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Hitachi Capital (UK) PLC

Annual report and financial statements
Year ended 31 March 2013

Hitachi Capital (UK) PLC
Registered Office: Hitachi Capital House, Thorpe Road, Staines-upon-Thames, Surrey TW18 3HP.
Registered in Cardiff No: 1630491.

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Company overview

Hitachi Capital (UK) PLC is a wholly owned subsidiary of Hitachi Capital Corporation, one of Japan's largest non bank financial institutions. The ultimate parent company, Hitachi Limited, is a global supplier of technology and information systems.

Hitachi Capital (UK) PLC was established in 1982 and has since expanded to include five key finance divisions serving consumers and SME's through to corporate multi nationals. We provide finance and related products and services in a variety of sectors, whilst focusing on markets where we can offer innovative finance products and a very real commitment to customer care. We develop and deliver our products and services through the following specialist business units: Hitachi Capital Consumer Finance, Hitachi Capital Vehicle Solutions, Hitachi Capital Business Finance and Hitachi Capital Invoice Finance.

We finance the purchase of vehicles, specialist business equipment and consumer goods. Our customers invest in our knowledge, our commitment to world class service and our unique and market leading financial pedigree. We ensure that our customers also experience the qualities that characterise our company and its people: integrity, enthusiasm, and a strong desire to build a mutually successful, long term relationship with each and every customer.

Principal activities and strategy

Group strategy
Our long term vision is to be a leading non bank asset finance, factoring, contract hire and consumer finance group in the UK. We aspire to be the principal funding partner for Hitachi Limited supporting activities in Europe. Our key transformation over the next three years is to raise the brand profile of Hitachi Capital (UK) PLC by investing in people and developing our communications and systems to lower the cost of acquisition of new business and foster lasting relationships with our customers.

Operational organisation
The group's operations have been organised into five business units, servicing three separate markets: consumer finance, vehicle management and business finance.

Business units

(a) Consumer Finance
The UK's retail finance leader, providing over £1 billion of consumer lending each year to just under 1 million UK customers. The business has over 30 years experience and works with some of the biggest names on the high street. It has supported retail in the UK by increasing lending year on year for the last five years.

(b) Vehicle Solutions
Hitachi Capital Vehicle Solutions has more than 25 years experience of providing bespoke vehicle funding and fleet management services for business car leasing, specialist commercial vehicle leasing and specialist commercial vehicles. Offering a variety of financing options including contract hire, contract purchase, finance and operating leasing, Hitachi Capital Vehicle Solutions also provides advice regarding health and safety and fleet environmental impact.

(c) Business Finance
A leading provider of business asset finance in the transport, agriculture, construction, manufacturing, alternative energy and materials handling sectors, with additional expertise in block discounting and syndication services. Working through finance brokers and with vendor organisations, our products include hire purchase, operating lease and finance lease solutions.

(d) Invoice Finance
Hitachi Capital Invoice Finance provides cash flow solutions to over 400 clients across a wide range of sectors in the UK and places great emphasis on the proactive support it offers to UK SME's.

(e) Insurance Europe
Domiciled in Ireland, Hitachi Capital Insurance Europe Limited (HCIE) acted as a direct insurer, mainly for payment protection (PPI), mortgage PPI (MPPI) and guaranteed asset protection (GAP) insurance. Our products were sold to consumers in the mortgage, retail, motor and finance markets. HCIE was placed in run off in April 2009.

Group business review

Hitachi Capital (UK) PLC has recorded a strong performance in the year, with growth in assets of 22.0% to £2.15bn (2012: £1.76bn) and a 14.1% increase in profit before tax to £57.1m (2012: £50.0m) as demand for finance from UK consumers and businesses has driven our expansion. The UK economy has remained flat but the low interest rate trading environment and our access to global sources of capital has meant that we have been able to expand our business profitability, supporting strategic customers and partners.

Our Consumer Finance operation has continued to enjoy healthy demand from retailers for point of sale finance as we have helped retailers sell more goods by providing a variety of financing arrangements to their customers. The operation provided over £1.1bn of new funds in the year, which was a 25.4% increase over last year. In the medium term we intend to expand our direct offering to consumers for personal finance and car loans.

Performance of Vehicle Solutions remained consistent with the prior year as we experienced healthy demand for new vehicles with new business at £213m (2012: £213m).

The Business Finance operation grew new business volumes by 37.5% over the previous financial year to £218m as we utilised brokers for new introductions.

Invoice Finance increased new business by 39.9% with the launch of our new Inspire cash flow product, designed to simplify factoring and make the product more acceptable to businesses that have not utilised factoring to grow their operation.

Our insurance business, which was placed in run off in April 2009, returned a profit of £0.8m (2012: £0.2m) as our claims experience was well below the actuarial forecasts which resulted in a release of reserves as the run off of the book draws to a close.

Over the medium term, Hitachi Capital has a desire to deepen its relationship with Hitachi Limited in Europe. We aspire to be the principal partner of Hitachi Limited, structuring and leading financial solutions for their operations in Europe. As a business we believe the strengthening of this relationship will be beneficial for the Hitachi group.

The results for the group are set out in the financial statements on pages 12 to 15, and the analysis of operating segments and revenue is detailed in notes 4 and 5 respectively.

Profit before additional finance items and tax was £57.1m (2012: £50.1m). This significant increase over the prior year has been largely driven by growth in revenue of 9.7% and reduced bad debts.

The group charge for bad debt impairment was £9.1m, which was a significant improvement on last year's charge of £11.9m, due mainly to the improved quality of the group's portfolio and management of exposure to credit risk in the consumer portfolio.

Administration expenses for the year increased by 22% to £65.7m (2012: £54.0m), due to significant expenditure in information technology capability as the business has continued to grow.

The effective tax rate was 22% (2012: 23%). It is expected that the effective rate of tax will be stable for the coming year.

The post tax return on equity was 29.5% (2012: 30.7%) driven by continued business growth and management of credit risk. The group operates a dividend policy to distribute up to 30% of profit after tax. An interim dividend of 14.6p per share was paid during the year (2012: 8p) and the directors have recommended that a further dividend of 16.6p per share be proposed and paid for the year ended 31 March 2013 (2012: 19p).

A recently completed interim valuation of our final salary pension scheme and consultation with the trustees has concluded that the current plan is in surplus. The surplus calculated on the IAS19 basis at 31 March 2013 was £0.7m (2012: £1.5m).

The group has a central treasury function, which manages the group's borrowings in accordance with agreed policies and procedures. Debt is raised taking into account each business unit's requirements and portfolio maturity profile. We raise multi currency fixed and floating debt in the major global markets. Derivatives are utilised to mitigate currency and interest rate risks. Analysis of borrowings is detailed in note 14 and derivative financial instruments are summarised in note 13. The gearing, after reflecting the effect of currency risk hedging, is 11.2 (2012: 11.1) and is well within the limit of 25 times equity set out in the company's Articles of Association.

Group business review (cont'd)

Principal risks and uncertainties are set out in notes 2 and 29. Management of employees is detailed in the directors' report.

Our strategy of offering value added financial products and superior customer service in our chosen markets will produce positive results in the forthcoming years and we remain confident we can continue to build on the Hitachi brand. Hitachi Capital (UK) PLC will continue to co-operate with other Hitachi Capital Corporation and Hitachi Limited companies worldwide in developing business opportunities.

On behalf of the board, I thank all our employees for their commitment and contribution and our bankers, funders and customers for their continuing loyalty and support.

C.Shirai
Chief Executive Officer
14 June 2013

Corporate governance statement

The board is committed to high standards of corporate governance. During the year the board reviewed the company's corporate governance structure as part of an overall review of the group's organisational design. As a result of the review, a number of enhancements were made to the company's corporate governance structure, including the following:

- An independent non executive director, N.Carter, was appointed to chair the board and to add his experience and objectivity to its deliberations.
- The formation of an investment management committee, a credit risk committee and a European business development committee.
- Terms of reference for the company's existing committees, including the group planning and strategy committee, the remuneration committee and the treasury committee were drafted, reviewed and/or revised as appropriate.
- R.Dibble, a non executive director of HCIE, was appointed as a member of the audit and risk committee and the remuneration committee in order to provide both committees with a majority of members independent of the company's executive management.

Board of directors
The board comprises two non executive directors and five executive directors and holds formal meetings on a quarterly basis. There is a formal schedule of matters specifically reserved for decision by the board, underpinned by policies which describe those matters in more detail. The types of matters reserved for the board include approval of business strategy, operating budgets and financial statements and monitoring performance against them, approving group policies, reviewing the company's overall corporate governance arrangements and authorising transactions which fall outside the ordinary course of the company's business or are of major significance to the group.

The day to day responsibility for managing the group's business is delegated to the executive directors and the senior managers of the respective divisions and subsidiaries of the company, who implement the decisions made, and policies approved, by the board and deal with matters within the ordinary course of business.

Board committees
The board delegates certain defined responsibilities to committees, each of which have written terms of reference which are reviewed regularly. The composition and work of these committees is described below.

The board may also delegate matters to the group planning and strategy committee, which comprises the executive directors, the managing directors of the group's respective divisions and subsidiaries and selected heads of function. The committee originally met quarterly but met monthly during the year ended 31 March 2013 and will meet bi-monthly in future. The committee provides a forum for the review and evaluation against the vision of the group of the detailed strategies formulated in the business units and functions. The committee may make recommendations to the board on matters referred for consideration by the board.

Audit and risk committee
The audit and risk committee carries out the functions required by rule 7.1.3 of the Disclosure and Transparency Rules and comprises N.Carter (chair), who is a chartered accountant, R.Dibble and C.Shirai. In the opinion of the board, N.Carter is independent and has competence in accounting and auditing as required by rule 7.1.1 of the Disclosure and Transparency Rules.

The committee met three times in the year under review, coinciding with key dates in the financial reporting and audit cycle. The external auditors and the Chief Operating Officer attended meetings by invitation in order to ensure that all the information required by the committee was available for it to operate effectively. Other directors also attended the meetings at the invitation of the committee. The committee met separately with the external auditors whenever it considered this appropriate.

The committee's responsibilities are set out in its terms of reference, which are regularly reviewed. They include monitoring the financial reporting process and the statutory audit of the annual consolidated accounts, reviewing the findings of the external auditors and reviewing the effectiveness of the group's internal control risk management systems. The committee keeps under review the independence and objectivity of, the group's external auditor, value for money of the audit and the nature, extent and cost effectiveness of the non audit services provided by the auditor.

The committee satisfies itself that any safeguards required by ethical guidance regarding the provision of non audit services are implemented. The committee also receives regular updates on the implementation of, and compliance with, certain aspects of Japan's Financial Instruments and Exchange Law (J-SOX) in order, for example, to assure itself that the group continues to satisfy its ultimate parent company, Hitachi Limited, that it remains compliant with the legislation.

Corporate governance statement (cont'd)

Disclosure committee
Although no longer subject to the UK Listing Authority's listing rules, the company has retained its disclosure committee. The role of this committee is to identify and assess matters which could have a material effect on the company's financial performance and to ensure that such matters are communicated to the board, the company's parent (Hitachi Capital Corporation) and the trustees of the group's pension scheme. The committee comprises each of the executive directors of the company and meets at least twice a year.

Remuneration committee
The role of this committee includes agreeing the policy for remuneration of the executive management and approving their individual remuneration packages, ensuring that appropriate incentives exist at all levels and overseeing any major changes in employee benefit structures across the group. The committee also reviews and approves the design of long term incentive plans, bonus and commission schemes operated by the company. The members of the committee are N.Carter (chair), R.Dibble and C.Shirai. The committee has a quorum of two and normally meets twice a year.

Treasury committee
The purposes of this committee include determining the group's funding plans within parameters set by the board, reviewing and approving transactions proposed or conducted by the Group Treasurer, implementing the group hedging strategy and ensuring borrowing covenants and limits are not breached.

Chaired by the Chief Operating Officer, the committee also includes the Chief Executive Officer, Director of Finance and Group Treasurer. The committee meets monthly and has a quorum of two, which must include the Chief Operating Officer and Group Treasurer.

Investment management committee
The role of this committee is to determine an annual budget based upon the group strategic plan and make recommendations to the board for approval, for both capital and operating expenditure within the budgets agreed by the board, to decide the priorities for investment and resources in line with the group strategic plan, and to set the governance process for change management for the business units and the group as a whole.

The committee is chaired by the Chief Operating Officer and its members include the Chief Executive Officer and other directors as well as the heads of relevant business units and functions. The committee meets every month (and otherwise as required) and has a quorum of three, including at least two board members.

Credit risk committee
This committee was formed to provide a key element of an effective second line of defence to the risk management functions within the group's business units. Its functions include setting the group's risk appetite, optimising the quality of the group's earnings and customer base, and managing exceptional risks and major exposures by sanctioning applicable credit proposals.

The full members of the committee are the Chief Operating Officer (chair), Chief Executive Officer, Director of Credit Risk, Director of Finance and the risk managers from the four business units in the group. Meetings of the committee are held at least every quarter and a minimum of three full members (including the chair) must be present for a meeting to be quorate.

European business development committee
During the year, it became part of the group's stated strategy to expand into European markets, particularly in order to support other companies within the Hitachi group. The European business development committee was formed to evaluate potential opportunities in such markets and, after careful review and analysis, to make appropriate recommendations to the board. The committee is also responsible for ensuring that, where such recommendations are approved by the board, they are implemented in an efficient, consistent and methodical manner.

The committee comprises the European Business Development Director (chair), Chief Executive Officer, Chief Operating Officer and Group Business Development Director. The committee meets on a monthly basis and requires a quorum of three members.

Corporate governance statement (cont'd)

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

The board confirms that there is an appropriate ongoing process for identifying, evaluating and managing the significant risks faced by the group which has been in place throughout the year ended 31 March 2013 and up to the date of approval by the board of the annual report and financial statements.

The key elements of the internal control system include the following:

- There is a clearly defined board and board committee structure in place, with terms of reference setting out membership, roles and responsibilities.
- Organisational structures are in place which allow clear delegation of authorities and responsibilities throughout the group.
- Detailed annual budgets aligned with the corporate strategy are reviewed and approved by the board. Regular progress reports and results are reviewed by the board and actions taken as appropriate.
- Systems and procedures are in place to identify, control and report on the major risks facing the group. The audit and risk committee is responsible for co-ordinating this process and for making recommendations to the board.
- The Chief Operating Officer maintains an overview of the areas of greatest risk to the business, along with the internal control processes designed to address those risks, and monitors compliance with policies and the effectiveness of the control structures across the group. The Group SOX Manager reports to the Chief Operating Officer and also has direct access to the chairman of the audit and risk committee. In addition there are regular internal audit reviews of key business units in the group by the internal audit teams of Hitachi Capital Corporation and Hitachi Limited.

