

AMC Bank Limited

Directors' report and financial statements For the year ended 31 December 2012

Registered office

Charlton Place
Charlton Road
Andover
Hampshire
SP10 1RE

Registered number

1039896

Directors

T R Porter
J E Allright
M S Hayes
P N Spencer

Company secretary

S N Slattery

WEDNESDAY



A26YFTGH

A06

24/04/2013

#125

COMPANIES HOUSE

Member of Lloyds Banking Group

Directors' report

For the year ended 31 December 2012

The directors present their report and the audited financial statements of AMC Bank Limited ("the Company") for the year ended 31 December 2012

Business review

Principal activities

The Company is a limited company incorporated and domiciled in England and Wales (registered number 1039896)

The Company used to provide long term finance to the agriculture sector. Since 2006 customer lending has been transferred to The Agricultural Mortgage Corporation plc ("AMC plc") as part of an internal simplification process and in 2011 the customer loan book transfer was completed. The relatively small deposit book was repaid to customers in 2012.

The Company's results for the year show a Profit before tax of £678,000 (2011 £711,000) and Net interest income of £680,000 (2011 £792,000).

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

Future outlook

The Company's lending book has been transferred to AMC plc, and customer deposits have been returned. The current expectation is that the Company will be closed prior to 31 December 2013. In 2012 appropriate liaison began with the FSA to facilitate the cancellation of the Company's authorisation and deposit taking permission which was granted by the FSA with effect from 26 March 2013.

Principal risks and uncertainties

The key business risks are around ensuring appropriate due diligence procedures are adopted in respect of the closure of the Company. This is being managed by a project team set up specifically to manage this process, and advice will be sought from the Group Liquidations function.

Key performance indicators ("KPIs")

The Board of Directors ("the Board") monitors progress on the overall Company strategy together with the individual strategic elements of the business by reference to two KPIs. Given the strategy of no longer writing business in the Company, the KPIs for the Company will continue to decline.

KPI	2012	2011	Definition, method of calculation and analysis
Income decline (%)	(17.0)	(66.6)	Year on year growth / decline in total income (net lending interest income and net fees and commission income) as a percentage
PBT decline (%)	(4.6)	(69.5)	Year on year growth / decline in profit before tax as a percentage

Policy and practice on payment of suppliers

The Company follows "The Prompt Payment Code" published by the Department for Business Innovation and Skills (BIS) regarding the making of payments to suppliers. Information about the "Prompt Payment Code" may be obtained by visiting www.promptpaymentcode.org.uk

The Company's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated.

It is the policy of the Company to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract.

As no amounts are owed to trade creditors as at 31 December 2012, the number of days required to be shown in this report, to comply with the provisions of the Companies Act 2006, is nil (2011 nil).

Dividends

No dividends were paid or proposed during the year ended 31 December 2012 (2011 £nil).

Donations

During the year ended 31 December 2012 the Company donated £nil (2011 £nil) for charitable purposes and community projects.

Directors' report (continued)

For the year ended 31 December 2012

Going concern

It is expected that the Company will cease trading in the next 12 months and therefore these financial statements are not prepared on a going concern basis. The closure of the Company as a legal entity is part of a wider simplification programme of Lloyds Banking Group and has been approved by the Board of Directors. This has not resulted in any significant changes to amounts as presented.

Directors

The names of the current directors are shown on the cover.

The following changes have taken place during the year:

J McGoldrick (resigned 30 April 2012)

Directors' indemnities

The directors, including the former director who resigned during the year, have the benefit of a deed of indemnity which constitutes a "qualifying third party indemnity provision". The deeds were in force during the whole of the financial year and remain in force at the date of signing the financial statements. The indemnities remain in force for the duration of a director's period of office. Deeds for existing directors are available for inspection at the registered office of Lloyds Banking Group plc.

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' 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,
- make judgements and accounting estimates that are reasonable and prudent,
- 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, and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

Each director in office at the date of this report confirms that:

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

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

Directors' report (continued)


For the year ended 31 December 2012

Independent auditors

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

On behalf of the board

J E Allright
Director


12 April 2013

Independent auditors' report to the member of AMC Bank Limited

We have audited the financial statements of AMC Bank Limited for the year ended 31 December 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. 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.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on page 2, 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.

This report, including the opinions, has been prepared for and only for the Company's member 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.

