

The Agricultural Mortgage Corporation plc

Annual report and financial statements
for the year ended 31 December 2021

Strategic report

For the year ended 31 December 2021

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 2021.

Business overview

The Company's performance in 2021 has been resilient. 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 1.41% increase (2020: 4.70% increase) in Loans and advances to customers to £4,243,803,000 (2020: £4,184,863,000), reflect the robustness of the business.

The Company's profit after tax for the financial year was £61,158,000 (2020: £54,523,000). The year on year increase is primarily due to reduced interest 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 2022.

Principal risks and uncertainties

The principal risks and uncertainties to the Agricultural Sector are commodity price volatility, the creation of a new Domestic Agricultural Policy, and the impact on the UK of 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 average 36% (2020: 36%).

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") and are not managed separately for the Company. The Company is a main trading company of the Commercial Banking Division, which 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 financial markets and normal patterns of business activity across the world, including in the UK. Subsequently, its impact on both global and UK economic outlook is currently highly uncertain in both depth and length, and may go beyond current forecasts in scale of loss of output and recession in the UK and globally.

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 adapts 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.

Uncertainties in respect of the medium to long-term implications of the UK's exit from the EU on trade, regulation and employment continue to present risks. This includes impacts on supply chains, affordability of goods and services and UK demographics and prosperity. Activity to respond to potential risks includes increased customer communications, market volatility scenario exercises, contingency planning and monitoring of emerging European Economic Area ("EEA") regulatory requirements.

The Agricultural Sector, although not being unduly affected by the Brexit Overseas Export / Import Tariff Deal arrangements, will be materially impacted over the next several years 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.

The Agricultural Sector is facing unprecedented challenges and change as noted in the principal risks and uncertainties section; in addition to meeting the National Farmers Union (NFU) target of net zero emissions by 2040, whilst also ensuring food security for the nation. The Directors remain confident that the Company is well positioned to continue to secure good levels of new business for the foreseeable future.

Russian invasion of Ukraine

The Russian invasion of Ukraine, beginning in February 2022, has increased tensions between members of the North Atlantic Treaty Organisation (NATO) and Russia, resulting in sanctions being imposed by both sides with a global reach. This brings significant adverse economic risk to financial markets, energy costs, and agricultural markets. Subsequently, input costs such as fuel and fertiliser have risen rapidly, all of which could have a materially adverse effect on the customers and therefore the Company's results of operations, financial conditions or prospects. The Company will continue to monitor the situation and risks to the business.

Details of the Company's and Group's risk management policy are contained in note 22 to the financial statements.

Strategic report (continued)

For the year ended 31 December 2021

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	2021 %	2020 %	Analysis
Income Growth	(0.5)	(2.6)	Year on year growth in total income (gross interest income, gross fees and commission income and other operating income) as a percentage. Income growth is marginally lower year on year reflecting resilient performance in current economic conditions and strategic focus on margin improvement resulting in lower volumes.
Profit Before Tax Growth	12.1	18.5	Year on year growth in profit before tax as a percentage. PBT has increased due to the reduction in the cost of borrowings as a result of the Bank of England base rate decreasing from 0.75% in January 2020 to 0.1% in March 2020, and remaining at that level for the duration of 2021.
Other expenses	3.2	3.1	Other expenses as a percentage of total income. Other expenses as a percentage of total income has been broadly consistent year on year.

KPI	2021 £'m	2020 £'m	Analysis
Applications	721.4	858.7	The value of loan applications and completions in the year has decreased as a result of strategic focus on margin, completion rate remains broadly in line with the prior year.
Completions	337.0	425.0	

Section 172(1) Statement

In accordance with the Companies Act 2006 (the "Act"), for the year ended 31 December 2021, 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. Further details on key actions in this regard are also contained within the Directors' Report on pages 4 - 6.

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 wholly owned subsidiary of Lloyds Bank plc, whose ultimate parent undertaking is 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.

Employees

As part of the Group, the Company's approach to employee matters and employee engagement is aligned to that of the Group, where colleagues take pride in working for an inclusive and diverse organisation which continues to work towards building a culture in which everyone feels included, empowered and inspired to do the right thing for customers. In 2019, the LBG Board agreed how LBG, including the Company, would engage the workforce, which has remained unchanged. The definition of 'workforce', as agreed by the LBG Board is permanent employees, contingent workers and third-party suppliers that work on LBG premises delivering services to customers and supporting key business operations.

