Registered Number: OC340094

LLOYDS TSB COVERED BONDS LLP

MEMBERS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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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, resigned 2 July 2010)
Monica de Vries (appointed 2 February 2010)
Alasdair Lenman (appointed 2 July 2010)

REGISTERED OFFICE

35 Great St Helen's
London
EC3A 6AP

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Benson House
33 Wellington Street
Leeds
LS1 4JP

LLOYDS TSB COVERED BONDS LLP
MEMBERS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

On behalf of the members of Lloyds TSB Covered Bonds LLP (the "LLP"), the Management Board present their members' report and financial statements for the year ended 31 December 2010

PRINCIPAL ACTIVITY

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 ("LTSB") The mortgage loans and the funding to acquire these loans originate from LTSB, which is a subsidiary of Lloyds Banking Group ("LBG")

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 LTSB 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 LTSB and has acquired further beneficial interests in mortgage loan portfolios in subsequent years 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 LTSB from the proceeds of a term loan,
ii a record of a capital contribution in kind being made by LTSB, and
iii deferred consideration which will be paid by the LLP on each LLP payment date in accordance with the relevant priority of payments

The programme allows a maximum Covered Bond issuance, providing that the mortgage loan portfolios acquired and other assets available meet the Asset Coverage Test (the "ACT"), which states that the adjusted aggregate amounts of mortgage loans and other assets must be of an amount equal to or greater than the total amount of Covered Bonds in issue after taking into account other deductions

The Covered Bonds are issued in various currencies by LTSB, with the proceeds being paid across to the LLP on issuance by way of a term loan The sterling equivalent amount of the Covered Bonds in issue at 31 December 2010 was £9 85bn (2009 £8 00bn) At 31 December 2010, the total value of the mortgage loan portfolio held by the LLP was £12 45bn (2009 £12 58bn)

DESIGNATED MEMBERS

The designated members during the year and up to the date of signing the financial statements 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 polices)

MEMBERS' RESPONSIBILITIES

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

Company law as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 (the "Regulations") requires the members to prepare financial statements for each financial year Under that law the members have prepared the partnership financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union Under company law as applied to limited liability partnerships the members must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the partnership and of the profit or loss of the partnership for that period In preparing these financial statements, the members are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements,

The members are responsible for keeping adequate accounting records that are sufficient to show and explain the partnership's transactions and disclose with reasonable accuracy at any time the financial position of the partnership and enable them to ensure that the financial statements comply with the Companies Act 2006 as applied to limited liability partnerships by the Regulations They are also responsible for safeguarding the assets of the partnership and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

RISK MANAGEMENT

All 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 comprise a deemed loan to the originator of the mortgages (equivalent to the value of it's investment in the mortgages), cash and liquid resources, term loans and various other receivables and payables

The principal risks arising from the LLP's financial instruments are credit risk, liquidity risk, interest rate and currency risk These and other risks which may affect the LLP's performance are detailed below Further analysis of the risks facing the LLP in relation to its financial instruments and the LLP's financial risk management policies is provided in note 9

RISK MANAGEMENT (CONT'D)

Credit risk

Credit risk arises on the individual loans within the mortgage loan portfolio which are in turn secured on the underlying UK residential properties The performance of these loans is therefore influenced by the economic background and the UK housing market

Liquidity risk

The ability of the LLP to meet its obligations to make principal and interest payments on the term loans and to meet its operating and administrative expenses is dependent on the amount and timing of the interest and principal repayments on the mortgage loans which support the deemed loan to the originator

In the event that sufficient funds are not available to redeem the term loans or make the interest payments due, an amount equal to such a shortfall will be deferred until such funds are received To the extent that the income on the deemed loan to originator does not provide sufficient funds, the LLP has no other claim on the assets of LTSB

The LLP has made all necessary payments on the term loans in accordance with the scheduled repayment dates for the year ended 31 December 2010

Interest rate and foreign currency rate risk

Interest rate and foreign currency rate risk is the possibility that changes in interest rates and foreign currency rates will result in higher financing costs and/or reduced income from the LLP's interest bearing financial assets and liabilities

