HYUNDAI CAPITAL UK LIMITED

Registered in England and Wales
No: 07945949

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2021

STRATEGIC REPORT

The Directors submit the Strategic Report together with their Report of the Directors and the audited financial statements of Hyundai Capital UK Limited (the "Company") and its subsidiary (the "Hyundai Capital Group" or the "Group") for the year ended 31 December 2021

The Company

The principal activity of Hyundai Capital UK Limited, (the "Company") is the provision of retail finance, both secured and unsecured, including instalment credit facilities and finance leasing products to retail customers for the purchase of motor vehicles and equipment. For accounting purposes, 'finance leasing' includes Conditional Sale agreements and Personal Contract Purchase (PCP) agreements. Additionally, a Personal Contract Hire offering is made to customers in conjunction with original equipment manufacturers (OEM) fleet teams. In 2021 the Company has advanced £137.7m (2020: £66.2m) contract hire finance and further details can be found under note 14 operating lease assets. Wholesale funding facilities are also provided to dealers.

The Group

The Group comprises Hyundai Capital UK Limited and its subsidiary, HCUK Auto Funding 2017-2 Limited.

Fair review of the Group's business

The Group's mission is to support the vehicle sales of Hyundai, Kia and Genesis by providing innovative and market leading finance products.

Key performance indicators -

		FY 2021	FY 2020	Diff.
Retail Car sales- Hyundai, Kia and Genesis cars (1)	Units	71,048	56,845	14,203
Retail Finance cases (2)	Units	54,100	40,169	13,931
Retail Penetration (3)	%	76.1%	70.7%	5.4%
Advances New and Used (4)	£m	1,338	930	408
Profit Before Tax	£m	79.3	58.5	20.8

(1) Retail Car sales- Hyundai, Kia and Genesis cars
New vehicle registrations for retail customer only for Hyundai, Kia and Genesis cars for the year.
(2) Retail Finance cases
Number of new retail finance contracts for the year.
(3) Retail Penetration
New car retail cases as a percentage of eligible new car retail sales.
(4) Advances New and Used
Annual amount advanced on retail agreements.

In 2021 the UK car market recorded 1.65m units sold, up just 1.0% on 2020 registrations and 28.7% below pre-COVID levels. Vehicle manufacturing in the year was impacted by a multitude of issues including the ongoing impacts of COVID-19 on staff shortages and, most significantly, the global shortage of semiconductors which has significantly disrupted supply chains. That said, demand for alternatively fuelled vehicles in 2021 increased substantially with plug in vehicles accounting for more than one in six registrations in the year, whilst more battery electric cars were sold in 2021 compared to the previous five years combined. This shift in customer demand has favoured the Group's OEM partners whose model offerings and significant investment in greener fuel chains makes them well placed to benefit and grow market share – as they have done over 2021.

In contrast to the UK car market, the UK economy grew consistently throughout 2021 and surpassed its pre-pandemic level in November 2021. Furthermore, since its peak at the end of 2020 (5.2%) the UK's unemployment rate has consistently fallen throughout 2021 reaching 4.1% at year end. UK inflation (Consumer Price Index) reached 5.4% at the end of 2021, its highest level in almost 30 years. The economic climate is expected to remain challenging as continued rising prices, higher interest rates and low wage growth increase pressure on household finances and consumer confidence.

The retail sales for Hyundai and Kia increased by 25% when compared to 2020 with both OEMs outperforming the market (UK market sales classified as Retail (Private and Business) grew by 6.8% in 2020, whilst market sales classified as Fleet fell by 4.4%). In 2021, the Company entered into a commercial relationship with Genesis Motors UK to be exclusive provider of finance for the Genesis retail business in the UK. Volumes in 2021 were not material but the relationship will allow the wider Hyundai group access to the luxury car market within the UK.

STRATEGIC REPORT *(continued)*

New business volumes in 2021 continued to be impacted by COVID-19 and resulting dealership closures. However, the Group recorded its highest annual new business volumes in 2021 achieving combined new business advances of £1,338m (2020: £930m), a 44% increase on 2020. The Group maintained a conservative approach on all risks associated with lending of this nature and achieved a profit before tax of £79.3m.

Section 172 Statement

The Company is a joint venture with 50.01% of the share capital being held by Santander Consumer (UK) plc, a subsidiary of Santander UK plc (the Santander UK group's ring-fenced bank). 49.99% of the share capital is held by the Hyundai Motor Group through Hyundai Capital Services, Hyundai Motors UK and Kia UK. The shareholders investments are represented equally by three members from each group, with all decisions requiring unanimous approval.

The day-to-day management of the Group is delegated to the senior management team (SMT) who are employees of the Company or seconded from one of the shareholder groups. The SMT are responsible for business performance, the delivery of the strategic objectives of the company and managing HCUK's business wide risks. The performance targets and the strategic objectives are agreed annually by the HCUK Board as part of the annual business planning process, as is the risk appetite for each of HCUK's business wide risks. The Board members review progress on a quarterly basis in each of these areas to ensure that HCUK is meeting the needs of customers, partners, employees as well as making a sustainable return for investors. Any decision taken will be made in the best interest of all stakeholders.

The information given below summarises how the HCUK Directors act in good faith and promote the success of the company for all members.

Performance Targets

The Directors consider it important to understand the company's performance in relation to the market and the performance of its partners. Regular reporting is provided across all areas of the business enabling investment and resources to be directed as appropriate.

Whilst performance measures are set in line with the long term objectives of HCUK, all decision making will consider the wider stakeholder groups at all times. Examples of this include: the introduction of a flexible working pilot for the return to the office providing employees with a choice over their working style; provision of three-month payment holidays (up to March 2021) to support retail customers financially impacted by COVID-19; investment in digital analytical solutions to help support the company's dealer network adapt to changing customer preferences (e.g. total cost of ownership calculators and analytical insights to assist retention activities); and, financial support provided to the company's OEM partners to support financial campaigns and grow sales.

The company has undertaken an exercise to identify its key stakeholders and map their interests to the key decision-making committees within the company, ensuring that the consideration of key stakeholders remains at the forefront of decision-making throughout the organization.

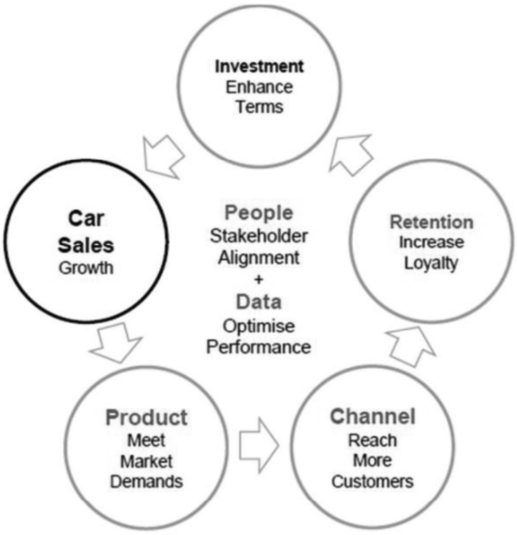
Strategic Objectives

The strategic objectives focus on sustainable growth in five key areas, Product, Channel, Retention, People and Data; in order to support future investment. These areas have been in place for several years, with specific projects detailed under each category to support the growth of HCUK and its partners.

STRATEGIC REPORT *(continued)*

Section 172 Statement (continued)

Business Model and Objectives



Product	• Grow penetration • Develop product offering
Channel	• Reach more customers • Add value
Retention	• Maximise opportunities • Grow expertise
People	• Support our partners • Position ourselves for the future
Data	• Create efficiencies • Identify new opportunities
Investment	• Deliver a return for shareholders • Directly support new car sales

Product: The project initiatives in this area fall into two main categories. Growth of existing product ranges and developing financial products to meet the future needs of HCUK's customers. All product developments consider the long-term sustainability for all stakeholder groups ensuring that customer needs are central throughout the process.
Channel: With a customer centric focus HCUK considers new channel opportunities and how the customer experience can be optimised. With developments in digital tools across the customer journey HCUK focuses on making the finance information and transaction as transparent and easy for the customer as possible. This also extends to our dealer partner remarketing activities.

Retention: Customer loyalty and retention is key to the success for HCUK and its OEM partners. In this area HCUK focus on improving our customer contact strategies and processes as well as improving the customer proposition.

People: The initiatives that fall under this section centre on HCUK being able to support its partners activities and ensuring that HCUK has an engaged team with the skills to meet tomorrow's challenges. Employee engagement is a key focus and with consistent improvement over several years, HCUK is now recognized as a Kincentric[1] best employer.

Data: In this area initiatives are designed to ensure that HCUK is able to create efficiencies, identify new opportunities for business and respond to business threats – all with the aim to optimizing performance.

Risk Appetite
The Board Members approve HCUK's risk appetite each year with the aim that high standards are maintained across all risk areas. The 10 business wide risks are managed on a day-to-day basis through various committees, as set out in the risk charter, and reported to the Directors through a Board Risk Committee (BRC) allowing the members to have the appropriate oversight and to take any appropriate action as may be needed. The following areas summarise the committees and risks reviewed (with reputational risk covered at all committees); and at the BRC:

- Risk Control Committee – Residual Value and Credit Risk
- Conduct Risk Committee – Consumer Conduct
- Compliance Review Board – Regulatory and Legal
- Operational Risk Committee – Operational (Non Info Sec)
- Information Security – Operational Risk
- Executive Finance Committee – Strategic Risk
- Asset and Liability Committee – Capital, Interest rate, liquidity

[1] Kincentric provides specialist services across culture and engagement, leadership assessment and development, HR and talent advisory, and diversity, equity and inclusion. It also provides its assessment of Best Employers around the world based upon four research-based elements: high employee engagement, agility, engaging leadership and talent focus.

STRATEGIC REPORT *(continued)*

Section 172 Statement (continued)

The management of risks, both in terms of setting an appropriate appetite level and monitoring the performance accordingly enables the Director's confidence that HCUK is maintaining a high standard of business conduct.

Streamlined Energy and Carbon Reporting (SECR)

The objective of net zero emissions by 2050 to tackle global climate change is creating opportunities for the Group to finance more electric vehicles, as consumers move from Internal Combustion Engine (ICE) to electric transmission. By financing Alternative Fuel Vehicles (AFV) the Group is supporting its OEM partners to achieve an average European CO2 emission objective for 2021-2024 of 95g/km and meeting the UK governments 'Road to Zero'.

The UK Government's aim is to stop the sale of new diesel and petrol cars by 2030 and from 2035 all new cars must be zero emission at the tailpipe. Our manufacturing partners have developed 100% electric vehicles including the Kia e-Niro, the Kia Soul EV, the Kia EV6, the Hyundai Ioniq 5 and the Hyundai KONA electric. Whilst Genesis does not currently have a fully electric offering in the UK it plans to launch two models (the GV60 and the electrified G80) in the first half of 2022, with the electrified GV70 to follow. All OEM partners are fully supportive of the UK Government's stance and their strategy is to develop all electric cars within the UK government timelines. For the Groups part electric vehicle charging points have been fitted at the Group's offices in 2021 as a demonstration of our commitment to promote the use of electric vehicles.

The impact on the business model is that AFVs remain relatively more expensive per unit than ICE vehicles and hence average value of finance per case has increased. Combined with a reduction in the amount of UK government support for the purchase of electric vehicles means that in the medium term we need to support our OEM partners and customers during the transition and consider the impact on Residual Value risk of vehicles returning to us in future years. The transition heightens the impact of Residual Value Risk, a principal risk, which is defined in Note 3. The UK Government changed their policy regarding sale of new ICE cars by moving the ban from 2035 to 2030. Any sudden changes in regulation or government support may affect values of our assets or their economically useful lives.

In addition, technology advances in the efficiency of electric batteries may cause a drop in value of older electric vehicles. The Directors are closely monitoring climate policy, technological shifts and tightening of energy standards and adjusting the Group's strategy as required.

The Group is also fully committed to reducing its operational impact on the environment. Carbon dioxide emissions are generated by the Group from energy usage at its head office and through employee's business travel. Energy saving lighting and power solutions are in place to minimise energy usage wherever possible and an increasing number of business development managers, who undertake the majority of business travel across the Group's dealer network, are doing so in AFVs. The increase in HCUK's sales staff driving greener vehicles has dramatically reduced HCUK's CO2 emissions from business travel.

