

BARCLAYS COVERED BOND FUNDING LLP

REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017



REGISTERED NUMBER: OC349085

BARCLAYS COVERED BOND FUNDING LLP
Members' Report and Financial Statements
For the year ended 31 December 2017

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BARCLAYS COVERED BOND FUNDING LLP

Members' Report For the year ended 31 December 2017

The Members present their report together with the audited financial statements of Barclays Covered Bond Funding LLP ("the Partnership" or "the LLP") for the year ended 31 December 2017.

Results

In line with the Partnership's activities, interest income on assets is exactly matched by interest expenses on liabilities. Consequently, during the year ended 31 December 2017 the Partnership reported a result of £nil (2016: £nil). As at 31 December 2017, the net assets attributable to the Members were £nil (2016: £nil) and the Members' capital was £nil (2016: £nil) as disclosed in the Balance Sheet.

Members

As at 31 December 2017 the members were:
Barclays Bank PLC (Designated Member)
Canton III Limited (Designated Member)

Post balance sheet events

As a part of the Barclays Group ring-fencing transfer scheme, on 1 April 2018 Barclays Bank PLC ("BBPLC") transferred its covered bond programme to Barclays Bank UK PLC ("BBUKPLC"). As such, Barclays Bank PLC ceased to be a member of the Partnership on 1 April 2018, and Barclays Bank UK PLC became a member on 1 April 2018.

Management Committee

The Members of the Partnership Management Committee during the year and subsequently are:

Intertrust Directors 1 Limited
Rupert Fowden (appointed on 1 April 2018)
David Fraher (appointed on 1 April 2018)
Fiona Chan
Bully Suid (resigned on 1 April 2018)
Anthony Knobel (resigned on 1 April 2018)
Nicholas Jonathan Neil Hogan (resigned on 1 April 2018)
Daniel Richard Fairclough (resigned on 27 March 2017)

Going concern

After reviewing the Partnership's performance and taking into account the support from BBPLC (BBUKPLC effective 1 April 2018) (the parent undertaking – Note 14), the Members are satisfied that the Partnership has adequate access to resources to enable them to meet its obligations and to continue in operational existence for the foreseeable future. For this reason, the Members have adopted the going concern basis in preparing these financial statements.

Statement of Members' responsibilities in respect of the Members' Report and the financial statements

The members are responsible for preparing the Members' Report and the financial statements in accordance with applicable law and regulations.

The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 require the members to prepare financial statements for each financial year. Under that law the members have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under Regulation 8 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 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 LLP and of its profit or loss for that period. In preparing these financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the LLP's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use 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.

BARCLAYS COVERED BOND FUNDING LLP
Members' Report For the year ended 31 December 2017(continued)

Under Regulation 6 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008, the members are responsible for keeping adequate accounting records that are sufficient to show and explain the LLP's transactions and disclose with reasonable accuracy at any time the financial position of the LLP and enable them to ensure that its financial statements comply with those regulations. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the LLP and to prevent and detect fraud and other irregularities.

The members are responsible for the maintenance and integrity of the corporate and financial information included on the LLP's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Financial risk management

The Partnership faces financial risk from the financial instruments it has acquired and issued. The Partnership's objective is to reduce its exposure to all forms of financial risk.

The principal risks facing the Partnership include credit risk. See pages 17-21 for further details.

Political and charitable contributions

The Partnership made no political and charitable contributions during the year (2016: £nil).

Employees

There were no employees employed by the Partnership during the year (2016: nil).

Independent auditor

The auditor, KPMG LLP was appointed as the auditor of the Partnership during the year under review and is to remain in office until the conclusion of the Partnership's annual members meeting. Having expressed their willingness to continue in office, a resolution for the reappointment of KPMG LLP will be proposed at the forthcoming annual members' meeting in accordance with the Companies Act 2006 as applied to the Limited Liability Partnership (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

Statement of Disclosure of information to auditor

So far as the Members are aware, there is no relevant audit information of which the Partnership's auditor is unaware. The Members 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 Partnership's auditor is aware of that information.



FIONA CHAN

For and on behalf of the Members of Barclays Covered Bond Funding LLP
Authorized representative of Barclays Bank UK PLC
Designated Member
Date 26 July 2018

REGISTERED NUMBER: OC349085

BARCLAYS COVERED BOND FUNDING LLP

Strategic Report

For the year ended 31 December 2017

The Members present their strategic report for Barclays Covered Bond Funding LLP ("the Partnership" or "LLP") for the year ended 31 December 2017.

Principal activities

The principal activity of the Partnership is to provide a guarantee in respect of all interest and principal payable under the terms of covered bonds (the "Covered Bonds") issued by BBPLC (BBUKPLC effective 1 April 2018). The guarantee is triggered following an event of default in the Covered Bonds programme by BBUKPLC and the service on the Partnership of a notice to pay. To the extent that BBUKPLC did default, the Partnership will gain access to a pool of ring fenced Local Authority Loans and their respective cash flows and use these assets to service the payments due to the covered bond holders. Recourse against the Partnership is limited to these assets.

