Coventry Building Society Covered Bonds LLP

Registered number OC337802

Members' Report and the Accounts
for the year ended
31 December 2020

CONTENTS

PARTNERSHIP INFORMATION

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 Accounts (together the Financial Statements) of Coventry Building Society Covered Bonds LLP (the 'LLP'), for the year ended 31 December 2020.

These accounts have been prepared in accordance with 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 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 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 term loans from the Society which amounted to £4.7 billion at 31 December 2020 (2019: £3.9 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 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'. This deemed loan is supported by the collateral received from the Society of £6.4 billion, including overcollateralisation of £1.9 billion (2019: £6.4 billion and £2.5 billion respectively). More information is included in note 7 to the accounts.

At 31 December 2020, 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 2019, 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), which matured in March 2020.
- 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.

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.

The LLP made £nil profit during the year (2019: £nil).

There has been no change in the principal activity during the period, 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.

MEMBERS' REPORT (CONTINUED)

RISK MANAGEMENT
Full disclosure of the LLP's risk management policies, use of financial instruments and risk exposures is given in note 14 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.

FUTURE DEVELOPMENTS
The Interbank Offered Rate (IBOR) reform means that interest rate benchmarks such as LIBOR are expected to cease after 2021. As at the 31 December 2020 the LLP has no exposure to LIBOR linked derivatives following activities carried out in the year to rebase LIBOR linked derivatives to SONIA, see note 9 and 10 to the accounts for further information.

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 2020, 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).

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 an updated assessment of the impact of the Covid-19 pandemic and Government measures to support the economy. For this reason, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

More information on the consideration of the Covid-19 pandemic as a principal risk is available on page 23.

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 international accounting standards in conformity with the requirements of the Companies Act 2006.

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 international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;

MEMBERS' REPORT (CONTINUED)

- 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 limited liability partnership will continue in business.

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

The members are responsible for keeping adequate accounting records that are sufficient to show and explain the limited liability partnership's transactions and disclose with reasonable accuracy at any time the financial position of the limited liability partnership 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
28 April 2021

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

Report on the audit of the accounts

Opinion

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

- give a true and fair view of the state of the LLP's affairs as at 31 December 2020 and of its result and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 as applied to limited liability partnerships; 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 accounts, included within the Members' Report and the Accounts (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2020; 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 accounts, 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 accounts 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 accounts are authorised for issue.

In auditing the accounts, we have concluded that the members' use of the going concern basis of accounting in the preparation of the accounts 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 accounts and our auditors' report thereon. The members are responsible for the other information. Our opinion on the accounts 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 accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the accounts 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 accounts 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 accounts and the audit

Responsibilities of the members for the accounts

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 accounts 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 accounts that are free from material misstatement, whether due to fraud or error.

In preparing the accounts, 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 accounts

Our objectives are to obtain reasonable assurance about whether the accounts 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 accounts.

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 transaction, and we considered the extent to which non-compliance might have a material effect on the accounts. We also considered those laws and regulations that have a direct impact on the financial statements such as 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 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 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 of the mortgage loans, on a sample basis, to the underlying loan documentation;
- testing that the priority of payments has been applied in accordance with the 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 accounts. 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 accounts is located on the FRC's website at: 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 accounts 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
28 April 2021

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 £000	2019 £000
Interest receivable and similar income	3	**39,746**	50,797
Interest payable and similar charges	4	**(42,492)**	(47,876)
Net gains/(losses) from derivatives and hedge accounting	5	**2,773**	(2,830)
Total income		**27**	91
Administrative expenses	6	**(27)**	(91)
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 COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

		2020 £000	2019 £000
Results for the financial year		**-**	-
Other comprehensive (expense)/ income			
Cash flow hedges:			
Fair value movements taken to reserves	9	**(24,419)**	54,902
Amount transferred to Income Statement	9	**45,981**	(42,544)
Total comprehensive income		**21,562**	12,358

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

The accounting policies and notes on pages 12 to 28 form part of these accounts.

