AMC BANK LIMITED

ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2010

DIRECTORS

T R Porter

J E Allright

M S Hayes

J McGoldrick

P N Spencer

SECRETARY

S N Slattery

REGISTERED OFFICE

Charlton Place
Charlton Road
Andover
Hampshire
SP10 1RE

REGISTERED NUMBER

Registered number 1039896

Member of Lloyds Banking Group

REPORT OF THE DIRECTORS

Business review and principal activities

AMC Bank Limited ("the bank") is a limited company incorporated and domiciled in England and Wales (registered number 1039896) The bank provides mortgage finance to farmers and growers in the United Kingdom, and accepts deposits The bank's immediate parent company is The Agricultural Mortgage Corporation PLC ("AMC PLC")

The results of the bank show a profit before tax of £2,333,000 (2009 £3,176,000) for the year, which represents a decrease of 26 5 % The bank only provides further advances to existing customers and loan applications from new customers are evaluated and underwritten by its immediate parent company In the context of the consolidated AMC business (being the bank and its immediate parent company) this has no overall effect on the business

The bank has declared no dividend in respect of 2010 (2009 £nil) No interim dividend was paid during the year (2009 interim dividend of £7,000,000 was paid on 30 September 2009)

Business strategy and development

The board regards the continuing provision of a high quality service to its customers and the support of the growth of its immediate parent company as the principal aims of the bank Although the bank's deposit product continues to offer security and a personal service, the interest rate is no longer as attractive as it has been in the past, which has resulted in balances decreasing in the year

Future outlook

The bank's income is expected to continue to decline as the lending book reduces due to new lending being written by or transferred to AMC PLC The deposit market is competitive and is forecast to remain so With no expected increase in Bank of England interest rates for much of 2011 there is unlikely to be any deposit account balance growth during the coming year

Key performance indicators ("KPIs")

The board monitors progress on the overall bank strategy together with the individual strategic elements of the business by reference to two KPIs Given the stated strategy of no longer writing new business in the bank, the KPIs for the bank will continue to decline

Performance during the year, together with comparative historical data, is set out in the table below The decline in income and profit is as expected since the bank no longer accepts new loan customers

KPI	2010	2009	Definition, method of calculation and analysis
Income decline (%)	(26 2)	(27 2)	Year on year growth/decline in total income (net lending interest income and net fees and commission income) as a percentage
PBT decline (%)	(26 5)	(29 8)	Year on year growth/decline in profit before tax as a percentage

Report of the directors (continued)

Principal risks and uncertainties

The management of the business and the execution of the bank's strategy are subject to limited risks

The key business risks affecting the bank are the continuing low interest environment and potentially volatile money market environment making it challenging for the bank to attract new deposit customers The bank has some exposure to credit risk but this is managed through strict underwriting criteria and by the value of loan securities

Financial risk management

Full disclosure of the bank's financial risk management objectives and policies is given in note 4 to the financial statements

Directors

The names of the present directors of the bank are shown on the front cover

The following changes in directors have taken place during the year

M S Hayes	appointed 5 January 2010
J E Allright	appointed 2 June 2010
J E Mathias	resigned 5 January 2010
S A Featherstone	resigned 16 September 2010

Directors' indemnities

The Directors have the benefit of a contract of indemnity which constitutes a "qualifying third party indemnity provision" This contract came into force during the financial year and remains in force It is 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 bank and of the profit of the bank 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 International Financial Reporting Standards (IFRS) 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 bank will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the bank's transactions and disclose with reasonable accuracy at any time the financial position of the bank 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 bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Report of the directors (continued)

Auditors and 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 bank's auditors are unaware, and
- the director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the bank'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

Policy and practice on payment of creditors

The bank 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 bank'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 bank to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract

The number of creditor days to be shown in this report, to comply with the provisions of the Companies Act 2006, is nil (2009 nil) This bears the same proportion to the number of days in the year as the aggregate of amounts owed to trade creditors as at 31 December 2010 bears to the aggregate of the amounts invoiced by suppliers during the year

