Registered Number: OC340094

LLOYDS BANK COVERED BONDS LLP

MEMBERS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

LLOYDS BANK COVERED BONDS LLP
MEMBERS AND LLP INFORMATION

DESIGNATED MEMBERS

Lloyds Bank plc
Lloyds Bank Covered Bonds (LM) Limited

MANAGEMENT BOARD

Ian Stewart
Gary Staines
Richard Shrimpton
Gavin Parker

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 2014

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 2014.

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' or the 'Originator'). The mortgage loans and the funding to acquire these loans originate from Lloyds, a subsidiary of Lloyds Banking Group plc ('LBG').

Under International Accounting Standard ("IAS") 39, 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.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The results for the year are disclosed on page 10. The LLP made a profit of £31,749,000 during the year (2013: £3,000). No change to the current business activity is expected.

As required under IFRSs, the profit for the year includes a net fair value profit on financial instruments of £33,206,000 (2013:nil) which reflects the movement in the market value of derivatives. The Notes issued are effectively hedged using derivative contracts and so gains or losses recognised to date are expected to reverse in the future.

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 2014 was £15.52bn (2013: £17.00bn). At 31 December 2014, the total value of the mortgage loan portfolio held by the LLP was £24.99bn (2013: £29.17bn).

BUSINESS REVIEW AND FUTURE DEVELOPMENTS (CONTINUED)

During the year £2.73bn of Notes were repaid on their expected maturity dates (2013: £1.06bn) and there were additional Note cancellations of £0.57bn (2013: cancellations or amendments £4.27bn). Further Notes were issued during the year totalling £2.32bn (2013: £nil).

KEY PERFORMANCE INDICATORS (KPIs)

A defined set of KPIs for the securitisation transaction are set out in the Programme Documentation and published as a monthly Investor Report.

In order to assist the members to mitigate key risks, the LLP is represented by the Management Board at a monthly meeting with programme managers. This meeting analyses and discusses the trends for the month and identifies any issues or required changes. Any such issues are then reported, further discussed and collectively agreed in accordance with the programme documentation that governs the transaction.

The Management Board is responsible for assessing the risk of irregularities, where caused by fraud or error in the financial reporting and ensuring that the processes are in place for the timely identification of internal and external matters with a potential effect on financial reporting.

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.

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 were:

Edward Short
Gary Staines
Monica de Vries
Ian Stewart

MANAGEMENT BOARD (CONTINUED)

At the date of signing the financial statements, the following changes to members on the LLP Management Board had taken place:

Edward Short (resigned 1st April 2015)
Monica De Vries (resigned 1st April 2015)
Gavin Parker (appointed 30th March 2015)
Richard Shrimpton (appointed 30th March 2015)

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), derivative contracts, 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 11.

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 2014.

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 and Natixis. These financial institutions were rated A (long term) or above by Fitch as at 31 December 2014. 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. The Lloyds swaps are not separately recognised in the financial statements as they are incorporated into the deemed loan. However the swap with Natixis is recognised separately in the financial statements.

RISK MANAGEMENT (CONTINUED)

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, servicer and cash manager. Other third parties who have agreed to provide services with respect to the term loans include the paying agents, derivative contract providers and the agent bank.

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.

EMPLOYEES

The LLP had no employees during the year ended 31 December 2014 or the previous year.

INDEPENDENT AUDITORS

In accordance with the Companies Act 2006 as applied to the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008, a resolution for the reappointment of PricewaterhouseCoopers LLP as auditors of the LLP will be proposed at the forthcoming Annual Members' Meeting.

DISCLOSURE OF INFORMATION TO AUDITORS

In accordance with Section 418 of the Companies Act 2006, in the case of each member in office at the date the report is approved:

- so far as the members are aware, there is no relevant audit information of which the LLP's auditors are unaware; and
- The members has taken all the steps that he or she ought to have taken as a member in order to make him or herself aware of any relevant audit information and to establish that the LLP's auditors are aware of that information.

