

LLOYDS BANK PENSION SCHEME NO.2
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020
SCHEME REGISTRATION NUMBER: 10145384

LLOYDS BANK PENSION SCHEME NO.2

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TRUSTEE DIRECTORS, OFFICIALS AND ADVISERS

YEAR ENDED 31 DECEMBER 2020

Principal Employer	Lloyds Bank PLC 25 Gresham Street, London, EC2V 7HN
Participating Employers	Lloyds Bank Asset Finance Division Limited Lloyds Bank Commercial Finance Limited Scottish Widows Services Limited
Corporate Trustee	Lloyds Banking Group Pensions Trustees Limited (the "Trustee")
Trustee Directors	Independent: The Law Debenture Pension Trust Corporation PLC represented by Mark Ashworth Jocelyn Blackwell Sally Bridgeland (until 31 March 2020) Law Debenture Governance Services Limited represented by Vicky Paramour Employer appointed: Harry Baines ("Chair") Roger Boyes (until 31 March 2020) Michelle Cracknell John Hope Member nominated: Geoff Askew Richard Conway Kevin Doerr (until 31 March 2020) Shirley Hughes
Secretarial support	ZEDRA Inside Pensions Ltd Third Floor, 54-56 Victoria Street, St Albans, Herts, AL1 3HZ
Secretary	Robert Hales Lloyds Banking Group - Pensions Department 16th Floor, 125 London Wall, London, EC2Y 5AS
Group pensions	Lloyds Banking Group - Pensions Department 16th Floor, 125 London Wall, London, EC2Y 5AS E-mail: group pensions@lloydsbanking.com
Scheme administrator	Towers Watson Limited (known as Willis Towers Watson) PO Box 545, Redhill, Surrey, RH1 1YX Tel: 01737 227 522 E-mail: Lloyds1and2@willistowerswatson.com
Tax adviser	KPMG LLP 15 Canada Square, London, E14 5GL
Scheme Actuary	J C Wintle FIA Towers Watson Limited (known as Willis Towers Watson) Watson House, London Road, Reigate, Surrey, RH2 9PQ

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TRUSTEE DIRECTORS, OFFICIALS AND ADVISERS *(continued)*

YEAR ENDED 31 DECEMBER 2020

Independent auditor	KPMG LLP ("KPMG") (until 12 August 2020) 15 Canada Square, London, E14 5GL Deloitte LLP ("Deloitte") (from 24 September 2020) Abbots House, Abbey Street, Reading, RG1 3BD
Legal adviser	Allen & Overy LLP 1 Bishops Square, London, E1 6AD
Covenant adviser	KPMG LLP (until 12 April 2021) 15 Canada Square, London, E14 5GL Interpath Limited (from 12 April 2021) 10 Grosvenor Street, London, W1K 4QB
Investment advisers	Towers Watson Limited (known as Willis Towers Watson) (lead adviser) Watson House, London Road, Reigate, Surrey, RH2 9PQ Mercer LLC One Christchurch Way, Woking, GU21 6JG Aksia LLC (until 30 September 2020) 1st Floor, 55 St James's Street, London, SW1A 1LA Inalytics Limited 9th Floor, Corinthian House, 17 Lansdowne Road, Croydon, CR0 2BX BlackRock Financial Management Inc. 40 East, 52nd Street, New York, NY 10022 Carraighill Capital Limited (from 30 June 2020) Eagle House, 5 Marine Road, Dun Laoghaire, Co. Dublin, Ireland
Custodian	The Bank of New York Mellon, London Branch ("BNY Mellon") 1 Canada Square, Canary Wharf, London, E14 5AL
Nominee company	BNY Mellon Nominees Limited 160 Queen Victoria Street, London, EC4V 4LA
Bankers	Lloyds Bank PLC City Office, PO Box 72, Bailey Drive, Gillingham Business Park, Kent, ME8 0LS
AVC providers	Equitable Life Assurance Society ("Equitable Life") (until 31 December 2019) Utmost Life and Pensions ("Utmost") (from 1 January 2020) Prudential PLC ("Prudential") Standard Life Assurance Limited ("Standard Life") Scottish Widows PLC ("Scottish Widows") Phoenix Life Limited ("Phoenix")

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TRUSTEE DIRECTORS, OFFICIALS AND ADVISERS *(continued)*

YEAR ENDED 31 DECEMBER 2020

Investment managers	Aberdeen Asset Management PLC ("Aberdeen") Arcus Infrastructure Partners LLP ("Arcus")* AQR Limited (until November 2020) Beach Point Capital Management LP BlackRock Investment Management (UK) Limited Blackstone Strategic Alliance Advisors L.L.C ("Blackstone") BlueMountain Capital Management LP Brandywine Global Investment Management LLC (until July 2020) Bridgewater Associates LP (until December 2020) Brigade Capital Management LLC CB Richard Ellis Collective Investors Limited CQS (UK) LLP Dalmore Capital DW Partners LLP Empyrean Capital Partners, LP Goldman Sachs & Co ("GS") GSO Capital Partners LP Legal and General Investment Management Limited ("LGIM") Man Group PLC Mellon Capital Nephila Capital Limited* Oakhill Advisors LLP Park Square Capital LLP (until September 2020) Pathway Capital Management ("Pathway") Pensions Infrastructure Platform Limited (until April 2020) PIMCO Europe Limited PGIM Fixed Income SteelRiver Infrastructure Associates LLC ("SteelRiver")* TCW Asset Management Company International Limited Vontobel Wellington Management International Limited
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* Funds held with the manager are in run-off with residual cash within the funds to be settled.

Enquiries

Requests for additional information about the Scheme generally, or queries relating to member benefits, should be made to the Scheme's administrator, Towers Watson Limited, using the contact details on page 1. Information about the Scheme may also be obtained from the Lloyds Banking Group Pensions Website www.lloydsbankinggroup.pensions.com. Any issue about the running of the Scheme, or for the Trustee, should be addressed to Lloyds Banking Group Pensions Department, whose address is on page 1 of this report.

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TRUSTEE'S REPORT

YEAR ENDED 31 DECEMBER 2020

The Trustee of the Scheme presents the annual report for the year ended 31 December 2020.

Constitution of the Scheme

The Scheme provides a defined benefit ("DB") section governed by a Trust Deed dated November 1976, as amended from time to time. Consolidating, revised and updated rules were introduced on 21 December 1995.

The Scheme provides benefits based on a member's salary and length of service and is closed to new entrants. The Trustee continues to look after the future accrual of active DB members' benefits and the accrued benefits of active and deferred DB members, pensioners and beneficiaries.

The Scheme allows members to pay additional voluntary contributions ("AVCs") to enable DB members to acquire additional benefits on a defined contributions basis.

Recent developments

- **Guaranteed minimum pensions ("GMP")**

The Court has now handed down its decision (on 20 November 2020), providing clarity on how members who have transferred out of the Scheme should be treated with regard to GMP equalisation. As this relates to transferred benefits only, it is unlikely to affect the majority of members. The Trustee will, along with its advisers, now consider the Court's ruling in full. As with the initial judgment, the matter is complex, and it will take time to determine the appropriate resolution. In the meantime, the Trustee will continue to provide updates on progress through the Lloyds Banking Group Pension Scheme website, detailed on page 3.

- **Actuarial valuation**

The latest triennial actuarial valuation for the DB section (where the Scheme's Actuary values the Scheme's assets against its liabilities) was as at 31 December 2019, a summary of the valuation outcomes can be found on pages 8 to 10 of this report. Details of the revised Schedule of Contributions, which sets out the amounts payable to the Scheme by the Group and members to fund the Scheme, as agreed with the Group, and the Scheme Actuary's certification of the adequacy of those contributions, can be found on page 48.

- **Scheme auditor**

KPMG resigned as the Scheme auditor on 12 August 2020 and Deloitte were appointed as the new Scheme auditor on 24 September 2020. In their statement of leaving office, KPMG noted no circumstances connected with their resignation which, in their opinion, significantly affected the interests of the members or beneficiaries under the Scheme.

- **COVID-19**

As mentioned in last year's annual report, in early 2020, a new coronavirus (COVID-19), impacted a significant number of countries globally. COVID-19 has caused disruption to economic activity and falls in financial markets. The Trustee continues to work closely with the Scheme investment adviser and investment managers to assess the potential impact of COVID-19 and adjust the Scheme's DB investment strategy, if necessary.

As required by the regulations introduced by the UK government, the Scheme administrators continue to work from home and are prioritising their workload to ensure that pension and other benefit payments continue to be paid as expected. The Trustee is satisfied that appropriate controls remain in place for the continued operation of the Scheme. The Trustee will continue to monitor the impact of COVID-19 on the Scheme and update members through the Lloyds Banking Group Pensions website.

- **Impact of Brexit**

The Trustee has worked with its advisers to monitor and address any impacts on the Scheme of the UK's exit of the European Union (EU) at the end of 2020.

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TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2020

Significant changes to the Trust Deed and Rules

During the year, the following changes to the Trustee Deed and Rules were agreed:

- Amendments recording the exercise of discretions in relation to GMP equalisation forfeiture.
- Amendments relating to the identification of a comparator member for GMP equalisation.

Management of the Scheme

The Scheme is managed by a corporate Trustee, Lloyds Banking Group Pensions Trustees Limited (LBGPTL the "Trustee"), whose role is to ensure that the Scheme is administered in accordance with the Scheme's Trust Deed and Rules, and to safeguard the assets in the best interests of all beneficiaries.

The Trustee has sole responsibility for ensuring that the benefits are provided to members in accordance with the Trust Deed and Rules and relevant legislation. The assets of the Scheme are separate from those of the Principal and Participating Employers, though the Trustee relies on the Principal and Participating Employers to contribute to the Scheme in respect of future service benefits and any deficits relating to accrued benefits.

The Trustee Directors who served during the reporting period, and to the date of approval of this report, are listed on page 1. During 2019 there was a temporary increase in Trustee Directors from 9 to 12, to facilitate the transition of responsibilities as LBGPTL was appointed Trustee to Scottish Widows Retirement Benefits Scheme and to Your Tomorrow, in addition to the three existing Schemes (HBOS Final Salary Pension Scheme, the Lloyds Bank Pension Scheme No.1 and the Lloyds Bank Pension Scheme No.2). The temporary increase in Trustee Board size came to an end when three Directors left the Trustee Board on 31 March 2020 and were not replaced.

The Scheme's Trust Deed and Rules contain provisions for appointment and removal of the Trustee. Under these provisions the power of appointment and removal of the Trustee is vested in the Principal Employer of the Scheme. The Articles of Association contain provisions regarding the appointment and removal of Directors of the current Trustee. This vests the power of appointment and removal of the Trustee Directors in the Principal Employer. Under the Trustee's current Member Nominated Trustee Director ("MNTD") arrangements, at least one third of the Trustee Directors are nominated by Scheme members.

MNTDs can usually serve for a maximum term of four years after which they must stand down and can stand for re-election. They can be removed by unanimous agreement of all the other Trustee Directors. Employer-appointed Trustee Directors also serve for terms of four years and can be re-appointed by the Principal Employer. The Employer Appointed Trustee Directors can be removed by the Principal Employer without giving any reason.

A Trustee Director will cease to be a Trustee Director if:

- he or she resigns as a Trustee Director;
- he or she is absent from Trustee meetings for more than six months without the other Trustee Directors' permission;
- he or she becomes of unsound mind; or
- he or she becomes prohibited by law from acting as a Trustee Director or company Director.

A quorum for a Trustee meeting requires at least one Trustee Director from each category (Employer Appointed, Member Nominated and Independent) to be present.

During the year ended 31 December 2020, the Trustee Board met on 16 occasions.

The Trustee has agreed a business plan to support its governance arrangements. This includes periodic review of registers of risks and conflicts to ensure that appropriate internal controls are in place and remain effective.

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TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2020

Trustee advisers

The Trustee has the support of the Lloyds Banking Group Pensions Department and has appointed professional advisers and other organisations to support it in delivering the Scheme's objectives. These individuals and organisations are listed on pages 1 to 3.

Committees

In order to carry out its duties the Trustee delegates some responsibilities to the following committees:

- Investment and Funding Committee ("IFC") recommends defined benefit investment and funding strategy and monitors defined benefits investment performance. The IFC monitors the performance of each investment manager against specific benchmarks, as set out in each investment management agreement. In addition, the IFC oversees the triennial actuarial valuation of the Scheme and negotiates with the Employers regarding appropriate levels of contributions to be paid to the Scheme, making recommendations to the Trustee.
- Operations Committee ("OPS") reviews and makes recommendations on administration and exercises discretions concerning the distribution of lump sums arising on the death of a member of the Scheme, as well as having responsibility for the operation of the internal dispute resolution procedure.
- Governance Audit and Risk Committee ("GA&R") has responsibility for the selection process for MNTDs, Trustee Knowledge & Understanding, Trustee effectiveness, monitoring the risk register and ensuring that the other committees take appropriate action to mitigate the risks that they are responsible for. The GA&R also oversees the annual report and financial statements and the budget of the Scheme.
- The Defined Contributions ("DC") Committee ("DCC") provides a dedicated focus on DC matters including AVCs, with the aim of seeking to optimise outcomes for members with DC and AVC benefits and to oversee compliance with DC regulatory requirements.