We report our carbon emissions following the Greenhouse Gas Protocol with the calculation of the Group's emissions for the year made through application of the UK Government's greenhouse gas calculation methodology and associated conversion factors for the applicable financial year. The energy used by the Group falls into Scope 2 (indirect energy usage from purchased electricity and heating used at the Group's head office) and Scope 3 (used at the Group's head office) and Scope 3 (indirect energy usage from business travel made by vehicles not owned by the Group). All energy used by the Group is in the United Kingdom.

STRATEGIC REPORT *(continued)*

Streamlined Energy and Carbon Reporting (SECR) (continued)

The tables below outline the energy usage in tonnes of CO_2e and in megawatt-hours (MWh).

Carbon dioxide emissions (tonnes)

(Tonnes)	2021	2020
From energy (Scope 2)	22.5	19.4
- including energy UK	22.5	19.4
From business travel (Scope 3)	5.2	30.7
- including business travel UK	5.2	30.7
Total emissions (tonnes CO2e)	27.7	50.1

Energy consumption (MWh)

(Megawatt-hours)	2021	2020
From energy (Scope 2)	105.8	83.1
- including energy UK	105.8	83.1
From business travel (Scope 3)	20.9	124.0
- including business travel UK	20.9	124.0
Total consumption (MWh)	126.8	207.1

Carbon dioxide emissions per FTE

(Tonnes)	2021	2020
From energy	0.31	0.29
From business travel	0.07	0.46
Total (tonnes CO2e)	0.38	0.75

Principal risks and uncertainties facing the Group

The Group's principal risks and uncertainties together with the processes that are in place to monitor and mitigate those risks where possible can be found in Note 3.

On behalf of the board

For and on behalf of
Hyundai Capital UK Limited

VT Hill
Director

22 September 2022

Registered Office Address: London Court, 39 London Road, Reigate, Surrey, RH2 9AQ.

REPORT OF THE DIRECTORS

The Directors submit their Report together with the Strategic Report and the audited consolidated financial statements for the year ended 31 December 2021.

Principal activities and review of the year

The principal activity of Hyundai Capital UK Limited and its subsidiary (the Group) is the provision of retail finance, both secured and unsecured, including instalment credit facilities and finance leasing products to retail customers for the purchase of motor vehicles and equipment. For accounting purposes, 'finance leasing' includes Conditional Sale agreements and Personal Contract Purchase (PCP) agreements. A Personal Contract Hire product is offered and further details can be found under note 14 operating lease assets. Wholesale funding facilities are also provided to dealers. A review of the year can be found in the Strategic Report on page 1.

Results and dividends

The Group profit for the year amounted to £60,323,000 (2020: £46,792,000). The Directors do not recommend the payment of a final dividend (2020: £nil).

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements (except as noted) were:

AW Andrew	
GT Firmin	(resigned 9 February 2022)
SG Grant	
SJ Green	(appointed 10 February 2022)
VT Hill	
W Joo	(resigned 21 June 2021)
J Kang	(appointed 22 June 2021; resigned 9 February 2022)
H Kim	(appointed 10 February 2022; resigned 30 April 2022)
H Lee	(appointed 1 May 2022)
PJ Philpott	

Employees

Details of the number of employees and related costs can be found in note 8 to the Financial Statements. For the current and prior year, all employees of the Group were either employees of Hyundai Capital UK Limited or employees seconded from Hyundai Capital UK Limited's shareholders.

The Group participates in the SAN UK Group (comprising Santander UK plc and its subsidiaries) policies and practices to keep employees informed on matters relevant to them as employees through regular meetings, newsletters and the Intranet. Employee representatives are consulted regularly on a wide range of matters affecting their interests. Employees are encouraged to achieve a common awareness of the financial and economic factors affecting the performance of the Company and Group.

The Group is committed to equality of access and quality of service for disabled people and embraces the spirit of the UK Equality Act 2010 throughout its business operations. The Group has processes in place to help recruit, train, develop, retain and promote employees with disabilities and is committed to giving full and fair consideration to applications for employment made by disabled persons, and for continuing the employment of, and arranging appropriate training for, existing employees who have become disabled.

Statement of 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 Strategic Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. In addition, notes 2, 3, 20 and 22 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 its exposures to credit risk, market risk, liquidity risk, operational risk, conduct risk and residual value risk.

The Group has negative net current liabilities of £269,236,000 (2020: £170,127,000). There is an accounting mismatch between the current borrowings and current assets. The majority of the Group's current liabilities are with respect to funding provided by its parent company Santander Consumer UK plc. In addition, current liabilities also include £350,000,000 of secured funding issued by HCUK Auto Funding 2017-2 Ltd which matured in August 2022. The Group has successfully refinanced this maturing liability through £400,000,000 of new secured funding issued through HCUK Auto Funding 2022-1 Ltd (incorporated in June 2022). Overall, the group has total net assets of £337,444,000 (2020: £277,121,000) and has adequate financial resources. The Directors have carried out a rigorous going concern assessment, using forward looking information covering the next three years. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

REPORT OF THE DIRECTORS *(continued)*

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least the period of 12 months from the date the financial statements are authorised for issue. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual report and financial statements.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and the company financial statements in accordance with UK-adopted international accounting standards.

Under company law, 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 for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are 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.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the group's and company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group's and company's auditors are aware of that information.

Likely future developments

The Directors expect the Group to continue to grow despite increasing economic pressures. Growth in new and used car finance is expected due to the Group's consistently strong relationships with the OEMs. During 2021, the Group began financing Genesis luxury brand vehicles in the UK market. It is anticipated that sales of these vehicles will grow in 2022 as the full model range is released, including the release of several electronic vehicles.

The impacts on HCUK's business model from increasing economic pressures, including rapidly rising inflation and interest rates and falling consumer confidence, are monitored closely and reported and discussed at relevant HCUK Committees.

Impact of Covid-19

In 2021, there were ongoing challenges in terms of navigating the changing circumstances presented by the Covid-19 pandemic, including its impact on the economy and upon home and office working arrangements. The Company continues to monitor the impact of Covid-19 on its operations and customers and intends to take a coordinated approach with the other members of the Santander UK plc group where applicable.

REPORT OF THE DIRECTORS *(continued)*

Broader geopolitical and social risks, including invasion by Russia of Ukraine

During the course of the past two years, since the onset of the Covid-19 pandemic, a number of broader risks have evolved and may present future headwinds. These include, geopolitical tensions between regions across the world, global supply chain pressures (which have already fuelled inflationary pressures), stretched household finances, and emerging social unrest. These factors are also likely to play into increased localised political risk, including in the UK. The Company is closely following these developments and the potential for any material impacts which may need to be taken into consideration in its future plans and intends to take a coordinated approach with the other members of the Santander UK plc group.

Financial Instruments

The Group's financial instruments comprise loans from Santander UK plc group, borrowings, cash and liquid resources and creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

Further disclosures regarding financial risk management objectives and policies and the Group's exposure to principal risks can be found in Note 3.

Qualifying Third Party Indemnities

Enhanced indemnities are provided to the Directors of the Group by Santander UK Group Holdings plc (SUKGH) against liabilities and associated costs which they could incur in the course of their duties to the Group. All of the indemnities were in force during the financial year and at the date of approval of the Report and Financial Statements. All of the indemnities were qualifying third party indemnities. A copy of each of the indemnities is kept at the registered office address of SUKGH.

Corporate Governance Statement

The Company is a joint venture with 50.01% of the share capital being held by Santander Consumer (UK) plc, a subsidiary of Santander UK plc (the Santander UK group's ring-fenced bank). For the financial year ended 31 December 2021, the Santander Group reported against the UK Corporate Governance Code 2018 (the Code). Additionally, the Santander Group has developed its own Internal Corporate Governance Framework (CGF) suitable for its subsidiaries and joint ventures, to which the Group adheres. The Group has therefore adopted the Santander Group's CGF, which indirectly follows the spirit of the Code. The corporate governance arrangements of the Santander Group are discussed in the Santander UK plc 2021 Annual Report, which does not form part of this Report.

With regard to risk management, the Group has regard to the Santander Group's overarching strategic agenda and risk appetite for itself and Santander Group subsidiaries, as well as considering input from other joint venture partners, to ensure alignment with its applicable risk appetite as well as its culture and values. These are reviewed regularly by its Board Risk Committee as well as its executive management. The CGF provides for the Group to review its own strategy and risk appetite, risk management and escalation of material risk matters. During these discussions, the Board considers its respective stakeholder group (which includes customers and its shareholders).

The Group has employees and supporting staff (see note 8 to these financial statements). Remuneration practices are aligned to Santander Group policies and procedures. Board Chair appointments are subject to the joint venture agreement requirements and considered by the appropriate committee. The Group, its Board of Directors, and its joint venture partners are committed to fair employee reward and incentivisation.

REPORT OF THE DIRECTORS *(continued)*

Disclosure of information to the Independent Auditors

Each of the Directors as at the date of approval of this report has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Group's auditors are unaware; and
- the Director has taken all steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

PricewaterhouseCoopers LLP are deemed to be re-appointed as auditors under Section 487(2) of the Companies Act 2006.

For and on behalf of
Hyundai Capital UK Limited

VT Hill
Director
22 September 2022

Registered Office: London Court, 39 London Road, Reigate, Surrey, RH2 9AQ.

Independent auditors' report to the members of Hyundai Capital UK Limited

Report on the audit of the financial statements

Opinion

In our opinion, Hyundai Capital UK Limited'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 December 2021 and of the group's profit and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Consolidated Financial Statements (the "Annual Report"), which comprise: the group and company balance sheet as at 31 December 2021; the group statement of comprehensive income, the group and company cash flow statements and the group and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

- Evaluation of the projected profit, capital and liquidity positions in management's going concern assessment;
- Assessment of the capital and liquidity position of the Santander Group, and therefore its ability to continue to provide finance to the company; and
- Evaluation of the adequacy of disclosures made in the financial statements in relation to going concern.

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

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

Independent auditors' report to the members of Hyundai Capital UK Limited (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and the Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and the Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and the Report of the Directors for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and the Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

In preparing the financial statements, the directors are responsible for assessing the group's and the 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.

Auditors' 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 auditors' 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 material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the rules of the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of fraudulent journal entries and management bias in accounting estimates.

Independent auditors' report to the members of Hyundai Capital UK Limited (continued)

Audit procedures performed by the engagement team included:

- Enquiries of management in relation to known or suspected instances of non-compliance with laws and regulation and fraud;
- Identifying and, where relevant, testing journal entries with a higher fraud risk, for example those posted by senior management or with unusual account combinations;
- Challenging and testing key assumptions and judgements made by management in respect of critical accounting estimates and obtaining appropriate audit evidence

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, 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.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- 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
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Luke Hanson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 September 2022

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Note	2021 £000	2020 £000
Net interest and similar income	5	99,256	95,032
Finance costs	6	(23,209)	(28,318)
Gross profit		76,047	66,714
Other operating income	7	39,463	32,412
Administrative expenses	8	(49,692)	(43,961)
Credit impairment losses, residual value and voluntary termination reversals	9	13,456	3,313
Profit before tax		79,274	58,478
Tax	11	(18,951)	(11,686)
Profit after tax		60,323	46,792
Total comprehensive income for the year attributable to the equity holders of the Group		60,323	46,792

All the activities of the Group are classed as continuing.

The Group consists of the main trading entity Hyundai Capital UK Limited and its subsidiary as per note 12. For the Company, profit after tax was £60,319,000 (2020: £46,788,000).

The accompanying notes form an integral part of the financial statements.

There is no other comprehensive income for the Group other than the profit for the year stated above.