The mortgage loans in the cover pool comprise sterling loans which are subject to variable rates of interest set by LTSB based on general interest rates and competitive considerations, loans which track the Bank of England base rate and loans which are subject to fixed rates of interest To mitigate the changes in interest and foreign currency rates that may result in the cashflows from the mortgage pools being insufficient to meet the payments under the term loans, the LLP has entered into currency and interest rate basis swaps with LTSB The basis swaps substantially eliminate the sensitivity to movements in interest rates and the currency swaps eliminate the sensitivity to movements in foreign currency rates These are not separately recognised in the financial statements as they are incorporated into the deemed loan

Operational risk

The LLP is also exposed to operational risks through a number of contracts with third parties who have agreed to provide operational support to the LLP in accordance with the Programme Documentation Structured Finance Management Limited has been appointed to provide corporate services in accordance with a corporate services agreement LTSB has been appointed to act as account bank Cheltenham and Gloucester plc ("C&G"), a subsidiary of LTSB, has been appointed servicer and cash manager on behalf of the LLP

RISK MANAGEMENT (CONT'D)

Business risk

The principal business risks of the LLP are set out in a number of trigger events in the Programme Documentation There have been no such trigger events since the inception of the Programme

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

The majority of the LLP's payments are in relation to the term loans and are due monthly in accordance with the terms of the loans Payments are subject to the receipt of principal and interest on the underlying mortgage pool and were made on the due dates

For trade creditors, the LLP follows "The Better Payment Practice Code", published by the Department of Trade and Industry, regarding payments to suppliers A copy of the code and information about it may be obtained from the Department of Trade and Industry, 1 Victoria Street, London SW1H 0ET The LLP's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated It is the policy of the LLP to abide by the agreed terms, provided the supplier performs according to the terms of the contract

EMPLOYEES

The LLP has employed no staff during the year ended 31 December 2010 or the previous period

INDEPENDENT AUDITORS AND AUDIT INFORMATION

Pursuant to section 487 of the Companies Act 2006, auditors duly appointed by the members of the LLP 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 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

POST BALANCE SHEET EVENTS

The following issuances of Covered Bonds have taken place since the balance sheet date

Issue Date	Maturity Date	Bond Issuance	Amount
11 January 2011	13 January 2031	2011-1	€45,000
13 January 2011	13 January 2023	2011-2	€750,000
20 January 2011	20 January 2014	2011-3	€250,000
26 January 2011	26 January 2021	2011-4	NOK750,000
8 February 2011	8 February 2029	2011-5	£1,250,000
8 February 2011	10 February 2014	2011-6	€250,000
11 March 2011	11 March 2013	2011-7	€500,000
10 March 2011	10 March 2021	2011-8	NOK500,000
14 March 2011	14 March 2014	2011-9	€250,000
6 April 2011	6 April 2016	2011-10	€1,750,000
8 April 2011	8 April 2014	2011-11	€250,000
14 April 2011	11 March 2013	2011-7 tap	€500,000

On the same dates the term loans held with LTSB increased by the same amounts

The following cancellations of Covered Bonds have taken place since the balance sheet date

Issue Date	Cancellation Date	Bond Issuance	Amount
22 October 2008	12 January 2011	2008-3	£2,000,000
22 October 2008	7 February 2011	2008-1	£1,000,000
22 October 2008	7 February 2011	2008-2	£1,000,000
22 October 2008	11 March 2011	2008-4	£1,250,000

On the same dates the term loans held with LTSB were decreased by the same amounts

On 5 April 2011, the LLP acquired a further £3 4bn beneficial interest in a mortgage loan portfolio originating from LTSB

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

35 Great St Helen's
London

Gary Staines
On behalf of
Lloyds TSB Bank plc

10 Gresham Street
London
EC2V 7AE

Date 11 May 2011

LLOYDS TSB COVERED BONDS LLP
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 year ended 31 December 2010 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Members' Interests, the Cash Flow Statement and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

Respective responsibilities of members and auditors

As explained more fully in the Members' Responsibilities Statement set out on page 3, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, 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 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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the limited liability partnership's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the designated members, and the overall presentation of the financial statements

