

Registered Number OC340094

LLOYDS TSB COVERED BONDS LLP  
MEMBERS' REPORT AND FINANCIAL STATEMENTS  
PERIOD ENDED 31 DECEMBER 2009



**LLOYDS TSB COVERED BONDS LLP  
MEMBERS AND LLP INFORMATION**

**DESIGNATED MEMBERS**

Lloyds TSB Bank plc  
Lloyds TSB Covered Bonds (LM) Limited

**MANAGEMENT BOARD**

Gary Staines  
Kate Grant (resigned 8 February 2010)  
Sue Harris (resigned 8 February 2010)  
Edward Short  
Darren Pope (appointed 2 February 2010)  
Monica De Vries (appointed 2 February 2010)

**REGISTERED OFFICE**

35 Great St Helen's  
London  
EC3A 6AP

**AUDITORS**

PricewaterhouseCoopers LLP  
Benson House  
33 Wellington Street  
Leeds  
LS1 4JP

## **LLOYDS TSB COVERED BONDS LLP MEMBERS' REPORT**

The members of Lloyds TSB Covered Bonds LLP (the "LLP") present their first report and financial statements for the period from incorporation to 31 December 2009

The LLP was registered as Lloyds TSB Covered Bonds LLP in England and Wales on 12 September 2008 as a limited liability partnership

### **PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**

The LLP is a special purpose vehicle whose business is the acquisition, management and sale of mortgage loans and their related security to guarantee the Covered Bonds issued by Lloyds TSB Bank plc. The mortgage loans and the funding to acquire these loans originate from Lloyds TSB Bank plc.

The activities of the LLP are conducted primarily by reference to a series of transaction documents (the "Programme Documentation"). The structure has been established as a means of raising finance for Lloyds TSB Bank plc and no business activities will be undertaken by the LLP beyond those set out in the Programme Documentation.

On 22 October 2008, the LLP initially acquired a £12bn beneficial interest in a mortgage loan portfolio originating from Lloyds TSB Bank plc and has subsequently acquired further beneficial interests of mortgage loan portfolios. In consideration for the beneficial interest of the mortgage loan portfolio, the LLP is required to give a combination of

- (i) A cash payment to Lloyds TSB Bank plc from the proceeds of a term advance,
- (ii) A record of a Capital Contribution in Kind being made by Lloyds TSB Bank plc, and/or
- (iii) Deferred Consideration which shall be paid by the LLP on each LLP payment date in accordance with the relevant priorities of payment

The programme size allows a maximum Covered Bonds issuance of €15bn, providing that the mortgage loan portfolios acquired meet the Asset Coverage Test per the programme documentation, which states that the adjusted aggregate amounts of mortgage loans must be an amount equal to or greater than the total amount of Covered Bonds in issue.

The Covered Bonds issued to the date of the balance sheet date are issued in sterling, with the proceeds paid across to the LLP on issuance by way of an inter-company loan. The amount of the Covered Bonds in issue at 31 December 2009 was £8bn. At 31 December 2009, the total value of the mortgage loan portfolio legally held by the LLP was £12.58bn.

Lloyds TSB Bank plc forms part of the Lloyds Banking Group plc ("LBG"), previously known as Lloyds TSB Group plc.

### **KEY PERFORMANCE INDICATORS (KPI'S)**

Given the straight forward nature of the business, the members are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the LLP.

## **LLOYDS TSB COVERED BONDS LLP MEMBERS' REPORT (CONT'D)**

### **DESIGNATED MEMBERS**

The designated members during the year and subsequently were as follows

Lloyds TSB Bank plc  
Lloyds TSB Covered Bonds (LM) Limited

### **MEMBERS' INTERESTS**

The policy regarding the allocation of profits to members and the treatment of capital contributions is set out in note 1 (significant accounting policies)

### **MEMBERS' RESPONSIBILITIES**

The members are responsible for preparing the Members' Report and the Financial Statements in accordance with applicable law and regulations

The law relating to limited liability partnerships (LLPs) requires the members to prepare financial statements for each financial year. Under that law the members have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). In preparing these financial statements, the members have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB).

The financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the LLP and its performance for that period. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing these financial statements, the members are required to

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

Under the Limited Liability Partnerships Regulations 2008, the members are responsible for keeping adequate accounting records that are sufficient to show and explain the LLP's transactions and disclose with reasonable accuracy at any time the financial position of the LLP and enable them to ensure that its financial statements comply with those regulations. They are also responsible for safeguarding the assets of the LLP and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**LLOYDS TSB COVERED BONDS LLP  
MEMBERS' REPORT (CONT'D)**

**RISK MANAGEMENT**

The LLP's assets and liabilities have been classified as financial instruments in accordance with IAS 32 "Financial Instruments Presentation"

The LLP's financial instruments principally comprise a deemed loan to Lloyds TSB Bank plc (equivalent to the value of the LLP's investment in Lloyds TSB Bank plc mortgages), cash and liquid resources, loans and borrowings and various other receivables and payables that arise directly from its operations. The main purpose of these financial instruments is to raise finance for Lloyds TSB Bank plc.