The table below details Trustee Directors, who served during the year, who are also members of the committees listed above:

Trustee	Committee member	Changes
H Baines	GA&R	-
R Boyes	IFC, GA&R	Until 31 March 2020
G Askew	OPS, GA&R	GA&R from 1 April 2020
M Ashworth	OPS, GA&R (Chair), DCC	OPS Chair until 25 March 2020
J Blackwell	OPS (Chair), DCC	OPS Chair from 25 March 2020
S Bridgeland	IFC, DCC	Until 31 March 2020
R Conway	IFC	-
S Hughes	GA&R, OPS	-
V Paramour	IFC (Chair)	-
J Hope	IFC, DCC	-
K Doerr	GA&R	Until 31 March 2020
M Cracknell	OPS, DCC (Chair)	-

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TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2020

Financial development of the Scheme

The Financial Statements of the Scheme for the year ended 31 December 2020, as set out on pages 20 to 41, have been prepared and audited in accordance with Sections 41(1) and (6) of the Pensions Act 1995.

A summary of the Scheme's financial statements is set out in the table below:

	2020	2019
	£m	£m
Member related income	154.3	150.9
Member related payments	(439.1)	(405.5)
Net withdrawals from dealings with members	(284.8)	(254.6)
Net returns on investments	1,170.7	837.4
Net increase in the Scheme	885.9	582.8
Net assets at 1 January	8,612.6	8,029.8
Net assets at 31 December	9,498.5	8,612.6

Membership

The changes in membership during the year are as follows:

	Active members	Deferred members	Pensioners	Total
At 1 January 2020	2,500	20,335	26,111	48,946
Adjustments to prior period *	43	(21)	42	64
New beneficiaries	–	–	198	198
Members retiring	(115)	(964)	1,079	–
Members leaving prior to pensionable age	(112)	112	–	–
Deaths	(2)	(30)	(564)	(596)
Cessation of dependent pensions	–	–	(18)	(18)
Transfers out	(3)	(399)	–	(402)
Commutations	–	(24)	(21)	(45)
At 31 December 2020	2,311	19,009	26,827	48,147

* Adjustments relating to prior year include timing differences between the effective date of leaving or retiring and the actual date the administration system was updated.

Included within total pensioners are 3,072 (2019:3,041) widows and dependents pensioners.

Included in deferred are 18 deferred retirement members (2019:22). Deferred retirements relate to active members who have taken flexible retirement and have subsequently left the company before their normal retirement age.

Transfers

Transfer values above £1.5m paid from the DB section of the Scheme during the year were calculated and verified by the Scheme Actuary. There were no transfers made at less than their cash equivalent and no allowance was made for discretionary benefits.

LLOYDS BANK PENSION SCHEME NO.2

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2020

Pension increases

Annual increases to pensions in payment are given in accordance with the provisions of the Scheme Trust Deed and Rules. Different provisions may apply according to which membership section of the Scheme pensioners belong. In general, pensions increase in line with price inflation to a maximum of 5%. The rate of increase that applied to the majority of pensioners in the year ended 31 December 2020 was 2.4%. Each pensioner is informed individually in writing of the increase applicable to his or her pension scheme. There were no discretionary increases made in the year. Deferred pensions increases are in accordance with the Scheme Rules and relevant statutory requirements

Report on actuarial liabilities

The most recent actuarial valuation of the Scheme performed by the Scheme Actuary J C Wintle of Towers Watson Limited, was completed as at 31 December 2019 (the valuation date) and the Actuary's report was published on 22 April 2021. This valuation was prepared in line with the requirements of Part 3 of the Pensions Act 2004.

The main purpose of the valuation is to examine the financial position of the Scheme at the valuation date, relative to the Scheme's funding objective, in order to determine an appropriate level of contributions to be paid by the Employers on an ongoing basis. The funding objective is that the Scheme should have sufficient and appropriate assets at a given date to cover, on agreed assumptions, the prospective benefits arising from service up to that date, including allowance for the effect of capped future pensionable salary increases, known as the Scheme's "technical provisions".

Following discussions with the Principal Employer, acting on behalf of all Employers participating in the Scheme, and the Actuary, the Trustee agreed the assumptions to be used to calculate the technical provisions.

The technical provisions are calculated by projecting the benefits (which are mostly pension payments) expected to be paid in each year after the valuation date and then discounting the resulting cash flows to obtain a present value. Benefits accrued in respect of service only up to the valuation date, are taken into account in this calculation (a zero allowance is made for an assumed level of future pensionable earnings increases for employed members). This method of calculating technical provisions is known as the Projected Unit Method.

The projections allow for benefit payments being made from the Scheme over the next 100 or so years. Most of these payments depend on future increases in price inflation statistics subject to specified limits.

The main assumptions underlying the valuation calculations were:

Financial assumptions:	31 December 2019 % p.a.
Discount rate in excess of gilt yields:	
Initial period:	
• January 2020 to June 2024	0.80
• July 2024 to June 2034	linear reduction from 0.80 to 0.635 by June 2030 and to 0.25 by June 2034
Ultimate period:	
• July 2034 onwards	0.25
Reduction to the discount rate to allow for the cost of reinsurer /intermediary fees in respect of the longevity hedging arrangement	0.05 (The margins relative to gilts shown above are before this reduction)
Equivalent average single margin over gilt yields	0.46
Equivalent average single nominal discount rate	1.69

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TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2020

Report on actuarial liabilities *(continued)*

Financial assumptions:	31 December 2019 % p.a.
RPI inflation	Term dependent gilt market breakeven inflation the equivalent average single RPI inflation rate is 3.13%
CPI inflation	RPI inflation minus 0.9% p.a. up to 2030 and nil thereafter
General Salary increases	nil
Pension increases in payment	Term dependent increases derived using the Black formula with assumed volatility of 1.0% p.a. applied to the relevant forward rates implied by the assumed RPI or CPI curves, or relevant fixed increase

Mortality assumptions are based on 'S3' tables as published by the Continuous Mortality Investigation ("CMI"), as follows:

Demographic assumptions	31 December 2016 S2 tables
Male pensioners*:	
Very light	92% of S3PMA_VL
Light	104% of S3PMA_L
Average	96% of S3PMA
Heavy	97% of S3PMA_M
Female pensioner*:	
Light	95% of S3PFA_L
Upper average	102% of S3PFA
Lower average	95% of S3PFA_M
Heavy	109% of S3PFA_H
Male dependents	103% of 3DMA
Female dependents	104% of S3DFA_L
Improvements in longevity from the valuation date	2019 Core Projections Model with a long term rate of 1.75% p.a., 0.5% initial addition, and standard smoothing parameter (7.0)

*Members are classified into heavy, average or light mortality groups based on the individual life expectancy of members of the Lloyds Banking Group Pensions Trustees Limited Schemes, indicated by the Willis Towers Watson postcode model.

The table below compares the Scheme's technical provisions, as at the date of the actuarial valuation (31 December 2019), with the market value of the Scheme's assets and the corresponding figures from the previous actuarial valuation.

Valuation date:	31 December 2019 £m	31 December 2016 £m
Market value of assets:	8,613	8,594
Technical provisions:	10,108	9,802
Past service deficit:	1,495	1,208
Funding level:	85.2%	87.7%

The increase in the deficit between the 31 December 2016 and 31 December 2019 was due to a combination of factors affecting both assets and liabilities.

LLOYDS BANK PENSION SCHEME NO.2

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2020

Report on actuarial liabilities *(continued)*

If the Scheme had no surplus (or shortfall) and its assets were exactly equal to the technical provisions, contributions would normally still be required to cover the cost of benefits expected to accrue to members in the future.

Recovery Plan

As there were insufficient assets to cover the Scheme's technical provisions at the valuation date, the Trustee and Principal Employer agreed a recovery plan. This specifies how, and by when, the statutory funding objective is expected to be met.

The Trustee and the Employer agreed a recovery plan through a combination of regular additional contributions from the Employer and a share in the Employer profits, as set out below:

- Regular deficit contributions: The Employer will pay additional contributions to the Scheme at a rate of:
 - £9.333 million per month from 1 January 2020 to 31 December 2020 inclusive, plus
 - £14.600 million per month from 1 January 2021 to 31 March 2021 inclusive, plus
 - £104.600 million in the form of a lump sum by 1 April 2021, plus
 - £14.583 million per month from 1 January 2022 to 31 October 2028 inclusive
- Variable deficit contributions: For each calendar year from 2021 up to and including 2027, an annual variable contribution shall be payable equal to 6.5625% of the total value of capital distributions that have been returned to ordinary shareholders of Lloyds Banking Group PLC during the calendar year, subject to a cap of £262.5 million p.a.
- Once the combined regular and variable deficit contributions paid equal £1,456,202,000, no further contributions will be due.

If the assumptions documented in the Statement of Funding Principles are borne out in practice, the technical provisions deficit is expected to be eliminated by 31 October 2028. This expectation is based on investment returns being achieved on the Scheme's assets which, on average, over the period to 31 October 2028 are 0.2% p.a. higher than the discount rates adopted for the purposes of setting the technical provisions.

A Schedule of Contributions reflecting these agreed contributions, dated 22 April 2021, has been adopted by the Trustee and the Principal Employer.

Contingent security

The Scheme also benefits from additional security arrangements from two sources. One of these is a guarantee provided by Lloyds Banking Group PLC. The other is the provision of a contingent asset, backed by collateral, from the Principal Employer to support its obligations to the Scheme.

LLOYDS BANK PENSION SCHEME NO.2

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2020

Investment governance

The Trustee has ultimate responsibility for decision-making on investment matters. The Trustee will set general investment policy but will delegate certain decisions to one of several parties.

Most significantly, the Trustee delegates to an Investment & Funding Committee ("IFC"), in respect of defined benefit investments, and a DC Committee in respect of defined contribution investments. These Committees are formed by a sub-set of Trustee Directors plus external co-optees with investment experience. Their role is to make recommendations to the Trustee, or to take decisions on those matters delegated to it under their terms of reference.

In addition, the Trustee is supported by an executive Pensions Investment & Funding Team ("PIFT"), headed by a Chief Investment Officer ("CIO"). The CIO has certain decision-making powers, in addition to the IFC and DCC. However, day-to-day investment decisions, such as individual securities selection, can only be taken by investment managers who are authorised under the Financial Services and Markets Act 2000. The principal duty of the PIFT is to implement the decisions taken by the Trustee, IFC, DCC and/or the CIO.

Investment managers

The Trustee sets the investment strategy for the Scheme after taking advice from the Scheme's investment advisers. The Trustee has put in place investment mandates with its investment managers which implement this strategy.

These investment managers are all third-party appointments chosen following advice from the Trustee's investment advisers.

For each investment manager, appropriate guidelines, performance objectives and restrictions have been agreed and these are set out in investment management agreements. Within the guidelines and restrictions, the Trustee has delegated the day-to-day selection and retention of appropriate assets to the investment managers.

The appointment of the investment managers is reviewed by the CIO from time to time, based on the results of PIFT's monitoring of performance and processes and of the investment managers' compliance with the requirements in the Pensions Act 1995 (as amended by the Pensions Act 2004) and the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005.

An external independent performance monitoring agency, BNY Mellon, is appointed to consider the performance of the Scheme and its investment managers against their respective benchmarks. Performance reports are reviewed quarterly by the IFC and reported to the Trustee.

PIFT holds regular meetings with the investment managers to satisfy itself that the investment managers continue to carry out their work competently and have the appropriate knowledge and experience to manage the investments of the Scheme.

Custody

Where investments are held in segregated accounts, custody of assets is provided by the global custodian and master record keeper selected by the Trustee, BNY Mellon. The Scheme's segregated assets are held either in BNY Mellon nominee names across the world, or where possible securities are held in Investor Specific accounts.

Where assets are held in pooled investment vehicles, the responsibility for selection, appointment, monitoring and termination of the custody arrangements is delegated to the investment managers of these vehicles. In relation to defined benefit pooled investment vehicles, BNY Mellon provide bookkeeping and performance measurement services to the Scheme.

LLOYDS BANK PENSION SCHEME NO.2

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2020

Statement of Investment Principles ("SIP")

A SIP has been prepared by the Trustee which sets out the principles and policies that the Trustee has put in place to govern how the Scheme invests, and which describes how decisions about investments are made. A copy of the latest SIP is available on the Lloyds Banking Group Pensions website detailed on page 3.

