Lloyds Bank Covered Bonds LLP

Annual report and financial statements
for the year ended 31 December 2022

Registered number
OC340094

MEMBERS AND LLP INFORMATION

Management Board

Richard Shrimpton
Gavin Parker
Tracey Hill
Peter Green

Current Members

Lloyds Bank Plc
Lloyds Bank Covered Bonds (LM) Limited

Registered Office

1 Bartholomew Lane
London
EC2N 2AX

Independent Auditor

Deloitte LLP
1 New Street Square
London
EC4A 3HQ

Members' Report

For the year ended 31 December 2022

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 2022.

General Information

The LLP is a limited liability partnership, incorporated in the United Kingdom, registered in England and Wales and domiciled in England (registered number: OC340094).

The LLP is a special purpose vehicle whose business is the acquisition, management and sale of residential 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 (incorporated in Scotland) ('BOS'), (the 'Originators') subsidiaries of Lloyds Banking Group plc ('LBG' or 'Group').

Under International Financial Reporting Standard ("IFRS") 9 'Financial Instruments', 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.

During the year, the Partnership did not make any cash payments to acquire beneficial interest in any mortgage loan portfolios (2021: £nil).

Business review and future developments

The results for the year are disclosed on page 6. The LLP made a profit of £3,000 during the year (2021: loss £3,790,122). No change to the current business activity is expected.

During the year the Partnership made capital distributions of £3,000 to members (2021: £3,000).

The profit for the year includes a net fair value movement on financial instruments of £nil (2021: £2,300,828 loss) which reflects the movement in the market value of derivatives. The only external swap held matured in April 2021 and the loss on the swap was recognised in the statement of comprehensive income in 2021 and, therefore, there is no impact on profit in the current year.

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 2022 was £20.05bn (2021: £22.18bn). At 31 December 2022, the total value of the mortgage loan portfolio held by the LLP was £27.4bn (2021: £33.32bn).

During the year, notes with a notional value of £3.44bn were repaid on their expected maturity dates (2021: notional value £4.65bn) and there were no additional note cancellations or amendments (2021: no cancellations or amendments). Further notes with a notional value of £1bn (2021: notional £5.25bn) were issued during the year.

From the perspective of the LLP, the principal risks and uncertainties are managed within the framework established for the Group and are not managed separately for the Company. Significant uncertainties are discussed in detail below.

Long-term impact of the United Kingdom's exit from the European Union

Uncertainties in respect of the medium to long-term implications of the United Kingdom's ("UK") exit from the European Union ("EU") on trade, regulation and employment continue to present risks. This includes impacts on supply chains, affordability of goods and services and UK demographics and prosperity. The Directors believe that there will continue be limited impact on the LLP.

Russian invasion of Ukraine

The Russian invasion of Ukraine, beginning in February 2022, has increased tensions between members of the North Atlantic Treaty Organisation (NATO) and Russia and caused sanctions to be imposed. This could have significant adverse economic effects on financial markets and on energy costs and may also result in increased cyber-attacks and an increase in costs associated with such cyber-attacks, all of which could have a materially adverse effect on the Group's results of operations, financial condition, or prospects. The Group will monitor the situation and risks to the business. The Directors believe that there will continue to be limited impact on the LLP.

Key performance indicators (KPIs)

A defined set of KPIs for the securitisation transaction is set out in the Programme Documentation. An extract of these is shown in note 10 of the financial statements. The KPIs include monitoring the performance of the mortgage loan portfolio and repayments. These KPIs are monitored through monthly investor reporting.

Members' Report (continued)
For the year ended 31 December 2022

Key performance indicators (KPIs) (continued)

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.

Current 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

Disclosure of information to auditor

In the case of each member in office at the date the Members' Report is approved:

- so far as the member is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as members in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418(2) of the Companies Act 2006.

Risk management

All of the LLP's assets and liabilities have been classified as financial instruments in accordance with IFRS 9 'Financial Instruments'. 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 10.

