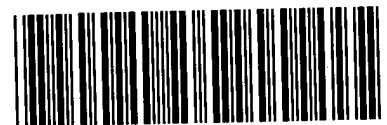


Registered Number 08821279

Cape Funding No.1 plc
Annual Report and Accounts

Period from incorporation on 19 December 2013 to 31 December 2014

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COMPANIES HOUSE

Cape Funding No.1 plc

Directors and company information

Directors

SFM Directors Limited

SFM Directors (No.2) Limited

Claudia Wallace

Company secretary

SFM Corporate Services Limited

Registered office

35 Great St. Helen's

London

EC3A 6AP

Company number

Registered Number 08821279

Independent auditors

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Atria One

144 Morrison Street

Edinburgh

EH3 8EX

Cape Funding No.1 plc

Strategic report

The directors present their strategic report for Cape Funding No.1 plc (the "Company") for the period ended 31 December 2014.

Incorporation and Principal activity

The Company, a public company with limited liability, was incorporated on 19 December 2013 in the United Kingdom and registered in England and Wales under the Companies Act 2006. The Company is a wholly owned subsidiary of Cape Holdings No.1 Limited ("Cape Holdings"). The issued share capital of the Company comprises 50,000 ordinary shares of £1 each (49,999 shares are quarter paid and one share is fully paid). Cape Holdings holds the Company's entire issued share capital. The shares of Cape Holdings are held on a discretionary basis by SFM Corporate Services Limited (the "Share Trustee") for the benefit of certain discretionary objects.

The Company has been formed to support TSB Bank plc's ("TSB") securitisation of residential mortgage loans (the "Transaction"). The principal activity of the Company is to issue variable funding notes due for repayment by August 2058 (the "Notes") and use the proceeds of the Notes issuance to acquire an interest in a portfolio of mortgage loans originated by TSB secured on residential properties in England, Wales and Scotland and also to enter into related financial arrangements.

The activities of the Company are conducted primarily by reference to a series of securitisation transaction documents (the "Transaction Documentation"). The securitisation structure has been established as a means of raising finance and providing a flexible funding mechanism for TSB.

Although TSB has no direct ownership interest in the Company, it is considered to exert control over its activities by virtue of its various roles in the Transaction. Therefore the results of the Company are included in the consolidated financial statements of TSB.

Business review

On the 20th May 2014, the Company issued two Class A Notes, comprising the AAA rated A1P Note subscribed to by Lloyds Banking Group plc ("Lloyds") at a balance of £10,000k and an unrated A2 Note subscribed to by TSB at a balance of £2,490,000k. TSB, as Cash Manager, has the power to vary the drawings under the Class A Notes based on its funding requirements, subject to a combined maximum balance on the Class A Notes of £2,500,000k.

The Company also issued a AAA rated £2,500,000k A1R Note, which was subscribed to by Lloyds, and then immediately repurchased by the Company. In various circumstances Lloyds can exchange the fully drawn A1P Note for the A1R Note, which can then be onwardly sold by Lloyds. Due to the contingent nature of the A1R Note, and the fact that it is held by the Company, it is not recognised as either an Asset or Liability of the Company.

In addition TSB subscribed to a £425,000k subordinated Z Note, which provides the credit enhancement necessary to achieve the AAA rating on the A1P and the A1R Notes. TSB also provides further credit enhancement by funding a reserve fund of £73,000k through a subordinated loan.

On the 2nd June 2014, a further £240,000k was drawn on the A1P Note, with a corresponding repayment of the A2 Note; and on the 18th August 2014, £240,000k was drawn on the A2 Note, with a corresponding repayment of the A1P Note.

The Company has made all necessary payments on the Notes in accordance with the Transaction Documentation for the period ended 31 December 2014.

In relation to the mortgage portfolio transferred to the Company, accounting derecognition was considered to be inappropriate for TSB's own financial statements, as TSB retained substantially all of the risks and rewards associated with the transferred assets and the pass through criteria of IAS39 has not been met. The Company recognises a 'deemed loan' to TSB on its balance sheet to represent its interests in the underlying mortgage portfolio.

The Transaction features a revolving structure allowing the Company to use principal receipts received from the mortgages to replenish the portfolio with new mortgages purchased from TSB (subject to certain eligibility criteria). The revolving period expires in December 2018.

Profits on a cash flow basis are pre-determined under the Transaction Documentation. The Company has the right to a profit before tax of £1,250 at each Interest Payment Date ("IPD") from available revenue receipts.

The results for the period are set out on page 9. The profit after taxation for the period amounted to £2.5k.

Cape Funding No.1 plc

Strategic report

The directors do not anticipate any changes to the present level of activity, or the nature of, the Company's business.