The SIP includes the Trustee's approach to:

- Environmental, Social & Governance ("ESG") this refers to broader considerations that the Trustee and investment managers take into account when making investment decision.
- Responsible investment, being the incorporation of ESG factors into the investment making process.
- Financial and non-financial matters taken into account in the selection, retention and realisation of investments.
- Voting and engagement.

Implementation Statement

The Trustee has prepared an implementation statement, reporting on how the SIP has been followed during the year. The implementation statement has been included as an appendix to this report, on pages 51 to 57, and is also available on the Scheme website.

Investment objective of the Scheme

The investment objective of the Scheme is to purchase suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from members and the Principal Employer (on behalf all Employers participating in the Scheme), the funding objectives, as defined in the report on actuarial liabilities on page 8.

In addition, the Trustee is aiming to achieve (by the year 2034) a higher level of funding known as "self-sufficiency". This implies building sufficient assets such that it minimises the risk that the Scheme will need further material financial support from the Principal Employer in order to meet the prospective Scheme benefits as they fall due. For the purpose of calculating the value of liabilities on this "self-sufficiency" measure, the Trustee references the expected return on UK government bonds (known as "gilts"), plus 0.25% p.a. In meeting this objective, the Trustee will aim to deliver the investment return required to meet the funding objectives, whilst also limiting the risk that the assets fail to meet the Scheme's liability to pay benefits over the long term.

Investment policy for the Scheme

The Trustee sets the investment strategy for the Scheme taking into account considerations such as the strength of the Principal Employer covenant, the long-term liabilities and the contribution amounts payable by the Principal Employer. The strategy aims to ensure that the investments provide returns consistent with those required to fund the liabilities, with an acceptable degree of risk.

In formulating its investment policy, the Trustee balances the need to generate the investment return required to meet the funding objectives with the need to control the risk of failure, e.g., because of a substantial and sustained fall in the value of the assets, or a material reduction in the ability of the Principal Employer to support the Scheme on an ongoing basis.

In order to do this, the Trustee has defined a Strategic Asset Allocation ("SAA") policy which sets the target portfolio weightings to various diversifying asset classes. These asset classes fall under four headings, or "super-groups":

- Liability Hedging and Liquidity. This includes assets such as gilts, swaps and other derivatives which mimic (or hedge) the movement in the value of the Scheme's liabilities, which include:
 - Interest rate risk hedging: the policy is to hedge interest rate risk inherent within the liabilities to protect the Scheme's funding level from fluctuations in long-term interest rates.
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LLOYDS BANK PENSION SCHEME NO.2

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2020

Investment policy for the Scheme *(continued)*

- Currency hedging: the policy is to hedge a proportion of overseas currency exposure back to Sterling.
- Inflation hedging: the policy is to hedge inflation risk inherent within the liabilities to protect the Scheme's funding level from changes in inflation expectations.
- Longevity hedging: the policy is to hedge a proportion of the risk from an unanticipated increase in member life expectancy that could increase the length of time over which pension payments are paid.

The liability hedging part of the portfolio is therefore risk-focussed. This super-group also includes sufficient liquid assets to meet immediate cash needs arising from benefit or expense payments, or as necessary to support other hedges, such as those required to manage currency, longevity, or other risks as the Trustee may deem appropriate.

- The other three asset super-groups are called "Return Seeking", "Secure Income" and "Alternative Credit" and the asset classes contained in these groups are indicated in the table below. The purpose of investing in these types of assets is to generate the investment return required to meet the funding objectives described previously, albeit still operating in a risk-controlled manner.

The actual asset allocation of the Scheme's investment portfolio, at the 31 December 2020, is shown below:

Asset Class	Pooled investment vehicles	Segregated funds	Market value total	Market value total	SAA	SIP tolerance range
	£m	£m	£m	%	%	%
LDI	508.9	3,423.1	3,932.0			
Cash	231.0	4.2	235.2			
Liability Hedging	739.9	3,427.3	4,167.2	44.3	41.0	36.0 to 46.0
Buy and maintain bonds	23.4	750.9	774.3			
Global corporate bonds	5.4	841.2	846.6			
Collateralised loans	0.2	293.7	293.9			
Other contractual cashflow assets	278.0	-	278.0			
Secure Income	307.0	1,885.8	2,192.8	23.4	25.5	20.5 to 30.5
Emerging market debt	-	343.9	343.9			
Liquid credit opportunities	638.1	353.9	992.0			
Illiquid credit opportunities	146.3	171.5	317.8			
Alternative Credit	784.4	869.3	1,653.7	17.7	20.0	15.0 to 25.0
Global equities	441.6	184.5	626.1			
Private equities	236.4	6.4	242.8			
Hedge funds	147.7	16.3	164.0			
Real assets	296.6	136.2	432.8			
Return Seeking	1,122.3	343.4	1,465.7	14.6	13.5	8.5 to 18.5
Total Assets	2,953.6	6,525.8	9,479.4	100	100	

The table above is used by the Trustee to monitor the asset allocation of the Scheme against the asset allocation permitted ranges, as set out in the SIP. In the event that the allocation to an asset class moves outside of the tolerance range, the Trustee policy is to re-balance the asset class in question back to its SAA weighting.

This table excludes AVCs and flexible benefit assets which are invested in the name of the member on a money purchase basis. Pooled investment vehicles are shown against the underlying investment category.

LLOYDS BANK PENSION SCHEME NO.2

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2020

Investment performance

The performance of the Scheme is measured against the proxy for the movement in the Scheme's liabilities. Each appointed investment manager is measured against their specific investment objective, typically over a three year period, although shorter term performance and general market condition are also considered as part of the review process.

The table below sets out the investment returns for the Scheme to the 31 December 2020:

	1 year	3 years	5 years
	%	%	%
Scheme	13.7	7.5	10.3
Scheme liability proxy	10.5	6.0	8.3

General Market Overview for the year ended 31 December 2020

Details of the market's impact on investment performance is outlined below.

Headlines during 2020 were dominated by the COVID-19 global pandemic which caused significant volatility in the financial markets and the largest equity market drawdown since the global financial crisis in 2008/09. However, as the year progressed and optimism built on vaccine hopes, alongside aggressive central bank and government stimulus, financial markets rebounded posting strong returns over 2020.

Other significant events affecting markets throughout the year were the US Presidential election in November and, closer to home, the UK completed its departure from the EU having concluded a trade agreement.

The following sections look at the various asset classes in more detail.

Equity markets

Despite the large drawdown experienced in March, both developed and emerging market equities delivered double digit returns in Sterling terms over the full year. Emerging market equities marginally outperformed developed market equities despite some regional differences. The US, Asia Pacific and European equities all performed well over the year whilst UK equities lagged.

Fixed Income

When the pandemic first emerged, credit spreads widened dramatically, and bond yields across the board increased (prices fell). The major central banks around the world cut interest rates to all-time lows alongside launching various stimulus packages. As a result, bond yields fell (prices rose) as the year progressed and fixed income assets posted modest single digit returns of the end of the year.

Other Markets

In real estate, valuations fell throughout the year with the sectors most affected by COVID-19, retail and hospitality, suffering the largest falls. In commodity markets, prices fell sharply in March as demand faltered, however, losses were reversed as prices largely rebounded over the course of the year.

Employer-related investments

Details of employer related investments are given in note 23 to the financial statements.

AVCs

The Scheme allows for members to pay AVCs to enable DB members to acquire additional benefits on a money purchase basis.

LLOYDS BANK PENSION SCHEME NO.2

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2020

Statement of Trustee's responsibilities

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102), are the responsibility of the Trustee. Pension Scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of that year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in the Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparing of the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

The Trustee is also responsible for making available certain other information about the Scheme in the form of an annual report.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

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

Trustee Responsibilities in Respect of Contributions

The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid.

The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions. Where breaches of the Schedule of Contributions occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

LLOYDS BANK PENSION SCHEME NO.2

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2020

Internal disputes resolution procedures

A disputes resolution procedure has been agreed by the Trustee to resolve any queries raised by beneficiaries or potential beneficiaries of the Scheme and details of this can be obtained by writing to Group Pensions, using the contact details on page 1.

The Trustee's report was approved by the Trustee and is signed on its behalf by:

Trustee Director

Trustee Director

Date:

Date:

LLOYDS BANK PENSION SCHEME NO.2

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE LLOYDS BANK PENSION SCHEME NO.2

YEAR ENDED 31 DECEMBER 2020

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of the Lloyds Bank Pension Scheme No.2 (the Scheme):

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 December 2020 and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

We have audited the financial statements which comprise:

- the fund account;
- the statement of net assets; and
- the related notes 1 to 29.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

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 Scheme 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 Trustee's 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 Scheme'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 Trustee with respect to going concern are described in the relevant sections of this report.

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 Trustee is 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

LLOYDS BANK PENSION SCHEME NO.2

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE LLOYDS BANK PENSION SCHEME NO.2 *(continued)*

YEAR ENDED 31 DECEMBER 2020

Other information *(continued)*

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 Trustee

As explained more fully in the statement of Trustee's responsibilities, the Trustee is 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 Trustee determines 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 Trustee is responsible for assessing the Scheme'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 Trustee either intends to liquidate the Scheme or to cease operations, or has 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.

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

We obtained an understanding of the legal and regulatory frameworks that the Scheme 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 the Pension Act 1995, the Pensions Act 2004, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the Scheme's ability to operate or to avoid a material penalty. These included the Scheme's regulatory requirements.

We discussed among the audit engagement team including relevant internal specialists such as financial instruments and pensions actuarial specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

LLOYDS BANK PENSION SCHEME NO.2

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE LLOYDS BANK PENSION SCHEME NO.2 *(continued)*

YEAR ENDED 31 DECEMBER 2020

Extent to which the audit was considered capable of detecting irregularities, including fraud *(continued)*

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 unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of the Trustee and pension management concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of Trustee and subcommittees meetings and reviewing correspondence with the Pensions Regulator.

Use of our report

This report is made solely to the Scheme's Trustee, as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee 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 Scheme's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte LLP
Statutory Auditor
Reading, United Kingdom
22 July 2021

LLOYDS BANK PENSION SCHEME NO.2

FUND ACCOUNT

YEAR ENDED 31 DECEMBER 2020

	Notes	2020	2019
		£m	£m
Contributions and benefits			
Employer contributions		154.2	150.9
Employee contributions		0.1	–
Total contributions	4	154.3	150.9
Benefits paid or payable	5	(260.9)	(258.5)
Payments to and on account of leavers	6	(168.4)	(138.2)
Administrative expenses	7	(9.8)	(8.8)
		(439.1)	(405.5)
Net withdrawals from dealings with members		(284.8)	(254.6)
Returns on investments			
Investment income	8	134.3	142.3
Change in market value of investments	9	1,061.8	723.9
Investment management expenses	11	(24.4)	(22.6)
Taxation	12	(1.0)	(6.2)
Net returns on investments		1,170.7	837.4
Net increase in the fund during the year		885.9	582.8
Net assets of the Scheme			
At 1 January		8,612.6	8,029.8
At 31 December		9,498.5	8,612.6

The notes on pages 22 to 41 part of these financial statements.

LLOYDS BANK PENSION SCHEME NO.2

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

AS AT 31 DECEMBER 2020

	Notes	2020 £m	2019 £m
Investment assets	9		
Equities		133.0	117.4
Bonds		7,609.9	6,468.9
Pooled investment vehicles	13	2,953.6	3,145.8
Longevity hedge	14	-	-
Derivatives	15	997.1	978.6
AVC investments	16	21.9	22.3
Cash deposits	17	86.3	92.8
Other investment balances	18	851.3	713.0
		12,653.1	11,538.8
Investment liabilities	9		
Derivatives	15	(639.1)	(755.3)
Cash	17	(220.3)	(191.9)
Other investment balances	18	(2,292.4)	(1,979.8)
		(3,151.8)	(2,927.0)
Net investment assets		9,501.3	8,611.8
Current assets	24	13.3	18.2
Current liabilities	25	(16.1)	(17.4)
Net assets of the Scheme at 31 December		9,498.5	8,612.6

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and other benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the report on actuarial liabilities on pages 8 to 10 and these financial statements should be read in conjunction with this report.

The financial statements on pages 20 to 41 were approved by the Trustee and are signed on its behalf by:

Trustee Director

Trustee Director

Date:

Date:

The notes on pages 22 to 41 form part of these financial statements.

LLOYDS BANK PENSION SCHEME NO.2

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2020

1. Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 ("FRS 102") - The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice ("SORP") (Revised June 2018).

The financial statements are prepared on a going concern basis, which the Trustee believes to be appropriate as it believes that the Scheme has adequate resources to meet its obligations as they fall due for at least the next twelve months from the approval of these financial statements.

2. Identification of the financial statements

The Scheme is established as a trust under English law. The address for enquiries to the Scheme is included on page 3. The Scheme is a registered pension scheme under the Chapter 2, Part 4 of the Finance Act 2004. This means that contributions by employers and employees are normally eligible for tax relief, and income and capital gains earned by the Scheme receive preferential tax treatment.

