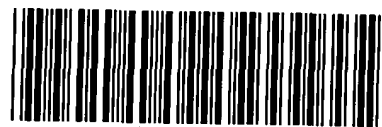


Coventry Building Society Covered Bonds LLP

Registered number OC337802

Members Reports and Financial Statements
for the year ended
31 December 2016

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Designated Members

Coventry Building Society
Coventry Covered Bonds Finance Limited

Auditor

Ernst & Young LLP
1 Bridgewater Place
Leeds
LS11 5QR

Registered Office

Oakfield House
Binley Business Park
Coventry
CV3 2TQ

Registered Number

OC337802
Registered in England and Wales

MEMBERS' REPORT

The Members present their report with financial statements of Coventry Building Society Covered Bonds LLP (the 'LLP'), for the year ended 31 December 2016.

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

PRINCIPAL ACTIVITY AND REVIEW OF THE YEAR

The LLP is a special purpose vehicle incorporated in accordance with the provisions of the Limited Liability Partnership Deed dated 17 July 2008 as supplemented (the 'LLP Deed'), whose business is the acquisition, management and sale of mortgage loans and their related security issued by Coventry Building Society (the 'Society') under the €7 billion Global Covered Bond Programme, pursuant to the terms of the Mortgage Sale Agreement dated 17 July 2008 as amended and restated (the 'Mortgage Sale Agreement') and to guarantee payments of interest and principal of the covered bonds issued by the Society. No change in principal activity is envisaged.

The LLP operates in the United Kingdom.

The LLP has acquired mortgage loan portfolios originated by the Society, one of the designated members of the LLP. These acquisitions were funded by loans from the Society which amounted to £3.3 billion at 31 December 2016. In accordance with IAS 39, these mortgage loans have been recognised as a deemed loan asset, equal to the funding amount as the transfer fails the derecognition criteria in the Originator's accounts. This deemed loan to the Society is then supported by the collateral received from the Society of £4.8 billion being the acquired mortgage loans which are not recognised in the Statement of Financial Position (see note 7).

The loans from the Society were pursuant to the following covered bond issuances by the Society:

- July 2008 - £1,500 million (£900 million as at 31 December 2016, following a part repayment of £600 million in 2011).
- November 2008 - £500 million.
- April 2011 - £750 million.
- November 2014 - €500 million.
- March 2015 - £650 million (includes £150 million extension in December 2015).

With the consent of the Bondholders, the final maturity date for the July 2008 covered bond was extended from 25 July 2016 to 24 July 2022 and for the November 2008 covered bond was extended from 24 November 2016 to 24 November 2022. A new seven year €500 million covered bond was issued in January 2017.

RISK MANAGEMENT

Full disclosure of the LLP's risk management policies, use of financial instruments and risk exposures is given in note 15 to the financial statements.

The covered bond transaction documents set out a number of asset and non-asset trigger events which represent the main business risks for the LLP as their occurrence may lead to early repayment of the covered bonds. No such trigger events have occurred since the programme started.

PROGRAMME PERFORMANCE

The programme performance is monitored monthly for financial and non-financial indicators including covenants and limits for managing risks. Information is then provided in a monthly investor report available from the Society's website (www.thecoventry.co.uk/consumer/our-performance/treasury-services.html).

The level of over-collateralisation is central to the contractual mechanics and to credit rating agency oversight. The level of over-collateralisation can be estimated using the Asset Coverage Test (ACT) which is carried out each month.

DESIGNATED MEMBERS

The designated members during the year and subsequently were as follows:

- Coventry Building Society; and
- Coventry Covered Bonds Finance Limited.

MEMBERS' REPORT (CONTINUED)

MEMBERS' INTERESTS

The policy regarding the allocation of excess income to members and the treatment of capital contributions is set out within the accounting policies in note 1 to the financial statements.

GOING CONCERN

The members are satisfied that the LLP has adequate resources to continue business for the next 12 months and consequently the going concern basis is appropriate in preparing these financial statements.

STATEMENT OF MEMBERS' RESPONSIBILITIES

The members are responsible for preparing the financial statements in accordance with company law as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

The members are responsible for preparing financial statements for each financial year which give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of affairs of the LLP and of the results of the LLP for that year. In preparing those financial statements, the members are required to:

- select suitable accounting policies and apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the LLP will continue in business.

The members confirm that they have complied with the above requirements in preparing the financial statements.

The members are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the LLP and enable them to ensure that the financial statements comply with the Companies Act 2006 as applied to limited liability partnerships by The Limited Liability Partnerships (Accounts and Audit) (Application of the Companies Act 2006) Regulations 2008. They are also responsible for safeguarding the assets of the LLP and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.


Each designated member of the LLP at the date of this report confirms that:

- so far as the designated member is aware, there is no relevant audit information of which the LLP auditor is unaware; and
- each designated member has taken all the relevant steps that ought to have been taken as a designated member, in order to become aware of any relevant audit information and to establish that the LLP's auditor is aware of that information.

