HYUNDAI CAPITAL UK LIMITED

Registered in England and Wales
No: 07945949

ANNUAL REPORT AND CONSOLIDATED
FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2023

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 subsidiaries (the "Hyundai Capital Group" or the "Group") for the year ended 31 December 2023

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, Personal Contract Purchase (PCP) agreements and unsecured agreements with guaranteed future values (GFV). Additionally, a Personal Contract Hire offering is made to customers in conjunction with original equipment manufacturers (OEM) fleet teams. Wholesale funding facilities are also provided to dealers.

The Group

The Group comprises Hyundai Capital UK Limited and its subsidiaries, HCUK Auto Funding 2017-2 Limited and HCUK Auto Funding 2022-1 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 2023	FY 2022	Difference
Retail Car sales- Hyundai, Kia and Genesis cars (1)	Units	76,409	80,728	(4,319)
Retail Finance cases (2)	Units	49,480	56,499	(7,019)
Retail Penetration (3)	%	64.8%	70.0%	(5.2%)
Advances New and Used (4)	£m	1,350	1,588	(238)
Profit Before Tax	£m	61.2	93.6	(32.5)

(1) Retail Car sales- Hyundai, Kia and Genesis cars
New vehicle registrations for retail customers 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 2023, the UK car market registered 1.90m new cars (2022: 1.61m) which was an 18% increase from 2022. Growth was entirely driven by fleet investment as the previous year's supply constraints eased and helped fulfil pent-up demand. Private consumer demand remained stable after a strong recovery in 2022, with cost of living pressures and high interest rate restraining growth. Increasing demand for alternatively fuelled vehicles has continued in 2023 with more than one in five new car registrations in the UK being a plug-in vehicle. Considering market share gains also for mild hybrid and hybrid electric vehicles 2023 represented the first year in which conventional fuel trains (petrol and diesel) made up less than half of all new cars registered in the UK.

Kia achieved similar retail sales to FY 2022 (-0.7%), but Hyundai retail sales have reduced by 10.7% year-on-year, with more units pushed through fleet channels. Pent up demand for corporate fleet and motability vehicles, following supply shortages in prior years, as well as favourable tax treatment for company cars, particularly battery electric vehicles, has meant it more favourable for manufacturers to market sales through these channels as opposed to private retail channels. Additionally, global supply chains have largely been restored through 2023 which has reduced some of the relative advantages that both OEMs had in prior years. As a result combined retail market share for the brands have fallen from 9.5% to 8.9%. Registration of Genesis vehicles to private consumers in the UK increased by 1.4% year-on-year but total volumes remain low at just 849 vehicles (0.1% of total market share).

Sale of battery electric vehicle (BEV) models to private consumers in the UK increased by 29% in 2023 compared to 2022. OEM models made up 10% of the total BEVs sold in 2023 and 13% of all privately registered BEVs. Price volatility for BEVs, particularly used vehicles, has increased sharply in 2023 due to rising cost of electricity, easing of new car supply issues, removal of government grants for BEVs in 2022 and competitor pricing actions (e.g. Tesla Model 3 and Model Y price reductions at the start of 2023).

STRATEGIC REPORT *(continued)*

The fall in used BEV prices has resulted in lower proceeds achieved on disposal of returning contract hire vehicles and an increase in Personal Contract Purchase contracts for which the revalued residual value of the vehicle is lower than the guaranteed minimum future value. The Company closely monitors the residual value outlook and manages the associated risks in accordance with its Residual Value Policy and overarching risk framework.

Retail finance penetration reduced in 2023 to 64.8% (2022: 70.0%) due to high interest rates, continued cost of living pressures and increased competition from high street banks, particularly for lower segment vehicles. The Company has worked with the OEMs to develop attractive and affordable finance products and appropriately incentivise the dealer network to promote the Company's products and drive OEM car sales.

The attractiveness of operating leasing as a sales channel has fallen through 2023 primarily due to its relative cost and increased uncertainty regarding residual values, particularly for electric vehicles. As a result, the Company saw its operating leasing cases fall by 72% compared to prior year.

Used car sales remains a key channel for the Group, but challenging market conditions meant that the Company wrote new business volumes of £280m (2022: £374m) from 19k finance cases compared to 26k the previous year. The Company's used car business has been impacted by the increase in funding costs experienced over 2023 with significant volumes of new business lost from larger dealer groups who are more price sensitive.

As a result of reducing year-on-year OEM retail sales, reduced finance penetration and leasing performance the Group recorded combined new business advances of £1,350m (2022: £1,588m), a 15% decrease on 2022. The Group maintained a conservative approach on all risks associated with lending of this nature and achieved a profit before tax of £61.2m (2022: £93.6m). The reduction in the Groups profitability is due to compression of margins in a rising interest rate environment, increased capital and regulatory related costs, higher headcount and staff costs, and increased legal and professional fees (from securitisation transactions and digitalisation projects).

In 2019, the Financial Conduct Authority (FCA) issued a report following a thematic review of the motor finance market which identified that some commission models created the potential for consumer harm. We welcome the FCA's work and have been engaging proactively with regulators and the FOS for some time. The Group has concluded that an outflow of economic benefits in respect of this matter is not probable as described in more detail in note 29.

Section 172 Statement

Section 172 of the Companies Act 2006 states that a director of a company must act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. In doing so a director of a company must have regard (amongst other matters) to:

a) The likely consequences of any decision in the long term;
b) The interests of the company's employees;
c) The need to foster the company's business relationships with suppliers, customers and others;
d) The impact of the company's operations on the community and the environment;
e) The desirability of the company maintaining a reputation for high standards of business conduct; and,
f) The need to act fairly as between members of the company.

The Group has a clear culture and set of values as set out in the employees' section of the Directors Report. These are aligned to the Groups overall mission and vision which is embodied through the Group's strategy set out in the Strategy section below, while risk management and policies to protect and support the effective operation of the business are set out within the Risk Management section in Note 3.

Strategy

The Company's mission is to help the Hyundai Motor Group deliver a better future through sustainable growth by passionately promoting and accelerating the transition to clean transportation.

Aligned to the Company's mission and vision are a set of strategic objectives which focus on sustainable growth in four key areas: finding new opportunities to increase business volumes and asset; increasing internal capacity through digitalization and innovation, alignment with OEM business direction to support their long-term plans and expanding used car financing capacity.

Supporting the Company's strategy is a robust risk management framework which allows the Company to achieve its strategic objectives in a controlled and sustainable manner. The Board Members approve HCUK's risk appetite each year with the aim that high standards are maintained across all risk areas.

STRATEGIC REPORT *(continued)*

Section 172 Statement (continued)

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-Information Security)
- Information Security – Operational Risk
- Executive Finance Committee – Strategic Risk
- Asset and Liability Committee – Capital, Interest rate, liquidity

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.

The following section highlights examples of how the directors have had regard to the matters set out within sections 172 (a)-(f) when discharging their section 172 duties.

Decision Making

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 Directors of the Company are fully aware of their responsibilities under section 172 of the Companies Act 2006 and take all appropriate steps to ensure that they consider the likely impact of their decisions in the long-term, as well as the interests of the Company's stakeholders. In discharging its responsibility for the overall oversight of the business, the Board has continued to pay due regard to its duty to promote the long-term success of the Company for the benefit of its shareholders, by ensuring its decisions are in accordance with the agreed strategy. The Board also regularly reviews management information on the progress made by the Company in delivering on this strategy, as well as reporting on business, financial and operational performance and key risks and compliance issues which supports the Directors in staying sighted on stakeholder outcomes and feedback.

The Board is committed to ensuring that stakeholder interests continue to be embedded in all aspects of decision-making across the Group, at both Board and management level. 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 is 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. Decisions are taken with the best interests of all stakeholders considered.

To embed this within the organisation the Company has mapped the interests of its key stakeholders to its decision-making committees, ensuring that the consideration of key stakeholders remains at the forefront of decision-making. The key stakeholders identified by the Company are:

i. Customers

The Company's customers are central to its overall strategy with the impact on customer at the centre of all key decisions made within the organisation. Existing and future needs of customers are of primary consideration when it comes to product design, pricing and customer experience. Investment in digital initiatives has increased compared to prior years with focus on improving the customer experience and reducing friction in the sales process. Examples of such investment include the development of a dealer-led tool which provides customers with the flexibility to complete a finance application process in a showroom or remotely.

The Company has also conducted a thorough review of governance, distribution channels, products, and the customer journey to ensure compliance with the new Consumer Duty regulations and to mitigate any risks of poor consumer outcomes. Looking forwards, through consumer insights and increased product oversight, the Company will continue to work to improve processes and develop procedures to ensure good consumer outcomes and that the customer remains central to operations and business.

STRATEGIC REPORT *(continued)*

Section 172 Statement (continued)

ii. Commercial partners

The business of the Company is intrinsically linked to the performance of its OEM partners. Furthermore, given the names through which the Company trades the brand reputation of its OEM partners is also closely linked to the Company. At both the Board and Management levels regular discussion is held between the Company and its OEMs to ensure full consideration of the impacts on our mutual customer base and combined reputation from decisions made by the Company.

