Pips Asset Investments Limited

Annual report and accounts
for the year ended 31 December 2019

Registered office

25 Gresham Street
London
EC2V 7HN

Registered number

08068457

Current directors

M Bradshaw
G S Parker
R D Shrimpton

Company Secretary

A E Mulholland

Member of Lloyds Banking Group

Strategic report
For the year ended 31 December 2019

The directors present their Strategic report and the audited financial statements of Pips Asset Investments Limited (the "Company") for the year ended 31 December 2019.

Business overview

The Company is a limited company incorporated and domiciled in England and Wales, United Kingdom (registered number: 08068457).

The Company's principal objective is to make loans to Lloyds Bank plc secured by transfer of securities to the Company ("Securities") in respect of which Lloyds Bank plc retains all risks and rewards through total return swap arrangements ("TRS"). The Securities held by the Company are pledged in favour of the Pension Investment Plan ("PIP") section of the Lloyds Bank Pension Scheme No.1, pursuant to a guarantee and charge in support of obligations owed to the PIP section by Lloyds Bank plc. The financial statements have been prepared for the year ended 31 December 2019 and comparative year ended 31 December 2018.

The Company is funded by subordinated unsecured debt from Lloyds Bank plc. For accounting purposes the Company does not recognise the Securities in its Balance sheet as Lloyds Bank plc continues to be exposed to substantially all the risks and rewards of those assets, but instead recognises a receivable from Lloyds Bank plc.

The financial performance of the Company is detailed in the Statement of comprehensive income on page 5.

The position of the Company at the year end is detailed in the Directors' report on pages 3 and 4.

Future outlook

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

Section 172(1) statement and statement of engagement with other stakeholders

In accordance with the Companies Act 2006 (the 'Act'), for the year ended 31 December 2019, the Directors provide the following statement describing how they have had regard to the matters set out in section 172(1) of the Act, when performing their duty to promote the success of the Company under section 172. Further details on key actions in this regard are also contained within the Directors' Report on pages 3 and 4.

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the following statement also provides details on how the Directors have engaged with, and had regard to, the interest of key stakeholders only as the Company has no direct employees. The Company is a subsidiary of Lloyds Banking Group plc, and as such follows many of the processes and practices of Lloyds Banking Group plc, which are further referred to in this statement where relevant.

Customers

The Directors' ensure the Company, as part of Lloyds Banking Group plc, works toward achieving Lloyds Banking Group plc's customer ambitions and focussing on treating customers fairly. Lloyds Banking Group plc regularly benchmarks amongst its customers the performance of itself and its subsidiaries, and uses this insight along with a range of internal and external research to ensure ongoing improvement in customer experience.

Shareholders

The Company is a wholly owned subsidiary of Lloyds Banking Group plc. As a wholly owned subsidiary, the Directors ensure that the strategy, priorities, processes and practices of the Company are fully aligned where required to those of Lloyds Banking Group plc, ensuring that the interests of Lloyds Banking Group plc are duly acknowledged. Further information in respect of the relationship of Lloyds Banking Group plc with its shareholders is included within the Strategic Report within the Lloyds Banking Group plc Annual Report and Accounts for 2019, which does not form part of this report, available on the Lloyds Banking Group plc website.

The Board receives updates on regulatory interaction as required. The status of regulatory relationships continue to be closely monitored, enhancing proactive engagement across key regulatory changes and areas of focus. The approach of LBG, including that of the Company, to managing regulatory change is discussed further on page 11 of the LBG Annual Report and Accounts for 2019 available on the LBG website.

Communities and the Environment

Due to its limited physical presence, the Company has a minimal direct impact on the community and the environment, it does however continue to support Lloyds Banking Group plc's related initiatives. Further information in respect of Lloyds Banking Group plc's overall approach to engaging with and contributing to the communities in which it operates is included within the Strategic Report within the Lloyds Banking Group plc's Annual Report and Accounts for 2019, which does not form part of this report. Additional information on Lloyds Banking Group plc's Helping Britain Prosper Plan is available on the Lloyds Banking Group plc website.

