

HCUK Auto Funding 2017-2 Ltd

Annual reports and financial statements

For the year ended 31 December 2021



Contents	Page:
Company information and independent auditors	1
Strategic report	2
Directors' report	6
Independent auditors' report	9
Statement of comprehensive income	12
Statement of changes in equity	13
Statement of financial position	14
Notes forming part of the financial statements	15

HCUK Auto Funding 2017-2 Ltd

Company information and independent auditors

Directors

Intertrust Directors 1 Limited
Intertrust Directors 2 Limited
Susan Abrahams

Company secretary and registered office

Intertrust Corporate Services Limited
1 Bartholomew Lane
London
EC2N 2AX

Company number

10937768
(England and Wales)

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

Strategic report for the year ended 31 December 2021

The Directors present the Strategic report of HCUK Auto Funding 2017-2 Ltd (the "Company") for the year ended 31 December 2021.

Principal activities and business review

The Company, a private company limited by shares, was incorporated as a special purpose company on 30 August 2017 and registered in England and Wales under Companies Act 2006.

On 28 November 2017 ("Closing date") the Company entered into a sterling loan facility agreement (the "Senior Loan Facility") via which it raised funding totalling £550,000,000 due March 2027. The Company used these funds to acquire an interest in a portfolio of receivables (the "Receivables") originated by Hyundai Capital UK Limited (the "Seller" and the "Originator"). The Receivables purchased by the Company comprise auto loan contract receivables originated by the Seller in the United Kingdom, together with their related collateral.

In 2019 £150,000,000 of Senior loans were drawn down to increase the portfolio of Receivables purchased from the Seller and Originator by the same amount. The total balance of the Senior Facility Loan at the year end amounted to £700,000,000 (2020: £700,000,000).

In the current year the Senior Loan Facility was split into two tranches of £350,000,000 each at different rates of interest (see Note 13). This will remain until August 2022, when one tranche will be fully repaid. At the year end, a cash reserve ("Reserve Fund") equal to 1% of the Senior facility of £7,000,000 (2020: £7,000,000) was maintained.

The agreed consideration for any Receivables purchased by the Company is such that it sets the initial consideration at a level which ensures the Senior Loan Facility remains at approximately 75% (2020: 70%) of the nominal balance of Receivables purchased. The remaining 25% (2020: 30%) represents credit support provided by the Seller in the form of over collateralisation, with any excess funds being due back to the Seller in the form of deferred purchase consideration. As at the end of the year, the outstanding nominal amount of Receivables purchased was £898,665,614 (2020: £962,324,466). Purchases of Receivables have taken place throughout the year, owing to the revolving period still being in force until February 2023.

Given the level of over collateralisation provided by the Seller as per the above, the Seller is deemed to have retained substantially all exposure presented by the Receivables portfolio. The transaction thus fails the de-recognition criteria under IFRS9 in the Seller's financial statements (as well as under IAS39 applied by the Company as allowed by FRS102) and therefore the Receivables remain on the Statement of financial position of Hyundai Capital UK Limited. The cash due to the Company to pay its creditors (other than the Seller) from the cash flows of the underlying Receivables is therefore classified as a deemed loan to the Originator (the "Deemed Loan") on the Statement of financial position of the Company.

The Directors do not anticipate any other changes to the present level of activity, or the nature of, the Company's business in the near future.

Covid-19 considerations

For consideration relating to Covid-19, please refer to the section "Going Concern" in the Directors report.

Brexit considerations

The effects of Brexit have been determined by the EU-UK Trade and Cooperation Agreement (the "Withdrawal agreement") which was ratified by the UK Parliament on 30 December 2020 and entered into force on 1 May 2021.

The Company is incorporated and registered in the United Kingdom. Therefore, in consideration of the fact that it is a UK company with operations based solely in the United Kingdom, we do not expect to see any significant impact on the continued performance and going concern of the Company following the Withdrawal agreement.

Strategic report for the year ended 31 December 2021 (continued)**Principal activities and business review (continued)***Brexit considerations (continued)*

Due to the macro-economic effect this trade deal has on the UK economy it is difficult to determine the financial impact it will have on the Company at this stage. There is a risk of financial instability, for example a detrimental effect on the UK economy may ultimately impact the underlying borrowers' ability to repay their loans. However, in the worst-case scenario the Notes are a limited recourse obligation of the Company, therefore payment of them is limited to the application of receipts from the loans.

Results

In accordance with the transaction documents the Company is expected to retain an amount of £300 on each interest payment date ("IPD"). The Statement of comprehensive income of the Company is set out on page 12 and shows a profit for the financial year of £2,916 (2020: £2,916).

As at 31 December 2021, the net asset position is £11,665 (2020: net asset £8,749) as shown in the Statement of financial position on page 14.

Key performance indicators, principal risks and uncertainties

The Company provides a full breakdown to the Note holders of the performance of the portfolio on a monthly basis. Some of the key performance indicators are:

	31 December 2021 £	31 December 2020 £
Outstanding balance of underlying Receivables	898,665,614	962,324,466
Outstanding balances of underlying Receivables more than 91 days in arrears	601,218	1,774,880

As at 31 December 2021, 0.07% (2020: 0.18%) of the Receivables were over 91 days in arrears.

