Registered Number OC411834

TSB Covered Bonds LLP

Members' Annual Report and Financial Statements

Year ended 31 December 2020

Designated members
TSB Bank Plc
TSB Covered Bonds (LM) Limited

Management board
Ralph Coates
Alison Straszewski
Steve Vance resigned 31 July 2020
Annabel Murday appointed 31 July 2020
Rangan Ravindran resigned 25 September 2020
Gina Amies appointed 25 September 2020

Registered office
1 Bartholomew Lane
London
EC2N 2AX

Registered number
OC411834

Independent auditors
KPMG LLP
15 Canada Square
Canary Wharf
London
E14 5GL

Members' Report

The members of TSB Covered Bonds LLP (the "LLP") present their report and audited financial statements for the year ended 31 December 2020.

Principal activity

The LLP, a limited liability partnership, was incorporated on 16 May 2016 in the United Kingdom and registered in England and Wales under the Limited Liabilities Partnerships Act 2000.

The LLP has been created to support TSB Bank plc's ("TSB" or the "Originator") Covered Bond Programme (the "Programme") and the LLP's business is the acquisition, management and sale of mortgage loans and their related security, to enter into other associated financial instruments and guarantee the bonds (the "Covered Bonds") issued by TSB.

No changes in the LLP's activities are envisaged for the foreseeable future.

Business review

Covered Bonds may be issued by TSB in various currencies, with the proceeds being paid across to the LLP on issuance by way of term loans.

There was no Covered Bond issued during the year. The total term loans at the end of 2020 were £1,250m.

In line with the Covered Bond issuances, the LLP acquired a beneficial interest in a mortgage loan portfolio originated by TSB in consideration of a capital contribution in kind made by TSB.

The LLP has acquired further beneficial interests in mortgage loan portfolios at subsequent dates to the Covered Bond issuance dates. 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 TSB from the proceeds of any term loans;
ii. a record of a capital contribution in kind being made by TSB; and
iii. excess income which will be paid by the LLP on each LLP payment date in accordance with the relevant priority of payments

In relation to the mortgage portfolio transferred to the LLP, accounting derecognition was considered to be inappropriate for TSB's own financial statements, as TSB retained substantively all of the risks and rewards associated with the transferred assets and the pass-through criteria of International Financial Reporting Standard 9 (IFRS 9) have not been met. The LLP recognises a 'deemed loan' to TSB on its balance sheet to represent its interests in the underlying mortgage portfolio.

The total Covered Bonds outstanding at the end of 2020 were £1,250m (2019: £1,250m). The total value of the related mortgage portfolio was £1,815m (2019: £1,802m).

The profit for the year is disclosed on page 8. The LLP made a profit of £3k during the year (2019: £3k). No change to the current business activity is expected.

Key performance indicators ("KPIs")

A defined set of KPIs for the Covered Bond Programme are set out within the programme documentation and are published as a monthly Investor Report on the TSB website. The members consider the key performance indicators of the LLP to be:

- the level of overcollateralisation over the LLP's guarantee to noteholders; and
- performance of the underlying mortgage loans – specifically the level of arrears and repossessions; and
- performance against the triggers set out in the programme documentation.

The programme allows a maximum outstanding balance of Covered Bonds, providing that the mortgage loan portfolios held by the LLP, along with other assets available, meet the Asset Coverage Test (the 'ACT'). This test states that the adjusted aggregate amounts of mortgage loans and other assets must be of an amount equal to or greater than the total amounts of Covered Bonds in issue after taking into account other deductions.

Members' Report (continued)

Key performance indicators ("KPIs") (continued)

At the time of issue, the Covered Bonds were assigned credit ratings which reflect the likelihood of full and timely payment of interest to the holders of the Covered Bonds on each Interest Payment Date ("IPD") and the full repayment of principal at the final legal repayment date. A rating may be subject to revision, suspension or withdrawal at any time by the rating agencies if circumstances change.

Any change in the credit rating assigned to a Covered Bond would be used as an indicator as to the performance of the LLP. No changes in credit ratings have been applied to the Covered Bonds in the year under review and subsequently up to the date of approval of these financial statements.

Designated members

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

TSB Bank plc
TSB Covered Bonds (LM) Limited

Management board

The members of the LLP management board during the year and up to the date of signing of the financial statements were:

Ralph Coates
Alison Straszewski
Steve Vance resigned 31 July 2020
Annabel Murday appointed 31 July 2020
Rangan Ravindran resigned 25 September 2020
Gina Amies appointed 25 September 2020

Members' interests

Under the terms of the Programme, TSB may make cash capital contributions to the LLP or capital contributions in kind, represented by the excess of the current balance of the mortgage loans over any cash payment made by the LLP.