Key performance indicators (KPIs)

A defined set of KPIs for the Transaction are set out in the Transaction Documentation and monitored by the directors. The directors consider key performance indicators of the Company to be:

- the performance of the underlying mortgage loans – specifically the level of arrears and repossessions;
- the level of excess revenue receipts ("Excess Spread"); and
- the performance against the triggers set out in the Transaction Documentation (an extract of these is shown in note 10)

None of the triggers have been breached in the period to 31 December 2014.

At the time of issue, the A1 Notes were assigned a credit rating which reflects the likelihood of full and timely payment of interest to the holders of the Notes on each interest payment date and the full repayment of principal by the final maturity date. A rating may be subject to revision, suspension or withdrawal at any time by the rating agencies if the Company's circumstances change.

Any change in the credit rating assigned to a Note would be used as an indicator as to the performance of the Company. No downgrade in credit ratings has been applied to the Company's A1 Notes in the period under review and subsequently up to the date of approval of these financial statements.

Risk management

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

The principal risks arising from the Company's financial instruments are credit risk, interest rate risk and liquidity risk. These and other risks which may affect the Company's performance are detailed below. Further analysis of the risks facing the Company in relation to its financial instruments and the Company's financial risk management policies is provided in note 10.

Credit risk

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

To mitigate this risk, credit enhancement is provided in the form of a subordinated Z Note issued to TSB, a reserve fund and the ability of the Company to use Excess Spread to cover principal losses. The principal of the Z Note is not repaid until the Class A Notes are fully repaid. The reserve fund amounted to 2.50% of the mortgage pool's balance at closing and does not amortise during the transaction's life (i.e. it gets replenished from available revenue receipts on each IPD to the extent it has been utilised).

TSB also have the ability under the Transaction Documentation to repurchase any loans that fall into arrears and they have made such repurchases throughout the period under review.

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 Company's interest bearing financial assets and liabilities.

The Company's assets predominantly consist of floating rate mortgage loans, which either directly follow Bank of England Base Rate ("BBR") or discretionary rates which broadly move in line with BBR. The Company's liabilities consist of LIBOR based Notes and a subordinated loan. As the income from the mortgage assets is expected to move broadly in line with the LIBOR based expenditure, there are no interest rate swaps in place.

Cape Funding No.1 plc

Strategic report

Liquidity risk

The ability of the Company to meet its obligations to make principal and interest payments on the Notes and to meet its operating and administrative expenses is dependent on the amount and timing of the interest and principal repayments on the mortgage loans which underlie the loan to the originator.

Liquidity support comes from the Company's ability to use the reserve fund and principal receipts to mitigate interest shortfalls on the Class A Notes, as well as to pay expenses classed as senior expenses by the Transaction Documentation.

The Company has made all necessary payments on the Notes in accordance with the expected payment dates for the period ended 31 December 2014.

Operational risk

The Company is also exposed to operational risks through a number of contracts with third parties who have agreed to provide operational support to the Company in accordance with the Transaction Documentation. Structured Finance Management Limited ("SFM") has been appointed to provide corporate services in accordance with a corporate services agreement. Lloyds has been appointed to act as account bank. TSB has been appointed servicer and cash manager on behalf of the Company, with Lloyds being a back-up facilitator for these roles.

Business risk

The principal business risks of the Company are set out in a number of trigger events in the Transaction Documentation. These trigger events deal with issues such as the required size of the reserve fund, and maintenance of the AAA rating. The occurrence of a trigger event may lead to a different priority of payments on the Notes and stop any further drawings of the A1P Note.

There have been no such trigger events since the inception of the Transaction.

Capital management

The Company considers its capital to comprise its ordinary share capital and its accumulated retained earnings. The Company is not subject to any external capital requirements, except for the minimum requirement under the Companies Act 2006. The Company has not breached this minimum requirement.

By order of the board



Helena Whitaker
Per pro SFM Directors Limited
Director

24 April 2015

Registered Office
35 Great St. Helen's
London
EC3A 6AP

Cape Funding No.1 plc

Directors' report

The directors present their first annual report and audited financial statements for the Company for the period ended 31 December 2014.

Directors and their interests

The directors who served during the period ended 31 December 2014 and subsequently were as follows:

SFM Directors Limited	(appointed on 19 December 2013)
SFM Directors (No.2) Limited	(appointed on 19 December 2013)
Claudia Wallace	(appointed on 19 December 2013)

The directors are also all directors of the holding company, Cape Holdings.

None of the directors have any beneficial interest in either the shares of the Company or of Cape Holdings.

None of the directors had any interest during the period in any material contract or arrangement with either the Company or Cape Holdings.

The directors do not recommend the payment of a dividend.