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 Directors' report and financial statements to identify material inconsistencies with the audited financial statements. If we become 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 31 December 2012 and of its profit and cash flows 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.

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.



Michael Newman (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

14 April

2013

Statement of comprehensive income

For the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Interest income		707	1,794
Interest expense		(27)	(1,002)
Net interest income	4	680	792
Fees and commission income		-	182
Fees and commission expense		-	(155)
Net fees and commission income	5	-	27
Other operating expenses	6	(2)	(108)
Profit before tax		678	711
Taxation	8	(166)	(188)
Profit for the year attributable to owners of the parent, and total comprehensive income		512	523

The notes on pages 9 to 19 are an integral part of these financial statements

Balance sheet

As at 31 December 2012

	Note	2012 £'000	2011 £'000
ASSETS			
Cash and cash equivalents		23,006	2,990
Other assets	9	-	4
Loans and advances to banks	10	-	23,022
Loans and advances to customers	11	-	34
Total assets		23,006	26,050
LIABILITIES			
Other liabilities	12	4,084	4,536
Deposits from banks	12	-	2,533
Customer accounts	12	-	737
Current tax liabilities	12	354	188
Total liabilities		4,438	7,994
EQUITY			
Share capital	13	12,000	12,000
Retained profits		6,568	6,056
Total equity		18,568	18,056
Total equity and liabilities		23,006	26,050

The notes on pages 9 to 19 are an integral part of these financial statements

The financial statements on pages 5 to 19 were approved by the board of directors and were signed on its behalf by

J E Allright
Director

12 April 2013

Statement of changes in equity

For the year ended 31 December 2012

	Share capital £'000	Retained profits £'000	Total £'000
At 1 January 2011	12,000	5,533	17,533
Profit for the year being total comprehensive income	-	523	523
At 31 December 2011	12,000	6,056	18,056
Profit for the year being total comprehensive income	-	512	512
At 31 December 2012	12,000	6,568	18,568

The notes on pages 9 to 19 are an integral part of these financial statements

Cash flow statement

For the year ended 31 December 2012

	2012 £'000	2011 £'000
Cash flows (used in)/generated from operating activities		
Profit before tax	678	711
Adjustments for		
- Interest receivable	(707)	(1,794)
- Interest payable	27	1,002
Changes in operating assets and liabilities		
- Net decrease in Other assets	4	73
- Net decrease in Loans and advances to customers	34	94,586
- Net decrease in Deposits from banks	(2,533)	(55,237)
- Net decrease in Customer accounts	(737)	(38,598)
- Net (decrease)/increase in Other liabilities	(452)	1,243
Cash (used in)/generated from operations	(3,686)	1,986
Interest paid	(27)	(1,002)
Interest received	707	1,794
Group relief paid	-	(1,543)
Net cash (used in)/generated from operating activities	(3,006)	1,235
Net (decrease)/increase in cash and cash equivalents	(3,006)	1,235
Cash and cash equivalents at beginning of year	26,012	24,777
Cash and cash equivalents at end of year	23,006	26,012
Cash and cash equivalents comprise		
Cash at bank	23,006	2,990
Loans and advances to banks (see note 10)	-	23,022
Cash and cash equivalents	23,006	26,012

The notes on pages 9 to 19 are an integral part of these financial statements

Notes to the financial statements

For the year ended 31 December 2012

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 to 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 International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body.

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

- Amendments to IFRS 7 Financial Instruments: Disclosures. The amendments will help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position and will promote transparency in the reporting of transfer transactions, particularly those that involve securitisation of financial assets. The application of this pronouncement has not had any impact for amounts recognised in these financial statements.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2012 and which have not been applied in preparing these financial statements are given in note 19.

Given the intention of the Directors to close the Company in the foreseeable future as detailed in the Directors' report, the financial statements have not been prepared on a going concern basis. The financial statements have instead been prepared on a break up basis reflecting the circumstances of the Company.

There has been no material effect on the figures within these financial statements and they do not differ materially from those that would have been presented under the assumption of going concern and in accordance with the historical cost convention.

1.2 Income recognition

Income from financial assets

Interest income and expense are recognised in the Statement of comprehensive income for all interest bearing financial instruments, including loans and advances, using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense to a period of account. For loan products, 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 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 recognised when the service has been provided.