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

Throughout the year ended 31 March 2013, the group complied with the J-SOX legislation, using the COSO framework, as a consequence of Hitachi Limited being listed on the Tokyo Stock Exchange. The key elements of the process included the following:

- Detailed scoping and planning from a quantitative and qualitative perspective, identification of the key processes and mapping of significant accounts with associated financial statement assertions.
- Documenting and walk through of entity level, IT general controls and business process controls to ensure design effectiveness.
- Extensively testing all key controls to ensure operational effectiveness.
- A remediation management programme to resolve exceptions as they arose.
- Final management assessment of all controls.
- Audit of the process through monitoring by internal auditors from Hitachi Capital Corporation.
- Key elements of process reviewed and tested by the external auditor.

Consolidated accounts are prepared using Oracle Financials and key balances are reconciled on a regular basis to relevant information to ensure their integrity.

Directors' report

The board of directors present their annual report and audited financial statements for the year ended 31 March 2013.

Principal activities and business review
The principal activities of the group during the year were the provision of finance in the form of contract hire, block discounting, invoice factoring, leasing, hire purchase, personal loans, and related products and services. The information that fulfils the requirements of the business review and the likely future developments in the business of the group are included in the principal activities and strategy section on page 2 and the group business review on page 3, which are incorporated in this report by reference.

Results and dividends
The results of the group for the year ended 31 March 2013 are set out in the consolidated income statement on page 12. An interim dividend of £6,217,000, 14.6p per share, was paid during the year (2012: £3,414,000, 8p). The directors recommend a final dividend of 16.6p per share (2012: 19p), giving a total dividend for the year of 31.2p per share (2012: 27p). The total distribution of dividends for the year to 31 March 2013 will be £13,321,000 (2012: £11,514,000). Further details regarding the dividend are set out in note 20 to the financial statements.

Donations
During the year the group gave £27,000 (2012: £36,000) for charitable purposes by way of matched (£1 for £1) funding to supplement amounts donated by employees through the group's Give As You Earn scheme and through fundraising events. No political donations were made during the year.

Policy on payment of creditors
It is not the group's policy to follow any code or standard on the payment of suppliers. The group's policy is to settle the terms of payment with suppliers, and ensure that suppliers are made aware of them, when agreeing the terms of each transaction and to abide by the terms of payment subject to satisfactory performance by the supplier. At 31 March 2013, the group had an average of 31 days purchases outstanding (2012: 29).

Employees
The board is conscious that the group's ability to succeed is driven by the need to attract, develop and retain the right employees. Our employee relations policy is designed to encourage an atmosphere of trust and harmony across the organisation and the group is committed to the personal development of its employees.

The group is committed to regular and timely communication to staff of information on matters of concern to them as employees, including both briefings and written communications. The group has an intranet site which acts as the main reference point in the provision of a wide variety of information to employees. Staff briefings are held at the various sites to disseminate key information and regular team and one to one meetings are encouraged. During the year the group has maintained the arrangements aimed at ensuring that employees' views can be taken into account in making decisions which are likely to affect their interests. Employee representatives are elected as and when necessary to meet the group's consultation requirements. The group runs an annual employee survey which allows staff to provide feedback on a variety of issues within the business including pay and remuneration, communication and performance management mechanisms. Over the past year the performance management system was revised and a major exercise was undertaken to create a new grading structure for all job roles, identify appropriate pay ranges and benchmark salaries, and launch a flexible benefits programme.

The group operates an annual bonus scheme for all staff levels where over 50% of bonus potential is based on the group and individual business unit financial performance thereby encouraging the involvement of all employees in the company's performance. Regular updates on performance ensure that all employees are aware of the financial and economic factors affecting the company's performance.

The group operates an equal opportunities policy and opposes all forms of unlawful discrimination on the grounds of sex, marital status, sexual orientation, disability, race, creed, colour, nationality, religion, age, or any other personal characteristics. The group's selection criteria and procedures will ensure that individuals are treated on the basis of their abilities so that all employees are given equal opportunity to progress within the group. The group's policy and practice is to encourage the recruitment, training, career development and promotion of disabled persons having regard to their particular aptitudes and abilities and to retain and re-train employees who become disabled whilst in the employment of the group.

Directors' report (cont'd)

Environment
The group has an environment policy and acknowledges that environmental considerations form an integral part of its corporate social responsibility. The group wide environment committee meets to discuss ways in which the business units can both contribute more to their local environment by getting involved in local initiatives and also to look at ways of promoting environmental well being amongst the staff on each site. The key focus of the committee has been on recycling, conservation projects, awareness campaigns and reducing CO_2 emissions particularly within the group's own, and its customers', vehicle fleets. Employees are actively encouraged to ensure conservation of energy and resources through awareness campaigns and positive action groups.

Directors
The directors who served during the year and to the date of this report were:

N.Carter (appointed 1 January 2013)
R.Gordon
G.Grimes
K.Kuchimura (appointed 1 November 2012)
Y.Ohashi (resigned 31 October 2012)
S.Oliphant
C.Shirai
H.Tozawa

In accordance with the company's Articles of Association, each of the directors will retire by rotation at the 2013 AGM and, being eligible to be re-appointed, will offer themselves for re-appointment at that meeting.

Statement of directors' responsibilities
The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS's), as adopted by the European Union, and ensure that such financial statements comply with the Companies Act 2006. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and accounting estimates that are reasonable and prudent.
- State whether applicable IFRS' have been followed, subject to any material departures disclosed and explained in the financial statements.
- 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 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. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the persons who is a director at the date of approval of this report confirms that:

- So far as the director is aware, there is no relevant audit information of which the group's auditors are unaware.
- The director has taken all the steps that he ought to have taken as a director in order to make himself 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 section 418 of the Companies Act 2006.

Qualifying indemnity provisions
By virtue of Article 85 of the Articles of Association of the company, qualifying indemnity provision (within the meaning given by sections 234 and 235 of the Companies Act 2006) is in force at the date of this report in respect of each director of the company (and each director of its subsidiaries) and was in force throughout the year ended 31 March 2013 in respect of each person who was a director of the company (or one of its subsidiaries) at any time during that year.

Directors' report (cont'd)

Going concern
The group's business activities, together with the factors likely to affect its future development, performance and position are set out above. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the business review above. In addition, the notes to the financial statements include the group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

As part of the directors' ongoing assessment of going concern, they have considered the budget forecasts for the group as well as cash flow projections for at least 18 months from the date of approval of the financial statements. The group has strong long term prospects and has access to considerable financial resources. We expect that we will continue to grow our assets and increase profitability in our chosen financial markets in the coming year. As a consequence, the directors believe that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The directors are satisfied that appropriate facilities are currently, and will continue to be, available for the foreseeable future. A central treasury function provides finance for the group's operations and manages treasury risks in accordance with policies approved by the board and the treasury committee. The group has access to, and capacity in, existing funding programmes. These programmes include:

- Existing Euro medium term note and commercial paper programmes in place for which Hitachi Capital Corporation acts as guarantor.
- The securitisation facility with RBS and Mizuho which management renegotiates at each annual maturity consistent with prior years.
- Group loans facilities available from the wider Hitachi Limited group.

It is the directors' intention to continue to utilise existing facilities and seek additional funding as required to meet the funding needs of the business. Liquidity risk and funding management issues are covered in more detail within note 29 of the financial statements for the year ended 31 March 2013.

The directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Principal risks and uncertainties
The principal risks and uncertainties that the group faces are detailed in the corporate governance statement on pages 5 to 7 and in notes 2 and 29 to the financial statements.

Auditors
In accordance with section 489 of the Companies Act 2006, a resolution for the re-appointment of Ernst & Young LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Corporate governance statement
The corporate governance statement is on pages 5 to 7 of this annual report.

By order of the board.

J.N.M.Sims
Company Secretary
14 June 2013

Independent auditor's report to the members of Hitachi Capital (UK) PLC

We have audited the financial statements of Hitachi Capital (UK) PLC for the year ended 31 March 2013 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the statement of financial position - consolidated and company, the statement of changes in equity - consolidated and company, the statement of cash flows - consolidated and company and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS's) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the directors' responsibilities statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion:

- The financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2013 and of the group's profit for the year then ended;
- The group financial statements have been properly prepared in accordance with IFRS's as adopted by the European Union;
- The parent company financial statements have been properly prepared in accordance with IFRS's as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion, the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company financial statements are not in agreement with the accounting records and returns; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Ernst & Young LLP

Robert McCracken (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
14 June 2013

Consolidated income statement
For the year ended 31 March 2013

	Note	2013 £'000	2012 £'000
Revenue	5	**323,947**	295,192
Finance costs		**(30,025)**	(23,898)
Depreciation and impairment of operating leased assets	10	**(107,923)**	(95,334)
Maintenance expense on operating leased vehicles		**(25,756)**	(27,721)
Other cost of sales	6	**(28,333)**	(32,279)
Cost of sales		**(192,037)**	(179,232)
Gross profit		**131,910**	115,960
Bad debts impairment charge	12	**(9,124)**	(11,888)
Administrative expenses	7	**(65,680)**	(53,976)
		(74,804)	(65,864)
Profit before additional finance items		**57,106**	50,096
Fair value loss on derivative financial instruments	13	**(33)**	(21)
Securitisation fees		**-**	(49)
Profit before tax		**57,073**	50,026
Income tax expense	8	**(12,670)**	(11,710)
Profit after tax		**44,403**	38,316

Consolidated statement of comprehensive income
For the year ended 31 March 2013

	Note	2013 £'000	2012 £'000
Profit after tax		**44,403**	38,316
Other comprehensive income			
Items not reclassified to profit or loss			
Actuarial loss on defined benefit pension scheme	22	**(1,803)**	(2,959)
Income tax effect	8	**415**	710
Items that may be reclassified subsequently to profit or loss			
Loss on cash flow hedges taken to cash flow hedge reserve		**(3,480)**	(6,918)
Income tax effect	8	**731**	1,662
Other comprehensive income for the year, net of tax		**(4,137)**	(7,505)
Total comprehensive income for the year, net of tax		**40,266**	30,811

Statement of financial position – consolidated and company

As at 31 March 2013

	Note	**Group 2013 £'000**	Group 2012 £'000	**Company 2013 £'000**	Company 2012 £'000
Assets:					
Non current assets:					
Intangible assets	11	**17,190**	16,767	**7,919**	7,325
Investment in subsidiaries	3	**-**	-	**10,753**	10,903
Property, plant and equipment	10	**454,207**	380,205	**48,229**	19,779
Loans and receivables	12	**946,510**	553,203	**1,263,144**	839,266
Derivative financial instruments	13	**19,010**	7,474	**19,010**	7,474
Deferred tax asset	9	**-**	-	**3,132**	3,774
Retirement benefit asset	22	**670**	1,517	**670**	1,517
		1,437,587	959,166	**1,352,857**	890,038
Current assets:					
Loans and receivables	12	**640,788**	714,708	**640,004**	714,435
Derivative financial instruments	13	**8,485**	41,474	**8,485**	41,474
Inventories	16	**7,479**	7,625	**216**	978
Trade receivables and other assets	17	**36,248**	24,738	**9,224**	6,361
Corporation tax debtor		**5,649**	-	**-**	-
Cash and cash equivalents	18	**16,841**	16,943	**-**	-
		715,490	805,488	**657,929**	763,248
Total assets		**2,153,077**	1,764,654	**2,010,786**	1,653,286
Equity and liabilities:					
Equity and reserves attributable to equity holders:					
Share capital	19	**10,669**	10,669	**10,669**	10,669
Share premium account		**15,559**	15,559	**15,559**	15,559
Retained earnings		**132,448**	103,750	**74,463**	54,457
Cash flow hedge reserve		**(7,953)**	(5,204)	**(7,953)**	(5,204)
Total equity		**150,723**	124,774	**92,738**	75,481
Non current liabilities:					
Interest bearing borrowings	14	**930,835**	623,334	**930,835**	623,334
Derivative financial instruments	13	**35,285**	14,584	**35,285**	14,584
Other liabilities	23	**39,158**	22,973	**28,156**	13,825
Provisions	21	**8,580**	6,093	**8,386**	5,766
Deferred tax liability	9	**18,387**	7,948	**-**	-
		1,032,245	674,932	**1,002,662**	657,509
Current liabilities:					
Bank overdrafts	18	**11,644**	522	**11,644**	522
Interest bearing borrowings	14	**820,616**	858,423	**820,616**	858,423
Derivative financial instruments	13	**14,650**	1,545	**14,650**	1,545
Current tax liability		**-**	13	**2,789**	1,482
Provisions	21	**7,112**	11,878	**5,771**	9,042
Trade and other payables	23	**116,087**	92,567	**59,916**	49,282
		970,109	964,948	**915,386**	920,296
Total liabilities		**2,002,354**	1,639,880	**1,918,048**	1,577,805
Total equity and liabilities		**2,153,077**	1,764,654	**2,010,786**	1,653,286

The financial statements were approved by the board, authorised for issue on 14 June 2013 and signed on its behalf by:

C.Shirai
Chief Executive Officer

R.Gordon
Chief Operating Officer

Statement of changes in equity – consolidated and company

For the year ended 31 March 2013

	Note	Share capital £'000	Share premium account £'000	Retained earnings £'000	Cash flow hedge reserve £'000	Total £'000
Group:						
At 31 March 2011		**10,669**	**15,559**	**73,162**	**52**	**99,442**
Profit for the period		-	-	38,316	-	38,316
Other comprehensive income		-	-	(2,249)	(5,256)	(7,505)
Total comprehensive income		-	-	36,067	(5,256)	30,811
Dividends	20	-	-	(5,479)	-	(5,479)
At 31 March 2012		**10,669**	**15,559**	**103,750**	**(5,204)**	**124,774**
Profit for the period		-	-	44,403	-	44,403
Other comprehensive income		-	-	(1,388)	(2,749)	(4,137)
Total comprehensive income		-	-	43,015	(2,749)	40,266
Dividends	20	-	-	(14,317)	-	(14,317)
At 31 March 2013		**10,669**	**15,559**	**132,448**	**(7,953)**	**150,723**
Company:						
At 31 March 2011		**10,669**	**15,559**	**33,296**	**52**	**59,576**
Profit for the period		-	-	28,889	-	28,889
Other comprehensive income		-	-	(2,249)	(5,256)	(7,505)
Total comprehensive income		-	-	26,640	(5,256)	21,384
Dividends	20	-	-	(5,479)	-	(5,479)
At 31 March 2012		**10,669**	**15,559**	**54,457**	**(5,204)**	**75,481**
Profit for the period		-	-	35,711	-	35,711
Other comprehensive income		-	-	(1,388)	(2,749)	(4,137)
Total comprehensive income		-	-	34,323	(2,749)	31,574
Dividends	20	-	-	(14,317)	-	(14,317)
At 31 March 2013		**10,669**	**15,559**	**74,463**	**(7,953)**	**92,738**