The principal risks and uncertainties faced by the Company are reviewed below under Financial instruments.

Financial instruments

The Company's operations are financed primarily by means of the Senior Loan Facility and the credit support in the form of the over collateralisation. The Company issued such financial instruments to finance the Deemed Loan as explained in the business review above.

The Company's exposure to risk on financial instruments and the management of such risk is largely determined prior to the issuance of the Senior Loan Facility. Cash flow modelling, including multiple stress scenarios, is carried out as part of the structuring of the transaction.

The Directors monitor the Company's performance by reviewing monthly reports on the performance of the Receivables, in order to ensure that the transaction terms have been complied with, that no unforeseen risks have arisen, and that the holder of the Senior Loan Facility has been paid on a timely basis.

The primary risks arising from the Company's financial instruments are credit risk, liquidity risk and interest rate risk. The principal nature of such risks is summarised below and in note 13.

Strategic report for the year ended 31 December 2021 (continued)

Financial instruments (continued)**Credit risk**

Credit risk reflects the risk that the underlying Receivables or other transaction parties may not meet their obligations as they fall due.

The Deemed Loan may become impaired in case of a significant deterioration in the performance of the underlying Receivables as a result of economic conditions in the UK in the future.

However, delinquencies and defaults on the underlying securitised assets will not result in an impairment loss as they are mitigated by the excess spread embedded within the structure of the transaction, i.e. the excess spread on the Deemed Loan and the Reserve Fund supplied by the Seller. This means that the interest on the Deemed Loan is lower than the interest on the underlying securitised assets therefore even if there are losses on the underlying securitised assets, they still provide sufficient cash flows to make payments on the Deemed Loan. If the cash flows from the Receivables are still expected to be sufficient to meet the Company's obligations. The credit quality of the Receivables is set out in note 13.

Liquidity risk

Liquidity risk reflects the risk that the Company will encounter difficulty in raising funds to meet commitments associated with its financial instruments, should the actual cash flows from its assets differ from those expected.

The Company's assets (primarily the Receivables) are financed predominantly by the Senior Loan Facility. The financing policy substantially reduces the Company's liquidity risk by matching the maturity profile of the Company's funding to the profile of the Receivables being funded.

The Company can also use the Reserve Fund to manage any remaining liquidity risk.

Interest Rate Risk

Interest rate risk exists where interest rates on assets and liabilities are set on different bases or reset at different times. The Company minimises its exposure to interest rate risk by ensuring that the level of over collateralisation inherent within the Deemed Loan relative to the Senior Loan Facility is sufficient to cover any mismatch in the interest rate characteristics of its assets and liabilities.

Future developments

The key future developments which the directors expect to have the greatest impact on the Company, due to their impact on the performance of the Receivables (in particular, future cash flows and default rates), relate to pressures resulting from uncertainty and changes in the macroeconomic environment.

The UK currently faces significant economic uncertainty. This uncertainty is greater than historical levels of uncertainty, due to Covid-19, Brexit and geopolitical tensions (heightened following the Russian military invasion of Ukraine). This has resulted in a significant and ongoing increase in cost inflation and therefore increased pressure for the Bank of England to continue to increase base rate from an unprecedented low level. All of these factors result in increased pressure on affordability and a heightened risk that borrowers may ultimately default on their Loan.

While the extent and duration of the effect of this economic uncertainty remains unclear, there is a risk of financial instability for the Company; for example, a detrimental effect on the UK economy may ultimately impact the borrowers' ability to repay the Loans, or on the Servicer's ability to continue to effectively service the Loans. However, as at the report date there has been no material impact from these macroeconomic factors on the Company's financial performance or cash flows.

Strategic report for the year ended 31 December 2021 (*continued*)

Streamlined Energy and Carbon Reporting

The Company is out of the scope of the Streamlined Energy and Carbon Reporting (SECR), as it does not meet the numerical thresholds in relation to turnover and number of employees.

Capital management

The Company is not subject to any external capital requirements except for the minimum requirement under the Companies Act 2006. The Company has not breached the minimum requirement.

On behalf of the board



Helena Whitaker
per pro **Intertrust Directors 1 Limited**
Director
30 June 2022

Directors' report for the year ended 31 December 2021

The Directors present their annual report together with the audited financial statements of the Company for the year ended 31 December 2021.

Going concern

Covid-19 has caused major disruption across the United Kingdom throughout 2020 and 2021, however to date, we have seen the removal of all legal Covid-19 related safety measures imposed by the UK government. It should also be noted that the likelihood of further economic disruption due to the further lockdowns is now considered unlikely. Since operations began, the Company has continued to lend and access markets. No impairment losses have been recognised against the Loans. Given the unprecedented situation with Covid-19, the directors acknowledge that there may be further unexpected impacts that are currently unforeseeable. However, as at the report date there has been no material impact of the Covid-19 pandemic on the Company's financial performance and cashflows.