BALANCE SHEETS

As at 31 December 2021

		Group		Company	
	Note	2021 £000	2020 £000	2021 £000	2020 £000
Non-current assets					
Property, plant and equipment	13	842	238	842	238
Operating lease assets	14	227,902	151,701	227,902	151,701
Finance lease receivables	16	1,097,878	1,001,091	1,097,878	1,001,091
Financial assets held at amortised cost	17	920,162	686,720	1,162,154	1,032,593
Deferred tax asset	19	-	681	-	681
		2,246,784	1,840,431	2,488,776	2,186,304
Current assets					
Finance lease receivables	16	486,488	489,135	486,488	489,135
Financial assets held at amortised cost	17	793,565	954,161	793,567	916,300
Trade and other receivables	18	50,620	35,816	50,620	35,817
Inventories	15	2,811	4,520	2,811	4,520
Corporation tax asset		5,902	-	5,902	-
Cash and cash equivalents		87,932	116,537	44,567	70,821
		1,427,318	1,600,169	1,383,955	1,516,593
Total assets		3,674,102	3,440,600	3,872,731	3,702,897
Current liabilities					
Trade and other payables	20	(33,086)	(26,192)	(33,062)	(26,174)
Lease liabilities	21	(161)	(191)	(161)	(191)
Bank overdrafts and borrowings	22	(1,663,307)	(1,743,913)	(1,695,994)	(1,597,117)
		(1,696,554)	(1,770,296)	(1,729,217)	(1,623,482)
Non-current liabilities					
Lease liabilities	21	(726)	(38)	(726)	(38)
Bank overdrafts and borrowings	22	(1,622,175)	(1,393,145)	(1,788,154)	(1,802,265)
Deferred tax	19	(17,203)	-	(17,203)	-
		(1,640,104)	(1,393,183)	(1,806,083)	(1,802,303)
Total liabilities		(3,336,658)	(3,163,479)	(3,535,300)	(3,425,785)
Net current liabilities		(269,236)	(170,127)	(345,262)	(106,889)
Net assets		337,444	277,121	337,431	277,112
Equity					
Capital and reserves					
Share capital	23	55,000	55,000	55,000	55,000
Retained earnings		282,444	222,121	282,431	222,112
Total equity		337,444	277,121	337,431	277,112

The Company balance sheet is presented for Hyundai Capital UK Limited, Company number 07945949.

The Group consists of the main trading entity Hyundai Capital UK Limited and its subsidiary as per note 12. For the Company, profit after tax was £60,319,000 (2020: £46,788,000).

The accompanying notes form an integral part of the financial statements.

The financial statements on pages 13 to 47 were approved by the Board of Directors on 22 September 2022 and signed on its behalf by:

VT Hill, Director
22 September 2022

CASH FLOW STATEMENTS

For the year ended 31 December 2021

		Group		Company	
	Note	2021 £000	2020* £000	2021 £000	2020* £000
Net cash (used in)/ generated from operating activities	24	(157,247)	10,220	(91,231)	(27,970)
Financing activities					
Interest income on securitisation		-	-	5,422	5,723
Interest paid		(23,209)	(28,318)	(28,637)	(34,032)
Principal paid on lease liabilities		(267)	(252)	(267)	(252)
New deposits		(10,366)	(45,748)	(10,366)	(45,748)
Repayment of deposits		14,060	45,748	14,060	45,748
Increase/ (decrease) in bank overdrafts and borrowings	22	2,687	(1,425)	(60,972)	42,710
Proceeds from borrowings		1,534,552	1,334,923	1,534,551	1,334,926
Repayment of borrowings		(1,388,815)	(1,297,539)	(1,388,814)	(1,297,539)
Net cash generated by financing activities		**128,642**	**7,389**	**64,977**	**51,536**
Net (decrease)/ increase in cash and cash equivalents		(28,605)	17,609	(26,254)	23,566
Cash and cash equivalents at beginning of year		116,537	98,928	70,821	47,255
Cash and cash equivalents at end of year		**87,932**	**116,537**	**44,567**	**70,821**

The accompanying notes form an integral part of the financial statements.

*The 2020 comparatives relating to principal paid on lease liabilities and repayment of deposits have been restated to better reflect the nature of the underlying transactions. The cash flow statement comparatives have also been amended to reflect a balance sheet restatement comprising of an increase in trade and other payables and a decrease in bank overdrafts and borrowings relating to related party creditors which have been reclassified as trading loans. The cash flow statement comparatives have also been amended to report interest on a gross basis comprising of an increase in Finance costs and Interest Paid.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Group			Company		
	Share Capital £000	Retained Earnings £000	Total Equity £000	Share Capital £000	Retained Earnings £000	Total Equity £000
Balance at 1 January 2020	55,000	175,329	230,329	55,000	175,324	230,324
Profit and total comprehensive income for the year	-	46,792	46,792	-	46,788	46,788
Balance at 31 December 2020 and 1 January 2021	55,000	222,121	277,121	55,000	222,112	277,112
Profit and total comprehensive income for the year	-	60,323	60,323	-	60,319	60,319
Balance at 31 December 2021	55,000	282,444	337,444	55,000	282,431	337,431

The accompanying notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. ACCOUNTING POLICIES

The principal accounting policies adopted in the presentation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

General information and scope of consolidation

The Company is domiciled and incorporated in the United Kingdom and is a joint venture with 50.01% of the share capital being held by Santander Consumer (UK) plc, a subsidiary of Santander UK plc, 29.99% by Hyundai Capital Services Inc. (a subsidiary of Hyundai Motor Company), 10.00% by Hyundai Motor UK Limited (a subsidiary of Hyundai Motor Company) and 10.00% by Kia UK Limited, formerly Kia Motors (UK) Limited, prior to special resolution on 26th April 2021, (a subsidiary of Kia Motors Europe GmbH). Further information on the parent undertakings can be found under note 27. The Company is a private limited liability company in which liability is limited by shares. The Hyundai Capital UK Limited Group consolidation comprises the consolidated financial statements of Hyundai Capital UK Limited and the securitisation entity that it controls; HCUK Auto Funding 2017-2 Limited.

The registered office address of the Company is London Court, 39 London Road, Reigate, Surrey, RH2 9AQ.

These financial statements are prepared under the Companies Act 2006.

Basis of preparation

The consolidated financial statements have been prepared in accordance with UK-adopted international accounting standards (IAS). On 31 December 2020, International Financial Reporting Standards (IFRSs) as adopted by the European Union at that date were brought into UK law and became UK-adopted IAS, with future changes being subject to endorsement by the UK Endorsement Board. The Company transitioned to UK-adopted IAS in its financial statements on 1 January 2021, however, this change had no impact on recognition, measurement or disclosures in the periods reported.

The financial statements have been prepared under the historical cost convention and on a going concern basis as disclosed in the Directors' statement of going concern set out in the Report of the Directors.

The functional and presentation currency of the Group is pounds sterling.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Hyundai Capital UK Limited and its subsidiary, HCUK Auto Funding 2017-2 Limited.

Consolidation of a subsidiary begins when the parent company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of the subsidiary acquired are included in the Group consolidated statement of comprehensive income from the date that the parent company gains control until the date that the Company ceases to control the subsidiary. Inter-company transactions, balances and unrealised gains on transactions between the Hyundai Capital UK Limited Group companies are eliminated, unrealised losses are also eliminated unless the cost cannot be recovered.

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Statement of Comprehensive Income in these financial statements.

Recent accounting developments

Interest Rate Benchmark Reform

In 2020, the Group applied 'Interest Rate Benchmark Reform – Phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' to all loans whose interest rates were based on LIBOR that were transitioning to alternative benchmark interest rates. During 2021, the Group applied the practical expedient in these amendments, to account for a change in the basis for determining the contractual cash flows by updating the effective interest rate using the guidance in IFRS 9. This resulted in no immediate gain or loss being recognised. There were no loans or other instruments remaining that are affected by IBOR reform as at 31 December 2021.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 *(continued)*

1. ACCOUNTING POLICIES *(continued)*

Future accounting developments

At 31 December 2021, for the Group, there were no significant new or revised standards and interpretations, and amendments thereto, which have been issued but which are not yet effective or which have otherwise not been early adopted where permitted.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and recognised when prescribed conditions are met, which depend on the nature of the revenue.

Interest income is recognised using the effective interest rate method. The effective interest rate method is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's initial net carrying amount. The calculation includes all fees paid or received that are integral to the contract and all other premiums and discounts. See lease policy for recognition of income regarding leases. Interest is receivable on term deposits at fixed rates.

Net Interest and similar income

Net Interest and similar income is received from four key income streams:

- Retail income which includes interest and subsidy income from finance leases, unsecured personal loans and associated fees and commissions. Our manufacturer partners provide subsidies in lieu of interest for low and nil rate retail finance agreements. The interest and subsidy income is spread using the effective interest rate method using the rate integral in the lease over the expected life of the agreements. Third party intermediaries including dealerships and brokers introduce all new business. Third party intermediaries including dealerships and brokers introduce all new business. Commission is paid to these intermediaries for their services; the commission is spread using the effective interest rate method over the contractual life of the agreements. Fees and commissions that are not an integral part of the effective interest rate are recognised when the service is provided, or on the performance of a significant act. For retail and corporate products, fee and commission income consists principally of collection services fee, and fees for non-banking financial products. Revenue from these income streams is recognised when the service is provided.
- Wholesale funding income which includes both interest and fee income from lending to dealers. Wholesale income is primarily linked to unit stocking finance along with dealer overdrafts, dealer loans and advanced commission facilities. The majority of wholesale funding income is interest income. Wholesale fee income represents unit stocking origination charges.
- Interest and fee income from securitisations.
- Other bank interest from amounts held on deposit.

Pensions and other post-retirement benefits

The Group participates in a defined contribution scheme run by Santander UK plc. The pension charge in the profit and loss reflects the contributions payable during the year, see note 8.

Other operating income

Other operating income comprises of income from operating leases and miscellaneous fees originating from the retail and wholesale portfolios.

Revenue from operating leases is recognised on a straight-line basis, over the life of the agreement. All other operating income is recognised when the service is provided.

Finance costs

Finance costs consist of interest payable to Group undertakings, amounts paid on securitisation and bank charges on overdrafts and loans. Interest payable to Group undertakings and bank charges are recognised on an accruals basis.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 *(continued)*

1. ACCOUNTING POLICIES *(continued)*

Financial Instruments

a) Initial recognition and measurement

Financial assets and liabilities are initially recognised when the Group becomes a party to the contractual terms of the instrument. The Group determines the classification of its financial assets and liabilities at initial recognition and measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss (ECL) allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI.

b) Financial assets and liabilities

Classification and subsequent measurement
From 1 January 2018, the Group has applied IFRS 9 Financial Instruments and classifies its financial assets in the measurement categories of amortised cost, FVOCI and FVTPL.

Financial assets and financial liabilities are classified as FVTPL where there is a requirement to do so or where they are otherwise designated at FVTPL on initial recognition. Financial assets and financial liabilities which are required to be held at FVTPL include:

- Financial assets and financial liabilities held for trading
- Debt instruments that do not have solely payments of principal and interest (SPPI) characteristics. Otherwise, such instruments are measured at amortised cost or FVOCI.

Financial assets and financial liabilities are classified as held for trading if they are derivatives or if they are acquired or incurred principally for the purpose of selling or repurchasing in the near-term, or form part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking.

In certain circumstances other financial assets and financial liabilities are designated at FVTPL where this results in more relevant information.

c) Financial assets: debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and government and corporate bonds. Classification and subsequent measurement of debt instruments depend on the Group's business model for managing the asset, and the cash flow characteristics of the asset.

Business model
The business model reflects how the Group manages the assets in order to generate cash flows and, specifically, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of the assets. If neither of these is applicable, such as where the financial assets are held for trading purposes, then the financial assets are classified as part of an 'other' business model and measured at FVTPL. Factors considered in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the assets' performance is evaluated and reported to key management personnel and how risks are assessed and managed.

SPPI
Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the assets' cash flows represent SPPI. 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 is inconsistent with a basic lending arrangement, the related asset is classified and measured at FVTPL.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 *(continued)*

1. ACCOUNTING POLICIES *(continued)*

c) Financial assets: debt instruments (continued)

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

Based on these factors, the Group classifies its debt instruments into one of the following measurement categories:

- Amortised cost – Financial assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL recognised. Interest income from these financial assets is included in 'Net interest and similar income' using the effective interest rate method. When the estimates of future cash flows are revised, the carrying amount of the respective financial assets or financial liabilities is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the income statement.
- FVOCI – Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are recognised in OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net interest and similar income'. Interest income from these financial assets is included in 'Other gains/ losses' using the effective interest rate method.

-FVTPL – Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL, including any debt instruments designated at fair value, is recognised in profit or loss and presented in the income statement in 'Other operating income' in the period in which it arises.

The Group reclassifies financial assets when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent.

