The Agricultural Mortgage Corporation plc

Annual report and accounts

2022

Member of Lloyds Banking Group

Strategic report
For the year ended 31 December 2022

The Directors present their Strategic report and audited financial statements of The Agricultural Mortgage Corporation plc (the "Company") for the year ended 31 December 2022.

Business overview

The Company's performance in 2022 has been resilient. In the market it is well 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 and Farm sales remain the most popular purpose of completed loans, closely followed by restructuring of finances.

The results for the year show a 2.34% decrease (2021: 1.41% increase) in net Loans and advances to customers to £4,144,357,000 (2021: £4,243,803,000), this is attributable to prevailing market and macroeconomic conditions.

The Company's profit after tax for the financial year was £49,963,000 (2021: £61,158,000). The reduction in after tax profit is attributable mainly to the increase in the cost of borrowings as a result of the Bank of England base rate increasing from 0.25% in January 2022 to 3.50% in December 2022.

Despite short term market disruption, the population and consumption continues to grow which is providing stability for the Agriculture sector. UK Agriculture will continue to diversify and align to a new Domestic Agriculture Policy which will see continued innovation in the sector.

The business continues to invest and improve capabilities in order to better serve customer needs with the aim to improve its overall proposition within the market.

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% (2021: 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 Agricultural Sector, although not being unduly affected by the EU Exit, Overseas Export / Import Tariff Deal arrangements, will be materially impacted over the next several years by the phased reduction of the current Common Agricultural Policy Basic Payment Scheme and introduction of the replacement Subsidy Grant schemes such as Environmental Land Management Scheme and Environmental Sustainability Incentive Schemes. The sector will also be required to meet the National Farmers Union (NFU) target of net zero emissions by 2040.

Further to this, the domestic inflationary environment facing the sector and its impact on clients continues to weigh on sentiment. Key inputs to the sector such as fuel, fertiliser and feed have been materially impacted which has led to margin pressure and uncertainty.

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 and caused sanctions to be imposed. This has created significant adverse economic effects on financial markets and on energy costs, and may also result in increased cyber attacks and an increase in costs associated with such cyber attacks, all of which could have a materially adverse effect on the Group's results of operations, financial condition or prospects. The Group will monitor the situation and risks to the business.

Details of the Company's and Group's financial risk management policy are contained in note 23 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 on the next page:

KPI	2022 %	2021 %	Analysis
Income Growth	20.9%	(0.5)%	Year on year movement in total income (gross interest income, gross fees and commission income and other operating income) as a percentage. Interest Income growth primarily attributable to increased rate environment and increased income via variable rate lending. It is also reflective of strategic focus on margin growth.
Profit Before Tax Growth	(18.2)%	12.1%	Year on year movement in profit before tax as a percentage. PBT has decreased due to the increase in the cost of borrowings as a result of the Bank of England base rate increasing from 0.25% in January 2022 to 3.5% in December 2022.
Other Expenses	2.8%	3.2%	Other expenses as a percentage of total income have been broadly consistent year on year.

KPI	2022 £'m	2021 £'m	Analysis
Applications	536.3	721.4	The value of loan applications and completions rate have decreased year on year, attributable to prevailing market and macroeconomic conditions. Completions as a percentage of applications is also down year on year.
Completions	222.2	337.0	

Section 172(1) statement

In accordance with the Companies Act 2006 ("the Act") for the year ended 31 December 2022 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 subsidiary of Lloyds Bank 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 Lloyds Banking Group plc Board agreed how the Group, including the Company, would engage the workforce, which has remained unchanged. The definition of 'workforce', as agreed by the Lloyds Banking Group plc Board is permanent employees, contingent workers and third-party suppliers that work on Lloyds Banking Group plc 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 the Group, works toward achieving the Group's customer ambitions by 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 Bank plc, whose ultimate parent undertaking is Lloyds Banking Group plc, forming part of the Group'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 the Group, ensuring that the interests of Lloyds Bank 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 2022, 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.

Strategic report (continued)

For the year ended 31 December 2022

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 the Group's related initiatives, including Helping Britain Prosper by actively managing its customer lending. Further information in respect of the Group'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 2022, which does not form part of this report. Additional information on the Group'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 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
9 June 2023

Directors' report
For the year ended 31 December 2022

The Directors present their report for the Company for the year ended 31 December 2022.

