

Coventry Building Society Covered Bonds LLP

Registered number OC337802

Members Reports and Financial Statements
for the year ended
31 December 2018

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Designated Members

Coventry Building Society
Coventry Covered Bonds Finance Limited

Auditor

Ernst & Young LLP
2 St Peters Square
Manchester
M2 3EY

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 2018.

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 structured entity incorporated under the Limited Liability Partnerships Act 2000 and governed in accordance with the transaction documents and provisions of the Limited Liability Partnership Deed dated 17 July 2008 (the 'LLP Deed'). The LLP guarantees the covered bonds issued by Coventry Building Society (the 'Society') by acquiring mortgage loans and their related security pursuant to the terms of the Mortgage Sale Agreement dated 17 July 2008 when trading commenced. No change in principal activity is envisaged or occurred during the year.

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 £3.4 billion at 31 December 2018. In accordance with IFRS 9, these mortgage loans have been recognised as a deemed loan asset in the LLP as the transfer fails the derecognition criteria in the Originator's accounts. This deemed loan to the Society is supported by the collateral received from the Society of £4.9 billion with respect to the acquired mortgage loans and non cash collateral, for more information see note 7.

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

- July 2008 - £1,500 million (£900 million as at 31 December 2018, following a part repayment of £600 million in 2011).
- November 2008 - £500 million.
- November 2014 - £500 million.
- March 2015 - £650 million (includes £150 million extension in December 2015).
- January 2017 - £500 million.
- November 2018 - £500 million

The new £500 million covered bond issued in November 2018 was offset by the maturity of a £750 million covered bond in April 2018. In March 2019, the Society issued a £100 million extension to the November 2018 covered bond.

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 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.coventrybuildingsociety.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 is calculated 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 will have sufficient liquid resources available to meet its obligations as they fall due.

On the basis of their assessment of the LLP's financial position and performance, the members have a reasonable expectation that the LLP will be able to continue in business for the next 12 months. For this reason, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

MEMBERS' RESPONSIBILITIES STATEMENT

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 applicable accounting standards have been followed; 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, and following a tender process carried out by Coventry Building Society, PricewaterhouseCoopers LLP will assume the role as independent auditor to replace Ernst & Young LLP. The formal appointment of PricewaterhouseCoopers LLP as auditor of the Company will be completed following the approval of the Financial Statements.

Signed on behalf of the members:



Michele Faull
For and on behalf of
Coventry Building Society
Designated member
27 March 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF COVENTRY BUILDING SOCIETY COVERED BONDS LIMITED LIABILITY PARTNERSHIP (THE 'PARTNERSHIP')

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

Opinion

We have audited the financial statements of Coventry Building Society Covered Bonds Limited Liability Partnership (the 'Partnership') for the year ended 31 December 2018 which comprise the Income Statement, Statement of Other Comprehensive Income, Balance Sheet, Statement of Changes in Members' Interests, Statement of Cash Flows and the related notes 1 to 19, including a summary of significant accounting policies. 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.

In our opinion the financial statements:

- give a true and fair view of the state of the Partnership's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the limited liability partnership in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the members use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the members have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the limited liability partnership's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which 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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF COVENTRY BUILDING SOCIETY COVERED BONDS LIMITED LIABILITY PARTNERSHIP (THE 'PARTNERSHIP') (CONTINUED)

Responsibilities of members

As explained more fully in the Members' Responsibilities Statement set out on page 3, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the members are responsible for assessing the partnership'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 the members either intend to liquidate the partnership or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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 to Limited Liability Partnerships. 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 limited liability partnership and the limited liability partnership's members as a body, for our audit work, for this report, or for the opinions we have formed.



