

LLOYDS BANK PENSION ABCS (NO 2) LLP
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2016

THURSDAY



A6EXX040

A18

14/09/2017

#51

COMPANIES HOUSE

LLOYDS BANK PENSION ABCS (NO 2) LLP

REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2016

Registered in England & Wales as a Limited Liability Partnership No. OC350023

Registered office: 25 Gresham Street, London, United Kingdom, EC2V 7HN.

MEMBERS:

DESIGNATED MEMBERS

Dunstan Investments (UK) Limited
Lloyds Bank plc

MEMBER

Lloyds Banking Group Pensions Trustees Limited

LLOYDS BANK PENSION ABCS (NO 2) LLP

CONTENTS

	Page
Members' Report	3
Independent Auditors' Report to the Members of Lloyds Bank Pension ABCS (No 2) LLP	6
Statement of Comprehensive Income	8
Balance Sheet	9
Cash Flow Statement	10
Notes to the Financial Statements	11

LLOYDS BANK PENSION ABCS (NO 2) LLP ("the Partnership")

MEMBERS' REPORT

For the year ended 31 December 2016

The Members present their annual report and the audited financial statements for the year ended 31 December 2016.

BUSINESS REVIEW AND PRINCIPAL ACTIVITY

The Partnership's principal activity is to participate in the Lloyds Group Asset Backed Pension Contribution structure ("ABPCS"). There have been no changes in the nature of the Partnership's operations during the current year and no change to the Partnership's business is expected for the foreseeable future.

Upon execution of the Limited Liability Partnership Deed between Lloyds Bank plc, Dunstan Investments (UK) Limited ("Dunstan") and the Partnership dated 13 November 2009 ("the Partnership Deed"), Lloyds Bank plc and Dunstan each subscribed £1,000 for Class A Interest in the Partnership.

On 16 November 2009, Lloyds Bank plc transferred a diversified portfolio of third party investment grade debt securities (the "Securities") with a market value of £1,424,849,822 to the Partnership in exchange for 1,121,136 additional Class A Interest (£1,121,136,366) and 303,713 Class B Interest (£303,713,515). On the same date, Lloyds Bank plc sold the Class B Interest to Lloyds Bank Pension Trust (No.2) Ltd as trustee of the Lloyds Bank Pension Scheme No.2 ("the Pension Scheme"). The Class B Interest was subsequently transferred from Lloyds Bank Pension Trust (No.2) Ltd to Lloyds Banking Group Pensions Trustees Limited on 31 March 2016.

The Securities are held on behalf of the Partnership by Bank of New York Mellon (UK Branch) ("BNYM") in its capacity as the custodian, in a segregated Euroclear account. For accounting purposes the Partnership does not recognise the Securities in its balance sheet as Lloyds Bank plc continues to be exposed to substantially all the risks and rewards of those assets, but instead recognises a receivable from Lloyds Bank plc.

Class A and Class B Interest holders have 80% and 20% of the Member voting rights respectively. Lloyds Bank plc as holder of the majority of the Class A Interests is, in certain circumstances, obliged to contribute further assets to the Partnership and may withdraw assets when the net asset value of the Partnership exceeds agreed levels. During the accounting year Lloyds Bank plc contributed additional assets with carrying value of £nil (2015: £18,966,000) and made capital withdrawals of £25,396,000 (2015: £22,000,000).

The results of the Partnership which show a profit, before distributions to Class A and B interest holders of £19,130,000 (2015: £15,408,000) is set out in the statement of comprehensive income on page 8.

During the year, the Class B interest holders received no mandatory distributions (2015: £nil). Since 2015 the Class B Interest holders have had no entitlement to mandatory distributions from the Partnership.

PRINCIPAL RISKS AND UNCERTAINTIES

From the perspective of the Partnership, the principal risks and uncertainties are integrated with the principal risks of Lloyds Banking Group plc and are not managed separately. Full disclosure of the Partnership's financial risk management objectives and policies are given in note 11 to the financial statements.

