Hill Samuel Finance Limited

Annual report and financial statements for the year ended 31 December 2018

Registered office

25 Gresham Street
London
EC2V 7HN

Registered number

01580252

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EDINBURGH

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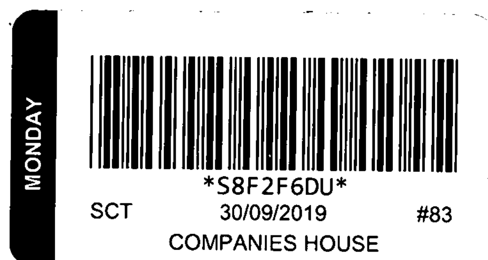
FRONT DESK

Current directors

C G Dowsett
G A Fox
L F C Dorey

Company Secretary

A E Mulholland



Member of Lloyds Banking Group

Directors' report

For the year ended 31 December 2018

The directors present their report and the audited financial statements of Hill Samuel Finance Limited ("the Company") for the year ended 31 December 2018.

The Company qualifies as a small company in accordance with sections 381-382 of the Companies Act 2006 (the "Act"). The Directors' report has therefore been prepared taking into consideration the provisions of Part 15 of the Act.

Review of Business

The Company is a private company limited by shares, incorporated and domiciled in England and Wales (registered number: 01580252).

During the year, the principal activity of the company was the leasing of assets through finance lease transactions, this is likely to continue for the foreseeable future.

The results of the company show a loss before taxation of £537,000 (2017: £871,000) for the year as set out in the statement of comprehensive income on page 3.

The company has a net deficit of shareholder's equity of £66,000 (2017: £680,000 surplus).

The Company is funded entirely by other companies within the Lloyds Banking Group ("the Group").

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are managed within the framework established for the Group and are not managed separately for the Company. Further details of the Company's and Group's risk management policy are contained in note 13 to the financial statements.

Key performance indicators ("KPIs")

Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business. KPIs are monitored and reported at a divisional level.

Dividends

No dividends were paid or proposed during the year ended 31 December 2018 (2017: £nil).

Going concern

The financial statements have been prepared on the going concern basis which assumes that the company will continue in operational existence for the foreseeable future. The validity of this assumption depends on the continuing financial support provided by Lloyds Bank plc. After making appropriate enquiries, the directors believe that it is appropriate for the financial statements to be prepared on the going concern basis.

Directors

The current directors of the Company is shown on the front cover.

The following change has taken place between the beginning of the reporting period and the approval of the Annual report and accounts:

A J Kemp	(resigned 02 July 2018)
L F C Dorey	(appointed 02 July 2018)

Directors' indemnities

Lloyds Banking Group plc ("LBG") has granted to the directors of the Company, including former directors who resigned during the year, a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Act. The deed was in force during the whole of the financial year and at the date of approval of the financial statements (or from the date of appointment in respect of the LBG Director who joined the Board of the Company during the financial year). Directors no longer in office but who served on the board of the company at any time in the financial year had the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of an LBG Director's period of office. The deed indemnifies the LBG Directors to the maximum extent permitted by law. The deed for existing LBG Directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, Lloyds Banking Group (the "Group") has in place appropriate LBG Directors and Officers Liability insurance cover which was in place throughout the financial year.

Directors' report (continued)
For the year ended 31 December 2018

Statement of directors' responsibilities

The directors are responsible for preparing the Annual report and accounts in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

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

The directors are 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.

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.

Disclosure of information to auditors

In accordance with Section 418 of the Companies Act 2006, in the case of each director in office at the date the Directors' report is approved:

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

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

Approved by the board of directors and signed on its behalf by:

C G Dowsett
Director

30th September 2019

Statement of comprehensive income

For the year ended 31 December 2018

	Note	**2018 £'000**	2017 £'000
Finance income	3	**228**	18
Finance costs	4	**(809)**	(889)
		(581)	(871)
Impairment recovery	5	**44**	-
Loss before tax		**(537)**	(871)
Taxation	6	**(6)**	59
Loss after taxation and total comprehensive loss for the year attributable to owners of the parent		**(543)**	(812)