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the limited liability partnership's affairs as at 31 December 2010 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008

LLOYDS TSB COVERED BONDS LLP
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LLOYDS TSB COVERED BONDS LLP (CONT'D)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 as applied to limited liability partnerships requires us to report to you if, in our opinion

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

Mark Hannam

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

Date 11 May 2011

LLOYDS TSB COVERED BONDS LLP
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	For the year ended 31 December 2010 £000	For the period ended 31 December 2009 £000
Interest receivable and similar income	2	145,715	185,142
Interest payable and similar charges	3	(134,450)	(172,450)
Net interest income		11,265	12,692
Operating expenses	4	(11,262)	(12,689)
Profit / Total comprehensive income available for discretionary division among members		3	3

The profit shown above is derived from continuing operations The LLP operates in a single business segment and all of the LLP's activities are in the UK

There was no income or expense recognised directly in equity in the current year or preceding period

The notes on pages 14 to 35 form an integral part of these financial statements

LLOYDS TSB COVERED BONDS LLP
BALANCE SHEET
AS AT 31 DECEMBER 2010

	Note	2010 £000	2009 £000
Assets			
Cash and cash equivalents		2,945,072	625,701
Deemed loan to originator	5	6,924,344	7,380,142
Total assets		9,869,416	8,005,843
Members' other interests and liabilities			
Loans and borrowings	6	9,868,339	8,004,803
Other payables	7	1,071	1,037
Total liabilities		9,869,410	8,005,840
Reserves		6	3
Total members' other interests		6	3
Total members' other interests and liabilities		9,869,416	8,005,843

LLOYDS TSB COVERED BONDS LLP
BALANCE SHEET (CONT'D)
AS AT 31 DECEMBER 2010

	Note	2010 £000	2009 £000
Total members' interests			
Reserves		6	3
Deemed loan to originator	5	(6,924,344)	(7,380,142)
Loans and borrowings	6	9,868,339	8,004,803
	9	2,944,001	624,664

These financial statements were approved by the members on 11 May 2011 and were signed on their behalf by

Helena Whitaker
Per pro SFM Directors Limited
As director of Lloyds TSB Covered Bonds (LM) Limited
35 Great St Helen's
London

Gary Staines
On behalf of
Lloyds TSB Bank plc
10 Gresham Street
London
EC2V 7AE

The notes on pages 14 to 35 form an integral part of these financial statements

LLOYDS TSB COVERED BONDS LLP
STATEMENT OF CHANGES IN MEMBERS' INTERESTS
FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	Reserves £000
Balance at 1 January 2010		3
Total comprehensive income for the year		3
Balance at 31 December 2010	8	6

	Notes	Reserves £000
Balance at 12 September 2008		-
Total comprehensive income for the period		3
Balance at 31 December 2009	8	3

The notes on pages 14 to 35 form an integral part of these financial statements

LLOYDS TSB COVERED BONDS LLP
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

	For the year ended 31 December 2010 £000	For the period ended 31 December 2009 £000
Operating activities		
Administration expenses	(11,228)	(11,652)
Net cash flows from operating activities	(11,228)	(11,652)
Investing activities		
Decrease/(increase) in deemed loan to originator	455,798	(7,380,142)
Interest on deemed loan to originator	139,099	178,361
Bank interest received	6,616	6,781
Net cash flows from investing activities	601,513	(7,195,000)
Financing activities		
Increase in term loans	1,854,883	8,000,000
Interest on term loans	(125,797)	(167,647)
Net cash flows from financing activities	1,729,086	7,832,353
Net increase in cash and cash equivalents	2,319,371	625,701
Change in cash and cash equivalents	2,319,371	625,701
Cash and cash equivalents at start of the period	625,701	-
Cash and cash equivalents at 31 December	2,945,072	625,701

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

The notes on pages 14 to 35 form an integral part of these financial statements

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements for the year ended 31 December 2010 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 Management 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 IFRSs

The following new IFRS pronouncements, relevant to the LLP, became effective in 2010 and have been adopted in these financial statements although they have no material impact on any part of the statements

