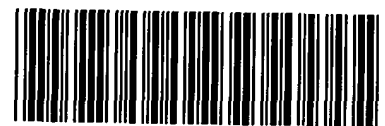


# Coventry Building Society Covered Bonds LLP

Registered number OC337802

Members' Report and the Accounts  
for the year ended  
31 December 2022

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## CONTENTS

|   |    |
|---|----|
| MEMBERS' REPORT.....  | 2  |
| INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COVENTRY BUILDING SOCIETY COVERED BONDS LLP..... | 5  |
| INCOME STATEMENT.....   | 8  |
| STATEMENT OF COMPREHENSIVE INCOME.....  | 8  |
| BALANCE SHEET.....  | 9  |
| STATEMENT OF CHANGES IN MEMBERS' INTERESTS.....   | 10 |
| STATEMENT OF CASH FLOWS.....  | 11 |
| NOTES TO THE ACCOUNTS.....  | 12 |

## PARTNERSHIP INFORMATION AND INDEPENDENT AUDITORS

### Designated Members

Coventry Building Society  
Coventry Covered Bonds Finance Limited

### Independent Auditors

PricewaterhouseCoopers LLP,  
One Chamberlain Square,  
Birmingham  
B3 3AX

### 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 the audited Accounts (together the financial statements) of Coventry Building Society Covered Bonds LLP (the 'LLP'), for the year ended 31 December 2022.

These accounts have been prepared in accordance with UK adopted international accounting standards in conformity 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. The financial statements are presented in pounds sterling, which is the functional currency of the LLP.

### PRINCIPAL ACTIVITIES AND REVIEW OF THE YEAR

The LLP is a structured entity, operating in the United Kingdom, incorporated under the Limited Liability Partnerships Act 2000 and governed in accordance with the transaction documents and provisions of the Limited Liability Partnership Deed (the 'LLP Deed'). The principal activity of the LLP is the acquisition and management of portfolios of mortgage loans and the collection of payments of principal and interest on these loans, funded by term loans.

Coventry Building Society (the 'Society' and the 'Originator') administers the mortgage loans on behalf of the LLP. The LLP guarantees the obligations of the Society as issuer under the Society's €7 billion Global covered bond programme (the 'programme'). The assets available to meet the LLP's obligations under this guarantee are limited to the mortgage loans and their related security (the 'Cover Pool') that the LLP has acquired in accordance with the terms of the Mortgage Sale Agreement. Under the terms of the transaction for the sale of the mortgage loans, and in order to provide overcollateralisation, 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 mortgage loans sold at transfer date and the cash payment made by the LLP for the mortgage loans and relevant security on that transfer date.

The LLP has acquired mortgage loan portfolios originated by the Society, one of the designated members of the LLP. These acquisitions were funded by term loans from the Society which amounted to £4.5 billion at 31 December 2022 (2021: £4.8 billion). The members have concluded that the risks and rewards of ownership of the mortgage loans substantially remain with the Society, due to the term loan from the Society, the sale of the mortgage loans including an element of capital contribution from the Society for overcollateralization, the interest rate swap and the entitlement to receive deferred consideration. As a result, the transfer of the ownership of the beneficial interest in the mortgages loans fails the derecognition criteria of IFRS 9 Financial Instruments. The transfer is therefore instead accounted for by the Society and the LLP as a financing transaction.

As a result, notwithstanding the fact that the transaction is a sale transaction from a legal perspective, the LLP has not recognised the mortgage loans on its Balance Sheet but has instead recognised a receivable from the Society (a 'deemed loan'). The deemed loan is included in 'loans and other debts due from members'. This deemed loan is supported by the collateral received from the Society of £6.4 billion, including overcollateralisation of £2.1 billion (2021: £7.5 billion and £2.7 billion respectively). More information is included in note 7 to the accounts.

At 31 December 2022, the loans from the Society were linked to the following covered bond issuances by the Society:

| Date of issuance | Issuance value |   |
|------------------|----------------|---|
| July 2008        | £1,500 million | fully repaid in July 2022                     |
| November 2008    | £500 million   | two-year extension in year to November 2024   |
| November 2014    | €500 million   | fully repaid in November 2021                 |
| January 2017     | €500 million   |   |
| November 2018    | £600 million   | includes £100 million extension in March 2019 |
| June 2019        | €500 million   |   |
| January 2020     | £500 million   |   |
| April 2020       | £850 million   |   |
| July 2021        | €750 million   |   |
| September 2022   | €500 million   |   |
| November 2022    | £500 million   |   |

Under the LLP Deed, when the Society issues covered bonds it is required to lend the proceeds to the LLP by way of term loans and the LLP is required to use the term loan to acquire further mortgage loans to increase the size of the Cover Pool.

## MEMBERS' REPORT (CONTINUED)

The LLP made £nil profit during the year (2021: £nil).

There has been no change in the principal activity during the year, and there are no changes expected to occur in future periods.

The LLP is out of scope of the Streamlined Energy and Carbon Reporting (SECR), as it does not meet the numerical thresholds in relation to turnover and number of employees.

### 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 accounts.

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. As at 31 December 2022, and throughout the year, the LLP complied with all covenants and limits that were in place. Further information is provided in a monthly investor report available from the Society's website ([www.coventrybuildingsociety.co.uk](http://www.coventrybuildingsociety.co.uk)).

The level of overcollateralisation is central to the contractual mechanics and to credit rating agency oversight. This 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' 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 accounts.

### 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. This includes considerations of risk that could threaten the LLP's business model, future performance, solvency, liquidity and the affordability risk arising from the cost of living crisis. During 2022, the performance of the mortgage portfolio has been stable with no sign of deterioration. For this reason, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### STATEMENT OF MEMBERS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The members are responsible for preparing the financial statements in accordance with applicable law and regulation.

