course of the one-year programme, our staff volunteered and provided mentoring sessions to 53 exceptional candidates selected out of 255 applicants and the Company recruited 10 apprentices in October 2020.
• Hitachi Capital Business Finance partnered with Be the Business, a not for profit organisation, in order to help small business owners based in the UK to access a 12-week Rapid Response Mentoring programme free of charge. 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 29.

Directors of the Group
The Directors who served during the year and to the date of this report were as follows:
H. Fukuro
R. Gordon
A. Hughes
G. Munnoch
A. Whitaker

In accordance with the Company's Articles of Association, each of the Directors serving at the date of this report will retire by rotation at the 2021 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 are prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that year. In preparing these financial statements the Directors are required to:

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

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

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, 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 2021 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 35.

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 5. 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 77 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 are satisfied that the Group has sufficient appropriate funding facilities and capacity to borrow both currently and for the foreseeable future. A central treasury function provides funding for the Group's operations and manages treasury risks in accordance with policy limits approved by the Board and the Treasury Committee.

The Group has access to the following funding sources:

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

It is the Directors' intention to continue to utilise existing facilities to meet the funding needs of the business. The Group's funding sources and facility utilisation is set out in more detail within the liquidity risk and funding management section in note 33 to the financial statements.

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

Stress testing

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

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

Directors' Report
(continued)

The statement of financial position shows a net current liability of £200m 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 2.1 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 33).

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. Consequently, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

Financial instruments
The Group uses financial instruments to mitigate risk. These are detailed above and in note 33 to the financial statements.

Branches
Confirmation of the Company's branches outside the UK is included in the Group Strategic Report starting on page 5.

Auditors
In accordance with section 489 of the Companies Act 2006, pursuant to a recommendation from the Audit & Risk Committee made to, and accepted by, the Directors following a selection process conducted by the committee in compliance with section 489A of that Act, a resolution for the appointment of Deloitte LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting. Consequently, subject to that resolution being passed, Ernst & Young LLP will cease to hold office as the auditor of the Company at the close of the 2021 Annual General Meeting.

Corporate Governance Statement
The corporate governance statement is on pages 48 to 54 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 62.

By order of the Board,

J.N.M. Sims
Company Secretary
7 June 2021

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 2021, 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.

2021

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

2020

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.

2021

Energy type	Definition	Total volume (kWh)	Calculated emissions (Tonnes of CO2e)
Electricity	Emissions from purchased electricity	1,764,718	411
Total		**1,764,718**	**411**

2020

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).

2021

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	1,872	0.5
Total		**1,872**	**0.5**

2020

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	35.0
Total		**149,134**	**35.0**

Energy and Carbon Report
(continued)

Total Emission Scope Summary

Emission type	2021 Total volume (kWh)	2021 Calculated emissions (Tonnes of CO2e)	2020 Total volume (kWh)	2020 Calculated emissions (Tonnes of CO2e)
Scope 1 (direct)	117,728	24.0	2,151,611	509.0
Scope 2 (indirect)	1,764,718	411.0	2,056,225	526.0
Scope 3 (indirect)	1,872	0.5	149,134	35.0
Total	**1,884,318**	**435.5**	**4,356,970**	**1,070.0**

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	2021 Total volume (kWh)	2021 Calculated emissions (Tonnes of CO2e)	2020 Total volume (kWh)	2020 Calculated emissions (Tonnes of CO2e)
Transport	-	0.39	-	18.0
Total		**0.39**		**18.0**

Intensity Ratio

2021

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

2020

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

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 obtained from expense claims submitted for our company cars and grey fleet. Unsubmitted claims for the period are expected to have an immaterial impact. The Group constantly reviews its expenses policy with focus on prompt claim submission. CO2e emissions were calculated using the appropriate emission factors from the UK Government GHG conversion information.

Energy Efficiency Action
The Company has committed to electrify 100% of its car and small van (3.5t and under) fleet and 50% of its larger van fleet by 2030 to support the UK's goal of banning the sale of new petrol and diesel cars by 2030 and new hybrid cars by 2035. Following various initiatives over the past year (including the appointment of dedicated EV advisors, collaboration with British Gas on home charging points, and the launch of marketing campaign on YouTube), the fuel make-up of the Company's fleet has shifted from 6% to 11% alternative fuelled vehicles (such as electric, electric hybrid, LNG natural gas, petrol/bio-ethanol, petrol LPG) and 1 in 3 new cars being delivered is now electric

In January 2021, in line with its commitment to become a market leader for electric vehicle adoption, the Company invested £10m in Gridserve Sustainable Energy Ltd, which recently delivered the UK's first ultra-fast electric forecourt.

The Company's Ultra-Low Emission Vehicle (ULEV) scheme, which was re-designed in 2020 to encourage take-up of lower emission cars, has seen a shift from 30% of the fleet being electric to 66% since the scheme went live. The ULEV scheme has seen a reduction in CO2 of 30.2g/km, resulting in a current CO2 average of 56.9g/km, which is almost half that of the average CO2 in other leasing fleets (British Vehicle Rental and Leasing Association - Q4, average car emissions 110.6g/km). In addition, smart charging points are included within the car allowance so that employees can have a home charging point installed.

In March 2021, the Company placed a 3-year USD 40 million Green Bond to fund green projects, including the provision of leases for battery electric vehicles, hybrid solar farms and electric vehicle charging points.

Energy consumption (gas, transport fuel, electricity) reduced by 58% this year due to the reduced occupancy across all sites following COVID-19 restrictions. Our emissions from business travel reduced by over 98%. The greater implementation of video conferencing for staff and board meetings during the year reduced the need for travel to and between sites.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HITACHI CAPITAL (UK) PLC

for the Year Ended 31 March 2021

Opinion

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 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union;
- the Company financial statements been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Hitachi Capital (UK) plc (the "Company") and its subsidiaries (the "Group") for the year ended 31 March 2021 which comprise:

- Consolidated Income Statement for the year then ended
- Consolidated Statement of Comprehensive Income for the year then ended
- Statement of Financial Position – Consolidated and Company as at 31 March 2021
- Consolidated Statement of Changes in Equity for the year then ended
- Statement of Changes in Equity for the year then ended
- Consolidated Statement of Cash Flows for the then ended
- Related notes 1 to 35 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 Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards to the Group financial statements, International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union and; as regards to the Company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

Basis for opinion

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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group and Company's ability to continue to adopt the going concern basis of accounting included the following:

- In conjunction with our walkthrough of the financial statement close process, we confirmed our understanding of the directors' going concern assessment process and also engaged with Management early and outlined our expectations relative to their assessment.
- We independently identified factors that may indicate events or conditions that may cast significant doubt on the Group and Company's ability to continue as a going concern.
- We obtained the directors' going concern assessment, including the cash flow forecasts for the going concern period which covers the period of 12 months from the date of approval of the financial statements. The Group modelled a number of adverse scenarios in its cash flow forecasts in order to incorporate unexpected changes to the forecasted liquidity and capital positions.
- We compared the historical budgeted financial information with historical actual results, in order to form a view on the reliability of the forecasting process.
- We obtained the directors' reverse stress testing and downside sensitivity analysis, and challenged key assumptions, in particular relating to the liquidity and funding requirements Management assume that the Group will require. We also performed independent stress testing in forming our conclusions.
- We tested whether the forecasts used in the going concern assessment were mathematically accurate.
- We obtained details of the Group's existing borrowings and considered the terms and maturities of these facilities to assess their impact on the going concern assumption.
- We assessed whether the merger of the Group's ultimate parent company, Hitachi Capital Corporation, with Mitsubishi UFJ Lease and Finance Company Limited would impact the ability of the Group to continue as a going concern.
- We considered whether there were other events subsequent to the balance sheet date which could have a bearing on the going concern conclusion.
- We considered Management's plans for future actions within control of the Group to maintain a surplus to liquidity and funding requirements over the going concern period in order to determine if such actions are feasible in the current circumstances.

- We reviewed the going concern disclosures included in the Annual Report and Financial Statements in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Over the assessed going concern period, the Group and Company has forecast that it will remain in compliance with its liquidity and funding requirements using base case assumptions. We have concluded that the Group's forecasts and expected outcome over the going concern period are reasonable, and from the stress testing performed, we concluded that although there are uncertainties relating to these forecasts, the risk of the Group and Company breaching its regulatory requirements and being subject to regulatory forbearance does not represent a material uncertainty.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Overview of our audit approach

Key audit matters	• Expected credit loss provisions in the Consumer Finance and Business Finance business segments • 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
Audit scope	• We performed an audit of the complete financial information of the Group and Company.
Materiality	• Overall Group and Company materiality of £5.1m (2020: £6.5m) which represents 5% (2020: 5%) of Group profit before tax.

An overview of the scope of the Group and Company audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company 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 at each company.

The Group has business segments in Staines, Leeds, Newbury, Trowbridge and Telford. The Company had two subsidiaries during the year and at the year end, Hitachi Capital European Vendor

Solutions B.V., and Hitachi Capital Vehicle Solutions Limited, which are also managed in Staines. All work performed for the purposes of the audit was undertaken by the Group audit team.

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.

Risk	Our response to the risk
Expected credit loss provisions in the Consumer Finance and Business Finance business segments *Please refer to the Accounting policies (pages 103 to 105) and Note 14 of the Consolidated Financial Statements (page 139).* At 31 March 2021, the Group reported total gross loans in the Consumer Finance business segment of £2,936.4m (2020: £3,316.9m) and an allowance for expected credit loss of £40.6m (2020: £40.0m). The Group also reported total gross loans of £1,413.6m (2020: £1,264.5m) in the Business Finance business segment and allowance for expected credit loss of £10.2m (2020: £5.5m). Although the Group applies 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 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. - The appropriateness of the use of the simplified approach to calculating ECL in the Business Finance portfolio. - Accounting interpretations and modelling assumptions used to build the models that calculate the ECL.	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 credit risk specialists, we risk rated the ECL models and then tested the assumptions, inputs and formulas within these models. This included assessing the appropriateness of model design and formulas used, and performing an independent replication of HCUK's models to recalculate the ECL. We performed testing over the integrity and completeness of the data used within the Group's IFRS 9 models. 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 used in the ECL calculation for the Consumer Finance business unit were appropriate. We tested the post model adjustment to capture the additional risks associated with those accounts in the Consumer Finance business segment that had taken payment holidays by assessing the appropriateness of the model methodology, validating data inputs and independently recalculating the PMA. We also tested the appropriateness and completeness of overlays recognised in response to COVID-19 related economic uncertainty. In conjunction with our credit risk specialists, we developed an independent challenger model using the Business

- Inputs, assumptions and weightings used to estimate the impact of multiple economic scenarios. - Measurement of individually assessed provisions. - Completeness and valuation of Post Model Adjustments (PMA). - Accuracy and adequacy of financial statement disclosures. The level of judgement and estimation remains heightened as a result of COVID-19, which has resulted in additional uncertainty in forecasting future economic scenarios, the weightings to be applied to these scenarios, and the determination of SICR.	Finance business unit's loss rate data and maturity analysis to assess the reasonableness of the loss rate assumptions applied by Management. For a sample of higher risk individually assessed corporate provision cases within the Business Finance business segment, we obtained an understanding of the latest developments in the borrower's situation and the factors impacting the measurement of provisions including factors arising from COVID-19. In each case we tested key data inputs and, where relevant, considered alternative scenarios in challenging the estimate recorded by Management. We assessed the adequacy and appropriateness of disclosures made within the financial statements including the disclosures provided in relation to the credit risk related impacts of COVID-19. We performed a stand back analysis, in line with the requirements of ISA 540, to assess the overall adequacy of the ECL coverage and approach. In completing this analysis we considered the nature and credit quality of the overall loan books, performed benchmarking across similar institutions, assessed the impact of the pandemic on individual and company exposures and behaviours, and evaluated the overall reasonableness of economic recovery assumptions.

Key observations communicated to the Audit and Risk Committee
We concluded to the Audit and Risk Committee that the Group's ECL provision was reasonable and in compliance with IFRS 9, with immaterial audit differences, taking into account the increased uncertainty in determining forecast losses due to the economic uncertainties resulting from COVID-19. We concluded that disclosures relating to expected credit losses, including the methodology applied, the risks in the portfolio, and the sensitivity of the assumptions used were in compliance with the requirements of IFRS.

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 95 and 110) and Notes 3 and 11 of the Consolidated Financial Statements (page 131 to 133).* At 31 March 2021, the Group reported depreciation and impairment of £207.5m (2020:£175.3m) relating to operating lease assets in the Vehicle Solutions business segment.	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. With the support of EY valuation specialists, we assessed the appropriateness of the valuation methodology adopted by Management and benchmarked the valuation for a sample of assets using a valuation model that has been independently developed by EY. 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 Group's model. We performed

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 the estimation of future proceeds that will be received from the sale of vehicles, which is impacted by vehicle values and the anticipated decline over the vehicles' lifetime. The estimation uncertainty of the residual value calculations has increased as a result of COVID-19, which has resulted in reduced liquidity in certain parts of the used vehicle market, leading to additional complexity and uncertainty in calculating fair values, obtaining prices and forming expectations of supply and demand going forward.	back testing to test the adjustments and assumptions made by Management in determining the useful life and rate of depreciation of the leased assets, and considered whether any impairment of the operating lease assets should be recorded. 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 considered recent sales data to validate forecast residual values for similar vehicles at the year end. We assessed the reasonableness of the assumptions applied in calculating the residual value by benchmarking these against 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 2021, 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.

