

Registered Number 14010572

Duncan Funding 2022-1 plc

Annual Report and Financial Statements

Year ended 31 December 2023

Duncan Funding 2022-1 plc

Directors

CSC Directors (NO.1) Limited

CSC Directors (NO.2) Limited

Constantinos Kleanthous (resigned 21 September 2023)

Catherine McGrath (appointed 21 September 2023)

Company secretary

CSC Corporate Services (UK) Limited

Registered office

10th Floor 5 Churchill Place

London

E14 5HU

Company number

Registered Number 14010572

Independent auditor

KPMG LLP

15 Canada Square

London

E14 5GL

Strategic report

The directors present their strategic report for Duncan Funding 2022-1 plc (the "Company") for the year end 31 December 2023.

Principal activities

The Company, a public limited company, was incorporated on 29 March 2022 in the United Kingdom and registered in England and Wales under the Companies Act 2006. The Company was established as a special purpose vehicle to support TSB Bank plc's ("TSB" or the "Originator") securitisation of residential mortgage loans (the "Transaction"). The principal activities of the Company are to issue notes with an expected maturity of July 2027 and a final legal repayment date of July 2069 (the "Notes") and use the proceeds of the Notes issuance to acquire an interest in a portfolio of mortgage loans from 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 for TSB.

Business review

On 18 August 2022 (the "Closing Date"), the Company issued 2 classes of Notes, comprising:

- the AAA/Aaa rated Class A Notes at a balance of £1,200 million; and
- the unrated Subordinated Note at a balance of £133 million.

All Notes were retained by TSB.

The Class A Notes have been admitted to trading on the regulated market of the London Stock Exchange.

Payments on the Notes are required to be made from receipts of payments made on the mortgage loans and as set out in the Transaction Documentation. The Company made all necessary payments on the Notes in accordance with the Transaction Documentation for the year ended 31 December 2023.

TSB provided a Start-up Loan to the Company. The Start-up Loan comprised of funds to cover payment of costs and expenses incurred by the Company in connection with the issue of the Notes, and to provide an initial liquidity reserve fund equal to 1 per cent of the sterling equivalent Class A Notes at the Closing Date. The Start-up Loan Agreement also provides the Company with the option to request for an advance to be used as available revenue receipts.

TSB also provided an additional loan to the Company to fund the day 1 payment to Royal Bank of Canada ("RBC"), in respect of the interest rate swap it has entered into with RBC.

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 International Financial Reporting Standard 9 (IFRS 9) have not been met. The Company recognises a 'deemed loan' to TSB on its statement of financial position 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 additional mortgages purchased from TSB subject to certain eligibility criteria. The revolving period continues to July 2027 (the "Revolving Period End Date" or "Step Up Date") and is subject to certain criteria.

Profits for the Company are pre-determined on a cash flow basis under the Transaction Documentation. Under the terms of the Transaction, the Company has the right to retain £1,250 at each Interest Payment Date ("IPD") from available revenue receipts which is recorded as profit.

The income statement is also subject to unrealised gains and losses from fair value movements on external derivative positions.

The results for the year are set out on page 11. The (loss)/profit after taxation for the year/period amounted to £(37.6) million (2022: £24.3 million), which is principally a result of the movement in fair value of the derivative.

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

Duncan Funding 2022-1 plc

Strategic report (continued)

Key performance indicators (“KPIs”)

A defined set of KPIs for the Transaction are set out in the Transaction Documentation and are 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

The performance of the portfolio is outlined in note 12(a), and none of the triggers have been breached in the year to 31 December 2023 and up to the date of signing the financial statements.

At the time of issue, the rated Note was assigned a credit rating which reflect the likelihood of full and timely payment of interest to the holders of the Note on each IPD and the full repayment of principal by the final legal repayment 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 changes in credit ratings have been applied to the Notes in the year 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 seller of the mortgages, equivalent to the value of its net investment in the mortgages, cash and liquid resources, Notes issued in the capital markets, derivative contracts 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 12.

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 mortgage 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 Note issued to TSB and the ability of the Company to use Excess Spread to cover principal losses.

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.

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of the underlying mortgage assets, as represented in the deemed loan to TSB, and the Notes (its principal assets and liabilities) are similar; where this is not possible the Company uses derivative contracts to mitigate any residual interest rate risk.

The Company's liabilities consist of compounded SONIA Notes. Interest rate risk is therefore managed through a derivative contract, which hedges the interest rate basis of the underlying fixed rate mortgages against compounded SONIA.

The interest rate derivative contract provider is Royal Bank of Canada (‘RBC’), who were rated AA- (Fitch) /Aa1 (Moody's) at 31 December 2023. RBC is required to maintain minimum rating levels of A (Fitch) and A3(cr) (Moody's) in line with the Transaction Documentation and will be required to post collateral or take other actions should it not meet the rating requirements.

Duncan Funding 2022-1 plc

Strategic report (continued)

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 deemed loan to TSB.

