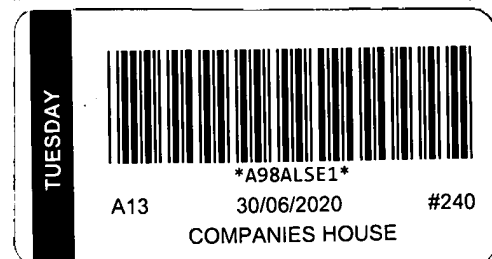


Registered number: OC332284

BARCLAYS COVERED BONDS LIMITED LIABILITY PARTNERSHIP

Members Report and Financial Statements

For the Year Ended 31 December 2019



BARCLAYS COVERED BONDS LIMITED LIABILITY PARTNERSHIP

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BARCLAYS COVERED BONDS LIMITED LIABILITY PARTNERSHIP

Members' Report For the Year Ended 31 December 2019

The Members present their report together with the audited financial statements of the Barclays Covered Bonds Limited Liability Partnership ("The Partnership") for the year ended 31 December 2019.

Results for the year

During the year the Partnership made a total comprehensive profit of £7.6 million (2018: £13.8 million loss). As at 31 December 2019, the net assets attributable to the Members were £73.2 million (2018: £65.6 million) and the Members' capital was £nil (2018: £nil) as disclosed in the statement of financial position.

Future outlook

The Partnership will continue to provide a guarantee in respect of all interest and principal payable under the terms of covered bonds issued by Barclays Bank UK PLC ("BB UK PLC") pursuant to the Covered Bond Guarantee which is secured over a residential mortgage loan portfolio and other assets of the Partnership.

Post year end events

The Partnership is monitoring the potential downside risk associated with both the direct and indirect impact of the COVID-19 outbreak. The Partnership has concluded that its business strategy remains appropriate and that adequate capital and liquidity is being maintained. The impact on the Partnership may result in an increased impairment on the financial assets with a corresponding effective interest rate adjustment on the financial liabilities and hence no additional capital is required as such from the designated Members. Reserve ledger restricted cash is also immediately available should BB UK PLC default on the Covered Bonds it issued to cover immediate expenses so no additional liquidity is necessary as such. The Partnership continues to operate in line with Members expectations.

Designated Members and Management Committee

The designated Members of the Partnership who served during the year are shown below:

Barclays Bank UK PLC
Congadale Limited

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

Intertrust Directors 1 Limited
Fiona Chan
Rupert Fowden (resigned 25 February 2020)
David Fraher
Michael Manna (appointed 8 April 2019)
Iain de Weymarn (appointed 8 April 2019, resigned 25 February 2020)
Congadale Limited
BB UK PLC

Since the year end, Stephen Temple was appointed on 25 February 2020.

Going concern

The Members have prepared the financial statements on a going concern basis, they are satisfied that the Partnership has adequate resources to continue in operational existence for the foreseeable future. The Members also considered the potential impact of the Covid-19 outbreak and the United Kingdom's ("UK's") withdrawal from the European Union. While it's not possible at this stage to determine the precise impact on the underlying UK residential mortgage portfolio, the Members continue to closely monitor the economic environment in which the Partnership operates in order to minimise the risks associated with the outbreak and the withdrawal. For this reason, the Members have adopted the going concern basis in preparing the financial statements. The Members are satisfied with the financial position of the Partnership at year end.

BARCLAYS COVERED BONDS LIMITED LIABILITY PARTNERSHIP

Members' Report (continued) For the Year Ended 31 December 2019

Financial risks

The Partnership faces financial risk from the financial instruments it has acquired and issued. The Partnership's objective is to reduce the Partnership's exposure to all forms of financial risk. The Partnership follows the financial risk management objectives and policies of BB UK PLC, its parent undertaking (note 18). The Partnership's main risks are credit risk, liquidity risk and interest rate risk. These are described in note 12 to the financial statements.

Employees

There were no employees employed by the Partnership during the year (2018: nil).

Statement of Members' responsibilities in respect of the Members' Reports and the Financial Statements

The Members are responsible for preparing the Members' 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 judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRS as adopted by the EU;
- assess the Partnership'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 Partnership or to cease operations, or have no realistic alternative but to do so.

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.

Related party transactions

Details of the Partnership's related party transactions during the year are set out in note 15 to the accompanying financial statements.

BARCLAYS COVERED BONDS LIMITED LIABILITY PARTNERSHIP

Members' Report (continued) For the Year Ended 31 December 2019

Independent auditors

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 auditors

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.

Statement on business relationships

The Partnership is a special purpose vehicle. It has a limited range of activities and a small number of business relationships with third parties. Such third parties have been appointed by the Partnership to perform certain roles in connection with the Partnership's financing and other main transactions. As such, the broad terms of the Partnership's limited number of business relationships are determined in advance by such documents.

Strategic Report exemption

The Members have not prepared a Strategic Report on the basis that there is no statutory requirement for an LLP to produce such a report.

On behalf of the Members of Barclays Covered Bonds LLP.

DocuSigned by:



HELENA WHITAKER

Authorised Representative of Congadale Limited
Designated Member

Date: 29 June 2020

BARCLAYS COVERED BONDS LIMITED LIABILITY PARTNERSHIP

Independent Auditor's Report to the Members of Barclays Covered Bonds Limited Liability Partnership

Opinion

We have audited the financial statements of Barclays Covered Bonds Limited Liability Partnership ("the LLP") for the year ended 31 December 2019 which comprise the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows and related notes, including the accounting policies in note 4.

In our opinion the financial statements:

- give a true and fair view, of the state of affairs of the LLP as at 31 December 2019 and of its profit 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

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").

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 a year from the date of approval of the financial statements. 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. We have nothing to report in these respects.

