Registered Number: OC340094

LLOYDS BANK COVERED BONDS LLP

MEMBERS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

LLOYDS BANK COVERED BONDS LLP
MEMBERS AND LLP INFORMATION

DESIGNATED MEMBERS

Lloyds Bank plc
Lloyds Bank Covered Bonds (LM) Limited

MANAGEMENT BOARD

Edward Short
Gary Staines
Monica de Vries
Ian Stewart

REGISTERED OFFICE

35 Great St. Helen's
London
EC3A 6AP

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

LLOYDS BANK COVERED BONDS LLP
MEMBERS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

On behalf of the members of Lloyds Bank Covered Bonds LLP (the 'LLP'), the Management Board presents the members' report and audited financial statements for the year ended 31 December 2013.

On 23rd September 2013, Lloyds TSB Bank plc changed its name to Lloyds Bank plc and in turn Lloyds TSB Covered Bonds plc changed its name to Lloyds Bank Covered Bonds LLP.

PRINCIPAL ACTIVITIES

The LLP is a special purpose vehicle whose business is the acquisition, management and sale of mortgage loans and their related security, and to guarantee the bonds (the 'Covered Bonds') issued by Lloyds Bank plc ('Lloyds'). The mortgage loans and the funding to acquire these loans originate from Lloyds (the "Originator"), which is a subsidiary of Lloyds Banking Group plc ('LBG').

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 directors of the LLP have concluded that Lloyds 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. The initial amount of the deemed loan to Originator corresponds to the consideration paid by the LLP for the mortgage loans.

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 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 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 Lloyds from the proceeds of the term loans;
ii. a record of a capital contribution in kind being made by Lloyds; 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 Lloyds, with the proceeds being paid across to the LLP on issuance by way of term loans. The sterling equivalent amount of the Covered Bonds in issue at 31 December 2013 was £17.00bn (2012: £22.09bn). At 31 December 2013, the total value of the mortgage loan portfolio held by the LLP was £29.17bn (2012: £33.27bn).

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The results for the year are disclosed on page 10. The LLP made a profit of £3,000 during the year (2012: £3,000). No change to the current business activity is expected.

DESIGNATED MEMBERS

The designated members during the year and up to the date of signing the financial statements were as follows:

Lloyds Bank plc
Lloyds Bank Covered Bonds (LM) Limited

MANAGEMENT BOARD

The members on the LLP Management Board during the year and subsequently were:

Edward Short
Gary Staines
Monica de Vries
Ian Stewart

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 STATEMENT

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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the partnership and group will continue in business;

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 its investment in the mortgages), cash and liquid resources, term loans and various other receivables and payables. The main purpose of these financial instruments is to raise finance for Lloyds.

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 (CONTINUED)

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 environment 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 Lloyds.

The LLP has made all necessary payments on the term loans in accordance with the scheduled repayment dates for the year ended 31 December 2013.

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 Lloyds 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 Lloyds. 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 ('SFM') has been appointed to provide corporate services in accordance with a corporate services agreement dated 20 October 2008. Lloyds has been appointed to act as account bank, and since 20 April 2012 as servicer and cash manager. Prior to that, Cheltenham and Gloucester plc ('C&G'), a subsidiary of Lloyds, acted as servicer and cash manager on behalf of the LLP.

RISK MANAGEMENT (CONTINUED)

Business risk

The principal business risks of the LLP are set out in a number of trigger events in the Programme Documentation, including some which relate to the underlying performance of the mortgage pool. The occurrence of trigger events may lead to a different priority of payments of the bonds in accordance with established priorities. There have been no such trigger events since 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 swaps and are due monthly in accordance with the terms of the loans and swaps. Payments are subject to the receipt of principal and interest on the underlying mortgage pool and were made on the due dates.

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 of payment, provided the supplier performs according to the terms of the contract.

EMPLOYEES

The LLP has employed no staff during the year ended 31 December 2013 or the previous year.

INDEPENDENT AUDITORS

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.