Review of business

The Partnership was formed under a limited liability partnership deed entered into on the 29th September 2009 between the following Members:

Barclays Bank PLC (BBUKPLC effective 1 April 2018)
Canton III Limited

To date the Partnership has borrowed monies from BBPLC (BBUKPLC effective 1 April 2018) to fund the acquisition of an equitable interest in a UK Local Authority loan portfolio held in trust. This UK Local Authority loan portfolio is used as security to provide, in the event of certain trigger events being met, a guarantee to the covered bond note holders for the payment of interest and principal.

The Members have reviewed the Partnership's business and performance and consider it to be satisfactory for the year. The Members consider that the Partnership's position at the end of the year is consistent with the size and complexity of the business.

Given the nature of the business, the Members are of the opinion that analysis using Key Performance Indicator's is not necessary for an understanding of the development, performance or position of the business.

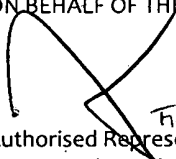
Future outlook

The Members are satisfied with the Partnership's performance during the year under review and it is the intention of the Members that the Partnership will maintain its current level of performance in the future.

Principal risks and uncertainties

From the perspective of the Partnership, the principal risks and uncertainties are integrated with the principal risks of the Barclays PLC group and are not managed separately. Accordingly, the principal risks and uncertainties of Barclays PLC, which include those of the Partnership, are discussed in the Barclays PLC Annual Report 2017, which does not form part of this report.

ON BEHALF OF THE MEMBERS


FIONA CHAN
Authorised Representative of Barclays Bank UK PLC
Designated Member
Date 26 July 2018

BARCLAYS COVERED BOND FUNDING LLP
Independent Auditor's Report
For the year ended 31 December 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BARCLAYS COVERED BOND FUNDING LLP

Opinion

We have audited the financial statements of Barclays Covered Bond Funding LLP (the "LLP") for the year ended 31 December 2017 which comprise the statement of financial position, income statement, cash flow statement and statement of changes in equity, and related notes, including the accounting policies in note 3 (the "financial statements").

In our opinion the financial statements:

- give a true and fair view, of the state of affairs of the LLP as at 31 December 2017 and of its results for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

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

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The members are responsible for the other information, which comprises the members' report and the strategic 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 3, 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.

BARCLAYS COVERED BOND FUNDING LLP
Independent Auditor's Report (continued)
For the year ended 31 December 2017

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 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.



Zaffarali Khakoo (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

26 July 2018

KPMG LLP
15 Canada Square
London
E14 5GL

BARCLAYS COVERED BOND FUNDING LLP
Income Statement
For the year ended 31 December 2017

	Note	31 December 2017 £000	31 December 2016 Restated £000
Continuing operations			
Interest income	4	83,899	87,006
Interest expense	4	(83,899)	(87,006)
Operating result		-	-
Result before tax		-	-
Tax		-	-
Result after tax	10	-	-

All comprehensive income is reflected in the income statement and therefore, a statement of comprehensive income is not required.

The accompanying notes on pages 12 to 23 form an integral part of these financial statements.

In order to correct a prior period error, 2016 figures have been restated to correctly recognise interest income and interest expense and related accruals. Please refer to note 15 for further details on restatement as per IAS-8.

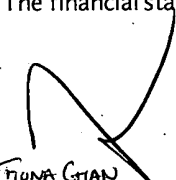
BARCLAYS COVERED BOND FUNDING LLP
Statement of financial position
As at 31 December 2017

	Note	31 December 2017 £000	31 December 2016 Restated £000	1 January 2016 Restated £000
ASSETS				
Non-current assets				
Trade and other receivables	7	2,967,000	2,967,000	2,967,000
Total non-current assets		<u>2,967,000</u>	<u>2,967,000</u>	<u>2,967,000</u>
Current assets				
Trade and other receivables	7	7,398	7,251	7,326
Cash and cash equivalents	8	32,260	28,288	33,419
Total current assets		<u>39,658</u>	<u>35,539</u>	<u>40,745</u>
Total assets		<u>3,006,658</u>	<u>3,002,539</u>	<u>3,007,745</u>
LIABILITIES				
Current liabilities				
Trade and other payables	9	39,658	35,539	40,745
Total current liabilities		<u>36,658</u>	<u>35,539</u>	<u>40,745</u>
Net current assets		<u>-</u>	<u>-</u>	<u>-</u>
Non-current liabilities				
Trade and other payables	9	2,967,000	2,967,000	2,967,000
Total non-current liabilities		<u>2,967,000</u>	<u>2,967,000</u>	<u>2,967,000</u>
Net assets		<u>-</u>	<u>-</u>	<u>-</u>
Represented by				
Members' capital		-	-	-
Other reserves		-	-	-
Retained earnings		-	-	-
Total Partnership equity		<u>-</u>	<u>-</u>	<u>-</u>

The accompanying notes on pages 12 to 23 form an integral part of the financial statements.

In order to correct a prior period error, 2016 figures have been restated to correctly recognise interest income and interest expense and related accruals. Please refer to note 15 for further details on restatement as per IAS-8.