Balance sheet

As at 31 December 2018

	Note	2018 £'000	2017 £'000
ASSETS			
Amounts due from group undertakings	7	**3,632**	3,887
Finance lease receivables	8	**76,670**	82,530
Total assets		**80,302**	86,417
LIABILITIES			
Amounts due to group undertakings	10	**67,379**	71,789
Deferred tax liability	9	**12,989**	13,948
Total liabilities		**80,368**	85,737
EQUITY			
Share capital	11	**-**	-
(Accumulated losses)/retained earnings		**(66)**	680
Total equity		**(66)**	680
Total equity and liabilities		**80,302**	86,417

The accompanying notes to the financial statements are an integral part of these financial statements.

The financial statements were approved by the board of directors and were signed on its behalf by:

C G Dowsett
Director

30th September 2019

Registered Number: 01580252

Statement of changes in equity

For the year ended 31 December 2018

	Share capital	Retained earnings/ (Accumulated losses)	Total equity
	£'000	£'000	£'000
At 1 January 2017	-	1,492	1,492
Loss for the year	-	(812)	(812)
At 31 December 2017	-	**680**	**680**
Transition to IFRS 9 (see note 15)	-	(203)	(203)
At 1 January 2018	-	477	477
Loss for the year	-	(543)	(543)
At 31 December 2018	-	**(66)**	**(66)**

The accompanying notes to the financial statements are an integral part of these financial statements.

Cash flow statement

For the year ended 31 December 2018

	2018 £'000	2017 £'000
Cash flows generated from operating activities		
Loss before tax	**(537)**	(871)
- Impairment	**(44)**	-
- Decrease in receivables	**5,659**	5,201
- Increase in payables	**448**	654
Cash generated from operations	**5,526**	4,984
Income tax paid	**(1,380)**	-
Net cash generated from operating activities	**4,146**	4,984
Cash flows used in financing activities		
Decrease in bank borrowings	**(4,401)**	(3,976)
Net cash used in financing activities	**(4,401)**	(3,976)
Change in Cash and cash equivalents	**(255)**	1,008
Cash and cash equivalents at beginning of year	**3,887**	2,879
Cash and cash equivalents at end of year	**3,632**	3,887
Cash and cash equivalents comprise		
Cash at bank	**3,632**	3,887

The accompanying notes to the financial statements are an integral part of these financial statements.

Notes to the financial statements
For the year ended 31 December 2018

1. Accounting policies

1.1 Basis of preparation

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied in both years presented, unless otherwise stated.

These financial statements have been prepared in accordance with applicable IFRSs as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRSs. IFRSs comprise accounting standards prefixed IFRS issued by the International Accounting Standards Board ("IASB") and those prefixed IAS issued by the IASB's predecessor body, as well as interpretations issued by the IFRS Interpretations Committee ("IFRS IC") and its predecessor body.

The following new IFRS pronouncements relevant to the Company have been adopted in these financial statements:

(i) IFRS 9 'Financial Instruments': Annual improvement to IFRSs (issued December 2016) - Replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss approach. The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle based approach than IAS 39.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2018 and which have not been applied in preparing these financial statements are given in note 17. No standards have been early adopted.

The financial statements have been prepared on a going concern basis as detailed in the Directors' report and under the historical cost convention.

1.2 Income recognition

Income and expense from financial instruments

Interest income and expense are recognised in the Statement of comprehensive income for all interest bearing financial instruments using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense to a period of account. The effective interest rate is the rate that discounts the estimated future cash payments or receipts over the expected life of the instrument to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised on the net lending balance using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Lease classification

Lease agreements are classified as finance leases if the lease agreements transfer substantially all of the risks and rewards of ownership to the lessee; all other leases are classified as operating leases.

When assets are leased under a finance lease, the net present value of the lease payments plus any guaranteed residual value payments, where applicable, is recognised as a receivable within Loans and advances to customers. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance lease income.

Finance lease income

Finance lease income is recognised over the lease term using the net investment method so as to reflect a constant periodic rate of return on the Company's net investment in the lease. Initial direct incremental costs attributed to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable thus reducing the amount of income recognised over the lease term.