Further considerations have been taken to ensure that service providers (including current servicer, Hyundai Capital UK Limited) ("the Servicer") had sufficient disaster management programs in place to ensure the continuation of operations during national lock downs. Management note that all service providers of the Company were in existence before the pandemic began and were able to ensure service delivery delays were minimised or mitigated against whilst faced with changing national advice and legislation to minimise the spread of the Covid-19.

At the reporting date the Company is showing a net asset position of £11,665 (2020: £8,749). During the year Company made a profit of £2,916 (2020: £2,916) as shown in the Statement of comprehensive income. The obligations of the Company to pay amounts due on the Notes are limited to the application of receipts from the Receivables under the terms of the priority of payments as set out in the terms and conditions of the Notes. If on full realisation of the security, insufficient funds exist to settle the liabilities owed to the noteholders, there will be no further recourse to the Company (even in the event of default).

It is the intention of the directors for the Company to continue operations until such a time as the amounts due from the Receivables have been fully realised. Ultimately, due to the limited recourse nature of the Notes, any shortfall in the proceeds of the Receivables will be a risk to the holders of those Notes.

The operating expenses of the Company are immaterial compared to the cash received on the Receivables on a monthly basis. Operating expenses are first in the order of priority of payments and the directors are comfortable that these will be covered by the cash collected on the performing loans within the portfolio. Potential interest shortfalls on the Notes can be mitigated by drawing from the liquidity Reserve Fund amounting to £7,000,000 (2020: £7,000,000), which can also be used to pay expenses classed as senior expenses by the Transaction Documentation. The Company is also able to use principal receipts to mitigate interest shortfalls on the Notes and senior expenses.

Whilst noting the significant economic uncertainty facing the UK, after making enquiries regarding the quality of assets and liquidity facilities in place, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Should there ultimately be insufficient funds available, any unpaid amounts due on the Notes are discharged in full due to the limited recourse nature of the Company's borrowings.

For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

Future developments

Information on future developments is included in the Strategic report.

Financial risk management

Information on financial risk management is included in the Financial instruments section of the Strategic report.

Directors' report for the year ended 31 December 2021 (continued)

Share capital

The issued share capital consists of one fully paid ordinary share of £1.

Directors and their interests

The Directors of the Company during the year, and up to the date of signing the financial statements, were:

Intertrust Directors 1 Limited
Intertrust Directors 2 Limited
Susan Abrahams

None of the directors have any beneficial interest in the ordinary share capital of the Company. None of the directors had any interest during the year in any material contract or arrangement with the Company.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2021 (2020: £nil).

Third party indemnities

Qualifying third party indemnity provisions for the benefit of the Directors were in force during the year under review and remain in force as at the date of approval of the annual reports and financial statements.

Company secretary

The Company secretary during the year and up to the date of signing the financial statements was Intertrust Corporate Services Limited.

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

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 company and of the profit or loss of the company 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 United Kingdom Accounting Standards, comprising FRS 102 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 company will continue in business.

The directors are responsible for safeguarding the assets of the 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' report for the year ended 31 December 2021 (continued)

Statement of disclosure of information to auditors

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

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

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office. Pursuant to Section 489 of the Companies Act 2006, a resolution for the re-appointment of PricewaterhouseCoopers LLP will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the board



Helena Whitaker
per pro **Intertrust Directors 1 Limited**
Director
30 June 2022

Independent auditors' report to the members of HCUK Auto Funding 2017-2 Ltd

Report on the audit of the financial statements

Opinion

In our opinion, HCUK Auto Funding 2017-2 Ltd's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual reports and financial statements (the "Annual Report"), which comprise: the Statement of financial position as at 31 December 2021; the Statement of comprehensive income and the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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 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 company's ability to continue as a going concern.

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

Reporting on other information

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

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 Directors' report, 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 Directors' report

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

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

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 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 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 HCUK Auto Funding 2017-2 Ltd

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to a breach of the underlying transaction documents governing the Company, and we considered the extent to which non-compliance might have a material effect on the financial statements. 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 deliberate concealment by forgery, intentional misrepresentations, or through collusion. Audit procedures performed by the engagement team included:

- Making inquiries with those charged with governance in relation to known or suspected instances of non-compliance with laws and regulations and fraud;
- Testing, on a sample basis, that the priority of payments has been applied in accordance with the underlying transaction documents;
- Testing of the reconciliation of the financial statements to the year end servicer's reports and to the bank statements of the Company;
- Testing journals using a risk-based approach and evaluating whether there was evidence of bias or fraud; and
- Review of minutes of the meetings of the board of directors that occurred during the year and made enquiries of management.

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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Jennifer Hale

Jennifer Hale (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 June 2022

Statement of comprehensive income for the year ended 31 December 2021

	Note	31 December 2021 £	31 December 2020 £
Interest receivable and similar income	2	9,628,088	12,785,197
Interest payable and similar expenses	3	(4,053,081)	(6,475,638)
Net interest income		5,575,007	6,309,559
Operating expenses	4	(5,571,407)	(6,305,959)
Profit before taxation	5	3,600	3,600
Tax on profit	7	(684)	(684)
Profit for the year	12	2,916	2,916
Other comprehensive income		-	-
Total comprehensive income for the year		2,916	2,916

All amounts relate to continuing activities.