The Company's dealer network acts as intermediaries between the Company and its customers. In addition to the funding lines provided the Company also equips dealers with a variety of tools and resources to support their engagement with customers and facilitate promotion of the Company's products and services. For example, enhanced retention tools have been developed to assist the dealer network in determining best time to contact and vehicle suggestions for customers reaching settlement, retaining HCUK's customer base and support new business growth. The successful implementation of these tools has been delivered by ease of use of the tools developed and in-depth training of their use across the dealer network.

The relationship with suppliers is fundamental to ensuring the quality of service provided to customers. To that end regular monitoring is conducted of the level of service provided by the Company's main outsourced service providers.

iii. Employees

Our employees are the Company's most valuable asset who continue to be central to the delivery of the Company's strategic objectives and driving the business towards success. Employee engagement with the Company and its mission and values remains high as evidenced through a global engagement survey conducted in the third quarter of 2023. Personal development is emphasised throughout the Company and forms and integral part of regular employee performance reviews. To help ensure consistency and clarity of employee development through the Company a Personal Development Committee has been established. With responsibility for ensuring consistency in assessment of performance, establishing an employee performance and career development program, supporting the identification of key individuals and develop suitable development, retention and succession plans as appropriate and developing suitable and proportionate reward and recognition schemes. To help deliver these a significant amount of resource is invested in employee training, coaching and acquiring individuals with the appropriate skills to further the organisation.

The Board recognises the voice of its employees. New channels have been established through which employees can anonymously raise questions or suggest improvements to senior management which are responded to and discussed as part of the Company's monthly Town Hall sessions with all employees.

The Board also recognises the importance of employee health and wellbeing and a number of company-wide sessions have been held to coincide with local and global health campaigns such as Heart Month and Mental Health Awareness Week. These have included sessions covering CPR and defibrillator training, a 'Tea and Talk' event to raise awareness about mental health and a catalogue of online training and information available to all staff.

The Board is regularly updated of employee related issues through its Human Resources Update where matters under recruitment, employee engagement and corporate social responsibility are discussed.

iv. Communities and the environment

The Company is proactive in its efforts to make a positive impact on the local community and environments in which it operates. Employees are given the opportunity, either individually or as part of a team, to volunteer their time to support local charities. This includes Company organised events. During 2023 the Company's employees spent a half day at Stripey Stork, helping the Reigate-based baby bank to sort and wrap Christmas presents to be distributed to local families experiencing hardship as well as two days at the Old Pheasantry in Mogador where employees helped to clear and tidy the grounds around The Old Pheasantry which is used to provide disadvantaged children and adults with holidays and educational experiences. In addition to volunteer time, the Company also operates a matched funding policy to encourage individuals to fundraise for local and national charities and increase the amount of monies raised.

Local initiatives have been taken to reduce waste and conserve energy at the Company's head office. Employees have access to schemes such as 'ride to work' and further investment has been made in electric charging points at the head office with the aim of reducing the carbon footprint of Company employees' commutes. In addition, the Company continues to support its OEM partners in the transition to cleaner transportation, as discussed further in the Climate Change section below.

v. Regulators

It is the Board's priority, established through policy, to interact with regulators in an open and cooperative way. The Company's principal regulator is the Financial Conduct Authority ('FCA'). The Board also continues to ensure that the Company complies with the FCA's Senior Management & Certification Regime. All staff, regardless of role, undertake mandatory training on the requirements of the FCA's Conduct Rules and additional training is provided to individuals identified by the Company as 'Certified Individuals' and to those holding Senior Management Function designations, including all Board members.

STRATEGIC REPORT *(continued)*

Climate change

The Company is committed to support the transition to a low-carbon economy and tackling climate change and align with the initiatives of its shareholders who share the same commitment.

The UK Government's aim is from 2035 all new cars must be zero emission at the tailpipe. This is set out in its zero emission vehicle (ZEV) mandate which also has the interim milestones of requiring 22% of new cars sold in 2024 to be zero emission rising to 80% of new cars and 70% of new vans sold in Great Britain to be zero emission by 2030. Our manufacturing partners are fully supportive of the UK Government's directive and timelines and continue to develop at pace the number of 100% electric vehicle[1] offerings. By supporting the OEMs with competitive financing options for Alternative Fuel Vehicles (AFV) the Group is supporting its OEM partners to achieve these targets.

The Group's commitment to greener financing is also highlighted through its issuance of a sustainability linked asset backed security through its HCUK Auto Funding 2022-1 Ltd special purpose entity. This transaction was increased in February 2023 with the Clean Growth Financing Initiative ('CGFI') tranche increased in size from £200m to £550m. Conditions of the issuance require investment of the amount raised into low emission vehicles (less than 50g/km of CO2) over the term of the note.

Streamlined Energy and Carbon Reporting (SECR)

The Group is also fully committed to reducing its own 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 Company has seen an increase in business travel over the year compared to 2022, as business travel has returned to normal levels post covid. Business Development Managers have spent more time on the road in 2023 travelling to dealerships and to internal events in order to roll out and train on newly developed tools to support the Company's products and sell its overall value proposition. As part of this there has also been an increased need to discuss and negotiate terms with the dealer network as interest rates have risen sharply. To offset this the Company has further invested in energy saving initiatives at its head office. Overall consumption per FTE has remained static year-on-year.

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 (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.

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

Carbon dioxide emissions (tonnes)

(Tonnes)	2023	2022
From energy (Scope 2)	17.3	21.9
From business travel (Scope 3)	25.7	17.1
Total emissions (tonnes CO2e)	43.0	39.0

Energy consumption (MWh)

(Megawatt-hours)	2023	2022
From energy (Scope 2)	83.6	113.2
From business travel (Scope 3)	106.1	69.2
Total consumption (MWh)	189.7	185.4

Carbon dioxide emissions per FTE

(Tonnes)	2023	2022
From energy	0.21	0.30
From business travel	0.31	0.23
Total (tonnes CO2e)	0.52	0.53

[1] The Kia Niro EV, the Kia Soul EV, the Kia EV6, the Hyundai IONIQ5, the Hyundai IONIQ6, the Hyundai KONA electric, the Genesis GV60, the Genesis Electrified GV70 and the Genesis Electrified G80.

STRATEGIC REPORT *(continued)*

Uncertain macroeconomic and geopolitical environment

Risks arising in these areas remain in the top ranked areas of concern for the wider Santander UK Group. UK political risks increased significantly in 2023, as the focus was drawn to the July 2024 General Election. Key areas of policy focus for the Company include: related markets (rates) and economic impacts; taxation and regulation.

2024 is also an Election year in the US and the Company will consider the potential impacts on the geopolitical environment from this that could arise. Broader considerations include conflicts in Ukraine and the Middle East, as well as the strengthening of political, trade and security ties between a number of developing nations with large and growing economies. These developments can have significant impacts on supply chains and the cybersecurity threat environment, since the Company is reliant on services provided by third parties that have overseas operations.

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

S. Green

For and on behalf of
Hyundai Capital UK Limited

SJ Green
Director

13 September 2024

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 2023.

Principal activities and review of the year

The principal activity of Hyundai Capital UK Limited and its subsidiaries (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, Personal Contract Purchase (PCP) agreements and unsecured agreements with guaranteed future values (GFV). A Personal Contract Hire product is offered and further details can be found under note 15 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 £46,830,000 (2022: £77,527,000).

The Group paid a final dividend during the year of £100,000,000 in respect of the current year (2022: £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	
SG Grant	(resigned 25 January 2023)
SJ Green	
VT Hill	(resigned 31 May 2024)
H Lee	
PJ Philpott	
IP Whittaker	(appointed 25 January 2023)
AR Goldhagen	(appointed 1 June 2024)

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 Santander 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, and 23 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.

REPORT OF THE DIRECTORS *(continued)*

The Group has negative net current liabilities of £261,670,000 (2022: £324,753,000). The majority of the Group's current liabilities at year end were with respect to funding provided by its parent company Santander Consumer UK plc. Overall, the group has total net assets of £361,801,000 (2022: £414,970,000) and has adequate financial resources. It is expected that Santander Consumer (UK) plc will continue to provide this funding for future years given the joint venture agreement sets out that Santander Consumer (UK) plc will provide financing to the Company in the absence of a severe disruption event, and given how as a 50% shareholder it would not be in the economic interest of Santander if the Company were not able to pay its debts as they fall due. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

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 consolidated 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.

Likely future developments

The Directors expect the Group to continue to grow despite persisting economic pressures. Growth in new and used car finance is expected due to the Group's consistently strong relationships with the OEMs. The impacts on HCUK's business model from economic pressures, including the rising cost of living and interest rates and falling consumer confidence, are monitored closely and reported and discussed at relevant HCUK Committees. In particular the Committees monitor the potential impact on residual value risk and on credit impairment; while the costs incurred in these areas have been low for some time, this could change in the future.