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 19 January 2015 and 2 April 2015, further Notes were issued for £1,000m and £500m respectively with the proceeds being paid to the LLP by way of term loans.

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

Helena Whitaker
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: 28 April 2015

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

Report on the financial statements

Our opinion

In our opinion, Lloyds Bank Covered Bonds LLP's financial statements (the "financial statements"):

- give a true and fair view of the state of the limited liability partnership's affairs as at 31 December 2014 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.

What we have audited

Lloyds Bank Covered Bonds LLP's financial statements comprise:

- the statement of financial position as at 31 December 2014;
- the statement of comprehensive income for the year then ended;
- the cash flow statement for the year then ended;
- the statement of changes in members' other interest 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 the preparation of the financial statements 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.

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.

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the members

As explained more fully in the Members' Responsibilities Statement set out on page 4, 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) ("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.

What an audit of financial statements involves

We conducted our audit in accordance with 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.

We primarily focus our work in these areas by assessing the members' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Member's Report and Financial Statements 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.

D Brydon

Daniel Brydon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
28 April 2015

LLOYDS BANK COVERED BONDS LLP
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 £000	2013 £000
Interest receivable and similar income	2	655,991	701,454
Interest payable and similar charges	3	(657,404)	(701,417)
Net interest (expense) / income		(1,413)	37
Fair value gains	4	33,206	-
Operating expenses	5	(44)	(34)
Profit and total comprehensive income available for members		31,749	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 39 form an integral part of these financial statements.

LLOYDS BANK COVERED BONDS LLP
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	Note	2014 £000	2013 £000
Assets			
Cash and cash equivalents		513,114	566,058
Deemed loan to Originator	6	15,084,915	16,480,080
Total assets		15,598,029	17,046,138
Members' other interests and liabilities			
Loans and borrowings	7	15,561,656	17,046,108
Derivative Liabilities	8	4,590	-
Other payables	9	19	15
Total liabilities		15,566,265	17,046,123
Reserves	10	31,764	15
Total members' other interests		31,764	15
Total members' other interests and liabilities		15,598,029	17,046,138

LLOYDS BANK COVERED BONDS LLP
STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2014

	Note	2014 £000	2013 £000
Total members' interests			
Reserves		31,764	15
Deemed loan to Originator	6	(15,084,915)	(16,480,080)
Loans and borrowings	7	15,561,656	17,046,108
Derivative Liabilities		4,590	-
	10	513,095	566,043

The notes on pages 15 to 39 form an integral part of these financial statements.

These financial statements were approved by the members on 28 April 2015 and were signed on their behalf by:

Helena Whitaker
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 2014

	Note	Reserves £000
Balance at 1 January 2014		15
Profit for the financial year and total comprehensive income for the year		31,749
Balance at 31 December 2014	10	31,764

	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	10	15

The notes on pages 15 to 39 form an integral part of these financial statements.

LLOYDS BANK COVERED BONDS LLP
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2014

	2014 £000	2013 £000
Operating activities		
Audit fees paid	(15)	(15)
Administration expenses paid	(25)	(19)
Net cash flows used in operating activities	(40)	(34)
Investing activities		
Decrease in deemed loan to Originator	1,395,165	5,134,830
Interest on deemed loan to Originator	654,649	699,913
Bank interest received	1,342	1,541
Net cash flows used in / from investing activities	2,051,156	5,836,284
Financing activities		
Decrease in term loans	(1,443,407)	(5,084,359)
Interest on term loans	(655,049)	(701,775)
Net interest paid on derivatives	(5,604)	-
Net cash flows used in financing activities	(2,104,060)	(5,786,134)
Net (decrease) / increase in cash and cash equivalents	(52,944)	50,116
Cash and cash equivalents at start of the year	566,058	515,942
Change in cash and cash equivalents	(52,944)	50,116
Cash and cash equivalents at end of year	513,114	566,058

The notes on pages 15 to 39 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 2014 have been prepared in accordance with EU adopted International Financial Reporting Standards (IFRSs) and interpretations issued by the IFRS Interpretations Committee (IFRS IC). The standards applied by the Company are those endorsed by the European Union and effective at the date the financial statements are approved by the Board. 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 2014. None of these standards or amendments has had a material impact on these financial statements.