BALANCE SHEET
AS AT 31 DECEMBER 2020
REGISTRATION NO: OC337802

	Note	2020 £000	2019 £000
Assets			
Loans and other debts due from members	7	**4,496,943**	3,822,970
Cash and cash equivalents	8	**201,906**	155,561
Derivative financial instruments	9	**64,630**	36,411
Total assets		**4,763,479**	4,014,942
Liabilities			
Loans due to members	10	**4,695,616**	3,920,094
Deposits from credit institutions	11	**59,749**	42,265
Derivative financial instruments	9	**16,767**	42,968
Other debts due to members	12	**8,615**	5,321
Total liabilities		**4,780,747**	4,010,648
Members' other interests			
Cash flow hedge reserve		**(17,268)**	4,294
Total members' other interests		**(17,268)**	4,294
Total members' other interests and liabilities		**4,763,479**	4,014,942
Members' interests			
Members' other interests		**(17,268)**	4,294
Loans due to members		**4,695,616**	3,920,094
Other debts due to members		**8,615**	5,321
Loans and other debts due from members		**(4,496,943)**	(3,822,970)
Total members' interests		**190,020**	106,739

The accounting policies and notes on pages 12 to 28 form part of these accounts.

The accounts were approved by the members on 27 April 2021.

Signed on behalf of the members

Lee Raybould
For and on behalf of
Coventry Building Society
Designated member
28 April 2021

STATEMENT OF CHANGES IN MEMBERS' INTERESTS
FOR THE YEAR ENDED 31 DECEMBER 2020
REGISTRATION NO: OC337802

	Cash flow hedge reserve £000	Loans from members £000	Total £000
As at 1 January 2020	**4,294**	**102,445**	**106,739**
Net movement in cash flow hedge reserve	**(21,562)**	**-**	**(21,562)**
Loans due to members	**-**	**775,522**	**775,522**
Other debts due to members	**-**	**3,294**	**3,294**
Loans and other debts due from members	**-**	**(673,973)**	**(673,973)**
As at 31 December 2020	**(17,268)**	**207,288**	**190,020**

	Cash flow hedge reserve £000	Loans from members £000	Total £000
As at 1 January 2019	16,652	163,399	180,051
Net movement in cash flow hedge reserve	(12,358)	-	(12,358)
Loans due to members	-	470,486	470,486
Other debts due to members	-	(7,433)	(7,433)
Loans and other debts due from members	-	(524,007)	(524,007)
As at 31 December 2019	4,294	102,445	106,739

The accounting policies and notes on pages 12 to 28 form part of these accounts.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 £000	2019 £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	**(3,970)**	2,190
Change in accrued interest on derivatives	**1,954**	(216)
Change in accrued interest on loans due from LLP members	**1,555**	570
Change in operating liabilities		
Deposits from credit institutions	**17,484**	(30,904)
Other debts due to members	**3,294**	(7,433)
Net cash flows from operating activities	**20,317**	(35,793)
Cash flows from investing activities		
Purchase underlying mortgage assets	**(721,207)**	(551,907)
Net cash flows from investing activities	**(721,207)**	(551,907)
Cash flows from financing activities		
Cash received through term loan	**747,235**	572,495
Net cash flows from financing activities	**747,235**	572,495
Net increase/ (decrease) in cash	**46,345**	(15,205)
Cash and cash equivalents at start of year	**155,561**	170,766
Cash and cash equivalents	**201,906**	155,561
Interest paid	**41,319**	39,762
Interest received	**20,579**	43,714

The accounting policies and notes on pages 12 to 28 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 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

As at 31 December 2020 there are no new accounting standards or interpretations relevant to the LLP's current and future reporting with the exception of *Interest Rate Benchmark Reform – Phase 2* described below.

Interest rate benchmark reform – phase 1 and 2

The LLP elected to early adopt *Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)* (the Phase 2 amendments).

The Phase 2 amendments applied to one of the LLP's hedge relationships which was linked to Inter Bank Offered Rates (IBOR) during the year up until September 2020 at which point it was rebased to SONIA.

The amendments provide a series of reliefs from certain hedge accounting requirements when a change required by interest rate benchmark reform occurs to a hedged item and/or hedging instrument and consequently the hedge relationship can be continued without interruption. The LLP has applied the amendments retrospectively from 1 January 2020. The impact of the amendments on the LLP hedge accounting is set out below. The amendments to IFRS 4 and IFRS 16 do not impact the LLP.

The impact of these amendments on the LLP's hedge accounting is set out below, and the impact on the LLP's reported results in 2020 is not material. The LLP has elected not to restate the prior period to reflect the application of these amendments, including not providing additional disclosure for 2019.