Liquidity support comes from the Company's ability to use the liquidity reserve fund 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 is also able to use principal receipts to mitigate interest shortfalls on the Class A Notes and senior expenses.

Operational risk

The Company is 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. TSB has been appointed servicer and cash manager on behalf of the Company. Citicorp Trustee Company Limited has been appointed as Note trustee and security trustee. CSC Corporate Services has been appointed to provide corporate services in accordance with a corporate services agreement. Citibank, N.A., London Branch has been appointed to act as account bank and principal paying agent.

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 solvency of TSB and the performance of underlying mortgage assets. The occurrence of a trigger event may lead to a different priority of payments on the Notes or a termination of the revolving period prior to July 2027.

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

Capital management

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.

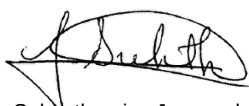
Section 172(1) statement

As an SPV, the governance structure of the Company is such that the key policies have been predetermined at the time of issuance. The directors have had regards to the matters set out in section 172(1) of the Companies Act 2006 as follows:

- with reference to subsection (a) concerning the likely consequences of any decision in the long term: Transaction Documentation has been set up to achieve the Company's purpose and business objectives, safeguard the assets and promote the success of the Company with a long term view and as disclosed in Note 5 in accordance with relevant securitisation legislation the Company is only permitted to retain minimal profit.
- the matters set out in subsections (b)–(f) have limited or no relevance to the Company and therefore they are not strategically important.

In accordance with section 426b of the Companies Act 2006, a copy of this statement is available at <https://www.tsb.co.uk/investors/debt-investors/securitisation-programmes/>.

On behalf of the board



Sukanthapriya Jeyaseelan
Per pro CSC Directors (No.1) Limited
Director
18 April 2024

Registered office
10th Floor 5 Churchill Place
London, E14 5HU

Directors' report

The directors present their annual report and audited financial statements for the Company for the year to 31 December 2023.

Directors and their interests

The directors who served during year ended 31 December 2023 and up to the date of signing the financial statements were as follows:

CSC Directors (NO.1) Limited
CSC Directors (NO.2) Limited
Constantinos Kleanthous (resigned 21 September 2023)
Catherine McGrath (appointed 21 September 2023)

None of the directors have any beneficial interest in the shares of the Company.

None of the directors had any interest during the year in any material contract or arrangement with the Company.

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2023 (2022: nil).

Statement of directors' responsibilities in respect of the annual report, strategic report, the directors' report and the financial statements

The directors are responsible for preparing the Annual 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 they have elected to prepare the financial statements in accordance with UK-adopted international accounting standards and applicable law.

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 its profit or loss for that period. In preparing the financial statements, the directors 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 UK-adopted international accounting standards;
- assess the Company'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 Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. 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 Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, and Corporate Governance Statement that complies with that law and those regulations.

Disclosure of information to auditors

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

This confirmation is given, and should be interpreted, in accordance with the provisions of section 418(2) of the Companies Act 2006.

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 year and remains in force at the date of approval of the annual report and financial statements.

Directors' report (continued)

Company secretary

CSC Corporate Services Limited acted as the company secretary during the year and up to the date of signing the financial statements.

Employees

The Company had no employees during the year ended 31 December 2023 (2022: no employees). Services required are contracted from third parties. None of the directors received any emoluments from the Company in the current year (2022: nil).

Corporate governance

The Directors are responsible for 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 the Transaction Documentation.

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 regulatory obligations.

Due to the nature of the securities which have been issued on the London Stock Exchange, the Company is largely exempt from the requirements of the Financial Conduct Authority Disclosure Guidance and Transparency Rules Sourcebook 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.

The Company outsources its operational internal controls and risk management systems to TSB in its role as servicer. Additional information may be found in the section "Principal Risks and uncertainties", on pages 15 to 20 of the 2023 Annual Report and Accounts of TSB Banking Group plc, which does not form part of this report.

Independent auditors

KPMG LLP have been appointed by the directors as the auditors of the Company during the year under review. Having expressed their willingness to continue in office, a resolution for the re-appointment of KPMG LLP will be proposed at the forthcoming annual general meeting of the Company, pursuant to section 489 of the Companies Act 2006.

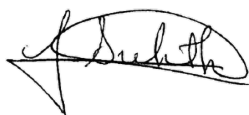
Environment and emerging risk - climate change

TSB has effective control of the entity through the design of the structure, therefore its environmental policy and response to the emerging risk of climate change is set by TSB. Full details can be found in TSB's Annual Report and Accounts on their website at [tsb.co.uk](https://www.tsb.co.uk)

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. In addition, the Notes are limited recourse obligations of the Company. Should there be insufficient funds to pay in full any amounts due and payable on the Notes, following the realisation of assets and after payments in accordance with the priority of payments, then such outstanding amounts cease to be due and payable by the Company. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

On behalf of the board



Sukanthapriya Jeyaseelan
Per pro CSC Directors (No.1) Limited
Director
18 April 2024

Registered office
10th Floor, 5 Churchill Place
London
E14 5HU

Independent auditors' report to the directors of Duncan Funding 2022-1 plc

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF Duncan Funding 2022-1 PLC

1 Our opinion is unmodified

We have audited the financial statements of Duncan Funding 2022-1 PLC ("the Company") for the year ended 31 December 2023 which comprise the Statement of comprehensive income, Statement of financial position, Statement of changes in equity, Cash flow statements, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Board of Directors.