The accompanying notes on pages 15 to 26 are an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2021

	Called up share capital	Retained earnings	Total shareholders' funds
	£	£	£
Balance as at 1 January 2020	1	5,832	5,833
Total comprehensive income for the year	-	2,916	2,916
Balance as at 31 December 2020	1	8,748	8,749
Total comprehensive income for the year	-	2,916	2,916
Balance as at 31 December 2021	1	11,664	11,665

The accompanying notes on pages 15 to 26 are an integral part of these financial statements.

Statement of financial position as at 31 December 2021

	Note	2021 £	2020 £
Non-current assets			
Deemed Loan	8	307,965,932	654,729,432
Current Assets			
Deemed Loan	8	350,000,000	-
Debtors: amounts falling due within one year	9	7,536	12,790
Cash at bank and in hand		43,365,438	45,716,028
Total current assets		393,372,974	45,728,818
Creditors: amounts falling due within one year	10	(351,836,146)	(1,057,104)
Net current assets		41,536,828	44,671,714
Total assets less current liabilities		349,502,760	699,401,146
Creditors: amounts falling due after more than one year	10	(349,491,095)	(699,392,397)
Net assets		11,665	8,749
Capital and reserves			
Called up share capital	11	1	1
Retained earnings	12	11,664	8,748
Total shareholders' funds		11,665	8,749

The accompanying notes on pages 15 to 26 are an integral part of these financial statements.

The financial statements on pages 12 to 26 were approved and authorised for issue by the Board of Directors on 30 June 2022, and were signed on its behalf by:



Helena Whitaker
per pro **Intertrust Directors 1 Limited**
Director

1 Accounting policies

General information

HCUK Auto Funding 2017-2 Ltd (the "Company"), a private limited company was incorporated as a special purpose company in the United Kingdom and registered in England and Wales on the 30 August 2017 under the Companies Act 2006. The registered office of the Company is 1 Bartholomew Lane, London, England, EC2N 2AX.

Basis of preparation

The financial statements of Company are prepared on a going concern basis under the historical cost basis in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The Company has adopted Financial Reporting Standard 102. The Company has adopted in full IAS 39 with respect to the recognition and measurement of financial instruments.

The accounting policies which have been applied consistently throughout the year to the Company's financial statements are set out below. The Directors have adjusted the format of the Statement of comprehensive income and Statement of financial position as allowed under Companies Act 2006 as in the opinion of the Directors Net interest income is a more appropriate measurement of the Company's performance than turnover and cost of sales.

Going concern

Covid-19 has caused major disruption across the United Kingdom throughout 2020 and 2021, however to date, we have seen the removal of all legal Covid-19 related safety measures imposed by the UK government. It should also be noted that the likelihood of further economic disruption due to the further lockdowns is now considered unlikely. Since operations began, the Company has continued to lend and access markets. No impairment losses have been recognised against the Loans. Given the unprecedented situation with Covid-19, the directors acknowledge that there may be further unexpected impacts that are currently unforeseeable. However as at the report date there has been no material impact of the Covid-19 pandemic on the Company's financial performance and cashflows.

Further considerations have been taken to ensure that service providers (including current servicer, Hyundai Capital UK Limited) ("the Servicer") had sufficient disaster management programs in place to ensure the continuation of operations during national lock downs. Management note that all service providers of the Company were in existence before the pandemic began and were able to ensure service delivery delays were minimised or mitigated against whilst faced with changing national advice and legislation to minimise the spread of the Covid-19.

At the reporting date the Company is showing a net asset position of £11,665 (2020: £8,749). During the year Company made a profit of £2,916 (2020: £2,916) as shown in the Statement of comprehensive income. The obligations of the Company to pay amounts due on the Notes are limited to the application of receipts from the Receivables under the terms of the priority of payments as set out in the terms and conditions of the Notes. If on full realisation of the security, insufficient funds exist to settle the liabilities owed to the noteholders, there will be no further recourse to the Company (even in the event of default).

It is the intention of the directors for the Company to continue operations until such a time as the amounts due from the Receivables have been fully realised. Ultimately, due to the limited recourse nature of the Notes, any shortfall in the proceeds of the Receivables will be a risk to the holders of those Notes.

The operating expenses of the Company are immaterial compared to the cash received on the Receivables on a monthly basis. Operating expenses are first in the order of priority of payments and the directors are comfortable that these will be covered by the cash collected on the performing loans within the portfolio. Potential interest shortfalls on the Notes can be mitigated by drawing from the liquidity Reserve Fund amounting to £7,000,000 (2020: £7,000,000), which can also be used to pay expenses classed as senior expenses by the Transaction Documentation.

**Notes forming part of the financial statements for the year ended 31 December 2021
(continued)**

1 Accounting policies (continued)

Going concern (continued)

The Company is also able to use principal receipts to mitigate interest shortfalls on the Notes and senior expenses.

