

Lloyds Bank Pension ABCS (No 2) LLP

**Annual report and accounts
for the year ended 31 December 2018**

Registered office

25 Gresham Street
London
EC2V 7HN

Registered number

OC350023

Current members

Dunstan Investments (UK) Limited
Lloyds Bank plc
Lloyds Banking Group Pensions Trustees Limited

Member of Lloyds Banking Group



Members' report

For the year ended 31 December 2018

The members present their annual report and the audited financial statements of Lloyds Bank Pension ABCS (No 2) LLP ("the Partnership") for the year ended 31 December 2018.

General information

The Partnership is a limited liability partnership domiciled in England and Wales (registered number: OC350023).

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) Limited 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) Limited 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 on 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 £961,631,000 (2017: £12,126,000) and made capital withdrawals of £88,653,000 (2017: £30,000,000).

The results of the Partnership which show a profit, before distributions to Class A and B interest holders of £26,731,000 (2017: £16,520,000) is set out in the Statement of comprehensive income on page 4.

During the year, the Class B interest holders received no mandatory distributions (2017: £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 ("LBG") and are not managed separately. Full disclosure of the Partnership's financial risk management objectives and policies are contained in note 13 to the financial statements.

The Partnership is part of the wider Lloyds Banking Group (the "Group"), and, at that level, consideration of many of the potential implications following the UK's vote to leave the European Union ("EU") has been undertaken. Work continues to assess the impact of EU exit at the level of the Group, as well as for the Partnership, upon customers, colleagues and products. This assessment includes all legal, regulatory, tax, finance and capital implications.

Key performance indicators ("KPIs")

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

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.

Members' report (continued)

For the year ended 31 December 2018

Members

The Designated Members of the Partnership were the following:

Dunstan Investments (UK) Limited
Lloyds Bank plc

On 31 March 2016 Lloyds Banking Group Pensions Trustees 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.

Statement of members' responsibilities

The Members are responsible for preparing the Annual report and accounts in accordance with applicable law and regulation.

Company law, as applied to limited liability partnerships by the Limited Liability Partnership (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 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 limited liability partnership and of the profit or loss of the limited liability partnership for that period. In preparing the financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the limited liability partnership will continue in business.

The members are responsible for keeping adequate accounting records that are sufficient to show and explain the limited liability partnership's transactions and disclose with reasonable accuracy at any time the financial position of the limited liability 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.

The members are also responsible for safeguarding the assets of the limited liability partnership and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Members' confirmations

In the case of each member in office at the date the Members' report is approved:

- so far as the member is aware, there is no relevant audit information of which the limited liability partnership's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a member in order to make themselves aware of any relevant audit information and to establish that the limited liability partnership's auditors are aware of that information.

Members' report (continued)

For the year ended 31 December 2018

Independent auditors

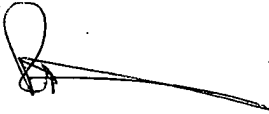
PricewaterhouseCoopers LLP are deemed to be re-appointed as auditors under section 487 of the Limited Liability Partnerships (Audit and Accounts) (Application of the Companies Act 2006) regulations 2008.

By the Designated Members, on behalf of the members

Mark Bradshaw

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Mark Bradshaw

For Dunstan Investments (UK) Limited



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Richard Shrimpton

For Lloyds Bank plc

27 September 2019

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2018 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.

We have audited the financial statements, included within the Annual report and accounts (the "Annual Report"), which comprise: the balance sheet as at 31 December 2018; the statement of comprehensive income, the cash flow statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Members' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Members' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Members' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Members' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of members' responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

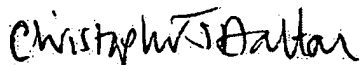
Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 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 by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Christopher Dalton (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
27 September 2019

Statement of comprehensive income

For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Interest income	3	27,033	15,836
Other operating income	4	-	984
Other operating expenses	5	(302)	(300)
Profit for the year before Members' distribution and profit shares		26,731	16,520
Total comprehensive income for the year		26,731	16,520

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

The accompanying notes to the financial statements are an integral part of these financial statements.