We were first appointed as auditor by the directors for the financial period ended 31 December 2022. The period of total uninterrupted engagement is for the two financial years ended 31 December 2023. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter (unchanged from 2022), in arriving at our audit opinion above, together with our key audit procedures to address this matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on this matter.

The risk	Our response
Recoverability of deemed loan to the Originator £nil provision (2022: £nil) Refer to note 1(e)(ii) of the accounting policy for details	Risk of incorrect determination of the Expected Credit Loss ("ECL") on deemed loan to TSB Bank PLC ("the Originator") Subjective estimate The Company has a deemed loan to the Originator. The loan is collateralised on a portfolio of mortgages sold to the Company by the Originator. There is substantial credit enhancement in the structure via a subordinated loan and deferred consideration arrangement. IFRS9 requires the Company to recognise an ECL on financial instruments which involve significant judgement and estimation. The risk is that the Company has not recorded sufficient ECL in the financial statements at the year end. We performed the tests below rather than seeking to rely on any of the controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included: • Test of details: Performed procedures to test the existence of the subordinated loan by obtaining third party confirmation. Tested the accuracy of the deferred consideration by recalculating movements during the year. Compared the ECL on the underlying mortgages to the credit enhancements that existed at 31 December 2023, to assess whether the credit enhancements mean that the risk of future credit losses is negligible. • Assessing transparency: Assessed whether the disclosures appropriately disclose and address the uncertainty which exists when determining the ECL. Our results The results of our testing were satisfactory and we considered a nil ECL at the year end and related disclosures made, to be acceptable (2022: acceptable).

Independent auditors' report to the directors of Duncan Funding 2022-1 plc (continued)

3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £12 million (2022: £12.3 million), determined with reference to a benchmark of total assets, of which it represents 0.9%.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 75% of materiality for the financial statements as a whole, which equates to £9 million (2022: £9.2 million). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Board of Directors any corrected or uncorrected identified misstatements exceeding £0.6 million (2022: £0.6 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

4 Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company'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 used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1 to be acceptable.

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

5 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

- Enquiring of Directors and inspection of TSB Banking Group PLC's ("Group") policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Board meeting minutes; and
- Using analytical procedures to identify any unusual or unexpected relationships.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as provision impairment.

Independent auditors' report to the directors of Duncan Funding 2022-1 plc (continued)

On this audit we do not believe there is a fraud risk related to revenue recognition as the risk of possible pressures to meet profit targets is remote and there are limited judgements involved in the calculation of revenue.

We did not identify any additional fraud risks.

In determining the audit procedures, we took into account the results of our evaluation and testing of the operating effectiveness of the Group-wide fraud risk management.

We also performed procedures including:

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

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

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

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

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

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

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

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of Company's license to operate. We identified the following areas as those most likely to have such an effect: specified areas of money laundering, financial crime, certain aspects of company legislation and various requirements governing securitisation transactions recognising the financial nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

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

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

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

Independent auditors' report to the directors of Duncan Funding 2022-1 plc (continued)

6 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, 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.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

7 We have nothing to report on the other matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

8 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements including 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 Company'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 Company or to cease operations, or have no realistic alternative but to do so.

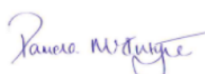
Auditor's responsibilities

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.

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

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company'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 Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Pamela McIntyre (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15, Canada Square
London
E14 5GL
18 April 2024

Duncan Funding 2022-1 plc

Statement of comprehensive income

for the year ended 31 December 2023

		Year to 31 December 2023	Period from incorporation to 31 December 2022
	Note	£'000	£'000
Interest receivable and similar income	2	67,768	14,536
Interest payable and similar charges	3	(67,600)	(14,432)
Net interest income		<u>168</u>	<u>104</u>
(Losses)/gains on derivative financial asset	11	(37,614)	24,316
Operating expenses	4	(163)	(103)
(Loss)/profit before tax		<u>(37,609)</u>	<u>24,317</u>
Taxation	5	(1)	-
(Loss)/profit after taxation		<u>(37,610)</u>	<u>24,317</u>
Other comprehensive (expense)/income:			
Other comprehensive (expense)/income for the period, net of taxation		-	-
Total comprehensive (expense)/income for the period		<u>(37,610)</u>	<u>24,317</u>

All profits are incurred through continuing obligations.

The accompanying notes on pages 15 to 26 are an integral part of the financial statements.