NOTES TO THE ACCOUNTS (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

The LLP also elected to early adopt *Interest Rate Benchmark Reform – Phase 1 (Amendments to IFRS 9, IAS 39 and IFRS 7)* (the Phase 1 amendments) for the year ending 31 December 2019. The Phase 1 amendments facilitate hedge accounting by ensuring that hedge accounting is not terminated where the testing criteria set out in IAS 39 failed solely due to IBOR transition.

Cash flow hedge accounting
Where the LLP applies cash flow hedge accounting of forecast future transactions, it assumes that the hedged benchmark interest rate and the cash flows of the hedged item will not be altered as a result of IBOR reform. Amendments to either hedging instrument or the hedged item which occur solely as a result of IBOR reform are not considered a discontinuation of the hedge relationship.

Where IBOR amendments are made, the cumulative gain or loss in the cash flow hedge reserve at the date of the amendments shall be deemed to be based on the benchmark rate on which the hedged future cash flows are determined.
This also applies to discontinued hedge relationships of which the basis for determining the contractual cash flows of their original hedged item is changed.

Should the hedged future cash flows no longer be considered highly probable due to reasons other than interest rate benchmark reforms, the cumulative gain or loss will be reclassified to the Income Statement.

In 2020, the LLP has not made any changes to the hedged risk and the benchmark interest rate of hedged item designated in a cash flow hedge.

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 1 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.

NOTES TO THE ACCOUNTS (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

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.

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.

NOTES TO THE ACCOUNTS (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

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 for hedge accounting, including the Phase 1 and Phase 2 amendments relating to IBOR reform.

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 (including amendments issued in the year), 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 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.

NOTES TO THE ACCOUNTS (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

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 (92.5% of loans classified as Stage 1, 7.5% 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 (2019: £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.

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.

From September 2018 until April 2019 Coventry Building Society acted as provider of the Guaranteed Investment Contract however in line with the LLP Deed this was transferred to a third party provider following the ratings downgrade of Coventry Building Society in March 2019.

NOTES TO THE ACCOUNTS (CONTINUED)

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:

Significant judgements	Note
Classification and measurement of Loans and other debt due from members	1
Determining a significant increase in credit risk 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

	2020 £000	2019 £000
Interest receivable from members	**39,552**	50,211
Interest and other income on other liquid assets	**56**	366
Bank and other interest receivable	**138**	220
Total	**39,746**	50,797

4 INTEREST PAYABLE AND SIMILAR CHARGES

	2020 £000	2019 £000
Interest expense on loans from members	**32,392**	38,517
Net expense on derivatives hedging liabilities	**10,072**	9,230
Foreign currency loss	**28**	129
Total	**42,492**	47,876

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

	2020 £000	2019 £000
Derivatives designated as cash flow hedges:		
Foreign exchange risk	**90**	-
	90	-
Gains/(losses) on other derivatives	**2,683**	(2,830)
Total	**2,773**	(2,830)

Gains on other derivatives of £2.7 million (2019: Losses of £2.8 million) have been recognised in the Income Statement reflecting fair value movements on derivatives where hedge accounting relief has not been obtained. The gains represent timing differences and are expected to reverse over the remaining life of the derivatives although further volatility may also be experienced.

NOTES TO THE ACCOUNTS (CONTINUED)

6 ADMINISTRATIVE EXPENSES

	2020 £000	2019 £000
Servicer and cash management fee	**4**	4
Other	**23**	87
Total	**27**	91

The LLP employed no staff during the year (2019: nil). The Society acts as servicer of the mortgage portfolio and cash manager.

The audit fee of £19,400 (2019: £12,000) excluding VAT is borne by the Society on behalf of the LLP. There were no non-audit services 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 £4,496.9 million (2019: £3,823.0 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 £6,387.5 million (2019: £6,363.0 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.

	2020 £000	2019 £000
Beneficial interest in mortgages – Balance Sheet asset	**4,496,943**	3,822,970
Beneficial interest in mortgages – off Balance Sheet collateral	**1,890,550**	2,539,990
Total	**6,387,493**	6,362,960

8 CASH AND CASH EQUIVALENTS

Cash withdrawals are restricted by the detailed priority of payments set out in the transaction documents. The cash balance also includes £59.7 million (2019: £42.3 million) of collateral received from an external derivative counterparty.

NOTES TO THE ACCOUNTS (CONTINUED)

9 DERIVATIVE FINANCIAL INSTRUMENTS

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

In August 2020 the IASB issued Phase 2 amendments to IFRS 9, IAS 39, and IFRS 7 that provide temporary reliefs from the effects of IBOR reform for hedge accounting relationships directly impacted. The LLP has elected to early adopt these amendments and additional disclosure has been included below 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 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 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. This was only applicable up until September 2020 at which point all LIBOR exposures were rebased to SONIA.
- 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.