1.3 Financial assets and liabilities

Financial assets comprise Cash and cash equivalents, Loans and advances to banks, Loans and advances to customers, and Other assets. Financial liabilities comprise Other liabilities, Deposits from banks and Customer accounts.

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are derecognised when the rights to receive cash flows, or obligations to pay cash flows, have expired.

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

All financial assets and financial liabilities are stated at amortised cost.

Notes to the financial statements (continued)

For the year ended 31 December 2012

1. Accounting policies (continued)

1.4 Impairment

Loans and advances to customers

At each balance sheet date the Company assesses whether, as a result of one or more events occurring after initial recognition, there is objective evidence that a financial asset or group of financial assets has become impaired. Evidence of impairment may include indications that the borrower or group of borrowers are experiencing significant financial difficulty, default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or other financial reorganisation or the debt being restructured to reduce the burden on the borrower.

If there is objective evidence that an impairment loss has been incurred, a provision is established which is calculated as the difference between the balance sheet carrying value of the asset and the present value of estimated future cash flows discounted at that asset's original effective interest rate. If an asset has a variable interest rate, the discount rate used for measuring the impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised asset or group of assets reflects the cash flows that may result from foreclosure less the costs of obtaining and selling the collateral.

If there is no objective evidence of individual impairment, the asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Future cash flows are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The method and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between the loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, such as an improvement in the borrower's credit rating, the provision is adjusted and the amount of the reversal is recognised in the Statement of comprehensive income.

When a loan or advance is uncollectible, it is written off against the related provision once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the Statement of comprehensive income on a cash receipts basis.

1.5 Cash and cash equivalents

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

1.6 Taxation, including deferred income taxes

Current tax which is payable or receivable on taxable profits or losses is recognised as an expense or credit in the period in which the profits or losses arise.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. The tax effect of losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Tax assets and liabilities are offset when they arise in the same tax reporting group and where there is both a legal right of offset and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Tax on the profit or loss for the year is recognised in the statement of comprehensive income within taxation and comprises only current tax. No provision for deferred tax is required under IAS 12 "Income Taxes" as no timing differences arise which would result in deferred tax on assets and liabilities.

Current tax is the expected tax receivable on the taxable loss for the period, using tax rates enacted or substantively enacted at the reporting date, together with adjustments to estimates in prior years.

1.7 Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets.

Notes to the financial statements (continued)

For the year ended 31 December 2012

2. Risk management policy

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

2.1 Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The credit risk associated with Loans and advances to customers is managed through the application of strict underwriting criteria, determined by the Company's credit committee and credit functions. Significant credit exposures are measured and reported on a regular basis. Impairment provisions are provided for 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 three components: (i) the 'probability of default' by the client or counterparty on its contractual obligations, (ii) current exposures to the counterparty and their likely future development, from which the Company derives the 'exposure at default', and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

For its Retail lending, credit risk is assessed using 'exposure at default' and 'loss given default' models. The Company assesses the probability of default of individual counterparties using internal rating models tailored to the various categories of counterparty. All rating models, which are authorised by executive management, comply with the Group's standard methodology and are subject to a rigorous validation process.

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 divisional and 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.
- Credit scoring: In its principal Retail portfolios, the Company uses statistically based decision techniques (primarily credit scoring). Divisional risk departments review scorecard effectiveness and approve changes, with material changes subject to Group risk approval.
- Concentration risk: Credit risk management includes portfolio controls on certain industries, sectors and product lines that reflect risk appetite and which operate at a divisional level. Credit policy is aligned to risk appetite and restricts exposure to certain high risk and more vulnerable sectors. At a divisional level, exposures are monitored to prevent excessive concentration of risk. These concentration risk controls are not necessarily in the form of a maximum limit on lending but may instead require new business in concentrated sectors to fulfil additional hurdle requirements.
- 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 in wholesale portfolios is subject to individual credit assessments, which consider the strengths and weaknesses of individual transactions and the balance of risk and reward. Divisional exposure to individual counterparties, groups of counterparties or customer risk segments is controlled through a tiered hierarchy of delegated sanctioning authorities.

2.2 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due. To manage this risk, a stock of liquid assets is maintained and extensive borrowing facilities are available from within the Lloyds Banking Group.

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

Notes to the financial statements (continued)

For the year ended 31 December 2012

2. Risk management policy (continued)

2.3 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. As at 31 December 2012, the Company is not exposed to interest rate risk as there are no interest bearing loans. Accordingly, no quantitative analysis of the Company's exposure to interest rate risk is presented.

