The Agricultural Mortgage Corporation plc

Annual report and financial statements for the year ended 31 December 2020

Member of Lloyds Banking Group

Strategic report

For the year ended 31 December 2020

The directors present their Strategic report and the audited financial statements of The Agricultural Mortgage Corporation plc (the "Company") for the year ended 31 December 2020.

Business overview

The Company's overall performance has continued to gain strong impetus. In the market it is becoming increasingly known as a straightforward provider of long-term finance for the agriculture sector, providing stability and certainty, particularly during these uncertain times for farming communities. Land sales remain the most popular purpose of completed loans, closely followed by restructuring of finances.

The results for the year, which show a 5% increase in Loans and advances to customers to £4,184,863,000 (2019: £3,996,910,000), reflect the robustness of the business.

This continued momentum is further demonstrated through the contribution the Company has had with £187,000,000 (7%) towards to the wider SME Banking Helping Britain Prosper lending growth in 2020.

The Company's profit before tax for the financial year was £67,270,000 (2019: £56,766,000). The year on year increase is primarily due to reduced interest expense and operating expense.

Despite the current uncertainty, the medium and long term outlook continues to remain positive for the Agriculture sector as a whole. Population growth and world consumption continues to grow. However UK Agriculture will continue to evolve and align to a new Domestic Agricultural Policy which will see continued diversification in the sector with multiple income streams.

The board of directors remains confident that the Company is well positioned to continue to secure good levels of new business throughout 2021.

Principal risks and uncertainties

The principal risks and uncertainties to the Agricultural Sector being commodity price volatility, the creation of a new Domestic Agricultural Policy, and the impact on the UK in leaving the European Union.

The Company's business continues to be well positioned due to a cautious credit risk approach detailed by a low loan-to-value ("LTV") across the portfolio of approximately 36% (2019: 35%).

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Commercial Banking Division within Lloyds Banking Group (the "Group"). While these risks are not managed separately for the Company, the Company is a main trading company of the Commercial Banking Division. The Commercial Banking Division is a portfolio of businesses and operates in a number of specialist markets providing corporate lending.

The global pandemic from the outbreak of COVID-19 continues to cause widespread disruption to normal patterns of business activity across the world, including in the UK, and volatility in financial markets. Measures taken to contain the health impact of the COVID-19 pandemic have resulted in an adverse impact on economic activity across the world and the duration of these measures remains uncertain. Monetary policy loosening has supported asset valuations across many financial markets, but longer-term impacts on inflation, interest rates, credit spreads, foreign exchange rates and commodity, equity and bond prices remain unclear.

Synchronisation of emergency measures to slow the spread of COVID-19 across the world has brought about rapid deterioration in economic growth across all countries and regions, directly adversely impacting the UK through many channels, including trade and capital flows. The UK experienced a deep contraction in economic activity during 2020 as a result of the COVID-19 pandemic, and both private and public sector debt have risen significantly. If the economic downturn damage were to be prolonged significantly by inability to control COVID-19 spread with vaccines, public finances would likely continue to deteriorate and could result in a sovereign downgrade.

Further, the economic impact of the COVID-19 pandemic, including increased levels of unemployment, corporate insolvencies and business failures could adversely impact the Company's retail or corporate customers and their ability to service their contractual obligations, including to the Company. Adverse changes in the credit quality of Company's borrowers and counterparties or collateral held in support of exposures, or in their behaviour, may reduce the value of Company's assets and materially increase its write-downs and allowances for impairment losses. This could have a material adverse effect on the Company's results of operations, financial condition or prospects.

In addition to providing support under government support schemes, the Company has taken specific measures to alleviate the impact on the Company's customers, including payment holidays which, taken together with lower interest rates and restrictions on fees associated with certain products, may have an adverse impact on the Company's results of operations, financial conditions or prospects.

As a result of the COVID-19 pandemic, the potential for conduct and compliance risks as well as operational risks materialising has increased, notably in the areas of cyber, fraud, people, technology, operational resilience and where there is reliance on third-party suppliers. In addition to the key operational risks, new risks are likely to arise as the Company may need to change its ways of working whilst managing any instances of COVID-19 among its employees and locations to ensure continuity and support to colleagues and customers.

Strategic report (continued)
For the year ended 31 December 2020

Principal risks and uncertainties (continued)

The AMC Business Provided over 450 Capital Repayment Holidays by way of support during COVID-19 to our Clients. Most of these were to Diversified Agricultural Businesses such as B & Bs, Holiday lets and Wedding Venues that would have been more materially affected by COVID-19 than traditional Farming Businesses.

The Agricultural Sector, although not being unduly affected by the Brexit Overseas Export / Import Tariff Deal arrangements, will be materially impacted over the next 7 years or so by the phased reduction of the current CAP Basic Payment Scheme and introduction of the replacement Subsidy Grant schemes such as ELMS and Environmental Sustainability Incentive Schemes.

Details of the Company’s and Group's risk management policy are contained in note 19 to the financial statements.

Key performance indicators (KPIs)

The board monitors progress on the Company's overall strategy together with the individual strategic elements of the business by reference to five KPIs.

Performance during the year, together with comparative historical data, is set out below.

KPI	2020 %	2019 %	Definition, method of calculation and analysis
Income (Decrease) / Growth	(2.6)	12.2	Year on year growth in total income (gross interest income, gross fees and commission income and other operating income) as a percentage.
PBT Growth	18.5	27.0	Year on year growth in profit before tax as a percentage.
Cost/Income	3.1	3.5	Other operating expenses as a percentage of total income.

KPI	2020 £'m	2019 £'m	Definition, method of calculation and analysis
Applications	858.7	973.2	Value of loan applications received from customers in the year.
Completions	425.0	568.4	Value of loans completed in the year.

Section 172(1) Statement

In accordance with the Companies Act 2006 (the "Act"), for the year ended 31 December 2020, the directors provide the following statement describing how they have had regard to the matters set out in section 172(1) of the Act, when performing their duty to promote the success of the Company under section 172.

Statement of Engagement with Other Stakeholders

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the following statement also provides details on how the directors have engaged with, and had regard to, the interest of key stakeholders. The Company is a subsidiary of Lloyds Banking Group plc, and as such follows many of the processes and practices of Lloyds Banking Group plc, which are further referred to in this statement where relevant.

Customers

The directors ensure the Company, as part of Lloyds Banking Group plc, works toward achieving Lloyds Banking Group plc's customer ambitions and focussing on treating customers fairly. The directors have also worked to agree customer plans, regularly reviewing customer behaviour, customer pricing and repayment of customer loans, to understand areas where improvements can be made. Lloyds Banking Group plc regularly benchmarks amongst its customers the performance of itself and its subsidiaries, and uses this insight along with a range of internal and external research to ensure ongoing improvement in customer experience.

