

Registered number: OC340094

Lloyds Bank Covered Bonds LLP

Annual report and financial statements
for the year ended 31 December 2020

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MEMBERS AND LLP INFORMATION

Management Board

Richard Shrimpton
Gavin Parker
Tracey Hill
Peter Green

Designated Members

Lloyds Bank Plc
Lloyds Bank Covered Bonds (LM) Limited

Registered Office

1 Bartholomew Lane
London
EC2N 2AX

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
2 Glass Wharf
Bristol
BS2 0FR

Members' Report

For the year ended 31 December 2020

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 2020.

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 and Bank of Scotland plc ('BOS'), (the 'Originators') subsidiaries of Lloyds Banking Group plc ('LBG').

Under International Financial Reporting Standard ("IFRS") 9, if a transferor retains substantially all the risks and rewards associated with the transferred assets, the transaction is accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective. The members of the management committee of the LLP have concluded that the Originators have 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 the Originator. The initial amount of the deemed loan to the 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 6. The LLP made a loss of £12,371,476 during the year (2019: loss £12,159,763). No change to the current business activity is expected.

As required under IFRS, the loss for the year includes a net fair value loss on financial instruments of £6,805,170 (2019: £11,238,955 loss) 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 GBP, USD, NOK and EUR 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 2020 was £22.36bn (2019: £24.79bn). At 31 December 2020, the total value of the mortgage loan portfolio held by the LLP was £30.9bn (2019: £32.37bn).

During the year, £4.5bn of notes were repaid on their expected maturity dates (2019: £1.36bn) and there were no additional note cancellations or amendments (2019: no cancellations or amendments). Further notes were issued during the year totalling £1bn (2019: £5.65bn).

The members' assessment suggests that performance of the mortgage portfolio should continue to be satisfactory. Whilst consensus suggests that interest rates will continue to remain low, as will unemployment rates, inflationary pressures and higher prices caused by Sterling weakness may put further pressure on household incomes, which may feed through further increases in mortgage arrears. The situation will be monitored and the servicer, on behalf of the Company, will continue to adopt appropriate forbearance measures.

The effects on the UK, European and global economies following the UK's exit from the EU and the impact of the EU-UK Trade and Cooperation Agreement signed on 30 December 2020 (the "EU-UK TCA") remain difficult to predict but may include economic and financial instability, constitutional instability in the UK and other types of risks that could adversely impact the business of LBG and its subsidiaries, which includes the Company, together with its results of operations, its financial condition and future prospects. In the event of any further substantial weakening in the UK's economic growth, the possibility of decreases in interest rates by the Bank of England or sustained low or negative interest rates would put further pressure on LBG's interest margins and potentially adversely affect its profitability and prospects.

The global pandemic from the outbreak of COVID-19 continues to cause widespread disruption to normal patterns of business activity across the world, including in the UK, and volatility in financial markets. Measures taken to contain the health impact of the COVID-19 pandemic have resulted in an adverse impact on economic activity across the world and the duration of these measures remains uncertain. Monetary policy loosening has supported asset valuations across many financial markets, but longer-term impacts on inflation, interest rates, credit spreads, foreign exchange rates and commodity, equity and bond prices remain unclear.

Synchronisation of emergency measures to slow the spread of COVID-19 across the world has brought about rapid deterioration in economic growth across all countries and regions, directly adversely impacting the UK through many channels, including trade and capital flows. The UK experienced a deep contraction in economic activity during 2020 as a result of the COVID-19 pandemic, and both private and public sector debt have risen significantly. If the economic downturn damage were to be prolonged significantly by inability to control COVID-19 spread through vaccines, public

Further, the economic impact of the COVID-19 pandemic, including increased levels of unemployment, could adversely impact the Company's retail customers and their ability to service their contractual obligations, which include indirectly through the Deemed loan to the Company. Adverse changes in the credit quality of Company's counterparties may have a material adverse effect on the Company's results of operations, financial condition or prospects.

In addition to providing support under government support schemes, LBG has taken specific measures to alleviate the impact on the Company's customers or borrowers, including payment holidays which could reduce the Deemed loan interest income. However it is unlikely that this would have a material adverse impact on the Company's results of operations, financial conditions or prospects.