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.The Partnership holds an interest rate swap with the Originator to swap mortgage interest receipts to Sterling Overnight Interbank Average Rate ("SONIA").

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.

Given the nature of the underlying receivables, the members have considered the conduct provision risk related to payment protection insurance ("PPI") and have assessed this to be low. There have been no such claims during the reporting period and this will continue to be monitored.

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 and timely receipts from Lloyds in their capacity as the swap counterparty.

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 2022 and 2021.

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.

These financial institutions were rated A (long term) or above by Fitch as at 31 December 2022 (2021: A (long term) or above). 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.

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 Management") 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.

Any potential risks are discussed and monitored as part of monthly Securitisation and Covered Bonds meetings held with management.

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 2022 (2021: none).

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 KPI section of the Members' Report and explained in the note on Management of risk (note 10). 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 note the limited recourse features of the Notes, meaning that should there be significant levels of default in the mortgage pool, this would be passed onto the Noteholders.

The members are satisfied that the Company is financially sound and has adequate resources to continue to operate for the foreseeable future, being at least 12 months from the date of approval of the financial statements. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Statement of members' responsibilities in respect of the financial statements

The Members are responsible for preparing the Members' report and financial statements in accordance with applicable law and regulation.

Company law, as applied to limited liability partnerships by the Limited Liability Partnership (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 (the "Regulations"), requires the Members elected to prepare financial statements for each financial year. Under that law the Members have elected to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. 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 limited liability partnership and of the profit or loss of the limited liability partnership for that period. In preparing the financial statements, the Members are required to:

- select suitable accounting policies and then apply them consistently;
- state whether the financial statements comply with international accounting standards in conformity with the requirements of the Companies Act 2006, 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 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. 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.

Independent auditor

The auditor, Deloitte LLP, has expressed its willingness to continue in office and pursuant to section 487(2) of the Companies Act 2006, a written resolution by the members will be passed to confirm the re-appointment of Deloitte LLP as auditor.

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

Aline Sternberg
Per pro Intertrust Directors 1 Limited
As director of Lloyds Bank Covered Bonds (LM) Limited
1 Bartholomew Lane
London
EC2N 2AX
10 May 2023

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

Statement of comprehensive income

For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Interest receivable and similar income	2	**494,179**	392,023
Interest payable and similar charges	3	**(493,970)**	(393,256)
Net interest income/(expense)		**209**	(1,233)
Fair value loss	4	**-**	(2,301)
Operating expenses	5	**(206)**	(256)
Income/(expense) for the financial year and total comprehensive expense available for division among members		**3**	(3,790)

The income/(expense) shown above is derived from continuing operations for the current year and prior year.

There was no income or expense recognised directly in other comprehensive income in the current year or preceding year.

The notes are an integral part of these financial statements.

Balance sheet
As at 31 December 2022

	Note	2022 £'000	2021 £'000
Assets			
Cash and cash equivalents		**743,652**	587,619
Deemed loan to the Originator	6	**19,309,988**	21,594,640
Total assets		**20,053,640**	22,182,259
Liabilities			
Other payables	8	**143**	93
Term loans from related party	7	**20,053,497**	22,182,166
Total liabilities		**20,053,640**	22,182,259
Reserves	9	**-**	-
Total members' other interests		**-**	-
Total members' other interests and liabilities		**20,053,640**	22,182,259
Supplemental information			
Total members' interests			
Reserves	9	**-**	-
Deemed loan to the Originator	6	**(19,309,988)**	(21,594,640)
Term loans from related party	7	**20,053,497**	22,182,166
		743,509	587,526

The notes are an integral part of these financial statements.

These financial statements were approved and authorised for issue by the members on 10 May 2023 and were signed on their behalf by:

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

Date 10 May 2023

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 2022

	2022	2021
	£'000	£'000
	Reserves	Reserves
Balance as at 1 January	**-**	3,793
Income/(expense) for the financial year and total comprehensive expense	**3**	(3,790)
Capital distribution	**(3)**	(3)
Balance as at 31 December	**-**	-

The notes are an integral part of these financial statements.