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 (page 100 and 112) and Note 26 of the Consolidated Financial Statements (page 158).* At 31 March 2021, the Group held funds of £65.8m in the retailer liability loss pool account (2020: £74.3m), and £56.2m as deferred subsidy income (2020: £65.1m) in the Consumer Finance business segment. The Group enters into agreements with retailers that include the receipt of subsidy income. Rather than recognise the full amount as revenue, the Group withhold an element 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.	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 the accuracy of the calculation of the element of subsidy income that is withheld in the loss pool, rather than recognised as revenue, by assessing the appropriateness of Management's use of the loss pools and the extent to which loss pools were found to be under-reserved, resulting in additional bad debt charges being incurred. A greater proportion of loss pools were found to be under reserved as a result of COVID-19, and we have challenged the subsequent increase in the loss pool rates the Group has applied in response to this observation. We also assessed instances where funds withheld in the loss pool were not fully utilised and challenged that these were appropriately 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.

Judgement is applied by Management in assessing the losses that are expected to be incurred on each retailer, which drives the calculation of the element of subsidy income that should be withheld on the loss pool for each relevant retailer, rather than recognised as revenue.	We 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. 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.
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 2021, 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.	

In the prior year, our auditor's report included a key audit matter in relation to "The impact of COVID-19 on the financial performance of the Group, and its ability to continue as a going concern". This focused on the impact of COVID-19 on the Group's forecasts, and whether COVID-19 gave rise to material uncertainties over going concern. We have considered the risks associated with going concern to have reduced relative to the prior year and no longer consider this to be a key audit matter. As a result of the revisions to ISA (UK) 570 Going Concern, effective for periods commencing on or after 15 December 2019, the procedures we have performed and resultant conclusions over going concern are now separately discussed within the Conclusions Relating to Going Concern section of our auditor's report.

Our prior year auditor's report also included a key audit matter in relation to the completeness of Consumer Credit Act (CCA) compliance provisions. We no longer consider this to be a key audit matter due to the reduction in the provision balance and the level of uncertainty and risk associated with the provision.

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 £5.1 million (2020: £6.5 million), which is 5% (2020: 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 to conclude on a materiality of £5.1m.

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% (2020: 75%) of our planning materiality, namely £3.8 million (2020: £4.8 million). We have set performance materiality at this percentage after considering our experience in the prior year, our assessment of an effective control environment and our perspectives from the current year audit. As a result, we determined that the higher of our permissible thresholds for our performance materiality was appropriate.

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 £0.3million (2020: £0.3 million), 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 65, other than the financial statements and our auditor's report thereon. The directors are responsible for the Other Information contained within the annual report.

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

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

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 59, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are:

  - Companies Act 2006 and related regulations
  - Financial Conduct Authority (FCA) regulations, license conditions and supervisory requirements
  - 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. We also focused our testing on key areas of risk and estimation, as referred to in the key audit matters section above.
- 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 15 years, covering the years ending 31 March 2007 to 31 March 2021.
- 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

Stephen Littler (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester
7 June 2021

Hitachi Capital (UK) PLC

Consolidated Income Statement for the Year Ended 31 March 2021

	Note	2021 £m	2020 £m
Interest income		191.0	205.0
Finance lease income		70.2	66.1
Operating lease rental income		287.9	243.1
Operating lease maintenance income		36.9	34.6
Sale of operating leased assets		121.7	120.3
Other operating income	5	36.7	44.5
Revenue		744.4	713.6
Finance costs	6	(66.7)	(77.5)
Depreciation and impairment of operating leased assets	11	(219.0)	(185.1)
Maintenance expense on operating leased vehicles		(38.2)	(32.4)
Disposal of operating leased assets		(119.0)	(115.3)
Other cost of sales	7	(11.4)	(4.3)
Cost of sales		(454.3)	(414.6)
Gross profit		290.1	299.0
Impairment losses on credit exposures	14	(41.9)	(30.9)
Administrative expenses	8	(142.7)	(138.4)
Operating profit		105.5	129.7
Fair value gain/(loss) on derivative financial instruments	16	0.9	(0.3)
Parent integration costs	9	(2.4)	-
Profit before tax		104.0	129.4
Income tax expense	10	(21.3)	(26.3)
Profit after tax		82.7	103.1

The notes on pages 85 to 191 form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income for the Year Ended 31 March 2021

	Note	2021 £m	2020 £m
Profit for the year		82.7	103.1
Other comprehensive income to be reclassified to profit or loss in subsequent period			
Loss on cash flow hedges taken to cash flow hedge reserve		(6.0)	(10.4)
Income tax effect	10	1.1	2.0
		(4.9)	(8.4)
Net other comprehensive income to be reclassified to profit or loss in subsequent period		(4.9)	(8.4)
Items that will not be reclassified subsequently to profit or loss			
Re-measurement of defined benefit pension scheme	28	(7.6)	6.6
Income tax effect	10	1.5	(1.3)
		(6.1)	5.3
Net other comprehensive income not to be reclassified to profit or loss in subsequent period		(6.1)	5.3
Other comprehensive income for the year, net of tax		(11.0)	(3.1)
Total comprehensive income for the year, net of tax		71.7	100.0
Attributable to:			
Equity holders of the parent		71.7	100.0
Total comprehensive income for the year, net of tax		71.7	100.0

Statement of Financial Position - Consolidated and Company as at 31 March 2021

	Note	31 March Group 2021 £m	31 March Group 2020 £m	31 March Company 2021 £m	31 March Company 2020 £m
Non-current assets					
Intangible assets	13	70.9	55.4	70.9	55.4
Investments in subsidiaries	4	-	-	7.7	7.7
Investments in joint ventures	4	10.1	-	10.1	-
Property, plant and equipment under operating lease	11	1,291.8	1,041.9	1,290.7	1,041.3
Other property, plant, equipment and right of use assets	12	19.1	19.7	19.1	19.7
Loans and advances to customers	15	2,892.9	3,083.9	2,878.3	3,068.9
Other financial instruments at amortised cost	32	38.6	44.1	38.6	44.1
Financial instruments at fair value through profit or loss	32	42.3	45.1	42.3	45.1
Derivative financial instruments	16	8.8	78.5	8.8	78.5
Deferred tax assets	10	18.2	9.4	18.2	9.4
Retirement benefit asset	28	1.7	7.1	1.7	7.1
		4,394.4	4,385.1	4,386.4	4,377.2
Current assets					
Loans and advances to customers	15	1,791.4	1,840.7	1,775.9	1,824.7
Derivative financial instruments	16	1.9	57.9	1.9	57.9
Inventories	19	31.9	26.7	31.9	26.7
Current tax asset		0.5	12.4	0.5	12.4
Trade and other receivables	20	109.4	86.4	109.0	86.5
Cash and cash equivalents	23	144.8	21.1	143.3	17.5
		2,079.9	2,045.2	2,062.5	2,025.7
Total assets		6,474.3	6,430.3	6,448.9	6,402.9
Equity and liabilities					
Equity					
Share capital	24	110.7	110.7	110.7	110.7
Share premium		15.6	15.6	15.6	15.6
Retained earnings		687.8	605.1	688.0	605.5
Other reserves		(24.3)	(13.3)	(24.3)	(13.5)
Equity attributable to owners of the company		789.8	718.1	790.0	718.3

The notes on pages 85 to 191 form an integral part of these financial statements.

Statement of Financial Position - Consolidated and Company as at 31 March 2021 (continued)

	Note	31 March Group 2021 £m	31 March Group 2020 £m	31 March Company 2021 £m	31 March Company 2020 £m
Non-current liabilities					
Interest bearing borrowings	17	3,182.5	3,079.9	3,157.6	3,052.4
Derivative financial instruments	16	139.4	25.6	139.4	25.6
Trade and other payables	26	81.0	90.5	81.0	90.5
Provisions	22	1.3	1.2	1.3	1.2
		3,404.2	3,197.2	3,379.3	3,169.7
Current liabilities					
Interest bearing borrowings	17	1,966.6	2,268.4	1,966.6	2,268.4
Derivative financial instruments	16	46.3	6.8	46.3	6.8
Trade and other payables	26	264.6	236.8	263.9	236.7
Provisions	22	2.8	3.0	2.8	3.0
		2,280.3	2,515.0	2,279.6	2,514.9
Total liabilities		5,684.5	5,712.2	5,658.9	5,684.6
Total equity and liabilities		6,474.3	6,430.3	6,448.9	6,402.9

The Company profit for the year was £82.5m (2020: £103.2m)

The financial statements were approved by the board, authorised for issue on 7 June 2021 and signed on its behalf by:

R. Gordon
Chief Executive Officer

Consolidated Statement of Changes in Equity for the Year Ended 31 March 2021

Group	Note	Share capital £m	Share premium £m	Retained earnings £m	Other reserves £m	Total equity £m
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	21	-	-	(15.0)	-	(15.0)
At 31 March 2020		110.7	15.6	605.1	(13.3)	718.1
Profit for the year		-	-	82.7	-	82.7
Other comprehensive income		-	-	-	(11.0)	(11.0)
At 31 March 2021		110.7	15.6	687.8	(24.3)	789.8

The notes on pages 85 to 191 form an integral part of these financial statements.

Hitachi Capital (UK) PLC

Statement of Changes in Equity for the Year Ended 31 March 2021

Company	Note	Share capital £m	Share premium £m	Retained earnings £m	Other reserves £m	Total £m
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	21	-	-	(15.0)	-	(15.0)
At 31 March 2020		110.7	15.6	605.5	(13.5)	718.3
Profit for the year		-	-	82.5	-	82.5
Other comprehensive income		-	-	-	(10.8)	(10.8)
At 31 March 2021		110.7	15.6	688.0	(24.3)	790.0

The notes on pages 85 to 191 form an integral part of these financial statements.

Hitachi Capital (UK) PLC

Consolidated Statement of Cash Flows for the Year Ended 31 March 2021

	Note	Group 2021 £m	Group 2020 £m	Company 2021 £m	Company 2020 £m
Profit before tax		104.0	129.4	103.7	129.5
Operating activities:					
Non cash adjustment to reconcile profit before tax to net cash flows:					
Depreciation and impairment of property, plant and equipment under operating lease	11	219.1	185.1	218.9	184.9
Depreciation and impairment of other property, plant, equipment and right of use assets	12	2.8	2.8	2.8	2.8
Amortisation and impairment of intangible assets	13	6.3	2.5	6.3	2.5
Net gain on disposal of operating lease assets		(14.7)	(13.8)	(14.7)	(13.8)
Net loss on disposal of intangible assets		0.1	-	0.1	-
Fair value (gain)/loss on derivative financial instruments	16	(0.9)	0.3	(0.9)	0.3
Defined benefit pension scheme charge to income statement	28	0.3	0.3	0.3	0.3
		317.0	306.6	316.5	306.5
Working capital adjustments					
Decrease/(increase) in receivables		225.8	(221.6)	225.2	(190.8)
Increase in payables & provisions		16.3	9.7	16.0	10.0
Increase in inventories		(5.2)	(12.7)	(5.2)	(12.7)
Cash contributions to defined benefit pension scheme	28	(2.1)	-	(2.1)	-
Purchase of operating leased assets	11	(576.0)	(463.8)	(575.2)	(463.0)
Proceeds from sale of operating leased assets		121.7	120.3	121.6	120.3
Cash inflow / (outflow) from operations		97.5	(261.5)	96.8	(229.7)
Income taxes paid		(15.5)	(44.3)	(15.5)	(44.3)
Net cash inflow / (outflow) from operating activities		82.0	(305.8)	81.3	(274.0)

Consolidated Statement of Cash Flows for the Year Ended 31 March 2021 (continued)

	Note	Group 2021 £m	Group 2020 £m	Company 2021 £m	Company 2020 £m
Investing activities					
Purchase of property, plant and equipment (non-operating leases)	12	(2.2)	(1.2)	(2.2)	(1.2)
Purchase of intangible assets	13	(21.9)	(19.6)	(21.9)	(19.6)
Dividends received		-	-	-	(0.2)
Investment in joint venture	4	(10.1)	-	(10.1)	-
Net cash outflow from investing activities		(34.2)	(20.8)	(34.2)	(21.0)
Financing activities					
Funding received		1,538.0	1,137.6	1,541.0	1,131.4
Funding paid		(1,462.1)	(828.3)	(1,462.3)	(857.3)
Dividends paid		-	(15.0)	-	(15.0)
Net cash inflow from financing activities		75.9	294.3	78.7	259.1
Net increase/(decrease) in cash and bank overdrafts		123.7	(32.3)	125.8	(35.9)
Cash and bank overdrafts at beginning of the year	23	21.1	53.4	17.5	53.4
Cash and bank overdrafts at end of the year	23	144.8	21.1	143.3	17.5
Current assets - cash	23	144.8	21.1	143.3	17.5

1 Corporate information

The consolidated financial statements of the Group for the year ended 31 March 2021 were authorised for issue by the directors on 7 June 2021. Hitachi Capital (UK) PLC is a public limited company incorporated in the United Kingdom. The address of the registered office is given at the beginning of this report as is information on the ultimate parent undertaking. The principal activities of the Group are described in note 3.