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' indemnities

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the financial period and remains in force as at the date of approval of the annual report and the financial statements.

Company secretary

SFM Corporate Services Limited was appointed as the company secretary on 19 December 2013 and served during the period and at the date of approval of the annual report and the financial statements.

Employees

The Company does not have any employees and services required are contracted from third parties. None of the directors received any emoluments from the Company in the current period.

Cape Funding No.1 plc

Directors' report

Disclosure of information to auditors

In accordance with Section 418 of the Companies Act 2006, directors' reports shall include a statement, in the case of each director in office at the date the directors' report is approved, that the following applies:

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

Corporate governance

The Directors have been charged with governance in accordance with the Transaction Documentation detailing the structure and operation of the transaction. The governance structure of the Company is such that the key policies have been predetermined at the time of issuance and the operational roles have been assigned to third parties with their roles strictly governed by transaction documents.

The Transaction Documentation provides for procedures that have been designed for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; and for the reliability and usefulness of financial information used within the business or for publication. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives whilst enabling them to comply with the regulatory obligations.

Due to the nature of the securities which have been issued, the Company is largely exempt from the requirements of the Financial Conduct Authority Disclosure and Transparency Rules 7.1 audit committees and 7.2 corporate governance statements (save for the rule 7.2.5 requiring description of the features of the internal control and risk management systems) which would otherwise require the Company respectively to have an audit committee in place and include a corporate governance statement in the report of the directors. The directors are therefore satisfied that there is no requirement for an audit committee or a supervisory body entrusted to carry out the functions of an audit committee or to publish a corporate governance statement.

Independent auditors

PricewaterhouseCoopers LLP were appointed by the directors as the first auditors to the Company during the period under review and are to remain in office until the conclusion of the Company's first annual general meeting. Having expressed their willingness to continue in office, a resolution for the re-appointment of PricewaterhouseCoopers LLP will be proposed at the forthcoming annual general meeting of the Company.

Statement of going concern

The directors are satisfied that the Company has adequate resources to continue to operate for the foreseeable future and is financially sound. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

By order of the board



Helena Whitaker
per pro SFM Directors Limited
Director

24 April 2015

Registered Office
35 Great St. Helen's
London
EC3A 6AP

Independent auditors' report to the members of Cape Funding No.1 plc

Report on the financial statements

Our opinion

In our opinion, Cape Funding No.1 plc's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of its profit and cash flows for the period then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

Cape Funding No.1 plc's financial statements comprise:

- the balance sheet as at 31 December 2014;
- the statement of comprehensive income for the period then ended;
- the statement of cash flows for the period then ended;
- the statement of changes in equity for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the information given in the strategic report and the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Cape Funding No.1 plc

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

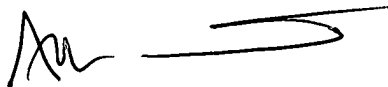
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Allan McGrath (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh

24 April 2015

Cape Funding No.1 plc
Statement of comprehensive income
for the period ended 31 December 2014

	Notes	Period from incorporation to 31 Dec 2014 £'000
Interest receivable and similar income	2	21,552
Interest payable and similar charges	3	(17,342)
Net interest income		4,210
Operating expenses	4	(4,207)
Profit before tax		3
Taxation	5	(1)
Profit and total comprehensive income attributable to equity holders		2

The profit shown above is derived from continuing operations. There were no gains or losses other than those in the statement of comprehensive income. Accordingly, no statement of total recognised gains or losses is given.

The accompanying notes on pages 13 to 24 are an integral part of the financial statements.

Cape Funding No.1 plc

Balance sheet

as at 31 December 2014

	Notes	£'000
Assets		
Deemed loan to originator	6	2,796,782
Other receivables	7	37
Cash and cash equivalents	10	132,610
Total assets		2,929,429
Equity and liabilities		
Debt securities in issue	8	2,928,455
Current tax liability	5	1
Other payables		921
Total liabilities		2,929,377
Share capital	9	50
Retained profits		2
Shareholders' equity		52
Total equity and liabilities		2,929,429

The accompanying notes on pages 13 to 24 are an integral part of the financial statements.

The financial statements on pages 9 to 24 were approved by the Board of Directors on 24 April 2015 and signed on their behalf by



Helena Whitaker
Per pro SFM Directors Limited
Director

Cape Funding No.1 plc
Statement of changes in equity
for the period ended 31 December 2014

	Share capital £'000	Retained profits £'000	Total £'000
Share capital issued on 19 December 2013	50	-	50
Profit for the period	-	2	2
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2014	50	2	52
	<hr/>	<hr/>	<hr/>

The accompanying notes on pages 13 to 24 are an integral part of the financial statements.