It is, and has been throughout the period under review, the LLP's policy that no trading in financial instruments is undertaken.

Further discussion of the LLP's approach to financial instruments is set out in note 1 (significant accounting policies).

**EMPLOYEES**

The LLP has no employed staff during the period ended 31 December 2009.

**POLICY AND PRACTICE ON PAYMENT OF CREDITORS**

It is the LLP's policy that payments made to suppliers are made in accordance with those terms and conditions agreed between the LLP and its suppliers.

The LLP owed no amounts to trade creditors at 31 December 2009.

**POST BALANCE SHEET EVENTS**

On 17 March 2010, there was a new Covered Bond issuance of €1.5bn by Lloyds TSB Bank plc. On the same date there was an increase in the term loans held with Lloyds TSB Bank plc for the same amount and a currency swap with Lloyds TSB Bank plc was entered into.

**LLOYDS TSB COVERED BONDS LLP  
MEMBERS' REPORT (CONT'D)**

**AUDITORS AND AUDIT INFORMATION**

PricewaterhouseCoopers LLP were appointed as auditors of the company with effect from the same date by resolution of the members 20 October 2008

Pursuant to section 487 of the Companies Act 2006, auditors duly appointed by the members of the company shall, subject to any resolution to the contrary, be deemed to be reappointed for the next financial year and PricewaterhouseCoopers LLP will therefore continue in office

So far as the members are each aware, there is no relevant audit information of which the LLP's auditors are unaware, and each member has taken all the steps that they ought to have taken as a member to make themselves aware of any relevant audit information and to establish that the LLP's auditors are aware of that information

This confirmation is given, and should be interpreted in accordance with the provisions of the section 418 of the Companies Act 2006

**STATEMENT OF GOING CONCERN**

As set out in the statement of compliance in the significant accounting policies section of the notes to the financial statements, the members are satisfied that the LLP has adequate resources to continue in business for the foreseeable future and consequently the going concern basis continues to be appropriate in preparing the financial statements

**SIGNED FOR AND ON BEHALF OF THE MEMBERS OF LLOYDS TSB COVERED BONDS LLP**



Helena Whitaker  
Per pro SFM Directors Limited  
As Director of Lloyds TSB Covered Bonds (LM) Limited



Gary Staines  
On behalf of  
Lloyds TSB Bank Plc

DATE 10 June 2010

DATE 10 June 2010

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LLOYDS TSB COVERED BONDS LLP**

We have audited the financial statements of Lloyds TSB Covered Bonds LLP for the period ended 31 December 2009 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### **Respective responsibilities of members and auditors**

The members' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Members' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the members of the partnership in accordance with the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 (the "Regulations"), and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 2006, as applied to limited liability partnerships. We also report to you if, in our opinion, the limited liability partnership has not kept adequate accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Members' Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Members' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the members in the preparation of the financial statements, and of whether the accounting policies are appropriate to the limited liability partnership's circumstances, consistently applied and adequately disclosed.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF  
LLOYDS TSB COVERED BONDS LLP**

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion the financial statements

- give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the partnership's affairs as at 31 December 2009 and of its profit and cash flows for the period then ended, and
- have been properly prepared in accordance with the Companies Act 2006, as applied to limited liability partnerships by the Regulations

*Mark Hannam*

Mark Hannam (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
Leeds

DATE *10<sup>th</sup> June 2010*



**LLOYDS TSB COVERED BONDS LLP  
STATEMENT OF COMPREHENSIVE INCOME  
FOR THE PERIOD ENDED 31 DECEMBER 2009**

	<b>Note</b>	<b>Period from incorporation to 31 Dec 2009 £000</b>
Interest receivable and similar income	2	185,142
Interest payable and similar charges	3	(172,450)
		12,692
<b>Net interest income</b>		<b>12,692</b>
Operating expenses	4	(12,689)
		3
<b>Profit before tax for the year</b>		<b>3</b>
Taxation		-
		3
<b>Profit for the financial year available for discretionary division among members</b>		<b>3</b>

The profit shown above is derived from continuing operations

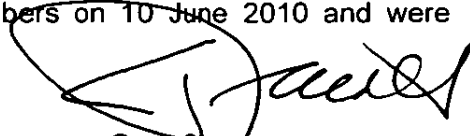
The accompanying notes on pages 12 to 30 form an integral part of these financial statements

**LLOYDS TSB COVERED BONDS LLP  
BALANCE SHEET  
AS AT 31 DECEMBER 2009**

	Note	31 Dec 2009 £000
<b>Assets</b>		
Deemed loan to originator	5	7,380,142
Cash and cash equivalents		625,701
		<hr/>
<b>Total assets</b>		<b>8,005,843</b>
		<hr/>
<b>Members' other interests and liabilities</b>		
Loans and borrowings	6	8,004,803
Other payables	7	1,037
		<hr/>
<b>Total liabilities</b>		<b>8,005,840</b>
		<hr/>
Retained earnings		3
		<hr/>
<b>Total members' other interests and liabilities</b>		<b>8,005,843</b>
		<hr/>
<b>Total members' interests</b>		
Deemed loan to originator	5	(7,380,142)
Loans and borrowings	6	8,004,803
		<hr/>
	8	<b>624,661</b>
		<hr/>