2 Accounting policies

2.1 Basis of preparation

The financial statements are prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union. 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 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 5. 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 77 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 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.

2 Accounting policies (continued)

2.1 Basis of preparation (continued)

The Group has access to the following funding sources:
• Euro medium term note and commercial paper programmes for which Mitsubishi HC Capital Inc (formerly Hitachi Capital Corporation) acts as guarantor.
• Securitisation facilities, which management renegotiates on an annual basis.
• A committed back up facility in Sterling in the form of a fixed share of a global Mitsubishi HC Capital Inc (formerly Hitachi Capital Corporation) committed facility, and additional shared facility, from the three largest Japanese commercial banks.
• Group loan facilities available from Mitsubishi HC Capital Inc (formerly Hitachi Capital Corporation).
• Short term uncommitted bank borrowing facilities.

It is the Directors' intention to continue to utilise existing facilities to meet the funding needs of the business. The Group's funding sources and facility utilisation is set out in more detail within the liquidity risk and funding management section in note 33 to the financial statements.

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

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

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

The statement of financial position shows a net current liability of £200m 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 and that it has conducted adequate stress testing of the possible economic scenarios resulting from the pandemic (as detailed in note 33).

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. Consequently, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

2 Accounting policies (continued)

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 March 2021. 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.

2.3 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)

2.3 Summary of significant accounting policies (continued)

(b) Investments in associates and joint ventures

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

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

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group's investment in its associates and joint ventures are accounted for using the equity method.

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

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

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated income statement outside operating profit and represents profit or loss after tax and non controlling interests in the subsidiaries of the associate or joint venture.

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

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

2 Accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

(c) Foreign currency transactions and balances

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

Transactions in foreign currencies are initially recorded in the functional currency at the spot rate of exchange ruling at the date of the transaction. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the 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 2.3(n).

(d) Revenue from contracts with customers

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

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.

2 Accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

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

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)

2.3 Summary of significant accounting policies (continued)

Group as a Lessor - Operating leases

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

Group as a Lessor - Finance leases

Lease agreements in which the Group transfers substantially all the risks and rewards of ownership of the underlying asset to the lessee are classified as finance leases.

A finance lease receivable equal to the net investment in the lease is recognised and is presented within loans and advances to customers in the statement of financial position. Lease payments are apportioned between interest income in the statement of profit and loss and a reduction of the hire purchase or finance lease receivable to achieve a constant rate of interest over the lease term.

Group as a Lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Initial recognition and measurement

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

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

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

2 Accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

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 2.3(g) Property, plant and equipment & right of use assets. Adjustments are made to the carrying value of the right of use asset where the lease liability is re-measured in accordance with the above.

Right of use assets are presented within note 12 Other property, plant, equipment and right-of-use assets. They are tested for impairment in accordance with IAS 36 Impairment of assets as disclosed in 2.3(s) Impairment of non-financial assets.

2 Accounting policies (continued)

2.3 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)

2.3 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.

(f) Taxes

Current Income Tax

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

2.3 Summary of significant accounting policies (continued)

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

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

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

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

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

Depreciation of operating leased assets is calculated over the 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.

(h) Investment in subsidiaries

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

2 Accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

(i) Intangible Assets

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

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)

2.3 Summary of significant accounting policies (continued)

(j) Classification and measurement of financial assets and liabilities

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

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

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

· financial assets at amortised cost;
· financial assets at fair value through other comprehensive income (FVTOCI); or
· financial assets at fair value through the profit or loss (FVTPL).

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

2 Accounting policies (continued)

2.3 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 asset depending on how the risks are managed, past experience with the financial asset and how performance is measured and reported:

• Hold to collect: it is intended to collect the contractual cash flows from the assets (Amortised cost).
• Hold to collect and sell: it is intended to collect both the contractual cash flows and cash flows arising from the sale of the asset (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 (the "SPPI test").

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, thc 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)

2.3 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 set out in note 2.3(e).

Financial assets at fair value through other comprehensive income (FVTOCI)

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

· the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

· the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, 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 income statement.
The Group does not hold any financial assets that are measured at FVTOCI.

Financial assets at fair value through the profit or loss (FVTPL)

Financial assets not otherwise classified above are classified and measured as FVTPL.

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

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

· financial liabilities at amortised cost; or

· financial liabilities at fair value through the profit or loss (FVTPL).

2 Accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

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

The Group classifies the following financial liabilities at amortised cost.

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

The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate at which estimated future cash payments are discounted to the net carrying amount of the financial liability over the expected life (or a shorter period, where appropriate) of the financial liability. The corresponding interest expense is presented within Finance cost in the 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 2.3(n).

2 Accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

(k) Derecognition of financial assets and financial liabilities

Financial assets

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

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

2.3 Summary of significant accounting policies (continued)

(l) Modification of financial assets and financial liabilities

Financial assets

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

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

Financial liabilities

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

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

2 Accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

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

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

- 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)

2.3 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)

2.3 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 33.

2 Accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

(n) Hedge accounting

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

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

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

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

The Group designates certain derivatives held for risk management, as 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)

2.3 Summary of significant accounting policies (continued)

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

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.

2 Accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

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.

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.

(o) Inventories

Inventories are valued at the lower of cost and net realisable value. Inventories represent assets that have come off a lease arrangement pending disposal or have been purchased for lease to customers. Net realisable value takes into account prevailing market values and cost of sales.

2 Accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

(p) Provisions

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

(q) Cash and Cash Equivalents

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

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

(r) Securitisation Transactions

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.

2 Accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

(s) Impairment of Non-Financial Assets

Operating Leased Property, Plant and Equipment

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

Other Assets (including right of use assets)

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

2 Accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

(t) Pension Benefits

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

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

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

(u) Contingent liabilities recognised in a business combination

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

(v) Financial guarantee contracts

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

2 Accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

(w) Interest and similar income

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

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

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

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

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

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

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

2 Accounting policies (continued)

2.4 Significant Accounting Judgements, Estimates and Assumptions

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

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

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 33.

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 the expected life behaviour 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 behaviour lives 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 judgements and assumptions are set out in note 11 and the accounting policies in note 2.3(s).

Residual values for operating leased assets
Key judgements and assumptions are set out in note 2.3(g).

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)

2.4 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 16.

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

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 28.

2 Accounting policies (continued)

2.4 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 2.3(p). The Group also recognises a customer redress provision for legal or regulatory proceedings. Further details are included in note 22.

Contingent liabilities
The Group evaluates possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. These are disclosed as contingent liabilities (note 34) but not recognised in the Group's statement of financial position.

2 Accounting policies (continued)

2.5 New and amended standards and interpretations

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 April 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IFRS 3: 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.

The amendment applies to annual reporting periods beginning on or after 1 April 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group was not affected by these amendments.

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 amendment applies to annual reporting periods beginning on or after 1 April 2020. The amendments to the definition of material did not have any impact on the Group's consolidated financial statements.

Conceptual Framework for Financial Reporting issued on 29 March 2018
The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments apply from 1 April 2020 and had no impact on the consolidated financial statements of the Group.

2 Accounting policies (continued)

2.5 New and amended standards and interpretations (continued)

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the consolidated financial statements of the Group.

Interest Rate Benchmark Reform - Phase 2, amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (IBOR reform Phase 2)

On 27 August 2020, the International Accounting Standards Board (IASB) published IBOR reform Phase 2 which provide temporary reliefs to address the accounting issues which arise upon the replacement of an Inter Bank Offered Rate (IBOR) with an alternative nearly risk-free interest rate (RFR). Publication of IBOR reform Phase 2 concludes the IASB's work to respond to the effects of IBOR reform on financial reporting.

The requirements must be applied retrospectively. Any hedging relationships that were discontinued solely due to IBOR reform and meet the qualifying criteria for hedge accounting when the Phase 2 amendments are applied, must be reinstated upon initial application.

This amendment applies to annual reporting periods beginning on or after 1 January 2021, with early application permitted. This amendment is not expected to have any impact of the consolidated financial statements for the Group.

3 Operating segment information

For management purposes, the Group is organised into a corporate centre and six 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:

3 Operating segment information (continued)

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 UK)	Vendor finance solutions for Hitachi and Mitsubishi companies in the UK
European Vendor Solutions (EVS EUR)	Vendor finance solutions for Hitachi and Mitsubishi companies in Europe
Corporate	Head office including group treasury activities

No revenues earned from transactions with a single external customer amount to 10% or more of the Group's revenues in either the 2021 or 2020 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 2021	HCCF £m	HCVS £m	HCBF £m	HCIF £m	EVS UK £m	EVS EUR £m	Corporate £m	Group £m
Revenue	191.8	452.2	80.5	10.2	10.3	1.5	(2.1)	744.4
Finance costs	(34.3)	(15.1)	(15.7)	(0.3)	(2.1)	(0.2)	1.0	(66.7)
Depreciation & impairment of operating lease assets	-	(212.3)	(6.1)	-	(0.4)	(0.2)	-	(219.0)
Maintenance expense on operating leased assets	-	(38.2)	-	-	-	-	-	(38.2)
Disposal of operating leased assets	-	(116.8)	(1.8)	-	(0.4)	-	-	(119.0)
Other cost of sales	(5.1)	(5.5)	(0.1)	(0.6)	(0.1)	-	-	(11.4)
Cost of sales	(39.4)	(387.9)	(23.7)	(0.9)	(3.0)	(0.4)	1.0	(454.3)
Gross Profit	152.4	64.3	56.8	9.3	7.3	1.1	(1.1)	290.1
Impairment losses on credit exposures	(30.7)	(2.2)	(8.4)	(0.2)	(0.4)	-	-	(41.9)
Administrative expenses	(61.5)	(42.4)	(28.3)	(10.6)	(4.3)	(0.9)	5.3	(142.7)
Operating Profit	60.2	19.7	20.1	(1.5)	2.6	0.2	4.2	105.5
Fair value loss on derivative financial instruments	-	-	-	-	-	-	0.9	0.9
Parent integration costs	-	-	-	-	-	-	(2.4)	(2.4)
Profit before tax	60.2	19.7	20.1	(1.5)	2.6	0.2	2.7	104.0

3 Operating segment information (continued)

Year ended 31 March 2021	HCCF £m	HCVS £m	HCBF £m	HCIF £m	EVS UK £m	EVS EUR £m	Corporate £m	Group £m
Income tax	(11.4)	(3.7)	(3.9)	0.3	(0.5)	(0.1)	(2.0)	(21.3)
Profit/(loss) after tax	48.8	16.0	16.2	(1.2)	2.1	0.1	0.7	82.7
Net earning assets	2,950.0	1,243.4	1,427.5	61.1	212.0	31.5	-	5,925.5

Year ended 31 March 2020	HCCF £m	HCVS £m	HCBF £m	HCIF £m	EVS UK £m	EVS EUR £m	Corporate £m	Group £m
Revenue	205.8	405.3	81.1	12.6	9.5	1.2	(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)	-	(0.5)	(0.1)	-	(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)	(2.9)	(0.1)	2.0	(414.6)
Gross Profit	160.4	64.9	54.9	11.0	6.6	1.1	0.1	299.0
Impairment losses on credit exposures	(25.7)	(0.7)	(3.8)	(0.3)	(0.3)	(0.1)	-	(30.9)
Administrative expenses	(58.7)	(38.5)	(26.5)	(11.4)	(3.9)	(0.8)	1.4	(138.4)
Operating Profit	76.0	25.7	24.6	(0.7)	2.4	0.2	1.5	129.7
Fair value gain on derivative financial instruments	-	-	-	-	-	-	(0.3)	(0.3)
Profit before tax	76.0	25.7	24.6	(0.7)	2.4	0.2	1.2	129.4
Income tax	(15.0)	(4.9)	(4.5)	0.1	(0.4)	(0.1)	(1.5)	(26.3)
Profit/(loss) after tax	61.0	20.8	20.1	(0.6)	2.0	0.1	(0.3)	103.1
Net earning assets	3,343.0	999.2	1,283.0	74.9	205.2	31.5	-	5,936.8

3 Operating segment information (continued)

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

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

	2021 £ m	2020 £ m
Net Earning Assets (NEA)	5,925.5	5,936.8
Assets not included within NEA		
Intangible assets	70.9	55.4
Other property, plant and equipment	19.1	19.7
Derivative Financial Instruments	10.7	136.4
Deferred tax assets	18.2	9.4
Retirement benefit asset	1.7	7.1
Inventories	31.9	26.7
Current tax asset	0.5	12.4
Trade and other receivables	109.5	86.4
Cash and cash equivalents	144.8	21.1
Other assets	15.8	8.0
Liabilities deducted from NEA added back:		
Balances due to invoice financing clients	92.2	78.9
Rentals in advance	33.5	32.0
Total assets	6,474.3	6,430.3

4 Investments

	31 March 2021 £m	31 March 2020 £m
Investments in subsidiaries	7.7	7.7
Investments in joint ventures	10.1	-
	17.8	7.7

4 Investments (continued)

4.1 Investment in Subsidiaries (Company)

	Hitachi Capital Vehicle Solutions Ltd £m	Hitachi Capital European Vendor Solutions B.V. £m	Total £m
At 31 March 2019	1.7	-	1.7
Acquisition	-	6.0	6.0
At 31 March 2020	1.7	6.0	7.7
At 31 March 2021	1.7	6.0	7.7

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.