Cape Funding No.1 plc
Cash flow statement
for the period ended 31 December 2014

	Period from Incorporation to 31 Dec 2014 £'000
Operating activities	
Operating expenses paid	(3,308)
Reimbursement of expenses	22
Tax paid	-
Net cash flows used in operating activities	(3,286)
Investing activities	
Decrease / (Increase) in deemed loan to originator	(3,285,119)
Principal repayments on deemed loan to originator	406,172
Decrease/ Increase in subordinated loan within deemed loan to originator	59,840
Interest on deemed loan to originator	43,375
Bank interest received	502
Net cash flows used in investing activities	(2,775,230)
Financing activities	
Proceeds from issue of debt securities	2,925,000
Proceeds from issue of share capital	13
Interest on debt securities in issue	(13,887)
Payment of issue costs	(1,059)
Reimbursement of issue costs	1,059
Net cash flows from financing activities	2,911,126
Net increase in cash and cash equivalents	132,610
Change in cash and cash equivalents	132,610
Cash and cash equivalents at start of period	-
Cash and cash equivalents at 31 December 2014	132,610

The accompanying notes on pages 13 to 24 are an integral part of the financial statements.

Cape Funding No.1 plc

Notes to the accounts

for the period ended 31 December 2014

1. Significant accounting policies

Cape Funding No. 1 plc (the Company), is a public company with limited liability incorporated in the United Kingdom and registered in England and Wales under the Companies Act 2006 on 19 December 2013.

(a) Basis of preparation

The financial statements of the Company for the period ended 31 December 2014 have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union.

The principal accounting policies applied in the preparation of these financial statements are set out below and have been applied consistently in respect of the financial period ended 31 December 2014.

The financial statements also comply with the relevant provisions of Part XV of the Companies Act 2006.

The financial statements have been prepared using the going concern basis. The directors have reviewed the expected future cash flows and believe they are adequate to meet the anticipated payments due in accordance with the Transaction Documentation. The directors believe that the Company has additional safeguards in place to cover any unexpected issues which may arise in light of market turbulence including access to a general cash reserve and the ability to defer payment in certain circumstances.

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

(b) Revenue recognition

Interest receivable and similar income have been calculated using the effective interest method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the future cash flows are estimated after considering all the contractual terms of the instrument but not future credit losses.

(c) Accrued interest

Accrued interest has been incorporated within the deemed loan to TSB and within the outstanding balance of debt securities in issue on the balance sheet.

(d) Taxation

Current tax which is payable on taxable profits is recognised as an expense in the period in which the profits arise.

The company's tax charge is based on the permanent tax regime for securitisation companies within the meaning of the Finance Act 2005 (the Act) and the secondary legislation enacted in 2006 (the secondary legislation) which ensures that, subject to certain conditions being met and an election being made, for periods commencing on or after 1 January 2007, corporation tax for a securitisation company will be calculated by reference to the profit required to be retained in accordance with the relevant capital market arrangement.

The directors are satisfied that this Company meets the definition of a securitisation company as defined by both the Act and the secondary legislation and that no incremental unfunded tax liabilities will arise. Additionally, no deferred tax amounts are recognised by the Company.

(e) Financial instruments

These comprise a deemed loan to TSB, cash and liquid resources, Notes issued and other receivables and payables that arise directly from its operations. The main purpose of these financial instruments is to raise finance for TSB. These financial instruments are classified in accordance with the principles of IAS 39 as described below.

Notes to the accounts

for the period ended 31 December 2014

1. Significant accounting policies (continued)

(e)(i) Deemed loan

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

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

Impairment of financial assets

At each Balance sheet date an assessment is made as to whether, as a result of one or more events occurring after initial recognition, there is objective evidence that the deemed loan to originator has become impaired.

Delinquencies and defaults on the underlying securitised assets will not result in an impairment loss if the cash flows from the asset pool are still expected to be sufficient to meet the Company's obligations. Losses incurred on the securitised assets will not trigger an impairment charge as long as they do not exceed the credit enhancement granted by the originator.

If there is objective evidence that an impairment loss has been incurred, an allowance account is established which is calculated as the difference between the balance sheet carrying value of the deemed loan asset and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at that loan's original effective interest rate.

(e)(ii) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and amounts due from banks with a maturity of less than three months.

(e)(iii) Debt securities in issue

Debt securities in issue are recognised initially at fair value incorporating the directly related incremental transaction costs and the reimbursement of the transaction fees by Lloyds. Subsequent to initial recognition, debt securities in issue are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of comprehensive income over the period of the borrowings on an effective interest basis.