When calculating the effective interest rate, the future cash flows are estimated after considering all the contractual terms of the agreement but not future credit losses. The calculation includes all amounts received or paid by the Company that are an integral part of the overall return such as acceptance and, where relevant, early settlement fees as well as direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument and all other premiums or discounts.

Notes to the financial statements

For the year ended 31 December 2018

1. Accounting policies (continued)

1.3 Financial assets and liabilities

Financial assets comprise, Amounts due from group undertakings. Financial liabilities comprise Amounts due to group undertakings

On initial recognition, financial assets are measured at fair value. These are subsequently classified as measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss, depending on the Group's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. The Group assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales. The Group reclassifies financial assets when and only when its business model for managing those assets changes.

A reclassification will only take place when the change is significant to the Group's operations and will occur at a portfolio level and not for individual instruments; reclassifications are expected to be rare.

Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the Group has transferred its contractual right to receive the cash flows from the assets and either: substantially all of the risks and rewards.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

1.4 Impairment of financial assets and lease receivables

At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk, allowance (or provision) is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses). Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

The company has not adopted the simplified expected credit loss model for its lease receivables, as allowed by IFRS 9, paragraph 5.5.15. Instead, the general expected credit loss model has been applied to both, fianncial assets and lease receivables.

1.5 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and amounts due from banks with original maturities of less than three months.

1.6 Taxation, including deferred income taxes

Tax expense comprises current and deferred tax. Current and deferred tax are charged or credited in the Statement of comprehensive income except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, outside the Statement of comprehensive income (either in other comprehensive income, directly in equity, or through a business combination), in which case the tax appears in the same statement as the transaction that gave rise to it.

Current tax is the amount of corporate income taxes expected to be payable or recoverable based on the profit for the period as adjusted for items that are not taxable or not deductible, and is calculated using tax rates and laws that were enacted or substantively enacted at the Balance sheet date.

Current tax includes amounts provided in respect of uncertain tax positions when management expects that, upon examination of the uncertainty by Her Majesty's Revenue and Customs (HMRC) or another tax authority, it is more likely than not that an economic outflow will occur. Provisions reflect management's best estimate of the ultimate liability based on their interpretation of tax law, precedent and guidance, informed by external tax advice as necessary. Changes in facts and circumstances underlying these provisions are reassessed at each Balance sheet date, and the provisions are re-measured as required to reflect current information.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Balance sheet. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the Balance sheet date, and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

1. Accounting policies (continued)

1.6 Taxation, including deferred income taxes

Deferred tax liabilities are generally recognised for all taxable temporary differences but not recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint arrangements where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future. Deferred tax liabilities are not recognised on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, and are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognised in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination. Deferred tax is not discounted.

2. Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although those estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

In the course of preparing these financial statements, no critical judgements have been made in the process of applying the company's accounting policies, other than those involving estimations which are disclosed separately below.

The following are critical accounting estimates that the directors have made in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Deferred tax

Estimation of income taxes includes the assessment of recoverability of deferred tax assets. Deferred tax assets are only recognised to the extent they are considered more likely than not to be recoverable based on existing tax laws and forecasts of future taxable profits against which the underlying tax deductions can be utilised.

Allowance for impairment losses

In the year under IFRS 9, the Company's accounting policy for impairment on the lease receivables is described in note 1.4.

The calculation of the Company's expected credit loss (ECL) allowances and provisions against financial assets and lease receivable balance under IFRS 9 requires the Company to make a number of judgements, assumptions and estimates. The most significant are set out below.

- Definition of default

The probability of default ("PD") of an exposure, both over a 12 month period and over its lifetime, is a key input to the measurement of the ECL allowance. Default has occurred when there is evidence that the customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due.