On behalf of the board

Timothy Porter

T R Porter
Director

15th March 2011

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 2010 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 bank's members as a body in accordance with Chapter 3 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 bank'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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the bank's affairs as at 31 December 2010 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

M Newman

Michael Newman (Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Hays Galleria, 1 Hays Lane
London, SE1 2RD
17 March 2011

Statement of comprehensive income
for the year ended 31 December 2010

	Note	**2010 £'000**	2009 £'000
Interest and similar income	5	5,186	6,653
Interest and similar expense	5	(2,803)	(3,364)
Net interest income		2,383	3,289
Fee and commission income	6	139	122
Fee and commission expense	6	(70)	(88)
Net fee and commission income		69	34
Operating expenses	7	(119)	(147)
Profit before taxation		2,333	3,176
Taxation	8	(653)	(889)
Profit after taxation, being total comprehensive income		1,680	2,287

The results for the year arise wholly from continuing operations and are attributable to the equity shareholder

The accompanying notes 1 to 20 are an integral part of these financial statements

Balance sheet
at 31 December 2010

	Note	2010 £'000	2009 £'000
ASSETS			
Cash at bank	18 (b)	1,728	2,951
Loans and advances to banks	9	23,049	23,057
Loans and advances to customers	10	94,620	128,931
Other assets	11	77	279
Total assets		119,474	155,218
LIABILITIES			
Deposits from banks	12	57,770	86,677
Customer accounts	13	39,335	47,505
Other liabilities	14	3,293	4,294
Current tax liabilities		1,543	889
Total liabilities		101,941	139,365
EQUITY			
Share capital	15	12,000	12,000
Retained earnings		5,533	3,853
Total equity		17,533	15,853
Total liabilities and equity		119,474	155,218

The financial statements were approved by the board of directors on 15 March 2011 and signed on its behalf by

T R Porter
Director

Registered number 1039896

The accompanying notes 1 to 20 are an integral part of these financial statements

Statement of changes in equity
for the year ended 31 December 2010

	Share capital £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2009	12,000	11,800	23,800
Profit for the year and total comprehensive income	-	2,287	2,287
Dividends (see note 17)	-	(10,234)	(10,234)
Balance at 31 December 2009 and 1 January 2010	12,000	3,853	15,853
Profit for the year and total comprehensive income	-	1,680	1,680
Balance at 31 December 2010	12,000	5,533	17,533

The accompanying notes 1 to 20 are an integral part of these financial statements

Cash flow statement
for the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Cash flows from operating activities			
Cash used in operations	18(a)	(3,898)	(956)
Interest received		5,224	7,327
Interest paid		(2,557)	(3,364)
Tax paid		-	(506)
Net cash from operating activities		(1,231)	2,501
Cash flows from financing activities			
Dividends paid		-	(10,234)
Repayment of subordinated loan		-	(3,000)
Net cash used in financing activities		-	(13,234)
Net decrease in cash and cash equivalents		(1,231)	(10,733)
Cash and cash equivalents at beginning of year	18(b)	26,008	36,741
Cash and cash equivalents at end of year	18(b)	24,777	26,008

The accompanying notes 1 to 20 are an integral part of these financial statements

Notes to the financial statements

1. Accounting policies

Basis of preparation

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

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS

The financial information has been prepared under the historical cost convention

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

(i) Improvements to IFRSs This sets out minor amendments to IFRS standards as part of annual improvements process

Details of those IFRS pronouncements which will be relevant to the bank but which were not effective at 31 December 2010 and which have not been applied in preparing these financial statements are given in note 20

The bank is reliant on funding provided by Lloyds TSB Bank plc Notwithstanding the improvement in market liquidity during 2010, the bank's ultimate parent company, Lloyds Banking Group plc, continues to be reliant on UK Government sponsored measures to maintain its wholesale funding position The directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries including the bank will continue to receive funding in the future and, accordingly, the financial statements have been prepared on a going concern basis