Interbank Offered Rate (IBOR) reform means that interest rate benchmarks such as LIBOR are expected to cease after 2021. As a result, the LLP has carried out activities during the year to rebase its LIBOR exposures to SONIA. As at the 31 December 2020 the LLP has no exposure to LIBOR linked derivatives

NOTES TO THE ACCOUNTS (CONTINUED)

9 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.

	2020 Contract/ notional amount £000	2020 Fair value assets £000	2020 Fair value liabilities £000	2019 Contract/ notional amount £000	2019 Fair value assets £000	2019 Fair value liabilities £000
Derivatives designated as fair value hedges:						
Interest rate swaps	-	-	-	-	-	-
Derivatives designated as cash flow hedges:						
Foreign exchange risk[1]	**872,550**	**7,481**	**16,767**	872,550	-	41,068
Foreign exchange and interest rate risk[2]	-	-	-	-	-	-
Other derivatives:						
Foreign exchange and interest rate risk[2]	**394,300**	**57,149**	-	394,300	36,411	-
Interest rate basis swaps	-	-	-	1,250,000	-	1,900
Total	**1,266,850**	**64,630**	**16,767**	2,516,850	36,411	42,968

1. Cash flows are expected to occur over a period of six years (2019: six).
2. Cash flows are expected to occur over a period of one year (2019: two).

	2020 Contract/ notional amount £000	2020 Fair value assets £000	2020 Fair value liabilities £000	2019 Contract/ notional amount £000	2019 Fair value assets £000	2019 Fair value liabilities £000
Derivatives have the following maturities:						
In not more than one year	**394,300**	**57,149**	-	650,000	-	-
In more than one year	**872,550**	**7,481**	**16,767**	1,866,850	36,411	42,968
Total	**1,266,850**	**64,630**	**16,767**	2,516,850	36,411	42,968

The LLP also holds three 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 held at fair value, as under IFRS 9 they are accounted for as part of the deemed loan included as 'Loans and other debts due from members'. Under these agreements, the LLP pays a blended rate of interest based on the mortgage loans in which it retains a beneficial interest and receives a SONIA compounded average (in 2019 this was one month LIBOR but basis has been swapped during the year) on one of the swaps, a fixed 1.7625% and 1.5280% respectively for the other two. As at the year end, the notional swap principal on the swaps amounted to £5,675.1 million (2019: £5,616.5 million), £428.0 million (2019: £428.0 million) and £444.6 million (2019: £444.6 million) 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 2020 and 31 December 2019.

	Maturity				
2020	**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**
Interest rate risk					
Contract / notional amount	-	-	-	-	-
Average fixed interest rate	-	-	-	-	-
Average £/€ exchange rate	-	-	-	-	-
Foreign Exchange Risk					
Contract / notional amount	-	-	-	**428,000**	**444,550**
Average fixed interest rate	-	-	-	**1.8%**	**1.5%**
Average £/€ exchange rate	-	-	-	**0.9**	**0.9**
Foreign exchange and interest rate risk					
Contract / notional amount	-	-	**394,300**	-	-
Average fixed interest rate	-	-	**0.1%**	-	-
Average £/€ exchange rate	-	-	**0.8**	-	-

NOTES TO THE ACCOUNTS (CONTINUED)

9 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

	Maturity				
2019	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
Interest rate risk					
Contract / notional amount	-	650,000	-	600,000	-
Average fixed interest rate	-	1.3%	-	2.0%	-
Average £/€ exchange rate	-	-	-	-	-
Foreign exchange risk					
Contract / notional amount	-	-	-	428,000	444,550
Average fixed interest rate	-	-	-	1.8%	1.5%
Average £/€ exchange rate	-	-	-	0.9	0.9
Foreign exchange and interest rate risk					
Contract / notional amount	-	-	-	394,300	-
Average fixed interest rate	-	-	-	1.1%	-
Average £/€ exchange rate	-	-	-	0.8	-

Hedged items

The following table contains details of cash flow hedge exposures.