2.4 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.

3. Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although those estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Impairment of assets accounted for at amortised cost

The Company regularly reviews its loan portfolio to assess for impairment. In determining whether an impairment has occurred the Company considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows and their timings, such observable data includes whether there has been an adverse change in the payment status of borrowers or changes in economic conditions that correlate with defaults on assets in the Company.

4 Net interest income

	2012 £'000	2011 £'000
Interest income		
Group interest income (see note 14)	623	915
From other loans and advances	84	879
	707	1,794
Interest expense		
Group interest expense (see note 14)	(27)	(970)
Customer accounts	-	(32)
	(27)	(1,002)
Net interest income	680	792

Included within Interest income is £nil (2011: £nil) in respect of impaired financial assets.

Notes to the financial statements (continued)

For the year ended 31 December 2012

5. Net fees and commission income

	2012 £'000	2011 £'000
Fees and commission income		
Mortgage related fees and commission receivable	-	182
Fees and commission expense		
Group fees and commission expense (see note 14)	-	(155)
Net fees and commission income	-	27

6. Other operating expenses

	2012 £'000	2011 £'000
Management fees (see note 14)	46	69
Administrative expenses	(44)	39
	2	108

The Company has no employees (2011 none) Accounting and administration services are provided by the immediate parent undertaking, AMC plc and are recharged to the Company as part of management fees

Fees payable to the Company's auditors for the audit of the financial statements were £7,500 (2011 £14,000) Fees payable to Company's auditors for non-audit services were £nil (2011 £nil)

7. Directors' emoluments

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

	2012 £'000	2011 £'000
Aggregate emoluments	73	77
Aggregate post employment benefits	1	-

The number of directors to whom retirement benefits accrued under defined benefit and money purchase schemes is four and one respectively (2011 four and one respectively)

No directors exercised share options in the ultimate parent company during the year (2011 none)

8. Taxation

	2012 £'000	2011 £'000
a) Analysis of charge for the year		
UK corporation tax		
- Current tax on taxable profit for the year	166	188

Corporation tax is calculated at a rate of 24.5% (2011 26.5%) of the taxable profit for the year

On 21 March 2012, the Government announced a reduction in the rate of corporation tax to 24% with effect from 1 April 2012. This reduction was enacted under the Provisional Collection of Taxes Act 1968 on 26 March 2012. In addition, the Finance Act 2012, which passed into law on 3 July 2012, included legislation to reduce the main rate of corporation tax from 24% to 23% with effect from 1 April 2013.

The proposed further reduction in the rate of corporation tax by 2% to 21% from 1 April 2014 is expected to be enacted separately. In addition, on 20 March 2013 the Government announced a further reduction in the main rate of corporation tax to 20% from 1 April 2015.

Notes to the financial statements (continued)

For the year ended 31 December 2012

8 Taxation (continued)

b) Factors affecting the tax charge for the year

The tax on the Company's Profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Company as follows

	2012 £'000	2011 £'000
Profit before tax	678	711
Tax charge thereon at UK corporation tax rate of 24.5% (2011: 26.5%)	166	188
Tax on profit on ordinary activities	166	188
Effective rate	24.5%	26.5%

9. Other assets

	2012 £'000	2011 £'000
Other receivables	-	4
of which Due within one year	-	4

10. Loans and advances to banks

	2012 £'000	2011 £'000
Amounts due from group undertakings (see note 14)	-	23,022

Loans and advances to banks are unsecured and owed by the intermediate parent company Lloyds TSB Bank plc. All amounts are repayable on demand.

11. Loans and advances to customers

	2012 £'000	2011 £'000
Agricultural mortgages	-	34
of which Due within one year	-	4
Due after one year	-	30
	-	34

Further analysis of Loans and advances to customers is provided in note 15

Notes to the financial statements (continued)

For the year ended 31 December 2012

12. Liabilities

	2012 £'000	2011 £'000
Amount due to group undertakings (see note 14)	4,084	4,461
Other payables	-	75
Deposits from banks (see note 14)	-	2,533
Customer accounts	-	737
Current tax liabilities	354	188
	4,438	7,994
of which		
Due within one year	4,438	7,994

Amounts due to group undertakings are non-interest bearing, unsecured and repayable on demand, although there is no expectation that such a demand would be made

13. Share capital

	2012 £'000	2011 £'000
Allotted, issued and fully paid		
12,000,000 ordinary shares of £1 each	12,000	12,000

As permitted by the Companies Act 2006, the Company removed references to authorised share capital from its articles of association with effect from 6 December 2011

All ordinary shares rank pari passu in all respects including the right to receive all dividends and other distributions hereafter declared, made or paid on the ordinary share capital of the Company

The immediate parent company is AMC plc (incorporated in England and Wales). The company regarded by the directors as the ultimate parent company 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 TSB Bank plc (incorporated in England & Wales) 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.