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.

4.2 Investment in joint ventures

	Gridserve Holdings Ltd £m
At 31 March 2020	-
Acquisition during the year	10.1
At 31 March 2021	10.1

4 Investments (continued)

4.2 Investment in joint ventures (continued)

On 30 December 2020, the Group acquired a 19.63% interest in Gridserve Holdings Ltd, a company incorporated in England and Wales specialising in provision of sustainable energy solutions, in exchange for a cash consideration of £10.0m. At the point of acquisition, net assets for Gridserve Holdings Ltd were £11.9m. This investment is fully aligned to the Group's wider vision of financially supporting projects that go towards delivering a net zero carbon economy.

The Group's interest in Gridserve Holdings Ltd is accounted for using the equity method in the consolidated financial statements. Gridserve Holdings Ltd's financial reporting period runs from 1 January to 31 December. Summarised financial information of the joint venture, based on its IFRS financial statements, and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below.

Summarised unaudited statement of financial position of Gridserve Holdings Ltd as at 31 March 2021.

	£m
Non-current assets	40.1
Current assets	19.7
Current liabilities	(5.8)
Non-current liabilities	(42.4)
Net assets	**11.7**
Group's share of net assets - 19.63% (2020: nil)	2.3
Goodwill	7.8
Group's carrying amount of the investment	**10.1**

Summarised unaudited income statement of Gridserve Holdings Ltd for the period from 1 January 2021 to 31 March 2021.

4 Investments (continued)

4.2 Investment in joint ventures (continued)

	£m
Revenue	7.9
Cost of sales	(5.0)
Administrative expenses	(2.7)
Other gains / (losses)	0.1
Interest payable and similar charges	(0.3)
Profit / (Loss) before tax	-
Income tax expense	-
Profit / (Loss) after tax	-
Group's share of Profit / (Loss) after tax - 19.63% (2020: nil)	-

The joint venture had no other contingent liabilities or commitments as at 31 March 2021.

5 Other operating income

	2021 £m	2020 £m
Fleet management and other services	13.5	16.5
Administration fee income	11.2	14.3
Gain or loss on disposal of finance lease assets	2.4	4.4
Other income	9.6	9.3
Total revenue	36.7	44.5

Other operating income presented above has been disaggregated to provide income amounts for material categories of products and services provided by the Group, in accordance with the disclosure requirements of IFRS 15 'Revenues from contracts with customers'.

During the year, the Group entered into a structured finance transaction involving high value assets financed by the Group sold under various forms to investment grade rated counterparties. The Group has no rights to the risk and rewards, or control, of the assets and associated liabilities of this transaction, resulting in full derecognition from the Group's Statement of Financial Position.

The Group received £0.5m up-front fees as a consideration for holding bare legal title to the assets. The fees are recognised to the income statement and reported within other income above.

6 Finance costs

	2021 £m	2020 £m
Finance costs on loans & borrowings	66.3	77.1
Finance costs on right of use land & buildings	0.4	0.4
Total finance costs	66.7	77.5

7 Other cost of sales

	Note	2021 £m	2020 £m
Commission expense		5.6	3.8
Customer claim charges and provisions	22	5.1	(0.3)
Other expenses		0.7	0.8
Total other cost of sales		11.4	4.3

8 Administrative expenses and Auditor's remuneration

	2021 £m	2020 £m
Wages and salaries	65.9	59.1
Social security costs	8.3	7.8
Pension and other post-employment benefit costs	4.3	4.1
Other employee expense	11.2	14.8
Premises and office	11.0	10.7
IT and telephony	23.5	16.7
Marketing	9.8	12.4
Professional services and other	7.6	11.8
Auditor's remuneration		
Audit of the financial statements	1.0	1.0
Other assurance services	0.1	-
Total administration expenses	142.7	138.4

The number of full time equivalent employees at 31 March 2021 was 1,550 (2020: 1,425), which included permanent and temporary staff as well as those on fixed term contracts. Of this, the Company had 1,546 (2020: 1,419).

The Group employed an average of 1,507 (2020: 1,418) employees during the year. Of this, the Company had 1,502 (2020: 1,414).

9 Parent integration costs

In September 2020, Hitachi Capital Corporation, the Group's ultimate parent, announced that it would be merging with Mitsubishi UFJ Lease and Finance Company Ltd. The merger was completed as planned and a newly merged entity, Mitsubishi HC Capital Inc. was formed, effective from 1 April 2021.

In preparation for the merger, the Group incurred directly attributable integration costs, outlined below, which are material and one-off in nature and therefore, in accordance with IAS 1 Presentation of financial statements, the Group has elected to disclose them separately on the face of the income statement.

9 Parent integration costs (continued)

	2021 £m	2020 £m
Fees paid to bondholders for change of guarantor	1.2	-
Legal and other professional charges	1.2	-
Total parent integration costs	**2.4**	-

10 Income tax

	2021 £m	2020 £m
Current income tax		
Charge for the year	26.2	25.7
UK corporation tax adjustment to prior periods	1.2	(4.7)
	27.4	21.0
Deferred taxation		
Origination and reversal of temporary differences in the current year	(4.1)	(0.8)
Adjustment in respect of prior years	(2.0)	6.1
Total	(6.1)	5.3
Tax charge on profit	21.3	26.3

The effective tax rate on profit before tax for the year was 20.4% (2020: 20.4%) compared to the standard rate of corporation tax of 19.0% (2020: 19.0%).

The differences are reconciled below:

	2021 £m	2020 £m
Profit before tax	104.0	129.4
Tax on profit at UK corporation tax rate of 19% (2020: 19%)	19.8	24.6
Increase/(decrease) in current and deferred tax from adjustment for prior periods	(0.8)	1.4
Increase from effect of expenses not deductible in determining taxable profit (tax loss)	2.3	1.1
Deferred tax expense (credit) relating to changes in tax rates or laws	-	(0.7)
Tax charge	21.3	26.4

10 Income tax (continued)

The UK rate of Corporation Tax is currently 19% and has been in place since 1 April 2017. Deferred tax carried forward as at 31 March 2021 has been recognised at 19% on all items. Whilst it was announced in the Budget on 3 March 2021 that the Corporation Tax rate would rise to 25% from 1 April 2023, this rate increase was not substantively enacted by 31 March 2021 and thus deferred tax calculated at 19% was considered appropriate. As a result, existing temporary differences on which deferred tax has been provided may unwind in periods subject to the 25% rate. The impact of the post balance sheet date change in tax rate is expected to be material. If the corporate tax rate was substantively enacted by the balance sheet date, the deferred tax asset would be higher by approximately £5.7m.

10 Income tax (continued)

Amounts recognised in other comprehensive income

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

	2020 Before tax £m	2020 Tax (expense) benefit £m	2020 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)

10 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 year:

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

Deferred tax movement during the prior 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

10 Income tax (continued)

Company

Deferred tax movement during the year:

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

Deferred tax movement during the prior 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

11 Property, plant and equipment under operating leases

Group

At 31 March 2021, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £228.2m (2020: £164.6m), 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 £218.3m (2020: £184.8m) was included in cost of sales. A further impairment charge of £0.7m (2020: charge of £0.3m) relating to operating leased assets was also included in cost of sales.

The Group 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 3.89% (2020: 3.83%).

11 Property, plant and equipment under operating leases (continued)

	Operating leased assets £m
Cost	
At 1 April 2019	1,221.2
Additions	463.8
Disposals	(235.2)
At 31 March 2020	1,449.8
Additions	576.0
Disposals	(208.8)
At 31 March 2021	1,817.0
Accumulated depreciation and impairment	
At 1 April 2019	351.5
Charge for year	184.8
Disposals	(128.7)
Impairment charge	0.3
At 31 March 2020	407.9
Charge for the year	218.4
Disposals	(101.8)
Impairment charge	0.7
At 31 March 2021	525.2
Carrying amount	
At 31 March 2020	1,041.9
At 31 March 2021	1,291.8

11 Property, plant and equipment under operating leases (continued)

Company

	Operating leased assets £m
Cost	
At 1 April 2019	1,221.2
Additions	463.0
Disposals	(235.1)
At 31 March 2020	1,449.1
Additions	575.2
Disposals	(208.6)
At 31 March 2021	1,815.7
Accumulated depreciation and impairment	
At 1 April 2019	351.5
Charge for the year	184.6
Disposals	(128.6)
Impairment charge	0.3
At 31 March 2020	407.8
Charge for the year	218.2
Disposals	(101.7)
Impairment charge	0.7
At 31 March 2021	525.0
Carrying amount	
At 31 March 2020	1,041.3
At 31 March 2021	1,290.7

12 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 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
Additions	-	2.2	-	2.2
At 31 March 2021	5.9	20.6	17.9	44.4
Accumulated depreciation and impairment				
At 1 April 2019	0.3	14.2	-	14.5
Adoption of IFRS 16	-	-	5.2	5.2
Charge for year	0.1	1.2	1.5	2.8
At 31 March 2020	0.4	15.4	6.7	22.5
Charge for the year	0.1	1.2	1.5	2.8
At 31 March 2021	0.5	16.6	8.2	25.3
Carrying amount				
At 31 March 2020	5.5	3.0	11.2	19.7
At 31 March 2021	5.4	4.0	9.7	19.1

12 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 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
Additions	-	2.2	-	2.2
At 31 March 2021	5.9	20.6	17.9	44.4
Accumulated depreciation and impairment				
At 1 April 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
Charge for the year	0.1	1.2	1.5	2.8
At 31 March 2021	0.5	16.6	8.2	25.3
Carrying amount				
At 31 March 2020	5.5	3.0	11.2	19.7
At 31 March 2021	5.4	4.0	9.7	19.1

Depreciation expense relating to the Group's other property, plant and equipment (including right of use assets) of £2.8m (2020: £2.8m) was included in administrative expenses.

For maturity analysis of undiscounted contractual cash flow of lease liabilities refer to liquidity risk funding and management in note 33.

13 Intangible assets

Group

	Capitalised software £m	Intangibles £m	Goodwill £m	Total £m
Cost or valuation				
At 1 April 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
Additions	21.9	-	-	21.9
Disposals	(0.1)	-	-	(0.1)
At 31 March 2021	73.3	1.0	17.7	92.0
Amortisation and impairment				
At 1 April 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
Amortisation charge	6.2	0.1	-	6.3
At 31 March 2021	17.8	0.3	3.0	21.1
Carrying amount				
At 31 March 2020	39.9	0.8	14.7	55.4
At 31 March 2021	55.5	0.7	14.7	70.9

13 Intangible assets (continued)

Company

	Capitalised software £m	Intangibles £m	Goodwill £m	Total £m
Cost or valuation				
At 1 April 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
Additions	21.9	-	-	21.9
Disposals	(0.1)	-	-	(0.1)
At 31 March 2021	73.3	1.0	17.7	92.0
Amortisation				
At 1 April 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
Amortisation charge	6.2	0.1	-	6.3
At 31 March 2021	17.8	0.3	3.0	21.1
Carrying amount				
At 31 March 2020	39.9	0.8	14.7	55.4
At 31 March 2021	55.5	0.7	14.7	70.9

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

At 31 March 2021, neither the Group nor the Company had any contractual commitments for the acquisition of intangible assets (2020: None).

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

Carrying amount of goodwill	2021 £ m	2020 £ 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

13 Intangible assets (continued)

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% (2020: 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% (2020: 2% and 10%) depending on the nature of the business segments.

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

Sensitivity analysis was performed to evaluate the impact of changes in cash flows, growth rates and discount rate on the amount of goodwill. In addition, the management carried out a goodwill assessment against a range of downturn scenarios impacting future cashflows of each business segment and concluded that these changes, either individually or in combination, would not result in impairment of goodwill.