KEY PERFORMANCE INDICATORS

Given the straightforward nature of the business, the Partnership's Members are of the opinion that analysis using key performance indicators is not necessary for an understanding of the development, performance or position of the business.

MEMBERS

The Designated Members of the Partnership were the following:

Dunstan Investments (UK) Limited
Lloyds Bank plc

On 16 November 2009 Lloyds Bank Pension Trust (No. 2) Limited was admitted to the Partnership as a Member as holder of all of the Class B Interest, but is not a Designated Member of the Partnership.

LLOYDS BANK PENSION ABCS (NO 2) LLP

MEMBERS' REPORT (CONTINUED)

For the year ended 31 December 2016

The following changes to the Members occurred throughout the year and up to the date of signing the financial statements:

Lloyds Banking Group Pensions Trustees Limited	(Appointed 31 March 2016)
Lloyds Bank Pension Trust (No. 2) Limited	(Resigned 31 March 2016)

STATEMENT OF MEMBERS' RESPONSIBILITIES

The Members are responsible for preparing the Members Report and the financial statements in accordance with applicable law and regulations.

Company law as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 (the "Regulations") requires the Members to prepare financial statements for each financial year. Under that law the Members have prepared the Partnership financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law as applied to limited liability partnerships the Members 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 Partnership and of the profit of the Partnership for that period. In preparing these financial statements, the Members 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 of any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Partnership will continue in business.

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

The Members confirm that they have complied with the above requirements in preparing the financial statements.

GOING CONCERN

The Members are satisfied that the Partnership has adequate resources to continue in business for the foreseeable future and consequently the going concern basis continues to be appropriate in preparing the financial statements.

DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who is a Member at the date of approval of this report confirms that:

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

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

LLOYDS BANK PENSION ABCS (NO 2) LLP

MEMBERS' REPORT (CONTINUED)

For the year ended 31 December 2016

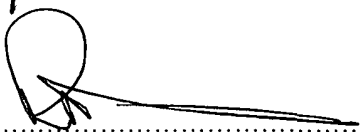
APPOINTMENT OF INDEPENDENT AUDITORS

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

By the designated Members, on behalf of the Members

.....
Marie Bradshaw

for Dunstan Investments (UK) Limited

.....


for Lloyds Bank plc

04 September 2017

Independent auditors' report to the members of Lloyds Bank Pension ABCS (No 2) LLP

Report on the financial statements

Our opinion

In our opinion, Lloyds Bank Pension ABCS (No 2) LLP's financial statements (the "financial statements"):

- give a true and fair view of the state of the limited liability partnership's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

What we have audited

The financial statements, included within the Report and Financial Statements (the "Annual Report"), comprise:

- the balance sheet as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the members have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 as applicable to limited liability partnerships we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, 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.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the members

As explained more fully in the Statement of Members' Responsibilities set out on page 4, the members 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the members of the partnership as a body in accordance with the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 and for no other purpose. We do not, in giving

LLOYDS BANK PENSION ABCS (NO 2) LLP

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LLOYDS BANK PENSION ABCS (NO 2) LLP (CONTINUED)

this opinion, 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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 limited liability partnership's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the members; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the members' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



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

5 September 2017

LLOYDS BANK PENSION ABCS (NO 2) LLP

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Interest and similar income	3	19,134	14,711
Interest and similar expense	3	-	(1)
Net interest income	3	<u>19,134</u>	<u>14,710</u>
Operating income	4	296	998
Operating expense	5	<u>(300)</u>	<u>(300)</u>
Profit for the year before Members' distribution and profit shares		<u>19,130</u>	<u>15,408</u>
Total comprehensive income for the year		<u>19,130</u>	<u>15,408</u>

All activities are continuing. The Partnership has no recognised gains and losses other than those included in the results above.