(a) Revenue recognition

Interest income and expense are recognised in the income statement for all interest-bearing financial instruments 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 exactly discounts the estimated future cash payments or receipts over the expected life of the instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability The effective interest rate is calculated on initial recognition of the financial asset or financial liability, estimating the future cash flows after considering all the contractual terms of the instrument but not future credit losses The calculation includes all amounts paid or received by the bank including expected early redemptions and related penalties and premiums and discounts that are an integral part of the overall return, as well as direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument

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 (see note 1 (d))

Fees and commissions which are not an integral part of the effective interest rate are recognised when the service has been provided

(b) Taxation

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

Current tax assets and liabilities are offset 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

Notes to the financial statements (continued)

1. Accounting policies (continued)

(c) Financial assets and liabilities

Financial assets consist of cash and cash equivalents, loans and advances to banks, loans and advances to customers, and other assets Financial liabilities consist of other liabilities, deposits from banks and customer accounts Financial assets and liabilities are recognised when the bank becomes a party to the contractual provisions of the instrument Financial assets and liabilities are de-recognised when the rights to receive cash flows, or obligations to pay cash flows, have expired

Loans and advances to banks, loans and advances to customers, deposits from banks, customer accounts and other liabilities are initially recognised at fair value inclusive of transaction costs, and subsequently at amortised cost using the effective interest rate method

(d) Impairment of financial assets

At each balance sheet date the bank assesses whether, as a result of one or more events occurring after initial recognition and prior to the balance sheet date, there is objective evidence that a financial asset or group of financial assets has become impaired

The criteria that the bank uses to determine that there is objective evidence of an impairment loss include

- Delinquency in contractual payments of principal and/or interest,
- Restructuring of debt to reduce the burden on the borrower, and
- Initiation of bankruptcy or individual voluntary arrangement proceedings

If there is objective evidence that an impairment loss has been incurred, an allowance 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 the 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 whether or not foreclosure is probable The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio

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 Segmentation takes into account the value of the security held against lending which is indicative of the borrowers' ability to pay all amounts due according to the contractual terms of the assets being evaluated Future cash flows are estimated on the basis of the contractual cash flows of the assets in the bank 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 methodology and assumptions used for estimating future cash flows are reviewed regularly by the bank to reduce any differences between 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 income statement

A loan or advance is normally written off, either partially or in full, against the related provision when the proceeds from realising any available security have been received or there is no realistic prospect of recovery (as a result of the customer's insolvency, ceasing to trade, or other reason) and the amount of the loss has been determined Subsequent recoveries of amounts previously written off are recognised in the income statement on a cash receipts basis

(e) Dividends

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

Notes to the financial statements (continued)

1. Accounting policies (continued)

(f) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and amounts due from banks with a maturity of less than three months

(g) Share Capital

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

2. Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements requires the directors 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 outcomes in future periods may 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 The accounting estimates and judgements deemed critical to the bank's results and financial position, based upon potential materiality are discussed below

Impairment

The bank regularly reviews its loan portfolios to assess for impairment For an exposure to be considered as impaired there must be clear objective evidence that a loss event has occurred Examples of loss events which may indicate impairment will include, but not be limited to, evidence of significant financial difficulty of the borrower, loan arrears or a deterioration in the value of security held Management uses judgements based on historical loss experience to estimate the expected future cash flows of an impaired asset and determine its net present value ("NPV") The difference between the NPV of the expected future cash flows and the carrying value of the exposure is recorded as an impairment loss The measurement of the NPV includes all expected future cash flows, including scheduled repayments, interest payments and, where relevant, estimated cash flows from the realisation of security, less anticipated associated direct costs Estimates also take into account relevant internal and external factors, including industry or sector factors that affect the timing and amounts of expected future cash flows

