Bavarian Mortgages No. 5 Limited

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

Registered office

Trinity Road
Halifax
West Yorkshire
HX1 2RG

Registered number

2523852

Directors

N Stockton
D S Pope

Company Secretary

A Lockwood

Member of Lloyds Banking Group

Directors' report
For the year ended 31 December 2009

Business review and principal activities
Bavarian Mortgages No 5 Limited ("the Company") is a limited company incorporated and resident in England and Wales (registered number 2523852) The principal activity of the company is that of a holding company for Parkgate Insurance Limited, which is incorporated in Ireland The Company received a dividend from Parkgate Insurance Limited during the year

The profit after tax for the year was £980,000 (2007 £1,061,000) The directors do not recommend a dividend for the year (2008 £nil)

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Lloyds Banking Group and are not managed separately Further disclosure of the Company's financial risk management objectives and policies are given in note 4 to the financial statements

Key performance indicators

Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business

Policy and practice on payment of suppliers

The Company follows "The Better Payment Practice Code" published by the Department for Business Innovation and Skills (BIS) regarding the making of payments to suppliers A copy of the code and information about it may be obtained from the BIS Publications Order Line 0845-0150-010 quoting ref URN 04/606
The Company's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated It is the policy of the Company to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract

As the Company owed no amounts to trade creditors as at 31 December 2009, the number of days required to be shown in this report, to comply with the provisions of the Companies Act 2006, is nil (2008 nil)

Directors
The names of the current directors are shown on the front cover

The following changes in directors have taken place during the year

D S Pope appointed 30/06/2009
P Beddows resigned 30/06/2009

Statement of directors' responsibilities.

The directors are responsible for preparing the directors report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union Under company law the directors 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 Company and of the profit or loss of the Company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards (IFRS's) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company 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 Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Auditors and disclosure of information to auditors

Each director in office at the date of this report confirms that

-so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

-the director has taken all the steps that he ought to have taken as a director in order to make himself 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 of the Companies Act 2006

Auditors and Annual General Meeting

Following a resolution passed by the members, the Company has elected to dispense with the holding of Annual General Meetings, of laying financial statements and reports before the Company in General Meeting

Following the resignation of KPMG on 27 May 2009, PricewaterhouseCoopers LLP were appointed as auditors of the Company with effect from 21st September 2009 by resolution of the members dated 26 June 2009

Pursuant to section 487 of the Companies Act 2006, auditors duly appointed by the members of the Company shall, subject to any resolution to the contrary, be deemed to be reappointed for the next financial year and PricewaterhouseCoopers LLP will therefore continue in office

By order of the Board

A. Lockwood

A Lockwood
Company Secretary

29 JUNE 2010

Report of the independent auditors to the members of Bavarian Mortgages No 5 Limited

We have audited the financial statements of Bavarian Mortgages No 5 Limited for the year ended 31 December 2009 which comprise the primary financial statements such as the Balance Sheet, the Statement of Comprehensive Income, the Cash Flow Statement, the Statement of Changes in Equity, and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 2 and 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Sections 495 and 496 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Report of the independent auditors to the members of Bavarian Mortgages No 5 Limited (continued)

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Mark Hannam

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

29 June 2010

Statement of Comprehensive Income

For the year ended 31 December 2009

	Note	2009 £000	2008 £000
Income from shares in subsidiary undertakings		1,815	1,301
Profit before tax		1,815	1,301
Taxation	6	(835)	(240)
Profit for the year, being total comprehensive income after tax		980	1,061

The profit shown above is derived from continuing operations and attributable to equity shareholders

The notes on pages 9 to 13 are an integral part of these financial statements

Balance sheet

As at 31 December 2009

	Note	2009 £000	2008 £000
Assets			
Investments in subsidiary undertakings	7	10,222	10,222
Total non-current assets		10,222	10,222
Amounts due from group undertakings	10	6,646	5,141
Total current assets		6,646	5,141
Total assets		16,868	15,363
Liabilities			
Deferred tax liabilities	8	-	230
Total non-current liabilities		-	230
Equity			
Issued capital	9	13	13
Retained earnings		8,734	7,754
Total equity		8,747	7,767
Current tax liability		1,065	310
Amounts due to group undertakings		7,056	7,056
Total current liabilities		8,121	7,366
Total liabilities		8,121	7,596
Total equity and liabilities		16,868	15,363

The financial statements on pages 5 to 13 were approved by the Board of directors on and signed on its behalf by

D Pope
Director

29 JUNE 2010

The notes on pages 9 to 13 are an integral part of these financial statements

Statement of changes in equity
For the year ended 31 December 2009

	Share Capital £000	Retained Earnings £000	Total £000
At January 2007	13	6,693	5,383
Total Comprehensive income for the year	-	1,061	235
At 31 December 2008	13	7,754	5,618
Total Comprehensive income for the year	-	980	-
At 31 December 2009	13	8,734	5,618