INDEPENDENT AUDITOR

In accordance with the Limited Liabilities Partnerships Act and Companies Act 2006, a resolution for the re-appointment of Ernst & Young LLP as auditor of the LLP will be proposed at the forthcoming Annual Members' Meeting.

Signed on behalf of the members:


John Lowe
For and on behalf of
Coventry Building Society
Designated member

31 March 2017

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the members of Coventry Building Society Covered Bonds Limited Liability Partnership ('LLP')

We have audited the financial statements of Coventry Building Society Covered Bonds LLP for the year ended 31 December 2016 which comprise the Income Statement, Statement of Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Members' Interests, Statement of Cash Flows and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of members and auditor

As explained more fully in the Statement of Members' Responsibilities set out on page 3, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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 limited liability partnership's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the designated members; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the financial statements 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.

Opinion on financial statements

In our opinion the financial statements:

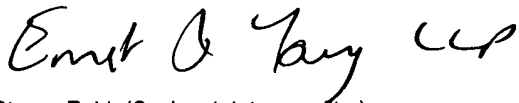
- give a true and fair view of the state of the limited liability partnership's affairs as at 31 December 2016 and of its results for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of the Companies Act 2006) Regulations 2008.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 as applied to limited liability partnerships requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

A handwritten signature in black ink, appearing to read 'Ernst & Young LLP', is written over the printed name and firm details.

Steven Robb (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds

31 March 2017

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £000	2015 £000
Interest receivable and similar income	3	32,872	40,588
Interest payable and similar charges	4	(33,691)	(38,523)
Net gains/(losses) from derivatives and hedge accounting	5	871	(2,014)
Total income		52	51
Administrative expenses	6	(52)	(51)
Results for the financial year available for distribution to members		-	-

The results for the year arise from the continuing operations of the business.

STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 £000	2015 £000
Results for the financial year	-	-
Other comprehensive income		
Available-for-sale investments:		
Fair value movements taken to reserves	2	1
Cash flow hedges:		
Fair value movements taken to reserves	69,546	(18,546)
Amount transferred to Income Statement	(59,403)	21,988
Total comprehensive income	10,145	3,443

The results for the year arise from the continuing operations of the business.

The accounting policies and notes on pages 10 to 21 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016
REGISTRATION NO: OC337802

	Notes	31 Dec 2016 £000	31 Dec 2015 £000
Assets			
Loans and other debts due from members	7	3,108,871	3,106,417
Cash	8	141,509	21,111
Debt securities	9	-	73,959
Derivative financial instruments	10	100,081	59,175
Total assets		3,350,461	3,260,662
Liabilities			
Loans from LLP members	11	3,250,274	3,190,892
Deposit from credit institution	12	49,784	-
Hedge accounting adjustment		25,923	34,312
Derivative financial instruments	10	1,874	23,194
Other debts due to members	13	4,922	4,725
Total liabilities		3,332,777	3,253,123
Members' other interests			
Available-for-sale reserve	9	-	(2)
Cash flow hedge reserve		17,684	7,541
Total members' other interests		17,684	7,539
Total members' other interests and liabilities		3,350,461	3,260,662
Members' interests			
Members' other interests		17,684	7,539
Loans from LLP members		3,250,274	3,190,892
Other debts due to members		4,922	4,725
Loans and other debts due from members		(3,108,871)	(3,106,417)
Total members' interests		164,009	96,739

The accounting policies and notes on pages 10 to 21 form part of these financial statements.

The financial statements were approved by the members on 31 March 2017.

Signed on behalf of the members



John Lowe
For and on behalf of
Coventry Building Society
Designated member

STATEMENT OF CHANGES IN MEMBERS' INTERESTS
FOR THE YEAR ENDED 31 DECEMBER 2016
REGISTRATION NO: OC337802

	Available-for-sale reserve £000	Cash flow hedge reserve £000	Loans from members £000	Total £000
As at 1 January 2016	(2)	7,541	89,200	96,739
Net movement in Available-for-sale reserve	2	-	-	2
Net movement in cash flow hedge reserve	-	10,143	-	10,143
Loans from LLP members	-	-	59,382	59,382
Other debts due to members	-	-	197	197
Loans and other debts due from members	-	-	(2,454)	(2,454)
As at 31 December 2016	-	17,684	146,325	164,009

	Available-for-sale reserve £000	Cash flow hedge reserve £000	Loans from members £000	Total £000
As at 1 January 2015	(3)	4,099	109,955	114,051
Net movement in Available-for-sale reserve	1	-	-	1
Net movement in cash flow hedge reserve	-	3,442	-	3,442
Loans from LLP members	-	-	127,414	127,414
Other debts due to members	-	-	286	286
Loans and other debts due from members	-	-	(148,455)	(148,455)
As at 31 December 2015	(2)	7,541	89,200	96,739