- Lifetime of an exposure

The PD of a financial asset is dependent on its expected life. A range of approaches, segmented by product type, has been adopted by the Company to estimate a product's expected life. These include using the full contractual life and taking into account behavioural factors such as early repayments and lease extensions. Changes to the assumed expected lives of the Company's assets could have a material effect on the ECL allowance recognised by the Company

- Significant increase in credit risk

Performing assets are classified as either Stage 1 or Stage 2. An ECL allowance equivalent to 12 months expected losses is established against assets in Stage 1; assets classified as Stage 2 carry an ECL allowance equivalent to lifetime expected losses. Assets are transferred from Stage 1 to Stage 2 when there has been a significant increase in credit risk (SICR) since initial recognition.

The Company uses a quantitative test together with qualitative indicators to determine whether there has been a SICR for an asset. Financial assets and lease receivables are assumed to have suffered a SICR if they are more than 30 days past due.

The setting of precise trigger points combined with risk indicators requires judgement. The use of different trigger points may have a material impact upon the size of the ECL allowance.

2. Critical accounting estimates and judgements in applying accounting policies (continued)

- Origination PDs

The assessment of whether there has been a significant increase in credit risk is a relative measure, dependent on an asset's PD at origination. For assets existing at 1 January 2018, the initial application date of IFRS 9, this information is not, generally, available and consequently management's judgement has been used to determine a reasonable basis for estimating the original PD. Management used various information sources, including regulatory PDs and credit risk data available at origination, or where this is not available the first available data. In addition, the Company has not created a forward looking view of PDs at initial recognition for the back book as to do so would involve the use of hindsight and could introduce the risk of bias. Where applicable, the use of proxies and simplifications is not considered to materially impact the ECL allowance on transition.

3. Finance income

	2018 **£'000**	2017 £'000
Finance lease income	**228**	18
	228	18

Finance lease income represents the income component of finance lease receivables earned in the year, being finance lease rentals less capital repayment.

4. Finance costs

	2018 **£'000**	2017 £'000
Interest payable on bank loans with other group companies	**809**	889
	809	889

5. Impairment recovery

	2018 **£'000**	2017 £'000
Impairment recovery on finance lease receivables	**44**	-
	44	-

Notes to the financial statements

For the year ended 31 December 2018

6. Taxation

a) Analysis of (charge)/credit for the year	**2018 £'000**	2017 £'000
UK corporation tax:		
- Current tax on taxable loss for the year	**(923)**	(765)
Current tax charge	**(923)**	(765)
UK deferred tax:		
- Origination and reversal of timing differences	**1,025**	933
- Due to change in UK corporation tax rate	**(108)**	(109)
Deferred tax credit (note 9)	**917**	824
Tax (charge)/credit	**(6)**	59

Corporation tax is calculated at a rate of 19.00% (2017: 19.25%) of the taxable profit for the year.

b) Factors affecting the tax (charge)/credit for the year

A reconciliation of the charge that would result from applying the standard UK corporation tax rate to the loss before tax to the actual tax charge for the year is given below:

	2018 £'000	2017 £'000
Loss before tax	**(537)**	(871)
Tax credit thereon at UK corporation tax rate of 19.00% (2017: 19.25%)	**102**	168
Factors affecting charge:		
- Due to change in UK corporation tax rate	**(108)**	(109)
Tax (charge)/credit on loss on ordinary activities	**(6)**	59
Effective rate	**(1.09%)**	6.73%

7. Amounts due from group undertakings

	2018 £'000	2017 £'000
Cash at bank	**3,632**	3,887
	3,632	3,887

Cash at bank £3,633k (2017: £3,887k) is unsecured, non interest bearing and payable on demand. For further details please refer to note 12.