14 Impairment losses on credit exposures

Movements in provision for expected credit losses

	2021 £ m	2020 £ m
Group and Company		
At 1 April	48.9	39.5
Amounts written off	(39.0)	(32.2)
Recoveries	4.0	10.7
Charge to the income statement	41.9	30.9
Total as at 31 March	**55.8**	**48.9**

The Group's total ECL provision consists of loans and advances to customers £53.4m (2020: £47.5m) and trade receivables £2.4m (2020: £1.2m). Further details can be found in note 33 & note 20 respectively.

15 Loans and advances to customers

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

	2021 £ m	%	2020 £ m	%
Group				
Finance lease receivables	169.7	4.5	158.7	5.3
Hire Purchase agreements	1,444.6	4.4	1,285.3	4.6
Instalment finance agreements	2,895.8	5.3	3,283.9	5.3
Other loans and advances	174.2	-	196.7	-
Total	4,684.3	5.0	4,924.6	4.9

	2021 £ m	%	2020 £ m	%
Company				
Finance lease receivables	169.7	4.5	158.7	5.3
Hire Purchase agreements	1,421.8	4.4	1,263.7	4.6
Instalment finance agreements	2,895.8	5.3	3,283.9	5.3
Other loans and advances	166.9	-	187.3	-
Total	4,654.2	5.0	4,893.6	4.9

15 Loans and advances to customers (continued)

Government support scheme
Following formal accreditation by the British Business Bank in March 2020, the Group provided finance under the Coronavirus Business Interruption Loans Scheme (CBILS) to its existing customers affected by lost or deferred revenues as a direct result of COVID-19. As at 31 March 2021, loans and advances to customers include CBILS finance with a carrying amount of £155.6m. Under the terms of the scheme, the UK Government has provided a guarantee to protect 80% of any post recovery losses in the event of default.

Modification gains and losses
Although not included as an option within customer contracts, in order to support our customers in time of need, the Group offered payment holidays to its Consumer Finance and Business Finance customers during the year. This is considered a modification to contractual cash flows under IFRS 9 Financial Instruments. The standard requires the carrying amount of the loans and receivables to be adjusted to the net present value of the modified future cash flows at the original effective interest rate.

As at 31 March 2021, the total amount of net modification losses recognised to the income statement was £3.6m (2020: £nil) which resulted in a reduction in loans and advances to customers.

15 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 2021					
Finance leases - gross	63.4	89.7	33.8	4.3	**191.2**
Deferred revenue	(5.5)	(9.9)	(2.8)	(0.8)	**(19.0)**
Impairment	(0.9)	(1.2)	(0.4)	-	**(2.5)**
Total	57.0	78.6	30.6	3.5	**169.7**
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**
Hire Purchase agreements at 31 March 2021					
Hire purchase agreements - gross	531.5	730.4	277.1	52.4	**1,591.4**
Deferred revenue	(40.4)	(73.0)	(18.6)	(5.6)	**(137.6)**
Impairment	(3.1)	(4.2)	(1.6)	(0.3)	**(9.2)**
Total	488.0	653.2	256.9	46.5	**1,444.6**
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**
Instalment Finance at 31 March 2021					
Instalment finance - gross	1,278.4	1,432.7	486.2	262.9	**3,460.2**
Deferred revenue	(188.1)	(194.1)	(74.3)	(67.3)	**(523.8)**
Impairment	(15.0)	(16.8)	(5.7)	(3.1)	**(40.6)**
Total	1,075.3	1,221.8	406.2	192.5	**2,895.8**

15 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 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**
Other Loans and Advances at 31 March 2021					
Other loans - gross	172.0	1.6	1.5	-	**175.1**
Deferred revenue	0.2	-	-	-	**0.2**
Impairment	(1.1)	-	-	-	**(1.1)**
Total	171.1	1.6	1.5	-	**174.2**
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**
Total loans and receivables, net of impairment - as at 31 March 2021	1,791.4	1,955.2	695.2	242.5	**4,684.3**
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**

15 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 2021					
Finance leases - gross	63.4	89.7	33.8	4.3	**191.2**
Deferred revenue	(5.5)	(9.9)	(2.8)	(0.8)	**(19.0)**
Impairment	(0.9)	(1.2)	(0.4)	-	**(2.5)**
Total	57.0	78.6	30.6	3.5	**169.7**
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**
Hire Purchase agreements at 31 March 2021					
Hire purchase agreements - gross	522.5	718.8	273.8	51.9	**1,567.0**
Deferred revenue	(39.8)	(72.3)	(18.5)	(5.5)	**(136.1)**
Impairment	(3.0)	(4.2)	(1.6)	(0.3)	**(9.1)**
Total	479.7	642.3	253.7	46.1	**1,421.8**
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**
Instalment Finance at 31 March 2021					
Instalment finance - gross	1,278.4	1,432.7	486.2	262.9	**3,460.2**
Deferred revenue	(188.1)	(194.1)	(74.3)	(67.3)	**(523.8)**
Impairment	(15.0)	(16.8)	(5.7)	(3.1)	**(40.6)**
Total	1,075.3	1,221.8	406.2	192.5	**2,895.8**
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)**

15 Loans and advances to customers (continued)

Company	**<1 yr £m**	**1-3 yrs £m**	**3-5 yrs £m**	**>5 yrs £m**	**Total £m**
Total	1,169.3	1,408.7	499.1	206.8	**3,283.9**
Other Loans and Advances at 31 March 2021					
Other loans - gross	164.8	1.5	1.5	-	**167.8**
Deferred revenue	0.2	-	-	-	**0.2**
Impairment	(1.1)	-	-	-	**(1.1)**
Total	163.9	1.5	1.5	-	**166.9**
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**
Total loans and receivables, net of impairment - as at 31 March 2021	1,775.9	1,944.2	692.0	242.1	**4,654.2**
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**

16 Derivative Financial Instruments

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

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

	2021 Notional Amount £m	Average maturity (years)	2020 Notional Amount £m	Average maturity (years)
Interest rate Swaps				
LIBOR GBP (1 months)	213.0	3.1	163.0	2.9
LIBOR GBP (3 months)	1,747.6	3.4	884.1	2.9
	1,960.6		1,047.1	
Cross currency Swaps				
USD LIBOR to GBP LIBOR (3 month)	82.2	1.9	66.0	2.4
EURIBOR to GBP LIBOR (3 month)	21.7	0.8	21.7	1.8
Fixed rate or other currencies to GBP LIBOR	384.5	4.5	-	
	488.4		87.7	
Total	2,449.0		1,134.8	

16 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						
2021	USD £ m	HKD £ m	Yen £ m	Other £ m	Total £m	Interest rate swap £m	Total £ m
Assets							
Less than 1 year	1.3	-	-	0.5	1.8	0.1	1.9
1 to 2 years	-	-	-	0.1	0.1	0.6	0.7
2 to 5 years	-	-	-	0.3	0.3	6.8	7.1
Over 5 year	-	-	-	0.9	0.9	0.1	1.0
Total	1.3	-	-	1.8	3.1	7.6	10.7
Liabilities							
Less than 1 year	(2.4)	-	(30.8)	(10.1)	(43.3)	(3.0)	(46.3)
1 to 2 years	(5.0)	(2.7)	-	(2.7)	(10.4)	(4.6)	(15.0)
2 to 5 years	(3.7)	(1.1)	(110.6)	(1.8)	(117.2)	(4.2)	(121.4)
Over 5 years	(2.1)	-	-	(0.4)	(2.5)	(0.5)	(3.0)
Total	(13.2)	(3.8)	(141.4)	(15.0)	(173.4)	(12.3)	(185.7)
	(11.9)	(3.8)	(141.4)	(13.2)	(170.3)	(4.7)	(175.0)
Of Which,							
Designated as fair value hedges	-	-	-	(104.9)	(104.9)	2.0	(102.9)
Designated as cash flow hedges	(11.9)	(3.8)	(141.4)	91.7	(65.4)	(6.7)	(72.1)

16 Derivative Financial Instruments (continued)

2020	USD £ m	HKD £ m	Yen £ m	Other £ m	Total £m	Interest rate swap £m	Total £ m
	Cross currency swap contracts						
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

During the year, the value of derivative financial instruments in aggregate decreased by £279.0m from a net asset of £104.0m to a net liability of £175.0m. Being 100% matched hedges against foreign currency borrowings, this movement offset the decrease in borrowings revaluation of £273.9m. Both movements primarily reflect a strengthening in Sterling in the foreign exchange market versus the Japanese Yen, the USD and other currency denominations. Being hedges that qualify for hedge accounting, the difference is almost entirely deferred in the cash-flow hedge reserve.

	2021 £ m	2020 £ m
(Loss)/Gain on fair value hedging instruments	(149.2)	55.2
Gain/(loss) on the hedged item attributable to the hedged risk in FV hedges	150.1	(55.5)
Total gain/(loss) recognised in the income statement	0.9	(0.3)

The hedged cash flows are expected to occur and affect Other Comprehensive Income in the periods up to November 2029 (2020: November 2029) for cross currency swaps and to June 2028 (2020: June 2028) for interest rate swaps. Descriptions of the hedges are covered in significant accounting policies note 2.3(n).

A description of the risks being hedged for fair value and cash flow hedges is disclosed in note 33.

17 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			
	2021 £m	2021 %	2020 £m	2020 %	2021 £m	2021 %	2020 £m	2020 %
Bank and group borrowings	1,736.1	1.1	1,623.2	1.4	1,711.2	1.1	1,595.7	1.4
Commercial Paper	-	-	332.5	1.1	-	-	332.5	1.1
Funding from securitised receivables	561.6	0.8	600.0	1.4	561.6	0.8	600.0	1.4
Medium term notes	2,851.4	1.1	2,792.6	1.5	2,851.4	1.1	2,792.6	1.5
Total	5,149.1	1.1	5,348.3	1.5	5,124.2	1.1	5,320.8	1.5

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 23). The average effective rate on overdraft balances for the year was 1.10% (2020: 1.10%) 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 Mitsubishi HC Capital Inc (formerly Hitachi Capital Corporation).

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

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

The Group utilises two securitisation facilities: under the first it sells consumer receivables to 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 33). 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.

17 Interest Bearing Borrowings (continued)

The borrowings are repayable as follows:

Group	Fixed 2021 £m	Floating 2021 £m	Total 2021 £m	Fixed 2020 £m	Floating 2020 £m	Total 2020 £m
Current Liabilities						
On demand or within 1 year	852.7	1,113.9	1,966.6	902.0	1,366.4	2,268.4
Non-Current Liabilities						
More than 1 year but less than 2	495.8	562.7	1,058.5	691.1	923.6	1,614.7
More than 2 years but less than 7	1,627.7	496.3	2,124.0	880.3	584.9	1,465.2
	2,123.5	1,059.0	3,182.5	1,571.4	1,508.5	3,079.9
	2,976.2	2,172.9	5,149.1	2,473.4	2,874.9	5,348.3

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 2021 or 2020.

Company	Fixed 2021 £m	Floating 2021 £m	Total 2021 £m	Fixed 2020 £m	Floating 2020 £m	Total 2020 £m
Current Liabilities						
On demand or within 1 year	852.7	1,113.9	1,966.6	902.0	1,366.4	2,268.4
Non-Current Liabilities						
More than 1 year but less than 2	495.8	562.7	1,058.5	691.1	923.6	1,614.7
More than 2 years but less than 7	1,602.8	496.3	2,099.1	852.8	584.9	1,437.7
	2,098.6	1,059.0	3,157.6	1,543.9	1,508.5	3,052.4
	2,951.3	2,172.9	5,124.2	2,445.9	2,874.9	5,320.8

17 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 2021	2,657.9	721.4	1,164.7	318.0	287.1	5,149.1
31 March 2020	2,488.7	1,405.8	634.8	472.0	347.0	5,348.3

Company	Sterling £m	Euro £m	Yen £m	US Dollar £m	Other £m	Total £m
31 March 2021	2,657.9	696.5	1,164.7	318.0	287.1	5,124.2
31 March 2020	2,488.7	1,378.3	634.8	472.0	347.0	5,320.8

18 Fair Value of Financial Assets and Financial Liabilities

Group:	Note	Carrying amount 2021 £ m	Carrying amount 2020 £ m	Fair value 2021 £ m	Fair value 2020 £ m	Fair Value Hierarchy
Financial assets measured at fair value:						
Derivative financial instruments	16	10.7	136.4	10.7	136.4	2
Financial instruments at fair value through profit or loss	32	42.3	45.1	42.3	45.1	3
Financial assets not measured at fair value:						
Cash and cash equivalents		144.8	21.1	144.8	21.1	1
Trade and other receivables	20	54.8	55.0	54.8	55.0	3
Loans and advances to customers		4,684.2	4,924.6	4,651.7	4,997.3	3
Other financial instruments at amortised cost	32	38.6	44.1	38.6	44.1	3
Total financial assets		4,975.4	5,226.3	4,942.9	5,299.0	
Financial liabilities measured at fair value:						
Derivative financial instruments	16	185.7	32.4	185.7	32.4	2
Financial liabilities not measured at fair value:						
Trade creditors and accruals, including balances due to invoice financing clients	26	217.3	192.7	217.3	192.7	3
Interest bearing borrowings		5,149.1	5,348.3	5,222.5	5,401.3	3
Total financial liabilities		5,552.1	5,573.4	5,625.5	5,626.4	

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

Company:	Note	Carrying amount 2021 £ m	Carrying amount 2020 £ m	Fair value 2021 £ m	Fair value 2020 £ m	Fair Value Hierarchy
Financial assets measured at fair value:						
Derivative financial instruments	16	10.7	136.4	10.7	136.4	2
Financial instruments at fair value through profit or loss	32	42.3	45.1	42.3	45.1	3
Financial assets not measured at fair value:						
Cash and cash equivalents		143.3	17.5	143.3	17.5	1
Trade and other receivables	20	54.8	55.0	54.8	55.0	3
Loans and advances to customers		4,654.1	4,893.6	4,651.7	4,966.4	3
Other financial instruments at amortised cost	32	38.6	44.1	38.6	44.1	3
Total financial assets		4,943.8	5,191.7	4,941.4	5,264.5	
Financial liabilities measured at fair value:						
Derivative financial instruments	16	185.7	32.4	185.7	32.4	2
Financial liabilities not measured at fair value:						
Trade creditors and accruals, including balances due to invoice financing clients	26	216.6	192.5	216.6	192.5	3
Interest bearing borrowings		5,124.2	5,320.8	5,197.7	5,373.8	3
Total financial liabilities		5,526.5	5,545.7	5,600.0	5,598.7	

18 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.