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 absence of reference to a material uncertainty in this auditor's report is not a guarantee that the LLP will continue in operation.

BARCLAYS COVERED BONDS LIMITED LIABILITY PARTNERSHIP

Independent Auditor's Report to the Members of Barclays Covered Bonds Limited Liability Partnership

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 2, 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 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.

BARCLAYS COVERED BONDS LIMITED LIABILITY PARTNERSHIP

Independent Auditor's Report to the Members of Barclays Covered Bonds Limited Liability Partnership

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.



Richard Smith (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
London
E14 5GL

Date: 29 June 2020

BARCLAYS COVERED BONDS LIMITED LIABILITY PARTNERSHIP**Statement of Profit or Loss and Other Comprehensive Income
For the Year Ended 31 December 2019**

	Note	2019 £000	2018 £000
Continuing operations			
Finance income	8	154,960	139,821
Finance expense	8	(154,889)	(139,834)
Net interest income / (expense)		<u>71</u>	<u>(13)</u>
Foreign exchange gain / (loss) on loans due to related party		6,584	(1,130)
Impairment of financial assets		(71)	13
Gain / (loss) on fair value of derivative financial instruments		1,036	(12,664)
Profit/(loss) for the year		<u>7,620</u>	<u>(13,794)</u>
Other comprehensive income:			
Total comprehensive income / (loss)		<u><u>7,620</u></u>	<u><u>(13,794)</u></u>


The accompanying notes on pages 12 to 32 form an integral part of the financial statements.

BARCLAYS COVERED BONDS LIMITED LIABILITY PARTNERSHIP
Registered number: OC332284

Statement of Financial Position
As at 31 December 2019

	Note	2019 £000	2018 £000
Assets			
Non-current assets			
Loans and advances at amortised cost	9	6,945,482	6,195,626
Derivative financial assets	11	117,667	116,814
		<u>7,063,149</u>	<u>6,312,440</u>
Current assets			
Cash and cash equivalents		-	11
Reserve ledger restricted cash	16	42,901	42,936
Loans and advances at amortised cost	9	1,007,819	1,834,525
		<u>1,050,720</u>	<u>1,877,472</u>
Total assets		<u>8,113,869</u>	<u>8,189,912</u>
Liabilities			
Non-current liabilities			
Loans due to related party	10	6,948,355	6,205,082
		<u>6,948,355</u>	<u>6,205,082</u>
Current liabilities			
Loans due to related party	10	1,092,319	1,919,255
		<u>1,092,319</u>	<u>1,919,255</u>
Total liabilities		<u>8,040,674</u>	<u>8,124,337</u>
Net assets		<u>73,195</u>	<u>65,575</u>
Members' interests			
Members' capital		-	-
Retained earnings		73,195	65,575
Total Members' interests		<u>73,195</u>	<u>65,575</u>

The financial statements on pages 8 to 32 were approved and authorised for issue by the board of Members and were signed on its behalf by:


Helena Whitaker
Authorised Representative of Congadale Limited
Designated Member
Date: 29 June 2020

BARCLAYS COVERED BONDS LIMITED LIABILITY PARTNERSHIP**Statement of Changes in Members' Interests
For the Year Ended 31 December 2019**

	Retained earnings £000	Total Members' interests £000
At 1 January 2019	65,575	65,575
Comprehensive income for the year		
Profit for the year	7,620	7,620
Other comprehensive income	-	-
	<u>7,620</u>	<u>7,620</u>
Total comprehensive income for the year		
	<u>73,195</u>	<u>73,195</u>
At 31 December 2019		
	<u>73,195</u>	<u>73,195</u>
	Retained earnings £000	Total Members' interests £000
At 1 January 2018	79,369	79,369
Comprehensive income for the year		
Loss for the year	(13,794)	(13,794)
Other comprehensive income	-	-
	<u>(13,794)</u>	<u>(13,794)</u>
Total comprehensive income for the year		
	<u>65,575</u>	<u>65,575</u>
At 31 December 2018		
	<u>65,575</u>	<u>65,575</u>

The accompanying notes on pages 12 to 32 form an integral part of the financial statements.

BARCLAYS COVERED BONDS LIMITED LIABILITY PARTNERSHIP**Statement of Cash Flows
For the Year Ended 31 December 2019**

	2019 £000	2018 £000
Continued operations		
Cash flows from operating activities		
Profit/(loss) for the year	7,620	(13,794)
Adjustments for		
Impairment of financial assets	71	(13)
Finance income from related parties	(154,960)	(139,821)
Finance expense paid to related parties	154,889	139,834
(Gain) / loss on fair value of derivative financial instruments	(1,036)	12,664
Foreign exchange (gain) / loss on loans due to related party	(6,584)	1,130
Net cash from operating activities	<u>-</u>	<u>-</u>
Cash flows from investing activities		
Interest received from loans and advances at amortised cost	154,738	142,714
Net cash from investing activities	<u>154,738</u>	<u>142,714</u>
Cash flows from financing activities		
Redemption of loan from related party	(11)	(118,301)
Interest paid on loan from related party	(154,738)	(142,714)
Net cash used in financing activities	<u>(154,749)</u>	<u>(261,015)</u>
Net cash decrease in cash and cash equivalents	(11)	(118,301)
Cash and cash equivalents at the beginning of year	11	118,312
Cash and cash equivalents at the end of the year	<u><u>-</u></u>	<u><u>11</u></u>

Non-cash transactions

As BB UK PLC has not triggered an event that would necessitate the transfer of the mortgages and covered bonds to the Partnership, no physical movement of cashflow is required to settle the principal due on loans and advances held at amortised cost or the loans due to the related party. Therefore any issuances and redemptions have not been reflected in the cash flow statement as no cash was exchanged in either of the transactions.

