The Agricultural Mortgage Corporation plc

Report and accounts

2019

Member of Lloyds Banking Group

Strategic report

For the year ended 31 December 2019

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 2019.

Business overview

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

The results for the year, which show a 9% increase in Loans and advances to customers to £3,996,910,000 (2018: £3,651,508,000), reflect the robustness of the business.

This continued momentum is further demonstrated through the contribution the Company has had with £345,402,000 (94%) towards to the wider SME Banking Helping Britain Prosper lending growth in 2019.

The Company's profit before tax for the financial year was £56,766,000 (2018: £44,707,000). The year on year increase is primarily due to the significant growth in Loans and advances to customers above.

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 2020.

Principal risks and uncertainties

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

The Company's business continues to be well positioned due to a cautious credit risk approach detailed by a low loan-to-value ("LTV") across the portfolio of approximately 35%, and under stress testing of 6%.

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

In the context of operational resilience, the Company is assessing the risks associated with the current global health issue Covid-19 and continues to analyse the impacts. However, it is difficult at this stage to quantify risks and the degree to which they might crystallise.

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

Key performance indicators ("KPIs")

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

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

KPI	2019 %	2018 %	Definition, method of calculation and analysis
Income Growth	12.2	11.4	Year on year growth in total income (gross interest income, gross fees and commission income and other operating income) as a percentage.
PBT Growth	27.0	15.2	Year on year growth in profit before tax as a percentage.
Cost/Income	3.5	3.9	Other operating expenses as a percentage of total income.

KPI	2019 £'m	2018 £'m	Definition, method of calculation and analysis
Applications	973.2	979.6	Value of loan applications received from customers in the year.
Completions	568.4	466.2	Value of loans completed in the year.

Strategic report (continued)

For the year ended 31 December 2019

Section 172(1) Statement

In accordance with the Companies Act 2006 (the 'Act'), for the year ended 31 December 2019, the directors provide the following statement describing how they have had regard to the matters set out in section 172(1) of the Act, when performing their duty to promote the success of the Company under section 172.

Statement of Engagement with Other Stakeholders

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

Customers

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

Shareholders

The Company is a wholly owned subsidiary of Lloyds Banking Group plc, forming part of Lloyds Banking Group plc's commercial division. As a wholly owned subsidiary, the directors ensure that the strategy, priorities, processes and practices of the Company are fully aligned where required to those of Lloyds Banking Group plc, ensuring that the interests of Lloyds Banking Group plc as the Company's sole shareholder are duly acknowledged. Further information in respect of the relationship of Lloyds Banking Group plc with its shareholders is included within the Strategic Report within the Lloyds Banking Group plc Annual Report and Accounts for 2019, which does not form part of this report, available on the Lloyds Banking Group plc website.

Communities and the Environment

Due to its limited physical presence, the Company has a minimal direct impact on the community and the environment, it does however continue to support Lloyds Banking Group plc's related initiatives, including Helping Britain Prosper by actively managing its customer lending. Further information in respect of Lloyds Banking Group plc's overall approach to engaging with and contributing to the communities in which it operates is included within the Strategic Report within the Lloyds Banking Group plc's Annual Report and Accounts for 2019, which does not form part of this report. Additional information on Lloyds Banking Group plc's Helping Britain Prosper Plan is available on the Lloyds Banking Group plc website.

How stakeholder interest has influenced decision making

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

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

S Haycock

S Haycock
Director

20 July 2020

Directors' report

For the year ended 31 December 2019

The directors present their report for the year ended 31 December 2019.

General information

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

The Company provides long term finance to the agriculture sector.

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

Future outlook

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

Following the UK's exit from the EU, significant negotiation is now required on the terms of the future trade agreement. As a result, the possibility of a limited or no deal at the end of the transition period remains and could manifest in prolonged business uncertainty across the UK, including in the financial services sector. This continued lack of clarity over the UK's relationship with the EU and other foreign countries, and on-going challenges in the Eurozone, including weak growth, raise additional uncertainty for the UK's economic outlook. The Company is part of the wider Lloyds Banking Group ("the Group"), and, it is at that level that consideration of the many potential implications this may have has been undertaken. Work continues to assess the impact of EU exit at the level of the Group, as well as for the Company, upon customers, colleagues and products. This assessment includes all legal, regulatory, tax, finance and capital implications.