Shareholders

The Company is a wholly owned subsidiary of Lloyds Banking Group plc, forming part of Lloyds Banking Group plc's commercial division. As a wholly owned subsidiary, the directors ensure that the strategy, priorities, processes and practices of the Company are fully aligned where required to those of Lloyds Banking Group plc, ensuring that the interests of Lloyds Banking Group plc as the Company's sole shareholder are duly acknowledged. Further information in respect of the relationship of Lloyds Banking Group plc with its shareholders is included within the Strategic Report within the Lloyds Banking Group plc Annual Report and Accounts for 2020, which does not form part of this report, available on the Lloyds Banking Group plc website.

Strategic report (continued)

For the year ended 31 December 2020

Section 172(1) Statement (continued)

Communities and the Environment

Due to its limited physical presence, the Company has a minimal direct impact on the community and the environment, it does however continue to support Lloyds Banking Group plc's related initiatives, including Helping Britain Prosper by actively managing its customer lending. Further information in respect of Lloyds Banking Group plc's overall approach to engaging with and contributing to the communities in which it operates is included within the Strategic Report within the Lloyds Banking Group plc's Annual Report and Accounts for 2020, which does not form part of this report. Additional information on Lloyds Banking Group plc's Helping Britain Prosper Plan is available on the Lloyds Banking Group plc website.

How stakeholder interest has influenced decision making

The directors acknowledge that one of the primary responsibilities of the board is to ensure the strategy of the Company, as aligned to that of Lloyds Banking Group plc, is to effectively manage its remaining customer base to generate sustainable returns, central to which is ensuring engagement with stakeholders, and considering in all instances the long-term implications of decisions made, acting at all times to maintain the highest possible standards of conduct.

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

S Haycock

S Haycock
Director

25 June 2021

Directors' report

For the year ended 31 December 2020

The directors present their Annual report and the audited financial statements of the Company for the year ended 31 December 2020.

General information

The Company is a public company limited by shares, incorporated and domiciled in England and Wales (registered number: 00234742).

The principal activity of the Company was the provision of long term finance to the agriculture sector, and this is likely to continue for the foreseeable future.

The Company is funded entirely by other companies within the Group.

Future outlook

The Company has achieved a satisfactory level of returns and expects to continue to do so in the foreseeable future when the agriculture market reopens. The directors are supporting a strategy designed to ensure that the Company's interest and other charges fully reflect the risks associated with its core products. The rapid pace and scale of measures to contain a major health issue such as the COVID-19 pandemic demonstrate the potentially adverse impact of those measures on the economy. The government and regulators are taking significant action to address the economic impact, which may be temporary, but depending on the severity it could lead to a significant loss of output and recession in the UK. Any sector-specific or wider impact due to this could potentially impact the commercial customers of the Group and as a result have a material adverse effect on the Company's results of operations, financial condition or prospects.

The effects on the UK, European and global economies following the UK's exit from the EU and the impact of the EU-UK Trade and Cooperation Agreement signed on 30 December 2020 (the "EU-UK TCA") remain difficult to predict but may include economic and financial instability, constitutional instability in the UK and other types of risks that could adversely impact the business of the Company, results of operations, financial condition and prospects. In the event of any further substantial weakening in the UK's economic growth, the possibility of decreases in interest rates by the Bank of England or sustained low or negative interest rates would put further pressure on the Company's interest margins and potentially adversely affect its profitability and prospects.

Employees

The Company, as a member of the Group, is committed to providing employment practices and policies which recognise the diversity of our workforce and will not unfairly discriminate in the recruitment or employment practices on the basis of any factors which are not relevant to individuals' performance including gender, race, disability, age, sexual orientation or religious belief.

In the UK, the Group belongs to a number of major employment equality campaign groups including the Business Disability Forum, The Age and Employment Network, Stonewall and Race for Opportunity. The Group's involvement with these organisations enables the identification and implementation of best practice for staff.

The Group has a range of programmes to support colleagues who become disabled or acquire a long term health condition. These include a workplace adjustment programme to provide physical equipment or changes to the way a job is done. The Group also runs residential Personal and Career Development Programmes to help colleagues deal positively with the impact of a disability and the colleagues disability network, Access, provides peer support.

Employees are kept closely involved in major changes affecting them through such measures as team meetings, briefings, internal communications and opinion surveys. There are well established procedures, including regular meetings with recognised unions, to ensure that the views of employees are taken into account in reaching decisions.

Share options and share purchase schemes are available to most staff, to encourage their financial involvement in the Group.

Dividends

A dividend of £43,273,000 (2019: £32,594,000) representing a dividend of 234p per share (2019: 176p per share), was declared and paid during the year.

Going concern

The Company has a net asset position and as such can meet its future obligations to continue as a going concern. The directors are satisfied that it is the intention of Lloyds Banking Group plc ("LBG") that its subsidiaries, including the Company, will continue to have access to adequate liquidity and capital resources for the foreseeable future and, accordingly, the financial statements have been prepared on a going concern basis.

Directors' report (continued)

For the year ended 31 December 2020

Directors

The current directors of the Company are as below.

P A Gordon
S Haycock
N J M Ingram
M A L Packham
L A Reeves

The following changes have taken place between the beginning of the reporting period and the approval of the Annual report and financial statements:

N A N Laird	(resigned 1 March 2021)
A Moore	(resigned 4 May 2020)
A J Naylor	(resigned 6 May 2020)
N J M Ingram	(appointed 28 July 2020)
L A Reeves	(appointed 2 June 2020)

Registered address

The Company's registered address is Charlton Place, Charlton Road, Andover, Hampshire, SP10 1RE.

Company Secretary

The current Company Secretary is shown below:

D D Hennessey

Information included in the Strategic report

The disclosures for Principal risks and uncertainties and Key performance indicators that would otherwise be required to be disclosed in the Directors' report can be found in the Strategic report on page 1.

Statement of engagement with other stakeholders

A statement of engagement with other stakeholders is included in the Strategic report on page 2.

Directors' indemnities

Lloyds Banking Group plc has granted to the directors of the Company a deed of indemnity which constitutes 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. 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 directors 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 deed of indemnity during that period of service. The indemnity remains in force for the duration of a director's period of office. The deed indemnifies the directors to the maximum extent permitted by law. The Deed for existing directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, Lloyds Banking Group has in place appropriate Directors and Officers Liability Insurance cover which was in place throughout the financial year.