These financial statements were approved by the members on 10 June 2010 and were signed for and on their behalf by

  
 Helena Whitaker  
 Per pro SFM Directors Limited  
 As Director of Lloyds TSB Covered Bonds (LM) Limited  
 DATE 10 June 2010

  
 Gary Staines  
 On behalf of  
 Lloyds TSB Bank Plc  
 DATE 10 June 2010

The accompanying notes on pages 12 to 30 form an integral part of these financial statements

**LLOYDS TSB COVERED BONDS LLP  
STATEMENT OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED 31 DECEMBER 2009**

	Note	Retained profits
		<b>31 Dec 2009</b>
		<b>£000</b>
For period from incorporation to 31 December 2009		
Balance at 12 September 2008		0
Profit for the period		3
Balance at 31 December 2009		<u>3</u>

**LLOYDS TSB COVERED BONDS LLP  
CASH FLOW STATEMENT  
FOR THE PERIOD ENDED 31 DECEMBER 2009**

<b>Direct Method</b>	<b>Period from incorporation to 31 Dec 2009 £000</b>
<b>Operating Activities</b>	
Administration expenses	(11,652)
	<hr/>
<b>Net cash flows from operating activities</b>	<b>(11,652)</b>
	<hr/>
<b>Investing Activities</b>	
Increase in deemed loan to originator	(7,380,142)
Interest on deemed loan to originator	178,361
Bank Interest received	6,781
	<hr/>
<b>Net cash flows from investing activities</b>	<b>(7,195,000)</b>
	<hr/>
<b>Financing Activities</b>	
Increase in term loan	8,000,000
Interest on term loan	(167,647)
	<hr/>
<b>Net cash flows from financing activities</b>	<b>7,832,353</b>
	<hr/>
<b>Net increase in cash and cash equivalents</b>	<b>625,701</b>
	<hr/> <hr/>
Change in cash and cash equivalents	625,701
Cash and cash equivalents at 12 September 2008	-
	<hr/>
<b>Cash and cash equivalents at 31 December 2009</b>	<b>625,701</b>
	<hr/> <hr/>

The accompanying notes on pages 12 to 30 form an integral part of these financial statements

**LLOYDS TSB COVERED BONDS LLP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 2009**

**1. SIGNIFICANT ACCOUNTING POLICIES**

**(a) Statement of compliance**

The financial statements for the period ended 31 December 2009 have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union. The standards applied by the LLP are those endorsed by the European Union and effective at the date the financial statements are approved by the Board. However the LLP has not utilised the "carve-out" provisions in respect of full fair value and portfolio hedging of core deposits in IAS 39 'Financial Instruments: Recognition and Measurement' as adopted by the European Union. Consequently, the financial statements comply with International Financial Reporting Standards.

The financial statements also comply with the relevant provisions of Part XV of the Companies Act 2006, as applying to Limited Liability Partnerships.

The LLP is reliant on support provided by Lloyds TSB Bank plc. Notwithstanding the improvement in market liquidity during 2009, the LLP's ultimate parent company, Lloyds Banking Group plc, continues to be reliant on various government liquidity schemes and will face refinancing risk as transactions under these schemes mature. The members are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries including the LLP will continue to receive funding in the future and, accordingly, the financial statements have been prepared on a going concern basis.

The financial statements are presented in Sterling which is the LLP's functional and presentation currency and have been prepared on the historical cost basis.

**(b) Revenue recognition**

Interest receivable and similar income have been calculated using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

**(c) Taxation**

Taxation on all partnership profits is solely the personal liability of individual members, consequently, neither taxation nor related deferred taxation in the LLP are accounted for in these financial statements.

**LLOYDS TSB COVERED BONDS LLP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 2009 (CONT'D)**

**1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**(d) Financial instruments**

The LLP's financial instruments principally comprise a deemed loan to Lloyds TSB Bank plc (equivalent to the value of the LLP's investment in Lloyds TSB Bank plc mortgages), cash and liquid resources, loans and borrowings and various other receivables and payables that arise directly from its operations. The main purpose of these financial instruments is to raise finance for Lloyds TSB Bank plc. These financial instruments are classified in accordance with the principles of IAS 39 as described below.

**(d)(i) Deemed loan to the originator**

Under IFRS, if a transferor retains substantially all the risks and rewards associated with the transferred assets, the transaction is accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective. The members of the LLP have concluded that Lloyds TSB Bank plc has retained substantially all the risks and rewards of the pool of mortgage loans and as a consequence, the LLP does not recognise the mortgage loans on its balance sheet but rather a deemed loan to originator, where recourse to Lloyds TSB Bank plc is limited to the cash flows from the mortgage loans and any additional credit enhancement provided by Lloyds TSB Bank plc.