Duncan Funding 2022-1 plc

Company Number: 14010572

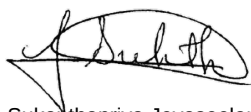
Statement of financial position

at 31 December 2023

	Note	2023 £'000	2022 £'000
Assets			
Cash and cash equivalents		53,431	81,398
Deemed loan to TSB	6	1,204,742	1,178,773
Derivative financial asset	11	76,882	110,562
Other assets	7	66	46
Total assets		1,335,121	1,370,779
Equity and liabilities			
Debt securities in issue	9	1,348,274	1,346,079
Current tax liability		1	-
Other payables	8	89	333
Total liabilities		1,348,364	1,346,412
Share capital	10	50	50
Retained earnings		(13,293)	24,317
Total equity		(13,243)	24,367
Total equity and liabilities		1,335,121	1,370,779

The accompanying notes on pages 15 to 26 are an integral part of the financial statements.

The financial statements on pages 11 to 26 were approved by the Board of Directors on 18 April 2024 and signed on their behalf by



Sukanthapriya Jeyaseelan
Per pro CSC Directors (No.1) Limited
Director

Duncan Funding 2022-1 plc

Statement of changes in equity

for the year ended 31 December 2023

	Share capital £'000	Retained earnings £'000	Total equity £'000
Share capital issued during the period from incorporation	50	–	50
Profit for the period	–	24,317	24,317
Balance at 31 December 2022	50	24,317	24,367
Loss for the year	-	(37,610)	(37,610)
Balance at 31 December 2023	50	(13,293)	(13,243)

The accompanying notes on pages 15 to 26 are an integral part of the financial statements.

Duncan Funding 2022-1 plc

Cash flow statement

for the year ended 31 December 2023

	Year to 31 December 2023 £'000	Period from incorporation to 31 December 2022 £'000
Operating activities		
Operating expenses paid	(191)	(15)
Tax paid	–	–
Net cash flows used in operating activities	(191)	(15)
Investing activities¹		
Principal receipts from deemed loan to originator	144,182	59,056
Interest receipts from deemed loan to originator	26,978	9,663
Receipt of subordinated loan within deemed loan to originator	–	13,333
Payment of start up loan interest	(742)	–
Increase in deemed loan to originator	(171,180)	–
Bank interest received	2,162	445
Net cash flows generated from investing activities	1,400	82,497
Financing activities¹		
Proceeds from issue of debt securities	–	–
Principal repayments on debt securities in issue	–	–
Proceeds from issue of share capital	–	13
Interest on debt securities in issue	(65,622)	–
Interest received on derivatives	43,124	–
Payment of issue costs	(13)	(1,097)
Deferred consideration	(6,665)	–
Net cash flows generated from financing activities	(29,176)	(1,084)
Change in cash and cash equivalents	(27,967)	81,398
Cash and cash equivalents at start of the year	81,398	–
Cash and cash equivalents at end of the year	53,431	81,398

The accompanying notes on pages 15 to 26 are an integral part of the financial statements.

¹ During the period from incorporation to 31 December 2022, the company issued £1.3 billion of debt securities in issue. The Company passed the £1.3 billion of proceeds from this issuance to TSB to acquire mortgages resulting in a corresponding £1.3 billion deemed loan from TSB. These offsetting amounts were net settled between the Company and TSB, such that the both the debt issuance and the deemed loan asset were not cash transactions. Also, during the period the company received a £78.8 million loan from TSB in order to pay the £78.8 million day 1 cost in respect of the interest rate Front swap with RBC. TSB were due to receive £78.8 million from RBC in respect of the day 1 cost of the interest rate back swap between TSB and RBC, therefore the receipt of the loan and payment to RBC were non cash transactions.

Duncan Funding 2022-1 plc

Notes to the financial statements

for the year ended 31 December 2023

1. Significant accounting policies

Duncan Funding 2022-1 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.

1(a) Basis of preparation

The financial statements of the LLP for the year ended 31 December 2023 have been prepared in accordance with UK adopted international accounting standards.

The financial statements have been prepared under the historical cost convention as modified by the recognition of certain financial instruments, including derivative contracts, at fair value through profit or loss. There have been no changes to accounting policies during the reporting period.

Going Concern

The financial statements have been prepared using the going concern basis. The directors have reviewed the potential risks posed to the Company and expected future cash flows and believe they are adequate to meet the anticipated payments due in accordance with the securitisation transaction documents (the “Transaction Documentation”) for at least the next 12 months. 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 the liquidity reserve fund, the ability to make additional drawings from the start up loan and the ability to defer payment in certain circumstances.

In addition, the issued notes (“Notes”) are limited recourse obligations of the Company. Should there be insufficient funds to pay in full any amounts due and payable on the Notes, following the realisation of assets and after payments in accordance with the priority of payments, then such outstanding amounts cease to be due and payable by the Company.