Notes to the financial statements

For the year ended 31 December 2018

8. Finance lease receivables

	2017 £'000
Finance lease receivables	82,530
Adjustment on adoption of IFRS 9 (Note 15)	(245)
Net finance lease receivables	82,285

	Stage 1 £'000	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Gross finance lease receivables at 31 December 2017	**82,530**	-	-	82,530
Balance as at 1 January 2018	**82,530**	-	-	82,530
Exchange and other adjustments	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net increase in finance lease receivables	**(5,659)**	-	-	**(5,659)**
Gross finance lease receivables at 31 December 2018	**76,871**	-	-	76,871
Less : impairment for finance lease receivables	**(201)**	-	-	**(201)**
Net finance lease receivables	**76,670**	-	-	76,670

	2018 £'000	2017 £'000
Finance lease receivables	**76,670**	82,530
Gross finance lease receivables	**76,871**	82,530
Less : allowance for losses finanace lease receivables (note 13.1)	**(201)**	-
Net finance lease receivables	**76,670**	82,530
of which:		
Due within one year	**5,459**	4,766
Due after one year	**71,211**	77,764
	76,670	82,530

Notes to the financial statements
For the year ended 31 December 2018

8. Finance lease receivables (continued)

Amounts receivable under finance leases	Minimum lease payments 2018 £'000	Minimum lease payments 2017 £'000	Present value of minimum lease payments 2018 £'000	Present value of minimum lease payments 2017 £'000
Within 1 year	**9,857**	9,317	**5,660**	4,766
2-5 years inclusive	**47,476**	45,650	**35,183**	31,448
After 5 years	**38,473**	51,250	**36,028**	46,316
	95,806	106,217	**76,871**	82,530
Less: Unearned finance income	**(19,136)**	(23,687)		
Present value of minimum lease payments receivable	**76,670**	82,530		
Analysed as:				
Non-current finance lease receivables	**71,211**	77,764		
Current finance lease receivables	**5,459**	4,766		
	76,670	82,530		

The fair value of the company's finance lease receivables at 31 December 2018 is estimated at £75,047,000 (2017: £79,807,000)

9. Deferred tax liability

The movement in the Deferred tax liability is as follows:

	2018 £'000	2017 £'000
At 1 January	**(13,948)**	(14,772)
Transition to IFRS 9 (note 15)	**42**	-
At 1 January under IFRS 9	**(13,906)**	(14,772)
Deferred taxation credit for the year	**1,025**	933
Impact of tax rate change thereon	**(108)**	(109)
At 31 December	**(12,989)**	(13,948)

9. Deferred tax liability (continued)

The deferred tax credit in the Statement of comprehensive income comprises the following temporary differences:

	2018 **£'000**	2017 £'000
Accelerated capital allowances	**1,025**	933
Impact of tax rate change	**(108)**	(109)
Total deferred tax credit	**917**	824

Deferred tax liability comprises:	**2018** **£'000**	2017 £'000
Accelerated capital allowances	**(12,989)**	(13,948)
	(12,989)	(13,948)

The Finance Act 2016 reduced the main rate of corporation tax to 17% with effect from 1 April 2020.

10. Amounts due to group undertakings

	2018 **£'000**	2017 £'000
Bank borrowings	**61,709**	66,110
Interest payable	**4,747**	4,299
Tax payable	**923**	1,380
	67,379	71,789

Bank borrowings of £61,709k (2017: £66,110k) are unsecured, interest bearing and repayable on maturity (note 12).

All other balances within amounts due to group undertakings of £5,670k (2017: £5,679k) are unsecured, non interest bearing and payable within one year (note 12).

All amounts are payable within one year £67,379k (2017: £71,789k).

11. Share capital

	2018 **£**	2017 £
Allotted, issued and fully paid		
400 Ordinary shares of 25p each	**100**	100
400 6% Preference shares of 25p each	**100**	100
Total	**200**	200

The company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, provide an adequate return to its shareholder through pricing products and services commensurately with the level of risk and, indirectly, to support the Group's regulatory capital requirements.

The company's parent manages the company's capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company's parent may adjust the amount of dividends to be paid to the shareholder, return capital to the shareholder, issue new shares, or enter into debt financing.

The company's capital comprises all components of equity, movements in which appear in the statement of changes in shareholder's equity.

12. Related party transactions

The Company is controlled by Lloyds Banking Group. A number of transactions are entered into with related parties in the normal course of business. These include loan and fee transactions. A summary of the outstanding balances at the year end and the related income and expense for the year are set out below.