The financial statements on pages 8 to 23 were approved by the Members and were signed on its behalf by:


FIONA CHAN
 Authorised representative of Barclays Bank UK PLC
 Designated Member
 Date 26 July 2018

Registered Number: OC349085

BARCLAYS COVERED BOND FUNDING LLP
Cash flow statement
For the year ended 31 December 2017

	Note	31 December 2017 £000	31 December 2016 Restated £000
Result before tax		-	-
Decrease in trade and other receivables	7	(147)	75
Increase / (Decrease) in trade and other payables	9	4,119	(5,206)
Net cash generated/ (used in) from operating activities		<u>3,972</u>	<u>(5,131)</u>
Net cash generated from investing activities		<u>-</u>	<u>-</u>
Net cash used in financing activities		<u>-</u>	<u>-</u>
Net increase/ (decrease) in cash and cash equivalents		3,972	(5,131)
Cash and cash equivalents at beginning of the year		28,288	33,419
Cash and cash equivalents at 31 December		<u>32,260</u>	<u>28,288</u>
Cash and cash equivalents comprise:			
Cash and balances with banks		<u>32,260</u>	<u>28,288</u>

The accompanying notes on pages 12 to 23 form an integral part of the financial statements.

In order to correct a prior period error, 2016 figures have been restated to correctly recognise interest income and interest expense and related accruals. Please refer to note 15 for further details on restatement as per IAS-8.

BARCLAYS COVERED BOND FUNDING LLP
Statement of changes in equity
For the year ended 31 December 2017

	Members' capital	Retained earnings	Total Members' interests
	£000	£000	£000
Balance at 1 January 2017	-	-	-
Profit/Loss and total comprehensive income for the financial year	-	-	-
Balance at 31 December 2017	-	-	-

	Members' capital	Retained earnings	Total Members' interests
	£000	£000	£000
Balance at 1 January 2016	-	-	-
Profit/Loss and total comprehensive income for the financial year	-	-	-
Balance at 31 December 2016	-	-	-

The accompanying notes on pages 12 to 23 form an integral part of the financial statements.

In order to correct a prior period error, 2016 figures have been restated to correctly recognise interest income and interest expense and related accruals. Please refer to note 15 for further details on restatement as per IAS-8.

BARCLAYS COVERED BOND FUNDING LLP
Notes to the Financial Statements
For the year ended 31 December 2017

1 Reporting entity /

These financial statements are prepared for Barclays Covered Bond Funding LLP (the "Partnership" or "LLP"), the principal activity of which is to provide a guarantee in respect of all interest and principal payable under the terms of the Covered Bonds issued by BBPLC (BBUKPLC effective 1 April 2018).

The LLP is incorporated in the United Kingdom as a limited liability partnership under the Limited Liability Partnership Act 2000. The address of the registered office of the Partnership is 1 Churchill Place, London E14 5HP.

2 Compliance with International Financial Reporting Standards

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and interpretations issued by the Interpretations Committee ('IFRICs'), as published by the International Accounting Standards Board ('IASB'). They are also in accordance with IFRS and IFRIC interpretations endorsed by the European Union and Limited Liability Partnerships Act 2000. The principal accounting policies applied in the preparation of the individual financial statements are set out below, and in the relevant notes to the financial statements. These policies have been consistently applied.

3 Summary of significant accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention modified to include the fair valuation of certain financial instruments to the extent required or permitted under IAS 39, 'Financial Instruments, Recognition and Measurement', as set out in the relevant accounting policies. The functional and presentational currency is pounds sterling, (£000), the currency of the country in which the Partnership is incorporated and undertakes its business.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The notes to the financial statements set out those areas involving a higher degree of judgement or complexity where relevant, or areas where assumptions are significant to the financial statements.

Going concern

After reviewing the Partnership's performance and taking into account the support from BBPLC (BBUKPLC effective 1 April 2018), the General Partner is satisfied that the Partnership has adequate access to resources to enable them to meet its obligations and to continue in operational existence for the foreseeable future. For this reason, the financial statements have been prepared on a going concern basis.

a) Substance of transaction

The Partnership has received a loan from BBPLC (BBUKPLC effective 1 April 2018), equivalent to the amount that BBPLC had received from note holders under its Covered Bond programme. This amount is shown in non-current liabilities.

It has used this loan to acquire a portfolio of Local Authority Loans from BBPLC, however, as explained under the 'derecognition' policy below, these loans are not recognised on the balance sheet and instead the amount paid to BBPLC as consideration for the loans is recognised as a deemed related party loan within current and non-current assets.

The Partnership has granted a guarantee to the Covered Bond holders in respect of the amounts due to them by BBPLC, under the Covered Bond programme. The Partnership is legally entitled to the cash flows on the loan pool and, in the event of a default by BBPLC (BBUKPLC effective 1 April 2018), on the Covered Bonds and thus a requirement for the Partnership to make a payment under the guarantee, it returns these cash flows to BBPLC (BBUKPLC effective 1 April 2018). These cash flows are not recognised in the financial statements of the Partnership as they arise from the loans which are not recognised by the Partnership, and they are passed immediately back to BBPLC (BBUKPLC effective 1 April 2018).

BARCLAYS COVERED BOND FUNDING LLP
Notes to the Financial Statements
For the year ended 31 December 2017

3 Summary of significant accounting policies (continued)

a) Substance of transaction (continued)

The Partnership has also entered into a total return swap. The total return swap entitles BBPLC (BBUKPLC effective 1 April 2018), to the total interest income on the securitised loans and the interest on the bank account and obligates BBPLC (BBUKPLC effective 1 April 2018), to pay GBP LIBOR plus a fixed margin to the LLP.