(i) Amendment to IAS 39 'Financial Instruments Recognition and Measurement – Eligible Hedged Items' Clarifies how the principles underlying hedge accounting should be applied in particular situations

(ii) 'Improvements to IFRSs' (issued April 2009) Sets out minor amendments to IFRS standards as part of the annual improvements process

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 LTSB Notwithstanding the improvement in market liquidity during 2010, 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

1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Financial instruments

The LLP's financial instruments principally comprise a deemed loan to LTSB (equivalent to the value of the LLP's investment in LTSB 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 LTSB These financial instruments are classified in accordance with the principles of IAS 39 as described below

(c)(i) Deemed loan to originator

Under IFRS, if a transferor retains substantially all the risks and rewards associated with the transferred assets, the transaction is accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective The members of the LLP have concluded that LTSB 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 LTSB is limited to the cash flows from the mortgage loans and any additional credit enhancement provided by LTSB

The initial amount of the deemed loan to LTSB corresponds to the consideration paid by the LLP for the mortgage loans The LLP recognises principal and interest cash flows from the underlying pool of mortgage loans only to the extent that it is entitled to retain such cash flows Cash flows attributable to LTSB 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 LTSB Under the terms of the mortgage sale agreement, LTSB retains the right to receive excess income arising on those loans, as deferred consideration, after certain higher priority payments have been met by the LLP

Impairment of financial assets

The deemed loan to the 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 into account the credit enhancement provided by, amongst other features, the overcollateralisation of the LLP, the members currently consider that no impairment exists

1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c)(i) Deemed loan to originator (Cont'd)

Swaps with originator

The deemed loan consists of the failed sale of the sterling mortgage assets, an interest rate swap and foreign currency/basis swaps to match the receipts from the mortgage assets to the currency and interest rate basis of the term loans

Interest rate risk associated with the deemed loan to the originator is managed by means of an interest rate basis swap with LTSB, which requires the LLP to pay an amount calculated with reference to the interest received on the beneficial interest in the mortgage portfolio and receive payments based on a rate linked to one-month Sterling LIBOR

Foreign currency and further basis risk between the mortgage assets and the term loans from the originator is managed by means of foreign currency and basis swaps with LTSB These require the LLP to pay sterling floating rate and receive amounts which match the currency and rates of the term loans

These swaps are not recognised separately as financial instruments as the amounts payable under each swap reflect interest flows from the mortgage loans which are not recognised by the LLP for accounting purposes Instead, the deemed loan to LTSB is recognised with an effective interest rate and currency which incorporate the net amounts received or paid under the swaps

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

(c)(ii) Cash and cash equivalents

The LLP holds deposits with the provider of a Guaranteed Investment Contract 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

1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c)(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

Where the LLP enters into financial guarantee contracts to guarantee the indebtedness of LTSB, the LLP treats such guarantee contracts as a contingent liability until such time as it becomes probable that the LLP will be required to make payments under the guarantee

(c)(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 LTSB are also 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 (d) below) and included as part of profit for the financial year available for division amongst members

(d) Contributions and drawings

Under the terms of the Programme Documentation for the sale of the mortgage loans, LTSB 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 each 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 financial statements of the LLP as there has been no sale of mortgages for accounting purposes

LTSB 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 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 to each member in proportion to their respective capital contribution balances as at the relevant calculation date, subject to a minimum of £1 each, as their profit for their respective interests as members in the LLP

During the year £2,999 was allocated to LTSB and £1 was allocated to Lloyds TSB Covered Bonds (LM) Limited

1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) 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

(f) Critical accounting estimates and judgements

The preparation of the financial statements necessarily requires the exercise of judgement both in the application of accounting policies and in the selection of assumptions used in the calculation of accounting estimates These judgements are reviewed on an ongoing basis and are continually evaluated based on historical experience and other factors

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

(g) Taxation

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

(h) Related parties

In accordance with the provisions of IAS 24 "Related Party Disclosures", the LLP has disclosed details of transactions with its related parties, LTSB, C&G and Structured Finance Management Limited

1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) Other payables

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

(j) Value added tax

Value added tax is not recoverable by the LLP and is included with its related cost