(f) Segment reporting

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

(g) Critical accounting estimates and judgements

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

(g)(i) Effective interest rate method

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

At the end of the revolving period, the Class A Notes' margin doubles and TSB has an option to repurchase the mortgage loans and redeem the Notes. The directors anticipate the Notes to be redeemed at the end of the revolving period; therefore the step up is not incorporated into the EIR.

Cape Funding No.1 plc

Notes to the accounts

for the period ended 31 December 2014

1. Significant accounting policies (continued)

(g) (ii) Fair value calculations

Fair value is defined as the value at which assets, liabilities or positions could be closed out or sold in a transaction with a willing and knowledgeable counterparty. Fair value is based where available on quoted market prices and upon cash flow models which use, wherever possible, independently sourced market parameters such as interest rate yield curves. Other factors are also considered, such as counterparty credit quality and liquidity.

All assets and liabilities are recognised on an amortised cost basis and their carrying value is considered to be a close approximation to fair value.

(g) (iii) Impairment of deemed loan

The Company's accounting policy for losses arising on the deemed loan classified as loans and receivables is described in note 1(e)(i). The allowance for impairment losses on loans and receivables is management's best estimate of losses incurred in the portfolio at the balance sheet date. Impairment allowances are established to recognise incurred impairment losses in the Company's loan portfolios carried at amortised cost. In determining whether impairment has occurred at the balance sheet date the Company considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows or their timings. Where this is the case, the impairment loss is the difference between the carrying value of the loan and the present value of the estimated future cash flows discounted at the loan's original effective interest rate.

At 31 December 2014, impairment allowances against the deemed loan totalled £nil.

(g) (iv) Payment of creditors

The initial closing costs associated with the Company's issuance have been borne by Lloyds, who are committed to covering the ongoing third party fees for the Company including all costs associated with a restructuring to maintain a rating and costs associated with listing and clearing.

As such, the Company incorporates both the transaction fees and the reimbursement of the transaction fees by Lloyds within the day one fair value, meaning that these items offset each other; as such there is a nil effect on the Statement of comprehensive income or Balance sheet.

2. Interest receivable and similar income

	Period from Incorporation to 31 Dec 2014 £'000
Deemed loan – interest income	23,831
Deemed loan – subordinated loan interest	(657)
Deemed loan – servicer fee	(1,770)
Deemed loan – cash manager fee	(354)
Bank interest receivable	502
Total	21,552

Cape Funding accounts for the interest due on the deemed loan by capping it at a level which covers its liabilities, including the retention of a notional profit and liabilities to TSB on subordinated loan, effectively netting down deferred consideration within the interest income of Cape Funding.

Cape Funding No.1 plc

Notes to the accounts

for the period ended 31 December 2014

3. Interest payable and similar charges

	Period from Incorporation to 31 Dec 2014 £'000
Interest payable on debt securities in issue	(17,342)

4. Operating expenses

	Period from Incorporation to 31 Dec 2014 £'000
Commitment fee	(4,207)

The commitment fee is a charge for the undrawn proportion of the facility under the A1P Note subscribed to by Lloyds. Therefore it is considered appropriate to treat the commitment fee as a fee expense, rather than as an interest expense.

The Company had no employees during the period. The directors' emoluments are paid in the form of a management charge to SFM. A management fee for administration services is charged by TSB. Further detail is provided in note 11.

The audit fees for the Company and Cape Holdings are paid by Lloyds and relate to the statutory audit. The fee for the current period is £15,000 for the Company and £5,000 for Cape Holdings. There are no fees payable to the auditors and their associates for services other than the statutory audit.

All of the issuance related fees incurred by the Company have been reimbursed by Lloyds; the transaction costs incurred on Day 1 and associated reimbursement therefore net off. Ongoing fees are also offset against Lloyds receipts in the Company's Statement of comprehensive income.

5. Taxation

	Period from Incorporation to 31 Dec 2014 £'000
Current Tax	
Corporation tax charge for the period at an average rate of 20%	(1)
Total tax charge	(1)

For UK corporation tax purposes, the Company has been considered as a securitisation company under the 'Taxation of Securitisation Companies Regulations 2006 (SI 2006/3296)'. Therefore, the Company is not required to pay corporation tax on its accounting profit or loss. Instead, the Company is required to pay tax on its retained profits as specified in the documentation governing the transaction. The Company retains £1,250 at each IPD from available revenue receipts, which is recorded as profit and taxable at the above tax rates.