3. Summary of significant accounting policies

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

Contributions

Employers' normal contributions are accounted for on an accruals basis on the date the payroll is run.

All contributions payable under salary sacrifice arrangements are classified as employer contributions.

Employer augmentation contributions are accounted for in accordance with the agreement under which they are paid, or in the absence of such an agreement, on a receipts basis.

Employer deficit funding contributions are accounted for in accordance with the agreement under which they are paid, or in the absence of an agreement, on a receipts basis.

Employer other contributions are accounted for in accordance with the agreement under which they are paid, or in the absence of an agreement, on a receipts basis. Other contributions include expense contributions and the reimbursement of the Pension Protection Fund ("PPF") levy which are accounted for on an accruals basis as specified in the Schedule of Contributions.

Benefits

Pensions are accounted for on an accruals basis on the date the payroll is run.

Benefits are accounted for in the period in which they fall due for payment. Where there is a choice, benefits are accounted for in the period in which the member notifies the Trustee of his decision on the type or amount of benefit to be taken or, if there is no member choice, they are accounted for on the date of retirement or leaving.

Lump sum death benefits are accounted for on an accruals basis on the date of death.

Individual transfers to other pension schemes represent the capital sums payable in respect of individual members transferring to other pension schemes. They are accounted for when paid which is normally the date the Trustee of the receiving scheme accepts the liability.

LLOYDS BANK PENSION SCHEME NO.2

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2020

3. Summary of significant accounting policies *(continued)*

Where the Trustee is required to settle tax liabilities on behalf of a member (such as when lifetime or annual allowances are exceeded) with a consequent reduction in the member's benefit receivable from the Scheme, this is shown separately within benefits.

Administrative expenses

Administration expenses are accounted for on an accruals basis.

PPF levies are accounted for on an accruals basis with the cost of the levy evenly spread across the year.

Investment income

Income from bonds is accounted for on an accruals basis and includes income bought and sold on purchases and sales of bonds.

Income from equities is accounted for on an accruals basis on the date stocks are quoted ex dividend, or in the case of unquoted instruments, when the dividend is declared.

Other interest on cash and short term deposits and income from other investments are accounted for on an accruals basis.

Income distributed from pooled investment vehicles is accounted for on an accruals basis. All other income generated by pooled investment vehicles which is not distributed, is retained within the fund and reflected in the market value of units.

Income from class actions is accounted for on an accruals basis.

Income from derivatives is accounted for on an accruals basis. Income payable is reflected within the market value of the derivative contract and included within the net asset statement until the date of payment.

Income arising from annuity policies is accounted for on an accruals basis and is included in investment income. The pensions paid are included in pensions.

Investment income includes withholding taxes. Withholding tax is accrued on the same basis as investment income.

Irrecoverable taxation relates to withholding tax reclaims which are no longer deemed recoverable. These are recognised on the date the claim is deemed irrecoverable.

Transaction costs and Investment management fees

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Scheme such as fees, commissions, stamp duty and other fees.

The fees paid to the investment managers are borne by the Scheme and are charged as a percentage of the market value of the fund. Some investment managers also receive a performance fee, the calculation of which is set out in each investment management agreement. Investment management expenses are accounted for on an accruals basis.

Some management fees for pooled investment vehicles are included within investment management fees but most are incorporated in the unit price and reflected within change in market value of investments in the fund account. Custody charges are accounted for on an accruals basis.

LLOYDS BANK PENSION SCHEME NO.2

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2020

3. Summary of significant accounting policies *(continued)*

Investment assets and liabilities

Investment assets and liabilities are included in the financial statements at fair value.

The methods of determining fair value for the principal classes of investments are:

- Bonds which are listed on an exchange are valued at bid price at the date of the financial statements. Index linked securities which are not listed on exchange are derived from a valuation model sourced from an independent pricing vendor. Market value excludes interest accrued, which is included as income receivable.
- Equities traded through the UK Stock Exchange Electronic Trading Service ("SETS") are valued on the basis of the latest traded price. Other quoted investments are valued on the basis of the bid market value quoted on the relevant stock market.
- Longevity swaps are valued on a fair value basis based on expected future cashflows arising from the vehicle discounted using market interest rates and taking into account the risk premium inherent in the contract.
- Units held in pooled investment vehicles are stated at bid price at the year end, as advised by the investment manager. Where the fund is single priced, the fund is stated at this single price at the year end, as advised by the investment manager. Resultant gains and losses are reflected in the change in market value of investments in the fund account.
- Unquoted pooled investment vehicle including property, private equity, infrastructure, hedge and alternative credit funds are included at the latest available net asset value ("NAV") of the fund as determined by the pooled investment manager. Private equity investments are valued in accordance with the valuation guidelines of the international private equity and venture capital valuation guidelines.
- Exchange traded futures are stated at fair value determined using market quoted prices.
- Over the counter ("OTC") derivatives are valued using the following valuation techniques:
 - Swaps are valued taking the current value of future cash flows arising from the swap determined using discounted cash flow models and market data at the reporting date.
 - Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

All gains and losses arising on derivative contracts are reported within 'Change in Market Value'. Receipts and payments arising from derivative instruments are reported as sale proceeds or purchase of investments.

- The Scheme recognises assets delivered out under repurchase contracts to reflect its ongoing interest in those securities. Cash received from repurchase contracts is recognised as an investment asset, and an investment liability is recognised for the value of the repurchase obligation. Collateral received in respect of securities lending arrangements is disclosed but not recognised as a Scheme asset.
- Cash delivered under reverse repurchase contracts is recognised as an investment receivable in the financial statements. Securities received in exchange are disclosed as collateral supporting this receivable but not included as Scheme assets.

LLOYDS BANK PENSION SCHEME NO.2

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2020

3. Summary of significant accounting policies *(continued)*

- Where available, with profits insurance policies held as AVC investments are reported at the policy value provided by the insurer based on cumulative reversionary bonuses declared and the current terminal bonus.
- Unitised insurance policies held as AVC investment are valued on the same basis as pooled investment vehicles with similar characteristics.

Acquisition and disposal costs are included within purchases and sales in the year they arise. Realised and unrealised capital gains and losses on investments are dealt with in the fund account in the year in which they arise.

Purchases and sales of overseas securities and income received in foreign currencies are translated into sterling at the rates ruling at the transaction date. The Scheme's functional and presentation currency is pounds sterling. Assets and liabilities denominated in foreign currencies are translated at the rates ruling at the year end. Gains and losses on translation and conversion of foreign currencies are included in the fund account, within change of market value of investments.

The Scheme receives or pledges collateral in the form of cash or securities in respect of derivative transactions it undertakes. Collateral pledged to third parties at the year-end has been included in the net assets of the Scheme as this remains an asset of the Scheme. Cash collateral held is invested in short term liquidity funds as the Scheme is exposed to the risks and rewards of ownership and are therefore included in the net assets of the Scheme with a corresponding liability for repayment of collateral also recognised. Collateral held in form of securities is disclosed but not recognised as a Scheme asset.

4. Contributions

	2020	2019
	£m	£m
Employer Contributions		
Normal	31.8	36.0
Augmentation	0.5	2.1
Other	8.5	8.2
Flexible benefit	1.4	1.6
Deficit funding	112.0	103.0
	154.2	150.9
Employee contributions		
AVCs	0.1	-
	154.3	150.9

Deficit funding contributions are payable until 31 October 2028, in accordance with the Schedule of Contributions, dated 22 April 2021. During the year, the employer paid deficit funding contribution of £9.333m per month from the 1 January 2020 and an advanced payment of £83.997m in April 2020 for the period to December 2020.

In accordance with the Schedule of Contributions, the Employer paid contributions in respect of the administration expenses of £0.677m per month until December 2020. Also included in other contributions is a reimbursement by the Employer of the PPF levy amounting to £0.5m.

LLOYDS BANK PENSION SCHEME NO.2

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2020

5. Benefits paid or payable

	2020	2019
	£m	£m
Pensions	227.9	218.0
Commutations & lump sum retirement	31.7	39.6
Lump sum death benefits	1.0	0.5
Taxation where lifetime or annual allowance exceeded	0.3	0.4
	260.9	258.5

6. Payments to and on account of leavers

	2020	2019
	£m	£m
Payments for members joining the state scheme	-	0.1
Individual transfers out	168.4	138.1
	168.4	138.2

7. Administrative expenses

	2020	2019
	£m	£m
Operating costs	1.3	1.2
Administration and processing	1.8	2.0
Professional fees	6.0	5.0
Trustee fees & expenses	0.2	0.2
PPF levies	0.5	0.4
	9.8	8.8

Audit fees of £60k (2019: £51k) are payable and are included within professional fees.

8. Investment income

	2020	2019
	£m	£m
Income from bonds	105.7	115.4
Dividends from equities	2.2	2.4
Income from pooled investment vehicles	30.6	46.7
Income from derivatives	2.9	(12.8)
Annuity income	0.2	0.2
Other investment income	-	0.7
Interest on cash deposits	(7.3)	(10.3)
	134.3	142.3

LLOYDS BANK PENSION SCHEME NO.2

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2020

9. Reconciliation of investments

	2019			2020	
	Value at 31 Dec £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Value at 31 Dec £m
Equities	117.4	80.1	(77.9)	13.4	133.0
Bonds	6,468.9	3,838.9	(3,403.1)	705.2	7,609.9
Pooled investment vehicles	3,145.8	3,956.1	(4,183.6)	35.3	2,953.6
Longevity hedge	-	-	-	-	-
Derivatives	223.3	959.4	(1,155.9)	331.2	358.0
AVC investments	22.3	3.4	(5.2)	1.4	21.9
	9,977.7	8,837.9	(8,825.7)	1,086.5	11,076.4
Cash	(99.1)			(18.7)	(134.0)
Other investment balances	(1,266.8)			(6.0)	(1,441.1)
	8,611.8			1,061.8	9,501.3

The change in market value of investments during the period comprises all increases and decreases in market value of investments held at any time during the period, including profits and losses realised on sales of investments during the period. AVCs investments are held in pooled investment vehicles.

Comparative figures as at 31 December 2019 have been reclassified, with £72.6m of liquidity funds previously classified as cash now included within pooled investment vehicles. This is consistent with the classification of liquidity funds as at 31 December 2020.

10. Transaction costs

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs analysed by main asset class and type of cost are as follows:

	2020			2019	
	Fees £m	Commission £m	Taxes £m	Total £m	Total £m
Equities	0.1	0.2	-	0.3	0.2
Bonds	-	0.1	-	0.1	-
Other	-	0.1	-	0.1	0.1
Total 2020	0.1	0.4	-	0.5	-
Total 2019	0.1	0.2	-	-	0.3

In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles.

LLOYDS BANK PENSION SCHEME NO.2

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2020

11. Investment management expenses

	2020	2019
	£m	£m
Investment management and administration fees	19.2	15.5
Longevity hedge fees	3.9	1.1
Investment advisory fees	0.6	1.1
Custody and performance measurement services	0.7	4.9
	24.4	22.6

12. Taxation

The Scheme is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax. The tax charge in the Revenue Account represents irrecoverable withholding taxes arising on investment income.

13. Pooled investment vehicles

The Scheme's investments in pooled investment vehicles at the 31 December comprised:

	2020	2019
	£m	£m
Private equity	236.4	209.6
Equity	438.8	334.6
Alternative credit	773.2	907.0
Hedge funds	413.8	558.8
Property	380.9	386.8
Infrastructure	193.8	270.6
Reinsurance	6.0	9.5
Cash	510.7	468.9
	2,953.6	3,145.8

The aggregated investment position of the sole investor funds held, as detailed in note 26, is summarised below:

	2020	2019
	£m	£m
Bonds	27.1	26.7
Private Equity	108.1	197.0
Equity	22.6	49.0
Alternative credit	187.9	223.5
Property	194.1	207.6
Cash	9.6	11.3
	549.4	715.1

LLOYDS BANK PENSION SCHEME NO.2

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2020

14. Longevity hedge

The Trustee has entered a longevity swap contract designed to protect the Scheme and Principal Employer against the risk of certain members living longer than expected.

The contract is structured as an insurance agreement between the Trustee and Scottish Widows Limited ("SW") and an onward reinsurance agreement between SW and Pacific Life Re Limited ("PLRe"), which was signed on 29 January 2020 and backdated to 1 October 2019. The longevity hedge covers £2bn of pensioner liabilities in the Scheme and operates in the following way:

- PLRe via SW pays to the Scheme insurance claims that are 100% of the agreed pension payments payable to the selected beneficiaries for the transaction (floating leg).
- In return, the Scheme pays to PLRe via SW insurance premiums that are defined amounts with a profile that reflects 100% of the pension payments that would be expected to be made to the selected beneficiaries based on the longevity experience anticipated by PLRe (fixed leg).
- The premium includes the fee for PLRe to take on the risk.
- The Scheme pays a fee to Scottish Widows in respect of their role in the transaction.