31 December 2020	**Changes in fair value**			**Amounts reclassified from reserves to Income Statement**			
	Hedging derivative £000	**Hedged item for ineffectiveness assessment £000**	**Gains/(losses) recognised in OCI £000**	**Hedged cash flows will no longer occur £000**	**Hedged item affected Income Statement £000**	**Recognised in Income Statement[1] £000**	**Net movement in cash flow hedge reserve £000**
Derivatives designated as cash flow hedges:							
Foreign exchange	**24,509**	**24,419**	**24,419**	**-**	**42,060**	**90**	**(17,641)**
Foreign exchange and interest rate	**-**	**-**	**-**	**3,921**	**-**	**-**	**(3,921)**
Total	**24,509**	**24,419**	**24,419**	**3,921**	**42,060**	**90**	**(21,562)**

31 December 2019	Changes in fair value			Amounts reclassified from reserves to Income Statement			
	Hedging derivative £000	Hedged item for ineffectiveness assessment £000	Gains/(losses) recognised in OCI £000	Hedged cash flows will no longer occur £000	Hedged item affected Income Statement £000	Recognised in Income Statement[1] £000	Net movement in cash flow hedge reserve £000
Derivatives designated as cash flow hedges:							
Foreign exchange	(54,902)	(54,902)	(54,902)	-	(46,465)	-	(8,437)
Foreign exchange and interest rate	-	-	-	(3,921)	-	-	(3,921)
Total	(54,902)	(54,902)	(54,902)	(3,921)	(46,465)	-	(12,358)

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

As at 31 December 2020 there is a net debit balance of £17.3 million (2019: net credit balance of £4.3 million) remaining in the cash flow hedge reserve which reflects a £20.5 million debit (2019: £7.2 million credit) relating to continuing hedge relationships, offset by a £3.2 million credit (2019: £2.9 million debit) relating to a cash flow hedge relationship which was discontinued.

NOTES TO THE ACCOUNTS (CONTINUED)

9 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

LIBOR exposures

The LLP has early adopted the amendments to IAS 39 and IFRS 7 which provide temporary reliefs from the impact of IBOR reform. In applying these reliefs the LLP has assumed that the LIBOR rates used in its hedging relationships are not altered by the reforms. As at the 31 December 2020 the LLP has no exposure to LIBOR linked derivatives following activities carried out in the year to rebase LIBOR to SONIA, the 2019 position is shown in the table below:

	Notional	Maturity	
2019	Total £000	Up to two years £000	Three years to five years £000
Derivatives not in hedge relationships			
Interest Rate risk	1,250,000	650,000	600,000
Foreign exchange and interest rate risk	394,300	394,300	-

10 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:

		2020 £000	2019 £000
1m SONIA plus 0.53% [1]	Due 2022[2] (GBP 1.5bn, 0.6bn part repayment in 2011)	**900,114**	900,238
1m SONIA plus 0.53% [1]	Due 2022[3] (GBP 0.5bn)	**500,064**	500,132
3m LIBOR plus 0.3%	Due 2020 (GBP 0.65bn)	**-**	650,292
Fixed 0.625%	Due 2021 (EUR 0.5bn)	**447,834**	423,016
Fixed 0.5%	Due 2024 (EUR 0.5bn)	**449,052**	424,390
3m SONIA plus 0.6%	Due 2023 (GBP 0.5bn)	**500,439**	500,880
3m SONIA plus 0.6%	Due 2023 (GBP 0.1bn)	**100,088**	100,176
Fixed 0.125 %	Due 2026 (EUR 0.5bn)	**445,605**	420,970
3m SONIA plus 0.52%	Due 2025 (GBP 0.5bn)	**500,613**	-
3m SONIA plus 0.8%	Due 2024 (GBP 0.85bn)	**851,807**	-
Total		**4,695,616**	3,920,094

1. During the year loans have been rebased to a 1 month compounded SONIA rate. Previously 1m LIBOR plus 0.5%.
2. With the consent of Bondholders the final maturity date was extended from 25 July 2016 to 24 July 2022.
3. 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:

	2020 £000	2019 £000
Balance at 1 January	**3,920,094**	3,449,608
Cash flows	**700,000**	540,902
Foreign exchange movements	**72,818**	(71,895)
Change in accrued interest	**1,475**	466
Amortisation	**1,229**	1,013
Total	**4,695,616**	3,920,094

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.

NOTES TO THE ACCOUNTS (CONTINUED)

11 DEPOSITS FROM CREDIT INSTITUTIONS

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

12 OTHER DEBTS DUE TO MEMBERS

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

13 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.

14 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.