Stephen Littler (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester

27 March 2019

Notes:

1. The maintenance and integrity of the Coventry Building Society web site is the responsibility of the members; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £000	2017 £000
Interest receivable and similar income	3	41,758	39,211
Interest payable and similar charges	4	(38,404)	(40,714)
Net (losses)/gains from derivatives and hedge accounting	5	(3,324)	1,543
Total income		30	40
Administrative expenses	6	(30)	(40)
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 2018

	2018 £000	2017 £000
Results for the financial year	-	-
Other comprehensive income		
Fair value through other comprehensive income investments ¹		
Fair value movements taken to reserves	1	(1)
Cash flow hedges:		
Fair value movements taken to reserves	23,559	18,342
Amount transferred to Income Statement	(10,882)	(32,051)
Total comprehensive income	(12,678)	(13,710)

1. Fair value through other comprehensive income reserve relates to assets classified as fair value through other comprehensive income under IFRS 9 from 1 January 2018, in the previous reporting period this represented the Available-for-sale reserve.

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

The accounting policies and notes on pages 10 to 23 form part of these financial statements.

BALANCE SHEET

AS AT 31 DECEMBER 2018

REGISTRATION NO: OC337802

	Notes	2018 £000	2017 £000
Assets			
Loans and other debts due from members	7	3,298,963	3,530,685
Cash	8	170,766	132,488
Debt securities	9	-	29,988
Derivative financial instruments	10	85,197	92,567
Total assets		3,554,926	3,785,728
Liabilities			
Loans from LLP members	11	3,449,608	3,711,174
Deposits from credit institutions	12	73,169	58,719
Hedge accounting adjustment		-	5,557
Derivative financial instruments	10	2,743	1,266
Other debts due to members	13	12,754	5,038
Total liabilities		3,538,274	3,781,754
Members' other interests			
Fair value through other comprehensive income reserve ¹	9	-	(1)
Cash flow hedge reserve		16,652	3,975
Total members' other interests		16,652	3,974
Total members' other interests and liabilities		3,554,926	3,785,728
Members' interests			
Members' other interests		16,652	3,974
Loans from LLP members		3,449,608	3,711,174
Other debts due to members		12,754	5,038
Loans and other debts due from members		(3,298,963)	(3,530,685)
Total members' interests		180,051	189,501

1. Fair value through other comprehensive income reserve relates to assets classified as Fair value through other comprehensive income under IFRS 9 from 1 January 2018, in previous reporting periods this was the Available-for-sale reserve.

The accounting policies and notes on pages 10 to 23 form part of these financial statements.

The financial statements were approved by the members on 27 March 2019.

Signed on behalf of the members



Michele Faull
For and on behalf of
Coventry Building Society
Designated member

STATEMENT OF CHANGES IN MEMBERS' INTERESTS
FOR THE YEAR ENDED 31 DECEMBER 2018
REGISTRATION NO: OC337802

	Fair value through other comprehensive income reserve ¹ £000	Cash flow hedge reserve £000	Loans from members £000	Total £000
As at 1 January 2018	(1)	3,975	185,527	189,501
Net movement in Fair value through other comprehensive income reserve	1	-	-	1
Net movement in cash flow hedge reserve	-	12,677	-	12,677
Loans from LLP members	-	-	(261,566)	(261,566)
Other debts due to members	-	-	7,716	7,716
Loans and other debts due from members	-	-	231,722	231,722
As at 31 December 2018	-	16,652	163,399	180,051

1. Fair value through other comprehensive income reserve relates to assets classified as Fair value through other comprehensive income under IFRS 9 from 1 January 2018, in previous reporting periods this was the Available-for-sale reserve.

	Available-for-sale reserve £000	Cash flow hedge reserve £000	Loans from members £000	Total £000
As at 1 January 2017	-	17,684	146,325	164,009
Net movement in Available-for-sale reserve	(1)	-	-	(1)
Net movement in cash flow hedge reserve	-	(13,709)	-	(13,709)
Loans from LLP members	-	-	460,900	460,900
Other debts due to members	-	-	116	116
Loans and other debts due from members	-	-	(421,814)	(421,814)
As at 31 December 2017	(1)	3,975	185,527	189,501