General information

The Company is a public limited company incorporated and domiciled in England and Wales (registered number: 00234742). The registered office for the Company is Keens House, Anton Mill Road, Andover, Hampshire, United Kingdom, SP10 2NQ.

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.

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

Dividends

A dividend of £84,708,000 (2021: £35,183,000) representing a dividend of 458p per share (2021: 190p per share) was declared and paid by the Company in 2022.

Going concern

The Directors are satisfied that the financial statements have been prepared on a going concern basis for a period of at least 12 months from the signing of these financial statements, taking into account the following;

- The current Loan-to-value ("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, to continue to provide adequate access to liquidity for the foreseeable future.

Directors

The Directors of the Company who were in office at the date of signing the financial statements are shown below:

D E Adams	(appointed 8 February 2023)
A L Dennis	(appointed 30 March 2022)
P A Gordon	
S Haycock	
M A L Packham	
K Softly	(appointed 30 May 2022)

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

L A Reeves	(resigned 30 May 2022)
N J M Ingram	(resigned 2 February 2023)

Company Secretary

The current Company Secretary is listed 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 is out of scope of the Streamlined Energy and Carbon Reporting ("SECR"), as it does not have to report on SECR in its own Director's report where included in the Group's SECR statement of a UK Group report. Further information in respect of SECR is included within the Lloyds Banking Group plc Annual report and accounts for 2022 which does not form part of this report, available on 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 or from the date of appointment in respect of the director who joined the board of the Company during the financial year. Directors no longer in office but who served on the Board of the Company at any time in the financial year had the benefit of this 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 Directors’ and Strategic reports and 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.

Statement of Directors' responsibilities (continued)

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.

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.

Auditor and 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 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 auditor is aware of that information.

Re-appointment of auditor

The auditor, Deloitte LLP, was 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

S Haycock
Director
9 June 2023

Financial statements

Statement of comprehensive income
For the year ended 31 December 2022

	Note	**2022**	2021
		£'000	£'000
Interest income		**160,678**	130,376
Interest expense		**(95,751)**	(52,162)
Net interest income	4	**64,927**	78,214
Fee and commission income		**3,389**	5,309
Fee and commission expense		**(2,153)**	(3,780)
Net fee and commission income	5	**1,236**	1,529
Other operating income		**104**	93
Other operating expenses	6	**(4,573)**	(4,400)
Profit before tax		**61,694**	75,436
Taxation	10	**(11,731)**	(14,278)
Profit for the year being total comprehensive income		**49,963**	61,158

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

Balance sheet

As at 31 December 2022

	Note	2022	2021
		£'000	£'000
ASSETS			
Cash and cash equivalents	12	**167,363**	44,044
Trade and other receivables	13	**13,769**	7,818
Loans and advances to customers	14	**4,144,357**	4,243,803
Deferred tax asset	18	**245**	332
Total assets		**4,325,734**	4,295,997
LIABILITIES			
Borrowed funds	15	**4,239,655**	4,135,485
Trade and other payables	16	**6,045**	7,665
Provision for liabilities and charges	17	**107**	154
Current tax liability		**11,464**	14,302
Dividend	11	**—**	35,183
Total liabilities		**4,257,271**	4,192,789
EQUITY			
Share capital	19	**18,500**	18,500
Retained profit		**49,963**	84,708
Total equity		**68,463**	103,208
Total equity and liabilities		**4,325,734**	4,295,997

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

The financial statements on pages 7 to 28 were approved by the Board of Directors and were signed on its behalf by:

S Haycock

S Haycock
Director
9 June 2023

Statement of changes in equity

For the year ended 31 December 2022

	Share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2021	18,500	58,733	77,233
Profit for the year being total comprehensive income	—	61,158	61,158
Dividend paid to equity holders of the Company	—	(35,183)	(35,183)
At 31 December 2021	18,500	84,708	103,208
Profit for the year being total comprehensive income	**—**	**49,963**	**49,963**
Dividend paid to equity holders of the Company	**—**	**(84,708)**	**(84,708)**
At 31 December 2022	**18,500**	**49,963**	**68,463**