Company law, as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 (the "Regulations"), requires the members to prepare financial statements for each financial year. Under that law the members have prepared the financial statements in accordance with UK-adopted international accounting standards.

## MEMBERS' REPORT (CONTINUED)

### STATEMENT OF MEMBERS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS (CONTINUED)

Under company law, as applied to limited liability partnerships, members must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the LLP and of the profit or loss of the LLP for that period. In preparing the financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the LLP will continue in business.

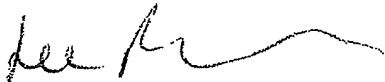
The members are also responsible for safeguarding the assets of the LLP and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The members are also responsible for keeping adequate accounting records that are sufficient to show and explain the LLP's transactions and disclose with reasonable accuracy at any time the financial position of the LLP and enable them to ensure that the financial statements comply with the Companies Act 2006.

### INDEPENDENT AUDITORS

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

Signed on behalf of the members:



Lee Raybould  
For and on behalf of  
Coventry Building Society  
Designated member  
21 April 2023

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COVENTRY BUILDING SOCIETY COVERED BONDS LLP**

### ***Report on the audit of the financial statements***

#### **Opinion**

In our opinion, Coventry Building Society Covered Bonds LLP's financial statements:

- give a true and fair view of the state of the LLP's affairs as at 31 December 2022 and of its result and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

We have audited the financial statements, included within the Annual Report, which comprise: the Balance Sheet as at 31 December 2022; the Income Statement, the Statement of Comprehensive Income, the Statement of Cash Flows and the Statement of Changes in Members' Interests for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### ***Independence***

We remained independent of the LLP in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

#### **Conclusions relating to going concern**

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the LLP's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the members' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the LLP's ability to continue as a going concern.

Our responsibilities and the responsibilities of the members with respect to going concern are described in the relevant sections of this report.

#### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The members are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COVENTRY BUILDING SOCIETY COVERED BONDS LLP (CONTINUED)

### Responsibilities for the financial statements and the audit

#### *Responsibilities of the members for the financial statements*

As explained more fully in the Statement of members' responsibilities in respect of the financial statements, the members are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The members are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the members are responsible for assessing the LLP's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the members either intend to liquidate the LLP or to cease operations, or have no realistic alternative but to do so.

#### *Auditors' 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 auditors' 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the LLP and industry, we identified that the principal risks of non-compliance with laws and regulations related to any breach of the underlying transaction documents associated with the covered bond programme, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate journal entries. Audit procedures performed by the engagement team included:

- making inquiries with those charged with governance in relation to known or suspected instances of non-compliance with laws and regulations and fraud;
- testing that the priority of payments has been applied in accordance with transaction documents; and
- testing journals using a risk-based approach and evaluating whether there was evidence of bias.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### *Use of this report*

This report, including the opinions, has been prepared for and only for the members of the partnership as a body in accordance with the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COVENTRY BUILDING SOCIETY  
COVERED BONDS LLP (CONTINUED)**

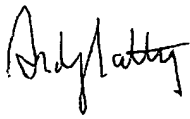
***Other required reporting***

**Companies Act 2006 exception reporting**

Under the Companies Act 2006 as applicable to limited liability partnerships we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Andrew Batty (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Birmingham  
21 April 2023



**INCOME STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2022**

|   | Note | 2022<br>£000 | 2021<br>£000 |
|---|------|--------------|--------------|
| Interest receivable and similar income                                      | 3    | 79,987       | 42,007       |
| Interest payable and similar charges  | 4    | (79,857)     | (41,849)     |
| Net losses from derivatives and hedge accounting                            | 5    | (11)         | (128)        |
| <b>Total income</b>   |      | <b>119</b>   | <b>30</b>    |
| Administrative expenses   | 6    | (119)        | (30)         |
| <b>Results for the financial year available for distribution to members</b> |      | <b>-</b>     | <b>-</b>     |

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

**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2022**

|   |    | 2022<br>£000  | 2021<br>£000    |
|---|----|---------------|-----------------|
| <b>Results for the financial year available for distribution to members</b> |    | <b>-</b>      | <b>-</b>        |
| <b>Other comprehensive income/ (expense)</b>                                |    |               |                 |
| FVOCI investments   |    |               |                 |
| Fair value movements taken to reserves                                      |    | 27            | -               |
| Cash flow hedges:   |    |               |                 |
| Fair value movements taken to reserves                                      | 10 | (73,513)      | 42,405          |
| Amount transferred to Income Statement                                      | 10 | 92,127        | (68,500)        |
| <b>Total comprehensive income/ (expense)</b>                                |    | <b>18,641</b> | <b>(26,095)</b> |

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

The accounting policies and notes on pages 12 to 26 form part of these accounts.

**BALANCE SHEET**  
**AS AT 31 DECEMBER 2022**  
**REGISTRATION NO: OC337802**

|   | Note | 2022<br>£000     | 2021<br>£000     |
|---|------|------------------|------------------|
| <b>Assets</b>   |      |                  |                  |
| Loans and other debts due from members                | 7    | 4,316,078        | 4,759,050        |
| Cash and cash equivalents                             | 8    | 64,123           | 135,183          |
| Debt securities                                       | 9    | 73,943           | -                |
| Derivative financial instruments                      | 10   | 23,400           | -                |
| <b>Total assets</b>                                   |      | <b>4,477,544</b> | <b>4,894,233</b> |
| <b>Liabilities</b>                                    |      |                  |                  |
| Loans due to members                                  | 11   | 4,458,687        | 4,820,447        |
| Deposits from credit institutions                     | 12   | 10,756           | -                |
| Derivative financial instruments                      | 10   | 8,927            | 56,224           |
| Other debts due to members                            | 13   | 8,988            | 8,735            |
| <b>Total liabilities</b>                              |      | <b>4,487,358</b> | <b>4,885,406</b> |
| <b>Members' other interests</b>                       |      |                  |                  |
| FVTOCI reserve  |      | (27)             | -                |
| Cash flow hedge reserve                               |      | (9,787)          | 8,827            |
| <b>Total members' other interests</b>                 |      | <b>(9,814)</b>   | <b>8,827</b>     |
| <b>Total members' other interests and liabilities</b> |      | <b>4,477,544</b> | <b>4,894,233</b> |
| <b>Members' interests</b>                             |      |                  |                  |
| Members' other interests                              |      | (9,814)          | 8,827            |
| Loans due to members                                  |      | 4,458,687        | 4,820,447        |
| Other debts due to members                            |      | 8,988            | 8,735            |
| Loans and other debts due from members                |      | (4,316,078)      | (4,759,050)      |
| <b>Total members' interests</b>                       |      | <b>141,783</b>   | <b>78,959</b>    |