Statement of members' responsibilities in respect of the financial statements

The members are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law, as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 (the "Regulations"), requires the members to prepare financial statements for each financial year. Under that law the members have prepared the financial statements in accordance with international accounting standards. 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 applicable international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the limited liability partnership will continue in business.

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

The members are responsible for keeping adequate accounting records that are sufficient to show and explain the limited liability partnership's transactions and disclose with reasonable accuracy at any time the financial position of the limited liability partnership and enable them to ensure that the financial statements comply with the Companies Act 2006 as applied to limited liability partnerships by the Regulations.

Members' Report (continued)

Employees

The LLP had no employees during the year ended 31 December 2020 (2019: no employees).

Independent auditors

KPMG LLP were appointed as auditors for the year under review. Having expressed their willingness to continue in office and pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed re-appointed subject to any resolution to the contrary.

Disclosure of information to auditors

So far as the members are each aware, there is no relevant audit information of which the LLP's auditors are unaware. The members have each taken all the steps that he or she ought to have taken as a member to make himself or herself aware of any relevant audit information and to establish that the LLP's auditors are aware of the information.

Risk management

The majority of the LLP's assets and liabilities have been classified as financial instruments in accordance with IAS 32 "Financial Instruments: Presentation". The LLP's financial instruments comprise a deemed loan to TSB, as the seller of the mortgages, equivalent to the value of its net investment in the mortgages, cash and liquid resources, term loans, derivative contracts and various other receivables and payables.

The principal risks arising from the LLP's financial instruments are credit risk, interest rate risk and liquidity risk. These and other risks which may affect the LLP's performance are detailed below. Further analysis of the risks facing the LLP in relation to its financial instruments and the LLP's financial risk management policies is provided in note 8.

Credit risk

Credit risk arises on the individual loans within the mortgage loan portfolio which are in turn secured on UK residential properties. The performance of these loans is therefore influenced by the economic climate and the UK housing market.

Impact of COVID-19

In response to the COVID-19 pandemic, TSB introduced repayment holidays to enable customers to take a temporary break from making loan repayments where they are experiencing, or are reasonably expected to experience, payment difficulties caused by COVID-19. During the period of the repayment holiday, no further arrears are reported on customers' records although interest on the deferred payments continues to accrue. At its peak 15% of the mortgage pool had utilised this facility, however levels of payment holidays in place at the end of 2020 had dropped significantly to approximately 1%. There has been no noticeable material impact on the performance of the mortgage pool as at the report date. The performance of the mortgage pool is continually under review and the Covered Bond Transaction, to which the LLP is a counterparty has a number of mechanisms which ensure that in the event of a downturn in asset performance, that the level of overcollateralisation will increase to a level which is believed by the members to be sufficient to cover the liabilities of the LLP including the guarantee to the Covered Bond holders.

Interest rate risk

Interest rate risk is the possibility that changes in interest rates will result in higher financing costs and/or reduced income from the LLP's interest-bearing financial assets and liabilities.

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. The LLP minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of the underlying mortgage assets and the term loans (its principal assets and liabilities) are similar; where this is not possible the LLP uses derivative contracts to mitigate any residual interest rate risk. The interest rate derivatives in the Programme reference LIBOR rate and contain provisions for replacement rate settings in the event that LIBOR ceases to be published.

As a result of the UK Financial Conduct Authority (FCA) confirming it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 and by way of an Extraordinary Resolution, Noteholders gave their consent to convert Interest Basis of the 2017-1 Series Covered Bonds from LIBOR to SONIA together with associated amendments to Interest Basis of the Series 2017-1 Term Loan and the Series 2017-1 Covered Bonds Swap agreement. Such changes became effective on 7th September 2020. The margin applicable to these instruments was also changed in accordance with the terms of the consent from 0.24 above LIBOR to 0.372 above SONIA.

The remaining calculations with a LIBOR reference rate were transferred to SONIA in March 2021, effective April 2021.

Members' Report (continued)

Interest rate risk continued

As at 31 December 2020 the interest rate derivative contract provider was TSB. In line with the programme documentation TSB is required to maintain a minimum ratings level of A3(cr) (Moody's). Should TSB not meet the ratings requirements it will be required to post collateral or take other actions.

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 underlie the deemed loan to TSB.

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

Operational risk

The LLP is 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. TSB has been appointed servicer and cash manager on behalf of the LLP. Citicorp Trustee Company Limited has been appointed as security trustee. Intertrust Management Limited ("Intertrust") has been appointed to provide corporate services in accordance with a corporate services agreement. HSBC Bank plc has been appointed to act as account bank.