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

Cash flow statement
For the year ended 31 December 2022

	2022	2021
	£'000	£'000
Profit before tax	**61,694**	75,436
Adjustments for:		
- Interest expense	**95,751**	52,162
- Decrease in Provision for liabilities and charges	**(47)**	(34)
Operating cash flows before movements in working capital	**157,398**	127,564
Changes in operating assets and liabilities:		
- Decrease / (increase) in Loans and advances to customers	**99,446**	(58,940)
- Increase in Other receivables	**(5,951)**	(1,410)
- (Decrease) / increase in Other current liabilities	**(1,621)**	4,520
Cash generated from operations	**249,272**	71,734
Corporation tax paid	**(14,481)**	(12,927)
Net cash generated from operating activities	**234,791**	58,807
Cash flows generated from / (used in) financing activities		
Dividend paid	**(119,891)**	—
Increase in borrowings with group undertakings	**104,170**	204,619
Interest paid	**(95,751)**	(52,162)
Net cash (used in) / generated from financing activities	**(111,472)**	152,457
Change in Cash and cash equivalents	**123,319**	211,264
Cash and cash equivalents / (Net bank overdrafts) at beginning of year	**44,044**	(167,220)
Cash and cash equivalents at end of year	**167,363**	44,044
Cash and cash equivalents comprise		
Cash at bank	**150,111**	31,344
Bank deposits	**17,252**	12,700
Cash and cash equivalents	**167,363**	44,044

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 2022

1. Basis of preparation

The Company is a public limited company incorporated and domiciled in England and Wales (registered number: 00234742). The registered office for the Company is Keens House, Anton Mill Road, Andover, Hampshire, United Kingdom, SP10 2NQ.

The financial statements for the year ended 31 December 2022 have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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

The following new IFRS pronouncement is relevant to the Company and has been adopted in these financial statements:

i. Minor amendments to other accounting standards: The IASB has issued a number of minor amendments to IFRSs effective 1 January 2022 (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

The application of this pronouncement has not had any impact for amounts recognised in these financial statements.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2022 and which have not been applied in preparing these financial statements are given in note 26. No standards have been early adopted.

The financial information has been prepared under the historical cost convention. As discussed in the Directors' report, the Directors consider that it is appropriate to prepare the accounts on a going concern basis for a period of at least 12 months from the signing of these financial statements.

2. Accounting policies

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.

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 and 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.

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 reflects the change in expected credit losses and certain fraud write-offs and recoveries. Expected credit losses are recognised for loans and advances to customers and banks, other financial assets held at amortised cost and certain loan commitments and financial guarantee contracts. Expected credit losses are calculated as an unbiased and probability weighted estimate by using an appropriate probability of default ("PD"), 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 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 is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses). Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

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 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 which the Company now uses for all its products following changes to the definition of default for UK Mortgages on 1 January 2022. In addition, other indicators of mortgage default are added including end-of-term payments on past due interest-only accounts and loans considered non-performing due to recent arrears or forbearance. 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.

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 credit impairment losses recorded in the Statement of comprehensive income. 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 concessions are no longer appropriate.

2.5 Cash and cash equivalents

For the purposes of the Balance sheet and Cash flow statement, Cash and cash equivalents comprise balances with less than three months' maturity.

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 His 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.

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. Accounting policies (continued)

2.10 Retirement benefit schemes

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

	2022	2021
	£'000	£'000
Interest income		
From other loans and advances	**160,678**	130,376
Interest expense		
Interest expense (see note 22)	**(95,751)**	(52,162)
Net interest income	**64,927**	78,214

5. Net fee and commission income

	2022	2021
	£'000	£'000
Fee and commission income		
Loan fees receivable	**3,389**	5,309
Fee and commission expense		
Other fees and commission payable	**(2,153)**	(3,780)
Net fee and commission income	**1,236**	1,529

6. Other operating expenses

	2022	2021
	£'000	£'000
Staff costs (see note 8)	**4,146**	4,043
Other operating expenses	**360**	331
Movement in impairment provision (see note 7)	**67**	26
	4,573	4,400

Fees payable to the Company's auditors for the audit of the financial statements of £36,385 (2021: £34,650) have been incurred and included in Other operating expenses. There were no fees payable for non-audit services (2021: £nil).