The accounting policies and notes on pages 12 to 26 form part of these accounts.

The accounts were approved by the members on 21 April 2023.

Signed on behalf of the members



Lee Raybould  
For and on behalf of  
Coventry Building Society  
Designated member

**STATEMENT OF CHANGES IN MEMBERS' INTERESTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2022**  
**REGISTRATION NO: OC337802**

|   | FVOCI<br>reserve<br>£000 | Cash flow<br>hedge<br>reserve<br>£000 | Loans from<br>members<br>£000 | Total<br>£000 |
|---|--------------------------|---------------------------------------|-------------------------------|---------------|
| As at 1 January 2022                    | -                        | 8,827                                 | 70,132                        | 78,959        |
| Net movement in FVOCI reserve           | (27)                     | -                                     | -                             | (27)          |
| Net movement in cash flow hedge reserve | -                        | (18,614)                              | -                             | (18,614)      |
| Loans due to members                    | -                        | -                                     | (361,760)                     | (361,760)     |
| Other debts due to members              | -                        | -                                     | 253                           | 253           |
| Loans and other debts due from members  | -                        | -                                     | 442,972                       | 442,972       |
| As at 31 December 2022                  | (27)                     | (9,787)                               | 151,597                       | 141,783       |

|   | FVOCI<br>reserve<br>£000 | Cash flow<br>hedge<br>reserve<br>£000 | Loans from<br>members<br>£000 | Total<br>£000 |
|---|--------------------------|---------------------------------------|-------------------------------|---------------|
| As at 1 January 2021                    | -                        | (17,268)                              | 207,288                       | 190,020       |
| Net movement in cash flow hedge reserve | -                        | 26,095                                | -                             | 26,095        |
| Loans due to members                    | -                        | -                                     | 124,831                       | 124,831       |
| Other debts due to members              | -                        | -                                     | 120                           | 120           |
| Loans and other debts due from members  | -                        | -                                     | (262,107)                     | (262,107)     |
| As at 31 December 2021                  | -                        | 8,827                                 | 70,132                        | 78,959        |

The accounting policies and notes on pages 12 to 26 form part of these accounts.

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2022**

|   | 2022<br>£000     | 2021<br>£000     |
|---|------------------|------------------|
| <b>Results for the financial year available for distribution to members</b> | -                | -                |
| Adjustments for:  |                  |                  |
| Non-cash items included in results for the financial year:                  |                  |                  |
| Change in derivatives, hedge accounting and foreign exchange                | 1,020            | 35,547           |
| Change in accrued interest on loans due to members                          | 12,752           | 71               |
| Change in operating assets  |                  |                  |
| Debt securities   | (73,943)         | -                |
| Change in operating liabilities   |                  |                  |
| Deposits from credit institutions   | 10,756           | (59,749)         |
| Other debts due to members  | 253              | 120              |
| <b>Net cash flows from operating activities</b>                             | <b>(49,162)</b>  | <b>(24,011)</b>  |
| <b>Cash flows used in investing activities</b>                              |                  |                  |
| Repayment / (purchase) of underlying mortgage assets                        | 446,906          | (238,076)        |
| <b>Net cash flows used in investing activities</b>                          | <b>446,906</b>   | <b>(238,076)</b> |
| <b>Cash flows generated from financing activities</b>                       |                  |                  |
| (Cash paid out)/ received through term loan                                 | (468,804)        | 195,364          |
| <b>Net cash flows generated from financing activities</b>                   | <b>(468,804)</b> | <b>195,364</b>   |
| <b>Net decrease in cash</b>   | <b>(71,060)</b>  | <b>(66,723)</b>  |
| Cash and cash equivalents at start of year                                  | 135,183          | 201,906          |
| <b>Cash and cash equivalents at end of year</b>                             | <b>64,123</b>    | <b>135,183</b>   |

The accounting policies and notes on pages 12 to 26 form part of these accounts.

## NOTES TO THE ACCOUNTS

### 1 ACCOUNTING POLICIES

The LLP is a limited liability partnership incorporated in the United Kingdom and registered in England and Wales under the Limited Liabilities Partnerships Act 2000. The following accounting policies have been applied in dealing with items that were considered material in relation to the financial statements.

#### BASIS OF PREPARATION

These accounts have been prepared in accordance with UK-adopted international accounting standards in conformity 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.

The financial statements have been prepared on a historical cost basis, as modified by the revaluation of derivatives measured at fair value.

In preparing the financial statements, management are required to exercise judgement in applying the LLP's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

The functional currency of the LLP is Pound Sterling and the financial statements are presented in Pound Sterling thousands (£000s) except where otherwise indicated.

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

#### SUBSTANCE OF TRANSACTION

The LLP has received term loans from the Society equivalent to the amount that the Society has received from note holders under its covered bond programme. It has used these term loans to acquire portfolios of mortgage loans and related security from the Society. However, as explained below, these mortgage loans are not recognised on the LLP's Balance Sheet and instead the amount paid to the Society as consideration for the mortgage loans is recognised as a deemed loan.