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' and Strategic Reports 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 prepared the company's financial statements in accordance with international accounting standards in conformity with the requirements of 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 of 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 the financial statements comply with international accounting standards in conformity with the requirements of the Companies Act 2006, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Directors' report (continued)

For the year ended 31 December 2020

Statement of directors' responsibilities (continued)

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.

Directors' confirmations

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

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

Independent auditors

Pursuant to section 487(2) of the Companies Act 2006, the auditors of the Agricultural Mortgage Corporation plc are deemed re-appointed for each financial year unless the Directors of the Company resolve to terminate their appointment. Following the completion of a tender process, Deloitte LLP are to be appointed as auditors of the Agricultural Mortgage Corporation plc for accounting periods ending on or after 31 December 2021.

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

S Haycock

S Haycock
Director

25 June 2021

Statement of comprehensive income

For the year ended 31 December 2020

	Note	**2020 £'000**	2019 £'000
Interest income		**129,265**	132,646
Interest expense		**(60,370)**	(73,055)
Net interest income	3	**68,895**	59,591
Fee and commission income		**6,406**	7,384
Fee and commission expense		**(4,658)**	(5,355)
Net fee and commission income	4	**1,748**	2,029
Other operating income		**856**	87
Other operating expenses	5	**(4,229)**	(4,941)
Profit before tax		**67,270**	56,766
Taxation	9	**(12,747)**	(10,753)
Profit for the year		**54,523**	46,013

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

Balance sheet
As at 31 December 2020

	Note	**2020** **£'000**	2019 £'000
ASSETS			
Cash and cash equivalents		**18,977**	31,962
Trade and other receivables	11	**6,408**	4,546
Loans and advances to customers	12	**4,184,863**	3,996,910
Deferred tax asset	14	**308**	323
Total assets		**4,210,556**	4,033,741
LIABILITIES			
Borrowed funds	13	**4,117,063**	3,953,669
Trade and other payables		**3,145**	3,268
Provision for liabilities and charges		**188**	208
Current tax liability		**12,927**	10,613
Total liabilities		**4,133,323**	3,967,758
EQUITY			
Share capital	15	**18,500**	18,500
Retained earnings		**58,733**	47,483
Total equity		**77,233**	65,983
Total equity and liabilities		**4,210,556**	4,033,741

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:

S Haycock

S Haycock
Director

25 June 2021

Statement of changes in equity

For the year ended 31 December 2020

	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2019	18,500	34,394	52,894
Comprehensive income			
Profit for the year	-	46,013	46,013
Dividend paid to equity holders of the Company	-	(32,594)	(32,594)
Adjustments on changes in Retirement benefits methodology	-	(330)	(330)
Total comprehensive income	**-**	**13,089**	**13,089**
At 31 December 2019	**18,500**	**47,483**	**65,983**
Comprehensive income			
Profit for the year	-	54,523	54,523
Dividend paid to equity holders of the Company	-	(43,273)	(43,273)
Total comprehensive income	**-**	**11,250**	**11,250**
At 31 December 2020	**18,500**	**58,733**	**77,233**

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

Cash flow statement

For the year ended 31 December 2020

	2020 £'000	2019 £'000
Profit before tax	**67,270**	56,766
Adjustments for:		
- Interest expense	**60,370**	73,055
- Non-cash pension charge	**-**	223
- Impact of changes in Retirement benefits methodology	**-**	(330)
- (Decrease)/increase in Provision for liabilities and charges	**(20)**	208
Operating cash flows before movements in working capital	**127,620**	129,922
- increase in Loans and advances to customers	**(187,953)**	(345,402)
- (increase)/decrease in Trade and other receivables	**(1,862)**	739
- (decrease)/increase in Trade and other payables	**(123)**	561
Cash used in operations	**(62,318)**	(214,180)
Tax paid	**(10,419)**	(16,053)
Net cash used in operating activities	**(72,737)**	(230,233)
Cash flows (used in)/generated from financing activities		
Dividends paid	**(43,273)**	(32,594)
(Decrease)/Increase in net borrowings with group undertakings	**(22,633)**	341,660
Interest paid	**(60,370)**	(73,055)
Net cash (used in)/generated from financing activities	**(126,276)**	236,011
Change in Cash and cash equivalents	**(199,013)**	5,778
Cash and cash equivalents at beginning of year	**31,793**	26,015
(Net bank overdrafts)/cash and cash equivalents at end of year	**(167,220)**	31,793
(Net bank overdrafts)/cash and cash equivalents comprise		
Cash at bank	**18,977**	31,962
Bank overdrafts (see note 13)	**(186,197)**	(169)
(Net bank overdrafts)/cash and cash equivalents	**(167,220)**	31,793

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 2020

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 comply with international accounting standards in conformity with the requirements of the Companies Act 2006.

There are no new pronouncements relevant to the Company requiring adoption.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2020 and which have not been applied in preparing these financial statements are given in note 22. No standards have been early adopted.

The financial statements have been prepared on a going concern basis and under the historical cost convention.

The Company has a net asset position as such can meet its future obligations to continue as a going concern. The Directors are satisfied that it is the intention of LBG that its subsidiaries, including the Company, will continue to have access to adequate liquidity and capital resources for the foreseeable future and, accordingly, the financial statements have been prepared on a going concern basis.

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, including loans and advances, 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.

Fees and commission income and expense

Fees and commissions which are not an integral part of the effective interest rate are generally recognised in the Statement of comprehensive income.

Fees and commissions income comprise facility setting up fees, facility renewal fees, repayment handling fees, loan alteration fees and facility administration fees.

Fees and commissions expense comprise valuation fees.

1.3 Financial assets and liabilities

Financial assets comprise Loans and advances to customers, Trade and other receivables and Cash and cash equivalents. Financial liabilities comprise Amounts due to group undertakings, Bank overdraft with group undertaking and Trade and other payables.

On initial recognition, financial assets are classified as measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss, depending on the Company's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. The Company 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. Financial assets with embedded derivatives are considered in their entirety when considering their cash flow characteristics. The Company 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 Company's operations and will occur at a portfolio level and not for individual instruments; reclassifications are expected to be rare. Equity investments are measured at fair value through profit or loss unless the Company elects at initial recognition to account for the instruments at fair value through other comprehensive income. For these instruments, principally strategic investments, dividends are recognised in profit or loss but fair value gains and losses are not subsequently reclassified to profit or loss following derecognition of the investment.

Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the Company has transferred its contractual right to receive the cash flows from the assets and either: substantially all of the risks and rewards of ownership have been transferred; or the Company has neither retained nor transferred substantially all of the risks and rewards, but has transferred control. Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

Interest bearing financial assets and financial liabilities are recognised and measured at amortised cost inclusive of transaction costs, using the effective interest rate method.

1. Accounting policies (continued)

1.4 Impairment of financial assets

The impairment charge in the income statement includes the change in expected credit losses. Expected credit losses are recognised for loans and advances to customers and banks, other financial assets held at amortised cost, financial assets measured at fair value through other comprehensive income, and certain loan commitments and financial guarantee contracts. Expected credit losses are calculated as an unbiased and probability weighted estimate using an appropriate probability of default, adjusted to take into account a range of possible future economic scenarios, and applying this to the estimated exposure of the Company at the point of default after taking into account the value of any collateral held, repayments, or other mitigants of loss and including the impact of discounting using the effective interest rate.

At initial recognition, allowance (or provision in the case of some loan commitments) 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 since origination, 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 since initial recognition are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3. Some Stage 3 assets, mainly in Commercial Banking, are subject to individual rather than collective assessment. Such cases are subject to a risk-based impairment sanctioning process, and these are reviewed and updated at least quarterly, or more frequently if there is a significant change in the credit profile.

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. The assessment is unbiased, probability-weighted and uses forward-looking information consistent with that used in the measurement of expected credit losses. In determining whether there has been a significant increase in credit risk, the Company uses quantitative tests based on relative and absolute probability of default (PD) movements linked to internal credit ratings together with qualitative indicators such as watchlists and other indicators of historical delinquency, credit weakness or financial difficulty. However, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due. The use of a payment holiday in itself has not been judged to indicate a significant increase in credit risk, with the underlying long-term credit risk deemed to be driven by economic conditions and captured through the use of forward-looking models. These portfolio level models are capturing the anticipated volume of increased defaults and therefore an appropriate assessment of staging and expected credit loss. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since initial recognition, the asset is transferred back to Stage 1.

Assets are transferred to Stage 3 when they have defaulted or are otherwise considered to be credit impaired. Default is considered to have occurred when there is evidence that the customer is experiencing financial difficulty which is likely to affect significantly the ability to repay the amount due. IFRS 9 contains a rebuttable presumption that default occurs no later than when a payment is 90 days past due. The use of payment holidays is not considered to be an automatic trigger of regulatory default and therefore does not automatically trigger Stage 3. Days past due will also not accumulate on any accounts that have taken a payment holiday including those already past due.

In certain circumstances, the Company will renegotiate the original terms of a customer's loan, either as part of an ongoing customer relationship or in response to adverse changes in the circumstances of the borrower. In the latter circumstances, the loan will remain classified as either Stage 2 or Stage 3 until the credit risk has improved such that it no longer represents a significant increase since origination (for a return to Stage 1), or the loan is no longer credit impaired (for a return to Stage 2). On renegotiation, the gross carrying amount of the loan is recalculated as the present value of the renegotiated or modified contractual cash flows which are discounted at the original effective interest rate. Renegotiation may also lead to the loan and associated allowance being derecognised and a new loan being recognised initially at fair value.

A loan or advance is normally written off, either partially or in full, against the related allowance when the proceeds from realising any available security have been received or there is no realistic prospect of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the income statement. The write-off takes place only once an extensive set of collections processes has been completed, or the status of the account reaches a point where policy dictates that continuing attempts to recover are no longer appropriate.

1.5 Dividends paid

Dividends on ordinary shares are recognised through equity in the period in which they are paid.

1.6 Cash and cash equivalents

For the purposes of the Balance sheet and Cash flow statement, Cash and cash equivalents and Bank overdrafts comprise balances with a maturity of less than 3 months.

Notes to the financial statements (continued)
For the year ended 31 December 2020

1. Accounting policies (continued)

1.7 Taxation, including deferred income taxes

Tax expense comprises current and deferred tax. Current and deferred tax are charged or credited in the Income Statement 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 Income Statement (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 other relevant 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.

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.

1.8 Retirement benefit obligations

The Company participates in various defined benefit and defined contribution pension schemes operated by companies within the Lloyds Banking Group.

A defined benefit scheme is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, dependent on one or more factors such as age, years of service and salary. A defined contribution plan is a pension plan into which the Group pays fixed contributions; there is no legal or constructive obligation to pay further contributions.

The Company pays cash contributions to the various Group schemes during the year relating to its employees' current service. The Company accounts for its pension arrangements in accordance with IAS 19. The Company recognise the benefit cost, equal to its contribution payable for the year. As the amount charged to the Company is based on the cash contributions of Lloyds Banking Group, no asset or liability or movements in other comprehensive income are recognised by the Company.

Costs relating to the participation of the Company's employees in the Lloyds Banking Group’s defined contribution plans are charged to the income statement in the period in which they fall due.

1.9 Share based payments

The Company’s ultimate parent company operates a number of group-wide, equity-settled, share based compensation plans in respect of services received from certain of its employees. The Company’s share of the value of its employees’ services received in exchange for equity instruments granted under these plans is recognised as an expense over the vesting period of the instruments with a corresponding liability to the ultimate parent undertaking. This expense is determined by reference to the fair value of the number of equity instruments that are expected to vest. The fair value of equity instruments granted is based on market prices, if available, at the date of grant. In the absence of market prices, the fair value of the instruments at the date of grant is estimated using an appropriate valuation technique, such as a Black-Scholes option pricing model or a Monte Carlo simulation. The determination of fair values excludes the impact of any non-market vesting conditions, which are included in the assumptions used to estimate the number of options that are expected to vest.

At each balance sheet date, this estimate is reassessed and if necessary revised. Any revision of the original estimate is recognised over the remaining vesting period. Cancellations by employees of contributions to the Group’s Save As You Earn plans are treated as non-vesting conditions and the Company recognises, in the year of cancellation, the amount of the expense that would have otherwise been recognised over the remainder of the vesting period.

Notes to the financial statements (continued)

For the year ended 31 December 2020

2. Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In the course of preparing these financial statements, no critical judgements have been made in the process of applying the company's accounting policies.

The significant estimate made by management in applying the Company's accounting policies and the key resources of estimation uncertainty in these financial statements is Allowance for impairment losses on financial assets (see note 1.4). Considering the current environment and forward looking information, the Directors consider any reasonable impact of change in assumptions resulting in ECL charge to be not material.