The bank recognises that there may be assets within a portfolio that are impaired at the balance sheet date but which have not been identified as such An allowance for impairment losses is maintained in respect of such assets, and is reviewed and assessed on at least a quarterly basis The loss allowance is based on historical loss experience and the judgement of the Lloyds Banking Group Commercial Credit Policy Committee

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience

3. Capital management

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

1 To comply with the capital requirements set by the regulators of the banking markets where the bank operates,
2 To safeguard the bank's ability to continue as a going concern so that it can continue to provide a return for shareholders and benefits for other stakeholders, and
3 To maintain a strong capital base to support development of its business

Capital adequacy and the use of regulatory capital are monitored regularly by the bank'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 Bank 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%

Notes to the financial statements (continued)

3. Capital management (continued)

The bank's regulatory capital is divided into two tiers

1 Tier 1 capital share capital and retained earnings, and
2 Tier 2 capital qualifying subordinated loan 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 bank for the years ended 31 December 2010 and 31 December 2009 under the Basel II framework During these two years, the bank complied with all of the externally imposed capital requirements to which it is subject

	2010 £'000	2009 £'000
Tier 1 capital		
Share capital	12,000	12,000
Retained earnings brought forward	3,853	11,800
Less dividends paid during the year	-	(10,234)
Total regulatory capital	15,853	13,566
Total risk-weighted assets equivalent (unaudited)	97,350	132,650
Risk asset ratio	16 3%	10 2%

The movement in risk-weighted assets is due to the 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 bank, however, expects the reporting and analysis of ratios to continue, both internally and externally

4. Financial risk management

The directors are responsible for establishing an appropriate risk management framework for evaluating, measuring, monitoring and controlling risk These controls and procedures, where relevant, comply with the Lloyds Banking Group policies and standards

(a) Strategy in using financial instruments

The bank's activities are principally related to the use of financial instruments However, the bank does not trade in financial instruments, nor does it use derivatives Lending activity is largely in the form of agricultural mortgages with a range of flexible products offered to high-quality borrowers at fixed and floating rates The bank seeks to maximise margins on all products whilst remaining competitive and maintaining its long-standing commitment of interest rate consistency to customers The bank's other financial instruments include amounts to and from group undertakings and customer deposits which are used to finance the bank's lending business

Notes to the financial statements (continued)

4. Financial risk management (continued)

(b) Credit risk

Credit risk is the risk that a counterparty fails to meet its obligations when they fall due and the directors are supported in their responsibility to manage credit risk by the Lloyds Banking Group Commercial Credit Policy Committee The credit risk associated with agricultural loans is controlled via the application of strict underwriting criteria, with counterparties being individually assessed and approved All loans in arrears are monitored monthly The directors limit the bank's exposure to credit risk by placing limits on the amount of risk accepted in relation to individual borrowers, groups of borrowers and to geographical segments

Impairment allowances are made for losses incurred at the balance sheet date, but actual loss experience may be different as the result of changes in the economy, particularly the agricultural market The bank's exposure to credit risk is therefore actively managed

The maximum credit risk exposure of the bank in the event of other parties failing to perform their obligations is equal to the carrying value of financial assets, plus the commitments as detailed in note 19

An analysis of the credit quality of the bank's lending to banks and customers is presented below The assessment of the risk level of loans and advances which are neither past due nor impaired is according to the information presented to the bank's management, as represented by the Lloyds Banking Group Commercial Credit Policy Committee

	2010 £'000	2009 £'000
Loans and advances which are neither past due nor impaired		
High quality	114,690	148,986
Good quality	-	-
Satisfactory	-	-
Lower quality	-	-
	114,690	148,986
Loans and advances which are past due but not impaired		
Past due up to 30 days	1,418	1,182
Past due 30 to 60 days	-	-
Past due 60 to 90 days	-	-
Past due 90 to 180 days	-	-
Past due over 180 days	-	-
	1,418	1,182
Impaired lending		
Impaired lending assessed on an individual basis – no allowance	1,561	1,820
	1,561	1,820
Total loans and advances to banks and customers	117,669	151,988