Post balance sheet events

In March 2020 the World Health Organisation declared the outbreak of Covid-19 a global pandemic. The outbreak and the action taken by government's across the world are causing widespread disruption to financial markets and normal patterns of business activity across the world, including the UK. The directors assess this event to be a non-adjusting post balance sheet event given the limited number of cases reported as at 31 December 2019. In view of its currently evolving nature, the directors continue to monitor the developments closely. Based upon an initial assessment of the likely impact of the pervasive disruption experienced in the UK, the directors assessed an additional credit impairment of £16,000 in March 2020 (see note 22).

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 £32,594,000, representing a dividend of 176p per share, was declared and paid during the year (2018: £42,125,000).

Directors' report (continued)

For the year ended 31 December 2019

Going concern

The Company is reliant on funding from Lloyds Bank plc which is a subsidiary of Lloyds Banking Group plc. The directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries, including the Company, will continue to have access to adequate liquidity and capital resources for the foreseeable future and, accordingly, the financial statements have been prepared on a going concern basis.

Directors

The current directors of the Company are as below.

P A Gordon	
S Haycock	
N A N Laird	(appointed 28 June 2019)
M A L Packham	
L A Reeves	(appointed 2 June 2020)

The following are other changes have taken place between the beginning of the reporting period and the approval of the Annual report and accounts:

A Moore	(resigned 4 May 2020)
A J Naylor	(resigned 6 May 2020)
P N Spencer	(resigned 12 March 2019)

Registered address

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

Company Secretary

The current Company Secretary is shown below:

D D Hennessey

Information included in the Strategic report

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

Statement of Engagement with Other Stakeholders

A statement of Engagement with other Stakeholders is included in the Strategic report on page 2.

Directors' indemnities

Lloyds Banking Group plc has granted to the directors of the Company a deed of indemnity through deed poll which constituted '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 directors who join 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 have the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of the directors' periods of office. The deed indemnifies the directors to the maximum extent permitted by law. Deeds for existing directors are 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 prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;

Directors' report (continued)

For the year ended 31 December 2019

Statement of directors' responsibilities (continued)

- make judgements and accounting estimates that are reasonable and prudent; and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

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

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

S Haycock

S Haycock
Director

20 July 2020

Income statement

For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Interest income		**132,646**	117,828
Interest expense		**(73,055)**	(70,740)
Net interest income	3	**59,591**	47,088
Fee and commission income		**7,384**	7,016
Fee and commission expense		**(5,355)**	(4,652)
Net fee and commission income	4	**2,029**	2,364
Other operating income		**87**	80
Other operating expenses	5	**(4,941)**	(4,825)
Profit before tax		**56,766**	44,707
Taxation	9	**(10,753)**	(8,480)
Profit for the year attributable to parent		**46,013**	36,227

Statement of comprehensive income

For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Profit for the year attributable to owners of the parent		**46,013**	36,227
Other comprehensive expense			
Items that may subsequently be reclassified to profit or loss:			
Post-retirement defined benefit scheme remeasurements	16	**-**	(254)
Taxation	9	**-**	40
Total other comprehensive expense		**-**	(214)
Total comprehensive income for the year attributable to parent		**46,013**	36,013

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

Balance sheet
As at 31 December 2019

	Note	2019 £'000	2018 £'000
ASSETS			
Cash and cash equivalents		**31,962**	26,071
Trade and other receivables	11	**4,546**	5,306
Loans and advances to customers	12	**3,996,910**	3,651,508
Retirement benefit asset	16	**-**	223
Deferred tax asset	14	**323**	270
Total assets		**4,033,741**	3,683,378
LIABILITIES			
Borrowed funds	13	**3,953,669**	3,611,917
Trade and other payables		**3,268**	2,707
Provision for liabilities and charges		**208**	-
Current tax liability		**10,613**	15,860
Total liabilities		**3,967,758**	3,630,484
EQUITY			
Share capital	15	**18,500**	18,500
Retained earnings		**47,483**	34,394
Total equity		**65,983**	52,894
Total equity and liabilities		**4,033,741**	3,683,378