			2018	2017
			£'000	£'000
Amounts due from group undertakings				
Nature of transaction	Related party	Repayment date		
Cash at bank	Lloyds Bank plc	N/A	**3,632**	3,887
Total Amounts due from group undertakings (note 7)			**3,632**	3,887

			2018	2017
			£'000	£'000
Amounts due to group undertakings				
Nature of transaction	Related party	Repayment date		
Bank borrowings	Lloyds Bank plc	14/01/2019	**61,709**	66,110
Interest payable	Lloyds Bank plc	14/01/2019	**4,747**	4,299
Tax payable	Bank of Scotland plc	N/A	**923**	1,380
Total Amounts due to group undertakings (note 10)			**67,379**	71,789
Finance income				
Interest receivable	Lloyds Bank plc		**228**	18
Finance costs				
Interest payable	Lloyds Bank plc		**809**	889

There were no doubtful debts or bad debt expenses relating to the above balances incurred during the year.

Bank borrowings are interest bearing and during the year rates of interest of between 0.22% and 0.81% (2017: 0.22% and 0.39%) were charged. Bank borrowings are not guaranteed and there are no inter company guarantees in place.

The company paid taxation £1,380,000 (2017: £nil) during the year to group undertakings.

The registered offices of related parties are noted below:

Related party	Registered address
Lloyds Bank plc	25 Gresham Street, London EC2V 7HN
Bank of Scotland plc	The Mound, Edinburgh, EH1 1YZ

13. Financial risk management

The Company's operations expose it to credit risk, liquidity risk, market risk which includes interest rate risk; it is not exposed to any significant foreign exchange risk. Responsibility for the control of overall risk lies with the board of directors, operating within a management framework established by Lloyds Banking Group, and the ultimate parent, Lloyds Banking Group plc.

13. Financial risk management (continued)

13.1 Credit risk

Credit risk management

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The credit risk associated with credit sale agreements, finance leases and trade receivables is managed through the application of strict underwriting criteria, determined by the Groups credit commitee and credit functions. Significant credit exposures are measured and reported on a regular basis. Impairment provisions are provided for losses expected to be incurred at the Balance sheet date, using the basis of assessment discussed in note 1.4 and 2.

The credit risk associated with cash and cash equivalents are held with other companies within the Group. The credit risk associated with these financial assets is not considered to be significant.

Credit risk mitigation

- Credit principles and policy: Group Risk sets out the group credit principles and policy according to which credit risk is managed, which in turn is the basis for divisional and business unit credit policy. Principles and policy are reviewed regularly and any changes are subject to a review and approval process. Business unit policy includes lending guidelines, which define the responsibilities of lending officers and provide a disciplined and focused benchmark for credit decisions.
- Concentration risk: Credit risk management includes portfolio controls on certain industries, sectors and product lines that reflect risk appetite and which operate at a divisional level. Credit policy is aligned to risk appetite and restricts exposure to certain high risk and more vulnerable sectors. At a divisional level, exposures are monitored to prevent excessive concentration of risk. These concentration risk controls are not necessarily in the form of a maximum limit on lending but may instead require new business in concentrated sectors to fulfil additional hurdle requirements.
- Stress testing and scenario analysis at a divisional level: The credit portfolio is also subjected to stress testing and scenario analysis, to simulate outcomes and calculate their associated impact.

Financial assets subject to credit risk

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

	2018 £'000	2017 £'000
Amounts due from group undertakings	**3,632**	3,887
	3,632	3,887

Finance lease receivables – maximum exposure

	2017 £'000
Neither past due nor impaired	82,530
Past due but not impaired	-
Impaired	-
Maximum exposure – finance lease receivables	82,530

Finance lease receivables which are neither past due nor impaired

	2017 £'000
Good quality	82,530
Satisfactory quality	-
Lower quality	-
Below standard, but not impaired	-
Total	82,530

Notes to the financial statements

For the year ended 31 December 2018

13. Financial risk management (continued)

13.1 Credit risk (contiued)

In general, good quality lending comprises those balances with a lower probability to default rating assigned and the rating progressively increases for each category exhibiting a progressively higher probability to default.