Allowance for impairment losses

At 31 December 2020, the Company carried an allowance of £2,196,000 (2019: £2,120,000) in respect of expected impairment losses on the current loans and advances.

Determining the amount of provision requires judgement around the probability of default, expected recovery amount and wider long term economic trends. Consequently the continued appropriateness of the underlying assumptions are reviewed on a regular basis against actual experience and adjustments are made to the provisions where appropriate.

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 expected credit losses (CL) 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. The definition of default adopted by the Company is described in note 1.4 Impairment of financial assets.

Lifetime of an exposure

The PD of a financial asset is independent of 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 refinancing.

Significant increase in credit risk

Performing assets are defined 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 in 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 qualitative indicators to determine whether there has been an SICR for an asset. Any account meeting the criteria is treated as an SICR. All financial assets are assumed to have suffered an 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 is unlikely have a material impact upon the size of the ECL allowance.

Post-model adjustments

Limitations in the Company's impairment models may be identified through its on-going assessment of the models. In these circumstances, judgement is used to make appropriate adjustments to the Company's allowance for impairment losses. These adjustments are generally modelled taking into account the particular attributes of the exposure which have not been adequately captured by the primary impairment model.

Forward looking information

The measurement of expected credit losses is required to reflect an unbiased probability-weighted range of possible future outcomes. In order to do this, Lloyds Banking Group plc has developed an economic model to project a range of key impairment drivers using information derived mainly from external sources. These drivers include factors such as the unemployment rate and other factors. These factors have been applied to the Company.

The model-generated economic scenarios for the six years beyond 2020 are mapped to industry-wide historical loss data by portfolio. Combined losses across portfolios are used to rank the scenarios by severity of loss. Four scenarios from specified points along the loss distribution are selected to reflect the range of outcomes; the central scenario reflects Lloyds Banking Group plc's base case assumptions used for medium-term planning purposes, an upside and a downside scenario are also selected together with a severe downside scenario.

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

Rare occurrences of adverse economic events can lead to relatively large credit losses which means that typically the most likely outcome is less than the probability-weighted outcome of the range of possible future events. To allow for this a relatively unlikely severe downside scenario is therefore included.

The choice of alternative scenarios and scenario weights is a combination of quantitative analysis and judgemental assessment to ensure that the full range of possible outcomes and material non-linearly of losses are captured.

3. Net interest income

	2020	2019
	£'000	£'000
Interest income		
Loans and advances to customers	**129,265**	132,646
Interest expense		
Group interest expense (see note 18)	**(60,370)**	(73,055)
Net interest income	**68,895**	59,591

4. Net fee and commission income

	2020	2019
	£'000	£'000
Fee and commission income		
Loan fees receivable	**6,406**	7,384
Fee and commission expense		
Other fees and commission payable	**(4,658)**	(5,355)
Net fee and commission income	**1,748**	2,029

5. Other operating expenses

	2020	2019
	£'000	£'000
Staff costs (see note 7)	**3,871**	3,632
Other operating expenses	**302**	1,196
Impairment losses (see note 6)	**56**	113
	4,229	4,941

Fees payable to the Company's auditors for the audit of the financial statements of £33,000 (2019: £33,000) have been incurred and included in Other operating expenses. There were no fees payable for non-audit services (2019: £nil).

Notes to the financial statements (continued)
For the year ended 31 December 2020

6. Impairment losses

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
31 December 2020				
Charge/(credit) for the year	**61**	**(4)**	**-**	**57**
Write off of historic client fees	**(1)**	**-**	**-**	**(1)**
	60	**(4)**	**-**	**56**

31 December 2020				
In respect of:				
Loans and advances to customers	**80**	**(4)**	**-**	**76**
Loan commitments	**(20)**	**-**	**-**	**(20)**
	60	**(4)**	**-**	**56**

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
31 December 2019				
Charge/(credit) for the year	(117)	(17)	-	(134)
Write off of historic client fees	247	-	-	247
	130	(17)	-	113

31 December 2019				
In respect of:				
Loans and advances to customers	(78)	(17)	-	(95)
Loan commitments	208	-	-	208
	130	(17)	-	113

The Company's impairment charge comprises the following items:

Repayments/additions

Expected loss allowances are recognised on origination of new loans and further drawdowns of existing facilities. Repayments relate to the reduction of loss allowances as a result of repayments of outstanding balances.

7. Staff costs

	2020 £'000	2019 £'000
Wages and salaries	**2,951**	2,755
Social security costs	**301**	283
Share based payments	**61**	56
Pension costs – defined contribution plans	**558**	538
	3,871	3,632

The average monthly number of employees during the year was 72 (2019: 69). All staff are located in the United Kingdom and provide management, administration and sales support.

Notes to the financial statements (continued)
For the year ended 31 December 2020

8. Directors' emoluments

The directors' emoluments payable for services provided to the Company are set out below:

	2020 £'000	2019 £'000
Aggregate emoluments	**148**	178
Aggregate post-employment benefits	**11**	25
	159	203

The number of directors to whom retirement benefits accrued under defined benefit and money purchase schemes is one and five respectively (2019: two and five respectively).

No directors exercised share options in the ultimate parent company during the year (2019: none).

9. Taxation

a) Analysis of charge for the year

	2020 £'000	2019 £'000
UK corporation tax:		
- Current tax on taxable profit for the year	**12,727**	10,780
- Adjustments in respect of prior years	**5**	26
Current tax charge	**12,732**	10,806
UK deferred tax:		
- Origination and reversal of timing differences	**53**	(35)
- Impact of deferred tax rate change	**(37)**	8
- Adjustments in respect of prior years	**(1)**	(26)
Deferred tax charge/(credit) (see note 14)	**15**	(53)
Tax charge	**12,747**	10,753

Corporation tax is calculated at a rate of 19.00% (2019: 19.00%) of the taxable profit for the year.

b) Factors affecting the tax charge for the year

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

	2020 £'000	2019 £'000
Profit before tax	**67,270**	56,766
Tax charge thereon at UK corporation tax rate of 19.00% (2019: 19.00%)	**12,781**	10,786
Factors affecting charge:		
- Effect of reduction in tax rate and related impacts	**(38)**	8
- Disallowed items	**-**	2
- Adjustments in respect of prior years	**4**	1
- Other	**-**	(44)
Tax charge on profit on ordinary activities	**12,747**	10,753
Effective rate	**18.95%**	18.94%

The Finance Act 2016 reduced the main rate of corporation tax to 17% with effect from 1 April 2020. This reduction was superseded by The Finance Act 2020 which was enacted on 22 July 2020, and maintained the main rate of corporation tax at 19% with effect from 1 April 2020.