Members' Report continued

For the year ended 31 December 2020

Business review and Future Developments (continued)

As a result of the COVID-19 pandemic, the potential for conduct and compliance risks as well as operational risks materialising has increased, notably in the areas of cyber, fraud, people, technology, operational resilience and where there is reliance on third-party suppliers.

However, the derivatives are utilised to economically hedge interest and foreign exchange rate risk and thus in the long term are perceived to have no impact.

In the UK, the FCA have announced a transition away from LIBOR to SONIA. By the end of 2021, the FCA will no longer seek to persuade, or compel, banks to submit to LIBOR. As a result, existing benchmark rates may be discontinued or the basis on which they are calculated may change. From 2019 all Notes issued are linked to SONIA. During the year all notes scheduled to mature later than 2021 were restated from LIBOR to SONIA.

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 on the LBG investor returns website (www.lloydsbankinggroup.com).

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.

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 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

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).

Management board

The members on the LLP management board during the year and subsequently were:

Richard Shrimpton
Gavin Parker
Tracey Hill
Peter Green

Statement of members' responsibilities

The members are responsible for preparing the Annual 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 financial statements in accordance with international accounting standards in conformity with the requirement 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 limited liability partnership and of the profit or loss of the limited liability partnership for that period. In preparing these financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the limited liability partnership will continue in business;

The members are also responsible for safeguarding the assets of the limited liability partnership and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The members are responsible for keeping adequate accounting records that are sufficient to show and explain the limited liability partnership's transactions and disclose with reasonable accuracy at any time the financial position of the limited liability 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.

Members' Report continued

For the year ended 31 December 2020

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.

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 business review and future developments paragraph & 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.

Credit risk for the LLP is mitigated by the amount of overcollateralisation of the beneficial interest in mortgages which is provided by the Originators and which is monitored using an ACT. The overcollateralisation is available in full for the benefit of the LLP.

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 the Originator does not provide sufficient funds, the LLP has no other claim on the assets of the Originators.

The LLP has made all necessary payments on the term loans in accordance with the scheduled repayment dates for the year ended 31 December 2020.

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 the Originators 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 S.A. ('Natixis').

These financial institutions were rated A (long term) or above by Fitch as at 31 December 2020. 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.

Operational risks

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. Intertrust Management Limited ('Intertrust') has been appointed to provide corporate administration 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 risks

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.

Streamlined energy and carbon reporting ("SECR")

The Company is out of scope of the SECR, as it does not meet the numerical thresholds in relation to turnover and number of employees.

Employees

The LLP had no employees during the year ended 31 December 2020 (2019: none).

Members' Report continued

For the year ended 31 December 2020

Independent Auditors

The auditors PricewaterhouseCoopers LLP will not seek re-appointment at the forthcoming Annual Members Meeting, as following the completion of a tender process, Deloitte LLP are to be appointed as auditors of the LLP to audit the Financial Statements for the year ended 31 December 2021.

Statement of going concern

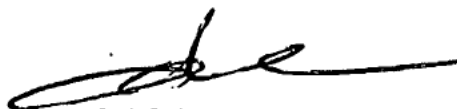
The LLP has continued to perform in line with the Programme Documentation. There are certain rating and non-rating triggers included in the Programme Documentation as referred to in the annual report and accounts in Key Performance Indicators (Members' Report) and in the monthly investor report. In the course of their regular monitoring of these Key Performance Indicators and review of risk, the members are confident that these triggers remain un-breached and will remain so for the foreseeable future, despite the current adverse environment.

The members are satisfied that the Company has adequate resources to continue to operate for the foreseeable future and is financially sound. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

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



Helena Whitaker
Per pro Intertrust Directors 1 Limited
As director of Lloyds Bank Covered Bonds (LM) Limited
1 Bartholomew Lane
London
EC2N 2AX
26 April 2021



Gavin Parker
on behalf of
Lloyds Bank Plc
10 Gresham Street
London
EC2V 7AE

Statement of comprehensive income

For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Interest receivable and similar income	2	474,058	519,707
Interest payable and similar charges	3	(479,572)	(520,390)
Net interest expense		<u>(5,514)</u>	<u>(683)</u>
Fair value loss	4	(6,805)	(11,239)
Operating expenses	5	(52)	(238)
Loss for the financial year and total comprehensive expense available for division among members		<u>(12,371)</u>	<u>(12,160)</u>

The loss 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 10 to 21 form an integral part of these financial statements.