Finance lease receivables - gross carrying amount	**2018 £'000**
Stage 1	
Good quality	-
Satisfactory quality	**76,871**
Lower quality	-
Below standard, but not impaired	-
	76,871
Stage 2	
Good quality	-
Satisfactory quality	-
Lower quality	-
Below standard, but not impaired	-
	-
Stage 3	
Credit-impaired	-
	-
Total	**76,871**

Definitions of good quality, satisfactory quality, lower quality and below standard,, but not impaired, are not the same across each segment, reflecting different characteristics of these exposures and the way they are managed internally, therefore no totals are provided. In general, good quality lending comprises those balances with a lower probability to default rating assigned and the rating progressively increases for each category exhibiting a progressively higher probability to default.

Analysis of movement in the allowance for impairment losses by stage

In respect of drawn balances	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
At 31 December 2017	-	-	-	-
Adjustment on adoption of IFRS 9	(245)	-	-	**(245)**
Balance as at 1 January 2018	(245)	-	-	**(245)**
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Recovery for year	44	-	-	**44**
At 31 December 2018	(201)	-	-	**(201)**

In respect of	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Finance lease receivables	(201)	-	-	**(201)**
Total	(201)	-	-	**(201)**

13. Financial risk management (continued)

13.2 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due.

The liquidity profile of financial liabilities at the year end was as follows:

As at 31 December 2018

	On demand £'000	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Total £'000
Bank borrowings	-	61,709	-	-	-	61,709
Other payables	5,670	-	-	-	-	5,670
	5,670	61,709	-	-	-	67,379

As at 31 December 2017

	On demand £'000	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Total £'000
Bank borrowings	-	66,110	-	-	-	66,110
Other payables	5,647	32	-	-	-	5,679
	5,647	66,142	-	-	-	71,789

13.3 Interest rate risk

Interest rate risk is the risk that the future cash flows and fair values of a financial instrument may fluctuate because of changes in market interest rates.

The company takes into account the exposure on fluctuations in the prevailing levels of market interest rates on its cash flows when structuring its operations by ensuring the interest terms of its finance income is matched to the variable interest terms of the borrowing used to finance the leasing portfolio. As such the company has no material exposure to financial risk arising from changes in market interest rates.

Interest rate risk - sensitivity analysis

Based on the balance sheet carrying values a +/ 25 basis point change in interest rates will increase/reduce income by £154,000 (2017: £165,000).

13.4 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The company's transactions are all denominated in pounds sterling and as such the company has no exposure to foreign currency risk.

14. Post balance sheet events

There are no post balance sheet events requiring disclosure in these financial statements.

15. Transition to IFRS 9

15.1 Impact of Transition

The following table summarises the adjustments arising on the adoption of IFRS 9 to the Company's Balance sheet as at 1 January 2018.

	As at 31 December 2017	IFRS 9: Classification and measurement	IFRS 9: Impairment	Total IFRS 9 impact on transition	Adjusted as at 1 January 2018
	£'000	£'000	£'000	£'000	£'000
ASSETS					
Amounts due from group undertakings	3,887	-	-	-	3,887
Finance lease receivables	82,530	-	(245)	(245)	82,285
Total assets	86,417	-	(245)	(245)	86,172
LIABILITIES					
Amounts due to group undertakings	71,789	-	-	-	71,789
Deferred tax liability	13,948	-	(42)	(42)	13,906
Total liabilities	85,737	-	(42)	(42)	85,695
EQUITY					
Share capital	-	-	-	-	-
Retained earnings	680	-	(203)	(203)	477
Total equity	680	-	(203)	(203)	477
Total equity and liabilities	86,417	-	(245)	(245)	86,172

15.2 Impairment

The Company adopted IFRS 9 from 1 January 2018. In accordance with the transition requirements of IFRS 9, comparative information for 2017 has not being restated and transitional adjustments have been accounted for through Retained earnings as at 1 January 2018 and as a result Retained earnings reduced by £203,000, driven on the effects of additional impairment provisions following the implementation of the ECL methodology and fair value adjustments following the reclassification of certain financial assets to be measured at fair value rather than amortised cost. It is not practicable to quantify the impact of adoption of IFRS 9 on the results for the current period.