The initial amount of the deemed loan to Lloyds TSB Bank plc corresponds to the consideration paid by the LLP for the mortgage loans. The LLP recognises principal and interest cashflows from the underlying pool of mortgage loans only to the extent that it is entitled to retain such cash flows. Cash flows attributable to Lloyds TSB Bank plc are not recognised by the LLP.

The deemed loan to originator is classified within "loans and receivables". The initial measurement is at fair value with subsequent measurement being at amortised cost using the effective interest method. The effective interest on the deemed loan is calculated with reference to the interest earned on the beneficial interest in the mortgage portfolio less the residual interest due to Lloyds TSB Bank plc. Under the terms of the mortgage sale agreement, Lloyds TSB Bank plc retains the right to receive excess income arising on those loans, after certain higher priority payments have been met by the LLP.

**LLOYDS TSB COVERED BONDS LLP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 2009 (CONT'D)**

**1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**(d)(i) Deemed loan to the originator (Cont'd)**

**Impairment of financial assets**

The deemed loan to originator is subject to impairment reviews in accordance with IAS 39. A charge for impairment would be recognised where there is a risk that the income on the deemed loan will be significantly reduced. This could occur if the credit quality of the mortgage assets that are pledged as collateral for the loan significantly deteriorated. Taking in to account the credit enhancement provided by amongst other things, the over collateralisation of the LLP, the members consider that no impairment exists.

**Interest rate swap with the originator**

Interest rate risk associated with the deemed loan to originator is managed by means of an interest rate swap with Lloyds TSB Bank plc, which requires the LLP to pay the effective yield on the beneficial interest in the mortgage portfolio and receive payments based on a rate linked to the one-month Sterling LIBOR.

This swap is not recognised separately as a financial instrument as the amounts payable under the swap reflect interest flows from the mortgage loans which are not recognised by the LLP for accounting purposes. Instead, the deemed loan to Lloyds TSB Bank plc is recognised with an effective interest rate which incorporates the amount received or paid under the swap.

Interest receivable or payable on the interest rate swap is accounted for on an accruals basis within interest on the deemed loan.

**(d)(ii) Cash and cash equivalents**

The LLP holds deposits with the provider of a guaranteed investment contract ("GIC") and a transaction bank account with the same provider. These accounts are held in the LLP's name and meet the definition of cash and cash equivalents. All cash disclosed on the face of the Balance Sheet is restricted by a detailed priority of payments set out in the Programme Documentation. As the cash can only be used to meet certain specific liabilities and is not available to be used with discretion, it is viewed as restricted cash.

These bank accounts are classified within "loans and receivables" in accordance with IAS 39 and income is being recorded within interest receivable and similar income using the effective interest method.

The Cash Flow Statement has been stated using the direct method of preparation.

**LLOYDS TSB COVERED BONDS LLP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 2009 (CONT'D)**

**1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**(d)(iii) Financial guarantees**

Financial guarantees are contracts that require the LLP to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument

Intra-group financial guarantee contracts are accounted for as insurance contracts

**(d)(iv) Loans and borrowings**

Loans and borrowings are recognised initially at fair value less directly related incremental transaction costs. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis. The Term loans (equivalent to the proceeds of the covered bonds issued) which are received from Lloyds TSB Bank plc are accounted for on this basis.

Capital contributions from members are non-interest-bearing but a nominal profit share amount is paid out in accordance with the priority of payments (see (e) below) and included as part of profit for the financial year available for discretionary division among members.

**(e) Contributions and drawings**

Under the terms of the Programme Documentation for the sale of the mortgage loans, Lloyds TSB Bank plc is treated as having made a capital contribution to the LLP in an amount equal to the difference between the current balance of the loans sold at transfer date and the cash payment made by the LLP for the loans and relevant security on that transfer date. The outstanding capital contributions are not reflected in the accounts of the LLP as there has been no sale of mortgages for accounting purposes.

Lloyds TSB Bank plc may from time to time make cash contributions to the LLP which will constitute cash capital contributions. No interest is paid on the members' capital balances. Capital distributions may only be made in accordance with the Programme Documentation where sufficient principal receipts are available and higher priority payments have been made.

Under the priority of payments, payment pro rata and pari passu to the members of the sum of £3,000 in aggregate (or such other sum as may be agreed by members from time to time), is allocated and paid to each member in proportion to their respective capital contribution balances as at the relevant monthly calculation date, subject to a minimum of £1 each per annum, as their profit for their respective interests as members in the LLP.

During the period £2,999 was allocated to Lloyds TSB Bank plc and £1 was allocated to Lloyds TSB Covered Bonds (LM) Limited.



**LLOYDS TSB COVERED BONDS LLP  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE PERIOD ENDED 31 DECEMBER 2009 (CONT'D)**

**1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**(f) Segment Reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those segments operating in other economic environments.

The members of the LLP consider that the entity has only one geographical and one business segment and therefore is not required to produce additional segmental disclosure.

**(g) Related parties**

In accordance with the provisions of IAS 24 "Related Party Disclosures", the LLP has disclosed details of transactions with its related parties, Lloyds TSB Bank plc, Cheltenham and Gloucester plc and Structured Finance Management Limited.