The bank's lending is primarily mortgages which are secured against property or land The value of the pledged security is such that for most impaired lending the recoverable amount exceeds the carrying value of the loan, and thus no allowance for impairment losses is required The table below shows the fair values of collateral held against past due or impaired lending Fair values are estimated by reference to the last formal valuation The valuations have been limited to the principal amount of the outstanding advance to provide a clearer representation of the bank's credit exposure

	2010 £'000	2009 £'000
Fair value of collateral held		
- against loans and advances which are past due but not impaired	1,418	1,182
- against impaired lending	1,561	1,820
	2,979	3,002

No assets have been obtained during the year from taking possession of collateral (2009 £nil)

Notes to the financial statements (continued)

4. Financial risk management (continued)

(b) Credıt rısk (contınued)

The carryıng amount of loans and advances to customers that would otherwıse be past due or ımpaıred but whose terms have been renegotıated ıs £nıl (2009 £nıl)

(c) Lıquıdıty rısk

Lıquıdıty rısk ıs the rısk that the bank ıs unable to meet ıts oblıgatıons as they fall due To manage thıs rısk, a stock of lıquıd assets ıs maıntaıned and extensıve borrowıng facılıtıes are avaılable from wıthın the Lloyds Bankıng Group Lıquıdıty rısks are managed as part of the Lloyds Bankıng Group by the ıntermedıate parent company, Lloyds TSB Bank plc, ın consultatıon wıth the board of dırectors

The table below shows the undıscounted future cash flows of financıal lıabılıtıes based on remaınıng contractual maturıtıes at the balance sheet date

At 31 December 2010	**Up to 1 month £'000**	**1-3 months £'000**	**3-12 months £'000**	**1-5 years £'000**	**Over 5 years £'000**	**Total £'000**
Deposıts from banks	57,770	-	-	-	-	57,770
Customer accounts	39,335	-	-	-	-	39,335
Other lıabılıtıes	3,293	-	-	-	-	3,293
Total financial liabilities	100,398	-	-	-	-	100,398

At 31 December 2009	**Up to 1 month £'000**	**1-3 months £'000**	**3-12 months £'000**	**1-5 years £'000**	**Over 5 years £'000**	**Total £'000**
Deposıts from banks	86,677	-	-	-	-	86,677
Customer accounts	47,505	-	-	-	-	47,505
Other lıabılıtıes	4,294	-	-	-	-	4,294
Total financial liabilities	138,476	-	-	-	-	138,476

The table above shows the undıscounted cash flows of the bank's financıal lıabılıtıes on the basıs of theır earlıest possıble contractual maturıty The bank's expected cash flows on these ınstruments vary sıgnıficantly from thıs analysıs For example, deposıts from customers are repayable on demand but the deposıts are lıkely to be repaıd over a longer perıod Sımılarly there ıs no expectatıon that any demand would be made for deposıts from banks to be repaıd more rapıdly than the receıpt of repayments from the bank's lendıng

(d) Interest rate rısk

Interest rate rısk ıs the rısk of financıal loss as the result of adverse movements ın ınterest rates, and arıses largely because of tımıng dıfferences between the re-prıcıng of financıal assets and lıabılıtıes The bank has transferred ıts exposure to changes ın ınterest rates to Lloyds TSB Bank plc, ıts ıntermedıate parent company, through ıts fundıng arrangements, and does not retaın any sıgnıficant exposure ın relatıon to these rısks Accordıngly, no quantıtatıve analysıs of the bank's exposure to ınterest rate rısk ıs presented

(e) Currency rısk

The bank has no assets or lıabılıtıes denoted ın foreıgn currencıes, and thus has no sıgnıficant exposure to the effects of fluctuatıons ın foreıgn exchange rates

Notes to the financial statements (continued)