The accounting policies and notes on pages 10 to 21 form part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 £000	2015 £000
Results for the financial year available for distribution to members	-	-
Adjustments for:		
Non-cash items included in results for the financial year:		
Change in derivatives, hedge accounting and foreign exchange	(773)	2,481
Change in accrued interest on derivatives	(200)	385
Change in accrued interest on loans due from LLP members	(117)	(958)
Other non-cash movements	2	-
Change in operating assets		
Loans and advances to credit institutions	-	-
Debt securities	73,959	(26,982)
Change in operating liabilities		
Deposits from credit institutions	49,784	(3,601)
Other debts due to members	197	286
Net cash flows from operating activities	122,852	(28,389)
Cash flows from investing activities		
Change in loans due from members	(2,454)	1,545
Net cash flows from investing activities	(2,454)	1,545
Net increase/(decrease) in cash	120,398	(26,844)
Cash and cash equivalents at start of year	21,111	47,955
Cash and cash equivalents	141,509	21,111
Operational cash flows from interest		
Interest paid	34,332	33,933
Interest received	34,348	35,722

The accounting policies and notes on pages 10 to 21 form part of these financial statements.

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items that were considered material in relation to the financial statements.

BASIS OF PREPARATION

The LLP financial statements have been prepared in accordance with IFRS as adopted by the European Union and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), which are effective or available for adoption at the LLP's reporting date, 31 December 2016, in accordance with the requirements of the Companies Act 2006, as applied to limited liability partnerships by The Limited Liability Partnerships (Accounts and Audit) (Application of the Companies Act 2006) Regulations 2008, applicable to partnerships reporting under IFRS.

The financial statements have been prepared on a historical cost basis as modified by the revaluation of derivative financial instruments and associated fair value hedge adjustments and are presented in pound sterling to the nearest thousand (£000) except where otherwise indicated.

The going concern basis has been used in preparing these financial statements.

CHANGES IN ACCOUNTING POLICY

There were no new or amended standards and interpretations that had a significant impact on the preparation of the 2016 financial statements.

FUTURE ACCOUNTING DEVELOPMENTS

The following standards and interpretations, relevant to the LLP, were not effective as at 31 December 2016 and have not been applied in preparing these financial statements. The anticipated impact of these standards and interpretations are listed below:

Pronouncement	Nature of change	Periods beginning on or after
IFRS 15 <i>Revenue from contracts with customers</i>	IFRS 15 replaces IAS 18 <i>Revenue</i> and provides a new model for revenue recognition. Financial instruments are outside the scope of IFRS 15.	1 January 2018
	Given the nature of the LLP's business there is little anticipated impact from this standard.	
IFRS 9 <i>Financial Instruments</i>	IFRS 9 replaces IAS 39 <i>Financial Instruments: Recognition and Measurement</i> and will be implemented in the financial statements for the year beginning 1 January 2018. The standard requires changes to the classification and measurement of financial assets and liabilities, the recognition of impairment, and also to hedge accounting.	1 January 2018
	The LLP is currently assessing the impact that IFRS 9 will have on its financial statements. Due to the complexity of the new requirements, it is not possible at this stage to quantify the potential effects of implementing IFRS 9 although it is expected to have an impact for the LLP in line with the wider industry.	
	Further information regarding IFRS 9 transition is included in the Coventry Building Society Annual Report & Accounts.	

NOTES TO THE ACCOUNTS (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

LOANS AND OTHER DEBTS DUE FROM MEMBERS - DERECOGNITION

Under International Accounting Standard 39 *Financial Instruments: Recognition and Measurement* (IAS 39), where a transfer of a financial asset does not qualify for derecognition by the transferor (the Society), the transferee (the LLP) does not recognise the transferred asset as its own. The transferee derecognises the cash and other consideration paid and recognises a receivable from the transferor. In respect of the transferred mortgage portfolio, derecognition is considered inappropriate for the Society's own financial statements as the Society has retained substantially all the risks and rewards of ownership of that financial asset. The LLP's financial statements are therefore prepared on the basis that its acquisitions of beneficial interests in mortgage portfolios are recognised as a deemed loan to the Society.

The deemed loan to the Society is included in 'loans and other debts due from members' on the LLP's statement of financial position. The initial amount of the deemed loan to members corresponds to the consideration paid by the LLP for the mortgage loans. The LLP recognises principal and interest cash flows from the underlying pool of mortgage loans only to the extent that it is entitled to retain such cash flows. Cash flows attributable to the members are not recognised by the LLP.

To manage interest rate risk the LLP has entered into a derivative transaction with the Society, paying a rate of interest based on the mortgages underlying the covered bond arrangements and receiving a rate inherent in the debt issuances. In accordance with IAS 39, this internal derivative is treated as part of the deemed loan and not separately measured at fair value because the relevant mortgage loans are not derecognised by the Society or recognised by the LLP. Cash flows arising from this internal derivative are accounted for on an accruals basis. All other derivatives are treated as explained in the Derivative Financial Instruments and Hedge Accounting policies (see page 12).

CONTRIBUTIONS

Under the terms of the transaction documents for the sale of the mortgage loans, including the LLP Deed, the Society is legally treated as having made a capital contribution to the LLP in an amount equal to the difference between the current balance of the loans sold at transfer date and the cash payment made by the LLP for the loans and relevant security on that transfer date (the over-collateralisation).