Accounting Policies

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

The financial statements are presented in Sterling, which is the Company’s functional and presentational currency, and have been prepared on the historical cost basis.

1(b) Interest receivable and interest payable

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

1(c) Accrued interest

Accrued interest has been incorporated within the deemed loan to TSB Bank plc (“TSB”) and within the outstanding balance of debt securities in issue on the statement of financial position.

1(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 Finance 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 Finance Act and the secondary legislation and that no incremental unfunded tax liabilities will arise. Additionally, no deferred tax amounts are recognised by the Company.

Notes to the financial statements (continued)

for the year ended 31 December 2023

1. Significant accounting policies (continued)

1(e) Financial instruments

Financial instruments comprise a deemed loan to TSB, cash and liquid resources, Notes issued, derivative contracts, and other receivables and payables that arise directly from its operations. The main purpose of these financial instruments is to raise finance for TSB. These financial instruments are classified in accordance with the principles of IFRS9 as described below.

1(e)(i) Deemed loan to TSB

Financial assets are de-recognised when a transferor meets the pass-through requirements combined with the transfer of sufficient risk and rewards test. Where a transferor retains substantially all the risks and rewards associated with transferred assets, the transfer is accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective. In such a case the transferee would not recognise the assets on its statement of financial position but rather a deemed loan to TSB as originator, where recourse to TSB 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. The Company has determined that the transfer of the contractual rights to cash flows is not affected by TSB retaining the cash manager and servicer roles and the revolving features of the transaction introduces a material delay between the original cash collection and its final remittance to investors. As a result of this, the pass-through arrangement is failed, and TSB continues to recognise the mortgage assets on its statement of financial position.

Had the pass-through arrangement conditions been met, the mortgages would still not be eligible for de-recognition because TSB has provided credit enhancement which is used to absorb initial losses in the portfolio, and also receives Excess Spread, exposing it to the variability of rewards of the underlying mortgage portfolio.

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

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

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

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

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

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

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

Taking into account these factors, the directors conclude that there is no significant increase in credit risk of the deemed loan since inception and therefore record it as Stage 1. The allowance for impairment losses on loans and receivables is management's best estimate of losses incurred in the portfolio at the reporting date. At 31 December 2023, impairment allowances against the deemed loan totalled £nil (2022: £nil)

Notes to the financial statements (continued)

for the year ended 31 December 2023

1. Significant accounting policies (continued)

1(e)(iii) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and amounts due from banks with a maturity of less than three months. The cash can only be used to meet certain specific liabilities, as per the priority of payments set out in the programme documentation and is not available to be used at the Company's discretion.

1(e)(iv) Debt securities in issue

Debt securities in issue are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. These instruments are subsequently stated at amortised cost using the effective interest rate (EIR) method.

1(e)(v) Derivative financial instruments

The company uses derivative financial instruments to hedge its exposure to interest rate risk arising from investment activities.

Interest rate risk associated with the underlying mortgages of the deemed loan is managed with an Interest rate swap, the company pays fixed rate interest relating to the mortgage portfolio and receives payments linked to daily compounded SONIA. Interest receivable on the swap is recognised as interest income.

Derivative financial positions are required by IFRS9 to be recognised initially at fair value. The derivatives are subsequently measured at fair value. The difference in the valuation is recognised in the statement of comprehensive income. The derivative is held as a derivative asset or liability depending on the value of the derivative.

The fair value of the interest rate swap is the estimated amount that the company would receive or pay at the reporting date to terminate the swap. This value considers the current interest rate and swap counterparty ratings. The interest rate swap fair value is determined by using a discounted cash flow analysis model.

1(e)(vi) Effective interest rate method

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

1(e)(vii) Fair value measurement

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.

The interest rate swap is recognised at fair value. All other assets and liabilities are recognised on an amortised cost basis.

Notes to the financial statements (continued)

for the year ended 31 December 2023

2. Interest receivable and similar income

	Year to 31 December 2023 £'000	Period from incorporation to 31 December 2022 £'000
Deemed loan – interest income	20,831	7,141
Deemed loan – subordinated loan interest	(747)	(167)
Deemed loan – servicer	(1,285)	(495)
Deemed loan – cash manager fee	(257)	(99)
Swap interest income	47,058	7,358
Bank interest receivable	2,168	798
Total	67,768	14,536

The Company 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 the subordinated loan, effectively netting down deferred consideration within the interest income of the Company.

3. Interest payable and similar charges

	Year to 31 December 2023 £'000	Period from incorporation to 31 December 2022 £'000
Interest payable on debt securities in issue	67,594	14,079
Interest payable on collateral variation margin	6	353
Total	67,600	14,432

The interest received on cash collateral held in the company's collateral bank account is payable to the swap provider, RBC.

4. Operating expenses

	Year to 31 December 2023 £'000	Period from incorporation to 31 December 2022 £'000
Administration charges	116	58
Audit fees	47	45
Total	163	103

The Company had no employees during the year.