4. Financial risk management (continued)

(f) Other price risk

The bank's lending is largely secured against land and property, so the bank has exposure to changes in agricultural land and property values The bank's historic rate of repossessions is extremely low, supported by strict lending criteria The majority of the bank's lending is at a ratio of 70% loan-to-value or lower, and the average indexed loan-to-value ratio of the AMC loan book (including the bank and its immediate parent company) as at 31 December 2010 was 31% (2009 31%) The exposure to risk arising from changes in land and property values is thus considered to be very low

(g) 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 at "arm's length" between willing parties, other than in a forced or liquidation sale

The bank provides loans and advances at both fixed and variable rates The fair value of the variable rate loans is believed to be their carrying value For fixed rate lending, fair value is principally estimated by discounting estimated cash flows (including interest at contractual rates) at market rates for similar loans offered by the Lloyds Banking Group and other financial institutions prevailing at the balance sheet date Certain loans are made at a fixed rate for a limited period, typically two to five years, after which the loans revert back to the relevant variable rate The fair value of such loans has been estimated by reference to the market rates for similar loans of maturity equal to the remaining fixed interest rate period

The following table summarises the carrying amounts and fair values of financial assets and liabilities held at amortised cost

	2010	**2010**	2009	2009
	Carrying value £'000	**Fair value £'000**	Carrying value £'000	Fair value £'000
Financial assets				
Loans and advances to banks	23,049	23,049	23,057	23,057
Loans and advances to customers	94,620	97,690	128,931	132,259
	117,669	120,739	151,988	155,316
Financial liabilities				
Deposits from banks	57,770	60,840	86,677	90,005
Customer accounts	39,335	39,335	47,505	47,505
Other liabilities	3,293	3,293	4,294	4,294
	100,398	103,468	138,476	141,804

(h) Measurement basis of assets and liabilities

All financial assets are classed as loans and receivables All assets and liabilities are carried at amortised cost

5. Net interest income

	2010 £'000	2009 £'000
Interest and similar income		
Loans and advances to customers	3,967	5,038
Interest income from group undertakings	1,219	1,615
	5,186	6,653
Interest and similar expense		
Customer deposits	(32)	(102)
Interest payable to group undertakings	(2,771)	(3,262)
	(2,803)	(3,364)
Net interest income	2,383	3,289

Notes to the financial statements (continued)

5. Net interest income (continued)

Included in the above is net interest income on impaired assets of £nil (2009 £23,000) Interest payable to group undertakings of £2,771,000 (2009 £3,262,000) includes £nil (2009 £6,000) in respect of subordinated loan capital

6. Net fee and commission income

	2010 **£'000**	2009 £'000
Fee and commission income		
Mortgage related fees and commissions receivable	139	122
Fee and commission expense		
Fees payable to Lloyds TSB Bank plc	(70)	(88)
Net fee and commission income	69	34

As discussed in note 1(a), fees and commissions which are an integral part of the effective interest rate form part of net interest income shown in note 5

7. Operating expenses

	2010 **£'000**	2009 £'000
Management fee	64	70
Administrative expenses	55	77
	119	147

Included within administrative expenses are fees payable to the bank's auditors for the audit of the financial statements of £11,000 (2009 £14,000) Fees payable to the bank's auditors for non-audit services were £nil (2009 £nil)

Directors' emoluments and staff costs

The bank has no employees Management services are provided to the bank, under a management agreement, by its immediate parent company, AMC PLC, and in the year ended 31 December 2010 the bank paid fees of £63,800 in respect of these services (2009 £69,600) It is not possible to separate the amount of service fee payable to AMC PLC that relates to employee benefits

The directors' emoluments payable for their services to the bank are set out below

	2010 **£'000**	2009 £'000
Aggregate emoluments	47	32
Aggregate post employment benefits	1	2
	48	34

The number of directors to whom retirement benefits are accruing under defined benefit and money purchase schemes is four and nil respectively (2009 two and three respectively) The number of directors who exercised share options in the ultimate parent company during the year was four (2009 nil)