The notes on pages 9 to 13 are an integral part of these financial statements

Cash flow statement

For the year ended 31 December 2009

	2009 £000	2008 £000
Cash flows from operating activities		
Profit before tax	1,815	1,301
(Increase)/Decrease in trade and other receivables	(1,505)	32
Income taxes paid	(310)	(1333)
Net cash generated from operating activities	-	-
Net movement in cash and cash equivalents	-	-
Cash and cash equivalents at 1 January	-	-
Cash and cash equivalents at 31 December	-	-

The notes on pages 9 to 13 are an integral part of these financial statements

Notes to the financial statements

For the year ended 31 December 2009

1 Accounting policies

a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union

The financial statements are presented in sterling, rounded to the nearest thousand They are prepared under the historical cost convention

These separate financial statements contain information about the Company and do not contain consolidated financial information as the parent of a group The Company has taken advantage of the exemption available under IAS 27 "consolidated and separate financial statement" and section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statement The Company and it subsidiaries are included in the consolidated financial statements of the Company's ultimate parent company

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources Actual results may differ from these estimates

The estimates and underlying assumptions are reviewed on an ongoing basis Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods

The Company is reliant on funding provided by Bank of Scotland plc Notwithstanding the improvement in market liquidity during 2009, the Company's ultimate parent company, Lloyds Banking Group plc, continues to be reliant on UK Government sponsored measures to maintain its wholesale funding position The directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries, including the Company, will continue to receive funding in the future and, accordingly, the financial statements have been prepared on a going concern basis

The following new IFRS pronouncement relevant to the company has been adopted in these financial statements

IAS 1 (revised), 'Presentation of financial statements' The revised standard prohibits the presentation of items of income and expense (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity All non-owner changes in equity are required to be shown in a performance statement Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income) As there have been no non-owner changes in equity, only an income statement has been presented in these financial statements The financial statements have been prepared under the revised disclosure requirements, the application of this revised standard, which affects presentation only, has not had any impact for amounts recognised in these financial statements

Details of those pronouncements which will be relevant to the Company but which are not effective at 31 December 2009 and which have not been applied in preparing these financial statements are given in note 11

Accounting policies

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

(a) Revenue recognition

Dividend income is recognised when the right to receive payment is established

(b) Taxation

Current tax which is payable or receivable on taxable profits or losses is recognised as an expense or income in the period in which the profits or losses arise

Notes to the financial statements (continued)

For the year ended 31 December 2009

(c) Investments in subsidiary undertakings

Investment in subsidiary undertakings is stated in the balance sheet at cost plus any provision for impairment and comprise equity investments in, and capital contributions to subsidiary entities

(d) Financial assets and liabilities

Financial assets comprise trade and other receivables The Company has no financial liabilities Financial assets are recognised when the Company becomes and party to the contractual provisions of the instrument Financial assets are derecognised when the rights to receive cashflows have expired Financial assets are recognised at amortised costs, inclusive of transaction costs, using the effective interest method

2 Capital Management

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, provide an adequate return to its shareholders through pricing products and services commensurately with the level of risk and, indirectly, to support the Group's regulatory capital requirements

The Company's parent manages the Company's capital structure and advises the board of directors to consider making adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets In order to maintain or adjust the capital structure, the board of directors may adjust the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares, or sell assets

The Company's capital comprises all components of equity, movements in which appear in the statement of changes in equity The Company receives its funding requirements from its fellow group companies and does not raise funding externally

3 Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period Although those estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates

There are no significant estimates or judgements that have been used in the preparation of these financial statements

4 Financial risk management

4(a) Credit risk

Credit risk is the risk that the counterparty fails to meet its obligations when they fall due The maximum credit risk exposure of the company in the event of other parties failing to perform their obligations is considered to be the balance sheet carrying value of the trade and other receivables of £6,646,000 (2008 £5,141,000)

The directors consider credit risk to be limited as the majority of this balance is due from the immediate parent undertaking The ability of the immediate parent to settle this amount is linked to the liquidity position of Lloyds Banking Group plc, the ultimate parent undertaking, which is managed centrally and declared within the published financial statements of that company

4 (b) Market Risk

Market risk is defined as the risk of financial loss arising from changes in external market factors such as interest rates and currency rates As the Company has no interest bearing receivables or borrowings and no amounts denominated in foreign currencies, the directors do not consider that this Company has an exposure to market risk