Section 172(1) statement and statement of engagement with other stakeholders (continued)

Suppliers

The Company's approach to external supplier management makes use of that of LBG, which works with around 3,100 active suppliers of varying sizes, most in professional services sectors such as IT, cyber, operations, management consultancy, legal, HR, marketing and communication. The supply chain is crucial to the way the Company and LBG serves its customers, and through it the reach is considerable.

LBG seeks to improve the experience of suppliers, with feedback regularly sought on related assurance processes to ensure continued improvement in the process. Suppliers are also encouraged to express their satisfaction or otherwise, and have access to LBG 's whistleblowing service.

In 2019 LBG's supplier expenditure was £5.9 billion, with 95.5% of third party suppliers being located in the UK. Importance is placed on having the right supplier framework to operate responsibly. LBG's Sourcing & Supply Chain Management Policy applies to all businesses, divisions, and subsidiaries of LBG, including the Company, with the directors assuming ultimate responsibility for its application as relevant to the Company. This Policy has been designed to assist in managing the inherent risk in outsourcing services, and in dealing with third party suppliers. Suppliers are required to adhere to relevant LBG policies and comply with LBG's Code of Supplier Responsibility which can be found on the LBG website. This defines expectations for responsible business behaviour, underpinning the efforts of the Company and LBG to share and extend good practice. All material contracts are subject to rigorous cost management governance with regular review of key supplier risks.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are managed within the framework established for the Group and are not managed separately for the Company. Further details of the Company's and Group's risk management policy are contained in note 16 to the financial statements.

In the context of operational resilience, the Company has assessed the risks associated with the current global health issue Covid-19 and will continue to monitor the impacts. However, it is difficult at this stage to quantify risks and the degree to which they might crystallise. In addition, Covid-19 could have an adverse impact across risks including the value of the assets of the Company. If the value of the assets reduces, the Company will look to LBG to provide additional funding support to meet the TSR/guarantee amount.

Key performance indicators ("KPIs")

Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using key performance indicators is not necessary for an understanding of the development, performance or position of the business.

Approved by the board of directors and signed on its behalf by:

Mark Bradshaw

M Bradshaw
Director

24 September 2020

Directors' report

For the year ended 31 December 2019

The directors present their Annual report and the audited financial statements of Pips Asset Investment Limited ("the Company") for the year ended 31 December 2019.

The Company is a private company limited by shares, incorporated and domiciled in England and Wales, United Kingdom (registered number:

The results of the Company show a profit before taxation of £86,000 (2018: £173,000) for the year as set out in the Statement of comprehensive income on page 5.

The Company has a shareholders' equity of £10,972,000 (2018: £10,902,000).

Employees

The Company has no direct employees (2018: nil). All staff are employed by other group undertakings and no staff costs are recharged to the Company.

Dividends

No dividends were paid or proposed during the year ended 31 December 2019 (2018: £nil).

Directors

The current directors of the Company are shown on the front cover.

There have been no changes to directors between the beginning of the reporting period and the approval of the Annual report and accounts.

No director had any interest in any material contract or arrangement with the Company during or at the end of the year.

Information included in the Strategic report

The disclosures for Principal risks and uncertainties and Key performance indicators that would otherwise be required to be disclosed in the Directors' report can be found in the Strategic report on page 2.

Going Concern

The financial statements have been prepared on a going concern basis. There is a net asset position of £10,972,000 (2018: £10,902,000).

The value of securities held by the Company must exceed the TSR/guarantee amount as set out in the TSR arrangement. If the value of the assets reduces, the Company will look to LBG to provide additional funding support to meet the TSR/guarantee amount. The Company is also covered by the letter of support from the Lloyds Banking Group plc dated 19 February 2020 that covers Lloyds Bank plc, and all its subsidiaries, which confirms that any additional liabilities will be borne by the ultimate parent company if required.

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

Directors' indemnities

Lloyds Banking Group plc has granted to the directors of the company a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Act. The deed was in force during the whole of the financial year and at the date of approval of the financial statements. The indemnity remains in force for the duration of a director's period of office. The deed indemnifies the directors to the maximum extent permitted by law. The deed for existing directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, Lloyds Banking Group (the "Group") has in place appropriate LBG Directors and officers liability insurance cover which was in place throughout the financial year.