The Company aims to appoint the best person available into any role and to attract talented people from diverse backgrounds. Applications from people with a disability are encouraged and given full and fair consideration. The Company is unbiased in the way it approaches assessment, appointment, training and promotion. A wide range of programmes are available to support colleagues who become disabled or develop a long-term health condition during employment.

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.

Strategic report (continued)

For the year ended 31 December 2021

Section 172(1) Statement (continued)

Shareholders

The Company is a wholly owned subsidiary of Lloyds Bank plc, whose ultimate parent undertaking is 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 2021, which does not form part of this report, available on the Lloyds Banking Group plc website at <https://www.lloydsbankinggroup.com/investors/financial-downloads.html>.

Communities and the Environment

The Company is involved within the local community in charitable and fundraising activities. Due to its limited physical presence, the Company has a minimal direct impact on the environment, however it does 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 financial statements for 2021, 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 at <https://www.lloydsbankinggroup.com/investors/financial-downloads.html>.

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 its ultimate parent undertaking, 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
Director

9 June 2022

Directors' report

For the year ended 31 December 2021

The Directors present their Annual report and the audited financial statements of the Company for the year ended 31 December 2021.

General information

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

Principal activity

The principal activity of the Company is 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 for the year. 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 Agricultural Sector is facing unprecedented challenges and change as noted in the principal risks and uncertainties section; in addition to meeting the National Farmers Union (NFU) target of net zero emissions by 2040, whilst also ensuring food security for the nation. The Directors remain confident that the Company is well positioned to continue to secure good levels of new business for the foreseeable future.

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 £35,183,000 (2020: £43,273,000) representing a dividend of 190p per share (2020: 234p per share), was declared during the year and paid post-year end on 12 January 2022.

Going concern

The Directors are satisfied that the financial statements have been prepared on a going concern basis taking into account the following:

- The current LTV profile of its customer loans provides significant mitigation against the effects of an adverse credit environment, with the majority of the loan book with an LTV of < 36%.
- The Company does not have external debt and is funded by other companies within the Group.
- The Company is in a net asset position and will continue to be able to repay its liabilities as they fall due through its liquid assets and/or its ability to drawdown on further funding as required from its parent, Lloyds Bank plc.
- That it is the intention of Lloyds Bank plc, the immediate parent company, to continue to provide adequate access to liquidity for the foreseeable future.

Directors

The current Directors of the Company are as below.

A L Dennis
P A Gordon
S Haycock
N J M Ingram
M A L Packham
K Softly

Directors' report (continued)

For the year ended 31 December 2021

Directors (continued)

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 L Dennis	(appointed 30 March 2022)
L A Reeves	(resigned 30 May 2022)
K Softly	(appointed 30 May 2022)

Registered address

The Company changed its registered address from Charlton Place, Charlton Road, Andover, Hampshire, SP10 1RE to Keens House, Anton Mill Road, Andover, Hampshire, SP10 2NQ on 5 January 2022.

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 pages 1 to 3.

Statement of engagement with other stakeholders

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

Streamlined Energy and Carbon Reporting

The Company has taken an exemption from Streamlined Energy and Carbon Reporting (SECR), in its own Directors' report as it is included within the Group SECR report given in the Lloyds Banking Group plc 2021 Annual report and financial statements, available on the Lloyds Banking Group plc website at <https://www.lloydsbankinggroup.com/investors/financial-downloads.html>.

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. 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 deed for existing Directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, the 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 Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). 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, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

Directors' report (continued)

For the year ended 31 December 2021

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.

Statement of disclosure of information to auditor

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 auditor is 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 auditor is aware of that information.

Independent auditor

The auditor, Deloitte LLP, was appointed as the auditor of the Company during the period under review and are to remain in office until the conclusion of the Company's annual general meeting. Having expressed their willingness to continue in office and pursuant to section 489 of the Companies Act 2006, a resolution for the re-appointment of Deloitte LLP will be proposed at the forthcoming annual general meeting.

Approved by the Board of Directors and signed on its behalf by:



S Haycock
Director

9 June 2022

Independent auditor's report to the members of The Agricultural Mortgage Corporation plc.