7. Impairment losses

31 December 2022	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Transfers between stages	(6)	6	—	—
Other changes in credit quality	(16)	104	—	88
Repayments	(69)	(4)	—	(73)
Write offs	—	—	52	52
Total impairment charge/(credit)	(91)	106	52	67
Other	—	—	(52)	(52)
In respect of:				
Loans and advances to customer (see note 23)	(44)	106	52	114
Undrawn loan commitments (see note 17)	(47)	—	—	(47)
	(91)	106	52	67

7. Impairment losses (continued)

31 December 2021	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Transfers between stages	100	(100)	—	—
Other changes in credit quality	(4)	47	—	43
Repayments	(54)	(5)	—	(59)
Write offs	—	—	42	42
Total impairment charge/(credit)	42	(58)	42	26
Other	—	—	(42)	(42)
In respect of:				
Loans and advances (see note 23)	76	(58)	42	60
Undrawn loan commitments (see note 17)	(34)	—	—	(34)
	42	(58)	42	26

8. Staff costs

	2022 £'000	2021 £'000
Wages and salaries	**3,180**	3,105
Social security costs	**284**	298
Share based payments (see note 21)	**42**	60
Pension costs – defined contribution plans	**640**	580
	4,146	4,043

The average monthly number of employees during the year was 75 (2021: 67). All staff are located in the United Kingdom and provide management, administration and sales support.

9. Directors' emoluments

	2022 £'000	2021 £'000
Aggregate emoluments	**176**	81
Aggregate post-employment benefits	**21**	15
	197	96

The number of Directors to whom retirement benefits accrued under defined benefit and money purchase schemes is nil and four respectively (2021: one and three respectively).

No Directors exercised share options in the ultimate parent company during the year (2021: 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.

10. Taxation

a) Analysis of charge/(credit) for the year

	2022	2021
	£'000	£'000
UK corporation tax:		
- Current tax on taxable profit/(loss) for the year	**11,686**	14,345
- Adjustments in respect of prior years	**(42)**	(43)
Current tax charge	**11,644**	14,302
UK deferred tax:		
- Origination and reversal of timing differences	**37**	(12)
- Adjustments in respect of prior years	**50**	45
- Impact of deferred tax rate change	**—**	(57)
Deferred tax charge/(credit) (see note 18)	**87**	(24)
Tax charge	**11,731**	14,278

Corporation tax is calculated at a rate of 19.00% (2021: 19.00%) of the taxable profit for the year.

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

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

	2022	2021
	£'000	£'000
Profit before tax	**61,694**	75,436
Tax charge thereon at UK corporation tax rate of 19.00% (2021: 19.00%)	**11,722**	14,333
Factors affecting charge:		
- Due to change in UK corporation tax rate	**—**	(57)
- Disallowed and non-taxable items	**1**	—
- Adjustments in respect of prior years	**8**	2
Tax charge on profit	**11,731**	14,278
Effective rate	**19.01%**	18.93%

11. Dividends paid

A dividend of £84,708,000 (2021: £35,183,000) representing a dividend of 458p per share (2021: 190p per share) was declared and paid during the year.

12. Cash and cash equivalents

	2022	2021
	£'000	£'000
Cash at bank (see note 22)	**150,111**	31,344
Bank deposits (see note 22)	**17,252**	12,700
	167,363	44,044

12. Cash and cash equivalents (continued)

Cash at bank of £150,111,000 (2021: £31,344,000) is unsecured, interest bearing and repayable on demand. For further details, please refer to note 22.

Bank deposits of £17,252,000 (2021: £12,700,000) are unsecured, interest bearing and repayable within 3 months. For further details, please refer to note 22.

13. Trade and other receivables

	2022	2021
	£'000	£'000
Other debtors	**13,769**	7,818

14. Loans and advances to customers

14.1 Loans and advances to customers - maturity

	2022	2021
	£'000	£'000
Gross loans and advances to customers	**4,146,633**	4,246,015
Less: allowances for losses on loans and advances	**(2,276)**	(2,212)
Net loans and advances to customers	**4,144,357**	4,243,803
of which:		
Due within one year	**292,439**	306,817
Due after one year	**3,851,918**	3,936,986
	4,144,357	4,243,803

14.2 Loans and advances to customers - movement over time

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Balance at 1 January 2022	**4,178,950**	**9,817**	**57,248**	**4,246,015**
Transfers to Stage 2	**(12,128)**	**13,637**	**(1,509)**	**—**
Transfers to Stage 3	**—**	**(15,711)**	**15,711**	**—**
Net increase/(decrease) in loans and advances to customers	**(108,453)**	**10,498**	**(1,426)**	**(99,381)**
Financial assets that have been written off during the year	**—**	**—**	**(3)**	**(3)**
Recoveries of prior advances written off	**—**	**—**	**2**	**2**
Gross loans and advances to customers at 31 December 2022	**4,058,369**	**18,241**	**70,023**	**4,146,633**
Less: allowances for losses on loans and advances	**(2,046)**	**(230)**	**—**	**(2,276)**
Net loans and advances to customers at 31 December 2022	**4,056,323**	**18,011**	**70,023**	**4,144,357**