Directors' report (continued)

For the year ended 31 December 2019

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

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

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Statement of disclosure of information to auditors'

In the case of each director in office at the date the Directors' report is approved:

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

Independent auditors

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

Approved by the board of directors and signed on its behalf by:

M Bradshaw
Director

24 September 2020

Statement of comprehensive income

For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Interest income		**16,946**	11,948
Interest expense		**(16,960)**	(11,875)
Net interest (expense)/income	4	**(14)**	73
Other operating income	5	**100**	100
Profit before tax		**86**	173
Taxation	9	**(16)**	(33)
Profit for the year and total comprehensive income		**70**	140

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

Balance sheet
As at 31 December 2019

	Note	2019 £'000	2018 £'000
ASSETS			
Trade and other receivables	10	**1,495**	1,729
Deemed loan to originator	11	**1,322,627**	1,825,614
Total assets		**1,324,122**	1,827,343
LIABILITIES			
Borrowed funds	12	**1,312,627**	1,815,614
Trade and other payables	13	**507**	765
Current tax liability		**16**	62
Total liabilities		**1,313,150**	1,816,441
EQUITY			
Share capital	14	**10,000**	10,000
Retained earnings		**972**	902
Total equity		**10,972**	10,902
Total equity and liabilities		**1,324,122**	1,827,343

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

The financial statements were approved by the board of directors and were signed on its behalf by:

Mark Bradshaw

M Bradshaw
Director

24 September 2020

Statement of changes in equity

For the year ended 31 December 2019

	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2018	10,000	762	10,762
Profit for the year being total comprehensive income	-	140	140
At 31 December 2018	10,000	902	10,902
At 1 January 2019			
Profit for the year being total comprehensive income	**-**	**70**	**70**
At 31 December 2019	**10,000**	**972**	**10,972**

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

Cash flow statement

For the year ended 31 December 2019

	2019 £'000	2018 £'000
Cash flows generated from operating activities		
Profit before tax	**86**	173
Adjustments for:		
- Interest income	**(16,946)**	(11,948)
- Interest expense	**16,960**	11,875
- Net decrease/(increase) in Trade and other receivables	**230**	(327)
- Net (decrease)/increase in Trade and other payables	**(258)**	325
Cash generated from operations	**72**	98
Tax paid	**(62)**	-
Net cash generated from operating activities	**10**	98
Cash flows generated from/(used in) investing activities		
Interest (paid)/received	**(17,203)**	11,622
Principal receipts from Deemed loan to originator	**-**	(246,328)
Repayments on Deemed loan to originator	**502,987**	88,425
Net cash generated from/(used in) investing activities	**485,784**	(146,281)
Cash flows (used in)/generated from financing activities		
Increase in Amounts due from group undertakings	**(25)**	(171)
Proceeds from borrowings with group undertakings	**-**	246,328
Repayments on borrowings with group undertakings	**(502,987)**	(88,425)
Interest received/(paid)	**17,218**	(11,549)
Net cash (used in)/generated from financing activities	**(485,794)**	146,183
Cash and cash equivalents comprise		
Cash and cash equivalents at beginning of year	**-**	-
Cash and cash equivalents at end of year	**-**	-

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

Notes to the financial statements

For the year ended 31 December 2019

1. Basis of preparation

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

These financial statements have been prepared in accordance with applicable IFRSs as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRSs. IFRSs comprise accounting standards prefixed IFRS issued by the International Accounting Standards Board ("IASB") and those prefixed IAS issued by the IASB's predecessor body, as well as interpretations issued by the IFRS Interpretations Committee ("IFRS IC") and its predecessor body.

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

The financial information has been prepared under the historical cost convention. As stated below the directors consider that it is appropriate to adopt the going concern basis in preparing the financial statements.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2019 and which have not been applied in preparing these financial statements are given in note 21. No standards have been early adopted.