The audit fees for the Company and its parent, Duncan Holdings 2022-1 Limited ("Holdings"), are paid for by the Company and relate to the statutory audit. The fee for the year exclusive of VAT is £37,250 (2022: £35,000) for the Company and £10,000 (2022: £10,000) for Holdings.

Notes to the financial statements (continued)

for the year ended 31 December 2023

5. Taxation

	Year to 31 December 2023 £'000	Period from incorporation to 31 December 2022 £'000
Current tax		
Taxable profit for the reporting period	5	1
Corporation tax charge for the year at a rate of 19%	(1)	–
	(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 Transaction Documentation.

The Company retains £1,250 per Interest Payment Period from available revenue receipts, which is recorded as profit and taxable at 19% UK corporation tax for small companies. For 2023, £4,914 (2022: £1,118) of profit was recognised with a corresponding tax charge of £934 (2022: £212).

6. Deemed loan to TSB

	2023 £'000	2022 £'000
Deemed loan principal	1,292,902	1,264,613
Subordinated loan principal	(13,333)	(13,333)
Loan from TSB day 1 swap asset	(78,888)	(78,888)
Deemed loan interest accrual	4,234	6,548
Subordinated loan interest accrual	(173)	(167)
Total	1,204,742	1,178,773

The directors of the Company have concluded that TSB has retained substantially all the risks and rewards of the pool of mortgage loans underlying the deemed loan and as a consequence, the Company does not recognise the mortgage loans on its statement of financial position 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 and the day 1 loan to fund the day 1 swap payment to RBC. 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 TSB is stated at amortised cost using the EIR 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 July 2027, during which the Company can use principal receipts to replenish the portfolio with additional mortgages purchased from TSB, subject to certain eligibility criteria.

The loan is expected to be repaid on the expected maturity date of the Notes and is therefore deemed to be a non-current asset.

Notes to the financial statements (continued)

for the year ended 31 December 2023

7. Other assets

	2023 £'000	2022 £'000
Amount due from parent company	37	37
Administration charges prepayment	29	9
Total	66	46

Amount due from parent company comprises uncalled and unpaid share capital due from Holdings.

8. Other payables

	2023 £'000	2022 £'000
Administration fees	42	52
Audit fee accrual	47	45
Unspent start up expenses	-	236
Total	89	333

9. Debt securities in issue

	Coupon rate	Expected maturity date	Legal maturity date	2023 £'000	2022 £'000
Principal:					
A1 note	Compounded daily SONIA + 0.50%	July 2027	July 2069	1,200,000	1,200,000
Subordinated notes	Compounded Daily SONIA + 0.00%	July 2027	July 2069	133,333	133,333
				1,333,333	1,333,333
Interest payable:					
A1 note				14,279	12,804
Subordinated note				1,447	1,174
				15,726	13,978
Deferred issuance costs				(785)	(1,232)
Total				1,348,274	1,346,079

The Notes are expected to be repaid on the expected maturity date. At 31 December 2023, interest payable was due within one year.

10. Share capital

	2023 £'000	2022 £'000
Issued 50,000 ordinary shares of £1 each, of which:	50	50
1 ordinary share, fully paid on 29 March 2022	-	-
49,999 ordinary shares, one quarter paid on 10 June 2022	13	13
Total	13	13

Notes to the financial statements (continued)

for the year ended 31 December 2023

11. Derivative financial instruments

	2023 Notional £'000	2023 Fair value £'000	2022 Notional £'000	2022 Fair value £'000
Derivative asset	1,268,264	76,882	1,322,185	110,562
Total	1,268,264	76,882	1,322,185	110,562

The derivative financial instrument relate to the interest rate swap with RBC. Accrued interest of £11.3 million (2022: £7.4 million) receivable is included within the fair value. The interest rate swap is in place to exchange fixed rate Income on the deemed loan into SONIA flows to match the Interest payment flows on the debt securities in issue.

Fair Value (debit)/credit through the Statement of Comprehensive income relating to the derivatives

	2023 £'000	2022 £'000
Interest rate swap	(37,614)	24,316
Total	(37,614)	24,316

The fair value of the interest rate swap at 31 December 2023 was £76.9 million (2022: £110.6 million), The day 1 fair value of the interest rate swap was an asset of £78.9 million.

12. Management of risk

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

The directors do not consider that the Company is exposed to 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 credit rating agencies.

12(a) Credit risk

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

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.

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

The likelihood of defaults in the mortgage pool and the amounts that may be recovered in the event of default are related to a number of factors and may vary according to characteristics of the customer and the product type. Significant changes in the economy, or in the health of a particular geographical area that represents a concentration in the 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, and the unrated Subordinated Note. Taking this credit enhancement into account, the income on the mortgage pool is expected to exceed the interest payable on the rated Notes and the Company's other expenses.