In accordance with interpretation of the application guidance to IAS 39, as the counterparty to the swap is BBPLC (BBUKPLC effective 1 April 2018). The total return swap is not separately accounted for as derivative financial instruments but is included as a component of the deemed loan from the LLP to BBPLC (BBUKPLC effective 1 April 2018). The principal amount of the contract does not represent the Partnership's real exposure to credit risk which is effectively nil as the intercompany loan and the deemed loan are with the same counterparty, BBPLC (BBUKPLC effective 1 April 2018).

b) Derecognition

The Partnership has acquired a legal interest in a Local Authority loan portfolio from BBPLC (BBUKPLC effective 1 April 2018). However, the legal transfer of the beneficial interest in the loan portfolio fails the criteria for derecognition in the financial statements of BBPLC (BBUKPLC effective 1 April 2018), (as substantially all the risks and rewards are retained by BBUK PLC) and consequently the beneficial interest is recognised in the balance sheet of BBPLC (BBUKPLC effective 1 April 2018) and has not been recognised on the balance sheet of the Partnership. Instead, a non-current asset representing a receivable from related party BBPLC (BBUKPLC effective 1 April 2018), has been recognised on the balance sheet of the Partnership.

c) Interest

Interest income or expense is recognised on all interest bearing financial assets and on interest bearing financial liabilities, using the effective interest rate method.

The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying amount of the instrument. The method has the effect of recognising income (and expense) receivable (or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

d) Current and deferred tax

The Partnership itself is not a taxable entity. Each Member will be responsible for their own taxation liability according to their own circumstances.

e) Financial assets and liabilities

The Partnership recognises financial instruments from the contract date, and continues to recognise them until, in the case of assets, the rights to receive cash flows have expired or the Partnership has transferred substantially all the risks and rewards of ownership, or in the case of liabilities, until the liability has been settled, extinguished or has expired.

Financial assets and liabilities are initially recognised at fair value and then classified in the following categories and dealt with in the financial statements as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. Loans and receivables are stated at amortised cost using the effective interest rate method. They are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost, using the effective interest rate method. They are derecognised when the rights to receive cash flows have expired or the Partnership has transferred substantially all the risks and rewards of ownership.

Financial liabilities

Financial liabilities are measured at amortised cost. Financial liabilities are derecognised when extinguished. The Partnership's financial liabilities comprise trade and other payables in the balance sheet.

3 Summary of significant accounting policies (continued)

e) Financial assets and liabilities (continued)

Impairment of financial assets

Impairment losses are recognised in the income statement.

The Partnership assesses at each balance sheet date whether there is objective evidence that a financial asset or a portfolio of financial assets, including trade receivables, is impaired. The factors that the Partnership takes into account include significant financial difficulties of the debtor or the issuer, a breach of contract or default in payments, the granting by the Partnership of a concession to the debtor because of a deterioration in its financial condition, the probability that the debtor will enter into bankruptcy or other financial reorganisation, or, in the disappearance of an active market for a security because of the issuer's financial difficulties.

The Partnership also considers observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, arising from adverse changes in the payment status of borrowers in the portfolio and national or local economic conditions that correlate with defaults on assets in the portfolio.

The Partnership first assesses whether objective evidence of impairment exists individually for individually significant financial assets and then collectively assesses remaining financial assets that are not individually significant. In addition, portfolios of financial assets with similar credit risk characteristics are also collectively assessed.

Impairment allowances are calculated, based on the difference between the carrying amount of the asset and its estimated recoverable amount, calculated by reference to the expected cash flows discounted at the original effective interest rate for the asset.

Fair value of Financial Instruments

The Members consider that the fair value of financial instruments approximates cost, being the carrying value stated on the balance sheet.

f) Cash and cash equivalents

For the purposes of the cash flow statement, cash comprises cash in hand, demand deposits and cash equivalents. Cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of less than three months. Trading balances are not considered to be part of cash equivalents.

g) Derivative financial instruments

Total return swap entered into with BBPLC (BBUKPLC effective 1 April 2018), as part of the transfer of the loans to the partnership are not separately accounted for as derivatives, but are reflected in the deemed terms of the limited recourse loan to BBPLC (BBUKPLC effective 1 April 2018).

h) Financial guarantee

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantees are initially recognised in the financial statements at fair value on the date that the guarantee was given. Fair value is presumed to be equal to the premium unless there is evidence to the contrary.

Any increase in the liability relating to guarantees is taken to the income statement in provisions for undrawn contractually committed facilities and guarantees provided. Any liability remaining is recognised in the income statement when the guarantee is discharged, cancelled or expires.