The accounting policies and notes on pages 10 to 23 form part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 £000	2017 £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	2,913	2,926
Change in accrued interest on derivatives	23,554	(2,262)
Change in accrued interest on loans due from LLP members	(23,496)	2,288
Other non-cash movements	-	-
Change in operating assets		
Debt securities	29,989	(29,989)
Change in operating liabilities		
Deposits from credit institutions	14,450	8,935
Other debts due to members	7,716	116
Net cash flows from operating activities	55,126	(17,986)
Cash flows from investing activities		
Change in loans due from members	(16,848)	8,965
Net cash flows from investing activities	(16,848)	8,965
Net increase/(decrease) in cash	38,278	(9,021)
Cash and cash equivalents at start of year	132,488	141,509
Cash and cash equivalents	170,766	132,488
Operational cash flows from interest		
Interest paid	32,667	29,800
Interest received	29,465	41,528

The accounting policies and notes on pages 10 to 23 form part of these financial statements.

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES

The following accounting policies have been applied 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 International Financial Reporting Standards (IFRS) as adopted by the European Union and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), and 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 fair value through other comprehensive income (FVOCI) (previously called Available-for-sale) debt instruments and derivatives measured at fair value. Carrying amounts are presented in sterling thousand (£000) except where otherwise indicated.

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

IFRS 9 - CHANGES IN ACCOUNTING POLICY

The LLP has adopted IFRS 9 *Financial Instruments* with effect from 1 January 2018.

IFRS 9 supersedes IAS 39 *Financial Instruments: Recognition and Measurement*. This new accounting standard has three key areas of change; impairment, classification and measurement and hedge accounting.

As permitted, the LLP has elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9. The IASB is currently working on a project for macro hedges and until this project is complete the LLP can continue to use IAS 39 for its entire hedge accounting requirements.

The Company has elected not to restate comparative financial information and is presented in accordance with IAS 39. In addition, any consequential amendments to IFRS 7 *Financial Instruments: Disclosures* have also been applied to the current period only.

The most significant impact for the LLP relates to the calculation of impairment on its loans and other debts due from members asset which must now be calculated on an expected credit loss (ECL) rather than on an incurred loss basis.

IFRS 9 requires the LLP to categorise its financial assets into one of three stages at the Balance Sheet date. Assets that are performing are shown in stage 1; assets where there has been a significant increase in credit risk since initial recognition or deteriorating assets are in stage 2; and assets which are in default are shown in stage 3. Under IFRS 9, a 12 month expected credit loss allowance is calculated on all stage 1 assets and a lifetime credit loss allowance on all stage 2 and 3 assets.

Under IFRS 9, the LLP treats the deemed loan as a single unit of account but makes an assessment of the performance of the loan by reference to the beneficial interest in mortgages that collateralise the deemed loan. Given the high credit quality of these mortgages (only 2% by number and by balance fall outside of stage 1), the level of over-collateralisation and the eligibility criteria for selection under the Covered Bond covenants, the LLP treats the entire deemed loan as stage 1. No impairment has been recognised due to immateriality of the 12 month ECL at transition and at the year end date is less than £3,500.

On transition to IFRS 9, debt securities were held to collect contractual cash flows and all of the contractual terms of these securities comprised solely payment of principal and interest. These securities were therefore reclassified as FVOCI. Under IAS 39 they were classified as Available-for-sale. There was no adjustment as a result of this change in classification. The LLP did not hold any debt securities at the year end.

FUTURE ACCOUNTING DEVELOPMENTS

As at 31 December 2018 there are no new accounting standards or interpretations relevant to the Company's future reporting.

NOTES TO THE ACCOUNTS (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

LOANS AND OTHER DEBTS DUE FROM MEMBERS

Under IFRS 9, if a transferor retains substantially all the risks and rewards associated with the transferred assets, the transaction is accounted for as a financing transaction notwithstanding it is a sale transaction from a legal perspective. The LLP has concluded that the transferor (the Society) has retained substantially all the risks and rewards of ownership of the mortgages transferred and as a consequence the LLP does not recognise the mortgage loans on its Balance Sheet but does recognise a loan and other debt from members (*deemed loan*).