Statement of cash flows – consolidated and company

For the year ended 31 March 2013

	Note	**Group 2013 £'000**	Group 2012 £'000	**Company 2013 £'000**	Company 2012 £'000
Operating activities:					
Profit before tax		**57,073**	50,026	**45,552**	38,223
Non cash adjustment to reconcile profit before tax to net cash flows:					
Movements in property, plant and equipment	10	**106,236**	94,518	**8,592**	4,153
Movements in intangible assets	11	**1,551**	1,609	**1,234**	1,237
Fair value (gain)/loss on derivative financial instruments	13	**33**	(417)	**33**	(417)
Defined benefit pension scheme charge to income statement	22	**235**	65	**235**	65
Write down of investment in subsidiary		**-**	-	**150**	-
Working capital adjustments:					
Increase in receivables		**(330,898)**	(133,065)	**(352,310)**	(176,696)
Increase in payables & provisions		**37,426**	12,937	**24,314**	23,195
Decrease/(increase) in inventories		**146**	4,227	**762**	(691)
Cash contributions to defined benefit pension scheme	22	**(1,191)**	(1,921)	**(1,191)**	(1,921)
Income tax paid		**(6,746)**	(9,175)	**(6,746)**	(8,237)
Net cash flows from/(used in) operating activities		**(136,135)**	18,804	**(279,375)**	(121,089)
Investing activities:					
Purchase of property, plant and equipment:					
Operating leased assets	10	**(228,749)**	(209,055)	**(33,613)**	(10,664)
Other property, plant and equipment	10	**(4,949)**	(3,326)	**(4,031)**	(618)
Capitalised software purchase & development costs	11	**(1,974)**	(1,784)	**(1,828)**	(1,674)
Proceeds from sale of property, plant and equipment:					
Operating leased assets		**53,287**	66,501	**602**	951
Other property, plant and equipment		**173**	1,000	**-**	776
Net cash flows used in investing activities		**(182,212)**	(146,664)	**(38,870)**	(11,229)
Financing activities					
Dividends paid to shareholders	20	**(14,317)**	(5,479)	**(14,317)**	(5,479)
Funding received		**522,121**	342,191	**522,121**	342,191
Funding repaid		**(200,681)**	(201,358)	**(200,681)**	(201,358)
Net cash flows from financing activities		**307,123**	135,354	**307,123**	135,354
Net increase in cash and bank overdrafts		**(11,223)**	7,494	**(11,122)**	3,036
Cash and bank overdrafts at beginning of year		**16,421**	8,927	**(522)**	(3,558)
Cash and bank overdrafts at end of year		**5,197**	16,421	**(11,644)**	(522)
Current assets – cash and cash equivalents		**16,841**	16,943	**-**	-
Current liabilities – bank overdrafts	18	**(11,644)**	(522)	**(11,644)**	(522)
Cash and bank overdrafts at end of year		**5,197**	16,421	**(11,644)**	(522)

Notes to the consolidated financial statements

For the year ended 31 March 2013

1. Corporate information

The consolidated financial statements of the group for the year ended 31 March 2013 were authorised for issue by the directors on 14 June 2013. Hitachi Capital (UK) PLC is a public limited company incorporated in the United Kingdom. The address of the registered office is given at the end of this report as is information on the ultimate parent undertaking. The principal activities of the group are described in note 4.

2. Accounting policies

2.1 Basis of preparation

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

The financial statements have been prepared in accordance with the going concern principle under the historical cost basis, except for derivative financial instruments which are measured at fair value. The financial statements are presented in pound sterling and all values are rounded to the nearest thousand (£'000), except when otherwise indicated.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the group and its subsidiaries as at 31 March 2013. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra group balances, transactions and dividends are eliminated in full.

2.3 Summary of significant accounting policies

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

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

(b) Foreign currency translation
The presentational currency of the group and functional currency of the company and its subsidiaries is pound sterling, which is the currency of the primary environment in which the group operates.

Transactions in currencies other than pound sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the period.

In order to hedge its exposure to foreign exchange risks, the group mostly enters into cross currency swaps, the accounting policies of which are set out in notes 2.3(k) and 2.3(l).

(c) Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes.

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

Notes to the consolidated financial statements

For the year ended 31 March 2013

2.3 Summary of significant accounting policies (cont'd)

(c) Revenue recognition (cont'd)

Lease income

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

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

Insurance premiums

Insurance premiums, net of reinsurance and an allowance for cancellations, are recognised over the period of the policy written on a basis which reflects the expected profile of the risk undertaken.

Sale of inventory or property, plant and equipment

Revenue from the sale of inventory or property, plant and equipment is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on transfer of the physical goods.

(d) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Group as a lessor

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

The initial recognition of a finance lease includes all initial direct costs of the lease and the present value of the minimum lease payments under the lease terms. Assets leased under operating leases are included in property, plant and equipment and depreciated over their estimated useful lives. The basis for recognition of finance lease income and rental income is outlined in 2.3(c) above.

Group as a lessee

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

(e) Insurance

Acquisition costs, which represent commission and other related expenses, are amortised on the same basis and over the same period as the related premiums, subject to recoverability. Provision is made for the estimated cost of reported claims not settled at the reporting date and for estimated claims incurred but not reported (IBNR) at that date. Provision is also made, where the expected value of claims attributable to policies in force at the reporting date exceeds the net unearned premiums on these policies.

The group performs liability adequacy testing on its claims liabilities to ensure that the carrying amount of its insurance liabilities, including the provision for unearned reinsurance premiums net of related deferred acquisition costs, is sufficient in view of estimated future cash flows.

The group ceded reinsurance in the normal course of business for the purpose of limiting its net loss potential. Assets, liabilities, income and expense arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the group from its direct obligations to the policyholders.

Reinsurance premiums for ceded reinsurance are recognised as an expense on a basis that is consistent with the recognition basis for the premiums on the related insurance contracts. Reinsurance assets include recoveries due from reinsurance companies in respect of claims paid and are included in trade and other receivables in the statement of financial position.

In terms of accounting for the run off of the insurance book, IFRS 4 has been applied and, where this standard does not provide sufficient guidance, the Statement of Recommended Practice (SORP) has been used.

Notes to the consolidated financial statements

For the year ended 31 March 2013

2.3 Summary of significant accounting policies (cont'd)

(f) Taxes

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

Deferred tax
Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available, against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

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

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised. The assets' residual values, useful lives and methods of depreciation are reviewed at least annually and adjusted prospectively, if appropriate. Where the group has an interest in the residual value of certain operating leased assets, these values are reviewed on a regular basis and, where necessary, any variance from the exposure recognised by the group charged or credited to the income statement.

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

Acquired intangible assets are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an acquired intangible asset is reviewed at least annually. The amortisation expense on acquired intangible assets is recognised in the income statement.

Notes to the consolidated financial statements

For the year ended 31 March 2013

2.3 Summary of significant accounting policies (cont'd)

(h) Intangible assets (cont'd)
An internally generated intangible asset arising from the group's software development projects is recognised only if all of the following conditions are met:

- An asset is created that can be identified, and
- It is probable that the asset created will generate future economic benefits, and
- The development cost of the asset can be reliably measured.

Internally generated software development assets are amortised on a straight line basis over their useful lives, determined to be four years. The amortisation period and amortisation method are reviewed at least annually. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period. At each reporting date, the group reviews the carrying amount of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Irrespective of whether there is any indication of impairment, the group also tests the recoverable amount of intangible assets not yet available for use at least annually.

Any gains or losses arising from the derecognition of intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

(i) Financial assets
Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, available for sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The group determines the classification of its financial assets at initial recognition. All financial assets are recognised on the trade date initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss. Subsequent to initial recognition, investments in subsidiaries are measured at cost.

Loans and receivables
Trade receivables, instalment finance agreements and other loans and advances that have fixed or determinable payments that are not quoted on an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest rate method less impairment. Interest is recognised by applying the effective interest rate, except for short term receivables when the recognition of interest would be immaterial.

Amounts included in the statement of financial position under loans and receivables that represent amounts due from lessees under finance lease agreements are recognised in accordance with the group's accounting policy on leases.

The effective interest rate method calculates the amortised cost of a financial asset and allocates interest income over the relevant period. The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount of the financial asset.

Impairment of financial assets
Financial assets other than those at fair value through the profit and loss are assessed for indicators of impairment at each quarter end. Impairment is recognised when there is objective evidence that loss has been incurred in relation to an exposure.

For finance leases and other loans and advances, the allowance for impairment losses is determined on an individual basis by reference to past default experience and other recoverability information relating to the specific loan or other receivable. Management assesses each impairment on a case by case basis where evidence of impairment exists and calculations of incurred loss are performed by considering current facts and circumstances of the exposure. Recoverable amounts are assessed with reference to the expected future cash flows on the loan arrangements, including considering estimates of security value (internal or professional valuation) as well as capacity for payment and timing of recoveries.

For instalment finance agreements, which comprise large numbers of small homogenous assets with similar risk characteristics, allowance for impairment losses is supplemented by statistical techniques used to calculate impairment allowance on a portfolio basis. Agreements which are known to be impaired, such as when a counterparty is declared bankrupt, are fully impaired in the first instance. For all other agreements, where an indicator of potential impairment exists, such as payment default, the portfolio approach is adopted whereby historical write off percentages are applied by product, retailer and arrears category. Likeliness of customer default and losses incurred is estimated regularly and these estimates are modelled on historical experience, which factors in past behaviours to determine loss rates. The portfolio is segmented by current payment status and incurred loss is calculated using the probabilities applied against payment data.

Notes to the consolidated financial statements

For the year ended 31 March 2013

2.3 Summary of significant accounting policies (cont'd)

(i) Financial assets (cont'd)

Impairment of financial assets (cont'd)
If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the allowance account to the extent the carrying amount of the asset at the date of impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Amounts charged to the allowance account are written off against the carrying amount of the impaired financial asset when all avenues to recover the asset have been fully utilised and management deems further recovery remote.

The group does not renegotiate the terms of financial assets as a matter of course. However, when the terms of financial assets that are past due or impaired are renegotiated (by exception only), the income statement is charged with the write down of the asset to its revised carrying value, and credited with any previous provision made against the asset.

(j) Financial liabilities
Financial liabilities are classified as financial liabilities at amortised cost or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

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

The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period, to the net carrying amount of the financial liability.

Retailer liability
The retailer liability arises through contractual terms with certain retailers whereby a portion of the cash flows financed are deferred and held by the group to cover possible future losses. These deferred amounts are therefore recorded as liabilities by the group, as they remain the property of the retailer until either losses arise or each vintage of financing agreements matures. As credit losses arise on finance agreements which are subject to these contractual terms, the associated amount of deferral is released to the extent necessary to cover credit losses on each finance agreement and is off set against the associated bad debt charge in accordance with the contractual terms established with the retailer. As a result, credit losses arising from agreements which are subject to these contractual terms have no effect on the group's income statement unless the amount of credit loss recorded is greater than the amount of deferred retailer cash held by the group. In the event that the retailer liability is not consumed by losses before the end of the related loan period, the balance is returned to the retailer upon final maturity of each annual vintage of agreements. Retailer liability is recorded within other liabilities on the statement of financial position.

(k) Derivative financial instruments
The group enters into a variety of derivative financial instruments to hedge its exposure to variation in interest and foreign exchange rates including cross currency swaps and interest rate swaps. The group does not use derivative financial instruments for speculative purposes.

Wherever possible the group designates derivatives as either hedges of the fair value of recognised assets or liabilities (fair value hedges) or hedges of foreign currency or interest rate risk of firm commitments (cash flow hedges). The group may also from time to time employ hedges that do not satisfy the strict eligibility requirements for hedge accounting contained within IAS 39 and are, as a result, 'non designated' for hedge accounting purposes but which nevertheless make an effective hedge against a particular financial risk in accordance with the principles of risk management.

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

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

Notes to the consolidated financial statements

For the year ended 31 March 2013

2.3 Summary of significant accounting policies (cont'd)

(l) Hedge accounting
On the date that a derivative contract is designated as a hedging instrument, the group designates the derivative as one of the following:

- A hedge of the fair value of a recognised asset or liability or firm commitment (fair value hedge).
- A hedge of a highly probable future cash flow attributable to a recognised asset or liability or a forecast transaction (cash flow hedge).

A hedging relationship exists for the purposes of IAS 39 where all of the following are true:

- At the inception of the hedge there is formal documentation of the hedge.
- The hedge is expected to be highly effective.
- The effectiveness of the hedge can be reliably measured.
- The hedge is highly effective throughout the reporting period.
- For a hedge of a forecast transaction, the transaction is highly probable and presents an exposure to variations in cash flows that will ultimately affect net profit.

Hedge accounting requires that the hedging instrument be measured at fair value. Hedge accounting is discontinued if the hedging relationship is no longer effective or no longer meets the hedging and business objectives. Note 13 contains details of the fair values of the derivative instruments used for hedging purposes. Movements in the cash flow hedge reserve in equity are detailed in the statement of changes in equity on page 14.

Fair value hedge
Changes in fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit and loss immediately, together with any changes in fair value of the hedged asset or liability that are attributable to the hedged risk. Gains or losses on the revaluation of both the fair value hedge and the hedged item are recognised in the income statement as they occur. Fair value adjustments relating to the hedged instrument are allocated to the same income statement category as the related hedged item.

Fair value hedge accounting is discontinued when the group revokes the hedging relationship, the hedge instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the profit and loss from that date over the debt instrument's remaining life.

Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred as a separate component of equity. The gain or loss during the period relating to the ineffective portion is recognised immediately in profit or loss as part of fair value gain/loss on derivative financial instruments. Amounts deferred in equity are recycled to profit or loss in the periods when the hedged item is recognised in profit or loss.

Cash flow hedge accounting is discontinued when the group revokes the hedging relationship, the hedging instrument expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting. At the point of de-designation the cumulative gain or loss deferred in equity is transferred to the income statement unless the hedged item is a forecast transaction. The deferred gain or loss on a forecast transaction is transferred to the income statement when the forecast transaction occurs.

(m) Inventories
Inventories are valued at the lower of cost and net realisable value. Inventories represent assets that have come off a lease arrangement pending disposal. Net realisable value takes into account prevailing market values and cost of sale.

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

(o) Cash and cash equivalents
Cash and cash equivalents in the statement of financial position and disclosed in the statement of cash flows comprise cash at banks and on hand and short term deposits with a maturity of three months or less.

Notes to the consolidated financial statements
For the year ended 31 March 2013

2.3 Summary of significant accounting policies (cont'd)

(p) Securitisation transactions
The group has issued debt securities or entered into funding arrangements with lenders in order to finance specific loans and advances to customers. All financial assets continue to be held on the group statement of financial position, and a liability recognised for the proceeds of the funding transaction, unless:

- Substantially all the risks and rewards associated with the financial assets have been transferred, in which case, the assets are derecognised in full.
- If a significant portion, but not all, of the risks and rewards have been transferred, the asset is derecognised entirely if the transferee has the ability to sell the financial asset, otherwise the asset continues to be recognised only to the extent of the group's continuing involvement.

Where either of the above applies to a fully proportionate share of all or specifically identified cash flows, the relevant accounting treatment is applied to that proportion of the asset.

(q) Impairment of non financial assets

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

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

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

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

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

2.4 Changes to standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the new and amended IFRS and IFRIC interpretations below.