Notes to the financial statements (continued)

for the year ended 31 December 2023

12. Management of risk (continued)**12(a) Credit risk (continued)**

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 an obligation under the Transaction Documentation to repurchase any further advances or product switches which are not compliant with the representations and warranties of the transaction, and they have made such repurchases throughout the year.

The losses in the mortgage pool in the year to 31 December 2023 were £nil (2022: £nil).

The Company assesses its counterparties for credit risk before contracting with them. The counterparty credit rating is the main method used to measure credit risk. In accordance with the rating scale of the credit rating agencies that rate the 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 (Fitch/ Moody's)	Rating at 31 Dec 2023 (Fitch/ Moody's)	Rating at 31 Dec 2022 (Fitch/ Moody's)	Rating at date of approval of the financial statements (Fitch/ Moody's)
Citibank N.A., London branch:					
In capacity as account bank	Short Term	F1/P-1	F1/P-1	F1/P-1	F1/P-1
In capacity as account bank	Long Term	A/A1	A+/Aa3	A+/Aa3	A+/Aa3
Citibank N.A., London branch:					
In capacity as swap collateral bank	Short Term	F1/-	F1/P-1	F1/P-1	F1/P-1
In capacity swap collateral bank	Long Term	A/A3	A+/Aa3	A+/Aa3	A+/Aa3
Royal Bank Canada branch:					
In capacity as swap provider	Short Term	F1/-	F1+/-	F1+/-	F1+/-
In capacity as swap provider	Long Term	A/A3(cr)	AA-/Aa1(cr)	AA-/Aa1(cr)	AA-/Aa1(cr)

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 reporting date, no financial assets subject to credit risk were past due or impaired.

	2023 £'000	2022 £'000
Assets held at amortised cost		
Deemed loan to TSB	1,204,742	1,178,773
Cash and cash equivalents	53,431	81,398
Other assets	66	46
Total	1,258,239	1,260,217
	2023 £'000	2022 £'000
Assets held at fair value		
Derivative financial asset	76,882	110,562
	76,882	110,562

The Company meets its obligations on the Notes from the cash flows it receives from the pool of mortgage loans. Consequently, 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.

There has been no significant increase in credit risk of the deemed loan since inception and there is sufficient cash flows from the deemed loan for the Company to meet its liabilities and therefore it is recorded as Stage 1 with no impairment. As 31 December 2023, RBC had posted £75.6 million (2022: £110 million) of securities collateral with the Company.

Notes to the financial statements (continued)

for the year ended 31 December 2023

12. Management of risk (continued)**12(a) Credit risk (continued)****Securitised mortgage assets**

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

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

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

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

December 2023	Mortgage Balance £'000	Number of Accounts
Stage 1	1,283,956	8,207
Stage 2	13,682	88
Stage 3	1,766	8
Total	1,299,404	8,303

December 2022	Mortgage Balance £'000	Number of Accounts
Stage 1	1,246,573	7,382
Stage 2	27,443	157
Stage 3	140	1
Total	1,274,156	7,540

Collateral held against mortgage lending comprises residential properties.

12(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 securitised mortgage loans comprise loans which are subject to both fixed and variable rates of interest set by TSB based on general interest rates and competitive considerations, or loans which track the Bank of England Base Rate.

The deemed loan to TSB (which include the mortgage loans as described above), the Notes and the cash and cash equivalents are exposed to interest rate risk caused by floating interest rates that are linked to the compounded SONIA rate.

Interest rate risk on the fixed rate mortgages is managed through the use of an interest rate derivative contract with Royal Bank of Canada ('RBC').

As the deemed loan to TSB and the GBP Notes are floating rate, the directors believe it is unnecessary to calculate any sensitivity analysis to movements in GBP interest rates.

Notes to the financial statements (continued)

for the year ended 31 December 2023

12. Management of risk (continued)**12(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 TSB which will vary due to the level of repayments on the underlying mortgage portfolio.

The table below analyses the financial liabilities of the Company by relevant maturity grouping on an undiscounted future cash flow basis based on the remaining periods at the reporting date.

The table reflects the expectation that the Notes will be called at the step-up date in July 2027. However, this may not be the case in practice. The final legal maturity date of the Notes is July 2069.

	Carrying Value £'000	Contractual repayment value £'000	<1 month £'000	1-3 months £'000	3 months - 1 year £'000	1-5 years £'000	>5 years £'000
December 2023							
Debt securities in issue:							
Principal	1,332,548	1,333,333	–	–	–	1,333,333	–
Interest payable	15,726	204,288	19,118	–	53,519	131,651	–
Other payables	89	89	33	–	56	–	–
Total	1,348,363	1,537,710	19,151	–	53,575	1,464,984	–

	Carrying Value £'000	Contractual repayment value £'000	<1 month £'000	1-3 months £'000	3 months - 1 year £'000	1-5 years £'000	>5 years £'000
December 2022							
Debt securities in issue:							
Principal	1,332,101	1,333,333	–	–	–	1,333,333	–
Interest payable	13,978	184,595	15,623	–	28,059	140,913	–
Other payables	333	333	279	–	54	–	–
Total	1,346,412	1,518,261	15,902	–	28,113	1,474,246	–

12(d) Prepayment risk

In the normal course of business, a proportion of borrowers repay their loan in advance of their contractual maturity. As a result, the weighted average life of the deemed loan, and of the Notes, is likely to be significantly less than that implied by the contractual maturity dates of the mortgage pool.