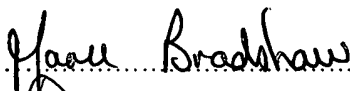
The accompanying notes on page 11 to 18 form an integral part of the financial statements.

LLOYDS BANK PENSION ABCS (NO 2) LLP

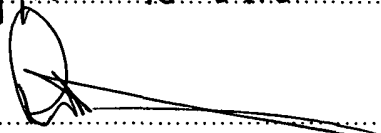
BALANCE SHEET

As at 31 December 2016

	Note	2016 £'000	2015 £'000
ASSETS			
Non-current assets			
Amounts owed by intermediate parent company	10	<u>666,091</u>	<u>625,887</u>
Total non-current assets		<u>666,091</u>	<u>625,887</u>
Current assets			
Amounts owed by intermediate parent company	10	<u>88,926</u>	<u>135,057</u>
Other current assets	7	<u>1,633</u>	<u>1,972</u>
Total current assets		<u>90,559</u>	<u>137,029</u>
Total assets		<u>756,650</u>	<u>762,916</u>
Net assets			
		<u>756,650</u>	<u>762,916</u>
MEMBERS' EQUITY			
Total Members' interests			
Members' capital account	9	<u>443,213</u>	<u>468,609</u>
Retained earnings	8	<u>313,437</u>	<u>294,307</u>
Total Members' interests		<u>756,650</u>	<u>762,916</u>
Total Members' equity		<u>756,650</u>	<u>762,916</u>



for Dunstan Investments (UK) Limited



for Lloyds Bank plc

The financial statements on page 8 to 18 were authorised and approved on 04 September 2017 on behalf of the Members of Lloyds Bank Pension ABCS (No 2) LLP, registered number OC350023.

The accompanying notes on page 11 to 18 form an integral part of the Financial Statements.

LLOYDS BANK PENSION ABCS (NO 2) LLP

CASH FLOW STATEMENT

For the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Cash flows from operating activities			
Profit from operations		19,130	15,408
<i>Adjustments for:</i>			
Interest income on amounts owed by intermediate parent company		(12,890)	(11,423)
Interest expense on amounts owed to intermediate parent company	3	-	1
Accretion of discount	10	(6,244)	(3,288)
Net cash (used in)/generated from operating activities		<u>(4)</u>	<u>698</u>
Cash flows from investing activities			
Interest received		13,229	10,856
Advanced to intermediate parent company	10	(202,167)	(366,059)
Repayment by intermediate parent company	10	214,338	357,540
Net cash generated from investing activities		<u>25,400</u>	<u>2,337</u>
Cash flows from financing activities			
Repayment to intermediate parent company	10	-	(1)
Net proceeds from partners contribution	9	(25,396)	(3,034)
Net cash used in financing activities		<u>(25,396)</u>	<u>(3,035)</u>
Changes in cash and cash equivalents		-	-
Cash and cash equivalents at beginning of the year		-	-
Cash and cash equivalents at end of the year	10	<u>-</u>	<u>-</u>

The accompanying notes on page 11 to 18 form an integral part of the Financial Statements.

LLOYDS BANK PENSION ABCS (NO 2) LLP

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

1. ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, in compliance with the requirements of the Companies Act 2006 and in accordance with the applicable International Financial Reporting Standards ("IFRS") as adopted by the European Union. These financial statements contain information about the Partnership only.

The principal accounting policies applied in the preparation of these financial statements are set out below.