The LLP has granted a guarantee to the covered bond holders in respect of the amounts due to them by the Society under the covered bond programme. The LLP is legally entitled to the cash flows on the mortgage pool and, in the absence of a default by the Society on the covered bonds and thus a requirement for the LLP to make a payment under the guarantee, it returns these cash flows to the Society. These cash flows are not recognised in the financial statements of the LLP as they arise from the mortgage loans which are not recognised by the LLP, and they are passed immediately back to the Society.

#### CHANGES IN ACCOUNTING STANDARDS

There are no amendments to standards effective from 1 January 2022 that apply to or have a material impact on the LLP's financial statements.

## NOTES TO THE ACCOUNTS (CONTINUED)

### 1 ACCOUNTING POLICIES (CONTINUED)

#### LOANS AND OTHER DEBTS DUE FROM MEMBERS

The members have concluded that the risks and rewards of ownership of the mortgage loans substantially remain with the Society, due to the term loan from the Society, the sale of the mortgage loans including an element of capital contribution from the Society for overcollateralisation, the interest rate swap and the entitlement to receive deferred consideration. As a result, the transfer of the ownership of the beneficial interest in the mortgages loans fails the derecognition criteria of IFRS 9 Financial instruments and the transfer is instead accounted for by the Society and the LLP as a financing transaction. As a result, notwithstanding the fact that the transaction is a sale transaction from a legal perspective, the LLP has not recognised the mortgage loans on its Balance Sheet but has instead recognised a receivable from the Society (a 'deemed loan'). The deemed loan is included in Loans and other debts due from members.

The day one value of the deemed loan represented the initial consideration paid to the Society to acquire the beneficial interest in the mortgage loans. It is subsequently adjusted to account for any mortgage loan sales, capital repayments on the mortgage loans and deferred consideration payable by the LLP to the Society.

The LLP recognises principal and interest cash flows from the mortgage loans only to the extent that it is entitled to retain such cash flows under the transaction documents. After all payments required under the transaction documents have been made, all excess income is returned to the Society as deferred consideration under the terms of the Mortgage Sale Agreement. The interest income recognised in relation to the deemed loan is therefore limited to that proportion of interest income on the mortgage loans that the LLP is entitled to retain in order to make payments under the transaction documents. Income in excess of this is not recognised by the LLP as it has no entitlement to it and must return it to the Society.

To manage interest rate risk the LLP has entered into derivative transactions with the Society, paying a rate of interest based on the mortgage loans and receiving a rate inherent in the term loans. Whilst having separate legal form, these transactions were entered into at the same time as the Mortgage Sale Agreement, relate to the same set of underlying cash flows and there is no apparent economic need or substantive business purpose for structuring the transactions separately that could not have been accomplished as a single transaction. Cash flows arising from these derivative transactions are accounted for on an accruals basis as part of the deemed loan.

On the basis that the deemed loan is to be held for collection of the underlying contractual cash flows and the cash flows are deemed to represent solely payments of principal and interest ('SPPI'), it is measured initially at fair value and then subsequently at amortised cost using the effective interest rate method.

#### *Significant judgement - classification and measurement of Loans and other debt due from Members (the deemed loan)*

The LLP accounts for a 'deemed loan', because whilst the legal form of the arrangement giving rise to it was an asset sale, the substance of the arrangement is a secured funding transaction. As noted above, the members have concluded that the deemed loan should be measured at amortised cost under IFRS 9, having assessed the business model and underlying cash flows against the relevant criteria below.

**Business model test:** Given the nature of the LLP's activities, the applicable business model was identified as being one that holds to collect the cash flows of the deemed loan.

**SPPI test:** It was then necessary to confirm that cash flows received in respect of the deemed loan represent payments of solely principal and interest ('SPPI'). IFRS 9 does not provide specific guidance on assessing the SPPI criterion for deemed loan assets. Furthermore, a deemed loan does not have a single contract which sets out its contractual terms, but instead is formed from elements of different contracts that give rise to the deemed loan. It is therefore necessary to determine what the contractual terms of the deemed loan are by considering the various contractual rights and obligations that the deemed loan represents. This requires consideration of the terms of the underlying assets and of the term loans provided by the Society, as well as any associated instruments to determine which of the cash flows of the underlying assets are incorporated into the deemed loan.

In assessing SPPI the members concluded that, given the level of overcollateralisation inherent in the deemed loan, the LLP is not deemed to be materially exposed to external risks other than credit risk associated with the mortgage loans. As a result, the members concluded that the deemed loan does not violate the SPPI test and therefore should be measured at amortised cost under IFRS 9.

## NOTES TO THE ACCOUNTS (CONTINUED)

### 1 ACCOUNTING POLICIES (CONTINUED)

#### 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 overcollateralisation).

This capital contribution has not been recorded in these financial statements, as the transfer of the mortgage loans fails the derecognition criteria as described above.

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.

#### 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.

#### 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. These derivatives are with the Society and 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 the requirements of IFRS 9.

The LLP holds other derivative financial instruments with third parties 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.

#### 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.

#### HEDGE ACCOUNTING

The LLP applies the requirements of IAS 39 as permitted under IFRS 9 for 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.

## NOTES TO THE ACCOUNTS (CONTINUED)

### 1 ACCOUNTING POLICIES (CONTINUED)

#### *Fair value hedges*

Changes in the fair value of derivatives that 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).

#### *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.

### IMPAIRMENT OF LOANS AND OTHER DEBTS DUE FROM MEMBERS

Under IFRS 9, the LLP assesses, on a forward looking basis, the expected credit losses (ECL) associated with the Loans and other debts due from members - otherwise known as the 'deemed loan'. 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 the mortgage loans which, in effect, collateralise the deemed loan.