Balance sheet

As at 31 December 2020

	Note	2020 £'000	2019 £'000
Assets			
Cash and cash equivalents		601,017	641,383
Deemed loan to the Originator	6	21,705,311	24,158,909
Derivative assets	8	88,368	50,686
Total assets		22,394,696	24,850,978
Members' other interests and liabilities			
Loans and borrowings	7	22,390,838	24,834,768
Other payables	9	65	43
Total liabilities		22,390,903	24,834,811
Reserves	10	3,793	16,167
Total members' other interests		3,793	16,167
Total members' other interests and liabilities		22,394,696	24,850,978
Total members' interests			
Reserves	10	3,793	16,167
Deemed loan to the Originator	6	(21,705,311)	(24,158,909)
Loans and borrowings	7	22,390,838	24,834,768
Derivative assets	8	(88,368)	(50,686)
		600,952	641,340

The notes on pages 10 to 21 form an integral part of these financial statements.

These financial statements on pages 6 to 21 were approved by the members on 26 April 2021 and were signed on their behalf by:



Helena Whitaker
Per pro Intertrust Directors 1 Limited
As director of Lloyds Bank Covered Bonds (LM) Limited
1 Bartholomew Lane
London
EC2N 2AX

Date 26 April 2021



Gavin Parker
on behalf of
Lloyds Bank Plc
10 Gresham Street
London
EC2V 7AE

Statement of changes in members' other interests

For the year ended 31 December 2020

	2020 £'000	2019 £'000
	Reserves	Reserves
Balance as at 1 January	16,167	28,330
Loss for the financial year and total comprehensive expense	(12,371)	(12,160)
Capital distribution	(3)	(3)
Balance as at 31 December	<u>3,793</u>	<u>16,167</u>

The notes on pages 10 to 21 form an integral part of these financial statements.

Cash flow statement

For the year ended 31 December 2020

	2020 £'000	2019 £'000
Operating activities		
Administration expenses paid	(30)	(216)
Net cash flows used in operating activities	<u>(30)</u>	<u>(216)</u>
Investing activities		
Decrease/ (increase) in deemed loan to the Originator	2,453,597	* (3,214,114)
Interest on deemed loan to the Originator	473,382	516,751
Bank interest received	676	2,954
Net cash flows generated from / (used in) from investing activities	<u>2,927,655</u>	<u>(2,694,409)</u>
Financing activities		
Decrease/ (increase) in term loans	(2,486,762)	* 3,230,298
Interest on term loans	(486,025)	(518,879)
Net interest received on derivatives	4,799	1,399
Profit distribution	(3)	(3)
Net cash flows (used in) / generated from financing activities	<u>(2,967,991)</u>	<u>2,712,815</u>
Net decrease / (increase) in cash and cash equivalents	<u>(40,366)</u>	<u>18,190</u>
Change in cash and cash equivalents	(40,366)	18,190
Cash and cash equivalents at start of the year	641,383	623,193
Cash and cash equivalents at end of year	<u>601,017</u>	<u>* 641,383</u>

The cash flow statement is presented using the direct method.

* 2019 figures restated due to an error in the presentation of the cashflow.

The notes on pages 10 to 21 form an integral part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2020

1. Significant accounting policies

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

(a) Basis of preparation

The financial statements for the year ended 31 December 2020 have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

There are no new or amended accounting standards that have required a change to accounting policies for the year.

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

The standards applied by the LLP are 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 continued to perform in line with the Programme Documentation. The members are satisfied that the LLP has adequate resources to continue to operate for the foreseeable future and is financially sound. The members have reviewed the expected future cashflows and believe they are adequate to meet the anticipated payments due in accordance with the programme documentation. The members believe that the company has additional safeguards in place to cover any unexpected issues which may arise. For this reason, they continue to adopt the going concern basis in preparing these financial statements.

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 the 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.

(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 IFRS 9 as described below.

(e)(i) Deemed loan to the Originator

Under IFRS 9, if a transferor retains substantially all the risks and rewards associated with the transferred assets, the transaction is accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective. The 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 the 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.