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. The Group also enters into derivative financial instruments with the sole purpose of hedging interest rate risk exposures arising from the interest rate mismatch between floating rate issued securitisations and fixed rate finance leases.

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.

REPORT OF THE DIRECTORS *(continued)*

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). While the Group does not comply with the UK Corporate Governance Code 2018, it is governed by a Joint Venture Agreement and a series of charters that were signed off by both shareholders which are reputable corporate bodies with strong governance frameworks that have regard to the UK Corporate Governance Code 2018. In line with the expectations of the FCA, the Company's governance arrangements are structured to enable effective oversight of decision-making and comply with all applicable regulations. 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 UK Corporate Governance Code 2018. The corporate governance arrangements of the Santander Group are discussed in the Santander UK plc 2023 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.

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

S. Green

SJ Green
Director
13 September 2024

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 2023 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 as applied in accordance with the provisions of the Companies Act 2006; 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 Sheets as at 31 December 2023; 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, comprising material accounting policy information and other explanatory information.

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, as applicable to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the company or its controlled undertakings in the period under audit.

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 under the joint venture agreement; and
- Evaluation of the adequacy of the 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.

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

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.

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 2023 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.

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

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 and the Corporation Tax Act 2010. 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. 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; and
- 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

Luke Hanson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
16 September 2024

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Note	2023 £000	2022 £000
Net interest and similar income	5	232,859	141,379
Finance costs	6	(166,913)	(56,255)
Gross profit		**65,946**	**85,124**
Other operating income	7	66,330	65,576
Administrative expenses	8	(68,999)	(57,351)
Credit impairment, residual value and voluntary termination (charge)/ reversals	9	(2,244)	517
Unrealised fair value gain/(loss) on swaps	10	131	(230)
Profit before tax		**61,165**	**93,636**
Tax	12	(14,496)	(16,109)
Profit after tax for the financial year		**46,669**	**77,527**
Items that may be classified subsequently to profit or loss:			
Cash flow hedge:			
Profit arising during the year		215	-
Tax on items taken directly to equity		(54)	-
Other comprehensive income for the period, net of tax		**161**	-
Total comprehensive income for the year attributable to the equity holders of the Group		**46,830**	**77,527**

All the activities of the Group are classed as continuing.

The Group consists of the main trading entity Hyundai Capital UK Limited and its subsidiaries as per note 13. For the Company, profit after tax was £48,187,000 (2022: £77,608,000).

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

BALANCE SHEETS

As at 31 December 2023

	Note	Group 2023 £000	Group 2022 £000	Company 2023 £000	Company 2022 £000
Non-current assets					
Property, plant and equipment	14	684	636	684	636
Operating lease assets	15	307,083	339,392	307,083	339,392
Finance lease receivables	17	1,921,142	1,738,167	1,921,142	1,738,167
Financial assets held at amortised cost	18	562,476	679,962	672,988	1,003,374
		2,791,385	2,758,157	2,901,897	3,081,569
Current assets					
Finance lease receivables	17	699,915	656,025	699,915	656,025
Financial assets held at amortised cost	18	687,910	622,654	1,027,844	622,654
Trade and other receivables	19	58,587	48,959	58,587	48,960
Inventories	16	2,925	1,543	2,925	1,543
Derivative financial instruments	24	1,715	-	1,499	-
Corporation tax asset		6,552	-	6,552	-
Cash and cash equivalents		120,892	81,288	65,033	40,497
		1,578,496	1,410,469	1,862,355	1,369,679
Total assets		4,369,881	4,168,626	4,764,252	4,451,248
Current liabilities					
Trade and other payables	21	(57,587)	(40,194)	(57,588)	(39,958)
Lease liabilities	22	(256)	(53)	(256)	(53)
Bank overdrafts and borrowings	23	(1,780,607)	(1,680,462)	(1,940,959)	(1,785,027)
Corporation tax liability		-	(14,512)	-	(14,512)
		(1,838,450)	(1,735,221)	(1,998,803)	(1,839,550)
Non-current liabilities					
Lease liabilities	22	(364)	(615)	(364)	(615)
Bank overdrafts and borrowings	23	(2,162,056)	(2,007,990)	(2,396,313)	(2,186,300)
Derivative financial instruments	24	(2,119)	(211)	-	(126)
Deferred tax liability	20	(5,091)	(9,618)	(5,546)	(9,618)
		(2,169,630)	(2,018,434)	(2,402,223)	(2,196,659)
Total liabilities		(4,008,080)	(3,753,655)	(4,401,026)	(4,036,209)
Net current liabilities		(259,954)	(324,752)	(136,448)	(469,871)
Net assets		361,801	414,971	363,226	415,039
Equity					
Capital and reserves					
Share capital	25	55,000	55,000	55,000	55,000
Retained earnings		306,801	359,971	308,226	360,039
Total equity		361,801	414,971	363,226	415,039

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

The Group consists of the main trading entity Hyundai Capital UK Limited and its subsidiaries as per note 13. For the Company, profit after tax was £48,187,000 (2022: £77,608,000).

The financial statements on pages 14 to 47 were approved by the Board of Directors on 13 September 2024 and signed on its behalf by:

S. Green

SJ Green
Director
13 September 2024

CASH FLOW STATEMENTS

For the year ended 31 December 2023

	Note	2023 £000	Group 2022 £000	2023 £000	*Restated Company 2022 £000
Net cash used in operating activities	26	(207,191)	(316,327)	(336,273)	(397,501)
Financing activities					
Net interest and similar income *		2,322	196	-	-
Finance costs *		(166,913)	(56,255)	(160,275)	(56,437)
Principal paid on lease liabilities		(448)	(320)	(448)	(320)
Cash inflow/(outflow) from derivative finance instruments		409	210	(1,626)	125
Cash inflow from securitisations		350,679	400,000	480,899	551,151
Repayments of securitised notes		(200,000)	(350,000)	(218,485)	(416,940)
Dividends paid		(100,000)	-	(100,000)	-
New deposits		685,250	369,014	685,250	369,014
Repayment of deposits		(428,035)	(406,132)	(428,035)	(406,132)
Proceeds from borrowings		1,553,591	1,816,808	1,553,591	1,816,808
Repayment of borrowings		(1,445,722)	(1,465,423)	(1,445,723)	(1,465,423)
Net cash generated by financing activities		**251,133**	**308,098**	**365,148**	**391,846**
Net increase/(decrease) in cash and cash equivalents		43,942	(8,229)	28,875	(5,655)
Cash and cash equivalents at beginning of year		76,669	84,898	35,877	41,533
Cash and cash equivalents at end of year		**120,611**	**76,669**	**64,752**	**35,878**

* See note 31 for details regarding the restatement as a result of reclassification.

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

Cash and cash equivalents consist of funds held in bank accounts operated by Santander UK plc and various third parties.

Reconciliation to cash flow statement

The above amounts reconcile to the amount of cash shown in the statement of cash flows at the end of the financial year as follows:

	Note	2023 £000	Group 2022 £000	2023 £000	Company 2022 £000
Cash and cash equivalents		120,892	81,288	65,033	40,497
Bank overdrafts - Amounts due to Santander UK plc group companies	23	(281)	(4,619)	(281)	(4,619)
Total per cash flow statements		**120,611**	**76,669**	**64,752**	**35,878**

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Group			Company		
	Share Capital £000	Retained Earnings £000	Total Equity £000	Share Capital £000	Retained Earnings £000	Total Equity £000
Balance at 1 January 2022	**55,000**	**282,444**	**337,444**	**55,000**	**282,431**	**337,431**
Profit and total comprehensive income for the year	-	77,527	77,527	-	77,608	77,608
Balance at 31 December 2022 and 1 January 2023	**55,000**	**359,971**	**414,971**	**55,000**	**360,039**	**415,039**
Profit for the year	-	46,669	46,830	-	48,187	48,187
Other comprehensive income	-	161	-	-	-	-
Dividends paid	-	(100,000)	(100,000)	-	(100,000)	(100,000)
Balance at 31 December 2023	**55,000**	**306,801**	**361,801**	**55,000**	**308,226**	**363,226**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

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 2022, (a subsidiary of Kia Motors Europe GmbH) and ultimately of Kia Corporation Limited. Further information on the controlling parties can be found under note 30. 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 its securitisation entities that it controls; HCUK Auto Funding 2017-2 Limited and HCUK Auto Funding 2022-1.

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 and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

The financial statements have been prepared under the historical cost convention (except for the derivative financial instruments which are measured at fair value through profit and loss) 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 subsidiaries, HCUK Auto Funding 2017-2 Limited and HCUK Auto Funding 2022-1.

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

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

In February 2022, the IASB amended IAS 1 'Presentation of Financial Statements' to require entities to disclose their material rather than their significant accounting policies. To support this amendment, the IASB also amended IFRS Practice Statement 2 'Making Materiality Judgements' to provide guidance on how to apply the concept of materiality. The amendments are effective for annual periods beginning on or after 1 January 2023 with earlier application permitted. The amendments have been applied in preparing these financial statements and, consequently, only material accounting policy information is disclosed.