(a) New and amended standards and interpretations

IFRS 7 Financial instruments: disclosures (amendment)
This amendment provides enhanced disclosures for 'transferred financial assets that are derecognised in their entirety' and 'transferred assets that are not derecognised in their entirety'. The effective date is for annual periods beginning on or after 1 July 2011.

Notes to the consolidated financial statements

For the year ended 31 March 2013

2.4 Changes to standards and interpretations (cont'd)

(a) New and amended standards and interpretations (cont'd)

IAS 1 Presentation of items of other comprehensive income – amendments to IAS 1
The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that would be reclassified (or recycled) to profit or loss in the future (for example, the effective portion of gains and losses on hedging instruments in a cash flow hedge) would be presented separately from items that will never be reclassified (for example, changes in revaluation surplus recognised as a result of applying the revaluation model in IAS 16 Property, plant and equipment and IAS 38 Intangibles assets). The effective date is for annual periods beginning on or after 1 July 2012.

Improvements to IFRS's
Other amendments relating to the following standards did not have any impact on the accounting policies, financial position or performance of the group:

- IFRS 1 First time adoption of International Financial Reporting Standards (amendments) – severe hyperinflation and removal of fixed dates for first time adopters.
- IAS 12 Income taxes (amendments) – deferred taxes: recovery of underlying assets.

(b) Standards issued but not yet effective

IFRS 9 Financial instruments
IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. As the impact of adoption depends on the assets held by the group at the date of adoption, it is not practical to quantify the effect. Phases two and three relating to impairment and hedge accounting are still being developed by the IASB and therefore no assessment can be made on the transitional impact. The effective date is for annual periods beginning on or after 1 January 2015.

IFRS 7 Disclosures – offsetting financial assets and financial liabilities – amendments to IFRS 7
These amendments require an entity to disclose information about rights of set off and related arrangements (e.g. collateral agreements). The disclosures will provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The effective date is for annual periods beginning on or after 1 January 2013. As the impact of adoption depends on the assets and liabilities held by the group at the date of adoption, it is not practical to quantify the effect.

IFRS 10 Consolidated financial statements
IFRS 10 replaces the portion of IAS 27 that addresses the accounting for consolidated financial statements. The standard shall be applied no later than the annual period beginning or after 1 January 2014. IFRS 10 is not expected to have a material impact on the group.

IFRS 13 Fair value measurement
This amendment becomes effective for annual periods beginning on or after 1 January 2013. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non financial assets and liabilities when required or permitted by IFRS. As the impact of adoption depends on the assets held by the group at the date of adoption, it is not practical to quantify the effect. The group will perform an assessment of the impact for valuing credit risk in derivative and liability instruments, however it is not expected to have a material impact on the group.

IAS 32 Offsetting financial assets and financial liabilities – amendments to IAS 32
These amendments to IAS 32 clarify the meaning of "currently has a legally enforceable right to set off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems), which apply gross settlement mechanisms that are not simultaneous. The effective fate is for annual periods beginning on or after 1 January 2014. As the impact of adoption depends on the assets and liabilities held by the group at the date of adoption, it is not practical to quantify the effect.

Other standards issued, but not yet effective, that will not have any significant impact on the group, include:

- IFRS 1 Government loans – amendments to IFRS 1
- IFRS 11 Joint arrangements
- IFRS 12 Disclosure of interests in other entities
- IAS 19R Employee benefits (revised)
- IAS 27 Separate financial statements
- IAS 28 Investments in associates and joint ventures
- IFRIC 20 Stripping costs in the production phase of surface mine

Notes to the consolidated financial statements

For the year ended 31 March 2013

2.5 Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods; key areas are discussed below. Management has not made any significant judgements, other than those involving estimates, in the preparation of the financial statements.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded on the statement of financial position do not have specific market prices, they are determined using a model. The inputs to this model are derived from observable market data. The judgements include the determination of the observable market inputs used to construct the yield curve in each currency. Fair value hierarchies are discussed in note 15.

Impairment of financial assets
Discussed in note 2.3(i) above.

Impairment of non financial assets
Discussed in note 2.3(q) above.

Retirement benefit obligation
The cost of the defined benefit scheme and obligation is determined using actuarial valuations. This involves making assumptions about discount rates, expected rates of returns on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Further details are provided in note 22.

Taxes
The company and its subsidiaries are subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the appropriate authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provision required for both current and deferred tax on the basis of professional advice and the nature of current discussions with the tax authority concerned.

Insurance provisions and related deferred insurance commissions
The key estimations involved for insurance provisions are discussed in note 2.3(e) above with further details provided in note 28. The estimate of reserves was changed during the year, further details of which are included in note 28.

The unearned insurance premiums reserve is calculated using a number of risk profiles that vary dependent on the term of the cover, the associated risks and perils of the cover offered. Provisions are independently verified annually by a qualified actuary. The majority of premium reserves will be recognised within four years of the date of the accounts.

Claim liabilities provisions refer to claims accepted not yet paid at the year end and a provision for claims incurred but not reported (IBNR). The IBNR provision is calculated based on claims expenses and expectations and is independently verified by a qualified actuary.

Provision for Consumer Credit Act (CCA) s75 claims
The group recognises a CCA s75 claims provision, which relates to incidences where the group is jointly and severally liable to customers who have claims against retailers for misrepresentation or breach of contract, in accordance with the accounting policy stated in 2.3(n). Further details are included in note 21.

3. Investment in subsidiaries (company)

	2013 **£'000**	2012 £'000
At 1 April	**10,903**	10,903
Write down following voluntary liquidation of Hitachi Capital Invoice Finance Limited	**(150)**	-
At 31 March	**10,753**	10,903

	Place of incorporation and operation	**Activity**
Hitachi Capital Vehicle Solutions Limited	UK	Contract hire
Hitachi Capital Insurance Europe Limited	Ireland & UK	Insurance

All subsidiaries are wholly owned and directly held by the company. Abridged versions of the subsidiary results can be found in note 4 of these financial statements.

Notes to the consolidated financial statements

For the year ended 31 March 2013

4. Operating segment information

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

The principal activities of each business unit are as follows:

Consumer Finance (HCCF)	–	retail point of sale
Vehicle Solutions (HCVS)	–	vehicle management solutions and fleet management services
Business Finance (HCBF)	–	medium term asset finance
Invoice Finance (HCIF)	–	factoring
Insurance Europe (HCIE)	–	direct insurer for payment protection and guaranteed asset protection
Corporate	–	head office, including hedging activities, and group eliminations

No revenues earned from transactions with a single external customer (including groups under common control) amount to 10% or more of the group's revenues in either the 2013 or 2012 reporting periods. As the activities of the group are predominantly carried out in the UK no geographical analysis is presented. Inter segment sales are charged at prevailing market rates.

	HCCF £'000	**HCVS £'000**	**HCBF £'000**	**HCIF £'000**	**HCIE £'000**	**Corporate £'000**	**Group £'000**
Year ended 31 March 2013							
Revenue							
Interest income	116,105	-	-	7,328	-	-	123,433
Other external income	5,567	169,200	25,137	-	610	-	200,514
Inter segment	-	406	-	-	-	(406)	-
Total revenue	**121,672**	**169,606**	**25,137**	**7,328**	**610**	**(406)**	**323,947**
Other allocations							
Finance (costs)/income	(18,932)	(5,960)	(5,120)	(406)	91	302	(30,025)
Depreciation, amortisation and impairment	(730)	(102,000)	(7,362)	(39)	(3)	(1,036)	(111,170)
Bad debt impairment	(7,824)	144	(1,161)	(283)	-	-	(9,124)
Other	(54,228)	(46,420)	(8,343)	(4,288)	71	(3,347)	(116,555)
Profit/(loss) before tax	**39,958**	**15,370**	**3,151**	**2,312**	**769**	**(4,487)**	**57,073**
Income tax (expense)/credit	(9,670)	(2,637)	(762)	(559)	(192)	1,150	(12,670)
Profit/(loss) after tax	30,288	12,733	2,389	1,753	577	(3,337)	44,403
Assets	**1,255,556**	**468,768**	**311,991**	**70,215**	**9,886**	**36,661**	**2,153,077**
Liabilities	**1,139,422**	**407,913**	**298,892**	**65,474**	**2,003**	**88,650**	**2,002,354**
Other disclosures							
Capital expenditure	576	196,203	33,840	5	-	5,048	235,672
Year ended 31 March 2012							
Revenue							
Interest income	98,715	-	-	7,084	-	-	105,799
Other external income	5,225	161,131	19,148	-	3,889	-	189,393
Inter segment	-	318	-	-	-	(318)	-
Total revenue	103,940	161,449	19,148	7,084	3,889	(318)	295,192
Other allocations							
Finance (costs)/income	(15,548)	(5,479)	(3,285)	(671)	107	978	(23,898)
Depreciation, amortisation and impairment	(704)	(92,138)	(4,419)	(37)	(9)	(679)	(97,986)
Bad debt impairment	(10,332)	(1,292)	81	(345)	-	-	(11,888)
Other	(43,222)	(48,626)	(9,439)	(4,024)	(3,755)	(2,328)	(111,394)
Profit/(loss) before tax	34,134	13,914	2,086	2,007	232	(2,347)	50,026
Income tax (expense)/credit	(8,875)	(2,156)	(542)	(522)	(221)	606	(11,710)
Profit/(loss) after tax	25,259	11,758	1,544	1,485	11	(1,741)	38,316
Assets	1,010,869	400,555	224,029	59,553	11,743	57,905	1,764,654
Liabilities	928,801	348,315	213,318	56,414	3,937	89,095	1,639,880
Other disclosures							
Capital expenditure	1,012	201,209	10,836	78	-	1,030	214,165

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5. Revenue

	Note	**2013 £'000**	2012 £'000
Interest income		**123,433**	105,799
Finance lease income		**15,344**	12,910
Operating lease rental income		**166,645**	155,795
Insurance premiums	28	**593**	3,849
Fee income related to the activities above		**17,932**	16,839
Total revenue		**323,947**	295,192

6. Other cost of sales

	Note	**2013 £'000**	2012 £'000
Commission expense		**29,417**	23,180
Net insurance claims incurred	28	**(556)**	472
CCA 1974 section 75 charges and provisions	21	**981**	7,031
Profit on disposal of leased assets		**(2,737)**	(1,144)
Other expenses		**1,228**	2,740
Total other cost of sales		**28,333**	32,279

7. Administrative expenses and auditor's remuneration

	2013 £'000	2012 £'000
Staff	**40,450**	34,047
Premises and office	**6,108**	5,955
IT and telephony	**9,867**	5,004
Marketing	**3,147**	2,096
Professional services and other	**5,454**	6,248
Auditor's remuneration		
Audit of financial statements	**564**	554
Tax services	**10**	5
Other assurance services	**25**	63
Other non audit services	**55**	4
Total	**65,680**	53,976

During the year, payables of £2.2m held at 31 March 2012 were released to the income statement (professional services and other expenses) following confirmation that the amount was no longer payable. The number of full time equivalent employees at 31 March 2013 was 817 (2012: 652), which included permanent and temporary staff as well as those on fixed term contracts.

8. Income tax

	2013 £'000	2012 £'000
Current income tax		
Charge for the year	**7,823**	11,085
Adjustment in respect of prior years	**(6,738)**	(4,454)
Total	**1,085**	6,631
Deferred tax		
Origination and reversal of temporary differences in the current year	**5,153**	1,107
Adjustment in respect of prior years	**6,432**	3,972
Total	**11,585**	5,079
Tax charge on profit	**12,670**	11,710

Adjustments in respect of prior years are required due to the nature of the group's business, i.e. having a large number of assets qualifying for capital allowances. It is necessary, due to time constraints, to estimate the allowances available at the time the financial statements are prepared. This estimate tends to overstate the current tax liability and understate, by the same amount, deferred tax liability. This is largely due to the availability of first year allowances on some assets and short life asset elections for others. When the tax computations are prepared this can result in a swing between deferred and current tax. This would normally net out but at times of falling corporation tax rates this creates a net credit.

Notes to the consolidated financial statements

For the year ended 31 March 2013

8. Income tax (cont'd)

In addition to the amount reported in the income statement, deferred tax relating to the following items has been charged/(credited) directly in the group's equity:

	Note	**2013 £'000**	2012 £'000
Revaluation of defined benefit pension scheme		**(415)**	(710)
Net loss on revaluation of cash flow hedges		**(731)**	(1,662)
Total tax charged on items taken directly to equity	9	**(1,146)**	(2,372)

The group's income tax charge in the income statement can be reconciled to the profit as follows:

	2013 £'000	2012 £'000
Profit before tax	**57,073**	50,026
Tax on profit at UK corporation tax rate of 24% (2012: 26%)	**13,698**	13,007
Increase/(decrease) resulting from		
Adjustments in respect of prior years	**(306)**	(482)
Disallowable expenses and other adjustments	**252**	94
Release of provision for uncertain tax positions	**(53)**	(49)
Impact of rate change on net deferred tax liabilities	**(921)**	(860)
Tax charge	**12,670**	11,710

The UK rate of corporation tax reduced from 26% to 24% on 1 April 2012 and again from 24% to 23% from 1 April 2013. As a result the net deferred tax on the balance sheet was recalculated at 23%, rather than 24%, as required by IFRS. This created a reduction in tax charged in the year through the income statement of £921k; this also created increases in tax of £18k, in respect of the actuarial loss on the pension scheme, and £104k, in respect of derivative financial instruments, both of which were charged to equity. It has been announced that the UK rate of corporation tax will reduce to 21% from 1 April 2014 and then to 20% from 1 April 2015 but these have not been enacted.