Impairment of debt instrument financial assets

Expected credit losses are recognized on all financial assets at amortised cost or at fair value through other comprehensive income. The expected credit loss considers forward looking information to recognise impairment allowances earlier in the lifecycle of a product. A three-stage approach to impairment measurement is adopted as follows:

- Stage 1 - the recognition of 12 month expected credit losses (ECL), that is the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, if credit risk has not increased significantly since initial recognition;
- Stage 2 - lifetime expected credit losses for financial instruments for which credit risk has increased significantly since initial recognition; and
- Stage 3 - lifetime expected credit losses for financial instruments which are credit impaired.

The measurement of ECL reflects:

– An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
– The time value of money; and
– Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Financial assets are written off when it is reasonably certain that receivables are irrecoverable. All write-offs are assessed on a case-by-case basis, taking account of the exposure at the date of write-off. Write-offs are charged against previously established loss allowances.

Recoveries of credit impairment losses are taken to income and offset against credit impairment losses, Recoveries of credit impairment losses are classified in the income statement as 'Impairment losses'. For more on how ECL is calculated see the Credit risk section in Note 3.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 *(continued)*

1. ACCOUNTING POLICIES *(continued)*

Financial liabilities

Financial liabilities are classified as subsequently measured at amortised cost.

Trade and other payables are classified as amortised cost.

Property, Plant and equipment

Property, plant and equipment include buildings and office fixtures and equipment. Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. A review for indications of impairment is carried out at each reporting date. Gains and losses on disposal are determined by reference to the carrying amount and are reported in administration expenses. Repairs and renewals are charged to the income statement when the expenditure is incurred. Classes of property, plant and equipment are depreciated on a straight-line basis over their useful life as follows:

Buildings	5 years
Cars	2 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or scrappage of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Finance leases

The Group as a Lessor
The Group's finance products include Conditional Sale agreements and Personal Contract Purchase (PCP) agreements. Under Conditional Sale agreements, the Group is the legal owner of the vehicle until all repayments have been made. Under Personal Contract Purchase (PCP) agreements there is a final balloon payment at the end of the agreement, and the customer has three contractual options at the end of the agreement term. Further details are found in note 16.

Definition of a lease
The definition of a lease also includes hire purchase contracts. These are contracts for the hire of an asset that give the hirer an option to acquire title to the asset and conditional sale agreements where title automatically passes to the lessee on making the final lease payment.

Assets leased to customers under agreements which transfer substantially all the risks and rewards of ownership to the lessee, are classified as finance leases. Assets held under finance leases are recognised in the balance sheet as a receivable amount equal to the net investment in leases. The net investment in leases represents the present value of the minimum lease payments receivable under finance leases or the life of the asset if shorter, at the inception of the lease, together with any unguaranteed residual value accruing to the lessor discounted at the rates of interest implicit in the leases. Income from finance leases is allocated to accounting periods so as to give a constant periodic rate of return on the net investment. Impairment losses arising from changes in future residual values for finance leases are recognised as part of the impairment of financial assets.

Expected credit losses are recognised on finance leases at amortised cost. The expected credit loss considers forward looking information to recognise impairment allowances earlier in the lifecycle of the lease. Further information can be found in note 3 under the section credit exposures and corresponding ECL.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 *(continued)*

1. ACCOUNTING POLICIES *(continued)*

The Group as lessee

The Group assesses whether a contract is or contains a lease at the inception of the contract and recognises a right-of-use (ROU) asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments for all leases, except for leases with a term of 12 months or less which are expensed in the income statement on a straight-line basis over the lease terms.

Lease payments exclude irrecoverable VAT which is expensed in the income statement as lease payments are made.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the incremental borrowing rate appropriate to the lease term. The lease liability is subsequently measured at amortised cost using the effective interest rate method.

Remeasurement of the lease liability occurs if there is a change in the lease payments (when a corresponding adjustment is made to the ROU asset), the lease term or in the assessment of an option to purchase the underlying asset. At inception, the ROU asset, which is included in Property, plant and equipment on the balance sheet, comprises the lease liability, initial direct costs and the obligations to restore the asset, less any incentives granted by the lessor. The ROU asset is depreciated over the shorter of the lease term or the useful life of the underlying asset and is reviewed for impairment as for owned assets. The obligation to restore the asset is included in Provisions on the balance sheet.

Operating leases

The Group and Company as a lessor: Assets leased to customers, under agreements which do not transfer substantially all the risks and rewards of ownership, are classified as operating leases. Operating leases are capitalised and depreciated on a straight-line basis over their anticipated useful lives (6 to 48 months) to estimated residual values. Estimated residual values are regularly reassessed against revised projections of used car prices and the resulting changes of estimate are reflected in adjustments to the deprecation charge for the year and remaining lease term.

The carrying value of the operating lease assets are derecognised on disposal or when impaired when no future economic benefits are expected from its use. The gain or loss arising from derecognition of operating lease assets is included in the profit or loss when the item is derecognised.

Taxation

The tax expense represents the sum of the income tax currently payable and deferred income tax.

Income tax payable on profits, based on the applicable tax law in each jurisdiction is recognised as an expense in the period in which profits arise. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is the tax expected to be payable or recoverable on income tax losses available to carry forward and on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and is accounted for using the balance sheet liability method. 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 the assets may be utilised as they reverse. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill. Deferred tax assets and liabilities are not recognised from the initial recognition of other assets (other than in a business combination) and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on rates enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred and current tax assets and liabilities are only offset where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Inventories

Inventories encompass vehicles held for sale in the ordinary course of business. Inventories are valued at the lower of cost and net realisable value.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 *(continued)*

1. ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

For the purposes of the cash flow statement and balance sheet, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including loans and advances to banks in the same group, and amounts due from other banks.

Financial Liabilities, including borrowings and trade and other payables

Financial liabilities are recognised initially at fair value, being the proceeds (fair value of consideration received) net of transaction costs incurred. Financial liabilities are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Securitisation transactions

The Group has entered into certain arrangements where undertakings have issued asset-backed securities. As the Group has retained substantially all the risks and rewards of the underlying assets, such financial instruments continue to be recognised on the balance sheet, and a liability recognised for the proceeds of the funding transaction. The Group prepares consolidated financial statements including the results of its subsidiary securitisation companies.

Term deposits

Term deposits are classified as financial assets and are included within loans and receivables. Term deposit balances are shown at their amortised cost, which is equivalent to their face value. Interest is accrued over the term of the deposits and is paid periodically or at maturity. Interest income earned but not paid is accrued.

Share capital

Incremental external costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Impairment of non-financial assets

At each balance sheet date, or more frequently when events or changes in circumstances dictate, non-financial assets are assessed for indicators of impairment. If indications are present, these assets are subject to an impairment review. The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount: the higher of the asset's fair value less costs to sell and its value in use.

The carrying values of non-financial assets are written down by the amount of any impairment and the loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss may be reversed in part or in full when a change in circumstances leads to a change in the estimates used to determine the recoverable amount. The carrying amount of the asset will only be increased up to the amount that would have been had the original impairment not been recognised.

2. CRITICAL ACCOUNTING POLICIES AND AREAS OF SIGNIFICANT MANAGEMENT JUDGEMENT

The preparation of the Group's financial statements requires management to make estimates and judgements that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting period. Management evaluates its estimates and judgements on an on-going basis. Management bases its estimates and judgements on historical experience and on other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

The following accounting estimates and judgements are considered important to the portrayal of the Group's financial results and financial condition because: (i) they are highly susceptible to change from period to period as assumptions are made to calculate the estimates, and (ii) any significant difference between the estimated amounts and actual amounts could have a material impact on the Group's future financial results and financial condition.

2. CRITICAL ACCOUNTING POLICIES AND AREAS OF SIGNIFICANT MANAGEMENT JUDGEMENT *(continued)*

In calculating each estimate, a range of outcomes was calculated based principally on management's conclusions regarding the input assumptions relative to historic experience. The actual estimates were based on what management concluded to be the most probable assumptions within the range of reasonably possible assumptions.

Expected credit loss allowances

The Group is exposed to credit risk where counterparties may not be able to meet their financial obligations. The application of the ECL methodology for calculating credit impairment allowances is susceptible to change from period to period. The methodology requires management to make a number of judgmental assumptions in determining the estimates. Any significant difference between the estimated amount and actual amounts could have a material impact on the Group's future financial results and financial condition.

Key parameters in the modelling of the ECL are probabilities of default (PDs), loss given default (LGDs) and exposure at default (EAD). The determination of these parameters involves modelling and requires management to analyse historic information as well as factoring in the macroeconomic outlook. Further information on the Group's approach to determining loss allowances is described in Note 3.

Approximately 1.65% (2020: 2.16%) of Finance Lease exposures are classified as Stage 2. If a further £50m of exposures were to move from Stage 1 to Stage 2 at an average PD level, there would be an increase in ECL of approximately £4.3m (2020: £5.8m).

Significant Increase in Credit Risk (SICR)

Loans which have suffered a SICR since origination are subject to a lifetime ECL assessment which extends to a maximum of the contractual maturity of the loan. Loans which have not experienced a SICR are subject to 12 month ECL. We assess each facility's credit risk profile and use a use a range of quantitative, qualitative and backstop criteria to identify exposures that have experienced a SICR to determine which of three stages to allocate them to:

- Stage 1: when there has been no SICR since initial recognition. We apply a loss allowance equal to a 12 month ECL i.e. the proportion of lifetime expected losses that relate to that default event expected in the next 12 months
- Stage 2: when there has been a SICR since initial recognition, but no credit impairment has materialised. We apply a loss allowance equal to the lifetime ECL i.e. lifetime expected loss resulting from all possible defaults throughout the residual life of a facility
- Stage 3: when the exposure is considered credit impaired using default criteria set out below. We apply a loss allowance equal to the lifetime ECL. Objective evidence of credit impairment is required.

The Group uses a number of measures to identify SICR including regular feeds from credit reference agencies to assess current customer indebtedness (CII) against inception CII. In addition to the PD based SICR assessment (detailed above), there are a number of additional criteria used to move an agreement into stage 2. These are based on early indications of a deterioration in the credit quality of the customer not reflected in the PD. For example, if the CII exceeds specific thresholds consistent with the application process then the agreement would be moved to stage 2.

Residual value risk

The Group is subject to residual value risk being the risk that the value of a vehicle at the end of the lease period or at the point of voluntary termination is worth less than anticipated. Residual values represent the estimated value of the vehicle at the end of the agreement. Residual values are calculated after analysing the market place and the Group's own historical experience in the market. The Group manages residual value risk through a robust residual value setting process and combined with quarterly pricing reviews referencing industry data where available.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 *(continued)*

2. CRITICAL ACCOUNTING POLICIES AND AREAS OF SIGNIFICANT MANAGEMENT JUDGEMENT *(continued)*

Operating Lease residual value risk

All vehicles under operating leases are returned at the end of the agreement and sold by the Group, therefore the Group is subject to this risk on the entire operating lease portfolio. The Group agrees with the operating lease customer a set mileage and term for the vehicle and this along with market and historical data allows the Group to set the expected residual value.

Changes in residual value are reflected in adjustments to the depreciation charge for the year. In calculating the depreciation charge, the Group needs to determine an appropriate residual value on origination of the lease and then update residual values over the life of the lease to determine any adjustments required to the depreciation charge. Similar to certain finance leases, the Group is therefore exposed to movements in residual values over time on its operating lease assets and judgement is involved in assessing residual values on an ongoing basis. Further information can be found in note 14.

Retail and Finance leases residual value risk

This residual value risk arises in relation to PCP contracts and unsecured loans with balloons. Under these agreements, the customer may choose to return the vehicle at the end of the contract. To mitigate against this risk the Group sets the guaranteed future market value (GMFV) below the expected future market value, this protects the customers equity and reduces the likelihood of hand back.

The residual value risk also arises in relation to secured, regulated retail agreements whereby the customer has the right to Voluntary Terminate their agreement once 50% of the total amount payable including capital, interest and charges has been repaid. The calculation of the retail residual value risk provision involves significant management judgment associated with estimating the proportion of vehicles to be returned as well as used car values. Residual values of leased assets are reviewed regularly. The residual value risk associated with retail lending is reflected in a provision.

The calculation of the provisions in relation to residual value risk involves significant management judgment associated with estimating the proportion of vehicles to be returned as well as used car values. If the number of hand backs in 2022 were to increase by 5% then an additional provision of £0.8m would be required.

3. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks. The Group's risk management focuses on the major areas of credit risk, liquidity risk, market risk, interest rate risk, operational risk, conduct risk and residual value risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group's Risk Framework ensures that risk is managed and controlled on behalf of shareholders, customers, employees and its regulators. Effective and efficient risk governance and oversight provide management with assurance that the Group's business activities will not be adversely impacted by risks that could have been reasonably foreseen. This in turn reduces the uncertainty of achieving the Group's strategic objectives. Formal standing committees are maintained for effective management of oversight.

Credit risk

Credit risk is the risk that counterparties will not meet their financial obligations and may result in the Group losing the principal amount lent, the interest accrued and any security held. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. All new business is subject to credit scoring and/or underwriting policy criteria designed to assess credit worthiness.

The Group has significant concentration of credit risk in wholesale funding and holds a provision in respect of this. For other sectors, there is no significant concentration of credit risk, with exposure spread over many counterparties and customers.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021
(continued)

3. FINANCIAL RISK MANAGEMENT (continued)

Impairment of underlying assets

It should be noted that the loans provided are linked to Kia and Hyundai motor vehicles and the Directors periodically review the re-sale values of these cars in order to mitigate against residual value risk and any potential losses from customers exercising their right to voluntary terminate their agreement under the Consumer Credit Act regulations.

Key metrics

The Group uses a number of key metrics to measure and control credit risk, as follows:

Metric	Description
Expected credit losses (ECL)	ECL tells the Group what credit risk is likely to cost either over the next 12 months on qualifying exposures, or defaults over the lifetime of the exposure where there is evidence of a significant increase in credit risk since origination.
Stages 1, 2 and 3	The Group assesses the credit risk profile to determine which stage to allocate and monitors where there is a significant increase in credit risk and transfers between the stages.
Expected Loss (EL)	EL is the product of the probability of default, exposure at default and loss given default. The Group calculates each factor in accordance with group policy and risk models and an assessment of each customer's credit quality.. More details can be found in the Annual Report of the Santander UK plc. For the rest of the Risk review, impairments, losses and loss allowances refer to calculations in accordance with IFRS, unless specifically stated otherwise. For IFRS accounting policy on impairment, see Note 1 to the Financial Statements.
Non-Performing Loans (NPLs)	The Group uses NPLs to monitor how portfolios behave. Loans are classified as NPLs when customers do not make a payment for three months or more, or if information is available to make the Group doubt they can keep up with their payments. There are differences between NPL and Stage 3, details of which can be found in the Annual Report of Santander UK plc.

3. FINANCIAL RISK MANAGEMENT *(continued)*

Other metrics
The Group also assesses risks from other perspectives, such as geography, business area, product and process. This is done to identify areas requiring specific focus. Stress testing is also used to establish vulnerabilities to economic deterioration. COVID-19 deferrals are not counted as delinquent.

Definition of default (Credit impaired)
We define a financial instrument as in default (i.e. credit impaired) for purposes of calculating ECL if it is more than 90 days past due (DPD), or if we have data to make us doubt customers can keep up with their payments i.e. they are unlikely to pay. The data typically includes where:

- They have had a winding up notice issued, or something happens that is likely to trigger insolvency – such as, another lender calls in a loan
- Something happens that makes them less likely to be able to pay – such as they lose an important client or contract
- They have regularly missed or delayed payments, even though they have not gone over the three-month limit for default
- Their loan is unlikely to be refinanced or repaid in full on maturity.

Backstop criteria
We classify all exposures more than 30 or 90 DPD in at least Stage 2 or in Stage 3, respectively. We do not rebut the backstop presumptions in IFRS 9 (i.e. credit risk has significantly increased if contractual payments are more than 30 days past due) relating to either a SICR or default.

Measuring ECL
For accounts not in default at the reporting date, we estimate a monthly ECL for each exposure and for each month over the forecast period. The lifetime ECL is the sum of the monthly ECLs over the forecast period, while the 12-month ECL is limited to the first 12 months. We calculate each monthly ECL as the discounted value for the relevant forecast month of the product of the following factors:

- Survival rate (SR): The probability that the exposure has not closed or defaulted since the reporting date.
- Probability of Default (PD): The likelihood of a borrower defaulting in the following month, assuming it has not closed or defaulted since the reporting date. For each month in the forecast period, we estimate the monthly PD from a range of factors. These include the current risk grade for the exposure, which becomes less relevant further into the forecast period, as well as the expected evolution of the account risk with maturity and factors for changing economics. We support this with historical data analysis.
- Exposure at Default (EAD): The amount we expect to be owed if a default event was to occur. We determine EAD for each month of the forecast period by the expected payment profile, which varies by product type. For amortising products, we base it on the borrower's contractual repayments over the forecast period. We adjust this for any expected overpayments on Stage 1 accounts that the borrower may make and for any arrears we expect if the account was to default. We vary these assumptions by product type and base them on analysis of recent default data.
- Loss Given Default (LGD): Our expected loss if a default event were to occur. We express it as a percentage and calculate it as the expected loss divided by EAD for each month of the forecast period. We base LGD on factors that impact the likelihood and value of any subsequent write-offs. We use the original effective interest rate as the discount rate. For accounts in default, we use the EAD as the reporting date balance. We also calculate an LGD to reflect the default status of the account, considering the current DPD and loan to value. PD and SR are not required for accounts in default.

Maximum exposure to credit risk
The table below shows the Group's maximum exposure to credit risk. The table only shows the financial assets that credit risk affects.

Group	Gross amounts 2021 £'000	Gross amounts 2020 £'000
Financial assets at amortised cost:		
Finance leases (note 16)	1,763,203	1,669,524
Unsecured personal loans (note 17)	498,012	363,797
Wholesale funding (note 17)	321,110	384,834
Trade receivables (note 18)	40,720	32,322
Entities with significant influence over the Group-Santander Consumer UK plc (note 26)	903,289	903,259
Total financial assets at amortised cost	3,526,334	3,353,736

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021
(continued)

3. FINANCIAL RISK MANAGEMENT *(continued)*

For financial assets linked to related parties, we do not hold any IFRS 9 provision as these are considered low risk.

Financial assets at FVTPL do not have the impairment requirements of IFRS 9 applied.

Where appropriate, case management is transferred to a specialist recovery team that works with the customer in an attempt to resolve the situation. If this does not prove possible, cases are classified as being unsatisfactory and are subject to intensive monitoring and management procedures designed to maximise debt recovery.

The class of financial instruments that is most exposed to credit risk in the Group is finance agreements, comprising loans and advances to customers and net investment in finance leases (note 16). These are net of impairment losses.

	Group		Company	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
Finance leases (note 16)	1,584,367	1,490,226	1,584,367	1,490,226
Unsecured personal loans (note 17)	497,040	362,608	497,040	362,608
Wholesale funding (note 17)	316,685	378,273	316,685	378,273
Trade receivables (note 18)	40,720	32,322	40,720	32,322
Finance agreements (Notes 16/17)	**2,438,812**	**2,263,249**	**2,438,812**	**2,263,249**

The exposures relating to finance leases and personal loans are primarily to private individuals. Wholesale lending is to the commercial sector.

Credit exposures and corresponding ECL

The following table analyses the credit risk exposure of financial instruments for which an ECL allowance is recognised and the corresponding ECL at 31 December 2021.

Group exposures

2021	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Finance leases	1,729,233	29,181	4,790	**1,763,204**
Unsecured personal loans	495,967	1,848	197	**498,012**
Wholesale funding	306,917	14,193	-	**321,110**
Total exposures	**2,532,117**	**45,222**	**4,987**	**2,582,326**
IFRS 9 ECL				
Finance leases	(2,929)	(2,586)	(3,234)	**(8,749)**
Unsecured personal loans	(675)	(185)	(110)	**(970)**
Wholesale funding	(3,539)	(886)	-	**(4,425)**
Total ECL	**(7,143)**	**(3,657)**	**(3,344)**	**(14,144)**
Net exposures				
Finance leases	1,726,305	26,595	1,555	**1,754,455**
Unsecured personal loans	495,292	1,662	87	**497,041**
Wholesale funding	303,378	13,307	-	**316,685**
Total net exposures	**2,524,975**	**41,564**	**1,642**	**2,568,181**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 *(continued)*

3. FINANCIAL RISK MANAGEMENT *(continued)*

Movements in ECL provision are set out below:

Group Finance Leases	Stage 1 Subject to 12-month ECL £'000	Non-credit impaired Stage 2 Subject to lifetime ECL £'000	Credit impaired Stage 3 Subject to lifetime ECL £'000	Total £'000
At 1 January 2021	(5,236)	(4,320)	(3,918)	(13,474)
Income statement charge for the year	-	-	(289)	(289)
Income statement release for the year	1,606	2,664	-	4,270
Net impairment charge/ (reversal)	1,606	2,664	(289)	3,981
Transfers to 12-month ECL	706	(706)	-	-
Transfers to credit impaired	(5)	(224)	229	-
Assets derecognised – written off	-	-	744	744
At 31 December 2021	(2,929)	(2,586)	(3,234)	(8,749)

Group Finance Leases	Stage 1 Subject to 12-month ECL £'000	Non-credit impaired Stage 2 Subject to lifetime ECL £'000	Credit impaired Stage 3 Subject to lifetime ECL £'000	Total £'000
At 1 January 2020	(3,287)	(2,707)	(2,879)	(8,873)
Income statement charge for the year	(2,531)	(772)	(2,482)	(5,785)
Net impairment charge	(2,531)	(772)	(2,482)	(5,785)
Transfers to 12-month ECL	587	(587)	-	-
Transfers to credit impaired	(5)	(254)	259	-
Assets derecognised – written off	-	-	1,184	1,184
At 31 December 2020	(5,236)	(4,320)	(3,918)	(13,474)

Group Unsecured personal loans	Stage 1 Subject to 12-month ECL £'000	Non-credit impaired Stage 2 Subject to lifetime ECL £'000	Credit impaired Stage 3 Subject to lifetime ECL £'000	Total £'000
At 1 January 2021	(828)	(237)	(124)	(1,189)
Income statement charge for the year	(46)	-	(204)	(250)
Income statement release for the year	-	315	-	315
Net impairment (charge)/ reversal	(46)	315	(204)	65
Transfers to 12-month ECL	200	(200)	-	-
Transfers to credit impaired	(1)	(63)	64	-
Assets derecognised – written off	-	-	155	155
At 31 December 2021	(675)	(185)	(110)	(970)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 *(continued)*

3. FINANCIAL RISK MANAGEMENT *(continued)*

Group Unsecured personal loans	Stage 1 Subject to 12-month ECL £'000	Non-credit impaired Stage 2 Subject to lifetime ECL £'000	Credit impaired Stage 3 Subject to lifetime ECL £'000	Total £'000
At 1 January 2020	(594)	(165)	(115)	(874)
Income statement charge for the year	(361)	112	(338)	(587)
Net impairment (charge)/ reversal	(361)	112	(338)	(587)
Transfers to 12-month ECL	128	(128)	-	-
Transfers to credit impaired	(1)	(56)	57	-
Assets derecognised – written off	-	-	272	272
At 31 December 2020	(828)	(237)	(124)	(1,189)

Group Wholesale funding	Stage 1 Subject to 12-month ECL £'000	Non-credit impaired Stage 2 Subject to lifetime ECL £'000	Credit impaired Stage 3 Subject to lifetime ECL £'000	Total £'000
At 1 January 2021	(4,704)	(1,717)	(140)	(6,561)
Income statement charge for the year	-	-	(3)	(3)
Income statement release for the year	573	1,423	-	1,996
Net impairment reversal / (charge)	573	1,423	(3)	1,993
Transfers to 12-month ECL	592	(592)	-	-
Assets derecognised – written off	-	-	143	143
At 31 December 2021	(3,539)	(886)	-	(4,425)

Group Wholesale funding	Stage 1 Subject to 12-month ECL £'000	Non-credit impaired Stage 2 Subject to lifetime ECL £'000	Credit impaired Stage 3 Subject to lifetime ECL £'000	Total £'000
At 1 January 2020	(4,768)	(2,332)	(200)	(7,300)
Income statement charge for the year	(35)	-	(48)	(83)
Income statement release for the year	-	714	60	774
Net impairment reversal/ (charge)	(35)	714	12	691
Transfers to 12-month ECL	99	(99)	-	-
Transfers to credit impaired	-	-	48	48
At 31 December 2020	(4,704)	(1,717)	(140)	(6,561)

A description of how impairment is measured can be found in the accounting policies in Note 1.