No other significant new or revised pronouncements, which became effective from 1 January 2023, impacted these financial statements. All contracts currently issued by the Company fall within the scope exclusions of IFRS 17, as such, there are no accounting implications.

Future accounting developments

At 31 December 2023, for the Group, there were no other 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 *(continued)*

1. ACCOUNTING POLICIES *(continued)*

Material accounting policy information

The following material accounting policies have been applied in preparing these financial statements. Those material accounting policies which involve the application of judgements or accounting estimates that are determined to be critical to the preparation of these financial statements are set out in the section headed "Critical accounting policies and areas of significant management judgement".

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 five key income streams:

- Retail income which includes interest and subsidy income from finance leases, unsecured personal loans with guaranteed future values (GFV)and associated fees and commissions. Our manufacturer partners provide subsidies in lieu of interest for low and nil rate retail finance agreements. Commission is paid to third party intermediaries, including dealerships and brokers, who introduce all new business. The commission is spread using the effective interest rate method over the expected life of the agreements. For retail and corporate products, other 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.
- The interest and subsidy income is spread using the effective interest rate method using the rate integral in the lease over the contractual term of the agreements. Commission is also 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.
- 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 relates to interest income earned on the HCUK Auto-Funding 2022-1 Ltd bank account.
- Other bank interest from amounts held as term deposits.

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 generated from operating lease rental income and profits on sale.

Revenue from operating leases is recognised on a straight-line basis, over the life of the agreement. Profit or loss on the sale of returned motor vehicles is recognised at the point of sale when all risks and rewards of ownership are transferred to the buyer. All other operating income is recognised when the service is provided or, for vehicle sales, when the sale is completed.

Finance costs

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

Fair value gains and losses on interest rate swaps

Derivatives are only used for economic hedging purposes and not as speculative investments in accordance with the Group's Treasury Management Policy. However, where derivatives do not meet the hedge accounting criteria, including formal designation

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 *(continued)*

1. ACCOUNTING POLICIES *(continued)*

of the derivative as a hedging instrument, they are classified as 'held for trading' for accounting purposes and are accounted for at fair value through profit or loss. Fair value gains and losses on the Group's interest rate swaps are recognised at fair value through profit and loss and are included in note 10.

The Group's accounting policy for its cash flow hedges is set out in the hedge accounting section below. Further information about the derivatives used by the Group is provided in note 24.

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. The Group has finance leases categorised as financial assets which are covered in the finance leases policy on page 20.

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 unless they meet the hedge accounting criteria (described further under hedge accounting) 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 if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

A financial liability which does not meet any of these criteria may still be designated as measured at FVTPL when it contains one or more embedded derivatives that sufficiently modify the cash flows of the liability and are not clearly closely related.

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 another 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 *(continued)*

1. ACCOUNTING POLICIES *(continued)*

c) Financial assets: debt instruments (continued)

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.

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.

-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 2023 *(continued)*

1. ACCOUNTING POLICIES *(continued)*

Hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in their fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

The Group currently designates the interest rate swap held in HCUK Auto Funding 2017-2 Ltd as a hedge of the interest rate risk associated with the cash flows arising from the variable rate borrowings issued by the same entity.

At inception of the hedge relationship, the Group has documented the economic relationship between the hedging instrument and hedged item, detailing how changes in the cash flows of the interest rate swap are expected to offset the changes in the cash flows of the underlying floating rate borrowings. The Group's Treasury Management Policy, as well as associated hedge designation documentation, outlines the Group's risk management objective and strategy for hedging interest rate risk.

The fair values of derivative financial instruments designated in hedge relationships are disclosed in note 24. Movements in the cash flow hedge reserve in shareholders equity are shown in the statement of changes in equity.

a) Cash flow hedge accounting
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss. This includes when gain or loss relating to the effective portion is recognised in profit or loss within finance cost at the same time as the interest expense on the underlying variable rate borrowings, the hedged item. Any gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Financial liabilities

Financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability) and partially in profit or loss (the remaining amount of change in the fair value of the liability

Trade and other payables are classified as amortised cost.

Finance leases

The Group's finance products include Conditional Sale agreements, Personal Contract Purchase (PCP) agreements and unsecured agreements with guaranteed future values (GFV). 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 17.

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. Losses arising from changes in future residual values for finance leases are classified 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 2023 *(continued)*

1. ACCOUNTING POLICIES *(continued)*

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 contractual term (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 depreciation charge for the year based on the remaining lease term. The operating leases are also assessed at least annually for impairment.

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 periods 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.

Cash and cash equivalents

a) Balance sheet

For the purposes of the 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.

b) Cash flow statement

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, bank overdrafts, 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.

1. ACCOUNTING POLICIES *(continued)*

Securitisation transactions

The Group has entered into certain arrangements where subsidiaries 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. Accounting policies of the subsidiaries align with the Group.

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.

2.1 Critical accounting estimates

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.

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.

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

Approximately 2.83% (2022: 2.99%) 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 £3.0m (2022: £2.2m).

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 marketplace 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. This approach generates equity for the customer at the end of the contract and serves to provide protection for the Group against residual value risk.

2.2 Areas of significant management judgement

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 15.

The management team estimate the residual value of the operating lease portfolio on inception and on a quarterly basis, changes in the expected residual value result in a change to the estimated depreciation charge and this is applied prospectively. Management estimated the residual value of the operating lease assets at 31 December 2023 to be £242.0m (2022: £267.0m). The estimated residual value has increased by £27.8m at 31 December 2023, representing a 10% increase when compared to the original management assumptions at inception. Out of the £27.8m increase, £18.9m relates to electric and hybrid vehicles.

Second hand prices for electric vehicles have fallen markedly since the beginning of 2023. This is due to a reduction in demand for pre-owned electric vehicles now that new car supply is more readily available, with new electric vehicles also benefitting from improving battery technology, and previous running cost benefits compared to petrol and diesel vehicles are less clear given the recent increase in energy prices. The Group continues to monitor the operating lease portfolio for any impairment. In 2024, the Group is expecting that there will be some impairment of this portfolio, in view of continuing fall in used car values.

Significant Increase in Credit Risk (SICR)

When determining whether credit risk has significantly increased since origination, the Group considers actual default experience, significant changes in macro-economic conditions, past due status, payment performance and other relevant factors.

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 (see Impairment of debt instrument financial assets on page 19).

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.

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.

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

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. Further information can be found in Notes 3 and 17.

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 expected future residual values for the Group's PCP portfolio were to reduce by 10% then an additional provision of £19.3m would be required.

Motor finance commission claims
The Group has concluded that an outflow of economic benefits in respect of this matter is not probable as described in more detail in note 29. This represents a critical accounting judgment.

3. RISK MANAGEMENT

3.1 Financial risks

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, 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.

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 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 *(continued)*

3. 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.

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 in addition to cash balances. The table only shows the financial assets that credit risk affects.

Group	Gross amounts 2023 £'000	Gross amounts 2022 £'000
Financial assets at amortised cost:		
Finance leases (note 17)	2,621,057	2,394,191
Unsecured personal loans (note 18)	14,479	32,323
Wholesale funding (note 18)	485,900	321,911
Trade receivables (note 19)	52,762	39,666
Entities with significant influence over the Group- Santander Consumer UK plc (note 28)	752,630	956,720
Cash and cash equivalents	120,892	81,288
Total financial assets at amortised cost	**4,047,720**	**3,826,099**

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 *(continued)*

3. RISK MANAGEMENT *(continued)*

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 17). These are net of impairment losses.

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 2023.

Group exposures

2023	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Finance leases	2,904,504	84,860	4,467	**2,993,831**
Unsecured personal loans	13,953	788	157	**14,898**
Wholesale funding	482,971	7,167	0	**490,138**
Total exposures	**3,401,428**	**92,815**	**4,624**	**3,498,867**
IFRS 9 ECL				
Finance leases	(3,468)	(5,263)	(3,099)	**(11,830)**
Unsecured personal loans	(130)	(168)	(121)	**(419)**
Wholesale funding	(4,156)	(83)	0	**(4,239)**
Total ECL	**(7,754)**	**(5,514)**	**(3,220)**	**(16,488)**
Net exposures				
Finance leases	2,901,036	79,597	1,368	**2,982,001**
Unsecured personal loans	13,823	620	36	**14,479**
Wholesale funding	478,815	7,084	0	**485,899**
Total net exposures	**3,393,674**	**87,301**	**1,404**	**3,482,379**

Group exposures

2022	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Finance leases	2,598,732	80,168	5,078	**2,683,978**
Unsecured personal loans	31,116	1,090	117	**32,323**
Wholesale funding	310,859	11,052	-	**321,911**
Total exposures	**2,940,707**	**92,309**	**5,197**	**3,038,212**
IFRS 9 ECL				
Finance leases	(4,134)	(3,727)	(3,618)	**(11,479)**
Unsecured personal loans	(224)	(213)	(97)	**(534)**
Wholesale funding	(4,576)	(306)	-	**(4,882)**
Total ECL	**(8,934)**	**(4,247)**	**(3,717)**	**(16,897)**
Net exposures				
Finance leases	2,594,599	76,441	1,459	**2,672,499**
Unsecured personal loans	30,892	876	21	**31,788**
Wholesale funding	306,283	10,746	-	**317,029**
Total net exposures	**2,931,774**	**88,063**	**1,480**	**3,021,316**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 *(continued)*