The LLP does not recognise either the contributed non-cash assets or the related liability. This reflects the nature of the contributed assets as non-cash collateral.

The Society, as a member of the LLP, may also make cash capital contributions from time to time. These cash contributions are included as part of 'Loans and other debts due from members' (see note 7).

Capital distributions may only be made in accordance with the LLP Deed where sufficient principal receipts are available and higher priority payments have been made.

DEFERRED PURCHASE CONSIDERATION

Under the terms of the Mortgage Sale Agreement, the Society, as the originator of the mortgage loans, retains the right to receive the excess income (deferred consideration) arising on those loans, after certain higher priority payments have been met by the LLP. On application of IFRS, deferred consideration is treated as a deduction against mortgage interest income so a net amount is shown as income on the deemed loan.

INTEREST RECEIVABLE AND INTEREST PAYABLE

For instruments measured at amortised cost the Effective Interest Rate (EIR) method is used to measure the carrying value of a financial asset or liability and to allocate associated interest income or expense over the relevant period. The EIR is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

NOTES TO THE ACCOUNTS (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

TAXATION INCLUDING DEFERRED TAXATION

Taxation on all partnership profits is solely the liability of members. Consequently, neither taxation nor related deferred taxation in the LLP are accounted for in these financial statements.

DERIVATIVE FINANCIAL INSTRUMENTS

In accordance with legislation and the Society's treasury policy, the LLP only holds derivative financial instruments for risk management and not for speculative or trading purposes.

As noted under 'Loans and other debts due from members – derecognition', the LLP holds a derivative financial instrument to hedge interest rate risk associated with the beneficial interest on the mortgage portfolio. In accordance with IAS 39, this internal derivative is treated as part of the deemed loan and not separately measured at fair value because the relevant mortgage loans are not derecognised by the Society or recognised by the LLP.

The LLP holds other derivative financial instruments for the purposes of managing the risks associated with its fixed and floating rate liabilities and its foreign currency transactions. These derivative financial instruments are carried at fair value. Derivatives are valued by discounting cash flows using yield curves that are based on observable market data. For collateralised positions the LLP uses discount curves based on overnight indexed swap (OIS) rates and for non-collateralised positions the LLP uses discount curves based on term LIBOR rates. In measuring fair value, separate adjustments are made for counterparty or own credit risk to the extent not already included in the valuation.

All derivatives carried at fair value are initially recognised at the trade date.

HEDGE ACCOUNTING

All derivatives entered into by the LLP are for the purpose of providing an economic hedge and where the documentation, eligibility and testing criteria set out in IAS 39 are met, the LLP uses hedge accounting and designates the hedging derivative as either hedging fair value or cash flow risks.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement under net gains/(losses) from derivatives and hedge accounting in the period in which the movement occurs together with the change in fair value of the hedged asset or liability that is attributable to the hedged risk (interest rate risk). This also applies if the hedged item is classified as an Available-for-sale financial asset.

Cash flow hedges

Changes in the effective part of any gain or loss on the derivative financial instrument hedging the variability in cash flows of a recognised asset or liability are recognised directly through the Statement of Other Comprehensive Income in the cash flow hedge reserve. In the periods in which the hedged item affects profit or loss, these changes in value are reclassified to the Income Statement in the line item affected by the hedged item. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the Income Statement immediately. The hedged risks for cash flow hedges are interest rate risk and currency risk (euro to sterling).

FOREIGN CURRENCY TRANSLATION

The financial statements are presented in pounds sterling, the LLP's functional currency. Foreign currency transactions are translated into sterling using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are retranslated at the rate prevailing at the Statement of Financial Position date. Foreign exchange gains and losses resulting from the retranslation and settlement of these items are recognised in the Income Statement.

LOANS AND OTHER DEBTS DUE FROM MEMBERS

As described above, the sale of the beneficial interest in the mortgage portfolio (even though legally acquired from the Society) does not pass the derecognition criteria as described in IAS 39 and therefore a deemed loan is shown in the Statement of Financial Position.

NOTES TO THE ACCOUNTS (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS

At each Statement of Financial Position date, the LLP assesses whether, as a result of one or more events occurring after initial recognition, there is objective evidence that a financial asset has become impaired.

In respect of the deemed loan due from members, a charge for impairment would be recognised where there is a risk that the income and capital on the deemed loan would be insufficient to meet the liabilities of the LLP. This could occur if the credit quality of the mortgage assets that are pledged as collateral for the loan significantly deteriorated. Taking into account the credit enhancements provided, and in particular the over-collateralisation of the LLP, the members currently consider that no provision for impairment is required.

DEBT SECURITIES

Debt securities are non-derivative financial assets and are accounted for as Available-for-sale assets.

Available-for-sale assets are initially measured and subsequently carried at fair value. The fair values, in the majority of cases, are based on quoted market prices or prices obtained from market intermediaries. In cases where quoted market prices are not available, discounted cash flow valuations are used.