Business risk

The principal business risks of the LLP are set out in a number of trigger events in the programme documentation. These trigger events deal with issues such as the solvency of TSB and the performance of underlying mortgage assets. The occurrence of a trigger event may lead to a different priority of payments.

As TSB's short-term Counterparty Risk Assessment rating is P-2(cr) TSB is required to fund the Reserve Fund to the Reserve Fund Required Amount, as defined by the programme documentation. As at 31 December 2020 the Reserve Fund balance was £1,458,400 (2019: £2,163,985).

Environment

During 2020, TSB developed a baseline for emissions from its own operations, appointed a sustainability lead, and completed the necessary groundwork to have science-based goals for achieving net zero carbon produced from its own operations (known as Scope 1 and 2 emissions) by no later than 2030. TSB's 2020 carbon emissions from its own operations were 8.3k tonnes, down from 10.0k tonnes in 2019. Initial steps to reduce emissions from sources not directly controlled by TSB (known as Scope 3 emissions) were taken in 2020.

1. TSB ends 2020 with 100% of its electricity sourced from renewable sources. TSB published plans setting out how they intend to achieve net zero for TSB's Scope 1 and Scope 2 emissions in early 2021; and

2. For every home move where a TSB mortgage is provided, TSB arranged for a tree to be planted to help offset the carbon footprint of the house move for the customer. Almost 10,000 trees have been planted between the launch of the scheme in August and the end of 2020. In 2021, they will baseline its Scope 3 emissions in order to develop science-based goals to reduce this footprint.

Statement of going concern

The members recognise their responsibility to make an assessment of the LLP's ability to continue as a going concern, for a period of at least 12 months from the date the financial statements are approved. The Members, having taken into account the matters noted in the 'Basis of preparation' in Note 1 are satisfied that the LLP has adequate resources to continue to operate for the foreseeable future and is financially sound, and are not aware of any material uncertainties that may cast significant doubt upon the LLP's ability to continue as a going concern. For this reason, the members continue to adopt the going concern basis in preparing the financial statements

Members' Report (continued)

Signed for and on behalf of the members of TSB Covered Bonds LLP

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

Alison Straszewski
On behalf of
TSB Bank plc
Henry Duncan House, 120 George Street
Edinburgh EH2 4LH

27 April 2021

Independent auditors' report to the members of TSB Covered Bonds LLP

for the year ended 31 December 2020

Independent auditor's report to the members of TSB Covered Bonds LLP

Opinion

We have audited the financial statements of TSB Covered Bonds LLP ("the LLP") for the year ended 31 December 2020 which comprise the Balance sheet as at 31 December 2020; the Statement of comprehensive income, the Cash flow statement and the statement of changes in members' other interests, for the year then ended and related notes, including the significant accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view, of the state of affairs of the LLP as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the LLP in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The members have prepared the financial statements on the going concern basis as they do not intend to liquidate the LLP or to cease its operations, and as they have concluded that the LLP's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the members' conclusions, we considered the inherent risks to the LLP's business model and analysed how those risks might affect the LLP's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the members' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the members' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the LLP's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the LLP will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, management, and inspection of policy documentation as to the entity's high-level policies and procedures to prevent and detect fraud and the LLP's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Covered Bond compliance meeting minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because of the limited incentive to manipulate revenue.

We did not identify any additional fraud risks.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the entity-wide fraud risk management controls

We also performed procedures including:

Independent auditors' report to the members of TSB Covered Bonds LLP (continued)

for the year ended 31 December 2020

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management and those posted and approved by the same user.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience through discussion with the directors and other management (as required by auditing standards), and from inspection of the LLP's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

The LLP is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the LLP is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other information

The members are responsible for the other information, which comprises the members' report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

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 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
- we have not received all the information and explanations we require for our audit

We have nothing to report in these respects.

Members' responsibilities

As explained more fully in their statement set out on page [*XX*], the members are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the LLP's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the LLP or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement

Independent auditors' report to the members of TSB Covered Bonds LLP (continued)

when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the members of the LLP, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as required by Regulation 39 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008. Our audit work has been undertaken so that we might state to the LLP'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 LLP and the LLP's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Matthew Rowell (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

27 April 2021

Statement of comprehensive income

for the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Interest receivable and similar income	2	11,220	15,578
Interest payable and similar charges	3	(11,139)	(15,526)
Net interest income		**81**	**52**
Operating expenses	4	78	(49)
Profit for the year and total comprehensive income available for division among members		**3**	**3**

There were no gains or losses other than those in the statement of comprehensive income. Accordingly, no statement of total recognised gains or losses is presented.