10. Dividends

In 2020, a dividend of 234p per share was paid (2019: 176p per share), representing a total dividend of £43,273,000 (2019: £32,594,000).

11. Trade and other receivables

	2020 £'000	2019 £'000
Other debtors	**6,408**	4,546
	6,408	4,546

All balances are due within one year.

12. Loans and advances to customers

	Stage 1 £'000	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Balance as at 1 January 2020	3,952,892	14,749	31,389	3,999,030
Net Increase/(decrease) in loans and advances to customers	150,638	(322)	36,386	186,702
Adjustment for income relating to prior years	1,327	-	-	1,327
Gross loans and advances to customers	4,104,857	14,427	67,775	4,187,059
Less: allowance for losses on loans and advances	(2,014)	(182)	-	(2,196)
Net loans and advances to customers as at 31 December 2020	**4,102,843**	**14,245**	**67,775**	**4,184,863**

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance as at 1 January 2019	3,606,419	7,450	40,101	3,653,970
Net Increase/(decrease) in loans and advances to customers	346,473	7,299	(8,712)	345,060
Gross loans and advances to customers	3,952,892	14,749	31,389	3,999,030
Less: allowance for losses on loans and advances	(1,934)	(186)	-	(2,120)
Net loans and advances to customers as at 31 December 2019	3,950,958	14,563	31,389	3,996,910

	2020 £'000	2019 £'000
Gross loans and advances to customers	**4,187,059**	3,999,030
Less: allowance for losses on loans and advances	**(2,196)**	(2,120)
Net loans and advances to customers	**4,184,863**	3,996,910
of which:		
Due within one year	**415,584**	639,190
Due after one year	**3,769,279**	3,357,720
	4,184,863	3,996,910

Further analysis of loans and advances to customers is provided in note 19.

13. Borrowed funds

	2020 £'000	2019 £'000
Amounts due to group undertakings (see note 18)	**3,930,866**	3,953,500
Bank overdraft with group undertaking (see note 18)	**186,197**	169
	4,117,063	3,953,669

Bank borrowings of £3,930,866,000 (2019: £3,953,500,000) are unsecured, interest bearing and payable on maturity. For further details, please refer to note 18.

Bank overdraft of £186,197,000 (2019: £169,000) is unsecured, interest bearing and payable on demand, although there is no expectation that such a demand would be made in the foreseeable future.

14. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2020 £'000	2019 £'000
Brought forward	**323**	270
(Charge)/credit for the year (see note 9)	**(15)**	53
At 31 December	**308**	323

The deferred tax (charge)/credit in the Income statement comprises the following temporary differences:

	2020 £'000	2019 £'000
Accelerated capital allowances	**-**	(1)
Accounting provisions disallowed	**(8)**	53
Pensions and other post-retirement benefits	**-**	38
Other temporary differences	**(7)**	(37)
	(15)	53

Deferred tax asset comprises:	2020 £'000	2019 £'000
Accelerated capital allowances	**3**	3
Accounting provisions disallowed	**45**	53
Other temporary differences	**260**	267
	308	323

On 3 March 2021, the UK Government announced its intention to increase the rate of corporation tax from 19% to 25% with effect from 1 April 2023.

The effect of this proposed rate change on the Company's deferred tax balances has been assessed and is not significant.

15. Share capital

	2020 £'000	2019 £'000
Allotted, issued and fully paid		
18,500,000 (2019: 18,500,000) ordinary shares of £1 each	**18,500**	18,500

Notes to the financial statements (continued)

For the year ended 31 December 2020

16. Retirement benefit obligations

The Group operates a number of defined benefit and defined contribution schemes, in which some of the employees of the Company participate.

Defined contribution schemes

Employees are members of the Lloyds Bank Group Pension Scheme No 1. New employees are offered membership of the defined contribution section of the Lloyds Bank Group Pension Scheme No 1.

During the year ended 31 December 2020 the charge to the Statement of comprehensive income in respect of employees in the defined contribution section of the scheme was £558,000 (2019: £538,000), representing the contributions payable by the Company in accordance with the scheme's rules. There are no outstanding or prepaid contributions at 31 December 2020 (2019: £nil).

Defined benefits schemes

The remaining employees of the Company are members of the defined benefit sections of the Lloyds Bank Group Pension No 1 and 2. This is a funded scheme providing retirement benefits calculated as a percentage of final pensionable salary depending upon the length of service. The minimum retirement age under the rules of the scheme at 31 December 2020 is generally 55 although certain categories of member are deemed to have a contractual right to retire at 50. They are operated as separate legal entities under trust law by trustees and the responsibilities for their governance rest with Pension trustees.

Further information on the various Group defined benefits schemes is included within the consolidated annual report and accounts of Lloyds Banking Group plc, the ultimate parent company.

17. Share based payments

During the year ended 31 December 2020, the Company's ultimate parent company operated share-based payment schemes, all of which are equity settled. The costs related to awards, including a charge for share based payments of £61,000 (2019: £56,000) are recharged from other group companies.

Further details in respect of share based payment schemes can be found in the 2020 financial statements of the Company's ultimate parent undertaking, copies of which may be obtained from the 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.

18. Related party transactions

The Company's immediate parent undertaking is Lloyds Bank plc (incorporated in England and Wales), which is the parent undertaking of the smallest group to consolidate these Financial Statements. Copies of the consolidated Annual Report and Accounts of Lloyds Bank plc may be obtained from 25 Gresham Street, London EC2V 7HN or downloaded via www.lloydsbankinggroup.com.

The ultimate parent undertaking and controlling party is Lloyds Banking Group plc, which is the parent undertaking of the largest group to consolidate these Financial Statements. Copies of the consolidated Annual Report and Accounts of Lloyds Banking Group plc may be obtained from Lloyds Banking Group's head office at 25 Gresham Street, London EC2V 7HN or downloaded via www.lloydsbankinggroup.com.