9. Deferred tax

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

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

	Accelerated tax depreciation £'000	**Retirement benefit obligations £'000**	**Derivative financial instruments £'000**	**Other £'000**	**Total £'000**
Group					
At 31 March 2011	(5,130)	(681)	284	286	(5,241)
Charge to income statement	(4,545)	(393)	(79)	(62)	(5,079)
Charge to equity	-	710	1,662	-	2,372
At 31 March 2012	(9,675)	(364)	1,867	224	(7,948)
Charge to income statement	(11,231)	(205)	(63)	(86)	(11,585)
Charge to equity	-	415	731	-	1,146
At 31 March 2013	**(20,906)**	**(154)**	**2,535**	**138**	**(18,387)**
Company					
At 31 March 2011	3,051	(681)	284	-	2,654
Charge to income statement	(780)	(393)	(79)	-	(1,252)
Charge to equity	-	710	1,662	-	2,372
At 31 March 2012	2,271	(364)	1,867	-	3,774
Charge to income statement	(1,520)	(205)	(63)	-	(1,788)
Charge to equity	-	415	731	-	1,146
At 31 March 2013	**751**	**(154)**	**2,535**	**-**	**3,132**

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For the year ended 31 March 2013

10. Property, plant and equipment

	Freehold property £'000	Motor vehicles £'000	Fixtures, fittings, computers and leasehold improvements £'000	Operating leased assets £'000	Total £'000
Group					
Cost					
At 31 March 2011	505	1,266	4,543	474,320	480,634
Additions	-	1,067	2,259	209,055	212,381
Disposals	(150)	(380)	(604)	(132,791)	(133,925)
Stock movements	-	-	-	515	515
At 31 March 2012	355	1,953	6,198	551,099	559,605
Additions	9	486	4,454	228,749	233,698
Disposals	-	(300)	(928)	(113,385)	(114,613)
Stock movements	-	-	-	223	223
At 31 March 2013	**364**	**2,139**	**9,724**	**666,686**	**678,913**
Accumulated depreciation and impairment					
At 31 March 2011	52	333	2,513	147,893	150,791
Charge for the year	6	342	860	93,346	94,554
Impairment loss	-	-	-	1,988	1,988
Eliminated on disposals	(22)	(131)	(494)	(67,676)	(68,323)
Stock movements	-	-	-	390	390
At 31 March 2012	36	544	2,879	175,941	179,400
Charge for the year	158	351	1,279	105,787	107,575
Impairment loss	-	-	-	2,135	2,135
Eliminated on disposals	-	(133)	(769)	(63,722)	(64,624)
Stock movements	-	-	-	220	220
At 31 March 2013	**194**	**762**	**3,389**	**220,361**	**224,706**
Carrying amount					
At 31 March 2012	319	1,409	3,319	375,158	380,205
At 31 March 2013	**170**	**1,377**	**6,335**	**446,325**	**454,207**
Company					
Cost					
At 31 March 2011	150	-	3,076	19,675	22,901
Additions	-	-	618	10,664	11,282
Disposals	(150)	-	(496)	(4,057)	(4,703)
Stock movements	-	-	-	515	515
At 31 March 2012	-	-	3,198	26,797	29,995
Additions	-	-	4,031	33,613	37,644
Disposals	-	-	(794)	(3,071)	(3,865)
Stock movements	-	-	-	223	223
At 31 March 2013	**-**	**-**	**6,435**	**57,562**	**63,997**
Accumulated depreciation and impairment					
At 31 March 2011	21	-	1,576	6,927	8,524
Charge for the year	1	-	563	4,104	4,668
Impairment loss	-	-	-	96	96
Eliminated on disposals	(22)	-	(401)	(3,039)	(3,462)
Stock movements	-	-	-	390	390
At 31 March 2012	-	-	1,738	8,478	10,216
Charge for the year	-	-	847	6,436	7,283
Impairment loss	-	-	-	724	724
Eliminated on disposals	-	-	(666)	(2,009)	(2,675)
Stock movements	-	-	-	220	220
At 31 March 2013	**-**	**-**	**1,919**	**13,849**	**15,768**
Carrying amount					
At 31 March 2012	-	-	1,460	18,319	19,779
At 31 March 2013	**-**	**-**	**4,516**	**43,713**	**48,229**

Notes to the consolidated financial statements

For the year ended 31 March 2013

10. Property, plant and equipment (cont'd)

At 31 March 2013, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £50,205,000 (2012: £31,059,000), being assets to be leased to customers under operating leases. Management has determined that the necessary funding will be available from existing facilities to cover these commitments. The company had no such commitments.

Depreciation expense for the group of £105,787,000 (2012: £93,346,000) relating to operating leased assets was included in cost of sales. Depreciation expense relating to the remainder of the group's property, plant and equipment of £1,788,000 (2012: £1,208,000) was included in administrative expenses.

11. Intangible assets

	Capitalised software £'000	Goodwill £'000	Other intangibles £'000	Total £'000
Group				
Cost				
At 31 March 2011	11,017	13,706	3,264	27,987
Additions	1,784	-	-	1,784
Disposals	(772)	-	(3,264)	(4,036)
At 31 March 2012	12,029	13,706	-	25,735
Additions	1,974	-	-	1,974
Disposals	(1,307)	-	-	(1,307)
At 31 March 2013	**12,696**	**13,706**	**-**	**26,402**
Accumulated amortisation and impairment				
At 31 March 2011	8,131	-	3,264	11,395
Charge for the year	1,443	-	-	1,443
Eliminated on disposals	(606)	-	(3,264)	(3,870)
At 31 March 2012	8,968	-	-	8,968
Charge for the year	1,460	-	-	1,460
Eliminated on disposals	(1,216)	-	-	(1,216)
At 31 March 2013	**9,212**	**-**	**-**	**9,212**
Carrying amount				
At 31 March 2012	3,061	13,706	-	16,767
At 31 March 2013	**3,484**	**13,706**	**-**	**17,190**
Company				
Cost				
At 31 March 2011	7,132	4,886	840	12,858
Additions	1,674	-	-	1,674
Disposals	(761)	-	(840)	(1,601)
At 31 March 2012	8,045	4,886	-	12,931
Additions	1,828	-	-	1,828
Disposals	(1,271)	-	-	(1,271)
At 31 March 2013	**8,602**	**4,886**	**-**	**13,488**
Accumulated amortisation and impairment				
At 31 March 2011	5,130	-	840	5,970
Charge for the year	1,074	-	-	1,074
Eliminated on disposals	(598)	-	(840)	(1,438)
At 31 March 2012	**5,606**	**-**	**-**	**5,606**
Charge for the year	1,160	-	-	1,160
Eliminated on disposals	(1,197)	-	-	(1,197)
At 31 March 2013	**5,569**	**-**	**-**	**5,569**
Carrying amount				
At 31 March 2012	2,439	4,886	-	7,325
At 31 March 2013	**3,033**	**4,886**	**-**	**7,919**

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For the year ended 31 March 2013

11. Intangible assets (cont'd)

Carrying amount of goodwill by business segment	Invoice Finance £'000	Vehicle Solutions £'000	Total £'000
At 31 March 2012	4,886	8,820	13,706
At 31 March 2013	**4,886**	**8,820**	**13,706**

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

At 31 March 2013, neither the group nor the company had any contractual commitments for the acquisition of intangible assets (2012: none).

Impairment testing

The recoverable amount for each cash generating unit has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a four year period. The pre tax discount rates applied to cash flow projections are shown below and cash flows beyond the four year period were extrapolated using a 2.5% growth rate (2012: 2.8%).

Recognition of impairment is considered when the IRR is below 15%.

The key assumptions used in the calculation of value in use were budget assumptions and growth rate used to extrapolate cash flows beyond the budget period and discount rate. The budgets for each cash generating unit are representative of operational and financial aspects that relate to that unit and include past experience, default rates, impairment implications and market conditions prevailing at the time. These budgets are approved by senior management and the parent company. The growth rate used to extrapolate cash flows beyond the budget period has been based on the long term growth rate of the economy. An internal rate of return method was used in the calculation of value in use, which resulted in returns in excess of the parent company's minimum expectations.

Management has determined that any reasonably possible change in the key assumptions would not cause the carrying amount of the cash generating unit to materially exceed its recoverable amount.

12. Loans and receivables

Movements in the allowance for impairment losses	**Group 2013 £'000**	Group 2012 £'000	**Company 2013 £'000**	Company 2012 £'000
At 1 April	**7,993**	11,397	**7,941**	11,314
Amounts written off	**(12,216)**	(16,643)	**(12,216)**	(16,643)
Recoveries	**2,280**	2,747	**2,253**	2,674
Charge to the income statement	**9,271**	10,492	**9,268**	10,596
Total at 31 March	**7,328**	7,993	**7,246**	7,941
Loans and receivables, gross of impairment	**1,594,626**	1,275,904	**1,910,394**	1,561,642
Loans and receivables, net of impairment	**1,587,298**	1,267,911	**1,903,148**	1,553,701

In addition to the above charge, bad debt impairment in the consolidated income statement includes a credit relating to trade debtors of £147,000 (2012: charge of £1,396,000). The total charge in the consolidated income statement is, therefore, £9,124,000 (2012: £11,888,000).

Finance lease receivables at 31 March	**Group 2013 £'000**	Group 2012 £'000	**Company 2013 £'000**	Company 2012 £'000
Gross loans and receivables	**296,631**	222,072	**292,209**	221,397
Deferred revenue	**(28,139)**	(20,893)	**(27,638)**	(20,883)
Finance lease receivables, gross of impairment	**268,492**	201,179	**264,571**	200,514

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12. Loans and receivables (cont'd)

The amortised present values of the loans and receivables, gross of impairment, analysed by residual maturity:

Amounts due in	<1 year £'000	1-3 yrs £'000	3-5 yrs £'000	>5 yrs £'000	Total £'000
Group at 31 March 2013					
Finance leases	113,318	123,499	30,330	1,345	**268,492**
Instalment finance agreements	461,726	503,817	185,678	105,225	**1,256,446**
Other	69,688	-	-	-	**69,688**
Total	**644,732**	**627,316**	**216,008**	**106,570**	**1,594,626**
Group at 31 March 2012					
Finance leases	50,475	107,321	39,670	3,713	201,179
Instalment finance agreements	605,862	360,069	42,253	3,856	1,012,040
Other	62,685	-	-	-	62,685
Total	719,022	467,390	81,923	7,569	1,275,904
Company at 31 March 2013					
Finance leases	112,452	122,062	28,712	1,345	**264,571**
Instalment finance agreements	461,726	503,817	185,678	105,225	**1,256,446**
Other	69,688	-	-	-	**69,688**
Amounts owed by subsidiaries	-	-	-	319,689	**319,689**
Total	**643,866**	**625,879**	**214,390**	**426,259**	**1,910,394**
Company at 31 March 2012					
Finance leases	50,150	107,151	39,500	3,713	200,514
Instalment finance agreements	605,862	360,069	42,253	3,856	1,012,040
Other	62,685	-	-	-	62,685
Amounts owed by subsidiaries	-	-	-	286,403	286,403
Total	718,697	467,220	81,753	293,972	1,561,642

The unguaranteed residual value of assets leased under finance leases by the group at the reporting date is £1,100 (2012: £5,000). There are none for the company in either of the years stated.

Refer to note 29.7 for disclosures regarding transfer of financial assets, including securitisations.

The interest rate in the majority of loans and receivables is fixed at the contract date for all of the lending term. These balances are therefore subject to fair value interest rate risk. Approximately £70,116,000 (2012: £59,239,000) of loans and receivables are written at floating interest rates, and are therefore subject to cash flow interest rate risk.

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

	Group 2013		Group 2012		**Company 2013**		Company 2012	
	£'000	**%**	£'000	%	**£'000**	**%**	£'000	%
Finance leases	**267,288**	**4.3**	198,982	6.3	**263,449**	**4.2**	198,369	6.3
Instalment finance agreements	**1,250,860**	**9.5**	1,006,930	9.6	**1,250,860**	**9.5**	1,006,930	9.6
Other	**69,150**	**5.8**	61,999	6.5	**69,150**	**5.8**	61,999	6.5
Amounts owed by subsidiaries	**-**	**-**	-	-	**319,689**	**2.0**	286,403	2.0
Total	**1,587,298**	**8.4**	1,267,911	9.0	**1,903,148**	**7.4**	1,553,701	7.7

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13. Derivative financial instruments

Derivative financial instruments have been disclosed in the group and company statement of financial position as follows:

2013	Cross currency swap contracts Yen £'000	USD £'000	AUD £'000	NZD £'000	Euro £'000	Total £'000	Interest rate swap contracts Total £'000	Total £'000
Assets								
Less than 1 year	2,978	3,552	1,730	225	-	8,485	-	8,485
1 to 2 years	-	9,840	-	-	-	9,840	-	9,840
2 to 5 years	260	8,910	-	-	-	9,170	-	9,170
Total	3,238	22,302	1,730	225	-	27,495	-	27,495
Liabilities								
Less than 1 year	(12,704)	(74)	-	-	(1,446)	(14,224)	(426)	(14,650)
1 to 2 years	(2,500)	-	-	-	-	(2,500)	(1,710)	(4,210)
2 to 5 years	(29,067)	-	-	-	-	(29,067)	(2,008)	(31,075)
Total	(44,271)	(74)	-	-	(1,446)	(45,791)	(4,144)	(49,935)
Total	**(41,033)**	**22,228**	**1,730**	**225**	**(1,446)**	**(18,296)**	**(4,144)**	**(22,440)**
Of which,								
Designated as fair value hedges						(5,128)	-	(5,128)
Designated as cash flow hedges						(13,168)	(4,144)	(17,312)
Non designated						-	-	-

2012	Cross currency swap contracts Yen £'000	USD £'000	AUD £'000	NZD £'000	Total £'000	Interest rate swap contracts Total £'000	Total £'000
Assets							
Less than 1 year	41,331	143	-	-	41,474	-	41,474
1 to 2 years	3,938	-	1,174	-	5,112	4	5,116
2 to 5 years	58	2,204	-	-	2,262	96	2,358
Total	45,327	2,347	1,174	-	48,848	100	48,948
Liabilities							
Less than 1 year	(1,179)	(21)	-	-	(1,200)	(345)	(1,545)
1 to 2 years	(5,971)	(1,306)	-	(177)	(7,454)	(1,106)	(8,560)
2 to 5 years	(2,797)	(1,631)	-	-	(4,428)	(1,596)	(6,024)
Total	(9,947)	(2,958)	-	(177)	(13,082)	(3,047)	(16,129)
Total	35,380	(611)	1,174	(177)	35,766	(2,947)	32,819
Of which,							
Designated as fair value hedges					35,600	-	35,600
Designated as cash flow hedges					166	(2,540)	(2,374)
Non designated					-	(407)	(407)

The hedged cash flows are expected to occur and affect profit and loss in the periods up to September 2017 (2012: March 2017) for cross currency swaps and to September 2017 (2012: March 2017) for interest rate swaps.

A description of the risks being hedged for fair value and cash flow hedges is disclosed in note 29.3.

Fair value loss on derivative financial instruments	**2013 £'000**	2012 £'000
Ineffective portion of cash flow hedges	**634**	1,315
Gain/(loss) on fair value hedging instruments	**(40,729)**	9,265
(Loss)/gain on the hedged item attributable to the hedged risk	**39,655**	(10,323)
(Loss)/gain on derivatives not in designated hedging relationships	**407**	(278)
Total loss recognised in the income statement	**(33)**	(21)

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14. Interest bearing borrowings

The group has a central treasury function responsible for all external funding activities. Accordingly, the group and company disclosures for interest bearing borrowings are the same.

The carrying values and weighted average effective interest rates of borrowings are as follows:

	2013 £'000	**2013 %**	2012 £'000	2012 %
Bank and group borrowings	**478,670**	**1.47**	477,290	1.70
Commercial paper	**119,396**	**0.71**	-	0.99
Funding from securitised receivables	**499,587**	**1.87**	499,267	1.24
Medium term notes	**653,798**	**1.86**	505,200	1.95
Total	**1,751,451**	**1.72**	1,481,757	1.58

Bank overdrafts are repayable on demand and secured by the right of set-off against other cash balances held by certain group companies with the same bank (refer note 18). The average effective rate on overdraft balances for the year was 1.5% (2012: 1.5%) and is based on UK base rates plus an agreed margin. Other uncommitted borrowing facilities are available to the group from banks and other sources. Certain facilities are secured by the right of set-off against cash balances held by certain group companies at the same bank (refer note 18).