3. RISK MANAGEMENT *(continued)*

Credit exposures and corresponding ECL (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 2023	(4,134)	(3,727)	(3,618)	(11,479)
Income statement charge for the year	(896)	(285)	(1,598)	(2,779)
Income statement release for the year	665	-	520	1,185
Net impairment (charge)/ reversal	(231)	(285)	(1,078)	(1,594)
Transfers to 12-month ECL	902	(902)	-	-
Transfers to credit impaired	(5)	(349)	354	-
Assets derecognised – written off	-	-	1,243	1,243
At 31 December 2023	(3,468)	(5,263)	(3,099)	(11,830)

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 2022	(3,470)	(2,687)	(3,275)	(9,431)
Income statement charge for the year	(1,102)	(322)	(1,421)	(2,845)
Net impairment (charge)/ reversal	(1,102)	(322)	(1421)	(2,845)
Transfers to 12-month ECL	444	(444)	-	-
Transfers to credit impaired	(6)	(274)	280	-
Assets derecognised – written off	-	-	796	796
At 31 December 2022	(4,134)	(3,727)	(3,620)	(11,479)

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 2023	(224)	(213)	(97)	(534)
Income statement charge for the year	(5)	-	(237)	(242)
Income statement release for the year	94	53	-	147
Net impairment (charge)/ reversal	89	53	(237)	(95)
Transfers to 12-month ECL	5	(5)	-	-
Transfers to credit impaired	-	(2)	2	-
Assets derecognised – written off	-	-	210	210
At 31 December 2023	(130)	(167)	(121)	(419)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 *(continued)*

3. RISK MANAGEMENT *(continued)*

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 2022	(134)	(85)	(70)	(289)
Income statement charge for the year	(96)	(119)	(140)	(355)
Income statement release for the year		-	-	-
Net impairment (charge)/ reversal	(96)	(119)	(140)	(355)
Transfers to 12-month ECL	6	(6)	-	-
Transfers to credit impaired	-	(4)	4	-
Assets derecognised – written off	-	-	109	109
At 31 December 2022	(224)	(213)	(97)	(534)

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 2023	(4,576)	(306)	-	(4,882)
Income statement charge for the year	(194)	-	-	(194)
Income statement release for the year	420	417	-	838
Net impairment reversal	226	417	-	643
Transfers to 12-month ECL	194	(194)	-	-
At 31 December 2023	(4,156)	(83)	-	(4,239)

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 2022	(3,539)	(886)	-	(4,425)
Income statement charge for the year	(1,191)	-	-	(1,191)
Income statement release for the year	-	733	-	733
Net impairment reversal/ (charge)	(1,191)	733	-	(458)
Transfers to 12-month ECL	153	(153)	-	-
Transfers to credit impaired	-	-	-	-
At 31 December 2022	(4,576)	(306)	-	(4,882)

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 *(continued)*

3. RISK MANAGEMENT *(continued)*

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 has net current liabilities of £261,670,000 (2022: £324,753,000). This is not considered an issue as the Group has access to a committed unsecured facility provided by Santander Consumer (UK) plc which it uses to fund its balance sheet, including the refinancing of maturing liabilities. Available headroom under this facility for the Group at 31 December 2023 was £413,564,000 (2022: £420,099,000).

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.

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	Up to 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total contractual cashflows	Carrying amount
	£000	£000	£000	£000	£000	£000	£000
At 31 December 2023							
Bank overdrafts from Santander UK plc group	280	-	-	-	-	280	280
Amounts due to Santander Consumer UK plc	-	545,116	1,118,039	1,308,779	-	2,971,934	2,839,060
Securitisation amounts due	-	-	200,679	900,000	-	1,100,679	1,100,679
Trade and other payables	1,550	-	32,971	-	-	34,521	34,521
Lease liabilities	-	42	102	476	-	620	620
Derivative financial instruments	-	-	-	404	-	404	404
Total financial liabilities	**1,830**	**545,158**	**1,351,791**	**2,209,659**	**-**	**4,108,438**	**3,975,564**

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 2022							
Bank overdrafts from Santander UK plc group	4,619	-	-	-	-	4,619	4,619
Amounts due to Santander Consumer UK plc	-	517,968	861,558	1,354,306	-	2,733,832	2,382,448
Amounts due to 3rd party senior loan	-	-	200,000	-	-	200,000	200,000
Securitisation amounts due	-	15,970	80,346	653,684	-	750,000	750,000
Trade and other payables	62	-	20,122	-	-	20,184	20,184
Lease liabilities	-	48	120	500	-	668	668
Total financial liabilities	**4,681**	**533,986**	**1,162,146**	**2,008,490**	**-**	**3,709,303**	**3,357,919**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 *(continued)*

3. RISK MANAGEMENT *(continued)*

Liquidity risk (continued)

Maturities of financial liabilities (continued)

Company	Demand	Up to 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total contractual cashflows	Carrying amount
	£000	£000	£000	£000	£000	£000	£000
At 31 December 2023							
Bank overdrafts from Santander UK plc group	280	-	-	-	-	**280**	**280**
Amounts due to Santander Consumer UK plc	-	545,116	1,118,039	1,308,779	-	**2,971,934**	**2,839,060**
Securitisation amounts due	-	511,418	151,878	831,994	-	**1,495,290**	**1,495,290**
Trade and other payables	1,550	-	32,971	-	-	**34,521**	**34,521**
Lease liabilities	-	42	102	476	-	**620**	**620**
Total financial liabilities	**1,830**	**1,056,576**	**1,302,990**	**2,141,249**	**-**	**4,502,645**	**4,369,771**

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 2022							
Bank overdrafts from Santander UK plc group	4,619	-	-	-	-	**4,619**	**4,619**
Amounts due to Santander Consumer UK plc	-	517,968	861,558	1,354,306	-	**2,733,832**	**2,382,448**
Amounts due to 3rd party senior loan	-	-	200,000	-	-	**200,000**	**200,000**
Securitisation amounts due	-	15,970	80,346	653,684	-	**750,000**	**750,000**
Trade and other payables	62	-	20,122	-	-	**20,184**	**20,184**
Lease liabilities	-	48	120	500	-	**668**	**668**
Total financial liabilities	**4,681**	**533,986**	**1,162,146**	**2,008,490**	**-**	**3,709,303**	**3,357,919**

Total liabilities comprise the following balances:

	Group		Company	
	2023 £000	2022 £000	**2023 £000**	2022 £000
Financial liabilities	3,978,207	3,357,919	3,978,207	3,357,919
Non-financial liabilities	28,159	395,736	421,320	678,290
Total liabilities	**4,006,366**	**3,753,655**	**4,399,527**	**4,036,209**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 *(continued)*

3. RISK MANAGEMENT *(continued)*

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.

Interest rate risk

The Group provides fixed rate loans and finance leases. Consequently, there is no significant interest rate risk on the retail lending portfolio which is funded through intercompany loans borrowed at fixed rate. Included within the amounts due to related parties are borrowings which accrue interest at a variable rate (see Note 28) which expose the Group to cash flow interest rate risk. The Group has entered into interest rate swaps to eliminate exposure to floating rate notes issued from its securitisation vehicles HCUK Auto Funding 2017-2 limited and HCUK Auto Funding 2022-1 Limited. Cash flow hedge accounting is applied with respect to the issuance from HCUK Auto Funding 2017-2 Limited. Hedge accounting is not applied in respect of the issuance from HCUK Auto Funding 2022-1 Limited as a corresponding back swap, which mirrors the terms of the swap in the special purpose vehicle, is held by the Company with fair value movements in the two swaps largely offsetting each other.

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 and unsecured loans with guaranteed future values, 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 including equity generated for the customer at the end of the contract. 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 charge 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, changes in residual values are reflected in adjustments to the depreciation charge over the life of the leased asset or impairment. In instances where residual values have increased, adjustments are limited to the previous net book values and may impact profit or loss on disposal. The Group regularly monitors the operating lease portfolio for indications of impairment.

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. 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.

3.2 Non financial risks

The Group also focuses on non-financial risks including financial crime risk, operational risk and conduct risk.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 *(continued)*

3. RISK MANAGEMENT *(continued)*

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 Company's risk committee and board of Directors.

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.

The mission to effectively deter, detect and disrupt financial crime remains important 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.