The rate of prepayment of loans is influenced by a wide variety of economic, social and other factors, including prevailing mortgage market interest rates, local and regional economic conditions and homeowner mobility. In the event that prepayment rates on the mortgage pool reduce, principal repayments on the deemed loan and on the Notes may be spread over a longer period.

The Principal Prepayment Rate ("PPR") for the underlying mortgage pool as detailed within the Investor Report is as follows:

	Monthly %	1-month annualised %	3-month annualised %	Transaction to Date annualised %
31 December 2023	1.14	12.85	9.82	10.77
31 December 2022	1.00	11.36	11.83	11.55

Notes to the financial statements (continued)

for the year ended 31 December 2023

12. Management of risk (continued)**12(e) Fair values**

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

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

12(f) Fair values**Deemed loan to TSB**

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

Debt securities in issue

The fair value of the A Note is not considered to be in an active market. The fair value is determined using valuation techniques based on observable market data for similar liabilities in an active market and classified as level 2. The fair value of the Subordinated Note for which there is no active market has been determined using internally developed pricing models and is considered to be a close approximation to the carrying value and classified as level 3.

Derivative financial instruments

The fair values of the interest rate swap are determined based on internally developed pricing models using observable pricing and are classified as level 2. The following table analyses the fair values of financial instruments of the Company which are carried at fair value or for which fair value is disclosed.

Fair values table

December 2023	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Fair Value £'000	Carrying Value £'000
Deemed loan to TSB	6	-	-	1,204,394	1,204,394	1,204,394
Derivative financial asset	11	-	76,882	-	76,882	76,882
Debt securities in issue:	9					
A1 note			(1,214,855)		(1,214,855)	(1,214,279)
Subordinated note				(134,781)	(134,781)	(134,781)
December 2022	Note	Level 1 (restated) £'000	Level 2 (restated) £'000	Level 3 £'000	Fair Value £'000	Carrying Value £'000
Deemed loan to TSB	6	-	-	1,179,120	1,179,120	1,179,120
Derivative financial asset ¹	11	-	110,562	-	110,562	110,562
Debt securities in issue:	9					
A1 note		-	(1,186,649)	-	(1,186,649)	(1,212,804)
Subordinated note		-	-	(134,507)	(134,507)	(134,507)

¹ The Derivative financial assets of £110,562k at 31 December 2022 have been reclassified from Level 1 to Level 2 to align with the current year presentation, which is considered more appropriate.

Notes to the financial statements (continued)

for the year ended 31 December 2023

13. Related party transactions

The Company has entered into related party transactions with CSC Capital Markets UK Ltd and TSB.

CSC Capital Markets UK Ltd is the corporate services provider for the Transaction. The Company incurred a corporate services fee of £16,091 (2022: £11,377) by CSC Capital Markets UK Ltd in relation to the Company and a corporate services fee for Holdings of £3,370 (2022: £2,710).

CSC Capital Markets UK Ltd holds the proceeds from the issuance of the Company's share capital of £12,500 in a client account.

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 all of the Notes issued by the Company.

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 Bank plc.

During the year the Company undertook transactions, and carried balances, as set out below, with TSB:

	2023 £'000	2022 £'000
Interest receivable and similar income:		
Income from deemed loan to TSB	20,831	7,141
Interest on Subordinated Loan	(747)	(167)
Cash manager and servicing fees	(1,542)	(594)
Interest payable and similar charges:		
Interest payable on debt securities in issue	(67,370)	(13,978)
Assets		
Deemed loan to TSB	1,204,742	1,178,773
Liabilities		
Debt securities in issue	(1,349,059)	(1,347,311)

14. Parent undertaking and controlling party

The Company is a wholly owned subsidiary of Duncan Holdings Ltd. The issued share capital of the Company comprises 50,000 ordinary shares of £1 each (49,999 shares quarter paid and one share fully paid).

The shares of Holdings are held by CSC Corporate Services UK Ltd as the Share Trustee for the benefit of certain discretionary purposes (which do not include TSB or any entity connected with TSB).

For accounting purposes, at 31 December 2023 the Company's ultimate controlling party was Banco de Sabadell S.A., which is the parent undertaking of the largest group to consolidate these financial statements. Copies of the consolidated annual report and accounts of Banco Sabadell S.A. are available from www.grupbancsabadell.com/en/. TSB Bank plc is the parent undertaking of the smallest group to consolidate these financial statements. Copies of the consolidated financial statements of TSB Bank plc may be downloaded via www.tsb.co.uk.