The group raises funding under its euro medium term note programme mainly for terms of one to five years. Borrowings from this source are unsecured although they benefit from a guarantee from Hitachi Capital Corporation.

Borrowings under the group's two commercial paper programmes are typically raised for periods of between one and six months. Borrowings under these programmes are also guaranteed by Hitachi Capital Corporation.

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

The group utilises a securitisation programme whereby it sells consumer receivables to The Royal Bank of Scotland plc, which acts as a trustee (see note 12). Under IFRS, these assets are not derecognised from the financial statements since the majority of the risks and rewards are retained by the group. Were the securitisation scheme ever to be run down, for whatever reason, then the group is entitled to receive the surplus security over the period of run off of the underlying receivables.

The borrowings are repayable as follows:

	Fixed 2013 £'000	**Floating 2013 £'000**	**Total 2013 £'000**	Fixed 2012 £'000	Floating 2012 £'000	Total 2012 £'000
Current liabilities						
On demand or within 1 year	**222,917**	**597,699**	**820,616**	110,866	747,557	858,423
Non current liabilities						
More than 1 year but less than 2	**50,000**	**356,869**	**406,869**	75,287	78,769	154,056
More than 2 years but less than 5	**213,354**	**310,612**	**523,966**	142,490	326,788	469,278
Total	**263,354**	**667,481**	**930,835**	217,777	405,557	623,334
Total	**486,271**	**1,265,180**	**1,751,451**	328,643	1,153,114	1,481,757

There were no defaults of either principal or interest and no unremedied breaches of loan agreement terms that would permit the lender to demand accelerated payment on any loans payable during the 2013 or 2012 reporting periods.

An analysis of borrowings by currency is as follows:

	Sterling £'000	**Euro £'000**	**Yen £'000**	**US Dollar £'000**	**Aus Dollar £'000**	**N.Zealand Dollar £'000**	**Total £'000**
31 March 2012	715,424	223	479,754	271,520	9,715	5,121	1,481,757
31 March 2013	**772,731**	**66,792**	**326,271**	**569,870**	**10,279**	**5,508**	**1,751,451**

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15. Fair value of financial assets and financial liabilities

	Carrying amount		Fair value	
	2013	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000
Group:				
Financial assets:				
Cash and cash equivalents	**16,841**	16,943	**16,841**	16,943
Trade debtors	**22,279**	15,137	**22,279**	15,137
Loans and receivables	**1,587,298**	1,267,911	**1,605,753**	1,284,548
Derivative assets	**27,495**	48,948	**27,495**	48,948
Total	**1,653,913**	1,348,939	**1,672,368**	1,365,576
Financial liabilities:				
Bank overdraft	**11,644**	522	**11,644**	522
Trade creditors and accruals, including balances due to invoice financing clients	**84,177**	59,445	**84,177**	59,445
Interest bearing borrowings	**1,751,451**	1,481,757	**1,762,423**	1,515,996
Derivative liabilities	**49,935**	16,129	**49,935**	16,129
Total	**1,897,207**	1,557,853	**1,908,179**	1,592,092
Company:				
Financial assets:				
Trade debtors	**1,506**	1,298	**1,506**	1,298
Loans and receivables	**1,903,148**	1,553,701	**1,921,603**	1,570,338
Derivative assets	**27,495**	48,948	**27,495**	48,948
Total	**1,932,149**	1,603,947	**1,950,604**	1,620,584
Financial liabilities:				
Bank overdraft	**11,644**	522	**11,644**	522
Trade creditors and accruals, including balances due to invoice financing clients	**57,307**	42,797	**57,307**	42,797
Interest bearing borrowings	**1,751,451**	1,481,757	**1,762,423**	1,515,996
Derivative liabilities	**49,935**	16,129	**49,935**	16,129
Total	**1,870,337**	1,541,205	**1,881,309**	1,575,444

The fair value of financial assets and financial liabilities is determined in accordance with the following hierarchy:

- Level 1: The fair value of financial assets and financial liabilities with standard terms and conditions and traded on an active liquid market is determined with reference to quoted market prices.
- Level 2: The fair value of other financial assets and liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions. The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non optional derivatives, and option pricing models for optional derivatives.
- Level 3: The group does not have any level 3 instruments which would require valuation techniques using inputs which have a significant effect on the recorded value that are not based on observable market data.

The following table shows an analysis of derivative financial instruments recorded at fair value by level of the fair value hierarchy. The group only has level 2 instruments and there have been no transfers between levels during the year.

	Level 2	Level 2
	2013	2012
	£'000	£'000
Financial assets:		
Interest rate swaps	**-**	100
Currency swaps	**27,495**	48,848
Financial liabilities:		
Interest rate swaps	**4,144**	3,047
Currency swaps	**45,791**	13,082

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16. Inventories

	Group 2013 £'000	Group 2012 £'000	**Company 2013 £'000**	Company 2012 £'000
Ex-leased assets held for resale	**7,361**	7,430	**216**	978
Stock of parts for vehicle refits	**118**	195	**-**	-
Total	**7,479**	7,625	**216**	978

17. Trade receivables and other assets

	Note	**Group 2013 £'000**	Group 2012 £'000	**Company 2013 £'000**	Company 2012 £'000
Trade debtors and prepayments		**29,489**	19,725	**7,460**	4,723
Other debtors		**6,675**	4,306	**1,764**	1,638
Reinsurers' share of provision for unearned premiums	28	**16**	148	**-**	-
Reinsurers' share of provision for insurance claim liabilities	28	**12**	44	**-**	-
Deferred insurance commissions		**56**	515	**-**	-
Total		**36,248**	24,738	**9,224**	6,361

Trade debtors and prepayments principally comprise operating lease rentals receivable, which are non interest bearing and generally on 30 day terms.

As at 31 March 2013, the trade debtors impairment provision was as follows:

	Group £'000	**Company £'000**
At 31 March 2011	1,210	-
Net increase for the year	471	-
At 31 March 2012	1,681	-
Net increase/(decrease) for the year	(310)	-
At 31 March 2013	**1,371**	**-**

The movement in deferred insurance commissions is analysed below:

	2013 £'000	2012 £'000
At 1 April	**515**	3,516
Charge to the income statement for the year		
Acquisition cost deferred during the year	**12**	37
Amortisation charged during the year	**(471)**	(3,038)
Total charge to the income statement for the year	**(459)**	(3,001)
At 31 March	**56**	515

18. Cash and cash equivalents and overdrafts

Cash and overdrafts held by the group all have an original maturity of three months or less. The group has no cash equivalents.

In accordance with the security arrangements of liabilities as disclosed in note 14 to the financial statements, a bank overdraft of £11,644,000 (2012: £522,000) is secured by cash as part of an interest offset arrangement between some accounts held by the group with HSBC. Under this arrangement, in a situation of default by the group, HSBC may apply credit bank balances to satisfy bank balances in deficit held by the group with HSBC.

19. Share capital

The company has one class of ordinary shares, which carry no right to fixed income.

	2013 £'000	2012 £'000
Authorised		
80,000,000 ordinary shares at 25p each (2012: 80,000,000)	**20,000**	20,000
Issued and fully paid		
42,674,511 ordinary shares at 25p each (2012: 42,674,511)	**10,669**	10,669

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20. Dividends paid and proposed

	2013 £'000	2012 £'000
Declared and paid during the year		
Final dividend for the year ended 31 March 2012 of 19p per share (2011: 4.8p)	**8,100**	2,065
Interim dividend for the year ended 31 March 2013 of 14.6p per share (2012: 8p)	**6,217**	3,414
	14,317	5,479
Proposed for approval at the Annual General Meeting (not recognised as a liability as at 31 March)		
Final dividend for the year ended 31 March 2013 of 16.6p per share (2012: 19p)	**7,104**	8,100

21. Provisions

	CCA s75 claims £'000	**Onerous lease and dilapid-ations £'000**	**Company Total £'000**	**Unearned insurance premiums £'000**	**Insurance claim liabilities £'000**	**Group Total £'000**
At 31 March 2012						
Current	8,495	547	9,042	746	2,090	11,878
Non current	4,213	1,553	5,766	86	241	6,093
Total	12,708	2,100	14,808	832	2,331	17,971
Arising during the year	1,881	-	1,881	(29)	-	1,852
Utilised	(918)	(546)	(1,464)	(711)	(476)	(2,651)
Unused amounts reversed	(1,068)	-	(1,068)	-	(412)	(1,480)
At 31 March 2013	**12,603**	**1,554**	**14,157**	**92**	**1,443**	**15,692**
Analysed as						
Current	5,376	395	5,771	91	1,250	7,112
Non current	7,227	1,159	8,386	1	193	8,580

CCA s75 claims

Under section 75 of the Consumer Credit Act 1974, the group is jointly and severally liable to customers who have claims against retailers for misrepresentation or breach of contract, in respect of certain types of agreements regulated by that Act. This risk is minimised by the group through regular due diligence reviews of the retailers through which consumer finance products are sold and termination of business where there is higher potential risk of default recognised. The provision booked is based on current information and key assumptions regarding the expected level of claims relating to retailers experiencing difficulties and historical costs incurred to date in respect of claims. The key assumptions take into account the number of potential claimants, the amounts financed and any other compensation claim as a result of the retailer failing to satisfy its obligation, e.g. warranty or damage costs; it may also be necessary to obtain expert advice depending on the nature of the product financed. The estimated outflow of the non current element of this provision is expected to be: less than five years £5,762,000, over five years but less than ten years £1,465,000.

Onerous lease and dilapidations

The company's registered office and Business Finance operation moved to new premises in November 2012. As a consequence, lease arrangements are currently in place for two premises, and an onerous lease provision is held for the previous premises based on expected costs related to these premises and key assumptions with respect to the likelihood of sub letting. The dilapidations provision also relates to the company's previous registered office and is an estimate of the work required to bring it back to its original state at the end of the contract. The estimated outflow of the non current element of this provision is expected to be less than five years.

Unearned insurance premiums

The unearned insurance premiums reserve is calculated using a number of risk profiles that vary dependent on the term of the cover, the associated risks and perils of the cover offered. Provisions are independently verified annually by a qualified actuary. The majority of premium reserves will be recognised within two years of the date of the accounts.

Insurance claim liabilities

Claim liabilities provisions refer to claims accepted not yet paid at the year end and a provision for claims incurred but not reported (IBNR). The IBNR provision is calculated based on claims expenses and expectations and is independently verified by a qualified actuary. The estimated outflow of the non current element of this provision is expected to be within two years.

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22. Retirement benefit pension schemes

Defined contribution pension scheme

The group operates a defined contribution retirement benefit scheme for all qualifying employees. The assets of the scheme are held separately from those of the group in an independently administered fund.

The total cost charged to the income statement of £953,000 (2012: £818,000) represents contributions payable to the scheme at rates specified in the rules of the plan. There were no unpaid contributions at either 31 March 2013 or 31 March 2012.

Defined benefit pension scheme

The group operates a funded pension scheme providing benefits based on final pensionable earnings. The scheme is set up under trust and the assets are therefore held separately from the group and invested by a specialist manager. Under the scheme the employees are entitled to retirement benefits of up to 66% of final pensionable earnings based on their number of years service, on reaching a normal retirement age of 65. No other post retirement benefits are provided.

The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation was carried out at 31 March 2013 by Lane Clark & Peacock, LLP, an independent qualified actuary, the calculations for which were based on the membership data used for the scheme's latest formal actuarial valuation as at 31 March 2010. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

Key assumptions used in the valuation of the scheme assets and net liabilities are as follows:

	2013	2012
Retail price inflation	**3.5%**	3.3%
Discount rate (per annum)	**4.6%**	4.9%
General salary increases	**3.5%**	3.3%
Pension increases in payment	**3.4%**	3.2%
Life expectancy of		
Male aged 65 now	**22.3 years**	22.2 years
Male age 65 in 20 years	**23.7 years**	23.7 years
Female aged 65 now	**24.6 years**	24.5 years
Female age 65 in 20 years	**26.1 years**	26.0 years

In July 2010 the government announced that it would, in future, link statutory minimum pension indexation to the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This change means:

- Deferred pensions in excess of Guaranteed Minimum Pensions (GMP) will, in future, revalue in line with the CPI (limited to 5% pa), rather than in line with RP (limited to 5% pa or 2.5% pa); and
- 'Post-88 (service from 6 April 1988 to 5 April 1997) GMP's' in payment will, in future increase annually in line with the CPI (limited to 3% pa), rather than in line with RPI (limited to 3%).

The accounting entries have been calculated on the basis that the change to the benefits of the scheme is as advised by the scheme's lawyers.

Amounts recognised in the income statement, including administrative expenses, in respect of the scheme are as follows:

	2013 £'000	2012 £'000
Current service cost	**537**	474
Interest cost	**1,394**	1,369
Expected return on scheme assets	**(1,696)**	(1,778)
Charge for the year	**235**	65

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22. Retirement benefit pension schemes (cont'd)

In addition, an actuarial loss of £1,803,000 (2012: loss of £2,959,000) has been recognised in the consolidated statement of comprehensive income. The actual return on scheme assets was a gain of £3,811,000 (2012: gain of £1,644,000).

The amount recognised in the statement of financial position arising from the group's and company's obligations in respect of the scheme is as follows:

	2013 £'000	2012 £'000
Present value of defined benefit obligations	**(33,793)**	(28,428)
Fair value of scheme assets	**34,463**	29,945
Asset recognised in the statement of financial position	**670**	1,517

Defined benefit pension scheme (cont'd)
Movements in the fair value of scheme assets and net present value of defined benefit obligations were as follows:

	Fair value of scheme assets		**Net present value of obligations**	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
At 1 April	**29,945**	27,289	**(28,428)**	(24,669)
Current service cost	**-**	-	**(537)**	(474)
Expected return/interest cost	**1,696**	1,778	**(1,394)**	(1,369)
Contributions from scheme members	**131**	133	**(131)**	(133)
Contributions from the employer	**1,191**	1,921	**-**	-
Actuarial gains/(losses)	**2,115**	(134)	**(3,918)**	(2,825)
Benefits paid	**(615)**	(1,042)	**615**	1,042
At 31 March	**34,463**	29,945	**(33,793)**	(28,428)

Analysis of the fair value of the scheme assets at the reporting date is as follows:

	2013 £'000	2012 £'000
Equity instruments	**16,840**	16,049
Bonds	**10,603**	9,543
Property	**2,704**	2,777
Net current assets	**94**	35
Diversified growth fund	**4,222**	1,541
Average/Total	**34,463**	29,945

The five year history of experience adjustments is as follows:

	2013	2012	2011	2010	2009
Present value of defined benefit obligations (£'000)	**(33,793)**	(28,428)	(24,669)	(26,082)	(17,768)
Fair value of scheme assets (£'000)	**34,463**	29,945	27,289	24,751	18,034
Defined benefit pension scheme (deficit)/surplus (£'000)	**670**	1,517	2,620	(1,331)	266
Experience adjustments on scheme liabilities					
Amount (£'000)	**(35)**	(30)	544	10	(107)
Percentage of scheme liabilities (%)	**-**	-	2	-	(1)
Experience adjustments on scheme assets					
Amount (£'000)	**2,115**	(134)	278	4,645	(5,426)
Percentage of scheme assets (%)	**6**	-	1	19	(30)

The estimated amount of contributions expected to be paid to the scheme during the year ending 31 March 2014 is £1,168,000.