Financial instruments measured at fair value through profit or loss that are categorised as Level 3 relate to the junior notes held in the Group's two securitisation programmes (SOCA and SOULDAC) outlined in note 32. Discounted cash flow is the valuation technique used to measure the carrying amount recognised in the Group's statement of financial position. The key unobservable inputs are the expected cash collections after deducting the expected level of early settlements and write-offs.

19 Inventories

	Group		Company	
	31 March 2021 £m	31 March 2020 £m	31 March 2021 £m	31 March 2020 £m
Motor vehicles for resale	12.7	15.1	12.7	15.1
Vehicles available for lease	19.2	11.6	19.2	11.6
	31.9	26.7	31.9	26.7

20 Trade and Other Receivables

	Group 31 March 2021 £m	31 March 2020 £m	Company 31 March 2021 £m	31 March 2020 £m
Trade receivables	57.2	56.2	57.2	56.2
Provision for impairment of trade receivables	(2.4)	(1.2)	(2.4)	(1.2)
Net trade receivables	54.8	55.0	54.8	55.0
Prepayments and other receivables	54.6	31.4	54.2	31.5
Total current trade and other receivables	109.4	86.4	109.0	86.5

21 Dividends Paid

No interim dividend was paid during the year (2020: £15m, 3.4p per share). The Directors recommend a final dividend of £25.0m, 5.6p per share (2020: £nil) which represents 30% of the Group's profit after tax.

22 Other provisions - Group and Company

	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

22 Other provisions - Group and Company (continued)

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

Customer Claims

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.

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 (2020: £0.2m) due within one year, £1.3m (2020: £1.2m) due after one year but less than ten years and £nil (2020 £nil) due after ten years.

23 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 2021:

	Group		Company	
	31 March 2021 £m	31 March 2020 £m	31 March 2021 £m	31 March 2020 £m
Cash at bank	15.0	17.1	13.5	13.5
Short-term deposits	129.8	4.0	129.8	4.0
	144.8	21.1	143.3	17.5

24 Share capital

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

	2021 £m	No.	2020 £m	No.
Issued and fully paid share capital				
Ordinary Shares	110.7	442,674,511	110.7	442,674,511

25 Reserves

Group

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

2021	**Other reserves £m**
Loss on cash flow hedges (net)	(4.9)
Remeasurements of post employment benefit obligations (net)	(6.1)
	(11.0)

25 Reserves (continued)

The changes to each component of equity resulting from items of other comprehensive income for the prior 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)

Company

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

2021	Other reserves £m
Loss on cash flow hedges (net)	(4.9)
Foreign currency translation gains	0.2
Remeasurements of post employment benefit obligations (net)	(6.1)
	(10.8)

The changes to each component of equity resulting from items of other comprehensive income for the prior 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)

26 Trade and other payables

Trade and other payables - current

	Group		Company	
	31 March 2021 £m	31 March 2020 £m	31 March 2021 £m	31 March 2020 £m
Balances due to invoice financing clients	92.2	78.9	92.2	78.9
Rentals in advance - current	33.5	32.0	33.5	32.0
Deferred maintenance and other income - current	13.8	12.2	13.8	12.2
Trade creditors and accruals	98.7	94.2	98.6	94.0
Other creditors	26.4	19.5	25.8	19.6
	264.6	236.8	263.9	236.7

Trade and other payables - non current

	Group		Company	
	31 March 2021 £m	31 March 2020 £m	31 March 2021 £m	31 March 2020 £m
Deferred maintenance and other income - non current	2.8	2.4	2.8	2.4
Retailer liability	66.0	74.6	66.0	74.6
Lease liabilities	12.2	13.5	12.2	13.5
	81.0	90.5	81.0	90.5

27 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 £324.8m (2020: £277.7m).

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

27 Receivables under Operating lease contracts (continued)

	2021 £ m	2020 £ m
Within 1 year	301.5	245.8
More than 1 year but less than 5 years	486.5	383.4
Over 5 years	21.1	19.3
	809.1	648.5

28 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 £4.5m (2020 - £4.0m) represents contributions payable to the scheme at rates specified in the rules of the scheme. There were no unpaid contributions at either 31 March 2021 or 31 March 2020.

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 2021 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 (2020 - £nil).

28 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 2021 £m	31 March 2020 £m
Fair value of scheme assets	56.1	52.9
Present value of scheme liabilities	(54.4)	(45.8)
Defined benefit pension scheme surplus	1.7	7.1

The decrease in surplus is largely due to an increase in assumed future inflation and a decrease in the discount rate, both of which resulted in an increase in pension obligations. This was partially offset by higher 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 2021 £m	31 March 2020 £m
Fair value at start of year	52.9	55.2
Interest income	1.4	1.4
Return on plan assets, excluding amounts included in interest income/(expense)	3.2	(2.6)
Employer contributions	2.1	0.2
Benefits paid	(3.4)	(1.0)
Administrative expenses paid by the scheme	(0.1)	(0.3)
Fair value at end of year	56.1	52.9

Administrative expenses above are those paid by the scheme from 1 April 2020 to 31 March 2020. From July 2020, the Group agreed to pay the administrative expenses of the scheme and therefore these were recognised directly in the Group's income statement. Total administrative expenses relating to the scheme were £0.3m (2020: £0.3m).

Analysis of assets

The major categories of scheme assets are as follows:

28 Retirement Benefit Pension Schemes (continued)

	31 March 2021 £m	31 March 2020 £m
Equity instruments	17.2	14.5
Infrastructure funds	5.8	-
Real estate	8.3	8.1
Liability driven investments	17.7	16.6
Cash and net current assets	0.8	4.9
Diversified growth fund	6.3	8.8
	56.1	52.9

28 Retirement Benefit Pension Schemes (continued)

Actual return on scheme's assets

	31 March 2021 £m	31 March 2020 £m
Actual return on scheme assets	4.6	(1.2)

The scheme's assets are invested in a diversified range of asset classes. As at 31 March 2021 the target allocation was to invest 35% of the scheme's assets in a portfolio of matching assets and 65% in a return-seeking portfolio. As the Scheme matures over time, the Trustees will seek to de-risk the investment strategy in line with the change in the liability profile of the Scheme. This means that the investment strategy may gradually target a higher allocation of lower risk assets as the Scheme matures.

The scheme does not invest directly in property occupied by the Group or in financial securities issued by the Group. All of the Scheme's investments, other than the infrastructure funds, are classified as Level 2 using the Fair Value Determination hierarchy. Level 2 inputs are those which are either directly (i.e. as prices) or indirectly (i.e. derived from prices) observable for a particular asset or liability. The Scheme's infrastructure and real estate funds are classified as Level 3 using the Fair Value Determination hierarchy. Level 3 inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

Scheme liabilities

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

	31 March 2021 £m	31 March 2020 £m
Present value at start of year	45.8	54.6
Actuarial gains and losses arising from changes in demographic assumptions	(0.2)	(1.0)
Actuarial gains and losses arising from changes in financial assumptions	11.2	(7.2)
Actuarial gains and losses arising from experience adjustments	(0.2)	(1.0)
Interest cost	1.2	1.4
Benefits paid	(3.4)	(1.0)
Present value at end of year	54.4	45.8

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:

28 Retirement Benefit Pension Schemes (continued)

	31 March 2021 %	31 March 2020 %
Retail price inflation	3.2	2.5
Consumer price inflation	2.5	1.7
Discount rate	2.1	2.6
Pension increases in payment (5% or RPI if less)	3.1	2.5
Pension increases in payment (3% or CPI if less)	2.1	1.6
Pension increases in payment (2.5% or RPI if less)	2.2	1.8

28 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 2021 Years	31 March 2020 Years
Male currently aged 65	22.3	22.2
Female currently aged 65	24.7	24.5
Male aged 65 in 20 years time	23.6	23.5
Female aged 65 in 20 years time	26.1	25.9

Amounts recognised in the income statement

	31 March 2021 £m	31 March 2020 £m
Administrative expenses paid	0.3	0.3
Interest expense / (income)	(0.2)	-
Total recognised in the income statement	0.1	0.3

From July 2020, the Group agreed to pay the administrative expenses of the scheme directly and therefore, included above are the total administrative expenses paid by the Group. The total amount recognised in the income statement has been included in the Administrative expenses for the Group.

Amounts taken to the Statement of Comprehensive Income

	31 March 2021 £m	31 March 2020 £m
Actuarial gains and losses arising from changes in demographic assumptions	0.2	1.0
Actuarial gains and losses arising from changes in financial assumptions	(11.2)	7.2
Actuarial gains and losses arising from experience adjustments	0.2	1.0
Return on plan assets, excluding amounts included in interest income/(expense)	3.2	(2.6)
Amounts recognised in the Statement of Comprehensive Income	(7.6)	6.6

Sensitivity analysis

28 Retirement Benefit Pension Schemes (continued)

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

Adjustment to discount rate	31 March 2021 - 0.1% £m	31 March 2020 - 0.1% £m
Present value of total obligation	1.2	1.0
Fair value of scheme assets	1.1	1.1
Net Retirement benefit asset / (obligations)	(0.1)	(0.1)

Adjustment to rate of inflation	31 March 2021 + 0.1% £m	31 March 2020 + 0.1% £m
Present value of total obligation	0.9	0.8
Fair value of scheme assets	0.8	0.8

Adjustment to mortality age rating assumption	31 March 2021 + 1 Year £m	31 March 2020 + 1 Year £m
Present value of total obligation	2.3	1.7
Net Retirement benefit asset / obligations	2.3	1.7

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 22 years (2020: 21 years), and most of the benefit payments are linked to future levels of inflation.