14. Loans and advances to customers (continued)

14.2 Loans and advances to customers - movement over time (continued)

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January 2021	4,104,857	14,427	67,775	4,187,059
Transfers to Stage 1	8,078	(8,078)	—	—
Transfers to Stage 2	(3,862)	6,126	(2,264)	—
Transfers to Stage 3	—	(14,017)	14,016	(1)
Net increase/(decrease) in loans and advances to customers	69,877	11,359	(22,256)	58,980
Financial assets that have been written off during the year	—	—	(35)	(35)
Recoveries of prior advances written off	—	—	12	12
Gross loans and advances to customers at 31 December 2021	4,178,950	9,817	57,248	4,246,015
Less: allowances for losses on loans and advances	(2,088)	(124)	—	(2,212)
Net loans and advances to customers at 31 December 2021	4,176,862	9,693	57,248	4,243,803

15. Borrowed funds

	2022 **£'000**	2021 £'000
Amounts due to group undertakings	**4,239,655**	4,135,485

Amounts due to group undertakings represents bank borrowings of £4,239,232,000 (2021: £4,135,242,000) and are unsecured, interest bearing and payable on maturity. For further details, see note 22.

16. Trade and other payables

	2022 **£'000**	2021 £'000
Accruals and deferred income	**6,046**	7,665

17. Provision for liabilities and charges

	2022 **£'000**	2021 £'000
As at 1 January	**154**	188
Credit for the year	**(47)**	(34)
At 31 December 2022	**107**	154

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.

17. Provision for liabilities and charges (continued)

As at 31 December 2022, the provision of £107,000 (2021: £154,000) was all categorised as Stage 1 of impairment per the expected credit loss methodology under IFRS 9.

18. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2022	2021
	£'000	£'000
Brought at 1 January	**332**	308
(Charge)/credit for the year (see note 10)	**(87)**	24
Balance at 31 December	**245**	332

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

	2022	2021
	£'000	£'000
Accelerated capital allowances	**(1)**	—
Accounting provisions disallowed	**(50)**	5
Other temporary differences	**(36)**	19
	(87)	24

Deferred tax asset comprises:	**2022**	2021
	£'000	£'000
Accelerated capital allowances	**2**	3
Accounting provisions disallowed	**—**	50
Other temporary differences	**243**	279
	245	332

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.

At the balance sheet date, a deferred tax asset of £245,000 has been recognised (2021: £332,000) based on the expectation that the company will be able to benefit from group relief with connected companies.

19. Share capital

	2022	2021
	£'000	£'000
Allotted, issued and fully paid		
18,500,000 (2021: 18,500,000) ordinary shares of £1 each	**18,500**	18,500

20. 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 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 2022 the charge to the Statement of comprehensive income in respect of employees in the defined contribution section of the scheme was £640,000 (2021: £580,000), representing the contributions payable by the Company in accordance with the scheme's rules. There are no outstanding or prepaid contributions at 31 December 2022 (2021: £nil).

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 2022 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 benefit schemes is included within the consolidated annual report and financial statements of Lloyds Banking Group plc, the ultimate parent company.

21. Share based payments

During the year ended 31 December 2022, the Company’s ultimate parent undertaking operated share based payment schemes, all of which are equity settled. The costs related to awards, including a charge for share based payments of £42,000 (2021: £60,000), are recharged from other group companies.

Further details in respect of share based payment schemes can be found in the 2022 financial statements of the Company’s ultimate parent undertaking, copies of which may be obtained from the Group Secretariat, Lloyds Banking Group plc, The Mound, Edinburgh, EH1 1YZ. The Lloyds Banking Group plc financial statements may be downloaded via www.lloydsbankinggroup.com.

22. Related party transactions

The immediate parent company is Lloyds Bank plc (incorporated in England and Wales). The company regarded by the Directors as the ultimate parent company and ultimate controlling party is Lloyds Banking Group plc, (incorporated in Scotland), which is also the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member. 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 the Company, which is determined to be the Company's Directors and members of the Lloyds Banking Group plc board. Members of the Lloyds Banking Group plc board are employed by other companies within the Lloyds Banking Group and consider that their services to the Company are incidental to their responsibilities within the Group.

No Director entered into transactions with the Company in the year (2021: none).