Unrealised gains and losses arising from changes in the fair values are recognised directly in the Available-for-sale reserve, except for impairment losses and foreign exchange gains and losses, which are recognised in the Income Statement. Gains and losses arising on the sale of Available-for-sale assets, including any cumulative gains or losses previously recognised in the Available-for-sale reserve, are recognised in the Income Statement.

When a decline in the fair value of an Available-for-sale financial asset has been recognised directly in equity reserves and there is objective evidence that the asset is impaired, the cumulative loss recognised in equity reserves is removed and recognised in the Income Statement.

DEPOSITS FROM CREDIT INSTITUTIONS

Deposits from credit institutions are measured on an amortised cost basis. The amortisation is recognised in 'Interest payable and similar charges' using the effective interest rate method.

Deposits from credit institutions are derecognised when the obligation is discharged cancelled or have expired.

CASH AND CASH EQUIVALENTS

For the purpose of the Statement of Cash Flows, cash and cash equivalents comprise cash and loans and advances to credit institutions with less than three months' maturity from the date of acquisition.

2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the financial statements in accordance with IFRSs as adopted by the European Union requires the use of certain critical judgements and estimates. The areas involving judgement and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under current or normal operating circumstances.

In the process of applying the LLP's accounting policies, the designated members have made the following judgement and estimates that may have a significant effect on the amounts recognised in the financial statements:

NOTES TO THE ACCOUNTS (CONTINUED)

2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Deemed loan to Originator - derecognition

As the Originator has retained substantially all the significant risks and rewards of ownership of the mortgage portfolio, derecognition is considered to be inappropriate for the Originator's own financial statements, and therefore, the mortgage portfolio remains on the Statement of Financial Position of the Originator.

Judgement is required in assessing whether risks or rewards of ownership of the mortgage portfolio have transferred. The factors considered in arriving at the conclusion that risk and rewards were not transferred include that the Originator continues to retain the right to receive excess income arising on the securitised mortgages (deferred consideration) after certain priority payments have been met by the LLP. Furthermore, the Originator and the LLP entered into a derivative transaction which returns substantially all the interest on the securitised mortgages to the Originator in exchange for the payment of a floating rate to the LLP.

3 INTEREST RECEIVABLE AND SIMILAR INCOME

	2016 £000	2015 £000
Interest receivable from members	35,891	40,115
Foreign currency loss	(3,295)	-
Interest and other income on other liquid assets	154	323
Bank and other interest receivable	122	150
Total	32,872	40,588

4 INTEREST PAYABLE AND SIMILAR CHARGES

	2016 £000	2015 £000
Interest expense on loans from members	115,444	34,488
Net expense on derivatives hedging liabilities	(19,138)	(17,828)
Foreign currency (gain)/loss	(62,615)	21,863
Total	33,691	38,523

5 NET GAINS/(LOSSES) FROM DERIVATIVES AND HEDGE ACCOUNTING

	2016 £000	2015 £000
(Losses) from derivatives designated as fair value hedges	(8,259)	(13,381)
Movement in fair value of hedged items attributable to hedged risk	8,389	13,413
	130	32
Gains on derivatives designated as cash flow hedges*	139	408
Gains/(losses) on other derivatives	602	(2,454)
Total	871	(2,014)

* Represents ineffectiveness on cash flow hedge relationships which will mature over a period of five years.

6 ADMINISTRATIVE EXPENSES

	2016 £000	2015 £000
Servicer and cash management fee	4	4
Other	48	47
Total	52	51

The LLP employed no staff during the year (2015: nil). The Society acts as servicer of the mortgage portfolio and cash manager.

The audit fee of £9,500 (2015: £9,400) is borne by the Society on behalf of the LLP.

NOTES TO THE ACCOUNTS (CONTINUED)

7 LOANS AND OTHER DEBTS DUE FROM MEMBERS

Loans and other debts due from members of £3,108.9 million (2015: £3,106.4 million) represents a deemed loan from the Society, generated as a result of the transferred beneficial interest in the mortgage portfolio failing the derecognition criteria in the Society, as described by IAS 39. The beneficial interest in mortgages of £4,837.9 million (2015: £4,427.7 million) reflects the transfer of the mortgage portfolio legally held by the LLP. The difference between the amount of the beneficial interest in mortgages and the loan due from members (see table below) represents non-cash collateral not recognised in the Statement of Financial Position (see accounting policy note 1 'Contributions' on page 11).

	2016 £000	2015 £000
Beneficial interest in mortgages	3,108,871	3,106,417
Beneficial interest in mortgages – non-cash collateral	1,729,049	1,321,283
Total	4,837,920	4,427,700

8 CASH

The LLP holds a Guaranteed Investment Contract account with an external bank.