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	For the year ended 31 December 2010 £000	For the period ended 31 December 2009 £000
Interest receivable on deemed loan	139,099	178,361
Bank interest receivable	6,616	6,781
	145,715	185,142

3. INTEREST PAYABLE AND SIMILAR CHARGES

	For the year ended 31 December 2010 £000	For the period ended 31 December 2009 £000
Interest payable on term loans	134,450	172,450

4. OPERATING EXPENSES

	For the year ended 31 December 2010 £000	For the period ended 31 December 2009 £000
Administration charges	11,250	12,656
Audit fees	13	13
Asset monitor fees	(1)	20
	11,262	12,689

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 C&G and a corporate service fee charged by Structured Finance Management Limited

5. DEEMED LOAN TO ORIGINATOR

The mortgage portfolio, which is accounted for as a deemed loan to originator and in which the LLP holds a beneficial interest, is held by LTSB The mortgage loans are secured on residential property in England, Wales and Scotland Mortgages in the pool have to fulfil certain criteria If they fail to do so they are removed from the pool and the pool may be replenished

	2010 £000	2009 £000
Deemed loan to originator	6,924,344	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 and foreign currency risk, see note 9

Loans and borrowings comprise a series of term loans from LTSB, equivalent to the amounts raised under the Covered Bond Programme The term loans are held in a number of different currencies and have interest charged on either a fixed rate basis or at a rate set in reference to LIBOR for one month sterling deposits

LTSB 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 amounts payable under the corresponding series of Covered Bonds have been repaid Amounts owed by the LLP will be paid in accordance with the priority of payments as detailed in the Programme Documentation

The Covered Bonds issued by LTSB are unconditionally guaranteed by the LLP Under the terms of the Trust Deed, the LLP has provided a guarantee as to payments of interest and principal under the Covered Bonds, where amounts would otherwise be unpaid by LTSB 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 LTSB

6. LOANS AND BORROWINGS (CONT'D)

	2010 £000	2009 £000
Principal		
Term loans with LTSB		
GBP - priced against 1 month GBP LIBOR	5,250,000	8,000,000
Weighted average margin +0 40%		
Euro – fixed rate	4,604,883	-
Weighted average rate 3 68%		
Accrued interest		
Interest due on term loans	13,456	4,803
	9,868,339	8,004,803

The term loans due to LTSB mature following the repayment of the covered bonds on the following dates

Maturity Date	Covered Bond Issuance	2010 £000	2009 £000
8 November 2011	2008 – 1*	1,000,000	2,000,000
8 May 2012	2008 – 2*	1,000,000	2,000,000
8 November 2012	2008 – 3	2,000,000	2,000,000
8 May 2013	2008 – 4*	1,250,000	2,000,000
17 March 2015	2010 – 1	1,292,780	-
25 June 2018	2010 – 2	646,390	-
1 July 2013	2010 – 3	215,464	-
2 September 2024	2010 – 4	43,093	-
29 September 2020	2010 – 5	1,723,707	-
11 October 2013	2010 – 6	215,463	-
12 October 2022	2010 – 7	467,986	-
		9,854,883	8,000,000

*Part of these bonds have been cancelled during the year ended 31 December 2010

7. OTHER PAYABLES

	2010 £000	2009 £000
Fees payable to administrators	1,036	1,004
Audit fee accrual	25	13
Asset monitor fee accrual	10	20
	1,071	1,037

8. TOTAL MEMBERS' INTERESTS

2010

	Members' capital	Members' other interests: Reserves	Members' other interests: Total	Loans due to/(from) members	Total
	£000	£000	£000	£000	£000
Members' interests as at 1 January 2010	-	3	3	624,661	624,664
Profit for the year available for division among members	-	3	3	-	3
Loans introduced by members	-	-	-	5,069,334	5,069,333
Repaid to members	-	-	-	(2,750,000)	(2,750,000)
Members' interests as at 31 December 2010	-	6	6	2,943,995	2,944,001

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

	Members' interests as at 31 December 2010 £000
Amounts due to members	9,868,339
Amounts due from members	(6,924,344)
	2,943,995

