

Lloyds Bank Pension ABCS (No 2) LLP

Annual report and financial statements
for the year ended 31 December 2021

Registered office

25 Gresham Street
London
EC2V 7HN

Registered number

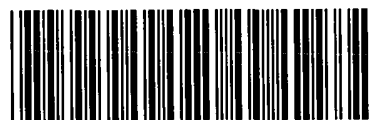
OC350023

Current members

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

Member of Lloyds Banking Group

MONDAY



ABDD39Q0

A10

26/09/2022

#83

COMPANIES HOUSE

Members' report

For the year ended 31 December 2021

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 2021.

Business overview and principal activity

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 £871,118,000 (2020: £92,966,000) and made capital withdrawals of £211,682,000 (2020: £92,609,000).

The results of the Partnership which show a profit, before distributions to Class A and B interest holders of £33,236,000 (2020: £26,262,000) is set out in the Statement of comprehensive income on page 4.

During the year, the Class B interest holders received no mandatory distributions (2020: £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 managed within the framework established for the Lloyds Banking Group and are not managed separately for the Partnership. Further details of the Partnership's and Group's risk management policy are contained in note 13 to the financial statements.

The global pandemic from the outbreak of COVID-19 continues to cause widespread disruption to financial markets and normal patterns of business activity across the world, including in the UK. Measures taken to contain the health impacts of the COVID-19 pandemic are resulting in adverse impacts on economic activity across the world, and the duration for which such measures will remain in place is uncertain. The impact on the economy remains highly uncertain in both its depth and length, and may go beyond current forecasts of scale of loss of output and recession in the UK and globally.

The Partnership has not been directly impacted by COVID-19 but the Members continue to monitor for further developments however at this stage they do not anticipate any material issues for the Partnership.

If the value of the assets fall below the TSCR then the Company will look to Lloyds Bank plc to provide additional funding support to meet the TSR/guarantee amount. This has not occurred as the value of the assets regularly fluctuate but as Company complete a monthly net asset tests to ensure they exceed the guarantee amount and have a top-up if they require it.

Uncertainties in respect of the medium to long-term implications of the UK's exit from the EU on trade, regulation and employment continue to present risks. This includes impacts on supply chains, affordability of goods and services and UK demographics and prosperity. Activity to respond to potential risks includes customer communications, market volatility scenario exercises, contingency planning and monitoring of emerging European Economic Area ("EEA") regulatory requirements.

The Partnership has not been directly impacted by UK's exit from the EU but the Members will continue to monitor for further developments however at this stage they do not anticipate any material issues for the Partnership.

Members' report (continued)

For the year ended 31 December 2021

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 Partnership has a net asset position at the year end. The Members have considered this, along with the expected activities of the Partnership for the foreseeable future, and have reached the conclusion that the Partnership will be able to meet its future obligations as they fall due and the financial statements have been prepared on a going concern basis.

The value of securities held by the Partnership must exceed the TCSR/guarantee amount as set out in the Lloyds ABCS Framework Agreement. If the value of the assets reduces, the Partnership will look to Lloyds Bank plc to provide additional funding support to meet the TCSR/guarantee amount.

The Members are also satisfied that it is the intention of Lloyds Banking Group that its subsidiaries, including the Partnership, will continue to have access to adequate liquidity and capital resources for the foreseeable future.

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.

Members' responsibilities statement

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

The Limited Liability Partnerships (Accounts & Audit) (Application of Companies Act 2006) Regulations 2008 require the members to prepare financial statements for each financial year. The financial statements also comply with International Financial Reporting Standards (IFRSs) as issued by the IASB. Under that law the members have elected to prepare the financial statements in accordance with United Kingdom adopted international accounting standards. The financial statements are also required by law to be prepared in accordance with the Companies Act 2006, as applicable to limited liability partnerships.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the firm's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, members are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements of the financial reporting framework are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The members are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the firm and enable them to ensure that the financial statements comply with the Companies Act 2006, as applicable to limited liability partnerships. They are also responsible for safeguarding the assets of the firm and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The members are responsible for the maintenance and integrity of the corporate and financial information included on the firm's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Members' report (continued)

For the year ended 31 December 2021

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 auditor is 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 auditor is aware of that information.