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

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

S Haycock

S Haycock
Director

20 July 2020

Statement of changes in equity

For the year ended 31 December 2019

	Share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 31 December 2017	18,500	42,125	60,625
Adjustment on adoption of IFRS 9	-	(1,619)	(1,619)
At 1 January 2018	18,500	40,506	59,006
Profit for the year	-	36,227	36,227
Other comprehensive expense for the year	-	(214)	(214)
Dividend paid to equity holders of the Company	-	(42,125)	(42,125)
At 31 December 2018	**18,500**	**34,394**	**52,894**
At 1 January 2019	**18,500**	**34,394**	**52,894**
Profit for the year being total comprehensive income	-	46,013	46,013
Dividend paid to equity holders of the Company	-	(32,594)	(32,594)
Adjustments on changes in Retirement benefits methodology	-	(330)	(330)
At 31 December 2019	**18,500**	**47,483**	**65,983**

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

Cash flow statement

For the year ended 31 December 2019

	2019 £'000	2018 £'000
Cash flows used in operating activities		
Profit before tax	**56,766**	44,707
Adjustments for:		
- Interest expense	**73,055**	70,740
- Non-cash pension charge	**223**	112
- Impact of transition to IFRS 9 on Loans and advances to customers	**-**	(1,961)
- Impact of changes in Retirement benefits methodology	**(330)**	-
- Increase in Provision for liabilities and charges	**208**	-
Changes in operating assets and liabilities:		
- Net increase in Loans and advances to customers	**(345,402)**	(219,603)
- Net decrease in Other debtors and Trade and other receivables	**739**	2,927
- Net increase in Trade and other payables	**561**	441
Cash used in operations	**(214,180)**	(102,637)
Pension contributions paid	**-**	(262)
Tax paid	**(16,053)**	-
Net cash used in operating activities	**(230,233)**	(102,899)
Cash flows generated from financing activities		
Dividends paid	**(32,594)**	(42,125)
Proceeds from net borrowings with group undertakings	**341,660**	327,689
Interest paid	**(73,055)**	(70,740)
Net cash generated from financing activities	**236,011**	214,824
Change in Cash and cash equivalents	**5,778**	111,925
Cash and cash equivalents/(net bank overdrafts) at beginning of year	**26,015**	(85,910)
Cash and cash equivalents at end of year	**31,793**	26,015
Cash and cash equivalents comprise		
Cash at bank	**31,962**	26,071
Bank overdrafts (see note 13)	**(169)**	(56)
Cash and cash equivalents	**31,793**	26,015

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 2019

1. Accounting policies

1.1 Basis of preparation

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

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

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

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2019 and which have not been applied in preparing these financial statements are given in note 23. No standards have been early adopted.

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

1.2 Income recognition

Income and expense from financial instruments

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

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

Fees and commission income and expense

Fees and commissions which are not an integral part of the effective interest rate are generally recognised in the Income statement.

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

1.3 Financial assets and liabilities

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

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

A reclassification will only take place when the change is significant to the Company's operations and will occur at a portfolio level and not for individual instruments; reclassifications are expected to be rare. Equity investments are measured at fair value through profit or loss unless the Company elects at initial recognition to account for the instruments at fair value through other comprehensive income. For these instruments, principally strategic investments, dividends are recognised in profit or loss but fair value gains and losses are not subsequently reclassified to profit or loss following derecognition of the investment.

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

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

1. Accounting policies (continued)

1.4 Impairment of financial assets

The impairment charge in the income statement includes the change in expected credit losses and credit related losses due to fraud. Expected credit losses are recognised for loans and advances to customers and banks, other financial assets held at amortised cost, financial assets measured at fair value through other comprehensive income, and certain loan commitments and financial guarantee contracts. Expected credit losses are calculated by 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 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 and financial guarantees) is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk, allowance (or provision) is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses). Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

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 together with qualitative indicators such as watch lists and other indicators of historic delinquency. 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. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since origination, 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.

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 in default (for a return to Stage 2). Renegotiation may also lead to the loan and associated allowance being derecognised and a new loan being recognised initially at fair value.

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

1.5 Dividends paid

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

1.6 Cash and cash equivalents

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

1.7 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.

Notes to the financial statements (continued)
For the year ended 31 December 2019

1. Accounting policies (continued)

1.7 Taxation, including deferred income taxes (continued)

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

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

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

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

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

1.8 Retirement benefit obligations

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

With effect from 1 January 2019, the Group revised its methodology for the intra-group re-charge relating to defined benefit scheme costs. Under this revised approach, the Company is charged the cash contributions paid to the various schemes during the year relating to its employees' current service. The Company accounts for its pension arrangements in accordance with IAS 19. As the amount charged to the Company is based on the cash contributions of Lloyds Bank, no asset or liability or movements in other comprehensive income are recognised by the Company. Further details are set out in note 16.