8. TOTAL MEMBERS' INTERESTS (CONT'D)

2009

	Members' capital	Members' Other Interests: Reserves	Members' Other Interests: Total	Loans due to/(from) members	Total
	£000	£000	£000	£000	£000
Members' interests as at 12 September 2008	-	-	-	-	-
Profit for the period available for division among members	-	3	3	-	3
Loans introduced by members	-	-	-	624,661	624,661
Repaid to members	-	-	-	-	-
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

	Members' interests as at 31 December 2009 £000
Amounts due to members	8,004,803
Amounts due from members	(7,380,142)
	624,661

9. MANAGEMENT OF RISK

All 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 LTSB (equivalent to the value of the LLP's investment in LTSB 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, interest rate risk and foreign currency risk Further detailed analysis of the risks facing the LLP in relation to its financial instruments is provided below

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 interest rate swaps and foreign currency swaps have been entered into with the originator as part of the transaction to hedge interest rate and foreign currency risks 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 may be 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 Management Board monitor the LLP's performance, reviewing 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

9. MANAGEMENT OF RISK (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 LLP has a concentration of risk to LTSB as the originator of the mortgages, the LLP's bank account provider and swap counterparty

Credit risk arises on the individual loans within the mortgage loan portfolio which are in turn secured on UK residential properties The performance of these loans is therefore influenced by the economic background and the UK housing market The ability of the LLP to pay the term loan interest and principal to LTSB will depend on the amount and timing of payments of interest and principal on the mortgage loans by the borrowers

In terms of arrears management, the LLP has engaged C&G as servicer of the loans in the portfolio to help reduce the risk of loss The servicer is required to monitor repayments on the mortgage loans in accordance with its usual credit policies The servicer is also responsible for ensuring mortgage loans in the pool meet the eligibility criteria set out in the Programme Documentation

The income on the mortgage pool is expected to exceed the LLP's expenses and the interest payable on the term loans Any excess income that is not required to meet expenses or interest payments is returned to the originator as deferred consideration

Credit risk for the LLP is mitigated by the amount of overcollateralisation of the beneficial interest in mortgages which is provided by LTSB and which is monitored using an ACT The overcollateralisation 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 and cash is at least equal to or greater than the aggregate amount outstanding on the Covered Bonds on each calculation date after taking into account other deductions 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

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 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 LTSB Event of Default, which will entitle the Bond Trustee to serve a LTSB Acceleration Notice on the Issuer of the Covered Bonds Upon service of such notice, the Bond 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

9. MANAGEMENT OF RISK (CONT'D)

9(a) Credit risk (Cont'd)

The total mortgage pool made available to the LLP at 31 December 2010 amounted to £12 45bn (2009 £12 58bn) As noted in the accounting policies section, the LLP does not recognise the mortgage pool but rather a deemed loan to the originator to the extent of the cash consideration paid to LTSB

To the extent that the income on the deemed loan does not provide sufficient funds to recover the LLP's investment in the mortgage portfolio, the LLP has no further claim on the assets of LTSB During the current year, sufficient cash has been received from the deemed loan to enable the LLP to make all necessary payments on the term loans following repayment of the related series of Covered Bonds by LTSB

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 issued by LTSB and by association the term loans received by the LLP, the Programme Documentation contains various rating triggers linked to each counterparty, which require certain actions to be taken if triggers are breached

	Rating as at 31 December 2010	Rating as at date of approval of financial statements
	Moody's/Fitch	Moody's/Fitch
LTSB as provider of		
Covered bond swap, interest rate swap and bank accounts	Short term P-1/F1+ Long term Aa3/AA-	Short term P-1/F1+ Long term Aa3/AA-

In the event that a swap counterparty is downgraded by a rating agency below the ratings specified in the relevant swap agreement, the relevant swap provider will be required to take certain remedial measures as defined in that agreement which may include providing collateral for its obligations under the relevant swap, arranging for its obligations to be transferred to an entity with sufficient rating, procuring another entity with sufficient rating to become co-obligor for its obligations, or taking such other action as it may agree with the relevant rating agency