Independent auditor

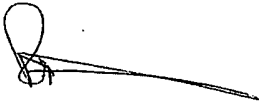
Deloitte LLP are deemed to be re-appointed as auditor under section 487(2) of the Companies Act 2006.

Approved by the Designated Members and signed on their behalf by:



Mark Bradshaw

For Dunstan Investments (UK) Limited



Richard Shrimpton

For Lloyds Bank plc

16 September 2022

Statement of comprehensive income

For the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Interest income	4	27,160	31,238
Other operating income/(expenses)	5	6,076	(4,976)
<hr/>			
Profit for the year before Members' distribution	6	33,236	26,262
<hr/>			
Total comprehensive income for the year		33,236	26,262
<hr/>			

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

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

Balance sheet

As at 31 December 2021

	Note	2021 £'000	2020 £'000
ASSETS			
Trade and other receivables	8	2,256	2,160
Deemed loan to originator	9	2,372,246	1,679,670
<hr/>			
Total assets		2,374,502	1,681,830
<hr/>			
MEMBERS' EQUITY			
Members' capital account	11	1,926,060	1,266,624
Retained earnings	10	448,442	415,206
<hr/>			
Total equity		2,374,502	1,681,830
<hr/>			
Total equity and liabilities		2,374,502	1,681,830

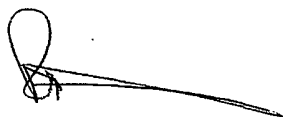
The accompanying notes are an integral part of these financial statements.

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

Mark Bradshaw

Mark Bradshaw

For Dunstan Investments (UK) Limited



Richard Shrimpton

For Lloyds Bank plc

16 September 2022

Statement of changes in members' equity

For the year ended 31 December 2021

	Member's capital account £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2020	1,266,267	388,944	1,655,211
Profit for the financial year and total comprehensive income	-	26,262	26,262
Capital contribution of member's capital	92,966	-	92,966
Capital withdrawals of member's capital	(92,609)	-	(92,609)
At 31 December 2020	1,266,624	415,206	1,681,830
Profit for the financial year being total comprehensive income	-	33,236	33,236
Capital contribution of member's capital	871,118	-	871,118
Capital withdrawals of member's capital	(211,682)	-	(211,682)
At 31 December 2021	1,926,060	448,442	2,374,502

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

Cash flow statement

For the year ended 31 December 2021

	2021 £'000	2020 £'000
Cash flows generated from/(used in) operating activities		
Profit for the year before Members' distribution	33,236	26,262
Adjustments for:		
- Interest income	(27,160)	(31,239)
Cash generated from/(used in) operations	6,076	(4,977)
Net cash generated from/(used in) operating activities	6,076	(4,977)
Cash flows (used in)/generated from investing activities		
Interest received	22,723	23,227
Advanced to intermediate parent company	(1,675,026)	(502,135)
Repayment by intermediate parent company	986,632	483,528
Net cash (used in)/generated from investing activities	(665,671)	4,620
Cash flows generated from financing activities		
Members capital contributions	871,118	92,966
Capital withdrawal	(211,682)	(92,609)
Decrease in Amounts due from group undertakings	159	-
Net cash generated from financing activities	659,595	357
Net change in Cash and cash equivalents	-	-
Cash and cash equivalents at the beginning of year	-	-
Cash and cash equivalents at the end of year	-	-

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

Notes to the financial statements

For the year ended 31 December 2021

1. Basis of preparation

These financial statements have been prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). 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 information has been prepared under the historical cost convention. As stated below, the Members consider that it is appropriate to adopt the going concern basis in preparing the financial statements.

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

In preparation of these financial statements the Balance sheet has been arranged in order of liquidity.

The Partnership has taken an exemption from Streamlined Energy and Carbon Reporting (SECR), as it does not have to report on SECR in its own Members' Report where included in the Group SECR statement of a UK Group report. Further information in respect of SECR is included within the Lloyds Banking Group plc Annual Report and Accounts for 2021, which does not form part of this report, available on the Lloyds Banking Group plc website.

No new IFRS pronouncements which had a material impact have been adopted in these financial statements.

Details of those pronouncements which will be relevant to the Partnership but which were not effective at 31 December 2021 and which have not been applied in preparing these financial statements are given in note 15. No standards have been early adopted.