**(h) Other payables**

Other payables are stated at cost, or at amortised cost if defined to be a financial liability.

**2 INTEREST RECEIVABLE AND SIMILAR INCOME**

	<b>Period from incorporation to 31 Dec 2009 £000</b>
Interest receivable on deemed loan	178,361
Bank interest receivable	6,781
	185,142

**LLOYDS TSB COVERED BONDS LLP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 2009 (CONT'D)**

**3. INTEREST PAYABLE AND SIMILAR CHARGES**

	<b>Period from incorporation to 31 Dec 2009 £000</b>
Interest payable to Lloyds TSB Bank plc on term loans	172,450
	<hr/>
	172,450
	<hr/>

**4. OPERATING EXPENSES**

	<b>Period from incorporation to 31 Dec 2009 £000</b>
Administration charges	12,656
Audit fees	13
Asset monitor fees	20
	<hr/>
	12,689
	<hr/>

Audit fees relate to the statutory audit. Asset monitor fees are also payable to the auditors and their associates for services in relation to their role as asset monitor. The LLP has no employees. Included in administration charges is a management fee for administration services charged by Cheltenham & Gloucester plc and a corporate service fee charged by Structured Finance Management Limited.

**LLOYDS TSB COVERED BONDS LLP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 2009 (CONT'D)**

**5. DEEMED LOAN TO ORIGINATOR**

Income on the deemed loan to originator, arising on the underlying mortgages, reflects fixed, variable and tracker rates. Deferred consideration is deducted from this income in order to arrive at the effective yield on the deemed loan.

	<b>As at 31 Dec 2009 £000</b>
Deemed loan to originator	7,380,142

**6. LOANS AND BORROWINGS**

This note provides information about the contractual terms of the LLP's loans and borrowings. For more information about the LLP's exposure to interest rate risk, see note 9.

Loans and borrowings comprise a series of term loans from Lloyds TSB Bank plc, equivalent to the amounts raised under its Covered Bonds Programme. Each term loan bears interest at a rate set with reference to LIBOR for one-month sterling deposits.

Lloyds TSB Bank plc will not be relying on repayment of any term loan by the LLP nor the interest thereon in order to meet its repayment or interest obligations under the Covered Bonds. The term loans will not be repaid by the LLP until all amounts payable under the corresponding series of Covered Bonds have been repaid in full. Amounts owed by the LLP will be paid in accordance with the priority of payments as detailed in the Programme Documentation.

The Covered Bonds are unconditional obligations of Lloyds TSB Bank plc. Under the terms of the Trust Deed, the LLP has also provided a guarantee as to payments of interest and principal under the Covered Bonds, where amounts would otherwise be unpaid by Lloyds TSB Bank plc. The obligations of the LLP under its guarantee constitute direct obligations of the LLP secured against the assets from time to time of the LLP and recourse against the LLP is limited to such assets. The principal asset is the beneficial interest in the mortgage loans acquired from Lloyds TSB Bank plc.

Where the LLP enters into financial guarantee contracts to guarantee the indebtedness of other entities within its Group, the LLP considers these to be insurance arrangements and accounts for them as such. In this respect, the LLP treats the above guarantee contract as a contingent liability until such time as it becomes probable that the LLP will be required to make a payment under the guarantee.

**LLOYDS TSB COVERED BONDS LLP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 2009 (CONT'D)**

**6. LOANS AND BORROWINGS (CONT'D)**

	<b>As at 31 Dec 2009 £000</b>
<b>Current liabilities</b>	
Interest due on Term loans	4,803
<b>Non-current liabilities</b>	
Term loans with Lloyds TSB Bank plc	8,000,000
	8,004,803
<b>TOTAL</b>	<b>8,004,803</b>

The term loans due to Lloyds TSB Bank plc mature following the repayment of the covered bonds on the following dates

<b>MATURITY DATE</b>	<b>COVERED BOND ISSUANCE</b>	<b>As at 31 Dec 2009 £000</b>
8 November 2011	2008-1	2,000,000
8 May 2012	2008-2	2,000,000
8 November 2012	2008-3	2,000,000
8 May 2013	2008-4	2,000,000
		<b>8,000,000</b>

**7. OTHER PAYABLES**

	<b>As at 31 Dec 2009 £000</b>
Fees payable to administrators	1,004
Audit fees due	13
Asset monitor fees	20
	1,037
	<b>1,037</b>

**LLOYDS TSB COVERED BONDS LLP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 2009 (CONT'D)**

**8. TOTAL MEMBERS' INTERESTS**

**2009**

	<b>Members' Other Interests</b>				
	<b>Members' Capital</b>	<b>Retained Earnings</b>	<b>Total</b>	<b>Loans due to/(from) Members</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Members' interests as at 12 September 2008	-	-	-	-	-
Loans introduced by members	-	-	-	624,661	624,661
Profit for the period		3	3	-	3
Members' interests as at 31 December 2009		3	3	624,661	624,664