The following pronouncements were effective during the year and relevant to the Partnership:

<u>Pronouncement</u>	<u>Nature of change</u>	<u>IASB effective date</u>
Amendment to IAS 1, 'Disclosure Initiative' (issued December 2014)	The amendments provide clarification of existing IAS 1 requirements on materiality and the presentation of the financial statements and associated notes.	Annual periods beginning on or after 1 January 2016
Annual improvements to IFRSs (issued December 2013)	The amendments include changes from the 2010-12 cycle of the annual improvements projects.	On or after 1 January 2016
Annual improvements to IFRSs (issued September 2014)	The amendments include changes from the 2012-14 cycle of the annual improvements projects.	On or after 1 January 2016

The following pronouncements will be relevant to the Partnership but were not effective as at 31 December 2016

<u>Pronouncement</u>	<u>Nature of change</u>	<u>IASB effective date</u>
Amendment to IAS 1, 'Disclosure Initiative' (issued January 2016)	The amendments provide clarification of existing IAS 1 requirements on materiality and the presentation of the financial statements and associated notes.	Annual periods beginning on or after 1 January 2017
	The Partnership is currently assessing the impact of IAS 1	
IFRS 9 'Financial instruments'	This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.	Annual periods beginning on or after 1 January 2018
	The Partnership is currently assessing the impact of IFRS 9	

(a) Revenue recognition

Interest income and expense are recognised in the statement of comprehensive income for all interest-bearing financial instruments, using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly 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. The calculation includes all amounts paid or received by the Partnership that are an integral part of the overall return, direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument and all other premiums or discounts. Fees and commissions, which are not an integral part of the effective interest rate, are generally recognised when the service has been provided.

LLOYDS BANK PENSION ABCS (NO 2) LLP

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

1. ACCOUNTING POLICIES (CONTINUED)

(b) Income taxes, including deferred income taxes

Individual Members are responsible for the tax on the respective shares of the earnings of the Partnership; accordingly no tax charge is borne by the Partnership

(c) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand and demand deposits as well as short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(d) Deemed Loan from Lloyds Bank plc

Under IFRS, if a transferor retains substantially all the risks and rewards associated with the transferred assets, the transaction is accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective. The Members of the Partnership have concluded that Lloyds Bank plc has retained substantially all the risks and rewards of the pool of investment grade debt securities and as a consequence the Partnership recognises these as 'amounts owed by intermediate group company'.

The initial amount of the deemed loan from Lloyds Bank plc corresponds to the consideration paid by Lloyds Bank plc for the investment grade debt securities. Lloyds Bank plc recognises principal and interest cash flows from the underlying pool of investment grade debt securities only to the extent that it is entitled to retain such cash flows.

The deemed loan from the Partnership to Lloyds Bank plc is classified within 'amounts owed by intermediate group company'. The initial measurement is at fair value with subsequent measurement being at amortised cost using the effective interest method. The effective interest on the deemed loan is calculated with reference to the interest earned on the beneficial interest in the debt securities.

(e) Members' capital account

The Members' capital represents the Class A Interest in the Partnership. The capital account is credited or debited for the net effect of capital contributions and capital withdrawals.

(f) Impairment

At each balance sheet date the Partnership assesses whether, as a result of one or more events occurring after initial recognition, there is objective evidence that a financial asset has become impaired. 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.

However, if the fair value of transferred debt securities, as per note 12, falls below a specified level then the Partnership's intermediate parent company will contribute additional debt securities in exchange for additional Class A Interest.

2. CRITICAL ACCOUNTING JUDGEMENTS

The Partnership makes assumptions and estimates that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements 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. However, none of these were deemed critical to the Partnership's results and financial position.

The accounting policies deemed critical to the Partnership's results and financial position, based upon materiality and significant judgements and estimates, are discussed below.

Impairment of financial assets

The Partnership determines that financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Partnership evaluates when there is evidence of deterioration in the industry and sector performance, changes in technology, and operational and financing cash flows discounted at that asset's original effective interest rate.