The Partnership has a net asset position at the year end. The Members have considered this, along with the expected activities of the Partnership for the foreseeable future, and have reached the conclusion that the Partnership will be able to meet its future obligations as they fall due and the financial statements have been prepared on a going concern basis.

The value of securities held by the Partnership must exceed the TCSR/guarantee amount as set out in the Lloyds ABCS Framework Agreement. If the value of the assets reduces, the Partnership will look to Lloyds Bank plc to provide additional funding support to meet the TCSR/guarantee amount.

2. Accounting policies

2.1 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.

2.2 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.

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.

Notes to the financial statements (continued)

For the year ended 31 December 2021

2. Accounting policies (continued)

2.2 Financial assets (continued)

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.

2.3 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.

2.4 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.

2.5 Financial guarantees

Financial guarantee contracts are accounted for as insurance contracts in accordance with IFRS 4. Insurance contracts are those contracts which transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event which are significantly more than the benefits payable if the insured event were not to occur. The liability is calculated by estimating the future cash flows over the duration of the in-force policies and discounting then back to the valuation date, allowing for the probabilities of occurrence.

2.6 Members' capital account

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

2.7 Deemed loan to originator

Under IFRS 9, 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.

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.

2.8 Impairment of financial assets

The Company has not adopted the simplified expected credit loss model for its financial assets, as allowed by IFRS 9, paragraph 5.5.15. Instead, the general expected credit loss model has been applied to financial assets.

Notes to the financial statements (continued)

For the year ended 31 December 2021

3. Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Company's financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions in applying the accounting policies that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In the course of preparing these financial statements, no critical estimates or judgments have been made in the process of applying the Partnership's accounting policies.

4. Interest income

	2021 £'000	2020 £'000
Group interest income (see note 12)	27,160	31,238
	27,160	31,238

5. Other operating income/(expenses)

	2021 £'000	2020 £'000
Net Profit/(loss) on settlement of deemed loans	6,376	(4,384)
Fees and commissions	(300)	(300)
Bank charges	-	(292)
	6,076	(4,976)

The fees and commissions include service fee of £200,000 (2020: £200,000) and custodian fees of £100,000 (2020: £100,000).

During 2021, 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 settled deemed loans with a book value of £986,632,000 (2020: £483,686,000) back to the intermediate parent company at market value, resulting in a reduction in the amounts due from the intermediate parent company and realising a net profit of £6,376,000 (2020: £4,384,000 net loss).

6. Profit for the year before Members' distribution

Audit fees payable to the Partnership's auditors for the audit of the financial statements of £19,500 (2020: £19,000) have been borne by Lloyds Bank plc and are not recharged to the Partnership.

The Partnership did not have any employees during the year (2020: none).

7. Taxation

There is no tax expense for the year (2020: £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

	2021 £'000	2020 £'000
Accrued interest receivable (see note 12)	2,256	2,001
Amounts due from group undertakings (see note 12)	-	159
As at 31 December	2,256	2,160

Notes to the financial statements (continued)

For the year ended 31 December 2021

9. Deemed loan to originator

	2021 £'000	2020 £'000
As at 1 January	1,679,670	1,651,430
Advances during the year	1,675,026	502,135
Accretion of discount during the year	4,182	9,791
Repayments during the year	(986,632)	(483,686)
As at 31 December	2,372,246	1,679,670
Non current		
Principal	2,362,027	1,486,497
Current		
Principal	10,219	193,173
	2,372,246	1,679,670

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 is 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 IFRS 9. 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 expected credit losses has arisen in respect of the receivable balance and accordingly no provision has been recognised.

10. Retained earnings

	2021 £'000	2020 £'000
At beginning of the year	415,206	388,944
Profit for the year	33,236	26,262
As at 31 December	448,442	415,206

Notes to the financial statements (continued)

For the year ended 31 December 2021

11. Members' capital account

	Dunstan Investments (UK) Limited	Lloyds Bank plc	Total
	£'000	£'000	£'000
As at 1 January 2020	1	1,266,266	1,266,267
Capital contributions during the year	-	92,966	92,966
Capital withdrawals during the year	-	(92,609)	(92,609)
As at 31 December 2020	1	1,266,623	1,266,624
Capital contributions during the year	-	871,118	871,118
Capital withdrawals during the year	-	(211,682)	(211,682)
As at 31 December 2021	1	1,926,059	1,926,060

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 2021 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'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 <https://www.lloydsbankinggroup.com/investors/financial-downloads.html>.

