

Company Registered No: 00436088

FARMING AND AGRICULTURAL FINANCE LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ended 30 September 2012

**RBS Secretariat
The Royal Bank of Scotland Group plc
PO Box 1000
Gogarburn
Edinburgh**

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DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2012

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DIRECTORS:

SECRETARY:

RBS Secretarial Services Limited

REGISTERED OFFICE:

**3 Princess Way
Redhill
Surrey
RH1 1NP**

AUDITOR:

Deloitte LLP
London

Registered in England and Wales.

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 30 September 2012

ACTIVITIES AND BUSINESS REVIEW

This directors' report has been prepared in accordance with the special provisions available to companies entitled to the small companies exemption

Activity

Historically, the principal activity of the company was that of a holding company and the provision of credit finance by way of instalment credit and leasing

Review of the year***Financial performance***

The retained profit for the year was £790 (2011 retained profit £2,341)

Principal risks and uncertainties

The company's financial risk management objectives and policies regarding the use of financial instruments are set out in note 8 to the financial statements

Going concern

The directors, having a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, have prepared the financial statements on a going concern basis

Share capital

On 6 January 2012 a resolution was passed to reduce the share capital of the company from £455,800 to £1, by cancellation of 455,799 issued ordinary shares of £1 each, and to cancel the share premium account

DIRECTORS AND SECRETARY

The present directors and secretary, who have served throughout the year except where noted below, are listed on page 2

From 1 October 2011 to date the following changes have taken place

	Appointed	Resigned
Director		
A D Baldock		31 August 2012
Secretary		
K Daly		11 January 2012
A Williamson	22 February 2012	14 September 2012
RBS Secretarial Services Limited	14 September 2012	

DIRECTORS' REPORT (continued)**DIRECTORS' RESPONSIBILITIES STATEMENT**

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 a directors' report and financial statements for each financial year and the directors have elected to prepare them 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 at the end of the year and the profit or loss for the financial year of the company. In preparing these financial statements, under International Accounting Standard 1, the directors are required to

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

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 to enable them to ensure that the directors' report and financial statements comply with the requirements of 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.

DISCLOSURE OF INFORMATION TO AUDITOR

Each of the directors at the date of approval of this report confirms that

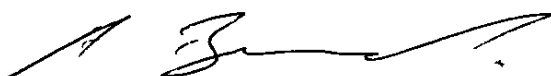
- so far as they are aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that they ought to have taken to make themselves aware of any relevant audit information, and to establish that the company's auditor is aware of that information

This confirmation is given and shall be interpreted in accordance with the provisions of section 418 of the Companies Act 2006

AUDITOR

Deloitte LLP has expressed its willingness to continue in office as auditor

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



A D Barnard

Director

Date

24/5/ 2013

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FARMING AND AGRICULTURAL FINANCE LIMITED

We have audited the financial statements of Farming and Agricultural Finance Limited ('the company') for the year ended 30 September 2012 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the related notes 1 to 12. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

Respective responsibilities of directors and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we became aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 September 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FARMING AND AGRICULTURAL FINANCE LIMITED (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you 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, or
- the directors were not entitled to take advantage of the small companies' exemption in preparing the directors' report



Russell Davis FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor,
London, United Kingdom
Date 4 June 2013

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 September 2012

Continuing operations	Notes	2012 £	2011 £
Finance income	4	1,053	3,207
Profit before tax		1,053	3,207
Tax charge	6	(263)	(866)
Profit and total comprehensive income for the year		790	2,341


The accompanying notes form an integral part of these financial statements

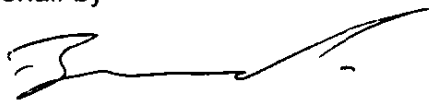
BALANCE SHEET
as at 30 September 2012

	Notes	2012 £	2011 £
Current assets			
Loans and receivables	7	17,166	595,697
Total assets		<u>17,166</u>	<u>595,697</u>
Current liabilities			
Current tax liabilities		5,012	114,014
Total liabilities		<u>5,012</u>	<u>114,014</u>
Equity			
Share capital	9	1	455,800
Share premium account		-	14,520
Retained earnings		12,153	11,363
Total equity		<u>12,154</u>	<u>481,683</u>
Total liabilities and equity		<u>17,166</u>	<u>595,697</u>

The accompanying notes form an integral part of these financial statements

The financial statements were approved by the Board of Directors on ^{21 May}~~XX XX~~ 2013
and signed on its behalf by