The deemed loan did not result in a day one ECL being booked, as the 12 month ECL on day 1 was determined to be immaterial. Unlike other financial instruments, the deemed loan is, by its construction, an instrument that incorporates overcollateralisation. Expected losses for the deemed loan would only be recognised where the ECLs on the underlying mortgage loans were large enough that no overcollateralisation remained.

#### *Significant judgement - Determining a significant increase in credit risk under IFRS 9*

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 (94% of loans classified as Stage 1, 6% Stage 2 with nil in stage 3 evidencing the high quality), the eligibility criteria for selection under the Covered Bond covenants and the degree of overcollateralisation available in the structure. Given the credit rating of the Covered Bonds in issue is considered to represent a reasonable proxy for the expected performance of the mortgage pool; the quantitative trigger is considered to be a reduction in the credit rating of the Covered Bonds below Aa3. At the year end date and the date of signing these financial statements, the credit rating of the Covered Bonds was Aaa.

The assessment of a significant increase in credit risk and the calculation of ECL both incorporate forward looking information and therefore require significant management judgement. The impairment of the underlying mortgage portfolio itself does not result in the impairment of the deemed loan. This is due to the credit enhancement incorporated into the deemed loan as its recoverability is dependent on the collections from the underlying mortgage loans. Due to the levels of overcollateralisation the income from the underlying mortgage loans is expected to exceed the obligations associated with the liabilities prior to leaving excess income to be paid back to the Society as deferred consideration. To date, the credit enhancement has remained more than sufficient to cover the one loss which has arisen on a mortgage loan since the structure began.

Applying the above criteria, given the headroom available, the probability of default ('PD') on the deemed loan is considered to remain close to zero, and the deemed loan is deemed to fall within stage 1 of the ECL model. As such, on the basis of materiality, no 12 month ECL has been recognised in the financial statements (2021: £nil).

### LOANS DUE TO MEMBERS

Loans from LLP members are loans issued by the LLP to the Society and are equivalent to the amounts issued by the Society under its Covered Bonds Programme and are measured on an amortised cost basis.

Loans from LLP members are derecognised upon repayment. The LLP's obligations to the notes holders are limited to the payments received on the mortgage loans. If the cash flows on the mortgage loans are insufficient to repay the notes in full then the notes would be deemed to have been discharged in full once the available funds had been paid out.



## NOTES TO THE ACCOUNTS (CONTINUED)

### 1 ACCOUNTING POLICIES (CONTINUED)

#### 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

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

### 2. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the financial statements requires management to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

There are judgements relating to the application of the LLP's accounting policies which have had a significant effect on the amounts recognised in the financial statements. The most significant judgments are disclosed in the following notes:

| <i>Significant judgements</i>   | <i>Note</i> |
|---|-------------|
| Classification and measurement of Loans and other debt due from members | 1           |
| Determining a significant increase in credit risk (SICR) under IFRS 9   | 1           |

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. There are no significant estimates involved in the preparation of these accounts.

### 3. INTEREST RECEIVABLE AND SIMILAR INCOME

|  | 2022          | 2021          |
|--|---------------|---------------|
|  | £000          | £000          |
| Interest receivable from members                 | 77,797        | 42,002        |
| Interest and other income on other liquid assets | 936           | 5             |
| Bank and other interest receivable               | 1,254         | -             |
| <b>Total</b>                                     | <b>79,987</b> | <b>42,007</b> |

### 4. INTEREST PAYABLE AND SIMILAR CHARGES

|  | 2022          | 2021          |
|--|---------------|---------------|
|  | £000          | £000          |
| Interest expense on loans from members         | 60,682        | 29,079        |
| Net expense on derivatives hedging liabilities | 19,171        | 12,790        |
| Foreign currency loss/ (gain)                  | 4             | (20)          |
| <b>Total</b>                                   | <b>79,857</b> | <b>41,849</b> |

## NOTES TO THE ACCOUNTS (CONTINUED)

### 5. NET LOSSES FROM DERIVATIVES AND HEDGE ACCOUNTING

|   | 2022<br>£000 | 2021<br>£000 |
|---|--------------|--------------|
| Derivatives designated as cash flow hedges: |              |              |
| Foreign exchange risk                       | 315          | (59)         |
|   | 315          | (59)         |
| Losses on other derivatives                 | (326)        | (69)         |
| <b>Total</b>                                | <b>(11)</b>  | <b>(128)</b> |

Losses on other derivatives of £315,000 (2021: loss of £69,000) have been recognised in the Income Statement relating to derivatives where hedge accounting relief has not been obtained.

### 6. ADMINISTRATIVE EXPENSES

|                                  | 2022<br>£000 | 2021<br>£000 |
|----------------------------------|--------------|--------------|
| Servicer and cash management fee | 4            | 4            |
| Other                            | 115          | 26           |
| <b>Total</b>                     | <b>119</b>   | <b>30</b>    |

The LLP employed no staff during the year (2021: nil). The Society acts as servicer of the mortgage portfolio and cash manager.

The audit fee of £32,000 (2021: £26,000) excluding VAT is borne by the Society on behalf of the LLP. There were no non-audit services (2021: none) provided to the LLP by the LLP's auditors.

### 7. LOANS AND OTHER DEBTS DUE FROM MEMBERS

Loans and other debts due from members of £4,316.1 million (2021: £4,759.1 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 in accounting policy note 1 'Loans and other debts due from members'. The beneficial interest in mortgages of £6,438.1 million (2021: £7,452.6 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 off Balance Sheet collateral (see accounting policy note 1 'Contributions').

In line with the prior year, no provision for Expected Credit Losses has been recognised on materiality grounds (see note 1 Impairment of Loans and other debts due from members) and the entire deemed loan is in IFRS 9 Stage 1.

|   | 2022<br>£000     | 2021<br>£000     |
|---|------------------|------------------|
| Beneficial interest in mortgages – Balance Sheet asset          | 4,316,078        | 4,759,050        |
| Beneficial interest in mortgages – off Balance Sheet collateral | 2,122,026        | 2,693,522        |
| <b>Total</b>  | <b>6,438,104</b> | <b>7,452,572</b> |

### 8. CASH AND CASH EQUIVALENTS

Cash withdrawals are restricted by the detailed priority of payments set out in the transaction documents.