In 2018, the amount charged to the Company was based on Lloyds Banking Group's IAS 19 pension cost and the Company recognised its share of Lloyds Banking Group's income statement charge, together with its share of the surplus/deficit and movement in other comprehensive income.

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

1.9 Share based payments

The Company's ultimate parent company operates a number of group wide, equity settled, share based compensation plans. The Company's share of the value of the Company's employees' services received in exchange for equity instruments granted under these plans is recognised as an expense over the vesting period of the instruments. The 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. 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 scheme 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.

2. Critical accounting estimates and judgements in applying accounting policies

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

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

The significant estimate made by management in applying the Company's accounting policies and the key resources of estimation uncertainty in these financial statements, which are deemed critical to the Company's results and financial position, is Allowance for impairment losses on financial assets (see note 1.4).

Deferred tax

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

Allowance for impairment losses

At 31 December 2019, the Company carried a provision of £2,120,000 (2018: £2,462,000) in respect of expected impairment losses on the current loans and advances.

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

Definition of default

The probability of default (PD) of an exposure, both over a 12 month period and over its lifetime, is a key input to the measurement of the expected credit losses (CL) allowance. Default has occurred when there is evidence that the customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due. The definition of default adopted by the Company is described in note 1.4 Impairment of financial assets.

Lifetime of an exposure

The PD of a financial asset is independent of its expected life. A range of approaches, segmented by product type, has been adopted by the Company to estimate a product's expected life. These include using the full contractual life and taking into account behavioural factors such as early repayments and refinancing.

Significant increase in credit risk

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

The Company uses qualitative indicators to determine whether there has been an SICR for an asset. Any account meeting the criteria is treated as an SICR. All financial assets are assumed to have suffered an SICR if they are more than 30 days past due.

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

Post-model adjustments

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

Notes to the financial statements (continued)
For the year ended 31 December 2019

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

Forward looking information

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

The model-generated economic scenarios for the six years beyond 2019 are mapped to industry-wide historical loss data by portfolio. Combined losses across portfolios are used to rank the scenarios by severity of loss. Four scenarios from specified points along the loss distribution are selected to reflect the range of outcomes; the central scenario reflects Lloyds Banking Group plc's base case assumptions used for medium-term planning purposes, an upside and a downside scenario are also selected together with a severe downside scenario.

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

The choice of alternative scenarios and scenario weights is a combination of quantitative analysis and judgemental assessment to ensure that the full range of possible outcomes and material non-linearly of losses are captured. A committee under the chairmanship of the Chief Economist meets quarterly, to review and, if appropriate, recommend changes to the economic scenarios to the Chief Financial Officer and Chief Risk Officer. Findings dealing with all aspects of the expected credit loss calculation are presented to the Group Audit Committee.

3. Net interest income

	2019 £'000	2018 £'000
Interest income		
From loans and advances to customers	**132,646**	117,828
Interest expense		
Group interest expense (see note 18)	**(73,055)**	(70,740)
Net interest income	**59,591**	47,088

Included within Group interest expense is an amount of £1,805,000 of prior year unrecognised interest expense.

4. Net fee and commission income

	2019 £'000	2018 £'000
Fee and commission income		
Loan fees receivable	**7,384**	7,016
Fee and commission expense		
Other fees and commission payable	**(5,355)**	(4,652)
Net fee and commission income	**2,029**	2,364

Notes to the financial statements (continued)

For the year ended 31 December 2019

5. Other operating expenses

	2019 £'000	2018 £'000
Staff costs (see note 7)	**3,632**	3,527
Other operating expenses	**1,196**	1,094
Impairment losses/(gain) (see note 6)	**113**	204
	4,941	4,825

Fees payable to the Company's auditors for the audit of the financial statements of £33,000 (2018: £41,000) have been incurred and included in Other operating expenses. There were no fees payable for non-audit services (2018: £nil).

6. Impairment losses/(gains)

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
31 December 2019				
Additional/(repayments)	**(117)**	**(17)**	**-**	**(134)**
Write-off of historic client fees	**247**	**-**	**-**	**247**
	130	**(17)**	**-**	**113**
In respect of:				
Loans and advances to customers	**(78)**	**(17)**	**-**	**(95)**
Loan commitments	**208**	**-**	**-**	**208**
	130	**(17)**	**-**	**113**

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
31 December 2018				
Additional/(repayments)	245	(41)	-	204
31 December 2018				
In respect of:				
Loans and advances to customers	245	(41)	-	204

The Company's impairment charge comprises the following items:

Repayments/additions

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

7. Staff costs

	2019 £'000	2018 £'000
Wages and salaries	**2,755**	2,853
Social security costs	**283**	296
Share based payments	**56**	55
Pension costs – defined contribution plans	**538**	211
Pension costs – defined benefit plans	**-**	112
	3,632	3,527

The average monthly number of employees during the year was 69 (2018: 68). All staff are located in the United Kingdom and provide management, administration and sales support.