A D Barnard
Director



STATEMENT OF CHANGES IN EQUITY
for the year ended 30 September 2012

	Share capital £	Share premium account £	Retained earnings £	Total £
At 1 October 2010	455,800	14,520	9,022	479,342
Profit for the year	-	-	2,341	2,341
At 30 September 2011	455,800	14,520	11,363	481,683
Profit for the year	-	-	790	790
Reduction in share capital	(455,799)	-	-	(455,799)
Cancellation of share premium	-	(14,520)	-	(14,520)
At 30 September 2012	1	-	12,153	12,154

Total comprehensive income for the year of £790 (2011 £2,341) was wholly attributable to the owners of the company

The accompanying notes form an integral part of these financial statements

CASH FLOW STATEMENT
for the year ended 30 September 2012

	Notes	2012 £	2011 £
Operating activities			
Profit for the year before tax		1,053	3,207
Adjustments for:			
Finance income	4	(1,053)	(3,207)
Operating cash flows before movements in working capital		-	-
Decrease/(increase) in amounts owed by group undertakings		578,531	(40,712)
Net cash from/(used in) operating activities before tax		578,531	(40,712)
Interest received	4	1,053	3,207
Tax (paid)/received		(109,265)	37,505
Net cash flows from operating activities		470,319	-
Net cash flows from investing activities		-	-
Cash flows from financing activities			
Reduction in share capital		(455,799)	-
Cancellation of share premium		(14,520)	-
Net cash flows used in financing activities		(470,319)	-
Net increase in cash and cash equivalents		-	-
Cash and cash equivalents at beginning of year		-	-
Cash and cash equivalents at end of year		-	-

The accompanying notes form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS**1. Accounting policies****a) Presentation of accounts**

The accounts have been prepared on a going concern basis and in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (together IFRS) as adopted by the European Union (EU)

The accounts are prepared on the historical cost basis except as noted in the following policies

The company's financial statements are presented in sterling which is the functional currency of the company

The company is incorporated in Great Britain and registered in England and Wales. The company's accounts are presented in accordance with the Companies Act 2006

Adoption of new and revised standards

There are a number of changes to IFRS that were effective from 1 October 2011. They have had no material effect on the company's financial statements for the year ended 30 September 2012.

b) Revenue recognition

Interest income on financial assets that are classified as loans and receivables are determined using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or liabilities) and of allocating the interest income or interest expense over the expected life of the asset or liability.

c) Taxation

Income tax expense, comprising current tax, is recorded in the income statement except income tax on items recognised outside profit or loss which is credited or charged to other comprehensive income or to equity as appropriate.

Current tax is income tax payable or recoverable in respect of the taxable profit or loss for the year arising in income or in equity. Provision is made for current tax at rates enacted or substantively enacted at the balance sheet date.

d) Loans and receivables

Loans and receivables are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at amortised cost using the effective interest method less any impairment losses.

NOTES TO THE FINANCIAL STATEMENTS (continued)**1. Accounting policies (continued)****e) Impairment of financial assets**

The company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets classified as loans and receivables is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

f) Derecognition

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired or when it has been transferred and the transfer qualifies for derecognition.

g) Accounting developments

No recent IASB announcement is expected to have a material effect on the company's accounting policies or financial statements.

2. Critical accounting policies and key sources of estimation uncertainty

The reported results of the company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. UK company law and IFRS require the directors, in preparing the company's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard or interpretation, IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's Framework for the Preparation and Presentation of Financial Statements. The judgements and assumptions involved in the company's accounting policies that are considered by the directors to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by the company would affect its reported results.

Loan impairment provisions

The company's loan impairment provisions are established to recognise incurred impairment losses in its portfolio of loans classified as loans and receivables and carried at amortised cost. A loan is impaired when there is objective evidence that events since the loan was granted have affected expected cash flows from the loan. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate.