DISCLOSURE OF INFORMATION TO AUDITORS

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(2) 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

On 14th January 2014 the Series 2014-1 bond was issued for £1.0bn. As a result of this the term advance held on the balance sheet of the LLP increased by the same amount.

Signed for and on behalf of the members of Lloyds Bank Covered Bonds LLP

Vinoy Nursiah
Per pro SFM Directors Limited
As director of Lloyds Bank Covered Bonds (LM) Limited

35 Great St. Helen's
London EC3A 6AP

Gary Staines
On behalf of
Lloyds Bank plc

10 Gresham Street
London EC2V 7AE

Date: 1st April 2014

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

REPORT ON THE FINANCIAL STATEMENTS

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the limited liability partnership's affairs as at 31 December 2013 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements, which are prepared by Lloyds Bank Covered Bonds LLP, comprise:

- the statement of comprehensive income for the year then ended;
- the statement of financial position as at 31 December 2013;
- the statement of changes in members' other interests for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the members have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). 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.

In addition, we read all the financial and non-financial information in the Members' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 as applicable to limited liability partnerships we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, 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.

We have no exceptions to report arising from this responsibility.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Our responsibilities and those of the members

As explained more fully in the Members' Responsibilities Statement, 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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Daniel Brydon

Daniel Brydon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester

1st April 2014

LLOYDS BANK COVERED BONDS LLP
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 £000	2012 £000
Interest receivable and similar income	2	701,454	713,686
Interest payable and similar charges	3	(701,417)	(706,414)
Net interest income		37	7,272
Operating expenses	4	(34)	(7,269)
Profit and total comprehensive income available for members		3	3

The profit shown above is derived from continuing operations. The LLP is domiciled in the UK and operates in a single business segment. 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 year.

The notes on pages 15 to 38 form an integral part of these financial statements.

LLOYDS BANK COVERED BONDS LLP
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	Note	2013 £000	2012 £000
Assets			
Cash and cash equivalents		566,058	515,942
Deemed loan to Originator	5	16,480,080	21,614,910
Total assets		17,046,138	22,130,852
Members' other interests and liabilities			
Loans and borrowings	6	17,046,108	22,130,825
Other payables	7	15	15
Total liabilities		17,046,123	22,130,840
Reserves	8	15	12
Total members' other interests	8	15	12
Total members' other interests and liabilities		17,046,138	22,130,852

LLOYDS BANK COVERED BONDS LLP
STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2013

	Note	2013 £000	2012 £000
Total members' interests			
Reserves		15	12
Deemed loan to Originator	5	(16,480,080)	(21,614,910)
Loans and borrowings	6	17,046,108	22,130,825
	8	566,043	515,927

The notes on pages 15 to 38 form an integral part of these financial statements.

These financial statements were approved by the members on 1st April 2014 and were signed on their behalf by:

Vinoy Nursiah
Per pro SFM Directors Limited
As director of Lloyds Bank Covered Bonds (LM) Limited
35 Great St. Helen's
London
EC3A 6AP

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

LLOYDS BANK COVERED BONDS LLP
STATEMENT OF CHANGES IN MEMBERS' OTHER INTERESTS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	Reserves £000
Balance at 1 January 2013		12
Profit for the financial year and total comprehensive income for the year		3
Balance at 31 December 2013	8	15

	Note	Reserves £000
Balance at 1 January 2012		9
Profit for the financial year and total comprehensive income for the year		3
Balance at 31 December 2012	8	12

The notes on pages 15 to 38 form an integral part of these financial statements.