The accompanying notes on pages 12 to 32 form an integral part of the financial statements.

BARCLAYS COVERED BONDS LIMITED LIABILITY PARTNERSHIP

Notes to the Financial Statements For the Year Ended 31 December 2019

1. Reporting entity

Barclays Covered Bonds Limited Liability Partnership (the 'Partnership') is a limited liability partnership under the Limited Liability Partnership Act 2000, domiciled and incorporated in England. The Partnership's registered office is at 1 Churchill Place, London, E14 5HP. The Partnership's principal activity is to provide a guarantee in respect of all interest and principal payable under the terms of covered bonds issued by Barclays Bank UK PLC ("BB UK PLC") pursuant to the Covered Bond Guarantee which is secured over a residential mortgage loan portfolio and other assets of the Partnership. Recourse to the Partnership is limited to the residential mortgage loan portfolio and such other assets of the Partnership.

2. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs). They were authorised for issue by the Partnership's board of Members on 29 June 2020.

Details of the Partnership's accounting policies are included in note 4 and changes during the year in note 2.2.

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Partnership accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The areas where judgements and estimates have been made in preparing the financial statements and their effects are disclosed in note 5.

The Partnership acts as a Guarantor of the covered bonds issued by BB UK PLC pursuant to the Covered Bond Guarantee. The Partnership would take over BB UK PLC's obligations under the covered bonds issued in the unlikely event of a default. The covered bonds would be settled by utilising collections received on a portfolio of residential mortgage loans and other assets of the Partnership. The probability that BB UK PLC would default on the covered bonds is remote as it is a regulated banking entity subject to capital and liquidity regulations.

2.1 Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following items, which are measured on an alternative basis on each reporting date.

Company law requires the Members to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Partnership will continue in business. After reviewing detailed profit and cash flow projections and making such further enquiries as they consider appropriate, including considering the actual and projected performance of the the Partnership and the implications from the COVID-19 outbreak, the Members are satisfied that the Partnership has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Members have adopted the going concern basis in preparing the financial statements.

BARCLAYS COVERED BONDS LIMITED LIABILITY PARTNERSHIP

Notes to the Financial Statements For the Year Ended 31 December 2019

2. Basis of preparation (continued)

2.2 Changes in accounting policies

i) New standards, interpretations and amendments effective from 1 January 2019

The accounting policies adopted are consistent with those of the previous financial year, except where new standards and amendments to IFRSs effective as of 1 January 2019 have resulted in changes in accounting policy.

IFRS 16 Leases has replaced IAS 17 Leases for period beginning on or after 1 January 2019 but neither this standard or any other new amended standards have had a material impact on the Partnership's accounting policies.

ii) New standards, interpretations and amendments not yet effective

There are no known future amended standards or new accounting standards which are expected to have a material impact on the Partnership's accounting policies.

3. Functional and presentation currency

These financial statements are presented in pound sterling, which is the Partnership's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

4. Accounting policies

4.1 Foreign currency

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see for hedging accounting policies); and
- exchange differences on monetary items receivable from or payable to foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

BARCLAYS COVERED BONDS LIMITED LIABILITY PARTNERSHIP

Notes to the Financial Statements For the Year Ended 31 December 2019

4. Accounting policies (continued)

4.1 Foreign currency (continued)

For the purposes of presenting these financial statements, the assets and liabilities of the Partnership's foreign operations are translated into pounds using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

4.2 Interest

Interest income or expense is recognised on all interest bearing financial assets and on interest bearing financial liabilities using the effective interest 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 application of 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.

4.3 Taxation

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

4.4 Financial assets and liabilities

The Partnership applies IFRS 9 Financial Instruments to the recognition, classification and measurement, and derecognition of financial assets and financial liabilities and the impairment of financial assets.

Recognition

The Partnership recognises financial assets and liabilities when it becomes a party to the terms of the contract. Trade date or settlement date accounting is applied depending on the classification of the financial asset.

Classification and measurement

Financial assets are 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' (SPPI)).

The Partnership assesses the business model criteria at a portfolio level. Information that is considered in determining the applicable business model includes (i) policies and objectives for the relevant portfolio, (ii) how the performance and risks of the portfolio are managed, evaluated and reported to management, and (iii) the frequency, volume and timing of sales in prior periods, sales expectation for future periods, and the reasons for such sales.

BARCLAYS COVERED BONDS LIMITED LIABILITY PARTNERSHIP**Notes to the Financial Statements
For the Year Ended 31 December 2019****4. Accounting policies (continued)****Financial assets and liabilities (continued)***Classification and measurement (continued)*

The contractual cash flow characteristics of financial assets are assessed with reference to whether the cash flows represent SPPI. In assessing whether contractual cash flows are SPPI compliant, interest is defined as consideration primarily for the time value of money and the credit risk of the principal outstanding. The time value of money is defined as the element of interest that provides consideration only for the passage of time and not consideration for other risks or costs associated with holding the financial asset. Terms that could change the contractual cash flows so that it would not meet the condition for SPPI are considered, including: (i) contingent and leverage features, (ii) non-recourse arrangements and (iii) features that could modify the time value of money.

Financial assets at amortised cost

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.

The loans and advances at amortised cost, trade and other receivables and cash and cash equivalents are held at amortised cost. That is, the initial fair value is adjusted for repayments and the amortisation of coupon, fees and expenses to represent the effective interest rate of the asset or liability.

Financial assets that are held in a business model to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are SPPI, are measured at amortised cost. The carrying value of these financial assets at initial recognition includes any directly attributable transaction costs.