The Company meets the definition of a special purpose entity under IFRSs. In accordance with the requirements of IFRS 10 "Consolidated Financial Statements", the Company's financial statements are consolidated within the group financial statements of Lloyds Banking Group plc for the year ended 31 December 2019 .

The financial statements have been prepared on a going concern basis. There is a net asset position of £10,972,000 (2018: £10,902,000).

The value of securities held by the Company must exceed the TSR/guarantee amount as set out in the TSR arrangement. If the value of the assets reduces, the Company will look to LBG to provide additional funding support to meet the TSR/guarantee amount. The Company is also covered by the letter of support from the Lloyds Banking Group plc dated 19 February 2020 that covers Lloyds Bank plc, and all its subsidiaries, which confirms that any additional liabilities will be borne by the ultimate parent company if required.

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

2. Accounting policies

The Company's accounting policies are set out below. These accounting policies have been applied consistently.

2.1 Income recognition

Income and expense from financial instruments

Interest income and expense are recognised in the Statement of comprehensive income for all interest bearing financial instruments using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense to a period of account. The effective interest rate is the rate that discounts the estimated future cash payments or receipts over the expected life of the instrument to the net carrying amount of the financial asset or financial liability.

The calculation includes all amounts paid or received by the Company that are an integral part of the overall return, direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument and all other premiums or discounts. Fees and commissions, which are not an integral part of the effective interest rate, are generally recognised when the service has been provided. Coupon or dividends received on investment in irredeemable shares, which carry a mandatory coupon, are recognised in the Statement of comprehensive income as interest income.

2.2 Financial assets and liabilities

Financial assets comprise Deemed loan to originator and Trade and other receivables. Financial liabilities comprise Borrowed funds and Trade and other payables.

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

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2019

2. Accounting policies (continued)

2.2 Financial assets and liabilities (continued)

Financial instruments measured at amortised cost

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

Financial liabilities are measured at amortised cost, except for trading liabilities and other financial liabilities designated at fair value through profit or loss on initial recognition which are held at fair value.

2.3 Deemed loan to originator

Under IFRS 9, if a transferor retains substantially all the risks and rewards associated with the transferred assets, the transaction is accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective. The directors of the Company have concluded that Lloyds Bank plc has retained substantially all the risk and rewards of the loan, reflecting the securities purchased by the Company from Lloyds Bank plc and as a consequence, the Company does not recognise the loan on its Balance sheet but rather a Deemed loan to originator, where recourse to Lloyds Bank plc is limited to the cash flows from the loan and any additional credit enhancement provided by Lloyds Bank plc.

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

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

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

2.4 Impairment of financial assets

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

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

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

2.5 Taxation

Tax expense comprises current tax. Current tax is charged or credited in the Statement of comprehensive income except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, outside the Statement of comprehensive income (either in other comprehensive income, directly in equity, or through a business combination), in which case the tax appears in the same statement as the transaction that gave rise to it.

Current tax is the amount of corporate income taxes expected to be payable or recoverable based on the profit for the period as adjusted for items that are not taxable or not deductible, and is calculated using tax rates and laws that were enacted or substantively enacted at the Balance sheet date.

Current tax includes amounts provided in respect of uncertain tax positions when management expects that, upon examination of the uncertainty by Her Majesty's Revenue and Customs (HMRC) or another tax authority, it is more likely than not that an economic outflow will occur. Provisions reflect management's best estimate of the ultimate liability based on their interpretation of tax law, precedent and guidance, informed by external tax advice as necessary. Changes in facts and circumstances underlying these provisions are reassessed at each Balance sheet date, and the provisions are re-measured as required to reflect current information.

2. Accounting policies (continued)

2.6 Financial guarantees

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

- the amount determined in accordance with the expected credit loss model under IFRS 9 Financial Instruments; and

- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from Contracts with Customers.

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

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

3. Critical accounting estimates and judgements in applying accounting policies

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

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

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

Impairment of Deemed loan to originator

In the year under IFRS 9, the Company's accounting policy for impairment on the Deemed loan to originator is described in note 2.3.