- *Amendments to IAS 32 Financial Instruments: Presentation – 'Offsetting Financial Assets and Financial Liabilities'.*
  Insets 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.

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.

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 7.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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, derivative contracts, 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.

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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

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

Swaps with Originator

The deemed loan consists of the failed sale of the sterling mortgage assets, an interest rate swap and foreign currency swaps held with Lloyds 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 London Interbank Offered Rate (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 swaps with Lloyds and Natixis and a basis swap with Lloyds. These require the LLP to pay sterling floating rate and receive amounts which match the currency and rates of the term loans.

The swaps with Lloyds 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. The currency swap with Natixis is recognised separately in the financial statements.

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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e)(iii) Derivative financial instruments

All derivatives are recognised at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and using valuation techniques, including discounted cash flow and options pricing models as appropriate. Derivatives are carried in the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of any derivative instrument that is not part of a hedging relationship are recognised immediately in the Statement of Comprehensive Income.

The fair value of derivative contracts is the estimated amount that the LLP would receive or pay to terminate the swap at the Balance Sheet date, taking into account current interest rates and exchange rates.

(e)(iv) Foreign currency

The bonds secured against the LLP are denominated in Euro, Sterling and Norwegian Kroner. 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)(v) 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.

(e)(vi) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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.

These judgements are reviewed on an ongoing basis and are continually evaluated based on historical experience and other factors. The most significantly affected component of the financial statements and associated critical judgements is as follows:

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Critical accounting estimates and judgements (continued)

Fair value calculations

Fair value is defined as the value at which assets, liabilities or positions could be closed out or sold in a transaction with a willing and knowledgeable counterparty. Fair value is based where available on quoted market prices and upon cash flow models which use, wherever possible, independently sourced market parameters such as interest rate yield curves and currency rates. Other factors are also considered, such as counterparty credit quality and liquidity.

(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 and SFM.

(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

	2014 £000	2013 £000
Interest receivable on deemed loan	654,649	699,913
Bank interest receivable	1,342	1,541
	655,991	701,454

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2014 £000	2013 £000
Interest payable on term loans	657,404	701,417

4. FAIR VALUE GAINS AND LOSSES

	2014 £000	2013 £000
Gain on retranslation of Euro loan notes to Sterling	43,400	-
Fair value loss on Euro currency swap	(10,194)	-
Net fair value on currency swap derivatives	33,206	-

Fair value movements have arisen on the re-valuation of currency swaps into Sterling using exchange rates as at the Balance Sheet date.

5. OPERATING EXPENSES

	2014 £000	2013 £000
Administration charges	25	19
Audit fees	19	15
	44	34

Audit fees relate to the statutory audit. Other fees are also payable to the auditors and their associates for services provided to the programme. These are paid directly by Lloyds and amounted to £104,564. (2013: £88,497).

The LLP had no employees during the year (2013: none) and none of the members received any emoluments from the LLP in the current or previous year. The administration charge represents fees charged by Structured Finance Management Limited ("SFM"), in connection with its provision of corporate management services to the LLP and related companies.

6. 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.

	2014 £'000	2013 £'000
Non Current		
Principal	12,882,413	13,859,574
Current		
Principal	2,218,208	2,644,691
Interest	(15,706)	(24,185)
Deemed loan to Originator	15,084,915	16,480,080

7. 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.