The accompanying notes on pages 14 to 23 are an integral part of the financial statements.

TSB Covered Bonds LLP

Balance sheet

as at 31 December 2020

	Note	31 Dec 2020 £'000	31 Dec 2019 £'000
Assets			
Cash and cash equivalents		43,266	30,643
Deemed loan to TSB	5	1,207,792	1,221,242
Other assets		6	3
Total assets		**1,251,064**	**1,251,888**
Members' other interests and liabilities			
Loans and borrowings	6	1,251,016	1,251,849
Other payables		36	30
Total liabilities		**1,251,052**	**1,251,879**
Reserves	7	12	9
Total members' other interests		**12**	**9**
Total members' other interests and liabilities		**1,251,064**	**1,251,888**
Total members' interests			
Reserves	7	(12)	(9)
Deemed loan to TSB	5	1,207,792	1,221,242
Loans and borrowings	6	(1,251,016)	(1,251,849)
		(43,236)	**(30,616)**

The accompanying notes on pages 14 to 23 are an integral part of the financial statements.

The financial statements on pages 10 to 23 w ere approved by the members on 27 April 2021 and signed on their behalf by:

Helena Whitaker	Alison Straszewski
Per pro Intertrust Directors 1 Limited	On behalf of
As director of TSB Covered Bonds (LM) Limited	TSB Bank plc

27 April 2021

Registered Number OC411834

Statement of changes in members' other interests

for the year ended 31 December 2020

	2020 £'000	2019 £'000
Balance at start of the year	9	6
Profit for the year	3	3
Balance at 31 December	**12**	**9**

The accompanying notes on pages 14 to 23 are an integral part of the financial statements.

TSB Covered Bonds LLP

Cash flow statement

for the year ended 31 December 2020

	2020 £'000	2019 £'000
Operating activities		
Operating expenses paid	(75)	(69)
Net cash flows used in operating activities	**(75)**	**(69)**
Investing activities		
Principal receipts from deemed loan to TSB	352,263	333,989
Revenue receipts from deemed loan to TSB	38,063	40,437
Increase in deemed loan to TSB	(365,690)	(1,107,892)
Bank interest received	34	116
Net cash flows generated from investing activities	**24,670**	**(733,350)**
Financing activities		
Proceeds from term loans	-	750,000
Interest on term loans	(11,972)	(14,210)
Net cash flows generated from financing activities	**(11,972)**	**735,790**
Change in cash and cash equivalents	**12,623**	**2,371**
Cash and cash equivalents at start of the year	30,643	28,273
Cash and cash equivalents at end of the year	**43,266**	**30,643**

The accompanying notes on pages 14 to 23 are an integral part of the financial statements.

Notes to the financial statements

1. Significant accounting policies

The LLP is a limited liability partnership incorporated in the United Kingdom and registered in England and Wales under the Limited Liabilities Partnerships Act 2000.

1(a) Basis of preparation

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

In order to assess the ability of the LLP to continue as a going concern, he members have reviewed the potential risks posed to the LLP over the next 12 months. These are primarily the deterioration of mortgage assets, as a result of, but not limited to COVID-19, and negative interest rates. In consideration of these risks, the members are satisfied that the LLP has adequate resources to continue to operate for the foreseeable future and is financially sound. In addition to this, the Covered Bond Transaction, to which the LLP is a counterparty has a number of mechanisms which ensure that in the event of a downturn in asset performance, that the level of overcollateralisation will increase to a level which is believed by the members to be sufficient to cover the liabilities of the LLP including the guarantee to the Covered Bond holders. For this reason, the members continue to adopt the going concern basis in preparing the financial statements.

The principal accounting policies applied in the preparation of these financial statements are set out below and have been consistently applied in the financial statements.

The financial statements are presented in Sterling, which is the LLP's functional and presentation currency, and have been prepared on the historical cost basis.

1(b) Interest receivable and interest payable

Interest receivable and similar income and interest payable and similar charges have been calculated using the effective interest rate ("EIR") method. The EIR 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 EIR 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. When calculating the EIR, the future cash flows are estimated after considering all the contractual terms of the instrument but not future credit losses.

1(c) Accrued interest

Accrued interest has been incorporated within the deemed loan to TSB Bank plc ("TSB") and within the term loans on the balance sheet.

1(d) Financial instruments

Financial instruments comprise a deemed loan to TSB, cash and liquid resources, term loans, derivative contracts, and other receivables and payables that arise directly from its operations. The main purpose of these financial instruments is to raise finance for TSB. These financial instruments are classified in accordance with the principles of International Financial Reporting Standard 9 (IFRS 9) as described below.