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of The Agricultural Mortgage Corporation plc:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Statement of Comprehensive Income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement; and
- the related notes 1 to 26.

The financial reporting framework that has been applied in their preparation is applicable law, United Kingdom adopted international accounting standards and IFRSs as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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.

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.

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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.

Auditor's 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 auditor's 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 auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

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.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, pensions legislation, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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



Tobias De Villiers (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London
9th June 2022

Statement of comprehensive income

For the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Interest income		130,376	129,265
Interest expense		(52,162)	(60,370)
Net interest income	4	78,214	68,895
Fee and commission income		5,309	6,406
Fee and commission expense		(3,780)	(4,658)
Net fee and commission income	5	1,529	1,748
Other operating income		93	856
Other operating expenses	6	(4,400)	(4,229)
Profit before tax		75,436	67,270
Taxation	10	(14,278)	(12,747)
Profit for the year		61,158	54,523

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

Balance sheet

As at 31 December 2021

	Note	2021 £'000	2020 £'000
ASSETS			
Cash and cash equivalents	12	44,044	18,977
Trade and other receivables	13	7,818	6,408
Loans and advances to customers	14	4,243,803	4,184,863
Deferred tax asset	17	332	308
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Total assets		4,295,997	4,210,556
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LIABILITIES			
Borrowed funds	15	4,135,485	4,117,063
Trade and other payables		7,665	3,145
Provision for liabilities and charges	16	154	188
Current tax liability		14,302	12,927
Dividend payable	11	35,183	-
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Total liabilities		4,192,789	4,133,323
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EQUITY			
Share capital	18	18,500	18,500
Retained earnings		84,708	58,733
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Total equity		103,208	77,233
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Total equity and liabilities		4,295,997	4,210,556

The accompanying notes 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
Director

9 June 2022

Statement of changes in equity

For the year ended 31 December 2021

	Share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2020	18,500	47,483	65,983
Comprehensive income			
Profit for the year	-	54,523	54,523
Total comprehensive income	-	54,523	54,523
Transactions with owners			
Dividend paid to equity holders of the Company	-	(43,273)	(43,273)
Total transactions with owners	-	(43,273)	(43,273)
At 31 December 2020	18,500	58,733	77,233
Comprehensive income			
Profit for the year	-	61,158	61,158
Total comprehensive income	-	61,158	61,158
Transactions with owners			
Dividend paid to equity holders of the Company	-	(35,183)	(35,183)
Total transactions with owners	-	(35,183)	(35,183)
At 31 December 2021	18,500	84,708	103,208

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

Cash flow statement

For the year ended 31 December 2021

	2021 £'000	2020 £'000
Profit before tax	75,436	67,270
Adjustments for:		
- Interest expense	52,162	60,370
- Decrease in Provision for liabilities and charges	(34)	(20)
Operating cash flows before movements in working capital	127,564	127,620
- Increase in Loans and advances to customers	(58,940)	(187,953)
- Increase in Trade and other receivables	(1,410)	(1,862)
- Increase/(decrease) in Trade and other payables	4,520	(123)
Cash generated from/(used in) operations	71,734	(62,318)
Tax paid	(12,927)	(10,419)
Net cash generated from/(used in) operating activities	58,807	(72,737)
Cash flows generated from/(used in) financing activities		
Dividends paid	-	(43,273)
Increase/(decrease) in borrowings with group undertakings	204,619	(22,633)
Interest paid	(52,162)	(60,370)
Net cash generated from/(used in) financing activities	152,457	(126,276)
Change in Cash and cash equivalents	211,264	(199,013)
(Net bank overdrafts)/cash and cash equivalents at beginning of year	(167,220)	31,793
Cash and cash equivalents/(net bank overdrafts) at end of year	44,044	(167,220)
Cash and cash equivalents/(net bank overdrafts) comprise		
Cash at bank	44,044	18,977
Bank overdrafts (see note 15)	-	(186,197)
Cash and cash equivalents/(net bank overdrafts)	44,044	(167,220)

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

Notes to the financial statements

For the year ended 31 December 2021

1. Basis of preparation

The financial statements of the Company comply with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements have been prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). IFRS comprises accounting standards prefixed IFRS issued by IASB and those prefixed IAS issued by the IASB's predecessor body as well as interpretations issued by the IFRS Interpretations Committee and its predecessor body.