LLOYDS BANK COVERED BONDS LLP
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013

	2013 £000	2012 £000
Operating activities		
Audit fees paid	(15)	(15)
Administration expenses paid	(19)	(8,748)
Net cash flows used in operating activities	(34)	(8,763)
Investing activities		
Decrease/(Increase) in deemed loan to Originator	5,134,830	(10,897,423)
Interest on deemed loan to Originator	699,913	709,804
Bank interest received	1,541	3,882
Net cash flows (used in)/from investing activities	5,836,284	(10,183,737)
Financing activities		
(Decrease)/Increase in term loans	(5,084,359)	11,150,174
Interest on term loans	(701,775)	(690,779)
Net cash flows (used in)/from financing activities	(5,786,134)	10,459,395
Net increase in cash and cash equivalents	50,116	266,895
Change in cash and cash equivalents	50,116	266,895
Cash and cash equivalents at start of the year	515,942	249,047
Cash and cash equivalents at end of year	566,058	515,942

The notes on pages 15 to 38 form an integral part of these financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

The LLP was incorporated in England and Wales as a limited liability partnership.

(a) Statement of compliance

The financial statements for the year ended 31 December 2013 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 members. All accounting policies have been consistently applied in the financial statements.

The LLP has adopted the following new and relevant IFRS pronouncements which became effective for financial years beginning on or after 1 January 2013. None of these standards or amendments has had a material impact on these financial statements.

- IFRS 10 Consolidated Financial Statements. IFRS 10 supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities and establishes the principles for when the entity is controlled by LBG and is therefore required to be consolidated in the group financial statements of LBG. Under IFRS 10, LBG controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through the exercise of power.

  Special purpose entities are entities that are designed so that their activities are not governed by way of voting rights. In assessing whether LBG has power over such entities in which it has an interest, LBG considers factors such as the purpose and design of the entity; its practical ability to direct the relevant activities of the entity; the nature of the relationship with the entity; and the size of its exposure to the variability of returns of the entity. In doing so LBG has concluded that the LLP should continue to be consolidated within the group financial statements of LBG;

- IFRS 13 Fair Value Measurement. IFRS 13 has been applied with effect from 1 January 2013. IFRS 13 defines the fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. IFRS 13 requires that the fair value of a non-financial asset is determined based on the highest and best use of the asset, and that the fair value of a liability reflects its non-performance risk. These changes had no significant impact on the measurement of the LLP assets and liabilities. The IFRS 13 disclosures are given in note 9 to the financial statements.

The financial statements also comply with the relevant provisions of Part 15 of the Companies Act 2006, as applying to Limited Liability Partnerships.

The LLP is reliant on support provided by Lloyds Bank plc ('Lloyds') which is a subsidiary of Lloyds Banking Group plc ('LBG'). The members are satisfied that it is the intention of LBG that its subsidiaries, including Lloyds and the LLP, will continue to have access to adequate liquidity and capital resources for the foreseeable future and, accordingly, the financial statements have been prepared on a going concern basis.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Statement of compliance (continued)

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) Interest receivable and payable

Interest receivable and similar income and interest payable and similar charges 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) Accrued interest

Accrued interest has been incorporated within the deemed loan to Originator and the outstanding balance of term loans on the balance sheet. An analysis of principal on the term loans and accrued interest can be found in note 6.

(d) 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.

(e) Financial instruments

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

(e)(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 Lloyds 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 is limited to the cash flows from the mortgage loans and any additional credit enhancement provided by Lloyds.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

(e)(i) Deemed loan to Originator (continued)

The initial amount of the deemed loan to Lloyds 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 Lloyds 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. Under the terms of the mortgage sale agreement, Lloyds 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 is insufficient to meet the liabilities of the LLP. 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.

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 Lloyds, 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 Lloyds. 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 Lloyds is recognised with an effective interest rate and currency which incorporate the net amounts received or paid under the swaps.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

(e)(i) Deemed loan to Originator (continued)

Swaps with Originator (continued)

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

(e)(ii) Cash and cash equivalents

The LLP holds deposits with the provider of a Guaranteed Investment Contract bank account 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 transaction documents governing the activities of the LLP (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 as 'loans and receivables' in accordance with IAS 39 and income is being recorded within interest receivable and similar income using the effective interest method.

(e)(iii) Foreign currency

The bonds secured against the LLP are denominated in Euro, Sterling, Norwegian Kroner and Swedish Kronor. The members consider Sterling to be the LLP's functional currency, as it most closely represents the economic effects of its underlying transactions, and the financial statements are presented in Sterling.