1(e)(i) Deemed loan to TSB

Financial assets are de-recognised when a transferor meets the pass-through requirements combined with the transfer of sufficient risk and rewards test.

Where a transferor retains substantially all the risks and rewards associated with transferred assets, the transfer is accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective. In such a case the transferee would not recognise the assets on its balance sheet but rather a deemed loan to the originator, where recourse to the originator is limited to the cash flows from the mortgage loans and any additional credit enhancement provided.

Notes to the financial statements (continued)

for the year ended 31 December 2020

1. Significant accounting policies (continued)

1(e)(i) Deemed loan to TSB (continued)

This is the treatment which has been adopted on the transfer of the mortgage loans from TSB to the LLP. The LLP has determined that the transfer of the contractual rights to cash flows is not affected by TSB retaining the cash manager and servicer roles and the revolving nature of the asset pool underlying the programme introduces a material delay between the original cash collection and its final remittance to TSB under the term loans. As a result of this, the pass-through arrangement is failed and TSB continues to recognise the mortgage assets on its balance sheet.

Had the pass-through arrangement conditions been met, the mortgages would still not be eligible for de-recognition because TSB bears the risk of default on the loans through the requirement to add additional collateral to pass the Asset Coverage Test, and also receives excess income generated from the loans, exposing it to the variability of rewards of the underlying mortgage portfolio.

In accordance with IFRS9, the deemed loan to TSB is measured at amortised cost, as the members consider that the business model for the deemed loan is to hold the assets to collect the contractual cashflows, representing solely payments of principal and interest, in order to service the LLP's liabilities.

The deemed loan to TSB is comprised of a failed sale of mortgages from TSB, an interest rate derivative contract and a return of excess income to TSB and is reported on a net basis.

1(e)(ii) Impairment of deemed loan to TSB

At initial recognition, an impairment allowance is required for expected credit losses (ECL) resulting from default events expected within the next 12 months (12-month ECL).

At each balance sheet date an assessment is made as to whether, as a result of one or more events occurring after initial recognition, there is objective evidence that the deemed loan to TSB has had a significant increase in credit risk.

In the event of a significant increase in credit risk, allowance is required for ECL resulting from default events expected over the estimated life of the financial instrument (lifetime ECL). IFRS 9 requires the financial asset to be allocated to one of three 'stages' as follows:

- Stage 1 - Financial assets which have not experienced a significant increase in credit risk since they were originated. Recognition of a 12-month ECL is required. Interest income on stage 1 financial assets is calculated on the gross carrying amount of the financial asset;
- Stage 2 – Financial assets which have experienced a significant increase in credit risk. For financial assets in stage 2, recognition of a lifetime ECL impairment allowance is required. Interest income on stage 2 financial assets is calculated on the gross carrying amount of the financial asset; and
- Stage 3 - Financial assets which have experienced one of more events that have had a detrimental impact on the estimated future cash flows and are considered to be credit impaired. Like stage 2, recognition of a lifetime expected ECL impairment allowance is required. However, interest income on stage 3 loans is calculated on the financial asset balance net of the impairment allowance.

In assessing the deemed loan to TSB for impairment, the members consider both impairments on the underlying mortgage assets and the overcollateralisation required in the transaction which provides credit enhancement in excess of the ECL of the underlying mortgage assets.

Taking into account these factors, the members conclude that there is no significant increase in credit risk of the deemed loan since inception and that there are sufficient cash flows from the deemed loan for the LLP to meet its liabilities and therefore records it as Stage 1 with no impairment.

1(e)(iii) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and amounts due from banks with a maturity of less than three months. As the cash can only be used to meet certain specific liabilities and is not available to be used at the LLP's discretion, it is viewed as restricted cash.

1. Significant accounting policies (continued)

1(e)(iv) Derivative financial instruments

The interest rate derivative contracts used to manage the interest rate risk are not recognised separately on the balance sheet as financial instruments as the amounts payable under the derivative contracts reflect interest flows from the mortgage loans which are not recognised by the LLP for accounting purposes. Instead, the deemed loan to TSB is recognised with an EIR which reflects the amount received or paid under the derivative contracts.

1(f) Critical accounting estimates and judgements

The preparation of the financial statements necessarily requires the exercise of judgement both in the application of accounting policies and in the selection of assumptions used in the calculation of accounting estimates. These judgements are reviewed on an ongoing basis and are continually evaluated based on historical experience and other factors. The most significantly affected components of the financial statements and associated critical judgements are as follows:

1(f)(i) Effective interest rate method

In calculating the EIR of financial instruments, the LLP takes into account interest received or paid, fees and commissions paid or received and premiums and discounts on acquisition or issue that are integral to the yield as well as incremental transaction costs.