The impact of Covid-19

The Covid-19 pandemic is continuing to have a significant impact on the UK economy with the economy contracting sharply in 2020 as a result, with the series of lockdowns impacting economic activity particularly in the entertainment, retail and hospitality sectors. The UK experienced its first recession since 2009 with a fall in GDP of 9.9% (2019: growth of 1.4%). However, extraordinary monetary and fiscal policy support has so far prevented a sharp rise in unemployment with mortgage arrears remaining at low levels. Unemployment levels have increased to 5.1% (2019: 3.8%) with the Governments stamp duty holiday supporting the housing market and house price inflation for the year was 7.3% (2019: 1.4%). At the point of signing the accounts, the main risks to LLP relate to the ability of the Society to continue to meet the obligations set out under the LLP Deed, most notably in continuing to maintain the levels of overcollateralisation and provision of funding to the LLP.

The Society's simple, low risk, business model combined with its strong capital position means it remains resilient to both economic and credit downturns. The Society has undertaken extensive additional modelling of its credit exposures and performed additional analysis in order to make its assessment of future impairments and consequently its provisions. As such the Society is well placed to continue to meet its obligations under the LLP Deed, for additional details of the Society's response to Covid-19 see information presented within the Society's Annual Report & Accounts.

NOTES TO THE ACCOUNTS (CONTINUED)

14 RISK MANAGEMENT (CONTINUED)

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.

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.

NOTES TO THE ACCOUNTS (CONTINUED)

14 RISK MANAGEMENT (CONTINUED)

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 all mortgage loans had an indexed loan to value of 90% or less and 99.5% 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.

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.

NOTES TO THE ACCOUNTS (CONTINUED)

15 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.

2020	**Carrying amount £000**	**Fair value Level 1 £000**	**Fair value Level 2 £000**	**Fair value Level 3 £000**	**Fair value Total £000**
Financial assets					
Loans and other debts due from members	**4,496,943**	**-**	**-**	**4,601,116**	**4,601,116**
Financial liabilities					
Loans due to members	**4,695,616**	**-**	**-**	**4,755,879**	**4,755,879**
Deposits from credit institutions	**59,749**	**59,749**	**-**	**-**	**59,749**

2019	Carrying amount £000	Fair value Level 1 £000	Fair value Level 2 £000	Fair value Level 3 £000	Fair value Total £000
Financial assets					
Loans and other debts due from members	3,822,970	-	-	3,852,086	3,852,086
Financial liabilities					
Loans due to members	3,920,094	-	-	3,956,384	3,956,384
Deposits from credit institutions	42,265	42,265	-	-	42,265

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.

NOTES TO THE ACCOUNTS (CONTINUED)

15 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

As at 31 December 2020	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial assets				
Derivative financial instruments				
Cross currency swap	-	**64,630**	-	**64,630**
Total	-	**64,630**	-	**64,630**
Financial liabilities				
Derivative financial instruments				
Cross currency swaps	-	**16,767**	-	**16,767**
Interest rate basis swap	-	-	-	-
Total	-	**16,767**	-	**16,767**

As at 31 December 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Derivative financial instruments				
Cross currency swap	-	36,411	-	36,411
Total	-	36,411	-	36,411
Financial liabilities				
Derivative financial instruments				
Cross currency swaps	-	41,068	-	41,068
Interest rate basis swap	-	1,900	-	1,900
Total	-	42,968	-	42,968

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)

16 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.

2020	**Gross amounts £000**	**Master netting arrangements £000**	**Financial collateral[1] £000**	**Net amount £000**
Financial assets				
Derivative financial instruments	**64,630**	**-**	**57,149**	**7,481**
Total financial assets	**64,630**	**-**	**57,149**	**7,481**
Financial liabilities				
Derivative financial instruments	**16,767**	**-**	**-**	**16,767**
Total financial liabilities	**16,767**	**-**	**-**	**16,767**

2019	Gross amounts £000	Master netting arrangements £000	Financial collateral[1] £000	Net amount £000
Financial assets				
Derivative financial instruments	36,411	-	36,411	-
Total financial assets	36,411	-	36,411	-
Financial liabilities				
Derivative financial instruments	42,968	-	-	42,968
Total financial liabilities	42,968	-	-	42,968

1. The financial collateral disclosed is limited to the amount of the related financial asset and at the 2020 and 2019 year end was all in cash.

At 31 December 2020, one exposure £7,481 million which is held with an A1 rated institution (2019: no exposure).

17 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.

18 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).