The financial information has been prepared under the historical cost convention. As stated below, the directors consider that it is appropriate to adopt the going concern basis in preparing the financial statements.

In the preparation of these financial statements the Balance sheet has been arranged in order of liquidity.

No new IFRS pronouncements which had a material impact have been adopted in these financial statements.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2021 and which have not been applied in preparing these financial statements are given in note 26. No standards have been early adopted.

The Company has a net asset position at the year end. The Directors have considered this, along with the expected activities of the Company for the foreseeable future and have reached the conclusion that the Company will be able to meet its future obligations as they fall due through its liquid assets and/or its ability to drawdown on funding as required from its parent, Lloyds Bank plc, and as a result the financial statements have been prepared on a going concern basis.

The Directors are also 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.

2. Accounting policies

The Company's accounting policies are set out below. These accounting policies have been applied consistently.

2.1 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.

2.2 Fees and commission income and expense

Fees and commissions receivable which are not an integral part of the effective interest rate are recognised as income as the Company fulfils its performance obligations. Incremental costs incurred to generate fee and commission income are charged to fees and commissions expense as they are incurred.

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.

2.3 Financial assets and liabilities

Financial assets comprise Loans and advances to customers, Trade and other receivables and Cash and cash equivalents. Financial liabilities comprise Borrowed funds, Trade and other payables, Provisions for liabilities, Dividends payable and charges and Current tax liability.

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 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. The Company reclassifies financial assets when and only when its business model for managing those assets changes.

Notes to the financial statements (continued)

For the year ended 31 December 2021

2. Accounting policies (continued)

2.3 Financial assets and liabilities (continued)

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 measured at amortised cost, except for trading liabilities and other financial liabilities designated at fair value through profit and loss on initial recognition which are held at fair value. 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.

2.4 Impairment of financial assets

The impairment charge in the statement of comprehensive income includes the change in expected credit losses. Expected credit losses are recognised for loans and advances to customers, 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 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. 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.

Notes to the financial statements (continued)

For the year ended 31 December 2021

2. Accounting policies (continued)

2.4 Impairment of financial assets (continued)

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 occurs if the loan facility with the customer is restructured, the asset is under administration and the only monies that can be received are the amounts estimated by the administrator, the underlying assets are disposed and a decision is made that no further settlement monies will be received, or external evidence (for example, third-party valuations) is available that there has been an irreversible decline in expected cash flows.

2.5 Cash and cash equivalents

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

2.6 Foreign currency translation

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in pounds sterling, which is the Company's functional and presentation currency.

2.7 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 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. In certain cases where forecast profits are not expected to be sufficient to support the recognition of a deferred tax asset on a standalone entity basis, further consideration has been given to the availability of UK group relief with connected companies to support the recognition.

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.

2.8 Provisions for liabilities and charges

Provisions are recognised in respect of present obligations arising from past events where it is probable that outflows of resources will be required to settle the obligations and where they can be reliably estimated.

Notes to the financial statements (continued)

For the year ended 31 December 2021

2. Accounting policies (continued)

2.9 Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax. Dividends on ordinary shares are recognised as a reduction in equity in the period in which they are paid.

2.10 Retirement benefit obligations

The Company participates in various defined benefit and defined contribution pension schemes operated by companies within the 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 recognises 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 the 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 Group's defined contribution plans are charged to the income statement in the period in which they fall due.

2.11 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.

3. Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Company's financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions in applying the accounting policies 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.

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

4. Net interest income

	2021 £'000	2020 £'000
Interest income		
Loans and advances to customers	130,376	129,265
Interest expense		
Group interest expense (see note 21)	(52,162)	(60,370)
Net interest income	78,214	68,895

Notes to the financial statements (continued)

For the year ended 31 December 2021

5. Net fee and commission income

	2021 £'000	2020 £'000
Fee and commission income		
Loan fees receivable	5,309	6,406
Fee and commission expense		
Other fees and commission payable	(3,780)	(4,658)
Net fee and commission income	1,529	1,748

6. Other operating expenses

	2021 £'000	2020 £'000
Staff costs (see note 8)	4,043	3,871
Other operating expenses	331	302
Movement in impairment provision (see note 7)	26	56
	4,400	4,229

Fees payable to the Company's auditors for the audit of the financial statements of £34,650 (2020: £33,000) have been incurred and included in Other operating expenses. There were no fees payable for non-audit services (2020: £nil).