Cape Funding No.1 plc
Notes to the accounts
for the period ended 31 December 2014

6. Deemed loan to originator

	As at Dec 2014 £'000
Deemed loan principal	2,861,538
Subordinated loan principal	(60,380)
Deemed loan interest	(4,260)
Subordinated loan interest	(116)
	<hr/>
Total	2,796,782
	<hr/>

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

The initial amount of the deemed loan to TSB corresponds to the consideration paid by the Company for the mortgage loans less the subordinated loan granted by TSB. The Company recognises principal and interest cash flows from the underlying pool of mortgage loans only to the extent that it is entitled to retain such cash flows. Cash flows attributable to TSB are not recognised by the Company. Additionally, the directors of the Company consider that the subordinated loan does not meet the definition of a liability as the Company will repay the subordinated loan to TSB only if it first receives an equivalent amount from TSB.

The deemed loan to originator is stated at amortised cost using the effective interest method. The effective interest on the deemed loan is calculated with reference to the interest earned on the beneficial interest in the mortgage portfolio less the residual interest due to TSB as described above.

The mortgage portfolio in which the Company holds a beneficial interest is held by TSB. The mortgage loans are secured on residential property in England, Wales and Scotland. Mortgages in the pool have to fulfil certain criteria. If they fail to do so they are removed from the pool and the pool may be replenished. There is a revolving period until December 2018, during which the Company can use principal receipts to replenish the portfolio with new mortgages purchased from TSB, subject to certain eligibility criteria.

7. Other receivables

	As at Dec 2014 £'000
Amount due from parent company	37
	<hr/>

Other receivables comprise uncalled and unpaid share capital due from Cape Holdings.

Cape Funding No.1 plc
Notes to the accounts

for the period ended 31 December 2014

8. Debt securities in issue

Principal	Coupon Rate	Expected Maturity Date	Legal Maturity Date	As at Dec 2014 £'000
A1P Note held by Lloyds	3m£L + 0.6%	December 2018	August 2058	10,000
A2 Note held by TSB	3m£L + 0.3%	December 2018	August 2058	2,490,000
Z Note held by TSB	3m£L + 1.0%	December 2018	August 2058	425,000
				<hr/>
				2,925,000
Interest Payable				
A1P Note				14
A2 Note				2,626
Z Note				815
				<hr/>
				3,455
				<hr/>
Total				2,928,455
				<hr/>

More detailed information about the Company's exposure to risk is provided in note 10.

9. Share capital

	As at Dec 2014 £'000
Issued 50,000 ordinary shares of £1 each, of which:	50
1 Issued and fully paid: ordinary shares of £1 each	-
49,999 Issued and one quarter paid: ordinary shares of £1 each	13

10. Management of risk

The main risks arising from the Company's financial instruments are credit risk, interest rate risk and liquidity risk. However the Company directs that considerable resource is given to maintaining effective controls to manage, measure and mitigate each of these risks by TSB in its role of Servicer. Further detailed analysis of the risks facing the Company in relation to its financial instruments is provided below.

The directors do not consider there is a capital management risk as the Notes issued are limited recourse obligations of the Company.

The Company's exposure to risk on its financial instruments and the management of such risk is largely determined at the inception of the Transaction. The Company's activities and the role of each party to the Transaction are clearly defined and documented. Cash flow modelling, including multiple stress scenarios, is carried out as part of the structuring of the Transaction, and is required by the rating agencies.

10(a) Credit risk

Credit risk arises where there is a possibility that counterparty may default on its financial obligations resulting in a loss to the Company.

The ability of the Company to meet its obligations to make principal and interest payments on the Notes and to meet its operating and administrative expenses is dependent on funds being received on the deemed loan. The primary credit risk of the Company therefore relates to the credit risk associated with the securitised pool of mortgages originated by TSB.

Cape Funding No.1 plc

Notes to the accounts

for the period ended 31 December 2014

10. Management of risk (continued)

10(a) Credit risk (continued)

The underlying mortgage assets of the securitisation are all in the UK market. The nature of the residential mortgage portfolio means there is no significant counterparty credit risk in relation to the underlying mortgage pool.

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

To mitigate the risk, credit enhancement is provided to the Company in the form of Excess Spread, the reserve fund and the subordinated Z Note. Taking this credit enhancement into account the income on the mortgage pool is expected to exceed the interest payable on the Notes and the Company's other expenses.

An impairment charge on the deemed loan will only be considered when the entire credit enhancement available has been, or is expected to be, utilised to cover the mortgage losses.

TSB also have the ability under the Transaction Documentation to repurchase any loans that fall into arrears, and they have made such repurchases throughout the period.

The Company's losses in the mortgage pool covered by excess spread in the period to 31 December 2014 were £0k. There were no principal drawings on the reserve fund which is fully funded at £73m.

The Company assesses its counterparties for credit risk before contracting with them. Credit rating is the main method used to measure credit risk. In accordance with the criteria of the rating agencies that rate the Notes, the Transaction Documentation contains various rating triggers linked to each counterparty, which require certain actions to be taken if triggers are breached.