In determining whether the business model is a 'hold to collect' model, the objective of the business model must be to hold the financial asset to collect contractual cash flows rather than holding the financial asset for trading or short-term profit taking purposes. While the objective of the business model must be to hold the financial asset to collect contractual cash flows this does not mean the Partnership is required to hold the financial assets until maturity. When determining if the business model objective is to collect contractual cash flows the Partnership will consider past sales and expectations about future sales.

Impairment of financial assets

The Partnership is required to recognise expected credit losses (ECLs) based on unbiased forward-looking information for all financial assets at amortised cost.

At the reporting date, an allowance is required for the 12 month ECLs. If the credit risk has significantly increased since initial recognition (Stage 2), or if the financial instrument is credit impaired (Stage 3) an allowance (or provision) should be recognised for the lifetime ECLs.

The ECL is measured by using three main components: (i) probability of default (PD) (ii) loss given default (LGD) and (iii) the exposure at default (EAD). The 12 month ECL is calculated by multiplying the 12 month PD, LGD and the EAD. The 12 month and lifetime PDs represent the PD occurring over the next 12 months and the remaining maturity of the instrument respectively. The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

BARCLAYS COVERED BONDS LIMITED LIABILITY PARTNERSHIP

Notes to the Financial Statements For the Year Ended 31 December 2019

4. Accounting policies (continued)

Financial assets and liabilities (continued)

Determining a significant increase in credit risk since initial recognition:

The Partnership assesses when a significant increase in credit risk has occurred based on quantitative and qualitative assessments. Exposures are considered to have resulted in a significant increase in credit risk and are moved to Stage 2 when:

Quantitative test

The annualised cumulative weighted average lifetime PD has increased by more than an agreed threshold relative to the equivalent at origination.

PD deterioration thresholds are defined as percentage increases, and are set at an origination score band and segment level to ensure the test appropriately captures significant increases in credit risk at all risk levels. Generally, thresholds are inversely correlated to the origination PD, i.e. as the origination PD increases, the threshold value reduces.

The assessment of materiality, i.e. at what point a PD increase is deemed 'significant', is based upon analysis of the portfolios' risk profile against a common set of principles and performance metrics (consistent across the retail business), incorporating expert credit judgement where appropriate.

Qualitative test

Where external credit ratings of the Covered Bond note issuances have been downgraded this may necessitate moving an asset from Stage 1 to 2.

Forward-looking information

Credit losses are the expected cash shortfalls from what is contractually due over the expected life of the financial instrument, discounted at the original effective interest rate (EIR). ECLs are determined by evaluating a possible outcome should Barclays Bank UK PLC default and the Partnership rely on the covered pool of mortgages.

The measurement of ECL involves increased complexity and judgement, including estimation of PDs, LGD, assumptions of collections and losses on the underlying UK mortgages portfolio in rapid amortisation, estimation of expected lives, and estimation of EAD and assessing significant increases in credit risk. Impairment charges will tend to be more volatile and will be recognised earlier.

Expected life

Lifetime ECLs must be measured over the expected life. This is restricted to the maximum contractual life and takes into account expected prepayment, extension, call and similar options. Where data is insufficient or analysis inconclusive, an additional 'maturity factor' may be incorporated to reflect the full estimated life of the exposures, based upon experienced judgement and/or peer analysis. Potential future modifications of contracts are not taken into account when determining the expected life or EAD until they occur.

Discounting

ECLs are discounted at the EIR at initial recognition or an approximation thereof and consistent with income recognition. For loan commitments the EIR is the rate that is expected to apply when the loan is drawn down and a financial asset is recognised. Issued financial guarantee contracts are discounted at the risk free rate. For variable/floating rate financial assets, the spot rate at the reporting date is used and projections of changes in the variable rate over the expected life are not made to estimate future interest cash flows or for discounting.

BARCLAYS COVERED BONDS LIMITED LIABILITY PARTNERSHIP

Notes to the Financial Statements For the Year Ended 31 December 2019

4. Accounting policies (continued)

Financial assets and liabilities (continued)

Modelling techniques

ECLs are calculated by multiplying three main components, being the PD, LGD and the EAD or by determining the deficiency on the loans and advances at amortised cost, and discounting the result at the original EIR.

For the IFRS 9 impairment assessment, Barclays Group' risk models are used to determine the PD, LGD and EAD. For Stage 2 and 3, Barclays Group applies lifetime PDs but uses 12 month PDs for Stage 1. The ECL drivers of PD, EAD and LGD are modelled by counterparty. Also, the assessment of significant increase in credit risk is based on the initial lifetime PD curve, which accounts for the different credit risk underwritten over time.

Netting

Financial assets and liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a legally enforceable right to set off the recognised amounts in all circumstances and there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously.

Financial liabilities

Financial liabilities represent loans due to BB UK PLC. They are collateralised by the deemed loan (represented as loans and advances at amortised cost), which are ultimately collateralised by the beneficial interest in a pool of residential mortgage loans. Financial liabilities are initially recognised at fair value less transaction costs and are subsequently valued at amortised cost, using the effective interest method. Financial liabilities are derecognised when extinguished.

Derivative financial instruments

The deemed loan consists of the transfer of the mortgage assets (for which accounting derecognition was considered inappropriate), interest rate swaps and foreign currency swaps held with BB UK PLC to match the receipts from the residential mortgage loan assets to the currency and interest rate basis of the term loans.

Interest rate risk associated with the deemed loan to the originator BB UK PLC is managed by means of an interest rate basis swap with BB UK PLC and various third parties, which requires the Partnership to pay an amount calculated with reference to the interest received on the beneficial interest in the mortgage portfolio and receive payments based on a rate linked to one-month Sterling LIBOR.

Foreign currency risk between the mortgage assets and the term loans from the originator BB UK PLC is managed by means of foreign currency swaps with BB UK PLC and various third parties. These require the Partnership to pay sterling floating rate and receive amounts which match the currency and rates of the term loans.