				2020	2019
				£'000	£'000
Amounts due to group undertakings					
Nature of transaction	**Related party**	**Repayment**	**Interest**		
Staff related costs	Bank of Scotland plc	No fixed date	N/A	**156**	78
Amounts due to group undertakings	Lloyds Bank Corporate Markets	N/A	N/A	**-**	28
Bank borrowings	Lloyds Bank plc	On maturity	0.92% - 5.85%	**3,930,710**	3,953,394
Bank overdraft	Lloyds Bank plc (note 13)	No fixed date	22.5%	**186,197**	169
Total Amounts due to group undertakings (note 13)				**4,117,063**	3,953,669

18. Related party transactions (continued)

Nature of transaction	**Related party**				
Cash and cash equivalents	Lloyds Bank plc	No fixed date	N/A	**18,977**	31,962
Interest expense	**Related party**				
Interest payable on bank loans from other group companies	Lloyds Bank plc (note 3)			**60,370**	73,055
Other operating expenses	**Related party**				
Share based payments	Lloyds Bank plc (note 7)			**61**	56
Pension costs - defined contribution plans	Lloyds Bank plc (note 7)			**558**	538
Group recharge	Lloyds Bank plc (note 7)			**-**	349

The above balances are unsecured in nature and are expected to be settled in cash or by cash equivalents. Transactions in the year are those reflected through the Statement of comprehensive income.

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

The Company paid taxation of £10,419,000 (2019: £16,053,000) during the year via a fellow subsidiary undertaking, Bank of Scotland plc.

The registered offices of related parties are noted below:

Related party	Related party relationship	Registered address
Lloyds Bank plc	Parent company	25 Gresham Street, London EC2V 7HN
Bank of Scotland plc	Fellow group company	The Mound, Edinburgh, EH1 1YZ
Lloyds Bank Corporate Markets plc	Fellow group company	25 Gresham Street, London EC2V 7HN

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, who are listed on the Directors' report.

Other than as set out below, there were no transactions between the Company and key management personnel during the current or preceding year.

Key management personnel emoluments

	2020 £'000	2019 £'000
Short term employee benefits	**166**	185
Post employment benefits	**11**	25
	177	210

The amounts disclosed above relate wholly to directors of the Company.

Notes to the financial statements (continued)
For the year ended 31 December 2020

19. Financial risk management

The Company's operations expose it to credit risk, liquidity risk, interest rate risk and business 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 the ultimate parent, Lloyds Banking Group plc. The interest rate and liquidity risk faced by the Company is in substance managed and borne by other group undertakings which fund the Company and credit risk is carefully monitored by the Company's credit committee and credit functions in practice, day to day, under oversight of AMC directors. Business risk is managed through regular reporting and oversight.

19.1 Credit risk

Credit risk management

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due and is managed through the application of strict underwriting criteria, determined by the Company's credit committee and credit functions. Significant credit exposures are measured and reported on a regular basis. Impairment provisions are provided for losses that have been incurred at the Balance sheet date.

For loans and advances, credit risk arises both from amounts lent and commitments to extend credit to a customer, principally loan commitments.

In measuring the credit risk of loans and advances, the Company reflects two components: (i) current exposures to the counterparty and their likely future development, from which the Company derives the 'exposure at default'; and (ii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

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 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 is monitored through defined risk appetite.

- 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.

- Counterparty limits: Credit risk is subject to individual credit assessments, which consider the strengths and weaknesses of individual transactions and the balance of risk and reward. The Company's exposure to individual counterparties, groups of counterparties or customer risk segments is controlled through a tiered hierarchy of delegated sanctioning authorities.

Credit concentration - Loans and advances to customers

The Company lends predominantly to individual customers geographically located in the United Kingdom.

Collateral held as security against Loans and advances to customers is in the form of the land and buildings for which the loan was taken out. No other credit enhancements are in use.

Loans and advances to customers - gross carrying amount

At 31 December 2020	PD range	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
CMS 1-10	0.00-0.50%	-	-	-	-
CMS 11-14	0.51-3.00%	4,104,857	-	-	4,104,857
CMS 15-18	3.01-20.00%	-	-	-	-
CMS 19	20.01-99.99%	-	14,427	-	14,427
CMS 20-23	100%	-	-	67,775	67,775
		4,104,857	14,427	67,775	4,187,059

19. Financial risk management (continued)

19.1 Credit risk (continued)

Loans and advances to customers - gross carrying amount (continued)

At 31 December 2019	PD range	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
CMS 1-10	0.00-0.50%	-	-	-	-
CMS 11-14	0.51-3.00%	3,952,892	-	-	3,952,892
CMS 15-18	3.01-20.00%	-	-	-	-
CMS 19	20.01-99.99%	-	14,749	-	14,749
CMS 20-23	100%	-	-	31,389	31,389
		3,952,892	14,749	31,389	3,999,030

Loan commitments

At 31 December 2020	**PD range**	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
CMS 1-10	0.00-0.50%	**-**	**-**	**-**	**-**
CMS 11-14	0.51-3.00%	**376,839**	**-**	**-**	**376,839**
CMS 15-18	3.01-20.00%	**-**	**-**	**-**	**-**
CMS 19	20.01-99.99%	**-**	**-**	**-**	**-**
CMS 20-23	100%	**-**	**-**	**-**	**-**
		376,839	**-**	**-**	**376,839**

At 31 December 2019	PD range	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
CMS 1-10	0.00-0.50%	-	-	-	-
CMS 11-14	0.51-3.00%	416,229	-	-	416,229
CMS 15-18	3.01-20.00%	-	-	-	-
CMS 19	20.01-99.99%	-	-	-	-
CMS 20-23	100%	-	-	-	-
		416,229	-	-	416,229

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 2019	**1,934**	**186**	**-**	**2,120**
Charge for year (including recoveries)	**80**	**(4)**	**-**	**76**
At 31 December 2020	**2,014**	**182**	**-**	**2,196**

19. Financial risk management (continued)

19.1 Credit risk (continued)

Analysis of movement in the allowance for impairment losses by stage (continued)

In respect of drawn balances

In respect of	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Loans and advances to customers	**2,014**	**182**	**-**	**2,196**

In respect of drawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2019	2,259	203	-	2,462
Charge for year (including recoveries)	(325)	(17)	-	(342)
At 31 December 2019	1,934	186	-	2,120

In respect of	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Loans and advances to customers	1,934	186	-	2,120

In respect of undrawn balances	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
At 31 December 2019	**208**	**-**	**-**	**208**
Charge for year (including recoveries)	**(20)**	**-**	**-**	**(20)**
At 31 December 2020	**188**	**-**	**-**	**188**

In respect of	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Provision in relation to loan commitments	**188**	**-**	**-**	**188**

The criteria used to determine that there is objective evidence of an impairment is disclosed in note 1.4.

Repossessed collateral

Collateral held against Loans and advances to customers principally comprises agricultural land and buildings. The Company does not take physical possession of any collateral; instead it uses agents to realise the collateral's value as soon as practicable, usually at auction, to settle indebtedness. Any surplus funds are then returned to the borrower or are otherwise dealt with in accordance with appropriate insolvency regulations.