7. Impairment losses

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
31 December 2021				
Charge/(credit) for the year	42	(58)	-	(16)
Write-offs	-	-	42	42
	42	(58)	42	26
In respect of:				
Loans and advances to customers	76	(58)	42	60
Loan commitments	(34)	-	-	(34)
	42	(58)	42	26
31 December 2020				
Charge/(credit) for the year	61	(4)	-	57
Write-offs	(1)	-	-	(1)
	60	(4)	-	56

Notes to the financial statements (continued)

For the year ended 31 December 2021

7. Impairment losses (continued)

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
In respect of:				
Loans and advances to customers	80	(4)	-	76
Loan commitments	(20)	-	-	(20)
	60	(4)	-	56

8. Staff costs

	2021 £'000	2020 £'000
Wages and salaries	3,105	2,951
Social security costs	298	301
Share based payments	60	61
Pension costs – defined contribution plans	580	558
	4,043	3,871

The average number of employees during the year was 67 (2020: 72). All staff are located in the United Kingdom and provide management, administration and sales support.

9. Directors' emoluments

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

	2021 £'000	2020 £'000
Aggregate emoluments	81	148
Aggregate post-employment benefits	15	11
	96	159

The number of directors to whom retirement benefits accrued under defined benefit and money purchase schemes is one and three respectively (2020: one and five respectively).

No directors exercised share options in the ultimate parent company during the year (2020: none).

None of the directors had a material interest, directly or indirectly, at any time during the year in any significant contract, transaction or arrangement with the Company.

Notes to the financial statements (continued)

For the year ended 31 December 2021

10. Taxation

	2021 £'000	2020 £'000
a) Analysis of charge for the year		
UK corporation tax:		
- Current tax on taxable profit for the year	14,345	12,727
- Adjustments in respect of prior years	(43)	5
Current tax charge	14,302	12,732
UK deferred tax:		
- Origination and reversal of timing differences	(12)	53
- Impact of deferred tax rate change	(57)	(37)
- Adjustments in respect of prior years	45	(1)
Deferred tax (credit)/charge (see note 17)	(24)	15
Tax charge	14,278	12,747
Corporation tax is calculated at a rate of 19.00% (2020: 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:		
	2021 £'000	2020 £'000
Profit before tax	75,436	67,270
Tax charge thereon at UK corporation tax rate of 19.00% (2020: 19.00%)	14,333	12,781
Factors affecting charge:		
- Effect of reduction in tax rate and related impacts	(57)	(38)
- Adjustments in respect of prior years	2	4
Tax charge on profit on ordinary activities	14,278	12,747
Effective rate	18.93%	18.95%

11. Dividends

A dividend of £35,183,000 (2020: £43,273,000) representing a dividend of 190p per share (2020: 234p per share), was declared during the year and paid post-year end on 12 January 2022.

Notes to the financial statements (continued)

For the year ended 31 December 2021

12. Cash and cash equivalents

	2021 £'000	2020 £'000
Cash at bank (see note 21)	31,344	-
Bank deposits (see note 21)	12,700	18,977
	44,044	18,977

Cash at bank of £31,344,000 (2020: £nil) is unsecured, interest bearing and repayable on demand. For further details, please refer to note 21.

Bank deposits of £12,700,000 (2020: £18,977,000) are unsecured, interest bearing and repayable within 3 months. For further details, please refer to note 21.

13. Trade and other receivables

	2021 £'000	2020 £'000
Other debtors	7,818	6,408

14. Loans and advances to customers

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance as at 1 January 2021	4,104,857	14,427	67,775	4,187,059
Net Increase/(decrease) in loans and advances to customers	74,093	(4,610)	(10,527)	58,956
Gross loans and advances to customers	4,178,950	9,817	57,248	4,246,015
Less: allowance for losses on loans and advances	(2,088)	(124)	-	(2,212)
Net loans and advances to customers as at 31 December	4,176,862	9,693	57,248	4,243,803
	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	4,102,843	14,245	67,775	4,184,863

Notes to the financial statements (continued)

For the year ended 31 December 2021

14. Loans and advances to customers (continued)

	2021 £'000	2020 £'000
Gross loans and advances to customers	4,246,015	4,187,059
Less: allowance for losses on loans and advances	(2,212)	(2,196)
Net loans and advances to customers	4,243,803	4,184,863
of which:		
Due within one year	306,817	415,584
Due after one year	3,936,986	3,769,279
	4,243,803	4,184,863

Further analysis of loans and advances to customers is provided in note 22.