The following table summarises the impact of the transitional adjustment on the Company's loss allowances at 1 January 2018,

	IAS 39 allowance at 31 December 2017 £'000	Transitional adjustments to loss allowance £'000	IFRS 9 loss allowance at 1 January 2018 £'000
Finance lease receivables	-	(245)	(245)
Total	-	(245)	(245)

Notes to the financial statements

For the year ended 31 December 2018

16. Implementation of IFRS 9 Financial Instruments

This note explains the impact of the adaptation of IFRS 9 Financial Instruments on the Company's financial statements.

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of the financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

Classification and measurement

IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income or amortised cost.

Financial assets will be measured at amortised cost if they are held within a business model the objective of which is to hold financial assets in order to collect contractual cashflows, and their contractual cashflows represent solely payments of principle and interest. Financial assets will be measured at fair value through other comprehensive income if they are held within a business model the objective of which is achieved by collecting contractual cashflows and selling financial assets and their contractual cashflows represent solely payments of principle and interest. Financial assets not meeting either of these two business models; and all equity instruments (unless designated at inception to fair value through other comprehensive income); and all derivatives are measured at fair value through profit and loss.

An entity may, at initial recognition, designate a financial asset as measures at fair value through profit and loss if doing so eliminates or significantly reduces an accounting mismatch.

Impairment

IFRS 9 replaces the existing "incurred loss" impairment approach with an expected credit loss ("ECL") model resulting in earlier recognition of credit losses compared with IAS 39. The ECL model has three stages. Entities are required to recognise a 12 month expected loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk since initial recognition (stage 2). Stage 3 requires objective evidence that an asset is credit impaired, which is similar to the guidance on incurred losses in IAS 39.

Impact on the financial statements

The Company has adopted IFRS 9 from 1 January 2018. In accordance with the transition requirements of IFRS 9, comparative information for 2017 has not been restated and transitional adjustments have been accounted for through retained earnings as at 1 January 2018.

As at the balance dates 31 December 2017 and 31 December 2018 the financial asset held by the entity comprises of cash at bank held by the parent company on behalf of the company. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

As at the balance dates 31 December 2017 and 31 December 2018 the financial liabilities held by the entity comprises bank borrowings, interest payable and tax payable to group companies. The identified impairment loss was immaterial.

The company has conducted an analysis of these changes and does not consider there to be any significant impact of applying IFRS 9 to the financial assets and liabilities within the financial statements.

Notes to the financial statements

For the year ended 31 December 2018

17. Future developments

The following pronouncements will be relevant to the Company but was not effective at and has not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
IFRS 16 'Leases' [1]	Replaces IAS 17 'Leases' and is effective for annual periods beginning on or after 1 January 2019. Accounting as a lessor will remain aligned to the current approach under IAS 17; however for lessee accounting there will no longer be a distinction between finance and operating leases. The transition will result in the recognition of right of use assets and lease liabilities in respect of leased properties previously accounted for as operating leases; there will be no impact on shareholders' equity. The impact of this pronouncement has been assessed by the Company with the view that the financial statements will not be materially impacted.	Annual periods beginning on or after 1 January 2019

[1] The full impact of this pronouncement is being assessed by the Company. However, the initial view is that this is not expected to cause any material adjustments to the reported numbers in the financial statements.

18. Ultimate parent undertaking and controlling party

The immediate parent company is Lloyds Bank Leasing Limited (incorporated in England and Wales). The company regarded by the directors as the ultimate parent company and controlling party is Lloyds Banking Group plc (incorporated in Scotland), which is also the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member. Copies of the financial statements of both companies may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN. The Lloyds Banking Group plc financial statements may be downloaded via www.lloydsbankinggroup.com.

Independent auditors' report to the members of Hill Samuel Finance Limited

Report on the audit of the financial statements

Opinion

In our opinion, Hill Samuel Finance Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2018; the income statement, the statement of comprehensive income, the cash flow statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

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

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

Mark Hoskyns-Abrahall (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
30 September 2019