Cash flow statement

For the year ended 31 December 2022

	2022 £'000	2021 £'000
Operating activities		
Total comprehensive income/(expense) for the year	**3**	(3,790)
Adjustments for:		
- Interest receivable and similar income	**(494,179)**	(392,023)
- Interest payable and similar charges	**493,970**	393,256
- Fair value loss	**-**	2,301
Changes in operating assets and liabilities:		
- Net increase in Trade and other payables	**50**	28
Net cash flows used in operating activities	**(156)**	(228)
Investing activities		
Principal receipts from Deemed loan to originator	**6,109,865**	5,831,986
Interest received on Deemed loan to originator	**786,425**	640,801
Bank interest received	**6,541**	-
Net cash flows generated from investing activities	**6,902,831**	6,472,787
Financing activities		
Repayment of Term loans from related party	**(6,104,542)**	(5,847,936)
Interest paid on Term loans from related party	**(532,942)**	(456,634)
Senior costs paid to Originator	**(28,931)**	(28,604)
Deferred consideration paid to Originator	**(80,224)**	(152,780)
Interest paid to Members	**(3)**	(3)
Net cash flows used in financing activities	**(6,746,642)**	(6,485,957)
Change in Cash and cash equivalents	**156,033**	(13,398)
Cash and cash equivalents at beginning of year	**587,619**	601,017
Cash and cash equivalents at end of year	**743,652**	587,619

The notes are an integral part of these financial statements.

Notes to the financial statements
For the year ended 31 December 2022

1. Significant accounting policies

The LLP was incorporated in England and Wales as a limited liability partnership. The Partnership's registered office address is 1 Bartholomew Lane, London EC2N 2AX. The principal activities of the Partnership are disclosed on page 2 within the Members' Report.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied in both years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements for the year ended 31 December 2022 have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements also comply with the relevant provisions of Part 15 of the Companies Act 2006, as applying to Limited Liability Partnerships.

The financial statements are presented in Sterling which is the Partnership's functional and presentation currency and have been prepared on the historical cost basis (except that derivative financial instruments are stated at their fair value).

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

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 KPI section of the Members' Report and explained in the note on Management of risk (note 10). 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 note the limited recourse features of the Notes, meaning that should there be significant levels of default in the mortgage pool, this would be passed onto the Noteholders.

The members are satisfied that the Company is financially sound and has adequate resources to continue to operate for the foreseeable future, being at least 12 months from the date of approval of the financial statements. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

(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. Accrued interest has 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.

(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 cash equivalents, derivative contracts, term loans from related party 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.

1. Significant accounting policies (continued)

(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. Any excess income from mortgage receipts is passed to the Originator as deferred consideration and is accounted for by netting against the Deemed loan.

Subsequent to initial recognition, the deemed loan to originator is presented after netting off the servicing fee, the cash management fee and excess spread / deferred consideration. The Partnership has entered into an Interest Rate Swap Agreement with Lloyds. The interest rate swap substantially eliminates the sensitivity to movements in interest rates. The swap is not separately recognised in the financial statements as it forms part of the Deemed loan (see note 10b for further details).

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 to originator is calculated with reference to the interest earned on the beneficial interest in the mortgage loan portfolio less the residual interest due to Lloyds. Under the terms of the loan sale agreement, Lloyds retains the right to receive excess income arising on those loans, after certain higher priority payments (predominantly "Expenses") have been met by the Partnership.

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

At initial recognition, allowance is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk since origination, allowance (or provision) is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses).

Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk since initial recognition are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

Unlike other financial instruments, the deemed loan to Originator is, by its construction, an instrument that incorporates credit enhancement. The interest due on the deemed loan to Lloyds is only due to the extent it matches the obligations of the entity. The impairment assessment also considers the credit enhancement features of the structure. An impairment on the deemed loan would only be recognised where impairment on the underlying receivables exceeds the credit enhancement in place. Taking into account these factors, the members conclude that there is no significant increase in credit risk of the Deemed Loan since inception and therefore record it as Stage 1.

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 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 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.

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 bank accounts are held in the LLP's name and meet the definition of cash and cash equivalents. All cash disclosed on the face of the balance sheet is restricted by a detailed priority of payments set out in the Programme Documentation. As the cash can be used only to meet certain specific liabilities and is not available to be used with discretion, it is viewed as restricted cash. The LLP is entitled to receive a variable rate of interest equal to SONIA less 11.5 basis points (2021: SONIA less 11.5 basis points).

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 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. This is not applicable at this time.

(e)(vi) Term loans from related party

Term loans from related party are recognised initially at fair value less directly related incremental transaction costs. Subsequent to initial recognition, term loans from related party 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 loans 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) Segmental analysis

The Company operates in a single segment and all of the Company's activities are in the UK.

1. Significant accounting policies (continued)

(h) Critical accounting judgements and key sources of estimation uncertainty

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. There are no critical accounting judgements. The most significantly affected component of the financial statements and associated critical estimates is as follows:

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. Further analysis of fair value calculations is provided in note 10d.

Impairment of deemed loan

The Partnership's accounting policy for losses arising on the deemed loan to Originator is described in note 1e(i). The allowance for impairment losses on the deemed loan to Originator is management's best estimate of losses incurred in the portfolio at the balance sheet date. In determining whether impairment has occurred at the balance sheet date the Partnership considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows or their timings. An impairment on the deemed loan would only be recognised where impairment on the underlying receivables exceeds the credit enhancement in place.

Effective interest rate method

In calculating the effective interest rate of financial instruments the Partnership takes into account interest received or paid, fees and commissions paid or received, expected early redemptions and related penalties and premiums and discounts on acquisition or issue that are integral to the yield as well as incremental transaction costs.

For the purpose of the effective yield calculation, it has been assumed, based on the payment experience to date, that the average expected life of the borrowed funds by the Partnership will end at the scheduled redemption date (unless specified earlier in the Programme Documentation, in which case the earlier date will be used). This may not be the case in practice.

(i) Employees

The Company had no employees during the current and previous year.

(j) Future accounting pronouncements

There have been a number of minor amendments to IFRSs issued effective 1 January 2023 and in later years (including IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors). These amendments are not applicable for the year ended 31 December 2022, have not been applied in preparing these financial statements and are not expected to have a significant impact on the LLP.

2. Interest receivable and similar income

	2022 £'000	2021 £'000
Interest receivable on deemed loan	**487,638**	392,023
Bank interest received	**6,541**	-
	494,179	392,023

3. Interest payable and similar charges

	2022 £'000	2021 £'000
Interest payable on term loans	**493,970**	393,256

4. Fair value loss

	2022 £'000	2021 £'000
Retranslation loss on Euro loan notes to Sterling	**-**	(76,137)
Fair value gain on Euro currency swap	**-**	73,836
Net fair value loss on currency swap derivatives	**-**	(2,301)

Fair value movements reflect the market value of the derivatives and swap interest payable. The bonds issued were economically hedged using derivative contracts. The only external swap held matured in April 2021 and the loss on the swap was recognised in the Statement of comprehensive income.

5. Operating expenses

	2022 £'000	2021 £'000
Administration charges	**156**	228
Audit fees	**50**	28
	206	256

Audit fees relate to the statutory audit. Fees of £31,500 (2021: £23,100), net of VAT, are payable to Deloitte LLP. There are no fees payable to the auditors and their associates for services other than the statutory audit (2021: none).

The LLP had no employees during the year (2021: 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 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.