The swaps with BB UK PLC are not recognised separately as financial instruments as the amounts payable under each swap reflect interest flows from the mortgage loans which are not recognised by the Partnership for accounting purposes. Instead, the deemed loan to BB UK PLC is recognised with an effective interest rate and currency which incorporate the net amounts received or paid under the swaps. Interest receivable or payable on the swaps is accounted for on an accruals basis within interest receivable on the deemed loan.

BARCLAYS COVERED BONDS LIMITED LIABILITY PARTNERSHIP**Notes to the Financial Statements
For the Year Ended 31 December 2019****4. Accounting policies (continued)****Financial assets and liabilities (continued)***Derivative financial instruments (continued)*

Where interest rate and cross currency swaps are with third parties they have been recognised separately as derivative financial instruments. They are recognised at fair value on the date on which the swap contracts are entered into and are subsequently re-measured at their fair value. The gain or loss on the change in fair value of swaps and the foreign exchange translation gains and losses on the US Dollar and Euro denominated borrowings related to the swaps are taken to the Statement of Comprehensive Income. Swaps are carried as an asset when fair value is positive and as a liability when fair value is negative.

4.5 Cash and cash equivalents

For the purposes of the statement of cash flows and the statement of financial position, cash comprises of cash at bank.

5. Accounting estimates and judgements

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

Classification of deemed loan

Management considered the Partnership's business model and determined that the deemed loan asset will be held to collect contractual cash flows only. Management also considered the probability that excess/deferred collection distribution from the mortgages will be insufficient is remote, so in substance this does not introduce any variability to the deemed loan asset that is not related to interest and principal. In addition, if the cash flows of the underlying UK mortgage loans are SPPI compliant and the contractual terms of the deemed loan asset include no non-SPPI features then, as a result the cash flows associated with the excess/deferred collection distribution can only be SPPI compliant. As a consequence, it is thus appropriate for the Partnership to classify the deemed loan asset as a loan and advance at amortised cost.

Credit impairment

IFRS 9 impairment involves several important areas of judgement, including estimating forward looking modelled parameters (PD, LGD and EAD), developing a range of unbiased future economic scenarios, estimating expected lives and assessing significant increases in credit risk.

The calculation of impairment involves the use of judgement, based on the Partnership's experience of managing credit risk.

The level of the impairment allowance is the difference between the value of the discounted expected future cash flows (discounted at the loan's original effective interest rate), and its carrying amount. Subjective judgements are made in the calculation of future cash flows. Furthermore, judgements change with time as new information becomes available, resulting in frequent revisions to the impairment allowance as individual decisions are taken. Changes in these estimates would result in a change in the allowances and have a direct impact on the impairment charge.

BARCLAYS COVERED BONDS LIMITED LIABILITY PARTNERSHIP

Notes to the Financial Statements For the Year Ended 31 December 2019

5. Accounting estimates and judgements (continued)

Estimates and assumptions (continued)

Fair value of financial instruments

For the purpose of fair value calculations in note 13, the fair value of assets and liabilities is based upon cash flow models of underlying mortgage assets where projected cashflows are determined using appropriate principal pay-down profiles and actual business margins which are then discounted using new business margins for similar mortgages originated.

6. Profit / (loss) for the year

Administrative expenses in relation to the Partnership were borne by BB UK PLC. The auditor's remuneration borne by Barclays Bank UK PLC totalled £17k (2018: £16k).

7. Employees and key management

i) Employees:

There were no persons employed by the Partnership during the year (2018: nil).

(ii) Members' remuneration:

None of the Members were directly remunerated by the Partnership in respect of their services to the Partnership during the year. However, £400 (2018: £400) was paid as a profit payment to Congadale Limited as stipulated by the LLP Deed for services provided by the company.

In relation to the other Member, BB UK PLC, services provided by employees of BB UK PLC were performed as part of their employment by BB UK PLC/Barclays Execution Services Limited (formerly Barclays Services Limited) and no remuneration was earned in respect of qualifying services provided to the Partnership. BB UK PLC/Barclays Execution Services Limited (formerly Barclays Services limited) has not recharged the Partnership for the cost of this service (see note 15).

BARCLAYS COVERED BONDS LIMITED LIABILITY PARTNERSHIP**Notes to the Financial Statements
For the Year Ended 31 December 2019****8. Finance income and expense**

Finance income and expense comprises the following:

Recognised in profit or loss

	2019 £000	2018 £000
Finance income		
Interest receivable from BB UK PLC	154,960	139,821
Total finance income	<u>154,960</u>	<u>139,821</u>
Finance expense		
Interest expense paid to BB UK PLC	154,889	139,834
Total finance expense	<u>154,889</u>	<u>139,834</u>
Net finance income/(expense) recognised in profit or loss	<u>71</u>	<u>(13)</u>

9. Loans and advances at amortised cost

Loans and advances consist of deemed loans and interest receivable of amounts due from BB UK PLC and are made up as follows:

	2019 £000	2018 £000
Current		
Loans and advances at amortised cost	1,000,000	1,827,000
Impairment allowance	(109)	(181)
Interest receivable due from related party	7,928	7,706
	<u>1,007,819</u>	<u>1,834,525</u>
Non-current		
Loans and advances at amortised cost	6,946,237	6,196,237
Impairment allowance	(755)	(611)
	<u>6,945,482</u>	<u>6,195,626</u>
Loans and advances at amortised cost	<u>7,953,301</u>	<u>8,030,151</u>

BARCLAYS COVERED BONDS LIMITED LIABILITY PARTNERSHIP**Notes to the Financial Statements
For the Year Ended 31 December 2019****10. Loans due to related party**

Loans due to related party consist of loans due and interest payable to BB UK PLC and are made up as follows:

	2019 £000	2018 £000
Current		
Loans due to related party	1,042,906	1,869,951
Effective interest rate adjustment due to related party	(114)	(185)
Interest payable due to related party	49,527	49,489
	<u>1,092,319</u>	<u>1,919,255</u>
Non-current		
Loans due to related party	6,949,110	6,205,694
Effective interest rate adjustment due to related party	(755)	(612)
	<u>6,948,355</u>	<u>6,205,082</u>
Loans due to related party	<u><u>8,040,674</u></u>	<u><u>8,124,337</u></u>

11. Derivative financial instruments

Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. As a consequence, the derivative financial instruments are classified in level 2 of the fair valuation hierarchy.