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23. Trade and other payables and other liabilities

	Group 2013 £'000	Group 2012 £'000	**Company 2013 £'000**	Company 2012 £'000
Current (trade and other payables)				
Balances due to invoice financing clients	**33,055**	28,388	**33,055**	28,388
Rentals in advance and deferred maintenance	**23,627**	22,645	**-**	-
Trade creditors and accruals	**51,122**	31,057	**24,252**	14,409
Other creditors	**8,283**	10,477	**2,609**	6,485
Total	**116,087**	92,567	**59,916**	49,282
Non current (other liabilities)				
Rentals in advance and deferred maintenance	**11,002**	9,148	**-**	-
Retailer liability	**28,156**	13,825	**28,156**	13,825
Total	**39,158**	22,973	**28,156**	13,825

24. Related party disclosures

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. During the year group companies entered into the following transactions with related Hitachi companies who are not members of the group:

- Administration fee of £26,000 (2012: £97,000) received in respect of the provision of treasury related services to Hitachi Capital America Corporation.
- Lease income received from various Hitachi companies of £471,000 (2012: £332,000). Amounts due from related parties in respect of leases at the year end were £3,054,000 (2012: £22,000).
- Interest paid to Hitachi companies of £1,311,000 (2012: £1,423,000). Amounts due to related parties in respect of interest expense at the year end were £127,000 (2012: £208,000).
- Borrowings from Hitachi companies outstanding at the year end were £75,037,000 (2012: £108,664,000).
- Charges of £913,000 (2012: £1,033,000) were paid to Hitachi group companies, including Hitachi Capital Corporation (parent company). Amounts payable to Hitachi Capital Corporation at the year end were £1,867,000 (2012: £607,000).
- Dividends paid to Hitachi Capital Corporation of £14,317,000 (2012: £5,479,000).

25. Remuneration of key management personnel

The remuneration of the executive directors, who are the key management personnel of the group, is set out below.

	2013 £'000	2012 £'000
Short term employee benefits	**2,231**	2,222
Amounts receivable under long term incentive plans	**695**	695
Post employment benefits	**49**	47
Total	**2,975**	2,964
Aggregate amount of remuneration paid to the directors	**2,231**	2,222
Highest paid director's remuneration in the year	**644**	564

There is one director for whom retirement benefits are accruing under the group's defined benefit scheme. The post employment benefits above relate mainly to the value of company contributions paid to the pension scheme on behalf of this director, who was not the highest paid director. There are no transactions with directors to be reported.

26. Operating lease arrangements

Lessee activities

The following disclosures relate to the activities of the group and the company where they act as lessee:

	Group 2013 £'000	Group 2012 £'000	**Company 2013 £'000**	Company 2012 £'000
Minimum lease payments under operating leases recognised in the income statement during the year				
Plant and equipment	**63**	26	**16**	9
Land and buildings	**1,314**	733	**961**	573
Total	**1,377**	759	**977**	582

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For the year ended 31 March 2013

26. Operating lease arrangements (cont'd)

At the reporting date the group had outstanding commitments for future minimum lease payments under non cancellable operating leases, which fall due for recognition in the income statement as follows:

	Group 2013 £'000	Group 2012 £'000	**Company 2013 £'000**	Company 2012 £'000
Within 1 year	**1,295**	1,329	**943**	976
More than 1 year but less than 5	**4,444**	4,847	**3,519**	3,770
Over 5 years	**5,434**	6,323	**4,684**	5,373
Total	**11,173**	12,499	**9,146**	10,119

Operating lease payments represent rentals payable by the group for certain of its office properties and related office equipment; they also include an unoccupied office for which an onerous lease provision is held (refer note 21). Leases are negotiated for an average term of three to fifteen years.

Lessor activities

The group, through Vehicle Solutions and Business Finance, acts as a lessor of vehicles and other assets, the leases for which are generally for terms between three and five years. Operating lease rental income on equipment forms a significant part of the group's business and during the year amounted to £166,645,000 (2012: £155,795,000).

At the reporting date the group had contracted with lessees for the following future minimum lease payments:

	Group 2013 £'000	Group 2012 £'000	**Company 2013 £'000**	Company 2012 £'000
Within 1 year	**159,015**	119,319	**9,746**	5,145
More than 1 year but less than 5	**182,817**	148,840	**24,495**	9,664
Over 5 years	**6,647**	1,859	**2,347**	397
Total	**348,479**	270,018	**36,588**	15,206

27. Contingent liabilities

There were no contingent liabilities as at 31 March 2013 (2012: none).

28. Insurance

The group's insurance activities are undertaken by its subsidiary Hitachi Capital Insurance Europe (HCIE). In 2009 management decided to close HCIE to new business and restrict operations to managing outstanding policies, thereby placing the business in run off. All policies are contractually due to expire prior to the end of March 2015, though approximately 98% of all live risks in place at the end of March 2013 will expire during the remainder of 2013. Policies have been cancelled where the terms and conditions allowed and others reinsured to reduce risk. The risk attached to the insurance policies written by HCIE is the possibility that an insured event occurs and the uncertainty of the amount of the resulting claim.

The focus was on high volume and relatively standardised general insurance products, being payment protection and guaranteed asset protection insurance whereby the insured risk is the inability of customers to make payments under a loan contract. The most significant factors resulting in claims under these policies tends to be the health of the policyholder and the possibility of unemployment which depends upon, among other things, long term and short term economic factors.

HCIE is exposed to a number of insurance risks, being the risk of fluctuations in the timing, frequency and severity of insured events, relative to the expectations of HCIE at the time of underwriting. HCIE managed underwriting and pricing risk through underwriting guidelines, pricing policies by product line, and centralised control of policy wordings and subsequent changes. The insurance risk inherent to HCIE relates to losses arising on insurance business accepted. HCIE management is constantly reviewing the risks associated with the underwritten portfolio, and mitigation of these risks where considered too high through reinsurance. In prior years, HCIE ceded an element of its new business to a third party reinsurer. Reserving risk, being the risk that reserves are assessed incorrectly such that insufficient funds have been retained to pay claims as they fall due, is managed through the use of claims development data and historical patterns of reserving for risk. HCIE has also engaged an independent actuarial firm to carry out a review of all the technical provisions at the year end to ensure that adequate provisions are made for insurance risk. Claims management risk, being the risk that claims are paid inappropriately, is managed through the use of an external claims handling agency. Reinsurance helps to protect against the effect of major catastrophic events or adverse trends in claims.

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28. Insurance (cont'd)

There are no specific terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of the group's future cash flows. The group has no interest rate exposure from general insurance liabilities because provisions for claims under insurance contracts are not discounted.

HCIE is not subject to material levels of concentration risk. The policies are mainly in respect of underwriting UK based risks. The policies were sold by agents operating nationally but by the very nature of locality a level of concentration risk will be evident, however, no agent was significant enough to generate levels of concentration risk that management feels warrants additional measures being adopted.

Concentration risk does exist in reference to risk type. No new policies were sold during the period. The live policy count is dominated by guaranteed asset protection (GAP) policies, i.e. cover for the shortfall between the current market value of a vehicle and the amount required to settle the finance agreement in the event of being declared a write off due to theft or accident; approximately 70% of all policies are GAP risks and within this category 95% are finance GAP policies (2012: approximately two thirds of all policies are GAP risks and within this category 70% are finance GAP policies).

Premium income and unearned insurance premium
Net insurance premium revenue recognised during the year has been determined as follows:

	2013 £'000	2012 £'000
Gross written premiums	**(29)**	28
Reinsurance premiums (premiums accepted, then ceded to a third party insurer)	**14**	(54)
Net written premiums	**(15)**	(26)
Change in the gross provision for unearned insurance premiums	**740**	4,172
Change in the reinsurers' share of the provision for unearned insurance premiums	**(132)**	(348)
Change in the provision for unearned insurance premiums	**608**	3,824
Net insurance premiums earned	**593**	3,798

Movements in the provision for unearned insurance premiums during the year were as follows:

	Gross 2013 £'000	**Reinsurance 2013 £'000**	**Net 2013 £'000**	Gross 2012 £'000	Reinsurance 2012 £'000	Net 2012 £'000
At 1 April	**832**	**(148)**	**684**	5,004	(496)	4,508
Premiums written	**(29)**	**14**	**(15)**	28	(54)	(26)
Premiums earned	**(711)**	**118**	**593**	(4,200)	402	(3,798)
At 31 March	**92**	**(16)**	**76**	832	(148)	684

Claims expense and provision for insurance claims liabilities
Net insurance claims incurred during the year have been determined as follows:

	2013 £'000	2012 £'000
Claims incurred and loss adjustment expenses	**(659)**	95
Reinsurance recoveries in respect of claims incurred	**22**	33
Other	**81**	344
Net insurance claims incurred	**(556)**	472

Movements in the provision for insurance claims liabilities during the year were as follows:

	Gross 2013 £'000	**Reinsurance 2013 £'000**	**Net 2013 £'000**	Gross 2012 £'000	Reinsurance 2012 £'000	Net 2012 £'000
At 1 April	**3,007**	**(44)**	**2,963**	3,695	(81)	3,614
Losses and expenses incurred						
Losses and expenses	**245**	**9**	**254**	753	(4)	749
IBNR movement	**(966)**	**13**	**(953)**	(911)	37	(874)
Claim expenses	**62**	**-**	**62**	253	-	253
Total	**(659)**	**22**	**(637)**	95	33	128
Increase in run off administrative expenses	**(112)**	**-**	**(112)**	(27)	-	(27)
Total payments in the year	**(309)**	**10**	**(299)**	(756)	4	(752)
At 31 March	**1,927**	**(12)**	**1,915**	3,007	(44)	2,963

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For the year ended 31 March 2013

28. Insurance (cont'd)

Provisions for claims reported are estimated using the latest available information which comprises up to date reports from loss adjusters or fronting insurers. On that basis there are no significant assumptions impacting on the level of claims other than the assumption that the information used is complete and accurate. Due to the amount of time over which claims can develop, there may be significant uncertainty over the level of these reserves. Provisions for liabilities may therefore vary as a result of subsequent developments.

The reserving policy for future claim liabilities was changed during the year to 31 March 2012 to make provision for future claim liabilities at the 95th percentile. The estimation of the IBNR reserve is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to HCIE, where information about the claim event is available. IBNR claims may not become apparent to the insurer until several months after the events, which gave rise to the claims, have occurred. Actual claims in recent years have been materially the same as that estimated. HCIE has adopted a policy of setting the level of provisions required by using claims triangulations and a qualified actuary. Actual claims incurred by HCIE do not differ significantly from original estimates of claims and hence a claims development table is not included in the financial statements; directors assess and monitor the uncertainty regarding claims settlement on a continuing basis.

29. Financial risk management objectives and policies

29.1 Credit risk

The group has a credit risk committee to provide a key element of an effective second line of defence to the risk management functions within the group's business units.

The group's principal financial assets are cash and bank balances, loans and receivables, and trade and other receivables (including reinsurers' share of insurance claim liabilities).

The group's credit risk is primarily attributable to its loans and receivables. The amounts presented in the statement of financial position are net of allowances for impairment losses. The gross amounts of loans and receivables represent the group's maximum exposure to credit risk and are set out in note 12.

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

Compliance with the requirements of the policy is achieved by the existence of procedures in the areas of maximum funding periods and loan amounts, the requirement for deposits, deferral periods and authorisation limits. Customer scorecards and credit files, for commercial transactions and significant relationships, are an integral part of the approval process, with any material changes and significant advances requiring director and/or board approval.

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

Credit risk from balances with banks and financial institutions is managed by group treasury in accordance with the group's policy. Investments of surplus funds are made only with approved counterparties.

The credit risk on cash and derivative financial instruments is continually assessed in accordance with best practice as the counterparties are banks. However, these counterparties are banks with high credit ratings assigned by international credit rating agencies. The group policy is to assess all swap counterparties on an individual basis in terms of credit rating and the group's current exposure to that particular financial institution. All swap counterparties have a minimum long term credit rating by Standard & Poor's of at least 'A-' and short term rating of 'A-1'. Swap counterparty risk has thus been judged to be less than significant and hence not adjusted for when evaluating derivative financial instrument asset valuation. Swap counterparty risk is managed through selection of counterparties meeting the minimum credit rating requirements and limiting the maximum exposure to each counterparty as measured using an internal risk weighted measurement.

The group does not have any financial liabilities designated at fair value through profit or loss, and therefore there has been no revaluation of financial liabilities for own credit risk. This includes financial liabilities in hedge relationships as the group does not hedge credit risk. The changes in the fair value of financial liabilities recognised in the income statement are principally due to changes in market foreign exchange rates and interest rates for those instruments in designated hedge relationships. The group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

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For the year ended 31 March 2013

29.1 Credit risk (cont'd)

Credit quality

	Group 2013 £'000	Group 2012 £'000	**Company 2013 £'000**	Company 2012 £'000
Gross loans and receivables and trade debtors:				
Neither past due nor impaired:				
Very low risk	**1,099,717**	844,001	**1,419,406**	1,130,404
Low risk	**461,314**	408,202	**461,314**	408,202
Moderate risk	**190,772**	151,116	**190,772**	151,116
High risk	**125,094**	105,659	**125,094**	105,659
Ungraded	**58,068**	39,420	**35,778**	27,989
Total	**1,934,965**	1,548,398	**2,232,364**	1,823,370
Past due but not impaired:				
31-60 days	**10,222**	11,495	**8,811**	9,371
61-90 days	**2,922**	2,217	**1,503**	1,379
91-120 days	**1,058**	1,320	**1,090**	1,267
>120 days	**5,986**	4,378	**5,961**	4,365
Total	**20,188**	19,410	**17,365**	16,382
Individually impaired				
Retail	**7,863**	7,683	**7,863**	7,683
Commercial	**4,326**	5,722	**2,873**	3,989
Total	**12,189**	13,405	**10,736**	11,672
Total	**1,967,342**	1,581,213	**2,260,465**	1,851,424
Gross loans and receivables	**1,943,692**	1,564,397	**2,258,959**	1,850,125
Trade debtors	**23,650**	16,816	**1,506**	1,299

The group's risk ratings are determined at a facility level using both internal risk management inputs and external inputs from credit risk rating agencies. The inputs used are specific to the business unit in which the exposure exists but a common risk matrix has been applied to determine 'like' ratings across the group. The matrix is based primarily on aligning estimates of probability of default but it also includes management judgement in determining risk categories. Those categories that are 'ungraded' have not been specifically rated by the business for various reasons such as a lack of relevant or comparable information, or the fact that they are short term in nature and are perceived to be low in inherent risk.