LLOYDS BANK PENSION ABCS (NO 2) LLP

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

3. NET INTEREST INCOME

	2016 £'000	2015 £'000
<i>Interest and similar income</i>		
Amounts owed by intermediate parent company (note 10)	19,134	14,711
<i>Interest and similar expense</i>		
Amounts owed to intermediate parent company (note 10)	-	(1)
Net interest income	<u>19,134</u>	<u>14,710</u>

4. OPERATING INCOME

	2016 £'000	2015 £'000
Profit on settlement of deemed loans	296	998
	<u>296</u>	<u>998</u>

During the year, pursuant to disposal decisions taken by Management Committee of the Partnership and the substitution rights of the majority of Class A Interest holder (see note 9) the Partnership settled deemed loans with a book value of £251,703,000 (2015: £357,540,000) back to the intermediate parent company at market value, resulting in a reduction in the amounts owed by the intermediate parent company and realising a gain of £296,000 (2015: £998,000).

5. OPERATING EXPENSE

	2016 £'000	2015 £'000
Fees and commissions	300	300
	<u>300</u>	<u>300</u>

The fees and commissions include service fees of £200,000 (2015: £200,000) and custodian fees of £100,000 (2015: £100,000).

The number of persons employed by the Partnership during the year was nil (2015: nil).

6. TAXATION

There is no tax expense for the year (2015: £nil); Members are limited companies and account for their share of the partnership tax liability at an individual company level.

7. OTHER CURRENT ASSETS

	2016 £'000	2015 £'000
Accrued interest receivable	1,633	1,972
	<u>1,633</u>	<u>1,972</u>

8. RETAINED EARNINGS

	2016 £'000	2015 £'000
At beginning of the year	294,307	278,899
Profits for the year	19,130	15,408
At end of the year	<u>313,437</u>	<u>294,307</u>

LLOYDS BANK PENSION ABCS (NO 2) LLP

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

9. MEMBERS' CAPITAL ACCOUNT

	Dunstan Investments (UK) Limited £'000	Lloyds Bank plc £'000	Total £'000
As at 1 January 2015	1	471,642	471,643
Capital contributions during the year	-	18,966	18,966
Capital withdrawals during the year	-	(22,000)	(22,000)
As at 31 December 2015	1	468,608	468,609
Capital contributions during the year	-	-	-
Capital withdrawals during the year	-	(25,396)	(25,396)
As at 31 December 2016	1	443,212	443,213
Partnership share (%)	-	100%	

Contributions of £1,000 cash were made by each member to the Partnership upon establishment.. Capital contributions represent contributions of assets by Class A Interest holders to the Partnership. As at 31 December 2016 Lloyds Bank plc holds 99.7744% of Class A Interests and Dunstan Investments (UK) Limited, a group company, holds 0.2256%. The Class A Interest holders are entitled to 80% voting rights in the Partnership.

The holder of a majority of the Class A Interest by virtue of their shareholding and control of the Partnership's management committee has the ability to:

- (a) withdraw assets from the Partnership (achieved either via a sale from the Partnership to Lloyds Bank plc, followed by distribution of the sale proceeds, or an in specie distribution) where the net asset value of the Partnership exceeds a certain threshold; and
- (b) substitute assets held by the Partnership in the portfolio.

10. RELATED PARTY TRANSACTIONS

The Partnership's intermediate parent company is Lloyds Bank plc. The company regarded by the Members as the ultimate parent company is Lloyds Banking Group plc, which is the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Partnership is a Member. Lloyds Bank plc is the parent undertaking of the smallest such group of undertakings. Copies of the group financial statements of both may be obtained from the company Secretary's office, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN. The Partnership's related parties include its ultimate parent company, fellow subsidiaries of the ultimate parent company and pension schemes of the Partnership's ultimate parent company and the Partnership's key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Partnership, which is determined to be the Partnership's management committee.

Transactions with key management personnel

There were no transactions between the Partnership with key management personnel during the current year. Key management personnel are employed by other companies in the Lloyds Banking Group and consider that their services to the Partnership are incidental to their other activities with the Group.

Transactions with other group companies

Dunstan Investments (UK) Limited holds 0.2256% Class A Interest (note 9) in the Partnership.