8. Directors' emoluments

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

	2019 £'000	2018 £'000
Aggregate emoluments	**178**	232
Aggregate post-employment benefits	**25**	24
	203	256

Highest paid director:		
Aggregate emoluments	**127**	125
Accrued pension at 31 December	**21**	18

The number of directors to whom retirement benefits accrued under defined benefit and money purchase schemes is two and five respectively (2018: five and seven respectively).

No directors exercised share options in the ultimate parent company during the year (2018: none).

9. Taxation

	2019 £'000	2018 £'000
a) Analysis of charge for the year		
UK corporation tax:		
- Current tax on taxable profit for the year	**10,780**	8,429
- Adjustments in respect of prior years	**26**	8
Current tax charge	**10,806**	8,437
UK deferred tax:		
- Origination and reversal of timing differences	**(35)**	67
- Impact of deferred tax rate change	**8**	(9)
- Adjustments in respect of prior years	**(26)**	(15)
Deferred tax (credit)/charge (see note 14)	**(53)**	43
Tax charge	**10,753**	8,480

Corporation tax is calculated at a rate of 19.00% (2018: 19.00%) of the taxable profit for the year.

Notes to the financial statements (continued)
For the year ended 31 December 2019

9. Taxation (continued)

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:

	2019 £'000	2018 £'000
Profit before tax	**56,766**	44,707
Tax charge thereon at UK corporation tax rate of 19.00% (2018: 19.00%)	**10,786**	8,494
Factors affecting charge:		
- Effect of reduction in tax rate and related impacts	**8**	(8)
- Disallowed items	**2**	1
- Adjustments in respect of prior years	**1**	(7)
- Others	**(44)**	-
Tax charge on profit on ordinary activities	**10,753**	8,480
Effective rate	**18.94%**	18.97%

c) Tax effects relating to Other comprehensive expense

The tax effect relating to Other comprehensive expense is as follows:

	Before tax amount £'000	Tax credit/ (charge) £'000	Net of tax amount £'000
2019			
Pension scheme reserve	-	-	-
Other comprehensive expense for the year	-	-	-
2018			
Pension scheme reserve	(254)	40	(214)
Other comprehensive expense for the year	(254)	40	(214)

10. Dividends

In 2019, a dividend of 176p per share was paid, representing a total dividend of £32,594,000 (2018: £42,125,000).

11. Trade and other receivables

	2019 £'000	2018 £'000
Amounts due from group undertakings (see note 18)	-	21
Other debtors	**4,546**	5,285
	4,546	5,306

All balances are due within one year.

12. Loans and advances to customers

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

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance as at 1 January 2018	3,389,911	7,744	34,547	3,432,202
Net increase (decrease) in loans and advances to customers	216,508	(294)	5,554	221,768
Gross loans and advances to customers	3,606,419	7,450	40,101	3,653,970
Less: allowance for losses on loans and advances	(2,259)	(203)	-	(2,462)
Net loans and advances to customers as at 31 December 2018	3,604,160	7,247	40,101	3,651,508

	2019 £'000	2018 £'000
Gross loans and advances to customers	**3,999,030**	3,653,970
Less: allowance for losses on loans and advances	**(2,120)**	(2,462)
Net loans and advances to customers	**3,996,910**	3,651,508
of which:		
Due within one year	**639,190**	427,212
Due after one year	**3,357,720**	3,224,296
	3,996,910	3,651,508

Further analysis of finance debtors is provided in note 19.

13. Borrowed funds

	2019 £'000	2018 £'000
Amounts due to group undertakings (see note 18)	**3,953,500**	3,611,861
Bank overdraft with group undertaking (see note 18)	**169**	56
	3,953,669	3,611,917

Amounts due to group undertakings is interest bearing, unsecured and repayable on demand, although there is no expectation that such a demand would be made in the foreseeable future.

14. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2019 £'000	2018 £'000
Brought forward	**270**	(69)
Credit/(charge) for the year (see note 9)	**53**	(43)
	323	(112)
Amount credited/(charged) to equity		
- Pension	**-**	40
- Impairment arising on adoption of IFRS 9	**-**	342
At 31 December	**323**	270

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

	2019 £'000	2018 £'000
Accelerated capital allowances	**(1)**	(1)
Accounting provisions disallowed	**53**	-
Pensions and other post-retirement benefits	**38**	(20)
Other temporary differences	**(37)**	(22)
	53	(43)

Deferred tax asset comprises:	2019 £'000	2018 £'000
Accelerated capital allowances	**3**	3
Accounting provisions disallowed	**53**	-
Pension	**-**	(38)
Other temporary differences	**267**	305
	323	270

The Finance Act 2016 reduced the main rate of corporation tax to 17% with effect from 1 April 2020. Within the March 2020 budget, the UK government stated its intention to maintain the corporation tax rate at 19 per cent from 1 April 2020. The intention to maintain the corporation tax rate was enacted under the Provisional Collection of Taxes Act 1968 on 17 March 2020.

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

15. Share capital

	2019 £'000	2018 £'000
Allotted, issued and fully paid		
18,500,000 ordinary shares of £1 each	**18,500**	18,500

16. Retirement benefit obligations

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

Defined contribution schemes

The people providing services to the Company ("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.

16. Retirement benefit obligations (continued)

Defined contribution schemes (continued)

During the year ended 31 December 2019 the charge to the Income statement in respect of employees in the defined contribution section of the scheme was £538,000 (2018: £211,000), representing the contributions payable by the Company in accordance with the scheme's rules. There are no outstanding or prepaid contributions at 31 December 2019 (2018: £nil).

Defined benefits schemes

The remaining employees of the Company are members of the defined benefit sections of the Lloyds Bank Group Pension Scheme No 1 and 2. These are funded schemes 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 2019 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.

As discussed in note 1.8 Accounting Policies, with effect from 1 January 2019 the Group has revised its methodology for the recharge of defined benefit pension costs. Under the new re-charge methodology, the Company is charged, and recognises as an expense, the cash contributions paid to the various Group schemes during the year relating to its employees' current service.

In previous years, the charge had been an allocation of the Group's pension cost determined in accordance with IAS 19 Employee Benefits. At 31 December 2018, the Company had recognised a net defined benefit asset of £223,000 which was reclassified as inter-company during the year and subsequently settled in cash.

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

The defined benefit pension charge for the year ended 31 December 2019 based on cash contributions amounted to £301,000. The charge for the year ended 31 December 2018 is set out below:

Amount included in the Balance sheet:

	2018 £'000
Company's share of present value of funded obligations	(15,383)
Company's share of fair value of scheme assets	15,606
Asset in the Balance sheet	223

The movements in the assets recognised in the Balance sheet are as follows:

	2018 £'000
At 1 January	327
Net charge to the Income statement (see note 7)	(112)
Net (charge)/credit to the Statement of comprehensive income	(254)
Contributions paid	262
At 31 December	223

The amounts recognised in the Income statement in respect of defined benefits schemes are as follows:

	2018 £'000
Current service cost	(72)
Interest income/(cost)	9
Past service credits and curtailments	(3)
Past service cost	(31)
Plan administration costs incurred during the year	(15)
	(112)

16. Retirement benefit obligations (continued)

Defined benefits schemes (continued)

The principal actuarial and financial assumptions used were as follows:

	2018 %
Discount rate	2.90
Rate of inflation	
- Retail Price Index	3.20
- Consumer Price Index	2.15
Rate of increase for pensions in payment and deferred pensions	2.73

	Years
Life expectancy for member aged 60, on the valuation date:	
- Men	27.8
- Women	29.4
Life expectancy for member aged 60, 15 years after the valuation date:	
- Men	28.8
- Women	30.6

The mortality assumptions used in the scheme valuations are based on standard tables published by the Institute and Faculty of Actuaries which were adjusted in line with the actual experience of the relevant schemes.

An analysis of the impact of a reasonable change in these assumptions is provided in the 2019 financial statements of the Company's ultimate parent company.

Composition of scheme assets:

	2018 %
Equities	2.01
Bonds	73.31
Pooled investment vehicles	36.95
Other	(12.27)
	100

The assets are held independently of the Company's assets in separate trustee administered funds.