## NOTES TO THE ACCOUNTS (CONTINUED)

### 9. DEBT SECURITIES

|                                     | 2022   | 2021 |
|-------------------------------------|--------|------|
|                                     | £000   | £000 |
| UK Government investment securities | 73,943 | -    |

### 10. DERIVATIVE FINANCIAL INSTRUMENTS

The LLP has elected to continue to apply the hedge accounting requirements of IAS 39 as permitted under IFRS 9.

#### *Risk management strategy*

Derivative financial instruments, fair value hedges, 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. 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. Fair value hedge accounting is not applicable for the current period. 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 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.

## NOTES TO THE ACCOUNTS (CONTINUED)

### 10. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

#### *Hedging instruments*

The following tables contain details of the hedging instruments used in the LLP'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.

|   | 2022<br>Contract/<br>notional<br>amount<br>£000 | 2022<br>Fair<br>value<br>assets<br>£000 | 2022<br>Fair value<br>liabilities<br>£000 | 2021<br>Contract/<br>notional<br>amount<br>£000 | 2021<br>Fair value<br>assets<br>£000 | 2021<br>Fair value<br>liabilities<br>£000 |
|---|---|---|---|---|--------------------------------------|---|
| Derivatives designated as cash flow hedges: |   |   |   |   |                                      |   |
| Foreign exchange risk <sup>1</sup>          | 1,952,088                                       | 23,400                                  | 8,927                                     | 1,517,963                                       | -                                    | 56,224                                    |
| Other derivatives:                          |   |   |   |   |                                      |   |
| Foreign exchange and interest rate risk     | -   | -                                       | -   | -   | -                                    | -   |
| <b>Total</b>                                | <b>1,952,088</b>                                | <b>23,400</b>                           | <b>8,927</b>                              | <b>1,517,963</b>                                | <b>-</b>                             | <b>56,224</b>                             |

1. Cash flows are expected to occur over a period of seven years (2021: seven).

|  | 2022<br>Contract/<br>notional<br>amount<br>£000 | 2022<br>Fair<br>value<br>assets<br>£000 | 2022<br>Fair value<br>liabilities<br>£000 | 2021<br>Contract/<br>notional<br>amount<br>£000 | 2021<br>Fair value<br>assets<br>£000 | 2021<br>Fair value<br>liabilities<br>£000 |
|--|---|---|---|---|--------------------------------------|---|
| Derivatives have the following maturities: |   |   |   |   |                                      |   |
| In not more than one year                  | -   | -                                       | -   | -   | -                                    | -   |
| In more than one year                      | 1,952,088                                       | 23,400                                  | 8,927                                     | 1,517,963                                       | -                                    | 56,224                                    |
| <b>Total</b>                               | <b>1,952,088</b>                                | <b>23,400</b>                           | <b>8,927</b>                              | <b>1,517,963</b>                                | <b>-</b>                             | <b>56,224</b>                             |

The LLP also holds five (2021: four) 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 a SONIA compounded average on one of the swaps, a fixed 1.528%, 1.7625%, 1.02% and 4.4425% respectively for the other three. As at the year end, the notional swap principal on the swaps amounted to £4,616.4 million (2021: £5,995.5 million), £428.0 million (2021: £428.0 million), £444.6 million (2021: £444.6 million), £645.4 million (2021: £645.4 million) and £434.1 million (2021: nil) respectively.

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 2022 and 31 December 2021.

|   | Maturity                   |                                |                                     |                                   |                                 |
|---|----------------------------|--------------------------------|-------------------------------------|-----------------------------------|---------------------------------|
|   | Up to one<br>month<br>£000 | One to three<br>months<br>£000 | Three months<br>to one year<br>£000 | One year<br>to five years<br>£000 | More than<br>five years<br>£000 |
| <b>2022</b>                             |                            |                                |                                     |                                   |                                 |
| Foreign Exchange risk                   |                            |                                |                                     |                                   |                                 |
| Contract / notional amount              | -                          | -                              | -                                   | 1,306,676                         | 645,412                         |
| Average fixed interest rate             | -                          | -                              | -                                   | 1.6%                              | 1.0%                            |
| Average £/€ exchange rate               | -                          | -                              | -                                   | 0.9                               | 0.9                             |
| Foreign exchange and interest rate risk |                            |                                |                                     |                                   |                                 |
| Contract / notional amount              | -                          | -                              | -                                   | -                                 | -                               |
| Average fixed interest rate             | -                          | -                              | -                                   | -                                 | -                               |
| Average £/€ exchange rate               | -                          | -                              | -                                   | -                                 | -                               |

## NOTES TO THE ACCOUNTS (CONTINUED)

### 10. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

| 2021                                    | Maturity                |                             |                                  |                                |                              |
|---|-------------------------|-----------------------------|----------------------------------|--------------------------------|------------------------------|
|   | Up to one month<br>£000 | One to three months<br>£000 | Three months to one year<br>£000 | One year to five years<br>£000 | More than five years<br>£000 |
| Foreign exchange risk                   | -                       | -                           | -                                | 872,550                        | 645,413                      |
| Contract / notional amount              | -                       | -                           | -                                | 1.6%                           | 1.0%                         |
| Average fixed interest rate             | -                       | -                           | -                                | 0.9                            | 0.9                          |
| Average £/€ exchange rate               | -                       | -                           | -                                | -                              | -                            |
| Foreign exchange and interest rate risk | -                       | -                           | -                                | -                              | -                            |
| Contract / notional amount              | -                       | -                           | -                                | -                              | -                            |
| Average fixed interest rate             | -                       | -                           | -                                | -                              | -                            |
| Average £/€ exchange rate               | -                       | -                           | -                                | -                              | -                            |