	2016 £'000	2015 £'000
Fees and commissions - Lloyds Bank Plc	300	300
	<u>300</u>	<u>300</u>

LLOYDS BANK PENSION ABCS (NO 2) LLP

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

10. RELATED PARTY TRANSACTIONS (CONTINUED)

The Partnership pays fees and commissions including service fees of £200,000 (2015: £200,000) and custodian fees of £100,000 (2015: £100,000) to Lloyds Bank plc.

Since the year ending 31 December 2013, audit fees have been borne by Lloyds Bank plc.

Amounts owed by intermediate parent company

	2016 £'000	2015 £'000
At beginning of the year	760,944	749,137
Advances during the year	202,167	366,059
Accretion of discount during the year	6,244	3,288
Repayment during the year	(214,338)	(357,540)
At end of the year	<u>755,017</u>	<u>760,944</u>
Represented by:		
Non-current	666,091	625,887
Current	<u>88,926</u>	<u>135,057</u>
Representing:		
Lloyds Bank plc	<u>755,017</u>	<u>760,944</u>
Interest Income earned (note 3)	<u>19,134</u>	<u>14,711</u>
Interest Income receivable (note 7)	<u>1,633</u>	<u>1,972</u>

The receivable from Lloyds Bank plc represents a portfolio of debt securities, legal and beneficial ownership of which has been transferred from Lloyds Bank plc to the Partnership, but which are not recognised by the Partnership for accounting purposes. These securities continue to be the amount receivable in respect of debt recognised by Lloyds Bank plc in accordance with IAS 39. The Members of the Partnership have concluded that Lloyds Bank plc has retained substantially all the risks and rewards of the pool of investment grade debt securities and as a consequence the Partnership recognises these as 'amounts owed by intermediate group company'.

The receivable pays coupon rate reflecting the effective interest rate secured by the expected cashflows of the debt securities to which it relates and is expected to be repaid no later than 30 June 2023, being the date by which the deficit funding plan for the Pension Scheme is expected to be completed. The Pension Scheme and Lloyds Bank plc have the option to unwind the structure and trigger repayment of the loan following an adverse change in law where adequate restructuring cannot be achieved. No impairment has arisen in respect of the loan balance and accordingly no provision has been recognised. There was no requirement for the Partnership's parent company to make additional contribution of debt securities in exchange for additional Class A Interests at the year end.

Amount owed to intermediate parent company

	2016 £'000	2015 £'000
At beginning of the year	-	-
Interest charged for the year	-	1
Repayment during the year	-	(1)
At end of the year	<u>-</u>	<u>-</u>
Representing:		
Interest charge during the year (note 3)	<u>-</u>	<u>1</u>

During the year, the Partnership repaid a net amount of £nil to Lloyds Bank plc (2015: £1,000).

LLOYDS BANK PENSION ABCS (NO 2) LLP

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

11. FINANCIAL RISK MANAGEMENT

The Partnership uses financial instruments to meet the financial needs of its counterparties and to reduce its own exposure to fluctuations in interest rates. The Partnership makes loans to other Lloyds Banking Group companies at floating rates and for various maturities. Such exposures to counter parties involve balance sheet loans and advances.

(a) Interest Rate Risk

Interest rate risk arises from the mismatch between interest rate sensitive liabilities and interest rate sensitive assets. From the perspective of the Partnership, the interest rate risks are integrated with the interest rate risks of the group and are not managed separately. The scenarios are run only for assets and liabilities that represent the major interest-bearing positions. Based on the simulations performed, the full year impact on profit of a 0.25% shift would be a maximum increase or decrease of approximately £1,892,000 (2015: £1,902,000).

The table below summarises the repricing mismatches of the Partnership's non-trading assets and liabilities. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date. Expected repricing and maturity dates do not differ significantly from the contract dates.

As at 31 December 2016	1 month or less £'000	3 months or less but over 1 month £'000	1 year or less but over 3 months £'000	5 years or less but over 1 year £'000	Over 5 years £'000	Non-interest bearing £'000	Total £'000
<i>Assets:</i>							
Non-current assets							
Amounts owed by intermediate parent company	601,427	64,664	-	-	-	-	666,091
Current assets							
Amounts owed by intermediate parent company	88,926	-	-	-	-	-	88,926
Other current assets	-	-	-	-	-	1,633	1,633
Total Assets	690,353	64,664	-	-	-	1,633	756,650

As at 31 December 2015	1 month or less £'000	3 months or less but over 1 month £'000	1 year or less but over 3 months £'000	5 years or less but over 1 year £'000	Over 5 years £'000	Non-interest bearing £'000	Total £'000
<i>Assets:</i>							
Non-current assets							
Amounts owed by intermediate parent company	556,575	69,312	-	-	-	-	625,887
Current assets							
Amounts owed by intermediate parent company	17,996	117,061	-	-	-	-	135,057
Other current assets	-	-	-	-	-	1,972	1,972
Total Assets	574,571	186,373	-	-	-	1,972	762,916

(b) Fair Value of Financial Assets and Liabilities

The Deemed Loan, cash and cash equivalents and other receivables and payables are recognised on an amortised cost basis that is considered to be a close approximation to fair value.

LLOYDS BANK PENSION ABCS (NO 2) LLP

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

11. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Measurement Basis of Financial Assets and Liabilities

The accounting policies in note 1 describe how different classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The Deemed Loan, and other receivables and payables are recognised on an amortised cost basis that is considered to be a close approximation to fair value.

(d) Credit Risk

The maximum credit risk exposure of the Partnership in the event of other parties failing to perform their obligations is detailed below. The maximum exposure to loss is considered to be the balance sheet carrying amount as at the year end.

	2016 £'000	2015 £'000
Amounts owed by intermediate parent company	755,017	760,944
Other current assets	<u>1,633</u>	<u>1,972</u>
Total credit risk exposure	<u>756,650</u>	<u>762,916</u>

The current rating of the intermediate parent company, Lloyds Bank plc, is A1 (2015: A1) as per Moody's.

(e) Liquidity Risk

The Partnership has no liabilities as of 31 December 2016 (2015: £nil) and hence has no liquidity risk

12. FINANCIAL GUARANTEE

On 16 November 2009, the Partnership entered into a Guarantee and Charge Deed (which has been amended from time to time) ("Guarantee") with Lloyds Bank plc and Lloyds Bank Pension Trust (No. 2) Limited pursuant to which the Partnership provides a guarantee and indemnity to the Pension Scheme for the punctual performance of all the "Guaranteed Liabilities". The Guaranteed Liabilities comprise pension deficit contributions due from employers participating in the Pension Scheme from time to time and certain other debts which may arise under the Pensions Act 1995. The obligations of the Partnership under the Guarantee cannot exceed an agreed amount.

The Partnership has granted the Pension Scheme a charge over all of its assets to secure the Partnership's obligations under the Guarantee.

This Guarantee has been accounted for as an insurance contract in accordance with IFRS 4. At this stage, the Company does not foresee any payout from the Guarantee and have therefore valued it at nil (2015: £nil).

The following table shows the market value of securities held on behalf of the Partnership by BNYM in its capacity as the custodian and charged by the Partnership in support of its obligations under the Guarantee as at 31 December 2016.

	2016 Market value £'000	2015 Market value £'000
Security		
Securitisation notes (residential mortgage-backed)	316,416	369,118
Securitisation notes (collateralised loan obligations)	<u>435,249</u>	<u>377,974</u>
	<u>751,665</u>	<u>747,092</u>

The guarantee amount as at 31 December 2016 was £668,750,000 (2015: £668,750,000).

13. EVENTS AFTER BALANCE SHEET

There are no events after the Balance Sheet that the directors are aware of and require to bring to the attention of the users of the financial statements.