The deemed loan to the Society is included in 'loans and other debts due from members' on the LLP's Balance Sheet. 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 derivative transactions with the Society, paying a rate of interest based on the underlying mortgages and receiving a rate inherent in the debt issuances. In accordance with IFRS 9, these internal derivatives are 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 these internal derivatives are accounted for on an accruals basis. All other derivatives are treated as explained under Derivative Financial Instruments and Hedge Accounting below.

CONTRIBUTIONS

Under the terms of the transaction 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'.

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

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

As noted under 'Loans and other debts due from members', the LLP holds derivative financial instruments to hedge interest rate risk associated with the beneficial interest on the mortgage portfolio. In accordance with IFRS 9, these internal derivatives are 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. This treatment is consistent with IAS 39.

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 principally valued by discounting cash flows using yield curves that are based on observable market data. In measuring fair value, separate adjustments are made for credit risk to the extent not already included in the valuation.

HEDGE ACCOUNTING

As already noted, although the LLP has adopted IFRS 9 from 1 January 2018 it has elected to continue to apply the hedge accounting requirements of IAS 39 until the IASB completes its project on hedge accounting. The hedge accounting policy set out below is therefore applicable to both the current and comparative periods.

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 qualify as fair value hedges are recorded in the Income Statement under net 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).

Cash flow hedges
Gains and losses on derivative financial instruments hedging the variability in cash flows of a designated asset or liability are recognised directly through the Statement of Comprehensive Income in the Cash Flow Hedge Reserve. The relevant portion of the gain or loss on the hedging instrument is recognised in the Income Statement immediately to the extent that the hedge is deemed ineffective under IAS 39. Any amounts deferred to the Cash Flow Hedge Reserve are subsequently recycled to the Income Statement when the underlying asset or liability being hedged impacts the Income Statement, for example when foreign exchange movements occur.

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 Balance Sheet date. Foreign exchange gains and losses resulting from the retranslation and settlement are recognised in the Income Statement.

NOTES TO THE ACCOUNTS (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF LOANS AND OTHER DEBTS DUE FROM MEMBERS

For the current year under IFRS 9 the LLP assesses, on a forward looking basis, the expected credit losses (ECL) associated with its deemed loan at amortised cost. The LLP treats the deemed loan as a single unit of account but makes an assessment of the performance of the loan by reference to the beneficial interest in mortgages that collateralise the deemed loan.

In determining whether there has been a significant increase in credit risk, the LLP considers both qualitative and quantitative criteria. The qualitative criteria include the IFRS 9 staging of the mortgages that collateralise the deemed loan, the eligibility criteria for selection under the Covered Bond covenants and the degree of over-collateralisation available in the structure. Given the credit rating of the Covered Bonds in issue is a reliable proxy for the performance of the mortgage pool, the quantitative trigger would be a reduction in the credit rating of the Covered Bonds below Aa3.

Applying the above criteria, the deemed loan has been assessed as stage 1 and no ECL has been recognised as it would not be material.

For the comparative year under IAS 39 the LLP assessed whether there was objective evidence of any incurred loss at the Balance Sheet date and concluded that this was not the case.

DEBT SECURITIES

Debt securities are non-derivative financial assets and are accounted for as fair value through other comprehensive income (FVOCI) assets. Under IAS 39, FVOCI assets were classified as Available-for-sale assets but there has been no change in measurement as a result of the reclassification to FVOCI.

FVOCI 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 FVOCI 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 FVOCI assets, including any cumulative gains or losses previously recognised in the FVOCI reserve, are recognised in the Income Statement.

In accordance with IFRS 9, the ECL for debt securities is calculated taking the exposure value and applying an externally published probability of default (PD) for the credit rating applicable to the exposure. Exposures are monitored by the Group's Treasury Credit Committee, who review whether any change in the counterparty credit profile reflects a significant increase in credit risk. ECLs for debt securities measured at FVOCI do not reduce the carrying amount of these assets which remain at fair value in the Balance Sheet. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in other comprehensive income as an accumulated impairment amount with a corresponding charge to impairment losses in the Income Statement. The accumulated loss recognised in other comprehensive income is then recycled to the Income Statement upon derecognition of the assets.