Notes to the financial statements (continued)

8. Taxation

(a) Analysis of charge for the year

	2010 £'000	2009 £'000
UK corporation tax		
- Current tax on profits for the year	653	889
Current tax charge	653	889

The tax charge for the year is based on an effective United Kingdom corporation tax rate of 28% (2009 28%)

(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 profit before tax to the tax charge for the year is given below

	2010 £'000	2009 £'000
Profit before taxation	2,333	3,176
Tax charge thereon at UK corporation tax rate of 28% (2009 28%)	653	889
Tax on profit on ordinary activities	653	889
Effective rate	28%	28%

9. Loans and advances to banks

Loans and advances to banks of £23,049,000 (2009 £23,057,000) are owed by the intermediate parent company, Lloyds TSB Bank plc All of the loans and advances to banks are repayable on demand

10. Loans and advances to customers

	2010 £'000	2009 £'000
Loans to individuals - mortgages	28,038	43,650
Loans to corporate entities - commercial mortgages	66,582	85,281
	94,620	128,931
Amounts due within one year	13,650	19,506
Amounts due in more than one year	80,970	109,425
	94,620	128,931
Loans with variable rates	63,876	82,569
Loans at fixed rates	30,744	46,362
	94,620	128,931

All lending is to the UK agricultural industry

Notes to the financial statements (continued)

11. Other assets

	2010 £'000	2009 £'000
Accrued income	10	48
Other current assets	67	231
	77	279

12. Deposits from banks

	2010 £'000	2009 £'000
Deposits from other banks		
• Variable interest rates	26,926	39,306
• Fixed interest rates	30,844	47,371
	57,770	86,677

All deposits are by members of the Lloyds Banking Group and all amounts are due within one year

13. Customer accounts

	2010 £'000	2009 £'000
Deposit accounts		
• Individual customers	20,903	25,097
• Corporate customers	18,432	22,408
	39,335	47,505

All customer deposits are at variable interest rates and are repayable on demand

14. Other liabilities

	2010 £'000	2009 £'000
Amounts owed to group undertakings	3,193	4,188
Other creditors and accruals	100	106
	3,293	4,294

Amounts owed to group undertakings included within other liabilities are non-interest bearing and repayable on demand

15. Share capital

	2010 £'000	2009 £'000
Authorised		
12,000,000 ordinary shares of £1 each	12,000	12,000

Issued and fully paid	**2010 Number of shares**	2009 Number of shares	**2010 £'000**	2009 £'000
Ordinary shares of £1 each				
At 1 January and 31 December	12,000,000	12,000,000	12,000	12,000

Notes to the financial statements (continued)

16. Related party transactions

The bank's immediate parent company is AMC PLC (a company incorporated in England and Wales) The company regarded by the directors as the ultimate parent undertaking and controlling party is Lloyds Banking Group plc, a public limited liability company incorporated and resident in Scotland, which is also the parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the bank is a member Lloyds TSB Bank plc is the parent undertaking of the smallest such group of undertakings Copies of the group accounts of both companies may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN

The bank's related parties include its parent and fellow subsidiary undertakings of the bank's parent and ultimate parent company and the bank's key management personnel

Transactions are entered into with other Lloyds Banking Group companies in the normal course of business, including loans and deposits Details of such related party transactions are shown below

(a) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the bank, which is determined to be the bank'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 bank are incidental to their other responsibilities within the Group

Other than as set out below, there were no transactions between the bank and key management personnel during the current or preceding year

Key management personnel emoluments

	2010 £'000	2009 £'000
Salaries and short term employee benefits	53	34
Post employment benefits	1	5
	54	36

(b) Amounts owed by group undertakings

	2010 £'000	2009 £'000
At 1 January	23,057	33,882
Advances received during the year	-	21,563
Interest charged during the year	1,219	1,615
Repayments during the year	(1,227)	(34,003)
At 31 December	23,049	23,057
Representing		
Lloyds TSB Bank plc	23,049	23,057