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

4. CAPITAL MANAGEMENT AND RESOURCES

The Group adopts a centralised capital management approach, based on an assessment of both stakeholder 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 2023 £000	Year ended 31 December 2022 £000
Net interest revenue:		
Retail - finance leasing income	146,143	109,962
Retail - unsecured personal loan income	2,883	3,341
Wholesale funding income	28,088	11,200
Interest on term deposits	53,423	16,680
Interest income on securitisation	2,322	196
Total	232,859	141,379

6. FINANCE COSTS

	Group	
	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Interest payable to Santander Consumer (UK) Plc	101,829	37,734
Amounts payable on securitisation	64,945	18,402
Bank charges	117	107
Operating lease finance charge	21	12
Total	166,913	56,255

The Group's borrowings are primarily provided by Santander Consumer (UK) plc. In addition, the Group enters into securitisation funding arrangements. Amounts payable on securitisation include interest on externally issued notes/loans, and primarily consist of intercompany recharges of which further detail can be found in the related parties note 28.

7. OTHER OPERATING INCOME

	Group	
	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Retail - operating lease income	61,341	61,254
Net income on wholesale fees and other items from retail book	4,989	4,322
Total	66,330	65,576

Operating lease income includes the profits and losses on the sale of the vehicle at the contract termination date. Within operating income of £61,341,000 (2022: £61,254,000) is a gain on disposal of £15,209,000 (2022: £13,290,000) – see note 15.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023
(continued)

8. ADMINISTRATIVE EXPENSES

	Group	
	Year ended 31 December 2023 £000	*Restated Year ended 31 December 2022 £000
Staff costs		
Wages and salaries	6,538	5,367
Social security costs	722	619
Other pension costs (see note 27)	530	433
Total staff costs	7,790	6,419
Other costs:		
Depreciation of property, plant and equipment (see note 14)	334	297
Depreciation of operating lease assets (see note 15)	34,024	31,029
Other administrative expenses:		
Information technology	1,424	1,563
Intercompany recharges	12,353	11,320
General overheads	12,789	6,493
Auditors' remuneration for statutory audit	285	233
Total	68,999	57,351

*The Group has reclassified costs of £880,000 from general overheads to information technology costs.

Auditors' remuneration

The total fee payable to the Company's auditors was £285,200 (2022: £233,000). Of this £250,000 related to the audit of the Company (2022: £200,000) and £35,200 (2022: £33,000) for the audit of the financial statements of the Company's subsidiaries. There were no non-audit services provided in 2023 (2022: nil).

Staff Costs

The average monthly number of employees (including Executive Directors) was:	Group	
	Year ended 31 December 2023 No.	Year ended 31 December 2022 No.
Sales and customer service	20	19
Administration and support	65	56
Total	85	75

9. CREDIT IMPAIRMENT, RESIDUAL VALUE AND VOLUNTARY TERMINATION (CHARGE)/REVERSALS

	Group	
	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Loans and finance lease receivables charge	(1,046)	(3,657)
Recoveries of loans and receivables previously written off	890	988
	(156)	(2,669)
Provision for residual value and voluntary terminations (charge)/release	(2,088)	3,186
Total	(2,244)	517

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 *(continued)*

10. UNREALISED FAIR VALUE GAIN/(LOSS) ON SWAPS

	Group	
	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Unrealised fair value gain/(loss) on basis interest rate swaps	131	(230)
Total	131	(230)

11. 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 (2022: none). No emoluments were paid by the Group to the Directors (2022: £nil).

12. TAX

	Group	
	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Current tax:		
UK corporation tax on profit for the year	17,763	14,046
Adjustments in respect of prior years	1,313	9,648
Total current tax	**19,076**	**23,694**
Deferred tax (Note 20):		
Origination and reversal of temporary differences	(2,561)	3,881
Change in rate of UK Corporation tax	(133)	1,2267
Adjustment in respect of prior years	(1,886)	(12,692)
Total deferred tax credit	**(4,580)**	**(7,585)**
Tax charge on profit for the year	**14,496**	**16,109**

UK corporation tax is calculated at 23.5% (2022: 19%).

The enacted tax rate for 2024 is expected to be 25% for corporation tax. This rate has therefore been applied in determining both the opening and closing balance sheet positions for deferred tax.

On 20 June 2023, Finance (No.2) Act 2023 was substantively enacted in the UK to implement the OECD Pillar Two model rules which introduces a global minimum effective tax rate of 15% with effect from 1 January 2024. It is not anticipated that the rules will impact the Company.

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 2023 £000	Year ended 31 December 2022 £000
Profit before tax:		
Continuing operations	61,165	93,636
Tax at the UK corporation tax rate of 23.5% (2022: 19%)	14,374	17,791
Non-deductible expenses	829	137
Non-taxable income	(1)	-
Effect of change in tax rate on deferred tax provision	(133)	1,226
Adjustments in respect of prior years	(573)	(3,045)
Tax charge for the year	**14,496**	**16,109**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023
(continued)

13. FINANCIAL ASSETS: SHARES IN SUBSIDIARIES

All companies in the Hyundai Capital UK Limited Group have a common financial year end date of 31 December 2023.

Details of the principal subsidiaries 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
HCUK Auto Funding 2022-1 Limited	1 Bartholomew Lane, London, England, EC2N 2AX	England and Wales	100	100

14. PROPERTY, PLANT AND EQUIPMENT

Group and Company	Cars £000	Buildings £000	Total £000
Cost			
At 1 January 2022	194	1,392	1,586
Additions	90	-	90
Disposals	(169)	-	(169)
At 31 December 2022 and 1 January 2023	115	1,392	1,507
Additions	400	-	400
Disposals	(62)	-	(62)
At 31 December 2023	453	1,392	1,845
Accumulated depreciation			
At 1 January 2022	126	618	744
Charge in year	90	206	296
On disposals	(169)	-	(169)
At 31 December 2022 and 1 January 2023	47	824	871
Charge in year	127	207	334
On disposals	(44)	-	(44)
At 31 December 2023	130	1,031	1,161

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

	At 31 December 2023 £000	At 31 December 2022 £000
Property	361	568
Cars	323	68
Total	684	636

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023
(continued)

15. OPERATING LEASE ASSETS

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

	Group and Company	
	2023	2022
	£000	£000
Cost		
At 1 January	395,429	272,961
Additions	54,826	188,169
Disposals	(70,434)	(65,701)
At 31 December	379,821	395,429
Accumulated depreciation and impairment		
At 1 January	56,037	45,059
Depreciation charge for the year	34,023	31,029
Disposals	(17,322)	(20,051)
At 31 December	72,738	56,037
Net book value		
At 31 December	307,083	339,392

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

	Group and Company	
	2023	2022
	£000	£000
Within 1 year	45,686	49,260
Between 1-5 years	32,624	54,880
Total	78,310	104,140

The breakdown of net profit on disposals is as follows:

	Group and Company	
	2023	2022
	£000	£000
Disposals- cost	(70,434)	(65,701)
Disposals- depreciation	17,322	20,052
Sale proceeds	68,321	58,939
Net profit on disposal	15,209	13,290

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 *(continued)*

16. INVENTORIES

	Group		Company	
	2023 £000	2022 £000	2023 £000	2022 £000
Inventories of contract hire vehicles	2,925	1,543	2,925	1,543
Total	**2,925**	**1,543**	**2,925**	**1,543**

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

17. FINANCE LEASE RECEIVABLES

Group and Company	Minimum lease payments		Present value of minimum lease payments receivable	
Amounts receivable under finance leases:	2023 £000	2022 £000	2023 £000	2022 £000
Within one year	799,459	735,428	699,915	656,025
In the second to fifth years inclusive	2,194,371	1,948,550	1,921,141	1,738,167
After more than five years	1	-	1	-
	2,993,831	**2,683,978**	**2,621,057**	**2,394,192**
Less: unearned finance income	(345,458)	(264,910)		
Less: expected credit loss allowance	(11,831)	(11,479)		
Less: RV and voluntary termination provision	(15,486)	(13,397)		
Net investment in finance lease receivables	**2,621,057**	**2,394,192**		
Analysed as:				
Non-current finance lease receivables (recoverable after 12 months)	1,921,142	1,738,167		
Current finance lease receivables (recoverable within 12 months)	699,915	656,025		
	2,621,057	**2,394,192**		

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 seven months (2022: 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 7.43% (2022: 6.21%) 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 £1,357,541,000 (2022: £1,058,830,000).

For the Group and Company, the Directors consider that the fair value of the finance lease receivable is 2.15% lower (2022: 5.32% lower) than the carrying value.