Balance sheet

As at 31 December 2018

	Note	2018 £'000	2017 £'000
ASSETS			
Trade and other receivables	8	4,081	1,722
Deemed loan to originator	9	1,650,924	753,574
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Total assets		1,655,005	755,296
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MEMBERS' EQUITY			
Members' capital account	11	1,298,317	425,339
Retained earnings	10	356,688	329,957
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Total equity		1,655,005	755,296
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Total equity and liabilities		1,655,005	755,296

The accompanying notes to the financial statements are an integral part of these financial statements.

The financial statements were approved by the members and were signed on its behalf by:

Mark Bradshaw

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Mark Bradshaw

For Dunstan Investments (UK) Limited



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Richard Shrimpton

For Lloyds Bank plc

27 September 2019

Cash flow statement

For the year ended 31 December 2018

	2018 £'000	2017 £'000
Cash flows (used in)/generated from operating activities		
Profit for the year before Members' distribution and profit shares	26,731	16,520
Adjustments for:		
Interest income on amounts owed by intermediate parent company	(23,425)	(12,295)
Accretion of discount	(3,608)	(3,541)
Cash (used in)/generated from operations	(302)	684
Net cash (used in)/generated from operating activities	(302)	684
Cash flows (used in)/generated from investing activities		
Interest received	21,066	12,206
Advanced to intermediate parent company	(969,987)	(66,877)
Repayment by intermediate parent company	76,245	71,861
Net cash (used in)/generated from investing activities	(872,676)	17,190
Cash flows generated from/(used in) financing activities		
Net proceeds from partners contribution	872,978	(17,874)
Net cash generated from/(used in) financing activities	872,978	(17,874)
Change in Cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	-	-
Cash and cash equivalents at end of year	-	-

The accompanying notes to the financial statements are an integral part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2018

1. Accounting policies

1.1 Basis of preparation

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

These financial statements have been prepared in accordance with applicable IFRSs as adopted by the European Union. IFRSs comprise accounting standards prefixed IFRS issued by the International Accounting Standards Board ("IASB") and those prefixed IAS issued by the IASB's predecessor body, as well as interpretations issued by the IFRS Interpretations Committee ("IFRS IC") and its predecessor body.

The financial statements also comply with the relevant provisions of Part 15 of the Companies Act 2006, as applicable to limited liability partnerships.

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

- IFRS 9 'Financial Instruments': Annual improvement to IFRSs (issued December 2016) - Replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss approach. The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle based approach than IAS 39.

The Partnership had to change its accounting policies following the adoption IFRS 9, this is disclosed in Note 16.

Details of those pronouncements which will be relevant to the Partnership but which were not effective at 31 December 2018 and which have not been applied in preparing these financial statements are given in note 17. No standards have been early adopted.

Historically the Balance sheet of the Partnership has been presented on a current/non-current basis. On review of the financial statements, the decision was made to present the Balance sheet as at 31 December 2018 and 31 December 2017 using the liquidity method, in order to make the presentation of the financial statements of the Partnership consistent with those of LBG.

The financial statements have been prepared on a going concern basis as detailed in the Members' report and under the historical cost convention.

1.2 Income recognition

Interest income and expense are recognised in the Statement of comprehensive income for all interest bearing financial instruments using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense to a period of account. The effective interest rate is the rate that 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. Coupon or dividends received on investment in irredeemable shares, which carry a mandatory coupon, are recognised in the Statement of comprehensive income as interest income.

1.3 Financial assets

Financial assets comprise Deemed loan to originator and Trade and other receivables.

On initial recognition, financial assets are classified as measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss, depending on the Partnership's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. The Partnership assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales. The Partnership reclassifies financial assets when and only when its business model for managing those assets changes.

Notes to the financial statements (continued)

For the year ended 31 December 2018

1. Accounting policies (continued)

1.3 Financial assets (continued)

A reclassification will only take place when the change is significant to the Partnership's operations and will occur at a portfolio level and not for individual instruments; reclassifications are expected to be rare. Equity investments are measured at fair value through profit or loss unless the Partnership elects at initial recognition to account for the instruments at fair value through other comprehensive income. For these instruments, principally strategic investments, dividends are recognised in profit or loss but fair value gains and losses are not subsequently reclassified to profit or loss following derecognition of the investment.

Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the Partnership has transferred its contractual right to receive the cash flows from the assets and either: substantially all of the risks and rewards of ownership have been transferred; or the Partnership has neither retained nor transferred substantially all of the risks and rewards, but has transferred control.

Financial instruments measured at amortised cost

Financial assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A basic lending arrangement results in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Where the contractual cash flows introduce exposure to risks or volatility unrelated to a basic lending arrangement such as changes in equity prices or commodity prices, the payments do not comprise solely principal and interest. Financial assets measured at amortised cost are the Deemed loan to originator and Trade and other receivables. Loans and advances are initially recognised when cash is advanced to the borrower at fair value inclusive of transaction costs. Interest income is accounted for using the effective interest method.

Financial instruments measured at fair value through other comprehensive income

Financial assets that are held to collect contractual cash flows and for subsequent sale, where the assets' cash flows represent solely payments of principal and interest, are recognised in the Balance sheet at their fair value, inclusive of transaction costs. Interest calculated using the effective interest method and foreign exchange gains and losses on assets denominated in foreign currencies are recognised in the income statement. All other gains and losses arising from changes in fair value are recognised directly in other comprehensive income, until the financial asset is either sold or matures, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement other than in respect of equity shares, for which the cumulative revaluation amount is transferred directly to retained profits. The Partnership recognises a charge for expected credit losses in the income statement. As the asset is measured at fair value, the charge does not adjust the carrying value of the asset, it is reflected in other comprehensive income.

Financial instruments held at fair value through profit or loss

Financial assets are classified at fair value through profit or loss where they do not meet the criteria to be measured at amortised cost or fair value through other comprehensive income or where they are designated at fair value through profit or loss to reduce an accounting mismatch. All derivatives are carried at fair value through profit or loss. Financial assets measured at fair value through profit or loss are recognised in the Balance sheet at their fair value. Fair value gains and losses together with interest coupons and dividend income are recognised in the income statement within net trading income.

1.4 Cash and cash equivalents

For the purposes of the Cash flow statements, 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.

1.5 Taxation, 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.

Notes to the financial statements (continued)

For the year ended 31 December 2018

1. Accounting policies (continued)

1.6 Financial guarantees

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

- the amount determined in accordance with the expected credit loss model under IFRS 9 Financial Instruments; and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from Contracts with Customers.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

1.7 Members' capital account

The member's capital represent the Class A interest in the Partnership. The capital account is credited or debited for the net effect of capital contributions and capital withdrawals.

1.8 Deemed loan to originator

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 does not recognise the loan on its Balance sheet but rather a Deemed loan to originator, where recourse to Lloyds Bank plc is limited to the cash flows from the loan and any additional credit enhancement provided by Lloyds Bank plc.

The initial amount of the Deemed loan to originator corresponds to the consideration paid by the Partnership for the loan in respect of the securities purchased from Lloyds Bank plc. The Partnership recognises principal and interest cash flows on the loan only to the extent that it is entitled to retain such cash flows. Cash flows attributable to Lloyds Bank plc are not recognised by the Partnership.

Under IAS 39, the Deemed loan to originator is classified as "loans and receivables" and is recognised initially at fair value less any directly related incremental transaction costs. The Deemed loan is stated at amortised cost with any difference between cost and redemption value being recognised in the Statement of comprehensive income over the period of the borrowings on an effective interest basis.

In accordance with IFRS 9, the Deemed loan to originator is classified as "financial assets measured at amortised cost" and is stated at amortised cost.

1.9 Impairment of financial assets

At initial recognition, allowance is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk since origination, allowance (or provision) is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected losses).

Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk since initial recognition are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

Unlike other financial instruments, the Deemed loan to originator is, by its construction, an instrument that incorporates credit enhancement. The interest due on the Deemed loan to originator is only due to the extent it matches the obligations of the entity. All securitisation programmes incorporate credit enhancement in the form of excess spread and various reserve funds for use in the event the excess spread for a particular payment period is insufficient. Expected losses for the Deemed loan to originator would only therefore be recognised where the expected credit losses on the underlying assets were large enough that no credit enhancement remained.

Notes to the financial statements (continued)

For the year ended 31 December 2018

2. Critical accounting estimates and judgements in applying accounting policies

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

The following are critical accounting estimates that the Members have made in the process of applying the Partnership's accounting policies which have the most significant effect on the amounts recognised in the financial statements:

Impairment of Deemed loan to originator

In the year under IFRS 9, the Partnership's accounting policy for impairment on the Deemed loan to originator is described in note 16.

Under IAS 39, the allowance for impairment losses on loans and receivables is management's best estimate of losses incurred at the Balance sheet date. Impairment allowances are established to recognise incurred impairment losses in the Partnership's loan with Lloyds Bank plc, carried at amortised cost. In determining whether impairment has occurred at the Balance sheet date the Partnership considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows or their timings. Where this is the case, the impairment loss is the difference between the carrying value of the loan and the present value of the estimated future cash flows discounted at the loan's original effective interest rate. The comparative figures are accounted for under IAS 39.

At 31 December, the impairment allowance in the current year was £nil (2017: £nil).

3. Interest income

	2018 £'000	2017 £'000
Group interest income (see note 12)	27,033	15,836

4. Other operating income

	2018 £'000	2017 £'000
Profit on settlement of deemed loans	-	984

During 2018, 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 £109,549,000 (2017: £64,664,000) 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 loss of £2,000 (2017: profit of £984,000).

5. Other operating expenses

	2018 £'000	2017 £'000
Loss on settlement of deemed loans	2	-
Fees and commissions	300	300
	302	300

The fees and commissions include service fee of £200,000 (2017: £200,000) and custodian fees of £100,000 (2017: £100,000).

Fees payable to the Partnership's auditors for the audit of the financial statements of £19,000 (2017: £19,000) have been borne by Lloyds Bank plc and are not recharged to the Company.

6. Staff costs

The Partnership did not have any employees during the year (2017: none).

Notes to the financial statements (continued)

For the year ended 31 December 2018

7. Taxation

There is no tax expense for the year (2017: £nil); the members are limited companies and account for their share of the partnership tax liability at an individual company level.

8. Trade and other receivables

	2018 £'000	2017 £'000
Accrued interest receivable (see note 12)	4,081	1,722

Accrued interest receivable relates to the interest income due on the Partnership's Deemed loan to originator at the year end.

9. Deemed loan to originator

	2018 £'000	2017 £'000
As at 1 January	753,574	755,017
Advances during the year	972,169	66,877
Accretion of discount during the year	1,091	3,541
Repayments during the year	(75,910)	(71,861)
As at 31 December	1,650,924	753,574
Represented by:		
Current	89,178	154,885
Non-current	1,561,746	598,689
	1,650,924	753,574

The loan 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 IFRS9. 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 'Deemed loan to originator'.

The receivable pays a coupon reflecting interest rate secured by the expected cash flows of the debt securities to which it relates. The receivable is expected to be materially repaid in line with the deficit funding plan for the pension scheme which is currently expected to be completed by December 2024, but is subject to periodic renegotiation between Lloyds Bank plc and the Pension Scheme, who also both 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 receivable balance and accordingly no provision has been recognised.

The comparative figures are accounted for under IAS 39, with the accounting treatment being the same as under IFRS 9 above.