15. Borrowed funds

	2021 £'000	2020 £'000
Amounts due to group undertakings (see note 21)	4,135,485	3,930,866
Bank overdraft with group undertaking (see note 21)	-	186,197
	4,135,485	4,117,063

Amounts due to group undertakings represents bank borrowings of £4,135,485,000 (2020: £3,930,866,000) are unsecured, interest bearing and payable on maturity. For further details, please refer to note 21.

Bank overdraft of £nil (2020: £186,197,000) is unsecured, interest bearing and repayable on demand. For further details, please refer to note 21.

There are no contracts with an IBOR benchmark attached at 31 December 2021.

16. Provision for liabilities and charges

	2021 £'000	2020 £'000
At 1 January	188	208
Credit for the year	(34)	(20)
At 31 December	154	188

Undrawn loan commitment provision

Undrawn loan commitment provision relates to the expected credit loss on the loan commitments that the Company has made to its customers for undrawn balances at the year end.

As at 31 December 2021, the provision of £154,000 (2020: £188,000) was all categorised as Stage 1 of impairment per the expected credit loss methodology under IFRS 9.

Notes to the financial statements (continued)

For the year ended 31 December 2021

17. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2021 £'000	2020 £'000
Brought forward	308	323
Credit/(charge) for the year (see note 10)	24	(15)
At 31 December	332	308

The deferred tax credit/(charge) in the Statement of comprehensive income comprises the following temporary differences:

	2021 £'000	2020 £'000
Accounting provisions disallowed	5	(8)
Other temporary differences	19	(7)
	24	(15)

Deferred tax asset comprises:	2021 £'000	2020 £'000
Accelerated capital allowances	3	3
Accounting provisions disallowed	50	45
Other temporary differences	279	260
	332	308

Finance Act 2016 reduced the main rate of corporation tax to 17% with effect from 1 April 2020. This reduction was superseded by 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.

Finance Act 2021, which received Royal Assent on 10 June 2021, increases the rate of corporation tax from 19% to 25% with effect from 1 April 2023.

18. Share capital

	2021 £'000	2020 £'000
Allotted, issued and fully paid		
18,500,000 (2020: 18,500,000) ordinary shares of £1 each	18,500	18,500

19. 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.

Notes to the financial statements (continued)

For the year ended 31 December 2021

19. Retirement benefit obligations (continued)

During the year ended 31 December 2021 the charge to the Statement of comprehensive income in respect of employees in the defined contribution section of the scheme was £580,000 (2020: £558,000), representing the contributions payable by the Company in accordance with the scheme's rules. There are no outstanding or prepaid contributions at 31 December 2021 (2020: £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 2021 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 financial statements of Lloyds Banking Group plc, the ultimate parent company.

20. Share based payments

During the year ended 31 December 2021, 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 £60,000 (2020: £61,000) are recharged from other group companies.

Further details in respect of share based payment schemes can be found in the 2021 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 <https://www.lloydsbankinggroup.com/investors/financial-downloads.html>.

21. Related party transactions

The Company's immediate parent company is Lloyds Bank plc. The company regarded by the Directors as the ultimate parent company and ultimate controlling party is Lloyds Banking Group plc, a limited liability company incorporated and domiciled 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. Lloyds Bank plc is the parent company of the smallest such group of undertakings. 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 <https://www.lloydsbankinggroup.com/investors/financial-downloads.html>.

Key management personnel are those persons having authority for planning, directing and controlling the activities of an entity, which are determined to be the Company's Directors. No director entered into transactions with the Company in the year (2020: none).

A summary of the outstanding balances at the year end and the related income and expense for the year are set out below.