The Company offers personal loan agreements with a guaranteed future market value or generally referred to as a balloon product. Under these agreements, the customer may choose to return the vehicle at the end of the contract.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 *(continued)*

17. FINANCE LEASE RECEIVABLES *(continued)*

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

	Group		Company	
	2023 £000	2022 £000	2023 £000	2022 £000
At 1 January	13,398	16,585	13,398	16,584
Charge/(release) to income statement	1,903	(3,192)	1,903	(3,192)
Utilised	185	5	573	5
At 31 December	15,486	13,398	15,486	13,398

18. FINANCIAL ASSETS HELD AT AMORTISED COST

	Group		Company	
	December 2023 £000	December 2022 £000	December 2023 £000	December 2022 £000
Unsecured personal loans	14,898	32,323	14,898	32,323
Wholesale funding	490,138	321,911	490,138	321,911
Term deposits	750,006	953,799	750,006	953,799
Loans due from HCUK Auto Funding 2017-2 Limited	-	-	133,454	154,435
Loans due from HCUK Auto Funding 2022-1 Limited	-	-	316,992	168,978
Loans and receivables	1,255,042	1,308,033	1,705,488	1,631,446
Less: Expected credit loss allowances on unsecured personal loans	(419)	(534)	(419)	(534)
Less: Expected credit loss allowances on wholesale funding	(4,238)	(4,882)	(4,237)	(4,884)
Total	1,250,385	1,302,617	1,700,832	1,626,028

The performance of loans and receivables are analysed as follows:

Group	2023 %	2023 £000	2022 %	2022 £000
Not impaired - neither past due nor impaired	99.96%	1,254,589	99.96%	1,307,564
Past due and performing assets - Up to 3 months	0.03%	334	0.03%	360
Past due and non-performing assets - 3 to 6 months	0.01%	119	0.01%	108
Loans and advances to customers	100%	1,255,042	100.00%	1,308,032
Less: Impairment allowances on wholesale funding		(4,238)		(4,882)
Less: Impairment allowances on unsecured personal loans		(419)		(534)
Loans and advances to customers net of impairment loss reserves		1,250,385		1,302,616
Non-current loans and receivables (recoverable after 12 months)		562,476		679,962
Current loans and receivables (recoverable within 12 months)		687,909		622,654
Loans and advances to customers net of impairment loss reserves		1,250,385		1,302,616

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 *(continued)*

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

Company

	2023 %	2023 £000	2022 %	2022 £000
Not impaired - neither past due nor impaired	99.97%	1,705,035	99.97%	1,630,976
Past due and performing assets - Up to 3 months	0.02%	334	0.02%	360
Past due and non-performing assets - 3 to 6 months	0.01%	119	0.01%	108
Loans and advances to customers	100.00%	1,705,488	100.00%	1,631,444
Less: Impairment allowances on wholesale funding		(4,238)		(4,882)
Less: Impairment allowances on unsecured personal loans		(418)		(534)
Loans and advances to customers net of impairment loss reserves		**1,700,832**		**1,626,028**
Non-current loans and receivables (recoverable after 12 months)		526,410		1,003,374
Current loans and receivables (recoverable within 12 months)		1,174,422		622,654
Loans and advances to customers net of impairment loss reserves		**1,700,832**		**1,626,028**

For the Group and Company, the Directors consider that the fair value of the loans and receivables is 1.16% lower (2022: 7.42% 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 6.62% (2022: 5.76%). All loans are made in UK sterling. Unsecured personal loans to third parties include amounts receivable after twelve months totalling £12,476,000 (2022: £26,179,000).

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 £4,238,000 (2022: £4,882,000).

The Group has term deposits of £750,006,000 (2022: £953,799,000). Term deposits include amounts receivable after twelve months totalling £550,000,000 (2022: £653,684,000).

19. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2023 £000	2022 £000	2023 £000	2022 £000
Trade receivables	52,762	39,666	52,762	39,666
Amounts due from Santander Consumer (UK) plc	2,624	2,921	2,624	2,921
Amounts due from other Group subsidiaries	949	3,888	949	3,888
Prepayments	2,252	2,484	2,252	2,485
Total	**58,587**	**48,959**	**58,587**	**48,960**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023
(continued)

20. DEFERRED TAX LIABILITY

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 2023 £000	Group and Company 2022 £000
At 1 January	(9,618)	(17,203)
Credit to statement of comprehensive income	4,527	7,585
At 31 December	(5,091)	(9,618)

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

Provided – Group and Company:	Balance Sheet 2023 £000	Balance Sheet 2022 £000	Statement of comprehensive income 2023 £000	Statement of comprehensive income 2022 £000
Accelerated book depreciation	(5,191)	(9,675)	4,484	7,575
IFRS 9 transitional adjustments	22	27	(5)	(5)
Other temporary differences	78	30	48	15
Total	(5,091)	(9,618)	4,527	7,585

Deferred tax liabilities scheduled above have been recognised in the Group 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.

21. TRADE AND OTHER PAYABLES

	Group		Company	
	2023 £000	2022 £000	2023 £000	2022 £000
Trade payables	34,521	20,184	34,521	20,184
Advanced rentals for contract hire	9,156	12,037	9,156	12,037
Amounts due to Santander UK plc group companies	1,550	62	1,550	62
Tax and social security	6,211	1,343	6,211	1,343
Accruals	6,149	6,568	6,148	6,332
Total	57,587	40,194	57,586	39,958

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023
(continued)

22. LEASE LIABILITIES

	Group		Company	
	2023 £000	2022 £000	2023 £000	2022 £000
Property lease liability	330	604	330	604
Vehicle lease liability	290	64	290	64
Total	**620**	**668**	**620**	**668**
Non-current	364	615	364	615
Current	256	53	256	53
Total	**620**	**668**	**620**	**668**

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 14.

23. BANK OVERDRAFTS AND BORROWINGS

	Group		Company	
	2023 £000	2022 £000	2023 £000	2022 £000
Amounts due to Santander Consumer (UK) plc	2,841,703	2,733,833	2,841,703	2,733,833
Amounts due to Lloyds Bank Plc	750,464	400,000	-	-
Amounts due to Royal Bank of Canada	350,215	350,000		-
Amounts due to ING Bank	-	200,000	-	200,000
Amounts due to HCUK Auto Funding 2017-2 Limited	-	-	463,239	481,724
Amounts due to HCUK Auto Funding 2022-1 Limited	-	-	1,032,050	551,151
Amounts due to Santander UK plc group companies	281	4,619	280	4,619
Total	**3,942,663**	**3,688,452**	**4,337,272**	**3,971,327**
These borrowings are repayable as follows:				
On demand or within one year	1,780,607	1,680,462	1,940,959	1,785,027
Amounts due after one year	2,162,056	2,007,990	2,396,313	2,186,300
Total	**3,942,663**	**3,688,452**	**4,337,272**	**3,971,327**

The majority of the Group's funding is from Santander Consumer (UK) plc. Amounts owed to Santander Consumer (UK) plc for borrowings are interest bearing; the average weighted interest rate as at the balance sheet date is 4.25% fixed rate (2022: 2.30%). Borrowings are repaid 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 totalling £1,262,357,000 (2022: £1,354,306,000).

For the Group and Company, the Directors consider that the fair value of the amounts owed to group subsidiaries is 2.10% lower (2022: 1.20% lower) than the carrying value.

For the Group, amounts due to Lloyds Bank plc totalling £750,464,000 are repayable after twelve months (2022: £400,000,000). For the Group, amounts due to Royal Bank of Canada totalling £350,215,000 are repayable after twelve months (2022: £350,000,000). For the Group and Company, amounts due to ING bank were repaid in full at year end (2022: £200,000,000). For these borrowings, the fair values are not materially different from their carrying amount since the interest payable is close to current market rates.

For the Company, amounts due to HCUK Auto Funding 2017-2 Limited totalling £463,239,000(2022: £481,724,000) are repayable after twelve months. For the Company, amounts due to HCUK Auto Funding 2022-1 Limited totalling £1,032,050,000 (2022: £551,151,000) are repayable after twelve months. Amounts owed to HCUK Auto Funding 2017-2 and HCUK Auto Funding 2022-1 relate to assets securitised in 2017 and 2022, respectively.

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

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.

24. DERIVATIVE FINANCIAL INSTRUMENTS

The Group has the following derivative financial instruments in the statement of financial position:

	Group		Company	
	2023 £000	2022 £000	2023 £000	2022 £000
Assets – Fair values				
Interest rate swap – cash flow hedge	215	-	-	-
Interest rate swap – back swap – held for trading	1,499	-	1,499	-
Total derivative financial instruments assets	**1,715**	**-**	**1,499**	**-**
Liabilities – Fair values				
Interest rate swap – back swap – held for trading	-	(126)	-	(126)
Interest rate swaps – front swap – held for trading	(2,119)	(85)	-	-
Total derivative financial instruments liabilities	**(2,119)**	**(211)**	**-**	**(126)**

As a result of the Group's issuing floating rate secured funding it has entered into three interest rate swaps to reduce its overall exposure to interest rate risk. In 2023 HCUK Auto Funding 2017-2 Ltd has entered into a fixed-for-floating swap, notional £350,000,000 (2022: £nil) to hedge the floating rate payable on its issued variable rate notes, with fair value of £0.22m (2022: £nil). In 2022 the Group entered into two sets of interest rate swaps in contemplation of each other and on a mirrored back-to-back basis which are linked to HCUK Auto Funding 2022-1: a front swap which faces the structured entity with a fair value of (£2.12)m (2022: (£0.08)m) and a corresponding back swap which faces the Company with fair value £1.50m (2022: (£0.13)m). The notional of both front and back swaps was increased in 2023 to £750,000,000 (2022: £400,000,000) to coincide with an increase in the issued funding amount.

These derivatives are 'over-the-counter' and not actively traded but have observable market inputs (interest rates and yield curves) which are inputs into the models used to determine fair value. As such they are classified as Level 2 fair value assets and liabilities.