14. Related party transactions

The Company is immediately controlled by AMC 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.

	2012 £'000	2011 £'000
Amounts due from group undertakings		
Lloyds TSB Bank plc (see note 10)	-	23,022
Amounts due to group undertakings		
Lloyds TSB Bank plc (see note 12)	-	2,533
The Agricultural Mortgage Corporation plc (see note 12)	4,084	4,461
Total Amounts due to group undertakings	4,084	6,994
Interest income		
Lloyds TSB Bank plc (see note 4)	623	915
Interest expense		
Lloyds TSB Bank plc (see note 4)	27	970

Notes to the financial statements (continued)

For the year ended 31 December 2012

14. Related party transactions (continued)

	2012 £'000	2011 £'000
Management fees		
The Agricultural Mortgage Corporation plc (see note 6)	46	69
Fees and commission expense		
Lloyds TSB Bank plc (see note 5)	-	155

The above balances are unsecured in nature and are expected to be settled in cash or cash equivalents

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, which is determined to be the Company's directors and members of the Lloyds Banking Group plc board. Members of the Lloyds Banking Group plc board are employed by other companies within the Lloyds Banking Group and consider that their services to the Company are incidental to their 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

	2012 £'000	2011 £'000
Salaries and short term employee benefits	83	86
Post employment benefits	1	-
	84	86

UK Government

In January 2009, the UK Government through HM Treasury became a related party of the Company following its subscription for ordinary shares issued under a placing and open offer. At 31 December 2012, HM Treasury held a 39.2 per cent (2011: 40.2 per cent) interest in the ordinary share capital of Lloyds Banking Group plc and consequently HM Treasury remained a related party of the Company during the year ended 31 December 2012.

15. Financial risk management

A description of the nature and mitigation of key risks facing the Company is provided in note 2. A description of the Company's financial assets/liabilities and associated accounting is provided in note 1.

15.1 Credit risk

Credit concentration - Loans and advances to customers and banks

Historically, the Company has lent predominantly to the agricultural sector geographically located in the United Kingdom.

Loans and advances to customers and banks – maximum exposure

	2012 £'000	2011 £'000
Neither past due nor impaired	-	23,056
Maximum exposure – loans and advances	-	23,056
Commitments to lend	-	-
Maximum credit exposure	-	23,056

Notes to the financial statements (continued)

For the year ended 31 December 2012

15 Financial risk management (continued)

15.1 Credit risk (continued)

Loans and advances to customers and banks which are neither past due nor impaired

	2012 £'000	2011 £'000
Good quality	-	23,056

In general, good quality lending comprises those balances with a lower probability to default rating assigned and the rating progressively increases for each category exhibiting a progressively higher probability to default

Past due is defined as failure to make a payment when it falls due

Reposessed collateral

As at 31 December 2012, there are no Loans and advances and no collateral is held. Previously, collateral held against Loans and advances to customers is principally comprised of land and property. 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, no collateral was reposessed (2011: £nil)

15.2 Liquidity risk

The Company is funded entirely by companies within the Group. The table below sets out the cash flows payable by the Company in respect of Borrowed funds, by remaining contractual undiscounted repayments of principal and interest, at the balance sheet date.

All other funding is repayable on demand, although there is no expectation that such a demand would be made. All other financial liabilities are repayable on demand.

As at 31 December 2012

	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Total £'000
Customer accounts	-	-	-	-	-
Deposits from banks	-	-	-	-	-
Other liabilities	4,084	-	-	-	4,084

As at 31 December 2011

	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Total £'000
Customer accounts	737	-	-	-	737
Deposits from banks	2,533	-	-	-	2,533
Other liabilities	4,536	-	-	-	4,536

15.3 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.

The directors consider that there are no significant differences between the carrying amounts shown in the Balance sheet and the fair value.