The group has exposure to a restricted set of banking counterparties through depositing cash in time deposits. Cash balances and deposits by the group are maintained at nil or insignificant levels, except in the group's insurance subsidiary (HCIE), which is registered in the Republic of Ireland where a minimum liquidity level, including deposit balances, is stipulated by the Irish insurance regulator. These deposits are split between three to four different UK and Irish regulated banks with a minimum credit rating of 'BBB+'.

Collateral

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

Although lending decisions are predominantly based on expected cash flows, any collateral provided may impact the pricing and other terms of a loan or facility granted; this will have a financial impact on the amount of net interest income recognised and on internal loss given default estimates that contribute to the determination of asset quality. The group believes that this approach is appropriate.

The value of collateral is reassessed if there is observable evidence of distress of the borrower. Unimpaired lending, including any associated collateral, is managed on a customer by customer basis rather than a portfolio basis. No aggregated collateral information for the entire unimpaired lending portfolio is provided to key management personnel.

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For the year ended 31 March 2013

29.1 Credit risk (cont'd)

A general description, as well as qualitative and quantitative information relating to collateral held as security in respect of loans and receivables in each business unit is provided below.

(a) Consumer Finance
In general, most lending is unsecured and therefore no collateral is held. However, for certain retailers, a portion of the cash flows financed are deferred and held by the group to cover possible future losses, see note 2.3(j) for more information. At the year ended 31 March 2013, deferred cash flows amounted to £28,156,000 (2012: £13,825,000), against related gross loans and receivables of £995,670,000 (2012: £494,716,000). There was no collateral held against gross loans and receivables amounting to £581,702,000 (2012: £784,749,000). Of the total gross loans and receivables, £7,863,000 was impaired at the year end (2012: £7,683,000).

(b) Vehicle Solutions
Vehicle Solutions has gross loans and receivables amounting to £4,422,000 (2012: £675,000), which relates to finance leases, the collateral for which is implied in the assets.

(c) Business Finance
Lending decisions are predominantly based on an obligor's ability to repay from normal business operations rather than reliance on the disposal of any security provided. Collateral values are rigorously assessed at the time of loan origination in line with credit risk policy (refer credit risk on page 42). Collateral values are only revisited after origination in the event of changes in the performance of the loans, e.g. customer default.

Asset based collateral of £76,521,000 (2012: £75,695,000) is held against gross loans and receivables of £51,399,000 (2012: £52,832,000). This collateral relates to the following:

- Block discounting arrangements for which collateral values are verified every three months by an internal audit team;
- Non performing agreements assessed as per the credit risk policy, including turbine aircraft pledged as security, valued by the International Bureau of Aviation, and other collateral.

There was no collateral held against gross loans and receivables amounting to £240,147,000 (2012: £171,811,000). Of the total gross loans and receivables, £2,637,000 was impaired (2012: £3,614,000).

(d) Invoice Finance
The gross loans and receivables for invoice finance, of £70,352,000 (2012: £59,614,000), are largely collateralised by the purchased book of receivables from factored clients and, in certain cases, personal guarantees to guard against shortfalls on collect outs due to disputes or fraud for which the guarantor will pay.

29.2 Liquidity risk and funding management

Liquidity risk is managed by the treasury committee and reviewed regularly. The group's objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings with a range of maturities. The term of each borrowing is determined by considering the market conditions of each of the group's debt instruments, funding cost and correlation with the group's receivables. Included under funding sources below is a list of undrawn facilities that the group has at its disposal. In addition, the group has uncommitted money market and overdraft facilities to provide short term financing.

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29.2 Liquidity risk and funding management (cont'd)

The table below summarises the gross contractual maturity profile of the group's financial liabilities. All derivatives used for hedging purposes are shown by maturity, based on their contractual undiscounted repayment obligations.

	<1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	Total £'000
At 31 March 2013						
Non derivative financial liabilities:						
Foreign currency denominated borrowings	(313,720)	(197,004)	(214,235)	(63,665)	(208,025)	(996,649)
Sterling borrowings	(14,400)	(216,132)	(46,184)	-	-	(276,716)
Securitisation	(297,882)	(148,443)	(53,934)	(11,136)	(2,683)	(514,078)
Trade payables	(116,087)	-	-	-	-	(116,087)
	(742,089)	**(561,579)**	**(314,353)**	**(74,801)**	**(210,708)**	**(1,903,530)**
Derivative financial liabilities:						
Foreign currency receipts relating to cross currency swaps	194,417	197,004	214,235	63,665	208,025	877,346
Sterling payments relating to interest rate swaps	(1,183)	(606)	(427)	(284)	(26)	(2,526)
Sterling receipts relating to interest rate swaps	1	1	1	-	-	3
Sterling payments relating to cross currency swaps	(202,020)	(191,379)	(222,469)	(68,564)	(212,680)	(897,112)
	(8,785)	**5,020**	**(8,660)**	**(5,183)**	**(4,681)**	**(22,289)**
At 31 March 2012						
Non derivative financial liabilities:						
Foreign currency denominated borrowings	(361,382)	(195,645)	(185,674)	(4,186)	(27,818)	(774,705)
Sterling borrowings	(5,145)	(3,532)	(216,766)	-	-	(225,443)
Securitisation	(318,788)	(136,842)	(49,714)	(14,443)	-	(519,787)
Trade payables	(92,567)	-	-	-	-	(92,567)
	(777,882)	(336,019)	(452,154)	(18,629)	(27,818)	(1,612,502)
Derivative financial liabilities:						
Foreign currency receipts relating to cross currency swaps	360,333	195,645	185,674	4,186	27,818	773,656
Sterling payments relating to interest rate swaps	(4,088)	(3,274)	(1,029)	(448)	(449)	(9,288)
Sterling receipts relating to interest rate swaps	18	-	-	-	-	18
Sterling payments relating to cross currency swaps	(322,660)	(195,720)	(184,390)	(3,972)	(28,823)	(735,565)
	33,603	(3,349)	255	(234)	(1,454)	28,821

The group has a central treasury function which provides finance for the group's operations and manages treasury risks in accordance with policies approved by the board and treasury committee. The treasury committee consists of the CEO, the COO, the Director of Finance and the Group Treasurer. The major risks to the group are liquidity, movement in foreign exchange rates, interest rate movements and counterparty credit risk.

The group's principal sources of funding are European medium term notes, a securitisation programme, two commercial paper programmes, uncommitted bank facilities and a certain amount of borrowings from the Hitachi Limited group of companies. Risks on these funding sources are managed using derivative financial instruments.

The group accesses a variety of markets to raise finance and issues both fixed and floating rate debt in a number of different currencies. All foreign currency borrowings are swapped into sterling upon issuance to either floating interest rate linked to sterling LIBOR or at a fixed rate in sterling.

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29.2 Liquidity risk and funding management (cont'd)

All interest bearing borrowings are subject to risk management in accordance with the group's risk management policies on interest rate risk management. As a result, a certain proportion of the floating rate borrowings will be fixed by entering into sterling interest rate swaps.

Funding sources
The group has a number of funding options and regularly reviews alternative sources of financing. In selecting the most appropriate source of funding at any point in time, factors such as market conditions, interest rate levels, liquidity and the profile of the assets being funded are considered.

The group's core funding programmes and facilities are as follows:

	Amount drawn 2013 £'000	**Capacity available 2013 %**	Amount drawn 2012 £'000	Capacity available 2012 %
US$1.5bn (2012: US$1bn) euro medium term note programme	**666,365**	**32**	505,200	19
US$400m European commercial paper programme	**-**	**100**	-	100
€250m Belgian domestic commercial paper programme	**119,302**	**43**	-	-
£500m committed securitisation programme	**500,000**	**-**	500,000	-
£119m uncommitted facilities from relationship banks	**12,600**	**89**	-	100
£184m uncommitted facility from Hitachi Europe	**-**	**100**	2,700	99

The euro medium term note programme and both commercial paper programmes are supported by a guarantee from Hitachi Capital Corporation and consequently, are rated 'A-' by Standard & Poor's.

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

29.3 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Financial instruments affected by market price risk include loans and receivables, interest bearing borrowings and derivative financial instruments.

The group's particular activities expose it to the risk of changes in foreign currency exchange rates and sterling interest rates.

Interest rate risk
Most of the group's assets are at a fixed rate of interest so there is a risk of financial loss if the actual funding cost for these assets rises above the rate at which they were originated. This risk is managed by the use of interest rate derivative financial instruments, specifically interest rate swaps, forward rate agreements and interest rate caps. Interest rate exposure is managed by duration, matching the fixed rate receivables and operating lease portfolio against the combination of fixed rate debt and the interest rate derivatives portfolio.

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

The group's policy is to hedge its exposure to variations in sterling interest rates. The degree to which borrowings are rate fixed, as compared to the size of the group's underlying fixed rate assets, is expressed as a target ratio which is set by the board on a monthly basis and is generally within a range of between 60% and 100%. The actual levels of fixed borrowings versus assets is reviewed at least monthly to monitor compliance to the set target.

Foreign currency risk
The group's currency risk mainly arises from foreign currency borrowings. The carrying amount of the group's foreign currency denominated monetary liabilities at the reporting date is set out in note 14.

The group policy is to eliminate all foreign currency risk on borrowings by entering into cross currency swaps which convert non sterling obligations under the debt issuance into sterling obligations. Currency debt raised under the medium term note and commercial paper programmes are completely hedged at the time of drawdown unless currency proceeds are required to fund currency denominated assets. Currency risk will therefore only arise in the unlikely event of a cross currency swap counterparty defaulting on its non sterling obligation. As at 31 March 2013 and 31 March 2012, all currency exposures on non sterling debt were 100% hedged.

Notes to the consolidated financial statements
For the year ended 31 March 2013

29.3 Market risk (cont'd)

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

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

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

Where possible, floating to fixed IRS's are designated for accounting purposes as cash flow hedges in order to reduce the variability of charges to the group's income statement. In other cases, although the IRS's economically hedge the group's cash flow exposure they cannot be designated as cash flow hedges under IAS 39.

Interest rate sensitivity
The sensitivity analysis below has been determined based on the exposure to interest rates as at the reporting date and the stipulated change taking place at the end of the current financial year and were to persist for the coming financial year. A 100 basis points change is used when reporting interest rate risk internally to key management personnel and represents management's assessment of a reasonably possible change in interest rates.

At the reporting date, if interest rates had been 100 basis points higher and all other variables were held constant:
- Net profit would be debited by £7,423,000 (2012: £4,685,000). This is mainly attributable to the group's exposure to interest rates on variable rate borrowings.
- Other equity reserves would be credited by £11,216,000 (2012: debited by £11,892,000) mainly as a result of the change in mark to market valuation of interest rate swaps in designated hedging relationships.

In the current climate it is not relevant to calculate the impact of interest rates being 100 basis points lower as this scenario is in some cases impossible and in others highly unlikely.

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

Foreign currency sensitivity
The following details the group's sensitivity to a 10% decrease in sterling against Japanese yen, euro and US dollar exchange rates. The 10% change is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis of the group's exposure to foreign currency risk at the reporting date has been determined based on a further change in exchange rate occurring at the end of the current financial year. A positive number indicates an increase in profit or loss and other equity where pound sterling strengthens against the respective currency.

Any reasonable depreciation or appreciation of GBP against foreign currencies would have no material impact on the group as all foreign currency debt is hedged using derivative instruments.

Information concerning the group's cross currency swaps is included in note 13.

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

Notes to the consolidated financial statements

For the year ended 31 March 2013

29.3 Market risk (cont'd)

Cash flow hedges

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

29.4 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The group cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

29.5 Residual value risk

This is the risk that the value of a physical asset, at the end of an operating or finance lease contract or at the end of its useful life, is worth less than its book value. Residual value risk occurs within our Vehicle Solutions and Business Finance businesses.

Future residual values are assessed individually, and positioned against competitor benchmark assets, and require senior management approval. The residual value position is monitored with reference to various industry benchmarking sources so that maturities can be managed effectively and any impairment risk minimised.

29.6 Capital management

The group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the group consists of debt, which includes borrowings disclosed in note 14, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in note 19 and the statement of changes in equity on page 14. The board of directors reviews the capital structure on a semi annual basis. As a part of this review the board considers the cost of capital and risks associated with each class of capital. The group will balance its overall capital structure through the payment of dividends to or capital injection from the parent company.

29.7 Transfers of financial assets

Securitised assets are held by the group at the balance sheet date since the majority of the risks and rewards are retained by the group, refer note 2.3(p). Otherwise, the group does not recognise any financial assets for which ownership has transferred nor does it have a continuing involvement in any transferred assets.

In accordance with the securitisation programme's terms and conditions, as at 31 March 2013 the group (and the company) had transferred £721,004,000 (2012: £723,281,000) of its instalment finance agreements to The Royal Bank of Scotland plc, which acts as a trustee. The group continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as borrowings; the liability is £499,587,000 (2012: £499,267,000).

Under the terms of the securitisation programme, once the assets are transferred to the trustee, the group no longer controls the assets until such time as they are returned as excess collateral under the terms of the programme (such as in run off) or default and are sold back to the group for a nominal fee. The fair value of the liability under the programme is £500,000,000 (2012: £500,000,000) and the fair value of the assets transferred to the programme's trustee is £727,345,000 (2012: £731,241,000).

Company information

Hitachi Capital Corporation is the parent undertaking of the smallest group to consolidate the financial statements of Hitachi Capital (UK) PLC. Copies of the financial statements of this company can be obtained from: No 15-12, Nishi Shimbashi, 2 Chome, Minato-ku, Tokyo 105-8712, Japan.

Hitachi Limited, a company incorporated in Japan, is the ultimate parent company and the parent undertaking of the largest group to consolidate the financial statements of Hitachi Capital (UK) PLC. Copies of the financial statements of this company can be obtained from: 6, Kanda-Surugadai 4-chome, Minato-ku, Tokyo 101-8010, Japan.

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Registered company number:	1630491
Company Secretary:	J.N.M.Sims
Auditors:	Ernst & Young LLP London

The group offers the following finance solutions from the locations shown below.

Consumer Finance 2 Apex View Leeds West Yorkshire LS11 9BH Tel: 0844 375 5499 Fax: 0844 375 5491	**Vehicle Solutions** Kiln House Kiln Road Newbury Berkshire RG14 2NU Tel: 08444 632900 Fax: 01635 589 750	**Commercial Vehicles** Quarry House Canal Road Trowbridge Wiltshire BA14 8QU Tel: 01225 777 710 Fax: 01225 776 680	**Driving Instructor Vehicles** Welford Road Kilby Bridge Wigston Leicester LE18 3TE Tel: 0116 288 8288 Fax: 0116 288 6404
Business Finance Hitachi Capital House Thorpe Road Staines-upon-Thames Surrey TW18 3HP Tel: 01784 227300 Fax: 01784 227549	**Invoice Finance** 5 Hollinswood Court Stafford Park 1 Telford Shropshire TF3 3DE Tel: 01952 213 300 Fax: 01952 201 410	**Invoice Finance** Isis House Red Cross Road Goring on Thames Reading RG8 9HG Tel: 01491 875 660 Fax: 01491 875 595	

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