4(c) Liquidity risk

Liquidity risk is the risk that the Company does not have sufficient financial resources to meet its obligations as they fall due The maximum liquidity risk exposure of the company in the event of Compnay failing to perform their obligations is considered to be the balance sheet carrying value of the trade and other payables of £7,056,000 (2008 £7,056,000)

Notes to the financial statements (continued)

For the year ended 31 December 2009

The directors consider liquidity risk to be limited as the balance is due to the immediate parent undertaking The ability of the Company to settle this amount is linked to the liquidity position of Lloyds Banking Group plc, the ultimate parent undertaking, which is managed centrally and declared within the published financial statements of that company

4(d) Measurement of assets and liabilities

All assets and liabilities are measured at amortised cost

5. Administrative expenses

The Company has no employees Administration was provided by staff employed by the parent company and no recharges were made by the parent company to reflect the staff time spent on the affairs of the Company

No remuneration was paid or is payable by the Company to the directors (2008 £nil) The directors are employed by other companies in the Lloyds Banking Group and consider that their services to this Company are incidental to their other activities within the Group

Fees payable to the Company's auditors for the audit of the financial statements of £2,000 (2008 £2,000) has been borne by a fellow group undertaking

6 Taxation

a) Analysis of tax charge for the year	**2009**	2008
	£000	£000
UK corporation tax		
Current tax on profit for the year	1,065	310
	1,065	310
Deferred tax credit	(230)	(70)
Tax charge for the year	835	240

The charge for tax on the profit for the year is based on an effective UK corporation tax rate of 28% (2008 28 5%) as the standard UK corporation rate changes from 30% to 28% on 1st April, 2008

b) Factors affecting tax charge for the year

A reconciliation of the charge that would result from applying the standard UK corporation tax rate to profit before tax to the tax charge for the year is given below	**2009** **£000**
Profit before tax £1,815,000 @ 28%	508
Total tax charge	835
Difference	327
Explained by	
Non-taxable dividend income	(508)
Apportionment of subsidiary's profit under CFC rules	835
	327

Notes to the financial statements (continued)

For the year ended 31 December 2009

7 Investments in subsidiary undertakings

	2009 £000	2008 £000
Investment in subsidiary undertaking at cost		
At 1 January and at 31 December	10,222	10,222

Parkgate Insurance Limited which is incorporated in the Republic of Ireland is 100% owned by Bavarian Mortgages No 5 Limited and is a captive mortgage insurance company, with an accounting reference date of 31 December

8 Deferred Tax Liability

	2009 £000	2008 £000
As at 1 January	230	300
Income statement credit	(230)	(70)
as at 31 December	-	230

9 Share capital

	Ordinary shares 2009	2008
On issue at 1 January and 31 December	12,502	12,502

At 31 December 2009, the authorised share capital comprised 50,000 ordinary shares (2008 50,000) The shares have a par value of £12,502

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company

10 Related party transactions

The Company's related parties include the ultimate and immediate parent companies, other companies in the Lloyds banking Group, pension schemes of the Company's ultimate parent company and the Company's key management personnel Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company, which is determined to be the Company's directors and members of the Lloyds Banking Group plc board

Notes to the financial statements (continued)
For the year ended 31 December 2009

Amounts due from group undertakings

	2009 £000	2008 £000
Amounts due from subsidiary undertakings	-	1,301
Amounts due from parent companies	6,646	3,840
	6,645	5,141
Representing		
Parkgate Insurance Limited	-	1,301
Bank of Scotland plc	6,646	3,840
	6,645	5,141

Amounts due from group undertakings are unsecured, non – interest bearing and repayable on demand
The fair value of amounts due from group undertakings is equal to their carrying amounts

Amounts due to group undertakings

	2009 £000	2008 £000
Amounts due to parent companies	7,056	7,056

Representing
Birmingham Midshires Mortgage Services Limited

Amounts due to group undertakings are unsecured, non – interest bearing and repayable on demand
The fair value of amounts due to group undertakings is equal to their carrying amounts

11 Future developments
The following pronouncements will be relevant to the Company but was not effective at 31 December 2009 and have not been applied in preparing these financial statements

Improvements to IFRSs (issued April 2009) [1]	Sets out minor amendments to IFRS standards as part of annual improvements process	Dealt with on a standard by standard basis but not earlier than annual periods beginning on or after 1 January 2010
IFRS 9 Financial Instruments Classification and Measurement[1]	Simplifies the way entities will classify financial assets and reduces the number of classification categories to two, fair value and amortised cost The existing available-for-sale and held-to-maturity categories have been eliminated Classification will be made on the basis of the objectives of entity's business model for managing the assets and the characteristics of the contractual cash flows	Annual periods beginning on or after 1 January 2013
IAS24 Related Party Disclosures	Simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government related entities	Annual periods beginning on or after 1 January 2011