Whilst noting the significant economic uncertainty facing the UK, after making enquiries regarding the quality of assets and liquidity facilities in place, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Should there ultimately be insufficient funds available, any unpaid amounts due on the Notes are discharged in full due to the limited recourse nature of the Company's borrowings.

For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

Segmental analysis

The principal asset of the Company are the Receivables which are originated in the United Kingdom ("UK") and funded by the Senior Loan Facility issued in the UK plus the credit support in the form of over collateralisation. All cash and cash equivalents are held in the UK.

Financial instruments

In accordance with Section 11 of Financial Reporting Standard 102, the provisions of IAS 39 have been adopted in full with respect to the recognition and measurement of financial instruments.

Deemed Loan

Where a transfer of a financial asset does not qualify for de-recognition, the transferee does not recognise the transferred asset on its Statement of financial position. The transferee derecognises the cash or other consideration paid and recognises a receivable from the transferor. In relation to the Receivables transferred to the Company, de-recognition is considered to be inappropriate for the Originator's (Hyundai Capital UK Limited's) own financial statements as the Originator has retained significant risks, in the form of credit enhancement (excess spread on the Deemed Loan and Reserve Fund) paid in, and rewards, in the form of deferred purchase price to be paid out, of that financial asset.

The Company's financial statements are therefore prepared on the basis that its acquisition of beneficial interests in the Receivables is recognised as a collateralised non-recourse Deemed Loan to the Originator.

Under the terms of the securitisation, the Company retains the right to £300 each month of available revenue receipts from the beneficial interest in the Receivables, to the extent sufficient cash is available for such retention. Available revenue receipts are defined by the programme documentation and include interest on the Receivables and interest received on the bank accounts. Profits in excess of this accrue to Hyundai Capital UK Limited, the portfolio Seller of the Receivables.

1 Accounting policies (continued)

Deemed Loan (continued)

Impairment losses on the Deemed Loan

The recoverability of the Deemed Loan is dependent on the collections from the underlying Receivables. Receivables are considered impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the agreement. The key assumptions for recoverability relate to estimates of the probability of any account going into default, cash flows from borrowers' accounts, their timing and expected proceeds from the sale of repossessed collateral. These key assumptions are based on observed data from historical patterns and are updated by the Servicer as new data becomes available.

In addition, the directors consider how appropriate past trends and patterns could impact the current economic climate and may make any adjustments they believe are necessary to reflect the current economic and market conditions.

The accuracy of impairment calculations would therefore be affected by unexpected changes to the economic situation, variances between the models used and the actual results, or assumptions which differ from the actual outcomes.

The credit risk on the Deemed loan is minimal as delinquencies and defaults on the underlying securitised assets will not result in an impairment loss as they are mitigated by the excess spread embedded within the structure of the transaction, i.e. the excess spread on the Deemed Loan and the Reserve Fund supplied by the Seller. This means that the interest on the Deemed Loan is lower than the interest on the underlying securitised assets therefore even if there are losses on the underlying securitised assets, they still provide sufficient cash flows to make payments on the Deemed Loan. If the cash flows from the Receivables are still expected to be sufficient to meet the Company's obligations.

Deferred purchase price

Deferred consideration represents further amounts payable on the acquisition of the Receivables from Hyundai Capital UK Limited. The payment of these amounts is conditional on the performance of the Receivables.

Under the terms of the securitisation the Company earns a monthly profit in an amount equal to £300 each interest payment date ("IPD") which is credited to the retained profit ledger (as described in the securitisation documentation), to the extent sufficient cash is available. This is reflected in the Statement of comprehensive income before effective interest rate adjustments.

Realised profits in excess of £300 per month accrue to the Originator as deferred consideration. Accordingly, such amounts owing or paid to the Originator are netted off the Deemed Loan in the Statement of financial position or the interest income on the Deemed Loan in the Statement of comprehensive income respectively.

Interest receivable and similar income and interest payable and similar charges

The Company accounts for interest income and expense on an accruals basis. Interest income on financial assets that are classified as Deemed Loan and interest expense on Senior Loan facility, classified as financial liabilities is determined using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liabilities and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount.

**Notes forming part of the financial statements for the year ended 31 December 2021
(continued)**

1 Accounting policies (continued)

Cash at bank and in hand (restricted)

Cash at bank and in hand comprise cash balances. These accounts are held in the Company's name and meet the definition of cash, but their use is restricted by a detailed priority of payments as set out in the Transaction Documentation. As the cash can only be used to meet certain specific liabilities and is not available to be used with discretion, it is viewed as restricted cash.

Cash flow statement

As detailed in note 14, Hyundai Capital UK Limited has effective control over the Company's operations. Therefore, as per the requirements of sections 1.11 of FRS 102, the Company meets the definition of a qualifying entity and has taken advantage of the exemption from preparing cash flow statement as specified in section 1.12. Hyundai Capital UK Limited, a company registered in England & Wales, prepares consolidated financial statements including a cash flow statement incorporating this Company. These financial statements are publicly available at Companies House.

Foreign currency translation

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"), which is British Pound sterling (GBP).