3 Summary of significant accounting policies (continued)

i) Standards, amendments and interpretations

Standards, amendments and interpretations effective during or after 2017

There are expected to be a number of significant changes to the Partnership's financial reporting after 2017 as a result of amended or new accounting standards that have been or will be issued by the IASB. The most significant of these are as follows:

IFRS 9 Financial Instruments which replaces IAS 39 Financial Instruments: Recognition and Measurement is effective for periods beginning on or after 1 January 2018 and was endorsed by the EU in November 2016. IFRS 9, in particular the impairment requirements, will lead to significant changes in the accounting for financial instruments. The Partnership does not expect to restate comparatives on initial application of IFRS 9 on 1 January 2018 however will provide detailed transitional disclosures in accordance with the amended requirements of IFRS 7. The key changes relate to:

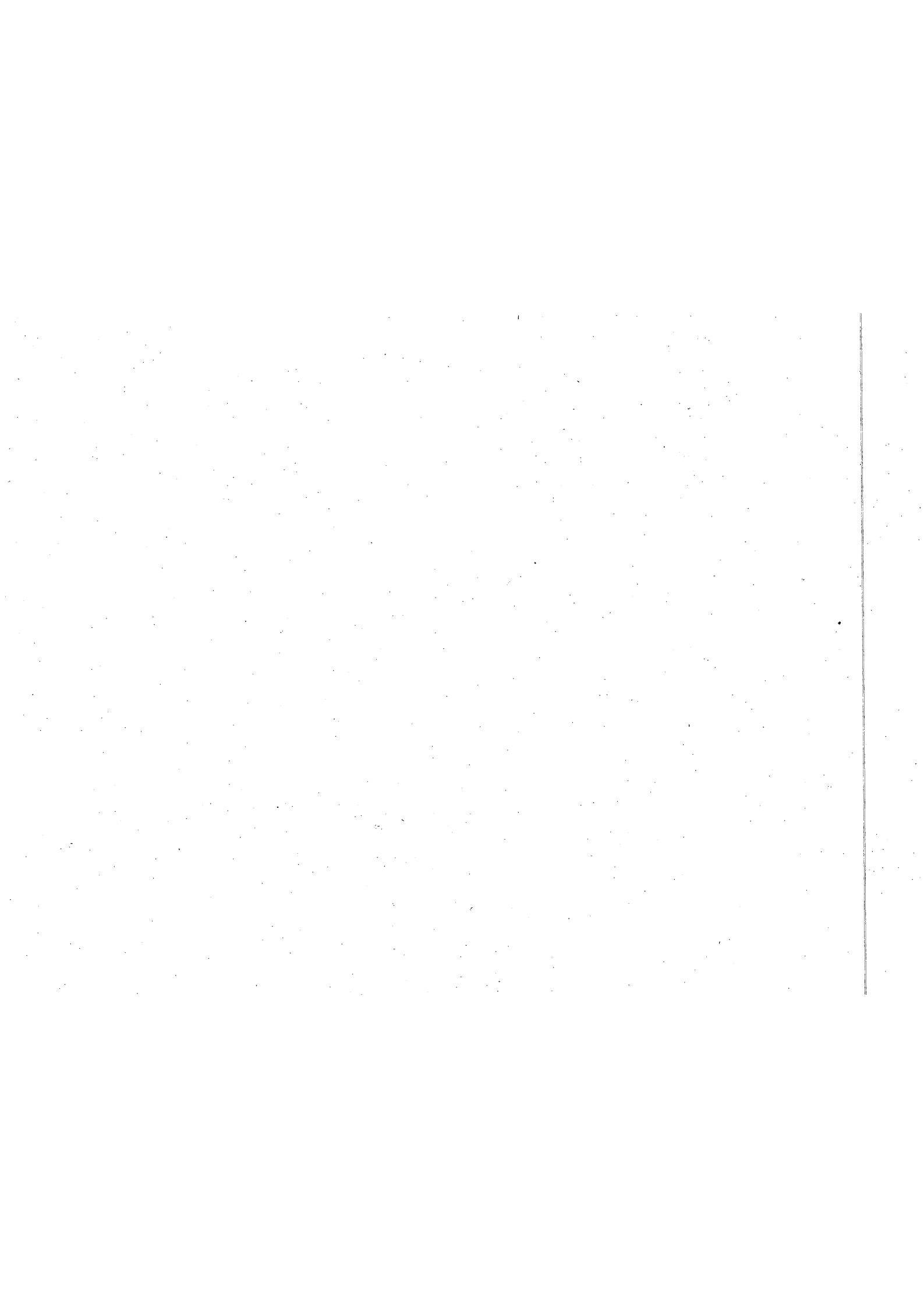
Impairment: IFRS 9 introduces a revised impairment model which will require entities to recognise expected credit losses based on unbiased forward-looking information. This replaces the existing IAS 39 incurred loss model which only recognises impairment if there is objective evidence that a loss is already incurred and would measure the loss at the most probable outcome. The IFRS 9 impairment model will be applicable to all financial assets at amortised cost, lease receivables, debt financial assets at fair value through other comprehensive income, loan commitments and financial guarantee contracts.

Classification and measurement: IFRS 9 will require financial assets to be classified on the basis of two criteria: i) the business model within which financial assets are managed, and ii) their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest'). Financial assets will be measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest. Financial assets will be measured at fair value through other comprehensive income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent solely payments of principal and interest. Other financial assets are measured at fair value through profit and loss. There is an option to make an irrevocable election for non-traded equity investments to be measured at fair value through other comprehensive income, in which case dividends are recognised in profit or loss, but gains or losses are not reclassified to profit or loss upon de-recognition, and impairment is not recognised in the income statement.