In accordance with IFRS 9, the deemed loan to the Originator is treated as "loans and receivables" and is stated at amortised cost.

Impairment of financial assets

The deemed loan to the Originator is subject to impairment reviews in accordance with IFRS 9. 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.

Notes to the financial statements (continued)

For the year ended 31 December 2020

1. Significant accounting policies (continued)

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

Swaps with the 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 Sterling Overnight Interbank Average Rate ("SONIA").

By the end of 2021, the FCA will no longer seek to persuade, or compel, banks to submit to the Sterling London Interbank Offered Rate "LIBOR". As a result, existing benchmark rates may be discontinued or the basis on which they are calculated may change. From 2019 all Notes issued are linked to SONIA. During the year all notes scheduled to mature later than 2021 were restated from LIBOR to SONIA.

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 & cash equivalents

The LLP holds deposits with the provider of a guaranteed investment contract bank account ("GIC account") and a transaction bank account with the same provider. These financial statements are held in the LLP's name and meet the definition of cash and cash equivalents. All cash disclosed on the face of the balance sheet is restricted by a detailed priority of payments set out in the Programme Documentation. As the cash can be used only 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 IFRS 9 and income is being recorded within interest receivable and similar income using the effective interest method.

The comparative figures are accounted for under IAS 39, at 31 December 2020, impairment allowances against the deemed loan totalled £nil (2019: £nil).

(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 EUR, Sterling, USD 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 noteholder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. No additional liability over and above the interest and principal already detailed in the accounts would be payable.

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.

Notes to the financial statements (continued)

For the year ended 31 December 2020

1. Significant accounting policies (continued)

(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.

(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 mortgage loans sold at each transfer date and the cash payment made by the LLP for the mortgage 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 and in the previous 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 (England, Wales and Scotland) 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 judgement is as follows:

(h)(i) 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.

(h)(ii) Impairment of deemed loan

The Company's accounting policy for impairment on the Deemed loan classified as loans and receivables is described in the basis of preparation note 1(e)(i).

(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 Intertrust.

(j) Other payables

Other payables are stated at amortised cost.

(k) Value added tax

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

Notes to the financial statements (continued)

For the year ended 31 December 2020

2. Interest receivable and similar income

	2020 £'000	2019 £'000
Interest receivable on deemed loan	473,382	516,753
Bank interest received	676	2,954
	<u>474,058</u>	<u>519,707</u>

3. Interest payable and similar charges

	2020 £'000	2019 £'000
Interest payable on term loans	<u>479,572</u>	<u>520,390</u>

4. Fair Value gain / (loss)

	2020 £'000	2019 £'000
Retranslation gain/(loss) on Euro loan notes to Sterling	49,286	(46,915)
Fair value (loss)/gain on Euro currency swap	(56,091)	35,676
Net fair value loss on currency swap derivatives	<u>(6,805)</u>	<u>(11,239)</u>

Fair value movements reflect the market value of the derivatives and swap interest payable. The notes issued were economically hedged using derivative contracts and so gains or losses recognised to date are expected to reverse in the future.

* 2019 figures restated due to missing in an error in the presentation .

5. Operating expenses

	2020 £'000	2019 £'000
Administration charges	30	216
Audit fees	22	22
	<u>52</u>	<u>238</u>

Audit fees relate to the statutory audit.

The audit fee for the current year, net of VAT, was £18,000 (2019: £18,000).

The LLP had no employees during the year (2019: 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 Intertrust Management Limited ("Intertrust Management"), in connection with its provision of corporate administration services to the LLP and related companies.

6. Deemed loan to the Originator

The mortgage portfolio, which is accounted for as a deemed loan to the 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.

	2020 £'000	2019 £'000
Non current		
Principal	21,671,120	24,118,265
Current		
Interest	34,191	40,644
Deemed loan to the Originator	<u>21,705,311</u>	<u>24,158,909</u>

The loan is expected to be repaid on the final maturity dates of the term loans.

Notes to the financial statements (continued)

For the year ended 31 December 2020

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 or SONIA.

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.