9 DEBT SECURITIES

	2016 £000	2015 £000
Listed transferable debt securities	-	73,959

10 DERIVATIVE FINANCIAL INSTRUMENTS

	2016 Contract/ notional amount £000	2016 Fair value assets £000	2016 Fair value liabilities £000	2015 Contract/ notional amount £000	2015 Fair value assets £000	2015 Fair value liabilities £000
Derivatives designated as fair value hedges						
Interest rate swaps*	750,000	50,907	-	750,000	59,175	-
Derivatives designated as cash flow hedges						
Cross currency swaps**	394,300	49,174	-	394,300	-	20,718
Other derivatives						
Interest rate basis swaps***	650,000	-	1,874	650,000	-	2,476
Total	1,794,300	100,081	1,874	1,794,300	59,175	23,194

*The remaining swap has a maturity of between one and two years.

**Cash flows will occur over the between four and five years.

***The £650 million interest rate swap has a maturity of between three and four years.

In addition to the above, the LLP also holds an interest rate swap agreement with the Society to hedge interest rate risk associated with the beneficial interest on the mortgage portfolio. This derivative is not fair valued, as under IAS 39 it is accounted for as part of the loan included in 'Loans and other debts due from members'. Under this agreement, the LLP pays a blended rate of interest based on the mortgage portfolio in which it retains a beneficial interest and receives one month LIBOR. As at the year end, the notional swap principal amount totalled £4,307.2 million (2015: £4,399.5 million).

NOTES TO THE ACCOUNTS (CONTINUED)

11 LOANS FROM LLP MEMBERS

The amount owing to members is to the Society and represents advances equivalent to the amounts issued by the Society under its Covered Bonds Programme, as follows:

		2016 £000	2015 £000
1m LIBOR plus 0.5%	Due 2022* (GBP 1.5bn, 0.6bn part repayment in 2011)	900,075	900,198
1m LIBOR plus 0.5%	Due 2022** (GBP 0.5bn)	500,042	500,110
Fixed 4.625%	Due 2018 (GBP 0.75bn)	774,424	774,329
3m LIBOR plus 0.3%	Due 2020 (GBP 0.65bn)	650,155	650,237
Fixed 0.625%	Due 2021 (EUR 0.5bn)	425,578	366,018
Total		3,250,274	3,190,892

*With the consent of Bondholders the final maturity date was extended from 25 July 2016 to 24 July 2022.

** With the consent of Bondholders the final maturity date was extended from 24 November 2016 to 24 November 2022.

The Society will not be relying upon repayment of any term advance by the LLP or the interest thereon in order to meet its repayment or interest obligations under the Covered Bonds Programme. The term advances will not be repaid by the LLP until all amounts payable under the covered bonds have been repaid in full. Amounts owed by the LLP to the Society are subordinate to amounts owed by the LLP under the Covered Bond Guarantee.

12 DEPOSIT FROM CREDIT INSTITUTION

The deposit from credit institution is in respect of collateral deposited by a counterparty under a cross currency swap collateralisation agreement.

13 OTHER DEBTS DUE TO MEMBERS

All of the other debts due to members fall due within one year.

14 RELATED PARTIES

Ownership structure of Coventry Building Society Covered Bonds LLP

The members of the LLP are Coventry Building Society, the controlling party under IAS 24 *Related Party Disclosures*, and Coventry Covered Bonds Finance Limited.

Key management personnel

The Management Committee (comprise of directors and employees of the Coventry Building Society) manage and conduct the business of the LLP and have a majority of the rights, power and authority to act at all times for and on behalf of the LLP in accordance with the terms of the LLP Deed and Transaction Documents.

No transactions were entered into with key management personnel. A number of transactions are entered into with the members in the normal course of business. Details of these transactions can be found in the notes to these financial statements.

NOTES TO THE ACCOUNTS (CONTINUED)

15 RISK MANAGEMENT

Overview

Financial instruments incorporate the vast majority of the LLP's assets and liabilities and the LLP's activities expose it to a variety of financial risks including interest rate risk, credit risk, foreign currency and liquidity risk.

The LLP's exposure to risk arising from the LLP's financial instruments and the management of such risks is largely determined at the initial set up of the LLP. The LLP's activities and the role of each party to the transaction is clearly defined and documented.

Following initial set up, the Management Committee monitors the LLP's performance regularly. Such review is designed to ensure that the terms of the Transaction Documents have been complied with, no unforeseen losses have arisen and that interest and principal on the term loans are capable of being paid on a timely basis. This risk management is supported by the Society's central risk management function. Details of the Society's centralised risk management framework are available in the Society's Annual Report & Accounts.

Use of derivatives

The LLP uses derivative financial instruments to economically hedge certain of its financial risks in accordance with the Programme Documentation and not for any speculative purposes.

Interest rate risk

The LLP is exposed to interest rate risk in that its interest expense is at both floating and fixed rates, denominated in sterling and euros, in respect of loans from LLP members, whilst its interest income originates from its beneficial interest in a pool of the Society's mortgages at fixed and floating rates and denominated in sterling only.