The Group has affordability checks in place which demonstrate a firm commitment to responsible lending and treating customers fairly.

Liquidity risk

Liquidity risk is the potential that, although remaining solvent, the Group does not have sufficient liquid financial resources to enable it to meet its obligations as they fall due or can secure them only at excessive cost.

The Group reviews on a regular basis its cash flow obligations. It is anticipated that Santander Consumer (UK) plc will continue to lend to the Group to ensure that the Group fulfils its liquidity requirements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 *(continued)*

3. FINANCIAL RISK MANAGEMENT *(continued)*

Maturities of financial liabilities
The table below analyses the maturities of the undiscounted cash flows relating to financial liabilities of the Group based on the remaining period to the contractual maturity date at the balance sheet date. There are no significant financial liabilities related to financial guarantee contracts. This table is not intended to show the liquidity of the Group.

Group	Demand £000	Up to 3 months £000	3-12 months £000	1-5 years £000	Over 5 years £000	Total contractual cashflows £000	Carrying amount £000
At 31 December 2021							
Bank overdrafts from Santander UK plc group	3,034	-	-	-	-	**3,034**	**3,034**
Amounts due to Santander Consumer UK plc	-	534,420	786,085	1,078,902	-	**2,399,407**	**2,382,447**
Amounts due to 3rd party senior loan	-	-	-	200,000	-	**200,000**	**200,000**
Securitisation amounts due	-	-	350,000	350,000	-	**700,000**	**700,000**
Trade and other payables	379	-	20,948	-	-	**21,327**	**21,327**
Lease liabilities	-	64	159	664	-	**887**	**887**
Total financial liabilities	**3,413**	**534,484**	**1,157,192**	**1,629,566**	**-**	**3,324,656**	**3,307,695**
At 31 December 2020							
Bank overdrafts from Santander UK plc group	2,339	-	-	-	-	**2,339**	**2,339**
Amounts due to Santander Consumer UK plc	-	498,080	781,482	969,007	-	**2,248,569**	**2,234,719**
Amounts due to 3rd party senior loan	-	-	200,000	-	-	**200,000**	**200,000**
Securitisation amounts due	-	60,242	210,196	429,562	-	**700,000**	**700,000**
Trade and other payables	348	-	18,306	-	-	**18,654**	**18,654**
Lease liabilities	-	48	143	38	-	**229**	**229**
Total financial liabilities	**2,687**	**558,370**	**1,210,127**	**1,398,607**	**-**	**3,169,791**	**3,155,941**

Company	Demand £000	Up to 3 months £000	3-12 months £000	1-5 years £000	Over 5 years £000	Total contractual cashflows £000	Carrying amount £000
At 31 December 2021							
Bank overdrafts from Santander UK plc group	3,034	-	-	-	-	**3,034**	**3,034**
Amounts due to Santander Consumer UK plc	-	534,420	786,085	1,078,902	-	**2,399,407**	**2,382,447**
Amounts due to 3rd party senior loan	-	-	-	200,000	-	**200,000**	**200,000**
Securitisation amounts due	-	77,630	305,058	515,978	-	**898,666**	**898,666**
Trade and other payables	379	-	20,948	-	-	**21,327**	**21,327**
Lease liabilities	-	64	159	664	-	**887**	**887**
Total financial liabilities	**3,413**	**612,114**	**1,112,250**	**1,795,544**	**-**	**3,523,321**	**3,506,361**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 *(continued)*

3. FINANCIAL RISK MANAGEMENT *(continued)*

Maturities of financial liabilities (continued)

Company	Demand £000	Up to 3 months £000	3-12 months £000	1-5 years £000	Over 5 years £000	Total contractual cashflows £000	Carrying amount £000
At 31 December 2020							
Bank overdrafts from Santander UK plc group	2,339	-	-	-	-	**2,339**	**2,339**
Amounts due to Santander Consumer UK plc	-	498,080	781,482	969,007	-	**2,248,569**	**2,234,719**
Amounts due to 3rd party senior loan	-	-	200,000	-	-	**200,000**	**200,000**
Securitisation amounts due	-	52,405	166,697	743,222	-	**962,325**	**962,325**
Trade and other payables	348	-	18,305	-	-	**18,653**	**18,653**
Lease liabilities	-	48	143	38	-	229	229
Total financial liabilities	**2,687**	**550,533**	**1,166,627**	**1,712,268**	**-**	**3,432,115**	**3,418,265**

Total liabilities comprise the following balances:

	Group		Company	
	2021 £000	2020 £000	**2021 £000**	2020 £000
Financial liabilities	3,307,695	3,155,940	3,506,361	3,418,265
Non-financial liabilities	28,963	7,539	28,939	7,520
Total liabilities	**3,336,658**	3,163,479	**3,535,300**	3,425,785

Covid 19 Payment deferrals

	Total number of customers helped	Outstanding loan balance £'000	% of relevant loan book	Total value of arrears £'000	% in arrears
Consumer (auto) finance	10,922	56,378	5%	4,648	8%

Arrears defined as 30 day past due	Repaying £'000	On payment holiday £'000	On extended payment holiday	In arrears-new <30 days past due £'000	In arrears-new >30 days past due £'000	Arrears (before start of payment holiday) £'000
Consumer (auto) finance	56,378	-	-	1,588	1,431	1,629

In 2021 as a result of the Covid 19 pandemic the Group offered payment deferrals to 10,922 customers (2020: 9,658). As at the balance sheet date, 100% of the customers are now repaying their agreements.

Market risk

Market risk is the potential for loss of income or decrease in the value of net assets caused by movements in the levels and prices of financial instruments. The Group's retail business is subject to fair value interest rate risk as the finance leasing agreements and unsecured personal loans all bear fixed interest and as such the value of these assets fluctuates with changes in market interest rates. To mitigate this risk for finance leases, lease arrangements and lending are taken out with a fixed rate of interest.

3. FINANCIAL RISK MANAGEMENT *(continued)*

Interest rate risk

All borrowings are linked to retail and contract hire and are at fixed interest rates. Consequently, there is no significant interest rate risk on the retail lending portfolio.

The Group only lends in sterling to UK individuals and businesses and so is not exposed to foreign currency risk.

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes and systems or from external events. This includes regulatory, legal and compliance risk. Operational risk is monitored and managed within the group. An independent central operational risk function (Enterprise and Operational Risk) has responsibility for establishing the framework within which these risks are managed and is aligned to operational risk professionals within business areas (coordinated by IT and Operational Risk) to ensure consistent approaches are applied across the group. The primary purpose of the framework is to define and articulate the group-wide policy, processes, roles and responsibilities. The framework incorporates industry practice and regulatory requirements.

The day-to-day management of operational risk is the responsibility of business managers (line 1) who identify, assess and monitor the risks, in line with the processes described in the framework. The operational risk function (line 2) ensures that all key risks are regularly reported to the group's risk committee and board of Directors. Group Internal Audit provides a third line of operational risk support.

Conduct risk

Conduct risk is the risk that our decisions and behaviours lead to a detriment or poor outcomes for our customers and that we fail to maintain high standards of market integrity.

We consider conduct risk as part of the governance around our key business decisions. To support this, our conduct risk framework sets out how we manage the risk. It includes:

- Key roles and responsibilities
- Our approach to risk culture and remuneration
- Formal governance, escalation lines and committee structures

Residual value risk

Residual value risk arises from the Group's leasing activities and relates to not realising the full amount of the residual values ("RV") set by the Group on the origination of the leases. The profitability of the Group's operating and finance leases is highly dependent on the residual value at the end of the agreement with the customer.

Under the terms of PCP agreements, a customer has the right to hand back the vehicle with no further liability after all regular payments have been made, but before the final instalment has been paid. This final instalment is the GMFV (Guaranteed Minimum Future Value), or residual value. There is a risk that when a vehicle is handed back to the Group, the residual value is greater than the proceeds received in selling the vehicle at auction and the Group will incur a loss. The Group reviews the residual values and estimates the effect on prices and likelihood of the customer handing back the vehicle. As a result, a provision is created and subsequent impairment is recognised immediately.

Under the Consumer Credit Act customers who enter into secured regulated agreements are allowed to exercise their legal right to terminate their agreement once 50% of the balance has been repaid. When this arises the Group is subject to potential losses of vehicles returned early. A provision is held to reflect this risk.

In relation to operating leases, movements in residual values are reflected in adjustments to the depreciation charge over the life of the leased asset.

The Group manages residual value risk by regularly monitoring residual values against industry-wide data as well as its own experience. A third party is used to provide estimates of residual values which are incorporated into management's methodology for determining any impairment. In determining the level of impairment of finance leases, management apply significant judgment in reducing the values provided by the third party resulting in a more prudent basis for assessing any impairment taken, as well as in making estimates of the level of vehicles expected to be returned. Future RVs can be difficult to predict due to future trends and changes in customer demand and therefore the Group is exposed to changes in RVs that could lead to material changes in profitability in the future.

3. FINANCIAL RISK MANAGEMENT *(continued)*

Financial crime risk

Financial crime risk is the risk that the Group is used to further financial crime, including money laundering, sanctions evasion, terrorist financing, facilitation of tax evasion and bribery and corruption.

The Group takes a proactive approach to mitigating financial crime risk. The Group's financial crime risk frameworks are supported by policies and standards which explain the requirements for mitigating money laundering, terrorist financing, sanctions compliance risks, bribery and corruption, and facilitation of tax evasion risks. These are updated regularly to ensure they reflect new requirements and industry best practice. The Group supports its colleagues to make sure they can make the right decisions at the right time. The Group raises awareness and provides role-specific training to build knowledge of emerging risks. Key elements of the financial crime risk mitigation approach that are taken include:

- Undertaking customer due diligence measures for new and existing customers, which include understanding their activities and financing needs
- Conducting risk assessments of customers, products, businesses, sectors and geographic risks to tailor for mitigation efforts
- Ensuring all the Group's colleagues complete mandatory financial crime training and, where required, role-based specialist training
- Deploying new systems to better capture, analyse and act on data to mitigate financial crime risks

The mission to effectively deter, detect and disrupt financial crime remains a key priority for the Group. The Board provides oversight and continues to prioritise resources and investment in progressing its multi-year financial crime transformation effort to enhance systems and controls, modernise the technology and data capabilities and to ensure the firm can operate sustainably within its stated risk appetite.

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4. CAPITAL MANAGEMENT AND RESOURCES

The Group adopts a centralised capital management approach, based on an assessment of both regulatory requirements and the economic capital impacts of its businesses. The Group considers the capital management policies of its joint venture partners including Santander UK plc where further details are set out in the Santander UK plc Annual Report and Financial Statements.

Capital held by the Group comprises share capital and reserves which can be found in the Balance Sheet. The Group's capital is not externally regulated.

Capital is managed by way of processes set up at inception of the Group. The Group is designed to hold minimum reserves once all amounts due on the related party loans have been received and amounts owing have been paid.

5. NET INTEREST AND SIMILAR INCOME

An analysis of the Group's revenue is as follows:

	Group	
	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Net interest revenue:		
Retail - finance leasing income	67,470	69,010
Retail - unsecured personal loan income	22,479	20,011
Wholesale funding income	5,613	4,541
Interest on term deposits	3,694	1,470
Total	99,256	95,032

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021
(continued)

6. FINANCE COSTS

	Group	
	Year ended 31 December 2021 £000	Year ended 31 December 2020* £000
Interest payable to Santander Consumer (UK) Plc	17,720	19,328
Amounts payable on securitisation	5,418	8,951
Bank charges	55	28
Operating lease finance charge	16	11
Total	23,209	28,318

The Group's day to day borrowings are provided by Santander Consumer (UK) plc.

* The 2020 comparatives relating to amounts payable on securitisation and interest payable on intercompany borrowings have been restated to better reflect the nature of the underlying transactions.

7. OTHER OPERATING INCOME

	Group	
	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Retail - operating lease income	39,090	29,602
Net income on wholesale fees and other items from retail book	373	2,810
Total	39,463	32,412

Operating lease income includes the profits and losses on the sale of the vehicle at the contract termination date. Within operating income of £39,090,000 (2020: £29,602,000) is a gain on disposal of £3,507,000 (2020: £808,000) – see note 14.