7. LOANS AND BORROWINGS (CONTINUED)

	2014	2013
Principal	**£000**	**£000**
Term loans with Lloyds:		
EUR - priced against 3 month Euribor	-	166,560
Weighted average margin - (2013: +0.83%)		
GBP - priced against 3 month Libor	2,500,000	1,455,000
Weighted average margin +0.82% (2013: +1.53%)		
SEK - priced against 3 month Stibor	-	51,896
Weighted average margin - (2013: +0.93%)		
EUR – fixed rate	8,952,245	11,218,676
Weighted average rate 3.70% (2013: 3.81%)		
GBP – fixed rate	3,750,000	3,750,000
Weighted average rate 5.33% (2013: 5.33%)		
NOK – fixed rate	314,703	361,622
Weighted average rate 5.44% (2013: 5.44%)		
	15,516,948	17,003,754
Accrued interest		
Interest due on term loans	44,708	42,354
	15,561,656	17,046,108

7. 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	2014 £000	2013 £000
17 March 2015	2010 – 1^	683,206	1,249,198
25 June 2018	2010 – 2	584,850	624,599
2 September 2024	2010 – 4	38,990	41,640
29 September 2020	2010 – 5	1,559,600	1,665,598
12 October 2022	2010 – 7	423,431	452,210
13 January 2031	2011 – 1	35,091	37,476
13 January 2023	2011 – 2	779,800	832,799
26 January 2021	2011 – 4	65,021	74,715
8 February 2029	2011 – 5	1,250,000	1,250,000
10 March 2021	2011 – 8	43,348	49,810
6 April 2016	2011 – 10	1,364,650	1,457,398
10 June 2014	2011 – 13	-	45,000
16 June 2014	2011 – 14	-	166,560
14 June 2018	2011 – 15	41,614	47,818
21 June 2014	2011 – 16	-	51,896
27 May 2014	2011 – 17	-	410,000
1 September 2026	2011 – 18	85,778	91,608
13 October 2027	2011 – 19	31,192	33,312
4 January 2024	2012 – 1	43,347	49,810
11 January 2017	2012 – 2	974,750	1,040,999
1 February 2027	2012 – 3	36,651	39,141
7 March 2025	2012 – 4	1,250,000	1,250,000
7 June 2027	2012 – 5	38,990	41,640
8 February 2019	2012 – 6	34,678	39,848
27 October 2014	2012 – 8	-	492,809
27 July 2015	2012 – 9	943,168	1,007,270
22 December 2014	2012 – 10	-	985,618
27 July 2015	2012 – 11	339,642	362,726
22 December 2014	2012 – 12	-	492,809
22 March 2027	2012 – 13	82,659	88,277
23 March 2027	2012 – 14	86,695	99,620
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	31,192	33,312
10 May 2027	2012 – 18	43,669	46,637
11 June 2025	2012 – 19	95,136	101,601

7. LOANS AND BORROWINGS (CONTINUED)

Maturity Date	Covered Bond Issuance	2014 £000	2013 £000
14 January 2017	2014 – 1	1,000,000	-
16 April 2021	2014 – 2	779,800	-
18 July 2019	2014 – 3	250,000	-
22 August 2019	2014 – 4	125,000	-
22 August 2019	2014 – 5	125,000	
		15,516,948	17,003,754

The 2010-1 bond had a partial cancellation (^) during the year ended 31st December 2014.

8. DERIVATIVES

The principal derivatives used by the LLP are exchange rate and interest rate contracts.

These contracts include forward exchange contracts including interest rate basis swaps. A forward foreign exchange contract is an agreement to buy or sell a specified amount of foreign currency on a specified future date at an agreed rate. Currency swaps generally involve the exchange of interest payment obligations denominated in different currencies; the exchange of principal is actual.

The principal amount of the contract does not represent the LLP's real exposure to credit risk which is limited to the current cost of replacing contracts with a positive value to the LLP should the counterparty default. To reduce credit risk the LLP only deals with highly rated counterparties and uses credit enhancement techniques such as collateralisation, where security is provided against the exposure. No collateral is currently being held as the swap conditions are met. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and using valuation techniques, including discounted cash flow and options pricing models as appropriate.