Notional amounts

Swap	Maturity date	2023 £000	2022 £000
Interest rate – cash flow hedge	February 2025	350,000	-
Interest rate – front swap	August 2031	750,000	400,000
Interest rate – back swap	August 2031	750,000	400,000

The Group has designated the interest rate swap in HCUK Auto Funding 2017-2 Ltd as a hedging instrument, hedging the interest rate risk associated with the variable cash flows of the floating rate borrowings issued out of the structured entity. This cash flow hedge qualifies for hedge accounting and the hedging instrument is demonstrated to be highly effective on both a retrospective and prospective basis. The effective portion of changes in the fair value of the cash flow hedging instrument is recognised within the cash flow hedge reserve within Other Comprehensive Income, as shown in the statement of other comprehensive income.

2023

Cash flow hedge – interest rate risk

Group only. The effects of the cash flow hedge on the group's financial position and performance are as follows:

Hedging instrument	Carrying amount £'000	Change in fair value for hedging instrument £'000	Nominal amount £'000	Timing profile of nominal amount	Average rate %
Interest rate swap – cash flow hedge	215	328	350,000	25/02/2025	4.468

Hedged item	Carrying amount £'000	Change in fair value for hedged item £'000	Hedge ratio
Floating rate borrowings (HCUK Auto Funding 2017-2 Ltd)	350,000	(282)	1:1.16

25. SHARE CAPITAL

	Company	
	2023 £000	2022 £000
Authorised share capital		
55,000,000 (2022: 55,000,000) ordinary shares of £1 each	55,000	55,000
Issued called up and fully paid:		
55,000,000 (2022: 55,000,000) ordinary shares of £1 each	55,000	55,000

The Company has a total ordinary share capital of £55,000,000 (2022: £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

The shares have attached to them full voting, dividend, and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

26. NET CASH USED IN OPERATING ACTIVITIES

		Group		*Restated Company
	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Operating profit	61,165	93,636	63,192	93,715
Adjustments for:				
Net interest and similar income *	(2,322)	(196)	-	-
Finance costs *	166,913	56,255	160,275	56,437
Depreciation on operating lease assets and property, plant and equipment	34,358	31,326	34,358	31,326
Loss on disposal of property, plant and equipment	17	-	17	-
Profit on disposal of operating lease assets	(15,209)	(13,290)	(15,209)	(13,290)
Impairment and residual value reversals	1,680	(435)	1,680	(435)
Operating cash flows before movements in working capital	246,602	167,296	244,313	167,753
Purchase of operating lease assets	(54,826)	(188,169)	(54,826)	(188,169)
Proceeds on disposal of operating lease assets	68,321	58,939	68,321	58,939
Increase in finance lease receivables	(229,305)	(346,096)	(229,305)	(346,096)
Increase in loans and receivables	(204,225)	(15,066)	(331,259)	(96,484)
Decrease/(increase) in trade receivables	(9,628)	1,661	(9,628)	1,661
(Increase)/decrease in inventories	(1,382)	1,268	(1,382)	1,268
Increase in payables	17,394	7,119	17,632	6,904
Cash utilised in operations	(167,049)	(313,048)	(296,134)	(394,224)
Tax paid	(40,142)	(3,279)	(40,139)	(3,277)
Net cash utilised in operating activities	(207,191)	(316,327)	(336,273)	(397,501)

*See note 31 for details regarding the restatement as a result of reclassification.

27. 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 £530,000 (2022: £433,000) was recognised as an expense for the contributions and is included in Note 8. Of this amount £15,609 (2022: £19,273) was recognised for key management personnel. The details of the pension scheme appear in the financial statements of Santander UK plc.

28. 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	
	2023 £000	2022 £000	**2023 £000**	2022 £000	**2023 £000**	2022 £000	**2023 £000**	2022 £000
Santander Consumer (UK) plc	53,423	16,680	111,597	51,640	752,630	956,720	2,841,703	2,733,833
Santander UK plc	1,119	249	-	-	86,431	67,220	37,408	29,825
Santander London Branch	2,322	196	-	-	35,410	17,955	-	-

Company	Income		Expenditure		Amounts owed by related parties		Amounts owed to related parties	
	2023 £000	2022 £000	**2023 £000**	2022 £000	**2023 £000**	2022 £000	**2023 £000**	2022 £000
Santander Consumer (UK) plc	53,423	16,680	111,597	51,640	752,630	956,720	2,841,703	2,733,833
Santander UK plc	1,119	249	-	-	64,483	44,384	37,408	29,825
HCUK Auto Funding 2017-2 Limited	272,348	4,267	290,581	14,916	133,454	154,435	463,239	481,724
HCUK Auto Funding 2022-1 Limited	415,820	55,940	445,734	59,952	316,992	168,978	1,032,050	551,151

Included within the amounts due to related parties above is a loan for £590,100,000 which accrues interest using the Bank of England quarterly repricing. Contained within the amounts due from parent undertaking above is a deposit for £750,000,000, 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 £750,000,000 (2022: £953,799,000) plus amounts repayable on demand to the group of £6,000 (2022: £3,799,000) for customer receipts paid to Santander Consumer (UK) plc. Amounts owed to Santander Consumer (UK) plc include treasury borrowings and accrued interest of £2,841,703,000 (2022: £2,733,834,000).

Hyundai Motor UK Limited and Kia UK Limited provide the following to the Company:

- Retail interest income in the form of manufacturer subsidies. Total manufacturer subsidies charged in 2023 was £42.2m (2022: £24.9m).
- Volume rebate discounts linked to the contract hire portfolio. Total discounts paid by Original Equipment Manufacturers (OEMs) in 2023 was £3.7m (2022: £12.6m),
- Guaranteed minimum future value (GMFV) support was £11.6m (2022: £11.7m).

Remuneration of key management personnel

The remuneration of the management board, which consists of three employees (2022: 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:*

28. RELATED PARTY TRANSACTIONS (continued)

	Group	
	2023	2022
	£000	£000
Short-term employee benefits	589	515
Post-employment benefits	16	19
Total	605	534

Directors' and Key Management Persons' transactions

No directors (2022: none) or Key Management Persons (2022: none) had any related party transactions with the Group.

29. CONTINGENT LIABILITIES

Motor Finance Broker Commissions

Following the FCA's Motor Market review in 2019 which resulted in a change in rules in January 2021, Hyundai Capital UK Limited (HCUK) has received a number of county court claims and complaints in respect of its historical use of discretionary commission arrangements (DCAs) prior to the 2021 rule changes. In the context of the complaints made to the Financial Ombudsman Service relating to such commission arrangements, the FCA announced on 11 January 2024 that it intends to use its powers under s166 of the Financial Services and Markets Act 2000 to review the historical use of DCAs between lenders and credit brokers (the "FCA Review") and whether redress should be payable. On 30 July 2024, the FCA announced their intention to set out the next steps in their review in May 2025. In line with the FCA's announcement, we have paused the response to customer complaints until at 4 December 2025. While it is possible that certain charges may be incurred in relation to existing or future county court claims and Financial Ombudsman Service (FOS) complaints, it is not considered that a legal or constructive obligation has been incurred in relation to these matters that would require a provision to be recognised at this stage. The resolution of such matters is not possible to predict with any certainty and there remain significant inherent uncertainties regarding the existence, scope and timing of any possible outflow which make it impracticable to disclose the extent of any potential financial impact.

30. 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 subsidiaries for which group financial statements are drawn up. Santander (UK) plc is the parent undertaking of the smallest group of subsidiaries for which group financial statements are drawn up, where the Group is equity accounted for as a joint venture. Copies of all sets of group financial statements which include the results of the Group are available from Corporate Governance Office, 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, where it is accounted for as a joint venture. 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 subsidiaries for which group financial statements are drawn up. Hyundai Motor Company is the parent undertaking of the smallest such group of subsidiaries.

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 subsidiaries for which group financial statements are drawn up. Hyundai Motor Company is the parent undertaking of the smallest such group of subsidiaries.

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.

31. RESTATEMENT

Correction in classification of interest income on securitisations

During 2023, it was identified that the current disclosure of the Company interest income on securitisations did not show the true commercial transactions with the related Special Purpose Vehicles (SPVs). The disclosure was re-assessed and it was determined that the interest income on securitisations should be netted off against the related finance costs and have therefore been reclassified in the Statement of Comprehensive Income as finance costs, having previously been classified as net interest and similar income.

This has been corrected by restatement of each of the affected financial statement line items for the prior period as follows:

Company Statement of Comprehensive Income	For the year ended 31 December 2022 as previously stated	Increase/ (decrease)	For the year ended 31 December 2022 as restated
	£000	£000	£000
Net interest and similar income	201,390	(60,207)	141,183
Finance costs	(116,644)	60,207	(56,437)
Gross profit	84,746		84,746

The cash flow statement has been restated to reflect a decrease in net interest and similar income and an increase in finance costs of £60,207,000. There was no change to the closing year cash position at 31 December 2022 as a result of the restatement.