The valuation of the longevity swap is the present value of the difference between the future cashflows, as described above, using gilt implied nominal yields and inflation rates, as published by the Bank of England.

At inception, the value of the fixed and floating legs of the longevity hedge will be equal and opposite and thus has a nil value. Over time, the contract value will change because the "fixed" premiums and "floating" benefits will diverge as the longevity experience in respect of the hedged population unfolds. This will mean that either the Scheme will have a counterparty exposure to PLRe or vice versa. In order to provide security against the exposure, the parties are required to post collateral which protects either party in the event of a counterparty default.

Experience and fee collateral will be held by the appointed custodian, Bank of New York Mellon. To allow for operational processes to be set up, the first experience calculation will be carried out in March 2021, until then the net payment under the agreement is expected to be the fee. Fee collateral amounting to £53.8m was posted by the Scheme as at 31 December 2020, in the form of gilts.

15. Derivatives

The Trustee has authorised the use of derivatives with its investment managers as part of its investment strategy for the Scheme. At the 31 December the Scheme had the following derivatives:

	2020	2020	2020	2019	2019	2019
	Assets	Liabilities	Total	Assets	Liabilities	Total
	£m	£m	£m	£m	£m	£m
Futures	6.5	(5.1)	1.4	1.7	(0.7)	1.0
Swaps	849.0	(626.6)	222.4	839.2	(734.8)	104.4
Forward FX contracts	141.6	(7.4)	134.2	137.7	(19.8)	117.9
	997.1	(639.1)	358.0	978.6	(755.3)	223.3

The main objectives for the use of derivatives and the policies followed during the period are summarised below:

Swaps: In entering into swaps, the Trustee aims to match as far as possible the Scheme's long term liabilities with corresponding assets, particularly in relation to sensitivities to interest rate movements and the impact of inflation. The Trustee's aim in asset allocation is to provide a broadly based and diversified pool of assets that will in combination with the swaps and other liability matching instruments, ensure sufficient funds to meet liabilities as they fall due. Credit default swaps are held to gain exposure to underlying corporate bond markets.

LLOYDS BANK PENSION SCHEME NO.2

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2020

15. Derivatives *(continued)*

Futures: The Trustee uses futures contracts for efficient portfolio management such as rebalancing the Scheme towards its strategic asset allocation target, or to facilitate asset transitions.

Forwards: The Trustee invests in overseas markets and assets denominated in a foreign currency, forward contracts are used to manage foreign currency exposure within the mandates given to managers.

Futures

The Scheme had the following exchange traded futures outstanding as at 31 December 2020:

Nature	No. of contracts	Economic exposure £m	Expires	2020	2020
				Asset value £m	Liability value £m
90day euro\$ future (CME)	37	(6.8)	15/03/2021	–	–
Canada 10yr bond future (MSE)	10	0.9	22/03/2021	–	–
Euro-BOBL future (EUX)	204	23.5	08/03/2021	–	–
Euro-BUND future (EUX)	177	(21.1)	08/03/2021	–	(0.1)
EURO-BUXL 30Y BND future (EUX)	30	(6.0)	08/03/2021	–	–
Euro-SCHATZ Future (EUX)	75	6.7	08/03/2021	–	–
Italy buioni Poliennali BND	1,700,000	–	01/09/2051	1.7	–
Italy buioni Poliennali BND	4,128,000	–	01/03/2030	–	(4.8)
Long gilt future (ICF)	176	23.3	29/03/2021	0.2	–
MSCI world index (EUX)	3,242	190.1	19/03/2021	3.7	–
US 10yr note future (CBT)	626	(63.2)	22/03/2021	–	(0.1)
US 10yr ultra future (CBT)	117	(13.4)	22/03/2021	–	–
US 2yr note future (CBT)	207	32.5	31/03/2021	–	–
US 5yr note future (CBT)	955	17.6	31/03/2021	0.2	(0.1)
US long bond future (CBT)	8	–	21/01/2021	–	–
US long bond future (CBT)	326	(28.4)	22/03/2021	0.3	–
US long bond future (CBT)	28	–	22/01/2021	–	–
US ultra bond future (CBT)	252	(39.4)	22/03/2021	0.4	–
		116.3		6.5	(5.1)

Included within cash balances is a liability of £220.4m (2019: liability of £192.0m) in respect of initial and variation margins arising on open future contracts at the year end.

LLOYDS BANK PENSION SCHEME NO.2

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2020

15. Derivatives *(continued)*

Swaps

The Scheme had the following OTC swap contracts outstanding at the 31 December 2020:

Nature	No. of contracts	Notional amounts £m	Expires	2020	2020
				Asset value £m	Liability value £m
Credit Default	96	404.4	<5 years	0.9	(0.7)
Inflation	17	493.0	<5 years	2.3	(28.9)
Inflation	13	607.6	5-10 years	4.6	(46.2)
Inflation	34	1,108.8	10-30 years	86.7	(79.0)
Inflation	30	198.0	>30 years	101.3	(46.4)
Interest Rate	27	266.5	<5 years	0.1	(7.7)
Interest Rate	61	501.3	5-10 years	54.3	(0.6)
Interest Rate	80	513.1	10-30 years	3.4	(293.5)
Interest Rate	7	213.4	>30 years	148.4	(38.9)
Total Return	29	980.7	<5 years	157.4	-
Zero Coupon	14	2,129.6	<5 years	32.1	(0.1)
Zero Coupon	9	832.3	5-10 years	55.2	-
Zero Coupon	32	1,429.5	10-30 years	161.3	(15.0)
Zero Coupon	11	568.2	>30 years	41.0	(69.6)
		10,246.4		849.0	(626.6)

The Scheme has entered into inflation rate swaps whereby a fixed or floating rate is received, with the floating rate being determined by RPI.

Collateral

Collateral held (pledged by third parties) or pledged (by the Scheme to third parties), against swap contracts is shown in the table below:

	2020	2020	2019	2019
	Held £m	Pledged £m	Held £m	Pledged £m
Cash	242.8	12.5	147.4	11.0
Gilts	-	118.8	-	118.0
	242.8	131.3	147.4	119.0

LLOYDS BANK PENSION SCHEME NO.2

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2020

15. Derivatives *(continued)*

Forward FX contracts

The Scheme had the following open OTC foreign exchange contracts as at 31 December 2020:

				2020	2020
Currency bought	Value of currency bought £m	Currency sold	Value of currency sold £m	Asset value £m	Liability value £m
EUR	9.0	GBP	9.0	–	–
EUR	6.3	USD	6.1	0.2	–
EUR	0.1	VAR	0.1	–	–
GBP	285.4	EUR	282.5	3.0	(0.1)
GBP	3,649.6	USD	3,513.8	135.8	–
GBP	64.3	VAR	62.4	1.9	–
USD	294.8	EUR	300.0	–	(5.2)
USD	30.1	GBP	31.6	–	(1.5)
USD	55.7	VAR	56.3	–	(0.6)
VAR	0.2	EUR	0.2	–	–
VAR	41.4	USD	40.7	0.7	–
				141.6	(7.4)

All contracts expire within 1 year.

16. AVC investments

	2020	2019
	£m	£m
Equitable Life	-	0.5
Prudential	1.3	1.6
Scottish Widows	3.1	3.5
Phoenix	17.5	16.7
	21.9	22.3

The Trustee holds assets invested separately from the main fund in the form of investment contracts securing additional benefits on a money purchase basis for those members electing to pay AVCs to other providers as shown above.

Included within AVC investments are Pension Extra AVC's which allow members to make extra contributions under a salary sacrifice arrangement. These contributions are invested separately from the main fund on a money purchase basis with Phoenix.

LLOYDS BANK PENSION SCHEME NO.2**NOTES TO THE FINANCIAL STATEMENTS** *(continued)***YEAR ENDED 31 DECEMBER 2020****17. Cash**

	2020	2019
	£m	£m
Cash assets:		
Sterling	56.0	73.8
Foreign currency	30.3	19.0
	86.3	92.8
Cash Liabilities:		
Variation margin	(220.3)	(191.9)
	(134.0)	(99.1)

18. Other investment balances

	2020	2019
	£m	£m
Other investment balances assets:		
Amounts due from brokers	110.9	40.7
Dividends receivable	0.2	0.7
Recoverable tax	0.2	0.1
Income receivable from bonds	26.3	20.0
Collateral obligations	205.8	53.7
Repurchase agreements	507.9	597.8
	851.3	713.0
Other investment balances liabilities:		
Amounts due to brokers	(132.7)	(108.4)
Collateral obligations	(187.6)	(35.9)
Repurchase agreements	(1,972.1)	(1,835.5)
	(2,292.4)	(1,979.8)
	(1,441.1)	(1,266.8)

LLOYDS BANK PENSION SCHEME NO.2

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2020

19. Fair value hierarchy

The fair value of financial instruments has been estimated using the following fair value hierarchy:

- Level 1: Unadjusted quoted price in an active market for identical instruments that the entity can access at the measurement date.
- Level 2: Inputs (other than quoted prices) that are observable for the instrument, either directly or indirectly.
- Level 3: Inputs are unobservable, i.e. for which market data is unavailable.

The Scheme's investment assets and liabilities, at 31 December, have been fair valued using the above hierarchy categories as follows:

2020				
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Equities	133.0	–	–	133.0
Bonds	4,915.4	2,286.7	407.8	7,609.9
Pooled investment vehicles	362.4	558.6	2,032.6	2,953.6
Longevity hedge	–	–	–	–
Derivatives	1.3	356.7	–	358.0
AVC investments	–	20.6	1.3	21.9
Cash	86.3	(220.3)	–	(134.0)
Other investment balances	23.1	(1,464.2)	–	(1,441.1)
	5,521.5	1,538.1	2,441.7	9,501.3

2019				
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Equities	117.4	–	–	117.4
Bonds	3,826.3	2,243.5	399.1	6,468.9
Pooled investment vehicles	469.2	495.7	2,180.9	3,145.8
Longevity hedge	–	–	–	–
Derivatives	1.0	222.3	–	223.3
AVC investments	–	20.2	2.1	22.3
Cash	92.8	(191.9)	–	(99.1)
Other investment balances	(29.1)	(1,237.7)	–	(1,266.8)
	4,477.6	1,552.1	2,582.1	8,611.8

The Trustee's policy is that there should be sufficient investments in liquid or readily realisable assets to meet cashflow requirements in most circumstances (except for the extreme market conditions) so that realisation of assets will not disrupt the Scheme's overall investment policy where possible. The majority of the Scheme's investments may be realised quickly. In assigning investments to the fair value hierarchy, consideration has been given to redemption and liquidity restrictions.

LLOYDS BANK PENSION SCHEME NO.2

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2020

20. Investment risk disclosures

Investment risks

FRS102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

- Currency risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- Other price risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Scheme has direct exposure to credit and market risks through its holdings of segregated investments and indirect exposure to these risks through its holdings of pooled investment vehicles.

The Scheme has exposure to these risks because of the investments it makes to implement the investment strategies, as described in the Trustee's Report. The Trustee manages investment risk, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustee by regular reviews of the investment portfolios, as supported by regulated investment advisors. The key objective is to maximise the return per unit of risk and minimise risks that are not rewarded.

The Scheme also has exposure to longevity risk, this is the risk of higher than expected life expectancy trends amongst the Scheme's pensioners. A longevity insurance arrangement has been entered into to protect the Scheme against costs associated with potential increases in life expectancy of the Scheme's pensioners. The longevity hedge covers £2bn of pensioner liabilities.

Further information on the Trustee approach to risk management and the Scheme exposures to credit and market risks are set out on pages 36 to 39. This does not include annuity insurance policies or AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

LLOYDS BANK PENSION SCHEME NO.2

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2020

20. Investment risk disclosures *(continued)*

Credit risk

The Scheme is subject to credit risk due to its investments in bonds, loans, OTC derivatives and cash deposits and enters into repurchase agreements with counterparties. The Scheme also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles and is indirectly exposed to credit risk arising on the financial instruments held by the pooled investment vehicles.

Analysis of direct credit risk

2020				
	Investment grade £m	Non- investment grade £m	Unrated £m	Total £m
Bonds	6,759.2	714.2	136.5	7,609.9
Pooled investment vehicles	–	–	2,953.6	2,953.6
OTC derivative contracts	356.6	–	–	356.6
Cash deposits	(134.0)	–	–	(134.0)
	6,981.8	714.2	3,090.1	10,786.1

2019				
	Investment grade £m	Non- investment grade £m	Unrated £m	Total £m
Bonds	5,745.8	610.2	112.9	6,468.9
Pooled investment vehicles	–	–	3,145.8	3,145.8
OTC derivative contracts	222.3	–	–	222.3
Cash deposits	(99.1)	–	–	(99.1)
	5,869.0	610.2	3,258.7	9,737.9

For the purpose of the analysis of direct credit risk in the tables above, investment grade has been defined as BBB- or higher by Standards & Poor and Fitch or Baa3 or higher by Moody's.