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

At 31 December, the impairment allowance in the current year was £nil (2018: £nil).

4. Net interest (expense)/income

	2019 £'000	2018 £'000
Interest income		
Group interest income (see note 15)	**16,946**	11,948
Interest expense		
Group interest expense (see note 15)	**(16,960)**	(11,875)
Net interest (expense)/income	**(14)**	73

5. Other operating income

	2019 £'000	2018 £'000
Guarantee fee income (see note 15)	**100**	100

Annual guarantee fee income of £100,000 (2018: £100,000) relates to income receivable from Lloyds Bank plc.

6. Other operating expenses

Fees payable to the Company's auditors for the audit of the financial statements of £15,500 (2018: £15,500) have been borne by a fellow group company and are not recharged to the Company. Accounting and administration services are provided by a fellow group undertaking and are not recharged to the Company.

7. Staff costs

The Company did not have any employees during the year (2018: none).

8. Directors' emoluments

No director received any fees or emoluments from the Company during the year (2018: £nil). The directors are employed by other companies within the Group and consider that their services to the Company are incidental to their other responsibilities within the Group (see also note 15).

9. Taxation

	2019 £'000	2018 £'000
a) Analysis of charge for the year		
UK corporation tax:		
- Current tax on taxable profit for the year	**(16)**	(33)
Tax charge	**(16)**	(33)

Corporation tax is calculated at a rate of 19.00% (2018: 19.00%) of the taxable profit for the year.

b) Factors affecting the tax charge for the year

A reconciliation of the charge that would result from applying the standard UK corporation tax rate to the profit before tax to the actual tax charge for the year is given below:

	2019 £'000	2018 £'000
Profit before tax	**86**	173
Tax charge thereon at UK corporation tax rate of 19.00% (2018: 19.00%)	**(16)**	(33)
Tax charge on profit on ordinary activities	**(16)**	(33)
Effective rate	**18.60%**	(19.08%)

10. Trade and other receivables

	2019 £'000	2018 £'000
Amounts due from group undertakings (see note 15)	**986**	961
Accrued interest receivable (see note 15)	**509**	768
	1,495	1,729

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

11. Deemed loan to originator

	2019 £'000	2018 £'000
Deemed loan to originator (see note 15)	**1,322,627**	1,825,614
As at 1 January	**1,825,614**	1,667,711
Advances during the year	**-**	246,328
Repayments during the year	**(502,987)**	(88,425)
As at 31 December	**1,322,627**	1,825,614

	2019 £'000	2018 £'000
Represented by:		
Current	**-**	314,214
Non-current	**1,322,627**	1,511,400
	1,322,627	1,825,614

The loan reflects the Securities purchased by the Company from Lloyds Bank plc. On purchasing the Securities, the Company simultaneously entered into total return swap arrangements with Lloyds Bank plc in respect of them i.e. the risks and rewards of holding the Securities remained with Lloyds Bank plc. To reflect the substance of this transaction, the Securities have been recognised as a deemed loan from Lloyds Bank plc to the Company.

The deemed loan advanced to Lloyds Bank plc pays at the 3 month GBP LIBOR rate. No impairment has arisen in respect of the loan balance and accordingly no provision has been recognised. The fair value of the loan is approximately equal to the book value. The loan reflects the rights and obligations of the Company and Lloyds Bank plc under sale and purchase and total return swap arrangements in respect of the Securities.

Notes to the financial statements (continued)
For the year ended 31 December 2019

12. Borrowed funds

	2019 £'000	2018 £'000
As at 1 January	**1,815,614**	1,657,711
Advances during the year	**-**	246,328
Repayments during the year	**(502,987)**	(88,425)
As at 31 December (see note 15)	**1,312,627**	1,815,614
Represented by:		
Current	**-**	314,214
Non-current	**1,312,627**	1,501,400
	1,312,627	1,815,614

The loan advanced from Lloyds Bank plc is unsecured and repayable on demand, although there is no expectation that such a demand would be made. The fair value of the borrowing is approximately equal to the book value.