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

				2022	2021
				£'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	**423**	243
Bank borrowings	Lloyds Bank plc	Various	0.57% - 5.85%	**4,239,232**	4,135,242
Dividend payable	Lloyds Bank plc	Within 1 month	N/A	**—**	35,183
Total Amounts due to group undertakings				**4,239,655**	4,170,668

22. Related party transactions (continued)

				2022 £'000	2021 £'000
Nature of transaction	**Related party**	**Repayment**	**Interest**		
Cash at bank	Lloyds Bank plc	On demand	N/A	**150,111**	31,344
Bank deposits	Lloyds Bank plc	Within 3 months	1.50%	**17,252**	12,700
Interest expense	**Related party**				
Interest payable on bank loans from other group companies	Lloyds Bank plc	(note 4)		**95,751**	52,162
Other operating expenses	**Related party**				
Share based payments	Lloyds Bank plc	(note 8)		**42**	60
Pension costs - defined contribution plans	Lloyds Bank plc	(note 8)		**640**	580

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 though 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 0.57% and 5.85% (2021: 0.92% and 5.85%) were charged.

Bank deposits are interest bearing and during the year rates of interest of 1.50% (2021: 0.98%) were received.

The Company paid taxation of £14,481,000 (2021: £12,927,000) during the year via a fellow subsidiary undertaking, Bank of Scotland plc.

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

	2022 £'000	2021 £'000
Short term employee benefits	**193**	91
Post employment benefits	**21**	15
	214	106

23. Financial risk management

The Company's operations expose it to credit risk, liquidity risk, interest rate risk, market 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. Interest rate and liquidity risk faced by the Company is in substance managed and borne by other Lloyds Banking Group plc 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 the Company Directors. Business risk is managed through regular reporting and oversight.

A description of the Company's financial assets/liabilities and associated accounting is provided in note 1.

23. Financial risk management (continued)

23.1 Credit risk

Credit risk management

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The credit risk associated with Loans and advances to customers 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 all losses expected to be incurred at the Balance sheet date, using the basis of assessment discussed in noted 2.4.

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 land and buildings for which the loan was taken out. No other enhancements are in use.

Loans and advances to customers - gross carrying amount

The analysis of lending has been prepared by applying the Group's rating scales to the Company's impairment model. The internal credit ratings systems are set out below. The Group's probabilities of default ("PD"s), that have been applied, include forward-looking information and are based on 12 month values, with the exception of credit impaired. The Group's Corporate Master Scale ("CMS") has been used, with the internal credit rating systems set out below.

Loans and advances to customers - gross carrying amount

At 31 December 2022	PD range	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
CMS 11-14	0.51 - 3.00%	**4,058,369**	**—**	**—**	**4,058,369**
CMS 19	20.01 - 99.99%	**—**	**18,241**	**—**	**18,240**
CMS 20-23	100%	**—**	**—**	**70,023**	**70,024**
Total		**4,058,369**	**18,241**	**70,023**	**4,146,633**

23. Financial risk management (continued)

23.1 Credit risk (continued)

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 11-14	0.51 - 3.00%	4,178,950	—	—	4,178,950
CMS 19	20.01 - 99.99%	—	9,817	—	9,817
CMS 20-23	100%	—	—	57,248	57,248
Total		4,178,950	9,817	57,248	4,246,015

Loan Commitments

At 31 December 2022	PD range	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
CMS 11-14	0.51-3.00%	**216,791**	**—**	**—**	**216,791**
Total		**216,791**	**—**	**—**	**216,791**

Loan Commitments

At 31 December 2021	PD range	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
CMS 11-14	0.51-3.00%	269,956	—	—	269,956
Total		269,956	—	—	269,956

The principle sources of credit risk for the Company arise from Loan and Advances to customers. Credit risk arises both from amounts advanced and commitments to extend credit to a customer.

The risk division sets out the credit principles, credit risk policies and credit risk appetite statements. These are subject to regular review and governance, with any changes subject to an approval process. Risk teams monitor credit performance trends, review and challenge exceptions, and test the adequacy and adherence to credit risk policies and processes.

The criteria used to determine that there is objective evidence of an impairment is disclosed in note 2.4. All Loans and advances to customers are assessed for impairment. No amounts due from Lloyds Banking Group plc undertakings are impaired (2021: £nil).