	2020	2019
Principal	£'000	£'000
Non current		
Term loans with Lloyds:		
GBP - priced against 3 month Libor	1,000,000	2,250,000
Weighted average margin 0.05% (2019: 0.78%)		
GBP - priced against SONIA	3,000,000	2,750,000
Weighted average margin 0.05% (2019: 0.71%)		
EUR – fixed rate	8,348,921	10,017,024
Weighted average rate 1.38% (2019: 1.25%)		
GBP – fixed rate	4,240,000	4,240,000
Weighted average rate 4.91% (2019: 4.91%)		
NOK – fixed rate	129,070	236,959
Weighted average rate 5.28% (2019: 5.55%)		
USD – fixed rate	733,084	1,324,955
Weighted average rate 2.13% (2019: 2.66%)		
Non current Total	17,451,075	20,818,938
Current		
Principal		
Term loans with Lloyds:		
GBP - priced against 3 month Libor	1,250,000	1,000,000
Weighted average rate 0.09% (2019: 0.78%)		
GBP - priced against SONIA	750,000	-
Weighted average rate 0.05% (2019: nil)		
EUR – fixed rate	2,248,201	2,975,186
Weighted average rate 2.50% (2019: 2.50%)		
USD – fixed rate	549,813	-
Weighted average rate 1.38% (2019: nil)		
NOK – fixed rate	107,558	-
Weighted average rate 5.88% (2019: nil)		
	4,905,572	3,975,186
Accrued interest		
Interest due on term loans	34,191	40,644
Total current	4,939,763	4,015,830
Total	22,390,838	24,834,768

Notes to the financial statements (continued)

For the year ended 31 December 2020

8. Derivative assets

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:

	2020 £'000	2019 £'000
Exchange and / or interest rate contracts:		
Notional principal amount €1bn Euros	823,200	823,200
Fair value		
Assets	88,368	50,686

9. Other payables

	2020 £'000	2019 £'000
Audit fee accrual	65	43
	<u>65</u>	<u>43</u>

10. Total members' interests

	Members' capital £'000	Reserves £'000	Total £'000	Loans due to/(from) members £'000	Total £'000
Members' interests as at 1 January 2020	-	16,167	16,167	625,173	641,340
Loss for the year available for division among members	-	(12,371)	(12,371)	-	(12,371)
Loans introduced by members	-	-	-	2,453,598	2,453,598
Repaid to members	-	(3)	(3)	(2,443,930)	(2,443,933)
Derivative assets	-	-	-	(37,682)	(37,682)
Members' interests as at 31 December 2020	<u>-</u>	<u>3,793</u>	<u>3,793</u>	<u>597,159</u>	<u>600,952</u>

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

	Members' interests as at 31 December 2020 £'000
Amounts due to members	22,390,838
Amounts due from members	(21,793,679)
Members' interests as at 31 December 2020	<u>597,159</u>

Notes to the financial statements (continued)

For the year ended 31 December 2020

10. Total members' interests (continued)

	Members' capital	Reserves	Total	Loans due to/(from) members	Total
	£'000	£'000	£'000	£'000	£'000
Members' interests as at 1 January 2019	-	28,330	28,330	594,841	623,171
Loss for the year available for division among members	-	(12,160)	(12,160)	-	(12,160)
Loans introduced by members	-	-	-	(3,214,115)	(3,214,115)
Repaid to members	-	(3)	(3)	3,184,894	3,184,891
Derivative assets	-	-	-	59,553	59,553
Members' interests as at 31 December 2019	<u>-</u>	<u>16,167</u>	<u>16,167</u>	<u>625,173</u>	<u>641,340</u>

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

	Members' interests as at 31 December 2019 £'000
Amounts due to members	24,834,768
Amounts due from members	(24,209,595)
Members' interests as at 31 December 2019	<u>625,173</u>

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. For this reason, sensitivity to risk is minimal.

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 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.

11a. 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 mortgage 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.

Notes to the financial statements (continued)

For the year ended 31 December 2020

11. Management of risk (continued)

11a. Credit risk (continued)

In terms of arrears management, the LLP has engaged a servicer (Lloyds Bank plc) of the mortgage 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. The credit support as derived from the ACT as at 31 December 2020 was £5,837,255k (2019: £3,765,382k).

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 ("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.

