

Lloyds Bank Pension ABCS (No 2) LLP

Annual report and financial statements for the year ended 31 December 2020

Registered office

25 Gresham Street
London
EC2V 7HN

Registered number

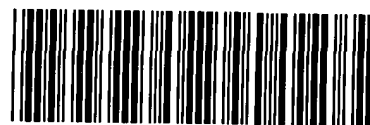
OC350023

Current members

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

Member of Lloyds Banking Group PLC

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Members' report

For the year ended 31 December 2020

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 2020.

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 £96,966,000 (2019: £297,301,000) and made capital withdrawals of £96,609,000 (2019: £329,351,000).

The results of the Partnership which show a profit, before distributions to Class A and B interest holders of £26,262,000 (2019: £32,256,000) is set out in the Statement of comprehensive income on page 4.

During the year, the Class B interest holders received no mandatory distributions (2019: £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 ("the Group") and are not managed separately. Full disclosure of the Partnership's financial risk management objectives and policies are contained in note 12 to the financial statements.

The global pandemic from the outbreak of COVID-19 continues to cause widespread disruption to normal patterns of business activity across the world, including in the UK, and volatility in financial markets. Measures taken to contain the health impact of the COVID-19 pandemic have resulted in an adverse impact on economic activity across the world and the duration of these measures remains uncertain. Monetary policy loosening has supported asset valuations across many financial markets, but longer-term impacts on inflation, interest rates, credit spreads, foreign exchange rates and commodity, equity and bond prices remain unclear.

Synchronisation of emergency measures to slow the spread of COVID-19 across the world has brought about rapid deterioration in economic growth across all countries and regions, directly adversely impacting the UK through many channels, including trade and capital flows. The UK experienced a deep contraction in economic activity during 2020 as a result of the COVID-19 pandemic, and both private and public sector debt have risen significantly. If the economic downturn damage were to be prolonged significantly by inability to control COVID-19 spread with vaccines, public finances would likely continue to deteriorate and could result in a sovereign downgrade that could also impact the credit ratings of the Lloyds Banking Group. Rating downgrades could have a material adverse impact on Lloyds Banking Group's ability to raise funding in the wholesale markets.

As a result of the COVID-19 pandemic, the potential for conduct and compliance risks as well as operational risks materialising has increased, notably in the areas of cyber, fraud, people, technology, operational resilience and where there is reliance on third-party suppliers.

In addition, Covid-19 could have an adverse impact across risks including the value of the assets in the Company. If the value of the assets fall below the TSCR then the Company will look to LBG 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.

Members' report (continued)

For the year ended 31 December 2020

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 financial statements have been prepared on a going concern basis. There is a net asset position of £1,681,830,000 (2019: £1,655,211,000).

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 LBG to provide additional funding support to meet the TCSR/guarantee amount.

As a result, the Members have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the Annual report and financial statements.

In the event of LBG being insolvent we expect to be holding collateral assets above TSCR to fulfil obligations to the pension scheme and carry on as a going concern.

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 in respect of the financial statements

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

Company law, as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 (the "Regulations"), requires the members to prepare financial statements for each financial year. Under that law the members have prepared the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Under company law, as applied to limited liability partnerships, 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 LLP and of the profit or loss of the LLP for that period. In preparing the financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently;
- state whether the financial statements comply with international accounting standards in conformity with the requirements of the Companies Act 2006, 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 also responsible for safeguarding the assets of the LLP and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The members are responsible for keeping adequate accounting records that are sufficient to show and explain the LLP's transactions and disclose with reasonable accuracy at any time the financial position of the LLP and enable them to ensure that the financial statements comply with the Companies Act 2006.

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.

Members' report (continued)

For the year ended 31 December 2020

Independent auditors

PricewaterhouseCoopers LLP (PwC) has been the auditors of the Partnership and the Group since 1995, and in accordance with legal and regulatory requirements, will be resigning as auditors following completion of the audit for the year ended 31 December 2020. Following a tender process in 2018, the Committee recommended to the Board that Deloitte be appointed as the Group's auditors for the financial year beginning on 1 January 2021.

By the Designated Members, on behalf of the members

Mark Bradshaw

.....
Mark Bradshaw

For Dunstan Investments (UK) Limited



.....
Richard Shrimpton

For Lloyds Bank plc

18 August 2021

Statement of comprehensive income

For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Interest income	3	31,238	32,313
Other operating expenses	4	(4,976)	(57)
Profit for the year before Members' distribution and profit shares		26,262	32,256
Total comprehensive income for the year		26,262	32,256

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 2020

	Note	2020 £'000	2019 £'000
ASSETS			
Trade and other receivables	7	2,160	3,781
Deemed loan to originator	8	1,679,670	1,651,430
Total assets		1,681,830	1,655,211
MEMBERS' EQUITY			
Members' capital account	10	1,266,624	1,266,267
Retained earnings	9	415,206	388,944
Total equity		1,681,830	1,655,211
Total equity and liabilities		1,681,830	1,655,211