Management have performed an assessment during the year of the interest income on the deemed loan. The interest received, and interest paid are both on a floating rate, future expenses can be accurately projected and consistent each year. Therefore the actual interest income is in line with the EIR method.

1(f)(ii) Impairment of deemed loan to TSB

The LLP's accounting policy for losses arising on the deemed loan classified as loans and receivables is described in note 1(e)(ii). The allowance for impairment losses on loans and receivables is management's best estimate of losses incurred in the portfolio taking into account other credit enhancement at the balance sheet date. The accounting treatment and judgements are covered in section 1(e)(ii). No impairment has been identified on the deemed loan due to the level of over-collateralisation, furthermore TSB is obliged to replace under-performing loans within the pool, hence the quality and level of over-collateralisation is maintained.

At 31 December 2020, impairment allowances against the deemed loan totalled £nil (2019: £nil).

1(g) Segment Reporting

The members of the LLP consider that the entity has only one reportable segment and therefore is not required to produce additional segmental disclosure

2. Interest receivable and similar income

	2020 £'000	2019 £'000
Interest receivable on deemed loan	11,186	15,462
Bank interest receivable	34	116
Total	**11,220**	**15,578**

The LLP accounts for the interest due on the deemed loan by capping it at a level which covers its liabilities, including the retention of a notional profit, effectively netting down excess income within the interest income of the LLP.

3. Interest payable and similar charges

	2020 £'000	2019 £'000
Interest payable on term loans	11,139	15,526

4. Operating expenses

	2020 £'000	2019 £'000
Administration charges	42	19
Audit fees	36	30
Total	**78**	**49**

The LLP had no employees during the year (2019: none).

The audit fees for the LLP relate to the statutory audit. The fee for the LLP for the current year is £21,600 (2019: £18,000) and paid by the LLP. The LLP also pays the audit fees for TSB Covered Bonds Holdings Limited and TSB Covered Bonds (LM) Limited. The combined fees for both entities for the current year is £14,400 (2019: £12,000).

5. Deemed loan to TSB

The members of the LLP have concluded that TSB has retained substantially all the risks and rewards of the pool of mortgage loans underlying the deemed loan and as a consequence, the LLP does not recognise the mortgage loans on its balance sheet but rather a deemed loan to TSB, where recourse is limited to the cash flows from the mortgage loans and any additional credit enhancement provided by TSB.

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 TSB are not recognised by the LLP. The mortgage loans are secured on residential property in England, Wales and Scotland. Mortgages in the pool must fulfil certain criteria. If they fail to do so they are removed from the pool and the pool may be replenished.

	31 Dec 2020 £'000	31 Dec 2019 £'000
Non-current		
Principal	1,196,606	1,205,780
Current	11,186	15,462
Interest		
Deemed loan to TSB	**1,207,792**	**1,221,242**

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

6. Loans and borrowings

Loans and borrowings comprise a series of term loans from TSB, equivalent to the Covered Bonds issued by TSB.

TSB will not be relying on repayment of any term loan by the LLP nor the interest thereon 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 detailed in the programme documentation.

The Covered Bonds issued by TSB are unconditionally guaranteed by the LLP. Under the terms of the programme documentation, the LLP has provided a guarantee as to payments of interest and principal under the Covered Bonds. The obligations of the LLP under its guarantee constitute direct obligations of the LLP secured against the assets 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 TSB.

6. Loans and borrowings (continued)

	31 Dec 2020 £'000	31 Dec 2019 £'000
Non-current		
Term loans with TSB	1,250,000	1,250,000
Current		
Interest due on term loans	1,016	1,849
GBP –		
TSB 2017-1 issue - priced against SONIA +37.2bps		
TSB 2019-1 issue - priced against SONIA +87bps		
Total	**1,251,016**	**1,251,849**

7. Reserves

	Members' Capital	Reserves	Total	Loan due to members	Total
	£000	£000	£000	£000	£000
Repaid to members	-	-	-	-	-
Members' Interest as at 1 January 2020	-	9	9	1,250,000	1,250,009
Profit for the year available for division among members	-	3	3	-	3
Loans introduced by members	-	-	-	-	-
Members' Interest as at 31 December 2020	**-**	**12**	**12**	**1,250,000**	**1,250,012**

8. Management of risk

The principal risks arising from the LLP's financial instruments are credit risk, interest rate risk and liquidity risk. However, the LLP directs TSB to expend considerable resource to maintaining effective controls to manage, measure and mitigate each of these risks in its role as servicer. 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 inception of the Programme. The LLP's activities and the role of each party to the Programme are clearly defined and documented. Cash flow modelling, including multiple stress scenarios, is carried out as part of the structuring of the Programme. For this reason, sensitivity to risk is minimal.