10. Retained earnings

	2018 £'000	2017 £'000
At beginning of the year	329,957	313,437
Profits for the year	26,731	16,520
	356,688	329,957

Notes to the financial statements (continued)

For the year ended 31 December 2018

11. Member's capital account

	Dunstan Investments (UK) Limited £'000	Lloyds Bank plc £'000	Total £'000
As at 1 January 2017	1	443,212	443,213
Capital contributions during the year	-	12,126	12,126
Capital withdrawals during the year	-	(30,000)	(30,000)
As at 31 December 2017	1	425,338	425,339
Capital contributions during the year	-	961,631	961,631
Capital withdrawals during the year	-	(88,653)	(88,653)
As at 31 December 2018	1	1,298,316	1,298,317

Contributions of £1,000 cash were made by each member to the Partnership upon establishment. Capital contributions represent contributions of asset by Class A Interest holders to the Partnership. As at 31 December 2018 Lloyds Bank plc held 99.99997% of Class A Interests and Dunstan Investments (UK) Limited, a fellow group company, held 0.00003%. The Class A Interest holders are entitled to 80% voting rights of 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 distributions of the sale proceeds, or an in special distribution) where the net asset value of the Partnership exceeds a certain threshold; and
- (b) substitute assets by the Partnership in the portfolio.

12. Related party transactions

The Partnership is controlled by Lloyds Bank plc. A number of transactions are entered into with related parties in the normal course of business. These include loan and fee transactions. A summary of the outstanding balances at the year end and the related income for the year are set out below.

	2018 £'000	2017 £'000
Deemed loan to originator		
Lloyds Bank plc (see note 9)	1,650,924	753,574
Interest income		
Lloyds Bank plc (see note 3)	27,033	15,836
Accrued interest receivable		
Lloyds Bank plc (see note 8)	4,081	1,732

Key management personnel

Key management personnel are those persons having authority and responsibility for planning and controlling the activities of the Partnership. Accordingly, key management is comprised of the members of the Partnership, the directors of Dunstan Investments (UK) Limited and the directors of Lloyds Bank plc. There were no transactions between the Partnership and key management personnel during the current or preceding year. Key management personnel are employed by other companies within the Group and consider that their services to the Partnership are incidental to their other activities within those groups.

Notes to the financial statements (continued)

For the year ended 31 December 2018

13. Financial risk management

The principal risks arising from the Partnership's financial instruments are credit risk and interest rate risk. Further detailed analysis of the risks facing the Partnership in relation to its financial instruments is provided below.

13.1 Credit risk

Credit risk arises where there is a possibility that a counterparty may default on its financial obligations resulting in a loss to the Partnership.

Financial assets subject to credit risk

The maximum exposure to credit risk arising on the Partnership's financial assets at the reporting date is disclosed in the table below and equates to carrying value.

	2018 £'000	2017 £'000
Deemed loan to originator	1,650,924	753,574
Trade and other receivables	4,081	1,722
Total credit risk exposure	1,655,005	755,296

The current rating of the intermediate parent company, Lloyds Bank plc, is Aa3 (2017: Aa3) as per Moody's. The members consider credit risk to be relatively insignificant to the Partnership.

13.2 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 post tax profit of a 0.25% shift would be a maximum increase or decrease of approximately £4,138,000 (2017: £1,888,000).

The table below summarises the repricing mismatches of the Partnership's non trading interest-bearing 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.

As at 31 December 2018

	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 assets						
Deemed loan to originator	1,171,559	390,186	-	-	-	1,561,745
Current assets						
Deemed loan to originator	89,179	-	-	-	-	89,179
	1,260,738	390,186	-	-	-	1,650,924

Notes to the financial statements (continued)

For the year ended 31 December 2018

13. Financial risk management (continued)

13.2 Interest rate risk (continued)

As at 31 December 2017

	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 assets						
Deemed loan to originator	531,812	66,877	-	-	-	598,689
Current assets						
Deemed loan to originator	154,885	-	-	-	-	154,885
Total Assets	686,697	66,877	-	-	-	753,574

Trade and other receivables £4,081,000 (2017: £1,722,000) are non-interest bearing.

13.3 Liquidity risk

The Partnership has no liabilities as of 31 December 2018 (2017: nil) and hence has no liquidity risk.

13.4 Fair values of financial assets and liabilities

The Deemed loan to originator and Trade and other receivables are recognised on an amortised cost basis and are considered to be a close approximation to fair value. These are classified as level 2 in accordance with IFRS13.