8. ADMINISTRATIVE EXPENSES

	Group	
	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Staff costs		
Wages and salaries	5,072	4,553
Social security costs	615	625
Other pension costs (see note 25)	420	391
Total staff costs	6,107	5,569
Other costs:		
Depreciation of property, plant and equipment (see note 13)	306	232
Depreciation of operating lease assets (see note 14)	25,751	22,434
Other administrative expenses:		
Information technology	1,262	519
Intercompany recharges	11,550	11,023
General overheads	4,516	4,074
Auditors' remuneration for statutory audit	200	110
Total	49,692	43,961

8. ADMINISTRATIVE EXPENSES (continued)

Staff Costs

The average monthly number of employees (including Executive Directors) was:	Group	
	Year ended 31 December 2021 No.	Year ended 31 December 2020 No.
Sales and customer service	18	20
Administration and support	54	47
Total	**72**	**67**

9. CREDIT IMPAIRMENT LOSSES, RESIDUAL VALUE AND VOLUNTARY TERMINATION REVERSALS

	Group	
	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Credit impairment losses and provisions:		
Loans and receivables	6,038	(5,679)
Recoveries of loans and receivables	1,603	1,012
	7,641	(4,667)
Provision reversals	5,815	7,980
Total	**13,456**	**3,313**

The credit impairment losses are recognised on an expected credit loss (ECL) basis (see the IFRS 9 accounting policy in note 1).

10. DIRECTORS' EMOLUMENTS

The Directors' services to the Group are an incidental part of their duties. No Directors were remunerated for their services to the Group (2020: none). No emoluments were paid by the Group to the Directors (2020: £nil).

11. TAX

	Group	
	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Current tax:		
UK corporation tax on profit for the year	5,790	12,579
Adjustments in respect of prior years	(4,723)	2,439
Total current tax	**1,067**	**15,018**
Deferred tax (Note 19):		
Origination and reversal of temporary differences	9,288	(1,213)
Change in rate of UK Corporation tax	4,129	56
Adjustment in respect of prior years	4,467	(2,175)
Total deferred tax	**17,884**	**(3,332)**
Tax charge on profit for the year	**18,951**	**11,686**

UK corporation tax is calculated at 19% (2020: 19%) of the estimated assessable profits for the year.

The UK government announced in its budget on 3 March 2021 that it would increase the main rate of corporation tax by 6% to 25% with effect from 1 April 2023. This change was substantively enacted on 24 May 2021 and, as a result, the effect has been reflected in the closing deferred tax position included in these financial statements. The comparative 2020 results reflected an increase in tax rates by 2% following an announcement in the 2020 budget to reverse a previously planned rate reduction from April 2020.

11. TAX *(continued)*

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the Group as follows:

	Group	
	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Profit before tax:		
Continuing operations	79,274	58,478
Tax at the UK corporation tax rate of 19% (2020: 19%)	15,062	11,111
Non-deductible expenses	16	255
Non-taxable income	(1)	(1)
Effect of change in tax rate on deferred tax provision	4,129	56
Adjustments in respect of prior years	(255)	265
Tax charge for the year	**18,951**	**11,686**

12. FINANCIAL ASSETS: SHARES IN SUBSIDIARY

All companies in the Hyundai Capital UK Limited Group have a common financial year end date of 31 December 2021.

Details of the principal subsidiary at the year are as follows:

Name of subsidiary – Directly held:	Registered office address	Place of incorporation ownership (or registration) and operation	Proportion of ownership interest %	Ultimate proportion of ownership %
HCUK Auto Funding 2017-2 Limited	1 Bartholomew Lane, London, England, EC2N 2AX	England and Wales	100	100

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 *(continued)*

13. PROPERTY, PLANT AND EQUIPMENT

Group and Company

Cost	Cars £000	Buildings £000	Total £000
At 31 January 2020	-	548	548
Adjustment on transition to IFRS 16	128	-	128
At 31 December 2020 and 1 January 2021	128	548	676
Additions	66	844	910
At 31 December 2021	194	1,392	1,586
Accumulated depreciation			
At 31 January 2020	-	206	206
Charge in year	26	206	232
At 31 December 2020 and 1 January 2021	26	412	438
Charge in year	100	206	306
At 31 December 2021	126	618	744
Net book value			
At 31 December 2021	68	774	842
At 31 December 2020	102	136	238

Included in the above line items are right of use assets over the following:

	At 31 December 2021 £000	At 31 December 2020 £000
Property	774	548
Cars	68	128
Total	842	676

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021
(continued)

14. OPERATING LEASE ASSETS

The Group enters into operating lease arrangements with customers in the commercial sector.

	Group		Company	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Cost				
At 1 January	191,237	165,715	191,237	165,715
Additions	137,621	66,216	137,621	66,216
Disposals	(55,897)	(40,694)	(55,897)	(40,694)
At 31 December	**272,961**	**191,237**	**272,961**	**191,237**
Depreciation and impairment				
At 1 January	39,536	(31,462)	39,536	(31,462)
Depreciation charge for the year	25,751	(22,434)	25,751	(22,434)
Disposals	(20,228)	14,360	(20,228)	14,360
At 31 December	**45,059**	**39,536**	**45,059**	**39,536**
Net book value				
At 31 December	**227,902**	**151,701**	**227,902**	**151,701**

At the balance sheet date, the Group had contracted with lessees for the following future minimum lease payments:

	Group		Company	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Within 1 year	32,945	17,894	32,945	17,894
Between 1-5 years	36,566	9,847	36,566	9,847
Total	**69,512**	**27,741**	**69,512**	**27,741**

The breakdown of net profit/ (loss) on disposals is as follows:

	Group		Company	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Disposals- cost	(55,896)	(40,694)	(55,896)	(40,694)
Disposals- depreciation	20,227	14,360	20,227	14,360
Sale proceeds	39,176	27,142	39,176	27,142
Net profit on disposal	**3,507**	**808**	**3,507**	**808**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021
(continued)

15. INVENTORIES

	Group		Company	
	2021 £000	2020 £000	2021 £000	2020 £000
Inventories of contract hire vehicles	2,811	4,520	2,811	4,520
Total	**2,811**	**4,520**	**2,811**	**4,520**

Inventories relates to the vehicles returned at the end of the contract hire period that are currently awaiting resale.

16. FINANCE LEASE RECEIVABLES

Group and Company	Minimum lease payments		Present value of minimum lease payments receivable	
Amounts receivable under finance leases:	2021 £000	2020 £000	2021 £000	2020 £000
Within one year	560,630	547,986	486,488	465,037
In the second to fifth years inclusive	1,202,573	1,121,530	1,097,878	1,025,182
After five years	-	8	-	7
	1,763,203	**1,669,524**	**1,584,366**	**1,490,226**
Less: unearned finance income	(153,503)	(143,425)		
Less: expected credit loss allowance	(8,749)	(13,474)		
Less: RV and voluntary termination provision	(16,585)	(22,399)		
Net investment in finance lease receivables	**1,584,366**	**1,490,226**		
Analysed as:				
Non-current finance lease receivables (recoverable after 12 months)	1,080,599	1,001,091		
Current finance lease receivables (recoverable within 12 months)	503,767	489,135		
	1,584,366	**1,490,226**		

The Group enters into instalment credit agreements which are treated as finance leasing arrangements for accounting purposes. The average term of finance leases entered into is three years and six months (2020: three years and six months).

The interest rate inherent in the leases is fixed at the contract date for all of the lease term. The rate of return on the net investment approximates to 5.90% (2020: 6.18%) per annum.

Included within finance lease receivables are Personal Contract Purchase (PCP) agreements. The PCP agreements are regulated under the Consumer Credit Act and have a final balloon payment at the end of the agreement. The customer has three contractual options at the end of the agreement. The options are:

1. to pay the final balloon payment;
2. use equity as a deposit for a new vehicle by way of part exchange; or
3. hand the vehicle back to the Group.

If the Group is agreeable then the customer may also refinance the balloon payment. This is not a contractual obligation.
As at the balance sheet date, the value of the final balloon payments for the Group and Company is £865,648,000 (2020: £1,013,202,000).

For the Group and Company, the Directors consider that the fair value of the finance lease receivable is 0.75% higher (2020: 1.23% higher) than the carrying value.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 *(continued)*

16. FINANCE LEASE RECEIVABLES *(continued)*

Movements in the RV and voluntary termination provisions are as follows:

	Group		Company	
	2021 £000	2020 £000	2021 £000	2020 £000
At 1 January	22,399	30,379	22,399	30,379
Release to income statement	(6,115)	(8,553)	(6,115)	(8,553)
Utilised	301	573	300	573
At 31 December	16,585	22,399	16,584	22,399

17. FINANCIAL ASSETS HELD AT AMORTISED COST

	Group		Company	
	December 2021 £000	December 2020 £000	December 2021 £000	December 2020* £000
Unsecured personal loans	498,012	363,797	498,010	363,797
Wholesale funding	321,110	384,834	321,110	384,834
Term deposits	900,000	900,000	900,000	900,000
Loans due from HCUK Auto Funding 2017-2 Limited	-	-	241,996	308,012
Loans and receivables	1,719,122	1,648,631	1,961,116	1,956,643
Less: Expected credit loss allowances on unsecured personal loans	(970)	(1,189)	(970)	(1,189)
Less: Expected credit loss allowances on wholesale funding	(4,425)	(6,561)	(4,425)	(6,561)
Total	1,713,727	1,640,881	1,955,721	1,948,893

The performance of loans and receivables are analysed as follows:

Group	2021 %	2021 £000	2020 %	2020 £000
Not impaired - neither past due nor impaired	99.95%	1,718,214	99.94%	1,647,613
Past due and performing assets - Up to 3 months	0.04%	745	0.05%	900
Past due and non-performing assets - 3 to 6 months	0.01%	163	0.01%	118
Loans and advances to customers	100.00%	1,719,122	100.00%	1,648,631
Less: Impairment allowances on wholesale funding		(4,425)		(6,561)
Less: Impairment allowances on unsecured personal loans		(970)		(1,189)
Loans and advances to customers net of impairment loss reserves		1,713,727		1,640,881
Non-current loans and receivables (recoverable after 12 months)		920,162		686,720
Current loans and receivables (recoverable within 12 months)		793,565		954,161
Loans and advances to customers net of impairment loss reserves		1,713,727		1,640,881

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 *(continued)*

17. FINANCIAL ASSETS HELD AT AMORTISED COST *(continued)*

Company

	2021 %	2021 £000	2020 %	2020 £000
Not impaired - neither past due nor impaired	99.95%	1,960,207	99.94%	1,955,625
Past due and performing assets - Up to 3 months	0.04%	745	0.05%	900
Past due and non-performing assets - 3 to 6 months	0.01%	163	0.01%	118
Loans and advances to customers	100.00%	1,961,115	100.00%	1,956,643
Less: Impairment allowances on wholesale funding		(4,425)		(6,561)
Less: Impairment allowances on unsecured personal loans		(970)		(1,189)
Loans and advances to customers net of impairment loss reserves		1,955,720		1,948,893
Non-current loans and receivables (recoverable after 12 months)		1,162,155		1,032,593
Current loans and receivables (recoverable within 12 months)		793,565		916,300
Loans and advances to customers net of impairment loss reserves		1,955,720		1,948,893

For the Group and Company, the Directors consider that the fair value of the loans and receivables is 1.14% lower (2020: 0.02% lower) than the carrying value.

All unsecured personal loans to third parties are to private individuals and companies and are at fixed rates, the average effective interest rate is 5.39% (2020: 5.65%). All loans are made in UK sterling. Unsecured personal loans to third parties include amounts receivable after twelve months totaling £370,161,316 (2020: £257,158,000).

The wholesale funding balance includes dealer stocking and dealer overdrafts, these are at variable rates and are repayable within twelve months. An allowance has been made for expected credit losses of £4,425,000 (2020: £6,561,000).

As at the balance sheet date the value of the final balloon payments on unsecured agreements for the Group and Company is £272,876,000 (2020: £188,608,000).

The 2020 comparatives relating to Loans due from HCUK Auto Funding 2017-2 Limited have been restated to better reflect the nature of the underlying transactions.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 *(continued)*

18. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2021 £000	2020 £000	2021 £000	2020 £000
Trade receivables	40,720	32,322	40,720	32,322
Amounts due from Santander Consumer (UK) plc	3,289	1,267	3,289	1,267
Tax and social security	5,216	1,058	5,216	1,058
Prepayments	1,395	1,169	1,395	1,170
Total	50,620	35,816	50,620	35,817

The Directors consider that the carrying amount of trade receivables approximates to their fair value.