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields at the Balance sheet date. Expected returns on equity and property investments reflect long term rates based on the views of the plan's independent investment consultants. The expected return on equities allows for the different expected returns from the private equity, infrastructure and hedge fund investments held by some of the funded plans. Some of the funded plans also invest in certain money market instruments and the expected return on these investments has been assumed to be the same as cash.

17. Share based payments

During the year ended 31 December 2019, 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 £55,000 (2018: £55,000) are recharged from other group companies.

Further details in respect of share based payment schemes can be found in the 2019 financial statements of the Company's ultimate parent undertaking, copies of which may be obtained from the Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN. The Lloyds Banking Group plc financial statements may be downloaded via www.lloydsbankinggroup.com.

Notes to the financial statements (continued)
For the year ended 31 December 2019

18. Related party transactions

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

	2019	2018
	£'000	£'000
Amounts due from group undertakings		
Lloyds Bank Corporate Markets plc (see note 11)	**-**	21
Amounts due to group undertakings		
Bank of Scotland plc	**78**	1
Lloyds Bank Corporate Markets plc	**28**	-
Lloyds Bank plc	**3,953,394**	3,611,860
Total Amounts due to group undertakings (see note 13)	**3,953,500**	3,611,861
Cash and cash equivalents held with group undertakings		
Lloyds Bank plc	**31,962**	26,071
Bank overdraft held with group undertaking		
Lloyds Bank plc (see note 13)	**169**	56
Interest expense		
Lloyds Bank plc (see note 3)	**73,055**	70,740
Group recharge		
Lloyds Bank plc	**349**	301

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 Income statement.*

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of an entity, 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 other responsibilities within the Group.

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

	2019	2018
	£'000	£'000
Short term employee benefits	**185**	265
Post employment benefits	**25**	24
	210	289

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

Notes to the financial statements (continued)
For the year ended 31 December 2019

19. Financial risk management

The Company's operations expose it to credit risk, liquidity risk, interest rate risk and business risk; it is not exposed to any significant foreign exchange risk. Responsibility for the control of overall risk lies with the board of directors, operating within a management framework established by the ultimate parent, Lloyds Banking Group plc. The interest rate and liquidity risk faced by the Company is in substance managed and borne by other group undertakings which fund the Company and credit risk is carefully monitored the Company's credit committee and credit functions. Business risk is managed through regular reporting and oversight.

19.1 Credit risk

Credit risk management

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due and is managed through the application of strict underwriting criteria, determined by Commercial Finance'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 includes portfolio controls on certain industries, sectors and product lines that reflect risk appetite. Credit policy is aligned to risk appetite and restricts exposure to certain high risk and more vulnerable sectors. Exposures are monitored to prevent excessive concentration of risk.

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

Notes to the financial statements (continued)
For the year ended 31 December 2019

19. Financial risk management (continued)

19.1 Credit risk (continued)

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

At 31 December 2018	PD range	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
CMS 1-10	0.00-0.50%	-	-	-	-
CMS 11-14	0.51-3.00%	3,606,419	-	-	3,606,419
CMS 15-18	3.01-20.00%	-	-	-	-
CMS 19	20.01-99.99%	-	7,450	-	7,450
CMS 20-23	100%	-	-	40,101	40,101
		3,606,419	7,450	40,101	3,653,970

Loan commitments

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

At 31 December 2018	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%	401,573	-	-	401,573
CMS 15-18	3.01-20.00%	-	-	-	-
CMS 19	20.01-99.99%	-	-	-	-
CMS 20-23	100%	-	-	-	-
		401,573	-	-	401,573

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 2018	**2,259**	**203**	**-**	**2,462**
Charge for year (including recoveries)	**(325)**	**(17)**	**-**	**(342)**
At 31 December 2019	**1,934**	**186**	**-**	**2,120**

19. Financial risk management (continued)

19.1 Credit risk (continued)

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

In respect of drawn balances

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

In respect of drawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 31 December 2017	-	-	-	297
Adjustment on adoption of IFRS 9	-	-	-	1,961
Balance as at 1 January 2018	2,014	244	-	2,258
Charge for year (including recoveries)	245	(41)	-	204
At 31 December 2018	2,259	203	-	2,462

In respect of	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Loans and advances to customers	2,259	203	-	2,462

In respect of undrawn balances	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
At 31 December 2018	**-**	**-**	-	-
Charge for year (including recoveries)	**208**	**-**	-	**208**
At 31 December 2019	**208**	**-**	**-**	**208**

In respect of	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Loans and advances to customers	**208**	**-**	**-**	**208**

The criteria used to determine that there is objective evidence of an impairment is disclosed in note 1.4. Included in Loans and advances to customers were loans and advances individually determined to be impaired whose gross amount before impairment allowances was £nil (2018: £nil).