Foreign currency transactions are translated into Sterling using the exchange rate prevailing at the date of the relevant transaction. All foreign currency balances existing at the Balance Sheet date are translated into Sterling using the exchange rate at that date.

(e)(iv) 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 Lloyds, 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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

(e)(v) 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 statement of comprehensive income 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 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 (f) below) and included as part of profit for the financial year available for division amongst members.

(f) Contributions and drawings

Under the terms of the Programme Documentation for the sale of the mortgage loans, Lloyds 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.
Lloyds 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 Lloyds and £1 was allocated to Lloyds Bank Covered Bonds (LM) Limited.

(g) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) 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. The members do not consider there to be any critical accounting estimates or judgements due to the straightforward nature of the accounting.

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

(i) 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, SFM and previously C&G.

(j) Other payables

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

(k) 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 2013 £000	For the year ended 31 December 2012 £000
Interest receivable on deemed loan	699,913	709,804
Bank interest receivable	1,541	3,882
	701,454	713,686

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2013 £000	2012 £000
Interest payable on term loans	701,417	706,414

4. OPERATING EXPENSES

	2013 £000	2012 £000
Administration charges	19	7,244
Audit fees	15	15
Asset monitor fees	-	10
	34	7,269

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 had no employees during the year (2012: none) and none of the members received any emoluments from the LLP in the current or previous year. The administration charge is a corporate service fee charged by Structured Finance Management Limited ("SFM"). In April 2012 the administration services carried out by C&G were taken over by Lloyds and the subsequent fees charged have been included within the deemed loan interest.

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 Lloyds. 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.

	2013	**2012**
	£000	**£000**
Deemed loan to Originator	16,480,080	21,614,910

6. LOANS AND BORROWINGS

Loans and borrowings comprise a series of term loans from Lloyds, 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 three month sterling deposits.

Lloyds 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 Lloyds 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 Lloyds. 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.

6. LOANS AND BORROWINGS (CONTINUED)

	2013	2012
Principal	**£000**	**£000**
Term loans with Lloyds:		
EUR - priced against 3 month Euribor Weighted average margin +0.83% (2012: +1.23%)	166,560	7,086,913
GBP - priced against 3 month Libor Weighted average margin +1.53% (2012: +1.63%)	1,455,000	1,045,000
SEK - priced against 3 month Stibor Weighted average margin +0.93% (2012: +0.93%)	51,896	52,245
EUR – fixed rate Weighted average rate 3.81% (2012: 3.73%)	11,218,676	9,751,966
GBP – fixed rate Weighted average rate 5.33% (2012: 5.33%)	3,750,000	3,750,000
NOK – fixed rate Weighted average rate 5.44% (2012: 5.44%)	361,622	401,989
	17,003,754	22,088,113
Accrued interest		
Interest due on term loans	42,354	42,712
	17,046,108	22,130,825

6. LOANS AND BORROWINGS (CONTINUED)

The term loans due to Lloyds mature following the repayment of the Covered Bonds on the following dates:

Maturity Date	Covered Bond Issuance	2013 £000	2012 £000
17 March 2015	2010 – 1	1,249,198	1,223,175
25 June 2018	2010 – 2	624,599	611,588
1 July 2013	2010 – 3*	-	203,862
2 September 2024	2010 – 4	41,640	40,773
29 September 2020	2010 – 5	1,665,598	1,630,900
11 October 2013	2010 – 6*	-	203,862
12 October 2022	2010 – 7	452,210	442,789
13 January 2031	2011 – 1	37,476	36,695
13 January 2023	2011 – 2	832,799	815,450
20 January 2014	2011 – 3*	-	203,862
26 January 2021	2011 – 4	74,715	83,056
8 February 2029	2011 – 5	1,250,000	1,250,000
10 February 2014	2011 – 6*	-	203,862
11 March 2013	2011 – 7	-	815,450
10 March 2021	2011 – 8	49,810	55,370
14 March 2014	2011 – 9*	-	203,862
6 April 2016	2011 – 10	1,457,398	1,427,038
8 April 2014	2011 – 11*	-	203,862
25 November 2013	2011 – 12^	-	203,862
10 June 2014	2011 – 13	45,000	45,000
16 June 2014	2011 – 14	166,560	163,090
14 June 2018	2011 – 15	47,818	53,156
21 June 2014	2011 – 16	51,896	52,245
27 May 2014	2011 – 17^	410,000	407,725
1 September 2026	2011 – 18	91,608	89,700
13 October 2027	2011 – 19	33,312	32,618
4 January 2024	2012 – 1	49,810	55,370
11 January 2017	2012 – 2	1,040,999	1,019,313
1 February 2027	2012 – 3	39,141	38,326
7 March 2025	2012 – 4	1,250,000	1,250,000
7 June 2027	2012 – 5	41,640	40,773
8 February 2019	2012 – 6	39,848	44,296
27th January 2014	2012 – 7*^	-	1,183,544
27 October 2014	2012 – 8^	492,809	986,287
27 July 2015	2012 – 9^	1,007,270	986,287
22 December 2014	2012 – 10^	985,618	986,287
27 July 2015	2012 – 11^	362,726	1,183,544
22 December 2014	2012 – 12^	492,809	986,287
22 March 2027	2012 – 13	88,277	86,438
23 March 2027	2012 – 14	99,620	110,741

6. LOANS AND BORROWINGS (CONTINUED)

Maturity Date	Covered Bond Issuance	2013 £000	2012 £000
22 March 2017	2012 – 15	1,000,000	1,000,000
30 March 2027	2012 – 16	1,250,000	1,250,000
26 April 2025	2012 – 17	33,312	32,618
10 May 2027	2012 – 18	46,637	45,665
11 June 2025	2012 – 19	101,601	99,485
		17,003,754	22,088,113

A number of bonds have been amended (^) and/or cancelled (*) during the year ended 31st December 2013.

7. OTHER PAYABLES

	2013 £000	2012 £000
Audit fee accrual	15	15
	15	15

8. TOTAL MEMBERS' INTERESTS

2013

		Members' other interests			
	Members' capital	Reserves	Total	Loans due to/(from) members	Total
	£000	£000	£000	£000	£000
Members' interests as at 1 January 2013	-	12	12	515,915	515,927
Profit for the year available for division among members	-	3	3	-	3
Loans introduced by members	-	-	-	3,398,776	3,398,776
Repaid to members	-	-	-	(3,348,663)	(3,348,663)
Members' interests as at 31 December 2013	-	15	15	566,028	566,043

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

	Members' interests as at 31 December 2013 £000
Amounts due to members	17,046,108
Amounts due from members	(16,480,080)
	566,028

8. TOTAL MEMBERS' INTERESTS (CONTINUED)

2012

		Members' Other Interests			
	Members' capital	**Reserves**	**Total**	**Loans due to/(from) members**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Members' interests as at 1 January 2012	-	9	9	247,529	247,538
Profit for the year available for division among members	-	3	3	-	3
Loans introduced by members	-	-	-	268,386	268,386
Repaid to members	-	-	-	-	-
Members' interests as at 31 December 2012	-	12	12	515,915	515,927

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

	Members' interests as at 31 December 2012 £000
Amounts due to members	22,130,825
Amounts due from members	(21,614,910)
	515,915

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 Lloyds (equivalent to the value of the LLP's investment in Lloyds 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, foreign currency and interest rate risk and liquidity 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.

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 monitors 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 (CONTINUED)

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 Lloyds as the Originator of the mortgages, the LLP's bank account provider, swap counterparty, servicer of the mortgages and cash manager.