Taxation

For UK corporation tax purposes, the Company has been considered as a securitisation Company under the 'Taxation of Securitisation Companies Regulations 2006' (SI 2006/3296). Therefore, the Company is not required to pay corporation tax on its accounting profit or loss. Instead, the Company is required to pay tax on its retained profits as specified in the documentation governing the securitisation transaction into which the Company has entered.

Critical accounting estimates and judgments

The preparation of the financial statements requires management to make judgments, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

The judgments and estimates involved in the Company's accounting policies that are considered by the directors to be the most important to the portrayal of the Company's financial condition and that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Judgements

Deemed Loan

Decision to recognise a Deemed Loan in respect of the receivables is also considered as a significant judgement. Details have been described above in the accounting policies section "Deemed Loan".

Notes forming part of the financial statements for the year ended 31 December 2021
(continued)**2 Interest receivable and similar income**

	For the year ended 31 December 2021 £	For the year ended 31 December 2020 £
Deemed Loan interest	9,628,088	12,767,819
Bank interest	-	17,378
	9,628,088	12,785,197

3 Interest payable and similar expenses

	For the year ended 31 December 2021 £	For the year ended 31 December 2020 £
Interest expense on the Senior Loan Facility	4,053,081	6,475,638
	4,053,081	6,475,638

4 Operating expenses

	For the year ended 31 December 2021 £	For the year ended 31 December 2020 £
Servicing fees	5,390,159	6,142,860
Corporate services fees	46,266	29,659
Audit fees	17,100	17,100
Trustee fees	5,000	3,000
Other fees	112,882	113,340
	5,571,407	6,305,959

5 Profit before taxation

	For the year ended 31 December 2021 £	For the year ended 31 December 2020 £
This has been arrived at after charging:		
Auditors' remuneration – Fees payable (including VAT) to the Company's auditors and their associates for the audit of the Company's annual financial statements	17,100	17,100
	17,100	17,100

No non-audit services were provided by the statutory auditors during the year (2020: None).

**Notes forming part of the financial statements for the year ended 31 December 2021
(continued)**

6 Directors and employees

The Company has no employees and services required are contracted from third parties (2020: None). The Directors received no remuneration from the Company in respect of qualifying services rendered during the current year (2020: Nil). During the year, fees of £46,266 (2020: £29,659) were paid to Intertrust Management Limited in respect of corporate services provided to the Company; this included the provision of Directors to the Company and £7,534 (2020: 12,788) was prepaid at year end.

7 Tax on profit

a) Analysis of the Company charge in the year

	For the year ended 31 December 2021 £	For the year ended 31 December 2020 £
UK corporation tax charge on the profit for the year	684	684
	684	684

b) Factors affecting the Company current tax charge for the year

The tax assessed for the year and prior year is the same as the standard rate of corporation tax in the UK. A reconciliation of factors affecting the Company current tax charge is presented below:

	For the year ended 31 December 2021 £	For the year ended 31 December 2020 £
Profit before taxation	3,600	3,600
Current tax charge at 19% (2020: 19%)	684	684
Effects of:		
Accounting profits not considered for tax purposes in accordance with SI 2006/3296	(684)	(684)
Cash retained profit taxed in accordance with SI 2006/3296	684	684
Total tax charge	684	684

As announced in the March 2021 Budget, the UK's corporation tax will remain at 19% for the financial year beginning 1 April 2022. The charge to corporation tax and the main rate will increase to 25% for the financial year beginning 1 April 2023.

For UK corporation tax purposes, the Company has been considered as a securitisation company under the 'Taxation of Securitisation Companies Regulations 2006 (SI 2006/3296). Therefore, the Company is not required to pay corporation tax on its accounting profit or loss. Instead, the Company is required to pay tax on its retained profits as specified in the documentation governing the Transaction. In accordance with the prospectus the Company is expected to retain £300 on each IPD.

**Notes forming part of the financial statements for the year ended 31 December 2021
(continued)**

8 Deemed Loan

	As at 31 December 2021 £	As at 31 December 2020 £
Opening book value	700,000,000	700,000,000
Receivables acquired	-	-
	<u>700,000,000</u>	<u>700,000,000</u>
Deferred consideration	(42,034,068)	(45,270,568)
Closing balance	<u>657,965,932</u>	<u>654,729,432</u>

The Maturity profile of the Deemed Loan is as follows:

In one year or less	350,000,000	-
In more than one year	307,965,932	654,729,432
	<u>657,965,932</u>	<u>654,729,432</u>

As at the end of the year, the outstanding nominal amount of Receivables purchased was £898,665,614 (2020: £962,324,466). Purchases of Receivables have taken place throughout the year, owing to the revolving period still being in force until February 2023.

9 Debtors: amounts falling due within one year

	As at 31 December 2021 £	As at 31 December 2020 £
Other debtors	7,536	12,790
	<u>7,536</u>	<u>12,790</u>

10 Creditors

	As at 31 December 2021 £	As at 31 December 2020 £
Amounts falling due within one year:		
Senior Loan Facility	350,000,000	-
Corporation tax liability	684	684
Accrued interest payable on Senior Loan Facility	29,056	17,528
Accrued expenses	466,433	498,262
Other creditors	1,339,973	540,630
	<u>351,836,146</u>	<u>1,057,104</u>
Amounts falling due after more than one year:		
Senior Loan Facility	350,000,000	700,000,000
Issue costs	(508,905)	(607,603)
	<u>349,491,095</u>	<u>699,392,397</u>

The Senior Loan Facility is secured over the underlying Receivables and the security related thereto.