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 and expense for the year are set out below.

The Partnership's related parties include other companies in the Group and the Company's key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, which is determined to be the 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 2021

12. Related party transactions (continued)

A summary of the outstanding balances at the year end and the related income and expense for the year are set out below.

				2021 £'000	2020 £'000
Amounts due from group undertakings					
Nature of transaction	Related party	Repayment	Interest		
Deemed loan to originator	Lloyds Bank plc (see note 9)	Various	0.61% - 2.20%	2,372,246	1,679,670
Accrued interest receivable	Lloyds Bank plc (see note 8)	Various	Nil	2,256	2,001
Amounts due from group undertakings	Lloyds Bank plc (see note 8)	On demand	Nil	-	159
Total Amounts due from group undertakings				2,374,502	1,681,830
Interest income					
Interest income	Lloyds Bank plc (see note 4)	On demand	Nil	27,160	31,238

The registered offices of related parties are noted below:

Related party	Related party relationship	Registered address
Lloyds Bank plc	Designated Member	25 Gresham Street, London, EC2V 7HN
Lloyds Banking Group plc	Ultimate parent company	The Mound, Edinburgh, EH1 1YZ
Dunstan Investments (UK) Limited	Designated Member	25 Gresham Street, London, EC2V 7HN
Lloyds Banking Group Pension Trustees Limited	Member	25 Gresham Street, London, EC2V 7HN

13. Financial risk management

The Partnership's operations expose it to credit risk, market risk and interest rate risk. It is not exposed to any significant liquidity or foreign exchange risk. Responsibility for the control of overall risk lies with the Member, operating within a management framework established by Lloyds Banking Group, and the ultimate parent, Lloyds Banking Group plc.

13.1 Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due.

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

Maximum credit exposure

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.

	2021 £'000	2020 £'000
Deemed loan to originator	2,372,246	1,679,670
Trade and other receivables	2,256	2,160
Total credit risk exposure	2,374,502	1,681,830

The current rating of the intermediate parent company, Lloyds Bank plc, is A1 (2020: A1) as per Moody's. The members consider credit risk to be relatively insignificant to the Partnership.

Notes to the financial statements (continued)

For the year ended 31 December 2021

13. Financial risk management (continued)

13.2 Liquidity risk

The Partnership has no liabilities as of 31 December 2021 (2020: £nil) and hence has no liquidity risk.

13.3 Market risk

Market risk is the risk of financial loss from changes in market prices of financial assets and liabilities, typically from changes and volatility in interest rates (see note 13.4 for interest rate risk) and foreign exchange rates (see note 13.5 for foreign currency risk).

13.4 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 £5,936,000 (2020: £4,205,000).

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 2021

	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Over 5 years £'000	Total £'000
Deemed loan to originator	2,372,246	-	-	-	-	2,372,246
	2,372,246	-	-	-	-	2,372,246

As at 31 December 2020

	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Over 5 years £'000	Total £'000
Deemed loan to	1,397,757	281,913	-	-	-	1,679,670
Total Assets	1,397,757	281,913	-	-	-	1,679,670

Trade and other receivables £2,256,000 (2020: £2,160,000) are non-interest bearing.

13.5 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Partnership's transactions are all denominated in pounds sterling and as such the Partnership has no exposure to foreign currency risk.

Notes to the financial statements (continued)

For the year ended 31 December 2021

13. Financial risk management (continued)

13.6 Fair values of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is a measure as at a specific date and may be significantly different from the amount which will actually be paid or received on maturity or settlement date.

Valuation of financial assets and liabilities

The valuations of financial instruments have been classified into three levels according to the quality and reliability of information used to determine the fair values.

Level 1 portfolios

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 predominantly comprise equity shares, treasury bills and government securities.

Level 2 portfolios

Level 2 valuations are those where quoted market prices are not available, for example where the instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3 portfolios

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments are valued using various valuation techniques that require significant management judgment in determining appropriate assumptions, including earnings multiples and estimated future cash flows.

Financial assets and liabilities carried at amortised cost

The Members consider that there are no significant differences between the carrying amounts shown in the Balance sheet and their fair value, due to their short term nature.

Deemed loan to originator and Trade and other receivables

Trade and other receivables are held at amortised cost.