	2022 £'000	2021 £'000
Non current		
Principal	**19,263,460**	21,569,201
Current		
Interest	**46,528**	25,439
Deemed loan to the Originator	**19,309,988**	21,594,640

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

7. Term loans from related party

Term loans from related party 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 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.

7. Term loans from related party (continued)

Non current **Principal** **Term loans with Lloyds:**	**Maturity**	**Margin**	**2022** £'000	**2021** £'000
GBP - priced against SONIA Weighted average rate 0.26% (2021: 0.43%)				
Series 2018-3	March 2023	0.38%	**-**	1,000,000
Series 2019-3	May 2024	0.57%	**1,250,000**	1,250,000
Series 2020-1	February 2023	0.37%	**-**	1,000,000
Series 2021-1	August 2026	0.25%	**1,750,000**	1,750,000
Series 2021-2	August 2028	0.32%	**1,750,000**	1,750,000
Series 2021-3	August 2031	0.42%	**1,750,000**	1,750,000
Series 2022-1	November 2027	0.65%	**1,000,000**	-
EUR – fixed rate Weighted average rate 0.83% (2021: 1.31%)				
Series 2010-4	September 2024	4.00%	**44,322**	41,999
Series 2011-1	January 2031	4.91%	**39,890**	37,799
Series 2011-18	September 2026	4.35%	**97,509**	92,398
Series 2011-19	October 2027	4.20%	**35,458**	33,599
Series 2011-2	January 2023	4.88%	**-**	839,983
Series 2012-13	March 2027	4.02%	**93,963**	89,038
Series 2012-17	April 2025	3.52%	**35,458**	33,599
Series 2012-18	May 2027	3.53%	**49,641**	47,039
Series 2012-19	June 2025	2.79%	**108,146**	102,478
Series 2012-3	February 2027	4.24%	**41,663**	39,479
Series 2012-5	June 2025	4.40%	**44,322**	41,999
Series 2016-3	January 2036	1.63%	**150,696**	142,800
Series 2016-4	January 2036	1.66%	**48,755**	46,199
Series 2016-5	January 2036	1.66%	**44,322**	41,999
Series 2016-6	February 2031	1.35%	**44,322**	41,999
Series 2016-7	April 2023	0.50%	**-**	1,049,979
Series 2018-2	March 2025	0.63%	**886,446**	839,983
Series 2019-2	March 2024	0.25%	**1,329,669**	1,259,975
Series 2019-4	June 2026	0.13%	**886,446**	839,983
Series 2019-6	September 2029	0.13%	**664,835**	629,987
GBP – fixed rate Weighted average rate 5.33% (2021: 5.33%)				
Series 2011-5	February 2029	6.00%	**1,250,000**	1,250,000
Series 2012-16	March 2027	4.88%	**1,240,000**	1,240,000
Series 2012-4	March 2025	5.13%	**1,250,000**	1,250,000
NOK – fixed rate Weighted average rate 5.28% (2021: 5.28%)				
Series 2012-1	January 2024	5.38%	**42,200**	42,051
Series 2012-14	March 2027	5.23%	**84,400**	84,102
Total non current			**16,012,463**	18,658,467

7. Term loans from related party (continued)

Current Principal Term loans with Lloyds:	Maturity	Margin	2022 £'000	2021 £'000
GBP - priced against SONIA Weighted average rate 0.41% (2021: 0.13%)				
Series 2018-3	March 2023	0.38%	**1,000,000**	-
Series 2020-1	February 2023	0.37%	**1,000,000**	-
Series 2019-1	January 2022	0.60%	**-**	750,000
GBP - fixed rate Weighted average rate 0.00% (2021: 1.75%)				
Series 2015-2	March 2022	1.75%	**-**	500,000
EUR – fixed rate Weighted average rate 2.44% (2021: 2.50%)				
Series 2011-2	January 2023	4.88%	**886,448**	-
Series 2016-7	April 2023	0.50%	**1,108,058**	
Series 2010-7	October 2022	4.00%	**-**	456,111
Series 2015-5	September 2022	0.63%	**-**	1,049,979
USD – fixed rate Weighted average rate 0.00% (2021: 1.38%)				
Series 2019-5	July 2022	2.13%	**-**	742,170
			3,994,506	3,498,260
Accrued interest				
Interest due on term loans			**46,528**	25,439
Total current			**4,041,034**	3,523,699
Total			**20,053,497**	22,182,166