The loans and other debts due to/(from) members can be analysed as follows

Amounts due to members	(8,004,803)
Amounts due from members	7,380,142
	624,661

**LLOYDS TSB COVERED BONDS LLP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 2009 (CONT'D)**

**9. FINANCIAL INSTRUMENTS**

The majority of the LLP's assets and liabilities have been classified as financial instruments in accordance with IAS 32 "Financial Instruments Presentation"

The LLP's financial instruments principally comprise a deemed loan to Lloyds TSB Bank plc (equivalent to the value of the LLP's investment in Lloyds TSB Bank plc mortgages), cash and liquid resources, loans and borrowings and various other receivables and payables that arise directly from its operations

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

The activities of the LLP are conducted primarily by reference to the Programme Documentation. The structure was established as a means of raising finance for Lloyds TSB Bank plc and no business activities are undertaken by the LLP beyond those set out in the Programme Documentation.

The LLP's exposure to risk on its financial instruments and the management of such risk is largely determined at the initial set-up of the LLP. The LLP's activities and the role of each party to the transaction is clearly defined and documented. Cash flow modelling, including multiple stress scenarios, is carried out as part of the structuring of the transaction, and as such is required by the rating agencies

In addition an interest rate swap is entered into with the originator as part of the transaction to hedge interest rate risk arising in the transaction including the obligations under the Term loans. The derivative counterparty is selected as a regulated financial institution and this reduces the risk of default and loss for the LLP. Additional credit protection is afforded by the requirement for the derivative counterparties to post collateral in the event of a downgrade to a counterparty's credit rating

Following initial set-up, the members monitor the LLP's performance and review the monthly reports on the performance of the mortgages. Such review is designed to ensure that the terms of the Programme Documentation have been complied with, that no unforeseen risks have arisen and that the interest and principal on the Term loans have been paid on a timely basis. Where necessary, the members also make appropriate enquiries of the LLP's professional advisers concerning specific matters which may affect the nature and extent of particular risks to the LLP

**LLOYDS TSB COVERED BONDS LLP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 2009 (CONT'D)**

**9 FINANCIAL INSTRUMENTS (CONT'D)**

**9(a) Credit risk**

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

The maximum exposure to credit risk is the carrying amount of the loans and other debts due from members of £7,380,142,000, and the cash and cash equivalents with Lloyds TSB Bank plc of £625,701,000

The loans and other debts due from members are secured on residential property. The LLP has a concentration of risk to Lloyds TSB Bank plc as the mortgage originator. The underlying mortgage assets of the cover pool are all in the UK market. The nature of the residential mortgage portfolio means there is no significant counterparty credit risk in relation to the underlying mortgage pool.

The LLP assesses its counterparties for credit risk before contracting with them. Credit rating is the main method used to measure credit risk. In accordance with the criteria of the Rating Agencies that rate the Covered Bonds, the Programme Documentation contains various rating triggers linked to each counterparty, which require certain action to be taken if triggers are breached.

	Rating as at 31 Dec 2009 Moody's/S&P/Fitch	Rating as at date of approval of accounts Moody's/S&P/Fitch
Lloyds TSB Bank plc as provider of		
Covered bond swap	Short term P-1/A-1/F1+	Short term P-1/A-1/F1+
Interest rate swap	Long term Aa3/A+/AA-	Long term Aa3/A+/AA-
Account Bank		

For the LLP, credit risk is additionally mitigated by the over collateralisation of the beneficial interest in mortgages which is provided by Lloyds TSB Bank plc and which is monitored using an Asset Coverage Test (the "ACT"). The over collateralisation is available in full for the benefit of the LLP. The Programme Documentation provides that the LLP and its members should ensure that the adjusted aggregate loan amount of the mortgage pool asset is at least equal to or greater than the aggregate amounts outstanding on the Covered Bonds on each calculation date. The adjusted loan amount is the balance of the mortgage loans after adjusting for various set-offs and adjustments unique to particular groups of loans, together with allowances for loan defaults.

**LLOYDS TSB COVERED BONDS LLP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 2009 (CONT'D)**

**9. FINANCIAL INSTRUMENTS (CONT'D)**

**9(a) Credit risk (cont'd)**

In the event that there is a breach of the ACT, the members are required to take steps to make good the deficit by providing the necessary capital contributions to enable further mortgage loans to be acquired in order that the ACT breach is cured before the next ACT calculation. If there is a breach at the following calculation date, this will constitute a Lloyds TSB Bank plc Event of Default, which will entitle the Bond Trustee to serve a Lloyds TSB Bank plc Acceleration Notice on the Issuer. Upon service of such notice, The Bonds Trustee will serve a Notice to Pay on the LLP under the Covered Bond Guarantee. This would require the LLP to repay all amounts outstanding on the Covered Bonds, including principal and accrued interest amounts.