The gain or loss on the swaps is taken to the statement of other comprehensive income. Information relating to Financial risks is detailed in note 12.

BARCLAYS COVERED BONDS LIMITED LIABILITY PARTNERSHIP**Notes to the Financial Statements
For the Year Ended 31 December 2019****Derivative financial instruments (continued)**

The agreements relating to the derivative financial instruments establishes various trigger rating events should the credit rating of the swap counterparties drop below certain specified levels. The first trigger event requires the swap counterparties to post collateral to a Collateral Swap Account in the name of the Partnership. The second trigger event requires the swap counterparties to novate their obligations under the swap agreements on commercial terms to a new counterparty at their cost. To the extent a swap counterparty defaults under bankruptcy or doesn't perform under the contract, the Partnership can draw down on the cash or securities collateral placed by the swap counterparty to either: (i) novate the swap agreement to another qualifying swap provider for a payment of a fee; or (ii) to the extent the swap agreement cannot be novated, payments are first made to the covered bond note holders utilising the cash or securities collateral as the claims of the swap counterparty become sub-ordinated to those of the covered bond note holders. The cash and securities collateral received has not been recognised as an asset on the Partnership's balance sheet as the collateral is still controlled by BB UK PLC and not by the Partnership.

12. Financial risks

The Partnership's activities expose it to a variety of financial risks. These are credit risk, liquidity risk and market risk (includes interest rate risk). The Barclays Covered Bond LLP Management Committee monitors the Partnership's financial risks and also follows the risk management policies of BB UK PLC as the Partnership is controlled by BB UK PLC and is consolidated into the financial statements of BB UK PLC. These policies include specific guidelines on the management of interest rate and credit risks and advise on the use of financial instruments to manage them. The Barclays Covered Bond LLP Management Committee has responsibility for ensuring effective risk management and control.

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 Partnership assesses all counterparties for credit risk before contracting with them. There were no other significant concentrations of credit risk.

Maximum exposure to credit risk

The Partnership's maximum exposure to credit risk is reflected by the amounts disclosed in the balance sheet. The following table shows the maximum exposure to credit risk at 31 December 2019:

	2019	2018
	£000	£000
Cash and cash equivalents	-	11
Reserve ledger restricted cash	42,901	42,936
Loans and advances at amortised cost	7,953,301	8,030,151
Derivative financial assets	117,667	116,814
Total Maximum exposure	8,113,869	8,189,912

The Partnership's loans and advances at amortised cost assets are ultimately collateralised by an underlying portfolio of residential mortgage loans.

BARCLAYS COVERED BONDS LIMITED LIABILITY PARTNERSHIP

Notes to the Financial Statements For the Year Ended 31 December 2019

a) Credit risk (continued)

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 loans and advances at amortised cost, derivative financial instruments and cash and cash equivalents.

As at 31 December 2019	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
Gross exposure				
Cash and cash equivalents	-	-	-	-
Reserve ledger restricted cash	42,906	-	-	42,906
Loans and advances at amortised cost	7,954,165	-	-	7,954,165
Total	7,997,071	-	-	7,997,071

	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
Impairment allowance				
Cash and cash equivalents	-	-	-	-
Reserve ledger restricted cash	(5)	-	-	(5)
Loans and advances at amortised cost	(864)	-	-	(864)
Total	(869)	-	-	(869)

	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
Net exposure				
Cash and cash equivalents	-	-	-	-
Reserve ledger restricted cash	42,901	-	-	42,901
Loans and advances at amortised cost	7,953,301	-	-	7,953,301
Total	7,996,202	-	-	7,996,202

BARCLAYS COVERED BONDS LIMITED LIABILITY PARTNERSHIP

Notes to the Financial Statements For the Year Ended 31 December 2019

a) Credit risk (continued)

As at 31 December 2018	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
Gross exposure				
Cash and cash equivalents	11	-	-	11
Reserve ledger restricted cash	42,940	-	-	42,940
Loans and advances at amortised cost	8,030,943	-	-	8,030,943
Total	8,073,894	-	-	8,073,894

	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
Impairment allowance				
Cash and cash equivalents	-	-	-	-
Reserve ledger restricted cash	(4)	-	-	(4)
Loans and advances at amortised cost	(792)	-	-	(792)
Total	(796)	-	-	(796)

	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
Net exposure				
Cash and cash equivalents	11	-	-	11
Reserve ledger restricted cash	42,936	-	-	42,936
Loans and advances at amortised cost	8,030,151	-	-	8,030,151
Total	8,073,098	-	-	8,073,098

b) Liquidity risk

This is the risk that the Partnership's cash and committed facilities may be insufficient to meet its debts as they fall due. The ability of the Partnership to pay interest and principal on the loans to the related party is dependent upon the Partnership receiving sufficient cash flow from the deemed loans. In addition to considering performance of the underlying loans and advances at amortised cost and the reserve ledger restricted cash, cash flow measurements and projections for the next day, week and month are also reviewed, as these are key periods for liquidity management. Sources of liquidity are regularly reviewed. The Partnership is reimbursed for all third party expenses by BB UK PLC and therefore incurs no significant liquidity risk.