Term loans from related party at 31 December 2022 and 2021 comprise the fixed and floating rate Notes issued by the Company in connection with the securitisation of mortgages originated by Lloyds. The Company is only required to make payments on the loans to the extent that it has received sufficient cash flows from the underlying mortgage pool, subject to the final legal maturity date of January 2036. For more information about the Company's exposure to risk, see note 10.

8. Other payables

	2022 £'000	2021 £'000
Audit fee accrual	**143**	93
	143	93

9. Total members' interests

	Reserves	Loans due to/(from) members	Total
	£'000	£'000	£'000
Members' interests as at 1 January 2022	**-**	**587,526**	**587,526**
Loss for the year available for division among members	**3**	**-**	**3**
Loans introduced by members	**-**	**2,284,652**	**2,284,652**
Repaid to members	**(3)**	**(2,128,669)**	**(2,128,672)**
Members' interests as at 31 December 2022	**-**	**743,509**	**743,509**

The loans and other debts due to/(from) members can be analysed as follows:	Members' interests as at 31 December 2022
	£'000
Amounts due to members (note 7)	**20,053,497**
Amounts due from members (note 6)	**(19,309,988)**
Members' interests as at 31 December 2022	**743,509**

	Reserves	Loans due to/(from) members	Total
	£'000	£'000	£'000
Members' interests as at 1 January 2021	3,793	597,159	600,952
Loss for the year available for division among members	(3,790)	-	(3,790)
Loans introduced by members	-	110,671	110,671
Repaid to members	(3)	(208,672)	(208,675)
Derivative assets	-	88,368	88,368
Members' interests as at 31 December 2021	-	587,526	587,526

The loans and other debts due to/(from) members can be analysed as follows:	Members' interests as at 31 December 2021
	£'000
Amounts due to members (note 7)	22,182,166
Amounts due from members (note 6)	(21,594,640)
Members' interests as at 31 December 2021	587,526

10. Management of risk

All of the LLP's assets and liabilities have been classified as financial instruments in accordance with IFRS 9 'Financial Instruments'.

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 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.

10a. 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.

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 2022 was £5,090,160k (2021: £7,929,950k).

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 2022 amounted to £27.4bn (2021: £33.32bn). 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.

10. Management of risk (continued)

10a. Credit risk (continued)

	Counterparty	Rating as at 31 December 2022 and 2021	Rating as at of approval of financial statements
		(Moody's/Fitch)	(Moody's/Fitch)
Bank accounts	Lloyds Bank Plc	P-1 / A1 / F1 / A+	P-1 / A1 / F1 / A+
Covered Bond swap and interest rate swap	Lloyds Bank Plc	P-1 / A1 / F1 / A+	P-1 / A1 / F1 / 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.

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.

Assets held at amortised cost	2022 £'000	2021 £'000
Cash and cash equivalents	**743,652**	587,619
Deemed loan to the Originator	**19,309,988**	21,594,640
	20,053,640	22,182,259

Securitised mortgage assets

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

Stage 1 – Financial assets which are not in arrears or less than 1 month in arrears.

Stage 2 – Financial assets which are greater than 1 month but less than 3 months in arrears.

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. Lloyds assesses a loan as stage 3 when contractual payments of either principal or interest are past due for more than 3 months.