#### Hedged items

The following table contains details of cash flow hedge exposures.

| 31 December 2022                            | Changes in fair value      |  |  | Amounts reclassified from reserves to Income Statement |   |   |   |
|---|----------------------------|--|--|--|---|---|---|
|   | Hedging derivative<br>£000 | Hedged item for ineffectiveness assessment<br>£000 | Gains/(losses) recognised in OCI<br>£000 | Hedged cash flows will no longer occur<br>£000         | Hedged item affected Income Statement<br>£000 | Recognised in Income Statement <sup>1</sup><br>£000 | Net movement in cash flow hedge reserve<br>£000 |
| Derivatives designated as cash flow hedges: |                            |  |  |  |   |   |   |
| Foreign exchange                            | 73,502                     | 73,517   | 73,513                                   | -  | 92,127  | 315   | (18,614)  |
| Foreign exchange and interest rate          | -                          | -  | -  | -  | -   | -   | -   |
| <b>Total</b>                                | <b>73,502</b>              | <b>73,517</b>                                      | <b>73,513</b>                            | <b>-</b>   | <b>92,127</b>                                 | <b>315</b>  | <b>(18,614)</b>                                 |

| 31 December 2021                            | Changes in fair value      |  |  | Amounts reclassified from reserves to Income Statement |   |   |   |
|---|----------------------------|--|--|--|---|---|---|
|   | Hedging derivative<br>£000 | Hedged item for ineffectiveness assessment<br>£000 | Gains/(losses) recognised in OCI<br>£000 | Hedged cash flows will no longer occur<br>£000         | Hedged item affected Income Statement<br>£000 | Recognised in Income Statement <sup>1</sup><br>£000 | Net movement in cash flow hedge reserve<br>£000 |
| Derivatives designated as cash flow hedges: |                            |  |  |  |   |   |   |
| Foreign exchange                            | (42,464)                   | (42,405)   | (42,405)                                 | -  | (72,095)                                      | (59)  | 29,690  |
| Foreign exchange and interest rate          | -                          | -  | -  | 3,595  | -   | -   | (3,595)   |
| <b>Total</b>                                | <b>(42,464)</b>            | <b>(42,405)</b>                                    | <b>(42,405)</b>                          | <b>3,595</b>   | <b>(72,095)</b>                               | <b>(59)</b>   | <b>26,095</b>                                   |

1. The amount recognised in Income Statement is shown in note 5 Net Losses from derivatives and hedge accounting.

As at 31 December 2022 there is a net debit balance of £9,814,000 (2021: net credit balance of £8,827,000) remaining in the cash flow hedge reserve relating to continuing hedge accounting relationships.

## NOTES TO THE ACCOUNTS (CONTINUED)

### 11. LOANS DUE TO 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:

|                     |  | 2022<br>£000     | 2021<br>£000     |
|---------------------|--|------------------|------------------|
| 1m SONIA plus 0.53% | Due 2022 (GBP 1.5bn, 0.6bn part repayment in 2011) | -                | 900,557          |
| 1m SONIA plus 0.53% | Due 2022 (GBP 0.5bn)                               | -                | 500,310          |
| Fixed 0.5%          | Due 2024 (EUR 0.5bn)                               | 445,210          | 421,152          |
| 3m SONIA plus 0.6%  | Due 2023 (GBP 0.5bn)                               | 502,317          | 500,417          |
| 3m SONIA plus 0.6%  | Due 2023 (GBP 0.1bn)                               | 100,464          | 100,083          |
| Fixed 0.125 %       | Due 2026 (EUR 0.5bn)                               | 442,092          | 418,062          |
| 3m SONIA plus 0.52% | Due 2025 (GBP 0.5bn)                               | 502,813          | 500,609          |
| 3m SONIA plus 0.8%  | Due 2024 (GBP 0.85bn)                              | 857,322          | 851,795          |
| Fixed 0.01%         | Due 2028 (EUR 0.75bn)                              | 663,189          | 627,462          |
| Fixed 2.625%        | Due 2026 (EUR 0.5bn)                               | 445,051          | -                |
| 1m SONIA plus 0.8%  | Due 2024 (GBP 0.5bn)                               | 500,229          | -                |
| <b>Total</b>        |  | <b>4,458,687</b> | <b>4,820,447</b> |

The change in loans from LLP members arises as follows:

|                            | 2022<br>£000     | 2021<br>£000     |
|----------------------------|------------------|------------------|
| Balance at 1 January       | 4,820,447        | 4,695,616        |
| Cash flows                 | (464,870)        | 219,394          |
| Foreign exchange movements | 89,292           | (96,078)         |
| Change in accrued interest | 12,611           | 201              |
| Amortisation               | 1,207            | 1,314            |
| <b>Total</b>               | <b>4,458,687</b> | <b>4,820,447</b> |

As at 31 December 2022, two loans from LLP members are due to be repaid in the next 12 months, representing £603 million. All term advance issued are held by the parent entity (the Society), and the Society will not be repaid by the LLP until all amounts payable under the covered bonds have been repaid in full.

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 INSTITUTIONS

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.

## NOTES TO THE ACCOUNTS (CONTINUED)

### 14. RELATED PARTIES (CONTINUED)

#### 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.

### 15. RISK MANAGEMENT

#### Overview

Financial instruments make up 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.

#### Principal Risks

As a result of its ordinary business activities, the LLP is exposed to a number of inherent risks, these are:

- Interest rate risk;
- Foreign currency risk;
- Operational risk;
- Credit risk; and
- Liquidity risk.

Each of these risks is considered below and additional information on these is also included in the Group Risk Management Report in the Group'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.