3. Staff costs, number of employees and directors' emoluments

All staff and directors were employed by RBS, the accounts for which contain full disclosure of employee benefit expenses incurred in the period including share based payments and pensions. The directors of the company do not receive remuneration for specific services provided to the company.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Finance income

	2012	2011
	£	£
On loans and receivables		
From group undertakings	<u>1,053</u>	<u>3,207</u>

5. Auditor's remuneration

There was no charge in either the current or prior year's financial statements for auditor's remuneration as the fees of £6,000 (2011 £6,000) were charged in the financial statements of Lombard North Central PLC

6. Tax

	2012	2011
	£	£
Current taxation		
UK corporation tax charge for the year	<u>263</u>	<u>866</u>

The actual tax charge in the current and prior year does not differ from the expected tax charge computed by applying the blended rate of UK corporation tax of 25% (2011 27%)

The changes to tax rates proposed in the recent Budgets are not expected to have a material effect on the company

7. Loans and receivables

	2012	2011
	£	£
Current		
Amounts owed by group undertakings	<u>17,166</u>	<u>595,697</u>

The fair value of loans and receivables is considered not to be materially different to the carrying amounts in the balance sheet

8. Financial instruments and risk management**(i) Categories of Financial instruments**

The only financial asset in the company is the balance owed by the parent undertaking which is categorised as being a loan and receivables, as defined in IAS 39

(ii) Financial risk management

The principal risks associated with the company's businesses are as follows

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Financial instruments and risk management (continued)

(ii) Financial risk management (continued)

Market risk

Market risk is the potential for loss as a result of adverse changes in risk factors including interest rates, foreign currency and equity prices together with related parameters such as market volatilities

The principal market risk to which the company is exposed is interest rate risk

Interest rate risk

Interest rate risk arises where assets and liabilities have different repricing maturities

The only financial assets or liabilities that are exposed to interest rate risk are the balances of loans and receivables

The sensitivity analysis below has been determined based on the exposure to interest rates at the balance sheet date. The analysis is prepared on the assumption that the balances receivable and/or payable at the balance sheet date were receivable and/or payable for the whole year.

If interest rates had been 0.5% higher and all other variables were held constant, the company's profit before tax for the year would have increased by £nil (2011 £2,978). This is due to the company's exposure to interest rates on the amounts owed by group undertakings. There would be no other impact on equity.

Currency risk

The company has no currency risk as all transactions and balances are denominated in sterling.

Credit risk

Credit risk is the risk that companies, financial institutions, individuals and other counterparties will be unable to meet their obligations to the company.

All loans and receivables are with the parent undertaking. Although credit risk arises this is not considered to be significant and no amounts owed are past due.

Liquidity risk

The company has no material liquidity risk as it has access to group funding.

Operational risk

Operational risk is the risk of unexpected losses attributable to human error, systems failures, fraud or inadequate internal financial controls and procedures. The company manages this risk, in line with the RBS group framework, through systems and procedures to monitor transactions and positions, the documentation of transactions and periodic review by internal audit. The company also maintains contingency facilities to support operations in the event of disasters.

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. Share capital

	2012 £	2011 £
Authorised:		
500,000 ordinary shares of £1	<u>500,000</u>	<u>500,000</u>
Allotted, called up and fully paid		
Equity shares		
1 ordinary share of £1	<u>1</u>	<u>455,800</u>

The company has one class of ordinary shares which carry no right to fixed income

10. Capital resources

The company's capital consists of equity comprising issued share capital, retained earnings, loans from group undertakings and subordinated loans. The company is a member of The Royal Bank of Scotland group of companies which has regulatory disciplines over the use of capital. In the management of capital resources, the company is governed by the group's policy which is to maintain a strong capital base. It is not separately regulated. The group has complied with the FSA's capital requirements throughout the year.

11. Related parties

On 1 December 2008, the UK Government through HM Treasury became the ultimate controlling party of The Royal Bank of Scotland Group plc. The UK Government's shareholding is managed by UK Financial Investments Limited, a company wholly-owned by the UK Government. As a result, the UK Government and UK Government controlled bodies became related parties of the company.

The company's ultimate holding company is The Royal Bank of Scotland Group plc, a company incorporated in Great Britain and registered in Scotland. Its immediate parent company is Lombard North Central PLC which is incorporated in Great Britain and registered in England and Wales.

As at 30 September 2012, The Royal Bank of Scotland Group plc heads the largest group in which the company is consolidated and The Royal Bank of Scotland plc heads the smallest group in which the company is consolidated. Copies of the consolidated accounts of both companies may be obtained from The Secretary, The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ.

Related party transactions with group undertakings

The tables below detail transactions and balances with group undertakings.

	2012 £	2011 £
Net interest received		
Lombard North Central PLC	<u>1,053</u>	<u>3,207</u>
Net amounts receivable		
Lombard North Central PLC	<u>17,166</u>	<u>595,697</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. Post balance sheet events

There have been no significant events between the year end and the date of approval of these financial statements which would require a change to or disclosure in the financial statements