As shown by the table above, the majority of bonds are classified as "Investment grade". The Scheme also invests in high yield bonds, emerging market sovereign bonds and loans which are classified as "non-investment grade". The Trustee manages the associated credit risk by requesting the investment manager to diversify the portfolio to minimise the impact of default by one issuer.

The extent of the credit risk arising from derivatives depends on whether the derivative is exchange traded or OTC. OTC derivative contracts are not guaranteed by any regulated exchange or clearing house and therefore the Scheme is subject to risk of failure of the counterparty. However, the Trustee has reduced this risk to an extent by having additional termination event agreements with some counterparties such if their credit rating falls below a pre-determined threshold, the Scheme has the right to terminate the contract early. The credit risk for OTC swaps is reduced by collateral arrangements in place between the investment managers and counterparties as disclosed in note 15.

Credit risk also arises on forward foreign currency contracts. There are collateral arrangements in place for these contracts and all counterparties are required to be at least investment grade.

LLOYDS BANK PENSION SCHEME NO.2

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2020

20. Investment risk disclosures *(continued)*

Credit risk *(continued)*

Credit risk on repurchase agreements is mitigated through collateral arrangements. At 31 December 2020 collateral held was £78.6m and £5.8m was posted as collateral with counterparties.

Cash is held with financial institutions which are at least investment grade credit rated.

The Scheme's holdings in pooled investment vehicles are unrated as the ratings only apply to the underlying investments. Direct credit risk is reduced by the underlying assets of the pooled arrangements being ring fenced from the pooled manager's, the regulatory environment in which the pooled manager operates and diversification of investment amongst a number of pooled arrangements. The Trustee carries out due diligence checks on the appointment of new pooled investment managers.

The table below detail the underlying structures of the pooled investment vehicles at 31 December:

	2020	2019
Legal Structure	£m	£m
Shares in limited partnership	1,478.0	1,681.4
Limited company	339.3	402.3
Authorised unit trusts	882.4	836.4
Open ended investment companies	–	99.5
Undertakings for collective investment in transferable securities	253.9	126.2
	2,953.6	3,145.8

The Scheme is also subject to indirect credit risk in relation to underlying investments held in the bond, reinsurance, and alternative credit pooled investment vehicles. The investment managers of the pooled vehicles manage the risk by having a diversified exposure to bond issuers, conducting thorough research and assessing the probability of default and limiting their exposure to issuers rated below investment grade. The magnitude of the indirect credit risk will vary over time as investment managers change their underlying investments.

Currency risk

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets, either as segregated investments or via pooled investment vehicles.

The Trustee limits overseas currency exposure through a currency hedging programme conducted either by the manager holding the underlying exposure to overseas markets, or by LGIM. LGIM provides an overlay to hedge a proportion of the Scheme's overseas currency exposure, where investment managers do not already do this within their portfolio.

The Scheme's total net unhedged exposure by major currency was as follows, at 31 December:

	2020	2019
Currency	£m	£m
USD	(120.1)	(107.9)
EUR	(73.7)	(93.6)
JPY	(41.0)	(16.5)
Other	304.2	231.1
	69.4	13.1

LLOYDS BANK PENSION SCHEME NO.2

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2020

20. Investment risk disclosures *(continued)*

Currency risk *(continued)*

The Trustee chooses not to hedge all currency risk, since at times of market stress (e.g. a downturn in the UK economy) it can be beneficial to hold assets denominated in other global currencies, e.g. US dollar, JPY etc.

Interest rate risk

The Scheme is subject to interest rate risk because some of the Scheme's investments are held in bonds and interest rate swaps (either as segregated investments or through pooled vehicles).

The Trustee has set a benchmark for total investment in bonds and interest rate swaps of 35% of the total investment portfolio, as part of their Liability Hedging strategy. Under this strategy, if interest rates fall, the value of the Liability Hedging investments will rise to help to match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the Liability Hedging investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate.

At the 31 December, the main asset classes subject to interest rate risks were:

	2020	2019
Direct risk	£m	£m
Bonds	7,609.9	6,468.9
Swaps	222.4	104.4
Longevity hedge	-	-
Sole investor funds:		
Bonds	27.1	26.7
Alternative credit	187.9	223.5
	8,047.3	6,823.5

The Scheme also has indirect interest rate risk in relation to underlying investments held in the bonds, reinsurance, and alternative credit pooled investment vehicles.

Other price risk

Other price risk arises principally in relation to the Scheme's non-liability hedging assets which include directly held equities, equities held in pooled vehicles, hedge funds, private equity, property, infrastructure and corporate bonds. These assets are contained within the return seeking and secure income super-groups.

The Scheme manages the exposure to other price risk by constructing a diverse portfolio of investments across various asset classes, investment managers, geographies and individual securities.

Other price risk also arises from the nature of the assets in the alternative credit portfolio. For example, the alternative credit funds have exposure to (predominantly US) property prices as they will invest in RMBS ("Residential Mortgage Backed Securities") and CMBS ("Commercial Mortgage Backed Securities") which will be affected by the underlying property prices. For hedge funds, their investment universe permits them to invest across a range of liquid and illiquid markets, therefore, there will be further price risks associated with these (e.g. commodities). Again, risk is managed by diversifying across investment managers, geographies and individual securities.

At the Scheme year end, the Trustee had implemented a strategic asset allocation which included a 59% benchmark allocation to non-liability hedging assets.

LLOYDS BANK PENSION SCHEME NO.2

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2020

20. Investment risk disclosures *(continued)*

Other price risk *(continued)*

At the 31 December, the Scheme's exposure to investments subject to direct other price risk was:

	2020	2019
Direct risk	£m	£m
Equity	133.0	117.4
Sole investor funds:		
Equity	22.6	49.0
Property	194.1	207.6
Private equity	108.1	197.0
Alternative credit	187.9	223.5
	645.7	794.5

21. Concentration of investments

The Scheme does not hold any individual investments that are greater than 5% of the total net assets of the Scheme.

22. Commitments

Fund Manager	Currency	2020	2020	2019	2019
		Total commitment	Amount remaining to drawdown	Total commitment	Amount remaining to drawdown
Aberdeen private equity	£m	350.9	19.0	350.9	24.2
Arcus	€m	-	-	50.0	0.7
SteelRiver	\$m	-	-	70.0	2.8
GS infrastructure	\$m	165.9	13.0	165.9	13.0
GS mezzanine debt	\$m	175.0	43.8	175.0	45.3
Pathway XVII	\$m	342.3	29.3	342.3	31.8
Pathway XVII-B	\$m	124.8	113.8	124.8	122.7
Pathway advisory	\$m	165.6	124.5	96.0	88.6
Aberdeen infrastructure	£m	97.3	59.2	97.3	52.6
GS Broad Street	\$m	200.0	11.6	200.0	44.8
GS West Street	\$m	63.9	19.1	63.9	28.7
Blackstone	\$m	60.0	1.0	60.0	32.4

Other than the derivative contracts disclosed in note 15, there are no material calls due.

All distributions received by the Scheme which are recallable are reflected in the above commitments note.

LLOYDS BANK PENSION SCHEME NO.2

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2020

23. Employer related investments

As at 31 December 2020, the Scheme held no segregated employer related investments (2019: £nil).

The Scheme held investments in pooled investment vehicles with exposures to employer related investments and these exposures were £13.0m as at 31 December 2020 (2019: £13.3m) which equated to 0.1% of the net assets of Scheme. The maximum exposure permitted by UK regulations is 5% of the net assets of the Scheme.

24. Current assets

	2020	2019
	£m	£m
Other debtors	0.2	0.1
Cash balances	13.1	18.1
	13.3	18.2

25. Current liabilities

	2020	2019
	£m	£m
Unpaid benefits	2.7	3.3
Accrued expenses	–	11.4
Amounts due in respect of pensions	2.9	2.6
Other creditors	10.5	0.1
	16.1	17.4

26. Related party transactions

In accordance with the requirements of the Financial Reporting Standard, disclosure is made below of the transactions with related parties. In addition to contributions received from employees and payments made to the Scheme, the Scheme undertook the following transactions:

Trustee:

LBGPTL is also the Trustee for Lloyds Bank Pension Scheme No. 1, HBOS Final Salary Pension Scheme, Scottish Widows Retirement Benefits Scheme and Your Tomorrow.

Trustee Directors who are active members of the Scheme accrue pensions in accordance with the Scheme Rules.

Trustee fees:

Payments to Trustee Directors by the Scheme during the year ended 31 December 2020, amounted to £0.2m (2019: £0.2m).

Support services:

Administrative, secretarial, investment management and accounting support services are provided to the Scheme by the Lloyds Banking Group Pensions Department. The costs associated with these services are recharged to the Scheme and amounted to £1.3m during the year ended 31 December 2020 (2019: £1.2m).

Banking:

The Scheme holds bank accounts with Lloyds Bank PLC. The combined balances of these accounts as at 31 December 2020 were £13.1m (2019: £18.1m). During the Scheme year ended 31 December 2020, the Scheme received interest amounting to £29k (2019: £88k) and paid interest of £nil (2019: £nil).

LLOYDS BANK PENSION SCHEME NO.2

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2020

26. Related party transactions *(continued)*

Investments:

The Scheme entered into inflation and interest rate swaps with Lloyds Bank as the counterparty. The value of the swaps at 31 December 2020 was £0.04m (2019: £(0.2)m).

The Trustee has entered into a longevity swap contract with Scottish Widows PLC as the insurer.

The Scheme has entered into investment arrangements in which it has a controlling stake in conjunction with Lloyds Bank Pension Scheme No.1 and HBOS Final Salary Pension Scheme. The table below details the Schemes holding within these funds:

	2020	2020	2019	2019
	%	£m	%	£m
Lloyds Bank Guernsey Partnership	35.0	194.1	35.0	207.6
Pathway Private Equity Fund XVII LP	35.0	96.7	35.3	104.0
Pathway Private Equity Fund XVII-B LP	20.0	11.4	20.0	1.6
Brigade Opportunistic Credit LBG Fund	20.0	196.3	20.0	200.3
BlueMountain Foinaven Fund Ltd	20.0	50.9	20.0	78.3
Broad Street London Partners No.2 LP	–	–	40.0	91.4
Park Square Kodiak LP	–	–	18.0	31.9
		549.4		715.1

AVC investments:

The Scheme held AVC investments with Scottish Widows PLC with a market value of £3.1m as at 31 December 2020 (2019: £3.5m).

Guarantee

The Scheme also benefits from additional security arrangements from two sources. One of these is a guarantee provided by Lloyds Banking Group PLC. The other is the provision of contingent collateral from the Principal Employer to support its obligations to the Scheme.

27. GMP equalisation

As explained on Page 4 the High Court judgement confirmed historical transfers out will be subject to an adjustment for GMP equalisation. The Trustee is currently working through the judgement, the matter is complex, and it will take time to determine the appropriate resolution, therefore, it is not possible to estimate the value of any such adjustment at this point in time.

Based on an initial assessment of the likely backdated amounts and related interest, the Trustee does not expect these to be material to the financial statements and therefore has not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

28. Contingent liabilities

In the opinion of the Trustee, other than the above and the liability to pay pensions, there are no contingent liabilities at the Scheme year end (2019: £nil) requiring recognition on the statement of net assets available for benefits.

29. Subsequent events

There were no other subsequent events requiring disclosure in these financial statements.

LLOYDS BANK PENSION SCHEME NO.2

SUMMARY OF CONTRIBUTIONS

YEAR ENDED 31 DECEMBER 2020

This summary of contributions has been prepared by, and is the responsibility of, the Trustee. It sets out the employer and member contributions payable to the Scheme under the Schedule of Contributions certified by the Scheme Actuary on 28 March 2018, in respect of the Scheme year ended 31 December 2020. The Scheme auditor reports on contributions payable under the Schedule in the auditor's statement about contributions.

Year ended 31 December 2020

£m

Contributions payable under the Schedule

Employers

Normal contributions	31.8
Other contributions	8.5
Deficit funding contributions	112.0
	<hr/> 152.3

Reconciliation of contributions payable under the Schedule of Contributions to total contributions reported in the financial statements

Employers

Augmentation contributions	0.5
Flexible benefit arrangements	1.4

Employees

AVCs	0.1
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Total contributions reported in the financial statements	154.3
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Approved by the Trustee and signed on its behalf by:

Trustee Director

Trustee Director

Date:

Date:

LLOYDS BANK PENSION SCHEME NO.2

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE

YEAR ENDED 31 DECEMBER 2020

We have examined the summary of contributions to the Lloyds Bank Pension Scheme No.2 for the Scheme year ended 31 December 2020 which is set out on the previous page.

In our opinion contributions for the Scheme year ended 31 December 2020 as reported in the summary of contributions and payable under the Schedules of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Scheme Actuary on 28 March 2018.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the Schedule of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedule of Contributions.