More information on mortgage assets is set out below

The tables below present the characteristics of the total mortgage loans pool as at the 31 December 2009

	<b>2009</b>
Aggregate loan balance	£12,575m
Number of loans	121,799
Largest loan	£505,613
Average balance of mortgage loan	£103,245
Longest dated mortgage legal maturity	90 years

Distribution by indexed loan to value ratio

	<b>2009</b>	<b>2009</b>
	<b>£'000</b>	<b>%</b>
< 70%	8,146,450	65
70%-80%	2,581,857	20
80%-90%	1,620,401	13
90%-100%	225,809	2
>100%	650	-
	<hr/> 12,575,167	<hr/> 100

Average loan to value of book (indexed) 59%

The value of residential property on which the mortgage loans are secured are updated quarterly to reflect changes in the house price index



**LLOYDS TSB COVERED BONDS LLP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 31 DECEMBER 2009 (CONT'D)**

**9. FINANCIAL INSTRUMENTS (CONT'D)**

**9(a) Credit risk (cont'd)**

Mortgage loans and advances by payment due status

	<b>2009</b>	
	<b>£'000</b>	<b>%</b>
Not impaired		
Neither past due nor impaired	12,330,598	98
Past due up to 3 months but not impaired	148,731	1
Impaired	95,838	1
	<u>12,575,167</u>	<u>100</u>

Impaired mortgage loans are further analysed as follows

	<b>2009</b>	
	<b>£'000</b>	<b>%</b>
Impaired status		
Past due 3 to 6 months	52,079	54
Past due 6 to 12 months	30,692	32
Past due over 12 months	13,067	14
In possession	-	-
	<u>95,838</u>	<u>100</u>

Residential mortgage accounts by geographic region

	<b>2009</b>	<b>2009</b>
	<b>£'000</b>	<b>%</b>
East Anglia	526,137	5
East Midlands	664,424	6
Greater London	1,998,998	10
Northern	498,609	5
North West	1,078,809	10
Scotland	344,484	3
South East	3,090,583	21
South West	1,720,156	14
Wales	560,593	6
West Midlands	1,328,648	12
Yorkshire and Humberside	763,726	8
	<u>12,575,167</u>	<u>100</u>

**LLOYDS TSB COVERED BONDS LLP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 2009 (CONT'D)**

**9. FINANCIAL INSTRUMENTS (CONT'D)**

**9(b) Interest rate risk**

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. The LLP minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of assets and liabilities are similar, where this is not possible the LLP uses derivative financial instruments to mitigate interest rate risk. The deemed loan to originator, the term loans and the cash and cash equivalents are exposed to cash flow interest rate risk caused by floating interest rates that are reset periodically.

An interest rate swap has therefore been entered into with Lloyds TSB Bank plc to manage the LLP's exposure to interest rate risk associated with the deemed loan and the term loans.

The underlying mortgage pool comprises loans which are subject to variable rates of interest set by the servicer, loans which track the Bank of England Base Rate and loans which bear fixed rates of interest. Under the terms of the swap, on variable rate loans the LLP pays a rate based on the variable rate and receives interest on a LIBOR rate set with reference to one-month sterling deposits, on loans which track the Bank of England Base Rate, the LLP pays a rate based on the Bank of England Base Rate and receives interest on a LIBOR rate set with reference to one-month sterling deposits and on fixed rate loans the LLP pays the fixed rate on interest received from the mortgage pool and receives interest on a LIBOR rate set with reference to one-month sterling deposits.

The interest rate swap substantially eliminates the sensitivity to movements in interest rates. The swap is not separately recognised in the financial statements as it forms part of the deemed loan to originator.

**9(c) Liquidity risk**

Liquidity risk is the risk that the LLP is not able to meet its financial obligations as they fall due or can do so only at an unacceptably high cost.

The LLP's ability to meet repayments on the term loans as they fall due is dependent on timely receipt of funds from the deemed loan to originator which may be delayed due to slow repayment on the mortgage portfolio (see 9(a) Credit risk above).

Repayments are made on the term loans with Lloyds TSB Bank plc in accordance with the LLP's priority of payments. In the event that the LLP does not have sufficient funds available in order to be able to repay the term loans as and when they fall due, the members may be required to make cash capital contributions, extend the repayment of the term advance or sell mortgages from the cover pool, in accordance with the terms of the Programme Documentation.

**LLOYDS TSB COVERED BONDS LLP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 2009 (CONT'D)**

**9. FINANCIAL INSTRUMENTS (CONT'D)**

**9(c) Liquidity risk (cont'd)**

The liquidity tables below reflect the undiscounted cash payments which will fall due if the structure continues until the contractual maturity date as set out in the Programme Documentation. It is anticipated that the interest and principal received on the deemed loan to originator will be sufficient to allow repayment of the term loans.

2009	Carrying Value	Contractual repayment value	Not later than one month	Later than one month not later than three months	Later than three months but not later than one year	Later than one year and not later than five years	Later than Five years
	£000	£000	£000	£000	£000	£000	£000
<b>Principal</b>							
Term loans with Lloyds TSB Bank plc	8,000,000	8,000,000	-	-	-	8,000,000	-
<b>Interest payable</b>							
Term loans with Lloyds TSB Bank plc	4,803	194,734	6,204	11,808	55,038	121,684	-
	8,004,803	8,194,734	6,204	11,808	55,038	8,121,684	-

**9(d) Fair values**

All assets and liabilities within the balance sheet are recognised on an amortised cost basis that is considered to be a close approximation to fair value.