The accompanying notes 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

Mark Bradshaw

For Dunstan Investments (UK) Limited

Richard Shrimpton

Richard Shrimpton

For Lloyds Bank plc

18 August 2021

Cash flow statement

For the year ended 31 December 2020

	2020 £'000	2019 £'000
Cash flows used in operating activities		
Profit for the year before Members' distribution and profit shares	26,262	32,256
Adjustments for:		
- Interest income on amounts owed by intermediate parent company	(21,448)	(29,537)
- Accretion of discount	(9,791)	(2,776)
Cash used in operations	(4,977)	(57)
Net cash used in operating activities	(4,977)	(57)
Cash flows generated from investing activities		
Interest received	23,227	29,837
Advanced to intermediate parent company	(502,135)	(188,423)
Repayment by intermediate parent company	483,528	190,693
Net cash generated from investing activities	4,620	32,107
Cash flows generated from/(used in) financing activities		
Net proceeds from partners contribution	357	(32,050)
Net cash generated from/(used in) financing activities	357	(32,050)
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 2020

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.

The financial statements of Lloyds Bank Pension ABCS (No.2) LLP comply with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). IFRS comprises accounting standards prefixed IFRS issued by 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 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.

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

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

- (i) Amendments to IAS 1 and IAS 8: The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information. In particular, the amendments clarify:

- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and
- the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

- (ii) Amendments IFRS 3: The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.

The amendments will likely result in more acquisitions being accounted for as asset acquisitions.

- (iii) The amendments made to IFRS 7 Financial Instruments: Disclosures, IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement provide certain reliefs in relation to interest rate benchmark reforms.

The reliefs relate to hedge accounting and have the effect that the reforms should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries.

- (iv) The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions of an asset and a liability
- removing the probability threshold for recognition and adding guidance on derecognition
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

Notes to the financial statements (continued)

For the year ended 31 December 2020

1. Accounting policies (continued)

1.1 Basis of preparation (continued)

Details of those pronouncements which will be relevant to the Partnership but which were not effective at 31 December 2020 and which have not been applied in preparing these financial statements are given in note 15. No standards have been early adopted.

The financial statements have been prepared on a going concern basis. There is a net asset position of £1,681,830,000 (2019: £1,655,211,000).

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 LBG to provide additional funding support to meet the TCSR/guarantee amount.

As a result, the Members have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the Annual report and financial statements.

In the event of LBG being insolvent we expect to be holding collateral assets above TSCR to fulfil obligations to the pension scheme and carry on as a going concern.

The Partnership is out of scope of the Streamlined Energy and Carbon Reporting (SECR), as it does not meet the numerical thresholds in relation to turnover and number of employees.

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.

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.

Notes to the financial statements (continued)

For the year ended 31 December 2020

1. Accounting policies (continued)

1.3 Financial assets (continued)

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.

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.

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 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.

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.

Notes to the financial statements (continued)

For the year ended 31 December 2020

1. Accounting policies (continued)

1.8 Deemed loan to originator (continued)

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.

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.

In the course of preparing the financial statements, there are no critical judgements nor have any critical accounting estimates been made in the process of applying the company's accounting policies.

3. Interest income

	2020 £'000	2019 £'000
Group interest income (see note 11)	31,238	32,313
	31,238	32,313

4. Other operating expenses

	2020 £'000	2019 £'000
Net loss/(profit) on settlement of deemed loans	4,384	(243)
Fees and commissions	300	300
Bank charges	292	-
	4,976	57

The fees and commissions include service fee of £200,000 (2019: £200,000) and custodian fees of £100,000 (2019: £100,000).

During 2020, 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 10) the Partnership settled deemed loans with a book value of £229,176,000 (2019: £59,455,000) 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 loss of £4,384,000 (2019: £243,000 net profit).

Notes to the financial statements (continued)

For the year ended 31 December 2020

5. Profit for the year before Members' distribution and profit shares

Audit fees payable to the Partnership's auditors for the audit of the financial statements of £19,000 (2019: £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 (2019: none).

6. Taxation

There is no tax expense for the year (2019: £nil); the members are limited companies and account for their share of the partnership tax liability at an individual company level.

7. Trade and other receivables

	2020 £'000	2019 £'000
Accrued interest receivable (see note 11)	2,001	3,781
Amounts due from group undertakings (see note 11)	159	-
As at 31 December	2,160	3,781

8. Deemed loan to originator

	2020 £'000	2019 £'000
As at 1 January	1,651,430	1,650,924
Advances during the year	502,135	188,423
Accretion of discount during the year	9,791	2,776
Repayments during the year	(483,686)	(190,693)
As at 31 December	1,679,670	1,651,430
Represented by:		
Current	193,173	55,488
Non-current	1,486,497	1,595,942
	1,679,670	1,651,430

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 impairment has arisen in respect of the receivable balance and accordingly no provision has been recognised.