CASH AND CASH EQUIVALENTS

The LLP holds deposits with the Coventry Building Society as a provider of a Guaranteed Investment Contract and an account with another provider primarily to hold collateral received from an external derivative counterparty. These accounts meet the definition of cash and cash equivalent. The balance held with the Coventry Building Society is restricted by detailed priority of payment set out in the transaction documents. Both balances are measured at amortised cost. The amortisation is recognised in 'Interest payable and similar charges' using the effective interest rate method.

NOTES TO THE ACCOUNTS (CONTINUED)

2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The only judgement made in applying the Group's accounting policies that has a significant effect on the amounts recognised in the financial statements is in respect of the deemed loan and 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 Balance Sheet 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.

There are no other significant judgements relating to assumption and estimates that could affect the reported amount of assets and liabilities both in the accounts and in the following financial year.

3 INTEREST RECEIVABLE AND SIMILAR INCOME

	2018 £000	2017 £000
Interest receivable from members	41,235	37,933
Foreign currency gain	27	1,148
Interest and other income on other liquid assets	392	124
Bank and other interest receivable	104	6
Total	41,758	39,211

4 INTEREST PAYABLE AND SIMILAR CHARGES

	2018 £000	2017 £000
Interest expense on loans from members	49,285	82,514
Net expense on derivatives hedging liabilities	(10,855)	(25,803)
Foreign currency gain	(26)	(15,997)
Total	38,404	40,714

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

	2018 £000	2017 £000
Losses from derivatives designated as fair value hedges	(5,614)	(20,414)
Movement in fair value of hedged items attributable to hedged risk	5,557	20,366
	(57)	(48)
Derivatives designated as cash flow hedges ¹ :		
Foreign exchange and interest rate risk	(1,044)	998
(Losses)/gains on other derivatives	(2,223)	593
Total	(3,324)	1,543

1. Represents ineffectiveness on cash flow hedge relationships which will mature over a period of six years (2017: seven).

NOTES TO THE ACCOUNTS (CONTINUED)

6 ADMINISTRATIVE EXPENSES

	2018 £000	2017 £000
Servicer and cash management fee	4	4
Other	26	36
Total	30	40

The LLP employed no staff during the year (2017: nil). The Society acts as servicer of the mortgage portfolio and cash manager.

The audit fee of £10,000 (2017: £9,785) excluding VAT is borne by the Society on behalf of the LLP.

7 LOANS AND OTHER DEBTS DUE FROM MEMBERS

Loans and other debts due from members of £3,299.0 million (2017: £3,530.7 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 IFRS 9. The beneficial interest in mortgages of £4,923.8 million (2017: £4,855.4 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 Balance Sheet (see accounting policy note 1 'Contributions').

In the current year, no provision for Expected Credit Losses under IFRS 9 has been recognised on materiality grounds (see note 1 IFRS 9 - Change in accounting policy) and the entire deemed loan is in stage 1. In the previous year, there was no incurred loss under IAS 39 that would require any impairment provision.

	2018 £000	2017 £000
Beneficial interest in mortgages	3,298,963	3,530,685
Beneficial interest in mortgages – non-cash collateral	1,624,843	1,324,715
Total	4,923,806	4,855,400

8 CASH AND CASH EQUIVALENTS

The LLP has placed its deposit account with the Coventry Building Society as the provider of a Guaranteed Investment Contract. Withdrawals from this account are restricted by the detailed priority of payments set out in the transaction documents. The cash balance also includes £72.3 million of collateral received from an external derivative counterparty.

9 DEBT SECURITIES

	2018 £000	2017 £000
Listed transferable debt securities	-	29,988

All debt securities matured during the year and the amount recognised in the fair value through other comprehensive income reserve has been subsequently released (2017: negative £1,000).

At 31 December 2018, no debt securities existed and therefore no ECL was required. In 2017, there was no incurred loss under IAS 39 that would require any impairment provision. Given the low-risk nature of the Society's treasury assets, they were all allocated to stage 1 within the ECL calculation at 1 January 2018. The ECL being immaterial.