The notional principal amount and fair value of instruments entered into was:

Exchange and /or Interest rate contracts:	2014 £'000	2013 £'000
Notional principal amount	823,200	-
Fair value		
Liabilities	4,590	-

9. OTHER PAYABLES

	2014 £000	2013 £000
Audit fee accrual	19	15
	19	15

10. TOTAL MEMBERS' INTERESTS

2014

	Members' other interests				
	Members' capital £000	Reserves £000	Total £000	Loans due to/(from) members £000	Total £000
Members' interests as at 1 January 2014	-	15	15	566,028	566,043
Profit for the year available for division among members	-	31,749	31,749	-	31,749
Loans introduced by members	-	-	-	1,395,165	1,395,165
Repaid to members	-	-	-	(1,484,452)	(1,484,452)
Derivative Liabilities	-	-	-	4,590	4,590
Members' interests as at 31 December 2014	-	31,764	31,764	481,331	513,095

10. TOTAL MEMBERS' INTERESTS (CONTINUED)

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

	Members' interests as at 31 December 2014 £000
Amounts due to members	15,566,246
Amounts due from members	(15,084,915)
	481,331

2013

	Members' Other Interests				
	Members' capital £000	Reserves £000	Total £000	Loans due to/(from) members £000	Total £000
Members' interests as at 1 January 2013	-	12	2	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

10. TOTAL MEMBERS' INTERESTS (CONTINUED)

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

11. 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), derivative contracts, 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 and Natixis 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

11. MANAGEMENT OF RISK (CONTINUED)

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.

11(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. 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.

11. MANAGEMENT OF RISK (CONTINUED)

11(a) Credit risk (continued)

The total mortgage pool made available to the LLP at 31 December 2014 amounted to £24,987,838k (2013: £29,166,784k). 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.

	Counterparty	Rating as at 31 Dec 2014	Rating as at date of approval of financial statements
		(Moody's/Fitch)	(Moody's/Fitch)
Covered bond swap, interest rate swap and bank accounts	Lloyds Bank plc	P-1/F1 A1/A	P-1/F1 A1/A
Covered bond swap	Natixis, London	P-1/F1 A2/A	P-1/F1 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.

11. MANAGEMENT OF RISK (CONTINUED)

11(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.

	2014 £000	2013 £000
Assets held at amortised cost		
Cash and cash equivalents	513,114	566,058
Deemed loan to Originator	15,084,915	16,480,080
	15,598,029	17,046,138

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:

	2014 £000	2013 £000
Neither past due nor impaired	24,360,068	28,356,367
Past due but not impaired	518,971	665,949
Impaired	108,799	144,469
	24,987,838	29,166,785

11. MANAGEMENT OF RISK (CONTINUED)

11(a) Credit risk (continued)

Financial assets subject to credit risk (continued)

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).

Secured mortgage assets

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

	2014 £000	2013 £000
0-30 days	270,246	338,617
30-60 days	111,411	141,910
60-90 days	60,913	86,911
90-180 days	76,401	98,511
	518,971	665,949

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 2014 2,268 accounts were in arrears by three or more months which represents 0.97% of the mortgage pool (31 December 2013: 2,919; 1.1%).
- At 31 December 2014 the number of properties in possession amounted to 15 (31 December 2013: 14).

11. MANAGEMENT OF RISK (CONTINUED)

11(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.

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 and Natixis. 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.

The effect of currency and interest rate movements has no bearing on the results of the LLP due to the use of derivative contacts. However, the LLP is exposed to volatility in the fair value of the derivative contracts held with Natixis. This fair value will reverse over the life of the derivative contracts to nil. As at 31 December 2014, the term loan to which the Natixis derivative contract relates totals £779,800,000. The derivative notional value is £823,200,000 with a mark to market valuation of £31,745,000.