Repossessed collateral

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

During the year the Company repossessed collateral in respect of defaulted debt with a value of £120,000 (2018: £700,000). The carrying value of all the repossessed collateral is considered an approximation of fair value.

19. Financial risk management (continued)

19.2 Liquidity risk

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

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

The Company is funded entirely by companies within the Group. Such funding is repayable on demand, although there is no expectation that such a demand would be made in the foreseeable future. All other financial liabilities are repayable on demand.

19.3 Interest rate risk

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

Interest rate risk - sensitivity analysis

The sensitivity analysis is based on the Company's Loans and advances to customers and Amounts due to group undertakings and takes account of movement in the Bank of England base rate and the 3 month LIBOR rate which are the basis for the interest rate on loans and advances and intercompany balances. A 0.25% increase or decrease is used to assess the possible change in Interest income. This rate is appropriate as the Bank of England base rate generally increases or decreases in increments of 0.25%. A 0.33% increase or decrease is used to assess the possible change in Interest expense. This rate is appropriate as this is the amount by which 3 month LIBOR rate increased in the year.

If the Bank of England base rate increased by 0.25% and all other variables remain constant this would increase Interest expense by £6,153,000 (2018: £7,898,000) and accordingly decrease Interest expense by £6,153,000 (2018: £7,898,000) if the Bank of England base rate decreased by the same amount.

If the LIBOR increased by 0.15% (2018: 0.33%) and all other variables remain constant this would increase Interest expense by £5,458,000 (2018: £11,402,000) and accordingly decrease Interest expense by £5,458,000 (2018: £11,402,000) if the LIBOR decreased by the same amount.

19.4 Business risk

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

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

19.5 Financial strategy

The Company does not trade in financial instruments, nor does it use derivatives.

19.6 Fair values of financial assets and liabilities

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

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

The aggregated fair value of Loans and advances to customers is approximately £3,996,154,000 (2018: £3,942,669,000). The carrying value of all other financial assets and liabilities is considered an approximation of fair value.

The fair value of collateral held as security against Loans and advances to customers is £15,714,700,000 (2018: £13,952,988,000).

Notes to the financial statements (continued)
For the year ended 31 December 2019

20. Capital disclosures

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

The Company's parent manages the Company's capital structure and advises the board of directors to consider making adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the board of directors may adjust the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares, or sell assets.

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

21. Contingent liabilities and capital commitments

At 31 December 2019, mortgage loans of £275,397,000 (2018: £348,496,000) had been approved subject to legal and other formalities, and authorising lending facilities of £43,754,000 (2018: £53,077,000) were available to the Company's clients but were not utilised as at the balance sheet date.

There were no contingent liabilities or contracted capital commitments at the Balance sheet date (2018: £nil).

22. Post balance sheet events

In March 2020 the World Health Organisation declared the outbreak of Covid-19 a global pandemic. The outbreak and the action taken by government's across the world are causing widespread disruption to financial markets and normal patterns of business activity across the world, including the UK. The directors assess this event to be a non-adjusting post balance sheet event given the limited number of cases reported as at 31 December 2019. In view of its currently evolving nature, the directors continue to monitor the developments closely. Based upon an initial assessment of the likely impact of the pervasive disruption experienced in the UK, the directors assessed an additional credit impairment of £16,000 in March 2020.

23. Future developments

The following pronouncement will be relevant to the Company but was not effective at 31 December 2019 and has not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
Amendments to other accounting standards	The IASB has issued a minor amendment to IAS 19 Employee Benefits.	Annual periods beginning on or after 1 January 2019

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.

24. Ultimate parent undertaking and controlling party

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 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 undertaking 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 www.lloydsbankinggroup.com.

Independent Auditors' report to the members of The Agricultural Mortgage Corporation plc

Report on the audit of the financial statements

Opinion

In our opinion, The Agricultural Mortgage Corporation plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and accounts (the "Annual Report"), which comprise: the balance sheet as at 31 December 2019; the income statement, the statement of comprehensive income, the cash flow statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

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

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Independent Auditors' report to the members of The Agricultural Mortgage Corporation plc (continued)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

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

21 July 2020