NOTES TO THE ACCOUNTS (CONTINUED)

10 DERIVATIVE FINANCIAL INSTRUMENTS

The LLP has elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9. However, as a result of IFRS 9 amendments, IFRS 7 *Financial instruments: Disclosures* includes a number of new disclosure requirements and these are included below and only applicable for the current period only.

Risk management strategy

Derivative financial instruments, predominantly interest rate and cross currency swaps, are held solely for purposes of mitigating interest rate, foreign exchange risk or interest rate and foreign exchange risk together. Where appropriate, they are designated as hedging instruments within either fair value or cash flow hedge relationships under the terms of IAS 39 but as at the year end only cash flow hedge relationships were in existence. All such derivatives hedge specific loans from the Society (equivalent to the wholesale funding instruments issued by the Society under its Covered Bonds Programme) and are in 'micro' hedge relationships where the LLP establishes the hedging ratio by matching the notional of the derivatives with the principal of the loan being hedged.

Where interest rate swaps are used for hedging, only the interest rate risk element of the underlying position is hedged and therefore other risks, such as credit risk, are managed but not hedged by the Group. The interest rate risk element is determined with regard to the fixed rate that represents the benchmark rate of interest being hedged and for the LLP this was 1 month LIBOR. The fixed rate element being hedged is usually the largest component of the overall change in fair value.

Where cross-currency swaps are used for hedging, the foreign currency risk component is determined as the change in cash flows of the foreign currency debt arising solely from changes in the relevant forward exchange rates. This change constitutes a significant component of the overall change in cash flows of the hedged instrument.

For fair value hedges, the effectiveness of the hedge relationship is assessed by comparing changes in the fair value of the hedged item attributable to changes in the benchmark rate of interest with changes in the fair value of the derivative. For cash flow hedges, effectiveness is assessed by comparing the changes in the fair value of the derivative with changes in the fair value of the hedged item attributable to the hedged risk, using the hypothetical derivative method. Possible sources of ineffectiveness are as follows:

- Differences in the benchmark rates of interest used to value the hedged item and the hedging instrument, such as when cash collateralised interest rate swaps are discounted using SONIA but this is not the benchmark rate of interest for the hedged item.
- Differences in timing of cash flows between the derivative and the hedged item.
- Hedging derivatives with a non-zero fair value at the date of initial designation as a hedging instrument.
- Counterparty credit risk which impacts the fair value of uncollateralised swaps but not the hedged item.

Hedging instruments

The following tables contain details of the hedging instruments used in the Group's hedging strategies. Contract/notional amounts indicate the amount on which payment flows are derived at the Balance Sheet date and do not represent amounts at risk. Derivatives assets and liabilities are included in the Balance Sheet at fair value.

	2018 Contract/ notional amount £000	2018 Fair value assets £000	2018 Fair value liabilities £000	2017 Contract/ notional amount £000	2017 Fair value assets £000	2017 Fair value liabilities £000
Derivatives designated as fair value hedges:						
Interest rate swaps	-	-	-	750,000	30,658	-
Derivatives designated as cash flow hedges:						
Foreign exchange risk ¹	428,000	20,082	-	428,000	3,884	-
Foreign exchange and interest rate risk ²	394,300	65,115	-	394,300	58,025	-
Other derivatives:						
Interest rate basis swaps	1,150,000	-	2,743	650,000	-	1,266
Total	1,972,300	85,197	2,743	2,222,300	92,567	1,266

1. Cash flows are expected to occur over a period of six years (2017: seven).

2. Cash flows are expected to occur over a period of three years (2017: four).

NOTES TO THE ACCOUNTS (CONTINUED)

10 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

	2018 Contract/ notional amount £000	2018 Fair value assets £000	2018 Fair value liabilities £000	2017 Contract/ notional amount £000	2017 Fair value assets £000	2017 Fair value liabilities £000
Derivatives have the following maturities:						
In not more than one year	-	-	-	750,000	30,658	(11)
In more than one year	1,972,300	85,197	2,743	1,472,300	61,909	1,277
Total	1,972,300	85,197	2,743	2,222,300	92,567	1,266

In addition to the above, the LLP also holds two interest rate swap agreements with the Society to hedge interest rate risk associated with the beneficial interest on the mortgage portfolio. These derivatives are not fair valued, as under IFRS 9 they are accounted for as part of the loan included in 'Loans and other debts due from members'. Under these agreements, the LLP pays a blended rate of interest based on the mortgage portfolios in which it retains a beneficial interest and receives one month LIBOR on one of the swaps and a fixed 1.7625% on the other. As at the year end, the notional swap principal on the former swap amount totalled £4,639.8 million (2017: £4,523.7 million) and an additional £428.0 million (2017: £428.0 million) on the latter.