The accounting for financial liabilities is largely unchanged, except for financial liabilities designated at fair value through profit and loss. Gains and losses on such financial liabilities arising from changes in the Partnership's own credit risk will be presented in other comprehensive income rather than in profit and loss. There is no subsequent reclassification of realised gains or losses on own credit to profit and loss statement.

Revenue: In 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which will replace IAS 18 Revenue and IAS 11 Construction Contracts and is effective for periods beginning on or after 1 January 2018. It applies to all contracts with customers except leases, financial instruments and insurance contracts. The standard establishes a more systematic approach for revenue measurement and recognition. In April 2017, the IASB issued clarifying amendments to IFRS 15, which provide additional application guidance but did not change the underlying principles of the standard. The EU endorsed the standard in September 2016. Barclays anticipates adopting IFRS 15 retrospectively with the cumulative effect of initially applying the Standard recognised as an adjustment to the opening balance of retained earnings as of January 2018.

None of these standards have been early adopted.



BARCLAYS COVERED BOND FUNDING LLP
Notes to the Financial Statements
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4 Interest Income and Expense

Interest income/expense comprises the following:

	31 December 2017 £000	31 December 2016 Restated £000
Interest income		
Interest receivable from related parties	83,899	87,006
Total interest income	<u>83,899</u>	<u>87,006</u>
Interest expense		
Interest payable to related parties	83,899	87,006
Total interest expense	<u>83,899</u>	<u>87,006</u>

In order to correct a prior period error, 2016 figures have been restated to correctly recognise interest income and interest expense and related accruals. Please refer to note 15 for further details on restatement as per IAS-8.

5 Administrative Expenses

Audit fees payable to the Partnership's Auditors amounting to £9,270 (2016: £9,270) for the audit of the Partnership financial statements were borne by another group undertaking for 2017.

Additionally, fee for professional services of £9,350 (2016: £48,765) paid to PwC for acting as asset monitor on the Covered Bond transaction and for issuing the comfort letter were borne by another group undertaking for 2017. No recharge was made to the Partnership in either case.

6 Employees and key management

There were no employees employed by the Partnership during the year (2016: nil).

7 Trade and other receivables

An analysis of trade and other receivables is as follows:

	31 December 2017		31 December 2016 Restated	
	Current £000	Non-current £000	Current £000	Non-current £000
Receivable due from related parties	7,398	2,967,000	7,251	2,967,000
	<u>7,398</u>	<u>2,967,000</u>	<u>7,251</u>	<u>2,967,000</u>

The Members consider that the carrying value of the Partnership's trade receivables approximates to their fair value.

In order to correct a prior period error, 2016 figures have been restated to correctly recognise interest income and interest expense and related accruals. Please refer to note 15 for further details on restatement as per IAS-8.

8 Cash and Cash equivalents

Cash and cash equivalents as of 31 December 2017 are made up of reserve fund of £8,067,810 (2016: £7,271,426)

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9 Trade and other payables

An analysis of trade and other payables is as follows:

	31 December 2017		31 December 2016 Restated	
	Current £000	Non-current £000	Current £000	Non-current £000
Payable due to related parties	39,658	2,967,000	35,539	2,967,000
	<u>39,658</u>	<u>2,967,000</u>	<u>35,539</u>	<u>2,967,000</u>

In order to correct a prior period error, 2016 figures have been restated to correctly recognise interest income and interest expense and related accruals. Please refer to note 15 for details.

10 Retained earnings

	31 December 2017 £000	31 December 2016 Restated £000
At 1 January	-	-
Result for the financial year	-	-
At 31 December	<u>-</u>	<u>-</u>

11 Financial risks

The Partnership's activities expose it to a variety of financial risks. These are credit risk, liquidity risk and interest rate risk.

The Management Committee monitors the Partnership's financial risks and has responsibility for ensuring effective risk management and control.

The carrying value of all assets and liabilities is considered to be equal to their fair value.

(a) Credit risk

Credit risk is the risk of suffering financial loss, should any of the Partnership's customers or market counterparties fail to fulfil their contractual obligations to the Partnership.

The credit exposures of the Partnership are considered neither past due nor impaired. All financial assets are held with BBPLC (BBUKPLC effective 1 April 2018), and are of investment grade.

Additionally, as outlined in Note 12, there is a financial guarantee in place and a Partnership loss event is considered to be remote.

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11 Financial risks (Continued)

(a) Credit risk (continued)

Maximum exposure to credit risk

The following table shows the maximum exposure to credit risk at 31 December:

	31 December 2017 £000	31 December 2016 Restated £000
Cash and cash equivalents	32,260	28,288
Trade and other receivables	2,974,398	2,974,251
Total maximum exposure at 31 December	3,006,658	3,002,539

Financial assets subject to credit risk

For the purposes of the Partnership's disclosures regarding credit quality, financial assets subject to credit risk are the deemed loan, cash and cash equivalents and other receivable. The credit exposure of the Partnership are considered neither past due nor impaired. All financial assets are held with BBPLC (BBUKPLC effective 1 April 2018).