Counterparty	Rating	Required Rating (S&P/Fitch/DBRS)	Rating as at 31-Dec-2014 (S&P/Fitch/DBRS)	Rating as at date of approval of accounts (S&P/Fitch/DBRS)
Lloyds (in capacity as account bank)	Short Term Long Term	A-1/F1/N/A A/A/A	A-1/F1/N/A A/A/AAL	A-1/F1/N/A A/A/AAL
Lloyds(in capacity as collection account bank)	Short Term Long Term	A-2/F2/N/A BBB*/BBB+/BBB(low)	A-1/F1/N/A A/A/AAL	A-1/F1/N/A A/A/AAL

* BBB+ where the Short Term rating is below A-2 (S&P)

Financial assets subject to credit risk

The maximum exposure to credit risk arising on the Company's financial assets at the reporting date is disclosed in the table below and equates to carrying value. At the balance sheet date no financial assets subject to credit risk were past due or impaired.

	As at Dec 2014 £'000
Assets held at amortised cost:	
Deemed loan to originator	2,796,782
Trade and other receivables	37
Cash and cash equivalents	132,610
	<hr/>
	2,929,429
	<hr/>

The Company meets its obligation on the Notes issued from the cash flows it receives from the pool of mortgage loans. As a consequence, the credit quality of the mortgage loans indicates the capacity of the Company to service its payments, although the mortgages remain on the Balance sheet of TSB and the structure of the securitisation provides for other credit enhancements.

Cape Funding No.1 plc

Notes to the accounts

for the period ended 31 December 2014

10. Management of risk (continued)

10(a) Credit risk (continued)

Securitised mortgage assets

Securitised mortgage loans can be analysed according to the rating systems used by the Company and originator when assessing customers and counterparties. The mortgage portfolio balance has been analysed below.

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

	As at Dec 2014 £'000
Neither past due nor impaired	2,863,091
Past due but not impaired	13,203
Impaired	-
	<hr/>
	2,876,294
	<hr/>

Securitised loans and advances which are past due but not impaired:

	As at Dec 2014 £'000
0-30 days	12,375
30-60 days	829
60-90 days	-
90-180 days	-
Over 180 days	-
	<hr/>
	13,203
	<hr/>

A financial asset is 'past due' if a counterparty has failed to make a payment when contractually due.

The number and value of loans currently in arrears will have a bearing on the receipt of cash by the Company. Key indicators are as follows:

- At 31 December 2014 there were no accounts in arrears by three or more months
- At 31 December 2014 there were no properties in possession
- In the period to 31 December 2014, 85 loans were repurchased by TSB after they had fallen into arrears

Collateral held against retail mortgage lending comprises residential properties.

10(b) 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 Company's interest bearing financial assets and liabilities, and arises where assets and liabilities have interest rates set under a different basis or which reset at different times

The deemed loan to originator, the Notes and the cash and cash equivalents are exposed to cash flow interest rate risk caused by floating interest rates that are linked to the LIBOR rate and reset periodically.

The securitised mortgage loans comprise loans which are subject to variable rates of interest set by TSB based on general interest rates and competitive considerations and loans which track the BBR.

There are no fixed rate mortgages within the asset pool, reducing the need to put interest rate hedges in place. Residual interest rate risk is mitigated to achieve the ratings on the Class A1 Notes through additional credit enhancement.

Cape Funding No.1 plc

Notes to the accounts

for the period ended 31 December 2014

10. Management of risk (continued)

10(c) Liquidity risk

The Company's ability to make payments on the Notes is dependent on the receipt of funds from the deemed loan to originator which will vary due to the level of repayment on the underlying mortgage portfolio.

The table below analyses the financial liabilities of the Group by relevant maturity grouping on an undiscounted future cash flow basis based on the remaining period at the balance sheet date.

The table reflects the expectation that the Notes will be called on the call date in December 2018. However, this may not be the case in practice. The final legal maturity date of the Notes is August 2058.

2014	Carrying Value	Contractual repayment value	<1 Month	1-3 Months	3 Months – 1 Year	1-5 Years	> 5 Years
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Principal							
Debt securities in issue	2,925,000	2,925,000	-	-	-	2,925,000	-
Interest payable							
Interest payable on debt securities in issue	3,455	105,021	-	7,063	20,958	77,000	-
	<u>2,928,455</u>	<u>3,030,021</u>	<u>-</u>	<u>7,063</u>	<u>20,958</u>	<u>3,002,000</u>	<u>-</u>

10(d) Fair values

The table below analyses the fair values of financial instruments of the Company which are carried at fair value or for which fair value is disclosed below.