BARCLAYS COVERED BONDS LIMITED LIABILITY PARTNERSHIP

**Notes to the Financial Statements
For the Year Ended 31 December 2019**

b) Liquidity risk (continued)

Contractual maturity of financial assets and liabilities on an undiscounted basis

The table below presents the cash flows payable by the Partnership with regards to financial assets and liabilities by remaining contractual maturity at the statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows of all financial liabilities (i.e. nominal values), whereas the Partnership manages the inherent liquidity risk based on discounted expected cash inflows.

31 December 2019	<1 mth	1-3 mths	3mths-1 yr	1-5 yrs	>5 yrs	Total
	£000	£000	£000	£000	£000	£000
Cash and cash equivalents	-	-	-	-	-	-
Reserve ledger restricted cash	42,906	-	-	-	-	42,906
Loans and advances at amortised cost	11,327	22,653	1,095,898	6,211,272	1,060,877	8,402,027
Loans due to related party	(54,233)	(22,653)	(1,095,898)	(6,211,272)	(1,060,877)	(8,444,933)
Total	-	-	-	-	-	-

31 December 2018	<1 mth	1-3 mths	3mths-1 yr	1-5 yrs	>5 yrs	Total
	£000	£000	£000	£000	£000	£000
Cash and cash equivalents	11	-	-	-	-	11
Reserve ledger restricted cash	42,940	-	-	-	-	42,940
Loans and advances at amortised cost	12,115	24,232	1,930,409	5,487,716	1,080,760	8,535,232
Loans due to related party	(55,066)	(24,232)	(1,930,409)	(5,487,716)	(1,080,760)	(8,578,183)
Total	-	-	-	-	-	-

c) Market risk

Interest rate and foreign currency risk exists where assets and liabilities have different currencies and interest rates set under a different basis or which reset at different times. The underlying mortgage assets, the term loans and the cash and cash equivalents are exposed to these risks. The Partnership minimises its exposure to such risks by ensuring that the foreign currency and interest rate characteristics of assets and liabilities are similar; where this is not possible the Partnership uses derivative financial instruments to mitigate these risks.

BARCLAYS COVERED BONDS LIMITED LIABILITY PARTNERSHIP**Notes to the Financial Statements
For the Year Ended 31 December 2019****c) Market risk (continued)**

The underlying mortgage pool comprises loans which are subject to variable rates of interest set by BB UK PLC based on general interest rates and competitive considerations, loans which track the Bank of England base rate and loans which are subject to fixed rates of interest. To mitigate the changes in interest and foreign currency rates that may result in the interest cash flows from the mortgage pool being insufficient to meet the payments under the term loans, the Partnership has entered into currency and basis swaps with BB UK PLC and various third parties. The basis swaps substantially eliminate the sensitivity to movements in interest rates and the currency swaps eliminate the sensitivity to movements in foreign currency rates.

The effect of currency and interest rate movements has no bearing on the results of the Partnership due to the use of derivative contracts.

Interest rate risk

The sensitivity of the Statement of Comprehensive Income is the effect of assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and liabilities held at 31 December, including the effect of external hedging instruments.

Interest rate sensitivity gap analysis

The sensitivity of the Statement of Comprehensive Income is the effect of assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and liabilities held at 31 December, including the effect of external hedging instruments.

Impact of net interest income

The impact of a 25 basis point increase or decrease in interest rates on net interest income is as follows:

	2019 +25 basis points £'000	2019 -25 basis points £'000	2018 +25 basis points £'000	2018 -25 basis points £'000
Loans and advances at amortised cost	19,883	(19,883)	20,075	(20,075)
Loans due to related party (includes impact of derivatives)	(19,883)	19,883	(20,075)	20,075
Total	-	-	-	-

BARCLAYS COVERED BONDS LIMITED LIABILITY PARTNERSHIP**Notes to the Financial Statements
For the Year Ended 31 December 2019****13. Fair value measurement**

The fair value of an asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following table summarises the fair value of financial assets and liabilities measured at amortised cost on the Partnership's balance sheet where the carrying amount is not a reasonable approximation of fair value and analyses those fair values.

	2019 £000	2019 £000	2018 £000	2018 £000
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Loans and advances at amortised cost	7,953,301	7,716,402	8,030,151	7,816,069
	<u>7,953,301</u>	<u>7,716,402</u>	<u>8,030,151</u>	<u>7,816,069</u>
Financial liabilities				
Borrowings due to related party	8,040,674	7,762,182	8,124,337	7,868,477
	<u>8,040,674</u>	<u>7,762,182</u>	<u>8,124,337</u>	<u>7,868,477</u>

The fair value of cash and cash equivalents and reserve ledger restricted cash which are not included in the table above is the same as their carrying amounts.

(a) Fair value of the loans and advances at amortised cost is unobservable but estimated by taking a pro-rata valuation of the BB UK PLC's residential mortgages after stripping away specific portfolios that cannot be added to the covered pool of mortgages.

Valuation methodology

A description of the nature of the techniques used to calculate valuations based on observable inputs and valuations based on unobservable inputs is described below.

Valuations based on observable inputs**Quoted market prices - Level 1**

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

BARCLAYS COVERED BONDS LIMITED LIABILITY PARTNERSHIP

Notes to the Financial Statements For the Year Ended 31 December 2019

Fair value measurement (continued)

Valuation technique using observable inputs- Level 2

Financial instruments classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuations based on observable inputs include financial instruments such as swaps and forwards which are valued using market standard pricing techniques, and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable.