The total mortgage pool made available to the LLP at 31 December 2020 amounted to £30.9bn (2019: £32.37bn). 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 December 2020	Rating as at of approval of financial statements
		(Moody's/Fitch)	(Moody's/Fitch)
Bank accounts	Lloyds Bank Plc	P-1 / A1 / A+ / F1	P-1 / A1 / A+ / F1
Covered Bond swap and interest rate swap	Lloyds Bank Plc	P-1 / Aa3 / F1 / A+	P-1 / Aa3 / F1 / A+
Covered Bond swap	Natixis S.A	P-1 / A1 / A+ / F1	P-1 / A1 / A+ / F1

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.

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.

	2020 £'000	2019 £'000
Assets held at amortised cost		
Cash and cash equivalents	601,017	641,383
Deemed loan to the Originator	21,705,311	24,158,909
	<u>22,306,328</u>	<u>24,800,292</u>

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

Notes to the financial statements (continued)

For the year ended 31 December 2020

11. Management of risk (continued)

11a. Credit risk (continued)

Securitised mortgage assets

Securitised mortgage loans are analysed according to the rating systems used by the Company and Originator when assessing customers and counterparties. The total mortgage portfolio balance against which the deemed loan to Originator is ultimately secured has been analysed below.

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

Stage 1 - Financial assets which have not experienced a significant increase in credit risk since they were originated.

Stage 2 – Financial assets which have experienced a significant increase in credit risk

Stage 3 - Financial assets which have experienced one or more events that have had a detrimental impact on the estimated future cash flows and are considered to be credit impaired. Financial assets are considered to be credit impaired and included in stage 3 when there is objective evidence of credit impairment. BOS and Lloyds assesses a loan as stage 3 when contractual payments of either principal or interest are past due for more than 90 days, the debtor is assessed as unlikely to pay, or the loan is otherwise considered to be in default.

2020	Mortgage balance £'000	Number of accounts
Mortgage balance by impairment stage		
Stage 1	30,402,200	315,983
Stage 2	246,157	2,398
Stage 3	256,210	2,460
	30,904,567	320,841
	*Reclassified Mortgage balance £'000	*Reclassified Number of accounts
2019		
Mortgage balance by impairment stage		
Stage 1	31,866,275	336,907
Stage 2	296,735	3,029
Stage 3	209,524	2,070
	32,372,534	342,006

Collateral held against retail mortgage lending comprises residential properties.

* The 2019 comparative splits have been reclassified to align the staging categories for consistency with the Group.

11b. 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 mortgage loans which are subject to variable rates of interest set by Lloyds based on general interest rates and competitive considerations, mortgage loans which track the Bank of England base rate and mortgage 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 contracts. However, the LLP is exposed to volatility in the fair value of the derivative contract held with Natixis. This fair value will reverse over the life of the derivative contract to nil. As at 31 December 2020, the term loan to which the Natixis derivative contract relates totals £899,337,188 (31 December 2019: £850,051,003). The derivative notional value is £823,200,000 with a mark to market valuation movement loss of £12,371,476. (31 December 2019: £12,159,763 loss).

Notes to the financial statements (continued)

For the year ended 31 December 2020

11. Management of risk (continued)

11c. 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 the Originator which may be delayed due to slow repayment on the mortgage portfolio (see 11(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 the Originator will be sufficient to allow repayment of the term loans.

2020	Carrying value	Contractual repayment value	Not later than one month	Later than one month not later than 3 months	Later than three months 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	22,356,647	22,356,647	2,663,456	43,023	2,199,094	12,600,747	4,850,327
Other payables	65	65	65	-	-	-	-
Interest payable							
Term loans with Lloyds	34,191	1,867,985	43,448	85,871	308,000	1,031,432	399,234
	22,390,903	24,224,697	2,706,969	128,894	2,507,094	13,632,179	5,249,561
2019							
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Principal							
Term loans with Lloyds	24,794,124	24,794,124	1,000,000	-	2,975,186	13,855,226	6,963,712
Other payables	43	43	43	-	-	-	-
Interest payable							
Term loans with Lloyds	40,644	2,507,359	51,482	104,341	462,753	1,312,138	576,645
	24,834,811	27,301,526	1,051,525	104,341	3,437,939	15,167,364	7,540,357

Notes to the financial statements (continued)

For the year ended 31 December 2020

11. Management of risk (continued)

11d. Fair values

The fair values of the LLP'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 and liabilities 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" and "IFRS 13 Fair Value Measurement", the fair value measurement is considered to be Level 2 in the Fair Value Hierarchy.