All financial assets and liabilities are held at amortised costs.

Notes to the financial statements (continued)

For the year ended 31 December 2012

16. Capital disclosures

The Company's objectives when managing capital, which is broader in concept than 'equity' on the face of the balance sheet, are

- To comply with the capital requirements set by the regulators of the banking markets where the Company operates,
- To maintain a strong capital base to support its business

Capital adequacy and the use of regulatory capital are monitored regularly by the Company's management, employing techniques based upon the guidelines developed by the Basel Committee and the European Community Directives, as implemented by the UK Financial Services Authority (FSA) and the Company of England for supervisory purposes. The required information is filed with the FSA on a quarterly basis.

The FSA requires each bank or banking group to (a) hold a minimum level of regulatory capital, and (b) maintain a ratio of total regulatory capital to risk-weighted assets (the 'risk-asset ratio') at or above the internationally agreed minimum of 8%.

The Company's regulatory capital is entirely tier 1 capital, being share capital and retained earnings, subject to certain regulatory adjustments. Intangible assets and investments in subsidiaries are deducted from the total capital to arrive at the regulatory capital.

The risk weighted assets are determined according to a broad categorisation of the nature of each asset or exposure and counterparty. This includes assessments in relation to credit, operational, counterparty, market and concentration risks.

The table below summarises the composition of regulatory capital and the ratios of the Company for the years ended 31 December under the Basel II framework. During these two years, the Company complied with all the externally imposed capital requirements to which it is subject.

	2012 £'000	2011 £'000
Tier 1 capital		
Share capital	12,000	12,000
Retained earnings brought forward	6,056	5,533
Total regulatory capital	18,056	17,533
Total risk weighted assets equivalent (unaudited)	-	10,175
Risk asset ratio	n/a	172.3%

The movement in risk weighted assets is due to the significant decrease in total assets during the year.

The above comparison is set out using the risk asset ratio framework, which as explained above, remains the international standard for measuring capital adequacy. The FSA's approach to such measurement under Basel II is now based primarily on monitoring the relationship of the Capital Resources Requirement (CRR - broadly equivalent to 8% of risk weighted assets and thus representing the capital required under Pillar 1 of Basel II) to available capital resources. The Company, however, expects the reporting and analysis of ratios to continue, both internally and externally.

17. Contingent liabilities and capital commitments

There were no contingent liabilities or contracted capital commitments at the balance sheet date (2011: £nil).

18. Post balance sheet events

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

Notes to the financial statements (continued)

For the year ended 31 December 2012

19. Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2012 and have not been applied in preparing these financial statements

Pronouncement	Nature of change	Effective date
Improvements to IFRSs (issued May 2012) ¹	Sets out minor amendments to IFRS standards as part of the annual improvements process. Most amendments clarified existing practice.	Annual periods beginning on or after 1 January 2013
IFRS 13 Fair value Measurement	Sets out a single IFRS framework for the measurement of fair value and the related disclosure requirements.	Annual periods beginning on or after 1 January 2013
Amendment to IAS 32 Financial instruments: Presentation on Offsetting financial assets and financial liabilities	Provides additional clarification regarding the concept of the 'legally enforceable right of set-off' for the purposes of offsetting financial assets and financial liabilities.	Annual periods beginning on or after 1 January 2014
IFRS 9 Financial Instruments Classification and Measurement ^{1 & 2}	Replaces those parts of IAS 39 Financial Instruments: Recognition and Measurement relating to the classification, measurement and derecognition of financial assets and liabilities. Requires financial assets to be classified into two measurement categories, fair value and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instrument. The available-for-sale financial asset and held-to-maturity categories in the existing IAS 39 will be eliminated. The requirements for financial liabilities and derecognition are broadly unchanged from IAS 39.	Annual periods beginning on or after 1 January 2015

¹ At the date of this report, these pronouncements are awaiting EU endorsement.

² IFRS 9 is the initial stage of the project to replace IAS 39. Future stages are expected to result in amendments to IFRS 9 to deal with changes to the impairment of financial assets measured at amortised cost and hedge accounting. Until all stages of the replacement project are complete, it is not possible to determine the overall impact on the financial statements of the replacement of IAS 39.

The full impact of these pronouncements is being assessed by the Company. However, the initial view is that none of these pronouncements are expected to cause any material adjustments to the reported numbers in the financial statements.