9. MANAGEMENT OF RISK (CONT'D)

9(a) Credit risk (Cont'd)

Financial assets subject to credit risk

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

	2010 £000	2009 £000
Assets held at amortised cost:		
Cash and cash equivalents	2,945,072	625,701
Deemed loan to originator	6,924,344	7,380,142
	9,869,416	8,005,843

At the balance sheet date all financial assets subject to credit risk were neither past due nor impaired A financial asset is "past due" if a counterparty has failed to make a payment when contractually due

Secured mortgage assets

Secured mortgage loans can be analysed according to the rating systems used by the LLP and the originator when assessing customers and counterparties

For the purposes of the LLP's disclosures regarding credit quality, total secured mortgage loans subject to credit risk have been analysed as follows.

	2010 £000	2009 £000
Neither past due nor impaired	12,184,821	12,330,597
Past due but not impaired	205,510	200,810
Impaired	61,430	43,760
	12,451,761	12,575,167

9. MANAGEMENT OF RISK (CONT'D)

9(a) Credit risk (Cont'd)

Secured mortgage assets (Cont'd)

Secured loans and advances which are past due but not impaired

	2010 £000	2009 £000
0-30 days	111,841	111,116
30-60 days	42,905	37,615
60-90 days	16,921	17,360
90-180 days	33,843	34,719
180+ days	-	-
	205,510	200,810

The number and value of loans currently in arrears will have a bearing on the receipt of cash by the LLP Key indicators are as follows

- At 31 December 2010 1,123 accounts were in arrears by three or more months which represents 0 9% of the mortgage pool (31 December 2009 916, 0 8%)
- At 31 December 2010 the number of properties in possession amounted to 3 (31 December 2009 nil)

9(b) Foreign currency and interest rate risk

Interest rate and foreign currency risks exist where assets and liabilities have different currencies and interest rates set under a different basis or which reset at different times The LLP minimises its exposure to such risks by ensuring that the foreign currency and interest rate characteristics of assets and liabilities are similar, where this is not possible the LLP uses derivative financial instruments to mitigate these risks The deemed loan to the originator, the term loans and the cash and cash equivalents are exposed to these risks

9. MANAGEMENT OF RISK (CONT'D)

9(b) Foreign currency and interest rate risk (Cont'd)

The underlying mortgage pool comprises loans which are subject to variable rates of interest set by LTSB based on general interest rates and competitive considerations, loans which track the Bank of England base rate and loans which are subject to fixed rates of interest To mitigate the changes in interest and foreign currency rates that may result in the interest cashflows from the mortgage pool being insufficient to meet the payments under the term loans, the LLP has entered into currency and basis swaps with LTSB The basis swap substantially eliminates the sensitivity to movements in interest rates and the currency swaps eliminate the sensitivity to movements in foreign currency rates These are not recognised in the financial statements as they are incorporated into the deemed loan

9(c) Liquidity risk

Liquidity risk is the risk that the LLP is not able to meet its financial obligations as they fall due

The LLP's ability to meet payments 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)

Principal repayments are made on the term loans with LTSB in accordance with the LLP's principal priority of payments and reflect the amount of principal collection on the underlying mortgage loans In the event that the LLP does not have sufficient cash flows from the underlying mortgage loans 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 loans, or sell mortgages from the mortgage pool, in accordance with the terms of the Programme Documentation

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

9. MANAGEMENT OF RISK (CONT'D)

9c) Liquidity risk (cont'd)

2010	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
Principal							
Term loans with LTSB	9,854,883	9,854,883	-	-	1,000,000	5,973,707	2,881,176
Other payables	1,071	1,071	1,071	-	-	-	-
Interest payable							
Term loans with LTSB	13,456	1,409,168	18,417	36,834	164,333	655,472	534,112
	9,869,410	11,265,122	19,488	36,834	1,164,333	6,629,179	3,415,288

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
Principal							
Term loans with LTSB	8,000,000	8,000,000	-	-	-	8,000,000	-
Other payables	1,037	1,037	1,037	-	-	-	-
Interest payable							
Term loans with LTSB	4,803	194,734	6,204	11,808	55,038	121,684	-
	8,005,840	8,195,771	7,241	11,808	55,038	8,121,684	-