The LLP hedges its exposure to both fixed and floating interest rate risk through entering into derivative transactions with the Society and external counterparties. Through a combination of basis, interest rate and cross currency swaps, the LLP is able to swap the interest receivable from its beneficial interest in the pool of mortgages and the interest payable on its loan liabilities such that the resulting cash flows are matched. As a result of these swaps, the LLP's total interest income and expense is economically hedged and it therefore has no material sensitivity to changes in interest rates. Both the interest rate and cross currency swaps with external parties are utilised for hedge accounting.

As the LLP does not invest its reserves by reference to a fixed rate maturity profile, and employs hedging techniques referred to above, it has no requirement to use sensitivity testing to analyse interest rate risk.

Foreign currency risk

The operating currencies of the LLP are sterling and euros. As the LLP prepares its financial statements in sterling these will be affected by movements in the currency exchange rate. The LLP hedges the exposure on its euro currency borrowings back to sterling by the use of a cross currency derivative and it therefore does not have a material economic exposure to foreign currency exchange gains and losses. Accordingly, it does not separately monitor value at risk arising from open foreign currency positions.

NOTES TO THE ACCOUNTS (CONTINUED)

15 RISK MANAGEMENT (CONTINUED)

Credit risk

Credit risk arises where there is a possibility that a counterparty will not meet their financial obligations to the LLP as they fall due.

The LLP's primary exposure is the deemed loan to the Society. The LLP used the proceeds of an intercompany loan from the Society to purchase a beneficial interest in a portfolio of residential mortgages from the Society. Under IAS 39, although the mortgage portfolio has been legally sold to the LLP, this has not resulted in the Society passing on substantially all of the risks and rewards associated with the mortgage portfolio. Accordingly, the mortgage portfolio remains on the Society's Statement of Financial Position and instead, the LLP has a deemed loan with the Society. This deemed loan is disclosed as 'loans and other debts due from members'.

'Loans and other debts due from members' are secured under the Covered Bond covenants, whereby retail mortgages may be transferred to the LLP, depending on changes in the Society's credit rating. Details of the credit risk attached to the Society's retail mortgages are contained in the Society's Annual Report and Accounts.

For the LLP, credit risk is additionally mitigated by the over-collateralisation of the beneficial interest in mortgages and by eligibility for selection under the Covered Bond covenants. Subsequent to selection, credit risk is mitigated through the application of a monthly asset coverage test. Details of the eligibility criteria and asset coverage test are listed in the Coventry Building Society Global Covered Bond Programme Prospectus dated 17 July 2008. The extent of the over-collateralisation is disclosed in note 7.

The LLP also has credit risk exposures with its swap counterparties. The swap counterparties are both internal to the Society as well as external. The LLP has a low risk appetite for wholesale credit risk. As such, exposures are restricted to good quality counterparties with a low risk of failure, and limits and exposures are set accordingly, via a Group Board approved wholesale credit policy.

Risk with such swap counterparties is managed via the depositing of cash and other collateral, dependent upon credit agency ratings and the net position of derivatives. Further information on derivative exposures and collateral is included in note 17.

Liquidity risk

Liquidity risk is the risk that the LLP has insufficient funds to meet its obligations as and when they fall due.

The LLP liquidity policy is to maintain sufficient liquid resources in the reserve bank account to service the swap payments, interest on the loan and any service fees for the next three months. This is reviewed by the cash manager and any shortfall is funded. Liquidity risk is also mitigated through the additional income collected on the over-collateralisation of the beneficial interest in mortgages.

Note 10 contains a maturity analysis of the LLP's derivative financial instruments. All derivatives have the same notional amount and maturity date as the corresponding loans from LLP members.

The LLP's ability to meet payments on the term loans as they fall due is dependent on timely receipt of funds from the deemed loan to the Society which may be delayed due to slow repayment on the mortgage portfolio.

Principal repayments are made on the term loans with the Society in accordance with the LLP's principal priority of payment. In the event that the LLP does not have sufficient cash flows from the underlying mortgage loans in order to be able to repay the term loans as and when they fall due, the Society may be required to make a cash capital contribution, extend the repayment of the term loans for up to 12 months or sell mortgages from the mortgage pool in accordance with the terms of the Transaction Documents.

NOTES TO THE ACCOUNTS (CONTINUED)

16 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the LLP has access at that date.

The LLP measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted prices (unadjusted) in active markets for identical instruments.
- Level 2: valuation techniques for which all significant inputs are based on observable market data.
- Level 3: valuation techniques for which significant inputs are not based on observable market data.

Where applicable, the LLP measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis. For all other financial instruments the LLP determines fair values using other valuation techniques.

The following table summarises the fair value of the LLP's financial assets and liabilities measured at amortised cost on the face of the Statement of Financial Position and the disaggregation by the fair value hierarchy.