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 Lloyds 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 a servicer of the loans in the portfolio to help reduce the risk of loss. This role was previously held by C&G but was transferred to Lloyds in April 2012. 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 over collateralisation of the beneficial interest in mortgages which is provided by Lloyds and which is monitored using 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 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, Lloyds is 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 Lloyds Event of Default, which will entitle the Bond Trustee to serve a Lloyds 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 (CONTINUED)

9(a) Credit risk (continued)

The total mortgage pool made available to the LLP at 31 December 2013 amounted to £29,166,784k (2012: £33,267,963k). 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 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 Lloyds. 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 Lloyds.

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 Lloyds 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 2013	**Rating as at date of approval of financial statements**
	Moody's/Fitch	**Moody's/Fitch**
Lloyds as provider of:		
Covered bond swap, interest rate swap and bank accounts	Short term: P-1/F1 Long term: A2/A	Short term: P-1/F1 Long term: A2/A

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 (CONTINUED)

9(a) Credit risk (continued)

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.

	2013 £000	2012 £000
Assets held at amortised cost:		
Cash and cash equivalents	566,058	515,942
Deemed loan to Originator	16,480,080	21,614,910
	17,046,138	22,130,852

At the Balance Sheet date all financial assets subject to credit risk were neither past due nor impaired.

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:

	2013 £000	2012 £000
Neither past due nor impaired	28,356,367	32,543,021
Past due but not impaired	665,949	603,967
Impaired	144,469	120,975
	29,166,785	33,267,963

In respect of LBG's secured mortgage portfolio, 'past due' is when a borrower has failed to make a payment when contractually due. The definition of impaired loans refers to those which are six months or more in arrears (or certain cases where the borrower is bankrupt or is in possession).

9. MANAGEMENT OF RISK (CONTINUED)

9(a) Credit risk (continued)

Secured mortgage assets (continued)

Secured loans and advances which are past due but not impaired:

	2013 £000	2012 £000
0-30 days	338,617	334,291
30-60 days	141,910	127,619
60-90 days	86,911	66,269
90-180 days	98,511	75,788
	665,949	603,967

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 2013 2,919 accounts were in arrears by three or more months which represents 1.1% of the mortgage pool (31 December 2012: 2,186; 0.7%).
- At 31 December 2013 the number of properties in possession amounted to 14 (31 December 2012: 11).

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 mortgage assets, the term loans and the cash and cash equivalents are exposed to these risks. 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.

9. MANAGEMENT OF RISK (CONTINUED)

9(b) Foreign currency and interest rate risk (continued)

The underlying mortgage pool comprises loans which are subject to variable rates of interest set by Lloyds 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 cash flows from the mortgage pool being insufficient to meet the payments under the term loans, the LLP has entered into currency and basis swaps with Lloyds. 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.

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 Lloyds 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 (CONTINUED)

9c) Liquidity risk (continued)

2013	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 Lloyds	17,003,754	17,003,754	-	-	2,644,691	6,790,008	7,569,055
Other payables	15	15	15	-	-	-	-
Interest payable							
Term loans with Lloyds	42,354	4,708,129	56,648	113,296	499,270	1,787,510	2,251,405
	17,046,123	21,711,898	56,663	113,296	3,143,961	8,577,518	9,820,460

2012	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 Lloyds	22,088,113	22,088,113	-	407,725	1,998,994	8,329,471	11,351,923
Other payables	15	15	15	-	-	-	-
Interest payable							
Term loans with Lloyds	42,712	4,181,376	43,631	86,720	370,966	1,523,775	2,156,284
	22,130,840	26,269,504	43,646	494,445	2,369,960	9,853,246	13,508,207

9. MANAGEMENT OF RISK (CONTINUED)

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.

Deemed Loan to Originator

The carrying value of the variable rate loans is assumed to be their fair value. The deemed loan to Originator is denominated in Sterling and is at variable rate of interest (LIBOR), therefore is considered to be a close approximation to fair value.

Loans and Borrowings

The loans are held in a number of different currencies and translated to Sterling using the exchange rate at the balance sheet date. They are carried at amortised cost which is considered to be a reasonable approximation of fair value. The loans carry interest calculated on either a fixed rate basis or at a rate set in reference to three month LIBOR.