Notes forming part of the financial statements for the year ended 31 December 2021
(continued)

11 Called up share capital

	As at 31 December 2021 £	As at 31 December 2020 £
<i>Issued and fully paid</i>		
1 ordinary share of £1	1	1
	<u>1</u>	<u>1</u>

Shares were allotted and consideration has been received. The ordinary shares have attached to them full voting, dividend and capital distribution (including winding up) rights. The ordinary shares do not confer any rights on redemption.

12 Retained earnings

	As at 31 December 2021 £	As at 31 December 2020 £
Opening balance as at 1 st January	8,748	5,832
Profit for the financial year	2,916	2,916
At 31 December	<u>11,664</u>	<u>8,748</u>

13 Financial instruments

The nature of the financial instruments used during the year to mitigate credit risk, liquidity risk and interest rate risk is shown in the Strategic report under the heading 'Financial Instruments'.

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

The Company's exposure to risks on its financial instruments and the management of such risks are largely determined from the inception of the securitisation transaction. The Company's activities and the role of each party to the transaction are clearly defined and documented.

Following initial set-up, the Directors monitor the Company's performance, reviewing reports on the performance of the Receivables. Such review is designed to ensure that the terms of the documentation have been met, that no unforeseen risks have arisen and that the Senior Loan Facility has been paid on a timely basis.

The table below shows the classification of the financial instruments of the Company at the year end.

2021	Fair value through profit and loss £	Loans and receivables at amortised cost £	Financial liabilities at amortised cost £	Total carrying value £
Assets:				
Deemed Loan	-	657,965,932	-	657,965,932
Debtors: amounts falling due within one year	-	7,536	-	7,536
Cash at bank and in hand	-	43,365,438	-	43,365,438
	<u>-</u>	<u>701,338,906</u>	<u>-</u>	<u>701,338,906</u>
Liabilities:				
Senior loan facility	-	-	700,000,000	700,000,000
	<u>-</u>	<u>-</u>	<u>700,000,000</u>	<u>700,000,000</u>

Notes forming part of the financial statements for the year ended 31 December 2021
(continued)

13 Financial instruments (continued)

2020	Fair value through profit and loss	Loans and receivables at amortised cost	Financial liabilities at amortised cost	Total carrying value
	£	£	£	£
Assets:				
Deemed Loan	-	654,729,432	-	654,729,432
Debtors: amounts falling due within one year	-	12,790	-	12,790
Cash at bank and in hand	-	45,716,028	-	45,716,028
	<u>-</u>	<u>700,458,250</u>	<u>-</u>	<u>700,458,250</u>
Liabilities:				
Senior loan facility	-	-	700,000,000	700,000,000
	<u>-</u>	<u>-</u>	<u>700,000,000</u>	<u>700,000,000</u>

Credit risk

The ability of the Company to meet its obligations to make principal and interest payments on the Senior Loan Facility and to meet its operating and administrative expenses is dependent on the extent that it has such amounts available to it.

The maximum exposure to credit risk as stated above arising on the Company's financial assets at the reporting date is disclosed in the table below and is capped at the carrying value of the financial assets.

	Carrying value 2021	Maximum exposure 2021	Carrying value 2020	Maximum exposure 2020
	£	£	£	£
Assets:				
Deemed Loan	657,965,932	657,965,932	654,729,432	654,729,432
Debtors: amounts falling due within one year	7,536	7,536	12,790	12,790
Cash at bank and in hand	43,365,438	43,365,438	45,716,028	45,716,028
	<u>701,338,906</u>	<u>701,338,906</u>	<u>700,458,250</u>	<u>700,458,250</u>

The table below sets out the nominal value and performance of the underlying Receivables.

	2021	2020
	£	£
Current to 30 days	893,683,840	954,692,890
31 to 60 days past due	3,849,263	4,924,009
61 to 90 days past due	531,293	932,687
91 days + past due	601,218	1,774,880
	<u>898,665,614</u>	<u>962,324,466</u>

Notes forming part of the financial statements for the year ended 31 December 2021
(continued)

13 Financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at an unacceptably high cost. The Company's ability to meet payments on the Senior Loan Facility as it falls due is dependent on timely receipt of funds which may be delayed due to slow repayment on the Receivables underlying the Deemed Loan.

In the event that the Company has insufficient funds available to pay interest and / or principal on the Senior Loan Facility, the Company, under certain conditions and to the extent funds are available, is obliged to draw on the Reserve Fund to meet its obligations to the Senior Loan Facility provider.

The table below reflects the undiscounted contractual cash flows of financial liabilities at the balance sheet date of all financial instruments.