Transition from Interbank Offered Rate to Alternative Risk-Free Reference Rates

Widely used benchmark rates, such as Libor have been subject to increasing regulatory scrutiny, with regulators signaling the need to use alternative benchmark rates. As a result, existing benchmark rates may be discontinued or the basis on which they are calculated may change. Uncertainty as to the nature of such potential changes may adversely affect the value of a broad array of financial products, including any Libor-based securities, loans and derivatives. This may impact the availability and cost of hedging instruments and borrowings.

Any changes could have important implications, for example: necessitating amendments to existing documents and contracts; and differential in performance of benchmark rates and financial products which reference them. The Company is continuing to monitor the appropriateness of the continued use of Libor in its products and is working to establish suitable alternatives where necessary.

13. Trade and other payables

	2019 £'000	2018 £'000
Accrued interest payable (see note 15)	**507**	765

Accrued interest payable relates to the interest due on the Company's borrowed funds at the year-end.

14. Share capital

	2019 £'000	2018 £'000
Allotted, issued and fully paid		
9,999 'A' ordinary shares of £1,000 each	**9,999**	9,999
1 'B' ordinary shares of £1,000 each	**1**	1
	10,000	10,000

As at 31 December 2019, Lloyds Bank Financial Services (Holdings) Limited held 100% (2018: 100%) of the Class "A" shares. Lloyds Banking Group Pension Trustees Limited held 100% (2018: 100%) of the Class "B" shares.

The Class "A" ordinary shares carry the rights to all dividends declared and paid according to the amounts paid up on the shares, are irredeemable, the right to vote is determined by reference to the register of members (the aggregate number of votes exercisable by the holders of the Class "A" ordinary shares is four times the number of votes exercisable by the Class "B" shareholder) and provide no rights to capital distribution upon liquidation other than those stated as a matter of law.

The Class "B" ordinary shares do not carry any rights to dividends, are irredeemable, the right to vote is determined by reference to the register of members (each vote is then equal to the number of Class "B" shares held by each Class "B" shareholder and provide no rights to capital distribution upon liquidation other than those stated as a matter of law.

15. Related party transactions

The Company is controlled by Lloyds Bank Financial Services (Holdings) Limited. A number of transactions are entered into with related parties in the normal course of business. These include loan and fee transactions. A summary of the outstanding balances at the year end and the related income and expense for the year is set out below.

	2019 £'000	2018 £'000
Amounts due from group undertakings		
Lloyds Bank plc (see note 10)	**986**	961
Deemed loan to originator		
Lloyds Bank plc (see note 11)	**1,322,627**	1,825,614
Borrowed funds		
Lloyds Bank plc (see note 12)	**1,312,627**	1,815,614
Interest income		
Lloyds Bank plc (see note 4)	**16,946**	11,948
Interest expense		
Lloyds Bank plc (see note 4)	**16,960**	11,875
Accrued interest payable		
Lloyds Bank plc (see note 13)	**507**	765
Accrued interest receivable		
Lloyds Bank plc (see note 10)	**509**	768
Other operating income		
Lloyds Bank plc (see note 5)	**100**	100

The above balances are unsecured in nature and are expected to be settled in cash or by cash equivalents. Transactions in the year are those reflected through the Statement of comprehensive income.

Key management personnel

Key management personnel are those persons having authority and responsibility for planning and controlling the activities of the Company. Accordingly, key management comprises directors of the Company and Lloyds Bank Financial Services (Holdings) Limited. There were no transactions between the Company and key management personnel during the current or preceding year. Key management personnel are employed by other companies within the Group and consider that their services to the Company are incidental to their other activities within the Group.

16. Financial risk management

The Company's operations expose it to credit risk, liquidity risk and interest rate risk; it is not exposed to any significant market risk, business risk or foreign exchange risk. Responsibility for the control of overall risk lies with the board of directors, operating within a management framework established by Lloyds Bank Financial Services (Holdings) Limited, and the ultimate parent, Lloyds Banking Group plc. Interest rate and liquidity risk faced by the Company are in substance managed and borne by other group undertakings which fund the Company. A description of the Company's financial assets/liabilities and associated accounting is provided in note 2.