8(a) Credit risk

Credit risk is the risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations.

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 funds being received on the deemed loan. The primary credit risk of the LLP therefore relates to the credit risk associated with the underlying pool of mortgages originated by TSB.

The underlying mortgage assets are all secured on residential properties in England, Wales and Scotland. The nature of the residential mortgage portfolio means there is no significant individual counterparty credit risk in relation to the underlying mortgage pool.

8. Management of risk (continued)

8(a) Credit risk (continued)

The likelihood of defaults in the mortgage pool and the amounts that may be recovered in the event of default are related to a number of factors and may vary according to characteristics of the customer and the product type. Significant changes in the economy, or in the health of a particular geographical area that represents a concentration in the mortgage assets, could also affect the cash flows from the mortgage pool.

The LLP has engaged TSB as servicer of the mortgage loans in the portfolio to help reduce the risk of loss. The servicer is required to monitor repayments of the mortgage loans in accordance with its normal credit policies. The servicer is also responsible for ensuring mortgage loans 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 of interest payments is returned to TSB.

Credit risk for the LLP is mitigated by the amount of over collateralisation of the beneficial interest in mortgages which is provided by TSB. The over collateralisation is available in full for the benefit of the LLP. The programme documentation provides for an Asset Coverage Test ("ACT"), under which the LLP must ensure that the adjusted aggregate loan amount of the mortgage pool asset and cash is at least equal to the aggregate amount outstanding on the Covered Bonds on each calculation date after taking into account other deductions.

In the event that there is a breach of the ACT, TSB 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 calculation date. If there is a deficit on the following calculation date, this will constitute a TSB Event of Default, which would entitle the Trustee to serve an Issuer Acceleration Notice on TSB. Upon service of such notice, the Bond Trustee will serve a notice to pay on the LLP under the Covered Bond guarantee. This would require the LLP to repay all amounts outstanding on the Covered Bonds, including principal and accrued interest.

The total mortgage pool made available to the LLP as at 31 December 2020 amounted to £1,815m (2019: £1,802m). As noted in the accounting policies section, the LLP does not recognise the mortgage pool but rather a deemed loan to TSB.

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 rating scale of the credit rating agencies that rate the Covered Bonds, the programme documentation contains various rating triggers linked to each counterparty, which require certain actions to be taken if triggers are breached.

Counterparty	Rating	Required Rating (Moodys)	Rating as at 31 Dec 2020 (Moodys)	Rating as at date of approval of the financial statements (Moodys)
HSBC Bank plc (in capacity as account bank)	Short Term	P-1	P-1	P-1
	Long Term	A2	A1	A1
TSB Bank plc (in capacity as swap provider)	Long Term	A3(cr)	A3(cr)	A3(cr)

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 the required rating, procuring another entity with the required rating to become co-obligor to 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.

Notes to the financial statements (continued)

for the year ended 31 December 2020

8. Management of risk (continued)

8(a) Credit risk (continued)

	31 Dec 2020 £'000	31 Dec 2019 £'000
Assets held at amortised cost:		
Deemed loan to TSB	1,207,786	1,221,242
Cash and cash equivalents	43,266	30,643
Other assets	6	3
	1,251,058	**1,251,888**

At the balance sheet date, no financial assets subject to credit risk were past due or impaired.

Mortgage assets

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

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

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

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

2020	**Mortgage Balance £'000**	**Number of Accounts**
Stage 1	1,708,096	14,144
Stage 2	100,242	942
Stage 3	6,701	79
Total	**1,815,039**	**15,165**

2019	**Mortgage Balance £'000**	**Number of Accounts**
Stage 1	1,692,384	13,677
Stage 2	105,001	986
Stage 3	4,850	62
Total	**1,802,235**	**14,725**

8. Management of risk (continued)

8(b) Interest rate risk

Interest rate risk arises where assets and liabilities have 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 risk by ensuring that the interest rate characteristics of assets and liabilities are similar and 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 TSB 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 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 basis swaps with TSB which substantially eliminate the sensitivity to movements in interest rates.

8(c) Liquidity risk

Liquidity risk is the risk that the LLP is not able to meet its financial obligations as they fall due.

The LLP's ability to meet payments on the term loans as they fall due is dependent on the receipt of funds from the deemed loan to TSB which will vary due to the level of repayments on the underlying mortgage portfolio.

Principal repayments are made on the term loans with TSB in accordance with the LLP's principal priority of payments and reflect the amount of principal collections from the underlying mortgage loans. In the event that the LLP does not have sufficient cash 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. Recourse against the LLP under its guarantee is limited to the mortgage pool and any other assets held by the LLP.