Amounts owed by group undertakings are interest bearing at rates ranging from 5 06% to 5 49% (2009 4 97% to 5 48%), and are payable on demand The maturity and fair values of amounts owed by group undertakings are shown in notes 4(c) and 4(g) respectively No provisions have been recognised in respect of amounts owed by group undertakings

Cash and cash equivalents as shown on the balance sheet are placed with Lloyds TSB Bank plc

Notes to the financial statements (continued)

16. Related party transactions (continued)

(c) Amounts owed to group undertakings

	2010 £'000	2009 £'000
At 1 January	90,865	105,217
Advances received during the year	314,954	342,494
Interest charged during the year	2,771	3,262
Fees and commissions charged during the year	70	88
Management fee charged during the year	64	70
Repayments during the year	(347,761)	(360,266)
At 31 December	60,963	90,865
Representing		
Lloyds TSB Bank plc	57,528	86,988
AMC PLC	3,435	3,877
Balance sheet classification		
Deposits from banks	57,770	86,677
Other liabilities	3,193	4,188

Amounts owed to group undertakings are at fixed and variable rates ranging from 0 5% to 6 64% (2009 0 50% to 6 00%), with the exception of non-interest bearing amounts as shown in note 14 The maturity and fair values of amounts owed to group companies are shown in notes 4(c) and 4(g) respectively

17. Ordinary dividends

The dividends paid in the year were as follows

	2010 £'000	2009 £'000
Dividend in respect of preceding year and interim period	-	10,234

The bank has declared no dividend in respect of 2010 (2009 £nil)

18. Notes to the cash flow statement

(a) Reconciliation of profit before tax to cash used in operations

	2010 £'000	2009 £'000
Profit before tax	2,333	3,176
Interest payable	2,803	3,364
Interest receivable	(5,186)	(6,653)
Decrease in loans and advances to customers	34,311	36,226
Decrease/(increase) in other current assets	164	(185)
Decrease in deposits from banks	(28,907)	(13,363)
Decrease in customer accounts	(8,170)	(22,563)
Decrease in other liabilities	(1,246)	(958)
Cash used in operations	(3,898)	(956)

Notes to the financial statements (continued)

18. Notes to the cash flow statement (continued)

(b) Cash and cash equivalents

	2010 £'000	2009 £'000
Cash at bank	1,728	2,951
Loans and advances to banks	23,049	23,057
Cash and cash equivalents	24,777	26,008

19. Contingent liabilities and commitments

At 31 December 2010, mortgage loans to existing customers of £1,094,000 (2009 £6,890,000) have been approved subject to legal and other formalities, and authorised lending facilities of £2,885,000 (2009 £3,073,000) were available to the bank's clients but unutilised at the balance sheet date There were no contingencies or capital commitments at 31 December 2010 (2009 £nil)

20. Future developments

The following pronouncements will be relevant to the bank but were not effective at 31 December 2010 and have not been applied in preparing these financial statements The full impact of these accounting changes is being assessed by the Bank With the exception of IFRS 9, the initial view is that none of these pronouncements are expected to cause any material adjustments to reported numbers in the financial statements

Pronouncement	Nature of change	IASB effective date
IFRS 9 *Financial Instruments Classification and Measurment*[1]	Simplifies the way entities will classify financial assets and reduces the number of classification categories to two fair value and amortised cost The existing available-for-sale and held-to-maturity categories have been eliminated Classification will be made on the basis of the objectives of the entity's business model for managing the assets and the characteristics of the contractual cash flows	Annual periods beginning on or after 1 January 2013
IAS24 *Related Party Disclosures*[1]	Simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government related entities	Annual periods beginning on or after 1 January 2011

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

Subject to any EU endorsement, the bank has not yet made a final decision as to whether it will apply these pronouncements in the 2011 financial statements