2022 Mortgage balance by impairment stage	**Mortgage balance £'000**	**No. of accounts**
Stage 1	**26,930,793**	**261,717**
Stage 2	**253,855**	**2,239**
Stage 3	**215,085**	**2,116**
	27,399,733	**266,072**

2021 Mortgage balance by impairment stage	**Mortgage balance £'000**	**No. of accounts**
Stage 1	32,897,695	315,983
Stage 2	202,857	2,398
Stage 3	221,660	2,460
	33,322,212	320,841

10. Management of risk (continued)

10b. 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. 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.

Sensitivity to a 50bps movements in SONIA	**+50bps SONIA £'000**	**-50bps SONIA £'000**
Impact on interest income	**(49,839)**	**49,839**
Impact on interest expense	**49,839**	**(49,839)**
Adjustment to Deemed loan	**49,839**	**(49,839)**
Adjustment to term loans from related party	**(49,839)**	**49,839**
	-	-

10c. 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 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 the Originator will be sufficient to allow repayment of the term loans.

2022	**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 from related party	**20,006,969**	**20,006,969**	**886,446**	**2,000,000**	**1,108,058**	**10,269,645**	**5,742,820**
Other payables	**143**	**143**	**143**	**-**	**-**	**-**	**-**
Interest payable							
Term loans from related party	**46,528**	**2,494,629**	**55,252**	**95,650**	**393,545**	**1,540,488**	**409,694**
	20,053,640	**22,501,741**	**941,841**	**2,095,650**	**1,501,603**	**11,810,133**	**6,152,514**

10. Management of risk (continued)

10c. Liquidity risk (continued)

2021	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 from related party	22,156,727	22,156,726	750,000	500,000	2,248,260	11,434,427	7,224,039
Other payables	93	93	93	-	-	-	-
Interest payable							
Term loans from related party	25,439	1,809,924	32,945	62,192	306,042	1,058,380	350,365
	22,182,259	23,966,743	783,038	562,192	2,554,302	12,492,807	7,574,404

10d. Prepayment risk

Cash flows on the Deemed loan to Originator are dependent on the underlying residential mortgage loans. However, in the normal course of business, a proportion of borrowers repay their loans in advance of their contractual maturity. As a result the weighted average life of the Deemed loan and of the term loans may be significantly less than that implied by the contractual maturity dates of the residential mortgage loans loans.

The rate of prepayment of loans is influenced by a wide variety of economic, social and other factors, including prevailing market interest rates, the availability of alternative financing programmes and local and regional economic conditions.

Prepayment on the residential mortgage loans will not impact the weighted average life of the term loans as the Covered Bonds will only be repaid in line with contractual maturity dates.

10e. Fair values

(i) Definition of fair value levels

Per IFRS 13 "Fair Value Measurement" 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); and Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

(ii) Financial instruments held at amortised cost

Cash and cash equivalents and Trade and other payables are recognised on an amortised cost basis that is considered to be a close approximation to fair value.

Deemed loan to Originator

For the Deemed loan to 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 loans which are significantly held at variable rate. The term loans (equivalent to the proceeds of the covered bonds issued) which are received from Lloyds are accounted for on an amortised cost basis. The calculation of the fair value of the term loan is described below.

The deemed loan represents the expected future cashflows expected to be paid on the term loan in addition to any credit enhancement within the LLP. The fair value of the deemed loan has been determined as the fair value of the term loans with the short term assets and liabilities removed. This is representative of the price that would be obtained if the financial assets were to be sold to a 3rd party and is considered to be the fair value.

Term loans from related party

The fair value of the term loans from related party as at 31 December 2022 was £19.62bn. The term loans from related party are considered to be level 3 in the fair value hierarchy. The LLP has a Term loan payable to Lloyds, which is a back-to-back instrument with similar terms as the Covered Bonds issued by Lloyds. For this reason, the fair value of the notes issued is considered equivalent to the fair value of the term loans from related party.