				2021	2020
				£'000	£'000
Amounts due to group undertakings					
Nature of transaction	Related party	Repayment	Interest		
Staff related costs	Bank of Scotland plc	On demand	N/A	243	156
Bank borrowings	Lloyds Bank plc	Various	0.92% - 5.85%	4,135,242	3,930,710
Bank overdraft	Lloyds Bank plc (note 15)	On demand	22.5%	-	186,197
Dividend payable	Lloyds Bank plc (note 11)	Within 1 month	N/A	35,183	-
Total Amounts due to group undertakings (note 15)				4,170,668	4,117,063
Nature of transaction	Related party				
Cash and cash equivalents	Lloyds Bank plc	On demand	N/A	44,044	18,977

Notes to the financial statements (continued)

For the year ended 31 December 2021

21. Related party transactions (continued)

		2021 £'000	2020 £'000
Interest expense	Related party		
Interest payable on bank loans from other group companies	Lloyds Bank plc (note 4)	52,162	60,370
Other operating expenses	Related party		
Share based payments	Lloyds Bank plc (note 8)	60	61
Pension costs - defined contribution plans	Lloyds Bank plc (note 8)	580	558

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 credit losses or bad debt expenses relating to the above balances incurred during the year, or in the prior year.

Bank borrowings are interest bearing and during the year rates of interest of between 0.92% and 5.85% (2020: 0.92% and 5.85%) were charged.

Bank deposits are interest bearing and during the year rates of interest of 0.98% (2020: 1.18%) were received.

The Company paid taxation of £12,927,000 (2020: £10,419,000) 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 Banking Group plc	Ultimate parent undertaking	The Mound, Edinburgh, EH1 1YZ
Lloyds Bank plc	Immediate parent company	25 Gresham Street, London EC2V 7HN
Bank of Scotland plc	Fellow group undertaking	The Mound, Edinburgh, EH1 1YZ

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

	2021 £'000	2020 £'000
Short term employee benefits	91	166
Post employment benefits	15	11
	106	177

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

22. 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.

Notes to the financial statements (continued)

For the year ended 31 December 2021

22. Financial risk management (continued)

22.1 Credit risk

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 2021	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%	4,178,950	-	-	4,178,950
CMS 15-18	3.01-20.00%	-	-	-	-
CMS 19	20.01-99.99%	-	9,817	-	9,817
CMS 20-23	100%	-	-	57,248	57,248
		4,178,950	9,817	57,248	4,246,015

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

22. Financial risk management (continued)

22.1 Credit risk (continued)

Loan commitments

At 31 December 2021	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%	269,956	-	-	269,956
CMS 15-18	3.01-20.00%	-	-	-	-
CMS 19	20.01-99.99%	-	-	-	-
CMS 20-23	100%	-	-	-	-
		269,956	-	-	269,956

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

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 2020	2,014	182	-	2,196
Charge for year (including recoveries)	76	(58)	-	18
At 31 December 2021	2,090	124	-	2,214

In respect of drawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
In respect of				
Loans and advances to customers	2,090	124	-	2,214

In respect of drawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2020	1,934	186	-	2,120
Charge for year (including recoveries)	80	(4)	-	76
At 31 December 2020	2,014	182	-	2,196

Notes to the financial statements (continued)

For the year ended 31 December 2021

22. Financial risk management (continued)

22.1 Credit risk (continued)

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

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 undrawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 31 December 2020	188	-	-	188
Charge for year (including recoveries)	(34)	-	-	(34)

At 31 December 2021	154	-	-	154
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In respect of	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Provision in relation to loan commitments	154	-	-	154

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
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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 2.4.

Reposessed 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 reposessed collateral in respect of defaulted debt with a value of £nil (2020: £nil). The carrying value of all the reposessed collateral is considered an approximation of fair value.

22.2 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.