Valuation technique using significant unobservable inputs - Level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The following table shows the Partnership's financial assets and liabilities by fair value hierarchy and statement of financial position classification:

	£000	£000	£000	£000
2019	Fair value	Level 1	Level 2	Level 3
Financial assets				
Loans and advances at amortised cost	7,716,402	-	-	7,716,402
Derivative financial assets	-	-	117,667	-
Financial assets	7,716,402	-	117,667	7,716,402
Financial liabilities				
Borrowings	(7,762,182)	-	(42,906)	(7,719,276)
Financial liabilities	(7,762,182)	-	(42,906)	(7,719,276)
	£000	£000	£000	£000
2018	Fair value	Level 1	Level 2	Level 3
Financial assets				
Loans and advances at amortised cost	7,816,069	-	-	7,816,069
Derivative financial assets	-	-	116,814	-
Financial assets	7,816,069	-	116,814	7,816,069
Financial liabilities				
Borrowings	(7,868,477)	-	(42,951)	(7,825,526)
Financial liabilities	(7,868,477)	-	(42,951)	(7,825,526)

BARCLAYS COVERED BONDS LIMITED LIABILITY PARTNERSHIP

Notes to the Financial Statements For the Year Ended 31 December 2019

Fair value measurement (continued)

Valuation technique using significant unobservable inputs - Level 3 (continued)

Level 3 loans and receivables and borrowings decreased during the year due to the redemption of deemed loans receivable from BB UK PLC and loans payable to BB UK PLC during 2019. The fair value of financial assets and liabilities measured at amortised cost which are not included in the table above is the same as their carrying amounts.

14. 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 BB UK PLC. The guarantee is triggered, inter alia, following an event of default in the covered bonds programme by BB UK PLC and the service on the Partnership of a notice to pay. Under IFRS 9, this qualifies as a financial guarantee.

To the extent that BB UK PLC did default, the Partnership will gain access to a pool of ring fenced mortgage loan portfolio 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 2019.

15. 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 which includes its Members. There were no transactions with key management personnel in the year.

BARCLAYS COVERED BONDS LIMITED LIABILITY PARTNERSHIP

Notes to the Financial Statements For the Year Ended 31 December 2019

15. Related party transactions (continued)

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

15.1 Other related party transactions

Other related party transactions are as follows:

Related party relationship	Type of transaction	Transaction amount		Asset / (liability)	
		2019 £000	2018 £000	2019 £000	2018 £000
Statement of Financial Position					
Parent - BB UK PLC	Reserve ledger restricted cash	-	-	42,901	-
Parent - BB UK PLC	Loans and advances at amortised cost	-	-	7,953,301	8,030,151
Parent - BB UK PLC	Loans due to related party	-	-	(8,040,674)	(8,124,337)
Statement of Comprehensive Income					
Parent - BB UK PLC	Interest income received	154,960	139,821	-	-
Parent - BB UK PLC	Interest expense paid	(154,889)	(139,834)	-	-
Parent - BB UK PLC	Foreign exchange gain/(loss) on notes	6,584	(1,130)	-	-
Parent - BB UK PLC	Impairment of financial assets	71	13	-	-
Cashflows					
Parent - BB UK PLC	Redemption of loan	(11)	118,301	-	-
		<u>6,715</u>	<u>117,171</u>	<u>(44,472)</u>	<u>(94,186)</u>

The loans due to related party represents the notes on issuance secured against a portion of the BB UK PLC mortgage loan portfolio, i.e. loans and advances at amortised cost. The interest attracted by each transaction is determined on origination along with the maturity date where the invested principal is returned to the investor in full, unless stated otherwise.

The Partnership received financial and administration support from BB UK PLC, for which no recharges are made to the Partnership. The entity also received administration support from Intertrust Management Limited for which a fee of £12k (2018: £27k) was paid by BB UK PLC during the year.

BARCLAYS COVERED BONDS LIMITED LIABILITY PARTNERSHIP

Notes to the Financial Statements For the Year Ended 31 December 2019

16. Reserve ledger restricted cash

BB UK PLC is obligated under the Covered Bond transaction documents to lend funds to the Partnership should its short-term credit ratings drop below A-1+ (Standard & Poors), P-1 (Moody's), F1+ (Fitch). The proceeds of this loan are deposited and can only be utilised in the event of a default event to cover payment of the covered bond liabilities and senior expenses in addition to the cashflows being generated from the covered pool of UK residential mortgages hence its restricted nature as such.

17. Events after the reporting date

The Partnership is monitoring the potential downside risk associated with both the direct and indirect impact of the COVID-19 outbreak. The Partnership has concluded that its business strategy remains appropriate and that adequate capital and liquidity is being maintained. The impact on the Partnership may result in an increased impairment on the financial assets with a corresponding effective interest rate adjustment on the financial liabilities and hence no additional capital is required as such from the designated Members. Reserve ledger restricted cash is also immediately available should BB UK PLC default on the Covered Bonds it issued to cover immediate expenses so no additional liquidity is necessary as such. The Partnership continues to operate in line with Members expectations.

18. Parent undertaking and ultimate holding company

The Partnership was formed under a limited liability partnership agreement entered into by BB UK PLC (prior to 1 April 2018: Barclays Bank PLC) and Congadale Limited. The parent undertaking of the smallest group that presents group financial statements in which the Partnership is included is BB UK PLC. The ultimate holding company and the parent company of the largest group that presents group financial statements in which the Partnership is included is Barclays PLC.

BB UK PLC and Barclays PLC are incorporated in the United Kingdom and registered in England and Wales at 1 Churchill Place, London, E14 5HP, England. The statutory financial statements of the Partnership, BB UK PLC and Barclays PLC are available from Barclays Corporate Secretariat, 1 Churchill Place, London, E14 5HP, England.