Under IFRS 13 'Fair Value Measurement', the fair value of the term loan has been calculated using a market approach. A mid-price was obtained from the Group's trading desk team for each of the Covered Bonds which was applied to the term loan to derive a fair value. The mid-price as at the balance sheet date is considered to be an exit price for the purposes of IFRS 13.2. Where prices are unavailable for certain notes, the lowest mid-price for similar notes has been used as an equivalent in order to calculate the fair value.

Notes to the financial statements (continued)
For the year ended 31 December 2022

11. 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. These fees amounted to £28,930,693 (2021: £28,774,139). 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 Management in connection with its provision of corporate administration services to the LLP and related companies. In 2022 this amounted to £27k (2021: £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 (2021: 11.5 basis points 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	Ultimate parent 2022 £'000	Other related parties 2022 £'000	Ultimate parent 2021 £'000	Other related parties 2021 £'000
Interest receivable and similar income				
Income from deemed loan to the Originator	**487,638**	**-**	392,023	-
Bank interest receivable	**6,541**	**-**	-	-
Interest payable and similar charges				
Interest payable on term loans from related party	**493,970**	**-**	393,256	-
Operating expenses	**-**	**27**	-	24
Assets				
Cash and cash equivalents	**743,652**	**-**	587,619	-
Deemed loan to the Originator	**19,309,988**	**-**	21,594,640	-
Liabilities				
Term loans from related party	**20,053,497**	**-**	22,182,166	-

12. Post balance sheet event

There are no post balance sheet events which require disclosure in the financial statements.

13. 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).

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 2022.

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 auditor's report to the members of Lloyds Bank Covered Bonds LLP

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Lloyds Bank Covered Bonds LLP (the 'limited liability partnership'):

- give a true and fair view of the state of the limited liability partnership's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statements of changes in members' other interests;
- the cash flow statement; and
- the related notes 1 to 13.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the limited liability partnership in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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.

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 limited liability partnership'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.

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The members are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

Responsibilities of members

As explained more fully in the statement of members' responsibilities, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the members 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 limited liability partnership'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 limited liability partnership or to cease operations, or have no realistic alternative but to do so.

Auditor's 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 auditor's 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.

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 auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

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.

We considered the nature of the limited liability partnership's industry and its control environment, and reviewed the limited liability partnership's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and the members about their own identification and assessment of the risks of irregularities including those that are specific to the limited liability partnership's business sector.

We obtained an understanding of the legal and regulatory framework that the limited liability partnership operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the Companies Act 2006 as applied to limited liability partnerships; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the limited liability partnership's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including IT specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud is in overstating the principal and revenue receipts from loans which are not part of the securitised portfolio and, therefore, the related cashflows are incorrectly recorded in the waterfall. Our specific procedures performed to address this risk are described below:

- obtained an understanding and tested opearting effectiveness of management's controls over the process of recording principal and revenue receipts from the originator in the waterfall and controls over the preparation and review of waterfall;
- tested the completeness of principal receipts by testing the movement in the securitised portfolio during the year on a sample basis;
- tested completeness of revenue receipts recorded in the waterfall by tracing a sample of revenue receipts from the bank account to the waterfall;
- on a sample basis, we tested the principal and revenue receipts from the securitsed portfolio by tracing receipts to customers' statements;
- on a sample basis, tested that the selected receipts related to those customer loans which are securitised in the limited liability partnership; and
- on a sample basis, traced the total receipts recorded in the monthly waterills with the amounts received in the bank account of the limited liability partnership.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing these to supporting documentation to assess compliance with the provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;

- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

Report on other legal and regulatory requirements

Matters on which we are required to report by exception

Under the Companies Act 2006 as applied to limited liability partnerships we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the limited liability partnership’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 as applied to limited liability partnerships. Our audit work has been undertaken so that we might state to the limited liability partnership’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the limited liability partnership and the limited liability partnership’s members as a body, for our audit work, for this report, or for the opinions we have formed.

Chris Hunter

Chris Hunter CA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
10 May 2023