Notes to the financial statements (continued)

For the year ended 31 December 2021

22. Financial risk management (continued)

22.2 Liquidity risk (continued)

As at 31 December 2021

	On demand £'000	< 1 month £'000	1-3 months £'000	3-12 months £'000	> 1 year £'000	Total £'000
Bank overdraft	-	-	-	-	-	-
Amounts owed to group undertakings	1,672,914	-	-	193,000	2,269,571	4,135,485
Dividend payable	-	35,183	-	-	-	35,183
Trade and other payables	7,665	-	-	-	-	7,665
Provisions	154	-	-	-	-	154
Current tax liability	14,302	-	-	-	-	14,302

	1,695,035	35,183	-	193,000	2,269,571	4,192,789
As at 31 December 2020	On demand £'000	< 1 month £'000	1-3 months £'000	3-12 months £'000	> 1 year £'000	Total £'000
Bank overdraft	186,197	-	-	-	-	186,197
Amounts owed to group undertakings	903,458	-	-	193,000	2,834,408	3,930,866
Trade and other payables	3,145	-	-	-	-	3,145
Provisions	188	-	-	-	-	188
Current tax liability	12,927	-	-	-	-	12,927
	1,105,915	-	-	193,000	2,834,408	4,133,323

The Company is funded entirely by companies with the Group.

22.3 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 the movement in the Bank of England base rate and SONIA which are the basis for the interest rate on loans and advances to customers and intercompany balances. A 0.11% increase or decrease is used to assess the possible change in Interest income. This rate is appropriate as the average Bank of England base rate in 2021 decreased by 0.11% compared to the average rate in 2020. A 0.11% increase or decrease is used to assess the possible change in Interest expense. This rate is appropriate as this is the amount by which the average SONIA decreased in the year.

If the Bank of England base rate increased by 0.11% (2020: 0.54%) and all other variables remain constant this would increase Interest income by £2,686,000 (2020: £13,538,000) and accordingly decrease Interest income by £2,686,000 (2020: £13,538,000) if the Bank of England base rate decreased by the same amount.

If SONIA increased by 0.11% (2020: 0.66%) and all other variables remain constant this would increase Interest expense by £4,359,000 (2020: £26,164,000) and accordingly would decrease Interest expense by £4,359,000 (2020: £26,164,000) if SONIA decreased by the same amount.

Notes to the financial statements (continued)

For the year ended 31 December 2021

22. Financial risk management (continued)

22.4 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.

22.5 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.

22.6 Fair values of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is a measure as at a specific date and may be significantly different from the amount which will actually be paid or received on maturity or settlement date.

Valuation of financial assets and liabilities

The valuations of financial instruments have been classified into three levels according to the quality and reliability of information used to determine the fair values.

Level 1 portfolios

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 predominantly comprise equity shares, treasury bills and government securities.

Level 2 portfolios

Level 2 valuations are those where quoted market prices are not available, for example where the instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3 portfolios

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments are valued using various valuation techniques that require significant management judgment in determining appropriate assumptions, including earnings multiples and estimated future cash flows.

Cash and cash equivalents, Trade and other receivables, Bank borrowings, and Trade and other payables are all held at amortised cost.

Fair values of Loans and advances to customers are considered to be level 2 in the valuation hierarchy as their fair value is 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 £4,243,811,000 (2020: £4,183,417,000). 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 £17,130,300,000 (2020: £15,890,300,000).

Notes to the financial statements (continued)

For the year ended 31 December 2021

23. 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 parent can also request the Company to pay dividends or make a capital contribution in order to maintain or adjust the Group's capital structure.

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.

24. Contingent liabilities and capital commitments

At 31 December 2021, mortgage loans of £243,909,000 (2020: £250,457,000) had been approved subject to legal and other formalities, and authorising lending facilities of £26,046,000 (2020: £35,002,000) 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 rules has not changed and hence it has appealed to the First Tier Tax Tribunal, with a hearing expected in 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 £8,463,000 (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 other contracted capital commitments at the Balance sheet date (2020: £nil).

25. Post balance sheet events

Russian invasion of Ukraine

The Russian invasion of Ukraine, beginning in February 2022, has increased tensions between members of the North Atlantic Treaty Organisation (NATO) and Russia, resulting in sanctions being imposed by both sides with a global reach. This brings significant adverse economic risk to financial markets, energy costs, and agricultural markets. Subsequently, input costs such as fuel and fertiliser have risen rapidly, all of which could have a materially adverse effect on the customers and therefore the Company's results of operations, financial conditions or prospects. The Company will continue to monitor the situation and risks to the business, however at this stage the risks cannot be reliably measured.

26. 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 2021 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
Minor amendments to other accounting standards	The IASB has issued a number of minor amendments to IFRSs effective 1 January 2022 and in later years (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 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.