Notes to the financial statements (continued)

For the year ended 31 December 2020

9. Retained earnings

	2020 £'000	2019 £'000
At beginning of the year	388,944	356,688
Profits for the year	26,262	32,256
As at 31 December	415,206	388,944

10. Members' capital account

	Dunstan Investments (UK) Limited £'000	Lloyds Bank plc £'000	Total £'000
As at 1 January 2019	1	1,298,316	1,298,317
Capital contributions during the year	-	297,301	297,301
Capital withdrawals during the year	-	(329,351)	(329,351)
As at 31 December 2019	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

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 2020 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.

11. 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.

	2020 £'000	2019 £'000
Deemed loan to originator		
Lloyds Bank plc (see note 8)	1,679,670	1,651,430
Interest income		
Lloyds Bank plc (see note 3)	31,238	32,313
Accrued interest receivable		
Lloyds Bank plc (see note 7)	2,001	3,781

Notes to the financial statements (continued)

For the year ended 31 December 2020

11. Related party transactions (continued)**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 comprises 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.

12. 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.

12.1 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.

	2020 £'000	2019 £'000
Deemed loan to originator	1,679,670	1,651,430
Trade and other receivables	2,160	3,781
Total credit risk exposure	1,681,830	1,655,211

The current rating of the intermediate parent company, Lloyds Bank plc, is A1 (2019: Aa3) as per Moody's. The members consider credit risk to be relatively insignificant to the Partnership.

12.2 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 £4,205,000 (2019: £4,138,000).

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 2020

	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	1,204,584	281,913	-	-	-	1,486,497
Current assets						
Deemed loan to originator	193,173	-	-	-	-	193,173
	1,397,757	281,913	-	-	-	1,679,670

Notes to the financial statements (continued)

For the year ended 31 December 2020

12. Financial risk management (continued)**12.2 Interest rate risk (continued)**

As at 31 December 2019

	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	1,263,112	332,830	-	-	-	1,595,942
Current assets						
Deemed loan to originator	55,488	-	-	-	-	55,488
Total Assets	1,318,600	332,830	-	-	-	1,651,430

Trade and other receivables £2,160,000 (2019: £3,781,000) are non-interest bearing.

12.3 Liquidity risk

The Partnership has no liabilities as of 31 December 2020 (2019: £nil) and hence has no liquidity risk.

12.4 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 IFRS 13.

13. Financial guarantee

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

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

This Guarantee has been accounted for as an insurance contract in accordance with IFRS 4. At this stage, the Partnership does not foresee any payout from the Guarantee and have therefore valued it at £nil (2019: £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.

	2020 Market value £'000	2019 Market value £'000
Security		
Securitisation notes (residential mortgage-backed)	1,109,896	933,187
Securitisation notes (collateralised loan obligation)	542,590	694,451
	1,652,486	1,627,638

The guarantee amount as at 31 December 2020 was £1,448,750,000 (2019: £1,448,750,000).

Notes to the financial statements (continued)

For the year ended 31 December 2020

14. Post Balance sheet events

Since the end of reporting period the financial guarantee amount was increased from £1,448,750,000 to £2,216,000,000. This led to an equivalent purchase of assets and increase in the liabilities of the entity, meaning there was no net asset change.

15. Future developments

The following pronouncement will be relevant to the Partnership but were not effective at 31 December 2020 and have not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	The IASB's Phase 2 amendments in response to issues arising from the planned replacement of interest rate benchmarks in a number of jurisdictions are effective for annual periods beginning on or after 1 January 2021. Under these amendments, an immediate gain or loss is not recognised in the income statement where the contractual cashflows of a financial asset or financial liability are amended as a direct consequence of the rate reform and the revised contractual terms are economically equivalent to the previous terms. In addition, hedge accounting is continued for relationships that are directly affected by the reform. These amendments are not expected to have a significant impact on the Company.	Annual periods beginning on or after 1 January 2021
Minor amendments to other accounting standards	The IASB has issued a number of minor amendments to IFRSs effective 1 January 2021 and 1 January 2022 (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets). These amendments are not expected to have a significant impact on the Group.	Annual periods beginning on or after 1 January 2022

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.

16. 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.

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 LLP's affairs as at 31 December 2020 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 as applied to limited liability partnerships; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: Balance sheet as at 31 December 2020; Statement of comprehensive income and 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 LLP 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

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 LLP'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.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the LLP's ability to continue as a going concern.

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

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 members 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 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.

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

Responsibilities for the financial statements and the audit

Responsibilities of the members for the financial statements

As explained more fully in the Statement of members' responsibilities in respect of the financial statements, the members 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 members 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 members are responsible for assessing the LLP'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 LLP 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.

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.

Based on our understanding of the LLP and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of industry laws and regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to manual elements of the control environment, specifically the posting of inappropriate journal entries and significant accounting estimates. Audit procedures performed by the engagement team included:

- Obtaining an understanding of the legal and regulatory framework applicable to the company and how the company is complies with that framework;
- Held discussions with management and those charged with governance including making specific inquiries about any consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reviewed minutes of meetings of those charged with governance along with key transaction documents; and
- Tested a sample of manual journal entries and other adjustments impacting the company's accounting records, including significant accounting estimates.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

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

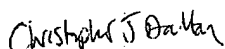
Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained 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
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory
Edinburgh
18 August 2021