29 Reconciliation of liabilities arising from financing activities

Group

	At 1 April 2020 £m	Financing cash flows £m	Foreign exchange movements £m	Fair value changes £m	At 31 March 2021 £m
Interest bearing borrowings - current	2,268.4	(207.8)	(63.3)	(30.7)	1,966.6
Interest bearing borrowings - non current	3,079.9	283.7	(69.1)	(112.0)	3,182.5
	5,348.3	75.9	(132.4)	(142.7)	5,149.1

	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

Company

	At 1 April 2020 £m	Financing cash flows £m	Foreign exchange movements £m	Fair value changes £m	At 31 March 2021 £m
Interest bearing borrowings - current	2,268.4	(207.8)	(63.3)	(30.7)	1,966.6
Interest bearing borrowings - non current	3,052.4	286.5	(69.1)	(112.2)	3,157.6
	5,320.8	78.7	(132.4)	(142.9)	5,124.2

	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

30 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:

30.1 Transactions with immediate parent undertakings

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

	2021 £ m	2020 £ m
Payments for administration charges	6.6	7.7

	2021 £ m	2020 £ m
Amounts owed to Mitsubishi HC Capital Inc (formerly Hitachi Capital Corporation)	3.6	3.8
Amounts owed by to Mitsubishi HC Capital Inc (formerly Hitachi Capital Corporation)	0.1	0.3

30.2 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

	2021 £ m	2020 £ m
Payments for administration charges to Hitachi companies	-	1.6
Interest paid to Mitsubishi companies	12.6	13.6
Interest received from Mitsubishi companies	1.5	0.3
Receipts for administration charges from Hitachi companies	0.1	0.1
Interest income from Hitachi companies	-	0.9
Lease income from Hitachi companies	0.3	1.1
Income from Gridserve Holdings Ltd	0.9	-

30 Related Party Disclosures (continued)

	2021 £ m	2020 £ m
Amounts due to Hitachi companies	9.8	30.8
Amounts due to Mitsubishi companies in respect of borrowings	1,059.7	1,047.9
Accrued interest expense owed to Mitsubishi companies	0.7	1.6
Amounts due from Hitachi companies	1.5	2.5
Amounts due from Hitachi Capital America	0.1	-
Amounts due from Gridserve Holdings Ltd	42.4	-

Company

	2021 £ m	2020 £ m
Payments for administration charges to Hitachi companies	-	1.6
Interest paid to Mitsubishi companies	12.6	13.6
Interest received from Mitsubishi companies	1.5	0.3
Receipts for administration charges from Hitachi companies	0.1	0.1
Interest income from Hitachi companies	-	0.9
Lease income from Hitachi companies	0.3	0.2
Interest income from Hitachi Capital Vendor Solutions B.V.	0.2	-
Administration fees from Hitachi Capital Vendor Solutions B.V.	0.2	0.2
Income from Gridserve Holdings Ltd	0.9	-

	2021 £ m	2020 £ m
Amounts due to Hitachi companies	9.7	30.8
Amounts due to Mitsubishi companies in respect of borrowings	1,059.7	1,047.9
Accrued interest expense owed to Mitsubishi companies	0.7	1.6
Amounts due from Hitachi companies	0.1	-
Amounts due from Hitachi Capital Vendor Solutions B.V.	32.1	34.5
Amounts due from Hitachi Capital America	0.9	-
Amounts due from Gridserve Holdings Ltd	42.4	-

30 Related Party Disclosures (continued)

Remuneration of Key Management Personnel

	31 March 2021 £m	31 March 2020 £m
Salaries and other short term employee benefits	3.8	3.9
Post-employment benefits	0.2	0.2
Other long-term benefits	2.2	2.3
	6.2	6.4

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

No Directors (2020: nil) were accruing retirement benefits in respect of qualifying services under a defined benefit scheme or a money purchase scheme.

The aggregate amount of remuneration paid to Directors was £1.8m (2020 £1.7m). The highest paid Director's remuneration in the year was £1.2m (2020 £1.1m).

31 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 2.3(r).

Consumer Securitisation programme
In accordance with the terms and conditions, as at 31 March 2021 the Group (and the Company) had transferred £617.5m (2020: £668.3m) of its instalment finance agreements, with a fair value of £611.5m (2020: £661.6m) 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 £461.6m (2020: £500.0m), with a fair value of £461.6m (2020: £500.0m) as at the reporting date.

SME Securitisation programme
In accordance with the terms and conditions, as at 31 March 2021 the Group (and the Company) had transferred £132.2m (2020: £131.5m) of its hire purchase and finance lease receivables, with a fair value of £132.2m (2020: £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 (2020: £100.0m), with a fair value of £100.0m (2020: £100.0m) as at the reporting date.

32 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 2021, the Group (and the Company) had transferred £343.1m (2020: £401.0m) 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% (2020: 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 £38.6m (2020: £44.1m).

Securitisation Of Unsecured Loans DAC (SOULDAC)
As at 31 March 2021, the Group (and the Company) had transferred £37.2m (2020: £75.2m) 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% (2020: 0.9%) of outstanding capital balance paid on a monthly basis.

The Group holds a 50% share in junior notes, measured at fair value through profit or loss account (FVTPL). 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

	2021 £ m	2020 £ m
Mezzanine notes held in SOCA	38.6	44.1

Financial instruments measured at fair value through profit or loss

	2021 £ m	2020 £ m
Junior notes held in SOCA	32.4	35.2
Junior notes held in SOULDAC	9.9	9.9
Total	42.3	45.1

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

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

	2021 £ m	2020 £ m
Interest income	4.9	6.5
Other income	2.8	4.2
Total	7.7	10.7

33 Financial risk management objectives and policies

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 carrying amounts of loans and receivables represent the Group's maximum exposure to credit risk and are set out in note 15. 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 20.

The Group has guaranteed £2.4m (2020: £3.8m) 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 regularly measured by counterparty and monitored relative to individual counterparty limits in accordance with the Board approved Treasury policy. Counterparties are selected and assessed on their prospects for long term stability of credit rating for which the Group seeks a minimum long term credit rating by Standard & Poor's of at least 'BBB+' (and a short term rating of 'A-2'). Swap counterparty creditworthiness is also monitored on a regular basis using any other available indicators such as standard 5 year credit default swap prices.

33 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.

Collateral

The Group maintains procedures setting out acceptable collateral and other criteria to be considered when reviewing a loan application. The decision as to whether collateral is required will be based upon the nature of the transaction and the creditworthiness of the customer. The provision of collateral will not necessarily determine the outcome of a credit application. The fundamental business proposition must evidence the ability of the obligor to generate funds from normal operations or business sources to repay debt. The extent to which collateral values are actively managed or monitored will depend on the credit quality and other circumstances of the obligor.

Although lending decisions are primarily based on expected cash flows and debt service ability, any collateral provided may influence the pricing and other terms of a loan or facility granted; this may have a financial impact on the amount of net interest income recognised and on internal estimates of loss given default that contribute to the determination of asset quality. The Group believes that this approach is appropriate. The value of collateral is reassessed if there is observable evidence of distress of the obligor. Unimpaired lending, including any associated collateral, is managed on a customer by customer basis rather than a portfolio basis.

A general description of collateral held as security in respect of loans and receivables in each business unit is provided below.

(a) Consumer Finance

Most lending is unsecured and therefore no collateral is held. However, for certain retailers, a portion of the cash flows financed are deferred and held by the Group to cover possible future credit losses, see note 2.3(j). At the year end 31 March 2021 deferred cash flows amounted to £66.0m (2020: £74.6m), against related gross loans and receivables of £2,005.0m (2020: £2,319.6m). There was no such deferred cash collateral held against gross loans and receivables amounting to £923.4m (2020: £997.3m). 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 £11.6m (2020: £16.4m), 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 cars and commercial vehicles leased to customers under the contracts.

33 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 in respect of significant customer exposures, at the time of annual review or facility renewals.

Certain extensions of credit within the Business Finance unit are made under block discounting agreements, the collateral for which consists of receivables under loans and leases originated by the borrower, which are sold to the Company in return for the advance. Of the total gross loans and receivables, £88.8m (2020: £82.6m) 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 £1,413.7m (2020: £1,264.5m), £7.2m was individually impaired (2020: £2.6m).

(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 £61.1m (2020: £76.0m) are primarily collateralised by trade receivables purchased from factoring clients which had a gross value of £153.3m (2020: £154.8m), 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.

33 Financial risk management objectives and policies (continued)

COVID-19 concessions

During the year ended 31 March 2021, the Group granted short-term concessions to customers (payment holidays) to support them through the financial impact of COVID-19 pandemic. Payment holidays allowed customers to take a temporary break from making repayments if they were experiencing, or were reasonably expected to experience payment difficulties, due solely to the impact of COVID-19.

Payment holidays were offered in the form of deferred repayments for a specified period, extension of contractual term or a combination of both. A typical payment holiday was for a period of three months, although longer holidays were offered depending on the individual circumstances of each customer. Following the end of the first payment holidays, further holidays were granted to customers where they required further support.

During the period of these payment holidays, no further arrears were reported against the customers' records. On expiry of these payment holidays, where underlying longer-term financial difficulties are evident, the Group's normal collection and recovery procedures were applied.

The Group granted a total of 64,801 payment holidays with a maximum balance outstanding of £795.3m (17% of total loans and advances before impairment). Of these, 4,769 payment holidays with a current balance outstanding of £36.7m (0.8% total loans and advances before impairment) were still in force as at 31 March 2021.

As at 31 March 2021, 60,032 payment holidays with a current balance outstanding of £521.4m had been exited and the customers had either resumed paying or settled the balances in full. Of these, 7.1% are currently in arrears and therefore subject to the Group's normal collections and recovery procedures together with IFRS 9 staging criteria assessment.

Credit Quality

Categories of credit risk quality are determined at an agreement or facility level using both internal risk management inputs and external inputs from credit risk rating agencies and bureaux. The inputs used are specific to the business unit in which the exposure exists, but common categories of credit risk have been determined to monitor portfolio credit quality across the Group. The categories are based primarily on aligning estimated ranges of probability of default but also on management judgement.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 15.

33 Financial risk management objectives and policies (continued)

Measurement of Expected Credit Losses (ECL)

The Group recognises ECL provision in accordance with IFRS 9 Financial instruments, as set out in the Group accounting policies outlined in note 2.3(m).

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 the 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 the 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 with those sharing similar credit risk characteristics and which are expected to behave in uniform ways. This process enables ECL calculation for each financial asset and a total undiscounted ECL for that group.

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 the reporting date to create a total ECL for instalment finance receivables. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

33 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, the impact of discounting ECL for these receivables is not significant to the overall 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 period or the lifetime of the financial asset. Management have used historical data and assumptions of future conditions to model PD over a period of time.

Loss Given Default (LGD) represents the difference between contractual cash flows and the actual cash flows expected to be recovered taking into account the 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.

33 Financial risk management objectives and policies (continued)

Definition of default
The Group applies a range of criteria to determine when a financial asset meets the definition of default and should therefore be transferred to stage 3 or credit impaired. The Group defines a financial asset to be in default if it meets one or more of the criteria set out below:
• Arrears greater than 90 days
• 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.

Simplified approach
For trade and lease receivables, the Group measures ECL based on the simplified approach, as set out in its accounting policy in note 2.3(m).

The portfolio consists of hire purchase, finance lease and other receivables where a large proportion of receivables are secured on physical assets which can be repossessed and sold in the event of default. 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 variables and historical loss rates. As a result, the Group assesses each asset class, customer industry classification and credit behaviour characteristics to determine whether a Post Model Adjustment (PMA) should be applied to the modelled ECL provision to reflect a forward looking output for a particular segment of the portfolio.

The Group's ECL provision under the simplified approach consists of underlying provision £15.0m (2020: £8.9m) and forward looking macro-economic overlay £0.2m (2020: £nil).

The following table sets out the Group's gross loans and receivables by credit risk category under the simplified approach.

Gross loans and advances to customers - Simplified approach

33 Financial risk management objectives and policies (continued)

	2021 £m	2020 £m
Very low risk	619.5	562.2
Low risk	369.4	287.3
Moderate risk	597.1	559.4
High risk	103.9	106.0
Ungraded	103.5	131.3
Individually impaired	8.1	2.0
Gross carrying amount	1,801.5	1,648.2
Trade receivables	57.2	56.2
Gross Exposure	1,858.7	1,704.4

Those categories that are 'ungraded' have not been specifically rated by the business for various reasons such as a lack of relevant or comparable information, or the fact that they are short term in nature and are perceived to be low in inherent risk.

'Individually impaired' represent agreements which meet the Group's default definition and therefore subject to specific ECL allowance calculated on a case-by-case basis.

The following table sets out the Group's ECL allowance and coverage ratio under the simplified approach.

ECL allowance and coverage ratio - Simplified approach

	31 March 2021	31 March 2020
Gross Exposure (£m)	1,858.7	1,704.4
ECL Allowance (£m)	15.2	8.9
Coverage ratio	0.8%	0.5%

General approach

For Consumer Finance instalment finance receivables, the Group measures ECL based on the general approach, as set out in its accounting policy in 2.3(m). The portfolio is categorised into three stages for the purpose of assessing ECL allowance, as outlined below.

33 Financial risk management objectives and policies (continued)

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.

The Group's ECL provision under the general approach consists of underlying provision £35.1m (2020: £35.0m), forward looking macro-economic overlay £1.4m (2020: £5.0m) and Post Model Adjustment £4.1m (2020: £nil).

Post Model Adjustments (PMAs)
During the year, the Group applied PMAs to its modelled ECL provision in order to account for heightened credit risk associated with its payment holiday population. The PMAs are designed to compensate for the ECL models which are not calibrated to be predictive for the Group's payment holiday population who are either currently in payment holiday or have exited payment holiday but not yet in arrears and therefore have not breached the Group's SICR criteria.