	Cash and Cash equivalent £000	Interest receivable due to related party £000	Deemed loan £000	Total £000
2017				
Neither past due nor individually impaired	32,260	7,398	2,967,000	3,006,658
Past due but not individually impaired	-	-	-	-
Individually impaired	-	-	-	-
Total	32,260	7,398	2,967,000	3,006,658
Impairment allowance	-	-	-	-
Total carrying amount	32,260	7,398	2,967,000	3,006,658

	Cash and Cash equivalent £000	Interest receivable due to related party £000	Deemed loan £000	Total £000
2016 Restated				
Neither past due nor individually impaired	28,288	7,251	2,967,000	3,002,539
Past due but not individually impaired	-	-	-	-
Individually impaired	-	-	-	-
Total	28,288	7,251	2,967,000	3,002,539
Impairment allowance	-	-	-	-
Total carrying amount	28,288	7,251	2,967,000	3,002,539

The only cash flows available to the Partnership arise from the cash flows arising from its equitable share in the local authority loan portfolio. As a consequence, the credit quality of the local authority loan portfolio primarily demonstrates the capacity of the Partnership to service its payments.

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11 Financial risks (Continued)

(a) Credit risk (continued)

Financial assets subject to credit risk neither past due nor impaired

Financial assets subject to credit risk that are neither past due nor individually impaired are analysed according to the rating systems used by BBPLC (BBUKPLC effective 1 April 2018) when assessing customers and counterparties. The credit quality of financial assets subject to credit risk that were neither past due nor impaired, based on credit rating, was as follows:

	Strong	Satisfactory	Higher risk	Total
2017	£000	£000	£000	£000
Cash and Cash equivalent	32,260	-	-	32,260
Interest receivable due to related party	7,398	-	-	7,398
Deemed loan	2,967,000	-	-	2,967,000
Total	3,006,658	-	-	3,006,658
	Strong	Satisfactory	Higher risk	Total
2016 Restated	£000	£000	£000	£000
Cash and Cash equivalent	28,288	-	-	28,288
Interest receivable due to related party	7,251	-	-	7,251
Deemed loan	2,967,000	-	-	2,967,000
Total	3,002,539	-	-	3,002,539

A strong rating indicates that there is a very high likelihood of the asset being recovered in full. Cash and cash equivalents have been classified as strong since it is internal with related party. Trade and other receivables are classified as strong as the amounts are due from related parties that are investment grade rated entities. Deemed loans are classified according to corresponding external credit agency note rating.

No items have been classified as satisfactory or higher risk. Satisfactory indicates there is no cause for concern to the Partnership as there is a high likelihood that the asset will be recovered in full and therefore there is no cause for concern to the Partnership. A higher risk rating would indicate that there is concern over the obligor's ability to make payments when due.

Disclosure of credit quality on underlying Local Authority Loans receivable.

The Partnership had purchased a portfolio of local authority loans which was not recognised in the financial statements due to it not meeting the de-recognition criteria in the seller's books. Hence purchase was accounted as deemed loan. The gross balance of underlying local authority loans was 3.3bn (2016: £3.3bn) at 31 December 2017.

The credit risk of the deemed loan notes is ultimately related to the credit risk of the underlying Local authority loans forming part of the Covered Bond pool. The tables below represents the credit risk of the deemed loan note assets held by the Partnership according to the payment status of the underlying local authority loans:

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11 Financial risks (Continued)

(a) Credit risk (continued)

	Local authority loan receivable
At 31 December 2017	£000
Neither past due nor individually impaired	3,388,108
Past Due but not individually impaired	-
Individually impaired	-
Total	3,388,108
Impairment allowance	-
Total carrying amount	3,388,108

	Local authority loan receivable
At 31 December 2016 Restated	£000
Neither past due nor individually impaired	3,388,108
Past Due but not individually impaired	-
Individually impaired	-
Total	3,388,108
Impairment allowance	-
Total carrying amount	3,388,108

The Partnership considered the factors above and determined that it expects to settle the loans from the related party and therefore they are not impaired.

(i) Local authority loans subject to credit risk neither past due nor individually impaired

	Strong	Satisfactory	Higher risk	Total
2017	£000	£000	£000	£000
Local authority loans	3,388,108	-	-	3,388,108
Total	3,388,108	-	-	3,388,108
	Strong	Satisfactory	Higher risk	Total
2016 Restated	£000	£000	£000	£000
Local authority loans	3,388,108	-	-	3,388,108
Total	3,388,108	-	-	3,388,108

Strong indicates that there is very high likelihood of the asset being recovered in full. Satisfactory indicates that there is a high likelihood that the asset will be recovered in full and therefore, of no cause for concern to the Partnership.

(b) Liquidity risk

Liquidity risk is the risk that the Partnership's cash and committed facilities may be insufficient to meet its payment obligations as they fall due.

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The Partnership is reimbursed for all third party expenses by BBPLC (BBUGPLC effective 1 April 2018), (as Member) and therefore incurs no significant liquidity risk. The loans and borrowings offset.

11 Financial risks (Continued)

Contractual maturity of financial liabilities on an undiscounted basis

The table below presents the known cash flows payable by the Partnership under financial liabilities by remaining contractual maturities at the balance sheet date. Future interest payable has not been included in the analysis due to the long term maturity of the underlying bullet loans. The size of figure to be calculated for interest payable, as well as the uncertainty over the exact amount of future interest due to rate options embedded in the underlying loans, would make any such inclusion meaningless to the users of the financial statements.