23. Financial risk management (continued)

23.1 Credit risk (continued)

Analysis of movement in the allowance for impairment losses by stage

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 31 December 2021	**2,090**	**124**	**—**	**2,214**
Transfers between stages	**(6)**	**6**	**—**	**—**
Other Changes in Credit Quality	**27**	**104**	**—**	**131**
Repayments	**(65)**	**(4)**	**—**	**(69)**
Write offs	**—**	**—**	**52**	**52**
Other items charged to the Statement of comprehensive income	**(44)**	**106**	**52**	**114**
Other	**—**	**—**	**(52)**	**(52)**
Total Impairment Charge at 31 December 2022	**2,046**	**230**	**—**	**2,276**

Analysis of movement in the allowance for impairment losses by stage

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 31 December 2020	2,014	182	—	2,196
Transfers between stages	100	(100)	—	—
Other Changes in Credit Quality	25	47	—	72
Repayments	(49)	(5)	—	(54)
Write offs	—	—	42	42
Other items charged to the Statement of comprehensive income	76	(58)	42	60
Other	—	—	(42)	(42)
Total Impairment Charge at 31 December 2021	2,090	124	—	2,214

Loans and advances to customers are held at amortised cost.

23.2 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 Lloyds Banking Group plc.

Liquidity risk is managed as part of Lloyds Banking Group plc by an intermediate parent company, Lloyds Bank plc, in consultation with the board of Directors. Monthly reviews of funding positions are undertaken to anticipate any shortfalls.

The liquidity table below is a contractual maturity analysis for Amounts due to group undertakings, based on the earliest date the entity could be expected to repay the amounts owed.

23. Financial risk management (continued)

23.2 Liquidity risk (continued)

As at 31 December 2022	On demand £'000	< 1 month £'000	1 - 3 months £'000	3 - 12 months £'000	> 1 year £'000	Total £'000
Amounts owed to group undertakings	**1,092,295**	—	—	**191,000**	**2,956,360**	**4,239,655**
Trade and other payables	**6,045**	—	—	—	—	**6,045**
Provisions	**107**	—	—	—	—	**107**
Current tax liability	**11,464**	—	—	—	—	**11,464**
	1,109,911	—	—	**191,000**	**2,956,360**	**4,257,271**

As at 31 December 2021	On demand £'000	< 1 month £'000	1 - 3 months £'000	3 - 12 months £'000	> 1 year £'000	Total £'000
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

The Company is funded entirely by companies within the Group.

23.3 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 the movement in the Bank of England base rate and SONIA, which are the bases for the interest charged on such balances. A 1.44% (2021: 0.11%) increase or decrease is used to assess the possible change in Interest income. This rate is appropriate as the Bank of England base rate increased by 1.44% during the year. A 1.42% 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 increased in the year.

If the Bank of England base rate increased by 1.44% (2021: 0.11%) and all other variables remain constant, this would increase Interest income by £34,108,000 (2021: £2,686,000) and accordingly decrease Interest income by £34,108,000 (2021: £2,686,000) if Bank of England base rate decreased by the same amount.

If SONIA increased by 1.42% (2021: 0.11%) and all other variables remain constant this would increase Interest expense by £58,893,000 (2021: £4,359,000) and accordingly would decrease Interest expense by £58,893,000 (2021: £4,359,000) if SONIA decreased by the same amount.

23. Financial risk management (continued)

23.4 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.

23.5 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.

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.

Financial assets and liabilities carried at amortised cost

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

Fair value of Loans and advances to customers are considered to be level 3 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 carrying value of 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 £18,955,374,000 (2021: £17,130,300,000).

23.6. 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 2022, mortgage loans of £197,381,000 (2021: £243,909,000) had been approved subject to legal and other formalities, and authorising lending facilities of £19,410,000 (2021: £26,046,000) 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, following an appeal to the First Tier Tax Tribunal, a hearing was held in May 2023 with judgement awaited. 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 £8,831,000 (including interest). The Group, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

25. Post balance sheet events

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

26. Future developments

The following pronouncement will be relevant to the Company but was not effective at 31 December 2022 and has not been applied in preparing these 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 2023 and in later years (including IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors).	Annual periods beginning on or after 1 January 2023.

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

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 (the ‘company’):
- give a true and fair view of the state of the company’s affairs as at 31 December 2022 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;
- the Statement of Accounting Policies; and
- the related notes 1 to 25.

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 directors' responsibilities statement, 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 and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

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 and in-house legal counsel 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
9 June 2023