The Directors consider that there are no significant differences between the carrying amounts shown in the Balance sheet and their fair value, due to their short term nature.

The Deemed loan to originator, Trade and other receivables, Borrowed funds and Trade and other payables are recognised on an amortised cost basis that is considered to be a close approximation to fair value and are classified as Level 2 in accordance with the fair value hierarchy per IFRS 13: Fair value measurement.

14. Capital disclosures

The Partnership's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, provide an adequate return to its shareholders through pricing products and services commensurately with the level of risk and, indirectly, to support the Group's regulatory capital requirements.

The Partnership's parent manages the Partnership's capital structure and advises the board of directors to consider making adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the board of directors may adjust the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares, or sell assets.

The Partnership's capital comprises all components of equity, movements in which appear in the Statement of changes in equity. The Partnership receives its funding requirements from its fellow group undertakings and does not raise funding externally.

Notes to the financial statements (continued)

For the year ended 31 December 2021

15. 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.

Financial guarantee contracts are accounted for as insurance contracts in accordance with IFRS 4. Insurance contracts are those contracts which transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event which are significantly more than the benefits payable if the insured event were not to occur. The liability is calculated by estimating the future cash flows over the duration of the in-force policies and discounting them back to the valuation date, allowing for the probabilities of occurrence.

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.

	2021 Market value £'000	2020 Market value £'000
Security		
Securitisation notes (residential mortgage-backed)	1,129,628	1,109,896
Securitisation notes (collateralised loan obligation)	938,503	542,590
Securitisation notes (covered bonds)	298,526	-
	2,366,657	1,652,486

The guarantee amount as at 31 December 2021 was £2,132,000,000 (2020: £1,448,750,000).

Notes to the financial statements (continued)

For the year ended 31 December 2021

16. Future developments

The following pronouncement is not applicable for the year ending 31 December 2021 and has not been applied in preparing these financial statements. Save as disclosed below, the impact of this accounting change is still being assessed by the Partnership and reliable estimates cannot be made at this stage.

Pronouncement	Nature of change	Effective date
IFRS 17 'Insurance Contracts' ¹	<p>IFRS 17 replaces IFRS 4 Insurance Contracts and is effective for annual periods beginning on or after 1 January 2023.</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. The fulfilment cash flows consist of the present value of future cash flows, together with an explicit risk adjustment, and are required to be remeasured at each reporting date. The contractual service margin is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts and represents the unearned profit of the insurance contracts. 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. The risk adjustment is released to profit and loss as an insurer's risk reduces. The expected profit for providing insurance coverage is recognised in the contractual service margin and released to profit or loss over time as the insurance coverage is provided.</p>	Annual periods beginning on or after 1 January 2023
Minor amendments to other accounting standards	The IASB has issued a number of minor amendments to IFRSs effective 1 January 2022 and in later years (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets).	Annual periods beginning on or after 1 January 2022 and later years

¹ At the date of this report, these pronouncements are awaiting endorsement for use in the United Kingdom.

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Lloyds Bank Pension ABCS (No 2) LLP (the 'limited liability partnership'):

- give a true and fair view of the state of the limited liability partnership's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the cash flow statement;
- the related notes 1 to 16.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and IFRSs as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the limited liability partnership in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the members' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the limited liability partnership's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the members with respect to going concern are described in the relevant sections of this report.

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The members are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

Responsibilities of members

As explained more fully in the members' responsibilities statement, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the members 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 members are responsible for assessing the limited liability partnership'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 members either intend to liquidate the limited liability partnership or to cease operations, or have no realistic alternative but to do so.

Auditor's 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 auditor's 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 auditor's report.

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the limited liability partnership's industry and its control environment, and reviewed the limited liability partnership's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the limited liability partnership operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the limited liability partnership's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

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

Report on other legal and regulatory requirements

Matters on which we are required to report by exception

Under the Companies Act 2006 as applied to limited liability partnerships we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the limited liability partnership's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 as applied to limited liability partnerships. Our audit work has been undertaken so that we might state to the limited liability partnership's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the limited liability partnership and the limited liability partnership's members as a body, for our audit work, for this report, or for the opinions we have formed.



Paul Cowley CA (Senior Statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Glasgow, United Kingdom
Date:- 16 September 2022