Notes to the financial statements (continued)

For the year ended 31 December 2019

16. Financial risk management (continued)

16.1 Credit risk

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

Financial assets subject to credit risk

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

	2019 £'000	2018 £'000
Deemed loan to originator	**1,322,627**	1,825,614
Trade and other receivables	**1,495**	1,729
	1,324,122	1,827,343

The Company meets its obligations to repay its borrowings and other liabilities from the cash flows it receives on the Deemed loan to originator. As both the Deemed loan to originator and borrowings are held with the same counterparty, Lloyds Bank plc, and party to the TRS arrangement discussed within the Strategic report, then the directors consider credit risk to be relatively insignificant to the Company.

At the Balance sheet date and date of signing these financial statements, the TRS counterparty, Lloyds Bank plc, had a long-term rating of Aa3 per Moody's (2018: Aa3).

16.2 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due. To manage this risk extensive borrowing facilities are available from within the Group.

The table below analyses liabilities of the Company on an undiscounted future cash flow basis according to contractual maturity into relevant maturity groupings based on the remaining period at the Balance sheet date.

As at 31 December 2019	**Up to 1 month £'000**	**1-3 months £'000**	**3-12 months £'000**	**1-5 years £'000**	**Over 5 years £'000**	**Total £'000**
Non-current						
Borrowed funds	-	-	-	**660,847**	**574,419**	**1,235,266**
Current						
Borrowed funds	-	**54,482**	**9,531**	-	-	**64,013**
	-	**54,482**	**9,531**	**660,847**	**574,419**	**1,299,279**

As at 31 December 2018	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Over 5 years £'000	Total £'000
Non-current						
Borrowed funds	-	-	-	601,848	991,653	1,593,501
Current						
Borrowed funds	765	-	331,289	-	-	332,054
	765	-	331,289	601,848	991,653	1,925,555

Current tax liabilities of £16,000 (2018: £62,000) are repayable on demand.

16. Financial risk management (continued)

16.3 Interest rate risk

Interest rate risk arises from the mismatch between interest rate sensitive liabilities and interest rate sensitive assets. From the perspective of the Company, the interest rate risks are integrated with the interest rate risks of the Group and are not managed separately. The scenarios are run only for assets and liabilities that represent the major interest bearing positions. Based on the simulations performed, the full year impact on post tax profit of a 0.25% shift would be a maximum increase or decrease of approximately £20,000 (2018: £20,000).

The table below summarises the repricing mismatches of the Company's non trading interest-bearing assets and liabilities. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

As at 31 December 2019

	Up to 1 month £'000	**1-3 months £'000**	**3-12 months £'000**	**1-5 years £'000**	**Over 5 years £'000**	**Total £'000**
Non-current assets						
Deemed loan to originator	-	-	**1,322,627**	-	-	**1,322,627**
Current assets						
Amounts due from group undertakings	**986**	-	-	-	-	**986**
	986	-	**1,322,627**	-	-	**1,323,613**
Non-current liabilities						
Borrowed funds	-	-	**1,312,627**	-	-	**1,312,627**
Total interest sensitivity gap	**986**	-	**10,000**	-	-	**10,986**

As at 31 December 2018

	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Over 5 years £'000	Total £'000
Non-current assets						
Deemed loan to originator	-	-	1,825,614	-	-	1,825,614
Current assets						
Amounts due from group undertakings	961	-	-	-	-	961
	961	-	1,825,614	-	-	1,826,575
Non-current liabilities						
Borrowed funds	-	-	1,815,614	-	-	1,815,614
Total interest sensitivity gap	961	-	10,000	-	-	10,961

16. Financial risk management (continued)

16.4 Fair values of financial assets and liabilities

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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

17. Capital disclosures

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

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

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

18. Financial guarantee

On 22 May 2012, the Company entered into a Guarantee and Charge Deed ("Guarantee") with Lloyds Bank plc and the Pension Scheme pursuant to which the Company provides a guarantee and indemnity to the Pension Scheme for the punctual performance of all the "Guaranteed Liabilities". The Guaranteed Liabilities comprise pension deficit contributions due from employers participating in the PIP section of the Pension Scheme from time to time and certain other debts which may arise under the Pensions Act 1995. The obligations of the Company under the Guarantee cannot exceed an agreed amount.