**10. RELATED PARTIES**

The LLP is a special purpose entity controlled by Lloyds TSB Bank plc, one of the two designated members. The second designated member is Lloyds TSB Covered Bonds (LM) Limited.

Lloyds TSB Covered Bonds (Holdings) Limited, a company incorporated and registered in England and Wales, is the parent company of Lloyds TSB Covered Bonds (LM) Limited, the majority shareholder of Lloyds TSB Covered Bonds (LM) Limited.

**LLOYDS TSB COVERED BONDS LLP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 2009 (CONT'D)**

**10. RELATED PARTIES (CONT'D)**

The LLP pays corporate services fees to Structured Finance Management Limited in connection with its provision of the corporate management services

**At 31 December 2009 or for the  
period then ended  
Structured Finance Management  
Limited  
£000**

**Operating expenses**  
Corporate service fee

10

The LLP has provided a deemed loan to Lloyds TSB Bank plc (the originator of the mortgages), on which the LLP receives income. In addition, the LLP pays cash management and mortgage loan servicing fees to Cheltenham and Gloucester plc in connection with its provision of services defined under the Programme Documentation. Lloyds TSB Bank plc is the counterparty to the interest rate swap agreement and the interest flows for the LLP are included in the income from the deemed loan.

Lloyds TSB Bank plc has provided a series of term loans to the LLP, on which the LLP pays a variable rate of interest. Certain expenses which are included in operating expenses may subsequently be paid or directly reimbursed by Lloyds TSB Bank plc.

The LLP has placed its deposit account with a provider of a Guaranteed Investment Contract, Lloyds TSB Bank plc.

**LLOYDS TSB COVERED BONDS LLP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 2009 (CONT'D)**

**10. RELATED PARTIES (CONT'D)**

During the period, the LLP undertook the transactions set out below with companies within the Lloyds Banking Group

	<b>At 31 December 2009 or for the period then ended LBG PLC and Subsidiary Undertakings £000</b>
<b>Interest receivable and similar income</b>	
Income from deemed loan to originator	178,361
Bank interest receivable	6,781
<b>Interest payable and similar charges</b>	
Interest payable to Lloyds TSB Bank plc on term loans	172,450
<b>Operating expenses</b>	
Administration and cash management fees	12,646
<b>Assets</b>	
Deemed loan to originator	7,380,142
Cash and cash equivalents	625,701
<b>Liabilities</b>	
Other payables	1,004
Term loans from Lloyds TSB Bank plc	8,004,803

**LLOYDS TSB COVERED BONDS LLP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 2009 (CONT'D)**

**11. ACCOUNTING PRONOUNCEMENTS EFFECTIVE AFTER 2009**

The following pronouncements will be relevant to the LLP but were not effective at 31 December 2009 and have not been applied in preparing these financial statements. The full impact of these accounting changes is being assessed by the LLP. The initial view is that none of these pronouncements are expected to cause any material adjustments to reported numbers in the financial statements.

<b>Pronouncement</b>	<b>Nature of change</b>	<b>IASB effective date</b>
Amendment to IAS 39 <i>Financial Instruments Recognition and Measurement – Eligible Hedged Items</i>	Clarifies how the principles underlying hedge accounting should be applied in particular situations	Annual periods beginning on or after 1 July 2009
Improvements to IFRSs (issued April 2009)	Sets out minor amendments to IFRS standards as part of annual improvements process	Dealt with on a standard by standard basis but not earlier than annual periods beginning on or after 1 January 2010
IFRS 9 <i>Financial Instruments Classification and Measurement</i>	Simplifies the way entities will classify financial assets and reduces the number of classification categories to two, fair value and amortised cost. The existing available-for-sale and held-to-maturity categories have been eliminated. Classification will be made on the basis of the objectives of entity's business model for managing the assets and the characteristics of the contractual cash flows.	Annual periods beginning on or after 1 January 2013
IAS24 <i>Related Party Disclosures</i>	Simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government related entities	Annual periods beginning on or after 1 January 2011

**LLOYDS TSB COVERED BONDS LLP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 2009 (CONT'D)**

**12. PARENT UNDERTAKING AND CONTROLLING PARTY**

The member companies of the LLP are Lloyds TSB Bank plc, the controlling party, and Lloyds TSB Covered Bonds (LM) Limited. Both companies are incorporated and registered in England & Wales.

The ultimate parent company is Lloyds Banking Group plc (formerly Lloyds TSB Group plc).

Copies of the Lloyds Banking Group plc accounts may be obtained from the Company Secretary's Office, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN.

**13. POST BALANCE SHEET EVENT**

On 17 March 2010, there was a new Covered Bond issuance of €1.5bn by Lloyds TSB Bank plc. On the same date there was an increase in the Term loans held with Lloyds TSB Bank plc for the same amount and a currency swap with Lloyds TSB Bank plc was entered into.