	Carrying Value	Gross cash flows	In less than 1 month	After 1 month but within 3 months	After 3 months but within one year	After 1 year but within 5 years
As at 31 December 2021	£	£	£	£	£	£
Senior Loan Facility	699,491,095	700,000,000	-	-	350,000,000	350,000,000
Interest payable on Senior Loan Facility	29,056	17,729,022	392,261	1,085,157	4,432,256	11,819,348
Total as at 31 December 2021	699,520,151	717,729,022	392,261	1,085,157	354,432,256	361,819,348

	Carrying Value	Gross cash flows	In less than 1 month	After 1 month but within 3 months	After 3 months but within one year	After 1 year but within 5 years
As at 31 December 2020	£	£	£	£	£	£
Senior Loan Facility	699,392,397	700,000,000	-	-	-	700,000,000
Interest payable on Senior Loan Facility	17,528	18,167,286	236,633	581,976	2,739,265	14,609,412
Total as at 31 December 2020	699,409,925	718,167,286	236,633	581,976	2,739,265	714,609,412

Market risk

Market risk is defined as the potential loss in value or earnings of the Company arising from changes in external market factors.

The Company is exposed to market risk in the form of interest rate risk.

Interest rate risk

Interest rate risk exists where interest rates on assets and liabilities are set on different bases or reset at different times. The Company minimises its exposure to interest rate risk by ensuring that the level of over collateralisation inherent within the Deemed Loan relative to the Senior Loan Facility is sufficient to cover any mismatch in the interest rate characteristics of its assets and liabilities. Interest on the Senior Loan Facility is determined and payable monthly in arrears. The following rates were applicable:

**Notes forming part of the financial statements for the year ended 31 December 2021
(continued)**

13 Financial instruments (continued)

Interest rate risk (continued)

Senior loan facility

	31 December 2021 £	Interest rate 2021	31 December 2020 £	Interest rate 2020
Senior Loan Facility				
Tranche A	350,000,000	Cost of Funds + 0.4875%	700,000,000	Cost of Funds + 0.43%
Tranche B	350,000,000	Cost of Funds + 0.5%	-	N/A
Issue costs	(508,905)		(607,603)	N/A
	699,491,095		699,392,397	

Fair value of financial assets and liabilities

Financial Reporting Standard 102 in relation to the nature of the financial instruments that are measured in the balance sheet at fair value requires them to be put into a fair value measurement hierarchy based on fair value measurement as detailed below:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and

Level 3 Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

There are no financial instruments included in the Company's Statement of financial position that are measured at fair value.

14 Controlling party

The entire share capital of the Company is held on a discretionary trust basis for the benefit of certain charities by the legal parent company, Intertrust Corporate Services Limited, a company incorporated in the United Kingdom and registered in England and Wales.

Copies of the financial statements of Intertrust Corporate Services Limited, a company incorporated in Great Britain and registered in England and Wales, may be obtained from 1 Bartholomew Lane, London EC2N 2AX

The smallest group in which the Company is consolidated is Hyundai Capital UK Limited – a joint venture with 50.01% of the shares being held by Santander consumer (UK) plc.

The Company's ultimate controlling party and largest group of which the Company is a member is Banco Santander SA, a company incorporated in Spain. Copies of the group financial statements are available from their website.

**Notes forming part of the financial statements for the year ended 31 December 2021
(continued)**

15 Related party transactions

During the year fees of £46,266 (2020: £29,659) were paid to Intertrust Management Limited in respect of corporate services fees provided to the Company. Of this £7,534 (2020: £12,788) was prepaid.

Intertrust Corporate Services Limited is a wholly owned subsidiary of Intertrust Management Limited.

The table below details related party transactions the Company has with Hyundai Capital UK Limited:

	As at 31 December 2021 £	As at 31 December 2020 £
Assets:		
Deemed Loan (nominal value)	898,665,614	962,324,466
Liabilities:		
Accrued expenses - servicing fees	449,333	481,162
Other creditors	1,339,973	540,630
Statement of comprehensive income:		
Deemed Loan interest	9,628,088	12,767,819
Servicing fees	5,390,159	6,142,860

16 Contingent liabilities and commitments

There were no contingent liabilities or commitments as of 31 December 2021 (2020: none). Contingent liabilities are assessed continually to determine whether transfers of economic benefits have become probable.

17 Post balance sheet date events

The purchase commitment of the Variable Funding Note (VFN) facility for HCUK Auto Funding 2017-2 Ltd will remain at £700,000,000 until the payment date falling in August 2022 when it will decrease to the greater of (i) the outstanding VFN Principal Amount Outstanding as of the most recent Payment date and (ii) £350,000,000. When the revolving period ends, the facility will be zero.

On 24 February 2022, Russia and Ukraine have become involved in military conflict. As the Company's activities are undertaken in the United Kingdom, it is not directly impacted by this conflict, but the situation will continue to be monitored and acted upon accordingly, which will include compliance with any UK relevant legislation or sanctions.

The effect of this military conflict represents a non-adjusting post balance sheet event in the UK and therefore it remains appropriate that the measurement of assets and liabilities as at 31 December 2021 reflects only the conditions that existed at that date. The directors have concluded that the conflict does not provide any additional information about uncertainties and events that existed at 31 December 2021.