	Carrying amount £000	Fair value Level 1 £000	Fair value Level 2 £000	Fair value Level 3 £000	Fair value Total £000
2016					
Financial assets					
Loans and other debts due from members	3,108,871	-	-	3,092,542	3,092,542
Financial liabilities					
Loans from LLP members	3,250,274	-	-	3,285,349	3,285,349
Deposits from credit institutions	49,784	49,784	-	-	49,784
	Carrying amount £000	Fair value Level 1 £000	Fair value Level 2 £000	Fair value Level 3 £000	Fair value Total £000
2015					
Financial assets					
Loans and other debts due from members	3,106,417	-	-	3,061,014	3,061,014
Financial liabilities					
Loans from LLP members	3,190,892	-	-	3,248,788	3,248,788

Loans and other debts due from members has been assessed as the value of the expected future cash flows. Future cash flows are projected using forecast interest rates. Given the extent of the over collateralisation in the covered bond structure (see note 7), the resulting estimated future cash flows are discounted at current market rates appropriate to a AAA rated asset to determine a fair value.

Loans from LLP members are fair valued by reference to the fair value of the covered bonds issued by the Society the proceeds of which were lent on back to back terms to the LLP.

Deposits from credit institutions are valued in accordance with the cash flows projected from the contractual terms of the deposits. The fair value of deposits that are available on demand approximates to the carrying value.

NOTES TO THE ACCOUNTS (CONTINUED)

16 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The following table summarises the fair value of the LLP's financial assets and liabilities measured at fair value on the face of the Statement of Financial Position and the disaggregation by fair value hierarchy and product type. There have been no transfers between any of the levels during the period.

As at 31 December 2016	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Derivative financial instruments				
Cross currency swap	-	49,174	-	49,174
Interest rate swap	-	50,907	-	50,907
Total	-	100,081	-	100,081
Financial liabilities				
Derivative financial instruments				
Interest rate basis swap	-	1,874	-	1,874
Total	-	1,874	-	1,874

As at 31 December 2015	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Derivative financial instruments				
Interest rate swaps	-	59,175	-	59,175
Debt securities	73,959	-	-	73,959
Total	73,959	59,175	-	133,134
Financial liabilities				
Derivative financial instruments				
Cross currency swaps	-	23,194	-	23,194
Total	-	23,194	-	23,194

Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Level 1: Debt securities – Available-for-sale - Listed

Market prices have been used to determine the fair value of listed debt securities.

Level 2: Derivatives

Derivative products valued using a valuation technique with observable market inputs are interest rate swaps and cross currency swaps. The valuation techniques applied are swap models using present value calculations. The models incorporate various assumptions including interest rate curves and foreign exchange spot and forward rates.

17 OFFSETTING FINANCIAL ASSETS AND LIABILITIES

The LLP does not have any financial assets or financial liabilities that are offset with the net amount presented in the Statements of Financial Position as IAS 32 *Financial Instruments – Presentation* conditions state that there should be both an enforceable right to set-off and the intention either to settle on a net basis or to realise the asset and settle the liability simultaneously. Neither of these conditions is met by the LLP.

Coventry Building Society Covered Bonds LLP does not enter into a master netting agreement for external swaps, but for the transactions with a swap counterparty outside of the Group, a Credit Support Annex (CSA) has been entered into for each swap which provides for the counterparty to fully collateralise one of the swaps, and for partial collateralisation on the second (unless the counterparty credit rating falls below a certain threshold at which point full collateralisation is required).

NOTES TO THE ACCOUNTS (CONTINUED)

17 OFFSETTING FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The table below shows the net exposure for derivative contracts after collateral benefits.

	Gross amounts £000	Master netting arrangements £000	Financial collateral* £000	Net amount £000
2016				
Financial assets				
Derivative financial instruments	100,081	-	68,386	31,695
Total financial assets	100,081	-	68,386	31,695
Financial liabilities				
Derivative financial instruments	1,874	-	-	1,874
Total financial liabilities	1,874	-	-	1,874
2015				
Financial assets				
Derivative financial instruments	59,175	-	24,211	34,964
Total financial assets	59,175	-	24,211	34,964
Financial liabilities				
Derivative financial instruments	23,194	-	-	23,194
Total financial liabilities	23,194	-	-	23,194

*The financial collateral disclosed is limited to the amount of the related financial asset and at the year end was in the form of UK Government investment securities £19,212,000 (2015: £24,211,000) and in cash £49,174,000 (2015: £nil). The UK Government investment securities are not recognised in the Statement of Financial Position as the LLP does not have the risks and rewards of ownership.

At 31 December 2016, all of the £31,695,000 exposure is to a single Aa2 rated UK institution.

18 CAPITAL MANAGEMENT

The Coventry Building Society Group is subject to capital requirements imposed by its regulator, the Prudential Regulation Authority (PRA). During the year, the Coventry Building Society Group, incorporating the LLP, complied with the capital requirements set by the PRA.

19 PARENT UNDERTAKING AND CONTROLLING PARTY

The member companies of the LLP are Coventry Building Society, the controlling party under IFRS, and Coventry Covered Bonds Finance Limited. Both entities are incorporated in the UK and registered in England and Wales. The ultimate parent undertaking is Coventry Building Society.

Copies of Coventry Building Society Group accounts, which include the results of the LLP, are available from the Company Secretary, Oakfield House, Binley Business Park, Coventry, CV3 2TQ or on its website.