## NOTES TO THE ACCOUNTS (CONTINUED)

### 15. RISK MANAGEMENT (CONTINUED)

#### 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 LLP's operations are outsourced to third parties. The Society has been appointed to act as Servicer and Cash Manager on behalf of the LLP. Intertrust Management Limited has been appointed to provide services in accordance with the terms of a Corporate Service Agreement.

#### Credit risk

Credit risk is the risk that the borrowers or counterparties do not meet their financial obligations to the LLP 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 overcollateralisation 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. At the period end 99.99% mortgage loans had an indexed loan to value of 90% or less and 99.9% of the mortgage loans were current. The extent of the overcollateralisation 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 16.

#### 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 overcollateralisation 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.



## NOTES TO THE ACCOUNTS (CONTINUED)

### 15. RISK MANAGEMENT (CONTINUED)

#### Liquidity risk (continued)

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.

To date, one property on the securitised mortgages has been taken into possession which realised a loss on sale of £106,116 in 2014.

### 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.

|                                     | 2022<br>Carrying<br>amount<br>£000 | 2022<br>Fair<br>value<br>£000 | 2021<br>Carrying<br>amount<br>£000 | 2021<br>Fair value<br>Total<br>£000 |
|-------------------------------------|------------------------------------|-------------------------------|------------------------------------|-------------------------------------|
| <b>Financial assets</b>             |                                    |                               |                                    |                                     |
| Loans and advances to customers     | 4,316,078                          | 4,336,261                     | 4,759,050                          | 4,838,402                           |
| UK Government investment securities | 73,943                             | 73,943                        | -                                  | -                                   |
|                                     | <b>4,390,021</b>                   | <b>4,410,204</b>              | <b>4,759,050</b>                   | <b>4,838,402</b>                    |
| <b>Financial liabilities</b>        |                                    |                               |                                    |                                     |
| Loans due to members                | 4,458,687                          | 4,371,626                     | 4,820,447                          | 4,845,732                           |
| Deposits from credit institutions   | 10,756                             | 10,756                        | -                                  | -                                   |
|                                     | <b>4,469,443</b>                   | <b>4,382,382</b>              | <b>4,820,447</b>                   | <b>4,845,732</b>                    |

## NOTES TO THE ACCOUNTS (CONTINUED)

### 16. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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 due to 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.

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<br>£000 | Level 2<br>£000 | Level 3<br>£000 | Total<br>£000 |
|-------------------------------------|-----------------|-----------------|-----------------|---------------|
| <b>As at 31 December 2022</b>       |                 |                 |                 |               |
| Financial assets                    |                 |                 |                 |               |
| Derivative financial instruments    |                 |                 |                 |               |
| Cross currency swap                 | -               | 23,400          | -               | 23,400        |
| <b>Total</b>                        | -               | 23,400          | -               | 23,400        |
| Debt securities                     |                 |                 |                 |               |
| UK Government investment securities | 73,943          | -               | -               | 73,943        |
| <b>Total</b>                        | 73,943          | -               | -               | 73,943        |
| Financial liabilities               |                 |                 |                 |               |
| Derivative financial instruments    |                 |                 |                 |               |
| Cross currency swaps                | -               | 8,927           | -               | 8,927         |
| <b>Total</b>                        | -               | 8,927           | -               | 8,927         |
| <b>As at 31 December 2021</b>       |                 |                 |                 |               |
| Financial assets                    |                 |                 |                 |               |
| Derivative financial instruments    |                 |                 |                 |               |
| Cross currency swap                 | -               | -               | -               | -             |
| <b>Total</b>                        | -               | -               | -               | -             |
| Debt securities                     |                 |                 |                 |               |
| UK Government investment securities | -               | -               | -               | -             |
| <b>Total</b>                        | -               | -               | -               | -             |
| Financial liabilities               |                 |                 |                 |               |
| Derivative financial instruments    |                 |                 |                 |               |
| Cross currency swaps                | -               | 56,224          | -               | 56,224        |
| <b>Total</b>                        | -               | 56,224          | -               | 56,224        |

#### 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 LLP's estimate of assumptions that a market participant would make when valuing the instruments.

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.

## NOTES TO THE ACCOUNTS (CONTINUED)

### 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.

The 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).

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

|                                    | Gross<br>amounts<br>£000 | Master netting<br>arrangements<br>£000 | Financial<br>collateral <sup>1</sup><br>£000 | Net amount<br>£000 |
|------------------------------------|--------------------------|--|--|--------------------|
| <b>2022</b>                        |                          |  |  |                    |
| <b>Financial assets</b>            |                          |  |  |                    |
| Derivative financial instruments   | 23,400                   | -                                      | 10,793                                       | 12,607             |
| <b>Total financial assets</b>      | 23,400                   | -                                      | 10,793                                       | 12,607             |
| <b>Financial liabilities</b>       |                          |  |  |                    |
| Derivative financial instruments   | 8,927                    | -                                      | -  | 8,927              |
| <b>Total financial liabilities</b> | 8,927                    | -                                      | -  | 8,927              |
| <b>2021</b>                        |                          |  |  |                    |
| <b>Financial assets</b>            |                          |  |  |                    |
| Derivative financial instruments   | -                        | -                                      | -  | -                  |
| <b>Total financial assets</b>      | -                        | -                                      | -  | -                  |
| <b>Financial liabilities</b>       |                          |  |  |                    |
| Derivative financial instruments   | 56,224                   | -                                      | -  | 56,224             |
| <b>Total financial liabilities</b> | 56,224                   | -                                      | -  | 56,224             |

1. The financial collateral disclosed is limited to the amount of the related financial asset and at the 2021 year end was all in cash.

At 31 December 2022, no exposures were held with an A1 rated institution (2021: £nil).

### 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, Coventry House, Binley, Coventry, CV3 2TQ or on its website ([www.coventrybuildingsociety.co.uk](http://www.coventrybuildingsociety.co.uk)).