The tables below reflect the undiscounted cash payments which will fall due at the contractual maturity dates of the term loans. It is anticipated that the interest and principal repayments on the deemed loan to TSB will be sufficient to allow repayment of the term loans.

2020	**Carrying Value**	**Contractual repayment value**	**<1 Month**	**1-3 Months**	**3 Months – 1 Year**	**1-5 Years**	**> 5 Years**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Principal							
Term loans with TSB 2017-1	500,000	500,000	-	-	-	500,000	-
Term loans with TSB 2019-1	750,000	750,000	-	-	-	750,000	-
Other Payables							
Interest payable on Term loans with TSB 2017-1 issue	145	4,222	-	526	1,585	2,111	-
Interest payable on Term loans with TSB 2019-1 issue	871	22,464	-	1,723	5,171	15,570	-
	1,251,016	**1,276,686**	**-**	**2,249**	**6,756**	**1,267,681**	**-**

8. Management of risk (continued)

8(c) Liquidity risk (continued)

2019	Carrying Value	Contractual repayment value	<1 Month	1-3 Months	3 Months – 1 Year	1-5 Years	> 5 Years
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Principal							
Term loans with TSB 2017-1	500,000	500,000	-	-	-	500,000	-
Term loans with TSB 2019-1	750,000	750,000	-	-	-	750,000	-
Other Payables							
Interest payable on Term loans with TSB 2017-1 issue	323	15,379	-	1,276	3,827	10,276	-
Interest payable on Term loans with TSB 2019-1 issue	1,526	50,533	-	3,053	8,866	38,614	-
	1,251,849	**1,315,912**	**-**	**4,329**	**12,693**	**1,298,890**	**-**

8(d) Fair values

The LLP uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 valuations are those where quoted market prices are not available, for example where the instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3 valuations are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data.

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

Deemed loan to TSB

The deemed loan to TSB is comprised of a failed sale of mortgages from TSB, an interest rate derivative contract and a return of excess income to TSB. This is considered to be a single financial instrument which is carrying a market rate of interest. The fair value has been determined based on internally developed pricing models using level 3 valuation techniques and is considered to be a close approximation to the carrying value.

Term loans in issue

The fair values of the term loans are not considered to be in an active market. The fair value has been determined using internally developed pricing models and is considered to be a close approximation to the carrying value and classified as level 3.

9. Related party transactions

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

The LLP has provided a deemed loan to TSB on which the LLP receives income. In addition, the LLP paid servicer and cash manager fees to TSB in connection with the provision of services defined under the programme documentation. TSB is the counterparty of the interest rate swap agreements. The swap payments and management fees are included in the income from the deemed loan.

Notes to the financial statements (continued)

for the year ended 31 December 2020

9. Related party transactions (continued)

Intertrust Corporate Services Limited ("Intertrust") is the immediate parent company of TSB Covered Bond (Holdings) Limited which is the majority shareholder of TSB Covered Bonds (LM) Limited. Intertrust is a wholly owned subsidiary of Intertrust Management Limited. TSB pays corporate services fees to Intertrust in connection with its provision of corporate management services to the LLP and related companies. In 2020 this amounted to £31,584 (2019: £20,586).

The LLP has entered into related party transactions with Intertrust Management Limited ("Intertrust") and TSB Bank plc ("TSB").

During the year, the LLP undertook the transactions set out below with TSB.

	2020 £'000	2019 £'000
Interest receivable and similar income		
Income from deemed loan to TSB	11,220	15,578
Cash manager and servicing fees	2,084	1,951
Interest payable and similar charges		
Interest payable to TSB on term loans	(11,139)	(15,526)

Assets	31 Dec 2020 £'000	31 Dec 2019 £'000
Deemed loan to TSB	1,207,792	1,221,242
Term loans from TSB	(1,251,016)	(1,251,849)

10. Parent undertaking and controlling party

The designated members of the LLP are TSB Bank plc and TSB Covered Bonds (LM) Limited (as Liquidation Member).

For accounting purposes, at 31 December 2020 the LLP's ultimate controlling party was Banco de Sabadell S.A., which is the parent undertaking of the largest group to consolidate these financial statements. Copies of the consolidated annual report and accounts of Banco Sabadell S.A. are available from www.grupbancsabadell.com/en/. TSB Bank plc is the parent undertaking of the smallest group to consolidate these financial statements. Copies of the consolidated financial statements of TSB Bank plc may be obtained from 20 Gresham Street, London, EC2V 7JE or downloaded via www.tsb.co.uk.