19. DEFERRED TAX

Deferred taxes are calculated on temporary differences under the liability method using the tax rates expected to apply when the liability is settled or the asset is realised. The movement on the deferred tax account was as follows:

	Group and Company	
	2021 £000	2020 £000
At 31 December and 1 January	681	(2,651)
Credit/ (charge) to statement of comprehensive income	(17,884)	3,332
At 31 December	(17,203)	681

Deferred tax assets and liabilities are attributable to the following items:

Provided – Group and Company:	Balance Sheet 2021 £000	Balance Sheet 2020 £000	Statement of comprehensive income 2021 £000	Statement of comprehensive income 2020 £000
Accelerated book depreciation	(17,250)	639	(17,890)	3,348
IFRS 9 transitional adjustments	33	29	4	(1)
Other temporary differences	14	13	2	(15)
Total	(17,203)	681	(17,884)	3,332

Deferred tax liabilities scheduled above have been recognised in the Group at the beginning of the earliest comparative period for all deductible and taxable temporary differences except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The deferred tax assets scheduled above have been recognised in the Group on the basis that sufficient future taxable profits are forecast within the foreseeable future in excess of the profits arising from the reversal of existing taxable temporary differences, to allow for the utilisation of the assets as they reverse. The majority of deferred tax assets are expected to be utilised after more than one year.

20. TRADE AND OTHER PAYABLES

	Group		Company	
	2021 £000	2020 £000	2021 £000	2020 £000
Trade payables	21,327	18,653	21,327	18,653
Advanced rentals for contract hire	7,578	4,192	7,578	4,192
Amounts due to Santander UK plc group companies	379	348	379	348
Accruals	3,802	2,999	3,778	2,981
Total	33,086	26,192	33,062	26,174

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs.

The Directors consider that the carrying amount of trade payables approximates to their fair value.

21. LEASE LIABILITIES

	Group		Company	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Property lease liability	819	127	819	127
Vehicle lease liability	68	102	68	102
Total	**887**	**229**	**887**	**229**
Non-current	726	38	726	38
Current	161	191	161	191
Total	**887**	**229**	**887**	**229**

The balance above represents the closing liability linked to the operating leases to which the Group and Company has committed. The corresponding assets are shown within note 13.

22. BANK OVERDRAFTS AND BORROWINGS

	Group		Company	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Amounts due to Santander Consumer (UK) plc	2,382,448	2,234,719	2,382,448	2,234,719
Amounts due to Royal Bank of Canada	700,000	700,000	-	-
Amounts due to ING Bank	200,000	200,000	200,000	200,000
Amounts due to HCUK Auto Funding 2017-2 Limited	-	-	898,666	962,324
Amounts due to Santander UK plc group companies	3,034	2,339	3,034	2,339
Total	**3,285,482**	**3,137,058**	**3,484,148**	**3,399,382**
These borrowings are repayable as follows:				
On demand or within one year	1,663,307	1,743,913	1,695,994	1,597,117
Amounts due after one year	1,622,175	1,393,145	1,788,154	1,802,265
Total	**3,285,482**	**3,137,058**	**3,484,148**	**3,399,382**

The majority of the Group's funding is from Santander Consumer (UK) plc, the Group has borrowings of £2,382,448,000 as at 31 December 2021 (2020: £2,234,719,000). Amounts owed to Santander Consumer (UK) plc for borrowings are interest bearing; the average weighted interest rate as at the balance sheet date is 0.61% fixed rate (2020: 0.58%). A loan is repayable over the term agreed within the credit facility contract. For the Group and the Company, amounts due to Santander Consumer UK Plc includes amounts repayable after one year totaling £1,072,176,000 (2020: £963,584,000).

For the Group and Company, the Directors consider that the fair value of the amounts owed to group undertakings is 1.03% higher (2020: 0.92% higher) than the carrying value.

For the Group, amounts due to Royal Bank of Canada totaling £350,000,000 are repayable after twelve months (2020: £700,000,000).

For the Group and Company, amounts due to ING bank totaling £200,000,000 (2020: £200,000,000) are repayable after twelve months.

For the Company, amounts due to HCUK Auto Funding 2017-2 Limited totaling £515,978,000 (2020: £743,223,146) are repayable after twelve months.

The 2020 comparatives relating to Amounts due to HCUK Auto Funding 2017-2 Limited have been restated to better reflect the nature of the underlying transactions.

Amounts due to Santander UK plc group companies relate to overdrawn bank accounts with Santander UK.

For the Group and Company, all bank overdrafts are held in UK sterling and are repayable on demand. The Directors consider that the carrying amount of bank overdrafts approximates to their fair value.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021
(continued)

23. SHARE CAPITAL

	Company	
	2021 £000	2020 £000
Issued called up and fully paid:		
55,000,000 (2020: 55,000,000) ordinary shares of £1 each	55,000	55,000

The Company has a total ordinary share capital of £55,000,000 (2020: £55,000,000) which is held by the following:

Shareholder	% ownership	Nominal value of shares held £
Santander Consumer (UK) plc	50.01%	27,505,500
Hyundai Capital Services Inc.	29.99%	16,494,500
Hyundai Motor UK Limited	10%	5,500,000
Kia UK Limited	10%	5,500,000
	100%	55,000,000

24. NET CASH (USED IN) / GENERATED FROM OPERATING ACTIVITIES

	Group		Company	
	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Operating profit	79,274	58,478	79,270	58,474
Adjustments for:				
Net interest and similar income (securitisation)	-	-	(5,422)	(5,723)
Finance costs	23,209	28,318	28,637	34,032
Depreciation on operating lease assets	26,055	22,666	26,055	22,666
Profit on disposal of operating lease assets	(3,507)	(808)	(3,507)	(808)
Impairment and residual value losses	(12,895)	(3,803)	(12,895)	(3,804)
Operating cash flows before movements in working capital	112,136	104,851	112,138	104,837
Purchase of operating lease assets	(137,621)	(66,216)	(137,621)	(66,216)
Proceeds on disposal of operating lease assets	39,176	27,142	39,176	27,142
Increase in finance lease receivables	(83,601)	(23,005)	(83,601)	(23,005)
(Increase)/ decrease in loans and receivables	(74,185)	6,007	(8,166)	(32,174)
(Increase)/ decrease in trade receivables	(13,320)	449	(13,320)	449
Decrease/ (Increase) in inventories	1,709	(1,626)	1,709	(1,626)
Increase/ (decrease) in payables	6,910	(19,561)	6,904	(19,556)
Cash (utilised in)/ generated from operations	(148,796)	28,041	(82,781)	(10,149)
Tax paid	(8,451)	(17,821)	(8,450)	(17,821)
Net cash (utilised in)/ generated from operating activities	(157,247)	10,220	(91,231)	(27,970)

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with maturity of three months or less.

The cash flow statement comparatives have also been amended to report interest on a gross basis comprising of an increase in Finance costs and Interest Paid. The cash flow statement comparatives have also been amended where issuance costs have been reclassified from Trade Receivables to Loans and Receivables.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021
(continued)

25. RETIREMENT BENEFIT SCHEMES

The Group participates in the Santander UK plc group defined contribution pension schemes in operation. The contribution to be paid by the Group is calculated as the contributions made by Santander UK plc to the schemes in respect of the Group's employees. An amount of £420,000 (2020: £391,000) was recognised as an expense for the contributions and is included in Note 8. Of this amount £33,584 (2020: £32,356) was recognised for key management personnel. The details of the pension scheme appear in the financial statements of Santander UK plc.

26. RELATED PARTY TRANSACTIONS

Trading transactions

During the year, the Group and Company entered into the following transactions with related parties:

Group	Income		Expenditure		Amounts owed by related parties		Amounts owed to related parties	
	2021 £000	2020 £000	**2021 £000**	2020 £000	**2021 £000**	2020 £000	**2021 £000**	2020 £000
Santander Consumer (UK) plc	3,694	-	29,720	28,880	903,289	903,259	2,382,448	2,236,711
Santander UK plc	18	45	-	-	88,881	117,797	30,624	6,271

Company	Income		Expenditure		Amounts owed by related parties		Amounts owed to related parties	
	2021 £000	2020 £000	**2021 £000**	2020 £000	**2021 £000**	2020 £000	**2021 £000**	2020 £000
Santander Consumer (UK) plc	3,694	-	29,270	28,880	903,289	903,259	2,382,448	2,236,711
Santander UK plc	18	31	-	-	45,516	72,081	30,624	6,271
HCUK Auto Funding 2017-2 Limited	5,422	5,723	9,474	12,262	241,996	308,012	898,666	962,324

Included within the amounts due to parent undertaking above is a loan for £425,100,000 which accrues interest using the Bank of England quarterly repricing. Contained within the amounts due from parent undertaking above is a deposit for £900,000,000, which accrues interest at SONIA 1 month compounded.

Amounts owed by Santander UK plc primarily include amounts held at bank.

Amounts owed by Santander Consumer (UK) plc include amounts held on deposit of £900,000,000 (2020: £900,000,000) plus amounts repayable on demand to the group of £3,289,000 (2020: £3,259,000) for customer receipts paid to Santander Consumer (UK) plc.

Amounts owed to Santander Consumer (UK) plc include treasury borrowings and accrued interest of £2,382,448,000 (2020: £2,236,711,000).

Remuneration of key management personnel

The remuneration of the management board, which consists of three employees (2020: three) who act as the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures.*

	Group	
	2021 £000	2020 £000
Short-term employee benefits	600	594
Post-employment benefits	34	32
Total	**634**	**626**

Directors' transactions

No directors (2020: none) or Key Management Persons (2020: none) had any related party transactions with the Group.

27. PARENT UNDERTAKING AND CONTROLLING PARTY

The Company is a joint venture with 50.01% of the shares being held by Santander Consumer (UK) plc, a subsidiary of Santander UK plc, 29.99% by Hyundai Capital Services Inc. (a subsidiary of Hyundai Motor Company), 10.00% by Hyundai Motor UK Limited (a subsidiary of Hyundai Motor Company) and 10.00% by Kia UK Limited, formerly Kia Motors (UK) Limited, (a subsidiary of Kia Motors Europe GmbH). As a result of the structure of the Joint Venture and the balance of decision making at all committees being completely equal between participants, the overall control cannot be demonstrated by either participant.

The immediate parent company and immediate controlling party of Santander Consumer (UK) plc is Santander UK plc. The ultimate parent undertaking and controlling party of Santander UK plc is Banco Santander S.A., a company registered in Spain. Banco Santander S.A. is the parent undertaking of the largest group of undertakings for which group financial statements are drawn up. Santander Consumer (UK) plc is the parent undertaking of the smallest group of undertakings for which group financial statements are drawn up. Copies of all sets of group financial statements which include the results of the Group are available from Secretariat, Santander UK plc, 2 Triton Square, Regent's Place, London, NW1 3AN.

The immediate parent company, and immediate controlling party of Hyundai Capital Services Inc. and Hyundai Motor UK Limited, is Hyundai Motor Company. This Company is the ultimate parent company of Hyundai Capital Services Inc. and Hyundai Motor UK Limited and is a stock company incorporated and domiciled in the Republic of Korea. Hyundai Capital Services Inc. is the parent undertaking of the largest group of undertakings for which group financial statements are drawn up. Hyundai Motor Company is the parent undertaking of the smallest such group of undertakings.

The immediate parent company, and immediate controlling party of Kia UK Limited, is Kia Motors Europe GmbH. The group regarded by the Directors as the ultimate parent company of Kia Motors Europe GmbH is Hyundai Motor Company, a stock company incorporated and domiciled in the Republic of Korea which is also the parent undertaking of the largest group of undertakings for which group financial statements are drawn up. Hyundai Motor Company is the parent undertaking of the smallest such group of undertakings.

Copies of the group financial statements for the Hyundai and Kia companies may be obtained from London Court, 39 London Road, Reigate, Surrey, RH2 9AQ.

Copies of all sets of Santander UK Group Holdings plc group financial statements, which include the results of the Group, are available from Secretariat, Santander UK plc, 2 Triton Square, Regent's Place, London NW1 3AN.