10(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 10(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.

11. MANAGEMENT OF RISK (CONTINUED)

11c) Liquidity risk (continued)

2014	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	15,516,948	15,516,948	-	683,206	1,282,810	5,500,542	8,050,390
Other payables	19	19	19	-	-	-	-
Interest payable							
Term loans with Lloyds	44,708	4,032,364	48,633	96,193	400,072	1,615,575	1,871,891
	15,561,675	19,549,331	48,652	779,399	1,682,882	7,116,117	9,922,281

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

11. MANAGEMENT OF RISK (CONTINUED)

11(d) Fair values

The fair values of the Company's main financial instruments are detailed below:

Financial assets and liabilities carried at fair value

The financial instruments below are analysed by valuation method. The different levels are defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Derivatives

Fair value of derivative assets is based where available on quoted market prices and upon cash flow models which use, wherever possible, independently sourced market parameters such as interest rate yield curves and currency rates. Other factors are also considered, such as counterparty credit quality and liquidity. The valuation method is consistent with commonly used market techniques. For this reason, in accordance with "IFRS 7 Financial Instruments: Disclosures", the fair value measurement is considered to be Level 2 in the Fair Value Hierarchy.

Financial assets and liabilities carried at amortised cost

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.

12. 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 swap and one of the counterparties for the foreign currency swap agreements. 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. SFM Corporate Services Limited is a wholly owned subsidiary of SFM. The LLP pays corporate services fees to SFM in connection with its provision of corporate management services to the LLP and related companies. In 2014 this amounted to £25k (2013: £19k).

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 2014 Lloyds Bank plc and subsidiary undertakings £000	At 31 December 2013 Lloyds Bank plc and subsidiary undertakings £000
Interest receivable and similar income		
Income from deemed loan to Originator	654,649	699,913
Bank interest receivable	1,342	1,541
Interest payable and similar charges		
Interest payable to Lloyds on term loans	649,766	701,417
Assets		
Cash and cash equivalents	513,114	566,058
Deemed loan to Originator	15,084,915	16,480,080
Liabilities		
Term loans from Lloyds	15,561,656	17,046,108

13. FUTURE ACCOUNTING PRONOUNCEMENTS

The following pronouncements are relevant to the LLP but are not applicable for the year ending 31 December 2014 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
IFRS 9 *Financial Instruments*[1]	Replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 requires financial assets to be classified into three measurement categories, fair value through profit and loss, fair value through other comprehensive income 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 instruments. The requirements for derecognition are broadly unchanged from IAS 39. The standard also retains most of the 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 classification and measurement change is not expected to have a significant impact on the Group. IFRS 9 also replaces the existing IAS 39 'incurred loss' impairment approach with an expected credit loss approach. Loan commitments and financial guarantees not measured at fair value through profit or loss are also in scope. Those changes may result in an increase in the Group's balance sheet provisions for credit losses at the initial application date (1 January 2018) depending upon the composition of the Group's amortised cost financial assets, as well as the general economic conditions and the future outlook. The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle-based approach than IAS 39. The general hedging change is not expected to have a significant impact on the Group.	Annual periods beginning on or after 1 January 2018

(1) As at the date of signing, these pronouncements are awaiting EU endorsement.

14. 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.

The parent undertaking, which is the parent undertaking of the smallest group to consolidate these financial statements is Lloyds Bank plc. Copies of the consolidated annual report and accounts of Lloyds Bank may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN or downloaded via www.lloydsbankinggroup.com.

The ultimate parent undertaking and controlling party is Lloyds Banking Group plc, which is the parent undertaking of the largest group to consolidate these financial statements. Copies of the consolidated annual report and accounts of Lloyds Banking Group plc may be obtained from Lloyds Banking Group plc's head office at 25 Gresham Street, London EC2V 7HN or downloaded via www.lloydsbankinggroup.com.