13.5 Measurement basis of financial assets and liabilities

The Deemed loan to originator and Trade and other receivables are recognised on an amortisation cost basis that is considered to be a close approximation to fair value.

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 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 IFRS4. At this stage, the Partnership does not foresee any payout from the Guarantee and have therefore valued it at £nil (2017: £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.

	2018 Market value £'000	2017 Market value £'000
Security		
Securitisation notes (residential mortgage-backed)	949,529	352,544
Securitisation notes (collateralised loan obligation)	648,964	395,521
	1,598,493	748,065

The guarantee amount as at 31 December 2018 was £1,448,750,000 (2017: £668,750,000).

Notes to the financial statements (continued)

For the year ended 31 December 2018

15. Post balance sheet events

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

16. Implementation of IFRS 9 Financial Instruments

This note explains the adoption of 'IFRS 9 Financial Instruments' on the Partnership's financial statements.

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments and impairment of financial assets which are applicable to this Partnership.

Classification and measurement

The Partnership adopted IFRS 9 from 1 January 2018. In accordance with the transition requirements of IFRS 9, comparative information for 2017 has not been restated and no transitional adjustments were required through retained earnings at 1 January 2018.

IFRS 9 requires financial assets to be classified into one of three measurement categories: amortised cost, fair value through profit or loss or fair value through other comprehensive income. Further information on the criteria under IFRS 9 can be found in note 1.3.

The Partnership conducted an analysis of these changes and does not consider there to be any impact of applying IFRS 9 to the financial statements.

Impairment - Deemed loan to originator

Further information on the criteria around recognition and measurement of impairment under IFRS 9 can be found in notes 1.9 and around impairment. The next paragraph discusses the impact of the new impairment methodology under IFRS 9.

The Deemed loan to originator is not expected to result in a day one expected credit loss. Unlike other financial instruments, the Deemed loan to originator is, by its nature, an instrument that incorporates credit enhancement. As previously noted the interest due on the Deemed loan to originator is only due to the extent that it matches the obligations of the Partnership.

17. Future developments

The following pronouncements will be relevant to the Partnership but were not effective at 31 December 2018 and have not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
IFRS 17 'Insurance Contracts' ¹	<p>IFRS 17 replaces IFRS 4 'Insurance Contracts' and is currently effective for annual periods beginning on or after 1 January 2021 although IASB have proposed delaying implementation until 1 January 2022.</p> <p>IFRS 17 requires insurance contracts and participating investment contracts to be measured on the balance sheet as the total of the fulfilment cash flows and the contractual service margin.</p> <p>Changes to estimates of future cash flows from one reporting date to another are recognised either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it. The effects of some changes in discount rates can either be recognised in profit or loss or in other comprehensive income as an accounting policy choice.</p>	Annual periods beginning on or after 1 January 2021.

Notes to the financial statements (continued)

For the year ended 31 December 2018

17. Future developments (continued)

Pronouncement	Nature of change	Effective date
Amendments to other accounting standards ¹	The IASB has issued a number of minor amendments to IFRSs effective 1 January 2019 and 1 January 2020 (including IAS 19 Employee Benefits, IAS 12 Income Taxes and IFRIC 23 Uncertainty over Income Tax Treatments). The changes to IAS 12 Income Taxes will result in the presentation of the tax benefit of distributions on other equity instruments in being recognised in the Income statement; these impacts are currently recognised directly in equity. Comparative information will be restated.	Annual periods beginning on or after 1 January 2019

¹ The full impact of this pronouncement is being assessed by the Partnership. However, the initial view is that this is not expected to cause any material adjustments to the reported numbers in the financial statements.

18. Ultimate parent undertaking and controlling party

The Partnership's immediate parent company is Lloyds Bank plc. The company regarded by the members as the ultimate parent company and controlling party is Lloyds Banking Group plc (incorporated in Scotland), which is also the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Partnership is a member. Lloyds Bank plc is the parent undertaking of the smallest such group of undertakings. Copies of the financial statements of both companies may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN. The Lloyds Banking Group plc financial statements may be downloaded via www.lloydsbankinggroup.com.