	Note	Level 1 Fair Value £000	Level 2 Fair Value £000	Level 3 Fair Value £000	Total Fair Value £000	Total Carrying Value £000
Deemed loan to originator	6	-	-	2,796,782	2,796,782	2,796,782
Debt securities in issue						
A1P Note held by Lloyds	8	-	10,014	-	10,014	10,014
A2 and Z Notes held by TSB	8	-	-	2,918,441	2,918,441	2,918,441

Cape Funding No.1 plc
Notes to the accounts
for the period ended 31 December 2014

10. Management of risk (continued)

10(d) Fair values (continued)

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

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

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

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

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

Deemed loan to originator

The deemed loan to the originator is comprised of a failed sale of mortgages from the originator, credit enhancement provided via a subordinated loan and a return of deferred consideration to the originator. This is considered to be a single three-month LIBOR rate financial instrument which is carrying a market rate of interest. The fair value has been determined based on the internally developed pricing models using level 3 valuation techniques, and is considered to be a close approximation to the carrying value.

Debt securities in issue

The carrying value of the debt securities in issue is considered to be a close approximation to fair value. The fair value of the A1 Notes has been calculated from a present value model based on available market data on UK Residential Mortgage Backed Securities spreads. Due to the nature of the retained A2 and Z Notes, for which comparable market data is not available, fair value has been determined using internally developed pricing models.

11. Related party transactions

The Company entered into related party transactions with SFM, TSB and Lloyds.

SFM is the corporate management services provider for the Transaction. The Company paid a corporate services fee of £13k to SFM for the period ended 31 December 2014.

TSB is the sponsor of the Transaction, being the originator of mortgages, and is also paid cash management and mortgage loan servicing fees by the Company in connection with its provision of services defined under the Transaction Documentation. TSB is also the holder of the A2 and Z Notes issued by the Company. The transactions with TSB undertaken during the period are set out on page 23.

At 31 December Lloyds was the ultimate controlling party of TSB and the account bank provider for the Transaction (note 13). Lloyds is also the holder of the A1P Note issued by the Company. The transactions with Lloyds undertaken during the period are set out on page 23.

Cape Funding No.1 plc

Notes to the accounts

for the period ended 31 December 2014

11. Related party transactions (continued)

During the period, the Company undertook the following transactions with TSB set out below:

	Period to 31 Dec 2014 £'000
Interest receivable and similar income	
Income from deemed loan to originator	23,174
Cash manager and servicing fees	(2,124)
Interest payable and similar charges	
Interest on debt securities in issue	(16,700)
Assets	
Deemed loan to originator	2,796,782
Liabilities	
Debt securities in issue	(2,918,441)

During the period, the Company undertook the following transactions with Lloyds set out below:

	Period to 31 Dec 2014 £'000
Interest receivable and similar income	
Bank interest receivable	502
Interest payable and similar charges	
Interest on debt securities in issue	(642)
Operating expenses	
Commitment fee	(4,207)
Liabilities	
Debt securities in issue	(10,014)
Trade and other payables	(921)

Cape Funding No.1 plc

Notes to the accounts

for the period ended 31 December 2014

12. Future accounting pronouncements

The following pronouncements will be relevant to the Company but are not applicable for the period ended 31 December 2014. A further consideration to be given to assess the full impact of these accounting changes.

Pronouncement	Nature of change	IASB effective date
IFRS 9 Financial Instruments	Replaces IAS 39 Financial Instruments: Recognition, Measurement relating to the classification, measurement, impairment and derecognition of financial assets and liabilities and hedge accounting. IFRS 9 requires financial assets to be classified into three measurements categories, fair value, amortised cost and fair value through other comprehensive income for certain debt instruments, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. The requirements for recognition and derecognition are unchanged from IAS 39. The standard also retains most of IAS 39 requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value change attributable to the entity's own credit risk is recorded in the other comprehensive income. IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised. The hedge accounting requirements are more closely aligned with risk management practices and follow a more principle-based approach.	Annual periods beginning on or after 1 January 2018. Not yet endorsed for use in the EU.

13. Parent undertaking and controlling party

The immediate parent company is Cape Holdings No. 1 Limited. The entire issued share capital of Cape Holdings No. 1 Limited is held by SFM Corporate Services Limited as Share Trustee, which holds the shares in trust for the benefit of certain discretionary objects (which do not include TSB or any entity connected with TSB).

For accounting purposes, at 31 December 2014 the Company's ultimate parent and controlling party was Lloyds Banking Group plc. The Company's results are included within the consolidated financial statements of Lloyds Banking Group plc. Copies of the group financial statements may be obtained from the Company Secretary's Office, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN.

Lloyds Banking Group sold 9.99 per cent of its shareholding in TSB with effect from 24 March 2015. From this date TSB Banking Group plc became the Company's ultimate parent and controlling party.