Trade and other payables

Trade and other payables are recognised on an amortised cost basis that is considered to be a close approximation to fair value due to the short nature of these liabilities.

10. RELATED PARTIES

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

The LLP has provided a loan to Lloyds (the Originator of the mortgages), on which the LLP receives income. In addition, the LLP paid cash management and mortgage loan servicing fees to Lloyds during the year in connection with the provision of services defined under the Programme Documentation. Lloyds is the counterparty to the interest rate and foreign currency swap agreements and the swap payments and management fees are included in the income from the deemed loan.

SFM Corporate Services Limited is the immediate parent company of Lloyds Bank Covered Bonds Holdings Limited, the majority shareholder of Lloyds Bank Covered Bonds (LM) Limited. The LLP pays corporate services fees to SFM in connection with its provision of corporate management services to the LLP and related companies. In 2013 this amounted to £19k (2012: £16k).

Lloyds 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 Lloyds. The LLP has placed funds on deposit in a Guaranteed Investment Contract account provided by Lloyds, 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 Lloyds group:

	At 31 December 2013 Lloyds Bank plc and subsidiary undertakings £000	At 31 December 2012 Lloyds Bank plc and subsidiary undertakings £000
Interest receivable and similar income		
Income from deemed loan to Originator	699,913	709,804
Bank interest receivable	1,541	3,882
Interest payable and similar charges		
Interest payable to Lloyds on term loans	701,417	706,414
Operating expenses		
Administration and cash management fees	-	7,228
Assets		
Cash and cash equivalents	566,058	515,942
Deemed loan to Originator	16,480,080	21,614,910
Liabilities		
Term loans from Lloyds	17,046,108	22,130,825
Other payables	-	-

11. ACCOUNTING PRONOUNCEMENTS EFFECTIVE AFTER 2013

The following pronouncements are relevant to the LLP but are not applicable for the year ending 31 December 2013 and have not been applied in preparing these financial statements. The full impact of these accounting changes is being assessed by the LLP.

Pronouncement	Nature of change	IASB effective date
Amendments to IAS 32 Financial Instruments: Presentation – 'Offsetting Financial Assets and Financial Liabilities'	Inserts application guidance to address inconsistencies identified in applying the offsetting criteria used in the standard. Some gross settlement systems may qualify for offsetting where they exhibit certain characteristics akin to net settlement.	Annual periods beginning on or after 1 January 2014.
Amendments to IFRS 9 *Financial Instruments (1), (2)*	Replaces those parts of IAS 39 Financial Instruments: Recognition and Measurement relating to the classification, measurement and derecognition of financial assets and liabilities and hedge accounting. IFRS 9 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 contractual cash flow characteristics of the instruments and eliminated the available-for-sale financial assets and held-to-maturity investment categories in IAS 39. The requirements for derecognition are broadly unchanged from IAS 39. The standard also retains most of IAS 39 requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value change attributable to the entity's own credit risk is recorded in other comprehensive income. The hedge accounting requirements are more closely aligned with risk management practices and follow a more principle-based approach.	Date yet to be determined

(1) As at 28 February 2014, these pronouncements are awaiting EU endorsement.

(2) IFRS 9 is the standard which will replace IAS 39. Further changes to IFRS 9 are expected dealing with impairment of financial assets measured at amortised cost, which will be based on expected rather than incurred credit losses, and limited amendments to classification and measurement which include the introduction of a third measurement category, fair value through other comprehensive income. Until the standard is complete, it is not possible to determine the overall impact of the standard on the financial statements.

12. PARENT UNDERTAKING AND CONTROLLING PARTY

The designated members are Lloyds Bank plc and Lloyds Bank Covered Bonds (LM) Limited (as Liquidation Member). For accounting purposes under IFRS, the LLP's ultimate parent and controlling party is Lloyds Banking Group plc. The LLP's results are included within the consolidated financial statements of Lloyds Banking Group plc. Copies of the group financial statements may be obtained from the Company Secretary's Office, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN.