LLOYDS BANK PENSION ABCS (NO 2) LLP
{FORMERLY LLOYDS TSB PENSION ABCS (NO 2) LLP}

REPORT AND ACCOUNTS

FOR THE YEAR ENDED

31 DECEMBER 2013

LLOYDS BANK PENSION ABCS (NO 2) LLP

REPORT AND ACCOUNTS
For the year ended 31 December 2013

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

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

MANAGEMENT COMMITTEE:

MEMBERS

I. Dinghra (Resigned 4 November 2013)
A. Goldsmith
M. Collins (Appointed 4 November 2013)

ALTERNATIVES

M. Bradshaw
L. Kenworthy
D. Evans
P. Maessen
R. Franklin
I. Morrice (Appointed 4 November 2013)
N. Nickel (Appointed 4 November 2013)

CONTENTS

MEMBERS' REPORT

For the year ended 31 December 2013

The members present their annual report and the audited financial statements for the year ended 31 December 2013.

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 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 exercise 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 £33,141,000 (2012: £555,000) and capital withdrawals of £503,312,000 (2012: £132,033,000).

The results of the Partnership which show a profit, before distributions to Class A and B interest holders of £67,676,000 (2012: £62,533,000) is set out in the statement of comprehensive income on page 8.

On 25 September 2013 the Partnership changed its name from Lloyds TSB ABCS (No 2) LLP to Lloyds Bank Pension ABCS (No 2) LLP.

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 13 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.

MANAGEMENT COMMITTEE

The following changes to the Management Committee took place during the year:

I. Dinghra	(Resigned 4 November 2013)
M. Collins	(Appointed 4 November 2013)

MEMBERS' REPORT (CONTINUED)
For the year ended 31 December 2013

MEMBERS

The Designated Members of the Partnership were the following:
Dunstan Investments (UK) Limited
Lloyds Bank plc

On 16 November 2009 the Pension Scheme was admitted to the Partnership as holder of all of the Class B Interest but is not a designated member of the Partnership.

DIRECTORS' INDEMNITIES

Lloyds Banking Group plc has granted to the members of the Management Committee of the Partnership ("Managers"), including former Managers who retired during the year, a deed of indemnity through deed poll which constituted 'third party indemnity provisions' and 'qualifying pension scheme indemnity provisions' for the purposes of the Companies Act 2006. The deeds were in force during the whole of the financial year or from the date of appointment in respect of the Manager who joined the Management Committee during the financial year. Managers no longer in office but who served on the Management Committee of the Company at any time in the financial year had the benefit of this contract of indemnity during that period of service. The indemnities remain in force for the duration of a Manager's period of office. The deeds indemnify the Managers to the maximum extent permitted by law. Deeds for existing Managers are available for inspection at the registered office of Lloyds Banking Group plc. In addition, the Group has in place appropriate Directors and Officers Liability Insurance cover which was in place throughout the financial year.

STATEMENT OF 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.

MEMBERS' REPORT (CONTINUED)

For the year ended 31 December 2013

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.

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

.... **for Dunstan Investments (UK) Limited**

Dale Evans

.... **for Lloyds Bank plc**

Ian Morrice

Date: 5th June 2014

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

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the limited liability partnership's affairs as at 31 December 2013 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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements, which are prepared by Lloyds Bank Pension ABCs (No 1) LLP, comprise:

- the Balance Sheet as at 31 December 2013;
- Statement of Comprehensive Income for the year then ended;
- the Cash Flow Statement for the year then ended;
- the statement of changes in equity 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 their preparation is applicable law and IFRSs as adopted by the European Union.

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.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("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 designated members; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements 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.

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

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 Members' Responsibilities Statement 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 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 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.

M Newman

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

Date: 6 June 2014

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2013

	Note	**2013** **£'000**	2012 £'000
Interest and similar income	3	**24,825**	52,982
Interest and similar expense	3	**(2,005)**	(3,502)
Net interest income	3	**22,820**	49,480
Operating income	4	**45,120**	13,353
Operating expense	5	**(264)**	(300)
Profit for the year before members' distribution and profit shares		**67,676**	62,533
Total comprehensive income for the year		**67,676**	62,533

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 25 form an integral part of the financial statements.

LLOYDS BANK PENSION ABCS (NO 2) LLP

BALANCE SHEET
As at 31 December 2013

	Note	2013 £'000	2012 £'000
ASSETS			
Non-current assets			
Amounts owed by intermediate parent company	12	817,281	1,309,585
Total non-current assets		**817,281**	1,309,585
Current assets			
Other current assets	7	2,658	3,375
Total current assets		**2,658**	3,375
Total assets		**819,939**	1,312,960
LIABILITIES			
Non-current liabilities			
Class B Interest in issue treated as debt	8	61,896	122,503
Total non-current liabilities		**61,896**	122,503
Current liabilities			
Amounts owed to intermediate parent company	12	4,748	34,698
Other current liabilities	9	38	7
Total current liabilities		**4,786**	34,705
Total liabilities		**66,682**	157,208
Net assets		**753,257**	1,155,752
MEMBERS' EQUITY			
Total members' interests			
Members' capital account	11	504,881	975,052
Retained earnings	10	248,376	180,700
Total members' interests		**753,257**	1,155,752
Total members' equity		**753,257**	1,155,752

.... **for Dunstan Investments (UK) Limited**

Dale Evans

.... **for Lloyds Bank plc**

Ian Morrice

The financial statements on page 8 to 25 were authorised and approved on June 2014 on behalf of the members of Lloyds Bank Pension ABCS (No 2) LLP, registered number OC350023.

The accompanying notes on page 11 to 25 form an integral part of the Financial Statements.

LLOYDS BANK PENSION ABCS (NO 2) LLP

CASH FLOW STATEMENT

For the year ended 31 December 2013

	Note	2013 £'000	2012 £'000
Cash flows from operating activities			
Profit from operations		**67,676**	62,533
Adjustments for:			
Interest income on amounts owed by intermediate parent company	3	**(24,825)**	(52,982)
Interest expense on amounts owed to intermediate parent company	3	**16**	240
Interest expense on amounts owed to holder of Class B Interest treated as debt	3	**1,989**	3,262
Accretion of discount	12	**(8,678)**	(25,876)
Operating loss before working capital changes		**36,178**	(12,823)
Increase/(decrease) in other current liabilities	9	**31**	(17)
Net cash generated from/(used in) operating activities		**36,209**	(12,840)
Cash flows from investing activities			
Interest received	12	**25,542**	54,703
Advanced to intermediate parent company	12	**(751,046)**	(800,428)
Repayment by intermediate parent company	12	**1,252,028**	967,720
Net cash generated from investing activities		**526,524**	221,995
Cash flows from financing activities			
Repayment of Class B Interest treated as debt	8	**(62,596)**	(62,596)
Advanced by intermediate parent company	12	**32,892**	481,213
Repayment to intermediate parent company	12	**(62,858)**	(496,290)
Net proceeds from partners contribution	11	**(470,171)**	(131,483)
Net cash used in financing activities		**(562,733)**	(209,156)
Changes in cash and cash equivalents		**-**	(1)
Cash and cash equivalents at beginning of the year		**-**	1
Cash and cash equivalents at end of the year	12	**-**	-

The accompanying notes on page 11 to 25 form an integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

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:

Pronouncement	Nature of change	IASB effective date
Amendment to IFRS 7, 'Financial instruments: Disclosures', on asset and liability offsetting	This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP.	1 January 2013
IFRS 13, 'Fair value measurement'	IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.	1 January 2013

The following pronouncements were effective during the year but not relevant to the Partnership:

Pronouncement	Nature of change	IASB effective date
Amendment to IFRS 1, 'First time adoption', on hyperinflation and fixed dates	The first amendment replaces references to a fixed date of '1 January 2004' with 'the date of transition to IFRSs', thus eliminating the need for companies adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation.	1 July 2011 (EU endorsed from 1 January 2013, although early adoption is permitted)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2013

1. ACCOUNTING POLICIES (CONTINUED)

Amendment to IAS 12, 'Income taxes', on deferred tax	Currently IAS 12, 'Income taxes', requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property. Hence this amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes-recovery of revalued non-depreciable assets', would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is accordingly withdrawn.	1 January 2012 (EU endorsed from 1 January 2013, although early adoption is permitted)
Amendment to IAS 1, 'Financial statement presentation', regarding other comprehensive income	The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.	1 July 2012
Amendment to IAS 19, 'Employee benefits'	These amendments eliminate the corridor approach and calculate finance costs on a net funding basis.	1 January 2013
Amendment to IFRS 1, 'First time adoption', on government loans	This amendment addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS. It also adds an exception to the retrospective application of IFRS, which provides the same relief to first-time adopters granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 in 2008.	1 January 2013
Amendment to IFRSs 10, 11 and 12 on transition guidance	These amendments provide additional transition relief to IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.	1 January 2013

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2013

1. ACCOUNTING POLICIES (CONTINUED)

Annual improvements 2011	These annual improvements, address six issues in the 2009- 2011 reporting cycle. It includes changes to: . IFRS 1, 'First time adoption' . IAS 1, 'Financial statement presentation' . IAS 16, 'Property plant and equipment' . IAS 32, 'Financial instruments; Presentation' . IAS 34, 'Interim financial reporting'.	1 January 2013
IFRS 10, 'Consolidated financial statements'	The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. It defines the principle of control, and establishes controls as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements.	1 January 2013 (EU endorsed from 1 January 2014, although early adoption is permitted)
IFRS 11, 'Joint arrangements'	IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.	1 January 2013 (EU endorsed from 1 January 2014, although early adoption is permitted)
IFRS 12, 'Disclosures of interests in other entities'	IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.	1 January 2013 (EU endorsed from 1 January 2014, although early adoption is permitted)
IAS 27 (revised 2011), 'Separate financial statements'	IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.	1 January 2013 (EU endorsed from 1 January 2014, although early adoption is permitted)
IAS 28 (revised 2011), 'Associates and joint ventures'	IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.	1 January 2013 (EU endorsed from 1 January 2014, although early adoption is permitted)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2013

1. ACCOUNTING POLICIES (CONTINUED)

IFRIC 20, 'Stripping costs in the production phase of a surface mine'	This interpretation sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. The interpretation may require mining entities reporting under IFRS to write off existing stripping assets to opening retained earnings if the assets cannot be attributed to an identifiable component of an ore body.	1 January 2013

The following pronouncements will be relevant to the Partnership but were not effective as at 31 December 2013:

Pronouncement	Nature of change	IASB effective date
Amendment to IAS 32, 'Financial instruments: Presentation', on asset and liability offsetting	These amendments are to the application guidance in IAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.	1 January 2014
IFRS 9, 'Financial instruments'	IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.	Available for early adoption for annual periods commencing on or after 1 January 2013.

The following pronouncements will not be relevant to the Partnership and were not effective as at 31 December 2013:

Pronouncement	Nature of change	IASB effective date
Amendments to IFRS 10, 12 and IAS 27 on consolidation for investment entities	These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made IFRS 12 to introduce disclosures that an investment entity needs to make.	1 January 2014 (not EU endorsed at the time of going to print)
Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures	This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.	1 January 2014 (not EU endorsed at the time of going to print)
Financial Instruments: Recognition and Measurement Amendment to IAS 39 'Novation of derivatives'	This amendment provides relief from discontinuing hedge accounting when novation to a hedging instrument to a central counter party meets specified criteria.	1 January 2014 (not EU endorsed at time of going to print).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2013

1. ACCOUNTING POLICIES (CONTINUED)

(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.

(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) Loans and receivables
Loans and receivables are accounted for at amortised cost using the effective interest method. Loans and receivables are initially recognised when cash is advanced to the borrowers at fair value inclusive of transaction costs.

(e) Debt securities
Debt securities for which there is no active market are classified as loans and receivables. They are initially recognised at fair value plus directly related transaction costs and are subsequently carried on the balance sheet at amortised cost using the effective interest method less provision for impairment.

(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 14, falls below a specified level then the Partnership's intermediate parent company will contribute additional debt securities in exchange for additional Class A Interest.

(g) Borrowings
Borrowings are stated at amortised cost using the effective interest method and are classified as financial liabilities. The coupon paid on these instruments is recognised in the statement of comprehensive income as interest expense.

Redeemable shares which carry a mandatory coupon or are redeemable on a specific date, or where other terms and conditions exist which mean the Partnership does not have an unconditional right to avoid delivering cash, are classified as financial liabilities. Irredeemable shares which carry a mandatory coupon are classified as financial liabilities. The coupon or dividends paid on those instruments is recognised in the statement of comprehensive income as interest expense.

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 was deemed cricial 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.

3. NET INTEREST INCOME

	2013 £'000	2012 £'000
Interest Income		
Amounts owed by intermediate parent company (note 12)	24,825	52,982
Interest Expense		
Amounts owed to intermediate parent company	(16)	(240)
Amounts owed to holder of Class B Interest treated as debt (note 8)	(1,989)	(3,262)
	(2,005)	(3,502)
Net interest income	22,820	49,480

4. OPERATING INCOME

	2013 £'000	2012 £'000
Profit on disposal of securities	45,119	13,352
Guarantee fee	1	1
	45,120	13,353

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 11) the Partnership sold debt securities with a book value of £1,252,028,000 (2012: £967,720,000) 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 £45,119,000 (2012: £13,352,000) (see note 12).

5. OPERATING EXPENSE

	2013 £'000	2012 £'000
Fees and commissions	264	300
	264	300

The fees and commissions include service fee of £200,000 (2012: £200,000) and custodian fee of £63,510 (2012: £100,000). For the year ending 31 December 2013 and in future, audit fees will be borne by Lloyds Bank plc. For the year ending 31 December 2012 audit fees of £8,000 were borne by Lloyds Bank plc.

The number of persons employed by the Partnership during the year was nil (2012: nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2013

6. TAXATION

There is no tax expense for the year (2012: nil); members are limited companies and account for their share of the partnership tax liability at an individual company level.

7. OTHER CURRENT ASSETS

	2013 £'000	2012 £'000
Accrued interest receivable	**2,654**	3,372
Guarantee fees receivable	**4**	3
	2,658	3,375

8. CLASS B INTEREST TREATED AS DEBT

	2013 £'000	2012 £'000
Class B Interest treated as debt	**61,896**	122,503
At beginning of the year	**122,503**	181,837
Add: interest charged for the year (note 3)	**1,989**	3,262
Less: repaid to Class B Interest holders	**(62,596)**	(62,596)
At end of the year	**61,896**	122,503
Representing:		
Lloyds Bank Pension Trust (No.2) Ltd	**61,896**	122,503

Lloyds Bank plc originally subscribed for 100% of the Class B Interest issued by the Partnership, contributing assets to the Partnership with fair value equal to the fair value of the Class B Interest. 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 holders are entitled to 20% voting rights in the Partnership.

The Class B Interest holders have the right to receive mandatory distributions of approximately £63m per annum, payable on the last business day of each month, through to (and including) 31 December 2014. From 1 January 2015 the Class B Interest holders have no entitlement to mandatory distributions from the Partnership.

Up to a cap of £320.65m the net income of the Partnership (as defined in the Partnership Deed) is allocated to the Class B Interest. Distributions of any net income allocated to the holder of the Class B Interest in excess of the annual mandatory distribution amount are at the discretion of the management committee and are treated as a prepayment of the mandatory distribution amounts on the Class B Interest in an amount equal to the fair value of the amounts prepaid.

No excess of the mandatory distribution amount has been allocated in respect of the year ended 31 December 2013 (2012: nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2013

9. OTHER CURRENT LIABILITIES

	2013 £'000	2012 £'000
Interest payable to Class B Interest holders	3	7
Custody Fees	35	-
	38	7

10. RETAINED EARNINGS

	2013 £'000	2012 £'000
At beginning of the year	180,700	118,167
Profits for the year	67,676	62,533
At end of the year	248,376	180,700

11. MEMBERS' CAPITAL ACCOUNT

	Dunstan Investments (UK) Limited £'000	Lloyds Bank plc £'000	Total £'000
As at 1 January 2012	1	1,106,534	1,106,535
Capital contributions during the year	-	550	550
Capital withdrawals during the year	-	(132,033)	(132,033)
As at 31 December 2012	**1**	**975,051**	**975,052**
Capital contributions during the year	-	33,141	33,141
Capital withdrawals during the year	-	(503,312)	(503,312)
As at 31 December 2013	**1**	**504,880**	**504,881**
Partnership share (%)	-	**100%**	

Contributions of £1,000 cash were made by each member to the Partnership upon incorporation. Capital contributions represent contributions of assets by Class A Interest holders to the Partnership. At the year end Lloyds Bank plc holds 99.99998% of Class A Interests and Dunstan Investments (UK) Limited, a group company, holds 0.00002%. The Class A Interest holders are entitled to 80% voting rights in the Partnership. Any net income of the Partnership not allocated to the Class B Interest is allocated to the Class A Interest pro rata to their percentage interest in the Partnership by reference to their capital account balances as at the end of the relevant accounting period.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2013

12. 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 accounts 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 accounts 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 company
Dunstan Investments (UK) Limited holds 0.00002% Class A Interest (note 11) in the Partnership.

	2013	2012
	£'000	£'000
Fees and commissions	**228**	300
	228	300

The Partnership pays fees and commissions include service fee of £200,000 (2012: £200,000) and custodian fee of £28,493 (2012: £100,000) to Lloyds Bank plc.

Amounts owed by intermediate parent company

	2013	2012
	£'000	£'000
At beginning of the year	**1,309,585**	1,451,001
Advances during the year	**751,046**	800,428
Accretion of discount during the year	**8,678**	25,876
Repayment during the year	**(1,252,028)**	(967,720)
At end of the year	**817,281**	1,309,585
Representing:		
Lloyds Bank plc	**817,281**	1,309,585
Interest Income earned (note 3)	**24,825**	52,982
Interest Income receivable (note 7)	**2,654**	3,372

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2013

12. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	2013 £'000	2012 £'000
At beginning of the year	**34,698**	49,535
Advanced during the year	**32,892**	481,213
Interest charged for the year	**16**	240
Repayment during the year	**(62,858)**	(496,290)
At end of the year	**4,748**	34,698
Representing:		
Lloyds Bank plc	**4,748**	34,698
Interest charge during the year (note 3)	**16**	240

During the year, the Partnership repaid a net amount of £29,966,000 to Lloyds Bank plc (2012: repaid £15,077,000). The loan balance of £4,748,000 matures on 15 January 2014 and interest is charged at 1 month LIBOR.

13. 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 years. 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 £1,876,000 (2012: £2,881,000).

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.

LLOYDS BANK PENSION ABCS (NO 2) LLP

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2013

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

As at 31 December 2013	**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**
Assets:							
Non-current assets							
Amounts owed by intermediate parent company	-	-	**20,211**	**365,435**	**431,635**	-	**817,281**
Current assets							
Other current assets	-	-	-	-	-	**2,658**	**2,658**
Total Assets	-	-	**20,211**	**365,435**	**431,635**	**2,658**	**819,939**
Liabilities:							
Non-current liabilities							
Class B Interest treated as debt	**5,158**	**10,316**	**46,422**	-	-	-	**61,896**
Current liabilities:							
Amounts owed to intermediate parent company	**4,748**	-	-	-	-	-	**4,748**
Other current liabilities	-	-	-	-	-	**38**	**38**
Total Liabilities	**9,906**	**10,316**	**46,422**	-	-	**38**	**66,682**
Total interest sensitivity gap	**(9,906)**	**(10,316)**	**(26,211)**	**365,435**	**431,635**	**2,620**	**753,257**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2013

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

As at 31 December 2012	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
Assets:							
Non-current assets							
Amounts owed by intermediate parent company	-	-	-	430,977	878,608	-	1,309,585
Current assets							
Other current assets	-	-	-	-	-	3,375	3,375
Total Assets	-	-	-	430,977	878,608	3,375	1,312,960
Liabilities:							
Non-current liabilities							
Class B Interest treated as debt	2,042	4,083	18,376	98,002	-	-	122,503
Current liabilities:							
Amounts owed to intermediate parent company	34,698	-	-	-	-	-	34,698
Other current liabilities	-	-	-	-	-	7	7
Total Liabilities	36,740	4,083	18,376	98,002	-	7	157,208
Total interest sensitivity gap	(36,740)	(4,083)	(18,376)	332,975	878,608	3,368	1,155,752

(b) Fair Value of Financial Assets and Liabilities

Financial instruments include financial assets and financial 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.

Wherever possible, fair values have been estimated using quoted market prices for instruments held. Where market prices are not available, fair values have been estimated using quoted values for instruments with either identical or similar characteristics. In certain cases, where no ready markets currently exist, various techniques (such as discounted cash flows or observations of similar recent market transactions) have been developed to estimate what the approximate fair value of such instruments might be. These estimation techniques are necessarily subjective in nature and involve several assumptions.

The Partnership provides loans and advances to other Lloyds Banking Group companies at variable rates. The fair value for these loans and advances as disclosed in note 12 were estimated by discounting anticipated cash flows at a rate which reflects the effects of interest rate changes, adjusted for changes in credit risk, and are considered to be approximately the same as the carrying value. The fair values are at a specific date and may be significantly different from the amounts which will actually be paid or received on the maturity or settlement date.

The carrying value of the Class B Interest treated as debt is a reasonable approximation of fair value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2013

13. 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 following table analyses the carrying amounts of the financial assets and liabilities by category and by balance sheet heading.

As at 31 December 2013

	Loans and receivables £'000	**Held at amortised cost £'000**	**Total £'000**
Assets:			
Amounts owed by intermediate parent company	**817,281**	**-**	**817,281**
Other current assets	**-**	**2,658**	**2,658**
Total financial assets	**817,281**	**2,658**	**819,939**
Liabilities:			
Class B Interest treated as debt	**-**	**61,896**	**61,896**
Amounts owed to intermediate parent companies	**-**	**4,748**	**4,748**
Amounts owed to subsidiary companies	**-**	**38**	**38**
Total financial liabilities	**-**	**66,682**	**66,682**

(c) Measurement Basis of Financial Assets and Liabilities (continued)

As at 31 December 2012

	Loans and receivables £'000	Held at amortised cost £'000	Total £'000
Assets:			
Amounts owed by intermediate parent company	1,309,585	-	1,309,585
Other current assets	-	3,375	3,375
Total financial assets	1,309,585	3,375	1,312,960
Liabilities:			
Class B Interest treated as debt	-	122,503	122,503
Amounts owed to intermediate parent companies	-	34,698	34,698
Other current liabilities	-	7	7
Total financial liabilities	-	157,208	157,208

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

(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.

	2013 £'000	2012 £'000
Amounts owed by intermediate parent company	**817,281**	1,309,585
Other current assets	**2,658**	3,375
Total credit risk exposure	**819,939**	1,312,960

The current rating of the intermediate parent company, Lloyds Bank plc, is A2 (2012: A2) as per Moody's.

(e) Liquidity Risk

The table below analyse liabilities of the Partnership on an undiscounted future cash flow basis according to contractual maturity into relevant maturity groupings based on the remaining period at the balance date.

As at 31 December 2013	**On demand £'000**	**Up to 1 month £'000**	**1 - 3 months £'000**	**3 - 12 months £'000**	**1 - 5 years £'000**	**Over 5 years £'000**	**Total £'000**
Non-current liabilities							
Class B Interest treated as debt	-	**5,217**	**10,433**	**46,950**	-	-	**62,600**
Current liabilities:							
Amounts owed to intermediate parent company	**4,748**	-	-	-	-	-	**4,748**
Other current liabilities	**38**	-	-	-	-	-	**38**
Total Liabilities	**4,786**	**5,217**	**10,433**	**46,950**	-	-	**67,386**

As at 31 December 2012	On demand £'000	up to 1 month £'000	1 - 3 months £'000	3 - 12 months £'000	1 - 5 years £'000	Over 5 years £'000	Total £'000
Non-current liabilities							
Class B Interest treated as debt	-	2,042	4,083	18,376	98,002	-	122,503
Current liabilities:							
Amounts owed to intermediate parent company	34,698	-	-	-	-	-	34,698
Other current liabilities	7	-	-	-	-	-	7
Total Liabilities	34,705	2,042	4,083	18,376	98,002	-	157,208

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2013

14. 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 the Pension Scheme 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. Given that the obligation of the Partnership to make payment under the Guarantee is considered to be remote, the value of this insurance contract as at 31 December 2013 is considered to be £nil (2012: 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 2013.

	2013 **Market value** **£'000**	2012 Market value £'000
Security		
Securitisation notes (residential mortgage-backed)	**205,397**	470,183
Securitisation notes (collateralised loan obligations)	**628,537**	875,840
	833,934	1,346,023