10. RELATED PARTIES

The LLP is a special purpose entity controlled by LTSB, one of the two designated members The second designated member is Lloyds TSB Covered Bonds (LM) Limited LTSB is a subsidiary undertaking of LBG

The LLP has provided a loan to LTSB (the originator of the mortgages), on which the LLP receives income In addition, the LLP pays cash management and mortgage loan servicing fees to C&G in connection with its provision of services defined under the Programme Documentation LTSB is the counterparty to the interest rate and foreign currency swap agreements and the swap payments are included in the income from the deemed loan

Structured Finance Management Ltd is the immediate parent company of Lloyds TSB Covered Bonds Holdings Ltd, the majority shareholder of Lloyds TSB Covered Bonds (LM) Ltd The LLP pays corporate services fees to Structured Finance Management Ltd in connection with its provision of corporate management services In 2010 this amounted to £16,899 (2009 £9,804)

LTSB 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 other operating expenses may subsequently be paid or reimbursed directly by LTSB The LLP has placed its deposit account with LTSB, as a provider of a Guaranteed Investment Contract, and it is contractually entitled to a variable rate of interest of 20 basis points per annum below LIBOR for one-month Sterling deposits

During the year, the LLP undertook the transactions set out below with companies within the LBG group

	At 31 Dec 2010 or for the year then ended LBG plc and subsidiary undertakings £000	At 31 Dec 2009 or for the period then ended LBG plc and subsidiary undertakings £000
Interest receivable and similar income		
Income from deemed loan to originator	139,099	178,361
Bank interest receivable	6,616	6,781
Interest payable and similar charges		
Interest payable to LTSB on term loans	134,450	172,450
Operating expenses		
Administration and cash management fees	11,233	12,646
Assets		
Cash and cash equivalents	2,945,072	625,701
Deemed loan to originator	6,924,344	7,380,142
Liabilities		
Term loans from LTSB	9,868,339	8,004,803
Other payables	1,027	1,004

11 ACCOUNTING PRONOUNCEMENTS EFFECTIVE AFTER 2010

The following pronouncements will be relevant to the LLP but were not effective at 31 December 2010 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

Pronouncement	Nature of change	IASB effective date
IFRS 9 *Financial Instruments Classification and Measurement*[1]	Replaces those parts of IAS 39 'Financial Instruments Recognition and Measurement' relating to the classification, measurement and derecognition of financial assets and liabilities It requires financial assets to be classified into two measurement categories, fair value and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instrument The available-for-sale financial asset and held-to-maturity investment categories in the existing IAS 39 will be eliminated The requirements for financial liabilities and derecognition are broadly unchanged from IAS 39	Annual periods beginning on or after 1 January 2013
Improvements to IFRSs (issued May 2010)	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 July 2010
IAS24 Related Party Disclosures	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

[1] IFRS 9 is the initial stage of the project to replace IAS 39 Future stages are expected to result in amendments to IFRS 9 to deal with changes to the classification and measurement of financial liabilities, impairment of financial assets measured at amortised cost and hedge accounting Until all stages of the replacement project are complete, it is not possible to determine the overall impact on the financial statements of the replacement of IAS 39 The effective date of the standard is annual periods beginning on or after 1 January 2013

11. ACCOUNTING PRONOUNCEMENTS EFFECTIVE AFTER 2010 (CONT'D)

Pronouncement	Nature of change	IASB effective date
IFRS 7 Financial Instruments Disclosures – Disclosures – Transfers of Financial Assets	Requires additional disclosures in respect of risk exposures arising from transferred financial assets	Annual periods beginning on or after 1 July 2011

At the date of this report, IFRS 9, Improvements to IFRSs (issued May 2010), and Amendments to IFRS 7 are awaiting EU endorsement

12. PARENT UNDERTAKING AND CONTROLLING PARTY

As at 31 December 2010 the LLP's ultimate parent company was Lloyds Banking Group Designated members were LTSB and Lloyds TSB Covered Bonds (LM) Limited (as Liquidation Member) 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