The following tables set out the maturity profile and average interest and foreign exchange rates of the hedging instruments used in the LLP's hedging strategy at 31 December 2018.

	Maturity				
	Up to one month £000	One to three months £000	Three months to one year £000	One year to five years £000	More than five years £000
2018					
Foreign exchange risk					
Contract / notional amount	-	-	-	-	428,000
Average fixed interest rate	-	-	-	-	0.5%
Average £/€ exchange rate	-	-	-	-	0.86
Foreign exchange and interest rate risk					
Contract / notional amount	-	-	-	394,300	-
Average fixed interest rate	-	-	-	0.6%	-
Average £/€ exchange rate	-	-	-	0.79	-

Hedged items

The following table contains details of cash flow hedge exposures at 31 December 2018.

	Changes in fair value		Gains/(losses) recognised in OCI £000	Amounts reclassified from reserves to Income Statement		Recognised in Income Statement ¹ £000
	Hedging derivative £000	Hedged item for ineffectiveness assessment £000		Hedged cash flows will no longer occur £000	Hedged item affected Income Statement £000	
Derivatives designated as cash flow hedges:						
Foreign exchange	15,893	15,893	15,893	-	5,441	-
Foreign exchange and interest rate	6,623	7,665	7,666	-	5,441	(1,044)

1. The amount recognised in Income Statement is shown in note 5 Net (losses)/gains from derivatives and hedge accounting.

The net £12,677,000 movement in cash flow hedge reserve in the Statement of Change in Members' Interests is the net of Gains/(losses) recognised in OCI and Amounts reclassified from reserves to Income Statement in the table above.

As at 31 December 2018 balances remaining in the cash flow hedge reserve are £16,652,000 and are in respect of continuing hedges only.

NOTES TO THE ACCOUNTS (CONTINUED)

11 LOANS FROM LLP MEMBERS

The loans from LLP members are from the Society and are equivalent to the amounts issued by the Society under its Covered Bonds Programme, as follows:

		2018 £000	2017 £000
1m LIBOR plus 0.5%	Due 2022 ¹ (GBP 1.5bn, 0.6bn part repayment in 2011)	900,243	900,122
1m LIBOR plus 0.5%	Due 2022 ² (GBP 0.5bn)	500,135	500,068
Fixed 4.625%	Due 2018 (GBP 0.75bn)	-	774,424
3m LIBOR plus 0.3%	Due 2020 (GBP 0.65bn)	650,322	650,203
Fixed 0.625%	Due 2021 (EUR 0.5bn)	449,860	444,112
Fixed 0.5%	Due 2024 (EUR 0.5bn)	448,192	442,245
3m average SONIA plus 0.6%	Due 2024 (GBP 0.5bn)	500,856	-
Total		3,449,608	3,711,174

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

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

The change in loans from LLP members arises as follows:

	2018 £000	2017 £000
Balance at 1 January	3,711,174	3,250,274
Cash flows	(250,000)	430,838
Foreign exchange movements	10,944	27,107
Change in accrued interest	(23,279)	2,195
Amortisation	769	760
Total	3,449,608	3,711,174

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 DEPOSITS FROM CREDIT INSTITUTION

The deposits from credit institutions are in respect of collateral deposited by counterparties under a cross currency swap collateralisation agreements.

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 was 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. The 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 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.

Interest rate risk

Interest rate risk arises from the interest rate mismatch between fixed and variable rates on the securitised mortgages and the floating interest rate payable on the issued notes.

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, 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. The 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

Foreign currency risk mainly arises as a result of raising funds.