Respective responsibilities of Trustee and the auditor

As explained more fully in the statement of Trustee's responsibilities, the Scheme's Trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a Schedule of Contributions and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of contributions.

It is our responsibility to provide a statement about contributions paid under the Schedule of Contributions and to report our opinion to you.

Use of our report

This statement is made solely to the Trustee, as a body, in accordance with Regulation 4 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our work has been undertaken so that we might state to the Trustee those matters we are required to state to them in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustee as a body for our work, for this statement, or for the opinion we have formed.

Deloitte LLP
Statutory Auditor
Reading, United Kingdom
22 July 2021

LLOYDS BANK PENSION SCHEME NO.2

ACTUARIAL CERTIFICATE OF SCHEDULE OF CONTRIBUTIONS

Name of scheme: Lloyds Bank Pension Scheme No.2

Adequacy of rates of contributions

- 1 I certify that, in my opinion, the rates of the contributions shown in this Schedule of Contributions are such that the statutory funding objective could have been expected on 31 December 2019 to be met by the end of the period specified in the Recovery Plan dated 22 April 2021.

Adherence to statement of funding principles

- 2 I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 22 April 2021.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.

Signature **J C Wintle**

Date **22 April 2021**

James C Wintle
Fellow of the Institute and Faculty of Actuaries

Towers Watson Limited,
a Willis Towers Watson Company
Watson House
London Road
Reigate
Surrey RH2 9PQ

LLOYDS BANK PENSION SCHEME NO.2

SCHEDULE OF CONTRIBUTIONS (22 April 2021)

Name of Principal Employer: Lloyds Bank plc (“**the Bank**”)

Period covered by schedule: From the date of certification of this schedule by the Scheme Actuary to 31 October 2028 inclusive.

This Schedule has been prepared by the Trustee of the Lloyds Bank Pension Scheme No.2 (“**the Scheme**”) after obtaining the advice of James Wintle of Towers Watson Limited, the Scheme Actuary.

The Trustee has discussed and agreed this Schedule of Contributions with the Bank acting on behalf of all Employers participating in the Scheme.

The total contributions are the sum of the normal future service contributions, deficit contributions and any additional contributions as set out below.

1 Rates of contribution – normal future service contributions

1.1 Benefit accrual

By employed members:

Nil

By or on behalf of the Bank, on behalf of itself and the other Employers participating in the Scheme from time to time:

From 1 January 2020 - 49.8% of capped pensionable salaries
31 July 2021

From 1 August 2021 61.8% of capped pensionable salaries

where, for the purpose of this section of this Schedule, 'capped pensionable salary' means Pensionable Salary as defined in the Rules of the Scheme as modified by agreement between the member and his or her employer.

1.2 Reduction of contributions in the event of forfeiture

On the Employer enforcing a charge in accordance with Rule 64 of the Trust Deed and Rules dated 21 December 1995 (as amended), the Trustee shall reduce the Employer's future contributions by an amount equivalent to that charge.

1.3 PPF levies and administration expenses

The Bank will pay (within 28 days of the Trustee providing a copy of the levy invoice to the Bank) an additional amount equal to the full Pension Protection Fund levies for the Scheme.

The Bank will pay contributions in respect of administration expenses of:

- £0.667 million per month from 1 January 2020 to 31 March 2021
- £0.816 million per month from 1 April 2021
- An additional contribution of £0.447 million by 30 June 2021 (to allow for the backdating on the £0.816 million monthly rate to the start of 2021).

LLOYDS BANK PENSION SCHEME NO.2

SCHEDULE OF CONTRIBUTIONS (22 April 2021) *(continued)*

2 Rates of contribution – deficit contributions payable by or on behalf of the Bank on behalf of itself and the other Employers participating in the Scheme from time to time in accordance with the Recovery Plan dated 22 April 2021.

2.1 Ordinary deficit contributions payable under this Schedule of Contributions by or on behalf of the Bank on behalf of itself and the other Employers participating in the Scheme from time to time:

- contributions of £9.333 million per month from 1 January 2020 to 31 December 2020 inclusive, plus
- contributions of £14.600 million per month from 1 January 2021 to 31 March 2021 inclusive, plus
- a contribution of £104.600 million on 1 April 2021, plus
- contributions of £14.583 million per month from 1 January 2022 to 31 October 2028 inclusive.

The total contributions due under Section 2.1 of this Schedule therefore equals £1,456,202,000. Variable contributions will also be paid in accordance with Section 2.2 of this Schedule and once the combined contributions paid under Section 2.1 and Section 2.2 of this Schedule equal £1,456,202,000, no further contributions under either Section 2.1 or Section 2.2 will be due.

2.2 Additional deficit contributions payable under this Schedule of Contributions by or on behalf of the Bank on behalf of itself and the other Employers participating in the Scheme from time to time

For each calendar year from 2021 up to and including 2027, an annual variable contribution equal to 6.5625% of the total value of capital distributions that have been returned to ordinary shareholders of Lloyds Banking Group plc during the calendar year (which shall include the final dividend paid in respect of the previous calendar year, and any interim dividend(s), special dividend(s) and any share buyback(s) in the calendar year), subject to a cap of £262.5 million; and subject, as noted in 2.1 above, to the sum of the cumulative contributions under 2.1 and 2.2 not exceeding the total contributions due under 2.1 (£1,456,202,000). The variable contribution for each calendar year shall be paid by the end of the relevant calendar year.

3 Rates of contribution - additional contributions

By the employed member:	Any additional voluntary contributions
By or on behalf of the Bank on behalf of itself and the other Employers participating in the Scheme from time to time:	Additional contributions as may be required under the Rules in specific circumstances, for example to cover augmentations.
	Additional payments in such other circumstances as may from time to time be agreed by the Trustee and employers.

4 Due dates of payment

Member contributions:	Due no later than the last working day on or before the 19th of each month after that in which contributions are deducted from earnings.
Employer contributions:	Other than as specifically described at Section 2.1 and section 2.2, due no later than the last working day on or before the 19th of each month after the end of the calendar month to which they relate.
Employer contributions (additional):	Within three months of the Trustee requesting payment.

LLOYDS BANK PENSION SCHEME NO.2

SCHEDULE OF CONTRIBUTIONS (22 April 2021) *(continued)*

5 Overpayment

Nothing in this Schedule shall preclude the payment of higher contributions as may from time to time be agreed between Trustee and the Bank.

6 Calculation errors

The Bank on behalf of itself and the other Employers participating in the Scheme from time to time may contribute lower amounts than those described in the previous paragraphs, provided that:

- 1 the lower amounts are paid as a result of calculation errors;
- 2 the shortfall between the Employer contributions due and those paid at any one time does not exceed £100,000; and
- 3 the Bank shall make good such shortfall as soon as reasonably practicable after becoming aware of such error.

7 Contingent security

In certain circumstances, contributions may be accelerated or increased in accordance with the agreements reached on contingent collateral and the guarantee from Lloyds Banking Group plc as referred to in the Statement of Funding Principles dated 22 April 2021.

Agreed on behalf of the Trustee of the Lloyds Bank Pension Scheme No.2

Name	VC Paramour – Law Denture Governance Services Limited	Name	JC Hope
Signed	VC Paramour	Signed	JC Hope
Date	22 April 2021	Date	22 April 2021

Agreed by Lloyds Bank plc (acting on behalf of all Employers participating in the Scheme)

Name	M Bradshaw
Position	Attorney
Signed	M Bradshaw
Date	22 April 2021

LLOYDS BANK PENSION SCHEME NO.2

SCHEDULE OF CONTRIBUTIONS (28 MARCH 2021)

Name of Principal Employer: Lloyds Bank plc (“**the Bank**”)

Period covered by schedule: From the date of certification of this schedule by the Scheme Actuary to 31 December 2024 inclusive

This Schedule has been prepared by the Trustee of the Lloyds Bank Pension Scheme No.2 (“**the Scheme**”) after obtaining the advice of Graham Mitchell of Towers Watson Limited, the Scheme Actuary.

The Trustee has discussed and agreed this Schedule of Contributions with the Bank acting on behalf of all Employers participating in the Scheme.

The total contributions are the sum of the normal future service contributions, deficit contributions and any additional contributions as set out below.

1 Rates of contribution – normal future service contributions

1.1 Benefit accrual

By employed members:

Nil

By or on behalf of the Bank, on behalf of itself and the other Employers participating in the Scheme from time to time:

From 1 January 2017 - 30 June 2018 33.3% of capped pensionable salaries

From 1 July 2018 49.8% of capped pensionable salaries

where, for the purpose of this section of this Schedule, 'capped pensionable salary' means Pensionable Salary as defined in the Rules of the Scheme as modified by agreement between the member and his or her employer.

1.2 Reduction of contributions in the event of forfeiture

On the Employer enforcing a charge in accordance with Rule 64 of the Trust Deed and Rules dated 21 December 1995 (as amended), the Trustee shall reduce the Employer's future contributions by an amount equivalent to that charge.

1.3 PPF levies and administration expenses

The Bank will pay (within 28 days of the Trustee providing a copy of the levy invoice to the Bank) an additional amount equal to the full Pension Protection Fund levies for the Scheme.

With effect from 1 July 2018 the Bank will pay contributions in respect of administration expenses of £0.667 million per month.

LLOYDS BANK PENSION SCHEME NO.2

SCHEDULE OF CONTRIBUTIONS (28 MARCH 2021) *(continued)*

2 Rates of contribution – deficit contributions payable by or on behalf of the Bank on behalf of itself and the other Employers participating in the Scheme from time to time in accordance with the Recovery Plan dated 28 March 2018.

2.1 Ordinary deficit contributions payable under this Schedule of Contributions by or on behalf of the Bank on behalf of itself and the other Employers participating in the Scheme from time to time:

- contributions of £8.583 million per month from 1 January 2017 to 31 December 2019 inclusive, plus
- contributions of £9.333 million per month from 1 January 2020 to 31 December 2020 inclusive, plus
- contributions of £14.600 million per month from 1 January 2021 to 31 December 2021 inclusive, plus
- contributions of £16.067 million per month from 1 January 2022 to 31 December 2024 inclusive.

3 Rates of contribution - additional contributions

By the employed member:

Any additional voluntary contributions

By or on behalf of the Bank on behalf of itself and the other Employers participating in the Scheme from time to time:

Additional contributions as may be required under the Rules in specific circumstances, for example to cover augmentations.

Additional payments in such other circumstances as may from time to time be agreed by the Trustee and employers.

4 Due dates of payment

Member contributions:

Due no later than the last working day on or before the 19th of each month after that in which contributions are deducted from earnings.

Employer contributions:

Other than as specifically described at Section 2.1, due no later than the last working day on or before the 19th of each month after the end of the calendar month to which they relate.

Employer contributions (additional):

Within three months of the Trustee requesting payment.

LLOYDS BANK PENSION SCHEME NO.2

SCHEDULE OF CONTRIBUTIONS (28 MARCH 2021) *(continued)*

5 Overpayment

Nothing in this Schedule shall preclude the payment of higher contributions as may from time to time be agreed between Trustee and the Bank.

6 Calculation errors

The Bank on behalf of itself and the other Employers participating in the Scheme from time to time may contribute lower amounts than those described in the previous paragraphs, provided that:

- 1 the lower amounts are paid as a result of calculation errors;
- 2 the shortfall between the Employer contributions due and those paid at any one time does not exceed £100,000; and
- 3 the Bank shall make good such shortfall as soon as reasonably practicable after becoming aware of such error.

7 Contingent security

In certain circumstances, contributions may be accelerated or increased in accordance with the agreements reached on contingent collateral and the guarantee from Lloyds Banking Group plc as referred to in the Statement of Funding Principles dated 28 March 2018.

Agreed on behalf of the Trustee of the Lloyds Bank Pension Scheme No.2

Name **R Boyes**

Position **Director**

Signed **R Boyes**

Date **28 March 2018**

Name **M Ashworth**

Position **Director**

Signed **M Ashworth**

Date **28 March 2018**

Agreed by Lloyds Bank plc (acting on behalf of all Employers participating in the Scheme)

Name **M Bradshaw**

Position **Head of Group Pension Risk Mgmt**

Signed **M Bradshaw**

Date **28 March 2018**

LLOYDS BANK PENSION SCHEME NO.2
ANNUAL IMPLEMENTATION STATEMENT
YEAR ENDED 31 DECEMBER 2020

1. Introduction

This document is the annual implementation statement (the Statement) prepared by Lloyds Banking Group Pensions Trustees Limited (the Trustee) in respect of the Scheme year ended 31 December 2020.

This Statement is required by legislation and seeks to address three key areas:

1. Firstly, to highlight any review and/or changes to the Scheme's Statement of Investment Principles (the SIP) over the course of the year;
2. Secondly, a review as to how the Trustee adhered to the SIP during the year; and
3. Finally, to provide an overview of voting behaviour (including the most significant votes cast by or on behalf of the Trustee) during the year.