During the year the Company repossessed collateral in respect of defaulted debt with a value of £nil (2019: £120,000). The carrying value of all the repossessed collateral is considered an approximation of fair value.

19. Financial risk management (continued)

19.2 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due. To manage this risk extensive borrowing facilities are available from within the Group.

Liquidity risks are managed as part of the Group by the immediate parent company, Lloyds Bank plc, in consultation with the board of directors. Monthly reviews of funding positions are undertaken to anticipate any shortfalls.

19.3 Interest rate risk

Interest rate risk is the risk of financial loss as a result of adverse movements in interest rates, and arises largely because of timing differences between the repricing of financial assets and liabilities. Interest rate risk is managed at a Lloyds Banking Group level, however the Company is exposed to interest rate fluctuations due to factors outside the Company, and as a result a sensitivity analysis has been prepared to illustrate the impact of a change in the rates.

Interest rate risk - sensitivity analysis

The sensitivity analysis is based on the Company’s Loans and advances to customers and Amounts due to group undertakings and takes account of movement in the Bank of England base rate and SONIA (2019: LIBOR) which are the basis for the interest rate on loans and advances to customers and intercompany balances. A 0.54% increase or decrease is used to assess the possible change in Interest income. This rate is appropriate as the Bank of England base rate decreased by 0.54% during the year. A 0.66% increase or decrease is used to assess the possible change in Interest expense. This rate is appropriate as this is the amount by which SONIA (2019: LIBOR) decreased in the year.

If the Bank of England base rate increased by 0.54% (2019: 0.25%) and all other variables remain constant this would increase Interest income by £13,538,000 (2019: £6,153,000) and accordingly decrease Interest income by £13,538,000 (2019: £6,153,000) if the Bank of England base rate decreased by the same amount.

If SONIA (2019: LIBOR) increased by 0.66% (2019: 0.15%) and all other variables remain constant this would increase Interest expense by £26,164,000 (2019: £5,458,000) and accordingly would decrease Interest expense by £26,164,000 (2019: £5,458,000) if SONIA decreased by the same amount.

19.4 Business risk

Business risk is the risk that the Company's earnings are adversely impacted by a suboptimal business strategy or the suboptimal implementation of the strategy. In assessing business risk consideration is given to internal and external factors such as products, funding, resource capability and economic, political and regulatory factors.

Through regular reports and oversight, business risk is managed by corrective actions to plans and reductions in exposures where necessary.

19.5 Fair values of financial assets and liabilities

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Fair values of Loans and advances to customers are estimated by discounting anticipated cash flows (including interest at contractual rates) at market rates for similar loans prevailing at the balance sheet date.

The aggregated fair value of Loans and advances to customers is approximately £4,183,417,000 (2019: £3,996,154,000). The carrying value of all other financial assets and liabilities is considered an approximation of fair value.

The fair value of collateral held as security against Loans and advances to customers is £15,890,300,000 (2019: £15,714,700,000).

20. Capital disclosures

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 shareholders through pricing products and services commensurately with the level of risk and, indirectly, to support the Group's regulatory capital requirements.

The Directors manage the Company's capital structure and advises the board of directors to consider making 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 board of directors may adjust the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares, or sell assets.

The Company's capital comprises all components of equity, movements in which appear in the Statement of changes in equity. The Company receives its funding requirements from its fellow group undertakings and does not raise funding externally.

21. Contingent liabilities and capital commitments

At 31 December 2020, mortgage loans of £250,457,000 (2019: £275,397,000) had been approved subject to legal and other formalities, and authorising lending facilities of £35,002,000 (2019: £43,754,000) were available to the Company's clients but were not utilised as at the balance sheet date.

The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed the Group that its interpretation of the UK rules means that the group relief is not available. In 2020, HMRC concluded their enquiry into the matter and issued a closure notice. The Group's interpretation of the UK rules has not changed and hence it has appealed to the First Tier Tax Tribunal, with a hearing expected in early 2022. If the final determination of the matter by the judicial process is that HMRC's position is correct, management estimate that this would result in an increase in current tax liabilities for the company of approximately £8,274,000 (including interest). The Group, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

There were no contracted capital commitments at the Balance sheet date (2019: £nil).

22. Future developments

The following pronouncements may have a significant effect on the Company's financial statements but are not applicable for the year ending 31 December 2020 and have not been applied in preparing these financial statements. Except as disclosed below, the full impact of these accounting changes 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.

Pronouncement	**Nature of change**	**Effective date**
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	The IASB's Phase 2 amendments in response to issues arising from the planned replacement of interest rate benchmarks in a number of jurisdictions are effective for annual periods beginning on or after 1 January 2021. Under these amendments, an immediate gain or loss is not recognised in the income statement where the contractual cash flows of a financial asset or financial liability are amended as a direct consequence of the rate reform and the revised contractual terms are economically equivalent to the previous terms. In addition, hedge accounting is continued for relationships that are directly affected by the reform. These amendments are not expected to have a significant impact on the Company.	Annual periods beginning on or after 1 January 2021
Minor amendments to other accounting standards	The IASB has issued a number of minor amendments to IFRSs effective 1 January 2021 and 1 January 2022 (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets). These amendments are not expected to have a significant impact on the Company.	1 January 2021 and 1 January 2022

There are no other standards or interpretations that are not yet effective and that would be expected to have a material impact on the Company.

Independent auditors’ report to the members of the Agricultural Mortgage Corporation plc

Report on the audit of the financial statements

Opinion

In our opinion, the Agricultural Mortgage Corporation plc’s financial statements:

- give a true and fair view of the state of the company’s affairs as at 31 December 2020 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the annual report and financial statements (the “Annual Report”), which comprise: the balance sheet as at 31 December 2020; the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

In auditing the financial statements, we have concluded that the directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

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

Reporting on other information

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

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

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

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

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to but were not limited to; any breaches of UK regulatory requirements, and compliance with new or amended tax regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to manual elements of the control environment, such as journal entries, related party transactions and balances, and areas of significant judgement such as provisions and other critical accounting estimates. Audit procedures performed by the engagement team included:

- Audited the risk of management override of controls, including through testing journal entries and other adjustments for appropriateness, auditing material related party transactions and balances, testing accounting estimates (because of the risk of management bias), and evaluating the business rationale of significant transactions outside the normal course of business;
- Held discussions with management and those charged with governance including making specific inquiries about any consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reviewed minutes of meetings of those charged with governance; and
- Incorporated an element of unpredictability into the nature, timing and/or extent of our audit procedures.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Darren Meek (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
25 June 2021