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 cross currency derivatives 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.

Operational risk

Operational risk is the risk of a loss arising from inadequate internal processes, systems or people, or from external events. In accordance with the transaction documents, the Company's operations are outsourced to third parties. The Society has been appointed to act as Servicer and Cash Manager on behalf of the Company. Intertrust Management Limited has been appointed to provide services in accordance with the terms of a Corporate Service Agreement.

NOTES TO THE ACCOUNTS (CONTINUED)

15 RISK MANAGEMENT (CONTINUED)

Credit risk

Credit risk is the risk that the borrowers or counterparties do not meet their financial obligations to the Company as they fall due.

'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 comprise a Group company as well as external parties. 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. Exposures are reviewed continuously to ensure that they remain within the approved limits and ongoing developments with treasury counterparties are closely monitored by the Group's Treasury Credit Committee.

Risk with such swap counterparties is managed through requiring cash or 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, which is the Society, 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: unadjusted quoted prices 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. Where this is not applicable, the LLP determines fair values using other valuation techniques described below.

The following table summarises the fair value of the LLP's financial assets and liabilities measured at amortised cost on the face of the Balance Sheet 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
2018					
Financial assets					
Loans and other debts due from members	3,298,963	-	-	3,282,579	3,282,579
Financial liabilities					
Loans from LLP members	3,449,608	-	-	3,463,112	3,463,112
Deposits from credit institutions	73,169	73,169	-	-	73,169
2017					
Financial assets					
Loans and other debts due from members	3,530,685	-	-	3,524,862	3,524,862
Financial liabilities					
Loans from LLP members	3,711,174	-	-	3,730,161	3,730,161
Deposits from credit institutions	58,719	58,719	-	-	58,719

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, 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 Balance Sheet and the disaggregation by fair value hierarchy and product type. There have been no transfers between any of the levels during the year.

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
As at 31 December 2018				
Financial assets				
Derivative financial instruments				
Cross currency swap	-	85,197	-	85,197
Total	-	85,197	-	85,197
Financial liabilities				
Derivative financial instruments				
Interest rate basis swap	-	2,743	-	2,743
Total	-	2,743	-	2,743
As at 31 December 2017				
Financial assets				
Derivative financial instruments				
Cross currency swap	-	61,909	-	61,909
Interest rate swap	-	30,658	-	30,658
Debt securities	29,988	-	-	29,988
Total	29,988	92,567	-	122,555
Financial liabilities				
Derivative financial instruments				
Interest rate basis swap	-	1,266	-	1,266
Total	-	1,266	-	1,266

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 – Fair value through other comprehensive income - Listed Market prices have been used to determine the fair value of listed debt securities.

Level 2: Derivatives – Derivative products utilise observable market inputs for interest rate swaps and cross currency swaps. Valuations are generated by swap models which use present value calculations and incorporate assumptions for 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 Balance Sheet. IAS 32 *Financial Instruments: Presentation* states 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 ¹ £000	Net amount £000
2018				
Financial assets				
Derivative financial instruments	85,197	-	(72,340)	12,857
Total financial assets	85,197	-	(72,340)	12,857
Financial liabilities				
Derivative financial instruments	2,743	-	-	2,743
Total financial liabilities	2,743	-	-	2,743
2017				
Financial assets				
Derivative financial instruments	92,567	-	58,025	34,542
Total financial assets	92,567	-	58,025	34,542
Financial liabilities				
Derivative financial instruments	1,266	-	-	1,266
Total financial liabilities	1,266	-	-	1,266

1. The financial collateral disclosed is limited to the amount of the related financial asset and at the 2018, and 2017, year end was all in cash.

At 31 December 2018, the £12,857,000 consists of one exposure (2017: two exposures) which is held with an A1 rated European institution (2017: an Aa3 rated UK institution for £30,658,000 and an A2 rated European institution for £3,884,000).

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, including the LLP, are available from the Company Secretary, Oakfield House, Binley Business Park, Coventry, CV3 2TQ or on its website (www.coventrybuildingsociety.co.uk/accounts2018).