By way of reminder, the Scheme is a defined benefit (DB) scheme that is closed to new entrants, however, existing members can continue to accrue further benefits via additional voluntary contributions (AVCs). Some members may also continue to have AVCs invested with other providers that are no longer available to new contributors (legacy AVCs).

To help the Trustee to fulfil its responsibilities, the Trustee may delegate certain decisions to committees or internal teams/individuals. However, the Trustee has oversight of these other decision-makers and retains ultimate responsibility for the decision-making on investment matters.

2. Review of, and changes to the SIP

At the start of the Scheme year (1st January 2020), the latest SIP, dated July 2019, was in force.

This SIP was reviewed and updated in September 2020, driven by the need to comply with new legislative changes (effective from 1 October 2020). As part of this review, the Trustee took the opportunity to make this document clearer and easier for members to read.

In December 2020, the SIP was updated again to reflect:

1. A change in the strategic asset allocation
2. An update to the Responsible Investment Policy
3. An update to the frequency of certain risk management activities.

Please see the subsequent section for more information regarding these changes.

3. Adherence to the SIP

This section of the Statement sets out how, in the opinion of the Trustee, the Trustee followed the SIP that was in force at the relevant time over the course of the year.

DB funding objectives: The DB funding objective is that the Scheme should be able to pay member pensions as they fall due.

In the first half of 2021, the Trustee completed its triennial actuarial valuation (as at 31 December 2019). There was no change to the funding objective over the course of 2020.

DB investment objective: The DB investment objective is to buy assets which should provide an investment return to meet the funding objectives, considering contributions from members and from Lloyds Bank plc.

There was no change to the DB investment objective throughout the year.

LLOYDS BANK PENSION SCHEME NO.2

ANNUAL IMPLEMENTATION STATEMENT *(continued)*

YEAR ENDED 31 DECEMBER 2020

DB Investment Strategy: The Trustee has set an investment strategy that seeks to generate the investment return required to meet the funding objective while also controlling risk.

Performance of the DB investment strategy was reviewed on a quarterly basis (or more frequently if required) throughout 2020 and remained in line with expectations.

The asset allocation of the DB section was monitored monthly throughout 2020 and the assets were rebalanced as and when required to ensure compliance with the strategic asset allocation.

The liquidity position of the DB section was also reviewed on a quarterly basis to ensure the Scheme had sufficient cashflow to meet benefit obligations.

In December 2020, the Trustee agreed a new strategic asset allocation which has been reflected in the SIP. The change reflected the removal of the specific allocation to Hedge Funds with the proceeds being re-allocated as per the new investment strategy set effective from December 2020. The changes were reviewed by the Scheme's advisors and were deemed consistent with the long-term trajectory for the Scheme.

AVC Arrangements: The Trustee objective is to offer a range of investment options with varying risk characteristics that are sufficient to satisfy the requirements of the vast majority of members, whilst trying to avoid overly complex investment choice and unnecessary administration costs as well as to comply with all relevant legislation and to operate in accordance with recognised codes of industry practice.

On a quarterly basis, the Trustee reviewed the performance and risk (versus set targets) of each of the funds made available to members. With respect to the legacy AVC arrangements, the Trustee undertook a proportionate approach, reviewing performance and charges of these funds once during the year with assistance from one of the Scheme's investment advisers.

The Trustee also completed its formal triennial review of the AVC investment arrangements. As a result of this review, several changes are expected to be made to the investment options available to members to better reflect members' views (following a member survey undertaken in 2019), improve expected member outcomes (by making changes to the fund range) and better manage environmental, social and governance risks (ESG). Most of these changes are expected to take place in 2021 following extensive project planning. Further details on those changes will be included in the 2021 Implementation Statement.

Separately and in light of COVID-19, the Property and Infrastructure Fund was suspended for dealing in March 2020. This meant investing in to and out of the Fund was not possible and members who were actively contributing to this fund had their future contributions redirected to the Cash Fund (which the Trustee selected as the most appropriate alternative fund). Following a period of market stabilisation, the Property and Infrastructure Fund suspension was lifted with effect from October 2020 and members were able to continue to invest in and move money out of the Fund.

Responsible Investment and Non-Financial Matters: At the start of the year, the Trustee had two Responsible Investment (RI) policies (one for the DB section and one for the AVC section).

During the year, the RI policies were reviewed and updated in December 2020. Key changes are highlighted below:

1. The policy was converted into one single document governing both DB and AVC sections;
2. The Trustee strengthened its ambition in relation to climate change, given its systemic risk;
3. The Trustee updated its exclusions policy with regards to certain investments; and
4. The policy measurement approach was updated to reflect latest working practices.

Please refer to the Responsible Investment policy on the Scheme website for more information.

LLOYDS BANK PENSION SCHEME NO.2

ANNUAL IMPLEMENTATION STATEMENT *(continued)*

YEAR ENDED 31 DECEMBER 2020

With regards to the AVC section, the Trustee reviewed its investment manager ESG ratings and benchmarked its managers versus peers. Assistance was provided by an external investment consultant. No changes were made to the investment options as a result of this assessment.

With regards to the DB section, the Trustee reviewed its investment managers ESG ratings and reviewed the aggregate carbon emissions of the portfolio (to the extent possible) during the year. ESG ratings were formed by the in-house investment team this year following the development of their new ESG rating framework. An external investment consultant assisted the Trustee collect and assess the carbon emissions data.

Risk Management: The Trustee regards risk as the likelihood of failing to meet the funding and investment objectives. The various risk measurement and monitoring methods referred to in the SIP were all completed/provided (as appropriate) to the Trustee's satisfaction during the year.

During 2020, the Trustee agreed to reduce the frequency of the integrated risk management report for the DB section from monthly to quarterly. This change has been reflected in the latest SIP.

Investment Managers: The Trustee employs multiple third-party investment managers, who are authorised under the Financial Services and Markets Act 2000, to undertake the day-to-day investment activity for the Scheme.

Performance of individual investment managers and adherence to their respective mandates for the DB and AVC sections was assessed on a quarterly basis, with the assistance of external consultants/service providers. With regards to the Legacy AVCs, performance of individual investment managers and adherence to their respective mandates was assessed on an annual basis, with the assistance of external consultants/service providers.

Each investment manager of the DB and AVC sections was reviewed against the selection criteria as outlined in the SIP and investment manager ratings were subsequently updated at least once throughout the year. As a result of these reviews, a number of managers were removed over the course of 2020.

To the extent reasonably possible, the Trustee requested transaction cost and portfolio turnover costs from its investment managers.

In light of all activities outlined in this statement, in the opinion of the Trustee, the applicable SIP has been followed closely during the year.

4. Voting Behaviour and Stewardship Activities

Voting

Voting rights are typically limited to equity investments. The majority of the Scheme's equity investments are held in pooled investment funds where the Trustee does not directly own the underlying investments, instead it owns units in the pooled fund representing its share of the value of the underlying investments. The investment manager of the pooled fund is responsible for exercising voting rights on behalf of all investors in the fund. Whilst the Trustee cannot exercise these votes directly, the Trustee reviewed its investment managers' approach to voting and stewardship throughout the year.

In certain and limited cases, the Trustee directly owns securities with voting rights. In these cases, the Trustee believes its external investment managers, who manage those investments on its behalf, are best placed to assess the impact of voting decisions and therefore delegates this activity to them.

All of the investment managers, appointed by the Trustee, in the DB and DC section, utilise proxy voting services to assist in exercising voting rights. Nevertheless, the Trustee expects its investment managers to vote on its behalf consistent with the voting guidelines issued by the Pensions and Lifetime Savings

LLOYDS BANK PENSION SCHEME NO.2

ANNUAL IMPLEMENTATION STATEMENT *(continued)*

YEAR ENDED 31 DECEMBER 2020

Association (PLSA) and other global corporate governance principles. Throughout 2020, the Trustee did not receive notification of any of its investment managers voting against these guidelines.

The Trustee reviewed its investment managers' voting activity on a quarterly basis. The statistics for the Scheme year are included in the appendix 1 for reference alongside five examples of the votes the Trustee considers to be most significant (in appendix 2). To that effect, the Trustee considers the most significant votes to be those that represent the largest holdings or those related to climate change given its importance.

Engagement and stewardship activities

The Trustee expects its investment managers to engage with the underlying companies they invest in. As part of the continuous oversight and monitoring responsibilities, evidence of engagement was requested at regular portfolio update meetings throughout the year.

The Trustee was also involved in several collaborative activities with other asset owners/managers within the industry over 2020. The Trustee was part of a working group established by the Institutional Investors Group on Climate Change (IIGCC) and helped established the Net Zero Investment Framework with other asset owners and asset managers.

LLOYDS BANK PENSION SCHEME NO.2

ANNUAL IMPLEMENTATION STATEMENT *(continued)*

YEAR ENDED 31 DECEMBER 2020

Appendix 1 – Voting Disclosures

	DB Section	AVC Section*
How many meetings the investment managers appointed by the Trustee were eligible to vote at over the year to 31/12/2020, in relation to securities owned by or on behalf of the Trustee?	5,339	17,978
How many resolutions the investment managers, appointed by the Trustee, were eligible to vote at over the year to 31/12/2020, in relation to securities owned by or on behalf of the Trustee?	58,700	199,121
What % of resolutions did the investment managers, appointed by the Trustee vote on for which they were eligible?	98%	99%
Of the resolutions on which the investment managers, appointed by the Trustee, voted, what % did they vote with management?	83%	83%
Of the resolutions on which the investment managers, appointed by the Trustee, voted, what % did they vote against management?	16%	17%
Of the resolutions on which the investment managers, appointed by the Trustee, voted, what % did they vote abstain ?	1%	0%

*Excludes Legacy AVCs

The data has been sourced via the underlying investment managers, appointed by the Trustee, using the PLSA voting template. Figures are likely to include some element of double counting as the Trustee may hold the same security across multiple investment managers and may not sum due to rounding.

LLOYDS BANK PENSION SCHEME NO.2

ANNUAL IMPLEMENTATION STATEMENT *(continued)*

YEAR ENDED 31 DECEMBER 2020

Appendix 2 – Examples of votes considered to be most significant by the Trustee

	Vote 1	Vote 2	Vote 3	Vote 4	Vote 5
Company name	The Procter & Gamble Company	ExxonMobil	Barclays	Whitehaven Coal	Amazon
Date of vote	13/10/2020	27/05/2020	07/05/2020	22/10/2020	27/05/2020
Summary of the resolution	Report on effort to eliminate deforestation	Elect Director Darren W. Woods	Approve Barclays' Commitment in tackling climate change	Greater disclosure on the potential wind-down of the company's coal operations	12 separate shareholder resolutions
How the investment manager voted	In favour	Against	In favour	In favour	In favour 10/12 Against 2/12
Rationale for the voting decision	P&G uses both forest pulp and palm oil as raw materials within some of its products which are both considered leading drivers of deforestation, forest degradation and responsible for approximately 12.5% of greenhouse gas emissions that contribute to climate change. Despite P&G introducing a number of objectives and targets to ensure their business does not impact deforestation, the investment manager felt the company was not doing as much as it could.	The investment manager feels ExxonMobil is behind peers from a climate change perspective and that the Chair of the Board and CEO should be independent.	The proposal by Barclays sets out its long-term plans towards tackling climate change.	The role of coal in the future energy mix is increasingly uncertain, due to the competitiveness of renewable energy, as well as increased regulation which increases the risk of stranded coal assets. As the most polluting fossil fuel, the phase-out of coal will be key to reaching these global climate targets.	The investment manager had multiple engagements with Amazon over the past 12 months on a variety of topics, from governance to greater transparency on their Climate Pledge and employee health and safety.

LLOYDS BANK PENSION SCHEME NO.2

ANNUAL IMPLEMENTATION STATEMENT *(continued)*

YEAR ENDED 31 DECEMBER 2020

Outcome of the vote	Resolution was supported by shareholders	Resolution was supported by shareholders	Resolution was supported by shareholders	Resolution was not supported by shareholders	Support for each resolution varied. Each resolution received less than 30% support from shareholders
Action as a result of the outcome	Our investment manager will continue to engage with the company	Our investment manager will continue to engage with the company and collaboratively with other investors	Our investment manager will now support Barclays on the detail of their plans and targets	Our investment manager will continue to engage with the company	Our investment manager will continue to engage with the company and push for greater disclosure going forward
Why was this deemed most significant?	The Trustee regards climate change as a one of several significant risks to the Scheme	The Trustee regards climate change as a one of several significant risks to the Scheme	The Trustee regards climate change as a one of several significant risks to the Scheme	The Trustee regards climate change as a one of several significant risks to the Scheme	Amazon is one of the largest companies in the world by market capitalisation

The data has been sourced via the underlying investment managers, appointed by the Trustee, using the PLSA voting template.