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

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

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%

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

33 Financial risk management objectives and policies (continued)

	Stage 1 £m	Stage 2 £m	Stage 3 £m	2021 £m	2020 £m
Very low risk	1,857.8	4.5	6.2	1,868.5	2,001.6
Low risk	693.1	5.1	12.5	710.7	860.4
Moderate risk	163.7	7.8	16.0	187.5	234.5
High risk	56.0	53.7	23.0	132.7	180.6
Individually impaired	-	2.7	34.3	37.0	46.8
Gross carrying amount	2,770.6	73.8	92.0	2,936.4	3,323.9

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	2021 £m	2020 £m
Balance at 1 April 2020	3,131.2	122.6	70.1	3,323.9	3,231.1
Stage transfers	(78.7)	(14.9)	93.6	-	-
New business	1,676.3	-	-	1,676.3	2,415.9
Receivables repaid or written-off	(1,958.2)	(33.9)	(71.7)	(2,063.8)	(2,323.1)
Balance at 31 March 2021	2,770.6	73.8	92.0	2,936.4	3,323.9

ECL Allowance

	Stage 1 £m	Stage 2 £m	Stage 3 £m	2021 £m	2020 £m
Balance at 1 April 2020	14.8	10.8	14.4	40.0	31.4
Stage transfers	1.4	(11.0)	9.6	-	-
New business	6.7	-	-	6.7	7.9
Receivables repaid or written-off	(11.6)	6.5	(5.1)	(10.2)	0.7
Other movements	-	4.1	-	4.1	-
Balance at 31 March 2021	11.3	10.4	18.9	40.6	40.0

33 Financial risk management objectives and policies (continued)

Forward looking information

Partnering with a third party, the Group has developed an econometric model to establish the correlation between historical default rates and a set of macroeconomic variables over a long period of time. The econometric model provides an estimate of the impact to ECL arising from a movement in a set of macroeconomic variables and those with the most significant correlation are selected as inputs to the ECL provision model.

The Group identified debt to income ratio and unemployment rate as the variables with most significant correlation with historical loss rates in consumer finance. 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). Outlined below are the three scenarios, the associated probability weightings and key assumptions underpinning each scenario.

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.

Base case (40%)

Government's staged easing of restrictions take place as planned. Against this timeline, we expect UK GDP to grow by at least 4% during April to September 2021, with pent up demand underpinning a strong rebound in consumer spending. UK unemployment rate to rise to a peak of 6.8% between September and December 2021. We do not expect GDP to return to its 2019 level until March 2022 and in the long run, GDP is roughly 3% lower per year than in our pre-pandemic baseline.

Upside (30%)

Continuation of the rapid vaccine roll out and a falling reproductive rate (R rate) for COVID-19 prompts the government to lift all restrictions ahead of schedule in April 2021. This provides further boost to business and consumer confidence resulting in over 7% increase in consumer spending between March and June 2021 and 5% between July and September 2021. With the economy reopening earlier than scheduled, businesses can recover faster and are more likely to retain staff, thus limiting the UK unemployment peak to 6.5% between May and December 2021.

Downside (30%)

The economy gradually reopens from April 2021 but oscillating rises and falls in the COVID-19 infection rates, hospitalisations and excess deaths mean a return to the tiered system or restrictions for the remainder of the year. There is a rebound in output between April and September 2021 as the economy emerges from lockdown, however this is constrained by the reimposition of the tiered system of restrictions. The recent gains in business and consumer confidence reverse, and the rise in consumer spending between April and September 2021 is less assured than the base case.

Continued uncertainty as the timeline for reopening of the economy leads to cautious consumer spending and higher savings ratio for longer than the base case. Continued pressure on business profits from ongoing COVID-19 related restrictions make it more difficult for businesses to retain staff. This results in UK unemployment rate peaking at 7.5% between July and December 2022. Under this scenario, we do not expect output to return to its 2019 level until June 2023 and in the long-term GDP is 4.6% lower per year than the pre-pandemic baseline. This is roughly 50% more scarring than the base case.

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

33 Financial risk management objectives and policies (continued)

31 March 2021

	UK unemployment rate	Debt to income ratio	Weighting
Upside	5.45%	1.141	30%
Base case	5.93%	1.154	40%
Downside	6.39%	1.166	30%

1 April 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%

The calculation of the Group's impairment provision is sensitive to changes in the chosen weightings as highlighted above.

For the year ended 31 March 2021, the economic scenarios and the associated weightings reflect a positive economic outlook relative to last year following successful roll-out of the vaccination programme in the UK and the government being on track for gradual easing of restrictions from April 2021. Despite this optimistic outlook, the Group has set aside a further £4.1m (2020: £nil) PMA for a potential increase in defaults, particularly for the customers who have had payment holidays, once the furlough scheme and other government measures expire.

The effect on the closing modelled provision of each portfolio as a result of applying a 100% weighting to each of the selected scenarios is shown below:

	Mar-21	Mar-20
	£m	£m
Probability weighted modelled ECL provision	36.5	40.0
Upside	35.5	-
Base	36.4	-
Downside	37.7	-

The modelled ECL provision excludes £4.1m (2020: £nil) PMA. The sensitivity analysis above was performed by the Group for the first time this financial year and therefore comparatives are not available.

Liquidity Risk and Funding Management

33 Financial risk management objectives and policies (continued)

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.

33 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 2021								
Non derivative financial liabilities:								
Foreign currency denominated borrowings	(793.5)	(509.4)	(869.3)	(101.3)	(74.5)	(32.8)	(170.8)	(2,551.6)
Sterling borrowings	(732.8)	(417.2)	(621.9)	(201.1)	(10.1)	-	-	(1,983.1)
Securitisation	(334.0)	(158.6)	(57.9)	(16.2)	(3.4)	(0.5)	(0.1)	(570.7)
Lease liabilities	(2.0)	(1.9)	(1.9)	(1.9)	(1.9)	(1.7)	(1.9)	(13.2)
Trade payables	(264.6)	-	-	-	-	-	-	(264.6)
Financial Guarantees	(2.4)	-	-	-	-	-	-	(2.4)
	(2,129.3)	(1,087.1)	(1,551.0)	(320.5)	(89.9)	(35.0)	(172.8)	(5,385.6)
Derivative financial liabilities:								
Foreign currency receipts relating to cross currency swaps	(790.3)	(509.4)	(869.3)	(101.3)	(74.5)	(32.8)	(170.8)	(2,548.4)
Sterling payment relating to interest rate swaps	14.2	8.4	4.3	1.0	0.2	0.2	0.2	28.5
Sterling receipts relating to interest rate swaps	(6.3)	(7.9)	(6.0)	(1.7)	(0.3)	(0.2)	(0.2)	(22.6)
Sterling payments relating to cross currency swaps	834.9	527.0	969.0	105.7	79.2	32.1	177.8	2,725.7
	52.5	18.1	98.0	3.7	4.6	(0.7)	7.0	183.2
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	(236.6)	-	-	-	-	-	-	(236.6)
Financial Guarantees	(3.8)	-	-	-	-	-	-	(3.8)
	(2,564.3)	(1,647.2)	(693.4)	(466.5)	(111.2)	(18.1)	(214.9)	(5,715.6)

33 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	(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)

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:

33 Financial risk management objectives and policies (continued)

The European medium term note programme and both commercial paper programmes are supported by a guarantee from Mitsubishi HC Capital Inc (formerly Hitachi Capital Corporation) and consequently are rated 'A-/A2' by Standard & Poor's.

The uncommitted facilities from relationship banks consist of unsecured short term money market and overdraft facilities. Drawings under these facilities are generally for periods of between one day and three months.

	Amount drawn 2021 £ m	Capacity available 2021 %	Amount drawn 2020 £ m	Capacity available 2020 %
European medium term note programme	2,805.2	29.0	2,770.4	38.0
European commercial paper programme	-	-	331.3	45.0
Committed securitisation programme	561.1	6.0	599.3	-
Uncommitted Short Term facilities from relationship bank	138.2	73.0	24.3	96.0
Uncommitted Long Term facilities from relationship bank	1,644.6	24.0	1,623.0	31.0
Total Borrowings	5,149.1	-	5,348.3	-

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 using interest rate derivative financial instruments, specifically interest rate swaps. Interest rate exposure is managed by duration, matching the fixed rate receivables and operating lease portfolio against the combination of fixed rate debt and the interest rate derivatives portfolio.

Borrowings arranged at fixed interest rates expose the Group to fair value interest rate risk and those arranged at floating rates have cash flow interest rate risk.

The Group's policy is to hedge its exposure to variations in sterling interest rates. The degree to which borrowings are rate fixed, as compared to the size of the Group's underlying fixed rate assets, is expressed as a target ratio (calculated using interest rate sensitivity analysis on the assets and liabilities) which is set by the Treasury Committee and reported to the Board on a quarterly basis and is generally within a range of between 50% and 120%. The maturity profile of fixed borrowings versus assets is reviewed at least monthly to monitor compliance to the set policy target.

33 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 17.

The Group policy is to eliminate all foreign currency risk on borrowings by entering into cross currency swaps which convert non-sterling obligations under the debt issuance into sterling obligations. Currency debt raised under the medium term note and commercial paper programmes is 100% hedged at the time of drawdown unless foreign currency proceeds are required to fund foreign currency denominated assets. Currency rate risk will therefore only arise in the unlikely event of a swap counterparty defaulting on its non-sterling obligations. As at 31 March 2021 and 31 March 2020, all currency exposures on non-sterling debt were 100% hedged. This risk is also monitored monthly.

Market Risk Mitigation

The Group enters into a variety of derivative financial instruments to manage its exposure to these risks, including;
• Interest rate swaps to mitigate the risk of rising interest rates, and
• Cross currency swaps and short term FX swaps to mitigate the exchange rate risk arising on issuance of debt in foreign currency.

Interest Rate Swap Contracts
Under interest rate swap (IRS) contracts, the Group agrees to pay or receive the difference between variable and fixed interest rates calculated on an agreed notional principal amount. Such contracts allow the Group to mitigate the risk of changing interest rates on the cash flows of issued variable rate debt held and to a lesser extent the fair value of fixed rate debt held. The fair value of IRSs at the year-end have been determined by discounting the future cash flows for each contract using the yield curve as at the end of the year and the credit risk inherent in the contract.

Interest swaps settle on a monthly, quarterly, or semi-annual basis and use LIBOR reference rates on the floating side of the swap. The Group settles on the difference between the fixed and floating interest rate on a net basis and, therefore, the Group recognises net derivative assets and liabilities based on overall exposure to individual counterparties.

Floating to fixed IRSs, where the Group pay fixed and receive floating interest, are designated for accounting purposes as cash flow hedges to reduce the variability of charges to the Group's income statement. In some cases, although the IRSs economically hedge the Group's cash flow exposure, they cannot be designated as cash flow hedges under IFRS 9 instead they are classified as fair value hedges.

33 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 £8.7m (2020: debited by £10.5m). This is mainly attributable to the Group's exposure to interest rates on variable rate borrowings.
• Other equity reserves would be credited by £42.3m (2020: credited by £40.1m) 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 £0.9m (2020: credited by £1.0m) and other equity reserves debited by £4.2m (2020: debited by £4.0m) approximately.

Cross Currency Swap Contracts
The Group utilises cross currency swaps and short term FX swaps to hedge against the foreign currency exposure that arises from the issuance of debt in foreign currency. The contracts are for the full amount of the foreign currency debt raised unless currency proceeds are required to fund currency denominated assets.

Foreign Currency Sensitivity
The Group's sensitivity to any reasonable depreciation or appreciation of GBP against foreign currencies would have no material impact on the Group as all foreign currency debt is hedged using derivative instruments.

Information concerning the Group's cross currency swaps is included in note 16.

Fair Value Hedges
Fair value hedges are used by the Group to protect it against changes in the fair value of financial assets and financial liabilities due to movements in foreign currency exchange and interest rates. The hedged items include foreign currency borrowings and both listed and unlisted debt instruments. The Group uses cross currency swaps to hedge against specifically identified foreign currency and interest rate risks.

Cash Flow Hedges
The Group is exposed to variability in future interest cash flows on non-trading assets and liabilities which bear interest at a variable rate. The Group uses interest rate swaps as cash flow hedges of these interest rate risks. Also, because of firm commitments in foreign currencies, such as foreign currency debt, the Group is exposed to foreign exchange and interest rate risks which are hedged with cross currency interest rate swaps.

Capital risk management

33 Financial risk management objectives and policies (continued)

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 17, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in note 24 and the statement of changes in equity on page 81. 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.

34 Contingent liability

During the year the Company provided its responses to a small number of investigator preliminary views issued by the Financial Ombudsman Service ("FOS") in relation to complaints made in connection with a particular retailer which introduces its customers to the Company. The Company agreed with the FOS that six lead cases would be selected, in respect of which, the Company would provide a detailed response for FOS to consider. At the reporting date the Company had received a response from FOS in respect of one of those lead cases, which was found in favour of the Company. Of c.400 complaints, over 40 decisions have been received (at adjudicator level) in favour of the Company. The Directors consider that it is unlikely an obligation will arise 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.

35 Non adjusting events after the financial period

In September 2020, Hitachi Capital Corporation, the Group's ultimate parent, announced that it would be merging with Mitsubishi UFJ Lease and Finance Company Ltd. The merger was completed as planned and a newly merged entity, Mitsubishi HC Capital Inc. was formed, effective from 1 April 2021.

The Directors have recommended a final dividend of £25.0m, 5.6p per share (2020: £nil) which represents 30% of the Group's profit after tax.