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

This Guarantee has been accounted for as an insurance contract in accordance with IFRS 4. At this stage, the Company does not foresee any payout from the Guarantee and have therefore valued it at £nil (2018: £nil).

The following table shows the market value of securities held on behalf of the Company by Bank of New York Mellon (London Branch) in its capacity as the custodian and charged by the Company in support of its obligations under the Guarantee as at 31 December 2019.

	2019	2018
	£'000	£'000
Securitisation notes	**1,354,596**	1,339,914

The guarantee amount as at 31 December 2019 was £1,198,081,000 (2018: £1,205,003,000).

19. Contingent liabilities and capital commitments

There were no contingent liabilities or contracted capital commitments at the Balance sheet date (2018: £nil).

20. Post balance sheet events

Since the Balance sheet date there has been a global pandemic from the outbreak of Covid-19 which is causing widespread disruption to financial markets and normal patterns of business activity across the world, including the UK. This entity holds securities purchased from LBG entities with the risks and rewards transferred back to the same LBG entity by way of a total return swap. These are recorded as deemed loans within the accounts. To the extent that the value of securities has fluctuated as a result of Covid-19, this will have also been reflected within the TRS thereby protecting each of the entities against any financial impact, ensuring the entity remains a going concern. Where the value of assets fell (in March) as a result of Covid-19, the total value of securities fell below the level required to support the value of the guarantee. Additional assets of £336,000,000 were purchased to remove the shortfall in line with terms of the Framework Agreement, and as a result the value of both deemed loans increased. There is therefore no significant financial impact on this entity. This entity is a going concern as the Company is covered by the letter of support from the Group dated 19 February 2020 that covers Lloyds Bank plc, and all its subsidiaries.

Since the end of reporting period, a scheduled recalculation of the TSCR/ guarantee amount occurred on the 30 June 2020. As a result of the recalculation the guarantee amount was increased from £1,198,080,803 to £1,500,000,000. This led to an equivalent purchase of assets and increase in the liabilities of the entity, meaning there was no net asset change.

21. Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2019 and have not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
IFRS 17 'Insurance Contracts'	IFRS 17 replaces IFRS 4 'Insurance Contracts' and is currently effective for annual periods beginning on or after 1 January 2021 although the International Accounting Standards Board have proposed delaying implementation until 1 January 2022. IFRS 17 requires insurance contracts and participating investment contracts to be measured on the balance sheet as the total of the fulfilment cash flows and the contractual service margin. Changes to estimates of future cash flows from one reporting date to another are recognised either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it. The effects of some changes in discount rates can either be recognised in profit or loss or in other comprehensive income as an accounting policy choice. The risk adjustment is released to profit and loss as an insurer's risk reduces. Profits which are currently recognised through a Value in Force asset, will no longer be recognised at inception of an insurance contract. Instead, the expected profit for providing insurance coverage is recognised in profit or loss over time	Annual periods beginning on or after 1 January 2021
Minor amendments to other accounting standards	The IASB has issued a number of minor amendments to IFRSs effective 1 January 2020 (including IFRS 3 Business Combinations and IAS 1 Presentation of Financial Statements). These amendments are not expected to have a significant impact on the Group.	Annual periods beginning on or after 1 January 2020

The full impact of these pronouncements is being assessed by the Company. However, the initial view is that they are not expected to cause any material adjustments to the reported numbers in the financial statements.

22. Ultimate parent undertaking and controlling party

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

Independent auditors' report to the members of Pips Asset Investment Limited

Report on the audit of the financial statements

Opinion

In our opinion, Pips Asset Investment Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and accounts (the "Annual Report"), which comprise: the balance sheet as at 31 December 2019; the statement of comprehensive income, the cash flow statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

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

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Christopher J Dalton

Christopher Dalton (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
24 September 2020