	On demand	Within one year	Over one year but not less than five years	Over five years	Total
At 31 December 2017	£000	£000	£000	£000	£000
Trade and other payables	32,260	7,398	-	2,967,000	3,006,658
Total financial liabilities	32,260	7,398	-	2,967,000	3,006,658
At 31 December 2016 Restated	£000	£000	£000	£000	£000
Trade and other payables	28,288	7,251	-	2,967,000	3,002,539
Total financial liabilities	28,288	7,251	-	2,967,000	3,002,539

In order to correct a prior period error, 2016 figures have been restated to correctly recognise interest income and interest expense and related accruals. Please refer to note 15 for further details on restatement as per IAS-8.

(c) 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 Partnership's interest bearing financial assets and liabilities.

There is no net exposure to interest rate risk within the Partnership as all interest rates for assets and liabilities offset.

12 Contingencies and commitments

Contingent liabilities

The principal activities of the Partnership are to provide a guarantee in respect of all interest and principal payable under the terms of Covered Bonds issued by BBPLC. The guarantee is triggered, inter alia, following an event of default in the Covered Bonds programme by BBPLC (BBUGPLC effective 1 April 2018) and the service on the Partnership of a notice to pay. Under IFRS 9, this qualifies as a financial guarantee.

To the extent that BBUGPLC did default, the Partnership will gain access to a pool of ring fenced UK Local Authority Loans and their respective cash flows and use these assets to service the payments due to the Covered Bond holders. The assets entitled to be received are contractually linked to servicing the Covered Bonds. Recourse against the Partnership is limited to these assets. A loss event is considered to be remote and therefore the financial guarantee had a value of zero as of 31 December 2017.

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13 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operation decisions, or one other party controls both.

The definition of related parties includes Members, subsidiary, associated and joint venture companies, as well as the Partnership's key management personnel which includes its Members. There were no transactions with key management personnel in the year.

Particulars of transactions with the Members, and the balances outstanding at the year end, are disclosed in the tables below:

	31 December 2017 £000	31 December 2016 Restated £000
Transactions		
Interest paid	(83,899)	(87,006)
Interest received	83,899	87,006
Total	<u>-</u>	<u>-</u>
	31 December 2017 £000	31 December 2016 Restated £000
Balances outstanding 31 December		
Trade and other receivable from BBPLC	2,974,398	2,974,251
Cash balances with BBPLC	32,260	28,288
Trade and other payables to BBPLC	(3,006,658)	(3,002,539)
Total	<u>-</u>	<u>-</u>

In order to correct a prior period error, 2016 figures have been restated to correctly recognise interest income and interest expense and related accruals. Please refer to note 15 for further details on restatement as per IAS-8.

14 Parent Undertaking and ultimate holding Company

During the year, the parent undertaking of the smallest group that presents consolidated financial statements is BBPLC (BBUKPLC effective 1 April 2018). The ultimate holding company and the parent company of the largest group that presents group financial statements is Barclays PLC. Both companies are incorporated in the United Kingdom and registered in England. The financial statements of BBPLC are available from Barclays Corporate Secretariat, 1 Churchill Place London E14 5HP.

15 Prior Period errors (IAS 8.49)

Nature of the prior period error:

Interest income and interest expense was being incorrectly grossed up in the financial statements. The Partnership had purchased a portfolio of local authority loans which was not recognised in the financial statements due to it not meeting the de-recognition criteria in the seller's books. Hence, purchase was accounted for as a deemed loan. The interest income was being incorrectly recognised at the actual rate of interest on the portfolio of local authority loans. The interest that should have been recognised was the interest on the total return swap which has been accounted for as a component of the deemed loan. This resulted in £66,776,330 of interest being recognised in excess. Further, in line with LLP deed, this income will be paid out as per the waterfall mechanism and hence will be equated with the interest expense and as a result the interest expense has been reduced by £66,776,330. This error has been corrected where numbers have been restated in the previous year.

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15 Prior Period errors (continued)

In addition to the abovementioned error, interest accrual was recognised for two months instead of one month hence this error has also rectified in the financial statement. The effect of this was to reduce interest income and interest expense by £7,468,842 and trade and other receivables and trade and other payables by 7,468,842.

The impact on the result of the partnership and the net assets is nil.

Comparison of the original numbers and restated numbers are as below.

Statement of financial position – Restatement

	31 December 2016 Restated	31 December 2016	Increase / (Decrease)	1 January 2016 Restated	1 January 2016	Increase / (Decrease)
	£000	£000	£000	£000	£000	£000
Current assets						
Trade and other receivables	7,251	24,983	(17,732)	7,326	25,122	(17,796)
Cash and cash equivalents	28,288	28,288	-	33,419	33,419	-
Current liabilities						
Trade and other payables	35,359	53,271	(17,732)	40,745	58,541	(17,796)

Income statement – Restatement.

	31 December 2016 Restated	31 December 2016	Increase / (Decrease)
	£000	£000	£000
Interest Income	87,006	153,782	(66,776)
Interest Expense	(87,006)	(153,782)	66,776
Operating result	-	-	-