Deemed loan to the Originator

The carrying value of the variable rate loans is assumed to be their fair value. The principal of the loan is consideration for the underlying pool of mortgages which are significantly held at variable rate. For these reasons, the fair value of this asset is considered to be a close approximation to amortised cost.

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. The fair value of these liabilities is considered to be a close approximation to amortised cost. The loans carry interest calculated on either a fixed rate basis or at a rate set in reference to three month LIBOR or SONIA.

Trade and other payables

Trade and other payables are recognised at amortised cost. The fair value of these liabilities is considered to be a close approximation to amortised cost due to the short term nature of these liabilities.

Notes to the financial statements (continued)

For the year ended 31 December 2020

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 and BOS (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.

Intertrust Corporate Services Limited ("Intertrust CS") is the immediate parent company of Lloyds Bank Covered Bonds Holdings Limited, the majority shareholder of Lloyds Bank Covered Bonds (LM) Limited. The issued share in Lloyds Bank Covered Bonds Holdings Limited is held by Intertrust CS for the benefit of certain charities under a Share Trust Deed. The LLP pays corporate services fees to Intertrust in connection with its provision of corporate administration services to the LLP and related companies. In 2020 this amounted to £21k (2019: £24k).

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 11.5 basis points per annum below SONIA 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	Parent	Other related parties	Parent	Other related parties
	2020 £'000	2020 £'000	2019 £'000	2019 £'000
Interest receivable and similar income				
Income from deemed loan to the Originator	473,382	-	516,753	-
Bank interest receivable	676	-	2,954	-
Interest payable and similar charges				
Interest payable to Lloyds on term loans	479,572	-	520,390	-
Operating expenses	-	21	-	24
Assets				
Cash and cash equivalents	601,017	-	641,383	-
Deemed loan to the Originator	21,705,311	-	24,158,909	-
Liabilities				
Term loan from Lloyds	22,390,838	-	24,834,768	-

13. Future accounting pronouncements

The IASB has issued a number of minor amendments to IFRSs effective 1 January 2021 and in later years (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets). These amendments are not expected to have a significant impact on the Company. There are no other accounting pronouncements that will be relevant to the Company, but which were not effective at 31 December 2020.

14. Post balance sheet event

There is no post balance sheet event.

15. Ultimate parent undertaking and controlling party

The designated members of the LLP 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 Company meets the definition of a special purpose entity under IFRSs. In accordance with IFRS 10 Consolidated Financial Statements, the Company's financial statements are consolidated within the group financial statements of LBG for the year ended 31 December 2020.

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



Independent auditors' report to the members of Lloyds Bank Covered Bonds LLP

Report on the audit of the financial statements

Opinion

In our opinion, Lloyds Bank Covered Bonds LLP's financial statements:

- give a true and fair view of the state of the LLP's affairs as at 31 December 2020 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 as applied to limited liability partnerships; 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.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2020; Statement of comprehensive income, Statement of changes in members' other interests and Cash flow statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the LLP's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the members' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the members with respect to going concern are described in the relevant sections of this report.

Reporting on other information

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the members for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the LLP and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Programme Documentation associated with the securitisation transaction, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as 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. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to intentional misrepresentation in relation to the performance of the mortgage loans. Audit procedures performed included:

- Making inquiries of those charged with governance in relation to known or suspected instances of non-compliance with laws and regulation and fraud;
- Review of meeting minutes; and
- Testing on a sample basis, that the priority of payments has been applied in accordance with the Programme Documentation.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

This report, including the opinions, has been prepared for and only for the 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 these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

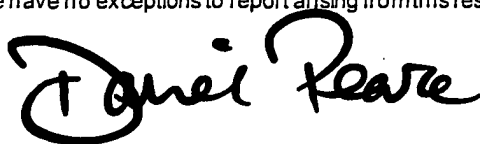
Other required reporting

Companies Act 2006 exception reporting

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

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



Daniel Pearce (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
26 April 2021